

# KENEDIX

Retail REIT Corporation



## Kenedix Retail REIT Corporation Semi-annual Report for the 3rd Period (From April 1, 2016 to September 30, 2016)



KENEDIX



Thanks to your support, Kenedix Retail REIT Corporation (“KRR”) has reported its results of operations for the third fiscal period (from April 1, 2016 to September 30, 2016).

We became the first J-REIT to focus primarily on neighborhood, community and other shopping centers that cater to the day-to-day needs of local area customers upon our listing in February 2015. 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 have 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 these shopping centers provide ample investment opportunities, and hence our selective investments contribute further increase in unitholder’s value.

At the end of the third fiscal period, our portfolio, consisted of 40 properties for 158,766 million yen in acquisition price, has almost doubled in size in 14 months since we acquired 18 shopping centers with acquisition price of 80,843 million yen upon our listing. We acquired seven shopping centers for daily needs in connection with public offering at the beginning of the third fiscal period.

As a result, operating revenue totaled 6,374 million yen, operating income was 2,973 million yen, ordinary income was 2,519 million yen and net income was 2,518 million yen for the third fiscal period. The distribution to unitholders was 5,974 yen per unit, including 86 yen distribution per unit in excess of retained earnings.

Going into the fourth fiscal period, we acquired one property, increasing the portfolio size to 160,136 million yen in acquisition price with 41 properties.

In addition, the extensive support from our Sponsor and the Alliance Companies has been strengthened by a new alliance agreement with ITOCHU Corporation signed in August 2016.

We dedicate ourselves to the maximization of unitholder value by continuing implementation of our 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 3rd fiscal period (April 1, 2016 to September 30, 2016)

Distribution per unit (Includes distribution in excess of earnings per unit: 86 yen)	JPY 5,974
Forecast DPU for 4 <sup>th</sup> fiscal period (Includes distribution in excess of earnings per unit: 13 yen)	JPY 6,040
Operating revenue	JPY 6,374 mn
Operating income	JPY 2,973 mn
Net income	JPY 2,518 mn
Total assets	JPY 179,360 mn
Total net assets	JPY 96,739 mn
Net assets per unit	JPY 228,996
Number of properties / tenants	40 properties / 405 tenants
Occupancy rate at the end of period	99.7 %

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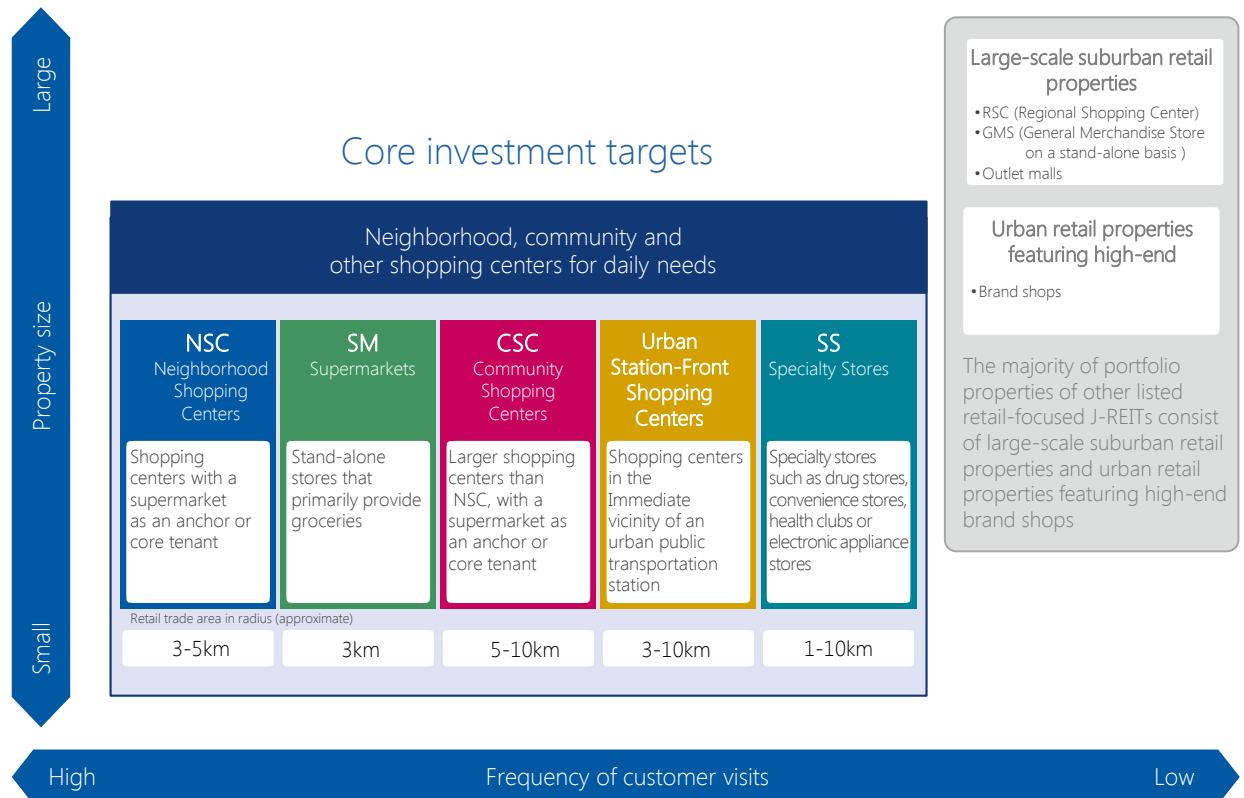
### II. Asset Management Report

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# 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    | <ul style="list-style-type: none"> <li>• Approximately 1 to 10 kilometer radius (generally 3 to 5 kilometer radius)</li> <li>• Customers predominantly from local areas</li> </ul> |
| 2. Operational features | <ul style="list-style-type: none"> <li>• Accommodate certain daily local retail needs</li> <li>• Strong customer traffic on both weekdays and weekends</li> </ul>                  |
| 3. Tenant composition   | <ul style="list-style-type: none"> <li>• Various specialty stores to meet a range of day-to-day needs such as groceries, clothing and other daily goods and services</li> </ul>    |

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



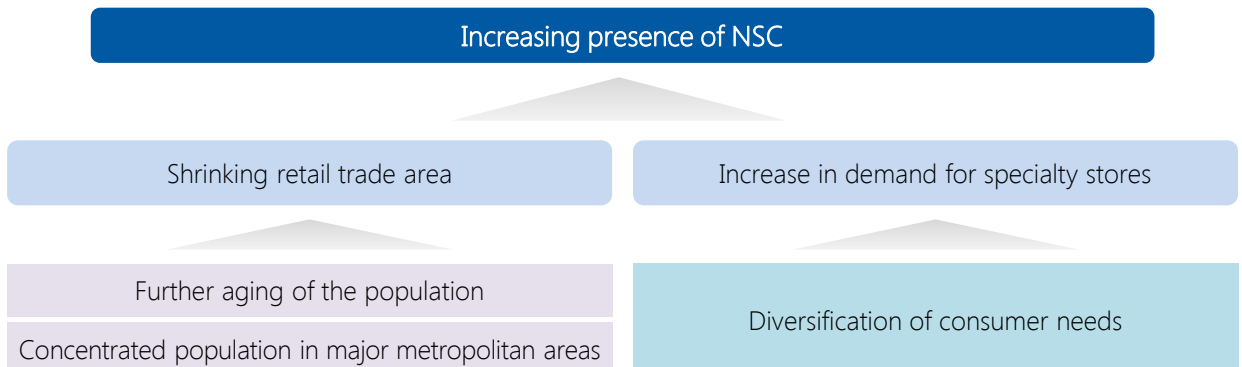
## 3. Convenient shopping experience at shopping centers for daily needs

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.



## 4. Background for increasing presence of NSC

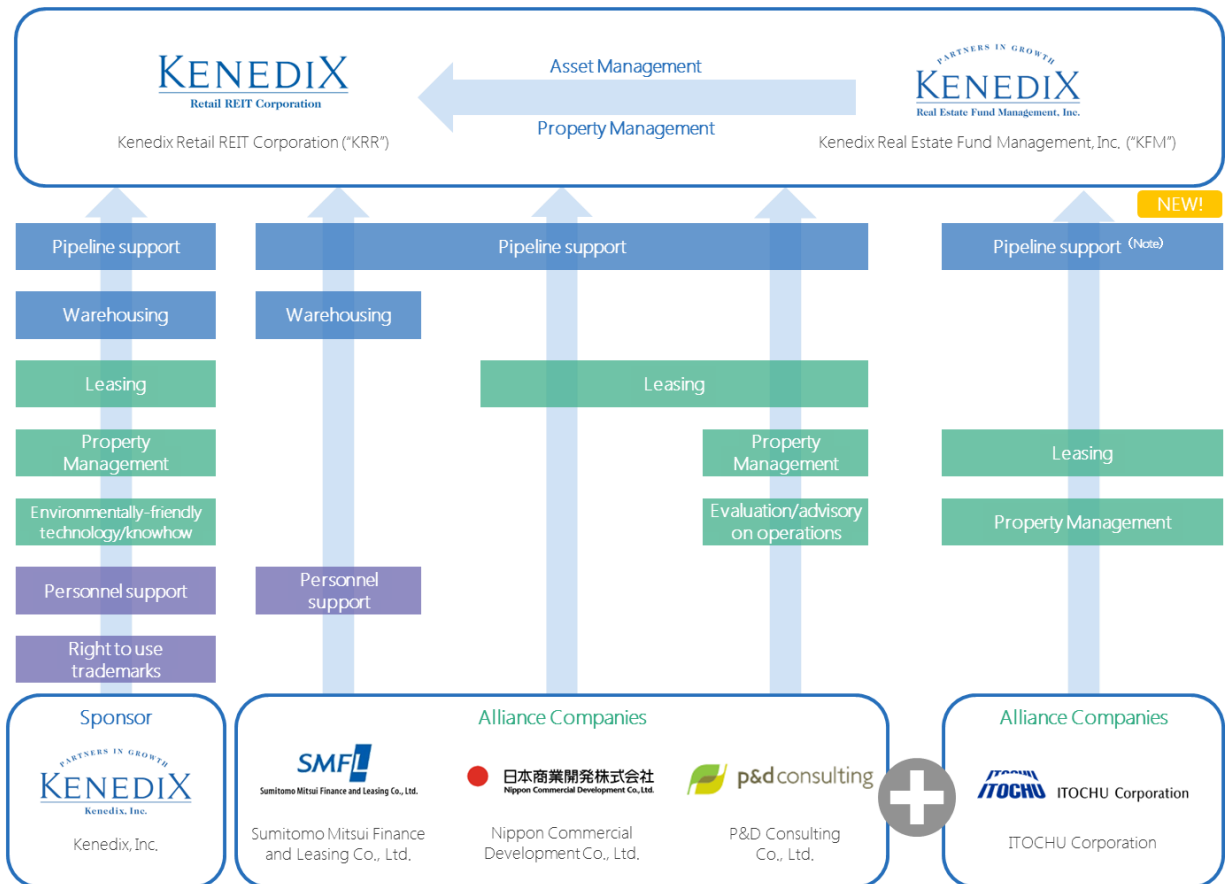
We believe that the presence of shopping centers for daily needs will continue to increase due to shrinkage of retail trade areas and diversification of consumer tastes. We also believe these social structure changes are caused by the aging of society and concentration of population into major metropolitan areas of Japan.



## Sponsor 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.



Note: Kenedix, Inc., the asset manager of the retail property development fund jointly created by ITOCHU Corporation ("Kenedix – ITOCHU Fund"), agrees to provide preferential access to potential acquisition opportunities regarding the fund, to KRR and KFM.

### 2. Alliance agreement with ITOCHU Corporation

ITOCHU Corporation ("ITOCHU") became our new Alliance Company in August 2016, joining Sumitomo Mitsui Finance and Leasing Co., Ltd., Nippon Commercial Development Co., Ltd. and P&D Consulting Co., Ltd.

Kenedix, Inc. and ITOCHU Corporation also agreed to jointly create a retail property development fund and to provide us preferential access to potential acquisition opportunities regarding the fund. Kenedix – ITOCHU Fund has already begun to develop its first project.



1st project

Location: Kanagawa Pref.

Expected to open in autumn 2017



# Major growth strategy

## 1. Property expansion of Unicus Ina

We seek to enhance profitability and value of our assets through building expansions. The second expansion project, a restaurant building, is under development at Unicus Ina.

### Improve profitability

NOI yield (return on investment)

**12%**

Estimated increase in NOI

**12.9 mn**

Total construction cost

**107 mn**

### Enhance asset value

Increase in appraisal value

**+240 mn**

Appraisal value

**4,660 mn**

Appraisal value

**4,420 mn**



### Schedule (Note 3)

July 2016:

Application for building approval

September 2016:

Begin building construction

January 2017 (planned):

Completion & delivery of building

Note 1: These figures (except the total construction cost) are those at the time of the decision of property expansion, and may change, including total construction cost.

Note 2: We cannot guarantee that the building extension will be completed as scheduled; the construction may be cancelled or delayed in the future.

Note 3: This rendering may differ from the actual building to be completed.

## 2. Preferential access to potential acquisition opportunities

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

### Example of properties under development by sponsor

NSC

Expected to open in spring 2017

**Kawamachi Yahagi Mall**

Location: Chiba, Chiba



### Examples of properties owned by our Alliance Companies

NSC

**Totsuka-Fukaya Shopping Center (Land)**

Location: Yokohama, Kanagawa

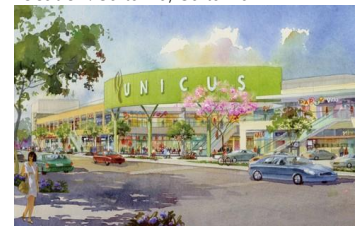


NSC

Expected to open in spring 2017

**Unicus Urawamisono (Land)**

Location: Saitama, Saitama



Note: The illustrations above are completion images based on design drawings and may differ from the actual buildings after completion.



## ■ Environmental initiatives

We proactively participate in local-community-enlivening activities and take environmental initiatives.

### 1. GRESB Real Estate Assessment



We have been awarded a “Green Star” rating at our first participation in the GRESB Real Estate Assessment in 2016, as its efforts for improving sustainability performance were evaluated, receiving high evaluation on both “implementation and measurement” and “management and policy”.

GRESB is an annual benchmark assessment which measures environmental, social, and governance (ESG) considerations in the real estate sector.

### 2. DBJ Green Building Certification

We received DBJ Green Building Certification for four of its properties (Blumer HAT Kobe, Roseo Mito, Ashico Town Ashikaga and Passaggio Nishiarai) from the Development Bank of Japan Inc. in September 2016. Our DBJ Green Building Certification accumulated to nine properties.



Blumer  
HAT Kobe



Ashico Town  
Ashikaga



Roseo Mito



DBJ Green Building  
2016

Passaggio  
Nishiarai



### 3. Help enliven local communities

We seek to enhance the medium to long-term asset value of our retail properties by attracting tenants engaged in service businesses and holding local events at its properties to enliven the local community.

Yoshikawa Marche  
(Unicus Yoshikawa)



Roseo Festival  
(Roseo Mito)

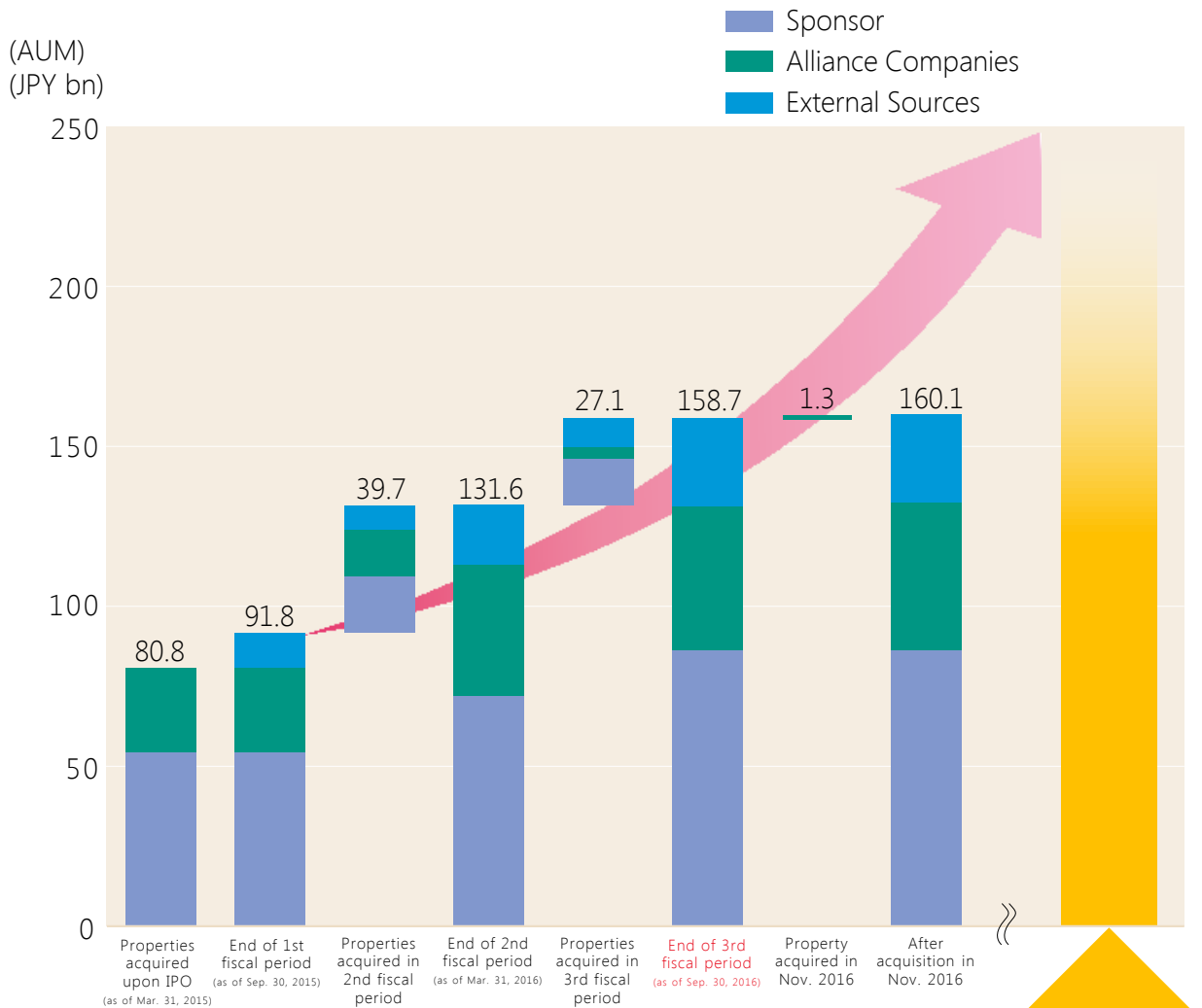




## ■ Steady growth in AUM

Upon continuous acquisition of assets, the total asset amount 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.

### AUM growth (based on acquisition price)



Aiming for steady growth of asset value going forward

### 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

## Assets acquired in 3rd and 4th fiscal period

### Assets acquired in 3rd fiscal period

SM

Supermarket

## Life Kameido

A grocery supermarket located in one of the most densely populated retail trade areas in Tokyo, with 71,000 residents within a 1 km radius



Acquisition price	JPY 1,450 mn
Location	Koto ward, Tokyo
Land area	2,185.63m <sup>2</sup>
Gross floor area	2,929.58m <sup>2</sup>
Core tenant	Life Corporation
Appraisal NOI	JPY 65 mn
Appraisal NOI yield	4.5%

- Located in one of the most populated trade areas, with 71,000 residents within a 1 km radius. "Kameido Residence", a large-scale condominium consisting of approx. 700 residential units is in the neighborhood
- Highly accessible by car due to its location along the National Route 14

NSC

Neighborhood Shopping Center

## P-1 Plaza Tenno

An NSC located in a large scale retail area in northeast Hamamatsu where road-side retail facilities concentrate



Acquisition price	JPY 4,010 mn
Location	Hamamatsu, Shizuoka
Land area	36,218.55m <sup>2</sup>
Gross floor area	14,467.54m <sup>2</sup>
Core tenant	Kyorindo Co., Ltd.
Appraisal NOI	JPY 227 mn
Appraisal NOI yield	5.7%

- An NSC located in a large-scale retail area in northeast Hamamatsu where road-side retail facilities concentrate. Houses tenants such as a local supermarket, a drug store, a relaxation spa, a footwear shop and a software rental shop
- Faces a main road and benefits from good car traffic. The retail stores surround a large parking lot capable of holding 595 vehicles, making it highly convenient for customers visiting by car

## Assets acquired in 3rd fiscal period

SS

Specialty store

### Homecenter Kohnan Sunadabashi

A retail property consisting of a large home and garden store and a large sporting goods store, located in a northern urban area of Nagoya City



Acquisition price	JPY 7,140 mn
Location	Nagoya, Aichi
Land area	15,118.47m <sup>2</sup>
Gross floor area	20,329.07m <sup>2</sup>
Core tenant	Kohnan Shoji Co., Ltd.
Appraisal NOI	JPY 368 mn
Appraisal NOI yield	5.2%

■ A retail property consisting of Kohnan, a home and garden store chain operating 300 shops nationwide and a large sporting goods store, located in a northern urban area of Nagoya City

NSC

Neighborhood Shopping Center

### Nakamachidai Tokyu Store

A station-front NSC in an area with high population growth and easy access to central Tokyo



SS

Specialty Store

### Central Wellness Club Nagatsuta Minamidai

Roadside SS located in an area with high population growth, housing a health club as its core tenant



Urban Station-Front

### Solala Plaza

A retail building directly accessible by a pedestrian walkway from Sendai Station



NSC

Neighborhood Shopping Center

### Million Town Tsukaguchi (Land)

A newly opened NSC located in a retail area as a part of the large-scale redevelopment project in front of JR Tsukaguchi Station



## Assets acquired in 4th fiscal period

SS

Specialty Store

### K's Denki Shin-Moriyama (Land)

Land on which an electronic retail store resides. Located in a high population growth area facing a trunk road with heavy car traffic with easy car access



NSC

Neighborhood Shopping Center

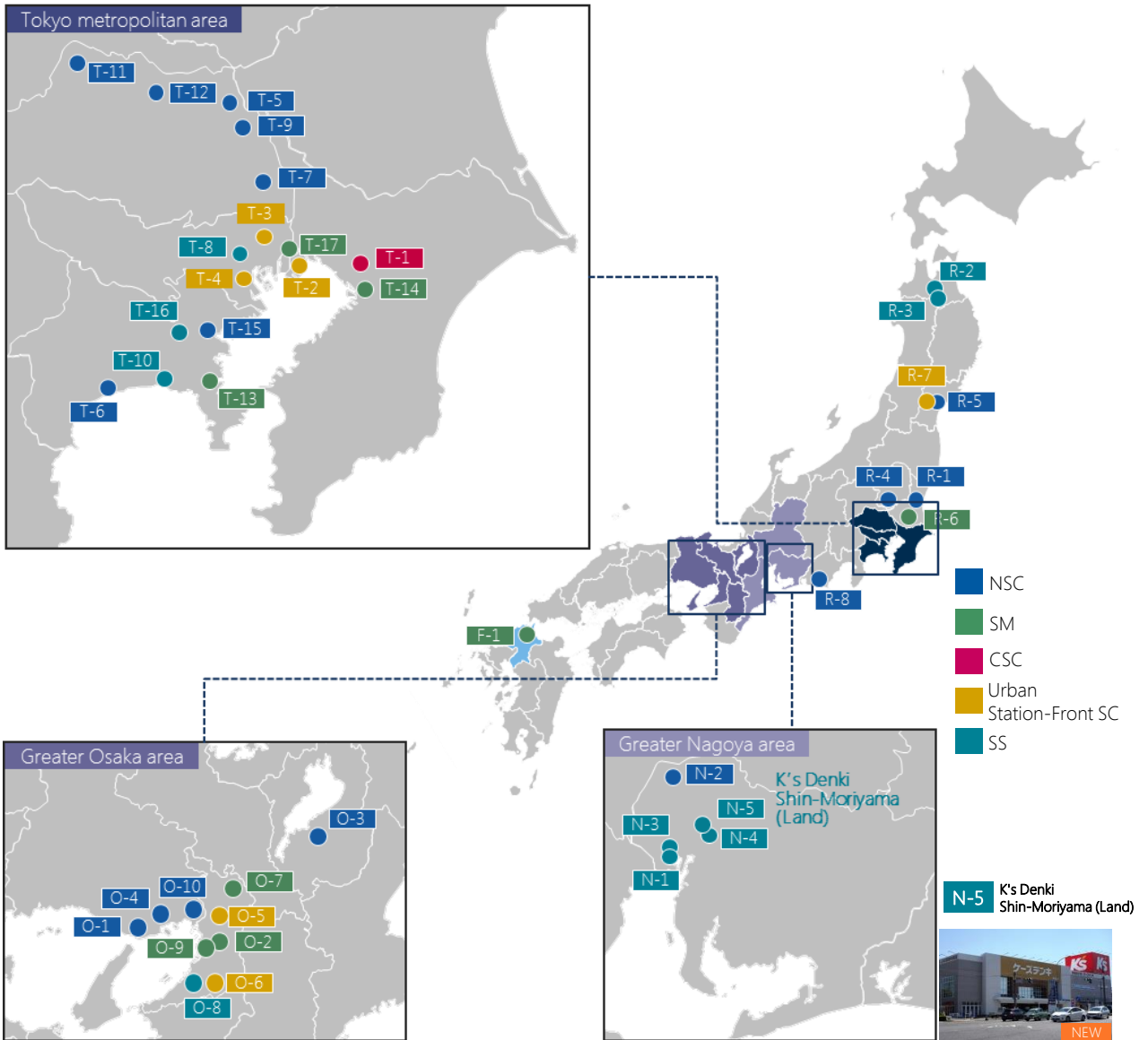
### Yumemachi Narashinodai Mall (bridge fund property)

A relatively new NSC located in a high-population-growth area with a highly competitive grocery supermarket as the core tenant

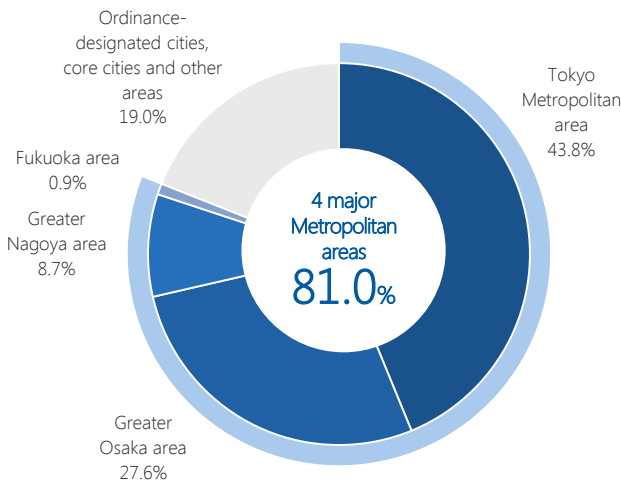




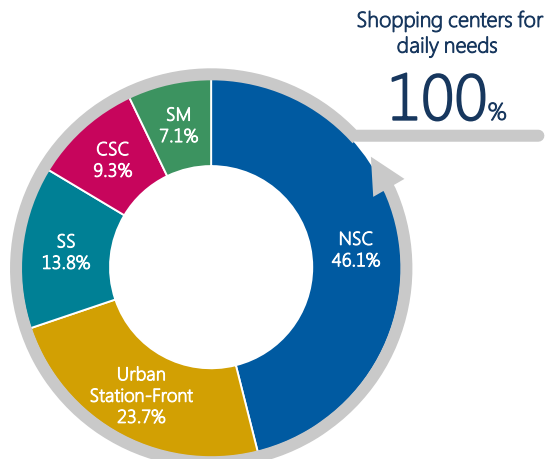
# Portfolio map as of November 1, 2016



Location (by acquisition price)



Types of retail property (by acquisition price)



**T-1** Fululu Garden Yachiyo



**T-2** MONA Shin-Urayasu



**T-3** Passaggio Nishiarai



**T-4** Daikanyama  
Address Dixsept



**T-5** Unicus Ina



**T-6** Yorktown  
Kita-Kaname



**T-7** Unicus Yoshikawa



**T-8** Sports Club  
Renaissance Fujimidai



**T-9** Super Viva Home  
Iwatsuki (Land)



**T-10** K's Denki  
Shonan-Fujisawa (Land)



**T-11** Unicus Kamisato (Land)



**T-12** Unicus Konosu (Land)



**T-13** Inageya Yokohama  
Minamihonjuku (Land)



**T-14** Gourmet City  
Chiba-Chuo



**T-15** Nakamachidai  
Tokyu Store



**T-16** Central Wellness Club  
Nagatsuta Minamidai



**T-17** Life Kameido



**O-1** Blumer Maitamon



**O-2** Central Square  
Takadono (Land)



**O-3** Piago Kahma Home  
Center Omihachiman



**O-4** Blumer HAT Kobe



**O-5** Carino Esaka



**O-6** COMBOX Komyoike



**O-7** Hankyu Oasis  
Hirakatageduchi



**O-8** Welcia  
Kishiwadakamori (Land)



**O-9** Life Nishi-Tengachaya



**O-10** Million Town  
Tsukaguchi (Land)



**N-1** Kahma Home Center  
Nakagawa Tomita (Land)



**N-2** Valor Ichinomiya-  
Nishi



**N-3** K's Denki Nakagawa  
Tomita (Land)



**N-4** Homecenter Kohnan  
Sunadabashi



**F-1** Sunny Noma



**R-1** Roseo Mito



**R-2** K's Denki Aomori Honten



**R-3** Super Sports Xebio  
Aomori-Chuo



**R-4** Ashico Town Ashikaga



**R-5** Yorktown  
Shinden-Higashi



**R-6** Kasumi  
Technopark Sakura



**R-7** Solala Plaza



**R-8** P-1 Plaza Tenno



## Portfolio List as of November 1, 2016

Total  
acquisition price

¥160,136<sub>mn</sub>

Weighted average  
occupancy rate

99.7%

Number of  
Tenants

406

No.	Name of property	Location (city / ward, prefecture)	Acquisition price (JPY mn)	Occupancy rate (%) <sup>(Note 1)</sup>	Number of tenants <sup>(Note 2)</sup>
T-1	Fululu Garden Yachiyo	Yachiyo, Chiba	14,848	99.6	49
T-2	MONA Shin-Urayasu	Urayasu, Chiba	8,063	95.6	71
T-3	Passaggio Nishiarai	Adachi ward, Tokyo	5,850	98.1	41
T-4	Daikanyama Address Dixsept	Shibuya ward, Tokyo	5,390	98.2	26
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	100.0	11
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
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-1	Blumer Maitamon	Kobe, Hyogo	8,389	99.1	49
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	99.1	41
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
O-10	Million Town Tsukaguchi (Land)	Amagasaki, Hyogo	3,723	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
N-4	Homecenter Kohnan Sunadabashi	Nagoya, Aichi	7,140	100.0	1
F-1	Sunny Noma	Fukuoka, Fukuoka	1,497	100.0	1
R-1	Roseo Mito	Mito, Ibaraki	10,046	99.7	22
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	26
R-5	Yorktown Shinden-Higashi	Sendai, Miyagi	3,252	100.0	2
R-6	Kasumi Technopark Sakura	Tsukuba, Ibaraki	830	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 by the end of 3rd period</b>			<b>158,766</b>	<b>99.7</b>	<b>405</b>
N-5	K's Denki Shin-Moriyama (Land)	Nagoya, Aichi	1,370	100.0	1
<b>Total of assets acquired in November, 2016</b>			<b>1,370</b>	<b>100.0</b>	<b>1</b>
<b>Total</b>			<b>160,136</b>	<b>99.7</b>	<b>406</b>

Note 1: "Occupancy rate" is as of September 30, 2016.

Note 2: "Number of tenants" indicates the number of end-tenants as of September 30, 2016.





## R-1 NSC Neighborhood Shopping Center

### NSC for Daily Needs of Local Communities, Adjacent to the Ibaraki Prefectural Government Office

Roseo Mito is a neighborhood shopping center (NSC) that was constructed as part of a land readjustment project adjacent to the Ibaraki Prefectural Government Office. This project took place in association with the March 1999 relocation of the prefectural government office to its current site. Roseo Mito opened in April 2009 as a shopping center providing amenity and convenience to nearby residents.

The population and number of households in the trade area served by Roseo Mito have both increased since its completion. There are many families with young children in the area, and people in their 30s and children under the age of 10 account for the largest age groups in the area. The average income of families in the trade area is above the national average. Roseo Mito consists of several buildings. At the main entrance to the shopping center on the south side along a major road is a Super Viva Home store, which is the largest home and garden store in the city of Mito and draws large numbers of customers. There is also a café with a drive-through window and a sushi restaurant that is popular among families. In the center of the shopping center, there are a grocery store operated by Maruto, which has many stores in Ibaraki Prefecture, a well-known sporting goods store in this region, a 100-yen shop, a specialty discount store and clothing stores. The stores sell merchandise for the daily needs of nearby residents. The NSC also has service providers, such as a well-equipped fitness club, a nursery school, a wedding hall that is highly popular with locals, an exam preparation school, a beauty parlor and a chiropractor, to meet the requirements of the local communities.

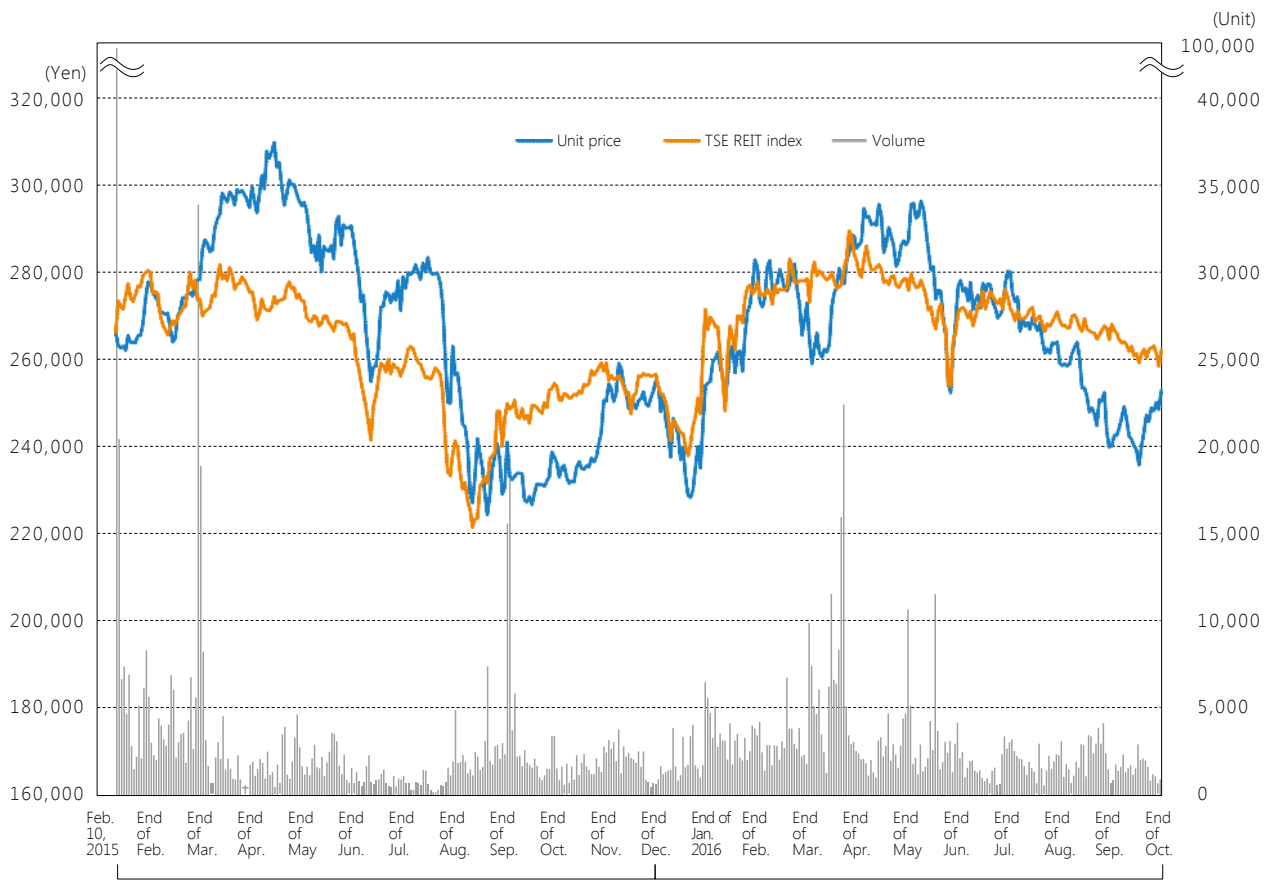
In addition, KRR expanded the NSC and constructed a new building within the shopping center in November 2015. The new building is leased to a company that operates a large number of chain stores in Ibaraki Prefecture offering secondhand goods. This property expansion represents one of KRR's strategies to achieve internal growth.

Roseo Mito is distinguished most of all by its close ties with the daily activities and needs of the local communities, which is an important feature of KRR. Every weekend, the shopping center hosts performances by local artists. The Roseo Festival takes place twice each year, where events include dancing by elementary school students who take lessons at the shopping center's fitness club and performances by individuals designated by the city as "Mito Promotional Performers", drawing large numbers of people. In recognition of these activities, Roseo Mito was awarded DBJ (Development Bank of Japan) Green Building Certification (three-star rank) in June 2016 as a property with excellent environment and social awareness. KRR will continue to put effort into making the facility more attractive by focusing on daily needs in order to make the NSC a frequent destination for local area customers.



Acquisition price	JPY 10,046 mn
Land area	73,940.62m <sup>2</sup>
Gross floor area	30,495.90m <sup>2</sup>
Core tenant	LIXIL Viva Corporation

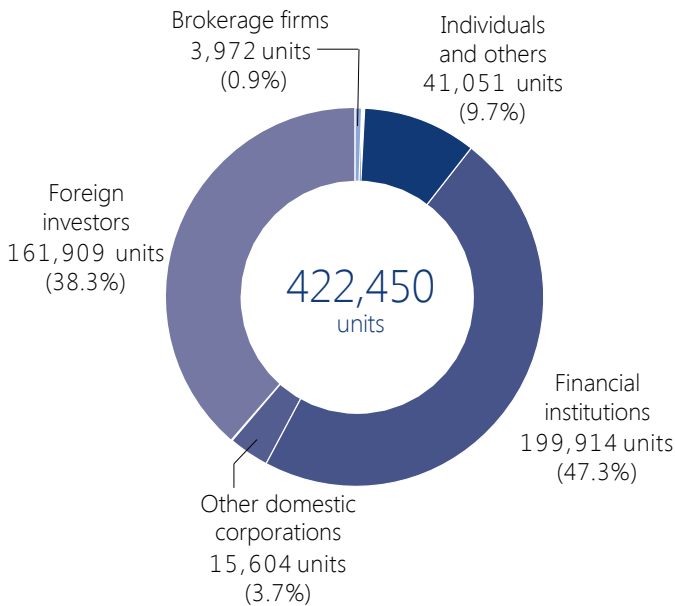
# Summary of investment unit



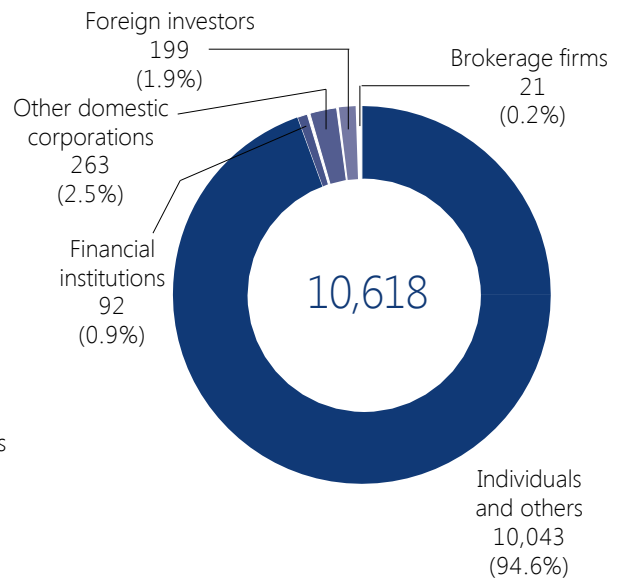
Note: TSE REIT Index adjusted to KRR's closing unit price of JPY 266,100 as of February 10, 2015.

As of September 30, 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 (From October 3, 2014 to September 30, 2015)	2nd period (From October 1, 2015 to March 31, 2016)	3rd period (From April 1, 2016 to September 30, 2016)
Operating revenues	Millions of Yen	5,103	5,541	6,374
Of which, Property-related revenues	Millions of Yen	5,103	5,541	6,374
Property-related expenses	Millions of Yen	2,639	2,715	3,400
Of which, Property-related expenses	Millions of Yen	2,246	2,235	2,860
Operating income	Millions of Yen	2,463	2,826	2,973
Ordinary income	Millions of Yen	1,939	2,428	2,519
Net income	Millions of Yen	1,933	2,427	2,518
Total assets	Millions of Yen	108,382	150,009	179,360
[Period-on-period changes]	%	(-)	(+38.4)	(+19.6)
Total net assets	Millions of Yen	59,790	80,034	96,739
[Period-on-period changes]	%	(-)	(+33.9)	(+20.9)
Unitholders' capital <sup>(Note 2)</sup>	Millions of Yen	57,857	77,606	94,256
Number of investment units issued and outstanding	Units	260,750	355,250	422,450
Net assets per unit	Yen	229,301	225,291	228,996
Distributions	Millions of Yen	1,933	2,432	2,523
Distributions per unit	Yen	7,414	6,846	5,974
Of which, Distributions of earnings	Yen	7,414	6,834	5,888
Of which, Distributions in excess of retained earnings	Yen	-	12	86
Ordinary Income to Total Assets <sup>(Note 3)</sup>		2.0	1.9	1.5
[Annualized] <sup>(Note 4)</sup>	%	(3.1)	(3.7)	(3.1)
Return on Net Assets <sup>(Note 5)</sup>	%	3.3	3.5	2.8
[Annualized] <sup>(Note 4)</sup>	%	(5.2)	(6.9)	(5.7)
Net Assets to Total Assets <sup>(Note 6)</sup>	%	55.2	53.4	53.9
[Period-on-period changes]	%	(-)	(-1.8)	(+0.6)
Operating days	Days	363	183	183
Payout Ratio <sup>(Note 7)</sup>	%	100.0	100.0	98.8
Number of properties		19	33	40
Leasable area	m <sup>2</sup>	306,225.83	609,026.59	674,491.03
Number of tenants <sup>(Note 8)</sup>		321	389	405
Occupancy ratio	%	99.6	99.6	99.7
Depreciation expense	Millions of Yen	560	565	714
Capital expenditures	Millions of Yen	133	530	264
Rental NOI (Net Operating Income) <sup>(Note 9)</sup>	Millions of Yen	3,417	3,871	4,228
FFO (Funds from Operation) <sup>(Note 10)</sup>	Millions of Yen	2,548	3,058	3,315
FFO per unit <sup>(Note 11)</sup>	Yen	9,772	8,609	7,847

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

Note 2: Distributions in excess of earnings for the allowance for temporary difference adjustments are not considered.

Note 3: Ordinary Income to Total Assets = Ordinary Income / {(Total assets at beginning of period + Total assets at end of period) / 2} × 100  
Total assets at beginning of period above is the total assets on February 10, 2015, when the actual operation began.

Note 4: For the 1st period, annualized as if the operation began from February 10, 2015, when the actual operation began.

Note 5: Return on Net Assets = Net income / {(Net assets at beginning of period + Net assets at end of period) / 2} × 100  
Net Assets at beginning of period above is the total assets on February 10, 2015, when the actual operation began.

Note 6: Net Assets to Total Assets = Net assets at end of period / Total assets at end of period × 100

Note 7: Payout Ratio = Total Distributions (excluding excess of earnings) / Net income × 100

When calculated as follows, the payout ratio is 100.2% for the fiscal period ended March 31, 2016 and 100.2% for the fiscal period ended September 30, 2016.

Payout Ratio = Total Distributions (including excess of earnings) / Net income × 100

Note 8: 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 9: Rental NOI = Property-related revenues - Property-related expenses + Depreciation expenses

Note 10: FFO = Net income + Depreciation + Amortization - Gain on sale of property + Loss on sale of property

Note 11: FFO per unit = FFO / Number of investment units issued and outstanding



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

### **(Overview of the Period ended September 30, 2016)**

#### **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 September 30, 2016 was 422,450 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 KRR’s 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 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 a moderate economic rebound in Japan with recoveries in employment and income environment. Real GDP growth (2nd preliminary estimate) in the second quarter of 2016 was positive 0.7% on an annualized basis, indicating positive figures for two consecutive quarters. However, uncertainty in economy remains due to economic slowdown in developing countries, appreciation of yen and movements regarding Brexit.

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 relatively well, although there were some effects of bad weather.

The financial environment remained unstable due to global market events such as economic slowdown in China and UK decision of Brexit, and appreciation of yen. In addition, although decline in interest rates following the introduction of negative interest rate policy by the Bank of Japan in January 2016 temporarily pushed the TSE REIT Index up, the market got weak as expectation of additional monetary easing receded with concerns over side effects of negative interest rate policy. On the other hand, 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 and started the operations of the following trust beneficiary interests in real estate (one property acquired on April 20, 2016 with acquisition price of 1,724 million yen, five properties acquired on April 21, 2016 with acquisition price of 21,393 million yen and one property acquired on April 22, 2016 with acquisition price 4,010 million yen). As a result, the portfolio at the end of the period under review (September 30, 2016) consists 40 properties with the total acquisition price of 158,766 million yen.

Property number	Property Type (Note 1)	Property name	Location (City or Ward, Prefecture)	Acquisition Price (million yen) (Note 2)	Acquisition Date
T-15	NSC	Nakamachidai Tokyu Store	Yokohama, Kanagawa	3,360	April 21, 2016
T-16	SS	Central Wellness Club Nagatsuta Minamidai	Yokohama, Kanagawa	1,724	April 20, 2016
T-17	SM	Life Kameido	Koto ward, Tokyo	1,450	April 21, 2016
O-10	NSC	Million Town Tsukaguchi (Land)	Amagasaki, Hyogo	3,723	April 21, 2016
N-4	SS	Homecenter Kohnan Sunadabashi	Nagoya, Aichi	7,140	April 21, 2016
R-7	Urban Station-Front SC	Solala Plaza	Sendai, Miyagi	5,720	April 21, 2016
R-8	NSC	P-1 Plaza Tenno	Hamamatsu, Shizuoka	4,010	April 22, 2016
Total				27,127	

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). KRR categorizes 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 core tenant 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).

## (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 (September 30, 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 KRR's 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<sup>(Note 1)</sup> for rental income. By using these measures, KRR aims 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 99.7%. Furthermore, the portfolio is diversified in terms of tenants as there are 405 end-tenants<sup>(Note 2)</sup> in KRR's retail properties.

Note 1: "Upside potential" represents feasibility of rental income growth.

Note 2: The number of end-tenants is the sum of the number of end-tenants in a pass-through-type master lease and the number of master leasees in a sub-lease-type master lease.

## (C) Financing

When financing to acquire properties, KRR seeks to achieve the proper balance between financial stability and 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 64,000 newly issued units offered in Japan and overseas on April 20, 2016, and raised 15,856 million yen to acquire properties. In addition, 3,200 units were issued through third-party allotment on May 18, 2016, raising 792 million yen that was used to prepay a portion of borrowing for acquisition of properties. Due to these activities, unitholders' capital increased to 94,256 million yen as of September 30, 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 69,300 million yen at the end of the fiscal period under review (September 30, 2016).

When undertaking borrowings, KRR seeks to mitigate refinancing risks, by spreading out repayment dates and lengthening borrowing periods. On the other hand, KRR partially borrowed short-term loans from the point of flexibility under the financing strategy, also controlling financing cost. KRR uses 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 (in thousands of yen)	Interest rate	Drawdown date	Repayment date (Note 1)	Repayment method	Remarks
6-A-1	SumitomoMitsui Banking Corporation	4,140,000	JBA 1-month JPY TIBOR + 0.45%	April 21, 2016	April 21, 2017	Full on maturity	Unsecured/ Unguaranteed
6-A-2	Mizuho Bank, Ltd.	360,000					
6-B-1	Mizuho Bank, Ltd.	710,000	0.36800% (Note 2)	April 21, 2016	September 30, 2019		
6-B-2	Sumitomo Mitsui Trust Bank, Ltd.	620,000					
6-C	Sumitomo Mitsui Trust Bank, Ltd.	450,000	0.80300% (Note 2)	April 21, 2016	September 30, 2024		
6-D	Development Bank of Japan Inc.	890,000	0.76031% (Note 3)	April 21, 2016	September 30, 2024		
6-E	Sumitomo Mitsui Banking Corporation	2,670,000	0.93200% (Note 2)	April 21, 2016	April 21, 2026		
6-F (Note 4)	Sumitomo Mitsui Banking Corporation	800,000	JBA 1-month JPY TIBOR + 0.45%	April 21, 2016	April 21, 2017		
7-A	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,070,000	JBA 1-month JPY TIBOR + 0.45%	April 22, 2016	April 21, 2017		
7-B	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	890,000	0.88800% (Note 2)	April 22, 2016	October 31, 2025		

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, KRR has 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 6-F, there was no balance as of September 30, 2016 as it was prepaid in full on May 31, 2016. 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.

As a result, the average remaining years to maturity is 4.6 years, the weighted average interest rate is 1.00%, the long-term debt ratio is 82.6% and the LTV ratio<sup>(Note)</sup>, is 42.5%.

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 September 30, 2016 is as follows.

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

**(Shelf Registration)**

KRR filed a shelf registration statement for investment corporation bonds (excluding short-term investment corporation bonds) on September 29, 2016. Details are as follows.

Planned Issue Amount	100,000,000,000 yen
Planned Issuance Period	October 7, 2016 to October 6, 2018
Use of Funds	Acquisition funds for specified assets (as defined in Article 2, Paragraph 1 of the Investment Trust Law), repayment funds for borrowings, repayment funds for investment corporation bonds (including short-term investment corporation bonds), refund funds for lease and guarantee deposits, funds to pay for repairs and maintenance, working capital, etc.

**iv) Results of Operations**

For this period, revenue was 6,374 million yen, operating income was 2,973 million yen, ordinary income was 2,519 million yen and net income was 2,518 million yen.

Furthermore, in accordance with the distribution policy in the KRR Articles of Incorporation, KRR made a distribution (excluding excess of earnings) of 2,487,385,600 yen which is almost equivalent to the earnings as defined in Article 136-1 of Act of Investment Trust and Investment Corporations for 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 5,888 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 36,330,700 yen allowance for temporary adjustment (as defined in Article 2-2-30 of the Ordinance on Accountings of Investment Corporations (Cabinet Office Ordinance No.47 of 2006, including subsequent amendments.)) 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 (a) of the Ordinance on Accountings of Investment Corporations) and the item deducted from net asset (as defined in Article 2-2-30 (b) of the Ordinance on Accountings of Investment Corporations) in association with deferred losses on hedges. This resulted in a distribution in excess of earnings per unit of 86 yen.

Consequently, the distribution per unit for the fiscal period, including this excess distribution, was 5,974 yen (of which the distribution in excess of earnings per unit was 86 yen).

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

Changes 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)
April 20, 2016	Public offering	64,000	419,250	15,856	93,463	(Note 6)
May 18, 2016	Capital increase through third-party allocation	3,200	422,450	792	94,256	(Note 7)

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.

Note 6: Issued at issue price of 256,717 yen per unit (issue amount of 247,764 yen per unit) for acquisition of new properties.

Note 7: Issued at issue amount of 247,764 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 For the fiscal period ended	1st period September 30, 2015	2nd period March 31, 2016	3rd period September 30, 2016
Highest	JPY 309,500	JPY 282,700	JPY 296,100
Lowest	JPY 224,500	JPY 226,800	JPY 240,000

#### (4) Distributions

The distribution of earnings for the third period is 5,888 yen per unit. In order to maintain KRR's favorable tax treatment, which is available to J-REITs under Article 67-15 of the Special Taxation Measures Act, KRR intends to distribute most of KRR's 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 and the item deducted from net asset in association with deferred losses on hedges. This resulted in a distribution in excess of earnings per unit of 86 yen.

Consequently, the distribution per unit for the fiscal period, including the excess distribution, was 5,974 yen (of which the distribution in excess of earnings per unit was 86 yen).

(in thousands of yen)

Fiscal period For the fiscal period ended	1st period September 30, 2015	2nd period March 31, 2016	3rd period September 30, 2016
Unappropriated retained earnings	1,933,270	2,427,985	2,518,802
Retained earnings carried forward	70	206	31,417
Total distributions	1,933,200	2,432,041	2,523,716
[Distributions per unit]	[7,414 yen]	[6,846 yen]	[5,974 yen]
Of which, distributions of earnings	1,933,200	2,427,778	2,487,385
Distributions of earnings per units	[7,414 yen]	[6,834 yen]	[5,888 yen]
Of which, distributions in excess of retained earnings	—	4,263	36,330
Distributions in excess of retained earnings per units	[—]	[12 yen]	[86 yen]
Total distributions in excess of earnings for the allowance for temporary adjustment	—	4,263	36,330
[Distributions per unit]	[—]	[12 yen]	[86 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, attention should be paid to uncertainties about the overseas economy and politics regarding the economic slowdown in China, movements regarding Brexit, the direction of U.S. financial policies, the inauguration of the new U.S. President, etc. Attention also needs to be paid to changes in domestic economic environment, such as appreciation of yen and effects of “Quantitative and Qualitative Monetary Easing with Yield Curve Control” including 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 KRR anticipates that this trend to continue.

In the real estate trading market, KRR anticipates the high level of transaction volume to continue because of the strong appetite of J-REITs and other investors to acquire properties. The Bank of Japan’s 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 changes in banks’ lending attitude towards real estate sector, as amount of banks’ outstanding loans towards real estate sector reached new highs.

From a medium to long-term perspective, to generate a steady stream of rental revenue, consistently increase KRR’s 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**

KRR receives a variety of support from many sources in order to achieve steady growth of KRR’s assets and increase the value of KRR’s assets. One source is the Kenedix Group, including Kenedix, Inc., the parent company of KFM <sup>(Note 1)</sup>. KRR also receives support from KRR’s Alliance Companies: Sumitomo Mitsui Finance and Leasing Co., Ltd., Nippon Commercial Development Co., Ltd., P&D Consulting Co., Ltd., and ITOCHU Corporation <sup>(Note 2)</sup>. KRR is 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, KRR makes 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, KRR invests in retail properties with a competitive edge, and good prospects for consistent rental revenue and growth in asset value. KRR also invests in land ownership interests underlying retail properties. Regarding land-only properties, KRR makes 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 KRR’s portfolio. KRR may also consider making an equity investment in a tokumei kumiai (silent partnership) for the acquisition of preferential negotiation rights and opportunities for additional revenues, provided that KRR is given an opportunity to acquire them in the future.

Regarding disposition of a portfolio property, KRR makes 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 1: The Kenedix Group consists of Kenedix, Inc. and its subsidiaries and affiliates.

Note 2: KRR newly entered into an alliance agreement with ITOCHU Corporation on August 10, 2016.

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

KRR is committed to building a portfolio that can pursue both stability and growth. KRR believes 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 KRR’s properties are located, enabling KRR 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 KRR’s 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 KRR’s in-house property management services

KFM provides property management services for all of KRR’s properties 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, KRR uses direct contact with tenant companies at KRR’s properties in order to strengthen tenant relationships and make properties more profitable. To this end, KRR maintains periodic communication with tenants and



perform questionnaire surveys to customers for monitoring of market conditions, so that KRR 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 KRR has discovered points that require attention, KRR takes 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

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

##### ii. Optimize tenant mix

KRR 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

KRR will use the extensive knowledge involving retail properties of the Kenedix Group and KRR's Alliance Companies to utilize the underutilized space <sup>(Note)</sup> at properties and expand properties. These measures will take into account the competitive position of each property, the effect on KRR's financial position and other factors. By increasing space that can be leased, KRR aims 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 (Act No.201 of 1950, including subsequent amendments.) and applied to each retail property in accordance with the Building Standards Act, City Planning Act (Act No.100 of 1968, including subsequent amendments.) 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 KRR's retail properties, KRR seek tenants that provide services, hold community involved events and use other measures to help enliven the local communities where KRR's properties are located. KRR believe these activities will contribute to the medium to long-term growth in the asset value of these properties.

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

KRR 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. KRR's goal is to select financing methods that result in the optimum balance between financial stability and the financing cost.

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

KRR's 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 possible. KRR uses TDnet (Timely Disclosure network) and press releases to meet the timely-disclosure requirements of the Tokyo Stock Exchange. In addition, KRR proactively posts information on KRR's 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**

Not applicable

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

KRR acquired an asset (acquisition price of 1,370 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
N-5	SS	K's Denki Shin-Moriyama (Land)	Nagoya, Aichi	Nippon Commercial Development Co., Ltd.	1,370	1,410	November 1, 2016
Total			-	-	1,370	1,410	-

KRR also acquired a silent partnership equity interest (Acquisition price: 100,000 thousand yen) of JRP8 G.K., which acquired trust beneficiary interest of Yumemachi Narashinodai Mall, to secure flexible growth opportunities in the future as well as opportunities for additional revenues on October 31, 2016. Kenedix, Inc. acquired the rest of the silent partnership equity interest of JRP8 G.K. Consequently, JRP8 G.K. is deemed a related party under the Investment Trust Law.

**(B) Asset under Construction**

A new building with approximately 397.98 m<sup>2</sup> gross floor area <sup>(Note 1)</sup> (hereinafter the “restaurant building”) is being constructed on the underutilized site of Unicus Ina, a property owned by KRR. KRR expects the total construction cost for the restaurant building <sup>(Note 2)</sup> to be approximately 90 million yen and plans to complete the construction by mid-January 2017.

Note 1: “Gross floor area” indicates the gross floor area written on verification notice of building construction on August 29, 2016.

Note 2: “Total construction cost” indicates the estimate cost of the construction cost (excluding consumption taxes) as of September 30, 2016, provided the construction contract and the design and supervision consignment contract etc. that have signed. The total construction cost may change due to the change of the construction plan, etc.

### (C) Financing

KRR borrowed funds on October 3, 2016 for the repayment of the borrowings that the repayment date came.

Series	Lender	Amount (in thousands of yen)	Interest rate	Drawdown date	Repayment date (Note 1)	Repayment method	Remarks
8 (Note 2)	Sumitomo Mitsui Banking Corporation	4,500,000	JBA 1-month JPY TIBOR + 0.45%	October 3, 2016	October 3, 2017	Full on maturity	Unsecured / 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: The balance as of October 31, 2016 was 3,900,000 thousand yen as 600,000 thousand yen was prepaid on October 31, 2016. The repayment was made using part of funds raised by investment corporation bonds with a payment date of October 31, 2016.

### (D) Issuance of Investment Corporation Bonds

KRR decided to issue investment corporation bonds adopted at the board of directors' meeting held on September 29, 2016 and the payment was completed on October 31, 2016. The details are provided as follows.

Name of investment corporation bonds	Kenedix Retail REIT Corporation 1st Series Unsecured Investment Corporation Bonds (Ranking <i>pari passu</i> among the specified investment corporation bonds) (The aforementioned investment corporation bonds shall hereafter be referred to as the "1st Series Bonds.")  Kenedix Retail REIT Corporation 2nd Series Unsecured Investment Corporation Bonds (Ranking <i>pari passu</i> among the specified investment corporation bonds) (The aforementioned investment corporation bonds shall hereafter be referred to as the "2nd Series Bonds.")  Hereafter, in the "(D) Issuance of Investment Corporation Bonds", the 1st Series Bonds and the 2nd Series Bonds will collectively be referred to as the "Investment Corporation Bonds." There will be no particular mention as to which bond, if the item is common to both the 1st Series Bonds and the 2nd Series Bonds.
Total amount of the bonds	Total amount: 2.0 billion yen Breakdown: 1st Series Bonds: 1.0 billion yen 2nd Series Bonds: 1.0 billion yen
Interest rate	1st Series Bonds: 0.200% per annum 2nd Series Bonds: 0.600% per annum
Payment date	October 31, 2016
Collateral / Guarantee	No collateral or guarantee is applicable, and no assets are specifically reserved as collateral for the Investment Corporation Bonds.
Redemption method and maturity	1st Series Bonds: Friday, October 29, 2021 2nd Series Bonds: Friday, October 30, 2026 The Investment Corporation Bonds may be purchased and cancelled at any time after the payment date, except for the case of service regulations and other rules that the statutory or depository otherwise stipulates. If the maturity date of the Investment Corporation Bonds falls on the bank holiday, the payment will be brought forward to the previous bank business day.
Ratings	A (Japan Credit Rating Agency, Ltd.)
Fiscal agent, issuing agent and paying agent	Sumitomo Mitsui Trust Bank, Ltd.
Use of funds	Total amount raised (approximate net balance) was 1,980 million yen. 1,380 million yen was used for the acquisition of K's Denki Shin-Moriyama (Land) on November 1, 2016 and certain related costs pertaining to the acquisition, and 600 million yen was used for partial prepayment of borrowings with drawdown date of October 3, 2016.



## Profile of KRR

### (1) Status of Unitholders' Capital

Fiscal period	1st period (From October 3, 2014 to September 30, 2015)	2nd period (From October 1, 2015 to March 31, 2016)	3rd period (From April 1, 2016 to September 30, 2016)
Total number of authorized investment units	5,000,000 units	5,000,000 units	5,000,000 units
Total number of investment units issued and outstanding	260,750 units	355,250 units	422,450 units
Unitholders' capital	57,857 million yen	77,606 million yen	94,256 million yen
Number of unitholders	8,954	10,876	10,618

### (2) Matters Concerning Investment Units

The following is a list of major unitholders as of September 30, 2016.

Name	Location	Number of units held (Units)	Ratio to total number of units issued and outstanding (%) (Note)
JAPAN TRUSTEE SERVICES BANK, LTD. (Trust Acct.)	1-8-11, Harumi, Chuo-ku, Tokyo	80,441	19.04
THE MASTER TRUST BANK OF JAPAN, LTD. (Trust Acct.)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	34,820	8.24
TRUST & CUSTODY SERVICE BANK, LTD. (Securities Investment Trust Acct.)	Office Tower Z, Harumi Island Triton Square, 1-8-12 Harumi, Chuo-ku, Tokyo	29,456	6.97
JP MORGAN CHASE BANK 385628	Shinagawa Intercity Tower A 2-15-1, Kohnan, Minato-ku, Tokyo Standing proxy: Mizuho Bank, Ltd.	16,318	3.86
THE NOMURA TRUST AND BANKING CO., LTD. (Investment Trust Acct.)	2-2-2, Otemachi, Chiyoda-ku, Tokyo	16,036	3.79
THE BANK OF NEW YORK MELLON SA/NV 10	2-7-1 Marunouchi, Chiyoda-ku, Tokyo Standing proxy: The Bank of Tokyo Mitsubishi UFJ, Ltd.	12,501	2.95
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	2-7-1 Marunouchi, Chiyoda-ku, Tokyo Standing proxy: The Bank of Tokyo Mitsubishi UFJ, Ltd.	12,150	2.87
STATE STREET BANK AND TRUST COMPANY	3-11-1, Nihonbashi, Chuo-ku, Tokyo Standing proxy: The Hong Kong and Shanghai Banking Corporation Ltd.	7,029	1.66
SIX SIS LTD.	2-7-1 Marunouchi, Chiyoda-ku, Tokyo Standing proxy: The Bank of Tokyo Mitsubishi UFJ, Ltd.	6,453	1.52
STATE STREET BANK AND TRUST COMPANY 505223	Shinagawa Intercity Tower A 2-15-1, Kohnan, Minato-ku, Tokyo Standing proxy: Mizuho Bank, Ltd.	5,798	1.37
Total		221,002	52.31

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 September 30, 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 (Note 1)	Yoshiyuki Wada	Representative partner, Grant Thornton Taiyo LLC Auditor, Zero Co., Ltd. Outside director, Forval Telecom, Inc. Director, Waseda Senior High School Director, Career Design Center Co.,Ltd. Director, LIXIL VIVA CORPORATION	750
	Mai Ishiwatari	Partner, Shiroyama-Tower Law Office Executive director, Cocone Corporation	1,500
	Yoshitoshi Yasu	Yoshitoshi Yasu Certified Public Accountant / Tax Accountant Office Auditor of YOKU MOKU Holdings Co., Ltd. Auditor of YOKU MOKU Co., Ltd. Auditor of YOKU MOKU Crea Co., Ltd. Auditor of Fujiricoh Trading Co., Ltd. Auditor of CLOVER Inc. Auditor of Kabou-isshin Co., Ltd. Outside Auditor of Looop Inc.	750
Independent Auditor (Note 2)	Ernst & Young ShinNihon LLC	—	26,300

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. Yoshiyuki Wada resigned as supervisory director on June 30, 2016 and Yoshitoshi Yasu was appointed as new supervisory director on July 1, 2016. Other concurrent titles of Yoshiyuki Wada are as of June 30, 2016.

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 September 30, 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 (Note 1)	Second fiscal period as of March 31, 2016		Third fiscal period as of September 30, 2016	
			Total amount held (Millions of yen) (Note 2)	Ratio (%) (Note 3)	Total amount held (Millions of yen) (Note 2)	Ratio (%) (Note 3)
Trust beneficiary interest in real estate	Neighborhood, community and other shopping centers for daily needs	Tokyo metropolitan area	64,434	43.0	71,159	39.7
		Greater Osaka area	41,499	27.7	45,117	25.2
		Greater Nagoya area	5,444	3.6	12,636	7.0
		Fukuoka area	1,513	1.0	1,499	0.8
		Ordinance-designated cities, core cities and other areas	21,125	14.1	30,995	17.3
	Other retail properties	—	—	—	—	
Total of trust beneficiary interests in real estate			134,016	89.3	161,408	90.0
Bank deposits and other assets			15,992	10.7	17,951	10.0
Total assets			150,009	100.0	179,360	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 KRR believes will have suitable customer traffic from surrounding areas.

Note 2: "Total Amount Held" is the amount allocated in the balance sheets as of September 30, 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 September 30, 2016.

Property number	Property name	Book value (in millions)	Leasable area (m <sup>2</sup> ) (Note 1)	Leased area (m <sup>2</sup> ) (Note 2)	Occupancy rate (%) (Note 3)	Ratio to total rental revenue (%) (Note 4)	Primary use
T-1	Fululu Garden Yachiyo	14,984	77,057.56	76,751.87	99.6	11.6	Retail
O-4	Blumer HAT Kobe	11,538	24,185.02	23,968.51	99.1	7.7	Retail
R-1	Roseo Mito	10,079	48,296.15	48,161.79	99.7	5.9	Retail
O-1	Blumer Maitamon	8,465	30,037.11	29,757.73	99.1	8.0	Retail
T-2	MONA Shin-Urayasu	8,373	9,568.31	9,145.66	95.6	7.8	Retail
N-4	Homecenter Kohnan Sunadabashi	7,206	20,329.07	20,329.07	100.0	— (Note 5)	Retail
O-5	Carino Esaka	6,587	7,540.58	7,474.92	99.1	4.6	Retail
O-6	COMBOX Komyoike	6,469	25,530.44	25,530.44	100.0	3.5	Retail
T-3	Passaggio Nishiarai	5,915	10,546.25	10,342.77	98.1	5.1	Retail
R-7	Solala Plaza	5,761	— (Note 5)	— (Note 5)	100.0	— (Note 5)	Retail
Total		85,382	— (Note 5)	— (Note 5)	99.4	— (Note 5)	

Note 1: "Leasable area" is equivalent to gross floor area of space that KRR considers 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 September 30, 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 September 30, 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: "Occupancy rate" is calculated by dividing leased area by leasable area as of September 30, 2016, rounded to the nearest tenth.

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

Note 5: KRR has 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 September 30, 2016.

Area (Note 1)	Property number	Property type (Note 2)	Property name	Location (City or Ward, Prefecture) (Note 3)	Ownership form	Book value (in millions)	Evaluation value (in millions) (Note 4)
T	T-1	CSC	Fululu Garden Yachiyo	Yachiyo, Chiba	Trust beneficiary interest in real estate	14,984	15,200
	T-2	Urban Station-Front SC	MONA Shin-Urayasu	Urayasu, Chiba	Trust beneficiary interest in real estate	8,373	8,560
	T-3	Urban Station-Front SC	Passaggio Nishiarai	Adachi ward, Tokyo	Trust beneficiary interest in real estate	5,915	6,370
	T-4	Urban Station-Front SC	Daikanyama Address Dixsept	Shibuya ward, Tokyo	Trust beneficiary interest in real estate	5,431	5,740
	T-5	NSC	Unicus Ina	Kitaadachi-gun, Saitama	Trust beneficiary interest in real estate	4,394	4,510
	T-6	NSC	Yorktown Kita-Kaname	Hiratsuka, Kanagawa	Trust beneficiary interest in real estate	3,998	4,300
	T-7	NSC	Unicus Yoshikawa	Yoshikawa, Saitama	Trust beneficiary interest in real estate	3,637	3,800
	T-8	SS	Sports Club Renaissance Fujimidai	Nerima ward, Tokyo	Trust beneficiary interest in real estate	2,576	2,720
	T-9	NSC	Super Viva Home Iwatsuki (Land)	Saitama, Saitama	Trust beneficiary interest in real estate	4,890	5,280
	T-10	SS	K's Denki Shonan-Fujisawa (Land)	Fujisawa, Kanagawa	Trust beneficiary interest in real estate	3,210	3,440
	T-11	NSC	Unicus Kamisato (Land)	Kodama-gun, Saitama	Trust beneficiary interest in real estate	3,043	3,010
	T-12	NSC	Unicus Konosu (Land)	Konosu, Saitama	Trust beneficiary interest in real estate	1,726	1,740
	T-13	SM	Inageya Yokohama Minamihonjuku (Land)	Yokohama, Kanagawa	Trust beneficiary interest in real estate	1,462	1,460
	T-14	SM	Gourmet City Chiba-Chuo	Chiba, Chiba	Trust beneficiary interest in real estate	779	799
	T-15	NSC	Nakamachidai Tokyu Store	Yokohama, Kanagawa	Trust beneficiary interest in real estate	3,493	3,780
	T-16	SS	Central Wellness Club Nagatsuta Minamidai	Yokohama, Kanagawa	Trust beneficiary interest in real estate	1,802	1,900
	T-17	SM	Life Kameido	Koto ward, Tokyo	Trust beneficiary interest in real estate	1,473	1,500
O	O-1	NSC	Blumer Maitamon	Kobe, Hyogo	Trust beneficiary interest in real estate	8,465	8,990
	O-2	SM	Central Square Takadono (Land)	Osaka, Osaka	Trust beneficiary interest in real estate	2,727	2,930
	O-3	NSC	Piago Kahma Home Center Omihachiman	Omihachiman, Shiga	Trust beneficiary interest in real estate	2,157	2,440
	O-4	NSC	Blumer HAT Kobe	Kobe, Hyogo	Trust beneficiary interest in real estate	11,538	11,600
	O-5	Urban Station-Front SC	Carino Esaka	Suita, Osaka	Trust beneficiary interest in real estate	6,587	6,590
	O-6	Urban Station-Front SC	COMBOX Komyoike	Izumi, Osaka	Trust beneficiary interest in real estate	6,469	6,940
	O-7	SM	Hankyu Oasis Hirakatadeguchi	Hirakata, Osaka	Trust beneficiary interest in real estate	1,327	1,310
	O-8	SS	Welcia Kishiwadakamori (Land)	Kishiwada, Osaka	Trust beneficiary interest in real estate	497	500
	O-9	SM	Life Nishi-Tengachaya	Osaka, Osaka	Trust beneficiary interest in real estate	1,572	1,650
	O-10	NSC	Million Town Tsukaguchi (Land)	Amagasaki, Hyogo	Trust beneficiary interest in real estate	3,772	3,810

Area (Note 1)	Property number	Property type (Note 2)	Property name	Location (City or Ward, Prefecture) (Note 3)	Ownership form	Book value (in millions)	Evaluation value (in millions) (Note 4)
N	N-1	SS	Kahma Home Center Nakagawa Tomita (Land)	Nagoya, Aichi	Trust beneficiary interest in real estate	2,351	2,540
	N-2	NSC	Valor Ichinomiya-Nishi	Ichinomiya, Aichi	Trust beneficiary interest in real estate	2,170	2,280
	N-3	SS	K's Denki Nakagawa Tomita (Land)	Nagoya, Aichi	Trust beneficiary interest in real estate	907	960
	N-4	SS	Homecenter Kohnan Sunadabashi	Nagoya, Aichi	Trust beneficiary interest in real estate	7,206	7,220
F	F-1	SM	Sunny Noma	Fukuoka, Fukuoka	Trust beneficiary interest in real estate	1,499	1,520
R	R-1	NSC	Roseo Mito	Mito, Ibaraki	Trust beneficiary interest in real estate	10,079	10,900
	R-2	SS	K's Denki Aomori Honten	Aomori, Aomori	Trust beneficiary interest in real estate	1,486	1,550
	R-3	SS	Super Sports Xebio Aomori-Chuo	Aomori, Aomori	Trust beneficiary interest in real estate	903	924
	R-4	NSC	Ashico Town Ashikaga	Ashikaga, Tochigi	Trust beneficiary interest in real estate	4,370	5,060
	R-5	NSC	Yorktown Shinden-Higashi	Sendai, Miyagi	Trust beneficiary interest in real estate	3,342	3,310
	R-6	SM	Kasumi Technopark Sakura	Tsukuba, Ibaraki	Trust beneficiary interest in real estate	856	861
	R-7	Urban Station-Front SC	Solala Plaza	Sendai, Miyagi	Trust beneficiary interest in real estate	5,761	5,910
	R-8	NSC	P-1 Plaza Tenno	Hamamatsu, Shizuoka	Trust beneficiary interest in real estate	4,193	4,260
Total						161,443	168,164

Note 1: "T" "O" "N" "F" and "R" hereinafter 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 hereinafter 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: "Location" indicates the residential address. For those without a residential address, the building or land address on the registry (one of the addresses for those that have multiple addresses) is shown.

Note 4: "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	Second fiscal period as of March 31, 2016				Third fiscal period as of September 30, 2016			
				Number of tenants (Note 1)	Occupancy rate (%)	Rental revenue (millions) (Note 2)	Ratio to total rental revenue (%)	Number of tenants (Note 1)	Occupancy rate (%)	Rental revenue (millions) (Note 2)	Ratio to total rental revenue (%)
T	T-1	CSC	Fululu Garden Yachiyo	48	99.4	741	13.4	49	99.6	736	11.6
	T-2	Urban Station-Front SC	MONA Shin-Urayasu	1(72)	96.1	503	9.1	1(71)	95.6	497	7.8
	T-3	Urban Station-Front SC	Passaggio Nishiarai	1(40)	98.3	309	5.6	1(41)	98.1	326	5.1
	T-4	Urban Station-Front SC	Daikanyama Address Dixsept	1(27)	98.7	263	4.8	1(26)	98.2	268	4.2
	T-5	NSC	Unicus Ina	1	100.0	132	2.4	1	100.0	131	2.1
	T-6	NSC	Yorktown Kita-Kaname	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	T-7	NSC	Unicus Yoshikawa	1(10)	99.2	138	2.5	1(11)	100.0	130	2.0
	T-8	SS	Sports Club Renaissance Fujimidai	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	T-9	NSC	Super Viva Home Iwatsuki (Land)	1	100.0			1	100.0		
	T-10	SS	K's Denki Shonan-Fujisawa (Land)	1	100.0			1	100.0		
	T-11	NSC	Unicus Kamisato (Land)	1	100.0	72	1.3	1	100.0	72	1.1
	T-12	NSC	Unicus Konosu (Land)	1	100.0	41	0.7	1	100.0	41	0.7
	T-13	SM	Inageya Yokohama Minamihonjuku (Land)	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	T-14	SM	Gourmet City Chiba-Chuo	1	100.0			1	100.0		
	T-15	NSC	Nakamachidai Tokyu Store	—	—	—	—	1	100.0	—	—
	T-16	SS	Central Wellness Club Nagatsuta Minamidai	—	—	—	—	2	100.0	53	0.8
	T-17	SM	Life Kameido	—	—	—	—	1	100.0	— (Note 3)	— (Note 3)
O	O-1	NSC	Blumer Maitamon	48	99.5	487	8.8	49	99.1	510	8.0
	O-2	SM	Central Square Takadono (Land)	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	O-3	NSC	Piagio Kahma Home Center Omihachiman	2	100.0			2	100.0		
	O-4	NSC	Blumer HAT Kobe	1(40)	98.7	491	8.9	1(41)	99.1	491	7.7
	O-5	Urban Station-Front SC	Carino Esaka	1(30)	99.1	302	5.5	1(30)	99.1	295	4.6
	O-6	Urban Station-Front SC	COMBOX Komyoike	1	100.0	225	4.1	1	100.0	226	3.5
	O-7	SM	Hankyu Oasis Hirakatadeguchi	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	O-8	SS	Welcia Kishiwadakamori (Land)	1	100.0			1	100.0		
	O-9	SM	Life Nishi-Tengachaya	1	100.0	17	0.3	1	100.0	44	0.7
	O-10	NSC	Million Town Tsukaguchi (Land)	—	—	—	—	1	100.0	— (Note 3)	— (Note 3)
N	N-1	SS	Kahma Home Center Nakagawa Tomita (Land)	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (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		

Area	Property number	Property type	Property name	Second fiscal period as of March 31, 2016				Third fiscal period as of September 30, 2016			
				Number of tenants (Note 1)	Occupancy rate (%)	Rental revenue (millions) (Note 2)	Ratio to total rental revenue (%)	Number of tenants (Note 1)	Occupancy rate (%)	Rental revenue (millions) (Note 2)	Ratio to total rental revenue (%)
N	N-4	SS	Homecenter Kohnan Sunadabashi	—	—	—	—	1	100.0	— (Note 3)	— (Note 3)
F	F-1	SM	Sunny Noma	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
R	R-1	NSC	Roseo Mito	1(23)	100.0	371	6.7	1(22)	99.7	378	5.9
	R-2	SS	K's Denki Aomori Honten	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (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	1(26)	99.1	278	4.4
	R-5	NSC	Yorktown Shinden-Higashi	2	100.0	— (Note 3)	— (Note 3)	2	100.0	— (Note 3)	— (Note 3)
	R-6	SM	Kasumi Technopark Sakura	1	100.0			1	100.0		
	R-7	Urban Station-Front SC	Solala Plaza	—	—	—	—	1	100.0	—	—
	R-8	NSC	P-1 Plaza Tenno	—	—	—	—	7	100.0	127	2.0
Total				389	99.6	5,541	100.0	405	99.7	6,374	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 September 30, 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: KRR has not obtained consent from the tenant(s) to release this information.

#### (4) Specified Transaction

As of September 30, 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) (Note 1)		Fair value (million yen) (Note 2) (Note 3)
			Due after one year (Note 1)	
OTC	Interest rate swaps: Receive floating / pay fix	50,240	50,240	(31)
Total	—	50,240	50,240	(31)

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.

Note 3: Based on the amount provided by counterparty financial institutions.

#### (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<sup>(Note)</sup> for renovations, repairs and other projects that are planned for the fourth fiscal period ending March 31, 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-6	Yorktown Kita-Kaname	Hiratsuka, Kanagawa	Roof waterproof	From October 2016 to March 2017	67	—	—
O-5	Carino Esaka	Suita, Osaka	Elevator and escalator renewal	From October 2016 to March 2017	59	—	—
T-2	MONA Shin-Urayasu	Urayasu, Chiba	PMAC replacement	From October 2016 to March 2017	51	—	—
T-5	Unicus Ina	Kitaadachi-gun, Saitama	Exterior wall painting	From October 2016 to March 2017	46	—	—
O-1	Blumer Maitamon	Kobe, Hyogo	LED installation to common area	From October 2016 to March 2017	41	—	—

Note: The construction of a new restaurant building in Unicus Ina is not including in the above list because it involves an acquisition of a new building. Please see Overview of Asset Management, (Reference Material), (B) Asset under construction for details.

### (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 264 million yen. There were also expenditures of 150 million yen that were recorded as repair expenses. In total KRR spent 415 million yen on the projects.

Property number	Property name	Location	Purpose	Schedule	Capital expenditure (Millions of yen)
T-2	MONA Shin-Urayasu	Urayasu, Chiba	Replacement of water generator and rooftop piping	From January 2016 to May 2016	89
T-2	MONA Shin-Urayasu	Urayasu, Chiba	Repairment of shutter	From June 2016 to August 2016	20
O-1	Blumer Maitamon	Kobe, Hyogo	Common area refurbishment	From April 2016 to April 2016	20
T-2	MONA Shin-Urayasu	Urayasu, Chiba	Repairment of cooling tower	From March 2016 to June 2016	19
R-1	Roseo Mito	Mito, Ibaraki	Singboard and exterior wall painting	From July 2016 to September 2016	13
Other					101
Total					264

### (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)	
	2nd period (From October 1, 2015 to March 31, 2016)	3rd period (From April 1, 2016 to September 30, 2016)
Asset management fees <sup>(Note)</sup>	405,144	438,769
Asset custody fees	4,658	6,375
Administrative service fees	16,454	21,792
Directors' compensation	4,500	4,500
Other operating expenses	48,444	69,052
Total	479,202	540,489

Note: The amount of asset management fees capitalized in addition to the amount above are 394,250 thousand yen for the 2nd period and 271,270 thousand yen for the 3rd period.

## (2) Status of Borrowings

Borrowings on a financial institution basis as of September 30, 2016 are as follows.

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 (Note 2) (Note 3) (%)	Payment due date (Note 4)	Use	Remarks
Short-Term Loans Payable	Sumitomo Mitsui Banking Corporation	2,050,000	-	-	2,050,000	0.539	October 2, 2016	(Note 5)	Unsecured/ Non-guaranteed
	Sumitomo Mitsui Banking Corporation	2,450,000	-	-	2,450,000	0.539	October 2, 2016		
	Sumitomo Mitsui Banking Corporation	450,000	-	-	450,000	0.489	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				
	Sumitomo Mitsui Banking Corporation	-	4,140,000	-	4,140,000	0.484	April 21, 2017		
	Mizuho Bank, Ltd.	-	360,000	-	360,000	0.488	April 21, 2017		
	Sumitomo Mitsui Banking Corporation (Note 7)	-	800,000	800,000	-				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,070,000	-	1,070,000				
	Sub Total	6,500,000	6,370,000	800,000	12,070,000				
Long-Term Loans Payable	Sumitomo Mitsui Banking Corporation	2,300,000	-	-	2,300,000	0.545	February 10, 2018	(Note 5)	Unsecured/ 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	0.751	February 10, 2020		
	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, 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				
	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				
	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, 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. (Note 6)	1,500,000	-	-	1,500,000	0.925	February 10, 2021		
	Development Bank of Japan Inc. (Note 6)	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					

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 (Note 2) (Note 3) (%)	Payment due date (Note 4)	Use	Remarks
Long-Term Loans Payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000	0.975	March 31, 2023	(Note 5)	Unsecured/ Non-guaranteed
	Sumitomo Mitsui Trust Bank, Ltd.	600,000	-	-	600,000				
	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. (Note 6)	1,500,000	-	-	1,500,000	0.994	March 31, 2023		
	Sumitomo Mitsui Banking Corporation	1,850,000	-	-	1,850,000	0.545	March 31, 2019		
	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	0.987	March 31, 2023		
	Resona Bank, Ltd.	200,000	-	-	200,000				
	The Musashino Bank, Ltd.	150,000	-	-	150,000				
	Development Bank of Japan Inc. (Note 6)	1,500,000	-	-	1,500,000	1.013	March 31, 2023		
	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	1.110	March 31, 2024		
	Mizuho Bank, Ltd.	1,150,000	-	-	1,150,000				
	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				
	Mizuho Bank, Ltd.	-	710,000	-	710,000				
	Sumitomo Mitsui Trust Bank, Ltd.	-	620,000	-	620,000				
	Sumitomo Mitsui Trust Bank, Ltd.	-	450,000	-	450,000	0.368	September 30, 2019		
	Sumitomo Mitsui Trust Bank, Ltd.	-	450,000	-	450,000	0.803	September 30, 2024		
	Development Bank of Japan Inc. (Note 6)	-	890,000	-	890,000	0.760	September 30, 2024		
	Sumitomo Mitsui Banking Corporation	-	2,670,000	-	2,670,000	0.932	April 21, 2026		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	890,000	-	890,000	0.888	October 31, 2025			
Sub Total	51,000,000	6,230,000	-	57,230,000					
Total	57,500,000	12,600,000	800,000	69,300,000					

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:

	(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	6,980,000	7,000,000	7,000,000	32,400,000

Note 2: All debts except for the following Note 6 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 Note 7 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: Borrowings at a fixed rate.

Note 7: Prepayment was made on May 31, 2016.



**(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 (in millions) <small>(Note)</small>	Disposition Date	Disposition price (in millions)	Book value (in millions)	Gain / Loss (in millions)
Trust beneficiary interest in real estate	T-15	Nakamachidai Tokyu Store	April 21, 2016	3,360	—	—	—	—
Trust beneficiary interest in real estate	T-16	Central Wellness Club Nagatsuta Minamidai	April 20, 2016	1,724	—	—	—	—
Trust beneficiary interest in real estate	T-17	Life Kameido	April 21, 2016	1,450	—	—	—	—
Trust beneficiary interest in real estate	O-10	Million Town Tsukaguchi (Land)	April 21, 2016	3,723	—	—	—	—
Trust beneficiary interest in real estate	N-4	Homecenter Kohnan Sunadabashi	April 21, 2016	7,140	—	—	—	—
Trust beneficiary interest in real estate	R-7	Solala Plaza	April 21, 2016	5,720	—	—	—	—
Trust beneficiary interest in real estate	R-8	P-1 Plaza Tenno	April 22, 2016	4,010	—	—	—	—
Total				27,127	—	—	—	—

Note : “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).

### (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) (Note 1)	Appraisal value (in millions) (Note 2)	Appraiser	Evaluation date
Acquisition	Trust beneficiary interest in real estate	T-15	Nakamachidai Tokyu Store	April 21, 2016	3,360	3,780	Daiwa Real Estate Appraisal Co., Ltd.	Feb.1, 2016
		T-16	Central Wellness Club Nagatsuta Minamidai	April 20, 2016	1,724	1,880	Daiwa Real Estate Appraisal Co., Ltd.	Feb.1, 2016
		T-17	Life Kameido	April 21, 2016	1,450	1,500	Daiwa Real Estate Appraisal Co., Ltd.	Feb.1, 2016
		O-10	Million Town Tsukaguchi (Land)	April 21, 2016	3,723	3,730	The Tanizawa Sōgō Appraisal Co., Ltd.	Feb.1, 2016
		N-4	Homecenter Kohnan Sunadabashi	April 21, 2016	7,140	7,220	Daiwa Real Estate Appraisal Co., Ltd.	Nov.1, 2015
		R-7	Solala Plaza	April 21, 2016	5,720	5,740	Japan Real Estate Institute	Feb.1, 2016
		R-8	P-1 Plaza Tenno	April 22, 2016	4,010	4,230	Japan Real Estate Institute	Feb.1, 2016

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

With regard to transactions and contracts entered by KRR whose values shall be investigated based on the Article 201 of the Act on Investment Trusts and Investment Corporations, Ernst & Young ShinNihon LLC performs an investigation of transactions other than those stated in "(1) Real Estate" above. For the period from April 1, 2016 to September 30, 2016, the transactions subject to such investigation were five interest rate swap transactions, for which KRR received a report from Ernst & Young ShinNihon LLC.

**(4) Related-party transaction****i) Transactions**

	Transaction price (in millions)	
	Purchase	Sale
Total amount	27,127	-
Transactions with related-party		
G.K. KRF60	1,450 (5.3%)	- (-%)
JRP6 G.K.	7,140 (26.3%)	- (-%)
G.K. FOX Investment	5,720 (21.1%)	- (-%)
Total	14,310 (52.8%)	- (-%)

**ii) Amounts of fees paid**

Not applicable

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” and “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

The First General Meetings of Unitholders was held on June 13, 2016.

The following summarizes an overview of the matters approved in the First General Meeting of Unitholders.

Agenda	Summary
Agenda No. 1: Changes to the Articles of Incorporation	The changes of the Articles of Incorporation are as follows. (1) The revision of the Ordinance for Enforcement of the Act on Special Measures Concerning Taxation (Ordinance of the Ministry of Finance No. 15 of the year 1957, including subsequent amendments) amended the requirements of the special provisions for taxation for investment corporations. Accordingly, provisions that are no longer relevant will be deleted. (concerning Paragraph 5, Article 31 of the current Articles of Incorporation) (2) FY2015 Japan Tax Reform and the Ordinance on Accountings of Investment Corporations (Ordinance of the Cabinet Office No. 47 of the year 2006, including subsequent amendments) enabled investment corporations to adjust inconsistency in treatments between accounting and tax practices. Accordingly, a related provision will be revised and a provision to enable the Investment Corporation to implement cash distributions in excess of profits for the purpose of mitigating tax burdens will be revised. (concerning Article 39 (2) of the current Articles of Incorporation) (3) The revision of Ordinance for Enforcement of the Act on Investment Trusts and Investment Corporations (Ordinance of the Prime Minister's Office No. 129 of the year 2000, including subsequent amendments) has allowed the Investment Corporation to add contents of entrustment of affairs related to the administrative agent. Accordingly, a related provision will be revised to clarify possible entrustment of the new contents. (concerning Paragraph 3, Article 41 of the current Articles of Incorporation) (4) Regarding the items that were required when the Investment Corporation was established, sections that are no longer needed will be deleted in order to simplify the Articles of Incorporation. (concerning Article 38, Chapter 11 and Attachments 1 and 2 of the current Articles of Incorporation) (5) In addition to the above changes, expressions will be changed and clarified, words and phrases will be berevised, and other changes will be made due to consistencies with the wording of applicable laws and clarification of provisions, etc.
Agenda No. 2: Election of One (1) Executive Director	The agenda was approved as drafted, and Akihiro Asano was appointed as Executive Director. The term of office of an Executive Director shall be two years, commencing July 1, 2016.
Agenda No. 3: Election of One (1) Alternate Executive Director	The agenda was approved as drafted, and Koichiro Nobata was appointed as Alternate Executive Director. The period during which the resolution on the appointment of one Alternate Executive Director remains effective shall be until June 30, 2018, when the term of office of the Executive Director under Agenda No. 2 expires.
Agenda No. 4: Election of Two (2) Supervisory Directors	The agenda was approved as drafted, and Mai Ishiwatari and Yoshitoshi Yasu were appointed as Supervisory Directors. The term of office of Supervisory Directors shall be two years commencing July 1, 2016.
Agenda No. 5: Election of One (1) Alternate Supervisory Director	The agenda was approved as drafted, and Satoshi Hiyama was appointed as Alternate Supervisory Director. The period during which the resolution on the appointment of one Alternate Supervisory Director remains effective shall be until June 30, 2018, when the term of office of the Supervisory Director under Agenda No. 4 expires.

#### ii) Board of Directors

The following summarizes an overview of major contracts that the Board of Directors of KRR approved to conclude or modify for the current period.

Date	Approved items	Summary
April 13, 2016	Conclusion of an underwriting agreement for new investment units	For the issuance of new investment units, which was approved by the Board of Directors on March 31, 2016, KFM, SMBC Nikko Securities Inc., Nomura Securities Co., Ltd., Daiwa Securities Co., Ltd. and UBS Securities Japan Co., Ltd. signed an underwriting agreement.

### (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 September 30, 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 September 30, 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*

December 22, 2016  
Tokyo, Japan

# Financial Statements

(2nd Fiscal Period: from October 1, 2015 to March 31, 2016)  
(3rd Fiscal Period: from April 1, 2016 to September 30, 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 September 30, 2016 and March 31, 2016

	As of September 30, 2016	As of March 31, 2016
	(in thousands of yen)	
Assets		
Current assets		
Cash and deposits (Notes 8 and 10)	¥4,367,293	¥3,882,955
Cash and deposits in trust (Notes 8 and 10)	11,615,129	10,341,252
Operating accounts receivable	206,398	192,030
Prepaid expenses	112,712	33,750
Consumption taxes receivable	477,707	510,522
Other	432	-
<b>Total current assets</b>	<b>16,779,673</b>	<b>14,960,512</b>
Non-current assets		
Property, plant and equipment (Notes 16 and 19)		
Construction in progress	35,243	-
Buildings in trust	42,409,745	33,894,083
Accumulated depreciation	(1,707,093)	(1,043,077)
Buildings in trust, net (Note 3)	40,702,651	32,851,006
Structures in trust	1,808,630	1,584,525
Accumulated depreciation	(106,872)	(68,990)
Structures in trust, net (Note 3)	1,701,758	1,515,535
Machinery and equipment in trust	203,295	29,194
Accumulated depreciation	(6,582)	(1,720)
Machinery and equipment in trust, net	196,712	27,473
Tools, furniture and fixtures in trust	51,813	47,611
Accumulated depreciation	(6,700)	(3,413)
Tools, furniture and fixtures in trust, net (Note 3)	45,112	44,198
Land in trust (Note 3)	118,225,350	99,044,234
Construction in progress in trust	12,015	5,583
<b>Total property, plant and equipment, net</b>	<b>160,918,844</b>	<b>133,488,032</b>
Intangible assets (Note 19)		
Leasehold right in trust (Note 16)	524,576	528,555
Other	1,883	2,164
<b>Total intangible assets</b>	<b>526,460</b>	<b>530,719</b>
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Lease and guarantee deposits in trust	36,035	36,015
Long-term prepaid expenses	651,956	583,023
Long-term deposits	124,960	124,960
<b>Total investments and other assets</b>	<b>822,951</b>	<b>753,998</b>
<b>Total non-current assets</b>	<b>162,268,256</b>	<b>134,772,750</b>
Deferred assets		
Organization costs	30,369	35,435
Investment unit issuance costs	281,763	240,764
<b>Total deferred assets</b>	<b>312,132</b>	<b>276,199</b>
<b>Total assets</b>	<b>¥179,360,062</b>	<b>¥150,009,463</b>

See accompanying notes to financial statements.

	As of September 30, 2016	As of March 31, 2016
	(in thousands of yen)	
<b>Liabilities</b>		
<b>Current liabilities</b>		
Operating accounts payable	¥453,515	¥606,400
Short-term loans payable (Notes 10 and 20)	12,070,000	6,500,000
Accounts payable-other	267,670	285,470
Accrued expenses	7,108	6,520
Income taxes payable	1,081	932
Advances received	859,300	748,176
Deposits received	122,669	136,468
<b>Total current liabilities</b>	<b>13,781,345</b>	<b>8,283,968</b>
<b>Non-current liabilities</b>		
Long-term loans payable (Notes 10 and 20)	57,230,000	51,000,000
Tenant leasehold and security deposits (Note 10)	2,500	-
Tenant leasehold and security deposits in trust (Notes 3 and 10)	11,518,586	10,633,432
Asset retirement obligations (Note 14)	23,190	23,045
Other	64,677	34,382
<b>Total non-current liabilities</b>	<b>68,838,953</b>	<b>61,690,859</b>
<b>Total liabilities</b>	<b>82,620,298</b>	<b>69,974,828</b>
<b>Net assets</b>		
<b>Unitholders' equity</b>		
Unitholders' capital	94,256,390	77,606,649
<b>Deduction from unitholders' capital</b>		
Allowance for temporary difference adjustments (Note 4)	(4,263)	-
<b>Total deduction from unitholders' capital</b>	<b>(4,263)</b>	<b>-</b>
<b>Unitholders' capital, net</b>	<b>94,252,127</b>	<b>77,606,649</b>
<b>Surplus</b>		
Unappropriated retained earnings	2,518,802	2,427,985
<b>Total surplus</b>	<b>2,518,802</b>	<b>2,427,985</b>
<b>Total unitholders' equity</b>	<b>96,770,929</b>	<b>80,034,634</b>
<b>Valuation and translation adjustments</b>		
Deferred gains or losses on hedges	(31,166)	-
<b>Total valuation and translation adjustments</b>	<b>(31,166)</b>	<b>-</b>
<b>Total net assets (Note 5)</b>	<b>96,739,763</b>	<b>80,034,634</b>
<b>Total liabilities and net assets</b>	<b>¥179,360,062</b>	<b>¥150,009,463</b>

See accompanying notes to financial statements.

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

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

	From April 1, 2016 to September 30, 2016	From October 1, 2015 to March 31, 2016
(in thousands of yen)		
Operating revenues		
Rent revenue-real estate (Note 6)	¥5,405,789	¥4,656,391
Other lease business revenue (Note 6)	968,378	884,665
Total operating revenues	6,374,168	5,541,057
Operating expenses		
Expenses related to rent business (Note 6)	2,860,183	2,235,833
Asset management fees	438,769	405,144
Asset custody fees	6,375	4,658
Administrative service fees	21,792	16,454
Directors' compensation	4,500	4,500
Other operating expenses	69,052	48,444
Total operating expenses	3,400,673	2,715,035
Operating income	2,973,494	2,826,021
Non-operating income		
Interest income	51	937
Interest on refund	251	715
Total non-operating income	303	1,652
Non-operating expenses		
Interest expenses	306,343	275,159
Financing-related expenses	65,780	59,213
Amortization of organization costs	5,066	5,066
Amortization of investment unit issuance costs	76,922	59,244
Total non-operating expenses	454,113	398,683
Ordinary income	2,519,684	2,428,991
Income before income taxes	2,519,684	2,428,991
Income taxes		
Current	1,088	1,075
Total income taxes	1,088	1,075
Net income	2,518,595	2,427,915
Retained earnings brought forward	206	70
Unappropriated retained earnings	¥2,518,802	¥2,427,985

See accompanying notes to financial statements.



## Kenedix Retail REIT Corporation

### Statements of Changes in Net Assets

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

	Unitholders' equity						Total unitholders' equity
	Unitholders' capital			Surplus			
	Unitholders' capital	Deduction from unitholders' capital		Unitholders' capital, net	Unappropriated retained earnings	Total surplus	
		Allowance for temporary difference adjustments	Total deduction from unitholders' capital				
(in thousands of yen)							
Balance as of October 1, 2015	¥57,857,000	¥ -	¥ -	¥57,857,000	¥1,933,270	¥1,933,270	¥59,790,270
Changes of items during the period							
Issuance of new investment units	19,749,649			19,749,649			19,749,649
Dividends from surplus					(1,933,200)	(1,933,200)	(1,933,200)
Net income					2,427,915	2,427,915	2,427,915
Total changes of items during the period	19,749,649			19,749,649	494,714	494,714	20,244,364
Balance as of March 31, 2016 (Note 7)	77,606,649			77,606,649	2,427,985	2,427,985	80,034,634
Changes of items during the period							
Issuance of new investment units	16,649,740			16,649,740			16,649,740
Dividends from surplus					(2,427,778)	(2,427,778)	(2,427,778)
Distributions in excess of earnings from allowance for temporary difference adjustments		(4,263)	(4,263)	(4,263)			(4,263)
Net income					2,518,595	2,518,595	2,518,595
Net changes of items other than unitholder's equity							
Total changes of items during the period	16,649,740	(4,263)	(4,263)	16,645,477	90,817	90,817	16,736,294
Balance as of September 30, 2016 (Note 7)	¥94,256,390	¥ (4,263)	¥ (4,263)	¥94,252,127	¥2,518,802	¥2,518,802	¥96,770,929

	Valuation and translation adjustments		Total net assets
	Deferred gains or losses on hedges	Total valuation and translation adjustments	
(in thousands of yen)			
Balance as of October 1, 2015	¥ -	¥ -	¥59,790,270
Changes of items during the period			
Issuance of new investment units			19,749,649
Dividends from surplus			(1,933,200)
Net income			2,427,915
Total changes of items during the period			20,244,364
Balance as of March 31, 2016 (Note 7)			80,034,634
Changes of items during the period			
Issuance of new investment units			16,649,740
Dividends from surplus			(2,427,778)
Distributions in excess of earnings from allowance for temporary difference adjustments			(4,263)
Net income			2,518,595
Net changes of items other than unitholder's equity	(31,166)	(31,166)	(31,166)
Total changes of items during the period	(31,166)	(31,166)	16,705,128
Balance as of September 30, 2016 (Note 7)	¥ (31,166)	¥ (31,166)	¥96,739,763

See accompanying notes to financial statements.

## Kenedix Retail REIT Corporation

### Statements of Cash Flows

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

	From April 1, 2016 to September 30, 2016	From October 1, 2015 to March 31, 2016
(in thousands of yen)		
Net cash provided by (used in) operating activities		
Income before income taxes	¥2,519,684	¥2,428,991
Depreciation and amortization	714,452	566,142
Amortization of organization costs	5,066	5,066
Amortization of investment unit issuance costs	76,922	59,244
Interest income	(51)	(937)
Interest expenses	306,343	275,159
Decrease (increase) in operating accounts receivable	(14,367)	(28,262)
Decrease (increase) in consumption taxes receivable	32,815	1,561,226
Decrease (increase) in prepaid expenses	(78,961)	(16,987)
Increase (decrease) in operating accounts payable	(25,321)	94,580
Increase (decrease) in accounts payable-other	(19,393)	25,738
Increase (decrease) in advances received	111,123	229,469
Increase (decrease) in deposits received	(13,799)	(223,486)
Decrease (increase) in long-term prepaid expenses	(68,932)	(164,503)
Other	(4,103)	36,767
<b>Subtotal</b>	<b>3,541,476</b>	<b>4,848,210</b>
Interest income received	51	937
Interest expenses paid	(305,756)	(272,051)
Income taxes paid	(940)	(6,464)
<b>Net cash provided by (used in) operating activities</b>	<b>3,234,831</b>	<b>4,570,631</b>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(35,243)	-
Purchase of property, plant and equipment in trust	(28,233,179)	(40,463,688)
Purchase of intangible assets in trust	-	(361,455)
Payments for lease and guarantee deposits in trust	(20)	(30,695)
Proceeds from tenant leasehold and security deposits	2,500	-
Repayments of tenant leasehold and security deposits in trust	(314,140)	(286,205)
Proceeds from tenant leasehold and security deposits in trust	1,202,094	2,185,372
Proceeds from restricted bank deposits in trust	215,676	661,625
<b>Net cash provided by (used in) investing activities</b>	<b>(27,162,312)</b>	<b>(38,295,047)</b>
Net cash provided by (used in) financing activities		
Proceeds from short-term loans payable	6,370,000	7,700,000
Payments of short-term loans payable	(800,000)	(3,200,000)
Proceeds from long-term loans payable	6,230,000	14,650,000
Proceeds from issuance of investment units	16,531,819	19,611,147
Payments of dividends	(2,430,448)	(1,931,323)
<b>Net cash provided by (used in) financing activities</b>	<b>25,901,371</b>	<b>36,829,824</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,973,891</b>	<b>3,105,407</b>
Cash and cash equivalents at the beginning of the period	11,255,410	8,150,002
<b>Cash and cash equivalents at the end of the period (Note 8)</b>	<b>¥13,229,301</b>	<b>¥11,255,410</b>

See accompanying notes to financial statements.

# Kenedix Retail REIT Corporation

## Notes to Financial Statements

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

### 1. ORGANIZATION AND BASIS OF PRESENTATION

#### Organization

Kenedix Retail REIT Corporation ("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 international offerings. As a result, the number of investment units issued as of September 30, 2016 was 422,450 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 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 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 construction of a new building (acquisition price of 371 million yen) 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.

KRR acquired trust beneficiary interests in real estate (a property acquired on April 20, 2016 with acquisition price of 1,724 million yen, 5 properties acquired on April 21, 2016 with acquisition price of 21,393 million yen and a property acquired on April 22, 2016 with acquisition price 4,010 million yen). For the period ended September 30, 2016, the portfolio of 40 properties as a whole performed well with an overall occupancy ratio of 99.7% as of September 30, 2016.

Furthermore, the portfolio was diversified in terms of tenants as there were 389 and 405 end-tenants as of March 31, 2016 and September 30, 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 April 1, 2016 to September 30, 2016	From October 1, 2015 to March 31, 2016
Buildings	2-70 years	2-70 years
Structures	8-59 years	8-59 years
Machinery and equipment	10-25 years	10-25 years
Tools, furniture and fixtures	4-10 years	4-10 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 ¥106,443 thousand and ¥73,320 thousand as of September 30, 2016 and March 31, 2016, 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 September 30, 2016	As of March 31, 2016
	(in thousands of yen)	
Buildings in trust	¥2,755,048	¥2,797,203
Structures in trust	53,947	55,538
Tools, furniture and fixtures in trust	2,962	-
Land in trust	7,811,297	7,811,297
Total	10,623,255	10,664,039
Secured liabilities	As of September 30, 2016	As of March 31, 2016
Tenant leasehold and security deposits in trust	3,468,617	3,691,291
Total	¥3,468,617	¥3,691,291

### 4. ALLOWANCE FOR TEMPORARY DIFFERENCE ADJUSTMENTS

The following summarizes allowance for temporary difference adjustments as of September 30, 2016

1. Reasons, related assets, initial amount and allowance

Related assets, etc.	Reason for allowance	Initial amount	Balance at the beginning of the period	Allowance during the period	Reversal during the period	Balance at the end of the period	Reason for reversal
Buildings in trust, Leasehold right in trust	Amortization of leasehold right in trust and the amount in excess of depreciation	4,263	-	4,263	-	4,263	-



## 2. Method of reversal

	Method of reversal
Buildings in trust, Leasehold right in trust	Upon sale, the corresponding amount is scheduled to be reversed.

As of March 31, 2016

Not applicable.

## 5. 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.

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

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

	From April 1, 2016 to September 30, 2016	From October 1, 2015 to March 31, 2016
	(in thousands of yen)	
Rental and other operating revenues:		
Rent revenue-real estate:		
Rental revenues	¥4,393,233	¥3,761,328
Rental revenues from limited proprietary rights of land	680,862	598,355
Common area charges	331,693	296,707
Subtotal	5,405,789	4,656,391
Other lease business revenue:		
Parking space rental revenues	163,358	162,060
Utility charge reimbursement	540,060	453,733
Miscellaneous	264,959	268,871
Subtotal	968,378	884,665
Total rental and other operating revenues	6,374,168	5,541,057
Property-related expenses:		
Expenses related to rent business:		
Property management fees and facility management fees	684,963	637,809
Utilities	523,159	495,520
Taxes	482,449	216
Repairs and maintenance	150,915	201,226
Insurance	12,341	10,531
Trust fees	17,294	14,499
Depreciation	714,171	565,861
Others	274,888	310,168
Total property-related expenses	2,860,183	2,235,833
Net operating income from real estate rental business	¥3,513,984	¥3,305,224

## 7. UNITHOLDERS' EQUITY

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

	From April 1, 2016 to September 30, 2016	From October 1, 2015 to 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	422,450 units	355,250 units

## 8. CASH AND CASH EQUIVALENTS

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

	As of September 30, 2016	As of March 31, 2016
	(in thousands of yen)	
Cash and deposits	¥4,367,293	¥3,882,955
Cash and deposits in trust	11,615,129	10,341,252
Restricted bank deposits in trust *	(2,753,121)	(2,968,798)
Cash and cash equivalents	¥13,229,301	¥11,255,410

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

## 9. LEASES

(As lessee)

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

	As of September 30, 2016	As of March 31, 2016
	(in thousands of yen)	
Due within 1 year	¥10,500	¥10,500
Due after 1 year	204,298	209,548
Total	¥214,798	¥220,048

(As lessor)

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

	As of September 30, 2016	As of March 31, 2016
	(in thousands of yen)	
Due within 1 year	¥5,754,371	¥4,184,868
Due after 1 year	47,304,424	37,858,429
Total	¥53,058,796	¥42,043,297

## 10. 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 7 month as of September 30, 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 September 30, 2016

	Carrying amount	Estimated fair value	Difference
(in thousands of yen)			
(1) Cash and deposits	¥4,367,293	¥4,367,293	¥ -
(2) Cash and deposits in trust	11,615,129	11,615,129	-
Total	15,982,422	15,982,422	-
(1) Short-term loans payable	12,070,000	12,070,000	-
(2) Long-term loans payable	57,230,000	57,710,245	480,245
(3) Tenant leasehold and security deposits in trust	3,408,166	3,443,698	35,531
Total	72,708,166	73,223,944	515,777
Derivative transactions	¥(31,166)	¥(31,166)	¥ -

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	¥ -	¥ -	¥ -

\*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 "11. DERIVATIVE TRANSACTIONS".

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

Classification	As of September 30, 2016	As of March 31, 2016
	(in thousands of yen)	
Tenant leasehold and security deposits	¥2,500	¥ -
Tenant leasehold and security deposits in trust	8,110,419	7,123,774
Total	¥8,112,919	¥7,123,774

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 September 30, 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	¥4,367,293	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	11,615,129	-	-	-	-	-
Total	¥15,982,422	¥ -	¥ -	¥ -	¥ -	¥ -

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	¥ -	¥ -	¥ -	¥ -	¥ -

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

As of September 30, 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	¥12,070,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	-	3,850,000	6,980,000	7,000,000	7,000,000	32,400,000
Tenant leasehold and security deposits in trust	435,430	435,430	435,430	435,430	435,430	546,223
Total	¥12,505,430	¥4,285,430	¥7,415,430	¥7,435,430	¥7,435,430	¥32,946,223

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

## 11. DERIVATIVE TRANSACTIONS

The contract amount and the fair value of interest-rate swap transactions as of September 30, 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 (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Principle method	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	5,340,000	5,340,000	(31,166)	Based on the amount provided by counterparty financial institutions
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 "10. 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 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 (in thousands of yen)		Fair value (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 "10. 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.)

## 12. RELATED PARTY TRANSACTIONS

1 . Parent Company, major corporate unitholders and other

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

2 . Affiliated companies and other

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

3 . Fellow subsidiary companies and other

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

4 . Directors, major individual unitholders and other

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

### 13. 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 ¥2,523 million and ¥2,432 million for the periods ended September 30, 2016 and March 31, 2016, 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 0.04% for the periods ended September 30, 2016 and March 31, 2016, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	As of September 30, 2016	As of March 31, 2016
Statutory tax rate	31.74%	32.31%
Deductible cash distributions	(31.79)	(32.35)
Others	0.09	0.08
Effective tax rate	0.04%	0.04%

The significant components of deferred tax assets and liabilities:

	As of September 30, 2016	As of March 31, 2016
	(in thousands of yen)	
Deferred tax assets:		
Enterprise tax payable	¥ 23	¥ 22
Amortization of leasehold right in trust	4,189	2,932
Depreciation	1,508	1,055
Asset retirement obligations	7,325	7,280
Deferred gains or losses on hedges	9,845	-
Subtotal deferred tax assets	22,892	11,290
Valuation allowance	(22,892)	(11,290)
Total deferred tax assets	¥ -	¥ -

### 14. 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 April 1, 2016 to September 30, 2016	From October 1, 2015 to March 31, 2016
	(in thousands of yen)	
Balance at the beginning of the period	¥23,045	¥22,901
Accretion adjustment	144	143
Balance at the end of the period	¥23,190	¥23,045



## 15. SEGMENT INFORMATION

Segment information for the period ended from April 1, 2016 to September 30, 2016 and October 1, 2015 to March 31, 2016 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.

## 16. 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 April 1, 2016 to September 30, 2016	From October 1, 2015 to March 31, 2016
	(in thousands of yen)	
Book value		
Balance at the beginning of the period	¥134,016,587	¥93,575,397
Changes during the period	27,426,833	40,441,190
Balance at the end of the period	161,443,421	134,016,587
Fair value at the end of the period	¥168,164,000	¥138,674,000

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 second fiscal period, the principal increase was acquisitions of real estate trust beneficiary interests in 14 properties totaling ¥40,195,716 thousand, and the additional acquisition of real estate trust beneficiary interest amounting to ¥383,790 thousand and the principal decrease was depreciation amounting to ¥565,717 thousand and during the third fiscal period, the principal increase was the acquisitions of real estate trust beneficiary interests in 7 properties totaling ¥27,834,390 thousand and the principal decrease was depreciation amounting to ¥714,026 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 September 30, 2016 and March 31, 2016 concerning investment and rental properties is included in Note "6. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES."

## 17. PER UNIT INFORMATION

	From April 1, 2016 to September 30, 2016	From October 1, 2015 to March 31, 2016
Net asset value per unit	¥228,996	¥225,291
Net income per unit	¥6,069	¥6,846

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 September 30, 2016 (414,983 units) and during the fiscal period ended March 31, 2016 (354,622 units). 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 April 1, 2016 to September 30, 2016	From October 1, 2015 to March 31, 2016
Net income (in thousands of yen)	¥2,518,595	¥2,427,915
Net income not attributable to ordinary unitholders (in thousands of yen)	-	-
Net income attributable to ordinary unitholders (in thousands of yen)	¥2,518,595	¥2,427,915
Weighted average number of units during the period (units)	414,983	354,622

## 18. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable.

## 19. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following as of September 30, 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	¥ -	¥35,243	¥ -	¥35,243	¥ -	¥ -	¥35,243	
Subtotal	-	35,243	-	35,243	-	-	35,243	
Buildings in trust	33,894,083	8,515,661	-	42,409,745	1,707,093	664,015	40,702,651	*
Structures in trust	1,584,525	224,105	-	1,808,630	106,872	37,882	1,701,758	
Machinery and equipment in trust	29,194	174,101	-	203,295	6,582	4,862	196,712	
Tools, furniture and fixtures in trust	47,611	4,201	-	51,813	6,700	3,287	45,112	
Land in trust	99,044,234	19,181,116	-	118,225,350	-	-	118,225,350	*
Construction in progress in trust	5,583	6,616	185	12,015	-	-	12,015	
Subtotal	134,605,233	28,105,802	185	162,710,850	1,827,249	710,047	160,883,601	
Total	134,605,233	28,141,045	185	162,746,093	1,827,249	710,047	160,918,844	
Intangible assets	Leasehold right in trust	537,838	-	537,838	13,261	3,978	524,576	
	Other	2,809	-	2,809	926	280	1,883	
Total	¥540,648	¥ -	¥ -	¥540,648	¥14,188	¥4,259	¥526,460	

\*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 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.

## 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 September 30, 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) (Note3)			
					(in thousands of yen)	(%)			
Short-term loans payable	Sumitomo Mitsui Banking Corporation	2,050,000	-	-	2,050,000	0.539	October 2, 2016		
	Sumitomo Mitsui Banking Corporation	2,450,000	-	-	2,450,000	0.539	October 2, 2016		
	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	0.489	February 10, 2017		
	Resona Bank, Ltd.	250,000	-	-	250,000				
	Aozora Bank, Ltd.	250,000	-	-	250,000			(Note5)	Unsecured/ Non-guaranteed
	Sumitomo Mitsui Trust Bank, Ltd.	200,000	-	-	200,000				
	Sumitomo Mitsui Banking Corporation	-	4,140,000	-	4,140,000	0.484	April 21, 2017		
	Mizuho Bank, Ltd.	-	360,000	-	360,000				
	Sumitomo Mitsui Banking Corporation (Note7)	-	800,000	800,000	-	0.488	April 21, 2017		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,070,000	-	1,070,000	0.484	April 21, 2017		
	Subtotal	6,500,000	6,370,000	800,000	12,070,000				
	Long-term loans payable	Sumitomo Mitsui Banking Corporation	2,300,000	-	-	2,300,000			
The Bank of Tokyo-Mitsubishi UFJ, Ltd.		800,000	-	-	800,000	0.545	February 10, 2018		
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	0.751	February 10, 2020		
Aozora Bank, Ltd.		500,000	-	-	500,000			(Note5)	Unsecured/ Non-guaranteed
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				
The Bank of Tokyo-Mitsubishi UFJ, Ltd.		700,000	-	-	700,000				
Sumitomo Mitsui Trust Bank, Limited		500,000	-	-	500,000	0.865	February 10, 2021		
Aozora Bank, Ltd.	450,000	-	-	450,000					
Resona Bank, Limited	450,000	-	-	450,000					
Mizuho Bank, Ltd.	400,000	-	-	400,000					

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	2,600,000	-	-	2,600,000				
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	800,000	-	-	800,000				
Sumitomo Mitsui Trust Bank, Limited	600,000	-	-	600,000	0.978	February 10, 2022		
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. (Note6)	1,500,000	-	-	1,500,000	0.925	February 10, 2021		
Development Bank of Japan Inc. (Note6)	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			(Note5)	Unsecured/ Non-guaranteed
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. (Note6)	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. (Note6)	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				

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)				(%)			
Mizuho Trust & Banking Co., Ltd.	700,000	-	-	700,000				
Sumitomo Mitsui Trust Bank, Ltd.	650,000	-	-	650,000	1.110	March 31, 2024		
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	1.243	April 16, 2025		
Mizuho Bank, Ltd.	-	710,000	-	710,000			(Note5)	Unsecured/ Non-guaranteed
Sumitomo Mitsui Trust Bank, Ltd.	-	620,000	-	620,000	0.368	March 31, 2019		
Sumitomo Mitsui Trust Bank, Ltd.	-	450,000	-	450,000	0.803	September 30, 2024		
Development Bank of Japan Inc. (Note6)	-	890,000	-	890,000	0.760	September 30, 2024		
Sumitomo Mitsui Banking Corporation	-	2,670,000	-	2,670,000	0.932	April 21, 2026		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	890,000	-	890,000	0.888	October 31, 2025		
Subtotal	51,000,000	6,230,000	-	57,230,000				
Total	57,500,000	12,600,000	800,000	69,300,000				

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	6,980,000	7,000,000	7,000,000	32,400,000

Note2: All debts except for the following Note6 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 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: Borrowings at a fixed rate.

Note7: Prepayment was made on May 31, 2016.

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) (Note3)					
					(in thousands of yen)	(%)					
Short-term loans payable	Sumitomo Mitsui Banking Corporation	450,000	-	450,000	-	0.430	February 10, 2016	(Note5)	Unsecured/ 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	(Note5)	Unsecured/ Non-guaranteed		
	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	0.545	February 10, 2018			(Note5)	Unsecured/ 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	0.751	February 10, 2020				
	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							



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	2,600,000	-	-	2,600,000				
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	800,000	-	-	800,000				
Sumitomo Mitsui Trust Bank, Limited	600,000	-	-	600,000	0.978	February 10, 2022		
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			(Note5)	Unsecured/ Non-guaranteed
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				

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)				(%)			
Long-term loans payable	Mizuho Trust & Banking Co., Ltd.	-	700,000	-	700,000	1.110	March 31, 2024	Unsecured/ Non-guaranteed (Note5)
	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	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.

## 21. DISTRIBUTIONS

	From April 1, 2016 to September 30, 2016	From October 1, 2015 to March 31, 2016
I. Retained earnings at the end of period	¥2,518,802,609	¥2,427,985,431
II. Distributions in excess of earnings	¥36,330,700	¥4,263,000
Of which, allowance for temporary difference adjustments	¥36,330,700	¥4,263,000
III. Total distributions	¥2,523,716,300	¥2,432,041,500
Distributions per unit	¥5,974	¥6,846
Of which, distributions of earnings	¥2,487,385,600	¥2,427,778,500
Of which, distributions of earnings per unit	¥5,888	¥6,834
Of which, allowance for temporary difference adjustments	¥36,330,700	¥4,263,000
Of which, distributions in excess of earnings per unit (allowance for temporary difference adjustments)	¥86	¥12
IV. Retained earnings brought forward to the next period	¥31,417,009	¥206,931

Method of calculating distribution amount	<p>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 ¥2,487,385,600 which is almost the entire amount of income as defined in Article 136-1 of the Investment Trust Act. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 39-2 of KRR's Articles of Incorporation.</p> <p>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 ¥36,330,700 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 (as defined in Article 2-2-30 (a) of the Ordinance on Accountings of Investment Corporations) in association with the amortization of fixed-term land leasehold rights and of the item deducted from net asset (as defined in Article 2-2-30 (b) of the Ordinance on Accountings of Investment Corporations) in association with deferred losses on hedges.</p>	<p>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.</p> <p>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 (as defined in Article 2-2-30 (a) of the Ordinance on Accountings of Investment Corporations) in association with the amortization of fixed-term land leasehold rights.</p>
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### 3rd Fiscal Period (From April 1, 2016 to September 30, 2016)

#### 1. Reasons, related assets and allowance

(in thousands of yen)

Related assets, etc.	Reason	Allowance for temporary difference adjustments
Buildings in trust, Leasehold right in trust	Amortization of leasehold right in trust and the amount in excess of depreciation	¥5,491
Deferred gains or losses on hedges	Loss on interest-rate swaps recognized at the end of the fiscal period	¥30,838

#### 2. Method of reversal

	Method of reversal
Buildings in trust, Leasehold right in trust	Upon sale, the corresponding amount is scheduled to be reversed.
Deferred gains or losses on hedges	Based on changes in the fair value of the hedging instruments, the corresponding amount is scheduled to be reversed.

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

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.

# KENEDIX

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Retail REIT Corporation