

# KENEDIX

Retail REIT Corporation

A large, modern shopping center building with a prominent cylindrical tower. The word "UNICUS" is written in large, metallic letters across the top of the tower. The building has a mix of beige and orange tones. Various retail signs are visible on the lower levels, including "au", "docomo", "PAZL", and "Robbins". A parking lot with several cars is in the foreground.

# UNICUS

## Kenedix Retail REIT Corporation

### Semi-annual Report for the 2nd Period

(From October 1, 2015 to March 31, 2016)

Focus on shopping centers for daily needs



## From the Executive Director

Thanks to your support, Kenedix Retail REIT Corporation (KRR) has reported its results of operations for the second fiscal period (from October 1, 2015 to March 31, 2016).

We seek to build a portfolio of primarily neighborhood, community and other shopping centers that cater to the day-to-day needs of local area customers.

Japanese consumers tend to shop frequently, often daily, for day-to-day necessities, and purchase smaller amounts on each trip. This reflects longstanding consumer tastes in Japan for eating fresh or convenience foods prepared daily and storing less at home. Moreover, Japan is undergoing unprecedented demographic changes that, we believe, are influencing the nature of local retail markets. In particular, the aging of the Japanese population and the increased concentration of populations in urban areas has resulted in shrinkage of retail trade areas for shopping centers. We have also observed an increase in market share of specialty stores as consumer tastes change. Accordingly, we expect continued high demand for such local shopping centers for daily needs because of their convenience. We believe those shopping centers provide ample investment opportunities, and hence our selective investments contribute further increase in unitholder's value.

Upon listing, we acquired 18 shopping centers for daily needs with acquisition price of 80,843 million yen and we additionally acquired one property of 11,000 million yen in April, 2015. At the end of the second fiscal period, we own 33 properties for 131,639 million yen based on accumulated acquisition price upon acquisition of 13 properties for 37,920 million yen in connection with the first public offering after IPO on October 2015 and additional one property for 1,505 million yen on January 2016. As a result, operating revenue totaled 5,541 million yen, operating income was 2,826 million yen, ordinary income was 2,428 million yen and net income was 2,427 million yen for the second period. The distribution to unitholders, including distribution in excess of retained earnings 12 yen per unit, was 6,846 yen per unit.

Going into the third fiscal period, we issued new investment units and acquired 7 shopping centers for daily needs. As a result, our portfolio size by acquisition price almost doubled from the time of the IPO to 158,766 million yen with 40 properties.

We dedicate ourselves to the maximization of unitholder value by continuing implementation of growth strategy.

We respectfully look forward to your continued support.

浅野 晃弘

### **Akihiro Asano**

Executive Director, Kenedix Retail REIT Corporation  
Director and COO, Head of Retail REIT Division,  
Kenedix Real Estate Fund Management, Inc.



# Financial Highlights

For 2nd fiscal period  
(October 1, 2015 to March 31, 2016)

Distribution per Unit ¥ 6,864

(Includes distribution in excess of earnings per Unit : 12 yen)

Forecast DPU for 3rd fiscal period ¥ 5,865

(Includes distribution in excess of earnings per Unit : 13 yen)

Operating revenue ¥ 5,541 mn

Operating income ¥ 2,826 mn

Net income ¥ 2,427 mn

Total assets ¥ 150,009 mn

Total net assets ¥ 80,034 mn

Net assets per Unit ¥ 225,291 mn

Number of properties / tenants 33<sub>properties</sub> / 389<sub>tenants</sub>

Occupancy rate at the end of period 99.6%

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### II. Asset Management Report

Overview of Asset Management  
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Status on Investment Properties  
Capital Expenditures  
Expenses and Liabilities  
Acquisition and Disposition  
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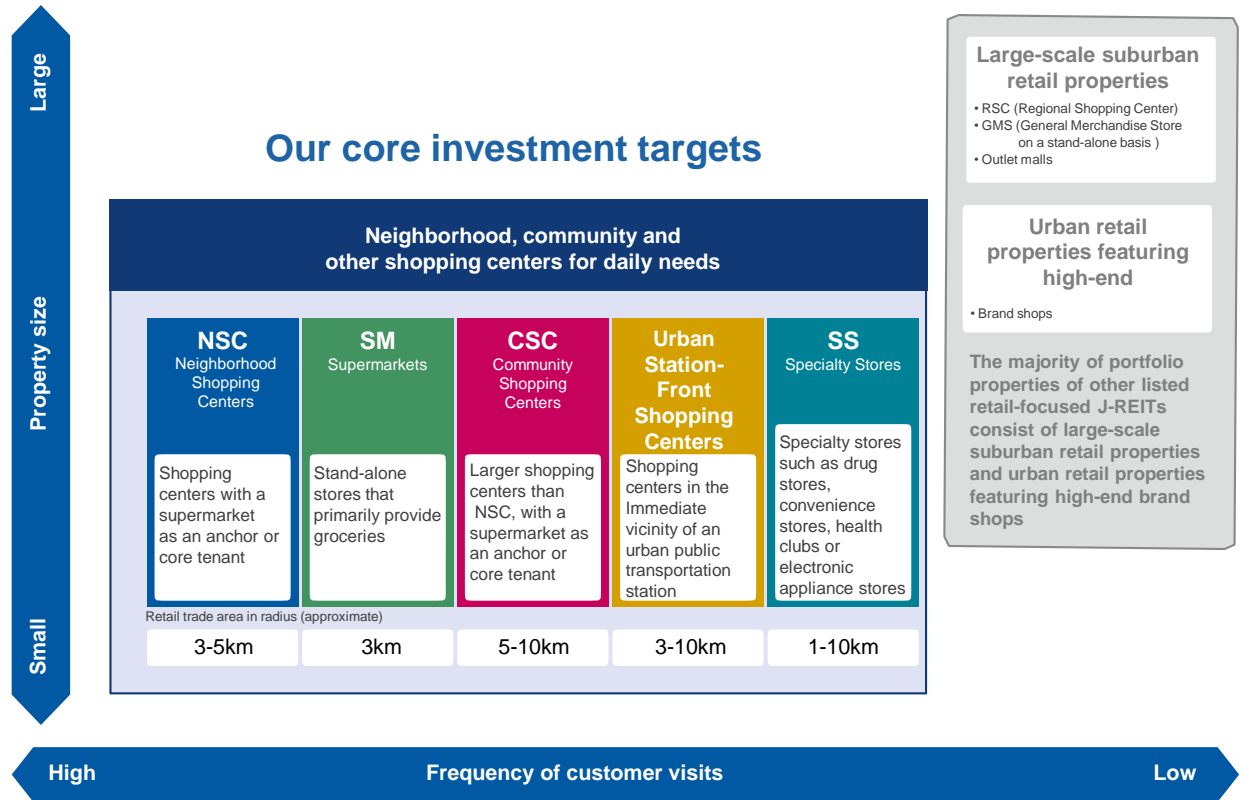
### III. Financial Statement

# Key Characteristics

## Focus on shopping centers for daily needs

### 1 The only J-REIT to focus on shopping centers for daily needs

We are the only listed J-REIT to focus on neighborhood, community and other shopping centers for daily needs. We seek to generate both long-term stable cash flow and profitability growth.



### Characteristics of shopping centers for daily needs

Located within residential districts or adjacent to major roads or streets, which provide daily goods and services

- 1. Retail trade area**
  - Approximately 1 to 10 kilometer radius (generally 3 to 5 kilometer radius)
  - Customers predominantly from local areas

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- 2. Operational features**
  - Accommodate certain daily local retail needs
  - Strong customer traffic on both weekdays and weekends

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- 3. Tenant composition**
  - Various specialty stores to meet a range of day-to-day needs such as groceries, clothing and other daily goods and services

Note: The size of property, frequency of customer visits and retail trade areas referenced above have been defined by us based on general characteristics of shopping centers for daily needs.

## 2 Ample investment opportunities in shopping centers for daily needs

### Our market opportunity and investment focus –Shopping centers for daily needs

Ample investment opportunities from the perspective of consumer spending, demographics and number of properties

**Tenants with high demand from consumers**  
Share of frequently purchased items for daily needs as a % of total household expenditure on consumer products

Based on a survey conducted by the Statistics Bureau of the Ministry of Internal Affairs and Communications in 2014.

**77.2%**

**Properties located in areas with high population density**

% of Japan's total population living in suburban areas within the four major metropolitan areas

Based on a survey conducted by the Statistics Bureau of the Ministry of Internal Affairs and Communications in 2015.

**55.4%**

**Ample investment opportunities**

% of medium- or small-sized retail facilities in "retail property opening applications"

Based on the number of applications submitted to develop new retail properties with a total floor area of 10,000 m<sup>2</sup> or less.

**92.3%**

## 3 Convenient shopping experience

We expect continued high demand for shopping centers for daily needs because of their convenience. In particular, we anticipate that such demand will increase as the Japanese population ages.

### Large ground parking lot



### Low-rise facility



### Easy access by foot or bicycle



## Buying behavior of Elderly Residents in Tokyo

| Frequent shoppers   | Preference for supermarkets  | Access by foot or bicycle   |
|---|--|---|
| Consumers who go shopping "almost daily" or "3 to 4 times a week" | Consumers who identify supermarkets as "most frequently used type of retail property for purchasing groceries" | Consumers who travel to "most frequently used retail properties" by foot or bicycle |
| <b>50.0%</b>  | <b>69.4%</b>   | <b>72.7%</b>  |

Source: Bureau of Industrial and Labor Affairs of the Tokyo Metropolitan Government "Reports on shopping trends of the elderly" (Dec. 2011)

(Note) We believe that above characteristics are typically found in shopping centers for daily needs. We do not guarantee that all shopping centers for daily needs have the characteristics shown above.

# Strong Sponsor & Alliance Company Support

## 1 Leveraging extensive support from Sponsor and Alliance Companies

We have strong support from our Sponsor, Kenedix, Inc. as well as our Alliance Companies for both internal and external growth. With their support, we have access to a large and diverse pipeline of acquisition opportunities as well as a variety of technical expertise.






| Type of support             |   | KENEDIX<br>Kenedix, Inc. | SMFL<br>Sumitomo Mitsui Finance and Leasing Co., Ltd. | 日本商業開発株式会社<br>Nippon Commercial Development Co., Ltd. | p&d consulting |
|-----------------------------|---|--------------------------|---|---|----------------|
| Support for external growth | Pipeline support  | •                        | •   | •   | •              |
|                             | Warehousing services  | •                        | •   |   |                |
| Support for internal growth | Leasing services  | •                        |   | •   | •              |
|                             | PM services   | •                        |   | •   | •              |
|                             | Environmentally friendly technology/knowhow                   | •                        |   |   |                |
|                             | Evaluation of operating conditions and advisory on operations |                          |   |   | •              |
| Other support               | Personnel support   | •                        | •   |   |                |
|                             | Right to use trademarks                                       | •                        |   | •   |                |

## 2 Preferential access to potential acquisition opportunities

We seek to achieve external growth by selectively acquiring properties managed or developed by the Kenedix Group and taking advantage of preferential negotiation rights for properties owned by our Alliance Companies

### Examples of properties owned by our Alliance Companies(\*)

|   |   |   |
|---|---|---|
| <p><b>SS</b><br/><b>Royal Home Center Totsuka-Fukaya</b><br/>Location: Yokohama, Kanagawa</p>  | <p><b>SM</b><br/><b>Yorkmart Totsuka-Fukayacho</b><br/>Location: Yokohama, Kanagawa</p>  | <p><b>NSC</b><br/><b>Unicus Urawamisono</b><br/>Location: Saitama, Saitama</p>  |
|---|---|---|


(Note) The illustration above is a completion image based on design drawing and may differ from actual buildings after completion.

# Active Management Strategies

## 1 Adopt optimal leasing structures for competitive tenant mix

We seek opportunities for rental upside continuously by reshuffling our tenants mix to maintain and enhance the attractiveness and competitiveness of our properties whose tenants are supermarket as anchor tenants and other specialty stores.

**Example of leasing structure (Blumer Maitamon)**



| Anchor tenants          | Non-anchor tenants         |                |
|-------------------------|----------------------------|----------------|
| Grocery supermarket     | Household goods            | Dental clinic  |
| Major clothing retailer | Fashion stores             | Sporting goods |
| Electronics store       | Drug stores                | Restaurants    |
|                         | <b>Total of 45 tenants</b> |                |

## 2 Completed property expansion of Roseo Mito

We added a new building housing a secondhand shop on the underutilized space of Roseo Mito.

|                            | Before the expansion     | New building            | After the expansion      |
|----------------------------|--------------------------|-------------------------|--------------------------|
| <b>Total leasable area</b> | 45,654.67 m <sup>2</sup> | 2,641.48 m <sup>2</sup> | 48,296.15 m <sup>2</sup> |
| <b>Acquisition price</b>   | JPY9,675 mn              | JPY371 mn               | JPY10,046 mn             |
| <b>Appraisal value</b>     | JPY9,780 mn              |                         | JPY10,700 mn             |
| <b>Appraisal NOI</b>       | JPY554 mn                |                         | JPY595 mn                |
| <b>Appraisal NOI yield</b> | 5.7%                     |                         | 5.9%                     |



## 3 Effective utilization of CAPEX

We seek to reduce our cost of operation and enhance the satisfaction of our tenants through effective utilization of CAPEX.

**Examples of effective use of CAPEX**

|   |  |
|---|--|
| <p><b>Example 1:</b><br/>Installation of LED lighting<br/>Passaggio Nishiarai</p>      | <p><b>Example 2:</b><br/>Renovation of restroom area<br/>MONA Shin-Urayasu</p>    |
| <p><b>Example 3:</b><br/>Replacement of the flooring material<br/>Blumer HAT Kobe</p>  | <p><b>Example 4:</b><br/>Installation of escalators<br/>Ashico Town Ashikaga</p>  |

# Asset Acquired in 2nd Fiscal Period

## O-5 Carino Esaka

Attractively located near Esaka Station, only 5 stops/10 minutes away from Umeda Station



Urban Station-Front SC



|                          |                          |
|--------------------------|--------------------------|
| Acquisition price        | JPY 6,555 mn             |
| Location                 | Suita, Osaka             |
| Land area <sup>(*)</sup> | 5,830.66 m <sup>2</sup>  |
| GFA <sup>(*)</sup>       | 42,681.56 m <sup>2</sup> |
| Core tenant              | Tokyu Hands Inc.         |

- The retail portion of entire facility consisting of shopping center (SC) on its lower floors and a hotel in the upper floors. One of the landmark SC in the neighborhood of Esaka Station with a well-known variety goods store as the anchor tenant
- Due to easy access to Esaka Station close to central Osaka, the trade area is popular among families with young children recognized as high-quality living environment

(\*) Figures for the whole building are shown in the table

### T-9

Super Viva Home Iwatsuki (Land)

Underlying land with strong value growth potential, in the proximity to a national route



NSC

### T-10

K's Denki Shonan-Fujisawa (Land)

Easy car access and a long-term fixed business land lease



SS

### T-11

Unicus Kamisato (Land)

Underlying land of a shopping center with a cinema complex in the Kamisato area



NSC

### T-12

Unicus Konosu (Land)

Underlying land of one of the largest shopping centers in the Konosu area



NSC

### T-13

Inageya Yokohama Minamihonjuku (Land)

Underlying land of a March 2015-opened SM in a highly populated trade area



SM

### T-14

Gourmet City Chiba-Chuo

A 24-hour supermarket housing a clinic in the complex



SM

### O-6

COMBOX Komyoike

Largest retail property in the Komyoike Sta. area with multiple large-scale specialty stores



Urban Station-Front SC

### O-7

Hankyu Oasis Hirakatadeguchi

SM located in a highly populated area, with 10,000 residents within a 500m radius



SM

### O-8

Welcia Kishiwadakamori (Land)

Underlying land of a leading domestic drug store brand newly opened in 2015



SS



# R-4 Ashico Town Ashikaga

Large-scale NSC with cinema complex re-opened in March 2016



NSC



|                   |   |
|-------------------|---|
| Acquisition price | JPY4,180 mn   |
| Location          | Ashikaga, Tochigi   |
| Land area         | 101,808.44 m <sup>2</sup>   |
| GFA               | Shopping mall: 18,101.06 m <sup>2</sup> ;<br>Expansion: 430.74 m <sup>2</sup> ;<br>Cinema complex: 7,200.15 m <sup>2</sup> ;<br>Road-side wing: 698.31 m <sup>2</sup> |
| Core tenant       | Cainz Corporation   |

- A large-scale multi-tenant NSC with thorough renovation conducted in November 2014, consisting of multiple wings, housing highly recognizable national chain stores
- Easily accessible by car due to its location along a major local avenue. Highly accessible from distant regions as well
- Cinema complex has opened in March 2016 after acquisition by KRR

O-9

## Life Nishi-Tengachaya

Located in a densely populated area, with approx. 16,000 people living in a 500m radius



SM

R-5

## Yorktown Shinden-Higashi

Located in a rapidly-growing commuting neighborhood close to central Sendai



NSC

R-6

## Kasumi Technopark Sakura

A 24-hour operated store of a leading supermarket brand headquartered in Tsukuba



SM

## Environmental initiatives

### ■ Environmental Policies

We have established "Environmental Policies" in October 2015 and undertake operations in accordance with it.

Compliance with Environmental Laws and Regulations

Promotion of Energy Conservation Measures

Reduction of Environmental Burden








Disclosure of Environmental Information

Environmental Education

### ■ DBJ Green Building Certification

The DBJ Green Building Certification System is a system ("the System") established by DBJ in April 2011 to support real estate that meets environmental and social considerations. The System evaluates and certifies real estate with environmental and social considerations, taking into account each property's environmental features and measures taken for various stakeholders, such as disaster and community-conscious measures.

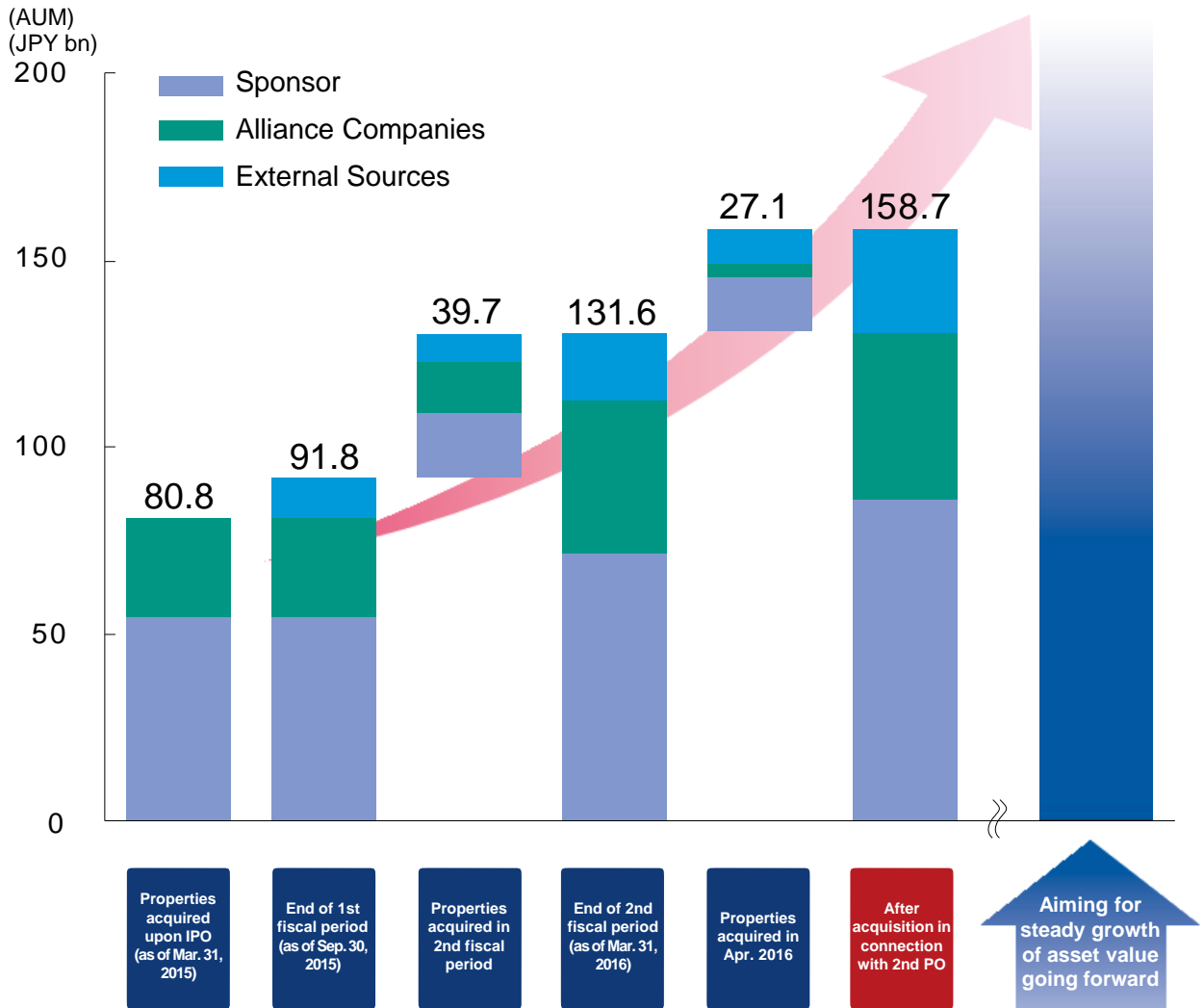
We received DBJ Green Building Certification for five of our own properties

| Rank          |  <b>Properties with excellent environmental &amp; social awareness</b> |  <b>Properties with high environmental &amp; social awareness</b> |
|---------------|---|--|
| Property Name | <p><b>T-1</b> Fululu Garden Yachiyo</p>                                | <p><b>T-2</b> MONA Shin-Urayasu</p>                               |
|               | <p><b>O-1</b> Blumer Maitamon</p>                                      | <p><b>T-5</b> Unicus Ina</p>                                     |
|               |   | <p><b>T-7</b> Unicus Yoshikawa</p>                              |

# Summary of 2nd Public Offering

## 1 Steady growth in AUM (Based on acquisition price)

Upon continuous acquisition of assets, the total asset value of our portfolio by acquisition price become 158.7 billion yen, which nearly doubled from the time of our IPO. In addition, we have enhanced earnings stability through portfolio diversification and increase in liquidity of units by issuance of new units and expansion of market capitalization.



### Our core strengths for external growth

Ample external growth opportunities

The only J-REIT to focus on neighborhood, community and other shopping centers for daily needs

Multiple acquisition channels

Differentiated acquisition methods









## 2 Summary of properties newly acquired

1 Located in the four major metropolitan areas or ordinance-designated cities

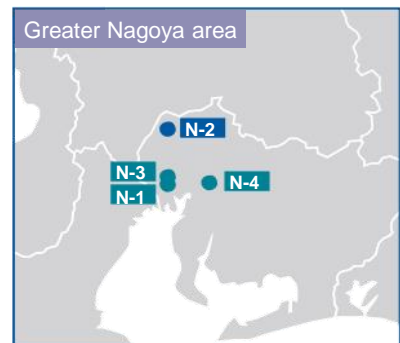
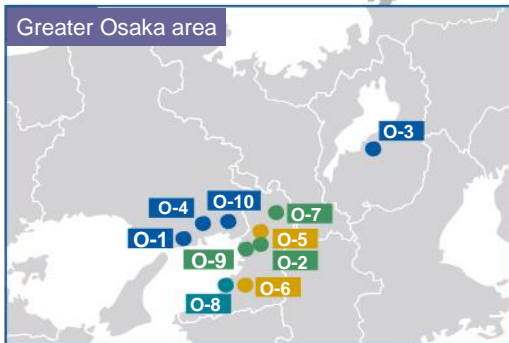
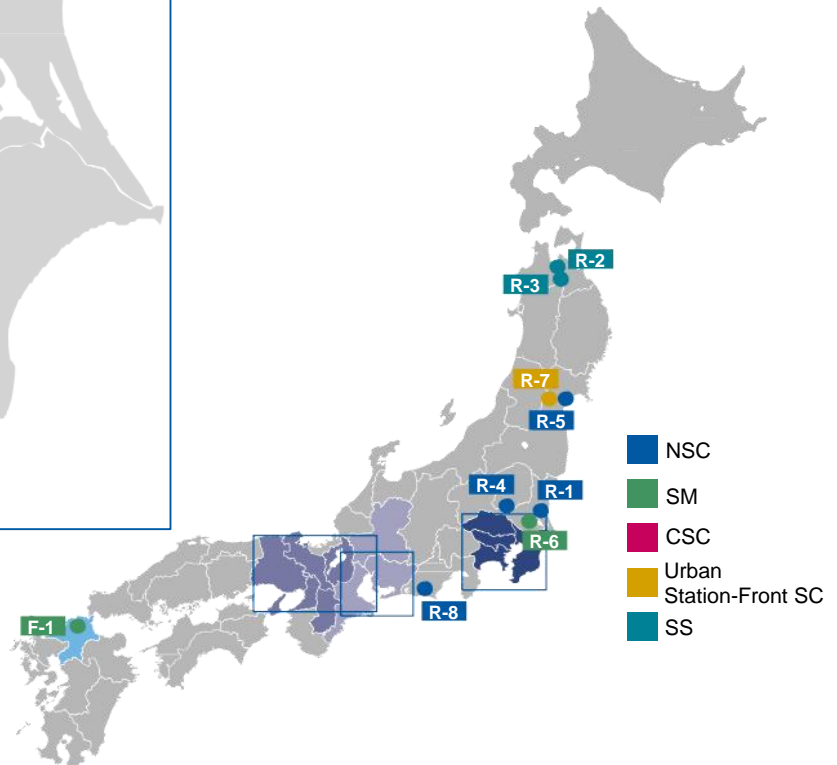
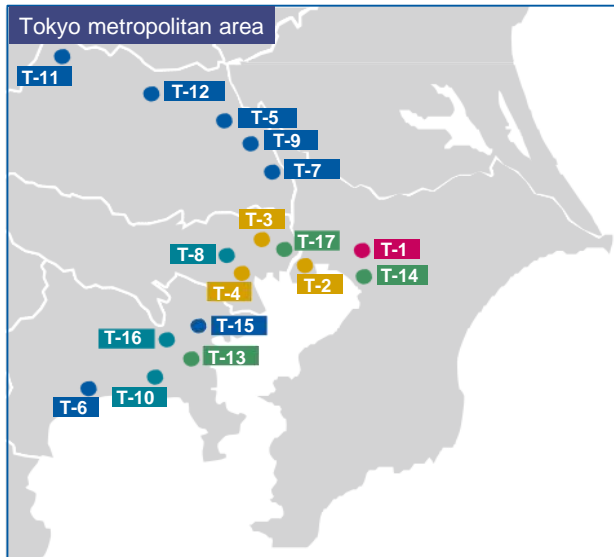
2 Retail trade areas that benefit from increases in population

3 Highly accessible properties

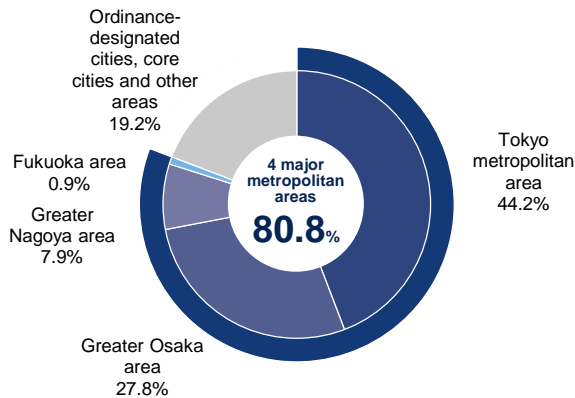
4 Tenant mix attractive to customers

| Properties  | Acquisition Price (JPY mn) | Appraisal Value (JPY mn) | Appraisal NOI yield (%) | Location  | Core tenant             |
|---|----------------------------|--------------------------|-------------------------|---|-------------------------|
| <b>T-15</b><br><b>Nakamachidai Tokyu Store</b>                           | 3,360                      | 3,780                    | 5.4                     | Tokyo metropolitan area (18 min to Yokohama)          | Tokyu Store Corporation |
| <b>T-16</b><br><b>Central Wellness Club Nagatsuta Minamidai</b>          | 1,724                      | 1,880                    | 5.7                     | Tokyo metropolitan area (29 min to Shibuya)           | Central Sports Co., Ltd |
| <b>T-17</b><br><b>Life Kameido</b>                                      | 1,450                      | 1,500                    | 4.5                     | Tokyo metropolitan area (12 min to Tokyo)             | Life Corporation        |
| <b>O-9</b><br><b>Life Nishi-Tengachaya</b><br>(Acquired in Jan. 2016)  | 1,505                      | 1,620                    | 5.2                     | Greater Osaka area (16 min to Osaka)                  | Life Corporation        |
| <b>O-10</b><br><b>Million Town Tsukaguchi (Land)</b>                   | 3,723                      | 3,730                    | 4.6                     | Greater Osaka area (13 min to Osaka)                  | Mandai Co., Ltd.        |
| <b>N-4</b><br><b>Homecenter Kohnan Sunadabashi</b>                     | 7,140                      | 7,220                    | 5.2                     | Greater Nagoya area (24 min to Nagoya)                | Kohnan Shoji Co.,Ltd.   |
| <b>R-7</b><br><b>Solala Plaza</b>                                      | 5,720                      | 5,740                    | 5.0                     | Ordinance-designated cities (3 min to Sendai on foot) | Otsuka Kagu, Ltd        |
| <b>R-8</b><br><b>P-1 Plaza Tenno</b>                                   | 4,010                      | 4,230                    | 5.7                     | Ordinance-designated cities                           | Kyorindo Co., Ltd       |

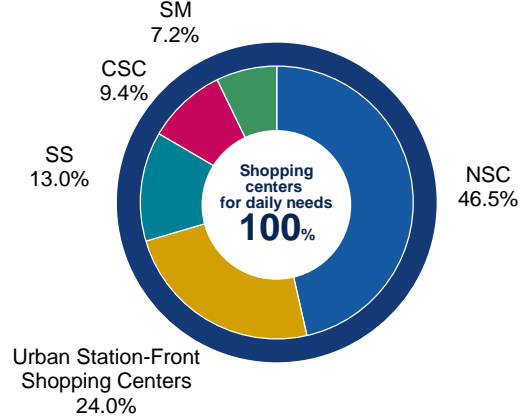
# Portfolio Map as of April 22, 2016











































**Location (by acquisition price)**



**Types of retail property (by acquisition price)**



|  |   |   |  |   |
|--|---|---|--|---|
| <b>T-1</b> Fululu Garden Yachiyo   | <b>T-2</b> MONA Shin-Urayasu  | <b>T-3</b> Passaggio Nishiara   | <b>T-4</b> Daikanyama Address Dixsept  | <b>T-5</b> Unicus Ina   |
|    |    |    |        |        |
| <b>T-6</b> Yorktown Kita-Kaname  | <b>T-7</b> Unicus Yoshikawa   | <b>T-8</b> Sports Club Renaissance Fujimidai  | <b>T-9</b> Super Viva Home Iwatsuki (Land)   | <b>T-10</b> K's Denki Shonan-Fujisawa (Land)  |
|    |    |    |        |        |
| <b>T-11</b> Unicus Kamisato (Land)   | <b>T-12</b> Unicus Konosu (Land)  | <b>T-13</b> Inageya Yokohama Minamihonjuku (Land)                                   | <b>T-14</b> Gourmet City Chiba-Chuo  | <b>T-15</b> Nakamachidai Tokyu Store  |
|    |    |    |        |  NEW   |
| <b>T-16</b> Central Wellness Club Nagatsuta Minamidai                              | <b>T-17</b> Life Kameido  | <b>O-1</b> Blumer Maitamon  | <b>O-2</b> Central Square Takadono (Land)  | <b>O-3</b> Piago Kahma Home Center Omihachiman  |
|    |    |    |        |        |
| <b>O-4</b> Blumer HAT Kobe   | <b>O-5</b> Carino Esaka   | <b>O-6</b> COMBOX Komyoike  | <b>O-7</b> Hankyu Oasis Hirakatadeguchi  | <b>O-8</b> Welcia Kishiwadakamori (Land)  |
|  |  |  |      |      |
| <b>O-9</b> Life Nishi-Tengachaya   | <b>O-10</b> Million Town Tsukaguchi (Land)  | <b>N-1</b> Kahma Home Center Nakagawa Tomita (Land)                                 | <b>N-2</b> Valor Ichinomiya-Nishi  | <b>N-3</b> K's Denki Nakagawa Tomita (Land)   |
|  |  |  |      |      |
| <b>N-4</b> Homecenter Kohnan Sunadabashi   | <b>F-1</b> Sunny Noma   | <b>R-1</b> Roseo Mito   | <b>R-2</b> K's Denki Aomori Honten   | <b>R-3</b> Super Sports Xebio Aomori-Chuo   |
|  |  |  |      |      |
| <b>R-4</b> Ashico Town Ashikaga  | <b>R-5</b> Yorktown Shinden-Higashi   | <b>R-6</b> Kasumi Technopark Sakura   | <b>R-7</b> Solala Plaza  | <b>R-8</b> P-1 Plaza Tenno  |
|  |  |  |  NEW |  NEW |

## Portfolio List as of April 22, 2016

| Total acquisition price                                  |   | ¥158,766mn                         | Weighted average occupancy rate | 99.7%                                 | Number of tenants                    | 403 |
|--|---|------------------------------------|---------------------------------|---------------------------------------|--------------------------------------|-----|
| No.  | Name of property                          | Location (city / ward, prefecture) | Acquisition price (JPY mn)      | Occupancy rate (%) <sup>(Note1)</sup> | Number of tenants <sup>(Note2)</sup> |     |
| T-1  | Fululu Garden Yachiyo                     | Yachiyo, Chiba                     | 14,848                          | 99.4                                  | 48                                   |     |
| T-2  | MONA Shin-Urayasu                         | Urayasu, Chiba                     | 8,063                           | 96.1                                  | 72                                   |     |
| T-3  | Passaggio Nishiarai                       | Adachi ward, Tokyo                 | 5,850                           | 98.3                                  | 40                                   |     |
| T-4  | Daikanyama Address Dixsept                | Shibuya ward, Tokyo                | 5,390                           | 98.7                                  | 27                                   |     |
| T-5  | Unicus Ina                                | Kitaadachi-gun, Saitama            | 4,379                           | 100.0                                 | 1                                    |     |
| T-6  | Yorktown Kita-Kaname                      | Hiratsuka, Kanagawa                | 4,000                           | 100.0                                 | 1                                    |     |
| T-7  | Unicus Yoshikawa                          | Yoshikawa, Saitama                 | 3,600                           | 99.2                                  | 10                                   |     |
| T-8  | Sports Club Renaissance Fujimidai         | Nerima ward, Tokyo                 | 2,586                           | 100.0                                 | 1                                    |     |
| T-9  | Super Viva Home Iwatsuki (Land)           | Saitama, Saitama                   | 4,815                           | 100.0                                 | 1                                    |     |
| T-10   | K's Denki Shonan-Fujisawa (Land)          | Fujisawa, Kanagawa                 | 3,169                           | 100.0                                 | 1                                    |     |
| T-11   | Unicus Kamisato (Land)                    | Kodama-gun, Saitama                | 3,000                           | 100.0                                 | 1                                    |     |
| T-12   | Unicus Konosu (Land)                      | Konosu, Saitama                    | 1,700                           | 100.0                                 | 1                                    |     |
| T-13   | Inageya Yokohama Minamihonjuku (Land)     | Yokohama, Kanagawa                 | 1,442                           | 100.0                                 | 1                                    |     |
| T-14   | Gourmet City Chiba-Chuo                   | Chiba, Chiba                       | 760                             | 100.0                                 | 1                                    |     |
| O-1  | Blumer Maitamon                           | Kobe, Hyogo                        | 8,389                           | 99.5                                  | 48                                   |     |
| O-2  | Central Square Takadono (Land)            | Osaka, Osaka                       | 2,685                           | 100.0                                 | 1                                    |     |
| O-3  | Piago Kahma Home Center Omihachiman       | Omihachiman, Shiga                 | 2,140                           | 100.0                                 | 2                                    |     |
| O-4  | Blumer HAT Kobe                           | Kobe, Hyogo                        | 11,000                          | 98.7                                  | 40                                   |     |
| O-5  | Carino Esaka                              | Suita, Osaka                       | 6,555                           | 99.1                                  | 30                                   |     |
| O-6  | COMBOX Komyoike                           | Izumi, Osaka                       | 6,450                           | 100.0                                 | 1                                    |     |
| O-7  | Hankyu Oasis Hirakatadeguchi              | Hirakata, Osaka                    | 1,280                           | 100.0                                 | 1                                    |     |
| O-8  | Welcia Kishiwadakamori (Land)             | Kishiwada, Osaka                   | 487                             | 100.0                                 | 1                                    |     |
| O-9  | Life Nishi-Tengachaya                     | Osaka, Osaka                       | 1,505                           | 100.0                                 | 1                                    |     |
| N-1  | Kahma Home Center Nakagawa Tomita (Land)  | Nagoya, Aichi                      | 2,311                           | 100.0                                 | 1                                    |     |
| N-2  | Valor Ichinomiya-Nishi                    | Ichinomiya, Aichi                  | 2,174                           | 100.0                                 | 1                                    |     |
| N-3  | K's Denki Nakagawa Tomita (Land)          | Nagoya, Aichi                      | 889                             | 100.0                                 | 1                                    |     |
| F-1  | Sunny Noma                                | Fukuoka, Fukuoka                   | 1,497                           | 100.0                                 | 1                                    |     |
| R-1  | Roseo Mito                                | Mito, Ibaraki                      | 10,046                          | 100.0 <sup>(Note3)</sup>              | 23                                   |     |
| R-2  | K's Denki Aomori Honten                   | Aomori, Aomori                     | 1,469                           | 100.0                                 | 1                                    |     |
| R-3  | Super Sports Xebio Aomori-Chuo            | Aomori, Aomori                     | 898                             | 100.0                                 | 1                                    |     |
| R-4  | Ashico Town Ashikaga                      | Ashikaga, Tochigi                  | 4,180                           | 99.1 <sup>(Note3)</sup>               | 26                                   |     |
| R-5  | Yorktown Shinden-Higashi                  | Sendai, Miyagi                     | 3,252                           | 100.0                                 | 2                                    |     |
| R-6  | Kasumi Technopark Sakura                  | Tsukuba, Ibaraki                   | 830                             | 100.0                                 | 1                                    |     |
| <b>Total of assets acquired by the end of 2nd period</b> |   |                                    | <b>131,639</b>                  | <b>99.6</b>                           | <b>389</b>                           |     |
| T-15   | Nakamachidai Tokyu Store                  | Yokohama, Kanagawa                 | 3,360                           | 100.0                                 | 1                                    |     |
| T-16   | Central Wellness Club Nagatsuta Minamidai | Yokohama, Kanagawa                 | 1,724                           | 100.0                                 | 2                                    |     |
| T-17   | Life Kameido                              | Koto ward, Tokyo                   | 1,450                           | 100.0                                 | 1                                    |     |
| O-10   | Million Town Tsukaguchi (Land)            | Amagasaki, Hyogo                   | 3,723                           | 100.0                                 | 1                                    |     |
| N-4  | Homecenter Kohnan Sunadabashi             | Nagoya, Aichi                      | 7,140                           | 100.0                                 | 1                                    |     |
| R-7  | Solala Plaza                              | Sendai, Miyagi                     | 5,720                           | 100.0                                 | 1                                    |     |
| R-8  | P-1 Plaza Tennno                          | Hamamatsu, Shizuoka                | 4,010                           | 100.0                                 | 7                                    |     |
| <b>Total of assets acquired in April, 2016</b>           |   |                                    | <b>27,127</b>                   | <b>100.0</b>                          | <b>14</b>                            |     |
| <b>Total</b>   |   |                                    | <b>158,766</b>                  | <b>99.7</b>                           | <b>403</b>                           |     |

(Note1) "Occupancy rate" and "number of tenants" are as of March 31, 2016

(Note2) "Number of tenants" indicates the number of end-tenants as of March 31, 2016

(Note3) Although the building and the land are leased separately to different tenants, the occupancy rate reflects the occupancy of both the building and the land

O-1 NSC Neighborhood Shopping Center

# Blumer Maitamon

## NSC located in a newly developed residential area



Blumer Maitamon is a neighborhood shopping center in Kobe which opened in July 2006. The shopping center is a part of the Garden City Maitamon housing development which was created by the national government-affiliated Urban Renaissance Agency. The first floor tenants include a grocery store, a home appliance store, clothing stores, variety goods stores and a restaurant. The second floor tenants include a large clothing store, a furniture store, a baby goods store, a book store, variety goods stores and restaurants.

Proximity to the Kobe West Bypass, Daini-Shinmei Road and Kobe-Awaji-Naruto Expressway makes it easy for shoppers to drive to Blumer Maitamon. The shopping center is also near the railway stations of JR, Sanyo Electric Railway and Kobe Municipal Subway. Residents of this area can commute to central Kobe and even to Osaka for work or school. In addition, this district provides convenient access to Shin-Kobe Station for the Shinkansen bullet train and to Kobe Airport.

The area surrounding Blumer Maitamon is a highly attractive market. There is a growing population of families because of the ongoing development of housing projects. In April 2016, a new elementary school, which is very few nowadays in Japan, opened in this area.

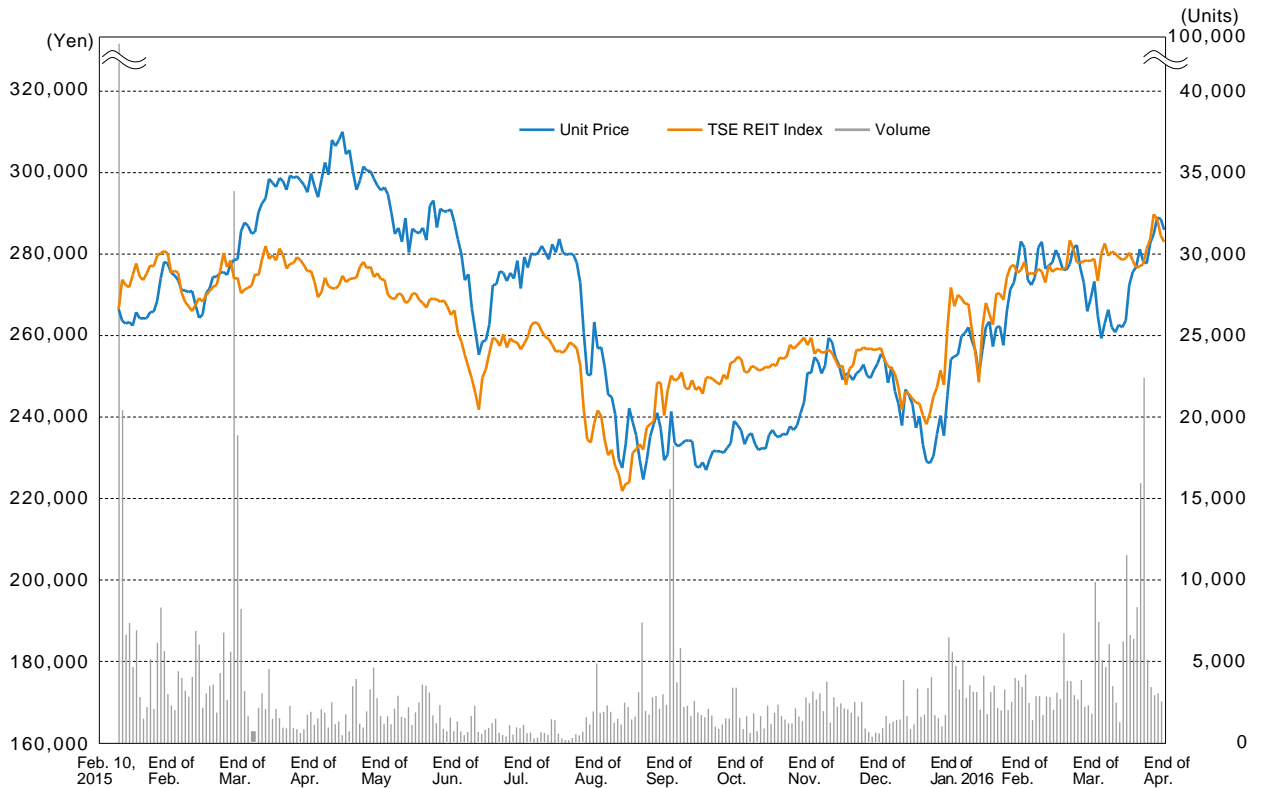
Since taking over operations, KRR has repositioned the shopping center as “Nearby and Wonderful (Maitamon, My Town).” The aim is to make this facility something more than simply a convenient place to shop for residents of this area. KRR plans to transform this into a shopping center with ideas for new life styles in order to earn the support of residents who keep up with the latest trends. For example, the shopping center has generated a strong response with two innovative events. One is Tarumi Marché, which brings together small retailers and art galleries in this area. Another is Ironoha, where stores operating for a limited time sell accessories and other handmade products created by mothers with children at home. To prepare for the 10th anniversary in July 2016, the shopping center underwent a major renovation and held a grand opening with its new look in April 2016. KRR will continue to operate this facility while placing emphasis on connections in order to become an integral component of this district in Kobe.

### Property Summary

|                   |                          |
|-------------------|--------------------------|
| Acquisition price | 8,389 million yen        |
| Location          | Kobe, Hyogo              |
| Land area         | 54,838.70 m <sup>2</sup> |
| GFA               | 36,349.60 m <sup>2</sup> |
| Core tenant       | EDION Corporation        |

# Summary of investment unit

## Performance of Investment Unit

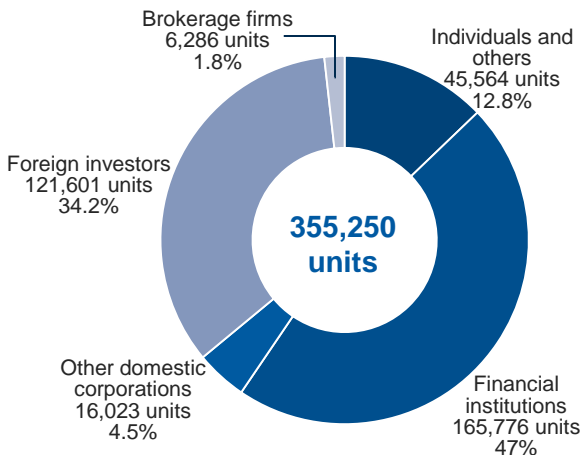


(Note) TSE REIT Index adjusted to KRR's closing unit price of JPY266,100 as of February 10, 2015.

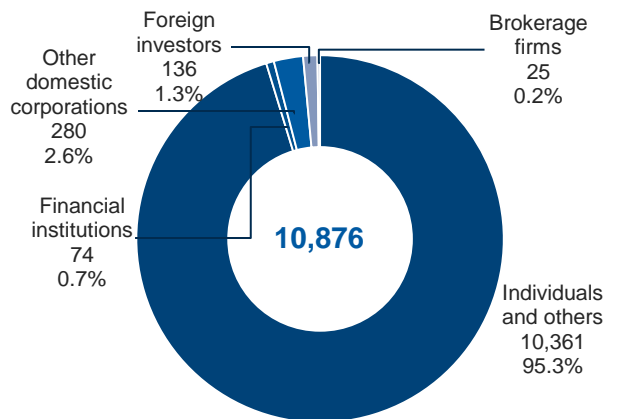
## Summary of Unitholder

As of March 31, 2016

### Ownership ratio by investor type



### Number of unitholders by investor type





## II. ASSET MANAGEMENT REPORT

### Overview of Asset Management

#### (1) Trends in Key Indicators

| Fiscal period  |                 | 1st period<br>(From October 3, 2014<br>to September 30, 2015) | 2nd period<br>(From October 1, 2015<br>to March 31, 2016) |
|--|-----------------|---|---|
| Operating revenues                                     | Millions of Yen | 5,103   | 5,541   |
| Of which, Property-related revenues                    | Millions of Yen | 5,103   | 5,541   |
| Property-related expenses                              | Millions of Yen | 2,639   | 2,715   |
| Of which, Property-related expenses                    | Millions of Yen | 2,246   | 2,235   |
| Operating income                                       | Millions of Yen | 2,463   | 2,826   |
| Ordinary income  | Millions of Yen | 1,939   | 2,428   |
| Net income   | Millions of Yen | 1,933   | 2,427   |
| Total assets   | Millions of Yen | 108,382   | 150,009   |
| [Period-on-period changes]                             | %               | (-)   | (+38.4)   |
| Total net assets                                       | Millions of Yen | 59,790  | 80,034  |
| [Period-on-period changes]                             | %               | (-)   | (+33.9)   |
| Unitholders' capital                                   | Millions of Yen | 57,857  | 77,606  |
| Number of investment units issued and outstanding      | Units           | 260,750   | 355,250   |
| Net assets per unit                                    | Yen             | 229,301   | 225,291   |
| Distributions  | Millions of Yen | 1,933   | 2,432   |
| Distributions per unit                                 | Yen             | 7,414   | 6,846   |
| Of which, Distributions of earnings                    | Yen             | 7,414   | 6,834   |
| Of which, Distributions in excess of retained earnings | Yen             | -   | 12  |
| Ordinary Income to Total Assets <sup>(Note 2)</sup>    | %               | 2.0   | 1.9   |
| [Annualized] <sup>(Note 3)</sup>                       |                 | (3.1)   | (3.7)   |
| Return on Net Assets <sup>(Note 4)</sup>               | %               | 3.3   | 3.5   |
| [Annualized] <sup>(Note 3)</sup>                       |                 | (5.2)   | (6.9)   |
| Net Assets to Total Assets <sup>(Note 5)</sup>         | %               | 55.2  | 53.4  |
| [Period-on-period changes]                             |                 | (-)   | (-1.8)  |
| Operating days   | Days            | 363   | 183   |
| Payout Ratio <sup>(Note 6)</sup>                       | %               | 100.0   | 100.0   |
| Number of properties                                   |                 | 19  | 33  |
| Leasable area  | m <sup>2</sup>  | 306,225.83  | 609,026.59  |
| Number of tenants <sup>(Note 7)</sup>                  |                 | 321   | 389   |
| Occupancy ratio  | %               | 99.6  | 99.6  |
| Depreciation expense                                   | Millions of Yen | 560   | 565   |
| Capital expenditures                                   | Millions of Yen | 133   | 530   |
| Rental NOI (Net Operating Income) <sup>(Note 8)</sup>  | Millions of Yen | 3,417   | 3,871   |
| FFO (Funds from Operation) <sup>(Note 9)</sup>         | Millions of Yen | 2,548   | 3,058   |
| FFO per unit <sup>(Note 10)</sup>                      | Yen             | 9,772   | 8,609   |

Note 1) Figures above are rounded down for monetary amounts and rounded off for ratios

Note 2) Ordinary Income to Total Assets= Ordinary Income/((Total assets at beginning of period+Total assets at end of period)/2)x100  
Total assets at beginning of period above is the total assets on February 10, 2015, when the actual operation began.

Note 3) Annualized as if the operation began from February 10, 2015, when the actual operation began.

Note 4) Return on Net Assets=Net income/((Net assets at beginning of period+Net assets at end of period)/2)x100  
Net Assets at beginning of period above is the total assets on February 10, 2015, when the actual operation began.

Note 5) Net Assets to Total Assets= Net assets at end of period/Total assets at end of period x 100

Note 6) Payout Ratio=Distributions(without distribution in excess of retained earnings)/Net income x 100

Note 7) As for building tenants, if a tenant leases multiple spaces in a building, each space is counted as one tenant. In a pass-through-type master lease, the number of end-tenants is shown in parentheses. In a sublease-type master lease, the number of master lessee is shown.

Note 8) Rental NOI= Property-related revenues-Property-related expenses+Depreciation expenses

Note 9) FFO= Net income+Depreciation+Amortization- Gain on sale of property+Loss on sale of property

Note 10) FFO per unit= FFO/ Number of investment units issued and outstanding

## **(2) Status of Asset Management**

### **(Overview of the Period ending September 30, 2015)**

#### **i) Transition of KRR**

KRR was established on October 3, 2014, under the Act on Investment Trusts and Investment Corporations of Japan (the Investment Trust Act). On October 30, 2014, KRR was registered with the Director-General of the Kanto Local Finance Bureau (registration number: Director-General of the Kanto Local Finance Bureau No. 97). KRR was listed on the Real Estate Investment Trust Securities (J-REIT) Market of Tokyo Stock Exchange, Inc. (the Tokyo Stock Exchange) (Securities code: 3453) on February 10, 2015. Subsequently, KRR raised funds through public offerings, including an international offering. As a result, the number of investment units issued at the end of the period ended March 31, 2016 was 355,250 units.

KRR seeks to invest primarily in neighborhood, community and other shopping centers that cater to the day-to-day needs of local area customers and have stable demand from retailers and customers, in order to provide stable investment returns over the long term. Sponsored by Kenedix, Inc., a leading, independent real estate asset management company, KRR entrusts its asset management and investment operations to Kenedix Real Estate Fund Management, Inc. (KFM), with the following strategies.

Note: For our management purposes and ease of classification, we define neighborhood, community and other shopping centers for daily needs as retail properties that generally have the following characteristics:

- a. Retail trade area of approximately a one to ten kilometer radius (and generally, a three to five kilometer radius), with customers predominantly from local areas surrounding the retail property
- b. Operational capacity to accommodate certain daily local retail needs and strong customer traffic on both weekdays and weekends
- c. Composed of various specialty stores to meet a range of day-to-day needs such as groceries, clothing and other daily goods and services

#### **ii) Investment Environment**

There were signs of an economic rebound in Japan with recoveries in corporate earnings under Abenomics. However, real GDP growth (2nd preliminary estimate) in the fourth quarter of 2015 was negative 0.3%, a return to the negative zone following a positive figure in the previous quarter due to weak consumer spending and decline in exports resulting mainly from economic slowdown in developing countries.

As for Japan's retail market, disparities among the retail market are seen as general merchandize stores (GMS) are reported to be struggling, but supermarkets and drugstores are performing well.

In the financial environment, Nikkei 225 Index fell sharply entering into 2016 due to global market events such as economic slowdown in China and fall in price of oil leading to unstable effects, including appreciation of yen. On the other hand, interest rates have been declining following the introduction of negative interest rate policy by the Bank of Japan in January 2016. As funds flowed into the J-REIT market after the policy change, especially from foreign investors, the TSE REIT Index rallied to the 1,900 level in March 2016. In the real estate market, J-REITs continue to purchase a substantial number of properties because of monetary easing and brisk equity raising activities by J-REITs.

### iii) Management Performance

#### (A) Acquisition of Assets

KRR acquired the following trust beneficiary interests in real estate (13 properties acquired on October 2, 2015 with total acquisition price of 37,920 million yen and one property acquired on January 21, 2016 with acquisition price 1,505 million yen). In addition, KRR completed an additional acquisition of a new building through a property expansion within Roseo Mito (acquisition price of 371 million yen) on November 26, 2015. As a result, the portfolio at the end of the period under review (March 31, 2016) consists 33 properties with the total acquisition price of 131,639 million yen.

| Property number | Property Type <sup>(Note 1)</sup> | Property name                         | Location (City or Ward, Prefecture) | Acquisition Price (million yen) <sup>(Note 2)</sup> | Acquisition Date  |
|-----------------|-----------------------------------|---------------------------------------|-------------------------------------|---|-------------------|
| T-9             | NSC                               | Super Viva Home Iwatsuki (Land)       | Saitama, Saitama                    | 4,815   | October 2, 2015   |
| T-10            | SS                                | K's Denki Shonan-Fujisawa (Land)      | Fujisawa, Kanagawa                  | 3,169   | October 2, 2015   |
| T-11            | NSC                               | Unicus Kamisato (Land)                | Kodama-gun, Saitama                 | 3,000   | October 2, 2015   |
| T-12            | NSC                               | Unicus Konosu (Land)                  | Konosu, Saitama                     | 1,700   | October 2, 2015   |
| T-13            | SM                                | Inageya Yokohama Minamihonjuku (Land) | Yokohama, Kanagawa                  | 1,442   | October 2, 2015   |
| T-14            | SM                                | Gourmet City Chiba-Chuo               | Chiba, Chiba                        | 760   | October 2, 2015   |
| O-5             | Urban Station-Front SC            | Carino Esaka                          | Suita, Osaka                        | 6,555   | October 2, 2015   |
| O-6             | Urban Station-Front SC            | COMBOX Komyoike                       | Izumi, Osaka                        | 6,450   | October 2, 2015   |
| O-7             | SM                                | Hankyu Oasis Hirakatadeguchi          | Hirakata, Osaka                     | 1,280   | October 2, 2015   |
| O-8             | SS                                | Welcia Kishiwadakamori (Land)         | Kishiwada, Osaka                    | 487   | October 2, 2015   |
| O-9             | SM                                | Life Nishi-Tengachaya                 | Osaka, Osaka                        | 1,505   | January 21, 2016  |
| R-1             | NSC                               | Roseo Mito (Note 3)                   | Mito, Ibaraki                       | 371   | November 26, 2015 |
| R-4             | NSC                               | Ashico Town Ashikaga                  | Ashikaga, Tochigi                   | 4,180   | October 2, 2015   |
| R-5             | NSC                               | Yorktown Shinden-Higashi              | Sendai, Miyagi                      | 3,252   | October 2, 2015   |
| R-6             | SM                                | Kasumi Technopark Sakura              | Tsukuba, Ibaraki                    | 830   | October 2, 2015   |
| Total           |                                   |                                       |                                     | 39,796  |                   |

Note 1: Properties are categorized into the following five types of shopping centers for daily needs: NSC (Neighborhood Shopping Center), SM (Supermarket), CSC (Community Shopping Center), Urban Station-Front SC (Urban Station-Front Shopping Center) and SS (Specialty Store). We categorize these properties generally into five separate groups as follows.

| Type of shopping centers for daily needs | Features   | Trade area              |
|--|--|-------------------------|
| NSC (Neighborhood Shopping Centers)      | Shopping centers with a supermarket as an anchor or coretenant and several specialty store tenants   | three to five kilometer |
| SM (Supermarkets)                        | Stand-alone stores that primarily provide groceries, with a retail trade area  | three kilometer         |
| CSC (Community Shopping Centers)         | Larger shopping centers than NSC, which have a supermarket as an anchor or core tenant in addition to specialty store tenants  | five to ten kilometer   |
| Urban Station-Front Shopping Centers     | Shopping centers that are located in the immediate vicinity of an urban public transportation station, which take advantage of stable foot traffic   | three to ten kilometer  |
| SS (Specialty Stores)                    | Single- or multiple-tenant shopping centers that specialize in a single type of merchandise or service, such as drug stores, convenience stores, health clubs or electronic appliance stores | one to ten kilometer    |

Note 2: "Acquisition price" represents the purchase price of each trust beneficiary interest specified in purchase agreement in relation to the acquisition of each property (excluding acquisition costs, adjustment in property tax and city-planning tax, and consumption tax; and rounded down to the nearest one million yen).

Note 3: KRR acquired the secondhand shop building through a new building construction (property expansion). Acquisition price represents the payment price (excluding expenses and taxes and rounded down to the nearest million yen) on the construction contract and construction design/supervision outsourcing contracts related to construction of the building.

## (B) Management and Operation of Assets

KFM provides property management services for all of the properties owned by KRR at the end of the period under review (March 31, 2016). By using the same company for both asset management and property management services, KRR aims to build stronger relationships with tenants and increase returns from its portfolio. Furthermore, by implementing retail property management that better reflects the needs of our tenants, KRR strives to accumulate know-how and improve tenant satisfaction. KRR invests primarily in neighborhood and community shopping centers that cater to the day-to-day needs of customers. The portfolio is diversified in terms of properties, tenants and other characteristics with a goal to generate consistent long-term cash flows. At the same time, a portion of the rent includes sales-linked rent to explore the upside potential for rental income. By using these measures, we aim to pursue a portfolio that achieves both stability and growth.

As of the end of the period under review, portfolio as a whole performed well with an overall occupancy ratio of 99.6%. Furthermore, the portfolio is diversified in terms of tenants as there are 389 end-tenants in our retail properties.

## (C) Financing

When financing to acquire properties, KRR seeks to achieve the proper balance between financial stability and the efficiency of the cost of the funds with the objectives to achieve stable medium- to long-term returns and consistent growth of assets under management.

### (Equity Finance)

In the fiscal period under review, KRR sold a total of 88,750 newly issued units offered in Japan and overseas, and raised 18,547 million yen. In addition, 5,750 units were issued through third-party allotment on October 21, 2015, raising 1,201 million yen that was used to prepay a portion of borrowing for acquisition of properties. Due to these activities, unitholders' capital increased to 77,606 million yen as of March 31, 2016.

### (Debt Finance)

During the fiscal period under review, KRR borrowed for the acquisition of properties and used the proceeds from the issuance of newly issued units through third-party allotment for the early repayment of debt. Consequently, debt totaled 57,500 million yen at the end of the fiscal period under review (March 31, 2016).

When undertaking borrowings, we combine a number of loans, spreading out repayment dates, considering the interest rate trends and other financial environment. We use swaps to fix the interest payments to hedge against the risk of a rise in interest rates.

The below are borrowings at the end of the fiscal period.

| Series            | Lender                                 | Amount<br>(in thousands<br>of yen) | Interest rate                              | Drawdown date     | Repayment<br>date<br>(Note 1) | Repayment<br>method | Remarks                    |
|-------------------|--|------------------------------------|--|-------------------|-------------------------------|---------------------|----------------------------|
| 4-A               | Sumitomo Mitsui Banking Corporation    | 2,050,000                          | JBA 1-month<br>Japanese Yen<br>TIBOR+0.50% | October 2, 2015   | October 2,<br>2016            | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 4-B               | Sumitomo Mitsui Banking Corporation    | 3,450,000                          | 0.54510%<br>(Note 2)                       | October 2, 2015   | March 31,<br>2019             | Full on<br>maturity | Unsecured/<br>Unguaranteed |
|                   | The Bank of Tokyo-Mitsubishi UFJ, Ltd. |                                    |  |                   |                               |                     |                            |
|                   | Sumitomo Mitsui Trust Bank, Ltd.       |                                    |  |                   |                               |                     |                            |
|                   | Resona Bank, Ltd.                      |                                    |  |                   |                               |                     |                            |
|                   | The Musashino Bank, Ltd.               |                                    |  |                   |                               |                     |                            |
| 4-C               | The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 800,000                            | 0.98675%<br>(Note 2)                       | October 2, 2015   | March 31,<br>2023             | Full on<br>maturity | Unsecured/<br>Unguaranteed |
|                   | Resona Bank, Ltd.                      |                                    |  |                   |                               |                     |                            |
|                   | The Musashino Bank, Ltd.               |                                    |  |                   |                               |                     |                            |
| 4-D               | Development Bank of Japan Inc.         | 1,500,000                          | 1.01262%<br>(Note 3)                       | October 2, 2015   | March 31,<br>2023             | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 4-E               | Sumitomo Mitsui Banking Corporation    | 7,000,000                          | 1.11010%<br>(Note 2)                       | October 2, 2015   | March 31,<br>2024             | Full on<br>maturity | Unsecured/<br>Unguaranteed |
|                   | Mizuho Bank, Ltd.                      |                                    |  |                   |                               |                     |                            |
|                   | The Bank of Tokyo-Mitsubishi UFJ, Ltd. |                                    |  |                   |                               |                     |                            |
|                   | Mizuho Trust & Banking Co., Ltd.       |                                    |  |                   |                               |                     |                            |
|                   | Sumitomo Mitsui Trust Bank, Ltd.       |                                    |  |                   |                               |                     |                            |
| Resona Bank, Ltd. |  |                                    |  |                   |                               |                     |                            |
| 4-F               | Sumitomo Mitsui Banking Corporation    | 1,900,000                          | 1.24300%<br>(Note 2)                       | October 2, 2015   | April 16,<br>2025             | Full on<br>maturity | Unsecured/<br>Unguaranteed |
|                   | The Bank of Tokyo-Mitsubishi UFJ, Ltd. |                                    |  |                   |                               |                     |                            |
| 4-G<br>(Note 4)   | Sumitomo Mitsui Banking Corporation    | 3,650,000                          | JBA 1-month<br>Japanese Yen +0.50%         | October 2, 2015   | October 2,<br>2016            | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 5-1               | Sumitomo Mitsui Banking Corporation    | 450,000                            | JBA 1-month<br>Japanese Yen<br>TIBOR+0.45% | February 10, 2016 | February 10,<br>2017          | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 5-2               | The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 450,000                            |  |                   |                               |                     |                            |
| 5-3               | Mizuho Bank, Ltd.                      | 400,000                            |  |                   |                               |                     |                            |
| 5-4               | Resona Bank, Ltd.                      | 250,000                            |  |                   |                               |                     |                            |
| 5-5               | Aozora Bank, Ltd.                      | 250,000                            |  |                   |                               |                     |                            |
| 5-6               | Sumitomo Mitsui Trust Bank, Ltd.       | 200,000                            |  |                   |                               |                     |                            |

Note 1: The repayment date will be the following business day in case such date falls on a day that is not a business day or the preceding business day in case such date falls in the next calendar month.

Note 2: These borrowings are floating interest rates. However, we have entered into interest rate swap agreements to hedge the risks of interest rate volatility. These rates are the interest rates including the effect of the swaps (i.e., fixed interest rates).

Note 3: These borrowings are fixed rates.

Note 4: As for Series 4-G, the balance as of March 31, 2016 was 2,450,000 thousand yen as a portion of the debt was prepaid on October 30, 2015. The repayment of Series 4-G was funded by net proceeds from the sale of new investment units through a third-party allotment with a October 21, 2015 payment date.

As a result, the average remaining years to maturity is 5.1 years, the weighted average interest rate is 0.88%, the long-term debt ratio is 88.7% and the LTV ratio (note), is 42.7%.

Note: The LTV ratio, or loan-to-value ratio, is the ratio of the total amount of borrowings, corporate bonds and tenant leasehold and security deposits (net of amounts reserved for return of tenant leasehold and security deposits), to the total assets minus amounts reserved for return of tenant leasehold and security deposits.

#### **(Credit ratings)**

The status of the credit ratings as of March 31, 2016 is as follows.

| Credit Rating Agency                   | Details of the Ratings  |                     |
|--|-------------------------|---------------------|
| Japan Credit Rating Agency, Ltd. (JCR) | Long-Term Issuer Rating | A (Outlook: Stable) |

#### **iv) Results of Operations**

For this period, revenue was 5,541 million yen, operating income was 2,826 million yen, ordinary income was 2,428 million yen and net income was 2,427 million yen.

Furthermore, in accordance with the distribution policy in the KRR Articles of Incorporation, KRR made a distribution (excluding excess of earnings) of 2,427,778,500 yen for the fiscal period, which is an integral multiple of 355,250, the total number of investment units outstanding and does not exceed the unappropriated retained earnings of the fiscal period. Cash distributions are paid in accordance with Article 67-15 of the Special Taxation Measures Law (Law No. 26 of 1957, including subsequent amendments). Consequently, the distribution per unit (including the distributions in excess of earnings) was 6,834 yen.

Furthermore, in accordance with the policy for “Distribution of Money in Excess of Profits” as stated in the KRR Articles of Incorporation, KRR made a distribution in excess of earnings for the 4,263,000 yen allowance for temporary adjustment (as defined in Article 2-2-30 of the Ordinance on Accountings of Investment Corporations) for the purpose of reflecting the effect on distributions of the difference in earnings calculated under Japanese GAAP and Japanese tax laws in association with the amortization of fixed-term land lease rights (as defined in Article 2-2-30 (b) of the Ordinance on Accountings of Investment Corporations). This resulted in a distribution in excess of earnings per unit of 12 yen.

Consequently, the distribution per unit for the fiscal period, including this excess distribution, was 6,846 yen (of which the distribution in excess of earnings per unit was 12 yen).

### (3) Movements in Investment Units Issued and Outstanding

Movements in the number of investment units issued and outstanding and unitholders' capital since its corporation are summarized in the following table.

| Date             | Type of issue                                   | Total Number of Units Issued and Outstanding (units) |         | Unitholders' Capital (in million yen) |         | Notes    |
|------------------|---|--|---------|---------------------------------------|---------|----------|
|                  |   | Increase   | Balance | Increase                              | Balance |          |
| October 3, 2014  | Private placement for incorporation             | 750  | 750     | 150                                   | 150     | (Note 1) |
| February 9, 2015 | Public offering                                 | 254,250  | 255,000 | 56,430                                | 56,580  | (Note 2) |
| March 11, 2015   | Capital increase through third-party allocation | 5,750  | 260,750 | 1,276                                 | 57,857  | (Note 3) |
| October 1, 2015  | Public offering                                 | 88,750   | 349,500 | 18,547                                | 76,404  | (Note 4) |
| October 21, 2015 | Capital increase through third-party allocation | 5,750  | 355,250 | 1,201                                 | 77,606  | (Note 5) |

Note 1: Issued at issue price of 200,000 yen per unit for incorporation.

Note 2: Issued at issue price of 230,000 yen per unit (issue amount of 221,950 yen per unit) for acquisition of new properties.

Note 3: Issued at issue amount of 221,950 yen per unit for repayment of borrowings.

Note 4: Issued at issue price of 216,543 yen per unit (issue amount of 208,991 yen per unit) for acquisition of new properties.

Note 5: Issued at issue amount of 208,991 yen per unit for repayment of borrowings.

### (Changes in Unit price at Tokyo Stock Exchange)

The highest and lowest closing prices of the investment units listed on J-REIT section of the Tokyo Stock Exchange for each period are as follows

| Fiscal period<br>For the fiscal period<br>ended | 1st period<br>September 30, 2015 | 2nd period<br>March 31, 2016 |
|---|----------------------------------|------------------------------|
| Highest   | JPY 309,500                      | JPY 282,700                  |
| Lowest  | JPY 224,500                      | JPY 226,800                  |

#### (4) Distributions

The distributions of earnings for second period is 6,834 yen per unit. In order to maintain our favorable tax treatment, which is available to J-REITs under Article 67-15 of the Special Taxation Measures Act, we intend to distribute most of our retained earnings.

Furthermore, KRR made a distribution in excess of earnings for the allowance for temporary adjustment for the purpose of reflecting the effect on distributions of the difference in earnings calculated under Japanese GAAP and Japanese tax laws in association with the amortization of fixed-term land lease rights. This resulted in a distribution in excess of earnings per unit of 12 yen.

(in thousand of yen)

| Fiscal period  | 1st period         | 2nd period     |
|--|--------------------|----------------|
| For the fiscal period ended  | September 30, 2015 | March 31, 2016 |
| Unappropriated retained earnings   | 1,933,270          | 2,427,985      |
| Retained earnings carried forward  | 70                 | 206            |
| Total distributions  | 1,933,200          | 2,432,041      |
| [Distributions per unit]   | [7,414 yen]        | [6,846 yen]    |
| Of which, distributions of earnings  | 1,933,200          | 2,427,778      |
| Distributions of earnings per units  | [7,414 yen]        | [6,834 yen]    |
| Of which, distributions in excess of retained earnings                                   | —                  | 4,263          |
| Distributions in excess of retained earnings per units                                   | [—]                | [12 yen]       |
| Total distributions in excess of earnings for the allowance for temporary adjustment     | —                  | 4,263          |
| [Distributions per unit]   | [—]                | [12 yen]       |
| Total distributions in excess of earnings from the unitholders' capital for tax purposes | —                  | —              |
| [Distributions per unit]   | [—]                | [—]            |

## **(5) Management Policy and Issues to be Addressed**

### **i) Outlook for Asset Management**

The Japanese economy is expected to continue to recover at a moderate pace. However, we should pay attention to uncertainties about the overseas economy regarding the economic slowdown in China, fall in the price of oil, the direction of U.S. financial policies, etc. We also need to pay attention to changes in domestic economic environment, such as appreciation of yen, stock market decline and effects of the negative interest rate policy.

As for Japan's retail sector environment, disparities among the retail market are seen as general merchandize stores (GMS) are reported to be struggling, but supermarkets and drugstores are performing well, and we anticipate that this trend to continue.

In the real estate trading market, we anticipate the high level of transaction volume to continue because of the strong appetite of J-REIT and other investors to acquire properties. The Bank of Japan's aggressive monetary easing measures will help provide continuous supply of adequate funds in the real estate market. However, investors should also keep in mind the risk of rise in interest rates in the future and impact of oversea economic events.

From a medium to long-term perspective, to generate a steady stream of rental revenue, consistently increase our assets and establish a suitable financial position, KRR will continue to manage assets based on the following policies.

### **(A) Investment Strategy for New Properties and Disposition Policy**

We receive a variety of support from many sources in order to achieve the steady growth of our assets and increase the value of our assets. One source is the Kenedix Group, including Kenedix, Inc., the parent company of KFM (note). We also receive support from our Alliance Companies: Sumitomo Mitsui Finance and Leasing Co., Ltd., Nippon Commercial Development Co., Ltd., and P&D Consulting Co., Ltd. We are implementing a growth strategy that takes full advantage of the external growth opportunities created by the large and diverse acquisition pipeline made possible by the support of these companies.

When acquiring properties, we make decisions based on all applicable factors with emphasis on four parameters: the retail property's attractiveness, its location, the property's profitability and the tenant mix. By using this selection process results, we invest in retail properties with a competitive edge, and good prospects for consistent rental revenue and growth in asset value. We also invest in land ownership interests underlying retail properties. While many of the land-only properties are selected from the "JINUSHI BUSINESS" portfolio held by Nippon Commercial Development, we make these investments after examining the terms of the land leasing agreement, the characteristics of the tenant, the asset value of the land, and the proportion of land-only properties in our portfolio. We may also consider making an equity investment in a tokumei kumiai (silent partnership) for warehousing properties, provided that we are given an opportunity to acquire them in the future.

Regarding disposition of a portfolio property, we make decisions based primarily on the significance of these properties in the context of the portfolio. This is assessed by comprehensive evaluation of the outlook for future profitability and asset value determined based on its current profitability and market trends.

Note: The Kenedix Group consists of Kenedix, Inc. and its subsidiaries and affiliates.

### **(B) Management Strategy for Existing Properties**

KRR is committed to building a portfolio that can pursue both stability and growth. We believe that implementing integrated asset and property management services makes it possible to properly manage retail properties and pursue internal growth. Furthermore, this integrated management framework facilitates activities to enliven local communities where our properties are located, enabling us to aim for medium to long-term growth in asset value.

To accomplish these goals, KFM oversees properties owned by KRR while placing priority on the following themes.

- "One-stop" asset management and property management services
- Continuously implementing a retail property management cycle through our in-house property management services
- Pursuit of internal growth through management of retail properties
- Directing investments and management policies to enliven local communities in the medium to long-term

#### "One-stop" asset management and property management services

KRR plans to use the integrated asset management and property management services of KFM for strengthening relationships with tenants and making the portfolio more profitable.

#### Continuously implementing a retail property management cycle through our in-house property management services

KFM provides property management services for all of KRR's properties. We do this for the purposes of performing retail property management that better reflects the needs of the tenants as well as accumulating know-how and improving tenant satisfaction. Specifically, we use direct contact with tenant companies at our properties in order to strengthen tenant relationships and make properties more profitable. To this end, we perform periodic monitoring of market conditions so that we can identify the needs of tenants and the customers visiting their sites. This process makes it possible to find issues that stand in the way of achieving greater satisfaction for tenants and their customers. Once we have discovered points that require attention, we take actions that take full advantage of the resources and knowledge regarding retail properties within the Kenedix Group. Solutions include measures such as the effectively utilizing capital expenditures, optimizing tenant mix,



realizing growth in asset value by pursuing property expansions, and cutting costs, to improve tenant satisfaction and acquire more know-how.

#### Pursuit of internal growth through management of retail properties

KRR seeks to use the proper management of retail properties to achieve the goals of consistent revenue, higher profitability and growth in asset value.

##### i. Effectively utilize capital expenditure

We will use proper and well-timed capital expenditures to increase the satisfaction of tenants and make our properties more competitive.

##### ii. Optimize tenant mix

We will constantly work on attracting new tenants that are highly appealing to shoppers and replace tenants with others, optimizing tenant composition, in order to seek stable revenue and higher profitability by attracting more customers.

##### iii. Realize growth in asset value by pursuing property expansions

We will use the extensive knowledge involving retail properties of the Kenedix Group and our Alliance Companies to utilize the underutilized space (note) at properties and expand properties. These measures will take into account the competitive position of each property, the effect on our financial position and other factors. By increasing space that can be leased, we would like to increase revenue and asset value.

Note: The underutilized space is defined as the area that is calculated by multiplying the floor space ratio, or the ratio of total area of the building to the site area, which is prescribed in Article 52 of the Building Standards Act and applied to each retail property in accordance with the Building Standards Act, City Planning Act and other laws and regulations, by the land area that is allowed to be used as a retail property site, and subtracting from this figure the actual gross floor area of the building.

#### Directing investments and management policies to enliven local communities in the medium to long-term

At our retail properties, we seek tenants that provide services, hold community involved events and use other measures to help enliven the local communities where our properties are located. We believe these activities will contribute to the medium to long-term growth in the asset value of these properties.

#### **(C) Financing**

We will establish a suitable financial foundation by examining numerous financing methods and selecting the optimum ones. These decisions will reflect interest rates and other elements of the financial environment. Our goal is to select financing methods that result in the optimum balance between financial stability and the financing cost.

#### **(D) Disclosure of Information**

Our policy concerning disclosure activities is to use extensive investor relations activities to distribute a broad range of information to investors and other related parties as well as to announce information as soon and as accurately as we can. We use TDnet (Timely Disclosure network) and press releases to meet the timely-disclosure requirements of the Tokyo Stock Exchange. In addition, we proactively post information on our website (<http://www.krr-reit.com/en/>).

#### **(E) Conflicts of Interest**

In addition to managing the assets of KRR, KFM provides asset management services to other investment corporations and real estate funds. KFM uses a “preferential right for acquisition opportunities” system for the property acquisition process. KFM has a pipeline committee, which includes a compliance officer, and operates in accordance with rules. This system is structured to prevent improper allocation of acquisition opportunities as well as conflicts of interest among the REIT and funds managed by KFM. Through these measures, KFM is taking suitable actions regarding conflicts of interest.

## **(6) Important Subsequent Events**

### Issuance of new investment units

KRR passed resolutions at the Board of Directors Meeting held on March 31, 2016 and April 13, 2016, to issue new investment units to fund the acquisition of specified assets. Payments for the issuance of new investment units through public offering and through third-party allotment have been completed on April 20, 2016 and May 18, 2016, respectively. KRR plans to use the net proceeds through third-party allotment for the repayment of the loans payable of 800,000 thousand yen.

As a result, unitholders' capital totaled 94,256,390,300 yen and total number of investment units issued and outstanding increased to 422,450 as of May 18, 2016.

### Issuance of new investment units through public offerings

|  |  |
|--|--|
| Total number of units issued:                    | 64,000 units (Domestic 31,744 units, International 32,256 units) |
| Issue price (offer price):                       | 256,717 yen per unit   |
| Total amount of issue price (total offer price): | 16,429,888,000 yen   |
| Paid-in amount (issue amount):                   | 247,764 yen per unit   |
| Total paid-in amount (total issue amount):       | 15,856,896,000 yen   |
| Payment date:                                    | April 20, 2016   |

### Issuance of new investment units through third-party allotment

|  |                            |
|--|----------------------------|
| Total number of units issued:              | 3,200 units                |
| Paid-in amount (issue amount):             | 247,764 yen per unit       |
| Total paid-in amount (total issue amount): | 792,844,800 yen            |
| Payment date:                              | May 18, 2016               |
| Allottee:                                  | SMBC Nikko Securities Inc. |

**(Reference Material)****(A) Acquisition of Assets**

KRR acquired 7 assets (acquisition price of 27,127 million yen).

“Acquisition price” represents the amount specified in the sale and purchase agreement for the trust beneficiary interests, exclusive of the various expenses (acquisition expenses, property tax, city planning tax, consumption tax, etc.) required in the acquisition of the following assets.

| Property number | Property type          | Property name                             | Location            | Seller  | Acquisition price (million yen) | Appraisal value (million yen) | Acquisition date |
|-----------------|------------------------|---|---------------------|---|---------------------------------|-------------------------------|------------------|
| T-15            | NSC                    | Nakamachidai Tokyu Store                  | Yokohama, Kanagawa  | Mitsubishi Jisho Residence Co., Ltd.          | 3,360                           | 3,780                         | April 21, 2016   |
| T-16            | SS                     | Central Wellness Club Nagatsuta Minamidai | Yokohama, Kanagawa  | Individual                                    | 1,724                           | 1,880                         | April 20, 2016   |
| T-17            | SM                     | Life Kameido                              | Koto-ku, Tokyo      | G.K. KRF60.                                   | 1,450                           | 1,500                         | April 21, 2016   |
| O-10            | NSC                    | Million Town Tsukaguchi (Land)            | Amagasaki, Hyogo    | Sumitomo Mitsui Finance and Leasing Co., Ltd. | 3,723                           | 3,730                         | April 21, 2016   |
| N-4             | SS                     | Homecenter Kohnan Sunadabashi             | Nagoya, Aichi       | JRP6 G.K.                                     | 7,140                           | 7,220                         | April 21, 2016   |
| R-7             | Urban Station-Front SC | Solala Plaza                              | Sendai, Miyagi      | G.K. FOX Investment                           | 5,720                           | 5,740                         | April 21, 2016   |
| R-8             | NSC                    | P-1 Plaza Tenno                           | Hamamatsu, Shizuoka | Kondo Cotton Spinning Co., Ltd.               | 4,010                           | 4,230                         | April 22, 2016   |
| Total           |                        |   | -                   | -   | 27,127                          | 28,080                        | -                |

In addition to assets acquired shown above, a new building with 394.38 m<sup>2</sup> gross floor area (hereinafter the “restaurant building”) is planned to be constructed on the underutilized site of Unicus Ina, a property owned by KRR. KRR expects the total construction cost for the restaurant building to be 107 million yen and plans to complete the construction by mid-January 2017.

**(C) Financing**

KRR borrowed funds for the acquisition on April 21, 2016 and April 22, 2016.

| Series | Lender                                    | Amount<br>(in thousands<br>of yen) | Interest rate                              | Drawdown date     | Repayment date<br>(Note 1) | Repayment<br>method | Remarks                    |
|--------|---|------------------------------------|--|-------------------|----------------------------|---------------------|----------------------------|
| 6-A-1  | Sumitomo Mitsui Banking Corporation       | 4,140,000                          | JBA 1-month<br>Japanese Yen<br>TIBOR+0.45% | April 21,<br>2016 | April 21, 2017             | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 6-A-2  | Mizuho Bank, Ltd.                         | 360,000                            |  |                   |                            |                     |                            |
| 6-B-1  | Mizuho Bank, Ltd.                         | 710,000                            | 0.36800%                                   | April 21,<br>2016 | September 30,<br>2019      | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 6-B-2  | Sumitomo Mitsui Trust Bank, Ltd.          | 620,000                            |  |                   |                            |                     |                            |
| 6-C    | Sumitomo Mitsui Trust Bank, Ltd.          | 450,000                            | 0.80300% (Note2)                           | April 21,<br>2016 | September 30,<br>2024      | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 6-D    | Development Bank of Japan Inc.            | 890,000                            | 0.76031% (Note3)                           | April 21,<br>2016 | September 30,<br>2024      | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 6-E    | Sumitomo Mitsui Banking Corporation       | 2,670,000                          | 0.93200% (Note2)                           | April 21,<br>2016 | April 21, 2026             | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 6-F    | Sumitomo Mitsui Banking Corporation       | 800,000                            | JBA 1-month<br>Japanese Yen<br>TIBOR+0.45% | April 21,<br>2016 | April 21, 2017             | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 7-A    | The Bank of<br>Tokyo-Mitsubishi UFJ, Ltd. | 1,070,000                          | JBA 1-month<br>Japanese Yen<br>TIBOR+0.45% | April 22,<br>2016 | April 21, 2017             | Full on<br>maturity | Unsecured/<br>Unguaranteed |
| 7-B    | The Bank of<br>Tokyo-Mitsubishi UFJ, Ltd. | 890,000                            | 0.88800%                                   | April 22,<br>2016 | October 31, 2025           | Full on<br>maturity | Unsecured/<br>Unguaranteed |

Note 1: The repayment date will be the following business day in case such date falls on a day that is not a business day or the preceding business day in case such date falls in the next calendar month.

Note 2: These borrowings are floating interest rates. However, we have entered into interest rate swap agreements to hedge the risks of interest rate volatility. These rates are the interest rates including the effect of the swaps (i.e., fixed interest rates).

Note 3: These borrowings are fixed interest rates.

Note 4: As for Series 6-F, it will be prepaid in full on May 31, 2016, and there will be no balance before its repayment date. The repayment of Series 6-F was funded by net proceeds from the sale of new investment units through a third-party allotment with a May 18, 2016 payment date.

## Profile of KRR

### (1) Status of Unitholders' Capital

| Fiscal period   | 1st period<br>(From October 3, 2014 to<br>September 30, 2015) | 2nd period<br>(From October 1, 2015 to<br>March 31, 2016) |
|---|---|---|
| Total Number of Authorized Investment Units             | 5,000,000 units   | 5,000,000 units   |
| Total Number of Investment Units Issued and Outstanding | 260,750 units   | 355,250 units   |
| Unitholders' Capital                                    | 57,857 million yen  | 77,606 million yen  |
| Number of unitholders                                   | 8,954   | 10,876  |

### (2) Matters Concerning Investment Units

The following is a list of major unitholders as of March 31, 2016.

| Name  | Location   | Number of units held (Units) | Ratio to total number of units issued and outstanding (%) (Note) |
|---|--|------------------------------|--|
| JAPAN TRUSTEE SERVICES BANK, LTD.<br>(Trust Acct.)                        | 1-8-11, Harumi, Chuo-ku, Tokyo   | 66,161                       | 18.62  |
| THE MASTER TRUST BANK OF JAPAN, LTD.<br>(Trust Acct.)                     | 2-11-3, Hamamatsucho, Minato-ku, Tokyo   | 33,069                       | 9.30   |
| TRUST & CUSTODY SERVICE BANK, LTD.<br>(Securities Investment Trust Acct.) | Office Tower Z, Harumi Island Triton Square,<br>1-8-12 Harumi, Chuo-ku, Tokyo                        | 27,319                       | 7.69   |
| THE BANK OF NEW YORK,<br>NON-TREATY JASDEC ACCOUNT                        | 2-7-1 Marunouchi, Chiyoda-ku, Tokyo<br>Standing proxy: The Bank of Tokyo Mitsubishi<br>UFJ, Ltd.     | 15,185                       | 4.27   |
| THE NOMURA TRUST AND BANKING CO.,<br>LTD. (Investment Trust Acct.)        | 2-2-2, Otemachi, Chiyoda-ku, Tokyo   | 12,099                       | 3.40   |
| JP MORGAN CHASE BANK 385628   | Shinagawa Intercity Tower A<br>2-15-1, Kohnan, Minato-ku, Tokyo<br>Standing proxy: Mizuho Bank, Ltd. | 11,288                       | 3.17   |
| STATE STREET BANK AND TRUST<br>COMPANY 505225                             | Shinagawa Intercity Tower A<br>2-15-1, Kohnan, Minato-ku, Tokyo<br>Standing proxy: Mizuho Bank, Ltd. | 10,497                       | 2.95   |
| THE BANK OF NEW YORK MELLON SA/NV 10                                      | 2-7-1 Marunouchi, Chiyoda-ku, Tokyo<br>Standing proxy: The Bank of Tokyo Mitsubishi<br>UFJ, Ltd.     | 5,934                        | 1.67   |
| KENEDIX, INC.   | 6-5 Nihonbashi Kabutocho, Chuo-ku, Tokyo   | 5,750                        | 1.61   |
| STATE STREET BANK AND TRUST<br>COMPANY 505223                             | Shinagawa Intercity Tower A<br>2-15-1, Kohnan, Minato-ku, Tokyo<br>Standing proxy: Mizuho Bank, Ltd. | 4,811                        | 1.35   |
| Total   |  | 192,113                      | 54.07  |

Note: "Ratio to total number of units issued and outstanding" is rounded down to the second decimal place.

### (3) Matters Concerning Directors and auditor

#### i) Executive Director, Supervisory Director, and Independent Auditor as of March 31, 2016 are as follows

| Position                         | Name                        | Other concurrent title  | Total amount of fees paid during the period (thousand yen) |
|----------------------------------|-----------------------------|---|--|
| Executive Director               | Akihiro Asano               | Director and COO, General Manager of the Retail REIT Division, KFM  | 1,500  |
| Supervisory Director<br>(Note 1) | Yoshiyuki Wada              | Representative partner, Grant Thornton Taiyo LLC<br>Auditor, Zero Co., Ltd.<br>Outside director, Forval Telecom, Inc.<br>Director, Waseda Senior High School<br>Director, Career Design Center Co.,Ltd. | 1,500  |
|                                  | Mai Ishiwatari              | Partner, Shiroyama-Tower Law Office<br>Executive director, Cocone Corporation   | 1,500  |
| Independent Auditor<br>(Note 2)  | Ernst & Young ShinNihon LLC | —   | 29,800   |

Note 1: Although supervisory directors are concurrently officers in corporations other than the ones stated above, there are no conflicts of interest between KRR and any other corporations, including those stated above.

Note 2: Compensation for the Accounting Auditor includes payments for procedures for which an agreement has been reached involving the issuance of new investment units, which is a service not prescribed in Article 2 (1) of the Certified Public Accountants Act of Japan (Act No. 103, 1948).

#### ii) Policy on Decisions to Terminate or not Reappoint the Accounting Auditor

The KRR Board of Directors will consider the termination of the Accounting Auditor pursuant to the provisions of the Investment Trust Act of Japan. The directors will also consider not reappointing the Accounting Auditor after examining the quality of audits, compensation for auditing and other applicable items.

### (4) Asset Manager, the Custodian and Administrators

Asset manager, the custodian and administrators as of March 31, 2016 are as follows

| Operational Role            | Name                             |
|-----------------------------|----------------------------------|
| Asset Manager               | KFM                              |
| Asset Custodian             | Mizuho Trust & Banking Co., Ltd. |
| Unitholders' Register Agent | Mizuho Trust & Banking Co., Ltd. |
| General Administrator       | Mizuho Trust & Banking Co., Ltd. |

## Status on Investment Properties

### (1) Component of Assets

| Type of Specified Asset                             | Property type  | Areas<br>(Note 1)  | First fiscal period<br>as of September 30, 2015    |                       | Second fiscal period<br>as of March 31, 2016       |                       |
|---|--|--|--|-----------------------|--|-----------------------|
|   |  |  | Total Amount Held<br>(Millions of Yen)<br>(Note 2) | Ratio (%)<br>(Note 3) | Total Amount Held<br>(Millions of Yen)<br>(Note 2) | Ratio (%)<br>(Note 3) |
| Trust Beneficiary Interest in Real Estate           | Neighborhood, community and other shopping centers for daily needs | Tokyo metropolitan area  | 49,405   | 45.6                  | 64,434   | 43.0                  |
|   |  | Greater Osaka area   | 24,898   | 23.0                  | 41,499   | 27.7                  |
|   |  | Greater Nagoya area  | 5,458  | 5.0                   | 5,444  | 3.6                   |
|   |  | Fukuoka area   | 1,527  | 1.4                   | 1,513  | 1.0                   |
|   |  | Ordinance-designated cities, core cities and other areas areas | 12,188   | 11.2                  | 21,125   | 14.1                  |
|   | Other retail properties  | —  | —  | —                     | —  |                       |
| Total of Trust Beneficiary Interests in Real Estate |  |  | 93,478   | 86.2                  | 134,016  | 89.3                  |
| Bank Deposits and Other Assets                      |  |  | 14,903   | 13.8                  | 15,992   | 10.7                  |
| Total Assets  |  |  | 108,382  | 100.0                 | 150,009  | 100.0                 |

Note 1: ‘Areas’ are categorized to the Tokyo metropolitan area, the Greater Osaka area, the Greater Nagoya area, the Fukuoka area and Ordinance-designated cities, core cities and other areas. References to ‘Tokyo metropolitan area’ are to the area that consists of Tokyo, Kanagawa, Saitama and Chiba prefectures. References to the ‘Greater Osaka area’ are to the area that consists of Osaka, Kyoto, Hyogo, Nara and Shiga prefectures. References to the ‘Greater Nagoya area’ are to the area that consists of Aichi, Gifu and Mie prefectures. References to the ‘Fukuoka area’ are to the area that consists of Fukuoka prefecture. ‘Ordinance-designated cities, core cities and other areas’ refers to cities designated by government ordinance, which have populations of 500,000 persons or more, core cities, which have populations of 200,000 persons or more, and to other areas with a population fewer than 200,000 persons, which we believe will have suitable customer traffic from surrounding areas.

Note 2: ‘Total Amount Held’ is the amount allocated in the balance sheets as of March 31, 2016 (figures are on a net book value basis after deducting depreciation), and is rounded down to the nearest million.

Note 3: ‘Ratio’ is the ratio of the amount allocated in the balance sheets to the total assets rounded to the nearest tenth.

## (2) Major Assets Owned

The following are major assets owned (the 10 largest properties by book value) by KRR as of March 31, 2016.

| Property number | Property name                   | Book value<br>(in millions) | Leasable area<br>(m <sup>2</sup> )<br>(Note 1) | Leased area<br>(m <sup>2</sup> )<br>(Note 2) | Occupancy rate<br>(%)<br>(Note 3) | Ratio to total rental revenue<br>(%)<br>(Note 4) | Primary use |
|-----------------|---------------------------------|-----------------------------|--|--|-----------------------------------|--|-------------|
| T-1             | Fululu Garden Yachiyo           | 15,026                      | 77,057.56                                      | 76,563.55                                    | 99.4                              | 13.4   | Retail      |
| O-4             | Blumer HAT Kobe                 | 11,585                      | 24,185.02                                      | 23,871.33                                    | 98.7                              | 8.9  | Retail      |
| R-1             | Roseo Mito                      | 10,112                      | 48,296.15                                      | 48,296.15                                    | 100.0                             | 6.7  | Retail      |
| O-1             | Blumer Maitamon                 | 8,494                       | 30,037.11                                      | 29,888.11                                    | 99.5                              | 8.8  | Retail      |
| T-2             | MONA Shin-Urayasu               | 8,275                       | 9,568.31                                       | 9,191.77                                     | 96.1                              | 9.1  | Retail      |
| O-5             | Carino Esaka                    | 6,612                       | 7,540.58                                       | 7,474.92                                     | 99.1                              | 5.5  | Retail      |
| O-6             | COMBOX Komyoike                 | 6,502                       | 25,530.44                                      | 25,530.44                                    | 100.0                             | 4.1  | Retail      |
| T-3             | Passaggio Nishiarai             | 5,934                       | 10,546.25                                      | 10,366.25                                    | 98.3                              | 5.6  | Retail      |
| T-4             | Daikanyama Address Dixsept      | 5,441                       | 5,056.39                                       | 4,991.03                                     | 98.7                              | 4.8  | Retail      |
| T-9             | Super Viva Home Iwatsuki (Land) | 4,890                       | 67,325.95                                      | 67,325.95                                    | 100.0                             | —<br>(Note 5)                                    | Retail      |
| Total           |                                 | 82,876                      | 305,143.76                                     | 303,499.50                                   | 99.5                              | —<br>(Note 5)                                    |             |

Note 1: "Leasable area" is equivalent to gross floor area of space that we consider to be available for lease in each property, rounded to the nearest tenth. For land-only properties, leasable area is equivalent to land area as described in the property registry.

Note 2: "Leased area" indicates the total leased area based on the lease agreements for each property as of March 31, 2016. As for lease agreements of buildings, the leased area of warehouses and land are excluded. As for pass-through type master leases (the master lease in which rent received by the lessor is in principle the same amount as the rent received by the master lessee from end-tenants), the leased area based on the lease agreements between the master lessee and the end-tenants as of March 31, 2016 is shown. As for sublease type master leases (the master lease in which a fixed amount of rent is received from the master lessee.), the leased area to the master lessee is shown.

Note 3: The occupancy rate is calculated by dividing leased area by leasable area as of March 31, 2016, rounded to the nearest tenth. The "Total" of "Occupancy rate" represents the average occupancy rate of all properties in the initial portfolio.

Note 4: "Ratio to total rental revenue" is calculated by rental revenue each property divided by total rental revenue.

Note 5: We have not obtained consent from the tenant(s) to release this information.



### (3) Overview of the Portfolio

[Overview of Assets Owned]

The following summarizes the real estate or the real estate properties in trust owned by KRR as of March 31, 2016.

| Area<br>(Note 1) | Property<br>number | Property<br>type<br>(Note 2) | Property name                                  | Location<br>(City or Ward,<br>Prefecture)<br>(Note 3) | Ownership<br>form                            | Book value<br>(in millions) | Evaluation value<br>(in millions)<br>(Note 4) |
|------------------|--------------------|------------------------------|--|---|--|-----------------------------|---|
| T                | T-1                | CSC                          | Fululu Garden Yachiyo                          | Yachiyo, Chiba  | Trust beneficiary<br>interest in real estate | 15,026                      | 15,200  |
|                  | T-2                | Urban<br>Station-Front<br>SC | MONA Shin-Urayasu                              | Urayasu, Chiba  | Trust beneficiary<br>interest in real estate | 8,275                       | 8,500   |
|                  | T-3                | Urban<br>Station-Front<br>SC | Passaggio Nishiarai                            | Adachi ward, Tokyo                                    | Trust beneficiary<br>interest in real estate | 5,934                       | 6,280   |
|                  | T-4                | Urban<br>Station-Front<br>SC | Daikanyama Address<br>Dixsept                  | Shibuya ward, Tokyo                                   | Trust beneficiary<br>interest in real estate | 5,441                       | 5,620   |
|                  | T-5                | NSC                          | Unicus Ina                                     | Kitaadachi-gun, Saitama                               | Trust beneficiary<br>interest in real estate | 4,381                       | 4,420   |
|                  | T-6                | NSC                          | Yorktown Kita-Kaname                           | Hiratsuka, Kanagawa                                   | Trust beneficiary<br>interest in real estate | 4,018                       | 4,300   |
|                  | T-7                | NSC                          | Unicus Yoshikawa                               | Yoshikawa, Saitama                                    | Trust beneficiary<br>interest in real estate | 3,642                       | 3,770   |
|                  | T-8                | SS                           | Sports Club<br>Renaissance Fujimidai           | Nerima ward, Tokyo                                    | Trust beneficiary<br>interest in real estate | 2,591                       | 2,720   |
|                  | T-9                | NSC                          | Super Viva Home<br>Iwatsuki (Land)             | Saitama, Saitama                                      | Trust beneficiary<br>interest in real estate | 4,890                       | 5,260   |
|                  | T-10               | SS                           | K's Denki<br>Shonan-Fujisawa (Land)            | Fujisawa, Kanagawa                                    | Trust beneficiary<br>interest in real estate | 3,210                       | 3,390   |
|                  | T-11               | NSC                          | Unicus Kamisato (Land)                         | Kodama-gun, Saitama                                   | Trust beneficiary<br>interest in real estate | 3,043                       | 3,010   |
|                  | T-12               | NSC                          | Unicus Konosu (Land)                           | Konosu, Saitama                                       | Trust beneficiary<br>interest in real estate | 1,726                       | 1,740   |
|                  | T-13               | SM                           | Inageya Yokohama<br>Minamihonjuku (Land)       | Yokohama, Kanagawa                                    | Trust beneficiary<br>interest in real estate | 1,462                       | 1,460   |
|                  | T-14               | SM                           | Gourmet City<br>Chiba-Chuo                     | Chiba, Chiba  | Trust beneficiary<br>interest in real estate | 788                         | 799   |
| O                | O-1                | NSC                          | Blumer Maitamon                                | Kobe, Hyogo   | Trust beneficiary<br>interest in real estate | 8,494                       | 8,780   |
|                  | O-2                | SM                           | Central Square<br>Takadono (Land)              | Osaka, Osaka  | Trust beneficiary<br>interest in real estate | 2,727                       | 2,870   |
|                  | O-3                | NSC                          | Piago Kahma Home<br>Center Omihachiman         | Omihachiman, Shiga                                    | Trust beneficiary<br>interest in real estate | 2,168                       | 2,410   |
|                  | O-4                | NSC                          | Blumer HAT Kobe                                | Kobe, Hyogo   | Trust beneficiary<br>interest in real estate | 11,585                      | 11,600  |
|                  | O-5                | Urban<br>Station-Front<br>SC | Carino Esaka                                   | Suita, Osaka  | Trust beneficiary<br>interest in real estate | 6,612                       | 6,590   |
|                  | O-6                | Urban<br>Station-Front<br>SC | COMBOX Komyoike                                | Izumi, Osaka  | Trust beneficiary<br>interest in real estate | 6,502                       | 6,920   |
|                  | O-7                | SM                           | Hankyu Oasis<br>Hirakatadeguchi                | Hirakata, Osaka                                       | Trust beneficiary<br>interest in real estate | 1,333                       | 1,310   |
|                  | O-8                | SS                           | Welcia Kishiwadakamori<br>(Land)               | Kishiwada, Osaka                                      | Trust beneficiary<br>interest in real estate | 497                         | 500   |
|                  | O-9                | SM                           | Life Nishi-Tengachaya                          | Osaka, Osaka  | Trust beneficiary<br>interest in real estate | 1,577                       | 1,620   |
| N                | N-1                | SS                           | Kahma Home Center<br>Nakagawa Tomita<br>(Land) | Nagoya, Aichi   | Trust beneficiary<br>interest in real estate | 2,351                       | 2,500   |
|                  | N-2                | NSC                          | Valor Ichinomiya-Nishi                         | Ichinomiya, Aichi                                     | Trust beneficiary<br>interest in real estate | 2,184                       | 2,230   |
|                  | N-3                | SS                           | K's Denki<br>Nakagawa Tomita (Land)            | Nagoya, Aichi   | Trust beneficiary<br>interest in real estate | 907                         | 945   |
| F                | F-1                | SM                           | Sunny Noma                                     | Fukuoka, Fukuoka                                      | Trust beneficiary<br>interest in real estate | 1,513                       | 1,520   |

| Property number | Property type (Note 1) | Property name | Location (City or Ward, Prefecture) (Note 2) | Ownership form    | Book value (in millions)                  | Evaluation value (in millions) (Note 3) | Property number |
|-----------------|------------------------|---------------|--|-------------------|---|---|-----------------|
| R               | R-1                    | NSC           | Roseo Mito                                   | Mito, Ibaraki     | Trust beneficiary interest in real estate | 10,112                                  | 10,700          |
|                 | R-2                    | SS            | K's Denki Aomori Honten                      | Aomori, Aomori    | Trust beneficiary interest in real estate | 1,493                                   | 1,570           |
|                 | R-3                    | SS            | Super Sports Xebio Aomori-Chuo               | Aomori, Aomori    | Trust beneficiary interest in real estate | 908                                     | 909             |
|                 | R-4                    | NSC           | Ashico Town Ashikaga                         | Ashikaga, Tochigi | Trust beneficiary interest in real estate | 4,398                                   | 5,060           |
|                 | R-5                    | NSC           | Yorktown Shinden-Higashi                     | Sendai, Miyagi    | Trust beneficiary interest in real estate | 3,352                                   | 3,310           |
|                 | R-6                    | SM            | Kasumi Technopark Sakura                     | Tsukuba, Ibaraki  | Trust beneficiary interest in real estate | 859                                     | 861             |
| Total           |                        |               |  |                   |   | 134,016                                 | 138,674         |

Note 1: "T" "O" "N" "F" and "R" herein after refers to Tokyo metropolitan area, the Greater Osaka area, the Greater Nagoya area, the Fukuoka area and Ordinance-designated cities, core cities and other areas, respectively.

Note 2: Properties herein after are categorized into the following five types of retail properties for daily needs: NSC (Neighborhood Shopping Center), SM (Supermarket), CSC (Community Shopping Center), Urban Station-Front SC (Urban Station-Front Shopping Center) and SS (Specialty Store).

Note 3: "Evaluation value" shows the appraisal value stated on the real estate appraisal report created by the real estate appraisers of Daiwa Real Estate Appraisal Co., Ltd., Japan Real Estate Institute and The Tanizawa Sōgō Appraisal Co., Ltd. in accordance with the methods and standards for asset valuation as stipulated in the KRR Articles of Incorporation as well as the regulations as stipulated by The Investment Trusts Association, Japan.

[Earnings Performance for the Individual Properties]

| Area | Property number | Property type          | Property name                            | First fiscal period<br>as of September 30, 2015 |                    |                           |                                   | Second fiscal period<br>as of March 31, 2016 |                    |                           |                                   |
|------|-----------------|------------------------|--|---|--------------------|---------------------------|-----------------------------------|--|--------------------|---------------------------|-----------------------------------|
|      |                 |                        |  | Number of tenants<br>(Note 1)                   | Occupancy rate (%) | rental revenue (millions) | Ratio to total rental revenue (%) | Number of tenants<br>(Note 1)                | Occupancy rate (%) | rental revenue (millions) | Ratio to total rental revenue (%) |
| T    | T-1             | CSC                    | Fululu Garden Yachiyo                    | 49  | 99.5               | 978                       | 19.2                              | 48   | 99.4               | 741                       | 13.4                              |
|      | T-2             | Urban Station-Front SC | MONA Shin-Urayasu                        | 1(72)   | 98.0               | 672                       | 13.2                              | 1(72)  | 96.1               | 503                       | 9.1                               |
|      | T-3             | Urban Station-Front SC | Passaggio Nishiarai                      | 1(40)   | 98.3               | 404                       | 7.9                               | 1(40)  | 98.3               | 309                       | 5.6                               |
|      | T-4             | Urban Station-Front SC | Daikanyama Address Dixsept               | 1(26)   | 93.9               | 324                       | 6.4                               | 1(27)  | 98.7               | 263                       | 4.8                               |
|      | T-5             | NSC                    | Unicus Ina                               | 1   | 100.0              | 169                       | 3.3                               | 1  | 100.0              | 132                       | 2.4                               |
|      | T-6             | NSC                    | Yorktown Kita-Kaname                     | 1   | 100.0              | —<br>(Note 3)             | —<br>(Note 3)                     | 1  | 100.0              | —<br>(Note 3)             | —<br>(Note 3)                     |
|      | T-7             | NSC                    | Unicus Yoshikawa                         | 1(11)   | 100.0              | 167                       | 3.3                               | 1(10)  | 99.2               | 138                       | 2.5                               |
|      | T-8             | SS                     | Sports Club Renaissance Fujimidai        | 1   | 100.0              | —<br>(Note 3)             | —<br>(Note 3)                     | 1  | 100.0              | —<br>(Note 3)             | —<br>(Note 3)                     |
|      | T-9             | NSC                    | Super Viva Home Iwatsuki (Land)          | —   | —                  | —                         | —                                 | 1  | 100.0              |                           |                                   |
|      | T-10            | SS                     | K's Denki Shonan-Fujisawa (Land)         | —   | —                  | —                         | —                                 | 1  | 100.0              |                           |                                   |
|      | T-11            | NSC                    | Unicus Kamisato (Land)                   | —   | —                  | —                         | —                                 | 1  | 100.0              | 72                        | 1.3                               |
|      | T-12            | NSC                    | Unicus Konosu (Land)                     | —   | —                  | —                         | —                                 | 1  | 100.0              | 41                        | 0.7                               |
|      | T-13            | SM                     | Inageya Yokohama Minamihonjuku (Land)    | —   | —                  | —                         | —                                 | 1  | 100.0              | —<br>(Note 3)             | —<br>(Note 3)                     |
|      | T-14            | SM                     | Gourmet City Chiba-Chuo                  | —   | —                  | —                         | —                                 | 1  | 100.0              |                           |                                   |
| O    | O-1             | NSC                    | Blumer Maitamon                          | 48  | 99.5               | 630                       | 12.4                              | 48   | 99.5               | 487                       | 8.8                               |
|      | O-2             | SM                     | Central Square Takadono (Land)           | 1   | 100.0              | —<br>(Note 3)             | —<br>(Note 3)                     | 1  | 100.0              | —<br>(Note 3)             | —<br>(Note 3)                     |
|      | O-3             | NSC                    | Piago Kahma Home Center Omihachiman      | 2   | 100.0              |                           |                                   | 2  | 100.0              |                           |                                   |
|      | O-4             | NSC                    | Blumer HAT Kobe                          | 1(41)   | 99.5               | 473                       | 9.3                               | 1(40)  | 98.7               | 491                       | 8.9                               |
|      | O-5             | Urban Station-Front SC | Carino Esaka                             | —   | —                  | —                         | —                                 | 1(30)  | 99.1               | 302                       | 5.5                               |
|      | O-6             | Urban Station-Front SC | COMBOX Komyoike                          | —   | —                  | —                         | —                                 | 1  | 100.0              | 225                       | 4.1                               |
|      | O-7             | SM                     | Hankyu Oasis Hirakatadeguchi             | —   | —                  | —                         | —                                 | 1  | 100.0              | —<br>(Note 3)             | —<br>(Note 3)                     |
|      | O-8             | SS                     | Welcia Kishiwadakamori (Land)            | —   | —                  | —                         | —                                 | 1  | 100.0              |                           |                                   |
|      | O-9             | SM                     | Life Nishi-Tengachaya                    | —   | —                  | —                         | —                                 | 1  | 100.0              | 17                        | 0.3                               |
| N    | N-1             | SS                     | Kahma Home Center Nakagawa Tomita (Land) | 1   | 100.0              | —<br>(Note 3)             | —<br>(Note 3)                     | 1  | 100.0              | —<br>(Note 3)             | —<br>(Note 3)                     |
|      | N-2             | NSC                    | Valor Ichinomiya-Nishi                   | 1   | 100.0              |                           |                                   | 1  | 100.0              |                           |                                   |
|      | N-3             | SS                     | K's Denki Nakagawa Tomita (Land)         | 1   | 100.0              |                           |                                   | 1  | 100.0              |                           |                                   |
| F    | F-1             | SM                     | Sunny Noma                               | 1   | 100.0              |                           |                                   | 1  | 100.0              |                           |                                   |

| Area  | Property number | Property type | Property name                  | First fiscal period<br>as of September 30, 2015 |                    |                              |                                   | Second fiscal period<br>as of March 31, 2016 |                    |                              |                                   |
|-------|-----------------|---------------|--------------------------------|---|--------------------|------------------------------|-----------------------------------|--|--------------------|------------------------------|-----------------------------------|
|       |                 |               |                                | Number of tenants<br>(Note 1)                   | Occupancy rate (%) | rental revenue<br>(millions) | Ratio to total rental revenue (%) | Number of tenants<br>(Note 1)                | Occupancy rate (%) | rental revenue<br>(millions) | Ratio to total rental revenue (%) |
| R     | R-1             | NSC           | Roseo Mito                     | 1(22)   | 100.0              | 456                          | 9.0                               | 1(23)  | 100.0              | 371                          | 6.7                               |
|       | R-2             | SS            | K's Denki Aomori Honten        | 1   | 100.0              | —<br>(Note 3)                | —<br>(Note 3)                     | 1  | 100.0              | —<br>(Note 3)                | —<br>(Note 3)                     |
|       | R-3             | SS            | Super Sports Xebio Aomori-Chuo | 1   | 100.0              |                              |                                   | 1  | 100.0              |                              |                                   |
|       | R-4             | NSC           | Ashico Town Ashikaga           | —   | —                  | —                            | —                                 | 1(26)  | 99.1               | 260                          | 4.7                               |
|       | R-5             | NSC           | Yorktown Shinden-Higashi       | —   | —                  | —                            | —                                 | 2  | 100.0              | —<br>(Note 3)                | —<br>(Note 3)                     |
|       | R-6             | SM            | Kasumi Technopark Sakura       | —   | —                  | —                            | —                                 | 1  | 100.0              |                              |                                   |
| Total |                 |               |                                | 321   | 99.6               | 5,103                        | 100.0                             | 389  | 99.6               | 5,541                        | 100.0                             |

Note 1: Number of tenants is based upon the number of lease agreements with respect to the building(s) (or land in the case of land-only properties with leasehold interest) on each such property used mainly as stores and offices, as of March 31, 2016. Where one lessee leases more than one section of the property, the lessee is counted as a tenant for each section leased within the property. Where pass-through type master lease agreements are entered into, the number of master lessees is with the number of end-tenants indicated in parentheses. Where sublease type master lease agreements are entered into, the indicated, number of master lessee is shown. The "Total" of "Number of tenants" shows the total number of tenants. As for pass-through type master leases, the number of end-tenants is used for calculation. As for sublease type master leases, the number of master lessee is used for calculation.

Note 2: Rental revenue is based on total rental and other operating revenues of each property.

Note 3: We have not obtained consent from the tenant(s) to release this information.

#### (4) Specified Transaction

As of March 31, 2016, the contract amount and fair value of the outstanding transaction under the specified transaction account of KRR are as follows.

|       | Type  | Contract amount (Million yen) <sup>(Note 1)</sup> |                    | Fair value<br>(million yen) <sup>(Note 2)</sup> |
|-------|---|---|--------------------|---|
|       |   |   | Due after one year |   |
| OTC   | Interest rate swaps:<br>Receive floating/ pay fix | 44,900  | 44,900             | —   |
| Total | —   | 44,900  | 44,900             | —   |

Note 1: The contract amount of interest rate swaps is based on its notional principal.

Note 2: For the financial reporting purpose, the transaction is not measured at fair value but accounted for under special treatment for interest rate swaps based on "Accounting Standards for Financial Instruments" under Japanese GAAP.

#### (5) Other Assets

Real estate or beneficiary rights of real estate in trust owned by KRR are disclosed in "(3) Overview of the Portfolio". KRR has no other specified assets.

#### (6) Asset in Geographic Area

KRR owns no asset in specified area other than Japan.

## Capital Expenditures

### (1) Planned Capital Expenditures

The table below shows major capital expenditures for renovations, repairs and other projects that are planned for the third fiscal period ending September, 2017. These expenditures are for real estate owned by KRR and real estate in trusts in which KRR owns trust beneficiary rights. These planned projects may include some expenditure that will be recorded as expenses rather than capital expenditures for accounting purposes.

| Property number | Property name     | Location       | Purpose   | Schedule                          | Planned amount of capital expenditure (Millions of yen) |                        |                           |
|-----------------|-------------------|----------------|---|-----------------------------------|---|------------------------|---------------------------|
|                 |                   |                |   |                                   | Total   | Payment for the period | Total amount already paid |
| T-2             | MONA Shin-Urayasu | Urayasu, Chiba | Replacement of water generator and rooftop piping | From January 2016 to April 2016   | 103   | —                      | —                         |
| O-1             | Blumer Maitamon   | Kobe, Hyogo    | Common area refurbishment                         | From April 2016 to September 2016 | 23  | —                      | —                         |
| T-2             | MONA Shin-Urayasu | Urayasu, Chiba | Reparement of cooling tower                       | From April 2016 to September 2016 | 22  | —                      | —                         |
| T-2             | MONA Shin-Urayasu | Urayasu, Chiba | Reparement of shutter                             | From April 2016 to September 2016 | 22  | —                      | —                         |
| T-2             | MONA Shin-Urayasu | Urayasu, Chiba | Roof waterproof                                   | From April 2016 to September 2016 | 18  | —                      | —                         |

### (2) Capital expenditures during the period under review

The table below shows major capital expenditures for renovations, repairs and other projects in the period under review.

The amount of capital expenditures in the period under review was 530 million yen. There were also expenditures of 201 million yen that were recorded as repair expenses. In total we spent 731 million yen on the projects.

| Property number | Property name        | Location          | Purpose                    | Schedule                            | Capital expenditure (Millions of yen) |
|-----------------|----------------------|-------------------|----------------------------|-------------------------------------|---------------------------------------|
| O-4             | Blumer HAT Kobe      | Kobe, Hyogo       | Renewal                    | From January 2016 to March 2016     | 127                                   |
| R-4             | Ashico Town Ashikaga | Ashikaga, Tochigi | Installation of escalators | From November 2015 to February 2016 | 117                                   |
| T-2             | MONA Shin-Urayasu    | Urayasu, Chiba    | PMAC replacement           | From June 2015 to January 2016      | 68                                    |
| R-4             | Ashico Town Ashikaga | Ashikaga, Tochigi | Cinema building renovation | From December 2015 To February 2016 | 61                                    |
| O-1             | Blumer Maitamon      | Kobe, Hyogo       | Floor renewal              | From February 2016 To March 2016    | 43                                    |
| Other           |                      |                   |                            |                                     | 112                                   |
| Total           |                      |                   |                            |                                     | 530                                   |

### (3) Reserved Amount for Long-Term Repairs, Maintenance and Renovation Plans

Not applicable

## Expenses and Liabilities

### (1) Expenses related to Asset Management

|   | (in thousands of yen)   |   |
|---|---|---|
|   | 1st period<br>(From October 3, 2014<br>to September 30, 2015) | 2nd period<br>(From October 1, 2015<br>to March 31, 2016) |
| Asset management fees <sup>(Note)</sup> | 313,577   | 405,144   |
| Asset custody fees                      | 5,761   | 4,658   |
| Administrative service fees             | 20,258  | 16,454  |
| Directors' compensation                 | 8,931   | 4,500   |
| Other operating expenses                | 45,112  | 48,444  |
| Total                                   | 393,641   | 479,202   |

Note: the amount of asset management fees capitalized in addition to the amount above are 918,430 thousand yen for the 1st period and 394,250 thousand yen for the second period.

## (2) Status of Borrowings

Borrowings on a financial institution basis as of March 31, 2016 are as follows.

| Classification     | Lender                                       | Balance at the beginning of period<br>(Thousands of yen) | Increase during the period<br>(Thousands of yen) | Decrease during the period<br>(Thousands of yen) | Balance at the end of period<br>(Thousands of yen) | Average interest rate<br>(Note2)<br>(Note3) (%) | Payment due date<br>(Note4) | Use     | Remarks                      |
|--------------------|--|--|--|--|--|---|-----------------------------|---------|------------------------------|
| Short-Term Payable | Sumitomo Mitsui Banking Corporation          | 450,000  | -  | 450,000  | -  | 0.430   | February 10, 2016           | (Note5) | Unsecured/<br>Non-guaranteed |
|                    | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 450,000  | -  | 450,000  | -  |   |                             |         |                              |
|                    | Mizuho Bank, Ltd.                            | 400,000  | -  | 400,000  | -  |   |                             |         |                              |
|                    | Resona Bank, Ltd.                            | 250,000  | -  | 250,000  | -  |   |                             |         |                              |
|                    | Aozora Bank, Ltd.                            | 250,000  | -  | 250,000  | -  |   |                             |         |                              |
|                    | Sumitomo Mitsui Trust Bank, Ltd.             | 200,000  | -  | 200,000  | -  | 0.620   | October 2, 2016             |         |                              |
|                    | Sumitomo Mitsui Banking Corporation          | -  | 2,050,000  | -  | 2,050,000  | 0.621   | October 2, 2016             |         |                              |
|                    | Sumitomo Mitsui Banking Corporation (Note6)  | -  | 3,650,000  | 1,200,000  | 2,450,000  | 0.535   | February 10, 2017           |         |                              |
|                    | Sumitomo Mitsui Banking Corporation          | -  | 450,000  | -  | 450,000  |   |                             |         |                              |
|                    | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -  | 450,000  | -  | 450,000  |   |                             |         |                              |
|                    | Mizuho Bank, Ltd.                            | -  | 400,000  | -  | 400,000  |   |                             |         |                              |
|                    | Resona Bank, Ltd.                            | -  | 250,000  | -  | 250,000  |   |                             |         |                              |
|                    | Aozora Bank, Ltd.                            | -  | 250,000  | -  | 250,000  |   |                             |         |                              |
|                    | Sumitomo Mitsui Trust Bank, Ltd.             | -  | 200,000  | -  | 200,000  |   |                             |         |                              |
|                    | Sub Total                                    | 2,000,000  | 7,700,000  | 3,200,000  | 6,500,000  |   |                             |         |                              |
| Long-Term Payable  | Sumitomo Mitsui Banking Corporation          | 2,300,000  | -  | -  | 2,300,000  | 0.545   | February 10, 2018           | (Note5) | Unsecured/<br>Non-guaranteed |
|                    | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 800,000  | -  | -  | 800,000  |   |                             |         |                              |
|                    | Mizuho Bank, Ltd.                            | 400,000  | -  | -  | 400,000  |   |                             |         |                              |
|                    | Mizuho Trust & Banking Co., Ltd.             | 350,000  | -  | -  | 350,000  |   |                             |         |                              |
|                    | Sumitomo Mitsui Banking Corporation          | 2,400,000  | -  | -  | 2,400,000  | 0.751   | February 10, 2020           |         |                              |
|                    | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 800,000  | -  | -  | 800,000  |   |                             |         |                              |
|                    | Mitsubishi UFJ Trust and Banking Corporation | 800,000  | -  | -  | 800,000  |   |                             |         |                              |
|                    | Sumitomo Mitsui Trust Bank, Ltd.             | 550,000  | -  | -  | 550,000  |   |                             |         |                              |
|                    | Aozora Bank, Ltd.                            | 500,000  | -  | -  | 500,000  |   |                             |         |                              |
|                    | Resona Bank, Ltd.                            | 500,000  | -  | -  | 500,000  |   |                             |         |                              |
|                    | The Gunma Bank, Ltd.                         | 400,000  | -  | -  | 400,000  |   |                             |         |                              |
|                    | The Musashino Bank, Ltd.                     | 400,000  | -  | -  | 400,000  |   |                             |         |                              |
|                    | Mizuho Bank, Ltd.                            | 350,000  | -  | -  | 350,000  |   |                             |         |                              |
|                    | Mizuho Trust & Banking Co., Ltd.             | 300,000  | -  | -  | 300,000  |   |                             |         |                              |
|                    | Sumitomo Mitsui Banking Corporation          | 3,000,000  | -  | -  | 3,000,000  | 0.865   | February 10, 2021           |         |                              |
|                    | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 700,000  | -  | -  | 700,000  |   |                             |         |                              |
|                    | Sumitomo Mitsui Trust Bank, Ltd.             | 500,000  | -  | -  | 500,000  |   |                             |         |                              |
|                    | Aozora Bank, Ltd.                            | 450,000  | -  | -  | 450,000  |   |                             |         |                              |
|                    | Resona Bank, Ltd.                            | 450,000  | -  | -  | 450,000  |   |                             |         |                              |
|                    | Mizuho Bank, Ltd.                            | 400,000  | -  | -  | 400,000  |   |                             |         |                              |

| Classification                         | Lender                                       | Balance at the beginning of period (Thousands of yen) | Increase during the period (Thousands of yen) | Decrease during the period (Thousands of yen) | Balance at the end of period (Thousands of yen) | Average interest rate (Note2) (Note3) (%) | Payment due date (Note4) | Use     | Remarks                   |
|--|--|---|---|---|---|---|--------------------------|---------|---------------------------|
| Long-Term Payable                      | Sumitomo Mitsui Banking Corporation          | 2,600,000   | -   | -   | 2,600,000                                       | 0.978                                     | February 10, 2022        | (Note5) | Unsecured/ Non-guaranteed |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 800,000   | -   | -   | 800,000   |   |                          |         |                           |
|  | Sumitomo Mitsui Trust Bank, Ltd.             | 600,000   | -   | -   | 600,000   |   |                          |         |                           |
|  | Aozora Bank, Ltd.                            | 400,000   | -   | -   | 400,000   |   |                          |         |                           |
|  | Mizuho Trust & Banking Co., Ltd.             | 400,000   | -   | -   | 400,000   |   |                          |         |                           |
|  | Mizuho Bank, Ltd.                            | 300,000   | -   | -   | 300,000   |   |                          |         |                           |
|  | Resona Bank, Ltd.                            | 300,000   | -   | -   | 300,000   |   |                          |         |                           |
|  | Development Bank of Japan Inc. (Note7)       | 1,500,000   | -   | -   | 1,500,000                                       | 0.925                                     | February 10, 2021        |         |                           |
|  | Development Bank of Japan Inc. (Note7)       | 1,600,000   | -   | -   | 1,600,000                                       | 1.033                                     | February 10, 2022        |         |                           |
|  | Sumitomo Mitsui Banking Corporation          | 4,600,000   | -   | -   | 4,600,000                                       | 1.366                                     | April 16, 2025           |         |                           |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 750,000   | -   | -   | 750,000   | 0.534                                     | March 31, 2019           |         |                           |
|  | Aozora Bank, Ltd.                            | 500,000   | -   | -   | 500,000   |   |                          |         |                           |
|  | Mizuho Bank, Ltd.                            | 400,000   | -   | -   | 400,000   |   |                          |         |                           |
|  | Sumitomo Mitsui Trust Bank, Ltd.             | 200,000   | -   | -   | 200,000   |   |                          |         |                           |
|  | Resona Bank, Ltd.                            | 200,000   | -   | -   | 200,000   |   |                          |         |                           |
|  | The Musashino Bank, Ltd.                     | 150,000   | -   | -   | 150,000   |   |                          |         |                           |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 1,000,000   | -   | -   | 1,000,000                                       |   |                          |         |                           |
|  | Sumitomo Mitsui Trust Bank, Ltd.             | 600,000   | -   | -   | 600,000   | 0.975                                     | March 31, 2023           |         |                           |
|  | Mizuho Bank, Ltd.                            | 400,000   | -   | -   | 400,000   |   |                          |         |                           |
|  | Resona Bank, Ltd.                            | 400,000   | -   | -   | 400,000   |   |                          |         |                           |
|  | Mizuho Trust & Banking Co., Ltd.             | 400,000   | -   | -   | 400,000   |   |                          |         |                           |
|  | Mitsubishi UFJ Trust and Banking Corporation | 400,000   | -   | -   | 400,000   |   |                          |         |                           |
|  | Development Bank of Japan Inc. (Note7)       | 1,500,000   | -   | -   | 1,500,000                                       |   |                          |         |                           |
|  | Sumitomo Mitsui Banking Corporation          | -   | 1,850,000                                     | -   | 1,850,000                                       |   |                          |         |                           |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -   | 550,000                                       | -   | 550,000   |   |                          |         |                           |
|  | Sumitomo Mitsui Trust Bank, Ltd.             | -   | 500,000                                       | -   | 500,000   |   |                          |         |                           |
|  | Resona Bank, Ltd.                            | -   | 300,000                                       | -   | 300,000   |   |                          |         |                           |
|  | The Musashino Bank, Ltd.                     | -   | 250,000                                       | -   | 250,000   |   |                          |         |                           |
|  | Mitsubishi UFJ Trust and Banking Corporation | -   | 450,000                                       | -   | 450,000   |   |                          |         |                           |
|  | Resona Bank, Ltd.                            | -   | 200,000                                       | -   | 200,000   |   |                          |         |                           |
|  | The Musashino Bank, Ltd.                     | -   | 150,000                                       | -   | 150,000   | 0.987                                     | March 31, 2023           |         |                           |
|  | Development Bank of Japan Inc. (Note7)       | -   | 1,500,000                                     | -   | 1,500,000                                       |   |                          |         |                           |
|  | Sumitomo Mitsui Banking Corporation          | -   | 3,000,000                                     | -   | 3,000,000                                       |   |                          |         |                           |
| Mizuho Bank, Ltd.                      | -  | 1,150,000   | -   | 1,150,000                                     | 1.110   | March 31, 2024                            |                          |         |                           |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | -  | 1,000,000   | -   | 1,000,000                                     |   |   |                          |         |                           |
| Mizuho Trust & Banking Co., Ltd.       | -  | 700,000   | -   | 700,000                                       |   |   |                          |         |                           |
| Sumitomo Mitsui Trust Bank, Ltd.       | -  | 650,000   | -   | 650,000                                       |   |   |                          |         |                           |
| Resona Bank, Ltd.                      | -  | 500,000   | -   | 500,000                                       |   |   |                          |         |                           |
| Sumitomo Mitsui Banking Corporation    | -  | 1,500,000   | -   | 1,500,000                                     |   |   |                          |         |                           |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | -  | 400,000   | -   | 400,000                                       |   |   |                          |         |                           |
| Sub Total                              | 36,350,000                                   | 14,650,000  | -   | 51,000,000                                    | 1.243   | April 16, 2025                            |                          |         |                           |
| Total                                  | 38,350,000                                   | 22,350,000  | 3,200,000                                     | 57,500,000                                    |   |   |                          |         |                           |

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

| Long-term loans payable | (Thousands of yen)               |                                   |                                   |                                   |                   |
|-------------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------|
|                         | 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 |
| Long-term loans payable | 3,850,000                        | 5,650,000                         | 7,000,000                         | 7,000,000                         | 27,500,000        |

Note 2: All debts except for the following Note7 are borrowings at a floating rate.

Note 3: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps are indicated.

Note 4: All the repayment methods of debt financing except for the following Note6 are lump-sum repayments on the due date.

Note 5: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note 6: Partial prepayment of 1,200,000 thousand yen was made on October 30, 2015.

Note 7: Borrowings at a fixed rate.



**(3) Status of Investment Corporation Bonds**

Not applicable

**(4) Status of Short-Term Investment Corporation Bonds**

Not applicable

**(5) Status of Subscription Rights to New Investment Units**

Not applicable

## Acquisition and Disposition

### (1) Acquisition and Disposition of Real Estate Properties & Asset-Backed Securities and Infrastructure & Infrastructure Related Assets

| Ownership form                            | Property number | Property name                         | Acquisition       |   | Disposition |                                    |                             |                            |
|---|-----------------|---------------------------------------|-------------------|---|-------------|------------------------------------|-----------------------------|----------------------------|
|   |                 |                                       | Acquisition Date  | Acquisition price<br>(in millions)<br><small>(Note)</small> | Date        | Disposition price<br>(in millions) | Book value<br>(in millions) | Gain/Loss<br>(in millions) |
| Trust beneficiary interest in real estate | T-9             | Super Viva Home Iwatsuki (Land)       | October 2, 2015   | 4,815   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | T-10            | K's Denki Shonan-Fujisawa (Land)      | October 2, 2015   | 3,169   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | T-11            | Unicus Kamisato (Land)                | October 2, 2015   | 3,000   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | T-12            | Unicus Konosu (Land)                  | October 2, 2015   | 1,700   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | T-13            | Inageya Yokohama Minamihonjuku (Land) | October 2, 2015   | 1,442   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | T-14            | Gourmet City Chiba-Chuo               | October 2, 2015   | 760   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | O-5             | Carino Esaka                          | October 2, 2015   | 6,555   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | O-6             | COMBOX Komyoike                       | October 2, 2015   | 6,450   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | O-7             | Hankyu Oasis Hirakatadeguchi          | October 2, 2015   | 1,280   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | O-8             | Welcia Kishiwadakamori (Land)         | October 2, 2015   | 487   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | O-9             | Life Nishi-Tengachaya                 | January 21, 2016  | 1,505   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | R-1             | Roseo Mito <small>(Note 2)</small>    | November 26, 2015 | 371   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | R-4             | Ashico Town Ashikaga                  | October 2, 2015   | 4,180   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | R-5             | Yorktown Shinden-Higashi              | October 2, 2015   | 3,252   | —           | —                                  | —                           | —                          |
| Trust beneficiary interest in real estate | R-6             | Kasumi Technopark Sakura              | October 2, 2015   | 830   | —           | —                                  | —                           | —                          |
| Total                                     |                 |                                       |                   | 39,796  | —           | —                                  | —                           | —                          |

Note 1 : "Acquisition price" represents the purchase price of each trust beneficiary interest specified in purchase agreement in relation to the acquisition of each property (excluding acquisition costs, adjustment in property tax and city-planning tax, and consumption tax; and rounded down to the nearest one million yen).

Note 2: KRR acquired the secondhand shop building through a new building construction (property expansion). Acquisition price represents the payment price (excluding expenses and taxes and rounded down to the nearest million yen) on the construction contract and construction design/supervision outsourcing contracts related to construction of the building.

### (2) Acquisition and Disposition of Other Assets

Other assets except real estate properties and asset-backed securities mentioned above mostly consist of cash and deposits and cash and deposits in trust.

### (3) Appraisal Values of Specific Assets

#### i) Real estate

| Acquisition/Disposition | Ownership form                            | Property number | Property name                         | Acquisition Date | Acquisition price (in millions)<br>(Note 1) | Appraisal value (in millions) | Appraiser                             | Evaluation date |
|-------------------------|---|-----------------|---------------------------------------|------------------|---|-------------------------------|---------------------------------------|-----------------|
| Acquisition             | Trust beneficiary interest in real estate | T-9             | Super Viva Home Iwatsuki (Land)       | October 2, 2015  | 4,815                                       | 5,210                         | The Tanizawa Sōgō Appraisal Co., Ltd. | Jul.1, 2015     |
|                         |   | T-10            | K's Denki Shonan-Fujisawa (Land)      | October 2, 2015  | 3,169                                       | 3,410                         | The Tanizawa Sōgō Appraisal Co., Ltd. | Jul.1, 2015     |
|                         |   | T-11            | Unicus Kamisato (Land)                | October 2, 2015  | 3,000                                       | 3,010                         | The Tanizawa Sōgō Appraisal Co., Ltd. | Jul.1, 2015     |
|                         |   | T-12            | Unicus Konosu (Land)                  | October 2, 2015  | 1,700                                       | 1,730                         | The Tanizawa Sōgō Appraisal Co., Ltd. | Jul.1, 2015     |
|                         |   | T-13            | Inageya Yokohama Minamihonjuku (Land) | October 2, 2015  | 1,442                                       | 1,460                         | Japan Real Estate Institute           | Jul.1, 2015     |
|                         |   | T-14            | Gourmet City Chiba-Chuo               | October 2, 2015  | 760   | 780                           | Daiwa Real Estate Appraisal Co., Ltd. | Jul.1, 2015     |
|                         |   | O-5             | Carino Esaka                          | October 2, 2015  | 6,555                                       | 6,580                         | Japan Real Estate Institute           | Jul.1, 2015     |
|                         |   | O-6             | COMBOX Komyoike                       | October 2, 2015  | 6,450                                       | 6,840                         | Daiwa Real Estate Appraisal Co., Ltd. | Jul.1, 2015     |
|                         |   | O-7             | Hankyu Oasis Hirakatadeguchi          | October 2, 2015  | 1,280                                       | 1,290                         | Daiwa Real Estate Appraisal Co., Ltd. | Jul.1, 2015     |
|                         |   | O-8             | Welcia Kishiwadakamori (Land)         | October 2, 2015  | 487   | 500                           | Japan Real Estate Institute           | Jul.1, 2015     |
|                         |   | O-9             | Life Nishi-Tengachaya                 | January 21, 2016 | 1,505                                       | 1,620                         | The Tanizawa Sōgō Appraisal Co., Ltd. | Sep.1, 2015     |
|                         |   | R-4             | Ashico Town Ashikaga                  | October 2, 2015  | 4,180                                       | 5,050                         | Daiwa Real Estate Appraisal Co., Ltd. | Jul.1, 2015     |
|                         |   | R-5             | Yorktown Shinden-Higashi              | October 2, 2015  | 3,252                                       | 3,320                         | Daiwa Real Estate Appraisal Co., Ltd. | Jul.1, 2015     |
|                         |   | R-6             | Kasumi Technopark Sakura              | October 2, 2015  | 830   | 847                           | Daiwa Real Estate Appraisal Co., Ltd. | Jul.1, 2015     |

Note 1: "Acquisition price" represents the purchase amount (excluding acquisition costs and consumption taxes) of each property or beneficiary right of real estate in trust as stated in the Sales and Purchase Agreement.

Note 2: "Appraisal value" of specific assets above was calculated in accordance with the guideline of "Real Estate Appraisal Standards, Chapter 3, Appraisal of Securitized Real Estate."

#### ii) Others

Not applicable

**(4) Related-party transaction**

**i) Transactions**

Not applicable

**ii) Amounts of fees paid**

Not applicable

KRR has capitalized the amount paid, 15 million yen, to Kenedix, inc. for transferring the status and rights under the purchase and sales agreement with the seller in connection with acquisition of Life Nishi-tengachaya whose price was 1,505 million yen on January 21, 2016.

Note: A related party, etc. is defined as a related party, etc. of the asset manager having an asset management agreement with KRR as prescribed in Article 123 of the Order for Enforcement of the Act on Investment Trusts and Investment Corporations of Japan and in Article 26-27 of the Regulations for Asset Investment Reports by Investment Trusts and Investment Corporations of the Investment Trusts Association, Japan.

**(5) Status on Transactions with Asset Manager in connection with Concurrent Business conducted by the Asset Manager**

No transaction business with Asset Manager, KFM, regarding to the Type II Financial Instruments Business, and Building Lots and Buildings Transaction Business. Furthermore, KFM does not concurrently engage in any of Type I Financial Instruments Business, Real Estate Specified Joint Business.

## **Accounting**

**(1) Status on Assets, Liabilities, Principals, and Income and Losses**

Please refer to the “Balance Sheets,” “Statements of Income and Retained Earnings,” “Statements of Changes in Net Assets,” “Notes to Financial Statements” presented later in this report.

**(2) Change in Calculation of Depreciation**

Not applicable

**(3) Change in Valuation of Real Estate Properties and Infrastructure Assets**

Not applicable

**(4) Status of Beneficiary Certificates of Investment Trust Established by Self**

**i) Acquisition of Beneficiary Certificates of Investment Trust Established by Self**

Not applicable

**ii) Ownership of Beneficiary Certificates of Investment Trust Established by Self**

Not applicable

**(5) Disclosure of companies owning real estate overseas**

Not applicable

**(6) Disclosure of real estate owned by companies owning real estate overseas**

Not applicable

## **Others**

### **(1) Notice**

#### **i) General Meeting of Unitholders**

Not applicable

#### **ii) Board of Directors**

Not applicable

### **(2) Others**

In this report, any fraction is rounded down for monetary amounts and rounded off for ratios unless otherwise stated.

## Independent Auditor's Report

The Board of Directors  
Kenedix Retail REIT Corporation

We have audited the accompanying financial statements of Kenedix Retail REIT Corporation, which comprise the balance sheet as of March 31, 2016, and the statements of income and retained earnings, changes in net assets, and cash flows for the fiscal period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Retail REIT Corporation as of March 31, 2016, and its financial performance and cash flows for the fiscal period then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young ShinNihon LLC*

June 27, 2016  
Tokyo, Japan

### III. Financial Statements

(1st Fiscal Period: from October 3, 2014 to September 30, 2015)  
(2nd Fiscal Period: from October 1, 2015 to March 31, 2016)

Independent Auditor's Report  
Balance Sheets  
Statements of Income and Retained Earnings  
Statements of Changes in Net Assets  
Statements of Cash Flows  
Notes to Financial Statements



# Kenedix Retail REIT Corporation

## Balance Sheets

As of March 31, 2016 and September 30, 2015

|   | As of March 31, 2016  | As of September 30, 2015 |
|---|-----------------------|--------------------------|
|   | (in thousands of yen) |                          |
| Assets  |                       |                          |
| Current assets                                  |                       |                          |
| Cash and deposits (Notes 7 and 9)               | ¥3,882,955            | ¥3,950,551               |
| Cash and deposits in trust (Notes 7 and 9)      | 10,341,252            | 7,829,874                |
| Operating accounts receivable                   | 192,030               | 163,767                  |
| Prepaid expenses                                | 33,750                | 16,763                   |
| Consumption taxes receivable                    | 510,522               | 2,071,748                |
| Other   | -                     | 10,783                   |
| Total current assets                            | 14,960,512            | 14,043,489               |
| Non-current assets                              |                       |                          |
| Property, plant and equipment (Notes 15 and 19) |                       |                          |
| Construction in progress                        | -                     | 96,745                   |
| Buildings in trust                              | 33,894,083            | 25,766,439               |
| Accumulated depreciation                        | (1,043,077)           | (518,285)                |
| Buildings in trust, net (Note 3)                | 32,851,006            | 25,248,154               |
| Structures in trust                             | 1,584,525             | 1,118,727                |
| Accumulated depreciation                        | ( 68,990)             | (35,074)                 |
| Structures in trust, net (Note 3)               | 1,515,535             | 1,083,653                |
| Machinery and equipment in trust                | 29,194                | 29,194                   |
| Accumulated depreciation                        | (1,720)               | (869)                    |
| Machinery and equipment in trust, net           | 27,473                | 28,324                   |
| Tools, furniture and fixtures in trust          | 47,611                | 26,211                   |
| Accumulated depreciation                        | (3,413)               | (1,231)                  |
| Tools, furniture and fixtures in trust, net     | 44,198                | 24,979                   |
| Land in trust (Note 3)                          | 99,044,234            | 66,910,436               |
| Construction in progress in trust               | 5,583                 | 12,025                   |
| Total property, plant and equipment, net        | 133,488,032           | 93,404,319               |
| Intangible assets (Note 19)                     |                       |                          |
| Leasehold right in trust (Note 15)              | 528,555               | 171,078                  |
| Other   | 2,164                 | 2,445                    |
| Total intangible assets                         | 530,719               | 173,523                  |
| Investments and other assets                    |                       |                          |
| Lease and guarantee deposits                    | 10,000                | 10,000                   |
| Lease and guarantee deposits in trust           | 36,015                | 5,320                    |
| Long-term prepaid expenses                      | 583,023               | 418,520                  |
| Long-term deposits                              | 124,960               | 124,960                  |
| Total investments and other assets              | 753,998               | 558,800                  |
| Total non-current assets                        | 134,772,750           | 94,136,642               |
| Deferred assets                                 |                       |                          |
| Organization costs                              | 35,435                | 40,501                   |
| Investment unit issuance costs                  | 240,764               | 161,506                  |
| Total deferred assets                           | 276,199               | 202,008                  |
| Total assets                                    | ¥150,009,463          | ¥108,382,141             |

See accompanying notes to financial statements.

|   | As of March 31, 2016  | As of September 30, 2015 |
|---|-----------------------|--------------------------|
|   | (in thousands of yen) |                          |
| <b>Liabilities</b>  |                       |                          |
| <b>Current liabilities</b>                                      |                       |                          |
| Operating accounts payable                                      | ¥606,400              | ¥330,055                 |
| Short-term loans payable (Notes 9 and 20)                       | 6,500,000             | 2,000,000                |
| Accounts payable-other  | 285,470               | 257,854                  |
| Accrued expenses  | 6,520                 | 3,412                    |
| Income taxes payable  | 932                   | 6,321                    |
| Advances received   | 748,176               | 518,706                  |
| Deposits received   | 136,468               | 359,954                  |
| <b>Total current liabilities</b>                                | <b>8,283,968</b>      | <b>3,476,305</b>         |
| <b>Non-current liabilities</b>                                  |                       |                          |
| Long-term loans payable (Notes 9 and 20)                        | 51,000,000            | 36,350,000               |
| Tenant leasehold and security deposits (Note 9)                 | -                     | 20,000                   |
| Tenant leasehold and security deposits in trust (Notes 3 and 9) | 10,633,432            | 8,722,663                |
| Asset retirement obligations (Note 13)                          | 23,045                | 22,901                   |
| Other   | 34,382                | -                        |
| <b>Total non-current liabilities</b>                            | <b>61,690,859</b>     | <b>45,115,565</b>        |
| <b>Total liabilities</b>  | <b>69,974,828</b>     | <b>48,591,870</b>        |
| <b>Net assets</b>   |                       |                          |
| <b>Unitholders' equity</b>                                      |                       |                          |
| Unitholders' capital  | 77,606,649            | 57,857,000               |
| Surplus   |                       |                          |
| Unappropriated retained earnings                                | 2,427,985             | 1,933,270                |
| <b>Total surplus</b>  | <b>2,427,985</b>      | <b>1,933,270</b>         |
| <b>Total unitholders' equity</b>                                | <b>80,034,634</b>     | <b>59,790,270</b>        |
| <b>Total net assets (Note 4)</b>                                | <b>80,034,634</b>     | <b>59,790,270</b>        |
| <b>Total liabilities and net assets</b>                         | <b>¥150,009,463</b>   | <b>¥108,382,141</b>      |

See accompanying notes to financial statements.

**Kenedix Retail REIT Corporation**  
**Statements of Income and Retained Earnings**

For the period from October 1, 2015 to March 31, 2016 and the period from October 3, 2014 to September 30, 2015

|  | From October 1, 2015<br>to March 31, 2016 | From October 3, 2014<br>to September 30, 2015 |
|--|---|---|
| (in thousands of yen)                          |   |   |
| Operating revenues                             |   |   |
| Rent revenue-real estate (Note 5)              | ¥4,656,391                                | ¥4,128,035                                    |
| Other lease business revenue (Note 5)          | 884,665                                   | 975,033                                       |
| <b>Total operating revenues</b>                | <b>5,541,057</b>                          | <b>5,103,069</b>                              |
| Operating expenses                             |   |   |
| Expenses related to rent business (Note 5)     | 2,235,833                                 | 2,246,179                                     |
| Asset management fees                          | 405,144                                   | 313,577                                       |
| Asset custody fees                             | 4,658                                     | 5,761   |
| Administrative service fees                    | 16,454                                    | 20,258  |
| Directors' compensation                        | 4,500                                     | 8,931   |
| Other operating expenses                       | 48,444                                    | 45,112  |
| <b>Total operating expenses</b>                | <b>2,715,035</b>                          | <b>2,639,820</b>                              |
| <b>Operating income</b>                        | <b>2,826,021</b>                          | <b>2,463,248</b>                              |
| Non-operating income                           |   |   |
| Interest income                                | 937                                       | 1,071   |
| Interest on refund                             | 715                                       | -   |
| <b>Total non-operating income</b>              | <b>1,652</b>                              | <b>1,071</b>                                  |
| Non-operating expenses                         |   |   |
| Interest expenses                              | 275,159                                   | 208,576                                       |
| Financing-related expenses                     | 59,213                                    | 262,279                                       |
| Amortization of organization costs             | 5,066                                     | 10,049  |
| Amortization of investment unit issuance costs | 59,244                                    | 43,605  |
| <b>Total non-operating expenses</b>            | <b>398,683</b>                            | <b>524,510</b>                                |
| <b>Ordinary income</b>                         | <b>2,428,991</b>                          | <b>1,939,809</b>                              |
| <b>Income before income taxes</b>              | <b>2,428,991</b>                          | <b>1,939,809</b>                              |
| Income taxes                                   |   |   |
| Current  | 1,075                                     | 6,539   |
| <b>Total income taxes</b>                      | <b>1,075</b>                              | <b>6,539</b>                                  |
| <b>Net income</b>                              | <b>2,427,915</b>                          | <b>1,933,270</b>                              |
| Retained earnings brought forward              | 70  | -   |
| <b>Unappropriated retained earnings</b>        | <b>¥2,427,985</b>                         | <b>¥1,933,270</b>                             |

See accompanying notes to financial statements.

## Kenedix Retail REIT Corporation

### Statements of Changes in Net Assets

For the period from October 1, 2015 to March 31, 2016 and the period from October 3, 2014 to September 30, 2015

|  | Unitholders' equity     |                                     |                  |                                 |                  |
|--|-------------------------|-------------------------------------|------------------|---------------------------------|------------------|
|  | Unitholders'<br>capital | Surplus                             |                  | Total<br>unitholders'<br>equity | Total net assets |
|  |                         | Unappropriated<br>retained earnings | Total<br>surplus |                                 |                  |
|  | (in thousands of yen)   |                                     |                  |                                 |                  |
| Balance at the beginning<br>of the period    | ¥ -                     | ¥ -                                 | ¥ -              | ¥ -                             | ¥ -              |
| Changes of items during<br>the period        |                         |                                     |                  |                                 |                  |
| Issuance of new<br>investment units          | 57,857,000              |                                     |                  | 57,857,000                      | 57,857,000       |
| Net income                                   |                         | 1,933,270                           | 1,933,270        | 1,933,270                       | 1,933,270        |
| Total changes of items<br>during the period  | 57,857,000              | 1,933,270                           | 1,933,270        | 59,790,270                      | 59,790,270       |
| Balance as of September<br>30, 2015 (Note 6) | ¥57,857,000             | ¥1,933,270                          | ¥1,933,270       | ¥59,790,270                     | ¥59,790,270      |
| Changes of items during<br>the period        |                         |                                     |                  |                                 |                  |
| Issuance of new<br>investment units          | 19,749,649              |                                     |                  | 19,749,649                      | 19,749,649       |
| Dividends from surplus                       |                         | (1,933,200)                         | (1,933,200)      | (1,933,200)                     | (1,933,200)      |
| Net income                                   |                         | 2,427,915                           | 2,427,915        | 2,427,915                       | 2,427,915        |
| Total changes of items<br>during the period  | 19,749,649              | 494,714                             | 494,714          | 20,244,364                      | 20,244,364       |
| Balance as of March 31,<br>2016 (Note 6)     | ¥77,606,649             | ¥2,427,985                          | ¥2,427,985       | ¥80,034,634                     | ¥80,034,634      |

See accompanying notes to financial statements.

## Kenedix Retail REIT Corporation

### Statements of Cash Flows

For the period from October 1, 2015 to March 31, 2016 and the period from October 3, 2014 to September 30, 2015

|  | From October 1, 2015<br>to March 31, 2016 | From October 3, 2014<br>to September 30, 2015 |
|--|---|---|
| (in thousands of yen)  |   |   |
| Net cash provided by (used in) operating activities                |   |   |
| Income before income taxes   | ¥2,428,991                                | ¥1,939,809                                    |
| Depreciation and amortization                                      | 566,142                                   | 561,321                                       |
| Amortization of organization costs                                 | 5,066                                     | 10,049  |
| Amortization of investment unit issuance costs                     | 59,244                                    | 43,605  |
| Interest income  | (937)                                     | (1,071)                                       |
| Interest expenses  | 275,159                                   | 208,576                                       |
| Decrease (increase) in operating accounts receivable               | (28,262)                                  | (163,767)                                     |
| Decrease (increase) in consumption taxes receivable                | 1,561,226                                 | (2,071,748)                                   |
| Decrease (increase) in prepaid expenses                            | (16,987)                                  | (16,763)                                      |
| Increase (decrease) in operating accounts payable                  | 94,580                                    | 304,096                                       |
| Increase (decrease) in accounts payable-other                      | 25,738                                    | 257,854                                       |
| Increase (decrease) in advances received                           | 229,469                                   | 518,706                                       |
| Increase (decrease) in deposits received                           | (223,486)                                 | 359,954                                       |
| Decrease (increase) in long-term prepaid expenses                  | (164,503)                                 | (418,520)                                     |
| Decrease (increase) in long-term deposits                          | -   | (124,960)                                     |
| Payments of organization costs                                     | -   | (50,551)                                      |
| Other  | 36,767                                    | -   |
| <b>Subtotal</b>  | <b>4,848,210</b>                          | <b>1,356,591</b>                              |
| Interest income received   | 937                                       | 1,071   |
| Interest expenses paid   | (272,051)                                 | (205,164)                                     |
| Income taxes paid  | (6,464)                                   | (217)   |
| <b>Net cash provided by (used in) operating activities</b>         | <b>4,570,631</b>                          | <b>1,152,280</b>                              |
| Net cash provided by (used in) investing activities                |   |   |
| Purchase of property, plant and equipment                          | -   | (96,745)                                      |
| Purchase of property, plant and equipment in trust                 | (40,463,688)                              | (93,814,364)                                  |
| Purchase of intangible assets                                      | -   | (2,809)                                       |
| Purchase of intangible assets in trust                             | (361,455)                                 | (176,383)                                     |
| Payments for lease and guarantee deposits                          | -   | (10,000)                                      |
| Payments for lease and guarantee deposits in trust                 | (30,695)                                  | (5,320)                                       |
| Proceeds from tenant leasehold and security deposits               | -   | 20,000  |
| Repayments of tenant leasehold and security deposits in trust      | (286,205)                                 | (393,751)                                     |
| Proceeds from tenant leasehold and security deposits in trust      | 2,185,372                                 | 9,116,415                                     |
| Payments of restricted bank deposits in trust                      | -   | (3,917,992)                                   |
| Proceeds from restricted bank deposits in trust                    | 661,625                                   | 287,569                                       |
| <b>Net cash provided by (used in) investing activities</b>         | <b>(38,295,047)</b>                       | <b>(88,993,382)</b>                           |
| Net cash provided by (used in) financing activities                |   |   |
| Proceeds from short-term loans payable                             | 7,700,000                                 | 10,222,500                                    |
| Payments of short-term loans payable                               | (3,200,000)                               | (8,222,500)                                   |
| Proceeds from long-term loans payable                              | 14,650,000                                | 36,350,000                                    |
| Proceeds from issuance of investment units                         | 19,611,147                                | 57,651,888                                    |
| Payments of dividends  | (1,931,323)                               | -   |
| Other  | -   | (10,783)                                      |
| <b>Net cash provided by (used in) financing activities</b>         | <b>36,829,824</b>                         | <b>95,991,104</b>                             |
| <b>Net increase (decrease) in cash and cash equivalents</b>        | <b>3,105,407</b>                          | <b>8,150,002</b>                              |
| Cash and cash equivalents at the beginning of the period           | 8,150,002                                 | -   |
| <b>Cash and cash equivalents at the end of the period (Note 7)</b> | <b>¥11,255,410</b>                        | <b>¥8,150,002</b>                             |

See accompanying notes to financial statements.

# Kenedix Retail REIT Corporation

## Notes to Financial Statements

For the period from October 1, 2015 to March 31, 2016 and the period from October 3, 2014 to September 30, 2015

### 1. ORGANIZATION AND BASIS OF PRESENTATION

#### Organization

Kenedix Retail REIT Corporation ("KRR") was established on October 3, 2014, with unitholders' capital of ¥150 million (750 units) and with Kenedix Real Estate Fund Management Inc. ("KFM") as the organizer under the Act on Investment Trusts and Investment Corporations of Japan (the "Investment Trust Act"). On October 30, 2014, KRR was registered with the Director-General of the Kanto Local Finance Bureau (registration number: Director-General of the Kanto Local Finance Bureau No. 97). KRR issued new investment units (254,250 units) through a public offering with the payment completed on February 9, 2015, which were listed on the Real Estate Investment Trust Securities (J-REIT) Market of the Tokyo Stock Exchange, Inc. (the Tokyo Stock Exchange) (Securities code: 3453) on February 10, 2015. Subsequently, KRR raised funds through public offerings and other means including global offerings. As a result, the number of investment units issued as of March 31, 2016, the end of the period, was 355,250 units.

KRR seeks to invest primarily in neighborhood, community and other shopping centers that cater to the day-to-day needs of local area customers and have stable demand from retailers and customers, in order to provide stable investment returns over the long term. Sponsored by Kenedix, Inc., a leading, independent real estate asset management company, KRR entrusts its asset management and investment operations to KFM, with the following strategies.

(Note) For management purposes and ease of classification, KRR defines neighborhood, community and other shopping centers for daily needs as retail properties that generally have the following characteristics:

- a. Retail trade area of an approximate radius of one to ten kilometers (and generally, a radius of three to five kilometers), with customers predominantly from local areas surrounding the retail property
- b. Operational capacity to accommodate certain daily local retail needs and strong customer traffic on both weekdays and weekends
- c. Composed of various specialty stores to meet a range of day-to-day needs such as groceries, clothing and other daily goods and services

KRR acquired and started the operations of trust beneficiary interests in real estate (18 properties; total acquisition price: ¥80,843 million) on February 10, 2015. In addition, KRR acquired a property (acquisition price: ¥11,000 million) on April 16, 2015. For the period ended September 30, 2015, the portfolio of 19 properties as a whole performed well with an overall occupancy ratio of 99.6% as of September 30, 2015.

KRR acquired trust beneficiary interests in real estate (13 properties; total acquisition price: ¥37,920 million) on October 2, 2015, and acquired a property (acquisition price: ¥1,505 million) on January 21, 2016. In addition, KRR completed construction of a new building (acquisition price: ¥371 million) on November 26, 2015 as additional acquisition at Roseo Mito. For the period ended March 31, 2016, the portfolio of 33 properties as a whole performed well with an overall occupancy ratio of 99.6% as of March 31, 2016.

Furthermore, the portfolio was diversified in terms of tenants as there were 321 and 389 end-tenants as of September 30, 2015 and March 31, 2016 in KRR's properties, respectively.

#### Basis of Presentation

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

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

KRR's fiscal period is a six-month period which ends at the end of March or September. KRR does not prepare consolidated financial statements because it has no subsidiaries.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) Property, plant and Equipment (including trust assets)

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

|                               | From October 1, 2015<br>to March 31, 2016 | From October 3, 2014<br>to September 30, 2015 |
|-------------------------------|---|---|
| Buildings                     | 2-70 years                                | 2-64 years                                    |
| Structures                    | 8-59 years                                | 8-59 years                                    |
| Machinery and equipment       | 10-25 years                               | 10-25 years                                   |
| Tools, furniture and fixtures | 4-10 years                                | 5-10 years                                    |

### (B) Intangible assets (including trust assets)

Intangible assets are amortized by the straight-line method.

### (C) Long-term Prepaid Expenses

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

### (D) Organization costs

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

### (E) Investment Unit Issuance Costs

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

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

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

### (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 and Equipment

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

When KRR 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 ¥73,320 thousand and ¥600,480 thousand as of March 31, 2016 and September 30, 2015, respectively.

(I) Income Taxes

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

(J) Consumption Taxes

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

(K) Derivative Financial Instruments

KRR utilizes interest-rate swap contracts as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. KRR deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap contracts because these contracts met the criteria for deferral hedge accounting. However, KRR adopted the special treatment for interest-swap contracts if they met the criteria for hedge accounting under this treatment. An assessment of the effectiveness of hedging is omitted for interest rate swaps because they fulfill the requirements for the 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) Presentation of Amounts

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 are rounded down 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. COLLATERAL

Assets pledged as collateral and related secured liabilities are as follows:

| Assets pledged as collateral                    | As of March 31, 2016  | As of September 30, 2015 |
|---|-----------------------|--------------------------|
|   | (in thousands of yen) |                          |
| Buildings in trust                              | ¥2,797,203            | ¥2,475,636               |
| Structures in trust                             | 55,538                | 48,748                   |
| Land in trust                                   | 7,811,297             | 6,595,863                |
| Total   | 10,664,039            | 9,120,248                |
| Secured liabilities                             | As of March 31, 2016  | As of September 30, 2015 |
| Tenant leasehold and security deposits in trust | 3,691,291             | 3,630,423                |
| Total   | ¥3,691,291            | ¥3,630,423               |

### 4. NET ASSETS

KRR 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. KRR is required to maintain net assets of at least ¥50 million as required by the Investment Trust Act.



## 5. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES

Rental and other operating revenues and property-related expenses for the period from October 1, 2015 to March 31, 2016 and from October 3, 2014 to September 30, 2015 consist of the following:

|   | From October 1, 2015<br>to March 31, 2016 | From October 3, 2014<br>to September 30, 2015 |
|---|---|---|
| (in thousands of yen)                                   |   |   |
| Rental and other operating revenues:                    |   |   |
| Rent revenue-real estate:                               |   |   |
| Rental revenues   | ¥3,761,328                                | ¥3,643,804                                    |
| Rental revenues from limited proprietary rights of land | 598,355                                   | 220,680                                       |
| Common area charges                                     | 296,707                                   | 263,549                                       |
| Subtotal  | 4,656,391                                 | 4,128,035                                     |
| Other lease business revenue:                           |   |   |
| Parking space rental revenues                           | 162,060                                   | 126,629                                       |
| Utility charge reimbursement                            | 453,733                                   | 500,044                                       |
| Miscellaneous   | 268,871                                   | 348,360                                       |
| Subtotal  | 884,665                                   | 975,033                                       |
| Total rental and other operating revenues               | 5,541,057                                 | 5,103,069                                     |
| Property-related expenses:                              |   |   |
| Expenses related to rent business:                      |   |   |
| Property management fees and facility management fees   | 637,809                                   | 655,263                                       |
| Utilities   | 495,520                                   | 548,099                                       |
| Taxes   | 216                                       | 1,280   |
| Repairs and maintenance                                 | 201,226                                   | 144,732                                       |
| Insurance   | 10,531                                    | 9,662   |
| Trust fees  | 14,499                                    | 12,214  |
| Depreciation  | 565,861                                   | 560,957                                       |
| Others  | 310,168                                   | 313,968                                       |
| Total property-related expenses                         | 2,235,833                                 | 2,246,179                                     |
| Net operating income from real estate rental business   | ¥3,305,224                                | ¥2,856,889                                    |

## 6. UNITHOLDERS' EQUITY

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

|   | From October 1, 2015<br>to March 31, 2016 | From October 3, 2014<br>to September 30, 2015 |
|---|---|---|
| Total number of authorized investment units             | 5,000,000 units                           | 5,000,000 units                               |
| Total number of investment units issued and outstanding | 355,250 units                             | 260,750 units                                 |

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of March 31, 2016 and September 30, 2015:

|                                     | As of March 31, 2016  | As of September 30, 2015 |
|-------------------------------------|-----------------------|--------------------------|
|                                     | (in thousands of yen) |                          |
| Cash and deposits                   | ¥3,882,955            | ¥3,950,551               |
| Cash and deposits in trust          | 10,341,252            | 7,829,874                |
| Restricted bank deposits in trust * | (2,968,798)           | (3,630,423)              |
| Cash and cash equivalents           | ¥11,255,410           | ¥8,150,002               |

\*Restricted bank deposits in trust are retained for repayment of tenant leasehold and security deposits in trust.

## 8. LEASES

(As lessee)

Future minimum lease payments under non-cancelable operating leases as of March 31, 2016 and September 30, 2015 are as follows:

|                   | As of March 31, 2016  | As of September 30, 2015 |
|-------------------|-----------------------|--------------------------|
|                   | (in thousands of yen) |                          |
| Due within 1 year | ¥10,500               | ¥10,500                  |
| Due after 1 year  | 209,548               | 214,798                  |
| Total             | ¥220,048              | ¥225,298                 |

(As lessor)

Future minimum lease income under the non-cancelable operating leases as of March 31, 2016 and September 30, 2015 are as follows:

|                   | As of March 31, 2016  | As of September 30, 2015 |
|-------------------|-----------------------|--------------------------|
|                   | (in thousands of yen) |                          |
| Due within 1 year | ¥4,184,868            | ¥2,080,978               |
| Due after 1 year  | 37,858,429            | 17,941,367               |
| Total             | ¥42,043,297           | ¥20,022,345              |

## 9. FINANCIAL INSTRUMENTS

### (A). Overview

#### (1) Policy for financial instruments

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

#### (2) Types of financial instruments and related risk

Bank deposits are for managing KRR's surplus funds and are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited.

Borrowings, which are made primarily for the purpose of procuring funds for the acquisition of real estate and trust beneficiary interests in real estate and have a repayment date of a maximum of 9 years and 1 month as of March 31, 2016, the end of the second fiscal period, are exposed to liquidity risk where alternative funds may not be procured by the repayment date. Also, borrowings with floating interest rates are exposed to interest rate fluctuation risk. Derivatives are used for the purpose of hedging interest rate fluctuation risk for a certain portion of the borrowings.

Tenant leasehold and security deposits are deposits received from tenants, which are exposed to liquidity risks when the tenants vacate the properties.

#### (3) Risk management for financial instruments

##### a. Credit risk

While bank deposits are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited, such risk is monitored by deposits in non-interest bearing ordinary savings accounts or with financial institutions with credit ratings above a certain level. In utilizing derivatives, KRR aims to mitigate counterparty risk such as by transacting with financial institutions with favorable ratings.

##### b. Market risk

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

##### c. Liquidity risk

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

Though tenant leasehold and security deposits are subject to liquidity risk, in principle, KRR reduces such risk by retaining funds that would enable KRR to return necessary amounts to tenants.

#### (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 sheets and estimated fair value are shown in the following table. Items whose fair values are difficult to determine are not included in the following table (\*2).

As of March 31, 2016

|   | Carrying amount | Estimated fair value | Difference |
|---|-----------------|----------------------|------------|
| (in thousands of yen)                               |                 |                      |            |
| (1) Cash and deposits                               | ¥3,882,955      | ¥3,882,955           | ¥ -        |
| (2) Cash and deposits in trust                      | 10,341,252      | 10,341,252           | -          |
| Total   | 14,224,208      | 14,224,208           | -          |
| (1) Short-term loans payable                        | 6,500,000       | 6,500,000            | -          |
| (2) Long-term loans payable                         | 51,000,000      | 51,377,832           | 377,832    |
| (3) Tenant leasehold and security deposits in trust | 3,509,658       | 3,546,858            | 37,200     |
| Total   | 61,009,658      | 61,424,691           | 415,033    |
| Derivative transactions                             | ¥ -             | ¥ -                  | ¥ -        |

As of September 30, 2015

|   | Carrying amount | Estimated fair value | Difference |
|---|-----------------|----------------------|------------|
| (in thousands of yen)                               |                 |                      |            |
| (1) Cash and deposits                               | ¥3,950,551      | ¥3,950,551           | ¥ -        |
| (2) Cash and deposits in trust                      | 7,829,874       | 7,829,874            | -          |
| Total   | 11,780,426      | 11,780,426           | -          |
| (1) Short-term loans payable                        | 2,000,000       | 2,000,000            | -          |
| (2) Long-term loans payable                         | 36,350,000      | 35,739,489           | (610,510)  |
| (3) Tenant leasehold and security deposits in trust | 3,344,264       | 3,376,087            | 31,823     |
| Total   | 41,694,264      | 41,115,576           | (578,687)  |
| Derivative transactions                             | ¥ -             | ¥ -                  | ¥ -        |

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

#### Assets

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

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

#### Liabilities

(1) Short-term loans payable

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

(2) Long-term loans payable

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

(3) Tenant leasehold and security deposits in trust

The fair value is determined based on the present value of contractual cash flows discounted at the discount rate into which the period to the repayment date and the credit risk are reflected.

#### Derivative transactions

Please refer to Note "10. DERIVATIVE TRANSACTIONS".

\*2: Financial instruments whose fair values are extremely difficult to determine

| Classification                                  | As of March 31, 2016  | As of September 30, 2015 |
|---|-----------------------|--------------------------|
|   | (in thousands of yen) |                          |
| Tenant leasehold and security deposits          | ¥ -                   | ¥20,000                  |
| Tenant leasehold and security deposits in trust | 7,123,774             | 5,378,399                |
| Total   | ¥7,123,774            | ¥5,398,399               |

Because no quoted market price is available and it is extremely difficult to determine their fair value based on estimated future cash flows because the repayment dates of those deposits are not certain. Therefore, these financial instruments are not included in the above quantitative information.

\*3: Redemption of monetary claims scheduled to be due after the balance sheet date

As of March 31, 2016

|                            | Due in 1 year or less | Due after 1 year through 2 years | Due after 2 years through 3 years | Due after 3 years through 4 years | Due after 4 years through 5 years | Due after 5 years |
|----------------------------|-----------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------|
|                            | (in thousands of yen) |                                  |                                   |                                   |                                   |                   |
| Cash and deposits          | ¥3,882,955            | ¥ -                              | ¥ -                               | ¥ -                               | ¥ -                               | ¥ -               |
| Cash and deposits in trust | 10,341,252            | -                                | -                                 | -                                 | -                                 | -                 |
| Total                      | ¥14,224,208           | ¥ -                              | ¥ -                               | ¥ -                               | ¥ -                               | ¥ -               |

As of September 30, 2015

|                            | Due in 1 year or less | Due after 1 year through 2 years | Due after 2 years through 3 years | Due after 3 years through 4 years | Due after 4 years through 5 years | Due after 5 years |
|----------------------------|-----------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------|
|                            | (in thousands of yen) |                                  |                                   |                                   |                                   |                   |
| Cash and deposits          | ¥3,950,551            | ¥ -                              | ¥ -                               | ¥ -                               | ¥ -                               | ¥ -               |
| Cash and deposits in trust | 7,829,874             | -                                | -                                 | -                                 | -                                 | -                 |
| Total                      | ¥11,780,426           | ¥ -                              | ¥ -                               | ¥ -                               | ¥ -                               | ¥ -               |

\*4: Redemption of long-term loans payable and other interest-bearing debt scheduled to be due after the balance sheet date

As of March 31, 2016

|   | Due in 1 year or less | Due after 1 year through 2 years | Due after 2 years through 3 years | Due after 3 years through 4 years | Due after 4 years through 5 years | Due after 5 years |
|---|-----------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------|
|   | (in thousands of yen) |                                  |                                   |                                   |                                   |                   |
| Short-term loans payable                        | ¥6,500,000            | ¥ -                              | ¥ -                               | ¥ -                               | ¥ -                               | ¥ -               |
| Long-term loans payable                         | -                     | 3,850,000                        | 5,650,000                         | 7,000,000                         | 7,000,000                         | 27,500,000        |
| Tenant leasehold and security deposits in trust | 435,430               | 435,430                          | 435,430                           | 435,430                           | 435,430                           | 763,938           |
| Total   | ¥6,935,430            | ¥4,285,430                       | ¥6,085,430                        | ¥7,435,430                        | ¥7,435,430                        | ¥28,263,938       |

As of September 30, 2015

|   | Due in 1 year or less | Due after 1 year through 2 years | Due after 2 years through 3 years | Due after 3 years through 4 years | Due after 4 years through 5 years | Due after 5 years |
|---|-----------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------|
|   | (in thousands of yen) |                                  |                                   |                                   |                                   |                   |
| Short-term loans payable                        | ¥2,000,000            | ¥ -                              | ¥ -                               | ¥ -                               | ¥ -                               | ¥ -               |
| Long-term loans payable                         | -                     | -                                | 3,850,000                         | 2,200,000                         | 7,000,000                         | 23,300,000        |
| Tenant leasehold and security deposits in trust | 421,435               | 421,435                          | 421,435                           | 421,435                           | 421,435                           | 842,870           |
| Total   | ¥2,421,435            | ¥421,435                         | ¥4,271,435                        | ¥2,621,435                        | ¥7,421,435                        | ¥24,142,870       |

## 10. DERIVATIVE TRANSACTIONS

The contract amount and the fair value of interest-rate swap transactions as of March 31, 2016 are shown in the following table.

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

| Hedge accounting method                  | Type of derivative transactions                                | Hedged items            | Contract amount<br>(in thousands of yen) |                       | Fair value<br>(in thousands of yen) | Calculation method for applicable fair value |
|--|--|-------------------------|--|-----------------------|-------------------------------------|--|
|  |  |                         |  | Maturing after 1 year |                                     |  |
| Special treatment of interest-rate swaps | Interest rate swap transaction: Receive/floating and pay/fixed | Long-term loans payable | ¥44,900,000                              | ¥44,900,000           | *                                   | -  |

\*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. (Please refer to Note "9. FINANCIAL INSTRUMENTS" (\*1) Methods to determine the estimated fair value of financial instruments and matters related to derivative transactions; Liabilities (2) Long-term loans payable.)

The contract amount and the fair value of interest-rate swap transactions as of September 30, 2015 are shown in the following table.

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

| Hedge accounting method                  | Type of derivative transactions                                | Hedged items            | Contract amount<br>(in thousands of yen) |                       | Fair value<br>(in thousands of yen) | Calculation method for applicable fair value |
|--|--|-------------------------|--|-----------------------|-------------------------------------|--|
|  |  |                         |  | Maturing after 1 year |                                     |  |
| Special treatment of interest-rate swaps | Interest rate swap transaction: Receive/floating and pay/fixed | Long-term loans payable | ¥31,750,000                              | ¥31,750,000           | *                                   | -  |

\*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. (Please refer to Note "9. FINANCIAL INSTRUMENTS" (\*1) Methods to determine the estimated fair value of financial instruments and matters related to derivative transactions; Liabilities (2) Long-term loans payable.)

## 11. RELATED PARTY TRANSACTIONS

1 . Parent Company, major corporate unitholders and other

2nd Fiscal Period (October 1, 2015 to March 31, 2016) and 1st Fiscal Period (October 3, 2014 to September 30, 2015): Not applicable

2 . Affiliated companies and other

2nd Fiscal Period (October 1, 2015 to March 31, 2016) and 1st Fiscal Period (October 3, 2014 to September 30, 2015): Not applicable

3 . Fellow subsidiary companies and other

2nd Fiscal Period (October 1, 2015 to March 31, 2016) and 1st Fiscal Period (October 3, 2014 to September 30, 2015): Not applicable

4 . Directors, major individual unitholders and other

2nd Fiscal Period (October 1, 2015 to March 31, 2016) and 1st Fiscal Period (October 3, 2014 to September 30, 2015): Not applicable

## 12. INCOME TAXES

KRR is subject to corporate income taxes at a regular statutory rate of approximately 32%. However, KRR may deduct from its taxable income amounts distributed to its unitholders, provided the requirements under the Special Taxation Measures Law of Japan are met, including a requirement that it currently distributes in excess of 90% of its net income for the fiscal period in order to be able to deduct such amounts. If KRR does not satisfy all of the requirements, the entire taxable income of KRR will be subject to regular corporate income taxes. Since KRR distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥2,432 million and ¥1,933 million for the periods ended March 31, 2016 and September 30, 2015, respectively, the distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rates on KRR's income were 0.04% and 0.34% for the periods ended March 31, 2016 and September 30, 2015, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

|                               | As of March 31, 2016 | As of September 30, 2015 |
|-------------------------------|----------------------|--------------------------|
| Statutory tax rate            | 32.31%               | 37.11%                   |
| Deductible cash distributions | (32.35)              | (36.98)                  |
| Others                        | 0.08                 | 0.21                     |
| Effective tax rate            | 0.04%                | 0.34%                    |

The significant components of deferred tax assets and liabilities:

|  | As of March 31, 2016  | As of September 30, 2015 |
|--|-----------------------|--------------------------|
|  | (in thousands of yen) |                          |
| Deferred tax assets:                     |                       |                          |
| Enterprise tax payable                   | ¥ 22                  | ¥ 360                    |
| Amortization of leasehold right in trust | 2,932                 | 1,713                    |
| Depreciation                             | 1,055                 | 391                      |
| Asset retirement obligations             | 7,280                 | 7,399                    |
| Subtotal deferred tax assets             | 11,290                | 9,866                    |
| Valuation allowance                      | (11,290)              | (9,866)                  |
| Total deferred tax assets                | ¥ -                   | ¥ -                      |

## 13. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations reported on balance sheets

### 1. Summary of the asset retirement obligations

KRR has recognized the original state restoration obligations assumed under the fixed-term business-purpose land leasehold agreement as the asset retirement obligations in connection with Sunny Noma acquired on February 10, 2015.

### 2. Method of calculating asset retirement obligations

Asset retirement obligations are calculated based on a discount rate of 1.256% after the useful life has been estimated to be 22 years and two months based on the time period from the date of acquisition to the expiration of the agreement.

### 3. Changes in the amount of applicable asset retirement obligations consisted of the following

|   | From October 1, 2015<br>to March 31, 2016 | From October 3, 2014<br>to September 30, 2015 |
|---|---|---|
|   | (in thousands of yen)                     |   |
| Balance at the beginning of the period    | ¥22,901                                   | ¥ -   |
| Increase due to acquisition of properties | -   | 22,711  |
| Accretion adjustment                      | 143                                       | 190   |
| Balance at the end of the period          | ¥23,045                                   | ¥22,901                                       |

## 14. SEGMENT INFORMATION

Segment information for the period ended from October 1, 2015 to March 31, 2016 and October 3, 2014 to September 30, 2015 is as follows:

### (A) Segment information

Disclosure is omitted because the real estate leasing business is KRR's sole business and it has no reportable segment information to disclose.

### (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 statements of income and retained earnings.

#### (2) Information about each geographic area

##### (a) Net sales

Disclosure is omitted because net sales to external customers in Japan account for over 90% of the operating revenue on the statements 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 sheets.

#### (3) Information about each major customer

Disclosure is omitted because no net sales to a single external customer accounts for more than 10% of the operating revenue on the statements of income and retained earnings.

## 15. INVESTMENT AND RENTAL PROPERTIES

KRR owns retail properties for rental purposes mainly in the four major metropolitan areas and other regional areas of Japan.

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

|  | From October 1, 2015<br>to March 31, 2016 | From October 3, 2014<br>to September 30, 2015 |
|--|---|---|
|  | (in thousands of yen)                     |   |
| Book value                             |   |   |
| Balance at the beginning of the period | ¥93,575,397                               | ¥ -   |
| Changes during the period              | 40,441,190                                | 93,575,397                                    |
| Balance at the end of the period       | 134,016,587                               | 93,575,397                                    |
| Fair value at the end of the period    | ¥138,674,000                              | ¥95,706,000                                   |

Note 1: Book value is acquisition cost less accumulated depreciation.

Note 2: Among changes in the amount of real estate for rental purposes that occurred during the fiscal period ended March 31, 2016, the principal increase was the acquisitions of real estate trust beneficiary interests in 14 properties totaling ¥40,195,716 thousand and additional acquisition of real estate trust beneficiary interests amounting to ¥383,790 thousand and the principal decrease was depreciation amounting to ¥565,717 thousand and during the fiscal period ended September 30, 2015, the principal increase was the acquisitions of real estate trust beneficiary interests in 19 properties totaling ¥93,873,555 thousand and the principal decrease was depreciation amounting to ¥560,766 thousand.

Note 3: The fair value at the end of the period is the appraisal value determined by outside appraisers.

The profit or loss for the period ended March 31, 2016 and September 30, 2015 concerning investment and rental properties is included in Note "5. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES."



## 16. PER UNIT INFORMATION

|                          | From October 1, 2015<br>to March 31, 2016 | From October 3, 2014<br>to September 30, 2015 |
|--------------------------|---|---|
| Net asset value per unit | ¥225,291                                  | ¥229,301                                      |
| Net income per unit      | ¥6,846                                    | ¥11,515<br>(¥7,434)                           |

Net income per unit is calculated by dividing net income by the day-weighted average number of investment units outstanding during the fiscal period ended March 31, 2016 (354,622 units) and during the fiscal period ended September 30, 2015 (167,878 units). The figure in brackets shows net income per unit based on the day-weighted average number of investment units outstanding during the fiscal period ended September 30, 2015 (260,034 units) assuming the beginning of the fiscal period is February 10, 2015, the date that the asset management actually started. Net income per unit after adjusting for residual units is not included because there were no residual investment units.

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

|   | From October 1, 2015<br>to March 31, 2016 | From October 3, 2014<br>to September 30, 2015 |
|---|---|---|
| Net income (in thousands of yen)  | ¥2,427,915                                | ¥1,933,270                                    |
| Net income not attributable to ordinary unitholders (in thousands of yen) | -   | -   |
| Net income attributable to ordinary unitholders (in thousands of yen)     | ¥2,427,915                                | ¥1,933,270                                    |
| Weighted average number of units during the period (units)                | 354,622                                   | 167,878                                       |

## 17. SIGNIFICANT SUBSEQUENT EVENTS

### Issuance of new investment units

KRR passed resolutions at the Board of Directors Meeting held on March 31, 2016 and April 13, 2016, to issue new investment units to fund the acquisition of specified assets. Payments for the issuance of new investment units through public offering and through third-party allotment have been completed on April 20, 2016 and May 18, 2016, respectively. KRR used the net proceeds through third-party allotment for the repayment of the short-term loans payable of ¥800,000 thousand.

As a result, unitholders' capital totaled ¥94,256,390,300 and total number of investment units issued and outstanding increased to 422,450 as of May 18, 2016.

### (Issuance of new investment units through public offerings)

|   |  |
|---|--|
| Total number of units issued :                    | 64,000 units (Domestic 31,744 units, International 32,256 units) |
| Issue price (offer price) :                       | ¥256,717 per unit  |
| Total amount of issue price (total offer price) : | ¥16,429,888,000  |
| Paid-in amount (issue amount) :                   | ¥247,764 per unit  |
| Total paid-in amount (total issue amount) :       | ¥15,856,896,000  |
| Payment date :                                    | April 20, 2016   |

### (Issuance of new investment units through third-party allotment)

|   |                            |
|---|----------------------------|
| Total number of units issued :              | 3,200 units                |
| Paid-in amount (issue amount) :             | ¥247,764 per unit          |
| Total paid-in amount (total issue amount) : | ¥792,844,800               |
| Payment date :                              | May 18, 2016               |
| Allottee :                                  | SMBC Nikko Securities Inc. |

## 18. ALLOWANCE FOR TEMPORARY DIFFERENCE ADJUSTMENTS

### 2nd Fiscal Period (October 1, 2015 to March 31, 2016)

In Note "21. DISTRIBUTIONS", KRR allocated an addition of ¥4,263 thousand to the allowance for temporary difference adjustments concerning the amortization of leasehold right in trust and the amount in excess of depreciation with regard to leasehold rights in trust of Sunny Noma. KRR plans to reverse a corresponding amount when Sunny Noma is disposed.

## 19. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following as of March 31, 2016:

| Type of asset                          | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Depreciation             |                             | Net balance at the end of the period | Remarks |
|--|--|----------------------------|----------------------------|----------------------------------|--------------------------|-----------------------------|--------------------------------------|---------|
|  |  |                            |                            |                                  | Accumulated depreciation | Depreciation for the period |                                      |         |
| (in thousands of yen)                  |  |                            |                            |                                  |                          |                             |                                      |         |
| Construction in progress               | ¥96,745                                | ¥ -                        | ¥96,745                    | ¥ -                              | ¥ -                      | ¥ -                         | ¥ -                                  |         |
| Subtotal                               | 96,745                                 | -                          | 96,745                     | -                                | -                        | -                           | -                                    |         |
| Buildings in trust                     | 25,766,439                             | 8,127,644                  | -                          | 33,894,083                       | 1,043,077                | 524,792                     | 32,851,006                           | *       |
| Structures in trust                    | 1,118,727                              | 465,797                    | -                          | 1,584,525                        | 68,990                   | 33,915                      | 1,515,535                            |         |
| Machinery and equipment in trust       | 29,194                                 | -                          | -                          | 29,194                           | 1,720                    | 850                         | 27,473                               |         |
| Tools, furniture and fixtures in trust | 26,211                                 | 21,400                     | -                          | 47,611                           | 3,413                    | 2,181                       | 44,198                               |         |
| Land in trust                          | 66,910,436                             | 32,133,798                 | -                          | 99,044,234                       | -                        | -                           | 99,044,234                           | *       |
| Construction in progress in trust      | 12,025                                 | 185                        | 6,627                      | 5,583                            | -                        | -                           | 5,583                                |         |
| Subtotal                               | 93,863,035                             | 40,748,825                 | 6,627                      | 134,605,233                      | 1,117,201                | 561,739                     | 133,488,032                          |         |
| Total                                  | 93,959,781                             | 40,748,825                 | 103,373                    | 134,605,233                      | 1,117,201                | 561,739                     | 133,488,032                          |         |
| Intangible assets                      |  |                            |                            |                                  |                          |                             |                                      |         |
| Leasehold right in trust               | 176,383                                | 361,455                    | -                          | 537,838                          | 9,283                    | 3,978                       | 528,555                              |         |
| Other                                  | 2,809                                  | -                          | -                          | 2,809                            | 645                      | 280                         | 2,164                                |         |
| Total                                  | ¥179,192                               | ¥361,455                   | ¥ -                        | ¥540,648                         | ¥9,928                   | ¥4,259                      | ¥530,719                             |         |

\*The amount of increase during the period is primarily attributable to the acquisition of the real estate properties.

Property, plant and equipment consists of the following as of September 30, 2015:

| Type of asset                          | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Depreciation             |                             | Net balance at the end of the period | Remarks |
|--|--|----------------------------|----------------------------|----------------------------------|--------------------------|-----------------------------|--------------------------------------|---------|
|  |  |                            |                            |                                  | Accumulated depreciation | Depreciation for the period |                                      |         |
| (in thousands of yen)                  |  |                            |                            |                                  |                          |                             |                                      |         |
| Construction in progress               | ¥ -                                    | ¥96,745                    | ¥ -                        | ¥96,745                          | ¥ -                      | ¥ -                         | ¥96,745                              |         |
| Subtotal                               | -                                      | 96,745                     | -                          | 96,745                           | -                        | -                           | 96,745                               |         |
| Buildings in trust                     | -                                      | 25,766,439                 | -                          | 25,766,439                       | 518,285                  | 518,285                     | 25,248,154                           | *       |
| Structures in trust                    | -                                      | 1,118,727                  | -                          | 1,118,727                        | 35,074                   | 35,074                      | 1,083,653                            | *       |
| Machinery and equipment in trust       | -                                      | 29,194                     | -                          | 29,194                           | 869                      | 869                         | 28,324                               |         |
| Tools, furniture and fixtures in trust | -                                      | 26,211                     | -                          | 26,211                           | 1,231                    | 1,231                       | 24,979                               |         |
| Land in trust                          | -                                      | 66,910,436                 | -                          | 66,910,436                       | -                        | -                           | 66,910,436                           | *       |
| Construction in progress in trust      | -                                      | 12,025                     | -                          | 12,025                           | -                        | -                           | 12,025                               |         |
| Subtotal                               | -                                      | 93,863,035                 | -                          | 93,863,035                       | 555,462                  | 555,462                     | 93,307,573                           |         |
| Total                                  | -                                      | 93,959,781                 | -                          | 93,959,781                       | 555,462                  | 555,462                     | 93,404,319                           |         |
| Intangible assets                      |  |                            |                            |                                  |                          |                             |                                      |         |
| Leasehold right in trust               | -                                      | 176,383                    | -                          | 176,383                          | 5,304                    | 5,304                       | 171,078                              |         |
| Other                                  | -                                      | 2,809                      | -                          | 2,809                            | 364                      | 364                         | 2,445                                |         |
| Total                                  | ¥ -                                    | ¥179,192                   | ¥ -                        | ¥179,192                         | ¥5,669                   | ¥5,669                      | ¥173,523                             |         |

\*The amount of increase during the period is primarily attributable to the acquisition of the real estate properties.

## 20. SHORT-TERM LOANS PAYABLE AND LONG-TERM LOANS PAYABLE

The following summarizes short-term loans payable and long-term loans payable outstanding as of March 31, 2016:

| Classification           | Lender                                       | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Average interest rate | Payment due date (Note4) | Use     | Remarks                      |       |                   |
|--------------------------|--|--|----------------------------|----------------------------|----------------------------------|-----------------------|--------------------------|---------|------------------------------|-------|-------------------|
|                          |  |  |                            |                            |                                  | (Note2)<br>(Note3)    |                          |         |                              |       |                   |
| (in thousands of yen)    |  |  |                            |                            |                                  | (%)                   |                          |         |                              |       |                   |
| Short-term loans payable | Sumitomo Mitsui Banking Corporation          | 450,000                                | -                          | 450,000                    | -                                | 0.430                 | February 10, 2016        | (Note5) | Unsecured/<br>Non-guaranteed |       |                   |
|                          | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 450,000                                | -                          | 450,000                    | -                                |                       |                          |         |                              |       |                   |
|                          | Mizuho Bank, Ltd.                            | 400,000                                | -                          | 400,000                    | -                                |                       |                          |         |                              |       |                   |
|                          | Aozora Bank, Ltd.                            | 250,000                                | -                          | 250,000                    | -                                |                       |                          |         |                              |       |                   |
|                          | Resona Bank, Limited                         | 250,000                                | -                          | 250,000                    | -                                |                       |                          |         |                              |       |                   |
|                          | Sumitomo Mitsui Trust Bank, Limited          | 200,000                                | -                          | 200,000                    | -                                |                       |                          |         |                              |       |                   |
|                          | Sumitomo Mitsui Banking Corporation          | -                                      | 2,050,000                  | -                          | 2,050,000                        |                       |                          |         |                              | 0.620 | October 2, 2016   |
|                          | Sumitomo Mitsui Banking Corporation (Note6)  | -                                      | 3,650,000                  | 1,200,000                  | 2,450,000                        |                       |                          |         |                              | 0.621 | October 2, 2016   |
|                          | Sumitomo Mitsui Banking Corporation          | -                                      | 450,000                    | -                          | 450,000                          |                       |                          |         |                              | 0.535 | February 10, 2017 |
|                          | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -                                      | 450,000                    | -                          | 450,000                          |                       |                          |         |                              |       |                   |
|                          | Mizuho Bank, Ltd.                            | -                                      | 400,000                    | -                          | 400,000                          |                       |                          |         |                              |       |                   |
|                          | Resona Bank, Ltd.                            | -                                      | 250,000                    | -                          | 250,000                          |                       |                          |         |                              |       |                   |
|                          | Aozora Bank, Ltd.                            | -                                      | 250,000                    | -                          | 250,000                          |                       |                          |         |                              |       |                   |
|                          | Sumitomo Mitsui Trust Bank, Ltd.             | -                                      | 200,000                    | -                          | 200,000                          |                       |                          |         |                              |       |                   |
| Subtotal                 | 2,000,000                                    | 7,700,000                              | 3,200,000                  | 6,500,000                  |                                  |                       |                          |         |                              |       |                   |
| Long-term loans payable  | Sumitomo Mitsui Banking Corporation          | 2,300,000                              | -                          | -                          | 2,300,000                        | 0.751                 | February 10, 2020        | (Note5) | Unsecured/<br>Non-guaranteed |       |                   |
|                          | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 800,000                                | -                          | -                          | 800,000                          |                       |                          |         |                              |       |                   |
|                          | Mizuho Bank, Ltd.                            | 400,000                                | -                          | -                          | 400,000                          |                       |                          |         |                              |       |                   |
|                          | Mizuho Trust & Banking Co., Ltd.             | 350,000                                | -                          | -                          | 350,000                          |                       |                          |         |                              |       |                   |
|                          | Sumitomo Mitsui Banking Corporation          | 2,400,000                              | -                          | -                          | 2,400,000                        |                       |                          |         |                              |       |                   |
|                          | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 800,000                                | -                          | -                          | 800,000                          |                       |                          |         |                              |       |                   |
|                          | Mitsubishi UFJ Trust and Banking Corporation | 800,000                                | -                          | -                          | 800,000                          |                       |                          |         |                              |       |                   |
|                          | Sumitomo Mitsui Trust Bank, Limited          | 550,000                                | -                          | -                          | 550,000                          |                       |                          |         |                              |       |                   |
|                          | Aozora Bank, Ltd.                            | 500,000                                | -                          | -                          | 500,000                          |                       |                          |         |                              |       |                   |
|                          | Resona Bank, Limited                         | 500,000                                | -                          | -                          | 500,000                          |                       |                          |         |                              |       |                   |
|                          | The Gunma Bank, Ltd.                         | 400,000                                | -                          | -                          | 400,000                          |                       |                          |         |                              |       |                   |
|                          | The Musashino Bank, Ltd.                     | 400,000                                | -                          | -                          | 400,000                          |                       |                          |         |                              |       |                   |
|                          | Mizuho Bank, Ltd.                            | 350,000                                | -                          | -                          | 350,000                          |                       |                          |         |                              |       |                   |
|                          | Mizuho Trust & Banking Co., Ltd.             | 300,000                                | -                          | -                          | 300,000                          |                       |                          |         |                              |       |                   |
|                          | Sumitomo Mitsui Banking Corporation          | 3,000,000                              | -                          | -                          | 3,000,000                        |                       |                          |         |                              | 0.865 | February 10, 2021 |
|                          | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 700,000                                | -                          | -                          | 700,000                          |                       |                          |         |                              |       |                   |
|                          | Sumitomo Mitsui Trust Bank, Limited          | 500,000                                | -                          | -                          | 500,000                          |                       |                          |         |                              |       |                   |
| Aozora Bank, Ltd.        | 450,000                                      | -                                      | -                          | 450,000                    |                                  |                       |                          |         |                              |       |                   |
| Resona Bank, Limited     | 450,000                                      | -                                      | -                          | 450,000                    |                                  |                       |                          |         |                              |       |                   |
| Mizuho Bank, Ltd.        | 400,000                                      | -                                      | -                          | 400,000                    |                                  |                       |                          |         |                              |       |                   |
| Subtotal                 | 2,600,000                                    | -                                      | -                          | 2,600,000                  | 0.978                            | February 10, 2022     |                          |         |                              |       |                   |
| Long-term                | Sumitomo Mitsui Banking Corporation          | 2,600,000                              | -                          | -                          | 2,600,000                        | 0.978                 | February 10, 2022        | (Note5) | Unsecured/                   |       |                   |

| Classification                               |  | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Average interest rate (Note2) (Note3) | Payment due date (Note4) | Use     | Remarks        |
|--|--|--|----------------------------|----------------------------|----------------------------------|---------------------------------------|--------------------------|---------|----------------|
| Lender                                       |  |  |                            |                            |                                  |                                       |                          |         |                |
|  |  | (in thousands of yen)                  |                            |                            | Average interest rate (%)        |                                       |                          |         |                |
| loans payable                                | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 800,000                                | -                          | -                          | 800,000                          |                                       |                          |         | Non-guaranteed |
|  | Sumitomo Mitsui Trust Bank, Limited          | 600,000                                | -                          | -                          | 600,000                          |                                       |                          |         |                |
|  | Aozora Bank, Ltd.                            | 400,000                                | -                          | -                          | 400,000                          |                                       |                          |         |                |
|  | Mizuho Trust & Banking Co., Ltd.             | 400,000                                | -                          | -                          | 400,000                          |                                       |                          |         |                |
|  | Resona Bank, Limited                         | 300,000                                | -                          | -                          | 300,000                          |                                       |                          |         |                |
|  | Mizuho Bank, Ltd.                            | 300,000                                | -                          | -                          | 300,000                          |                                       |                          |         |                |
|  | Development Bank of Japan Inc. (Note7)       | 1,500,000                              | -                          | -                          | 1,500,000                        | 0.925                                 | February 10, 2021        |         |                |
|  | Development Bank of Japan Inc. (Note7)       | 1,600,000                              | -                          | -                          | 1,600,000                        | 1.033                                 | February 10, 2022        |         |                |
|  | Sumitomo Mitsui Banking Corporation          | 4,600,000                              | -                          | -                          | 4,600,000                        | 1.366                                 | April 16, 2025           |         |                |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 750,000                                | -                          | -                          | 750,000                          |                                       |                          |         |                |
|  | Aozora Bank, Ltd.                            | 500,000                                | -                          | -                          | 500,000                          |                                       |                          |         |                |
|  | Mizuho Bank, Ltd.                            | 400,000                                | -                          | -                          | 400,000                          | 0.534                                 | March 31, 2019           |         |                |
|  | Sumitomo Mitsui Trust Bank, Limited          | 200,000                                | -                          | -                          | 200,000                          |                                       |                          |         |                |
|  | Resona Bank, Limited                         | 200,000                                | -                          | -                          | 200,000                          |                                       |                          |         |                |
|  | The Musashino Bank, Ltd.                     | 150,000                                | -                          | -                          | 150,000                          |                                       |                          |         |                |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | 1,000,000                              | -                          | -                          | 1,000,000                        |                                       |                          |         |                |
|  | Sumitomo Mitsui Trust Bank, Limited          | 600,000                                | -                          | -                          | 600,000                          |                                       |                          |         |                |
|  | Mizuho Bank, Ltd.                            | 400,000                                | -                          | -                          | 400,000                          | 0.975                                 | March 31, 2023           |         |                |
|  | Resona Bank, Limited                         | 400,000                                | -                          | -                          | 400,000                          |                                       |                          |         |                |
|  | Mizuho Trust & Banking Co., Ltd.             | 400,000                                | -                          | -                          | 400,000                          |                                       |                          |         |                |
|  | Mitsubishi UFJ Trust and Banking Corporation | 400,000                                | -                          | -                          | 400,000                          |                                       |                          |         |                |
|  | Development Bank of Japan Inc. (Note7)       | 1,500,000                              | -                          | -                          | 1,500,000                        | 0.994                                 | March 31, 2023           |         |                |
|  | Sumitomo Mitsui Banking Corporation          | -                                      | 1,850,000                  | -                          | 1,850,000                        |                                       |                          |         |                |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -                                      | 550,000                    | -                          | 550,000                          |                                       |                          |         |                |
|  | Sumitomo Mitsui Trust Bank, Ltd.             | -                                      | 500,000                    | -                          | 500,000                          | 0.545                                 | March 31, 2019           |         |                |
|  | Resona Bank, Ltd.                            | -                                      | 300,000                    | -                          | 300,000                          |                                       |                          |         |                |
|  | The Musashino Bank, Ltd.                     | -                                      | 250,000                    | -                          | 250,000                          |                                       |                          |         |                |
| Mitsubishi UFJ Trust and Banking Corporation | -  | 450,000                                | -                          | 450,000                    |                                  |                                       |                          |         |                |
| Resona Bank, Ltd.                            | -  | 200,000                                | -                          | 200,000                    | 0.987                            | March 31, 2023                        |                          |         |                |
| The Musashino Bank, Ltd.                     | -  | 150,000                                | -                          | 150,000                    |                                  |                                       |                          |         |                |
| Development Bank of Japan Inc. (Note7)       | -  | 1,500,000                              | -                          | 1,500,000                  | 1.013                            | March 31, 2023                        |                          |         |                |
| Sumitomo Mitsui Banking Corporation          | -  | 3,000,000                              | -                          | 3,000,000                  |                                  |                                       |                          |         |                |
| Mizuho Bank, Ltd.                            | -  | 1,150,000                              | -                          | 1,150,000                  | 1.110                            | March 31, 2024                        |                          |         |                |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -  | 1,000,000                              | -                          | 1,000,000                  |                                  |                                       |                          |         |                |
| Long-term loans payable                      | Mizuho Trust & Banking Co., Ltd.             | -                                      | 700,000                    | -                          | 700,000                          |                                       |                          |         | Unsecured/     |
|  | Sumitomo Mitsui Trust Bank, Ltd.             | -                                      | 650,000                    | -                          | 650,000                          | 1.110                                 | March 31, 2024           | (Note5) | Non-guaranteed |
|  | Resona Bank, Ltd.                            | -                                      | 500,000                    | -                          | 500,000                          |                                       |                          |         |                |

| Classification                         | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Average interest rate (Note2) (Note3) | Payment due date (Note4) | Use | Remarks |
|--|--|----------------------------|----------------------------|----------------------------------|---------------------------------------|--------------------------|-----|---------|
| Lender                                 | (in thousands of yen)                  |                            |                            |                                  | (%)                                   |                          |     |         |
| Sumitomo Mitsui Banking Corporation    | -                                      | 1,500,000                  | -                          | 1,500,000                        | 1.243                                 | April 16, 2025           |     |         |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | -                                      | 400,000                    | -                          | 400,000                          |                                       |                          |     |         |
| Subtotal                               | 36,350,000                             | 14,650,000                 | -                          | 51,000,000                       |                                       |                          |     |         |
| Total                                  | 38,350,000                             | 22,350,000                 | 3,200,000                  | 57,500,000                       |                                       |                          |     |         |

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

|                         | Due after 1 year through 2 years | Due after 2 years through 3 years | Due after 3 years through 4 years | Due after 4 years through 5 years | Due after 5 years |
|-------------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------|
|                         | (in thousands yen)               |                                   |                                   |                                   |                   |
| Long-term loans payable | 3,850,000                        | 5,650,000                         | 7,000,000                         | 7,000,000                         | 27,500,000        |

Note2: All debts except for the following Note7 are borrowings at a floating rate.

Note3: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps are indicated.

Note4: All the repayment methods of debt financing except for the following Note6 are lump-sum repayments on the due date.

Note5: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note6: Partial prepayment of ¥1,200,000 thousand was made on October 30, 2015.

Note7: Borrowings at a fixed rate.

The following summarizes short-term loans payable and long-term loans payable outstanding as of September 30, 2015:

| Classification                         | Lender                                       | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Average interest rate | Payment due date (Note4) | Use     | Remarks                      |         |                   |
|--|--|--|----------------------------|----------------------------|----------------------------------|-----------------------|--------------------------|---------|------------------------------|---------|-------------------|
|  |  |  |                            |                            |                                  | (Note2)<br>(Note3)    |                          |         |                              |         |                   |
|  |  |  |                            |                            | (in thousands of yen)            | (%)                   |                          |         |                              |         |                   |
| Short-term loans payable               | Sumitomo Mitsui Banking Corporation          | -                                      | 450,000                    | -                          | 450,000                          | 0.430                 | February 10, 2016        | (Note5) | Unsecured/<br>Non-guaranteed |         |                   |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -                                      | 450,000                    | -                          | 450,000                          |                       |                          |         |                              |         |                   |
|  | Mizuho Bank, Ltd.                            | -                                      | 400,000                    | -                          | 400,000                          |                       |                          |         |                              |         |                   |
|  | Aozora Bank, Ltd.                            | -                                      | 250,000                    | -                          | 250,000                          |                       |                          |         |                              |         |                   |
|  | Resona Bank, Limited                         | -                                      | 250,000                    | -                          | 250,000                          | 0.630                 | February 10, 2016        |         |                              |         |                   |
|  | Sumitomo Mitsui Trust Bank, Limited          | -                                      | 200,000                    | -                          | 200,000                          |                       |                          |         |                              |         |                   |
|  | Sumitomo Mitsui Banking Corporation (Note6)  | -                                      | 1,322,500                  | 1,322,500                  | -                                |                       |                          |         |                              |         |                   |
|  | Sumitomo Mitsui Banking Corporation (Note7)  | -                                      | 6,900,000                  | 6,900,000                  | -                                | 0.430                 | April 16, 2016           |         |                              |         |                   |
| Subtotal                               | -  | 10,222,500                             | 8,222,500                  | 2,000,000                  |                                  |                       |                          |         |                              |         |                   |
| Long-term loans payable                | Sumitomo Mitsui Banking Corporation          | -                                      | 2,300,000                  | -                          | 2,300,000                        | 0.545                 | February 10, 2018        | (Note5) | Unsecured/<br>Non-guaranteed |         |                   |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -                                      | 800,000                    | -                          | 800,000                          |                       |                          |         |                              |         |                   |
|  | Mizuho Bank, Ltd.                            | -                                      | 400,000                    | -                          | 400,000                          |                       |                          |         |                              |         |                   |
|  | Mizuho Trust & Banking Co., Ltd.             | -                                      | 350,000                    | -                          | 350,000                          |                       |                          |         |                              |         |                   |
|  | Sumitomo Mitsui Banking Corporation          | -                                      | 2,400,000                  | -                          | 2,400,000                        | 0.751                 | February 10, 2020        |         |                              |         |                   |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -                                      | 800,000                    | -                          | 800,000                          |                       |                          |         |                              |         |                   |
|  | Mitsubishi UFJ Trust and Banking Corporation | -                                      | 800,000                    | -                          | 800,000                          |                       |                          |         |                              |         |                   |
|  | Sumitomo Mitsui Trust Bank, Limited          | -                                      | 550,000                    | -                          | 550,000                          |                       |                          |         |                              |         |                   |
|  | Aozora Bank, Ltd.                            | -                                      | 500,000                    | -                          | 500,000                          |                       |                          |         |                              |         |                   |
|  | Resona Bank, Limited                         | -                                      | 500,000                    | -                          | 500,000                          |                       |                          |         |                              |         |                   |
|  | The Gunma Bank, Ltd.                         | -                                      | 400,000                    | -                          | 400,000                          |                       |                          |         |                              |         |                   |
|  | The Musashino Bank, Ltd.                     | -                                      | 400,000                    | -                          | 400,000                          |                       |                          |         |                              |         |                   |
|  | Mizuho Bank, Ltd.                            | -                                      | 350,000                    | -                          | 350,000                          |                       |                          |         |                              |         |                   |
|  | Mizuho Trust & Banking Co., Ltd.             | -                                      | 300,000                    | -                          | 300,000                          |                       |                          |         |                              |         |                   |
|  | Sumitomo Mitsui Banking Corporation          | -                                      | 3,000,000                  | -                          | 3,000,000                        |                       |                          |         |                              | 0.865   | February 10, 2021 |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -                                      | 700,000                    | -                          | 700,000                          |                       |                          |         |                              |         |                   |
|  | Sumitomo Mitsui Trust Bank, Limited          | -                                      | 500,000                    | -                          | 500,000                          |                       |                          |         |                              |         |                   |
|  | Aozora Bank, Ltd.                            | -                                      | 450,000                    | -                          | 450,000                          |                       |                          |         |                              |         |                   |
|  | Resona Bank, Limited                         | -                                      | 450,000                    | -                          | 450,000                          |                       |                          |         |                              |         |                   |
|  | Mizuho Bank, Ltd.                            | -                                      | 400,000                    | -                          | 400,000                          |                       |                          |         |                              |         |                   |
| Sumitomo Mitsui Banking Corporation    | -  | 2,600,000                              | -                          | 2,600,000                  | 0.978                            | February 10, 2022     |                          |         |                              |         |                   |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | -  | 800,000                                | -                          | 800,000                    |                                  |                       |                          |         |                              |         |                   |
| Sumitomo Mitsui Trust Bank, Limited    | -  | 600,000                                | -                          | 600,000                    |                                  |                       |                          |         |                              |         |                   |
| Aozora Bank, Ltd.                      | -  | 400,000                                | -                          | 400,000                    |                                  |                       |                          |         |                              |         |                   |
| Mizuho Trust & Banking Co., Ltd.       | -  | 400,000                                | -                          | 400,000                    |                                  |                       |                          |         |                              |         |                   |
| Resona Bank, Limited                   | -  | 300,000                                | -                          | 300,000                    |                                  |                       |                          |         |                              |         |                   |
| Long-term                              | Mizuho Bank, Ltd.                            | -                                      | 300,000                    | -                          |                                  |                       | 300,000                  | 0.978   | February 10, 2022            | (Note5) | Unsecured/        |

| Classification                         | Lender                                       | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Average interest rate | Payment due date (Note4) | Use | Remarks        |
|--|--|--|----------------------------|----------------------------|----------------------------------|-----------------------|--------------------------|-----|----------------|
|  |  |  |                            |                            |                                  | (Note2)<br>(Note3)    |                          |     |                |
|  |  |  |                            |                            | (in thousands of yen)            | (%)                   |                          |     |                |
| loans payable                          | Development Bank of Japan Inc. (Note8)       | -                                      | 1,500,000                  | -                          | 1,500,000                        | 0.925                 | February 10, 2021        |     | Non-guaranteed |
|  | Development Bank of Japan Inc. (Note8)       | -                                      | 1,600,000                  | -                          | 1,600,000                        | 1.033                 | February 10, 2022        |     |                |
|  | Sumitomo Mitsui Banking Corporation          | -                                      | 4,600,000                  | -                          | 4,600,000                        | 1.366                 | April 16, 2025           |     |                |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -                                      | 750,000                    | -                          | 750,000                          |                       |                          |     |                |
|  | Aozora Bank, Ltd.                            | -                                      | 500,000                    | -                          | 500,000                          |                       |                          |     |                |
|  | Mizuho Bank, Ltd.                            | -                                      | 400,000                    | -                          | 400,000                          | 0.534                 | March 31, 2019           |     |                |
|  | Sumitomo Mitsui Trust Bank, Limited          | -                                      | 200,000                    | -                          | 200,000                          |                       |                          |     |                |
|  | Resona Bank, Limited                         | -                                      | 200,000                    | -                          | 200,000                          |                       |                          |     |                |
|  | The Musashino Bank, Ltd.                     | -                                      | 150,000                    | -                          | 150,000                          |                       |                          |     |                |
|  | The Bank of Tokyo-Mitsubishi UFJ, Ltd.       | -                                      | 1,000,000                  | -                          | 1,000,000                        |                       |                          |     |                |
|  | Sumitomo Mitsui Trust Bank, Limited          | -                                      | 600,000                    | -                          | 600,000                          |                       |                          |     |                |
|  | Mizuho Bank, Ltd.                            | -                                      | 400,000                    | -                          | 400,000                          | 0.975                 | March 31, 2023           |     |                |
|  | Resona Bank, Limited                         | -                                      | 400,000                    | -                          | 400,000                          |                       |                          |     |                |
|  | Mizuho Trust & Banking Co., Ltd.             | -                                      | 400,000                    | -                          | 400,000                          |                       |                          |     |                |
|  | Mitsubishi UFJ Trust and Banking Corporation | -                                      | 400,000                    | -                          | 400,000                          |                       |                          |     |                |
| Development Bank of Japan Inc. (Note8) | -  | 1,500,000                              | -                          | 1,500,000                  | 0.994                            | March 31, 2023        |                          |     |                |
| Subtotal                               | -  | 36,350,000                             | -                          | 36,350,000                 |                                  |                       |                          |     |                |
| Total                                  | -  | 46,572,500                             | 8,222,500                  | 38,350,000                 |                                  |                       |                          |     |                |

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

|                         | Due after 1 year through 2 years | Due after 2 years through 3 years | Due after 3 years through 4 years | Due after 4 years through 5 years | Due after 5 years |
|-------------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------|
|                         | (in thousands yen)               |                                   |                                   |                                   |                   |
| Long-term loans payable | -                                | 3,850,000                         | 2,200,000                         | 7,000,000                         | 23,300,000        |

Note2: All debts except for the following Note8 are borrowing at a floating rate.

Note3: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps are indicated.

Note4: All the repayment methods of debt financing except for the following Note6 and Note7 are lump-sum repayments on the due date.

Note5: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note6: Prepayment was made on March 16, 2015.

Note7: Prepayment was made on September 30, 2015.

Note8: Borrowings at a fixed rate.

## 21. DISTRIBUTIONS

|   | From October 1, 2015<br>to March 31, 2016 | From October 3, 2014<br>to September 30, 2015 |
|---|---|---|
| I. Retained earnings at the end of period   | ¥2,427,985,431                            | ¥1,933,270,617                                |
| II. Distributions in excess of retained earnings  | ¥4,263,000                                | -   |
| Of which, allowance for temporary difference adjustments  | ¥4,263,000                                | -   |
| III. Total distributions  | ¥2,432,041,500                            | ¥1,933,200,500                                |
| Distributions per unit  | ¥6,846                                    | ¥7,414  |
| Of which, distributions of earnings   | ¥2,427,778,500                            | ¥1,933,200,500                                |
| Of which, distributions of earnings per unit  | ¥6,834                                    | ¥7,414  |
| Of which, allowance for temporary difference adjustments  | ¥4,263,000                                | -   |
| Of which, distributions in excess of earnings per unit (allowance for temporary difference adjustments) | ¥12                                       | -   |
| IV. Retained earnings brought forward to the next period  | ¥206,931                                  | ¥70,117                                       |

### Method of calculating distribution amount

In accordance with the policy described in Article 39-1 of its Articles of Incorporation, KRR determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall be up to its profits as the maximum amount. Following this policy, KRR has decided that it shall distribute ¥2,427,778,500 which is the maximum integral multiple of 355,250 units issued and outstanding as the distribution of earnings. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 39-2 of KRR's Articles of Incorporation.

Furthermore, in accordance with the policy for "Distribution of Money in Excess of Profits" as stated in Article 39-2 of KRR's Articles of Incorporation, KRR made a distribution in excess of earnings of ¥4,263,000 for allowance for temporary difference adjustments (as defined in Article 2-2-30 of the Ordinance on Accountings of Investment Corporations) for the purpose of reflecting the effect on distributions of the difference in earnings calculated under Japanese GAAP and Japanese tax laws in association with the amortization of fixed-term land leasehold rights (as defined in Article 2-2-30 (b) of the Ordinance on Accountings of Investment Corporations).

In accordance with the policy described in Article 39-1 of its Articles of Incorporation, KRR determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall be up to its profits as the maximum amount. Following this policy, KRR has decided that it shall distribute ¥1,933,200,500 which is the maximum integral multiple of 260,750 units issued and outstanding as the distribution of earnings. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 39-2 of KRR's Articles of Incorporation. In the first fiscal period, KRR has decided not to distribute cash in excess of distributable profit.



# KENEDIX

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Retail REIT Corporation