

Financial Statements

(13th Fiscal Period: From February 1, 2018 to July 31, 2018)

Independent Auditor's Report
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Independent Auditor's Report

The Board of Directors
Kenedix Residential Next Investment Corporation

We have audited the accompanying financial statements of Kenedix Residential Next Investment Corporation, which comprise the balance sheet as at July 31, 2018, and the statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Residential Next Investment Corporation as at July 31, 2018, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

October 30, 2018
Tokyo, Japan

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION

Balance Sheet

As of July 31, 2018

	13th Fiscal Period as of July 31, 2018	12th Fiscal Period as of January 31, 2018
(in thousands of yen)		
ASSETS		
Current assets		
Cash and deposits (Notes 6 and 8)	¥10,029,598	¥6,551,666
Cash and deposits in trust (Notes 6 and 8)	8,749,823	3,928,017
Operating accounts receivable	29,188	24,913
Prepaid expenses	10,855	3,557
Consumption taxes receivable	-	9,464
Other	11,033	1,893
Total current assets	18,830,499	10,519,513
Noncurrent assets		
Property, plant and equipment (Notes 13 and 18)		
Land	1,798,041	1,798,041
Buildings in trust	84,656,776	68,843,600
Accumulated depreciation	(7,901,681)	(6,927,784)
Buildings in trust, net	76,755,095	61,915,815
Structures in trust	722,432	502,925
Accumulated depreciation	(133,503)	(114,924)
Structures in trust, net	588,929	388,001
Machinery and equipment in trust	1,360,078	1,317,786
Accumulated depreciation	(256,856)	(226,840)
Machinery and equipment in trust, net	1,103,222	1,090,946
Tools, furniture and fixtures in trust	400,899	338,646
Accumulated depreciation	(39,156)	(29,220)
Tools, furniture and fixtures in trust, net	361,742	309,425
Land in trust	111,474,267	99,538,715
Total property, plant and equipment, net	192,081,298	165,040,946
Intangible assets		
Leasehold right in trust (Notes 13 and 18)	1,067,058	-
Other	7,115	-
Total intangible assets	1,074,174	-
Investments and other assets		
Investment securities (Notes 8 and 17)	512,263	221,707
Lease and guarantee deposits	39,097	10,397
Long-term prepaid expenses	916,981	915,782
Other (Notes 8 and 9)	81,989	80,743
Total investments and other assets	1,550,331	1,228,631
Total noncurrent assets	194,705,805	166,269,577
Deferred assets		
Investment corporation bond issuance costs	22,583	24,461
Investment unit issuance costs	-	421
Total deferred assets	22,583	24,883
Total assets	¥213,558,887	¥176,813,974

	13th Fiscal Period as of July 31, 2018	12th Fiscal Period as of January 31, 2018
	(in thousands of yen)	
LIABILITIES		
Current liabilities		
Operating accounts payable	¥609,170	¥473,021
Short-term loans payable (Notes 8 and 20)	2,630,000	2,630,000
Current portion of long-term loans payable (Notes 8, 9 and 20)	13,500,000	11,000,000
Accounts payable-other	284,251	239,241
Accrued expenses	26,489	26,142
Income taxes payable	605	604
Accrued consumption taxes	63,856	-
Advances received	958,812	779,137
Deposits received	54,159	53,143
Other	13	-
Total current liabilities	18,127,358	15,201,290
Noncurrent liabilities		
Investment corporation bonds (Notes 8 and 19)	3,000,000	3,000,000
Long-term loans payable (Notes 8, 9 and 20)	87,000,000	74,500,000
Tenant leasehold and security deposits in trust	2,330,206	1,462,549
Tenant lump sum deposits in trust	4,205,076	-
Other	150,601	-
Total noncurrent liabilities	96,685,885	78,962,549
Total liabilities	114,813,244	94,163,839
NET ASSETS		
Unitholders' equity		
Unitholders' capital	80,132,379	80,132,379
Surplus		
Capital surplus	13,187,100	-
Unappropriated retained earnings	5,428,676	2,437,011
Total surplus	18,615,776	2,437,011
Total unitholders' equity	98,748,155	82,569,390
Valuation and translation adjustments		
Deferred gains or losses on hedges (Notes 8 and 9)	(2,512)	80,743
Total valuation and translation adjustments	(2,512)	80,743
Total net assets (Note 3)	98,745,643	82,650,134
Total liabilities and net assets	¥213,558,887	¥176,813,974

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION

Statement of Income and Retained Earnings

For the period from February 1, 2018 to July 31, 2018

	13th Fiscal Period from February 1, 2018 to July 31, 2018	12th Fiscal Period from August 1, 2017 to January 31, 2018
(in thousands of yen)		
Operating revenues		
Rent revenue-real estate (Note 4)	¥6,152,086	¥5,235,620
Other lease business revenue (Note 4)	503,250	435,685
Gain on sales of real estate property (Note 4)	436,817	-
Dividends income	5,164	10,132
Total operating revenues	7,097,319	5,681,438
Operating expenses		
Expenses related to rent business (Note 4)	2,554,551	2,107,064
Asset management fees	413,158	377,361
Asset custody fees	11,583	11,365
Administrative service fees	41,201	39,023
Directors' compensation	7,500	4,500
Merger expenses	395,984	67,446
Other operating expenses	233,938	184,719
Total operating expenses	3,657,918	2,791,481
Operating income	3,439,400	2,889,956
Non-operating income		
Interest income	15	12
Dividends and redemption-prescription	293	350
Interest on refund	56	-
Total non-operating income	364	363
Non-operating expenses		
Interest expenses	441,829	410,074
Interest expenses on investment corporation bonds	7,593	7,806
Borrowing expenses	145,787	97,811
Amortization of investment corporation bond issuance costs	1,878	1,878
Amortization of investment unit issuance costs	421	19,618
Other	108	-
Total non-operating expenses	597,619	537,188
Ordinary income	2,842,146	2,353,130
Extraordinary income		
Gain on negative goodwill	2,574,896	-
Total extraordinary income	2,574,896	-
Income before income taxes	5,417,042	2,353,130
Income taxes (Note 10)		
Current	605	604
Deferred	-	9
Total income taxes	605	614
Net income	5,416,437	2,352,516
Retained earnings brought forward	12,239	84,495
Unappropriated retained earnings	¥5,428,676	¥2,437,011

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION

Statement of Changes in Net Assets

For the period from February 1, 2018 to July 31, 2018

	Unitholders' equity					Valuation and translation adjustments	Total net assets
	Surplus				Total unitholders' equity	Deferred gains or losses on hedges	
	Unitholders' capital	Capital surplus	Unappropriated retained earnings	Total surplus			
(in thousands of yen)							
Balance as of July 31, 2017	¥ 80,132,379	¥ -	¥ 2,400,002	¥ 2,400,002	¥ 82,532,381	¥ 26,626	¥ 82,559,008
Changes of items during the period							
Dividends from surplus	-	-	(2,315,507)	(2,315,507)	(2,315,507)	-	(2,315,507)
Net income	-	-	2,352,516	2,352,516	2,352,516	-	2,352,516
Net changes of items other than unitholders' equity	-	-	-	-	-	54,116	54,116
Total changes of items during the period	-	-	37,008	37,008	37,008	54,116	91,125
Balance as of January 31, 2018 (Note 5)	¥ 80,132,379	¥ -	¥ 2,437,011	¥ 2,437,011	¥ 82,569,390	¥ 80,743	¥ 82,650,134
Changes of items during the period							
Increase by merger	-	13,187,100	-	13,187,100	13,187,100	-	13,187,100
Dividends from surplus	-	-	(2,424,772)	(2,424,772)	(2,424,772)	-	(2,424,772)
Net income	-	-	5,416,437	5,416,437	5,416,437	-	5,416,437
Net changes of items other than unitholders' equity	-	-	-	-	-	(83,255)	(83,255)
Total changes of items during the period	-	13,187,100	2,991,665	16,178,765	16,178,765	(83,255)	16,095,509
Balance as of July 31, 2018 (Note 5)	¥ 80,132,379	¥ 13,187,100	¥ 5,428,676	¥ 18,615,776	¥ 98,748,155	¥ (2,152)	¥ 98,745,643

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION

Statement of Cash Flows

For the period from February 1, 2018 to July 31, 2018

	13th Fiscal Period from February 1, 2018 to July 31, 2018	12th Fiscal Period from August 1, 2017 to January 31, 2018
(in thousands of yen)		
Net cash provided by (used in) operating activities		
Income before income taxes	¥5,417,042	¥2,353,130
Depreciation and amortization	1,144,883	921,858
Gain on negative goodwill	(2,574,896)	-
Amortization of investment corporation bond issuance costs	1,878	1,878
Amortization of investment unit issuance costs	421	19,618
Interest income	(15)	(12)
Interest expenses	449,423	417,880
Decrease (increase) in operating accounts receivable	(3,782)	(92)
Decrease (increase) in consumption taxes refund receivable	9,464	(9,464)
Decrease (increase) in prepaid expenses	(713)	1,274
Increase (decrease) in operating accounts payable	(28,792)	68,569
Increase (decrease) in accounts payable-other	(102,769)	37,833
Increase (decrease) in accrued consumption taxes	62,160	(6,135)
Increase (decrease) in advances received	15,122	12,172
Decrease (increase) in long-term prepaid expenses	(1,198)	(151,528)
Decrease in net property, plant and equipment held in trust due to sale	953,749	-
Other, net	18,303	3,018
Subtotal	5,360,283	3,670,003
Interest income received	15	12
Interest expenses paid	(459,405)	(415,950)
Income taxes (paid) refund	(6,005)	(2,693)
Net cash provided by (used in) operating activities	4,894,888	3,251,371
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(1,053,115)	(9,828,503)
Purchase of intangible assets	(7,762)	-
Purchase of investment securities	(111,529)	(133,725)
Proceeds from investment securities	12,232	3,240
Repayments of tenant leasehold and security deposits in trust	(134,277)	(142,165)
Proceeds from tenant leasehold and security deposits in trust	161,089	131,628
Repayments of tenant lump sum deposits in trust	(44,212)	-
Proceeds from tenant lump sum deposits in trust	625,414	-
Net cash provided by (used in) investing activities	(552,161)	(9,969,526)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	2,630,000	1,630,000
Decrease in short-term loans payable	(3,630,000)	-
Proceeds from long-term loans payable	4,500,000	18,700,000
Repayments of long-term loans payable	(3,500,000)	(11,000,000)
Dividends paid	(2,709,508)	(2,317,102)
Net cash provided by (used in) financing activities	(2,709,508)	7,012,897
Net increase (decrease) in cash and cash equivalents	1,633,218	294,741
Cash and cash equivalents at the beginning of period	10,479,684	10,184,942
Increase in cash and cash equivalents resulting from merger	6,666,519	-
Cash and cash equivalents at the end of period (Note 6)	¥18,779,421	¥10,479,684

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION

Notes to Financial Statements

For the period from February 1, 2018 to July 31, 2018

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Kenedix Residential Next Investment Corporation (Note) ("the Investment Corporation") was established on November 15, 2011 under the Act on Investment Trusts and Investment Corporations of Japan ("the Investment Trust Act"). On April 26, 2012, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange (Securities Code: 3278). Subsequently, the Investment Corporation raised funds through three public offerings and other means including global offerings and third-party allotments. The Investment Corporation implemented a 2-for-1 split of its investment units held by unitholders set forth or recorded in the final unitholder registry on February 28, 2018 with March 1, 2018 as the effective date. And also on March 1, 2018, the Investment Corporation conducted an absorption-type merger ("the Merger") whereby the Investment Corporation was the surviving corporation and Japan Senior Living Investment Corporation ("JSL") was the dissolving corporation. As the result, as of July 31, 2018, the end of the 13th fiscal period, the number of investment units issued and outstanding totaled 782,928 units.

(Note) The Investment Corporation also changed its corporate name from Kenedix Residential Investment Corporation to Kenedix Residential Next Investment Corporation on March 1, 2018.

The Investment Corporation is externally managed by Kenedix Real Estate Fund Management, Inc. ("the Asset Management Company"), a company that was formed with personnel from Kenedix, Inc. and adheres to the core philosophies of Kenedix, Inc., that is, to provide management services from the perspective of real estate investors as an independent real estate management company. As the asset manager, the Asset Management Company shall provide flexible and speedy real estate investment and management services based on the strategies of the Investment Corporation: "Flexible pursuit for appropriate investment and profit opportunities with comprehension of the real estate market trends" and "Speedy execution based on expeditious information collection and judgement."

During the 12th fiscal period, the Investment Corporation acquired 2 properties (total acquisition price of ¥9,100 million). During the 13th fiscal period, the Investment Corporation succeeded 14 properties through the Merger with total acquisition price of ¥28,998 million based on the appraisal value as of March 1, 2018. The Investment Corporation acquired 1 property (acquisition price of ¥737 million) and sold 1 property (disposition price of ¥1,420 million) other than the Merger. As the result, the Investment Corporation has a portfolio comprised of 129 properties (total acquisition price of ¥192,889 million) as of July 31, 2018, the end of the 13th fiscal period.

The occupancy rates of the overall portfolio including land with leasehold interest were 97.0% and 97.6% as of the end of the 12th and 13th fiscal period, respectively. Furthermore, the average occupancy rates of the properties for residential facilities and for healthcare facilities were 97.0% and 100.0% as of the end of 13th fiscal period.

During the 12th and 13th fiscal period, the Investment Corporation made borrowings of ¥11,000 million and ¥7,130 million for the repayment of debt matured. During the 12th fiscal period, the Investment Corporation made new borrowings of ¥9,330 million upon acquiring properties. During the 13th fiscal period, the Investment Corporation succeeded ¥15,000 million borrowings from JSL on March 1, 2018 by the Merger. As a result, balance of borrowings as of the end of the 12th and 13th fiscal period stood at ¥88,130 million and ¥103,130 million, respectively.

Basis of Presentation

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

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

The Investment Corporation fiscal period is a six-month period which ends at the end of January or July. The Investment Corporation does not prepare consolidated financial statements because it has no subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Securities

Other securities without market value are stated using the moving average cost method. Equity investments in an anonymous association are stated, the amount equivalent to the corresponding equity interests including net amount of gain or loss from the anonymous association.

(B) Property and Equipment (including trust assets)

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

	From February 1, 2018 to July 31, 2018	From August 1, 2017 to January 31, 2018
Buildings	2-67 years	2-67 years
Structures	3-52 years	3-52 years
Machinery and equipment	8-34 years	8-34 years
Tools, furniture and fixtures	6-30 years	6-30 years

(C) Intangible Assets

Intangible assets are amortized by the straight-line method.

(D) Long-term Prepaid Expenses

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

(E) Unit Issuance Costs

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

(F) Investment Corporation Bond Issuance Costs

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

(G) Accounting Treatment of Trust Beneficiary Interests in Real Estate

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

(H) Revenue Recognition

Operating revenues consist of rental revenues including base rents and common area charges, and other operating revenues including parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease.

(I) Taxes on Property and Equipment

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

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥6,024 thousand and ¥1,215 thousand as of January 31, 2018 and July 31, 2018, respectively.

(J) Income Taxes

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

(K) Consumption Taxes

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

(L) Derivative Financial Instruments

The Investment Corporation enters into derivative transactions to hedge risks prescribed in its Articles of Incorporation based on its risk management policies. The Investment Corporation hedges interest rate volatility risk of its interest payments on its borrowings by utilizing interest rate swap and other derivative transactions as hedging instruments.

As for the method of assessment of the effectiveness of the hedge in the period from the inception of the hedge to the time of judgment of its effectiveness, the cumulative changes in cash flow of the hedged items and hedging instruments are compared and a judgment is made based on changed amount, etc. However, an assessment of the effectiveness of hedging activities is omitted in the case of interest rate swaps and other derivatives that meet the requirements for special treatment.

(M) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits placed with banks and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of market value fluctuation, with maturities of three months or less from the date of purchase.

(N) Presentation of Amounts

Amounts of less than one thousand yen are truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan. Unless otherwise noted, amounts are rounded down and ratios are rounded off in the accompanying financial statements. Totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

3. NET ASSETS

The Investment Corporation issues only non-par value units in accordance with the Investment Trust Act. The entire amount of the issue price of new units is designated as stated capital. The Investment Corporation is required to maintain net assets of at least ¥50 million as required by the Investment Trust Act.

4. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES AND GAIN ON SALES OF REAL ESTATE PROPERTY

Rental and other operating revenues and property-related expenses for the periods from February 1, 2018 to July 31, 2018 and from August 1, 2017 to January 31, 2018 consist of the following:

	From February 1, 2018 to July 31, 2018	From August 1, 2017 to January 31, 2018
	(in thousands of yen)	
Rental and other operating revenues:		
Rental revenues	¥5,800,000	¥4,895,387
Rental revenues from limited proprietary rights of land	43,750	43,749
Common area charges	308,336	296,482
Subtotal	6,152,086	5,235,620
Others:		
Parking space rental revenues	182,436	181,133
Miscellaneous	320,814	254,551
Subtotal	503,250	435,685
Total rental and other operating revenues	¥6,655,337	¥5,671,305
Property-related expenses:		
Property management fees and facility management fees	¥402,111	¥362,432
Utilities	89,714	88,669
Taxes	413,717	323,667
Repairs and maintenance	290,404	228,410
Insurance	10,386	8,399
Trust fees	48,958	42,467
Depreciation	1,144,236	921,858
Others	155,022	131,157
Total property-related expenses	¥2,554,551	¥2,107,064

Gain on sales of real estate property:

From February 1, 2018 to July 31, 2018

	(in thousands of yen)
KDX Shimmachi Residence	
Revenue from sale of real estate property	¥1,420,000
Cost of real estate property	953,749
Other sales expenses	29,433
Gain on sales of real estate property	¥436,817

From August 1, 2017 to January 31, 2018

Not applicable

5. UNITHOLDERS' EQUITY

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

	From February 1, 2018 to July 31, 2018	From August 1, 2017 to January 31, 2018
Total number of authorized investment units	10,000,000	5,000,000
Total number of investment units issued and outstanding	782,928	349,089

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of July 31, 2018 and January 31, 2018:

	As of July 31, 2018	As of January 31, 2018
	(in thousands of yen)	
Cash and deposits	¥10,029,598	¥6,551,666
Cash and deposits in trust	8,749,823	3,928,017
Cash and cash equivalents	¥18,779,421	¥10,479,684

Important contents of the non-cash transaction

From February 1, 2018 to July 31, 2018

The summary of assets and liabilities succeeded from Japan Senior Living Investment Corporation by merger in the 13th fiscal period is as follows. The increase amount of capital surplus is ¥13,187,100 thousand as a result of merger.

	(in thousands of yen)	
Current assets	¥6,674,104	
Non-current assets	29,237,279	
Total assets	35,911,384	
Current liabilities	5,108,546	
Non-current liabilities	15,040,841	
Total liabilities	¥20,149,388	

From August 1, 2017 to January 31, 2018

Not applicable

7. LEASES

The Investment Corporation, as lessor, has entered into leases whereby fixed monthly rents are due in advance with a lease term of generally two years for residential properties. The future minimum rental revenues under existing non-cancelable operating leases as of July 31, 2018 and January 31, 2018 are as follows:

	As of July 31, 2018	As of January 31, 2018
	(in thousands of yen)	
Due in 1 year	¥1,942,856	¥251,883
Due after 1 year	12,086,289	4,092,472
Total	¥14,029,145	¥4,344,355

8. FINANCIAL INSTRUMENTS

(A). Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

Bank deposits are for managing the Investment Corporation's surplus funds and are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited. Investment securities represent equity investments in an anonymous association and are exposed to credit risk of the issuer, risk of fluctuation of value of its property and interest rate fluctuation risk.

Borrowings and investment corporation bonds are made primarily for the purpose of procuring funds for the acquisition of real estate and trust beneficiary interests in real estate and have a repayment date of a maximum of 10 years and 1 month as of July 31, 2018, the end of the 13th fiscal period, are exposed to liquidity risk where alternative funds may not be procured by the repayment date. Also, borrowings with floating interest rates are exposed to interest rate fluctuation risk. Derivatives are used for the purpose of hedging interest rate fluctuation risk for a certain portion of the borrowings.

(3) Risk management for financial instruments

a. Credit risk

While bank deposits are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited, such risk is monitored by deposits in non-interest bearing ordinary savings accounts or with financial institutions with credit ratings above a certain level. Investment securities represent equity investments in an anonymous association and are exposed to credit risk of the issuer and interest rate fluctuation risk. To manage this credit risk, the Investment Corporation regularly evaluates the results of operations and the financial condition of the issuer, etc. In utilizing derivatives, the Investment Corporation aims to mitigate counterparty risk such as by transacting with financial institutions with favorable ratings.

b. Market risk

While borrowings with floating rates are exposed to interest rate volatility risk, such risk is monitored by adjusting the rate of the balance of borrowings with floating rates against the total borrowings according to the financial environment, interest rate forecasts by continuous monitoring, etc. and by using derivatives, etc. While investment securities, which are equity investments in an anonymous association, are exposed to credit risk of the issuer and property value fluctuation risk, the Investment Corporation periodically reviews the value of the property and financial condition of the issuer with regard to these investment securities. A risk management policy is established with regard to the execution and management of derivatives, and such transactions are entered into based on this policy.

c. Liquidity risk

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

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

(B). Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the balance sheet and estimated fair value are shown in the following table.

As of July 31, 2018

	Carrying amount	Estimated fair value	Difference
		(in thousands of yen)	
(1) Cash and deposits	¥10,029,598	¥10,029,598	¥ -
(2) Cash and deposits in trust	8,749,823	8,749,823	-
Subtotal	18,779,421	18,779,421	-
(1) Short-term loans payable	2,630,000	2,630,000	-
(2) Current portion of long-term loans payable	13,500,000	13,463,182	(36,817)
(3) Investment corporation bonds	3,000,000	2,978,000	(22,000)
(4) Long-term loans payable	87,000,000	87,203,230	203,230
Subtotal	106,130,000	106,274,413	144,413
Derivative transactions*	(¥2,512)	(¥2,512)	¥ -

* Figures indicate net amount of derivative assets/liabilities derived from derivative transactions, with minus representing net liabilities.

As of January 31, 2018

	Carrying amount	Estimated fair value	Difference
		(in thousands of yen)	
(1) Cash and deposits	¥6,551,666	¥6,551,666	¥ -
(2) Cash and deposits in trust	3,928,017	3,928,017	-
Subtotal	10,479,684	10,479,684	-
(1) Short-term loans payable	2,630,000	2,630,000	-
(2) Current portion of long-term loans payable	11,000,000	10,999,491	(508)
(3) Investment corporation bonds	3,000,000	2,970,800	(29,200)
(4) Long-term loans payable	74,500,000	74,587,162	87,162
Subtotal	91,130,000	91,187,454	57,454
Derivative transactions	¥80,743	¥80,743	¥ -

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

Assets

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

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

Liabilities

(1) Short-term loans payable

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

(2) Current portion of long-term loans payable and (4) 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 the Investment Corporation 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 the Investment Corporation 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 the Investment Corporation conducts new borrowings of the same type.)

(3) Investment corporation bonds

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

Derivative transactions

Please refer to Note 9 "DERIVATIVE TRANSACTIONS".

Note 2: Financial instruments whose fair values are extremely difficult to recognize

(in thousands of yen)

Classification	As of July 31, 2018	As of January 31, 2018
Investment securities *	512,263	221,707

*Fair values of investment securities are not subject to disclosure of fair value as they have no market value and their fair values are extremely difficult to recognize.

Loss on valuation of investment securities of ¥21,981 thousand was recognized in the fiscal period ended July 31, 2018.

Note 3: Redemption schedule for financial assets with maturities

As of July 31, 2018

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Cash and deposits	¥10,029,598	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	8,749,823	-	-	-	-	-
Total	¥18,779,421	¥ -	¥ -	¥ -	¥ -	¥ -

As of January 31, 2018

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Cash and deposits	¥6,551,666	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	3,928,017	-	-	-	-	-
Total	¥10,479,684	¥ -	¥ -	¥ -	¥ -	¥ -

Note 4: Redemption schedule for loans payable and investment corporation bonds

As of July 31, 2018

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Short-term loans payable	¥ 2,630,000	¥ -	¥ -	¥ -	¥ -	¥ -
Investment corporation bonds	-	-	-	1,000,000	-	2,000,000
Long-term loans payable	13,500,000	7,500,000	8,950,000	19,650,000	7,250,000	43,650,000
Total	¥ 16,130,000	¥ 7,500,000	¥ 8,950,000	¥ 20,650,000	¥ 7,250,000	¥ 45,650,000

As of January 31, 2018

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Short-term loans payable	¥ 2,630,000	¥ -	¥ -	¥ -	¥ -	¥ -
Investment corporation bonds	-	-	-	1,000,000	-	2,000,000
Long-term loans payable	11,000,000	3,000,000	3,600,000	10,000,000	10,250,000	47,650,000
Total	¥ 13,630,000	¥ 3,000,000	¥ 3,600,000	¥ 11,000,000	¥ 10,250,000	¥ 49,650,000

9. DERIVATIVE TRANSACTIONS

The contract amount and the fair value of interest-rate swap transactions as of July 31, 2018 are shown in the following table.

- (1) Transactions not subject to hedge accounting
Not applicable

- (2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
			Total	Maturing after 1 year		
Accounting method, in principle	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥43,000,000	¥43,000,000	(¥2,512)	Based on the amount provided by counterparty financial institutions
Special treatment for interest-rate swaps	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥46,300,000	¥38,300,000	*	-
	Total		¥89,300,000	¥81,300,000	(¥2,512)	-

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

The contract amount and the fair value of interest-rate swap transactions as of January 31, 2018 are shown in the following table.

- (1) Transactions not subject to hedge accounting
Not applicable

- (2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
			Total	Maturing after 1 year		
Accounting method, in principle	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥22,500,000	¥22,500,000	¥80,743	Based on the amount provided by counterparty financial institutions
Special treatment for interest-rate swaps	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	46,300,000	38,300,000	*	-
	Total		¥68,800,000	¥60,800,000	¥80,743	-

*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.

10. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 32%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements under the Special Taxation Measures Law of Japan are met, including a requirement that it currently distributes in excess of 90% of its net income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥3,152 million and ¥2,424 million for the periods ended July 31, 2018 and January 31, 2018, respectively, the distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rates on the Investment Corporation's income were 0.01% and 0.03% for the periods ended July 31, 2018 and January 31, 2018, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	From February 1, 2018 to July 31, 2018	From August 1, 2017 to January 31, 2018
Statutory tax rate	31.74%	31.74%
Deductible cash distributions	(16.44)	(31.74)
Gain on negative goodwill	(15.09)	-
Others	(0.20)	0.03
Effective tax rate	0.01%	0.03%

The significant components of deferred tax assets and liabilities as of July 31, 2018 and January 31, 2018 are as follows:

	As of July 31, 2018	As of January 31, 2018
	(in thousands of yen)	
Deferred tax assets:		
Valuation difference on assets acquired by merger	¥ 762,851	¥ -
Deferred gains or losses on hedges	26,694	-
Loss on valuation of investment securities	6,926	-
Subtotal deferred tax assets	796,472	-
Valuation allowance	(796,472)	-
Total deferred tax assets	¥ -	¥ -
Net deferred tax assets	¥ -	¥ -

11. RELATED-PARTY TRANSACTIONS

1. Parent Company, major corporate unitholders and other

13th Fiscal Period (February 1, 2018 to July 31, 2018) and 12th Fiscal Period (August 1, 2017 to January 31, 2018): Not applicable

2. Affiliated companies and other

13th Fiscal Period (February 1, 2018 to July 31, 2018) and 12th Fiscal Period (August 1, 2017 to January 31, 2018): Not applicable

3. Fellow subsidiary companies and other

13th Fiscal Period (February 1, 2018 to July 31, 2018) and 12th Fiscal Period (August 1, 2017 to January 31, 2018): Not applicable

4. Directors, major individual unitholders and other

13th Fiscal Period (February 1, 2018 to July 31, 2018) and 12th Fiscal Period (August 1, 2017 to January 31, 2018): Not applicable

12. BUSINESS COMBINATION

12th Fiscal Period (August 1, 2017 to January 31, 2018)

Not applicable

13th Fiscal Period (February 1, 2018 to July 31, 2018)

Business Combination through Acquisition

1. Overview of Business Combination

(1) Name and Business Description of Acquiree

Name of acquiree : Japan Senior Living Investment Corporation ("JSL")

Business description : Real estate investment trust

(2) Main Reasons for Business Combination

The Investment Corporation and JSL believe that, as a result of the Merger, they will achieve the benefits of (i) an increase in liquidity resulting from greater asset scale and market capitalization that will enable them to capture more growth opportunities, (ii) greater earnings stability stemming from asset type diversification and enhanced ability to pursue external growth and (iii) improvement in asset management efficiency together with enhanced financial health, and further believe that the potential to reap these benefits constitutes the major significance of the Merger. The Investment Corporation has therefore entered into the merger agreement on November 10, 2017.

(3) Date of Business Combination

March 1, 2018

(4) Legal Framework of Business Combination

An absorption-type merger with the Investment Corporation as the surviving corporation and JSL as the dissolving corporation

(5) Name of the Investment Corporation after Business Combination

Kenedix Residential Next Investment Corporation

(The Investment Corporation changed its name from Kenedix Residential Investment Corporation to Kenedix Residential Next Investment Corporation on March 1, 2018)

(6) Main Reasons for Determining Acquiring Company

It was determined that the Investment Corporation is the acquiring company based on the accounting standards for business combinations and other regulations with comprehensively taking various factors into consideration, such as the size of total assets, net income and other indexes, the ratio of unitholders' voting rights, the members of board of directors and other managerial factors.

2. Operating Period of Acquiree Included in the Statement of Income and Retained Earnings

From March 1, 2018 to July 31, 2018

3. Acquisition Cost of Acquiree and the Breakdown

Acquisition cost

Market value of the Investment Corporation's investment units allotted on the date of business combination

¥13,187,100 thousand

Principal Direct Cost for Acquisition

Merger fees ¥292,085 thousand

4. Exchange Ratio, Method of Calculation and Number of Investment Units Allotted as for the Acquisition

(1) Exchange Ratio of Investment Units

1 unit of the Investment Corporation was allotted 1 unit of JSL through the Merger. The Investment Corporation implemented a 2-for-1 investment unit split with February 28, 2018 as the record date before the Merger.

(2) Method of Calculation

The Investment Corporation appointed SMBC Nikko Securities Inc. as a financial advisor ("FA"), while JSL appointed Nomura Securities Co., Ltd. They requested the FAs to perform a financial analysis of the merger ratio. Each FA calculated the merger ratio based on the valuation method of investment unit market value, discount dividends model, and other valuation, respectively. After careful discussions and negotiations as well as comprehensive considerations of various factors, including the merger ratio performed by the FAs, the Investment Corporation and JSL determined that the above mentioned merger ratio was appropriate.

(3) Number of Investment Units Allotted

84,750 units

5. Treatment of Acquisition Cost

(1) Breakdown of Assets Acquired and Liabilities Assumed on the Date of Business Combination

(In thousand yen)	
Current assets	¥6,674,104
Noncurrent assets	29,237,279
Total assets	35,911,384
Current liabilities	5,108,546
Noncurrent liabilities	15,040,841
Total liabilities	¥20,149,388

(2) Amount and Reason for Negative Goodwill

Amount of Negative Goodwill : ¥2,574,896 thousand

Reason : The Investment Corporation recognized the difference as Negative Goodwill, by the amount that JSL fair value of net assets on the date of business combination exceeded the acquisition cost.

Accounting Treatment : All of the amount was recognized as extraordinary gain in 13th fiscal period.

6. Estimated Impact on the Statement of Income and Retained Earnings for the 13th fiscal period

Calculation Method of Estimated Impact and Assumption:

Japanese GAAP requires the acquiring company to estimate the impact on the statement of income and retained earnings as if the business combination were completed at the beginning of the 13th fiscal period.

Impact on the Statement of Income and Retained Earnings in the 13th Fiscal Period:

Operating revenues ¥162,634 thousand

Ordinary income ¥37,588 thousand

Net income ¥37,419 thousand

13. INVESTMENT AND RENTAL PROPERTIES

The Investment Corporation owns real estate for rental purposes in the Tokyo Metropolitan Area and other regional areas for the purpose of generating rental revenues.

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

	13th Fiscal Period from February 1, 2018 to July 31, 2018	12th Fiscal Period from August 1, 2017 to January 31, 2018
(in thousands of yen)		
Book value		
Balance at the beginning of period	¥165,040,946	¥156,161,704
Changes during the period	28,107,411	8,879,241
Balance at the end of period	193,148,357	165,040,946
Fair value at the end of period	¥223,857,000	¥192,137,000

Note 1: Book value excludes accumulated depreciation from acquisition costs.

Note 2: Among changes in the amount of real estate for rental purposes that occurred during the 13th fiscal period, the principal increases were the acquisition of trust beneficiary interests in real estate in 14 properties totaling ¥28,998,000 thousand by merger with Japan Senior Living Investment Corporation and the acquisition of real estate trust beneficiary interests in 1 property totaling ¥770,418 thousand, and the principal decrease was the sales of real estate trust beneficiary interests in 1 property totaling ¥953,749 thousand and depreciation of ¥1,144,236 thousand, and the 12th fiscal period, the principal increases were the acquisition of trust beneficiary interests in real estate in 2 properties totaling ¥9,514,796 thousand and the principal decrease was depreciation amounting of ¥921,858 thousand.

Note 3: The fair value is the appraisal value or the survey value determined by outside appraisers.

Income and loss in the fiscal periods ended July 31, 2018 and January 31, 2018 for real estate for rental purposes is listed in Note 4 "BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES AND GAIN ON SALES OF REAL ESTATE PROPERTY".

14. SEGMENT AND RELATED INFORMATION

Segment and related information for the period ended from February 1, 2018 to July 31, 2018 and from August 1, 2017 to January 31, 2018 is as follows:

(A) Segment information

Disclosure is omitted because the real estate leasing business is the Investment Corporation's sole business and it has no reportable segment subject to disclosure.

(B) Related information

(1) Information about each product and service

Disclosure is omitted because net sales to external customers for a single product/service category account for over 90% of the operating revenue on the statement of income and retained earnings.

(2) Information about each geographic area

(a) Net sales

Disclosure is omitted because net sales to external customers in Japan account for over 90% of the operating revenue on the statement of income and retained earnings.

(b) Property, plant and equipment

Disclosure is omitted because the amount of property, plant and equipment located in Japan accounts for over 90% of the amount of property, plant and equipment on the balance sheet.

(3) Information about each major customer

Disclosure is omitted because net sales to a single external customer account for less than 10% of the operating revenue on the statement of income and retained earnings.

15. PER UNIT INFORMATION

	From February 1, 2018 to July 31, 2018	From August 1, 2017 to January 31, 2018
Net asset value per unit	¥126,123	¥118,379
Net income per unit	¥7,036	¥3,369
Weighted average number of units (units)	769,818	698,178

The weighted average numbers of units outstanding of 769,818 and 698,178 were used for the computation of the amount of net income per unit as of July 31, 2018 and January 31, 2018, respectively.

A 2-for-1 split of investment units was implemented with February 28, 2018 as the record date and March 1, 2018 as the effective date. Net assets value per unit and net income per unit are calculated based on the assumption that the split of investment unit was implemented at the beginning of the fiscal period ended January 2018.

Net income per unit after adjusting for residual units is not included because there were no residual investment units.

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

	From February 1, 2018 to July 31, 2018	From August 1, 2017 to January 31, 2018
Net income (in thousands of yen)	¥5,416,437	¥2,352,516
Net income not available to ordinary unitholders (in thousands of yen)	-	-
Net income available to ordinary unitholders (in thousands of yen)	¥5,416,437	¥2,352,516
Weighted average number of units during the period (units)	769,818	698,178

16. SIGNIFICANT SUBSEQUENT EVENTS

Issuance of New Investment Units

On July 13, 2018 and July 24, 2018, the Board of Directors of the Investment Corporation resolved to issue new investment units as the funds for acquiring specified assets and other use. Payments for the issuance of new investment units through public offering and through third-party allotment have been completed on August 1, 2018 and August 29, 2018, respectively.

As a result of the issuance of new investment units, the Investment Corporation has total unitholders' capital of ¥93,226,228,903 with 869,133 investment units outstanding as of August 29, 2018.

(Issuance of New Investment Units through Public Offering)

Issuance of new investment units	: 82,100 units
Issue price (Offer price)	: ¥157,047 per unit
Aggregate issue price (Total offer price)	: ¥12,893,558,700
Issue amount (Paid-in value)	: ¥151,892 per unit
Total issue amount (Aggregate paid-in value)	: ¥12,470,333,200
Payment date	: August 1, 2018

(Issuance of New Investment Units through Third-Party Allotment)

Issuance of new investment units	: 4,105 units
Issue amount (Paid-in value)	: ¥151,892 per unit
Total issue amount (Aggregate paid-in value)	: ¥623,516,660
Payment date	: August 29, 2018
Allottee	: SMBC Nikko Securities Inc.

17. SECURITIES PORTFOLIO

Securities portfolio consists of the following as of July 31, 2018:

- (1) Stock Not applicable
- (2) Securities other than shares

(in thousands of yen)

Type	Name	Face value total	Book value	Accrued interest	Prepaid accrued interest	Assessed value (Note 1)	Gain (Loss) on valuation	Remarks
Subordinated Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. Tropic I as operator (Note 2)	-	78,767	-	-	78,767	-	
Subordinated Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. Tropic II as operator (Note 3)	-	122,142	-	-	122,142	-	
Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. KSLF8 as operator (Note 4)	-	198,346	-	-	198,346	-	
Subordinated Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. Tropic III as operator (Note 5)	-	113,006	-	-	113,006	-	
Total		-	512,263	-	-	512,263	-	

Note 1: The assessed value is stated at the book value. Loss on valuation of investment securities of ¥10,831 thousand and ¥11,150 thousand was recognized in the fiscal period ended July 31, 2018 regarding equity interests in TK property fund with G.K. Tropic I as operator and equity interests in TK property fund with G.K. Tropic II as operator, respectively.

Note 2: TK property fund owned trust beneficiary interests in real estate for "KDX Residence Shukugawa Hills" as of July 31, 2018, the end of the 13th fiscal period. Furthermore, the Investment Corporation acquired real estate beneficiary interests in trust for the abovementioned properties on August 2, 2018.

Note 3: TK property fund owned trust beneficiary interests in real estate for "KDX Residence Asagaya," "KDX Residence Hiyoshi" and "Serenite Kobe Motomachi" as of July 31, 2018, the end of the 13th fiscal period. Furthermore, the Investment Corporation acquired real estate beneficiary interests in trust for the three abovementioned properties on August 2, 2018.

Note 4: Equity interests in TK property fund with G.K. KSLF8 as operator were succeeded from JSL by the Merger.

TK property fund owned trust beneficiary interests in real estate for "Canadian Hill," "Anesis Hyogo," "Orage Suma," "Rococo-riha" and "Anesis Teradacho" as of July 31, 2018, the end of the 13th fiscal period. Furthermore, the Investment Corporation acquired real estate beneficiary interests in trust for the five abovementioned properties on August 2, 2018.

Note 5: TK property fund owns trust beneficiary interests in real estate for "Arute Ishiyagawa" and "Serabi Ebisu."

Securities portfolio consists of the following as of January 31, 2018:

- (1) Stock Not applicable
- (2) Securities other than shares

(in thousands of yen)

Type	Name	Face value total	Book value	Accrued interest	Prepaid accrued interest	Assessed value (Note 3)	Gain (Loss) on valuation	Remarks
Subordinated Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. Tropic I as operator (Note 1)	-	88,339	-	-	88,339	-	
Subordinated Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. Tropic II as operator (Note 2)	-	133,368	-	-	133,368	-	
Total		-	221,707	-	-	221,707	-	

Note 1: TK property fund owns trust beneficiary interests in real estate for "KDX Residence Shukugawa Hills."

Note 2: TK property fund owns trust beneficiary interests in real estate for "KDX Residence Asagaya," "KDX Residence Hiyoshi" and "Serenite Kobe Motomachi."

Note 3: The assessed value is stated at the book value.

18. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASEETS

Property, plant and equipment consist of the following as of July 31, 2018:

Type of asset	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Depreciation		Net balance at end of the period	Remarks
					Accumulated depreciation	Depreciation for the period		
(in thousands of yen)								
Land	¥1,798,041	¥ -	¥ -	¥1,798,041	¥ -	¥ -	¥1,798,041	
Sub total	1,798,041	-	-	1,798,041	-	-	1,798,041	
Buildings in trust	68,843,600	16,408,296	595,119	84,656,776	7,901,681	1,084,310	76,755,095	Note 1
Structures in trust	502,925	222,790	3,283	722,432	133,503	19,963	588,929	
Machinery and equipment in trust	1,317,786	42,291	-	1,360,078	256,856	30,015	1,103,222	
Tools, furniture and fixtures in trust	338,646	62,359	106	400,899	39,156	9,946	361,742	
Land in trust	99,538,715	12,402,600	467,048	111,474,267	-	-	111,474,267	Note 1
Sub total	170,541,674	29,138,338	1,065,558	198,614,454	8,331,197	1,144,236	190,283,257	
Total	172,339,715	29,138,338	1,065,558	200,412,495	8,331,197	1,144,236	192,081,298	
Intangible assets								
Leasehold right in trust	-	1,067,058	-	1,067,058	-	-	1,067,058	
Other	-	7,762	-	7,762	646	646	7,115	
Total	¥ -	¥1,074,821	¥ -	¥1,074,821	¥ 646	¥ 646	¥1,074,174	

Note 1: The amount of increase during the period is primarily attributable to merger, the acquisition of the real estate property and capital expenditures.

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

Property, plant and equipment consist of the following as of January 31, 2018:

Type of asset	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Depreciation		Net balance at end of the period	Remarks
					Accumulated depreciation	Depreciation for the period		
(in thousands of yen)								
Land	¥1,798,041	¥ -	¥ -	¥1,798,041	¥ -	¥ -	¥1,798,041	
Sub total	1,798,041	-	-	1,798,041	-	-	1,798,041	
Buildings in trust	65,654,206	3,189,393	-	68,843,600	6,927,784	869,449	61,915,815	Note 1
Structures in trust	444,009	58,915	-	502,925	114,924	14,477	388,001	
Machinery and equipment in trust	1,259,827	57,959	-	1,317,786	226,840	28,953	1,090,946	
Tools, furniture and fixtures in trust	263,829	74,816	-	338,646	29,220	8,978	309,425	
Land in trust	93,118,700	6,420,015	-	99,538,715	-	-	99,538,715	Note 1
Sub total	160,740,573	9,801,100	-	170,541,674	7,298,769	921,858	163,242,904	
Total	¥162,538,615	¥9,801,100	¥ -	¥172,339,715	¥7,298,769	¥921,858	¥165,040,946	

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

19. INVESTMENT CORPORATION BONDS

Outstanding Investment corporation bonds as of July 31, 2018 are as follows.

Series	Date of issue	Balance at the beginning of period	Decrease during the period	Balance at the end of period	Interest rate	Repayment date	Use	Remarks
(in thousands of yen)								
First series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.200%	August 30, 2021		
Second series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.540%	August 28, 2026	(Note2)	Unsecured
Third series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.800%	August 30, 2028		
Total		3,000,000	-	3,000,000				

Note 1: Ranking pari passu among the specified investment corporation bonds.

Note 2: Investment corporation bonds were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate and repayment of debts.

Note 3: Annual repayments of investment corporation bonds scheduled for the next five years after the balance sheet date are as follows.

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
(in thousands of yen)					
Investment corporation bonds	-	-	-	1,000,000	-

Outstanding Investment corporation bonds as of January 31, 2018 are as follows.

Series	Date of issue	Balance at the beginning of period	Decrease during the period	Balance at the end of period	Interest rate	Repayment date	Use	Remarks
(in thousands of yen)								
First series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.200%	August 30, 2021		
Second series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.540%	August 28, 2026	(Note2)	Unsecured
Third series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.800%	August 30, 2028		
Total		3,000,000	-	3,000,000				

Note 1: Ranking pari passu among the specified investment corporation bonds.

Note 2: Investment corporation bonds were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate and repayment of debts.

Note 3: Annual repayments of investment corporation bonds scheduled for the next five years after the balance sheet date are as follows.

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
(in thousands of yen)					
Investment corporation bonds	-	-	-	1,000,000	-

20. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt and long-term debt consist of the following as of July 31, 2018

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks		
										(in thousands of yen)	
Short-term loans payable	Sumitomo Mitsui Banking Corporation	1,000,000	-	1,000,000	-	0.455%	July 31, 2018	(Note 6)	Unsecured/Unguaranteed		
	Shinsei Bank, Limited (Note 8)	-	500,000	500,000	-	0.354%	July 30, 2018				
	Sumitomo Mitsui Banking Corporation (Note 8)	-	500,000	500,000	-	0.354%	July 30, 2018				
	Sumitomo Mitsui Banking Corporation	830,000	-	830,000	-	0.455%	July 31, 2018				
	Mizuho Bank, Ltd.	800,000	-	800,000	-	0.455%	July 31, 2018				
	Sumitomo Mitsui Banking Corporation	-	1,830,000	-	1,830,000	0.404%	July 31, 2019				
	Mizuho Bank, Ltd.	-	800,000	-	800,000	0.404%	July 31, 2019				
	Sub total	2,630,000	3,630,000	3,630,000	2,630,000						
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation	3,250,000	-	-	3,250,000	1.052%	August 31, 2018	(Note 6)	Unsecured/Unguaranteed		
	MUFG Bank, Ltd	2,000,000	-	-	2,000,000						
	Aozora Bank, Ltd.	1,000,000	-	-	1,000,000						
	Resona Bank, Limited	500,000	-	-	500,000						
	Sumitomo Mitsui Trust Bank, Limited	500,000	-	-	500,000						
	Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000						
	Mizuho Bank, Ltd.	250,000	-	-	250,000						
	Development Bank of Japan Inc.	3,000,000	-	-	3,000,000					1.088% (Note 5)	August 31, 2018
	Shinsei Bank, Limited (Note 8)	-	1,000,000	1,000,000	-						
	Sumitomo Mitsui Banking Corporation (Note 8)	-	1,000,000	1,000,000	-						
	MUFG Bank, Ltd (Note 8)	-	500,000	500,000	-					0.435%	July 30, 2018
	Mizuho Bank, Ltd. (Note 8)	-	500,000	500,000	-						
	Nippon Life Insurance Company (Note 8)	-	500,000	500,000	-						
	Sumitomo Mitsui Banking Corporation (Note 2)	1,000,000	-	-	1,000,000					0.480%	February 28, 2019
	MUFG Bank, Ltd (Note 2)	500,000	-	-	500,000					0.480%	February 28, 2019
Sub total	12,500,000	4,500,000	3,500,000	13,500,000							
Long-term loans payable	MUFG Bank, Ltd	1,000,000	-	-	1,000,000	1.109%	January 31, 2021	(Note 6)	Unsecured/Unguaranteed		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.221%	July 31, 2021				
	Aozora Bank, Ltd.	1,350,000	-	-	1,350,000	1.183%	March 31, 2021				
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	1.267%	April 30, 2022				
	Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	1.267%	April 30, 2022				
	MUFG Bank, Ltd	1,000,000	-	-	1,000,000	1.267%	April 30, 2022				
	Resona Bank, Limited	1,000,000	-	-	1,000,000	1.267%	April 30, 2022				
	Sumitomo Mitsui Banking Corporation	1,100,000	-	-	1,100,000	0.916%	August 7, 2021				
	MUFG Bank, Ltd	1,100,000	-	-	1,100,000						
	Mizuho Bank, Ltd.	600,000	-	-	600,000						
	Aozora Bank, Ltd.	350,000	-	-	350,000						
	Resona Bank, Limited	300,000	-	-	300,000						
	Mizuho Trust & Banking Co., Ltd.	300,000	-	-	300,000						
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	0.996% (Note 5)	August 7, 2021				
	Sumitomo Mitsui Banking Corporation	400,000	-	-	400,000	1.254%	August 7, 2023				
MUFG Bank, Ltd	400,000	-	-	400,000							
Mizuho Bank, Ltd.	300,000	-	-	300,000							
Resona Bank, Limited	200,000	-	-	200,000							

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
(in thousands of yen)									
	Mizuho Trust & Banking Co., Ltd.	200,000	-	-	200,000	1.254%	August 7, 2023		
	Aozora Bank, Ltd.	150,000	-	-	150,000				
	Development Bank of Japan Inc.	500,000	-	-	500,000	1.320% (Note 5)	August 7, 2023		
	Sumitomo Mitsui Banking Corporation	600,000	-	-	600,000	0.945%	August 31, 2021		
	MUFG Bank, Ltd.	600,000	-	-	600,000	0.945%	August 31, 2021		
	Aozora Bank, Ltd.	500,000	-	-	500,000	0.945%	August 31, 2021		
	Mizuho Bank, Ltd.	950,000	-	-	950,000	1.083%	November 30, 2022		
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	0.804%	November 30, 2020		
	MUFG Bank, Ltd.	1,500,000	-	-	1,500,000	0.689%	November 30, 2019		
	Sumitomo Mitsui Banking Corporation	1,200,000	-	-	1,200,000	0.875%	January 31, 2022		
	MUFG Bank, Ltd.	1,200,000	-	-	1,200,000	1.105%	January 31, 2024		
	Aozora Bank, Ltd.	2,000,000	-	-	2,000,000	0.875%	April 30, 2022		
	Resona Bank, Limited	1,500,000	-	-	1,500,000	0.987%	April 30, 2023		
	MUFG Bank, Ltd.	2,000,000	-	-	2,000,000	1.100%	April 30, 2024		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.265%	April 30, 2025		
	Shinsei Bank, Limited (Note 8)	-	1,750,000	-	1,750,000				
	Sumitomo Mitsui Banking Corporation (Note 8)	-	1,750,000	-	1,750,000				
	MUFG Bank, Ltd (Note 8)	-	1,000,000	-	1,000,000				
	Mizuho Bank, Ltd. (Note 8)	-	500,000	-	500,000	0.729%	July 29, 2020		
	Resona Bank, Limited (Note 8)	-	500,000	-	500,000				
Long-term loans payable	Mizuho Trust & Banking Co., Ltd. (Note 8)	-	500,000	-	500,000			(Note 6)	Unsecured/ Unguaranteed
	Shinsei Bank, Limited (Note 8)	-	1,100,000	-	1,100,000				
	Sumitomo Mitsui Banking Corporation (Note 8)	-	1,100,000	-	1,100,000				
	MUFG Bank, Ltd (Note 8)	-	1,000,000	-	1,000,000	1.115%	July 29, 2022		
	Mizuho Bank, Ltd. (Note 8)	-	300,000	-	300,000				
	Sompo Japan Nipponkoa Insurance Inc. (Note 8)	-	1,000,000	-	1,000,000				
	Aozora Bank, Ltd.	300,000	-	-	300,000	0.678%	August 31, 2020		
	Resona Bank, Limited	1,100,000	-	-	1,100,000	0.923%	August 31, 2022		
	Mizuho Trust & Banking Co., Ltd.	700,000	-	-	700,000	0.923%	August 31, 2022		
	Sumitomo Mitsui Trust Bank, Limited	950,000	-	-	950,000	1.047%	August 31, 2023		
	MUFG Bank, Ltd.	1,700,000	-	-	1,700,000	1.169%	August 31, 2024		
	Mizuho Bank, Ltd.	950,000	-	-	950,000	1.169%	August 31, 2024		
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	1.345%	August 31, 2025		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	1.193% (Note 5)	August 31, 2024		
	MUFG Bank, Ltd.	300,000	-	-	300,000	0.624%	October 27, 2020		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	1.156%	April 27, 2025		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	0.819%	April 28, 2025		
	Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000	0.903%	April 30, 2026		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	0.660% (Note 5)	July 31, 2025		
	Mizuho Bank, Ltd.	1,500,000	-	-	1,500,000	0.816% (Note 5)	August 31, 2026		
	Aozora Bank, Ltd.	1,000,000	-	-	1,000,000	0.713%	August 31, 2024		
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.797%	August 31, 2025		

Classification	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
Lender	(in thousands of yen)							
Resona Bank, Limited	500,000	-	-	500,000	0.797%	August 31, 2025		
MUFG Bank, Ltd	2,000,000	-	-	2,000,000	0.670% (Note 5)	August 31, 2025		
Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000	0.751% (Note 5)	August 31, 2025		
Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	0.906%	August 31, 2026		
Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	0.773% (Note 5)	October 31, 2025		
Resona Bank, Limited	1,000,000	-	-	1,000,000	0.900%	August 22, 2027		
Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.900%	August 22, 2027		
Shinsei Bank, Limited	1,000,000	-	-	1,000,000	0.900%	August 22, 2027		
Mizuho Trust & Banking Co., Ltd.	1,200,000	-	-	1,200,000	0.928% (Note 5)	August 22, 2027		
Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	0.928% (Note 5)	August 22, 2027		
Mizuho Bank, Ltd.	500,000	-	-	500,000	0.928% (Note 5)	August 22, 2027		
The Bank of Fukuoka, Ltd.	500,000	-	-	500,000	0.928% (Note 5)	August 22, 2027		
Sumitomo Mitsui Banking Corporation	1,500,000	-	-	1,500,000	0.501%	February 28, 2023	(Note 6)	Unsecured/ Unguaranteed
MUFG Bank, Ltd	1,500,000	-	-	1,500,000	0.501%	February 28, 2023		
Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	0.582%	February 29, 2024		
Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	0.582%	February 29, 2024		
MUFG Bank, Ltd	1,000,000	-	-	1,000,000	0.582%	February 29, 2024		
Mizuho Bank, Ltd.	500,000	-	-	500,000	0.624%	August 31, 2024		
Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000	0.661% (Note 5)	August 31, 2024		
Sumitomo Mitsui Banking Corporation	1,500,000	-	-	1,500,000	0.665%	February 28, 2025		
Resona Bank, Limited	1,000,000	-	-	1,000,000	0.749%	February 28, 2026		
Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.749%	February 28, 2026		
Sumitomo Mitsui Banking Corporation	-	1,000,000	-	1,000,000	0.409%	July 31, 2021		
Shinsei Bank, Limited	-	1,000,000	-	1,000,000	0.409%	July 31, 2021		
MUFG Bank, Ltd	-	500,000	-	500,000	0.409%	July 31, 2021		
Mizuho Bank, Ltd.	-	500,000	-	500,000	0.409%	July 31, 2021		
Nippon Life Insurance Company	-	500,000	-	500,000	0.900% (Note 5)	January 30, 2027		
Sub total	73,000,000	14,000,000	-	87,000,000				
Total	¥88,130,000	¥22,130,000	¥7,130,000	¥103,130,000				

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

	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)				
Long-term loans payable	¥7,500,000	¥8,950,000	¥19,650,000	¥7,250,000	¥43,650,000

Note 2: Borrowings listed in the current portion of long-term loans payable were listed in long-term loans payable in the previous fiscal period.

Note 3: All debts except for the following Note 5 are borrowing at a floating rate.

Note 4: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions and other derivative transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps and other derivatives are indicated.

Note 5: Borrowings is applied at a fixed rate.

Note 6: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note 7: All the repayment methods of debt financing are lump-sum repayments on the due date.

Note 8: Borrowings succeeded from JSL due to the Merger on March 1, 2018.

Short-term debt and long-term debt consist of the following as of January 31, 2018

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks		
(in thousands of yen)											
Short-term loans payable	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	0.438%	July 31, 2018	(Note 6)	Unsecured/ Unguaranteed		
	Sumitomo Mitsui Banking Corporation	-	830,000	-	830,000	0.438%	July 31, 2018				
	Mizuho Bank, Ltd.	-	800,000	-	800,000	0.438%	July 31, 2018				
	Sub total	1,000,000	1,630,000	-	2,630,000						
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation	4,000,000	-	4,000,000	-	0.910%	August 31, 2017	(Note 6)	Unsecured/ Unguaranteed		
	MUFG Bank, Ltd (Note 8)	2,500,000	-	2,500,000	-						
	Aozora Bank, Ltd.	1,500,000	-	1,500,000	-						
	Resona Bank, Limited	1,000,000	-	1,000,000	-						
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	1,000,000	-						
	Mizuho Trust & Banking Co., Ltd.	500,000	-	500,000	-						
	Mizuho Bank, Ltd.	500,000	-	500,000	-						
	Sumitomo Mitsui Banking Corporation	3,250,000	-	-	3,250,000					1.052%	August 31, 2018 (Note 2)
	MUFG Bank, Ltd (Note 8)	2,000,000	-	-	2,000,000						
	Aozora Bank, Ltd.	1,000,000	-	-	1,000,000						
	Resona Bank, Limited	500,000	-	-	500,000						
	Sumitomo Mitsui Trust Bank, Limited	500,000	-	-	500,000						
	Mizuho Trust & Banking Co., Ltd	500,000	-	-	500,000						
	Mizuho Bank, Ltd.	250,000	-	-	250,000						
	Development Bank of Japan Inc.	3,000,000	-	-	3,000,000						
Sub total	22,000,000	-	11,000,000	11,000,000							
Long-term loans payable	MUFG Bank, Ltd (Note 8)	1,000,000	-	-	1,000,000	1.109%	January 31, 2021	(Note 6)	Unsecured/ Unguaranteed		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.221%	July 31, 2021				
	Aozora Bank, Ltd.	1,350,000	-	-	1,350,000	1.183%	March 31, 2021				
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	1.267%	April 30, 2022				
	Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	1.267%	April 30, 2022				
	MUFG Bank, Ltd (Note 8)	1,000,000	-	-	1,000,000	1.267%	April 30, 2022				
	Resona Bank, Limited	1,000,000	-	-	1,000,000	1.267%	April 30, 2022				
	Sumitomo Mitsui Banking Corporation	1,100,000	-	-	1,100,000	0.916%	August 7, 2021				
	MUFG Bank, Ltd (Note 8)	1,100,000	-	-	1,100,000						
	Mizuho Bank, Ltd.	600,000	-	-	600,000						
	Aozora Bank, Ltd.	350,000	-	-	350,000						
	Resona Bank, Limited	300,000	-	-	300,000						
	Mizuho Trust and Banking Co., Limited	300,000	-	-	300,000						
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000					0.996% (Note 5)	August 7, 2021
	Sumitomo Mitsui Banking Corporation	400,000	-	-	400,000					1.254%	August 7, 2023
	MUFG Bank, Ltd (Note 8)	400,000	-	-	400,000						
	Mizuho Bank, Ltd.	300,000	-	-	300,000						
	Resona Bank, Limited	200,000	-	-	200,000						
	Mizuho Trust and Banking Co., Limited	200,000	-	-	200,000						
	Aozora Bank, Ltd.	150,000	-	-	150,000						
Development Bank of Japan Inc.	500,000	-	-	500,000	1.320% (Note 5)	August 7, 2023					
Sumitomo Mitsui Banking Corporation	600,000	-	-	600,000	0.945%	August 31, 2021					
MUFG Bank, Ltd (Note 8)	600,000	-	-	600,000	0.945%	August 31, 2021					
Aozora Bank, Ltd.	500,000	-	-	500,000	0.945%	August 31, 2021					
Mizuho Bank, Ltd.	950,000	-	-	950,000	1.083%	November 30, 2022					

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
		(in thousands of yen)							
Long-term loans payable	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	0.804%	November 30, 2020		
	MUFG Bank, Ltd (Note 9)	1,500,000	-	-	1,500,000	0.689%	November 30, 2019		
	Sumitomo Mitsui Banking Corporation	1,200,000	-	-	1,200,000	0.875%	January 31, 2022		
	MUFG Bank, Ltd (Note 8)	1,200,000	-	-	1,200,000	1.105%	January 31, 2024		
	Aozora Bank, Ltd.	2,000,000	-	-	2,000,000	0.875%	April 30, 2022		
	Resona Bank, Limited	1,500,000	-	-	1,500,000	0.987%	April 30, 2023		
	MUFG Bank, Ltd (Note 8)	2,000,000	-	-	2,000,000	1.100%	April 30, 2024		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.265%	April 30, 2025		
	Aozora Bank, Ltd.	300,000	-	-	300,000	0.678%	August 31, 2020		
	Resona Bank, Limited	1,100,000	-	-	1,100,000	0.923%	August 31, 2022		
	Mizuho Trust and Banking Co., Limited	700,000	-	-	700,000	0.923%	August 31, 2022		
	Sumitomo Mitsui Trust Bank, Limited	950,000	-	-	950,000	1.047%	August 31, 2023		
	MUFG Bank, Ltd (Note 8)	1,700,000	-	-	1,700,000	1.169%	August 31, 2024		
	Mizuho Bank, Ltd.	950,000	-	-	950,000	1.169%	August 31, 2024		
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	1.345%	August 31, 2025		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	1.193% (Note 5)	August 31, 2024		
	MUFG Bank, Ltd (Note 8)	300,000	-	-	300,000	0.624%	October 27, 2020		
	MUFG Bank, Ltd (Note 8)	1,000,000	-	-	1,000,000	1.156%	April 27, 2025		
	MUFG Bank, Ltd (Note 8)	1,000,000	-	-	1,000,000	0.819%	April 28, 2025		
	Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000	0.903%	April 30, 2026		
	MUFG Bank, Ltd (Note 8)	1,000,000	-	-	1,000,000	0.660% (Note 5)	July 31, 2025	(Note 6)	Unsecured/ Unguaranteed
	Mizuho Bank, Ltd.	1,500,000	-	-	1,500,000	0.816% (Note 5)	August 31, 2026		
	Aozora Bank, Ltd.	1,000,000	-	-	1,000,000	0.713%	August 31, 2024		
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.797%	August 31, 2025		
	Resona Bank, Limited	500,000	-	-	500,000	0.797%	August 31, 2025		
	MUFG Bank, Ltd (Note 8)	2,000,000	-	-	2,000,000	0.670% (Note 5)	August 31, 2025		
	Mizuho Trust and Banking Co., Limited	500,000	-	-	500,000	0.751% (Note 5)	August 31, 2025		
	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	0.906%	August 31, 2026		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	0.773% (Note 5)	October 31, 2025		
	Sumitomo Mitsui Banking Corporation	-	1,000,000	-	1,000,000	0.464%	February 28, 2019		
	MUFG Bank, Ltd (Note 8)	-	500,000	-	500,000	0.464%	February 28, 2019		
	Resona Bank, Limited	-	1,000,000	-	1,000,000	0.900%	August 22, 2027		
	Sumitomo Mitsui Trust Bank, Limited	-	1,000,000	-	1,000,000	0.900%	August 22, 2027		
Shinsei Bank, Limited	-	1,000,000	-	1,000,000	0.900%	August 22, 2027			
Mizuho Trust and Banking Co., Limited	-	1,200,000	-	1,200,000	0.928% (Note 5)	August 22, 2027			
Development Bank of Japan Inc.	-	1,000,000	-	1,000,000	0.928% (Note 5)	August 22, 2027			
Mizuho Bank, Ltd.	-	500,000	-	500,000	0.928% (Note 5)	August 22, 2027			
The Bank of Fukuoka, Ltd.	-	500,000	-	500,000	0.928% (Note 5)	August 22, 2027			
Sumitomo Mitsui Banking Corporation	-	1,500,000	-	1,500,000	0.501%	February 28, 2023			
MUFG Bank, Ltd (Note 8)	-	1,500,000	-	1,500,000	0.501%	February 28, 2023			
Aozora Bank, Ltd.	-	1,500,000	-	1,500,000	0.582%	February 29, 2024			

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
(in thousands of yen)									
Long-term loans payable	Sumitomo Mitsui Banking Corporation	-	1,000,000	-	1,000,000	0.582%	February 29, 2024		
	MUFG Bank, Ltd (Note 8)	-	1,000,000	-	1,000,000	0.582%	February 29, 2024		
	Mizuho Bank, Ltd.	-	500,000	-	500,000	0.624%	August 31, 2024		
	Mizuho Trust and Banking Co., Limited	-	500,000	-	500,000	0.661% (Note 5)	August 31, 2024	(Note 6)	Unsecured/ Unguaranteed
	Sumitomo Mitsui Banking Corporation	-	1,500,000	-	1,500,000	0.665%	February 28, 2025		
	Resona Bank, Limited	-	1,000,000	-	1,000,000	0.749%	February 28, 2026		
	Sumitomo Mitsui Trust Bank, Limited	-	1,000,000	-	1,000,000	0.749%	February 28, 2026		
	Sub total		55,800,000	18,700,000	-	74,500,000			
Total		¥78,800,000	¥20,330,000	¥11,000,000	¥88,130,000				

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

	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(in thousands of yen)					
Long-term loans payable	¥3,000,000	¥3,600,000	¥10,000,000	¥10,250,000	¥47,650,000

Note 2: Borrowings listed in the current portion of long-term loans payable were listed in long-term loans payable in the previous fiscal period.

Note 3: All debts except for the following Note 5 are borrowing at a floating rate.

Note 4: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions and other derivative transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps and other derivatives are indicated.

Note 5: Borrowings is applied at a fixed rate.

Note 6: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note 7: All the repayment methods of debt financing are lump-sum repayments on the due date.

Note 8: The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its corporate name to MUFG Bank, Ltd. on April 1, 2018.

Note 9: MUFG Bank, Ltd. succeeded to the status of lender from Mitsubishi UFJ Trust and Banking Corporation due to the absorption-type demerger of Mitsubishi UFJ Trust and Banking Corporation (the splitting company) and MUFG Bank, Ltd. (the successor company) on April 16, 2018.

21. DISTRIBUTIONS

	13th Fiscal Period (From February 1, 2018 to July 31, 2018)	12th Fiscal Period (From August 1, 2017 to January 31, 2018)
I. Retained earnings at the end of period	¥5,428,676,864	¥2,437,011,775
II. Total distributions	¥3,152,068,128	¥2,424,772,194
Distributions per unit	¥4,026	¥6,946
III. Voluntary reserve		
Provision of reserve for temporary difference adjustments (Note 1)	¥2,000,000,000	¥-
IV. Retained earnings brought forward to the next period	¥276,608,736	¥12,239,581
Method of calculating distribution amount	<p>In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall not exceed its accounting profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥3,152,068,128, which is the amount deducting a part of gain on negative goodwill, a part of gain on sale of real estate property and other adjustments from net income, as the distribution of earnings.</p> <p>Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the 13th fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.</p>	<p>In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall not exceed its accounting profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥2,424,772,194, which is the amount of ¥2,352,516,261 in net income and ¥72,255,933 from retained earnings brought forward, as the distribution of earnings.</p> <p>Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the 12th fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.</p>

Note 1: Reserve for temporary difference adjustments

13th Fiscal Period (February 1, 2018 to July 31, 2018)

The Investment Corporation has reserved ¥2,000,000,000 as reserve for temporary difference adjustments from gain on negative goodwill in the 13th fiscal period. At least 1% of the initial amount in equal installments over 50 years (100 fiscal periods) will be reversed every fiscal period applied to distribution starting from the 14th fiscal period.

12th Fiscal Period (August 1, 2017 to January 31, 2018)

Not applicable