

Financial Statements

(6th Fiscal Period: From August 1, 2014 to January 31, 2015)

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

Independent Auditor's Report

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KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Balance Sheets

As of January 31, 2015 and July 31, 2014

	Sixth Fiscal Period as of January 31, 2015	Fifth Fiscal Period as of July 31, 2014
	(in thousands of yen)	
ASSETS		
Current assets		
Cash and deposits	¥3,061,918	¥1,824,573
Cash and deposits in trust	2,988,577	2,532,728
Operating accounts receivable	44,655	20,292
Prepaid expenses	11,250	3,787
Deferred tax assets	17	13
Consumption taxes receivable	56,429	-
Other	13,533	15,181
Total current assets	6,176,379	4,396,574
Noncurrent assets		
Property, plant and equipment		
Land	2,787,377	2,787,377
Buildings in trust	51,759,151	42,534,812
Accumulated depreciation	(2,158,714)	(1,527,315)
Buildings in trust, net	49,600,437	41,007,497
Structures in trust	330,640	297,243
Accumulated depreciation	(38,747)	(28,068)
Structures in trust, net	291,893	269,175
Machinery and equipment in trust	801,885	689,478
Accumulated depreciation	(62,886)	(45,965)
Machinery and equipment in trust, net	738,999	643,513
Tools, furniture and fixtures in trust	34,003	19,407
Accumulated depreciation	(975)	(530)
Tools, furniture and fixtures in trust, net	33,028	18,877
Land in trust	71,228,749	57,779,010
Total property, plant and equipment, net	124,680,483	102,505,449
Investments and other assets		
Investment securities	725,632	1,132,980
Lease and guarantee deposits	10,951	10,983
Long-term prepaid expenses	609,773	509,937
Other	2,777	6,037
Total investments and other assets	1,349,133	1,659,937
Total noncurrent assets	126,029,616	104,165,386
Deferred assets		
Deferred organization costs	18,812	24,113
Investment unit issuance costs	110,802	112,907
Total deferred assets	129,614	137,020
Total assets	¥132,335,609	¥108,698,980

	Sixth Fiscal Period as of January 31, 2015	Fifth Fiscal Period as of July 31, 2014
	(in thousands of yen)	
LIABILITIES		
Current liabilities		
Operating accounts payable	¥323,755	¥290,290
Short-term loans payable	3,200,000	-
Current portion of long-term loans payable	12,000,000	8,200,000
Accounts payable-other	140,139	124,015
Accrued expenses	16,159	6,957
Income taxes payable	698	676
Accrued consumption taxes	-	15,077
Advances received	581,255	507,114
Deposits received	45,494	37,258
Total current liabilities	16,307,500	9,181,387
Noncurrent liabilities		
Long-term loans payable	55,900,000	48,350,000
Tenant leasehold and security deposits in trust	1,275,388	1,130,526
Total noncurrent liabilities	57,175,388	49,480,526
Total liabilities	73,482,888	58,661,913
NET ASSETS		
Unitholders' equity		
Unitholders' capital	57,121,702	48,592,740
Surplus		
Unappropriated retained earnings	1,739,609	1,457,757
Total surplus	1,739,609	1,457,757
Total unitholders' equity	58,861,311	50,050,497
Valuation and translation adjustments		
Deferred gains or losses on hedges	(8,590)	(13,430)
Total valuation and translation adjustments	(8,590)	(13,430)
Total net assets	58,852,721	50,037,067
Total liabilities and net assets	¥132,335,609	¥108,698,980

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Income and Retained Earnings

For the period from August 1, 2014 to January 31, 2015 and the period from February 1, 2014 to July 31, 2014

	Sixth Fiscal Period from August 1, 2014 to January 31, 2015	Fifth Fiscal Period from February 1, 2014 to July 31, 2014
	(in thousands of yen)	
Operating revenues		
Rent revenue-real estate	¥3,852,328	¥3,354,165
Other lease business revenue	314,913	334,487
Dividends income	74,276	54,785
Total operating revenues	4,241,517	3,743,437
Operating expenses		
Expenses related to rent business	1,583,002	1,486,034
Asset management fees	256,343	236,832
Asset custody fees	4,800	4,571
Administrative service fees	22,575	24,580
Directors' compensation	4,500	4,500
Other operating expenses	151,501	130,719
Total operating expenses	2,022,721	1,887,236
Operating income	2,218,796	1,856,201
Non-operating income		
Interest income	193	148
Interest on refund	9	321
Total non-operating income	202	469
Non-operating expenses		
Interest expenses	306,867	247,506
Derivatives-related expenses	11,992	11,835
Borrowing expenses	111,582	98,046
Amortization of deferred organization costs	5,301	5,214
Amortization of investment unit issuance costs	42,745	35,555
Total non-operating expenses	478,487	398,156
Ordinary income	1,740,511	1,458,514
Income before income taxes	1,740,511	1,458,514
Income taxes		
Current	958	894
Deferred	(5)	7
Total income taxes	953	901
Net income	1,739,558	1,457,613
Retained earnings brought forward	51	144
Unappropriated retained earnings	¥1,739,609	¥1,457,757

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Changes in Net Assets

For the period from August 1, 2014 to January 31, 2015 and the period from February 1, 2014 to July 31, 2014

	Unitholders' equity					Valuation and translation adjustments	Total net assets
	Surplus					Deferred gains or losses on hedges	
	Unitholders' capital	Unappropriated retained earnings	Total surplus	Total unitholders' equity			
(in thousands of yen)							
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							
Issuance of new investment units	-	-	-	-	-	-	
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	
Changes of items during the period							
Issuance of new investment units	8,528,962	-	-	8,528,962	-	8,528,962	
Dividends from surplus	-	(1,457,706)	(1,457,706)	(1,457,706)	-	(1,457,706)	
Net income	-	1,739,558	1,739,558	1,739,558	-	1,739,558	
Net changes of items other than unitholders' equity	-	-	-	-	4,840	4,840	
Total changes of items during the period	8,528,962	281,852	281,852	8,810,814	4,840	8,815,654	
Balance as of January 31, 2015	¥ 57,121,702	¥ 1,739,609	¥ 1,739,609	¥ 58,861,311	¥ (8,590)	¥ 58,852,721	

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Cash Flows

For the period from August 1, 2014 to January 31, 2015 and the period from February 1, 2014 to July 31, 2014

	Sixth Fiscal Period from August 1, 2014 to January 31, 2015	Fifth Fiscal Period from February 1, 2014 to July 31, 2014
	(in thousands of yen)	
Net cash provided by (used in) operating activities		
Income before income taxes	¥1,740,511	¥1,458,514
Depreciation and amortization	659,452	561,727
Amortization of deferred organization costs	5,301	5,214
Amortization of investment unit issuance costs	42,745	35,555
Interest income	(193)	(148)
Interest expenses	306,867	247,506
Derivatives-related expenses	11,992	11,835
Decrease (increase) in operating accounts receivable	(24,363)	(4,186)
Decrease (increase) in consumption taxes refund receivable	(56,429)	128,539
Decrease (increase) in prepaid expenses	(7,462)	3,495
Increase (decrease) in operating accounts payable	43,948	62,812
Increase (decrease) in accounts payable-other	16,182	(11,858)
Increase (decrease) in accrued consumption taxes	(15,077)	15,077
Increase (decrease) in advances received	74,141	14,799
Decrease (increase) in long-term prepaid expenses	(99,837)	(20,104)
Other, net	1,586	(9,314)
Subtotal	2,699,364	2,499,463
Interest income received	193	148
Interest expenses paid	(297,665)	(247,482)
Income taxes paid	(676)	(706)
Net cash provided by (used in) operating activities	2,401,216	2,251,423
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(22,845,859)	(1,468,009)
Purchase of investment securities	-	(725,558)
Proceeds from investment securities	407,348	-
Payments for lease and guarantee deposits	(118)	-
Proceeds from collection of lease and guarantee deposits	150	-
Repayments of tenant leasehold and security deposits in trust	(99,027)	(155,026)
Proceeds from tenant leasehold and security deposits in trust	248,209	182,376
Net cash provided by (used in) investing activities	(22,289,297)	(2,166,217)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	3,200,000	-
Proceeds from long-term loans payable	13,050,000	6,850,000
Decrease of long-term loans payable	(1,700,000)	(5,500,000)
Proceeds from issuance of investment units	8,488,323	-
Dividends paid	(1,457,048)	(1,627,520)
Net cash provided by (used in) financing activities	21,581,275	(277,520)
Net increase (decrease) in cash and cash equivalents	1,693,194	(192,314)
Cash and cash equivalents at the beginning of period	4,357,301	4,549,615
Cash and cash equivalents at the end of period	¥6,050,495	¥4,357,301

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). During the sixth fiscal period, the Investment Corporation additionally issued 36,375 investment units on August 6, 2014 through public offerings, and 1,125 investment units on September 3, 2014 by way of a third-party allotment. As a result, as of January 31, 2015, the end of the sixth fiscal period, the number of investment units issued and outstanding totaled 279,122 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 and asset management stance that seeks to respond to its economic environment and market trends, and endeavors to ensure a timely response to opportunities.

During the sixth fiscal period, the Investment Corporation acquired 11 properties (total acquisition price of ¥21,742 million) and has a portfolio comprised of 92 properties (total acquisition price of ¥122,123 million) as of January 31, 2015, the end of the sixth fiscal period.

The occupancy rate of the overall portfolio (excluding land with leasehold interest) was 95.7% as of January 31, 2015, and 95.7% as of July 31, 2014. Furthermore, the occupancy rate of the overall portfolio (including land with leasehold interest) was 95.8% as of January 31, 2015 and 95.9% as of July 31, 2014.

During the sixth fiscal period, the Investment Corporation made new borrowings of ¥14,550 million upon acquiring properties and made borrowings of ¥1,700 million for the repayment of debt matured during the current fiscal period. As a result, balance of borrowings as of the end of the sixth fiscal period (January 31, 2015) stood at ¥71,100 million. The Investment Corporation continued to work to extend the maturities and fix interest rates, including a 9 years maturity as for the borrowings made on August 7, 2014 (Series 8-A and 8-B) for the first time.

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 August 1, 2014 to January 31, 2015	From February 1, 2014 to July 31, 2014
Buildings	3-62 years	3-62 years
Structures	3-45 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 ¥20,557 thousand and ¥3,531 thousand as of January 31, 2015 and July 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 August 1, 2014 to January 31, 2015 and from February 1, 2014 to July 31, 2014 consist of the following:

	From August 1, 2014 to January 31, 2015	From February 1, 2014 to July 31, 2014
(in thousands of yen)		
Rental and other operating revenues:		
Rental revenues	¥3,574,539	¥3,105,310
Rental revenues from limited proprietary rights of land	78,310	78,310
Common area charges	199,479	170,545
Subtotal	3,852,328	3,354,165
Others:		
Parking space rental revenues	136,659	124,459
Miscellaneous	178,254	210,028
Subtotal	314,913	334,487
Total rental and other operating revenues	¥4,167,241	¥3,688,652
Property management fees and facility management fees	¥298,259	¥300,003
Utilities	88,866	75,529
Taxes	213,045	213,879
Repairs and maintenance	166,537	183,622
Insurance	6,678	5,693
Trust fees	34,880	31,067
Depreciation	659,452	561,727
Others	115,285	114,514
Total property-related expenses	¥1,583,002	¥1,486,034

5. UNITHOLDERS' EQUITY

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

	From August 1, 2014 to January 31, 2015	From February 1, 2014 to July 31, 2014
Total number of authorized investment units	5,000,000	5,000,000
Total number of investment units issued and outstanding	279,122	241,622

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of January 31, 2015 and July 31, 2014:

	As of January 31, 2015	As of July 31, 2014
	(in thousands of yen)	
Cash and deposits	¥3,061,918	¥1,824,573
Cash and deposits in trust	2,988,577	2,532,728
Cash and cash equivalents	¥6,050,495	¥4,357,301

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 January 31, 2015 and July 31, 2014 are as follows:

	As of January 31, 2015	As of July 31, 2014
	(in thousands of yen)	
Due in 1 year	¥685,382	¥461,504
Due after 1 year	6,609,000	6,396,329
Total	¥7,294,382	¥6,857,833

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 8 years and 7 months as of January 31, 2015, 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 January 31, 2015

	Carrying amount	Estimated fair value	Difference
(in thousands of yen)			
(1) Cash and deposits	¥ 3,061,918	¥ 3,061,918	¥ -
(2) Cash and deposits in trust	2,988,577	2,988,577	-
Subtotal	6,050,495	6,050,495	-
(1) Short-term loans payable	3,200,000	3,200,000	-
(2) Current portion of long-term loans payable	12,000,000	12,000,000	-
(3) Long-term loans payable	55,900,000	56,487,757	587,757
Subtotal	71,100,000	56,487,757	587,757
Derivative transactions	¥3,943	¥3,943	¥ -

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	¥ -

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 January 31, 2015	As of July 31, 2014
Investment securities *	725,632	1,132,980

*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 January 31, 2015

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Cash and deposits	¥3,061,918	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	2,988,577	-	-	-	-	-
Total	¥6,050,495	¥ -	¥ -	¥ -	¥ -	¥ -

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	¥ -	¥ -	¥ -	¥ -	¥ -

Note 4: Redemption schedule for loans payable

As of January 31, 2015

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Short-term loans payable	¥ 3,200,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	12,000,000	12,000,000	11,000,000	11,000,000	1,500,000	20,400,000
Total	¥ 15,200,000	¥ 12,000,000	¥ 11,000,000	¥ 11,000,000	¥ 1,500,000	¥ 20,400,000

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

9. DERIVATIVE TRANSACTIONS

The contract amount and the fair value of interest-rate cap transactions and interest-rate swap transactions as of January 31, 2015 are shown in the following table.

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (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	¥3,943	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	¥47,900,000	¥47,900,000	*	-
	Total		¥57,900,000	¥51,400,000	¥3,943	-

*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 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.

10. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 35%. 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 ¥1,740 million and ¥1,458 million for the periods ended January 31, 2015 and July 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 0.05% and 0.06% for the periods ended January 31, 2015 and July 31, 2014, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	From August 1, 2014 to January 31, 2015	From February 1, 2014 to July 31, 2014
Statutory tax rate	34.16%	36.59%
Deductible cash distributions	(34.14)	(36.57)
Others	0.03	0.04
Effective tax rate	0.05%	0.06%

The significant components of deferred tax assets and liabilities as of January 31, 2015 and July 31, 2014 are as follows:

	As of January 31, 2015	As of July 31, 2014
	(in thousands of yen)	
Deferred tax assets:		
Enterprise tax payable	¥17	¥13
Deferred gains or losses on hedges	2,933	4,587
Subtotal deferred tax assets	2,950	4,600
Valuation allowance	2,933	4,587
Total deferred tax assets	¥17	¥13

11. RELATED-PARTY TRANSACTIONS

1. Parent Company, major corporate unitholders and other

Sixth Fiscal Period (August 1, 2014 to January 31, 2015) and Fifth Fiscal Period (February 1, 2014 to July 31, 2014): Not applicable

2. Affiliated companies and other

Sixth Fiscal Period (August 1, 2014 to January 31, 2015) and Fifth Fiscal Period (February 1, 2014 to July 31, 2014): Not applicable

3. Fellow subsidiary companies and other

Sixth Fiscal Period (August 1, 2014 to January 31, 2015) and Fifth Fiscal Period (February 1, 2014 to July 31, 2014): Not applicable

4. Directors, major individual unitholders and other

Sixth Fiscal Period (August 1, 2014 to January 31, 2015) and Fifth Fiscal Period (February 1, 2014 to July 31, 2014): Not applicable

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.

	Sixth Fiscal Period from August 1, 2014 to January 31, 2015	Fifth Fiscal Period from February 1, 2014 to July 31, 2014
	(in thousands of yen)	
Book value		
Balance at the beginning of period	¥102,505,449	¥101,591,020
Changes during the period	22,175,034	914,429
Balance at the end of period	124,680,483	102,505,449
Fair value at the end of period	¥135,048,000	¥107,379,000

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 sixth fiscal period, the principal increase was the acquisition of 11 properties in real estate trust beneficiary interests (¥22,772,392 thousand) and the principal decrease was depreciation (¥659,452 thousand) and during the fifth fiscal period, the principal increase was the acquisition of 1 properties in real estate trust beneficiary interests (¥1,403,582 thousand) and the principal decrease was depreciation (¥561,727 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 January 31, 2015 and July 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 August 1, 2014 to January 31, 2015 and from February 1, 2014 to July 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 August 1, 2014 to January 31, 2015	From February 1, 2014 to July 31, 2014
Net asset value per unit	¥210,849	¥207,088
Net income per unit	¥6,258	¥6,032
Weighted average number of units (units)	277,932	241,622

The weighted average number of units outstanding of 277,932 and 241,622 were used for the computation of the amount of net income per unit as of January 31, 2015 and July 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 August 1, 2014 to January 31, 2015	From February 1, 2014 to July 31, 2014
Net income (in thousands of yen)	¥1,739,558	¥1,457,613
Net income not available to ordinary unitholders (in thousands of yen)	-	-
Net income available to ordinary unitholders (in thousands of yen)	¥1,739,558	¥1,457,613
Weighted average number of units during the period (units)	277,932	241,622

15. SIGNIFICANT SUBSEQUENT EVENTS

Issuance of new investment units

On January 15, 2015 and January 28, 2015 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 11 properties etc. The payments were completed on February 4, 2015 through public offering and March 4, 2015 by way of third-party allotment. As a result of the issuance of new investment units, the Investment Corporation had total unitholders' capital of ¥80,132,379,043 with 349,089 investment units outstanding as of March 4, 2015.

(Issuance of new investment units through public offering)

Total number of units issued : 67,900 units (Domestic 40,740 units, International 27,160 units)

Issue price (Offer Price) : ¥340,762 per unit

Total amount (Offer Price) : ¥23,137,739,800

Paid-in value (Issue Value) : ¥328,879 per unit

Gross proceeds : ¥22,330,884,100

Payment date : February 4, 2015

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

Total number of units issued : 2,067 units

Paid-in value (Issue Value) : ¥328,879 per unit

Gross proceeds : ¥679,792,893

Payment date : March 4, 2015

Allottee : SMBC Nikko Securities Inc.

16. SECURITIES PORTFOLIO

Securities portfolio consists of the following as of January 31, 2015:

(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
Silent Partnership	Equity interests in TK property fund with G. K. Creek Investment II as operator (Note 1)	—	573,226	—	—	573,226	—	
Equity Interests	Equity interests in TK property fund with G. K. Creek Investment III as operator (Note 2)	—	152,406	—	—	152,406	—	
Total		—	725,632	—	—	725,632	—	

Note 1: TK property fund owns the real estate beneficiary interests in trust for "D-Wing Harvor View Tower," "Mitezza Iriya," "Regalo Minami-kusatsu," and "Crane Mansion Tsurumi."

Note 2: TK property fund owns the real estate beneficiary interests in trust for "KDX Residence Tachikawa," "KDX Residence Seijo," and "KDX Residence Akihabara."

Note 3: The appraisal is stated at the bookvalue.

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 total	Book value	Accrued interest	Prepaid accrued interest	Assessed 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 real estate beneficiary interests in trust for "KDX Residence Togoshi," "KDX Residence Shinagawa Seaside," "KDX Residence Ojima," and "KDX Residence Oyama."

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

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

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

17. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following as of January 31, 2015:

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	42,534,812	9,224,339	-	51,759,151	2,158,714	631,399	49,600,437	
Structures in trust	297,243	33,397	-	330,640	38,747	10,679	291,893	
Machinery and equipment in trust	689,478	112,407	-	801,885	62,886	16,922	738,999	
Tools, furniture and fixtures in trust	19,407	14,777	181	34,003	975	452	33,028	
Land in trust	57,779,010	13,449,739	-	71,228,749	-	-	71,228,749	
Sub total	101,319,950	22,834,659	181	124,154,428	2,261,322	659,452	121,893,106	
Total	¥104,107,327	¥22,834,659	¥ 181	¥126,941,805	¥2,261,322	¥659,452	¥124,680,483	

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 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.

18. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt and long-term debt consists of the following as of January 31, 2015:

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	Aozora Bank, Ltd.	¥ -	¥1,600,000	¥ -	¥1,600,000	0.482%	August 31, 2015	(Note 6)	Unsecured/ Non-guaranteed
	Resona Bank, Ltd.	-	1,600,000	-	1,600,000	0.482%	August 31, 2015		
	Sub total	-	¥3,200,000	-	¥3,200,000				
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation	600,000	-	600,000	-			(Note 6)	Unsecured/ Non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	600,000	-	600,000	-	0.546%	August 31, 2014		
	Aozora Bank, Ltd.	500,000	-	500,000	-				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000				
	Aozora Bank, Ltd.	2,000,000	-	-	2,000,000				
	Resona Bank, Ltd.	1,500,000	-	-	1,500,000	1.060%	April 30, 2015		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000				
	Sumitomo Mitsui Banking Corporation (Note 2)	1,750,000	-	-	1,750,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)	1,500,000	-	-	1,500,000				
	Aozora Bank, Ltd. (Note 2)	500,000	-	-	500,000	0.590%	August 31, 2015		
Resona Bank, Ltd. (Note 2)	500,000	-	-	500,000					
Sumitomo Mitsui Trust Bank, Limited (Note 2)	500,000	-	-	500,000					
Mizuho Trust & Banking Co., Ltd. (Note 2)	500,000	-	-	500,000					

	Mizuho Bank, Ltd. (Note 2)	250,000	-	-	250,000			
	Sub total	13,700,000	-	1,700,000	12,000,000			
	Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000	1.047%	April 30, 2016	
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000			
	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	(Note 6) Unsecured/ Non- guaranteed
	Resona Bank, Ltd.	500,000	-	-	500,000			
	Mizuho Trust & Banking Co., Ltd	500,000	-	-	500,000			
	Mizuho Bank, Ltd.	500,000	-	-	500,000			
Long-term loans payable	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			
	Resona Bank, Ltd.	1,000,000	-	-	1,000,000	0.910%	August 31, 2017	
	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	

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		
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 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
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
Sumitomo Mitsui Banking Corporation	-	1,100,000	-	1,100,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,100,000	-	1,100,000	0.916%	August 7, 2021
Mizuho Bank, Ltd.	-	600,000	-	600,000		
Aozora Bank, Ltd.	-	350,000	-	350,000		

Resona Bank, Ltd.	-	300,000	-	300,000		
The Mizuho Trust and Banking Co., Limited	-	300,000	-	300,000		
Development Bank of Japan Inc.	-	1,000,000	-	1,000,000	0.996%	August 7, 2021
Sumitomo Mitsui Banking Corporation	-	400,000	-	400,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	400,000	-	400,000		
Mizuho Bank, Ltd.	-	300,000	-	300,000		
Resona Bank, Ltd.	-	200,000	-	200,000	1.254%	August 7, 2023
The 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
The Bank of Tokyo-Mitsubishi UFJ, 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
Mitsubishi UFJ Trust and Banking Corporation	-	1,500,000	-	1,500,000	0.689%	November 30, 2019
Sub total	42,850,000	13,050,000	-	55,900,000		
Total	¥56,550,000	¥16,250,000	¥1,700,000	¥71,100,000		

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	¥11,000,000	¥11,000,000	¥1,500,000

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 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.

19. DISTRIBUTIONS

	Sixth Fiscal Period (From August 1, 2014 to January 31, 2015)	Fifth Fiscal Period (From February 1, 2014 to July 31, 2014)
I. Retained earnings at the end of period	¥1,739,608,641	¥1,457,756,938
II. Total distributions	¥1,739,488,304	¥1,457,705,526
Distributions per unit	¥6,232	¥6,033
III. Retained earnings brought forward to the next period	¥120,337	¥51,412

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 ¥1,739,488,304 which is the maximum integral multiple to 279,122 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 sixth 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 ¥1,457,705,526 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>
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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 January 31, 2015, 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 January 31, 2015, and its financial performance and cash flows for the fiscal periods then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

April 28, 2015
Tokyo, Japan