

Financial Statements

(5th Fiscal Period: From February 1, 2014 to July 31, 2014)

(4th Fiscal Period: From August 1, 2013 to January 31, 2014)

Independent Auditor's Report

Balance Sheets

Statements of Income and Retained Earnings

Statements of Changes in Net Assets

Statements of Cash Flows

Notes to Financial Statements

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Balance Sheets

As of July 31, 2014 and January 31, 2014

	Fifth Fiscal Period as of July 31, 2014	Fourth Fiscal Period as of January 31, 2014
	(in thousands of yen)	
ASSETS		
Current assets		
Cash and deposits	¥1,824,573	¥2,159,067
Cash and deposits in trust	2,532,728	2,390,548
Operating accounts receivable	20,292	16,105
Prepaid expenses	3,787	7,282
Deferred tax assets	13	20
Consumption taxes receivable	-	128,539
Other	15,181	3,835
Total current assets	4,396,574	4,705,396
Noncurrent assets		
Property, plant and equipment		
Land	2,787,377	2,787,377
Buildings in trust	42,534,812	41,974,471
Accumulated depreciation	(1,527,315)	(990,705)
Buildings in trust, net	41,007,497	40,983,766
Structures in trust	297,243	294,631
Accumulated depreciation	(28,068)	(18,270)
Structures in trust, net	269,175	276,361
Machinery and equipment in trust	689,478	672,252
Accumulated depreciation	(45,965)	(30,908)
Machinery and equipment in trust, net	643,513	641,344
Tools, furniture and fixtures in trust	19,407	11,525
Accumulated depreciation	(530)	(268)
Tools, furniture and fixtures in trust, net	18,877	11,257
Land in trust	57,779,010	56,889,348
Construction in progress in trust	-	1,567
Total property, plant and equipment, net	102,505,449	101,591,020
Investments and other assets		
Investment securities	1,132,980	405,922
Lease and guarantee deposits	10,983	10,983
Long-term prepaid expenses	509,937	489,832
Other	6,037	20,054
Total investments and other assets	1,659,937	926,791
Total noncurrent assets	104,165,386	102,517,811
Deferred assets		
Deferred organization costs	24,113	29,327
Investment unit issuance costs	112,907	148,462
Total deferred assets	137,020	177,789
Total assets	¥108,698,980	¥107,400,996

	Fifth Fiscal Period as of July 31, 2014	Fourth Fiscal Period as of January 31, 2014
	(in thousands of yen)	
LIABILITIES		
Current liabilities		
Operating accounts payable	¥290,290	¥222,805
Short-term loans payable	-	-
Current portion of long-term loans payable	8,200,000	7,200,000
Accounts payable-other	124,015	126,021
Accrued expenses	6,957	6,932
Income taxes payable	676	706
Accrued consumption taxes	15,077	-
Advances received	507,114	492,315
Deposits received	37,258	40,000
Total current liabilities	9,181,387	8,088,779
Noncurrent liabilities		
Long-term loans payable	48,350,000	48,000,000
Tenant leasehold and security deposits in trust	1,130,526	1,103,240
Total noncurrent liabilities	49,480,526	49,103,240
Total liabilities	58,661,913	57,192,019
NET ASSETS		
Unitholders' equity		
Unitholders' capital	48,592,740	48,592,740
Surplus		
Unappropriated retained earnings	1,457,757	1,632,542
Total surplus	1,457,757	1,632,542
Total unitholders' equity	50,050,497	50,225,282
Valuation and translation adjustments		
Deferred gains or losses on hedges	(13,430)	(16,305)
Total valuation and translation adjustments	(13,430)	(16,305)
Total net assets	50,037,067	50,208,977
Total liabilities and net assets	¥108,698,980	¥107,400,996

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Income and Retained Earnings

For the period from February 1, 2014 to July 31, 2014 and the period from August 1, 2013 to January 31, 2014

	Fifth Fiscal Period from February 1, 2014 to July 31, 2014	Fourth Fiscal Period from August 1, 2013 to January 31, 2014
(in thousands of yen)		
Operating revenues		
Rent revenue-real estate	¥3,354,165	¥3,312,813
Other lease business revenue	334,487	283,257
Dividends income	54,785	20,095
Total operating revenues	3,743,437	3,616,165
Operating expenses		
Expenses related to rent business	1,486,034	1,230,091
Asset management fees	236,832	136,124
Asset custody fees	4,571	7,400
Administrative service fees	24,580	21,965
Directors' compensation	4,500	4,500
Other operating expenses	130,719	90,742
Total operating expenses	1,887,236	1,490,822
Operating income	1,856,201	2,125,343
Non-operating income		
Interest income	148	210
Interest on refund	321	-
Total non-operating income	469	210
Non-operating expenses		
Interest expenses	247,506	227,924
Derivatives-related expenses	11,835	12,070
Borrowing expenses	98,046	211,369
Amortization of deferred organization costs	5,214	5,301
Amortization of investment unit issuance costs	35,555	35,373
Total non-operating expenses	398,156	492,037
Ordinary income	1,458,514	1,633,516
Income before income taxes	1,458,514	1,633,516
Income taxes		
Current	894	1,016
Deferred	7	(3)
Total income taxes	901	1,013
Net income	1,457,613	1,632,503
Retained earnings brought forward	144	39
Unappropriated retained earnings	¥1,457,757	¥1,632,542

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Changes in Net Assets

For the period from February 1, 2014 to July 31, 2014 and the period from August 1, 2013 to January 31, 2014

	Unitholders' equity					Valuation and translation adjustments	Total net assets
	Surplus						
	Unitholders' capital	Unappropriated retained earnings	Total surplus	Total unitholders' equity	Deferred gains or losses on hedges		
(in thousands of yen)							
Balance as of July 31, 2013	13,773,456	406,661	406,661	14,180,117	(8,931)		14,171,186
Changes of items during the period							
Issuance of new investment units	34,819,284	-	-	34,819,284	-		34,819,284
Dividends from surplus	-	(406,622)	(406,622)	(406,622)	-		(406,622)
Net income	-	1,632,503	1,632,503	1,632,503	-		1,632,503
Net changes of items other than unitholders' equity	-	-	-	-	(7,374)		(7,374)
Total changes of items during the period	34,819,284	1,225,881	1,225,881	36,045,165	(7,374)		36,037,791
Balance as of January 31, 2014	¥ 48,592,740	¥ 1,632,542	¥ 1,632,542	¥ 50,225,282	¥ (16,305)		¥ 50,208,977
Changes of items during the period							
Dividends from surplus	-	(1,632,398)	(1,632,398)	(1,632,398)	-		(1,632,398)
Net income	-	1,457,613	1,457,613	1,457,613	-		1,457,613
Net changes of items other than unitholders' equity	-	-	-	-	2,875		2,875
Total changes of items during the period	-	(174,785)	(174,785)	(174,785)	2,875		(171,910)
Balance as of July 31, 2014	¥ 48,592,740	¥ 1,457,757	¥ 1,457,757	¥ 50,050,497	¥ (13,430)		¥ 50,037,067

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Cash Flows

For the period from February 1, 2014 to July 31, 2014 and the period from August 1, 2013 to January 31, 2014

	Fifth Fiscal Period from February 1, 2014 to July 31, 2014	Fourth Fiscal Period from August 1, 2013 to January 31, 2014
	(in thousands of yen)	
Net cash provided by (used in) operating activities		
Income before income taxes	¥1,458,514	¥1,633,516
Depreciation and amortization	561,727	555,044
Amortization of deferred organization costs	5,214	5,301
Amortization of investment unit issuance costs	35,555	35,373
Interest income	(148)	(210)
Interest expenses	247,506	227,924
Derivatives-related expenses	11,835	12,070
Decrease (increase) in operating accounts receivable	(4,186)	(11,706)
Decrease (increase) in consumption taxes refund receivable	128,539	(128,539)
Decrease (increase) in prepaid expenses	3,495	2,643
Increase (decrease) in operating accounts payable	62,812	138,383
Increase (decrease) in accounts payable-other	(11,858)	77,004
Increase (decrease) in accrued consumption taxes	15,077	(1,837)
Increase (decrease) in advances received	14,799	332,170
Decrease (increase) in long-term prepaid expenses	(20,104)	(396,393)
Other, net	(9,314)	26,184
Subtotal	2,499,463	2,506,927
Interest income received	148	210
Interest expenses paid	(247,482)	(221,397)
Income taxes paid	(706)	(944)
Net cash provided by (used in) operating activities	2,251,423	2,284,796
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(1,468,009)	(70,879,091)
Purchase of investment securities	(725,558)	-
Payments for lease and guarantee deposits	-	(1,006)
Proceeds from collection of lease and guarantee deposits	-	179
Repayments of tenant leasehold and security deposits in trust	(155,026)	(85,024)
Proceeds from tenant leasehold and security deposits in trust	182,376	942,943
Net cash provided by (used in) investing activities	(2,166,217)	(70,021,999)
Net cash provided by (used in) financing activities		
Decrease in short-term loans payable	-	(2,830,000)
Proceeds from long-term loans payable	6,850,000	39,700,000
Decrease in long-term loans payable	(5,500,000)	-
Proceeds from issuance of investment units	-	34,678,458
Dividends paid	(1,627,520)	(406,629)
Net cash provided by (used in) financing activities	(277,520)	71,141,829
Net increase (decrease) in cash and cash equivalents	(192,314)	3,404,626
Cash and cash equivalents at the beginning of period	4,549,615	1,144,989
Cash and cash equivalents at the end of period	¥4,357,301	¥4,549,615

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Notes to Financial Statements

For the period from February 1, 2014 to July 31, 2014, and the period from August 1, 2013 to January 31, 2014

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Kenedix Residential Investment Corporation ("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) with a total of 74,690 investment units issued and outstanding. Subsequently, the Investment Corporation additionally issued 165,000 investment units on August 6, 2013 through public offerings, including a global offering, and 1,182 investment units on September 4, 2013 by way of a third-party allotment. As a result, as of July 31, 2014, the end of the fifth fiscal period, the number of investment units issued and outstanding totaled 241,622 units.

The Investment Corporation is externally managed by Kenedix Real Estate Fund Management, Inc. (Note) ("the Asset Management Company"). The Investment Corporation entrusts the Asset Management Company to manage its assets and, in collaboration with the Asset Management Company, the Investment Corporation strives to maximize cash distributions to unitholders by securing stable earnings and sustainable external growth. To this end, the Investment Corporation adopts the basic policy of conducting a dynamic and flexible investment stance that seeks to respond to its economic environment and market trends, and endeavors to ensure a timely response to opportunities.

During the fifth fiscal period, the Investment Corporation acquired 1 property on March 28, 2014 (acquisition price of ¥1,350 million) and has a portfolio comprised of 81 properties (total acquisition price of ¥100,381 million) as of July 31, 2014, the end of the fifth fiscal period. In addition, the Investment Corporation acquired, for an acquisition price of ¥565 million, an interest in a TK operated by G.K. Creek Investment II, a company whose assets consist primarily of the trust beneficiary interests in 4 residential properties, and, for an acquisition price of ¥150 million, an interest in a TK operated by G.K. Creek Investment III, a company whose assets consist primarily of the trust beneficiary interests in 3 residential properties, respectively, with respect to which the investment Corporation has been granted preferential negotiation rights with respect to potential future sales of the properties by the TKs.

The occupancy rate of the overall portfolio (excluding land with leasehold interest) was 95.7% as of July 31, 2014, and 95.9% as of January 31, 2014. Furthermore, the occupancy rate of the overall portfolio (including land with leasehold interest) was 95.9% as of July 31, 2014 and 96.0% as of January 31, 2014.

The Investment Corporation obtained long-term debt financing (Series 5) in the amount of ¥1,350 million on March 28, 2014 for asset acquisitions. Furthermore, with the aim of extending the average maturity of its debt, the Investment Corporation refinanced existing short-term debt (Series 1-B) of ¥5,500 million, matured on April 30, 2014, to new long-term debt (Series 6-A to D) with a maturity of 8 years.

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, 2014 to July 31, 2014	From August 1, 2013 to January 31, 2014
Buildings	3-62 years	3-62 years
Structures	3-25 years	3-25 years
Machinery and equipment	8-30 years	8-30 years
Tools, furniture and fixtures	30 years	30 years

(C) Long-term Prepaid Expenses

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

(D) Deferred Organization Costs

Deferred organization costs are amortized over a period of 5 years under 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) 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.

(G) 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.

(H) Taxes on Property and Equipment

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

When 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 ¥3,531 thousand and ¥115,840 thousand as of July 31, 2014 and January 31, 2014, respectively.

(I) Income Taxes

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

(J) Consumption Taxes

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

(K) Derivative Financial Instruments

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 cap transactions and interest rate swap 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 that meet the requirements for special treatment. Furthermore, assessment of the effectiveness of hedging activities is omitted in the case of interest rate caps that do not meet the requirements for special treatment as the important conditions regarding hedged items and hedging instruments are the same and are clearly expected to have the effect of limiting the impact of interest rate volatility within a certain range on an ongoing basis.

(L) Cash and Cash Equivalents

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

(M) Presentation of Amounts

Amounts are truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan, whereas amounts are rounded to the nearest million 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 AND PROPERTY-RELATED EXPENSES

Rental and other operating revenues and property-related expenses for the periods from February 1, 2014 to July 31, 2014 and from August 1, 2013 to January 31, 2014 consist of the following:

	From February 1, 2014 to July 31, 2014	From August 1, 2013 to January 31, 2014
(in thousands of yen)		
Rental and other operating revenues:		
Rental revenues	¥3,105,310	¥3,070,936
Rental revenues from limited proprietary rights of land	78,310	78,310
Common area charges	170,545	163,567
Subtotal	3,354,165	3,312,813
Others:		
Parking space rental revenues	124,459	120,609
Miscellaneous	210,028	162,648
Subtotal	334,487	283,257
Total rental and other operating revenues	¥3,688,652	¥3,596,070
Property management fees and facility management fees		
	¥300,003	¥279,243
Utilities	75,529	67,739
Taxes	213,879	59,821
Repairs and maintenance	183,622	127,176
Insurance	5,693	5,650
Trust fees	31,067	33,078
Depreciation	561,727	555,044
Others	114,514	102,340
Total property-related expenses	¥1,486,034	¥1,230,091

5. UNITHOLDERS' EQUITY

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

	From February 1, 2014 to July 31, 2014	From August 1, 2013 to January 31, 2014
Total number of authorized investment units	5,000,000	5,000,000
Total number of investment units issued and outstanding	241,622	241,622

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of July 31, 2014 and January 31, 2014:

	As of July 31, 2014	As of January 31, 2014
	(in thousands of yen)	
Cash and deposits	¥1,824,573	¥2,159,067
Cash and deposits in trust	2,532,728	2,390,548
Cash and cash equivalents	¥4,357,301	¥4,549,615

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, 2014 and January 31, 2014 are as follows:

	As of July 31, 2014	As of January 31, 2014
	(in thousands of yen)	
Due in 1 year	¥461,504	¥414,896
Due after 1 year	6,396,329	6,042,971
Total	¥6,857,833	¥6,457,867

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 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 and interest rate fluctuation risk.

Borrowings, which are made primarily for the purpose of procuring funds for the acquisition of real estate and trust beneficiary interests in real estate and have a repayment date of a maximum of 7 years and 9 months as of July 31, 2014, the end of the fifth 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. A risk management policy is established with regard to the execution and management of derivatives and such transactions are conducted based on this policy.

c. Liquidity risk

Though borrowings are subject to liquidity risk, 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, 2014

	Carrying amount	Estimated fair value	Difference
(in thousands of yen)			
(1) Cash and deposits	¥1,824,573	¥1,824,573	¥ -
(2) Cash and deposits in trust	2,532,728	2,532,728	-
Subtotal	4,357,301	4,357,301	-
(1) Short-term loans payable	-	-	-
(2) Current portion of long-term loans payable	8,200,000	8,200,000	-
(3) Long-term loans payable	48,350,000	48,452,361	102,361
Subtotal	56,550,000	56,652,361	102,361
Derivative transactions	¥11,094	¥11,094	¥ -

As of January 31, 2014

	Carrying amount	Estimated fair value	Difference
(in thousands of yen)			
(1) Cash and deposits	¥ 2,159,067	¥ 2,159,067	¥ -
(2) Cash and deposits in trust	2,390,548	2,390,548	-
Subtotal	4,549,615	4,549,615	-
(1) Short-term loans payable	-	-	-
(2) Current portion of long-term loans payable	7,200,000	7,200,000	-
(3) Long-term loans payable	48,000,000	48,085,192	85,192
Subtotal	55,200,000	55,285,192	85,192
Derivative transactions	¥20,054	¥20,054	¥ -

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 (3) 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.)

Derivative transactions

Please refer to Note 9 "DERIVATIVE TRANSACTIONS".

Note 2: Financial instruments whose fair values are recognized to be extremely difficult to grasp

(in thousands of yen)

Classification	As of July 31, 2014	As of January 31, 2014
Investment securities *	1,132,980	405,922

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

Note 3: Redemption schedule for financial assets with maturities

As of July 31, 2014

	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	¥1,824,573	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	2,532,728	-	-	-	-	-
Total	¥4,357,301	¥ -	¥ -	¥ -	¥ -	¥ -

As of January 31, 2014

	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	¥2,159,067	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	2,390,548	-	-	-	-	-
Total	¥4,549,615	¥ -	¥ -	¥ -	¥ -	¥ -

Note 4: Redemption schedule for loans payable

As of July 31, 2014

	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	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	8,200,000	9,000,000	8,500,000	11,000,000	11,000,000	8,850,000
Total	¥ 8,200,000	¥ 9,000,000	¥ 8,500,000	¥ 11,000,000	¥ 11,000,000	¥ 8,850,000

As of January 31, 2014

	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	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	7,200,000	12,000,000	12,000,000	11,000,000	11,000,000	2,000,000
Total	¥ 7,200,000	¥ 12,000,000	¥ 12,000,000	¥ 11,000,000	¥ 11,000,000	¥ 2,000,000

9. DERIVATIVE TRANSACTIONS

The contract amount and the fair value of interest-rate cap transactions and interest-rate swap transactions as of July 31, 2014 are shown in the following table.

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Accounting method, in principle	Interest-rate cap transaction:	Long-term loans payable	¥10,000,000	¥3,500,000	¥11,094	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	¥36,350,000	¥36,350,000	*	-
	Total		¥46,350,000	¥39,850,000	¥11,094	-

*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 cap transactions and interest-rate swap transactions as of January 31, 2014 are shown in the following table.

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Accounting method, in principle	Interest-rate cap transaction:	Long-term loans payable	¥10,000,000	¥10,000,000	¥20,054	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	¥29,500,000	¥29,500,000	*	-
	Total		¥39,500,000	¥39,500,000	¥20,054	-

*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 40%. 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 ¥1,458 million and ¥1,632 million for the periods ended July 31, 2014 and January 31, 2014, 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 0.06% and 0.06% for the periods ended July 31, 2014 and January 31, 2014, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	From February 1, 2014 to July 31, 2014	From August 1, 2013 to January 31, 2014
Statutory tax rate	36.59%	36.59%
Deductible cash distributions	(36.57)	(36.56)
Others	0.04	0.03
Effective tax rate	0.06%	0.06%

The significant components of deferred tax assets and liabilities as of July 31, 2014 and January 31, 2014 are as follows:

	As of July 31, 2014	As of January 31, 2014
	(in thousands of yen)	
Deferred tax assets:		
Enterprise tax payable	¥13	¥20
Deferred gains or losses on hedges	4,587	5,847
Subtotal deferred tax assets	4,600	5,867
Valuation allowance	4,587	5,847
Total deferred tax assets	¥13	¥20

11. RELATED-PARTY TRANSACTIONS

1. Parent Company, major corporate unitholders and other

Fifth Fiscal Period (February 1, 2014 to July 31, 2014) and Fourth Fiscal Period (August 1, 2013 to January 31, 2014): Not applicable

2. Affiliated companies and other

Fifth Fiscal Period (February 1, 2014 to July 31, 2014) and Fourth Fiscal Period (August 1, 2013 to January 31, 2014): Not applicable

3. Fellow subsidiary companies and other

Fifth Fiscal Period (February 1, 2014 to July 31, 2014) and Fourth Fiscal Period (August 1, 2013 to January 31, 2014): Not applicable

4. Directors, major individual unitholders and other

Fifth Fiscal Period (February 1, 2014 to July 31, 2014)

Not applicable

Fourth Fiscal Period (August 1, 2013 to January 31, 2014)

Classification	Name	Principal business / Position	Ratio of voting rights held (%)	Relationship		Nature of transaction	Transaction amount (in thousands of yen) (Note 3) (Note 4)	Account	Balance at the end of period (in thousands of yen) (Note 4)
				Position held concurrently	Relation to the entity				
Directors and Close Relatives	Akira Tanaka	Executive Director for the Investment Corporation and CEO and President of Kenedix Residential Partners, Inc.	Possession of Right 0.0% (Direct)	Executive Director for the Investment Corporation and CEO and President of Kenedix Residential Partners, Inc.	(Note 1)	Payment of asset management fee to Kenedix Residential Partners, Inc.	¥821,684	Accounts payable-other	¥90,487

Note 1: Kenedix Residential Partners, Inc., as the successor company merged with Kenedix Advisors, Inc. and Kenedix Office Partners, Inc. as of October 1, 2013, and changed its corporate name to Kenedix Real Estate Fund Management, Inc. Furthermore, Ryosuke Homma was appointed as CEO and President of Kenedix Real Estate Fund Management, Inc., as of October 1, 2013. The transaction amount and the balance at the end of period indicate the Fourth Fiscal Period amounts applicable to Kenedix Residential Partners, Inc. up to September 30, 2013 and after October 1, 2013 with Kenedix Real Estate Fund Management, Inc., on and after October 1, 2013.

Note 2: Akira Tanaka serves as a representative of the third party (Kenedix Residential Partners, Inc.), and the asset management fee is established in the Articles of Incorporation of the Investment Corporation.

Note 3: Asset management fee includes ¥685,560 thousand related to the acquisition of investment securities and is accounted for in the book value for the individual assets.

Note 4: Consumption taxes are not included in the transaction amount, but are included in the balance at the end of period.

12. 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.

	Fifth Fiscal Period from February 1, 2014 to July 31, 2014	Fourth Fiscal Period from August 1, 2013 to January 31, 2014
	(in thousands of yen)	
Book value		
Balance at the beginning of period	¥101,591,020	¥31,239,647
Changes during the period	914,429	70,351,373
Balance at the end of period	102,505,449	101,591,020
Fair value at the end of period	¥107,379,000	¥103,878,000

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 fifth fiscal period, the principal increase was the acquisition of 1 property in real estate trust beneficiary interests (¥1,403,582 thousand) and the principal decrease was depreciation (¥561,727 thousand) and during the fourth fiscal period, the principal increase was the acquisition of 60 properties in real estate trust beneficiary interests (¥70,859,613 thousand) and the principal decrease was depreciation (¥555,044 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, 2014 and January 31, 2014 for real estate for rental purposes is listed in Note "4. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES."

13. SEGMENT INFORMATION

Segment information for the period ended from February 1, 2014 to July 31, 2014 and from August 1, 2013 to January 31, 2014 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.

14. PER UNIT INFORMATION

	From February 1, 2014 to July 31, 2014	From August 1, 2013 to January 31, 2014
Net asset value per unit	¥207,088	¥207,800
Net income per unit	¥6,032	¥6,890
Weighted average number of units (units)	241,622	236,920

The weighted average number of units outstanding of 241,622 and 236,920 were used for the computation of the amount of net income per unit as of July 31, 2014 and January 31, 2014.

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, 2014 to July 31, 2014	From August 1, 2013 to January 31, 2014
Net income (in thousands of yen)	¥1,457,613	¥1,632,503
Net income not available to ordinary unitholders (in thousands of yen)	-	-
Net income available to ordinary unitholders (in thousands of yen)	¥1,457,613	¥1,632,503
Weighted average number of units during the period (units)	241,622	236,920

15. SIGNIFICANT SUBSEQUENT EVENTS

Issuance of new investment units

On July 18, 2014 and July 30, 2014, respectively, the Board of Directors of the Investment Corporation resolved to issue new investment units as detailed below in order to procure funds for acquisition of the 8 properties etc. The payments were completed on August 6, 2014 through public offering and September 3, 2014 by way of third-party allotment. As a result of the issuance of new investment units, the Investment Corporation had total unitholders' capital of ¥57,121,702,050 with 279,122 investment units outstanding as of September 3, 2014.

(Issuance of new investment units through public offering)

Total number of units issued : 36,375 units

Issue price (Offer Price) : ¥235,657 per unit

Total amount (Offer Price) : ¥8,572,023,375

Paid-in value (Issue Value) : ¥227,439 per unit

Gross proceeds : ¥8,273,093,625

Payment date : August 6, 2014

(Issuance of new investment units by way of third-party allotment)

Total number of units issued : 1,125 units

Paid-in value (Issue Value) : ¥227,439 per unit

Gross proceeds : ¥255,868,875

Payment date : September 3, 2014

Allottee : SMBC Nikko Securities Inc.

16. SECURITIES PORTFOLIO

Securities portfolio consists of the following as of July 31, 2014:

- (1) Stock
Not applicable

- (2) Securities other than shares

(in thousands of yen)

Type	Name	Face value	Book value	Accrued interest	Prepaid accrued interest	Appraisal value (Note 4)	Gain (Loss) on valuation	Remarks
Silent Partnership Equity Interests	Equity interests in TK property fund with G. K. Creek Investment as operator (Note 1)	—	405,922	—	—	405,922	—	
	Equity interests in TK property fund with G. K. Creek Investment II as operator (Note 2)	—	573,227	—	—	573,227	—	
	Equity interests in TK property fund with G. K. Creek Investment III as operator (Note 3)	—	153,831	—	—	153,831	—	
Total		—	1,132,980	—	—	1,132,980	—	

Note 1: TK property fund owns the trust beneficiary interests in real estate for "KDX Residence Togoshi," "KDX Residence Shinagawa Seaside," "KDX Residence Ojima," and "KDX Residence Oyama."

Note 2: TK property fund owns the trust beneficiary interests in real estate for "D-Wing Harbor View Tower," "Mitezza Iriya," "Regalo Minami-kusatsu," and "Crane Mansion Tsurumi".

Note 3: TK property fund owns trust beneficiary interests in real estate for "KDX Residence Tachikawa," "KDX Residence Seijo," and "KDX Residence Akihabara."

Note 4: The appraisal value is stated at the book value.

Securities portfolio consists of the following as of January 31, 2014:

(1) Stock
Not applicable

(2) Securities other than shares

(in thousands of yen)

Type	Name	Face value	Book value	Accrued interest	Prepaid accrued interest	Appraisal value (Note 2)	Gain (Loss) on valuation	Remarks
Silent Partnership Equity Interests	Equity interests in TK property fund with G. K. Creek Investment as operator (Note 1)	—	405,922	—	—	405,922	—	
Total		—	405,922	—	—	405,922	—	

Note 1: TK property fund owns the trust beneficiary interests in real estate for "Belle Face Togoshi," "Belle Face Shinagawa Seaside," "Belle Face Oshima," and "Lions Forsia Oyama." In addition, the names were changed to "KDX Residence Togoshi", the "KDX Residence Shinagawa Seaside", "KDX Residence Oshima", and "KDX Residence Daisen", respectively, on January 1, 2014.

Note 2: The appraisal value is stated at the book value.

17. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following as of July 31, 2014:

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	¥2,787,377	¥ -	¥ -	¥2,787,377	¥ -	¥ -	¥2,787,377	
Sub total	2,787,377	-	-	2,787,377	-	-	2,787,377	
Buildings in trust	41,974,471	560,341	-	42,534,812	1,527,315	536,610	41,007,497	
Structures in trust	294,631	2,612	-	297,243	28,068	9,799	269,175	
Machinery and equipment in trust	672,252	17,226	-	689,478	45,965	15,056	643,513	
Tools, furniture and fixtures in trust	11,525	7,882	-	19,407	530	262	18,877	
Land in trust	56,889,348	889,662	-	57,779,010	-	-	57,779,010	
Construction in progress in trust	1,567	-	1,567	-	-	-	-	
Sub total	99,843,794	1,477,723	1,567	101,319,950	1,601,878	561,727	99,718,072	
Total	¥102,631,171	¥1,477,723	¥ 1,567	¥104,107,327	¥1,601,878	¥561,727	¥102,505,449	

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

Property, plant and equipment consists of the following as of January 31, 2014:

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	¥2,787,377	¥ -	¥ -	¥2,787,377	¥ -	¥ -	¥2,787,377	
Sub total	2,787,377	-	-	2,787,377	-	-	2,787,377	
Buildings in trust	14,727,699	27,246,772	-	41,974,471	990,705	530,412	40,983,766	
Structures in trust	118,904	175,727	-	294,631	18,270	9,739	276,361	
Machinery and equipment in trust	318,149	354,103	-	672,252	30,908	14,731	641,344	
Tools, furniture and fixtures in trust	5,715	5,810	-	11,525	268	162	11,257	
Land in trust	13,766,910	43,122,438	-	56,889,348	-	-	56,889,348	
Construction in progress in trust	-	1,567	-	1,567	-	-	1,567	
Sub total	28,937,377	70,906,417	-	99,843,794	1,040,151	555,044	98,803,643	
Total	¥31,724,754	¥70,906,417	¥ -	¥102,631,171	¥1,040,151	¥555,044	¥101,591,020	

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

18. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt and long-term debt consists of the following as of July 31, 2014:

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)								
	Sumitomo Mitsui Banking Corporation	2,000,000	-	2,000,000	-			
	Aozora Bank, Ltd.	1,500,000	-	1,500,000	-			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	1,000,000	-	0.797%	April 30, 2014	
	Resona Bank, Ltd.	1,000,000	-	1,000,000	-			
	Sumitomo Mitsui Banking Corporation	600,000	-	-	600,000			
Current portion of long-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	600,000	-	-	600,000	0.547%	August 31, 2014	(Note 6) Unsecured/ Non-guaranteed
	Aozora Bank, Ltd.	500,000	-	-	500,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)	2,000,000	-	-	2,000,000			
	Aozora Bank, Ltd. (Note 2)	2,000,000	-	-	2,000,000	1.060%	April 30, 2015	
	Resona Bank, Ltd. (Note 2)	1,500,000	-	-	1,500,000			
	Sumitomo Mitsui Banking Corporation (Note 2)	1,000,000	-	-	1,000,000			
	Sub total	13,700,000	-	5,500,000	8,200,000			
Long-term loans payable	Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000	1.006%	April 30, 2016	
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000			(Note 6) Unsecured/ Non-guaranteed
	Sumitomo Mitsui Banking Corporation	1,750,000	-	-	1,750,000	0.597%	August 31, 2015	

The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,500,000	-	-	1,500,000		
Aozora Bank, Ltd.	500,000	-	-	500,000		
Resona Bank, Ltd.	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		
Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000		
Aozora Bank, Ltd.	1,000,000	-	-	1,000,000		
Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.787%	August 31, 2016
Resona Bank, Ltd.	500,000	-	-	500,000		
Mizuho Bank, Ltd.	500,000	-	-	500,000		
Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000		
Sumitomo Mitsui Banking Corporation	4,000,000	-	-	4,000,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,500,000	-	-	2,500,000		
Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	0.910%	August 31, 2017
Resona Bank, Ltd.	1,000,000	-	-	1,000,000		
Sumitomo Mitsui Trust Bank, Limited.	1,000,000	-	-	1,000,000		
Mizuho Bank, Ltd.	500,000	-	-	500,000		

Mizuho Trust & Banking Co., Ltd	500,000	-	-	500,000		
Sumitomo Mitsui Banking Corporation	3,250,000	-	-	3,250,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000		
Aozora Bank, Ltd.	1,000,000	-	-	1,000,000		
Resona Bank, Ltd.	500,000	-	-	500,000	1.052%	August 31, 2018
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
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000	1.109%	January 31, 2021
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 30, 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
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,000,000	-	1,000,000	1.267%	April 30, 2022
Resona Bank, Ltd.	-	1,000,000	-	1,000,000	1.267%	April 30, 2022
Sub total	41,500,000	6,850,000	-	48,350,000		
Total	¥55,200,000	¥6,850,000	¥5,500,000	¥56,550,000		

Note1 : 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
	(in thousands of yen)			
Long-term loans payable	¥9,000,000	¥8,500,000	¥11,000,000	¥11,000,000

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

Note 3: All debts except for the following Note5 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 interest rate cap 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 interest rate caps 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.

Short-term debt and long-term debt consists of the following as of January 31, 2014:

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 9)	Use	Remarks
Lender								
(in thousands of yen)								
Short-term loans payable	Sumitomo Mitsui Banking Corporation (Note 7)	¥1,000,000	¥ -	¥1,000,000	¥ -	0.649%	April 30, 2014	
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 7)	1,000,000	-	1,000,000	-	0.649%	April 30, 2014	(Note 6) Unsecured/ Non-guaranteed
	Sumitomo Mitsui Banking Corporation (Note 8)	830,000	-	830,000	-	1.100%	April 30, 2014	
	Sub total	2,830,000	-	2,830,000	-			
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000			
	Aozora Bank, Ltd.	1,500,000	-	-	1,500,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000	0.799%	April 30, 2014	
	Resona Bank, Ltd.	1,000,000	-	-	1,000,000			(Note 6) Unsecured/ Non-guaranteed
	Sumitomo Mitsui Banking Corporation (Note 2)	-	600,000	-	600,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)	-	600,000	-	600,000	0.549%	August 31, 2014	
	Aozora Bank, Ltd. (Note 2)	-	500,000	-	500,000			
Sub total	5,500,000	1,700,000	-	7,200,000				
Long-term loans payable	Aozora Bank, Ltd. (Note 2)	2,000,000	-	-	2,000,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000	1.060%	April 30, 2015	(Note 6) Unsecured/ Non-guaranteed
	Resona Bank, Ltd.	1,500,000	-	-	1,500,000			
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000			
	Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000	1.014%	April 30, 2016	

The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000		
Sumitomo Mitsui Banking Corporation	-	1,750,000	-	1,750,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,500,000	-	1,500,000		
Aozora Bank, Ltd.	-	500,000	-	500,000		
Resona Bank, Ltd.	-	500,000	-	500,000	0.599%	August 31, 2015
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		
Sumitomo Mitsui Banking Corporation	-	3,000,000	-	3,000,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	2,000,000	-	2,000,000		
Aozora Bank, Ltd.	-	1,000,000	-	1,000,000		
Sumitomo Mitsui Trust Bank, Limited	-	1,000,000	-	1,000,000	0.787%	August 31, 2016
Resona Bank, Ltd.	-	500,000	-	500,000		
Mizuho Bank, Ltd.	-	500,000	-	500,000		
Mizuho Trust & Banking Co., Ltd.	-	500,000	-	500,000		
Sumitomo Mitsui Banking Corporation	-	4,000,000	-	4,000,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	2,500,000	-	2,500,000	0.910%	August 31, 2017
Aozora Bank, Ltd.	-	1,500,000	-	1,500,000		
Resona Bank, Ltd.	-	1,000,000	-	1,000,000		

Sumitomo Mitsui Trust Bank, Limited	-	1,000,000	-	1,000,000		
Mizuho Bank, Ltd.	-	500,000	-	500,000		
Mizuho Trust & Banking Co., Ltd	-	500,000	-	500,000		
Sumitomo Mitsui Banking Corporation	-	3,250,000	-	3,250,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	2,000,000	-	2,000,000		
Aozora Bank, Ltd.	-	1,000,000	-	1,000,000		
Resona Bank, Ltd.	-	500,000	-	500,000	1.052%	August 31, 2018
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
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,000,000	-	1,000,000	1.109%	January 31, 2021
Sumitomo Mitsui Banking Corporation	-	1,000,000	-	1,000,000	1.221%	July 31, 2021
Sub total	10,000,000	38,000,000	-	48,000,000		
Total	¥18,330,000	¥39,700,000	¥2,830,000	¥55,200,000		

Note1 : 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
	(in thousands of yen)			
Long-term loans payable	¥12,000,000	¥12,000,000	¥11,000,000	¥11,000,000

Note 2: Of the long-term loans payable conducted during the fiscal period, these were listed in the current portion of long-term loans payable.

Note 3: All debts except for the following Note5 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 interest rate cap 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 interest rate caps 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: Early repayment was made on January 31, 2014.

Note 8: Early repayment was made on August 7, 2013.

Note 9: Except for the above (Note 7 and 8), all the repayment methods of debt financing are lump-sum repayments on the due date.

19. DISTRIBUTIONS

	Fifth Fiscal Period (From February 1, 2014 to July 31, 2014)	Fourth Fiscal Period (From August 1, 2013 to January 31, 2014)
I. Retained earnings at the end of period	¥1,457,756,938	¥1,632,542,142
II. Total distributions	¥1,457,705,526	¥1,632,398,232
Distributions per unit	¥6,033	¥6,756
III. Retained earnings brought forward to the next period	¥51,412	¥143,910

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 be up to its profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥1,457,705,526 which is the maximum integral multiple to 241,622 units issued and outstanding as the distribution of earnings. 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 fifth 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 be up to its profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥1,632,398,232 which is the maximum integral multiple to 241,622 units issued and outstanding as the distribution of earnings. 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 fourth fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.</p>
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Independent Auditor's Report

The Board of Directors
Kenedix Residential Investment Corporation

We have audited the accompanying financial statements of Kenedix Residential Investment Corporation, which comprise the balance sheet as at July 31, 2014, and the statements of income and retained earnings, changes in net assets, and cash flows for the fiscal period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Residential Investment Corporation as at July 31, 2014, and its financial performance and cash flows for the fiscal periods then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young Shin Nihon LLC

October 30, 2014
Tokyo, Japan