

**Translation of Japanese Original****INTERIM FINANCIAL REPORT FOR THE FISCAL PERIOD ENDING SEPTEMBER 30, 2015 (REIT)  
(For the Reporting Period from October 3, 2014 to March 31, 2015)**

May 25, 2015

Kenedix Retail REIT Corporation (“KRR”) is listed on the Tokyo Stock Exchange with the securities code number 3453.  
(URL <http://www.krr-reit.com/en/>)

Representative: Akihiro Asano, Executive Director

Asset Management Company: Kenedix Real Estate Fund Management, Inc.

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Planned submission of semiannual securities report: June 29, 2015

Preparing presentation material: Yes

Hold a financial brief meeting: Yes (for analysts and institutional investors)

(Amounts are rounded down to the nearest ¥million)

**1. PERFORMANCE FOR THE INTERIM PERIOD ENDED MARCH 31, 2015****(1) Business Results**

(Percentages show period-on-period changes)

	Operating Revenues (Millions of Yen)	Operating Income (Millions of Yen)	Ordinary Income (Millions of Yen)	Net Income (Millions of Yen)
Interim period ended March 31, 2015	1,003 %	498 %	335 %	334 %
	(—)	(—)	(—)	(—)

	Net Income per Unit
Interim period ended March 31, 2015	4,547 Yen
	(1,297)

(Note 1) Although the accounting period for KRR’s interim period ended March 31, 2015 includes 180 days from October 3, 2014 to March 31, 2015, its substantial asset management period covers only 50 days from February 10, 2015 to March 31, 2015.

(Note 2) Net income per unit is calculated by dividing net income by the day-weighted average number of investment units outstanding during the period (73,458 units). The figure in brackets shows net income per unit based on the day weighted average number of investment units outstanding during the period (257,415 units) assuming the beginning date of the fiscal period is February 10, 2015, the day that the asset management actually started.

(Note 3) The purpose of the percentages of operating revenues, operating income, ordinary income and net income is to show changes from the previous period. However, no applicable figures are shown for the interim period under review, as the said period was KRR’s first fiscal period.

**(2) Financial Position**

	Total Assets (Millions of Yen)	Net Assets (Millions of Yen)	Net Assets to Total Assets	Net Asset Value per Unit (Yen)
As of March 31, 2015	94,611	58,191	% 61.5	223,168

**(3) Cash Flows**

	Cash Flows from Operating Activities (Millions of Yen)	Cash Flows from Investing Activities (Millions of Yen)	Cash Flows from Financing Activities (Millions of Yen)	Cash and Cash Equivalents at the End of the Period (Millions of Yen)
Interim period ended March 31, 2015	(653)	(78,080)	84,511	5,777

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## 2. FORECAST OF RESULTS FOR THE FISCAL PERIOD ENDING SEPTEMBER 30, 2015 (October 3, 2014 to September 30, 2015) AND MARCH 31, 2016 (October 1, 2015 to March 31, 2016)

(Percentages show period-on-period changes)

	Operating Revenues (Millions of Yen) (%)	Operating Income (Millions of Yen) (%)	Ordinary Income (Millions of Yen) (%)	Net Income (Millions of Yen) (%)	Distributions per Unit Excluding Excess of Earnings (Yen)	Distributions in Excess of Earnings per Unit (Yen)
The First fiscal period ending September 30, 2015	4,857 (—)	2,334 (—)	1,876 (—)	1,858 (—)	7,127	0
The Second fiscal period ending March 31, 2016	3,962 (-18.4)	1,874 (-19.7)	1,545 (-17.7)	1,541 (-17.1)	5,912	0

(Reference) Forecasted net income per unit (Forecasted net income / Forecasted average number of investment units during period)

For the fiscal period ending September 30, 2015: ¥11,070 For the fiscal period ending March 31, 2016: ¥5,912

(Note 1) Distributions per unit are calculated based on the number of investment units issued as of March 31, 2015, which is the end of the interim period (260,750 units).

(Note 2) The purpose of the percentages of operating revenues, operating income, ordinary income and net income is to show changes from the previous period. However, no applicable figures are shown for the fiscal period under review, as the said period was KRR's first fiscal period.

### 3. OTHER

#### (1) Changes in Accounting Policies/Changes in Accounting Estimate/Retrospective Restatement

(a) Changes in accounting policies accompanying revisions to accounting standards: None

(b) Changes in accounting policies other than (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

#### (2) Number of Investment Units Issued and Outstanding (including treasury investment units)

(a) Number of investment units issued and outstanding at the end of the period (including treasury investment units)

As of March 31, 2015: 260,750 units

(b) Number of treasury investment units at the end of the period

As of March 31, 2015: 0 units

(Note) Please refer to "Per Unit Information" on page 22 for the number of investment units used as the basis for calculating net income per unit.

#### \* Status of interim audit procedures

As of the time of disclosure of this interim financial results report, audit procedures for the interim financial statements pursuant to the Financial Instruments and Exchange Act of Japan are incomplete.

#### \* Remarks on appropriate use of forecasts of performance and other special notes

Forward-looking statements presented in this interim financial report, including forecasts of performance, are based on information currently available to KRR and on certain assumptions KRR deems to be reasonable. As such, actual operating and other results may differ materially from these forecasts as a consequence of numerous factors. The above-mentioned forecasts are based on "Assumptions for the Forecasts of Financial Results for the Fiscal Periods Ending September 30, 2015 and March 31, 2016" on page 10 for calculation, and our judgment as of March 31, 2015. Actual operating revenues, operating income, ordinary income, net income, distributions per unit and distributions in excess of earnings per unit may vary according to changes in market conditions. These forecasts do not guarantee the distribution amount.

KRR's first fiscal period is from October 3, 2014 to September 30, 2015. As the period is longer than nine months, an interim settlement of account has been adopted. Going forward, KRR will settle accounts at the end of March and September each year.

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## 1. KRR and Related Corporations

As there have been no significant changes from the “Management structure of KRR” described in the Securities Registration Statement (submitted on January 6, 2015; prepared in Japanese only), the disclosure is omitted.

## 2. Investment Policies and Status of Asset Management

### (1) Investment Policies

As there have been no significant changes from policies described in “Investment Policy,” “Investment Properties” and “Distribution Policy” in the Securities Registration Statement (submitted on January 6, 2015; prepared in Japanese only), the disclosure is omitted.

### (2) Status of Asset Management

#### (Overview of the Interim Period)

##### i) Transition of KRR

KRR was established on October 3, 2014, with unitholders’ capital of ¥150 million (750 units) and with Kenedix Real Estate Fund Management Inc. (“KFM”) as the organizer under the Act on Investment Trusts and Investment Corporations of Japan (the “Investment Trust Act”). On October 30, 2014, KRR was registered with the Director-General of the Kanto Local Finance Bureau (registration number: Director-General of the Kanto Local Finance Bureau No. 97). KRR issued new investment units (254,250 units) through a public offering with the payment due date on February 9, 2015, which were 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. In addition, new investment units (5,750 units) were issued through a third-party allotment on March 11, 2015. As a result, the number of investment units issued at the end of the interim period was 260,750 units.

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

- (Note) For our management purposes and ease of classification, we define neighborhood, community and other shopping centers for daily needs as retail properties that generally have the following characteristics:
- a. Retail trade area of approximately a one to ten kilometer radius (and generally, a three to five kilometer radius), with customers predominantly from local areas surrounding the retail property
  - b. Operational capacity to accommodate certain daily local retail needs and strong customer traffic on both weekdays and weekends
  - c. Composed of various specialty stores to meet a range of day-to-day needs such as groceries, clothing and other daily goods and services

##### ii) Investment Environment

Japan’s real GDP in the 1st quarter of 2015 increased 0.6% (first preliminary estimate) from the previous quarter. GDP increased for the second quarter in a row, following the 4th quarter of 2014, when we saw Japan’s first growth in GDP after the April 1, 2014 consumption tax rate hike to 8%. There were also improvements in corporate earnings and employment conditions, and according to the Cabinet Office, fiscal 2015 spring wage increases exceeded that of fiscal 2014, when wage increases were the highest in 15 years. The March 2015 Economy Watchers Survey of the Cabinet Office reported a Diffusion Index (DI) for current economic conditions of 52.2. Furthermore, there are signs of a rebound in the household sector as the household activity DI in the survey marked 50.9, the first time after the consumption tax hike that this figure was above 50.

In the financial environment, interest rates remained low due to the additional monetary easing by the Bank of Japan that started in October 2014. The yen has been weakening rapidly while stock prices have moved up just as quickly. In the J-REIT market, there have been substantial financing activities as capital flowed into this sector, mainly through investment trusts that invest in J-REITs. Monetary easing and a large amount of equity raised by J-REITs also supported a high level of transaction activity in the real estate market.

### iii) Management Performance

#### (A) Acquisition of Assets

KRR acquired and started the operations of the following trust beneficiary interests in real estate (18 properties; total acquisition price: ¥80,843 million) on February 10, 2015.

The below is property portfolio of KRR as of March 31, 2015.

Property number	Property Type (Note 1)	Property name	Location (City or Ward, Prefecture)	Acquisition Price (million yen) (Note 2)	Appraisal Value (million Yen) (Note 3)	Acquisition Date
T-1	CSC	Fululu Garden Yachiyo	Yachiyo, Chiba	14,848	15,000	February 10, 2015
T-2	Urban Station-Front SC	MONA Shin-Urayasu	Urayasu, Chiba	8,063	8,340	February 10, 2015
T-3	Urban Station-Front SC	Passaggio Nishiarai	Adachi ward, Tokyo	5,850	6,020	February 10, 2015
T-4	Urban Station-Front SC	Daikanyama Address Dixsept	Shibuya ward, Tokyo	5,390	5,400	February 10, 2015
T-5	NSC	Unicus Ina	Kitaadachi-gun, Saitama	4,379	4,410	February 10, 2015
T-6	NSC	Yorktown Kita-Kaname	Hiratsuka, Kanagawa	4,000	4,120	February 10, 2015
T-7	NSC	Unicus Yoshikawa	Yoshikawa, Saitama	3,600	3,630	February 10, 2015
T-8	SS	Sports Club Renaissance Fujimidai	Nerima ward, Tokyo	2,586	2,600	February 10, 2015
O-1	NSC	Blumer Maitamon	Kobe, Hyogo	8,389	8,520	February 10, 2015
O-2	SM	Life Takadono (Land)	Osaka, Osaka	2,685	2,700	February 10, 2015
O-3	NSC	Piago Kahma Home Center Omihachiman	Omihachiman, Shiga	2,140	2,390	February 10, 2015
N-1	SS	Kahma Home Center Nakagawa Tomita (Land)	Nagoya, Aichi	2,311	2,380	February 10, 2015
N-2	NSC	Valor Ichinomiya-Nishi	Ichinomiya, Aichi	2,174	2,190	February 10, 2015
N-3	SS	K's Denki Nakagawa Tomita (Land)	Nagoya, Aichi	889	903	February 10, 2015
F-1	SM	Sunny Noma	Fukuoka, Fukuoka	1,497	1,500	February 10, 2015
R-1	NSC	Roseo Mito	Mito, Ibaraki	9,675	9,780	February 10, 2015
R-2	SM	K's Denki Aomori Honten	Aomori, Aomori	1,469	1,590	February 10, 2015
R-3	NSC	Super Sports Xebio Aomori-Chuo	Aomori, Aomori	898	901	February 10, 2015
Total				80,843	82,374	

Note:

1. Properties 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). We categorize these properties generally into five separate groups as follows.

Type of Neighborhood, community and other 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
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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)
3. “Appraisal value” is from the appraisal report prepared for the acquisition.

### **(B) Management and Operation of Assets**

KFM provides property management services for all of the properties owned by KRR at the end of the interim period under review (March 31, 2015). By using the same company for both asset management and property management services, KRR aims to build stronger relationships with tenants and increase returns from its portfolio. Furthermore, by implementing retail property management that better reflects the needs of our tenants, KRR strives to accumulate know-how and improve tenant satisfaction.

KRR invests primarily in neighborhood and community shopping centers that cater to the day-to-day needs of customers. The portfolio is diversified in terms of properties, tenants and other characteristics with a goal to generate consistent long-term cash flows. At the same time, a portion of the rent includes sales-linked rent to explore the upside potential for rental income. By using these measures, we aim to pursue a portfolio that achieves both stability and growth.

As of the end of the interim period under review, portfolio as a whole performed well with an overall occupancy ratio of 99.4%. Furthermore, the portfolio is diversified in terms of tenants as there are 279 end-tenants in our retail properties.

### **(C) Financing**

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

#### **(Equity Finance)**

In the current fiscal period, KRR was listed on the Tokyo Stock Exchange on February 10, 2015. In regard to this initial public offering, KRR sold 254,250 newly issued units, of which 168,825 units were offered in Japan and 85,425 units were offered overseas, and raised 56,430 million yen. In addition, 5,750 units were issued through third-party allotment on March 11, 2015, raising 1,276 million yen that was used to prepay a portion of borrowing for acquisition of properties.

Due to these activities, unitholders’ capital increased to 57,707 million yen on March 31, 2015.

#### **(Debt Finance)**

During the interim 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 26,850 million yen at the end of the interim period under review. When undertaking borrowings, we combine a number of loans, spreading out repayment dates as shown below, considering the interest rate trends and other financial environment. We use swaps to fix the interest payments to hedge against the risk of a rise in interest rates.

Series	Lender	Amount (in thousands of yen)	Interest rate	Drawdown date	Repayment date (Note 1)	Repayment method	Remarks
1-A	Sumitomo Mitsui Banking Corporation	2,000,000	JBA 1-month Japanese Yen TIBOR + 0.30% (Floating interest rate)	February 10, 2015	February 10, 2016	Full on maturity	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.						
	Mizuho Bank, Ltd.						
	Aozora Bank, Ltd.						
	Resona Bank, Ltd.						
	Sumitomo Mitsui Trust Bank, Limited						
1-B	Sumitomo Mitsui Banking Corporation	3,850,000	0.54500% (Note 2)	February 10, 2015	February 10, 2018	Full on maturity	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.						
	Mizuho Bank, Ltd.						
	Mizuho Trust and Banking Co., Limited						
1-C	Sumitomo Mitsui Banking Corporation	7,000,000	0.75125% (Note 2)	February 10, 2015	February 10, 2020	Full on maturity	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.						
	Mitsubishi UFJ Trust and Banking Corporation						
	Sumitomo Mitsui Trust Bank, Limited						
	Aozora Bank, Ltd.						
	Resona Bank, Ltd.						
	The Gunma Bank, Ltd.						
	The Musashino Bank, Ltd.						
	Mizuho Bank, Ltd.						
	Mizuho Trust and Banking Co., Limited						
1-D	Sumitomo Mitsui Banking Corporation	5,500,000	0.86475% (Note 2)	February 10, 2015	February 10, 2021	Full on maturity	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.						
	Sumitomo Mitsui Trust Bank, Limited						
	Aozora Bank, Ltd.						
	Resona Bank, Ltd.						
	Mizuho Bank, Ltd.						
1-E	Sumitomo Mitsui Banking Corporation	5,400,000	0.97750% (Note 2)	February 10, 2015	February 10, 2022	Full on maturity	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.						
	Sumitomo Mitsui Trust Bank, Limited						
	Aozora Bank, Ltd.						
	Mizuho Trust and Banking Co., Limited						
	Mizuho Bank, Ltd.						
	Resona Bank, Ltd.						
1-F	Development Bank of Japan Inc.	1,500,000	0.92500%	February 10, 2015	February 10, 2021	Full on maturity	Unsecured/ Unguaranteed
1-G	Development Bank of Japan Inc.	1,600,000	1.03250%	February 10, 2015	February 10, 2022	Full on maturity	Unsecured/ Unguaranteed
1-H	Sumitomo Mitsui Banking Corporation	1,322,500	JBA 1-month Japanese Yen TIBOR + 0.50% (Floating interest rate)	February 10, 2015	February 10, 2016 (Note3)	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) These borrowings are floating interest rates. However, we have entered into interest rate swap agreements to hedge the risks of interest rate volatility. These rates are the interest rates including the effect of the swaps (i.e., fixed interest rates).

(Note 3) Early repayment was made on March 16, 2015.

As a result, the average years to debt repayment dates is 5.1, the weighted average interest rate is 0.793%, the long-term debt ratio is 92.6% and the LTV ratio (note), is 33.4%.

(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.

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

The asset management period for the interim period under review is effectively 50 days that started on February 10, 2015, when assets were acquired, and ended on March 31, 2015. For this period, revenue was 1,003 million yen, operating income was 498 million yen, ordinary income was 335 million yen and net income was 334 million yen.

#### **(Outlook)**

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

The Japanese economy is expected to continue to recover at a moderate pace owing to increasing corporate earnings and other positive factors. However, we should pay attention to uncertainties about the overseas economy regarding the direction of U.S. financial policies, the health of emerging economies and other events.

As for Japan's retail sector environment, household sentiment is recovering with the improvement in employment condition and rising wages, as well as the stock market rally. As a result, the negative effects of the April 2014 consumption tax hike are expected to weaken.

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

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

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

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

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

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

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

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

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

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

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

“One-stop” asset management and property management services

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

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

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

Pursuit of internal growth through management of retail properties

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

i. Effectively utilize capital expenditure

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

ii. Optimize tenant mix

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

iii. Realize growth in asset value by pursuing property expansions

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

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

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

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

**(C) Financing**

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

**(D) Disclosure of Information**

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

**(E) Conflicts of Interest**

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

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

KRR additionally acquired one asset (acquisition price of 11 billion yen) on April 16, 2015.

Property number	Property Type	Property name	Location (City or Ward, Prefecture)	Acquisition Price (million yen)	Appraisal Value (million Yen)	Acquisition Date
O-4	NSC	Blumer HAT Kobe	Kobe, Hyogo	11,000	11,200	April 16, 2015

**(B) Financing**

KRR borrowed funds for the acquisition on April 16, 2015.

Series	Lender	Amount (in thousands of yen)	Interest rate	Drawdown date	Repayment date (Note 1)	Repayment method	Remarks
2-A	Sumitomo Mitsui Banking Corporation	6,900,000	JBA 1-month Japanese Yen TIBOR + 0.30% (Floating interest rate)	April 16, 2015	April 16, 2016	Full on maturity	Unsecured/ Unguaranteed
2-B	Sumitomo Mitsui Banking Corporation	4,600,000	1.36600% (Note 2)	April 16, 2015	April 16, 2025	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) These borrowings are floating interest rates. However, we have entered into interest rate swap agreements to hedge the risks of interest rate volatility. These rates are the interest rates including the effect of the swaps (i.e., fixed interest rates).

**ii) Forecasts of Operating Results (Earnings)**

For the fiscal period ending September 30, 2015 (From October 3, 2014 to September 30, 2015) and the fiscal period ending March 31, 2016 ( From October 1, 2015 to March 31, 2016), the forecasts of financial results are estimated as set forth below.

## Fiscal period ending September 30, 2015

Operating revenues	¥4,857 million
Operating Income	¥2,334 million
Ordinary income	¥1,876 million
Net Income	¥1,858 million
Distributions per unit	¥7,127
Of the above, distributions in excess of earnings	¥0

## Fiscal period ending March 31, 2016

Operating revenues	¥3,962 million
Operating Income	¥1,874 million
Ordinary income	¥1,545 million
Net Income	¥1,541 million
Distributions per unit	¥5,912
Of the above, distributions in excess of earnings	¥0

Please refer to “Assumptions for the Forecasts of Financial Results for the Fiscal Periods Ending September 30, 2015 and March 31, 2016” set forth below for information on current assumptions for the forecasts of operating results.

(Note) The above-mentioned forecasts are based on certain assumptions for calculation, and our judgment as of March 31 2015. Actual operating revenues, operating income, ordinary income, net income, distributions per unit and distributions in excess of earnings per unit may vary in response to changes in market conditions. These forecasts do not guarantee the distribution amount.

**Assumptions for the Forecasts of Financial Results for the Fiscal Periods Ending September 30, 2015 and March 31, 2016**

Item	Assumptions
Calculation period	<ul style="list-style-type: none"> <li>➤ The 1st fiscal period: October 3, 2014 to September 30, 2015 (363 days) Since the management of assets started on February 10, 2015, the acquisition date, the substantial operating days are 233 days.</li> <li>➤ The 2nd fiscal period: October 1, 2015 to March 31, 2016 (183 days)</li> </ul>
Property portfolio	<ul style="list-style-type: none"> <li>➤ It is assumed that there will be no changes (any acquisition of new properties or any sale of existing properties, etc.) in property portfolio of 19 assets, which are 18 IPO assets and Blumer HAT Kobe, acquired on April 16, 2015, until the end of the period ending March 31, 2016.</li> <li>➤ The actual property portfolio may change due to the acquisition of new properties other than Blumer HAT Kobe or the disposal of owned properties, etc.</li> </ul>
Operating revenues	<ul style="list-style-type: none"> <li>➤ Operating revenues of the IPO assets are based on leasing agreements as of March 31, 2015, and other factors, including expectations based on market trends.</li> <li>➤ Operating revenues of Blumer HAT Kobe are based on information provided by the sellers, leasing agreements as of March 31, 2015, and other factors, including expectations based on market trends.</li> <li>➤ Forecasts are based on the assumption that there will be no rent in arrears or non-payments by the tenant.</li> </ul>

Operating expenses	<ul style="list-style-type: none"> <li>➤ Property-related operating expenses other than depreciation are calculated based on historic data, etc. and these costs reflect fluctuations in the costs, including leasing costs based on the leasing agreements.</li> <li>➤ Depreciation expenses of 552 million yen and 433 million yen is assumed for the periods ending September 30, 2015 and March 31, 2016, respectively, using the straight-line depreciation method.</li> <li>➤ When a property is sold, the purchaser of the property typically reimburses the seller, pursuant to the purchase agreement, for the pro rata portion of the property-related taxes that relates to the period from the acquisition date to the end of the calendar year in which the acquisition occurs. As is customary for property transactions in Japan and in accordance with Japanese GAAP, KRR intends to capitalize the portions of the real estate taxes on the IPO assets and Blumer HAT Kobe, and not expensed in the fiscal period ending September 30, 2015, when the acquisition occurs. In addition, they are not expensed in the period ending March 31, 2016 because the amount to be expensed for such costs may not be decided by March 31, 2016. Accordingly, such costs for the IPO assets and Blumer HAT Kobe are not expensed for the periods ending September 30, 2015 and March 31, 2016. The total amount of property-related taxes on the IPO assets and Blumer HAT Kobe to be capitalized is assumed to be 688 million yen. The amounts that would have been due for property-related taxes in respect of capitalized amounts had all such amounts been treated as expenses is 422 million yen and 345 million yen for the periods ending September 30, 2015 and March 31, 2016, respectively.</li> <li>➤ With respect to building repair expenses, the amount assumed to be necessary for each property is based on the repair plan of the asset manager (KFM) for each period. However, repair expenses may be substantially different from the expected amount due to certain unexpected factors.</li> </ul>
Non-operating expenses	<ul style="list-style-type: none"> <li>➤ The total amount of 317 million yen is assumed for offering-related costs and initial start-up costs. The offering-related costs and the initial start-up costs will be amortized using the straight-line method over 36 months and 60 months, respectively. The related costs are assumed to be 66 million yen and 49 million yen for the periods ending September 30, 2015 and March 31, 2016, respectively.</li> <li>➤ For interest expenses and other debt-related costs, 389 million yen and 278 million yen are expected for the fiscal periods ending September 30, 2015 and March 31, 2016, respectively.</li> </ul>
Certain corporate and other taxes	<ul style="list-style-type: none"> <li>➤ The amount of 18 million yen and 3 million yen have been assumed for certain deferred income and corporate taxes with respect to the commercial fixed term land lease agreement for Sunny Noma and other taxes for the fiscal periods ending September 30, 2015 and March 31, 2016, respectively.</li> <li>➤ The aforementioned costs may be substantially different due to changes in the related lease agreement.</li> </ul>
Borrowings	<ul style="list-style-type: none"> <li>➤ As of today, KRR has outstanding balance of 38,350 million yen in borrowings.</li> <li>➤ The LTV ratio as at the end of the period ending September 30, 2015 and March 31, 2016 is both expected to be approximately 40.8%.</li> <li>➤ The LTV ratio has been calculated according to the following formula:  <math display="block">\text{LTV ratio} = (\text{Borrowings} + \text{Corporate bonds} + \text{Tenant leasehold and security deposits} - \text{Amounts reserved for return of tenant leasehold and security deposits}) / (\text{Total assets} - \text{Amounts reserved for return of tenant leasehold and security deposits})</math> </li> </ul>
Investment units	<ul style="list-style-type: none"> <li>➤ The forecasts are based on our assumption of 260,750 units issued as of today. It is assumed that there will be no changes in the number of investment units due to the new issuance of units until the end of the fiscal period ending March 31, 2016.</li> </ul>
Distributions per unit (excluding excess of earnings per unit)	<ul style="list-style-type: none"> <li>➤ Distributions per unit (excluding excess of earnings per unit) are calculated in accordance with the distribution policy outlined in KRR's Articles of Incorporation.</li> <li>➤ Actual distributions per unit (excluding excess of earnings per unit) may fluctuate due to various factors including movements in investment assets, fluctuations in rental revenues caused by tenant replacements, or unexpected repairs.</li> </ul>
Distributions in excess of earnings per unit	<ul style="list-style-type: none"> <li>➤ Distributions in excess of earnings per unit is not currently scheduled.</li> </ul>
Other	<ul style="list-style-type: none"> <li>➤ Forecasts are based on the assumption that there will be no amendments to the law, taxation system, accounting standards, public listing regulations, requirements of the Investment Trusts Association, Japan, etc. that may affect the aforementioned forecast figures.</li> <li>➤ Forecasts are based on the assumption that there will be no unexpected significant changes in general economic trends and real estate market trends or other conditions.</li> </ul>

**3. Interim Financial Statements****(1) Interim Balance Sheet**

	(in thousands of yen)
	Reporting Period
	(As of March 31, 2015)
Assets	
Current assets	
Cash and deposits	2,717,508
Cash and deposits in trust	6,905,850
Operating accounts receivable	187,674
Prepaid expenses	25,476
Deferred tax assets	75
Consumption taxes receivable	1,935,654
Total current assets	<u>11,772,240</u>
Noncurrent assets	
Property, plant and equipment	
Buildings in trust	22,506,324
Accumulated depreciation	(117,239)
Buildings in trust, net	<u>*1 22,389,084</u>
Structures in trust	1,102,263
Accumulated depreciation	(8,704)
Structures in trust, net	<u>*1 1,093,558</u>
Machinery and equipment in trust	21,302
Accumulated depreciation	(151)
Machinery and equipment in trust, net	<u>21,151</u>
Tools, furniture and fixtures in trust	6,847
Accumulated depreciation	(101)
Tools, furniture and fixtures in trust, net	<u>6,745</u>
Land in trust	<u>*1 58,536,091</u>
Construction in progress in trust	<u>12,025</u>
Total property, plant and equipment, net	<u>82,058,657</u>
Intangible assets	
Leasehold right in trust	175,056
Other	2,425
Total intangible assets	<u>177,482</u>
Investments and other assets	
Lease and guarantee deposits	10,000
Lease and guarantee deposits in trust	5,270
Long-term prepaid expenses	269,293
Long-term deposits	78,530
Total investments and other assets	<u>363,093</u>
Total noncurrent assets	<u>82,599,233</u>
Deferred assets	
Deferred organization expenses	45,576
Investment unit issuance costs	194,523
Total deferred assets	<u>240,100</u>
Total assets	<u>94,611,573</u>

(in thousands of yen)

	Reporting Period	
	(As of March 31, 2015)	
Liabilities		
Current liabilities		
Operating accounts payable		284,025
Short-term loans payable		2,000,000
Accounts payable-other		79,421
Accrued expenses		4,663
Income taxes payable		1,814
Advances received		423,296
Deposits received		635,108
Total current liabilities		3,428,329
Noncurrent liabilities		
Long-term loans payable		24,850,000
Tenant leasehold and security deposits in trust	*1	8,119,399
Asset retirement obligations		22,758
Total noncurrent liabilities		32,992,158
Total liabilities		36,420,487
Net assets		
Unitholders' equity		
Unitholders' capital		57,857,000
Surplus		
Unappropriated retained earnings		334,085
Total surplus		334,085
Total unitholders' equity		58,191,085
Total net assets	*2	58,191,085
Total liabilities and net assets		94,611,573

**(2) Interim Statement of Income and Retained Earnings**

	(in thousands of yen)	
	Reporting Period	
	(From October 3, 2014 to March 31, 2015)	
Operating revenues		
Rent revenue-real estate	*1	822,652
Other lease business revenue	*1	180,487
Total operating revenues		<u>1,003,139</u>
Operating expenses		
Expenses related to rent business	*1,*2	422,483
Asset management fees		54,724
Asset custody fees		1,426
Administrative service fees		5,590
Directors' compensation		4,431
Other operating expenses	*2	15,493
Total operating expenses		<u>504,150</u>
Operating income		<u>498,989</u>
Non-operating income		
Interest income		347
Total non-operating income		<u>347</u>
Non-operating expenses		
Interest expenses		36,431
Borrowing related expenses		111,408
Amortization of deferred organization expenses		4,984
Amortization of investment unit issuance costs		10,618
Total non-operating expenses		<u>163,441</u>
Ordinary income		<u>335,894</u>
Income before income taxes		<u>335,894</u>
Income taxes		
Current		1,884
Deferred		(75)
Total income taxes		<u>1,808</u>
Net income		<u>334,085</u>
Unappropriated retained earnings		<u>334,085</u>

**(3) Interim Statement of Changes in Net Assets**

Reporting Period (From October 3, 2014 to March 31, 2015)

(in thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings	Total surplus		
Balance at the beginning of current period	—	—	—	—	—
Changes of items during the period					
Issuance of new investment units	57,857,000			57,857,000	57,857,000
Net income		334,085	334,085	334,085	334,085
Total changes of items during the period	57,857,000	334,085	334,085	58,191,085	58,191,085
Balance at the end of current period	*1 57,857,000	334,085	334,085	58,191,085	58,191,085

**(4) Interim Statement of Cash Flows**

	(in thousands of yen)
	Reporting Period
	(From October 3, 2014 to March 31, 2015)
Net cash provided by (used in) operating activities	
Income before income taxes	335,894
Depreciation and amortization	127,655
Amortization of deferred organization expenses	4,984
Amortization of investment unit issuance costs	10,618
Interest income	(347)
Interest expenses	36,431
Decrease (increase) in operating accounts receivable	(187,674)
Decrease (increase) in consumption taxes refund receivable	(1,935,654)
Decrease (increase) in prepaid expenses	(25,476)
Increase (decrease) in operating accounts payable	281,766
Increase (decrease) in accounts payable-other	69,896
Increase (decrease) in advances received	423,296
Increase (decrease) in deposits received	635,108
Decrease (increase) in long-term prepaid expenses	(269,293)
Decrease (increase) in long-term deposits	(78,530)
Payment of organization expenses	(50,560)
Subtotal	(621,885)
Interest income received	347
Interest expenses paid	(31,767)
Income taxes paid	(70)
Net cash provided by (used in) operating activities	(653,376)
Net cash provided by (used in) investing activities	
Purchase of property, plant and equipment in trust	(82,159,885)
Purchase of intangible assets	(2,509)
Purchase of intangible assets in trust	(176,383)
Payments for lease and guarantee deposits	(10,000)
Payments for lease and guarantee deposits in trust	(5,270)
Repayments of tenant leasehold and security deposits in trust	(122,389)
Proceeds from tenant leasehold and security deposits in trust	8,241,789
Payments of restricted bank deposits in trust	(3,917,992)
Proceeds from restricted bank deposits in trust	71,892
Net cash provided by (used in) investing activities	(78,080,747)
Net cash provided by (used in) financing activities	
Increase in short-term loans payable	3,322,500
Decrease in short-term loans payable	(1,322,500)
Proceeds from long-term loans payable	24,850,000
Proceeds from issuance of investment units	57,661,383
Net cash provided by (used in) financing activities	84,511,383
Net increase (decrease) in cash and cash equivalents	5,777,258
Cash and cash equivalents at the beginning of period	-
Cash and cash equivalents at the end of period	*1 5,777,258

**(5) Notes on Assumption of Going Concern**

Not applicable

**(6) Summary of Significant Accounting Policies**

1. Method of depreciation of noncurrent assets	<p>(1) Property, plant and equipment (including trust assets) The straight-line method is applied. Useful lives of the assets ranging are as follows: Buildings: 2 to 64 year Structures: 8 to 59 years Machinery and equipment: 15 to 25 years Tools, furniture and fixtures: 5 to 10 years</p> <p>(2) Intangible assets (including trust assets) The straight-line method is applied.</p> <p>(3) Long-term prepaid expenses The straight-line method is applied.</p>
2. Accounting for deferred assets	<p>(1) Deferred organization expenses Deferred organization expenses are amortized over a period of 5 years under the straight-line method.</p> <p>(2) Unit issuance costs Unit issuance costs are amortized over a period of 3 years under the straight-line method.</p>
3. Accounting for revenues and expenses	<p>Accounting for property-related taxes 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 ¥522,992 thousand as of March 31, 2015.</p>
4. Method of hedge accounting	<p>(1) Hedge accounting method Deferral hedge accounting is applied. However, the special treatment is applied for the interest-rate swap agreements that meet the criteria for special treatment.</p> <p>(2) Hedging instruments and risks hedged Hedge instruments Interest-rate swap transactions Hedged items Interest payments on debts</p> <p>(3) Hedging policy KRR enters into derivative transactions based on its risk management policies with the objective of hedging risks provided in its Articles of Incorporation.</p> <p>(4) Method of assessing the effectiveness of hedging The assessment of hedge effectiveness is omitted since the interest rate swaps satisfy the requirements for special treatment.</p>
5. Scope of cash and cash equivalents on interim statement of cash flows	<p>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.</p>
6. Other significant accounting policies for the preparation of interim financial statements	<p>(1) Accounting method for trust beneficiary interests in real estate and other assets The assets and liabilities as well as revenues and expenses of financial assets held in the form of trust beneficiary interests in real estate and other assets are recorded in full in KRR's interim balance sheet and interim statement of income. Of the assets in trust accounted for under the respective account items, the following significant items are separately indicated on the interim balance sheet. 1. Cash and deposits in trust 2. Buildings in trust, structures in trust, machinery and equipment in trust, tools, furniture and fixtures in trust, land in trust, construction in progress in trust 3. Leasehold right in trust 4. Lease and guarantee deposits in trust 5. Tenant leasehold and security deposits in trust</p> <p>(2) Accounting method for consumption taxes Consumption taxes are separately recorded. Non-deductible consumption taxes applicable to the acquisition of assets are included in the cost of acquisition for each asset.</p>

**(7) Notes to Interim Financial Statements**

(Notes to Interim Balance Sheet)

\* 1. Assets pledged as collateral and relevant secured liabilities:

	(in thousands of yen)
Assets pledged as collateral	Reporting Period As of March 31, 2015
Buildings in trust	2,508,877
Structures in trust	50,209
Land in trust	6,593,388
Total	9,152,475
Secured liabilities	
Tenant leasehold and security deposits in trust	3,846,100

\* 2. Minimum net assets prescribed in Article 67-4 of the Investment Trust Act

	(in thousands of yen)
Reporting Period As of March 31, 2015	
	50,000

(Notes to Interim Statement of Income and Retained Earnings)

\* 1. Breakdown of real estate rental revenues and expenses

	(in thousands of yen)
	Reporting Period From October 3, 2014 to March 31, 2015
Rental and other operating revenues:	
Rental revenues	726,354
Rental revenues from limited proprietary rights of land	45,575
Common area charges	50,722
Subtotal	822,652
Others:	
Parking space rental revenues	24,540
Utility charge reimbursement	78,134
Miscellaneous	77,812
Subtotal	180,487
Total rental and other operating revenues	1,003,139
Property management fees and facility management fees	119,953
Utilities	97,199
Taxes	1,265
Repairs and maintenance	5,345
Insurance	1,915
Trust fees	2,547
Depreciation	127,571
Others	66,684
Total property-related expenses	422,483
Net operating income from real estate rental business	580,656

* 2. Depreciation amount	(in thousands of yen)
	Reporting Period From October 3, 2014 to March 31, 2015
Property, plant and equipment	126,245
Intangible assets	1,409

## (Notes to Interim Statement of Changes in Net Assets)

\* 1. Total number of authorized investment units and total number of investment units issued and outstanding are as follows:

	Reporting Period From October 3, 2014 to March 31, 2015
Total number of authorized investment units	5,000,000
Total number of investment units issued and outstanding	260,750

## (Notes to Interim Statement of Cash Flows)

\* 1. Reconciliation of interim balance sheet items to cash and cash equivalents at end of reporting period

	(in thousands of yen)
	Reporting Period As of March 31, 2015
Cash and deposits	2,717,508
Cash and deposits in trust	6,905,850
Restricted bank deposits in trust (Note)	(3,846,100)
Cash and cash equivalents	5,777,258

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

## (Notes to Lease Transactions)

Operating lease transactions (Lessee)

Future minimum lease payments

	(in thousands of yen)
	Reporting Period As of March 31, 2015
Due in 1 year	10,500
Due after 1 year	220,048
Total	230,548

Operating lease transactions (Lessor)

Future minimum lease income

	(in thousands of yen)
	Reporting Period As of March 31, 2015
Due in 1 year	1,861,974
Due after 1 year	17,768,871
Total	19,630,845

## (Notes to Financial Instruments)

## 1. Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on interim balance sheet and estimated fair value are shown in the following table. Items whose fair values are recognized to be extremely difficult to grasp are not included in the following table (note 2).

As of March 31, 2015

(in thousands of yen)

	Carrying amount	Estimated fair value	Difference
(1) Cash and deposits	2,717,508	2,717,508	-
(2) Cash and deposits in trust	6,905,850	6,905,850	-
Subtotal	9,623,358	9,623,358	-
(1) Short-term loans payable	2,000,000	2,000,000	-
(2) Long-term loans payable	24,850,000	24,468,590	(381,409)
(3) Tenant leasehold and security deposits in trust	3,579,119	3,584,730	5,610
Subtotal	30,429,119	30,053,321	(375,798)
Derivative transactions	-	-	-

Note1: 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 borrowings 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 borrowings 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 current interest rates which would be applicable to contracts with similar terms and credit risk.

Derivative transactions

Please refer to "Notes to Derivative Transactions".

Note2: Financial instruments whose fair values are recognized to be extremely difficult to grasp

(in thousands of yen)

Classification	Reporting Period As of March 31, 2015
Tenant leasehold and security deposits *	4,540,279

\*Tenant leasehold and security deposits is not publicly traded, and it is 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.

## (Notes to Derivative Transactions)

(1) Transactions not subject to hedge accounting

As of March 31, 2015 : Not applicable

(2) Transactions subject to hedge accounting

As of March 31, 2015

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	21,750,000	21,750,000	*	-

\*Interest rate swaps for which the special treatment is applied are accounted for together with the underlying hedged item. As a result, their fair value is included in the fair value of the hedged long-term loans payable. (Please refer to “Notes to Financial Instruments (Note1) Methods to determine the estimated fair value of financial instruments and matters related to derivative transactions Liabilities (2) Long-term loans payable”.)

## (Notes to Asset Retirement Obligations)

Asset retirement obligations reported on interim balance sheet

Changes in the amount of asset retirement obligations consisted of the following

	(in thousands of yen)
	Reporting Period From October 3, 2014 to March 31, 2015
Balance at the beginning of the period	—
Increase due to acquisition of properties	22,711
Adjustment for passage of time	47
Balance at the end of the period	22,758

## (Notes to Investment and Rental Properties)

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

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

(in thousands of yen)

	Reporting Period From October 3, 2014 to March 31, 2015
Book value	
Balance at the beginning of period	—
Changes during the period	82,233,714
Balance at the end of reporting period	82,233,714
Fair value at the end of reporting period	82,374,000

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 reporting period, principal increases were the acquisition of real estate trust beneficiary interests in 18 property totaling ¥82,319,654 thousand and the principal decrease was depreciation amounting to ¥127,524 thousand.

Note 3: The fair value at end of interim period is the appraisal value determined by outside appraisers. However, when a slight fluctuation occurs in appraisal values or in the indicators that are believed to appropriately reflect market prices since the reporting dates of the most recent appraisals, the most recent fair values based on standard estimation methods for determining fair value are recorded as the fair values as of the end of reporting period.

The profit or loss for the interim period under review concerning investment and rental properties is indicated under “Notes to Interim Statement of Income and Retained Earnings.”

## (Notes to Per Unit Information)

	Reporting Period From October 3, 2014 to March 31, 2015
Net asset value per unit	¥223,168
Net income per unit	¥4,547 (¥1,297)

Note1: Net income per unit is calculated by dividing net income by the day-weighted average number of investment units outstanding during the period (73,458 units).  
The figure in brackets shows net income per unit based on the day-weighted average number of investment units outstanding during the period (257,415 units) assuming the beginning date of the fiscal period is February 10, 2015, the day that the asset management actually started.

Note2: The basis for calculating net income per unit is as follows:

	Reporting Period From October 3, 2014 to March 31, 2015
Net income (in thousands of yen)	334,085
Net income not available to ordinary unitholders (in thousands of yen)	-
Net income available to ordinary unitholders (in thousands of yen)	334,085
Weighted average number of units during the period (units)	73,458

## (Notes to Significant Subsequent Events)

Not applicable

## (Omission of Disclosure)

Notes to Securities, Equity-Method Income and Retained Earnings, and Segment Information are omitted as immaterial to disclose.

**(8) Movements in Investment Units Issued and Outstanding**

Movements in the number of investment units issued and outstanding and unitholders' capital since first fiscal periods are summarized in the following table.

Date	Particulars	Investment Units Issued and Outstanding (Units)		Unitholders' Capital (Millions of Yen)		Remarks
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
October 3, 2014	Private placement	750	750	150	150	(Note 1)
February 9, 2015	Public offering	254,250	255,000	56,430	56,580	(Note 2)
March 11, 2015	Third-party allotment	5,750	260,750	1,276	57,857	(Note 3)

Note 1: KRR was established with an offering price of ¥200,000.

Note 2: KRR undertook an additional issue of new investment units (public offering) with the aim of procuring funds for the acquisition of investment properties. The underwritten price was ¥221,950 per unit with an offering price of ¥230,000 per unit.

Note 3: KRR undertook an additional issue of new investment units by way of third-party allotment with the aim of procuring funds for the the repayment of certain short-term borrowings. The underwritten price was ¥221,950 per unit.

#### 4. Management of KRR and KFM

##### (1) Resignation/Appointment of the Directors of KRR

As of May 25, 2015

Title	Name	Background		No. of Investment Units Owned
Executive Director	Akihiro Asano	April 1994 January 2001 January 2004 January 2009 January 2013 March 2014 September 2014 October 2014	The Development and Construction Division of Mitsubishi Corporation Mitsubishi Corp.-UBS Realty Inc. Real Estate Investment Advisory Department of Kenedix, Inc. Outside director of Mitsui & Co., Logistics Partners Ltd. General Manager of Strategic Investment Team 1 of Kenedix, Inc. Executive Officer, General Manager of the Strategic Investment Department of Kenedix, Inc. Director and COO, General Manager of the Retail REIT Division of KFM (current position) Executive Director of KRR (current position)	-
Supervisory Director	Yoshiyuki Wada	April 1974 June 1977 September 1978 June 1988 May 2003 August 2007 September 2014 October 2014	PricewaterhouseCoopers (formerly Coopers & Lybrand) MISUZU Audit Corporation (formerly Chuo Audit Corporation) Became a Japanese certified public accountant Representative partner of Chuo Audit Corporation Assistant General Manager of the Business Development Division of Chuo Audit Corporation Grant Thornton Taiyo ASG LLC (formerly Grant Thornton Taiyo ASG) (current position) Auditor of Zero Co., Ltd. (current position) Supervisory Director of KRR (current position)	-
Supervisory Director	Mai Ishiwatari	July 2002 July 2004 June 2006 January 2008 January 2012 July 2014 September 2014 October 2014 December 2014	Became a member of the Tokyo Bar Association Yamada Ozaki Law Office (formerly The Law Office of Hideo Yamada) Partner of Authense Law Offices Partner of Polaris Law Offices Rajah & Tann LLP General Manager of Human Resources and Legal of Cocone Corporation Executive Director of Human Resources and Legal of Cocone Corporation (current position) Supervisory Director of KRR (current position) Partner of Shiroyama-Tower Law Office	-

## (2) Directors and Corporate Auditors of KFM

As of May 25, 2015

Title	Name	Brief Personal History		No. of Shares Owned
President and Representative Director	Ryosuke Homma	April 1968 April 1973 February 1979 June 1986 June 1992 September 1994 October 1996  November 2003  March 2007 March 2010 March 2013 October 2013	Mitsubishi Corporation Mitsubishi Company (Thailand) Ltd. Baghdad Office, Mitsubishi Corporation Overseas Construction Department Los Angeles Office, Mitsubishi International Corporation President & CEO, MC Realty, Inc. CEO and President, Kenedix, Inc. (formerly Kennedy-Wilson Japan Co., Ltd.) CEO and President, Kenedix Advisors Co., Ltd. (formerly KW Pension Fund Advisors Co., Ltd.) Chairman and Representative Director, Kenedix, Inc. Chairman and Director, Kenedix, Inc. Senior Adviser, Kenedix, Inc (current position) President and Representative Director, Kenedix Real Estate Fund Management, Inc. (current position)	-
Director and COO, General Manager of Residential REIT Division	Akira Tanaka	April 1987  September 2000 January 2004  September 2006  April 2008  December 2009 February 2010 March 2010 August 2011 November 2011  October 2013  February 2014	Mizuho Trust & Banking Co., Ltd. (formerly Yasuda Trust & Banking Co., Ltd.) Kenedix, Inc. (formerly Kennedy-Wilson Japan Co., Ltd.) Director and COO, Kenedix Advisors Co., Ltd. (formerly KW Pension Fund Advisors Co., Ltd.) Executive Officer and General Manager of Strategic Investment Department, Kenedix, Inc. Senior Executive Officer and General Manager of Strategic Investment Department, Kenedix, Inc. Director, Kenedix Asset Management, Inc. President and Representative Director, Kenedix Advisors, Inc. Director, Kenedix, Inc. Representative Director, Kenedix Residential Partners, Inc. Executive Director, Kenedix Residential Investment Corporation Director and COO, KDR General Manager of Residential REIT Division, Kenedix Real Estate Fund Management, Inc. Director and COO, General Manager of Residential REIT Division, Kenedix Real Estate Fund Management, Inc. (current position)	-
Director and COO, General Manager of Office REIT Division	Naokatsu Uchida	April 1990  April 1995 April 1998 April 2005 October 2007 November 2007 June 2009 January 2010  January 2011 February 2012 March 2012 October 2013  February 2014	Kyoto Branch, Mitsubishi UFJ Trust and Banking Corporation (formerly The Mitsubishi Trust Banking Corporation) Business Development Division Real Estate Division Real Estate Project Origination Division MAC Advisers Inc. CEO, MAC Investment Management Inc. CEO, Joint Asset Management Co., Ltd. Financial Planning Division, Kenedix Office Partners, Inc. (formerly Kenedix REIT Management, Inc.) General Manager of Financial Planning Division CEO and President Executive Director, Kenedix Realty Investment Corporation Director and COO, KRI General Manager of Fund Division, Kenedix Real Estate Fund Management, Inc. Director and COO, General Manager of the Office REIT Division, Kenedix Real Estate Fund Management, Inc. (current position)	-
Director and COO, General Manager of Retail REIT Division	Akihiro Asano	See "Resignation/Appointment of the Investment Corporation Directors of KRR" above		-
Director (part-time)	Masahiko Tajima	April 1988  July 1994 October 1996 June 1998  July 2000	Sumitomo Mitsui Trust Bank, Ltd. (formerly The Mitsui Trust and Banking Co., Ltd.) Business Affairs Department Credit Planning Department Securities Department Structured Finance Department, Sumitomo Life Insurance Company Kenedix, Inc.	-

		May 2005	General Manager of Financial Planning Division, Kenedix Office Partners, Inc. (formerly Kenedix REIT Management, Inc.)	
		June 2007	Director and General Manager of Financial Planning Division	
		February 2012	Executive Officer and General Manager of Corporate Planning Department, Kenedix, Inc.	
		October 2013	Director (part-time), Kenedix Real Estate Fund Management, Inc. (current position)	
		March 2014	Director, Space Design Inc. (current position)	
		May 2014	Director, Head of Corporate Planning Department, Kenedix, Inc.	
		March 2015	Director, Japan Senior Living Partners Co., Ltd. (current position)	
		March 2015	Director & CFO, Head of Corporate Planning Department, Kenedix, Inc. (current position)	
Corporate Auditor (part-time)	Haruo Funabashi	July 1969	Ministry of Finance	-
		June 1988	Deputy Financial Commissioner, Ministry of Finance	
		May 1989	Counselor, Japanese Embassy in France	
		March 1995	Commissioner, Tokyo Customs	
		July 1997	Deputy Commissioner, National Tax Administration	
		June 1998	Secretary General, Securities and Exchange Surveillance Commission	
		June 2000	Deputy Vice-Minister, National Land Agency	
		July 2001	Vice-Minister for, Ministry of Land, Infrastructure and Transport	
		February 2003	Chief Executive Officer, Sirius Institute Inc. (current position)	
		May 2004	Visiting Professor, Graduate School of International Corporate Strategy, Hitotsubashi University	
		October 2004	Corporate Auditor, Kenedix Office Partners, Inc. (formerly KW REIT Management, Inc.) (current position)	
		October 2004	Corporate Auditor, Kenedix Advisors Co., Ltd. (formerly KW Pension Fund Advisors Co., Ltd.) (current position)	
		March 2005	Corporate Auditor, Kenedix, Inc. (formerly Kennedy-Wilson Japan Co., Ltd.) (current position)	
		June 2009	Director, The Dai-ichi Life Insurance Company, Limited (formerly The Dai-ichi Mutual Life Insurance Company) (current position)	
		October 2013	Corporate Auditor (part-time), Kenedix Real Estate Fund Management, Inc. (current position)	
Corporate Auditor (part-time)	Tetsuo Ueda	April 1979	Resona Bank, Ltd. (formerly The Daiwa Bank, Ltd.)	-
		February 2004	General Manager, Hiroshima Branch	
		June 2006	General Manager, Ueno Branch	
		April 2008	General Manager, Business Management Department, Kenedix Advisors, Inc. (present Kenedix Real Estate Fund Management, Inc.)	
		October 2008	General Manager of General Administration Department and Compliance Officer	
		March 2010	General Manager, General Administration and Human Resources Division, Kenedix, Inc. and General Manager, General Administration Department, Kenedix Advisors, Inc.	
		October 2013	General Manager, General Administration and Human Resources Division, Kenedix, Inc.	
		December 2013	General Manager assigned to General Administration and Human Resources Division, Kenedix, Inc.	
		March 2014	Corporate Auditor, Kenedix, Inc. (current position)	
		March 2014	Corporate Auditor, Kenedix Real Estate Fund Management, Inc. (current position)	
		May 2014	Corporate Auditor, Japan Senior Living Partners Co., Ltd. (current position)	
Corporate Auditor (part-time)	Shintaro Kanno	October 1994	Tohmatsu & Co.	-
		March 2001	Akasaka Houwa Accounting Firm	
		June 2001	Corporate Auditor, Kenedix, Inc. (formerly Kennedy-Wilson Japan Co., Ltd.) (current position)	
		March 2003	Shintaro Kanno Accounting Firm (current position)	
		April 2004	Corporate Auditor, Kenedix Advisors Co., Ltd. (formerly KW Pension Fund Advisors Co., Ltd.) (current position)	
		October 2013	Corporate Auditor (part-time), Kenedix Real Estate Fund Management, Inc. (planned)	

## Key full-time employee

Title	Name	Brief Personal History		No. of Shares Owned
General Manager of the Retail REIT Division	Akihiro Asano	See "Resignation/Appointment of the Investment Corporation Directors of KRR" above		-
General Manager of Compliance Department and Compliance Officer	Shoji Higashi	April 1984 April 1988 August 1999 July 2000 December 2000 February 2001 August 2002 September 2006 January 2009 October 2014	Mori Building Co., Ltd. Legal Division MORI TRUST CO., LTD. Senior Vice Manager of General Affairs Department, Legal Section Manager of General Affairs Department, Legal Section Manager of President's Office General Electric International, Inc. External assignment to GE Real Estate Corporation Senior Operation Manager Transferred to GE Real Estate Corporation Senior Operation Manager Managing Director Head of Legal and Management Division GE Capital Japan Managing Executive Officer of Real Estate Business Leader of Operation Risk Management Kenedix Real Estate Fund Management, Inc. General Manager of Compliance Department and	-

## 5. Reference Information

### (1) Component of Assets

Type of Specified Asset	Areas (Note 1)	The interim period As of March 31, 2015	
		Total Amount Held (Thousands of Yen) (Note 2)	Ratio (%) (Note 3)
Trust Beneficiary Interest in Real Estate	Tokyo metropolitan area	49,523,551	52.3
	Greater Osaka area	13,453,889	14.2
	Greater Nagoya area	5,473,242	5.8
	Fukuoka area	1,541,860	1.6
	<i>Tokureishi</i> and other areas	12,241,170	12.9
Total of Trust Beneficiary Interests in Real Estate		82,233,714	86.9
Bank Deposits and Other Assets		12,377,859	13.1
Total Assets		94,611,573	100.0

	The interim period As of March 31, 2015	
	Amount (Thousands of Yen)	Ratio (%) (Note 3)
Total Liabilities (Note 4)	36,420,487	38.5
Total Net Assets (Note 4)	58,191,085	61.5
Total Assets	94,611,573	100.0

Note1: "Areas" are categorized to the Tokyo metropolitan area, the Greater Osaka area, the Greater Nagoya area, the Fukuoka area and *Tokureishi* 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. "*Tokureishi* and other areas" refers to cities designated by government ordinance, which have a population of 200,000 persons or more, and to other area with a population of fewer than 200,000 persons, which we believe will have suitable customer traffic from surrounding area.

Note2: "Total Amount Held" is the amount allocated in the interim balance sheets at the end of the period (figures are on a net book value basis after deducting depreciation), and is rounded down to the nearest ¥1 thousand.

Note3: "Ratio" is the ratio of the amount allocated in the balance sheets to the total assets rounded to the first decimal place.

Note4: "Total Liabilities" and "Total Net Assets" are those on the interim balance sheets.

**(2) Overview of the Portfolio**

## i) Overview of Assets Held

The following summarizes the real estate or the real estate properties in trust owned by KRR as of March 31, 2015.

Property number	Property Type (Note 1)	Property name	Location (City or Ward, Prefecture) (Note 2)	Ownership Form	Carrying amount at the end of interim period (Million)	Acquisition price (Million)	Share (%) (Note 3)
T-1	CSC	Fululu Garden Yachiyo	Yachiyo, Chiba	Trust beneficiary interest in real estate	15,105	14,848	18.4
T-2	Urban Station-Front SC	MONA Shin-Urayasu	Urayasu, Chiba	Trust beneficiary interest in real estate	8,191	8,063	10.0
T-3	Urban Station-Front SC	Passaggio Nishiarai	Adachi ward, Tokyo	Trust beneficiary interest in real estate	5,967	5,850	7.2
T-4	Urban Station-Front SC	Daikanyama Address Dixsept	Shibuya ward, Tokyo	Trust beneficiary interest in real estate	5,467	5,390	6.7
T-5	NSC	Unicus Ina	Kitaadachi-gun, Saitama	Trust beneficiary interest in real estate	4,439	4,379	5.4
T-6	NSC	Yorktown Kita-Kaname	Hiratsuka, Kanagawa	Trust beneficiary interest in real estate	4,056	4,000	4.9
T-7	NSC	Unicus Yoshikawa	Yoshikawa, Saitama	Trust beneficiary interest in real estate	3,673	3,600	4.5
T-8	SS	Sports Club Renaissance Fujimidai	Nerima ward, Tokyo	Trust beneficiary interest in real estate	2,621	2,586	3.2
O-1	NSC	Blumer Maitamon	Kobe, Hyogo	Trust beneficiary interest in real estate	8,537	8,389	10.4
O-2	SM	Life Takadono (Land)	Osaka, Osaka	Trust beneficiary interest in real estate	2,727	2,685	3.3
O-3	NSC	Piago Kahma Home Center Omihachiman	Omihachiman, Shiga	Trust beneficiary interest in real estate	2,188	2,140	2.6
N-1	SS	Kahma Home Center Nakagawa Tomita (Land)	Nagoya, Aichi	Trust beneficiary interest in real estate	2,351	2,311	2.9
N-2	NSC	Valor Ichinomiya-Nishi	Ichinomiya, Aichi	Trust beneficiary interest in real estate	2,213	2,174	2.7
N-3	SS	K's Denki Nakagawa Tomita (Land)	Nagoya, Aichi	Trust beneficiary interest in real estate	907	889	1.1
F-1	SM	Sunny Noma	Fukuoka, Fukuoka	Trust beneficiary interest in real estate	1,541	1,497	1.9

R-1	NSC	Roseo Mito	Mito, Ibaraki	Trust beneficiary interest in real estate	9,817	9,675	12.0
R-2	SM	K's Denki Aomori Honten	Aomori, Aomori	Trust beneficiary interest in real estate	1,505	1,469	1.8
R-3	NSC	Super Sports Xebio Aomori-Chuo	Aomori, Aomori	Trust beneficiary interest in real estate	918	898	1.1
Total					82,233	80,843	100.0

Note1: Properties 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). For the details of each type of retail properties, please refer “Section 2. Investment Policies and Status of Asset Management, (2) Status of Asset Management (Overview of the Interim Period), iii) Management Performance, (A) Acquisition of Asset”.

Note2: “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.

Note3: “Share” represents the percentage of the acquisition price for each property in the total acquisition price, rounded down to the first decimal point.

## ii) Overview of tenants as of . March 31, 2015

Property number	Property name	Leasable area (m <sup>2</sup> ) (Note 1)	Leased area (m <sup>2</sup> ) (Note 2)	Occupancy rate (%) (Note 3)	Number of tenants (Note 4)	Annual rent (Thousand) (Note 5)	Amount of security deposits(Million) (Note 6)
T-1	Fululu Garden Yachiyo	77,057.56	76,800.63	99.7	50	1,106,382	4,248
T-2	MONASHin-Urayasu	9,568.31	9,523.31	99.5	1(74)	618,784	636
T-3	Passaggio Nishiarai	10,546.25	10,404.31	98.7	1(39)	394,427	229
T-4	Daikanyama Address Dixsept	5,056.39	4,681.24	92.6	1(25)	335,262	309
T-5	Unicus Ina	13,044.37	13,044.37	100.0	1	263,472	136
T-6	Yorktown Kita-Kaname	— (Note 7)	— (Note 7)	100.0	1	— (Note 7)	— (Note 7)
T-7	Unicus Yoshikawa	10,620.04	10,620.04	100.0	1(11)	259,285	201
T-8	Sports Club Renaissance Fujimidai	3,120.87	3,120.87	100.0	1	— (Note 7)	— (Note 7)
O-1	Blumer Maitamon	30,037.11	29,210.10	97.2	46	672,150	407
O-2	Life Takadono (Land)	4,437.07	4,437.07	100.0	1	— (Note 7)	— (Note 7)
O-3	Piago Kahma Home Center Omihachiman	14,313.00	14,313.00	100.0	2	— (Note 7)	— (Note 7)
N-1	Kahma Home Center Nakagawa Tomita (Land)	— (Note 7)	— (Note 7)	100.0	1	— (Note 7)	— (Note 7)
N-2	Valor Ichinomiya-Nishi	9,447.48	9,447.48	100.0	1	— (Note 7)	— (Note 7)
N-3	K's Denki Nakagawa Tomita (Land)	— (Note 7)	— (Note 7)	100.0	1	— (Note 7)	— (Note 7)
F-1	Sunny Noma	2,814.67	2,814.67	100.0	1	— (Note 7)	— (Note 7)
R-1	Roseo Mito	45,654.67	45,654.67	100.0	1(22)	652,967	421
R-2	K's Denki Aomori Honten	10,083.41	10,083.41	100.0	1	— (Note 7)	174
R-3	Super Sports Xebio Aomori-Chuo	— (Note 7)	— (Note 7)	100.0	1	— (Note 7)	— (Note 7)
Total		282,040.81	280,394.78	99.4	279	5,574,688	8,119

Note 1: "Leasable area" is equivalent to gross floor area of space that we consider to be available for lease in each property, rounded to the second decimal. For land-only properties, leasable area is equivalent to land area as described in the property registry. The construction site within Roseo Mito is excluded from leasable area.

Note 2: "Leased area" indicates the total leased area based on the lease agreements for each property as of March 31, 2015. As for lease agreements of buildings, the leased area of warehouses and land are excluded. As for pass-through type master leases (the master lease in which rent received by the lessor is in principle the same amount as the rent received by the master lessee from end-tenants), the leased area based on the lease agreements between the master lessee and the end-tenants as of March 31, 2015 is shown. As for sublease type master leases (the master lease in which a fixed amount of rent is received from the master lessee.), the leased area to the master lessee is shown.

Note 3: The occupancy rate is calculated by dividing leased area by leasable area as of March 31, 2015, rounded to the second decimal. The "Total" of "Occupancy rate" represents the average occupancy rate of all properties in the initial portfolio.

Note 4: Number of tenants is based upon the number of lease agreements with respect to the building(s) (or land in the case of land-only properties with leasehold interest) on each such property used mainly as stores and offices, as of March 31, 2015.

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 indicated, with the number of end-tenants indicated in parentheses. Where sublease type master lease agreements are entered into, the 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 5: "Annualized fixed rent" is generally calculated by multiplying the monthly fixed rent and common area charges for the month ended March 31, 2015 (excluding warehouses in the case of building lease agreements) by twelve and rounding down to the nearest thousand yen. However, if the current owner and end-tenants have agreed as of March 31, 2015 to a subsequent change in the fixed rent, which will occur prior to our acquisition, we have multiplied the new, agreed-upon monthly fixed rent by twelve. Sales-linked rent for sales-linked agreements and fixed and sales-linked agreements are not included in the calculation of annualized fixed rent. Where fixed master lease agreements are entered into, annual rent or monthly rent multiplied by twelve, as set forth in such master lease agreement, is used for the calculation.
- Note 6: "Tenant leasehold and security deposits" indicates the outstanding balance of any tenant leasehold and security deposit from the relevant end-tenant(s) set forth in lease agreement(s) effective as of March 31, 2015 (excluding warehouses in the case of building lease agreements), rounded to the nearest million yen.
- Note 7: We have not obtained consent from the tenant(s) to release this information.

**iii) Capital expenditures****(A) Planned capital expenditures**

The table below shows major capital expenditures for renovations, repairs and other projects that are planned for the first fiscal period ending September 30, 2015. 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 expenditures that will be recorded as expenses rather than capital expenditures for accounting purposes.

Portfolio No.	Property name	Location	Purpose	Schedule	Planned amount of capital expenditure (Thousands of yen)		
					Total	Payment for the period	Total amount already paid
T-2	MONA Shin-Urayasu	Urayasu, Chiba	HVAC system replacement	From April to September 2015	64,030	-	-
T-2	MONA Shin-Urayasu	Urayasu, Chiba	Rest room remodeling	From April to September 2015	47,062	-	-
T-3	Passaggio Nishiarai	Adachi ward, Tokyo	Replacing to LED lights for common areas	From April to September 2015	27,196	-	-
T-2	MONA Shin-Urayasu	Urayasu, Chiba	Painting of exterior stairways	From April to September 2015	14,950	-	-
T-1	Fululu Garden Yachiyo	Yachiyo, Chiba	Repairing of private power generator	From April to September 2015	12,819	-	-

**(B) Capital expenditures during the period under review**

The amount of capital expenditures in the interim period under review was 6,847 thousand yen. There were also expenditures of 5,345 thousand yen that were recorded as repair expenses. In total we spent 12,192 thousand yen on the projects.

**iv) Major portfolio properties**

The table below shows the major properties owned by KRR as of March 31, 2015. Major properties are defined as those that account for 10% or more of our total rental revenue generated from all assets held by KRR.

Portfolio No.	Property name	Number of tenants	Annual rent (Millions of yen) (Note 1)	Leased area (m <sup>2</sup> )	Leasable area (m <sup>2</sup> )
T-1	Fululu Garden Yachiyo	50	1,106	76,800.63	77,057.56
T-2	MONA Shin-Urayasu	1 (74)	618	9,523.31	9,568.31
O-1	Blumer Maitamon	46	672	29,210.10	30,037.11
R-1	Roseo Mito	1 (22)	652	45,654.67	45,654.67

Note: Annual rent is 12 times the fixed monthly rent (including a common service charge) under a leasing contract with tenants at portfolio properties as of March 31, 2015 (excluding building leasing contracts for warehouses), rounded down to the nearest million yen. For master leases, where the master lease company sub-leases space to other tenants, the fixed monthly rent under the master lease contract is multiplied by 12, rounded down to the nearest million yen.

**(3) Information Concerning Major Tenants**

The following summarizes top 10 tenants (end-tenants or sub-lease type master leasee) as of March 31, 2015

Name of end tenants	Type of business (Note 1)	Property name	Total leased area (m <sup>2</sup> )	Ratio (%) (Note 2)	Annual fixed rent (in thousands of yen) (Note 3)	Tenant leasehold and security deposits (in thousands of yen) (Note 4)	Lease term end	Lease type	Lease renewal
Ito-Yokado Co., Ltd. (Note 5)	Retail	Fululu Garden Yachiyo	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)
XEBIO Co., Ltd	Retail	A Fululu Garden Yachiyo, B Super Sports Xebio Aomori-Chuo	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)
P&D Consulting Co., Ltd	Real estate	Unicus Ina	13,044.37	4.6	263,472	136	Sep. 25, 2026	Regular building lease	No update provisions
YorkMart Co., Ltd.	Retail	Yorktown Kita-Kaname	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)
Kohnan Shoji Co., Ltd.	Retail	Unicus Yoshikawa	7,490.20	2.7	— (Note 6)	— (Note 6)	Aug. 29, 2031	— (Note 6)	— (Note 6)
LIFE Corporation	Retail	A Unicus Yoshikawa, B Life Takadono (Land)	A 2,455.80 B 4,437.07	A 0.9 B 1.6	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A Aug. 29, 2031, B Jul. 29, 2035	A Fixed-term building lease B Commercial fixed-term land lease	A — (Note 6) B — (Note 6)
EDION Corporation	Retail	Blumer Maitamon	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)
DCM KAHMA CO., LTD.	Retail	A Piago Kahma Home Center Omihachiman, B Kahma Home Center Nakagawa Tomita (Land)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)	A — (Note 6) B — (Note 6)
Valor Co., Ltd.	Retail	Valor Ichinomiya-Nishi	9,447.48	3.3	— (Note 6)	— (Note 6)	— (Note 6)	Fix term building lease	No update provisions
LIXIL Viva Corporation	Retail	Roseo Mito	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)	— (Note 6)

Note 1: "Type of business" is based on Japan Standard Industrial Classification.

Note 2: "Ratio" is the ratio of leased area of the end tenant to total leasable area of the portfolio as of March 31, 2015, rounded to nearest number.

Note 3: "Annual fixed-rent" for each property is based on monthly contracted rent (including common area charges) as set forth in the relevant lease agreements effective as of March 31, 2015 (excluding warehouses for building lease agreements) for each property or property in trust, truncated to thousands of yen.

Note 4: Indicates the outstanding balance of any tenant leasehold and security deposit from the relevant end-tenant(s) set forth in lease agreement(s) effective as of March 31, 2015, rounded down to the nearest million yen.

Note 5: Of our ten largest tenants by anticipated annual fixed rent, Ito-Yokado Co., Ltd. is a major tenant, which we define as a tenant that occupies more than 10% of our total leased area in our anticipated initial portfolio.

Note 6: We have not obtained consent from the tenant to release this information.

**【Reference】** **Earnings Performance for the Individual Properties for the 1st Interim Fiscal Period (October 3, 2014 to March 31, 2015) : 180 days** ※As of March 31, 2015

Location	Tokyo metropolitan area								Greater Osaka area			
Property No.	T-1	T-2	T-3	T-4	T-5	T-6	T-7	T-8	O-1	O-2	O-3	
Property Name	Fululu Garden Yachiyo	MONA Shin-Urayasu	Passaggio Nishiarai	Daikanyama Address Dixsept	Unicus Ina	Yorktown Kita-Kaname	Unicus Yoshikawa	Sports Club Renaissance Fujimidai	Blumer Maitamon	Life Takadono (Land)	Piago Kahma Home Center Omihachiman	
Acquisition Date	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	
Price Information	Acquisition price ( In millions of yen )	14,848	8,063	5,850	5,390	4,379	4,000	3,600	2,586	8,389	2,685	2,140
	Percentage of total portfolio	18.4%	10.0%	7.2%	6.7%	5.4%	4.9%	4.5%	3.2%	10.4%	3.3%	2.6%
	Net book value ( In millions of yen )	15,105	8,191	5,967	5,467	4,439	4,056	3,673	2,621	8,537	2,727	2,188
Lease Information	Number of tenants	50	1 (74)	1 (39)	1 (25)	1	1	1 (11)	1	46	1	2
	Leasable floor area (㎡)	77,057.56	9,568.31	10,546.25	5,056.39	13,044.37	—	10,620.04	3,120.87	30,037.11	4,437.07	14,313.00
	Leased floor area (㎡)	76,800.63	9,523.31	10,404.31	4,681.24	13,044.37	(Note 2)	10,620.04	3,120.87	29,210.10	4,437.07	14,313.00
	Occupancy ratio As of March 31, 2015	99.7%	99.5%	98.7%	92.6%	100.0%	100.0%	100.0%	100.0%	97.2%	100.0%	100.0%
Income and Retained Earnings Information for the 1st Interim Fiscal Period (Note 1)	Operating periods	50days	50days	50days	50days	50days	50days	50days	50days	50days	50days	50days
	①Rental and other operating revenues ( In thousands of yen )	222,097	148,729	83,570	70,236	36,917	—	—	—	129,339	—	—
	Rental revenues	176,852	100,892	57,770	48,970	36,854	—	—	—	99,568	—	—
	Other operating revenues	45,245	47,836	25,799	21,266	62	—	—	—	29,771	—	—
	②Property-related expenses ( In thousands of yen )	80,359	66,155	36,153	35,003	976	—	—	—	46,117	—	—
	Property management fees	40,738	23,237	11,268	11,023	503	(Note 2)	(Note 2)	(Note 2)	16,526	(Note 2)	(Note 2)
	Taxes	26	8	8	8	120	—	—	—	28	—	—
	Utilities	21,982	19,820	12,967	10,620	—	—	—	—	23,728	—	—
	Repairs and maintenance	3,195	1,694	126	195	123	—	—	—	10	—	—
	Insurance	529	230	154	86	91	—	—	—	231	—	—
Trust fees and other expenses	13,887	21,163	11,628	13,067	137	—	—	—	5,592	—	—	
③NOI (=①-②) ( In thousands of yen )	141,738	82,574	47,416	35,233	35,941	32,120	29,653	19,154	83,222	9,168	26,765	
④Depreciation ( In thousands of yen )	26,369	12,728	10,254	4,874	9,569	6,581	5,131	4,939	16,461	—	3,413	
⑤Rental operating income (=③-④) ( In thousands of yen )	115,368	69,845	37,162	30,358	26,372	25,538	24,521	14,215	66,761	9,168	23,352	
⑥Capital expenditures ( In thousands of yen )	4,588	2,259	—	—	—	—	—	—	—	—	—	
⑦NCF (=③-⑥) ( In thousands of yen )	137,149	80,315	47,416	35,233	35,941	32,120	29,653	19,154	83,222	9,168	26,765	
Reference	Expense ratio (=②/①)	36.2%	44.5%	43.3%	49.8%	2.6%	2.4%	19.4%	4.5%	35.7%	4.6%	3.0%
	Property tax for the year 2014 ( In thousands of yen )	139,710	44,651	70,515	23,142	20,423	15,645	30,033	10,527	83,237	7,384	28,628
	Assets pledged as collateral	○	-	-	-	-	-	-	-	-	-	○

Note 1:Although the accounting period for the Investment Corporation's interim period ended March 31, 2015 includes 180 days from October 3, 2014 to March 31, 2015, its substantial asset management period covers only 50 days from February 10, 2015 to March 31, 2015.

Note 2:We have not obtained consent from the tenant(s) to release this information.

**【Reference】 Earnings Performance for the Individual Properties for the 1st Interim Fiscal Period (October 3, 2014 to March 31, 2015) : 180 days ※As of March 31, 2015**

Location	Greater Nagoya area			Fukuoka area	Tokureishi and other areas			Total of 18 Properties	
Property No.	N-1	N-2	N-3	F-1	R-1	R-2	R-3		
Property Name	Kahma Home Center Nakagawa Tomita (Land)	Valor Ichinomiya-Nishi	K's Denki Nakagawa Tomita (Land)	Sunny Noma	Roseo Mito	K's Denki Aomori Honten	Super Sports Xebio Aomori-Chuo		
Acquisition Date	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015	February 10, 2015		
Price Information	Acquisition price ( In millions of yen )	2,311	2,174	889	1,497	9,675	1,469	898	80,843
	Percentage of total portfolio	2.9%	2.7%	1.1%	1.9%	12.0%	1.8%	1.1%	100.0%
	Net book value ( In millions of yen )	2,351	2,213	907	1,541	9,817	1,505	918	82,233
Lease Information	Number of tenants	1	1	1	1	1 (22)	1	1	279
	Leasable floor area (㎡)	—	9,447.48	—	2,814.67	45,654.67	10,083.41	—	282,040.81
	Leased floor area (㎡)	(Note 2)	9,447.48	(Note 2)	2,814.67	45,654.67	10,083.41	(Note 2)	280,394.78
	Occupancy ratio As of March 31, 2015	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	99.4%
Income and Retained Earnings Information for the 1st Interim Fiscal Period (Note 1)	Operating periods	50days	50days	50days	50days	50days	50days	50days	50days
	①Rental and other operating revenues ( In thousands of yen )					97,414			1,003,139
	Rental revenues					87,551			822,652
	Other operating revenues					9,863			180,487
	②Property-related expenses ( In thousands of yen )					14,503			294,911
	Property management fees	—	—	—	—	5,132	—	—	119,953
	Taxes	(Note 2)	(Note 2)	(Note 2)	(Note 2)	8	(Note 2)	(Note 2)	1,265
	Utilities					8,079			97,199
	Repairs and maintenance					-			5,345
	Insurance					183			1,915
Trust fees and other expenses					1,098			69,232	
③NOI (=①-②) ( In thousands of yen )	18,134	21,253	6,938	12,227	82,911	15,033	8,737	708,227	
④Depreciation ( In thousands of yen )	-	4,830	-	4,744	13,936	2,111	1,624	127,571	
⑤Rental operating income (=③-④) ( In thousands of yen )	18,134	16,423	6,938	7,483	68,975	12,922	7,112	580,656	
⑥Capital expenditures ( In thousands of yen )	-	-	-	-	-	-	-	6,847	
⑦NCF (=③-⑥) ( In thousands of yen )	18,134	21,253	6,938	12,227	82,911	15,033	8,737	701,380	
Reference	Expense ratio (=②/①)	2.4%	3.8%	6.1%	15.5%	14.9%	5.0%	8.0%	29.4%
	Property tax for the year 2014 ( In thousands of yen )	9,661	19,916	3,949	7,055	52,538	13,987	6,151	587,160
	Assets pledged as collateral	-	-	-	-	-	-	-	-

\*Total: Cost-weighted average operating period (days)

Note 1:Although the accounting period for the Investment Corporation's interim period ended March 31, 2015 includes 180 days from October 3, 2014 to March 31, 2015, its substantial asset management period covers only 50 days from February 10, 2015 to March 31, 2015.

Note 2:We have not obtained consent from the tenant(s) to release this information.