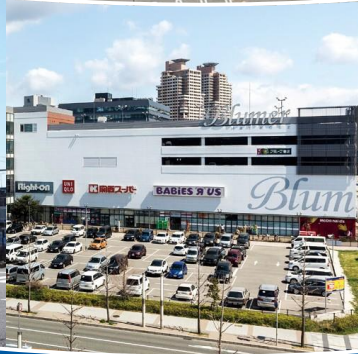


KENEDIX

Retail REIT Corporation



Kenedix Retail REIT Corporation

Semi-annual Report for the 4th Period

(From October 1, 2016 to March 31, 2017)



Thanks to your support, Kenedix Retail REIT Corporation (“KRR”) has reported its results of operations for the fourth fiscal period (from October 1, 2016 to March 31, 2017).

We became the first J-REIT to focus primarily on neighborhood, community and other shopping centers that cater to the day-to-day needs of local area customers upon our listing in February 2015. Japan is undergoing unprecedented demographic changes that, we believe, are influencing the nature of local retail markets. In particular, the aging of the Japanese population and the increased concentration of populations in urban areas have resulted in shrinkage of retail trade areas for shopping centers. We have also observed an increase in market share of specialty stores as consumer tastes change. Accordingly, we expect continued high demand for such local shopping centers for daily needs because of their convenience. We believe our selective investments in these shopping centers contribute further increase in unitholder’s value.

For the fourth fiscal period, operating revenue totaled 6,430 million yen, operating income was 3,021 million yen, ordinary income was 2,556 million yen and net income was 2,552 million yen. The distribution to unitholders was 6,044 yen per unit.

At the end of the fourth fiscal period, our portfolio, consisted of 42 properties for 164,338 million yen in acquisition price, has more than doubled in size in two years since we acquired 18 shopping centers with acquisition price of 80,843 million yen upon our listing. We acquired two shopping centers for daily needs and completed an additional acquisition of a new restaurant building through a property expansion within Unicus Ina during the fourth fiscal period.

Going into the fifth fiscal period, we acquired 8 properties in connection with public offering, increasing the portfolio size to 197,002 million yen in acquisition price with 50 properties.

We believe that AUM growth contribute to diversification of our portfolio and stability of our earnings base. With increase in market capitalization, we were included in a global index in June 2016 and our long-term issuer credit rating outlook was revised upward in December 2016.

We dedicate ourselves to the maximization of unitholder value by continuing implementation of our growth strategy extensively supported from our Sponsor and the Alliance Companies.

We respectfully look forward to your continued support.

Akihiro Asano

浅野 晃弘

Executive Director, Kenedix Retail REIT Corporation
Director & COO, Head of Retail REIT Department,
Kenedix Real Estate Fund Management, Inc.

► Highlights

For the 4th fiscal period ended March 31, 2017

Distribution per unit	JPY 6,044
Forecast DPU for the 5th fiscal period (Includes 11 yen distribution in excess of earnings per unit)	JPY 6,051
Operating revenue	JPY 6,430 mn
Operating income	JPY 3,021 mn
Net income	JPY 2,552 mn
Total assets	JPY 185,037 mn
Total net assets	JPY 96,823 mn
Net assets per unit	JPY 229,195
Number of properties / tenants	42 properties / 409 tenants
Occupancy rate at the end of period	99.6 %

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- Summary of Investment Unit

II. Asset Management Report

- Overview of Asset Management
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- Capital Expenditures
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- Acquisition and Disposition
- Accounting
- Others

Focus on shopping centers for daily needs

1 | The only J-REIT to focus on shopping centers for daily needs

Retail properties located within residential districts or adjacent to major roads, which provide daily goods and services

Well located for daily living	Retail trade area of an approximately 1 to 10 km radius (generally 3 to 5 km radius) Customers predominantly from local areas surrounding the retail property
High volume of customer traffic	Accommodate certain daily local retail needs Strong customer traffic on both weekdays and weekends
Specialty store tenant diversity	Various specialty stores to meet a range of day-to-day needs Groceries, clothing and other daily goods and services

SM Supermarkets

Retail trade area
3 km radius
Stand-alone stores that primarily provide groceries



NSC Neighborhood Shopping Centers

Retail trade area
3 – 5 km radius
Shopping centers with a supermarket as an anchor or core tenant



Urban Station-Front Shopping Centers

Retail trade area
3 – 10 km radius

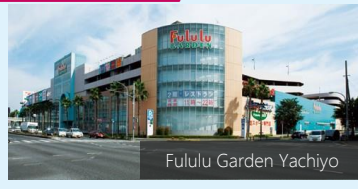
Shopping centers in the immediate vicinity of an urban public transportation station



CSC Community Shopping Centers

Retail trade area
5 – 10 km radius

Larger shopping centers than NSC, with a supermarket as an anchor or core tenant



SS Specialty Stores

Retail trade area
1 – 10 km radius

Specialty stores such as drug stores, convenience stores, health clubs or electronic appliance stores



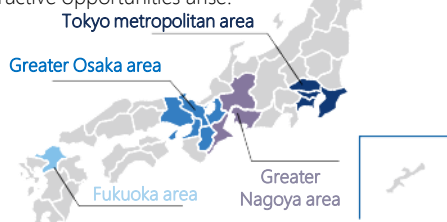
2 | Investment in major metropolitan areas with population concentrations

Primary geographic target areas

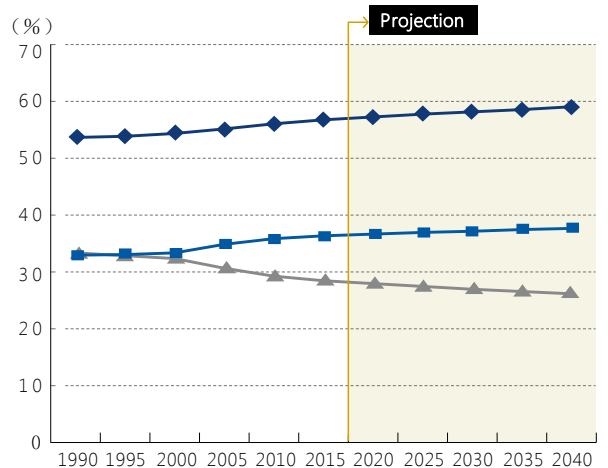
The four major metropolitan areas of Japan, which have relatively stable populations:

- Tokyo metropolitan area
- Greater Osaka area
- Greater Nagoya area
- Fukuoka area

* KRR may also from time to time consider investing in ordinance-designated cities, core cities and other areas^(Note), which would allow KRR to build a more diversified portfolio that provides flexibility and positive returns, consistent with KRR's investment goals, when attractive opportunities arise.



Population share in Japan by area



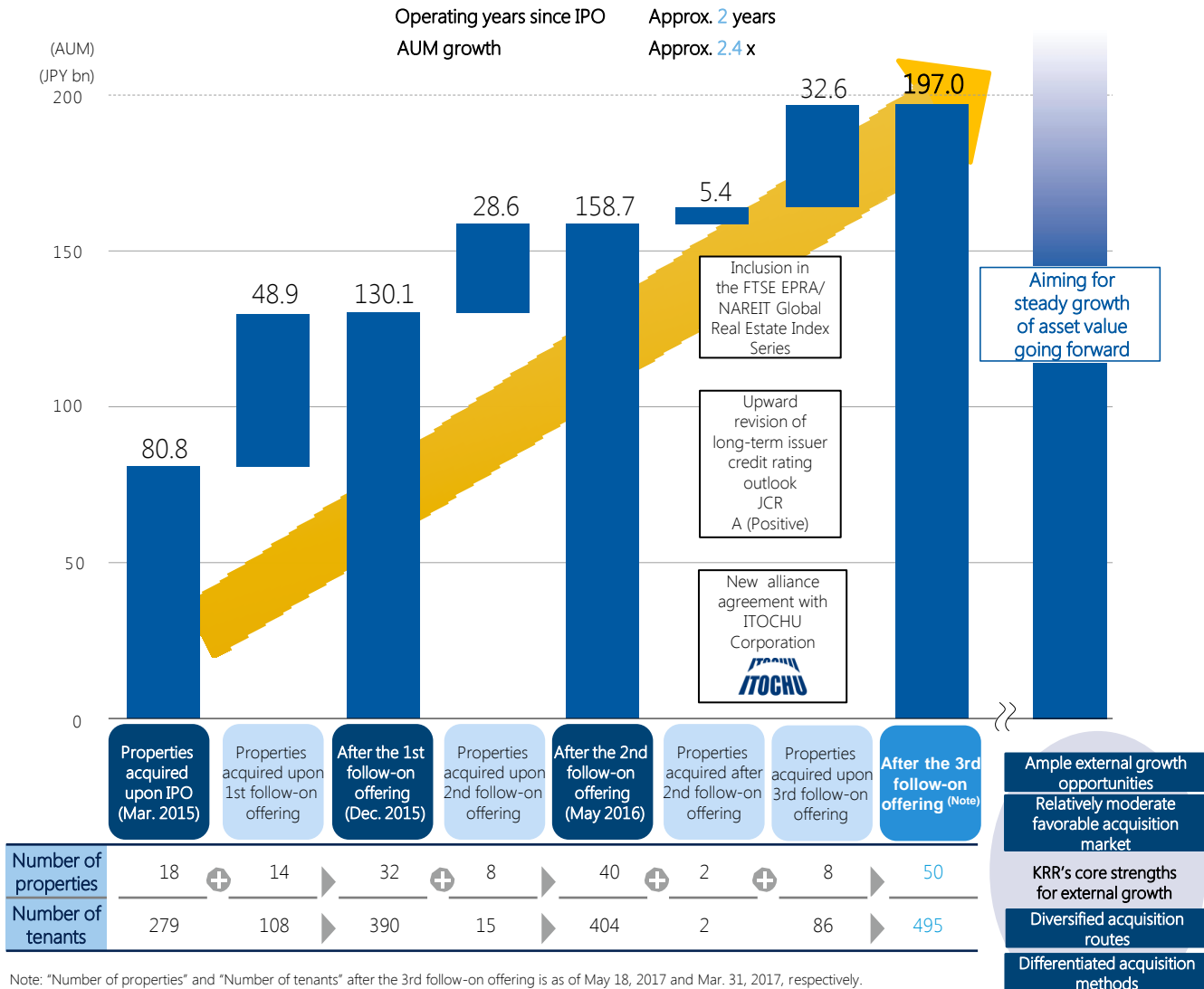
◆ Four major metropolitan areas ▲ Other areas
■ Ordinance-designated cities and core cities

Source: Ministry of Internal Affairs and Communications (MIC), National Institute of Population and Social Security Research

Note: "Ordinance-designated cities, core cities and other areas" refers to cities designated by government ordinance, which have populations of 500,000 persons or more, core cities, which have populations of 200,000 persons or more, and to other areas with a population fewer than 200,000 persons, which we believe will have suitable customer traffic from surrounding areas. 3

3

Steady AUM growth through three follow-on offerings in approximately two years since KRR's IPO



4

Inclusion in a global index and upward revision of long-term issuer credit rating outlook

Inclusion in a global index

KRR believes that its inclusion in the Index will contribute to further broadening its potential investor base and increasing the liquidity of its investment units.

June 2016

Inclusion in the FTSE EPRA/NAREIT Global Real Estate Index Series

Upward revision of long-term issuer credit rating outlook

Japan Credit rating Agency, Ltd. ("JCR") revised the long-term issuer credit rating outlook of KRR upward.

December 2016

Credit rating agency	Before revision	After revision
JCR	A (Stable)	A (Positive)

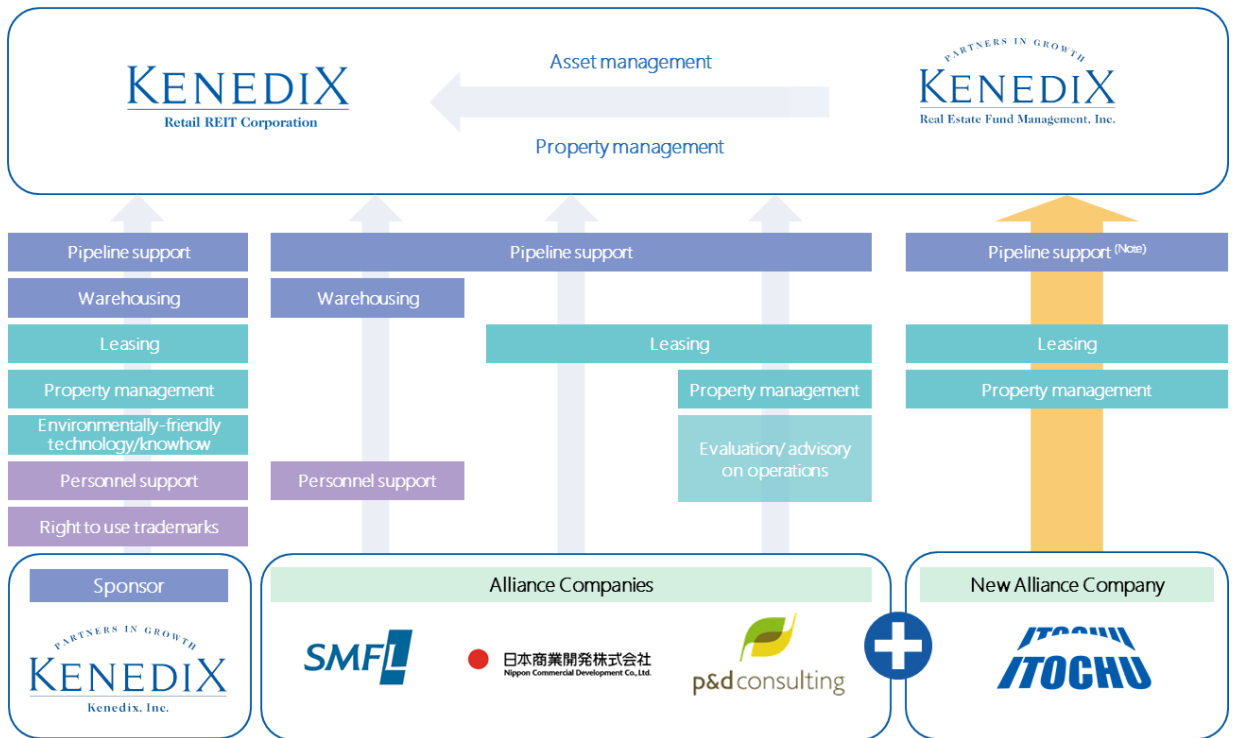
▶ Pipeline Expansion

1 | Pipeline expansion through collaboration with KRR's Sponsor and Alliance Companies

KRR aims steady external growth through pipelines from KRR's Sponsor and Alliance Companies and pipeline expansion utilizing sourcing capability of the Asset Manager.

■ Strong support from the Kenedix Group and KRR's Alliance Companies

KRR has strong support from KRR's Sponsor, Kenedix, Inc. as well as KRR's Alliance Companies for both internal and external growth. In addition, ITOCHU Corporation became KRR's new Alliance Company in August 2016, which KRR expects will further promote KRR's growth strategies.



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

2 | Preferential access to potential acquisition opportunities

KRR seeks to achieve external growth by selectively acquiring properties managed or developed by the Kenedix Group and taking advantage of preferential negotiation rights for properties owned by KRR's Alliance Companies.

Example of properties under development by Sponsor

First project of the retail property development fund (Note 1)

Location: Kanagawa Pref.

Planned completion in autumn 2017



Examples of properties owned by KRR's Alliance Companies

Unicus Urawamisono (Land)

Location: Saitama, Saitama

Opened in Mar. 2017



Across Plaza Urayasu Higashino (Land)

Location: Urayasu, Chiba

Planned to open in winter 2017



Note 1: The illustrations above are completion images based on design drawings and may differ from the actual buildings after completion.
 Note 2: KRR has no plans to acquire these properties and there is no guarantee that KRR can acquire these properties in the future.

Internal Growth

Active retail property management

Value added "one-stop" asset management and property management services

KRR seeks to enhance tenant relationships and profitability through value-added "one-stop" asset management and property management services and implementation of a retail property management cycle.

Seek internal growth through property management

KRR seeks to improve the profitability and value of KRR's portfolio through strategic acquisitions and improvements in asset management and property management.

Enhance profitability and asset value through building expansions

Enhance tenant satisfaction and reduce cost through effective utilization of capital expenditure

Adopt optimal leasing structures for competitive tenant mix and rental upside

Building expansion at Unicus Ina

KRR completed the second building expansion project, which KRR constructed a restaurant building by investing a total construction cost of JPY 91 million. KRR acquired the building in January 2017.

Aerial photo of Unicus Ina



Newly constructed restaurant building



Specialty stores at Unicus Ina

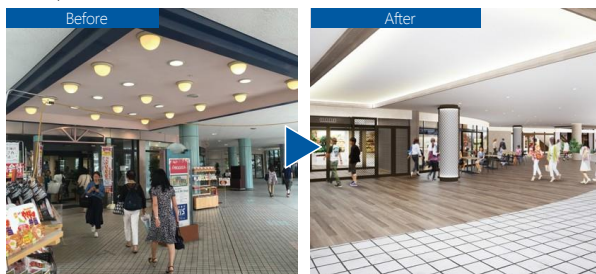


Examples of effective utilization of CAPEX

KRR seeks to use proper and well-timed capital expenditures to reduce costs, increase satisfaction of tenants and increase stability of revenue through making KRR's properties more competitive.

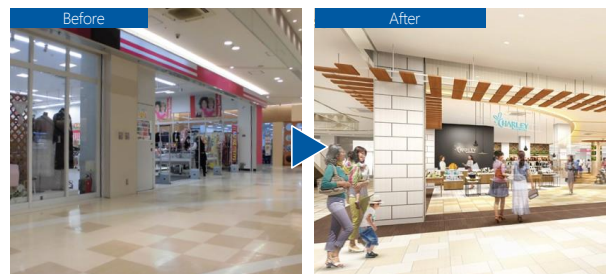
Example 1: MONA Shin-Urayasu (planned)

Repair and renovation of outdoor facilities and signboards to improve commercial environment (Note)



Example 2: Blumer HAT Kobe (planned)

Change in layout and contracting of new tenants to increase rent revenues (Note)



Example 3: Ashico Town Ashikaga

Reopened a cinema complex and achieved full occupancy with new tenants in February 2017



Example 4: Blumer Maitamon

Replacement of flooring materials to reduce maintenance costs



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

► Financial Highlights

KRR implements flexible financial strategies, aiming to produce stable profits in the medium- to long-term and to steadily grow KRR's portfolio.

1 | Financial highlights (as of March 31, 2017)

Long-term debt ratio 84.6%	Fixed interest debt ratio 84.6%	Average interest rate 0.99%
Average remaining years to maturity 4.5 years	Number of lenders 11	Japan Credit Rating Agency (JCR) A (Positive)

2 | Diversifying KRR's lending sources

■ Issued investment corporation bonds
KRR issued investment corporation bonds for the first time on October 31, 2016.

Issue	Maturity	Amount	Annual interest rate
1st unsecured investment corporation bonds	5 years	JPY 1.0 bn	0.200%
2nd unsecured investment corporation bonds	10 years	JPY 1.0 bn	0.600%
Total		JPY 2.0 bn	-

■ Established commitment lines

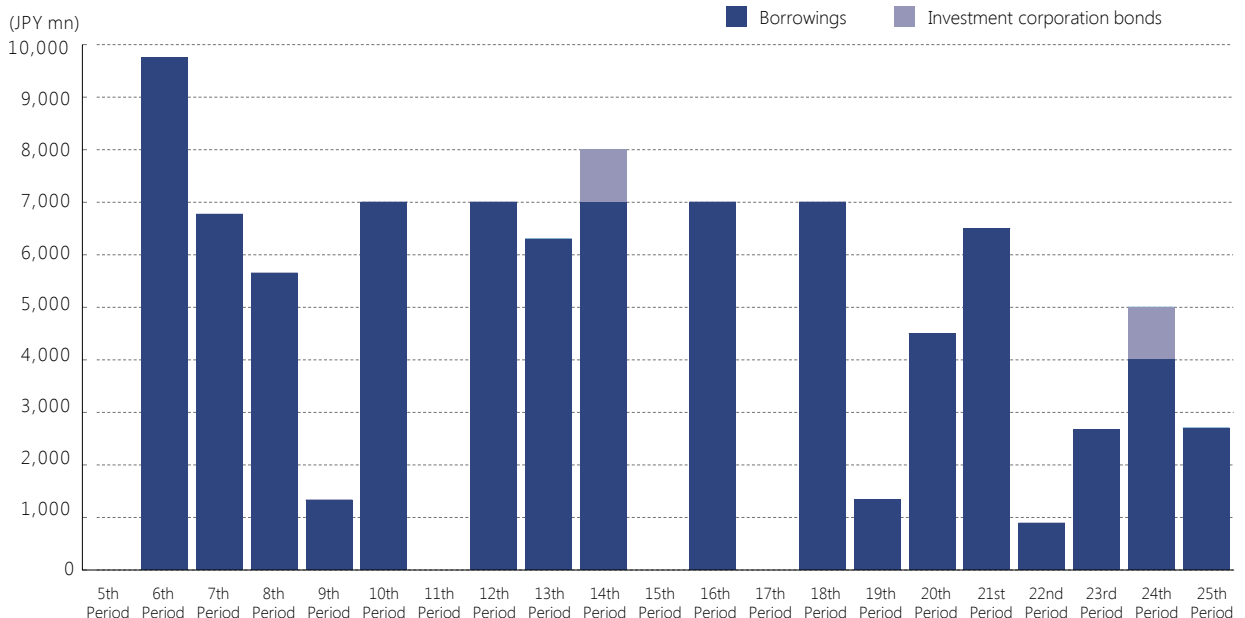
KRR established commitment lines with Sumitomo Mitsui Banking Corporation and Mizuho Bank, Ltd. from April, 2017. This establishment is first activity in J-REITs that have "A" of long-term credit rating listing after 2012.

Commitment credit lines JPY 2.0 bn

3 | Debt maturity schedule (as of May 31, 2017)

KRR believes that diversified debt maturity schedule will contribute to a stable financing standing.

Debt outstanding JPY 89,400 mn (excluding interest-bearing tenant leasehold and security deposits)



▶ New Acquisitions

Assets acquired in the 4th and the 5th fiscal periods

	Properties	Highlights	Acquisition price (JPY mn)	Appraisal NOI yield (%)	Location	Core tenant	Retail trade area population increase (%) (Note 1)
4th	N-5 K's Denki Shin-Moriyama (Land) 	Land on which an electronics retail store resides. Located in a high population growth area, facing a major roadway with heavy traffic	1,370	4.4	Greater Nagoya area (approx. 17 min to Nagoya Station)	Undisclosed (Note 2)	+2.1
	R-9 Seiyu Rakuichi Moriya (Land) 	An NSC (Land) highly popular among consumers, with a grocery supermarket as the anchor tenant	4,111	4.1	Ordinance-designated cities, core cities and other areas (approx. 32 min to Akihabara Station)	Seiyu GK	+13.3
5th	T-18 Totsuka-Fukaya Shopping Center (Land) 	An NSC (Land) located in a high population growth area and opened in March 2015	4,170	4.6	Tokyo metropolitan area (approx. 10 min to Yokohama Station)	Royal Home Center Co., Ltd.	+1.3
	T-19 Yumemachi Narashinodai Mall 	Located in an area with high population growth, housing a competitive supermarket as the anchor tenant	3,416	5.2	Tokyo metropolitan area (approx. 35 min to Otemachi Station)	Nojima Corporation	+4.2
	T-20 Kawamachi Yahagi Mall 	A new NSC developed by Kenedix housing tenants with a high level of customer attraction	3,097	5.2	Tokyo metropolitan area (approx. 40 min to Tokyo Station)	Landrome Japan, Ltd.	+6.1
	T-21 Prime Square Jiyugaoka 	Located in the neighborhood of Jiyugaoka along the Tokyu Toyoko Line and leased to Central Sports Co., Ltd., a leading fitness club operator	2,820	4.1	Tokyo metropolitan area (approx. 9 min to Shibuya Station)	Central Sports Co., Ltd.	+2.5
	T-22 Round1 Ichikawa-Onitaka 	A road-side amusement facility located in an area with easy access and high population growth	1,880	5.2	Tokyo metropolitan area (approx. 28 min to Tokyo Station)	Round One Corporation	+3.5
	F-2 Round1 Stadium Hakata-Hanmichibashi 	A large-scale flagship store for Round One that offers a variety of amusement and sporting facilities	5,020	5.7	Fukuoka area (approx. 3 min to Hakata Station)	Round One Corporation	+8.4
	F-3 Kurume-Nishi Shopping Center 	An NSC located in a residential district near downtown Kurume City and tenants include a grocery supermarket and a drug store, etc.	1,515	6.0	Fukuoka area (approx. 34 min to Hakata Station)	Maxvalu Kyushu Co., Ltd.	+0.1
	R-10 Sun Street Hamakita 	Located in an area with high population growth and expected to generate synergies among the tenants that offer services and experiences, with Seiyu as the core tenant	10,746	5.8	Ordinance-designated cities, core cities and other areas	Seiyu GK	+7.7

Note 1: "Retail trade area population increase" is calculated as the growth rate of population within a 3 km radius of each property from 2005 to 2010, according to the national census in 2010.

Note 2: RRR has not obtained consent from the tenants of the relevant property to release the information.

▶ Portfolio List as of May 18, 2017

Total
acquisition price

¥197,002_{mn}

Weighted average
occupancy rate

99.5%

Number of
Tenants

496

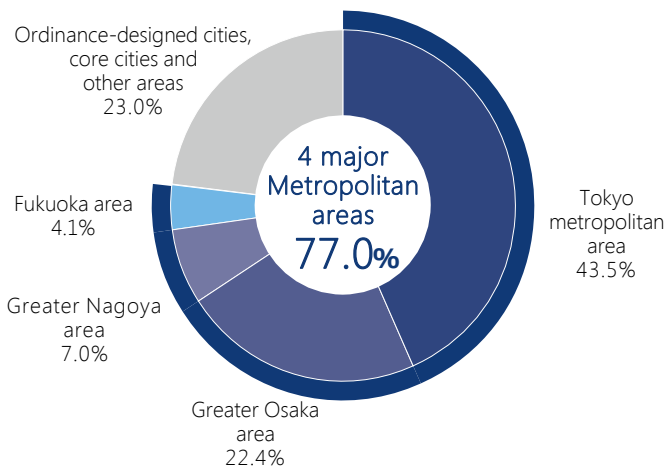
No.	Name of property	Location (city / ward, prefecture)	Acquisition price (JPY mn)	Occupancy rate (%) ^(Note 1)	Number of tenants ^(Note 2)
T-1	Fululu Garden Yachiyo	Yachiyo, Chiba	14,848	98.2	48
T-2	MONA Shin-Urayasu	Urayasu, Chiba	8,063	95.7	70
T-3	Passaggio Nishiarai	Adachi ward, Tokyo	5,850	98.1	41
T-4	Daikanyama Address Dixsept	Shibuya ward, Tokyo	5,390	97.0	26
T-5	Unicus Ina	Kitaadachi-gun, Saitama	4,470	100.0	1
T-6	Yorktown Kita-Kaname	Hiratsuka, Kanagawa	4,000	100.0	1
T-7	Unicus Yoshikawa	Yoshikawa, Saitama	3,600	100.0	11
T-8	Sports Club Renaissance Fujimidai	Nerima ward, Tokyo	2,586	100.0	1
T-9	Super Viva Home Iwatsuki (Land)	Saitama, Saitama	4,815	100.0	1
T-10	K's Denki Shonan-Fujisawa (Land)	Fujisawa, Kanagawa	3,169	100.0	1
T-11	Unicus Kamisato (Land)	Kodama-gun, Saitama	3,000	100.0	1
T-12	Unicus Konosu (Land)	Konosu, Saitama	1,700	100.0	1
T-13	Inageya Yokohama Minamihonjuku (Land)	Yokohama, Kanagawa	1,442	100.0	1
T-14	Gourmet City Chiba-Chuo	Chiba, Chiba	760	100.0	1
T-15	Nakamachidai Tokyu Store	Yokohama, Kanagawa	3,360	100.0	1
T-16	Central Wellness Club Nagatsuta Minamidai	Yokohama, Kanagawa	1,724	100.0	2
T-17	Life Kameido	Koto ward, Tokyo	1,450	100.0	1
O-1	Blumer Maitamon	Kobe, Hyogo	8,389	99.2	50
O-2	Central Square Takadono (Land)	Osaka, Osaka	2,685	100.0	1
O-3	Piagio Kahma Home Center Omihachiman	Omihachiman, Shiga	2,140	100.0	2
O-4	Blumer HAT Kobe	Kobe, Hyogo	11,000	99.1	41
O-5	Carino Esaka	Suita, Osaka	6,555	97.8	30
O-6	COMBOX Komyoike	Izumi, Osaka	6,450	100.0	1
O-7	Hankyu Oasis Hirakatadeguchi	Hirakata, Osaka	1,280	100.0	1
O-8	Welcia Kishiwadakamori (Land)	Kishiwada, Osaka	487	100.0	1
O-9	Life Nishi-Tengachaya	Osaka, Osaka	1,505	100.0	1
O-10	Million Town Tsukaguchi (Land)	Amagasaki, Hyogo	3,723	100.0	1
N-1	Kahma Home Center Nakagawa Tomita (Land)	Nagoya, Aichi	2,311	100.0	1
N-2	Valor Ichinomiya-Nishi	Ichinomiya, Aichi	2,174	100.0	1
N-3	K's Denki Nakagawa Tomita (Land)	Nagoya, Aichi	889	100.0	1
N-4	Homecenter Kohnan Sunadabashi	Nagoya, Aichi	7,140	100.0	1
N-5	K's Denki Shin-Moriyama (Land)	Nagoya, Aichi	1,370	100.0	1
F-1	Sunny Noma	Fukuoka, Fukuoka	1,497	100.0	1
R-1	Roseo Mito	Mito, Ibaraki	10,046	99.7	22
R-2	K's Denki Aomori Honten	Aomori, Aomori	1,469	100.0	1
R-3	Super Sports Xebio Aomori-Chuo	Aomori, Aomori	898	100.0	1
R-4	Ashico Town Ashikaga	Ashikaga, Tochigi	4,180	100.0	29
R-5	Yorktown Shinden-Higashi	Sendai, Miyagi	3,252	100.0	2
R-6	Kasumi Technopark Sakura	Tsukuba, Ibaraki	830	100.0	1
R-7	Solala Plaza	Sendai, Miyagi	5,720	100.0	1
R-8	P-1 Plaza Tenno	Hamamatsu, Shizuoka	4,010	100.0	7
R-9	Seiyu Rakuichi Moriya (Land)	Moriya, Ibaraki	4,111	100.0	1
Total of assets acquired by the end of the 4th period			164,338	99.6	409

No.	Name of property	Location (city / ward, prefecture)	Acquisition price (JPY mn)	Occupancy rate (%) ^(Note 1)	Number of tenants ^(Note 2)
T-18	Totsuka-Fukaya Shopping Center (Land)	Yokohama, Kanagawa	4,170	100.0	2
T-19	Yumemachi Narashinodai Mall	Funabashi, Chiba	3,416	100.0	13
T-20	Kawamachi Yahagi Mall	Chiba, Chiba	3,097	100.0	12
T-21	Prime Square Jiyugaoka	Meguro ward, Tokyo	2,820	100.0	2
T-22	Round1 Ichikawa-Onitaka	Ichikawa, Chiba	1,880	100.0	1
F-2	Round1 Stadium Hakata-Hanmichibashi	Fukuoka, Fukuoka	5,020	100.0	1
F-3	Kurume-Nishi Shopping Center	Kurume, Fukuoka	1,515	100.0	4
R-10	Sun Street Hamakita	Hamamatsu, Shizuoka	10,746	97.9	52
Total of assets acquired in Apr. and May 2017			32,664	99.2	87
Total			197,002	99.5	496

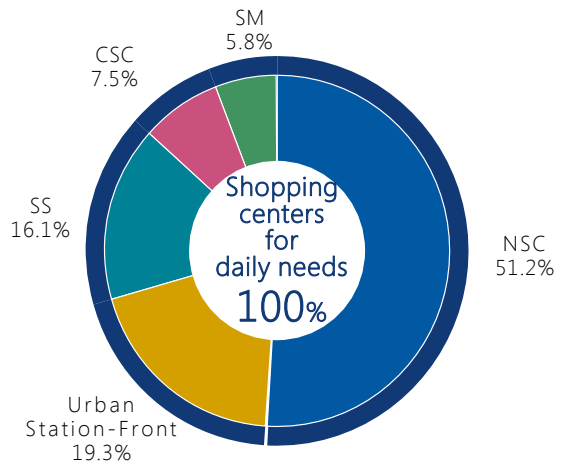
Note 1: "Occupancy rate" is as of March 31, 2017.

Note 2: "Number of tenants" indicates the number of end-tenants as of March 31, 2017.

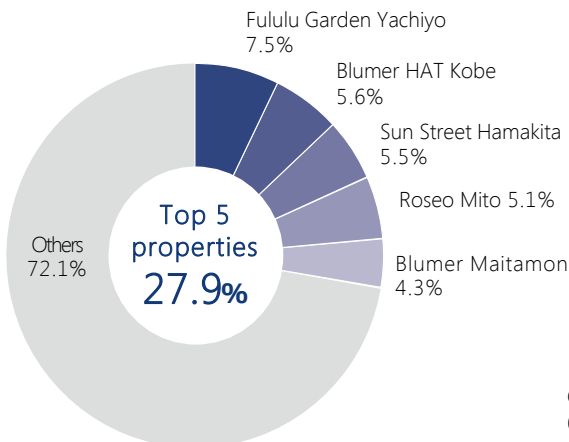
Location (by acquisition price)



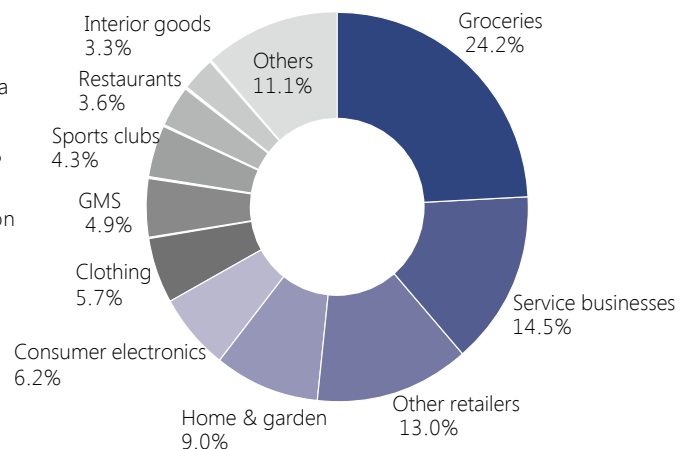
Types of retail property (by acquisition price)



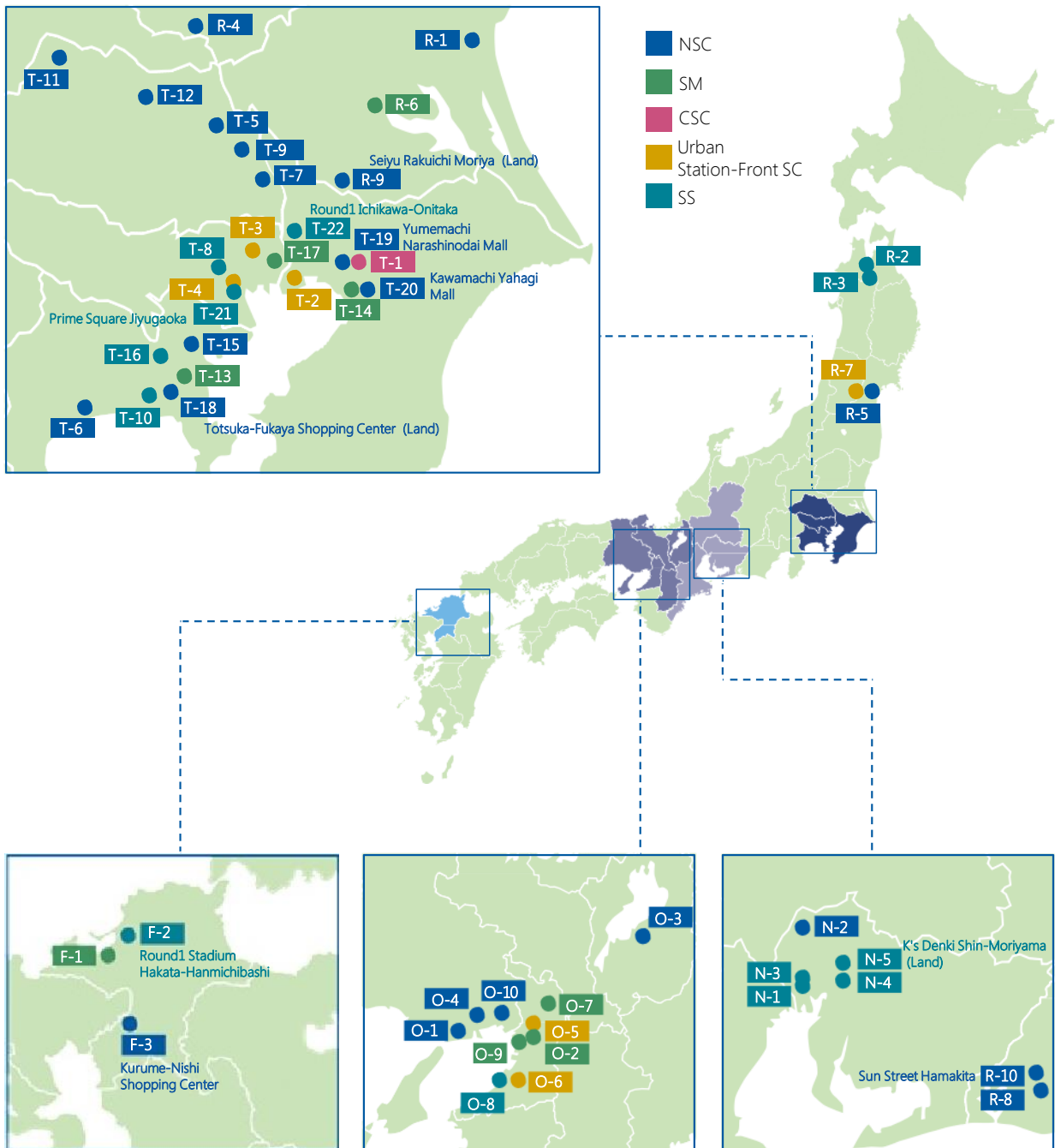
Top 5 properties (by acquisition price)



Percentage of tenants' category (based on rents)



▶ Portfolio Map as of May 18, 2017



T-11 Unicus Kamisato (Land)



T-12 Unicus Konosu (Land)



T-13 Inageya Yokohama Minamihonjuku (Land)



T-14 Gourmet City Chiba-Chuo



T-15 Nakamachidai Tokyu Store



T-16 Central Wellness Club Nagatsuta Minamidai



T-17 Life Kameido



O-1 Blumer Maitamon



O-2 Central Square Takadono (Land)



O-3 Piago Kahma Home Center Omihachiman



O-4 Blumer HAT Kobe



O-5 Carino Esaka



O-6 COMBOX Komyoike



O-7 Hankyu Oasis Hirakatadeguchi



O-8 Welcia Kishiwadakamori (Land)



O-9 Life Nishi-Tengachaya



O-10 Million Town Tsukaguchi (Land)



N-1 Kahma Home Center Nakagawa Tomita (Land)



N-2 Valor Ichinomiya-Nishi



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



N-4 Homecenter Kohnan Sunadabashi



N-5 K's Denki Shin-Moriyama (Land)



F-1 Sunny Noma



R-1 Roseo Mito



R-2 K's Denki Aomori Honten



R-3 Super Sports Xebio Aomori-Chuo



R-4 Ashico Town Ashikaga



R-5 Yorktown Shinden-Higashi



R-6 Kasumi Technopark Sakura



R-7 Solala Plaza



R-8 P-1 Plaza Tenno



R-9 Seiyu Rakuichi Moriya (Land)



T-18 Totsuka-Fukaya Shopping Center (Land)



T-19 Yumemachi Narashinodai Mall



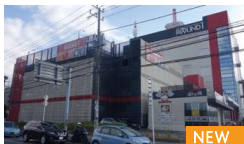
T-20 Kawamachi Yahagi Mall



T-21 Prime Square Jiyugaoka



T-22 Round1 Ichikawa-Onitaka



F-2 Round1 Stadium Hakata-Hanmichibashi



F-3 Kurume-Nishi Shopping Center



R-10 Sun Street Hamakita



► CSR Initiatives

1 | Environmental policies

KRR undertakes investment management operations in accordance with the following environmental policies.

Compliance with environmental laws and regulations

Promotion of energy conservation measures

Reduction of environmental burden

Disclosure of environmental information

Environmental education

2 | Evaluation of KRR's environmental initiatives

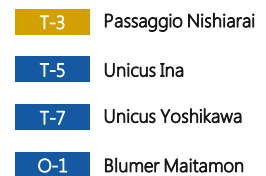
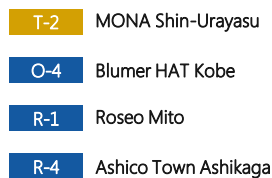
DBJ Green Building Certification

The following nine properties have been awarded the "DBJ Green Building Certification" for their environmental initiatives.

Properties with outstanding environmental & social awareness (★★★★)

Properties with excellent environmental & social awareness (★★★)

Properties with high environmental & social awareness (★★)



GRESB Real Estate Assessment 2016

- Awarded a "Green Star" Rating at its first participation in 2016
- Received high evaluation on both "implementation and measurement" and "management and policy"



3 | Help enliven local communities

Seek to enhance the medium to long term asset value of our retail properties by attracting tenants engaged in service businesses and holding local events at KRR's properties to enliven the local community



4 | Collaboration with local communities

KRR entered into an agreement with Yoshikawa City under which a part of the building of Unicus Yoshikawa can be used as a temporary shelter at times of emergency.





O-4 NSC Neighborhood Shopping Center

Blumer HAT Kobe

NSC for Daily Needs in Eastern Kobe

Blumer HAT Kobe is a neighborhood shopping center opened in October 2005 in the HAT Kobe^(Note 1) area, which was developed as a symbol of the Kobe reconstruction plan following the 1995 Great Hanshin-Awaji Earthquake. The location is near the waterfront about two kilometers east of Sannomiya Station, which is the center of downtown Kobe. Shoppers can visit Blumer HAT Kobe easily by car via National Route 2 or by train on the nearby JR and Hanshin lines.

The shopping center serves a trade area with a large number of public-sector housing developments that were constructed as part of the earthquake recovery projects. Proximity to Sannomiya Station is another reason for the high population density of HAT Kobe. In addition, a nearby high-rise assisted living apartment building for seniors with 483 units is scheduled to open in June 2017, and continued population growth is expected in this area. HAT Kobe is also home to a number of public-sector offices and facilities, notably the Disaster Reduction and Human Renovation Institution, Hyogo Prefectural Museum of Art and Japan International Cooperation Agency. The daytime population is high as well as Kobe Steel has its head office in the area.

On the first floor, Blumer HAT Kobe has a grocery store, clothing stores, a baby goods store among other stores. The second floor tenants include a cinema complex, an amusement center, more clothing stores, a book store, restaurants, service providers, and variety goods stores. After KRR started operating this shopping center, the cinema complex, which is a core tenant, introduced the first 4DX^(Note 2) theater in Kobe in April 2016. KRR used this as an opportunity to conduct a major renovation of common areas to improve the overall appearance of the property. Sales have increased by about 3% from the previous year after the completion of the renovation project.

KRR will continue to work on attracting tenants selling products and services that people purchase frequently in order to reinforce the shopping center's strong ties to local communities. In the second phase of the shopping center's renovation, a large retailer selling household products, food, and beauty and health care products will open in June 2017 on the first floor.

Blumer HAT Kobe frequently hosts community events, including events on the rooftop garden in which shoppers can participate. Examples of special events include performances by the band from a nearby junior high school and periodic rakugo (Japanese comedy) performances, a form of entertainment that rarely takes place at a shopping center. In recognition of these activities, Blumer HAT Kobe was awarded DBJ (Development Bank of Japan) Green Building Certification (three-star rank) in June 2016 as a property with excellent environment and social awareness. KRR will continue to put effort into making the facility more attractive as an NSC that provides both daily necessities and amusement such as cinema complex.

Note 1: HAT Kobe is the name of the area in eastern Kobe, redeveloped after the Great Hanshin-Awaji Earthquake. "HAT" stands for "Happy Active Town," a name chosen from public submissions.

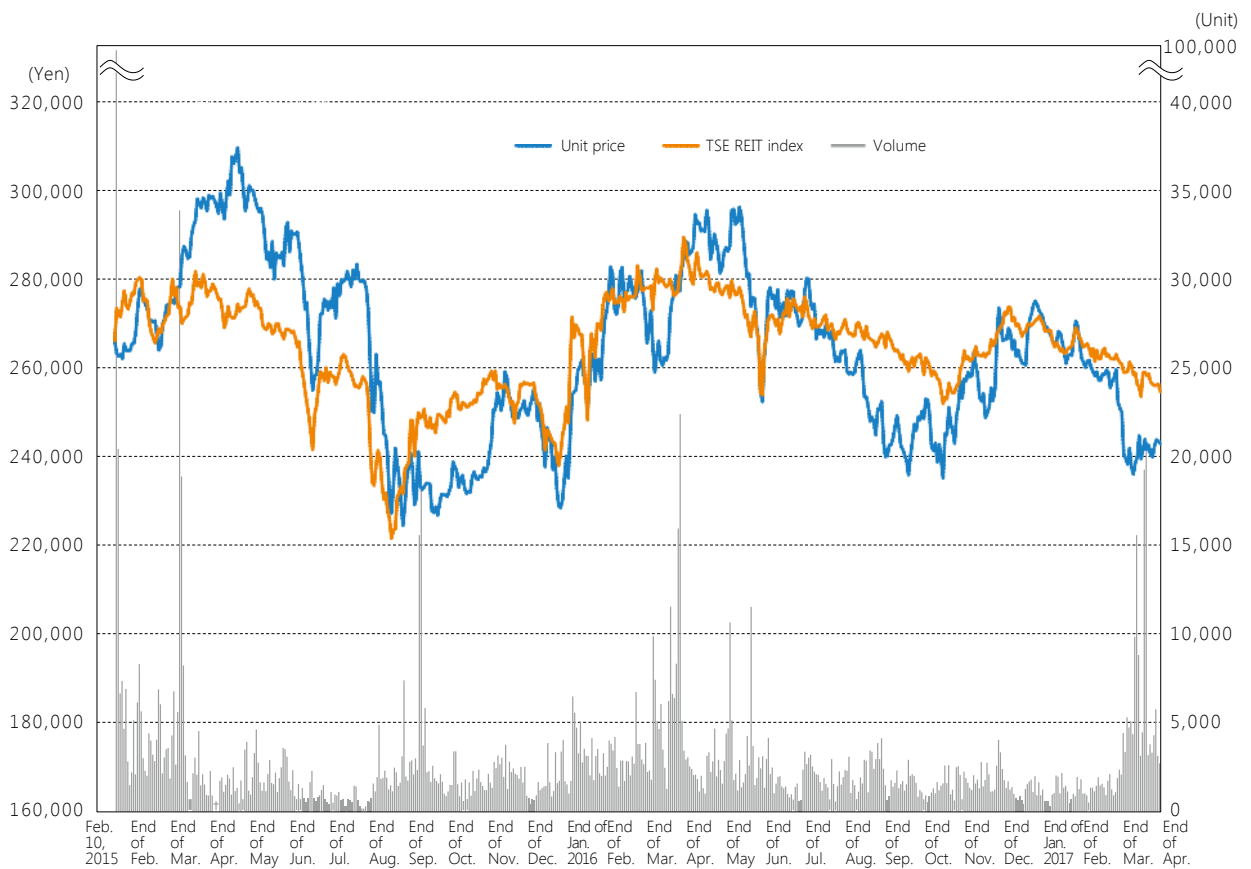
Note 2: 4DX is a new motion picture technology, which allows a motion picture presentation to be augmented with attraction effects such as seat motion, wind, rain (mist), scents, and smoke.



Acquisition price	JPY 11,000 mn
Location	Kobe, Hyogo
Land area	19,116.12m ²
Gross floor area	50,538.47m ²
Core tenant	TOKYU Recreation Co., Ltd.

Summary of Investment Unit

Unit price and trading volume

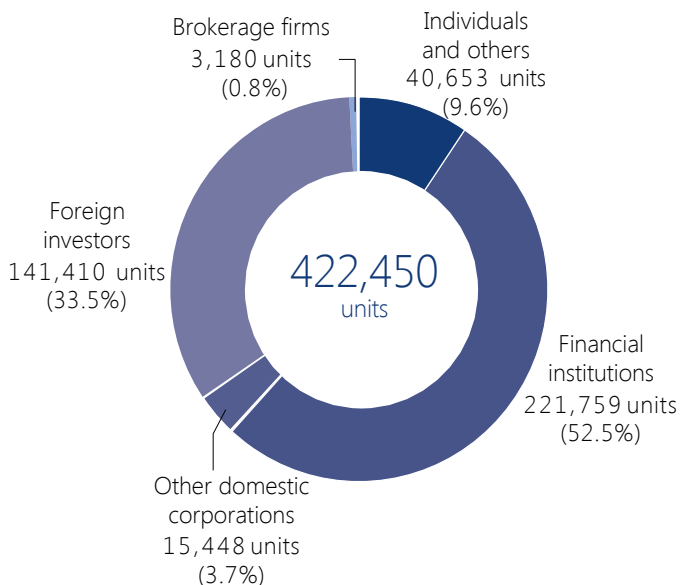


Note: TSE REIT Index is adjusted to KRR's closing unit price of JPY 266,100 as of February 10, 2015.

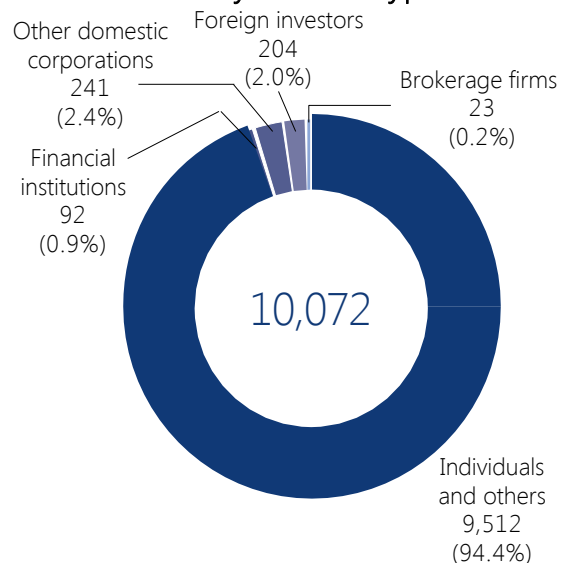
General breakdown of unitholders

As of March 31, 2017

Ownership ratio by investor type



Number of unitholders by investor type



II. ASSET MANAGEMENT REPORT

Overview of Asset Management

(1) Trends in Key Indicators

Fiscal period		First fiscal period (From October 3, 2014 to September 30, 2015)	Second fiscal period (From October 1, 2015 to March 31, 2016)	Third fiscal period (From April 1, 2016 to September 30, 2016)	Fourth fiscal period (From October 1, 2016 to March 31, 2017)
Operating revenues	Millions of yen	5,103	5,541	6,374	6,430
Of which, property-related revenues	Millions of yen	5,103	5,541	6,374	6,427
Property-related expenses	Millions of yen	2,639	2,715	3,400	3,409
Of which, property-related expenses	Millions of yen	2,246	2,235	2,860	2,817
Operating income	Millions of yen	2,463	2,826	2,973	3,021
Ordinary income	Millions of yen	1,939	2,428	2,519	2,556
Net income	Millions of yen	1,933	2,427	2,518	2,552
Total assets	Millions of yen	108,382	150,009	179,360	185,037
[Period-on-period changes]	%	(-)	(+38.4)	(+19.6)	(+3.2)
Total net assets	Millions of yen	59,790	80,034	96,739	96,823
[Period-on-period changes]	%	(-)	(+33.9)	(+20.9)	(+0.1)
Unitholders' capital ^(Note 2)	Millions of yen	57,857	77,606	94,256	94,256
Number of investment units issued and outstanding	Units	260,750	355,250	422,450	422,450
Net assets per unit	Yen	229,301	225,291	228,996	229,195
Distributions	Millions of yen	1,933	2,432	2,523	2,553
Distributions per unit	Yen	7,414	6,846	5,974	6,044
Of which, distributions of earnings	Yen	7,414	6,834	5,888	6,044
Of which, distributions in excess of retained earnings	Yen	-	12	86	-
Ordinary income to total assets ^(Note 3)		2.0	1.9	1.5	1.4
[Annualized] ^(Note 4)	%	(3.1)	(3.7)	(3.1)	(2.8)
Return on net assets ^(Note 5)		3.3	3.5	2.8	2.6
[Annualized] ^(Note 4)	%	(5.2)	(6.9)	(5.7)	(5.3)
Net assets to total assets ^(Note 6)		55.2	53.4	53.9	52.3
[Period-on-period changes]	%	(-)	(-1.8)	(+0.6)	(-1.6)
Operating days	Days	363	183	183	182
Payout ratio ^(Note 7)	%	100.0	100.0	98.8	100.0
Number of properties		19	33	40	42
Leasable area	m ²	306,225.83	609,026.59	674,491.03	719,906.77
Number of tenants ^(Note 8)		321	389	405	409
Occupancy ratio	%	99.6	99.6	99.7	99.6
Depreciation expense	Millions of yen	560	565	714	721
Capital expenditures	Millions of yen	133	530	264	276
Rental NOI (Net operating income) ^(Note 9)	Millions of yen	3,417	3,871	4,228	4,331
FFO (Funds from operation) ^(Note 10)	Millions of yen	2,548	3,058	3,315	3,358
FFO per unit ^(Note 11)	Yen	9,772	8,609	7,847	7,949

Note 1: Figures above are rounded down for monetary amounts and rounded to the nearest tenth for ratios.

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

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

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

Note 5: Return on net assets = Net income / {(Net assets at beginning of period + Net assets at end of period) / 2} × 100

Net assets at the beginning of the first fiscal period is the net assets on February 10, 2015, when the actual operation began.

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

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

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

Payout ratio = Total distributions (including excess of earnings) / Net income × 100

Note 8: As for building tenants, if a tenant leases multiple spaces in a building, each space is counted as one tenant. In a pass-through type master lease, the number of end-tenants is shown in parentheses. In a sublease type master lease, the number of master lessee is shown.

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

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

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

(2) Status of Asset Management

(Overview of the Fiscal Period ended March 31, 2017)

i) Transition of KRR

KRR was established on October 3, 2014, under the Act on Investment Trusts and Investment Corporations of Japan (the “Investment Trust Act”). On October 30, 2014, KRR was registered with the Director-General of the Kanto Local Finance Bureau (registration number: Director-General of the Kanto Local Finance Bureau No. 97). KRR was listed on the Real Estate Investment Trust Securities (“J-REIT”) Market of Tokyo Stock Exchange, Inc. (the “Tokyo Stock Exchange”) (Securities code: 3453) on February 10, 2015. Subsequently, KRR raised funds through public offerings, including an international offering. As a result, the number of investment units issued at the end of the fiscal period ended March 31, 2017 was 422,450 units.

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

Note: For KRR’s management purposes and ease of classification, KRR defines neighborhood, community and other shopping centers for daily needs as retail properties that generally have the following characteristics:

- a. Retail trade area of approximately a one to ten kilometer radius (and generally, a three to five kilometer radius), with customers predominantly from local areas surrounding the retail property
- b. Operational capacity to accommodate certain daily local retail needs and strong customer traffic on both weekdays and weekends
- c. Composed of various specialty stores to meet a range of day-to-day needs such as groceries, clothing and other daily goods and services

ii) Investment Environment

There were signs of a moderate economic rebound in Japan with recoveries in employment and income environment. Real GDP growth (second preliminary estimate) in the fourth quarter of 2016 was positive 1.2% on an annualized basis, with capital investment leading the growth. However, uncertainty in economy remains due to the policies of the new U.S. administration, a rise in protectionism, etc.

As for Japan’s retail market, disparities among the retail market are seen as general merchandize stores (“GMS”) are reported to be struggling, but supermarkets and drugstores are performing relatively well.

The financial environment remained unstable due to global market events such as the policies of the new U.S. administration. In addition, because of the Federal Reserve rate hike in the U.S. and the introduction of “Quantitative and Qualitative Monetary Easing with Yield Curve Control” including the negative interest rate policy by the Bank of Japan, the market got weak as expectation of additional monetary easing receded. On the other hand, in the real estate market, J-REITs continue to purchase a substantial number of properties because of monetary easing and brisk equity raising activities by J-REITs.

iii) Management Performance

(A) Acquisition of Assets

KRR acquired and started the operations of the following trust beneficiary interests in real estate (one property acquired on November 1, 2016 with acquisition price of 1,370 million yen and one property acquired on January 31, 2017 with acquisition price of 4,111 million yen). In addition, KRR completed an additional acquisition of a new building through a property expansion within Unicus Ina (acquisition price of 91 million yen) on January 16, 2017. As a result, the portfolio at the end of the fiscal period under review (March 31, 2017) consists 42 properties with the total acquisition price of 164,338 million yen.

Property number	Property type (Note 1)	Property name	Location (City/ward, prefecture)	Acquisition price (million yen) (Note 2)	Acquisition date
N-5	SS	K's Denki Shin-Moriyama (Land)	Nagoya, Aichi	1,370	November 1, 2016
T-5	NSC	Unicus Ina ^(Note 3)	Kitaadachi-gun, Saitama	91	January 16, 2017
R-9	NSC	Seiyu Rakuichi Moriya (Land)	Moriya, Ibaraki	4,111	January 31, 2017
Total				5,572	

Note 1: Properties are categorized into the following five types of shopping centers for daily needs: NSC (Neighborhood Shopping Centers), SM (Supermarkets), CSC (Community Shopping Centers), Urban Station-Front SC (Urban Station-Front Shopping Centers) and SS (Specialty Stores). Features of the categories are described below.

Types of shopping centers for daily needs	Features	Trade area
NSC (Neighborhood Shopping Centers)	Shopping centers with a supermarket as an anchor or core tenant and several specialty store tenants	Three to five kilometer
SM (Supermarkets)	Stand-alone stores that primarily provide groceries, with a retail trade area	Three kilometer
CSC (Community Shopping Centers)	Larger shopping centers than NSC, which have a supermarket as an anchor or core tenant in addition to specialty store tenants	Five to ten kilometer
Urban Station-Front Shopping Centers	Shopping centers that are located in the immediate vicinity of an urban public transportation station, which take advantage of stable foot traffic	Three to ten kilometer
SS (Specialty Stores)	Single- or multiple-tenant shopping centers that specialize in a single type of merchandise or service, such as drug stores, convenience stores, health clubs or electronic appliance stores	One to ten kilometer

Note 2: "Acquisition price" represents the purchase price of each trust beneficiary interest specified in purchase agreement in relation to the acquisition of each property (excluding acquisition costs, adjustment in property tax and city-planning tax, and consumption tax; and rounded down to the nearest one million yen).

Note 3: KRR acquired the restaurant building through a new building construction (property expansion). Acquisition price represents the payment price (excluding expenses and taxes and rounded down to the nearest million yen) on the construction contract and construction design/supervision outsourcing contracts related to construction of the building.

KRR also acquired a silent partnership equity interest (acquisition price of 100 million yen) of JRP8 GK, which acquired trust beneficiary interest of Yumemachi Narashinodai Mall, to secure flexible acquisition opportunities in the future as well as opportunities for additional revenues on October 31, 2016. Kenedix, Inc. acquired the rest of the silent partnership equity interest of JRP8 GK.

(B) Management and Operation of Assets

KFM provides property management services for all of the properties owned by KRR at the end of the fiscal period under review (March 31, 2017). By using the same company for both asset management and property management services, KRR aims to build stronger relationships with tenants and increase returns from its portfolio. Furthermore, by implementing retail property management that better reflects the needs of KRR's tenants, KRR strives to accumulate know-how and improve tenant satisfaction. KRR invests primarily in neighborhood and community shopping centers that cater to the day-to-day needs of customers. The portfolio is diversified in terms of properties, tenants and other characteristics with a goal to generate consistent long-term cash flows. At the same time, a portion of the rent includes sales-linked rent to explore the upside potential^(Note 1) for rental income. By using these measures, KRR aims to pursue a portfolio that achieves both stability and growth.

As of the end of the fiscal period under review, the portfolio as a whole performed well with an overall occupancy ratio of 99.6%. Furthermore, the portfolio is diversified in terms of tenants as there are 409 end-tenants^(Note 2).

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

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

(C) Financing

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

(Debt Finance)

During the fiscal period under review, KRR borrowed 4,000 million yen for the acquisition of properties and 6,500 million yen for refinancing. On the other hand, KRR prepaid 600 million yen using the proceeds from the issuance of investment corporation bonds. Consequently, borrowings totaled 72,700 million yen and interest-bearing debt including investment corporation bonds (excluding interest-bearing tenant leasehold and security deposits) totaled 74,700 million yen at the end of the fiscal period under review (March 31, 2017).

When undertaking borrowings, KRR seeks to spread out repayment dates and lengthen borrowing periods. On the other hand, KRR partially borrowed short-term loans from the point of flexibility under the financing strategy, also controlling financing cost. KRR may use swaps to fix the interest payments to hedge against the risk of a rise in interest rates.

(Investment Corporation Bonds)

To diverse financing methods, KRR issued investment corporation bonds as follows. Investment corporation bonds at the end of the fiscal period under review (March 31, 2017) totaled 2,000 million yen. Of the total amount raised, 1,380 million yen was used for the acquisition of K's Denki Shin-Moriyama (Land) on November 1, 2016 and certain related costs pertaining to the acquisition, and 600 million yen was used for partial prepayment of borrowings with drawdown date of October 3, 2016.

Bonds	Issuance date	Balance as of March 31, 2017 (million yen)	Interest rate (%)	Maturity date	Redemption method	Remarks
1st Series Unsecured Investment Corporation Bonds	October 31, 2016	1,000	0.200	October 29, 2021	Full on maturity	(Note)
2nd Series Unsecured Investment Corporation Bonds	October 31, 2016	1,000	0.600	October 30, 2026		

Note: Ranking *pari passu* among the specified investment corporation bonds

As a result, the average remaining years to maturity is 4.5 years, the weighted average interest rate is 0.99%, the long-term debt ratio^(Note 1) is 84.6% and the LTV ratio^(Note 2) is 40.4%.

Note 1: Long-term debt ratio = (Long-term borrowings + Investment corporation bonds) / (Borrowings + Investment corporation bonds)

Note 2: KRR has changed the definition of LTV ratio on May 18, 2017 as follows.

(Before the change)

LTV ratio = (Loans payable + Investment corporation bonds + Tenant leasehold and security deposits - Amounts reserved for return of tenant leasehold and security deposits) / (Total assets - Amounts reserved for return of tenant leasehold and security deposits)

(After the change)

LTV ratio = (Loans payable + Investment corporation bonds) / Total assets

LTV ratios before and after the definition change from the end of the first fiscal period to the end of the third fiscal period are as follows.

	First fiscal period as of September 30, 2015	Second fiscal period as of March 31, 2016	Third fiscal period as of September 30, 2016
LTV (Before the change)	40.6%	42.7%	42.5%
LTV (After the change)	35.4%	38.3%	38.6%

(Credit Ratings)

The status of the credit ratings as of March 31, 2017 is as follows.

Credit rating agency	Details of the ratings	
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating	A (Outlook: Positive)
	Rating on bonds	A

(Shelf Registration)

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

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

KRR issued the 1st Series Unsecured Investment Corporation Bonds (1,000 million yen) and the 2nd Series Unsecured Investment Corporation Bonds (1,000 million yen) on October 31, 2016, based on this shelf registration statement.

iv) Results of Operations

For this fiscal period, revenue was 6,430 million yen, operating income was 3,021 million yen, ordinary income was 2,556 million yen and net income was 2,552 million yen.

Furthermore, in accordance with the distribution policy in the KRR Articles of Incorporation, KRR made a distribution of 2,553,287,800 yen which is almost equivalent to the earnings (as defined in Article 136-1 of Act of Investment Trust and Investment Corporations) excluding the reversals of allowance for temporary adjustment (as defined in Article 2-2-30 of the Ordinance on Accountings of Investment Corporations) for the fiscal period. Cash distributions are paid in accordance with Article 67-15 of the Special Taxation Measures Law (Law No. 26 of 1957, including subsequent amendments).

Consequently, the distribution per unit for the fiscal period was 6,044 yen.

(3) Changes in Investment Units Issued and Outstanding

Changes in the number of investment units issued and outstanding and unitholders' capital since its corporation are summarized in the following table.

Date	Type of issue	Total number of units issued and outstanding (units)		Unitholders' capital (in million yen)		Notes
		Increase	Balance	Increase	Balance	
October 3, 2014	Private placement for incorporation	750	750	150	150	(Note 1)
February 9, 2015	Public offering	254,250	255,000	56,430	56,580	(Note 2)
March 11, 2015	Capital increase through third-party allocation	5,750	260,750	1,276	57,857	(Note 3)
October 1, 2015	Public offering	88,750	349,500	18,547	76,404	(Note 4)
October 21, 2015	Capital increase through third-party allocation	5,750	355,250	1,201	77,606	(Note 5)
April 20, 2016	Public offering	64,000	419,250	15,856	93,463	(Note 6)
May 18, 2016	Capital increase through third-party allocation	3,200	422,450	792	94,256	(Note 7)

Note 1: Issued at issue price of 200,000 yen per unit for incorporation.

Note 2: Issued at issue price of 230,000 yen per unit (issue amount of 221,950 yen per unit) for acquisition of new properties.

Note 3: Issued at issue amount of 221,950 yen per unit for repayment of borrowings.

Note 4: Issued at issue price of 216,543 yen per unit (issue amount of 208,991 yen per unit) for acquisition of new properties.

Note 5: Issued at issue amount of 208,991 yen per unit for repayment of borrowings.

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

Note 7: Issued at issue amount of 247,764 yen per unit for repayment of borrowings.

(Changes in Unit Price at Tokyo Stock Exchange)

The highest and lowest closing prices of the investment units listed on J-REIT section of the Tokyo Stock Exchange for each fiscal period are as follows.

Fiscal period For the fiscal period ended	First fiscal period September 30, 2015	Second fiscal period March 31, 2016	Third fiscal period September 30, 2016	Fourth fiscal period March 31, 2017
Highest	JPY 309,500	JPY 282,700	JPY 296,100	JPY 275,000
Lowest	JPY 224,500	JPY 226,800	JPY 240,000	JPY 235,200

(4) Distributions

In accordance with the distribution policy in the KRR Articles of Incorporation, KRR made a distribution of 2,553,287,800 yen, which is almost equivalent to the earnings (as defined in Article 136-1 of Act of Investment Trust and Investment Corporations) excluding the reversals of allowance for temporary adjustment (as defined in Article 2-2-30 of the Ordinance on Accountings of Investment Corporations) for the fiscal period. Cash distributions are paid in accordance with Article 67-15 of the Special Taxation Measures Law (Law No. 26 of 1957, including subsequent amendments).

Consequently, the distribution per unit for the fiscal period was 6,044 yen.

(in thousands of yen)

Fiscal period For the fiscal period ended	First fiscal period September 30, 2015	Second fiscal period March 31, 2016	Third fiscal period September 30, 2016	Fourth fiscal period March 31, 2017
Unappropriated retained earnings	1,933,270	2,427,985	2,518,802	2,584,343
Retained earnings carried forward	70	206	31,417	216
Total distributions	1,933,200	2,432,041	2,523,716	2,553,287
[Distributions per unit]	[7,414 yen]	[6,846 yen]	[5,974 yen]	[6,044 yen]
Of which, distributions of earnings	1,933,200	2,427,778	2,487,385	2,553,287
[Distributions of earnings per unit]	[7,414 yen]	[6,834 yen]	[5,888 yen]	[6,044 yen]
Of which, distributions in excess of retained earnings	—	4,263	36,330	—
[Distributions in excess of retained earnings per unit]	[—]	[12 yen]	[86 yen]	[—]
Total distributions in excess of earnings for the allowance for temporary adjustment	—	4,263	36,330	—
[Distributions per unit]	[—]	[12 yen]	[86 yen]	[—]
Total distributions in excess of earnings from the unitholders' capital for tax purposes	—	—	—	—
[Distributions per unit]	[—]	[—]	[—]	[—]

(5) Management Policy and Issues to be Addressed

i) Outlook for Asset Management

The Japanese economy is expected to continue to recover at a moderate pace. However, attention should be paid to uncertainties about the overseas economy and politics regarding the direction of U.S. financial policies, the policies of the new U.S. administration, etc. Attention also needs to be paid to changes in domestic economic environment, such as fluctuation of yen due to a rise in protectionism and effects of “Quantitative and Qualitative Monetary Easing with Yield Curve Control” including the negative interest rate policy.

As for Japan’s retail sector environment, disparities among the retail market are seen as general merchandize stores (GMS) are reported to be struggling, but supermarkets and drugstores are performing well, and KRR anticipates that this trend to continue.

In the real estate trading market, KRR anticipates the high level of transaction volume to continue because of the strong appetite of J-REITs and other investors to acquire properties. The Bank of Japan’s monetary easing measures will help provide continuous supply of adequate funds in the real estate market. However, investors should also keep in mind the risk of changes in banks’ lending attitude towards real estate sector, as amount of banks’ outstanding loans towards real estate sector reached new highs.

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

(A) Investment Strategy for New Properties and Disposition Policy

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

When acquiring properties, KRR makes decisions based on all applicable factors with emphasis on four parameters: the retail property’s attractiveness, location, profitability and the tenant mix. By using this selection process, KRR invests in retail properties that have competitive advantages, and prospects for stable cash flow and asset value growth. KRR also invests in land ownership interests underlying retail properties. Regarding land-only properties, KRR makes these investments after examining the terms of the land leasing agreement, the characteristics of the tenant, the asset value of the land, and the proportion of land-only properties in KRR’s portfolio. KRR may also consider making an equity investment in a tokumei kumiai (silent partnership) for the acquisition of preferential negotiation rights and opportunities for additional revenues, provided that KRR is given an opportunity to acquire them in the future.

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

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

(B) Management Strategy for Existing Properties

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

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

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

“One-stop” asset management and property management services

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

Continuously implementing a retail property management cycle through KRR’s in-house property management services

KFM provides property management services for all of KRR’s properties for the purposes of performing retail property management that better reflects the needs of the tenants as well as accumulating know-how and improving tenant satisfaction. Specifically, KRR uses direct contact with tenant companies at KRR’s properties in order to strengthen tenant relationships and make properties more profitable. To this end, KRR maintains periodic communication with tenants and perform questionnaire surveys to customers for monitoring of market conditions, so that KRR can identify the needs of tenants and the customers visiting their sites. This process makes it possible to find issues that stand in the way of achieving greater satisfaction for tenants and their customers. Once KRR has discovered points that require attention, KRR takes actions that take full advantage of the resources and knowledge regarding retail properties within

the Kenedix Group. Solutions include measures such as the effectively utilizing capital expenditures, optimizing tenant mix, realizing growth in asset value by pursuing property expansions, and cutting costs, to improve tenant satisfaction and acquire more know-how.

Pursuit of internal growth through management of retail properties

KRR seeks to improve the profitability and value of its portfolio through proper management of retail properties.

i. Effectively utilize capital expenditure

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

ii. Optimize tenant mix

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

iii. Realize growth in asset value by pursuing property expansions

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

Note: The underutilized space is defined as the area that is calculated by multiplying the floor space ratio, or the ratio of total area of the building to the site area, which is prescribed in Article 52 of the Building Standards Act (Act No.201 of 1950, including subsequent amendments.) and applied to each retail property in accordance with the Building Standards Act, City Planning Act (Act No.100 of 1968, including subsequent amendments.) and other laws and regulations, by the land area that is allowed to be used as a retail property site, and subtracting from this figure the actual gross floor area of the building.

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

At KRR's retail properties, KRR seeks tenants that provide services, holds community involved events and uses other measures to help enliven the local communities where KRR's properties are located. KRR believes these activities will contribute to the medium to long-term growth in the asset value of these properties.

(C) Financing

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

(D) Disclosure of Information

KRR's policy concerning disclosure activities is to use extensive investor relations activities to distribute a wide range of information to investors and other related parties and to announce information as soon and as accurately as possible. KRR uses TDnet (Timely Disclosure network) and press releases to meet the timely-disclosure requirements of the Tokyo Stock Exchange. In addition, KRR proactively posts information on its website (<http://www.krr-reit.com/en/>).

(E) Conflicts of Interest

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

(6) Important Subsequent Events

KRR passed resolutions at the Board of Directors Meeting held on March 31, 2017 and April 11, 2017, to issue new investment units to fund the acquisition of specified assets. Payments for the issuance of new investment units through public offering and through third-party allotment have been completed on April 18, 2017 and May 17, 2017, respectively. KRR used the net proceeds through third-party allotment for the repayment of the short-term loans payable.

As a result, unitholders' capital totaled 113,399,022,050 yen and total number of investment units issued and outstanding increased to 507,700 as of May 17, 2017.

Issuance of new investment units through public offerings

Total number of units issued:	81,250 units (Domestic 44,592 units, International 36,658 units)
Issue price (offer price):	232,537 yen per unit
Total amount of issue price (total offer price):	18,893,631,250 yen
Paid-in amount (issue amount):	224,547 yen per unit
Total paid-in amount (total issue amount):	18,244,443,750 yen
Payment date:	April 18, 2017

Issuance of new investment units through third-party allotment

Total number of units issued:	4,000 units
Paid-in amount (issue amount):	224,547 yen per unit
Total paid-in amount (total issue amount):	898,188,000 yen
Payment date:	May 17, 2017
Allottee:	SMBC Nikko Securities Inc.

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

KRR acquired eight assets (acquisition price of 32,664 million yen).

“Acquisition price” represents the amount specified in the sale and purchase agreement for the trust beneficiary interests, exclusive of the various expenses (acquisition expenses, property tax, city planning tax, consumption tax, etc.) required in the acquisition of the following assets.

Property number	Property type	Property name	Location	Seller	Acquisition price (million yen)	Appraisal value (million yen)	Acquisition date
T-18	NSC	Totsuka-Fukaya Shopping Center (Land)	Yokohama, Kanagawa	Sumitomo Mitsui Finance and Leasing Co., Ltd.	4,170	4,290	April 19, 2017
T-19	NSC	Yumemachi Narashinodai Mall	Funabashi, Chiba	JRP8 GK	3,416	3,520	April 19, 2017
T-20	NSC	Kawamachi Yahagi Mall	Chiba, Chiba	GK KRF63	3,097	3,220	May 18, 2017
T-21	SS	Prime Square Jiyugaoka	Meguro ward, Tokyo	Undisclosed ^(Note)	2,820	2,850	April 19, 2017
T-22	SS	Round1 Ichikawa-Onitaka	Ichikawa, Chiba	Sumitomo Mitsui Finance and Leasing Co., Ltd.	1,880	1,970	April 19, 2017
F-2	SS	Round1 Stadium Hakata-Hanmichibashi	Fukuoka, Fukuoka	Sumitomo Mitsui Finance and Leasing Co., Ltd.	5,020	5,190	April 19, 2017
F-3	NSC	Kurume-Nishi Shopping Center	Kurume, Fukuoka	M&K Tokutei Mokuteki Kaisha	1,515	1,600	April 19, 2017
R-10	NSC	Sun Street Hamakita	Hamamatsu, Shizuoka	JRP9 GK	10,746	10,890	April 27, 2017
Total			-	-	32,664	33,530	-

Note: Undisclosed as KRR has not obtained consent from the previous owner.

(B) Financing

KRR borrowed funds for the acquisitions on April 19, 2017 (1,200 million yen for Series 11), on April 27, 2017 (11,300 million yen for Series 13) and on May 18, 2017 (3,200 million yen for Series 14) and for the repayment of the borrowings on April 21, 2017 (5,570 million yen for Series 12).

KRR also entered into agreements on commitment lines on March 31, 2017 to secure flexibility and stability in financing method, for potential needs of funds as follows.

Counterparty	Limit of maximum amount (million yen)	Contract period	Remarks
Sumitomo Mitsui Banking Corporation	1,000	April 1, 2017 to March 31, 2018	Unsecured, unguaranteed
Mizuho Bank, Ltd.	1,000	April 1, 2017 to March 31, 2019	Unsecured, unguaranteed

Profile of KRR

(1) Status of Unitholders' Capital

Fiscal period	First fiscal period (From October 3, 2014 to September 30, 2015)	Second fiscal period (From October 1, 2015 to March 31, 2016)	Third fiscal period (From April 1, 2016 to September 30, 2016)	Fourth fiscal period (From October 1, 2016 to March 31, 2017)
Total number of authorized investment units	5,000,000 units	5,000,000 units	5,000,000 units	5,000,000 units
Total number of investment units issued and outstanding	260,750 units	355,250 units	422,450 units	422,450 units
Unitholders' capital	57,857 million yen	77,606 million yen	94,256 million yen	94,256 million yen
Number of unitholders	8,954	10,876	10,618	10,072

(2) Matters Concerning Investment Units

The following is a list of major unitholders as of March 31, 2017.

Name	Location	Number of units held (Units)	Ratio (%) (Note)
JAPAN TRUSTEE SERVICES BANK, LTD. (Trust Acct.)	1-8-11, Harumi, Chuo-ku, Tokyo	87,101	20.61
THE MASTER TRUST BANK OF JAPAN, LTD. (Trust Acct.)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	43,753	10.35
TRUST & CUSTODY SERVICE BANK, LTD. (Securities Investment Trust Acct.)	Office Tower Z, Harumi Island Triton Square, 1-8-12 Harumi, Chuo-ku, Tokyo	29,193	6.91
THE NOMURA TRUST AND BANKING CO., LTD. (Investment Trust Acct.)	2-2-2, Otemachi, Chiyoda-ku, Tokyo	16,873	3.99
JP MORGAN CHASE BANK 385628	Shinagawa Intercity Tower A 2-15-1, Kohnan, Minato-ku, Tokyo Standing proxy: Mizuho Bank, Ltd.	16,318	3.86
THE BANK OF NEW YORK MELLON SA/NV 10	2-7-1 Marunouchi, Chiyoda-ku, Tokyo Standing proxy: The Bank of Tokyo Mitsubishi UFJ, Ltd.	12,758	3.02
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	2-7-1 Marunouchi, Chiyoda-ku, Tokyo Standing proxy: The Bank of Tokyo Mitsubishi UFJ, Ltd.	8,018	1.89
SIX SIS LTD.	2-7-1 Marunouchi, Chiyoda-ku, Tokyo Standing proxy: The Bank of Tokyo Mitsubishi UFJ, Ltd.	5,857	1.38
KENEDIX, INC.	6-5 Nihonbashi Kabutocho, Chuo-ku, Tokyo	5,750	1.36
GOLDMAN SACHS INTERNATIONAL	Roppongi Hills Mori Tower 6-10-1 Roppongi, Minato-ku, Tokyo Standing proxy: Goldman Sachs Japan Co., Ltd.	5,248	1.24
Total		230,869	54.65

Note: "Ratio" is the ratio to total number of units issued and outstanding, rounded down to the second decimal place.

(3) Matters Concerning Directors and Auditor

i) Executive Director, Supervisory Director, and Independent Auditor as of March 31, 2017

Position	Name	Other concurrent title	Total amount of fees paid during the period (thousand yen)
Executive Director	Akihiro Asano	Director & COO, Head of Retail REIT Department, KFM	1,500
Supervisory Director (Note 1)	Yoshitoshi Yasu	Yoshitoshi Yasu Certified Public Accountant / Tax Accountant Office Auditor of YOKU MOKU Holdings Co., Ltd. Auditor of YOKU MOKU Co., Ltd. Auditor of YOKU MOKU Crea Co., Ltd. Auditor of Fujiricoh Trading Co., Ltd. Auditor of CLOVER Inc. Auditor of Kabou-issin Co., Ltd. Outside Auditor of Loop Inc.	1,500
	Mai Ishiwatari	Partner, Shiroyama-Tower Law Office Director, Cocone Corporation	1,500
Independent Auditor (Note 2)	Ernst & Young ShinNihon LLC	—	12,900

Note 1: Although supervisory directors are concurrently officers in corporations other than the ones stated above, there are no conflicts of interest between KRR and any other corporations, including those stated above.

Note 2: Compensation for the Accounting Auditor includes payments for writing a comfort letter for the issuance of investment corporation bonds.

ii) Policy on Decisions to Terminate or not Reappoint the Accounting Auditor

The KRR Board of Directors will consider the termination of the Accounting Auditor pursuant to the provisions of the Investment Trust Act of Japan. The directors will also consider not reappointing the Accounting Auditor after examining the quality of audits, compensation for auditing and other applicable items.

(4) Asset Manager, the Custodian and Administrators

Asset manager, the custodian and administrators as of March 31, 2017 are as follows.

Operational role	Name
Asset Manager	Kenedix Real Estate Fund Management, Inc.
Asset Custodian	Mizuho Trust & Banking Co., Ltd.
Unitholders' Register Agent	Mizuho Trust & Banking Co., Ltd.
General Administrator	Mizuho Trust & Banking Co., Ltd.
Financial Agent for Investment Corporation Bonds	Sumitomo Mitsui Trust Bank, Ltd.

Status on Investment Properties

(1) Component of Assets

Type of specified asset	Property type	Areas (Note 1)	Third fiscal period as of September 30, 2016		Fourth fiscal period as of March 31, 2017	
			Total amount held (Millions of yen) (Note 2)	Ratio (%) (Note 3)	Total amount held (Millions of yen) (Note 2)	Ratio (%) (Note 3)
Trust beneficiary interest in real estate	Neighborhood, community and other shopping centers for daily needs	Tokyo metropolitan area	71,159	39.7	71,122	38.4
		Greater Osaka area	45,117	25.2	45,000	24.3
		Greater Nagoya area	12,636	7.0	13,971	7.6
		Fukuoka area	1,499	0.8	1,485	0.8
		Ordinance-designated cities, core cities and other areas	30,995	17.3	35,200	19.0
	Other retail properties	—	—	—	—	
Total of trust beneficiary interests in real estate			161,408	90.0	166,782	90.1
Investment securities ^(Note 4)			—	—	101	0.1
Bank deposits and other assets			17,951	10.0	18,153	9.8
Total assets			179,360	100.0	185,037	100.0

Note 1: "Areas" are categorized to the Tokyo metropolitan area, the Greater Osaka area, the Greater Nagoya area, the Fukuoka area and Ordinance-designated cities, core cities and other areas. References to "Tokyo metropolitan area" are to the area that consists of Tokyo, Kanagawa, Saitama and Chiba prefectures. References to the "Greater Osaka area" are to the area that consists of Osaka, Kyoto, Hyogo, Nara and Shiga prefectures. References to the "Greater Nagoya area" are to the area that consists of Aichi, Gifu and Mie prefectures. References to the "Fukuoka area" are to the area that consists of Fukuoka prefecture. "Ordinance-designated cities, core cities and other areas" refers to cities designated by government ordinance, which have populations of 500,000 persons or more, core cities, which have populations of 200,000 persons or more, and to other areas with a population fewer than 200,000 persons, which KRR believes will have suitable customer traffic from surrounding areas.

Note 2: "Total amount held" is the amount allocated in the balance sheets as of September 30, 2016 (figures are on a net book value basis after deducting depreciation), and is rounded down to the nearest million.

Note 3: "Ratio" is the ratio of the amount allocated in the balance sheets to the total assets rounded to the nearest tenth.

Note 4: "Investment securities" is the silent partnership equity interest of JRP8 GK.

(2) Major Assets Owned

The following are major assets owned (the ten largest properties by book value) by KRR as of March 31, 2017.

Property number	Property name	Book value (in millions)	Leasable area (m ²) (Note 1)	Leased area (m ²) (Note 2)	Occupancy rate (%) (Note 3)	Ratio to total rental revenue (%) (Note 4)	Primary use
T-1	Fululu Garden Yachiyo	14,948	77,057.56	75,694.45	98.2	11.6	Retail
O-4	Blumer HAT Kobe	11,489	24,185.02	23,968.51	99.1	7.5	Retail
R-1	Roseo Mito	10,031	48,296.15	48,161.79	99.7	5.8	Retail
T-2	MONA Shin-Urayasu	8,421	9,592.65	9,180.34	95.7	7.9	Retail
O-1	Blumer Maitamon	8,416	30,037.11	29,790.80	99.2	7.5	Retail
N-4	Homecenter Kohnan Sunadabashi	7,165	20,329.07	20,329.07	100.0	— (Note 5)	Retail
O-5	Carino Esaka	6,622	7,540.58	7,371.52	97.8	4.5	Retail
O-6	COMBOX Komyoike	6,436	25,530.44	25,530.44	100.0	3.5	Retail
T-3	Passaggio Nishiarai	5,883	10,546.25	10,342.77	98.1	4.8	Retail
R-7	Solala Plaza	5,718	— (Note 5)	— (Note 5)	100.0	— (Note 5)	Retail
Total		85,135	— (Note 5)	— (Note 5)	99.0	— (Note 5)	

Note 1: "Leasable area" is equivalent to gross floor area of space that KRR considers to be available for lease in each property, rounded to the nearest tenth. For land-only properties, leasable area is equivalent to land area as described in the property registry.

Note 2: "Leased area" indicates the total leased area based on the lease agreements for each property as of March 31, 2017. As for lease agreements of buildings, the leased area of warehouses and land are excluded. As for pass-through type master leases (the master lease in which rent received by the lessor is in principle the same amount as the rent received by the master lessee from end-tenants), the leased area based on the lease agreements between the master lessee and the end-tenants as of March 31, 2017 is shown. As for sublease type master leases (the master lease in which a fixed amount of rent is received from the master lessee.), the leased area to the master lessee is shown.

Note 3: "Occupancy rate" is calculated by dividing leased area by leasable area as of March 31, 2017, rounded to the nearest tenth.

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

Note 5: KRR has not obtained consent from the tenant(s) to release this information.

(3) Overview of the Portfolio

[Overview of Assets Owned]

The following summarizes the real estate or the real estate properties in trust owned by KRR as of March 31, 2017.

Area (Note 1)	Property number	Property type	Property name	Location (City/ward, prefecture) (Note 2)	Ownership form	Book value (in millions)	Evaluation value (in millions) (Note 3)
T	T-1	CSC	Fululu Garden Yachiyo	Yachiyo, Chiba	Trust beneficiary interest in real estate	14,948	15,200
	T-2	Urban Station-Front SC	MONA Shin-Urayasu	Urayasu, Chiba	Trust beneficiary interest in real estate	8,421	8,470
	T-3	Urban Station-Front SC	Passaggio Nishiarai	Adachi ward, Tokyo	Trust beneficiary interest in real estate	5,883	6,360
	T-4	Urban Station-Front SC	Daikanyama Address Dixsept	Shibuya ward, Tokyo	Trust beneficiary interest in real estate	5,427	5,790
	T-5	NSC	Unicus Ina	Kitaadachi-gun, Saitama	Trust beneficiary interest in real estate	4,432	4,750
	T-6	NSC	Yorktown Kita-Kaname	Hiratsuka, Kanagawa	Trust beneficiary interest in real estate	3,982	4,300
	T-7	NSC	Unicus Yoshikawa	Yoshikawa, Saitama	Trust beneficiary interest in real estate	3,622	3,840
	T-8	SS	Sports Club Renaissance Fujimidai	Nerima ward, Tokyo	Trust beneficiary interest in real estate	2,561	2,750
	T-9	NSC	Super Viva Home Iwatsuki (Land)	Saitama, Saitama	Trust beneficiary interest in real estate	4,890	5,380
	T-10	SS	K's Denki Shonan-Fujisawa (Land)	Fujisawa, Kanagawa	Trust beneficiary interest in real estate	3,210	3,480
	T-11	NSC	Unicus Kamisato (Land)	Kodama-gun, Saitama	Trust beneficiary interest in real estate	3,043	3,050
	T-12	NSC	Unicus Konosu (Land)	Konosu, Saitama	Trust beneficiary interest in real estate	1,726	1,770
	T-13	SM	Inageya Yokohama Minamihonjuku (Land)	Yokohama, Kanagawa	Trust beneficiary interest in real estate	1,462	1,430
	T-14	SM	Gourmet City Chiba-Chuo	Chiba, Chiba	Trust beneficiary interest in real estate	770	807
	T-15	NSC	Nakamachidai Tokyu Store	Yokohama, Kanagawa	Trust beneficiary interest in real estate	3,472	3,820
	T-16	SS	Central Wellness Club Nagatsuta Minamidai	Yokohama, Kanagawa	Trust beneficiary interest in real estate	1,795	1,910
	T-17	SM	Life Kameido	Koto ward, Tokyo	Trust beneficiary interest in real estate	1,470	1,520
O	O-1	NSC	Blumer Maitamon	Kobe, Hyogo	Trust beneficiary interest in real estate	8,416	9,230
	O-2	SM	Central Square Takadono (Land)	Osaka, Osaka	Trust beneficiary interest in real estate	2,727	2,980
	O-3	NSC	Piago Kahma Home Center Omihachiman	Omihachiman, Shiga	Trust beneficiary interest in real estate	2,147	2,430
	O-4	NSC	Blumer HAT Kobe	Kobe, Hyogo	Trust beneficiary interest in real estate	11,489	11,600
	O-5	Urban Station-Front SC	Carino Esaka	Suita, Osaka	Trust beneficiary interest in real estate	6,622	6,770
	O-6	Urban Station-Front SC	COMBOX Komyoike	Izumi, Osaka	Trust beneficiary interest in real estate	6,436	6,950
	O-7	SM	Hankyu Oasis Hirakatadeguchi	Hirakata, Osaka	Trust beneficiary interest in real estate	1,322	1,330
	O-8	SS	Welcia Kishiwadakamori (Land)	Kishiwada, Osaka	Trust beneficiary interest in real estate	497	488
	O-9	SM	Life Nishi-Tengachaya	Osaka, Osaka	Trust beneficiary interest in real estate	1,568	1,660
	O-10	NSC	Million Town Tsukaguchi (Land)	Amagasaki, Hyogo	Trust beneficiary interest in real estate	3,772	3,820

Area (Note 1)	Property number	Property type	Property name	Location (City/ward, prefecture) (Note 2)	Ownership form	Book value (in millions)	Evaluation value (in millions) (Note 3)
N	N-1	SS	Kahma Home Center Nakagawa Tomita (Land)	Nagoya, Aichi	Trust beneficiary interest in real estate	2,351	2,590
	N-2	NSC	Valor Ichinomiya-Nishi	Ichinomiya, Aichi	Trust beneficiary interest in real estate	2,155	2,310
	N-3	SS	K's Denki Nakagawa Tomita (Land)	Nagoya, Aichi	Trust beneficiary interest in real estate	907	980
	N-4	SS	Homecenter Kohnan Sunadabashi	Nagoya, Aichi	Trust beneficiary interest in real estate	7,165	7,310
	N-5	SS	K's Denki Shin-Moriyama (Land)	Nagoya, Aichi	Trust beneficiary interest in real estate	1,390	1,420
F	F-1	SM	Sunny Noma	Fukuoka, Fukuoka	Trust beneficiary interest in real estate	1,485	1,530
R	R-1	NSC	Roseo Mito	Mito, Ibaraki	Trust beneficiary interest in real estate	10,031	11,000
	R-2	SS	K's Denki Aomori Honten	Aomori, Aomori	Trust beneficiary interest in real estate	1,480	1,550
	R-3	SS	Super Sports Xebio Aomori-Chuo	Aomori, Aomori	Trust beneficiary interest in real estate	898	928
	R-4	NSC	Ashico Town Ashikaga	Ashikaga, Tochigi	Trust beneficiary interest in real estate	4,379	5,060
	R-5	NSC	Yorktown Shinden-Higashi	Sendai, Miyagi	Trust beneficiary interest in real estate	3,329	3,330
	R-6	SM	Kasumi Technopark Sakura	Tsukuba, Ibaraki	Trust beneficiary interest in real estate	854	873
	R-7	Urban Station-Front SC	Solala Plaza	Sendai, Miyagi	Trust beneficiary interest in real estate	5,718	5,960
	R-8	NSC	P-1 Plaza Tenno	Hamamatsu, Shizuoka	Trust beneficiary interest in real estate	4,187	4,340
	R-9	NSC	Seiyu Rakuichi Moriya (Land)	Moriya, Ibaraki	Trust beneficiary interest in real estate	4,320	4,210
Total						166,782	175,276

Note 1: "T", "O", "N", "F" and "R" hereinafter refers to Tokyo metropolitan area, the Greater Osaka area, the Greater Nagoya area, the Fukuoka area and Ordinance-designated cities, core cities and other areas, respectively.

Note 2: "Location" indicates the residential address. For those without a residential address, the building or land address on the registry is shown.

Note 3: "Evaluation value" shows the appraisal value stated on the real estate appraisal report created by the real estate appraisers of Daiwa Real Estate Appraisal Co., Ltd., Japan Real Estate Institute and The Tanizawa Sōgō Appraisal Co., Ltd. in accordance with the methods and standards for asset valuation as stipulated in the KRR Articles of Incorporation as well as the regulations as stipulated by The Investment Trusts Association, Japan.

[Earnings Performance for the Individual Properties]

Area	Property number	Property type	Property name	Third fiscal period as of September 30, 2016				Fourth fiscal period as of March 31, 2017			
				Number of tenants (Note 1)	Occupancy rate (%)	Rental revenue (millions) (Note 2)	Ratio to total rental revenue (%)	Number of tenants (Note 1)	Occupancy rate (%)	Rental revenue (millions) (Note 2)	Ratio to total rental revenue (%)
T	T-1	CSC	Fululu Garden Yachiyo	49	99.6	736	11.6	48	98.2	744	11.6
	T-2	Urban Station-Front SC	MONA Shin-Urayasu	1(71)	95.6	497	7.8	1(70)	95.7	506	7.9
	T-3	Urban Station-Front SC	Passaggio Nishiarai	1(41)	98.1	326	5.1	1(41)	98.1	309	4.8
	T-4	Urban Station-Front SC	Daikanyama Address Dixsept	1(26)	98.2	268	4.2	1(26)	97.0	258	4.0
	T-5	NSC	Unicus Ina	1	100.0	131	2.1	1	100.0	138	2.2
	T-6	NSC	Yorktown Kita-Kaname	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	T-7	NSC	Unicus Yoshikawa	1(11)	100.0	130	2.0	1(11)	100.0	133	2.1
	T-8	SS	Sports Club Renaissance Fujimidai	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	T-9	NSC	Super Viva Home Iwatsuki (Land)	1	100.0			1	100.0		
	T-10	SS	K's Denki Shonan-Fujisawa (Land)	1	100.0			1	100.0		
	T-11	NSC	Unicus Kamisato (Land)	1	100.0	72	1.1	1	100.0	72	1.1
	T-12	NSC	Unicus Konosu (Land)	1	100.0	41	0.7	1	100.0	41	0.6
	T-13	SM	Inageya Yokohama Minamihonjuku (Land)	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	T-14	SM	Gourmet City Chiba-Chuo	1	100.0			1	100.0		
	T-15	NSC	Nakamachidai Tokyu Store	1	100.0			1	100.0		
	T-16	SS	Central Wellness Club Nagatsuta Minamidai	2	100.0	53	0.8	2	100.0	59	0.9
	T-17	SM	Life Kameido	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
O	O-1	NSC	Blumer Maitamon	49	99.1	510	8.0	50	99.2	480	7.5
	O-2	SM	Central Square Takadono (Land)	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	O-3	NSC	Piagio Kahma Home Center Omihachiman	2	100.0			2	100.0		
	O-4	NSC	Blumer HAT Kobe	1(41)	99.1	491	7.7	1(41)	99.1	482	7.5
	O-5	Urban Station-Front SC	Carino Esaka	1(30)	99.1	295	4.6	1(30)	97.8	289	4.5
	O-6	Urban Station-Front SC	COMBOX Komyoike	1	100.0	226	3.5	1	100.0	226	3.5
	O-7	SM	Hankyu Oasis Hirakatadeguchi	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	O-8	SS	Welcia Kishiwadakamori (Land)	1	100.0			1	100.0		
	O-9	SM	Life Nishi-Tengachaya	1	100.0	44	0.7	1	100.0	44	0.7
	O-10	NSC	Million Town Tsukaguchi (Land)	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
N	N-1	SS	Kahma Home Center Nakagawa Tomita (Land)	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	N-2	NSC	Valor Ichinomiya-Nishi	1	100.0			1	100.0		
	N-3	SS	K's Denki Nakagawa Tomita (Land)	1	100.0			1	100.0		

Area	Property number	Property type	Property name	Third fiscal period as of September 30, 2016				Fourth fiscal period as of March 31, 2017			
				Number of tenants (Note 1)	Occupancy rate (%)	Rental revenue (millions) (Note 2)	Ratio to total rental revenue (%)	Number of tenants (Note 1)	Occupancy rate (%)	Rental revenue (millions) (Note 2)	Ratio to total rental revenue (%)
N	N-4	SS	Homecenter Kohnan Sunadabashi	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	N-5	SS	K's Denki Shin-Moriyama (Land)	—	—	—	—	1	100.0		
F	F-1	SM	Sunny Noma	1	100.0	— (Note 3)	— (Note 3)	1	100.0		
R	R-1	NSC	Roseo Mito	1(22)	99.7	378	5.9	1(22)	99.7	375	5.8
	R-2	SS	K's Denki Aomori Honten	1	100.0	— (Note 3)	— (Note 3)	1	100.0	— (Note 3)	— (Note 3)
	R-3	SS	Super Sports Xebio Aomori-Chuo	1	100.0			1	100.0		
	R-4	NSC	Ashico Town Ashikaga	1(26)	99.1	278	4.4	1(29)	100.0	270	4.2
	R-5	NSC	Yorktown Shinden-Higashi	2	100.0	— (Note 3)	— (Note 3)	2	100.0	— (Note 3)	— (Note 3)
	R-6	SM	Kasumi Technopark Sakura	1	100.0			1	100.0		
	R-7	Urban Station-Front SC	Solala Plaza	1	100.0			1	100.0		
	R-8	NSC	P-1 Plaza Tenno	7	100.0	127	2.0	7	100.0	136	2.1
	R-9	NSC	Seiyu Rakuichi Moriya (Land)	—	—	—	—	1	100.0	— (Note 3)	— (Note 3)
Total				405	99.7	6,374	100.0	409	99.6	6,427	100.0

Note 1: Number of tenants is based upon the number of lease agreements with respect to the building(s) (or land in the case of land-only properties with leasehold interest) on each such property used mainly as stores and offices, as of March 31, 2017. Where one lessee leases more than one section of the property, the lessee is counted as a tenant for each section leased within the property. Where pass-through type master lease agreements are entered into, the number of master lessees is with the number of end-tenants indicated in parentheses. Where sublease type master lease agreements are entered into, the indicated, number of master lessee is shown. As for the "Total" of "Number of tenants", the number of end-tenants is used for pass-through type master leases and the number of master lessee is used for sublease type master leases.

Note 2: Rental revenue is based on total rental and other operating revenues of each property.

Note 3: KRR has not obtained consent from the tenant(s) to release this information.

[Overview of Investment Securities]

The following summarizes the investment securities owned by KRR as of March 31, 2017.

Asset name	Type of asset	Amount (units)	Book value (in millions)		Evaluation value (in millions) ^(Note 1)		Evaluation profits/losses (in millions)	Remarks
			Unit price	Price	Unit Price	Price		
Silent partnership equity interest of JRP8 GK ^(Note 2)	Silent partnership equity interest	—	—	101	—	101	—	—
Total		—	—	101	—	101	—	—

Note 1: "Evaluation value" indicates the book value.

Note 2: Asset under management is the trust beneficiary interest in real estate of "Yumemachi Narashinodai Mall".

(4) Specified Transaction

As of March 31, 2017, the contract amount and fair value of the outstanding transaction under the specified transaction account of KRR are as follows.

	Type	Contract amount (million yen) (Note 1)		Fair value (million yen) (Note 2) (Note 3)
			Due after one year (Note 1)	
OTC	Interest rate swaps: Receive floating / pay fixed	50,740	46,890	23
Total	—	50,740	46,890	23

Note 1: The contract amount of interest rate swaps is based on its notional principal.

Note 2: For the financial reporting purpose, the transaction is not measured at fair value but accounted for under special treatment for interest rate swaps based on "Accounting Standards for Financial Instruments" under Japanese GAAP.

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

(5) Other Assets

Real estate or beneficiary rights of real estate in trust owned by KRR are disclosed in “(3) Overview of the Portfolio”.
KRR has no other specified assets.

(6) Asset in Geographic Area

KRR owns no asset in specified area other than Japan.

Capital Expenditures

(1) Planned Capital Expenditures

The table below shows major capital expenditures^(Note) for renovations, repairs and other projects that are planned for the fifth fiscal period ending September 30, 2017. These expenditures are for real estate owned by KRR and real estate in trusts in which KRR owns trust beneficiary rights. These planned projects may include some expenditure that will be recorded as expenses rather than capital expenditures for accounting purposes.

Property number	Property name	Location	Purpose	Schedule	Planned amount of capital expenditure (Millions of yen)		
					Total	Payment for the period	Total amount already paid
T-2	MONA Shin-Urayasu	Urayasu, Chiba	First phase of renewal	From March 2017 to July 2017	134	—	—
O-4	Blumer HAT Kobe	Kobe, Hyogo	Changing of layout	From March 2017 to June 2017	85	—	—
T-6	Yorktown Kita-Kaname	Hiratsuka, Kanagawa	Roof waterproof	From April 2017 to September 2017	63	—	—
O-1	Blumer Maitamon	Kobe, Hyogo	LED installation to common area	From April 2017 to September 2017	46	—	—
O-5	Carino Esaka	Suita, Osaka	Escalator renewal	From April 2017 to September 2017	24	—	—

(2) Capital Expenditures during the Fiscal Period under Review

The table below shows major capital expenditures for renovations, repairs and other projects in the fiscal period under review.

The amount of capital expenditures in the fiscal period under review was 276 million yen. There were also expenditures of 157 million yen that were recorded as repair expenses. In total KRR spent 433 million yen on the projects.

Property number	Property name	Location	Purpose	Schedule	Capital expenditure (Millions of yen)
O-5	Carino Esaka	Suita, Osaka	Elevator and escalator renewal	From February 2017 to March 2017	59
T-2	MONA Shin-Urayasu	Urayasu, Chiba	PMAC replacement	From July 2016 to December 2016	48
R-4	Ashico Town Ashikaga	Ashikaga, Tochigi	LED installation to common area	From January 2017 to March 2017	31
T-2	MONA Shin-Urayasu	Urayasu, Chiba	Installation of safety devices to fire shutters	From December 2016 to March 2017	18
T-2	MONA Shin-Urayasu	Urayasu, Chiba	PMAC cooling water pump replacement	From January 2017 to March 2017	14
Others					102
Total					276

Note: The construction of a new restaurant building in Unicus Ina is not including in the above list because it involves an acquisition of a new building.

(3) Reserved Amount for Long-Term Repairs, Maintenance and Renovation Plans

Not applicable

Expenses and Liabilities

(1) Expenses related to Asset Management

(in thousands of yen)

	Third fiscal period (From April 1, 2016 to September 30, 2016)	Fourth fiscal period (From October 1, 2016 to March 31, 2017)
Asset management fees ^(Note)	438,769	488,477
Asset custody fees	6,375	7,549
Administrative service fees	21,792	23,972
Directors' compensation	4,500	4,500
Other operating expenses	69,052	67,039
Total	540,489	591,538

Note: The amount of asset management fees capitalized in addition to the amount above are 271,270 thousand yen for the third fiscal period and 55,810 thousand yen for the fourth fiscal period.

(2) Status of Borrowings

Borrowings on a financial institution basis as of March 31, 2017 are as follows.

Classification	Lender	Balance at the beginning of period (Thousands of yen)	Increase during the period (Thousands of yen)	Decrease during the period (Thousands of yen)	Balance at the end of period (Thousands of yen)	Average interest rate (Note 2) (Note 3) (%)	Payment due date (Note 4)	Use	Remarks
Short-Term Loans Payable	Sumitomo Mitsui Banking Corporation	2,050,000	-	2,050,000	-	0.530	October 2, 2016	(Note 5)	Unsecured/ Non-guaranteed
	Sumitomo Mitsui Banking Corporation	2,450,000	-	2,450,000	-	0.530	October 2, 2016		
	Sumitomo Mitsui Banking Corporation	450,000	-	450,000	-	0.480	February 10, 2017		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	450,000	-	450,000	-				
	Mizuho Bank, Ltd.	400,000	-	400,000	-				
	Resona Bank, Ltd.	250,000	-	250,000	-				
	Aozora Bank, Ltd.	250,000	-	250,000	-				
	Sumitomo Mitsui Trust Bank, Ltd.	200,000	-	200,000	-				
	Sumitomo Mitsui Banking Corporation	4,140,000	-	-	4,140,000	0.480	April 21, 2017		
	Mizuho Bank, Ltd.	360,000	-	-	360,000	0.480	April 21, 2017		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,070,000	-	-	1,070,000				
	Sumitomo Mitsui Banking Corporation (Note 7)	-	4,500,000	600,000	3,900,000				
	Sumitomo Mitsui Banking Corporation	-	450,000	-	450,000	0.430	February 10, 2018		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	450,000	-	450,000				
	Mizuho Bank, Ltd.	-	400,000	-	400,000				
	Resona Bank, Ltd.	-	250,000	-	250,000				
	Aozora Bank, Ltd.	-	250,000	-	250,000				
	Sumitomo Mitsui Trust Bank, Ltd.	-	200,000	-	200,000				
	Sub Total	12,070,000	6,500,000	7,100,000	11,470,000				
Current Portion of Long-Term Loans Payable	Sumitomo Mitsui Banking Corporation (Note 8)	2,300,000	-	-	2,300,000	0.545	February 10, 2018	(Note 5)	Unsecured/ Non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 8)	800,000	-	-	800,000				
	Mizuho Bank, Ltd. (Note 8)	400,000	-	-	400,000				
	Mizuho Trust & Banking Co., Ltd. (Note 8)	350,000	-	-	350,000				
	Sub Total	3,850,000	-	-	3,850,000				
Long-Term Loans Payable	Sumitomo Mitsui Banking Corporation	2,400,000	-	-	2,400,000	0.751	February 10, 2020	(Note 5)	Unsecured/ Non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	800,000	-	-	800,000				
	Mitsubishi UFJ Trust and Banking Corporation	800,000	-	-	800,000				
	Sumitomo Mitsui Trust Bank, Ltd.	550,000	-	-	550,000				
	Aozora Bank, Ltd.	500,000	-	-	500,000				
	Resona Bank, Ltd.	500,000	-	-	500,000				
	The Gunma Bank, Ltd.	400,000	-	-	400,000				
	The Musashino Bank, Ltd.	400,000	-	-	400,000				
	Mizuho Bank, Ltd.	350,000	-	-	350,000				
	Mizuho Trust & Banking Co., Ltd.	300,000	-	-	300,000				
	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	0.865	February 10, 2021		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	700,000	-	-	700,000				
	Sumitomo Mitsui Trust Bank, Ltd.	500,000	-	-	500,000				
	Aozora Bank, Ltd.	450,000	-	-	450,000				
	Resona Bank, Ltd.	450,000	-	-	450,000				
	Mizuho Bank, Ltd.	400,000	-	-	400,000				
	Sumitomo Mitsui Banking Corporation	2,600,000	-	-	2,600,000	0.978	February 10, 2022		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	800,000	-	-	800,000				
	Sumitomo Mitsui Trust Bank, Ltd.	600,000	-	-	600,000				
	Aozora Bank, Ltd.	400,000	-	-	400,000				
	Mizuho Trust & Banking Co., Ltd.	400,000	-	-	400,000				
	Mizuho Bank, Ltd.	300,000	-	-	300,000				
	Resona Bank, Ltd.	300,000	-	-	300,000				
Development Bank of Japan Inc. (Note 6)	1,500,000	-	-	1,500,000	0.925			February 10, 2021	
Development Bank of Japan Inc. (Note 6)	1,600,000	-	-	1,600,000	1.033	February 10, 2022			
Sumitomo Mitsui Banking Corporation	4,600,000	-	-	4,600,000	1.366	April 16, 2025			

Classification	Lender	Balance at the beginning of period (Thousands of yen)	Increase during the period (Thousands of yen)	Decrease during the period (Thousands of yen)	Balance at the end of period (Thousands of yen)	Average interest rate (Note 2) (Note 3) (%)	Payment due date (Note 4)	Use	Remarks
Long-Term Loans Payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	750,000	-	-	750,000	0.534	March 31, 2019	(Note 5)	Unsecured/ Non-guaranteed
	Aozora Bank, Ltd.	500,000	-	-	500,000				
	Mizuho Bank, Ltd.	400,000	-	-	400,000				
	Sumitomo Mitsui Trust Bank, Ltd.	200,000	-	-	200,000				
	Resona Bank, Ltd.	200,000	-	-	200,000				
	The Musashino Bank, Ltd.	150,000	-	-	150,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000	0.975	March 31, 2023		
	Sumitomo Mitsui Trust Bank, Ltd.	600,000	-	-	600,000				
	Mizuho Bank, Ltd.	400,000	-	-	400,000				
	Resona Bank, Ltd.	400,000	-	-	400,000				
	Mizuho Trust & Banking Co., Ltd.	400,000	-	-	400,000				
	Mitsubishi UFJ Trust and Banking Corporation	400,000	-	-	400,000	0.994	March 31, 2023		
	Development Bank of Japan Inc. (Note 6)	1,500,000	-	-	1,500,000				
	Sumitomo Mitsui Banking Corporation	1,850,000	-	-	1,850,000	0.545	March 31, 2019		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	550,000	-	-	550,000				
	Sumitomo Mitsui Trust Bank, Ltd.	500,000	-	-	500,000				
	Resona Bank, Ltd.	300,000	-	-	300,000				
	The Musashino Bank, Ltd.	250,000	-	-	250,000	0.987	March 31, 2023		
	Mitsubishi UFJ Trust and Banking Corporation	450,000	-	-	450,000				
	Resona Bank, Ltd.	200,000	-	-	200,000				
	The Musashino Bank, Ltd.	150,000	-	-	150,000	1.013	March 31, 2023		
	Development Bank of Japan Inc. (Note 6)	1,500,000	-	-	1,500,000				
	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	1.110	March 31, 2024		
	Mizuho Bank, Ltd.	1,150,000	-	-	1,150,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000				
	Mizuho Trust & Banking Co., Ltd.	700,000	-	-	700,000				
	Sumitomo Mitsui Trust Bank, Ltd.	650,000	-	-	650,000				
	Resona Bank, Ltd.	500,000	-	-	500,000				
	Sumitomo Mitsui Banking Corporation	1,500,000	-	-	1,500,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	400,000	-	-	400,000				
	Mizuho Bank, Ltd.	710,000	-	-	710,000	0.368	September 30, 2019		
	Sumitomo Mitsui Trust Bank, Ltd.	620,000	-	-	620,000				
	Sumitomo Mitsui Trust Bank, Ltd.	450,000	-	-	450,000	0.803	September 30, 2024		
	Development Bank of Japan Inc. (Note 6)	890,000	-	-	890,000	0.760	September 30, 2024		
	Sumitomo Mitsui Banking Corporation	2,670,000	-	-	2,670,000	0.932	April 21, 2026		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	890,000	-	-	890,000	0.888	October 31, 2025		
The Gunma Bank, Ltd. (Note 6)	-	500,000	-	500,000	0.550	September 30, 2021			
Development Bank of Japan Inc. (Note 6)	-	2,000,000	-	2,000,000	1.049	January 31, 2027			
Mizuho Trust & Banking Co., Ltd. (Note 6)	-	1,000,000	-	1,000,000	1.049				
Resona Bank, Ltd.	-	500,000	-	500,000	1.002				
	Sub Total	53,380,000	4,000,000	-	57,380,000				
	Total	69,300,000	10,500,000	7,100,000	72,700,000				

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

	(Thousands of yen)				
	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term loans payable	5,650,000	8,330,000	7,000,000	7,500,000	28,900,000

Note 2: All debts except for the following Note 6 are borrowings at a floating rate.

Note 3: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps are indicated.

Note 4: All the repayment methods of debt financing except for the following Note 7 are lump-sum repayments on the due date.

Note 5: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note 6: Borrowings at a fixed rate.

Note 7: Partial prepayment of 600,000 thousand yen was made on October 31, 2016.

Note 8: Borrowings are listed in the current portion of long-term loans payable from the fiscal period under review, listed in long-term loans payable in the previous fiscal period.

(3) Status of Investment Corporation Bonds

Bonds	Issuance date	Balance as of October 1, 2016 (million yen)	Balance as of March 31, 2017 (million yen)	Interest rate (%)	Maturity date	Redemption method	Use	Remarks
1st Series Unsecured Investment Corporation Bonds	October 31, 2016	—	1,000	0.200	October 29, 2021	Full on maturity	(Note 1)	(Note 2)
2nd Series Unsecured Investment Corporation Bonds	October 31, 2016	—	1,000	0.600	October 30, 2026			

Note 1: "Use" is acquisition funds for specified assets, repayment funds for borrowings, etc.

Note 2: Ranking *pari passu* among the specified investment corporation bonds

(4) Status of Short-Term Investment Corporation Bonds

Not applicable

(5) Status of Subscription Rights to New Investment Units

Not applicable

Acquisition and Disposition

(1) Acquisition and Disposition of Real Estate Properties & Asset-Backed Securities and Infrastructure & Infrastructure Related Assets

Ownership form	Property number	Property name	Acquisition		Disposition			
			Acquisition date	Acquisition price (in millions) (Note 1)	Disposition Date	Disposition price (in millions) (Note 1)	Book value (in millions)	Gain / loss (in millions)
Trust beneficiary interest in real estate	T-5	Unicus Ina ^(Note 2)	January 16, 2017	91	—	—	—	—
Trust beneficiary interest in real estate	N-5	K's Denki Shin-Moriyama (Land)	November 1, 2016	1,370	—	—	—	—
Trust beneficiary interest in real estate	R-9	Seiyu Rakuichi Moriya (Land)	January 31, 2017	4,111	—	—	—	—
Silent partnership equity interest	—	Silent partnership equity interest of JRP8 GK	October 31, 2016	100	—	—	—	—
Total				5,672	—	—	—	—

Note 1: "Acquisition price" and "Disposition price" represent the purchase price of each trust beneficiary interest specified in purchase agreement in relation to the acquisition of each property (excluding acquisition costs, adjustment in property tax and city-planning tax, and consumption tax; and rounded down to the nearest one million yen).

Note 2: KRR acquired the restaurant building through a new building construction (property expansion). Acquisition price represents the payment price (excluding expenses and taxes and rounded down to the nearest million yen) on the construction contract and construction design/supervision outsourcing contracts related to construction of the building.

(2) Acquisition and Disposition of Other Assets

Other assets except real estate properties and asset-backed securities mentioned above mostly consist of cash and deposits and cash and deposits in trust.

(3) Appraisal Values of Specific Assets

i) Real Estate

Acquisition /disposition	Ownership form	Property number	Property name	Acquisition date	Acquisition price (in millions) (Note 1)	Appraisal value (in millions) (Note 2)	Appraiser	Evaluation date
Acquisition	Trust beneficiary interest in real estate	N-5	K's Denki Shin-Moriyama (Land)	November 1, 2016	1,370	1,410	Japan Real Estate Institute	Oct.1, 2016
		R-9	Seiyu Rakuichi Moriya (Land)	January 31, 2017	4,111	4,190	Daiwa Real Estate Appraisal Co., Ltd.	Jan.1, 2017

Note 1: "Acquisition price" represents the purchase amount (excluding acquisition costs and consumption taxes) of each property or beneficiary right of real estate in trust as stated in the Sales and Purchase Agreement.

Note 2: "Appraisal value" of specific assets above was calculated in accordance with the guideline of "Real Estate Appraisal Standards, Chapter 3, Appraisal of Securitized Real Estate."

ii) Investment Securities

Acquisition /disposition	Type of asset	Acquisition date	Acquisition price (in millions) (Note 1)	Appraisal value (in millions) (Note 2)
Acquisition	Silent partnership equity interest of JRP8 GK	October 31, 2016	100	110

Note 1: "Acquisition price" represents the purchase amount (excluding acquisition costs) of the silent partnership equity interest as stated in the Silent Partnership Agreement.

Note 2: "Appraisal value" above was reported by Ernst & Young ShinNihon LLC in accordance with the Japan Institute of Certified Public Accountants Industrial Audit Committee Report No.23, "Research for Specified Assets Value held by Investment Trusts and Investment Corporations" at the time of acquisition or disposition of assets, which KRR received.

iii) Others

With regard to transactions and contracts entered by KRR whose values shall be investigated based on the Article 201 of the Act on Investment Trusts and Investment Corporations, Ernst & Young ShinNihon LLC performs an investigation of transactions other than those stated in "(1) Real Estate" above. For the fiscal period from October 1, 2016 to March 31, 2017, the transaction subject to such investigation was one interest rate swap transaction, for which KRR received a report from Ernst & Young ShinNihon LLC.

(4) Related-Party Transactions

i) Transactions

	Transaction price (in millions)	
	Purchase	Sale
Total amount	5,581	-
Transaction with related-party		
JRP8 GK	100 (1.8%)	- (-%)
Total	100 (1.8%)	- (-%)

ii) Amounts of Fees Paid

Not applicable

Note: A related party, etc. is defined as a related party, etc. of the asset manager having an asset management agreement with KRR as prescribed in Article 123 of the Order for Enforcement of the Act on Investment Trusts and Investment Corporations of Japan and in Article 26-27 of the Regulations for Asset Investment Reports by Investment Trusts and Investment Corporations of the Investment Trusts Association, Japan.

(5) Transactions with Asset Manager in Connection with Concurrent Business Conducted by the Asset Manager

There is no transaction with the Asset Manager, KFM, regarding to the Type II Financial Instruments Business, and Building Lots and Buildings Transaction Business. Furthermore, KFM does not concurrently engage in any of Type I Financial Instruments Business, Real Estate Specified Joint Business.

Accounting

(1) Status on Assets, Liabilities, Principals, and Income and Losses

Please refer to the “Balance Sheets”, “Statements of Income and Retained Earnings”, “Statements of Changes in Net Assets” and “Notes to Financial Statements” presented later in this report.

(2) Change in Calculation of Depreciation

Not applicable

(3) Change in Valuation of Real Estate Properties and Infrastructure Assets

Not applicable

(4) Status of Beneficiary Certificates of Investment Trust Established by Self

i) Acquisition of Beneficiary Certificates of Investment Trust Established by Self

Not applicable

ii) Ownership of Beneficiary Certificates of Investment Trust Established by Self

Not applicable

(5) Disclosure of Companies Owning Real Estate Overseas

Not applicable

(6) Disclosure of Real Estate Owned by Companies Owning Real Estate Overseas

Not applicable

Others

(1) Notice

i) General Meeting of Unitholders

Not applicable

ii) Board of Directors

Not applicable

(2) Others

In this report, any fraction is rounded down for monetary amounts and rounded off for ratios unless otherwise stated.

Independent Auditor's Report

The Board of Directors
Kenedix Retail REIT Corporation

We have audited the accompanying financial statements of Kenedix Retail REIT Corporation, which comprise the balance sheet as of March 31, 2017, and the statements of income and retained earnings, changes in net assets, and cash flows for the fiscal period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Retail REIT Corporation as of March 31, 2017, and its financial performance and cash flows for the fiscal period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young Shinnihon LLC

June 22, 2017
Tokyo, Japan

Financial Statements

(3rd Fiscal Period: from April 1, 2016 to September 30, 2016)

(4th Fiscal Period: from October 1, 2016 to March 31, 2017)

Independent Auditor's Report

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Kenedix Retail REIT Corporation

Balance Sheets

As of March 31, 2017 and September 30, 2016

	As of March 31, 2017	As of September 30, 2016
	(in thousands of yen)	
Assets		
Current assets		
Cash and deposits (Notes 8 and 10)	¥5,258,633	¥4,367,293
Cash and deposits in trust (Notes 8 and 10)	11,575,715	11,615,129
Operating accounts receivable	182,993	206,398
Prepaid expenses	41,020	112,712
Consumption taxes receivable	-	477,707
Other	2,987	432
Total current assets	17,061,349	16,779,673
Non-current assets		
Property, plant and equipment (Notes 16 and 19)		
Construction in progress	-	35,243
Buildings in trust	42,757,457	42,409,745
Accumulated depreciation	(2,377,464)	(1,707,093)
Buildings in trust, net (Note 3)	40,379,992	40,702,651
Structures in trust	1,822,887	1,808,630
Accumulated depreciation	(145,181)	(106,872)
Structures in trust, net (Note 3)	1,677,705	1,701,758
Machinery and equipment in trust	203,295	203,295
Accumulated depreciation	(11,445)	(6,582)
Machinery and equipment in trust, net	191,850	196,712
Tools, furniture and fixtures in trust	60,635	51,813
Accumulated depreciation	(10,639)	(6,700)
Tools, furniture and fixtures in trust, net (Note 3)	49,995	45,112
Land in trust (Note 3)	123,937,095	118,225,350
Construction in progress in trust	24,784	12,015
Total property, plant and equipment, net	166,261,423	160,918,844
Intangible assets (Note 19)		
Leasehold right in trust (Note 16)	520,598	524,576
Other	2,064	1,883
Total intangible assets	522,662	526,460
Investments and other assets		
Investment securities	101,690	-
Lease and guarantee deposits	10,000	10,000
Lease and guarantee deposits in trust	36,035	36,035
Long-term prepaid expenses	648,066	651,956
Long-term deposits	124,960	124,960
Other	23,395	-
Total investments and other assets	944,147	822,951
Total non-current assets	167,728,234	162,268,256
Deferred assets		
Organization costs	25,331	30,369
Investment corporation bond issuance costs	17,671	-
Investment unit issuance costs	204,840	281,763
Total deferred assets	247,843	312,132
Total assets	¥185,037,427	¥179,360,062

See accompanying notes to financial statements.

	As of March 31, 2017	As of September 30, 2016
	(in thousands of yen)	
Liabilities		
Current liabilities		
Operating accounts payable	¥516,631	¥453,515
Short-term loans payable (Notes 10 and 20)	11,470,000	12,070,000
Current portion of long-term loans payable (Notes 10 and 20)	3,850,000	-
Accounts payable-other	280,035	267,670
Accrued expenses	12,501	7,108
Income taxes payable	3,275	1,081
Accrued consumption taxes	245,842	-
Advances received	878,241	859,300
Deposits received	124,240	122,669
Total current liabilities	17,380,767	13,781,345
Non-current liabilities		
Investment corporation bonds (Notes 10 and 21)	2,000,000	-
Long-term loans payable (Notes 10 and 20)	57,380,000	57,230,000
Tenant leasehold and security deposits (Note 10)	-	2,500
Tenant leasehold and security deposits in trust (Notes 3 and 10)	11,397,149	11,518,586
Asset retirement obligations (Note 14)	23,335	23,190
Other	32,639	64,677
Total non-current liabilities	70,833,124	68,838,953
Total liabilities	88,213,892	82,620,298
Net assets		
Unitholders' equity		
Unitholders' capital	94,256,390	94,256,390
Deduction from unitholders' capital		
Allowance for temporary difference adjustments (Note 4)	(40,593)	(4,263)
Total deduction from unitholders' capital	(40,593)	(4,263)
Unitholders' capital, net	94,215,796	94,252,127
Surplus		
Unappropriated retained earnings	2,584,343	2,518,802
Total surplus	2,584,343	2,518,802
Total unitholders' equity	96,800,139	96,770,929
Valuation and translation adjustments		
Deferred gains or losses on hedges (Notes 10 and 11)	23,395	(31,166)
Total valuation and translation adjustments	23,395	(31,166)
Total net assets (Note 5)	96,823,535	96,739,763
Total liabilities and net assets	¥185,037,427	¥179,360,062

See accompanying notes to financial statements.

Kenedix Retail REIT Corporation

Statements of Income and Retained Earnings

For the period from October 1, 2016 to March 31, 2017 and the period from April 1, 2016 to September 30, 2016

	From October 1, 2016 to March 31, 2017	From April 1, 2016 to September 30, 2016
(in thousands of yen)		
Operating revenues		
Rent revenue-real estate (Note 6)	¥5,524,740	¥5,405,789
Other lease business revenue (Note 6)	902,740	968,378
Dividend income	3,131	-
Total operating revenues	6,430,612	6,374,168
Operating expenses		
Expenses related to rent business (Note 6)	2,817,984	2,860,183
Asset management fees	488,477	438,769
Asset custody fees	7,549	6,375
Administrative service fees	23,972	21,792
Directors' compensation	4,500	4,500
Other operating expenses	67,039	69,052
Total operating expenses	3,409,522	3,400,673
Operating income	3,021,090	2,973,494
Non-operating income		
Interest income	52	51
Interest on refund	164	251
Total non-operating income	217	303
Non-operating expenses		
Interest expenses	310,372	306,343
Interest expenses on investment corporation bonds	3,337	-
Financing-related expenses	67,385	65,780
Amortization of organization costs	5,038	5,066
Amortization of investment corporation bond issuance costs	1,404	-
Amortization of investment unit issuance costs	76,922	76,922
Total non-operating expenses	464,459	454,113
Ordinary income	2,556,848	2,519,684
Income before income taxes	2,556,848	2,519,684
Income taxes		
Current	3,922	1,088
Total income taxes	3,922	1,088
Net income	2,552,926	2,518,595
Retained earnings brought forward	31,417	206
Unappropriated retained earnings	¥2,584,343	¥2,518,802

See accompanying notes to financial statements.

Kenedix Retail REIT Corporation

Statements of Changes in Net Assets

For the period from October 1, 2016 to March 31, 2017 and the period from April 1, 2016 to September 30, 2016

	Unitholders' equity						
	Unitholders' capital				Surplus		
	Unitholders' capital	Deduction from unitholders' capital		Unitholders' capital, net	Unappropriated retained earnings	Total surplus	Total unitholders' equity
		Allowance for temporary difference adjustments	Total deduction from unitholders' capital				
(in thousands of yen)							
Balance as of April 1, 2016 (Note 7)	¥77,606,649	¥ -	¥ -	¥77,606,649	¥2,427,985	¥2,427,985	¥80,034,634
Changes of items during the period							
Issuance of new investment units	16,649,740			16,649,740			16,649,740
Dividends from surplus					(2,427,778)	(2,427,778)	(2,427,778)
Distributions in excess of earnings from allowance for temporary difference adjustments		(4,263)	(4,263)	(4,263)			(4,263)
Net income					2,518,595	2,518,595	2,518,595
Net changes of items other than unitholder's equity							
Total changes of items during the period	16,649,740	(4,263)	(4,263)	16,645,477	90,817	90,817	16,736,294
Balance as of September 30, 2016 (Note 7)	¥94,256,390	¥(4,263)	¥(4,263)	¥94,252,127	¥2,518,802	¥2,518,802	¥96,770,929
Changes of items during the period							
Dividends from surplus					(2,487,385)	(2,487,385)	(2,487,385)
Distributions in excess of earnings from allowance for temporary difference adjustments		(36,330)	(36,330)	(36,330)			(36,330)
Net income					2,552,926	2,552,926	2,552,926
Net changes of items other than unitholder's equity							
Total changes of items during the period	-	(36,330)	(36,330)	(36,330)	65,540	65,540	29,209
Balance as of March 31, 2017 (Note 7)	¥94,256,390	¥(40,593)	¥(40,593)	¥94,215,796	¥2,584,343	¥2,584,343	¥96,800,139

	Valuation and translation adjustments		Total net assets
	Deferred gains or losses on hedges	Total valuation and translation adjustments	
(in thousands of yen)			
Balance as of April 1, 2016 (Note 7)	¥ -	¥ -	¥80,034,634
Changes of items during the period			
Issuance of new investment units			16,649,740
Dividends from surplus			(2,427,778)
Distributions in excess of earnings from allowance for temporary difference adjustments			(4,263)
Net income			2,518,595
Net changes of items other than unitholder's equity	(31,166)	(31,166)	(31,166)
Total changes of items during the period	(31,166)	(31,166)	16,705,128
Balance as of September 30, 2016 (Note 7)	¥(31,166)	¥(31,166)	¥96,739,763
Changes of items during the period			
Dividends from surplus			(2,487,385)
Distributions in excess of earnings from allowance for temporary difference adjustments			(36,330)
Net income			2,552,926
Net changes of items other than unitholder's equity	54,562	54,562	54,562
Total changes of items during the period	54,562	54,562	83,772
Balance as of March 31, 2017 (Note 7)	¥23,395	¥23,395	¥96,823,535

See accompanying notes to financial statements.

Kenedix Retail REIT Corporation

Statements of Cash Flows

For the period from October 1, 2016 to March 31, 2017 and the period from April 1, 2016 to September 30, 2016

	From October 1, 2016 to March 31, 2017	From April 1, 2016 to September 30, 2016
	(in thousands of yen)	
Net cash provided by (used in) operating activities		
Income before income taxes	¥2,556,848	¥2,519,684
Depreciation and amortization	721,929	714,452
Amortization of organization costs	5,038	5,066
Amortization of investment corporation bond issuance costs	1,404	-
Amortization of investment unit issuance costs	76,922	76,922
Interest income	(52)	(51)
Interest expenses	313,709	306,343
Decrease (increase) in operating accounts receivable	23,405	(14,367)
Decrease (increase) in consumption taxes receivable	477,707	32,815
Decrease (increase) in prepaid expenses	71,692	(78,961)
Increase (decrease) in operating accounts payable	(2,220)	(25,321)
Increase (decrease) in accounts payable-other	11,825	(19,393)
Increase (decrease) in accrued consumption taxes	245,842	-
Increase (decrease) in advances received	18,941	111,123
Increase (decrease) in deposits received	1,571	(13,799)
Decrease (increase) in long-term prepaid expenses	3,889	(68,932)
Other	(6,558)	(4,103)
Subtotal	4,521,894	3,541,476
Interest income received	52	51
Interest expenses paid	(308,315)	(305,756)
Income taxes paid	(1,728)	(940)
Net cash provided by (used in) operating activities	4,211,903	3,234,831
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-	(35,243)
Purchase of property, plant and equipment in trust	(5,994,725)	(28,233,179)
Purchase of intangible assets in trust	(504)	-
Purchase of investment securities	(101,690)	-
Proceeds from investment securities	3,131	-
Payments for lease and guarantee deposits in trust	-	(20)
Proceeds from tenant leasehold and security deposits	-	2,500
Repayments of tenant leasehold and security deposits in trust	(317,595)	(314,140)
Proceeds from tenant leasehold and security deposits in trust	193,659	1,202,094
Proceeds from restricted bank deposits in trust	215,676	215,676
Net cash provided by (used in) investing activities	(6,002,048)	(27,162,312)
Net cash provided by (used in) financing activities		
Proceeds from short-term loans payable	6,500,000	6,370,000
Payments of short-term loans payable	(7,100,000)	(800,000)
Proceeds from long-term loans payable	4,000,000	6,230,000
Proceeds from issuance of investment corporation bonds	1,980,924	-
Proceeds from issuance of investment units	-	16,531,819
Payments of dividends	(2,523,176)	(2,430,448)
Net cash provided by (used in) financing activities	2,857,747	25,901,371
Net increase (decrease) in cash and cash equivalents	1,067,602	1,973,891
Cash and cash equivalents at the beginning of the period	13,229,301	11,255,410
Cash and cash equivalents at the end of the period (Note 8)	¥14,296,903	¥13,229,301

See accompanying notes to financial statements.

Kenedix Retail REIT Corporation

Notes to Financial Statements

For the period from October 1, 2016 to March 31, 2017 and the period from April 1, 2016 to September 30, 2016

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Kenedix Retail REIT Corporation (“KRR”) was established on October 3, 2014, under the Act on Investment Trusts and Investment Corporations of Japan (the “Investment Trust Act”). On October 30, 2014, KRR was registered with the Director-General of the Kanto Local Finance Bureau (registration number: Director-General of the Kanto Local Finance Bureau No. 97). KRR was listed on the Real Estate Investment Trust Securities (J-REIT) Market of Tokyo Stock Exchange, Inc. (the Tokyo Stock Exchange) (Securities code: 3453) on February 10, 2015. Subsequently, KRR raised funds through public offerings, including international offerings. As a result, the number of investment units issued as of March 31, 2017 was 422,450 units.

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

(Note) For management purposes and ease of classification, KRR defines neighborhood, community and other shopping centers for daily needs as retail properties that generally have the following characteristics:

- a. Retail trade area of an approximate radius of one to ten kilometers (and generally, a radius of three to five kilometers), with customers predominantly from local areas surrounding the retail property
- b. Operational capacity to accommodate certain daily local retail needs and strong customer traffic on both weekdays and weekends
- c. Composed of various specialty stores to meet a range of day-to-day needs such as groceries, clothing and other daily goods and services

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

KRR acquired trust beneficiary interests in real estate (a property acquired on November 1, 2016 with an acquisition price of 1,370 million yen and a property acquired on January 31, 2017 with an acquisition price of 4,111 million yen). In addition, KRR completed an additional acquisition of a new building through a property expansion within Unicus Ina (acquisition price of 91 million yen) on January 16, 2017. For the period ended March 31, 2017, the portfolio of 42 properties as a whole performed well with an overall occupancy ratio of 99.6% as of March 31, 2017.

Furthermore, the portfolio was diversified in terms of tenants as there were 405 and 409 end-tenants as of September 30, 2016 and March 31, 2017 in KRR’s properties, respectively.

Basis of Presentation

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

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

KRR’s fiscal period is a six-month period which ends at the end of March or September. KRR does not prepare consolidated financial statements because it has no subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Securities

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

(B) Property, Plant and Equipment (including trust assets)

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

	From October 1, 2016 to March 31, 2017	From April 1, 2016 to September 30, 2016
Buildings	2-70 years	2-70 years
Structures	8-59 years	8-59 years
Machinery and equipment	10-25 years	10-25 years
Tools, furniture and fixtures	4-10 years	4-10 years

(C) Intangible Assets (including trust assets)

Intangible assets are amortized by the straight-line method.

(D) Long-term Prepaid Expenses

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

(E) Organization Costs

Organization costs are amortized over a period of 5 years under the straight-line method.

(F) Investment Unit Issuance Costs

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

(G) Investment Corporation Bond Issuance Costs

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

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

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

(I) Revenue Recognition

Operating revenues consist of rental revenues including base rents, common area charges and other operating revenues, which include utility charge reimbursements, parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease. Utility charge reimbursements are recognized when earned and their amounts can be reasonably estimated. Reimbursements from tenants including utility charge reimbursements are recorded on a gross basis and such amounts are recorded both as revenues and expenses during the fiscal period.

(J) Taxes on Property and Equipment

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

When KRR purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥21,351 thousand and ¥106,443 thousand as of March 31, 2017 and September 30, 2016, respectively.

(K) 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.

(L) 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.

(M) Derivative Financial Instruments

KRR utilizes interest-rate swap contracts as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. KRR deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap contracts because these contracts met the criteria for deferral hedge accounting. However, KRR adopted the special treatment for interest-swap contracts if they met the criteria for hedge accounting under this treatment. An assessment of the effectiveness of hedging is omitted for interest rate swaps because they fulfill the requirements for the special treatment.

(N) 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.

(O) Presentation of Amounts

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

3. COLLATERAL

Assets pledged as collateral and related secured liabilities are as follows:

Assets pledged as collateral	As of March 31, 2017	As of September 30, 2016
	(in thousands of yen)	
Buildings in trust	¥2,724,085	¥2,755,048
Structures in trust	52,355	53,947
Tools, furniture and fixtures in trust	2,661	2,962
Land in trust	7,811,297	7,811,297
Total	10,590,399	10,623,255

Secured liabilities	As of March 31, 2017	As of September 30, 2016
Tenant leasehold and security deposits in trust	3,245,943	3,468,617
Total	¥3,245,943	¥3,468,617

4. ALLOWANCE FOR TEMPORARY DIFFERENCE ADJUSTMENTS

The following summarizes allowance for temporary difference adjustments as of March 31, 2017

1. Reasons, related assets, initial amount and allowance

Related assets, etc.	Reason for allowance	Initial amount	Balance at the beginning of the period	Allowance during the period	Reversal during the period	Balance at the end of the period	Reason for reversal
(in thousands of yen)							
Buildings in trust, Leasehold right in trust	Amortization of leasehold right in trust and the amount in excess of depreciation	¥9,754	¥4,263	¥5,491	¥ -	¥9,754	-
Deferred gains or losses on hedges	Loss on interest-rate swaps recognized at the end of the fiscal period	30,838	-	30,838	-	30,838	-
Total		¥40,593	¥4,263	¥36,330	¥ -	¥40,593	-

2. Method of reversal

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

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

1. Reasons, related assets, initial amount and allowance

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

2. Method of reversal

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

5. NET ASSETS

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

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

Rental and other operating revenues and property-related expenses for the period from October 1, 2016 to March 31, 2017 and from April 1, 2016 to September 30, 2016 consist of the following:

	From October 1, 2016 to March 31, 2017	From April 1, 2016 to September 30, 2016
(in thousands of yen)		
Rental and other operating revenues:		
Rent revenue-real estate:		
Rental revenues	¥4,467,838	¥4,393,233
Rental revenues from limited proprietary rights of land	728,620	680,862
Common area charges	328,281	331,693
Subtotal	5,524,740	5,405,789
Other lease business revenue:		
Parking space rental revenues	162,994	163,358
Utility charge reimbursement	455,670	540,060
Miscellaneous	284,075	264,959
Subtotal	902,740	968,378
Total rental and other operating revenues	6,427,481	6,374,168
Property-related expenses:		
Expenses related to rent business:		
Property management fees and facility management fees	691,625	684,963
Utilities	438,881	523,159
Taxes	482,777	482,449
Repairs and maintenance	157,638	150,915
Insurance	12,281	12,341
Trust fees	17,790	17,294
Depreciation	721,606	714,171
Others	295,382	274,888
Total property-related expenses	2,817,984	2,860,183
Net operating income from real estate rental business	¥3,609,497	¥3,513,984

7. UNITHOLDERS' EQUITY

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

	From October 1, 2016 to March 31, 2017	From April 1, 2016 to September 30, 2016
Total number of authorized investment units	5,000,000 units	5,000,000 units
Total number of investment units issued and outstanding	422,450 units	422,450 units

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of March 31, 2017 and September 30, 2016:

	As of March 31, 2017	As of September 30, 2016
	(in thousands of yen)	
Cash and deposits	¥5,258,633	¥4,367,293
Cash and deposits in trust	11,575,715	11,615,129
Restricted bank deposits in trust *	(2,537,444)	(2,753,121)
Cash and cash equivalents	¥14,296,903	¥13,229,301

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

9. LEASES

(As lessee)

Future minimum lease payments under non-cancelable operating leases as of March 31, 2017 and September 30, 2016 are as follows:

	As of March 31, 2017	As of September 30, 2016
	(in thousands of yen)	
Due within 1 year	¥10,500	¥10,500
Due after 1 year	199,048	204,298
Total	¥209,548	¥214,798

(As lessor)

Future minimum lease income under the non-cancelable operating leases as of March 31, 2017 and September 30, 2016 are as follows:

	As of March 31, 2017	As of September 30, 2016
	(in thousands of yen)	
Due within 1 year	¥6,112,316	¥5,754,371
Due after 1 year	49,962,185	47,304,424
Total	¥56,074,501	¥53,058,796

10. FINANCIAL INSTRUMENTS

(A). Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

Bank deposits are for managing KRR's surplus funds and are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited.

Investment securities represent equity investments in a silent partnership and are exposed to credit risk of the issuer, property value fluctuation risk and interest rate fluctuation risk.

Borrowings, and investment corporation bonds, which are made or issued primarily for the purpose of procuring funds for the acquisition of real estate and trust beneficiary interests in real estate and have a repayment date of a maximum of 9 years and 10 month for borrowings and also have a redemption date of a maximum of 9 years and 7 months for investment corporation bonds as of March 31, 2017, the end of the fourth fiscal period, are exposed to liquidity risk where alternative funds may not be procured by the repayment date. Also, borrowings with floating interest rates are exposed to interest rate fluctuation risk. Derivatives are used for the purpose of hedging interest rate fluctuation risk for a certain portion of the borrowings.

Tenant leasehold and security deposits are deposits received from tenants, which are exposed to liquidity risks when the tenants vacate the properties.

(3) Risk management for financial instruments

a. Credit risk

While bank deposits are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited, such risk is monitored by deposits in non-interest bearing ordinary savings accounts or with financial institutions with credit ratings above a certain level. Investment securities represent equity investments in a silent partnership and are exposed to credit risk of the issuer. 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, KRR aims to mitigate counterparty risk such as by transacting with financial institutions with favorable ratings.

b. Market risk

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

c. Liquidity risk

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

Though tenant leasehold and security deposits are subject to liquidity risk, in principle, KRR reduces such risk by retaining funds that would enable KRR to return necessary amounts to tenants.

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

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

(B). Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the balance sheets and estimated fair value are shown in the following table. Items whose fair values are difficult to determine are not included in the following table (*2).

As of March 31, 2017

	Carrying amount	Estimated fair value	Difference
(in thousands of yen)			
(1) Cash and deposits	¥5,258,633	¥5,258,633	¥ -
(2) Cash and deposits in trust	11,575,715	11,575,715	-
Total	16,834,348	16,834,348	-
(1) Short-term loans payable	11,470,000	11,470,000	-
(2) Current portion of long-term loans payable	3,850,000	3,847,148	(2,851)
(3) Investment corporation bonds	2,000,000	1,984,200	(15,800)
(4) Long-term loans payable	57,380,000	57,540,509	160,509
(5) Tenant leasehold and security deposits in trust	3,147,555	3,151,660	4,105
Total	77,847,555	77,993,518	145,963
Derivative transactions	¥23,395	¥23,395	¥ -

As of September 30, 2016

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

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

Assets

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

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

Liabilities

(1) Short-term loans payable

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

(2) Current portion of long-term loans payable and (4) Long-term loans payable

Among these items, the fair value of loans payable with fixed interest rates is calculated based on the present value, which is the total amount of principal and interest discounted by the estimated interest rate to be applied in the event that KRR conducts new loans of the same type. As for the fair value of loans payable with floating interest rates, it is based on the carrying amount since market interest rates are reflected in the short term and the fair value is believed to approximate the carrying amount as the credit standing of KRR has not changed significantly since the loans were made. (However, the fair value of long-term loans payable subject to the special treatment for interest-rate swaps is based on the present value of the total of principal and interest, accounted for together with the applicable interest-rate swaps, discounted by the estimated interest rate to be applied in the event that KRR conducts new loans payable of the same type.)

(3) Investment corporation bonds

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

(5) Tenant leasehold and security deposits in trust

The fair value is determined based on the present value of contractual cash flows discounted at the discount rate into which the period to the repayment date and the credit risk are reflected.

Derivative transactions

Please refer to Note "11. DERIVATIVE TRANSACTIONS".

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

Classification	As of March 31, 2017	As of September 30, 2016
	(in thousands of yen)	
Investment securities (Note1)	¥101,690	¥ -
Tenant leasehold and security deposits(Note2)	-	2,500
Tenant leasehold and security deposits in trust (Note2)	8,249,594	8,110,419
Total	¥ 8,351,284	¥8,112,919

(Note1) Fair values of investment securities are not subject to disclosure of fair value as they have no market price and their fair values are recognized to be extremely difficult to grasp.

(Note2) Because no quoted market price is available and it is extremely difficult to determine their fair values based on estimated future cash flows because the repayment dates of those deposits are not certain. Therefore, tenant leasehold and security deposits in trust are not included in the above quantitative information.

*3: Redemption of monetary claims scheduled to be due after the balance sheet date

As of March 31, 2017

	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	¥5,258,633	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	11,575,715	-	-	-	-	-
Total	¥16,834,348	¥ -	¥ -	¥ -	¥ -	¥ -

As of September 30, 2016

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Cash and deposits	¥4,367,293	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	11,615,129	-	-	-	-	-
Total	¥15,982,422	¥ -	¥ -	¥ -	¥ -	¥ -

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

As of March 31, 2017

	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	¥11,470,000	¥ -	¥ -	¥ -	¥ -	¥ -
Investment corporation bonds	-	-	-	-	1,000,000	1,000,000
Long-term loans payable	3,850,000	5,650,000	8,330,000	7,000,000	7,500,000	28,900,000
Tenant leasehold and security deposits in trust	435,430	435,430	435,430	435,430	435,430	328,508
Total	¥15,755,430	¥6,085,430	¥8,765,430	¥7,435,430	¥8,935,430	¥30,228,508

As of September 30, 2016

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Short-term loans payable	¥12,070,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	-	3,850,000	6,980,000	7,000,000	7,000,000	32,400,000
Tenant leasehold and security deposits in trust	435,430	435,430	435,430	435,430	435,430	546,223
Total	¥12,505,430	¥4,285,430	¥7,415,430	¥7,435,430	¥7,435,430	¥32,946,223

11. DERIVATIVE TRANSACTIONS

The contract amount and the fair value of interest-rate swap transactions as of March 31, 2017 are shown in the following table.

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

- (2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Principle method	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥5,840,000	¥5,840,000	¥23,395	Based on the amount provided by counterparty financial institutions
Special treatment of interest-rate swaps	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥44,900,000	¥41,050,000	*	-

*Interest rate swaps for which the special treatment is applied are accounted for together with the underlying hedged item. As a result, their fair value is included in the fair value of the hedged long-term loans payable. (Please refer to Note "10. FINANCIAL INSTRUMENTS" (*1) Methods to determine the estimated fair value of financial instruments and matters related to derivative transactions; Liabilities (2) Current portion of long-term loans payable and (4) Long-term loans payable.)

The contract amount and the fair value of interest-rate swap transactions as of September 30, 2016 are shown in the following table.

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

- (2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Principle method	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥5,340,000	¥5,340,000	¥(31,166)	Based on the amount provided by counterparty financial institutions
Special treatment of interest-rate swaps	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥44,900,000	¥44,900,000	*	-

*Interest rate swaps for which the special treatment is applied are accounted for together with the underlying hedged item. As a result, their fair value is included in the fair value of the hedged long-term loans payable. (Please refer to Note "10. FINANCIAL INSTRUMENTS" (*1) Methods to determine the estimated fair value of financial instruments and matters related to derivative transactions; Liabilities (2) Current portion of long-term loans payable and (4) Long-term loans payable.)

12. RELATED PARTY TRANSACTIONS

1 . Parent Company, major corporate unitholders and other

4th Fiscal Period (October 1, 2016 to March 31, 2017) and 3rd Fiscal Period (April 1, 2016 to September 30, 2016): Not applicable

2 . Affiliated companies and other

4th Fiscal Period (October 1, 2016 to March 31, 2017) and 3rd Fiscal Period (April 1, 2016 to September 30, 2016): Not applicable

3 . Fellow subsidiary companies and other

4th Fiscal Period (October 1, 2016 to March 31, 2017) and 3rd Fiscal Period (April 1, 2016 to September 30, 2016): Not applicable

4 . Directors, major individual unitholders and other

4th Fiscal Period (October 1, 2016 to March 31, 2017) and 3rd Fiscal Period (April 1, 2016 to September 30, 2016): Not applicable

13. INCOME TAXES

KRR is subject to corporate income taxes at a regular statutory rate of approximately 35%. However, KRR may deduct from its taxable income amounts distributed to its unitholders, provided the requirements under the Special Taxation Measures Law of Japan are met, including a requirement that it currently distributes in excess of 90% of its net income for the fiscal period in order to be able to deduct such amounts. If KRR does not satisfy all of the requirements, the entire taxable income of KRR will be subject to regular corporate income taxes. Since KRR distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥2,553 million and ¥2,523 million for the periods ended March 31, 2017 and September 30, 2016, respectively, the distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rates on KRR's income were 0.15% and 0.04% for the periods ended March 31, 2017 and September 30, 2016, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	As of March 31, 2017	As of September 30, 2016
Statutory tax rate	34.81%	31.74%
Deductible cash distributions	(34.76)	(31.79)
Others	0.10	0.09
Effective tax rate	0.15%	0.04%

The significant components of deferred tax assets and liabilities:

	As of March 31, 2017	As of September 30, 2016
	(in thousands of yen)	
Deferred tax assets:		
Enterprise tax payable	¥ 242	¥ 23
Amortization of leasehold right in trust	5,446	4,189
Depreciation	1,960	1,508
Asset retirement obligations	7,371	7,325
Deferred gains or losses on hedges	-	9,845
Subtotal deferred tax assets	15,020	22,892
Valuation allowance	(15,020)	(22,892)
Total deferred tax assets	¥ -	¥ -

14. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations reported on balance sheets

1. Summary of the asset retirement obligations

KRR has recognized the original state restoration obligations assumed under the fixed-term business-purpose land leasehold agreement as the asset retirement obligations in connection with Sunny Noma acquired on February 10, 2015.

2. Method of calculating asset retirement obligations

Asset retirement obligations are calculated based on a discount rate of 1.256% after the useful life has been estimated to be 22 years and two months based on the time period from the date of acquisition to the expiration of the agreement.

3. Changes in the amount of applicable asset retirement obligations consisted of the following

	From October 1, 2016 to March 31, 2017	From April 1, 2016 to September 30, 2016
	(in thousands of yen)	
Balance at the beginning of the period	¥23,190	¥23,045
Accretion adjustment	145	144
Balance at the end of the period	¥23,335	¥23,190

15. SEGMENT INFORMATION

Segment information for the period ended from October 1, 2016 to March 31, 2017 and April 1, 2016 to September 30, 2016 is as follows:

(A) Segment information

Disclosure is omitted because the real estate leasing business is KRR's sole business and it has no reportable segment information to disclose.

(B) Related information

(1) Information about each product and service

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

(2) Information about each geographic area

(a) Net sales

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

(b) Property, plant and equipment

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

(3) Information about each major customer

Disclosure is omitted because no net sales to a single external customer accounts for more than 10% of the operating revenue on the statements of income and retained earnings.

16. INVESTMENT AND RENTAL PROPERTIES

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

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

	From October 1, 2016 to March 31, 2017	From April 1, 2016 to September 30, 2016
	(in thousands of yen)	
Book value		
Balance at the beginning of the period	¥161,443,421	¥134,016,587
Changes during the period	5,338,600	27,426,833
Balance at the end of the period	166,782,022	161,443,421
Fair value at the end of the period	¥175,276,000	¥168,164,000

Note 1: Book value is acquisition cost less accumulated depreciation.

Note 2: Among changes in the amount of real estate for rental purposes that occurred during the fiscal period ended September 30, 2016, the principal increase was due to the acquisitions of real estate trust beneficiary interests in 7 properties totaling 27,834,390 thousand yen and the principal decrease was due to depreciation amounting to 714,026 thousand yen and during the fiscal period ended March 31, 2017, the principal increase was due to the acquisitions of real estate trust beneficiary interests in 2 properties totaling 5,711,745 thousand yen and additional acquisition of real estate trust beneficiary interest amounting to 94,633 thousand yen and the principal decrease was due to depreciation amounting to 721,460 thousand yen.

Note 3: The fair value at the end of the period is the appraisal value determined by outside appraisers.

The profit or loss for the period ended March 31, 2017 and September 30, 2016 concerning investment and rental properties is included in Note "6. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES."

17. PER UNIT INFORMATION

	From October 1, 2016 to March 31, 2017	From April 1, 2016 to September 30, 2016
Net asset value per unit	¥229,195	¥228,996
Net income per unit	¥6,043	¥6,069

Net income per unit is calculated by dividing net income by the day-weighted average number of investment units outstanding during the fiscal period ended March 31, 2017 (422,450 units) and during the fiscal period ended September 30, 2016 (414,983 units). Net income per unit after adjusting for residual units is not included because there were no residual investment units.

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

	From October 1, 2016 to March 31, 2017	From April 1, 2016 to September 30, 2016
Net income (in thousands of yen)	¥2,552,926	¥2,518,595
Net income not attributable to ordinary unitholders (in thousands of yen)	-	-
Net income attributable to ordinary unitholders (in thousands of yen)	¥2,552,926	¥2,518,595
Weighted average number of units during the period (units)	422,450	414,983

18. SIGNIFICANT SUBSEQUENT EVENTS

Issuance of new investment units

KRR passed resolutions at the Board of Directors' meetings held on March 31, 2017 and April 11, 2017, to issue new investment units to fund the acquisition of specified assets. Payments for the issuance of new investment units through public offering and through third-party allotment have been completed on April 18, 2017 and May 17, 2017, respectively. KRR used the net proceeds through third-party allotment for the repayment of loans payable.

As a result, unitholders' capital totaled ¥113,399,022,050 and total number of investment units issued and outstanding increased to 507,700 as of May 17, 2017.

(Issuance of new investment units through public offerings)

Total number of units issued:	81,250 units (Domestic 44,592 units, International 36,658 units)
Issue price (offer price):	¥232,537 per unit
Total amount of issue price (total offer price):	¥18,893,631,250
Paid-in amount (issue amount):	¥224,547 per unit
Total paid-in amount (total issue amount):	¥18,244,443,750
Payment date:	April 18, 2017

(Issuance of new investment units through third-party allotment)

Total number of units issued:	4,000 units
Paid-in amount (issue amount):	¥224,547 per unit
Total paid-in amount (total issue amount):	¥898,188,000
Payment date:	May 17, 2017
Allottee:	SMBC Nikko Securities Inc.

19. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following as of March 31, 2017:

Type of asset	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Depreciation		Net balance at the end of the period	Remarks
					Accumulated depreciation	Depreciation for the period		
(in thousands of yen)								
Construction in progress	¥35,243	¥ -	¥35,243	¥ -	¥ -	¥ -	¥ -	
Subtotal	35,243	-	35,243	-	-	-	-	
Buildings in trust	42,409,745	347,711	-	42,757,457	2,377,464	670,371	40,379,992	
Structures in trust	1,808,630	14,256	-	1,822,887	145,181	38,309	1,677,705	
Machinery and equipment in trust	203,295	-	-	203,295	11,445	4,862	191,850	
Tools, furniture and fixtures in trust	51,813	8,822	-	60,635	10,639	3,938	49,995	
Land in trust	118,225,350	5,711,745	-	123,937,095	-	-	123,937,095	*
Construction in progress in trust	12,015	18,167	5,398	24,784	-	-	24,784	
Subtotal	162,710,850	6,100,703	5,398	168,806,155	2,544,731	717,482	166,261,423	
Total	162,746,093	6,100,703	40,642	168,806,155	2,544,731	717,482	166,261,423	
Intangible assets	Leasehold right in trust	537,838	-	537,838	17,240	3,978	520,598	
	Other	2,809	504	-	3,314	1,249	2,064	
Total	¥540,648	¥504	¥ -	¥541,153	¥18,490	¥4,301	¥522,662	

*The amount of increase during the period is primarily attributable to the acquisition of the real estate properties.

Property, plant and equipment consists of the following as of September 30, 2016:

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

*The amount of increase during the period is primarily attributable to the acquisition of the real estate properties.

20. SHORT-TERM LOANS PAYABLE AND LONG-TERM LOANS PAYABLE

The following summarizes short-term loans payable and long-term loans payable outstanding as of March 31, 2017:

Classification	Lender	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Average interest rate	Payment due date (Note4)	Use	Remarks
						(Note2) (Note3)			
(in thousands of yen)						(%)			
Short-term loans payable	Sumitomo Mitsui Banking Corporation	¥2,050,000	¥ -	¥2,050,000	¥ -	0.530	October 2, 2016		
	Sumitomo Mitsui Banking Corporation	2,450,000	-	2,450,000	-	0.530	October 2, 2016		
	Sumitomo Mitsui Banking Corporation	450,000	-	450,000	-				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	450,000	-	450,000	-				
	Mizuho Bank, Ltd.	400,000	-	400,000	-	0.480	February 10, 2017		
	Resona Bank, Ltd.	250,000	-	250,000	-				
	Aozora Bank, Ltd.	250,000	-	250,000	-				
	Sumitomo Mitsui Trust Bank, Ltd.	200,000	-	200,000	-				
	Sumitomo Mitsui Banking Corporation	4,140,000	-	-	4,140,000	0.480	April 21, 2017		
	Mizuho Bank, Ltd.	360,000	-	-	360,000			(Note5)	Unsecured/ Non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,070,000	-	-	1,070,000	0.480	April 21, 2017		
	Sumitomo Mitsui Banking Corporation (Note7)	-	4,500,000	600,000	3,900,000	0.480	October 3, 2017		
	Sumitomo Mitsui Banking Corporation	-	450,000	-	450,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	450,000	-	450,000				
	Mizuho Bank, Ltd.	-	400,000	-	400,000	0.430	February 10, 2018		
	Resona Bank, Ltd.	-	250,000	-	250,000				
	Aozora Bank, Ltd.	-	250,000	-	250,000				
Sumitomo Mitsui Trust Bank, Ltd.	-	200,000	-	200,000					
Subtotal	12,070,000	6,500,000	7,100,000	11,470,000					
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation (Note8)	2,300,000	-	-	2,300,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note8)	800,000	-	-	800,000	0.545	February 10, 2018	(Note5)	Unsecured/ Non-guaranteed
	Mizuho Bank, Ltd. (Note8)	400,000	-	-	400,000				
	Mizuho Trust & Banking Co., Ltd. (Note8)	350,000	-	-	350,000				
	Subtotal	3,850,000	-	-	3,850,000				
Long-term loans payable	Sumitomo Mitsui Banking Corporation	2,400,000	-	-	2,400,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	800,000	-	-	800,000				
	Mitsubishi UFJ Trust and Banking Corporation	800,000	-	-	800,000				
	Sumitomo Mitsui Trust Bank, Limited	550,000	-	-	550,000	0.751	February 10, 2020	(Note5)	Unsecured/ Non-guaranteed
	Aozora Bank, Ltd.	500,000	-	-	500,000				
	Resona Bank, Limited	500,000	-	-	500,000				
	The Gunma Bank, Ltd.	400,000	-	-	400,000				
	The Musashino Bank, Ltd.	400,000	-	-	400,000				
	Mizuho Bank, Ltd.	350,000	-	-	350,000				
Mizuho Trust & Banking Co., Ltd.	300,000	-	-	300,000					

Classification	Lender	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Average interest rate (Note2) (Note3)	Payment due date (Note4)	Use	Remarks
		(in thousands of yen)				(%)			
Long-term loans payable	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	0.865	February 10, 2021	(Note5)	Unsecured/ Non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	700,000	-	-	700,000				
	Sumitomo Mitsui Trust Bank, Limited	500,000	-	-	500,000				
	Aozora Bank, Ltd.	450,000	-	-	450,000				
	Resona Bank, Limited	450,000	-	-	450,000				
	Mizuho Bank, Ltd.	400,000	-	-	400,000				
	Sumitomo Mitsui Banking Corporation	2,600,000	-	-	2,600,000	0.978	February 10, 2022		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	800,000	-	-	800,000				
	Sumitomo Mitsui Trust Bank, Limited	600,000	-	-	600,000				
	Aozora Bank, Ltd.	400,000	-	-	400,000				
	Mizuho Trust & Banking Co., Ltd.	400,000	-	-	400,000				
	Mizuho Bank, Ltd.	300,000	-	-	300,000				
	Resona Bank, Limited	300,000	-	-	300,000	0.925	February 10, 2021		
	Development Bank of Japan Inc. (Note6)	1,500,000	-	-	1,500,000				
	Development Bank of Japan Inc. (Note6)	1,600,000	-	-	1,600,000	1.033	February 10, 2022		
	Sumitomo Mitsui Banking Corporation	4,600,000	-	-	4,600,000	1.366	April 16, 2025		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	750,000	-	-	750,000	0.534	March 31, 2019		
	Aozora Bank, Ltd.	500,000	-	-	500,000				
	Mizuho Bank, Ltd.	400,000	-	-	400,000				
	Sumitomo Mitsui Trust Bank, Limited	200,000	-	-	200,000				
	Resona Bank, Limited	200,000	-	-	200,000				
	The Musashino Bank, Ltd.	150,000	-	-	150,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000	0.975	March 31, 2023		
	Sumitomo Mitsui Trust Bank, Limited	600,000	-	-	600,000				
	Mizuho Bank, Ltd.	400,000	-	-	400,000				
	Resona Bank, Limited	400,000	-	-	400,000				
	Mizuho Trust & Banking Co., Ltd.	400,000	-	-	400,000				
Mitsubishi UFJ Trust and Banking Corporation	400,000	-	-	400,000					
Development Bank of Japan Inc. (Note6)	1,500,000	-	-	1,500,000	0.994	March 31, 2023			
Sumitomo Mitsui Banking Corporation	1,850,000	-	-	1,850,000	0.545	March 31, 2019			
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	550,000	-	-	550,000					
Sumitomo Mitsui Trust Bank, Ltd.	500,000	-	-	500,000					
Resona Bank, Ltd.	300,000	-	-	300,000					
The Musashino Bank, Ltd.	250,000	-	-	250,000					

Classification	Lender	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Average interest rate	Payment due date (Note4)	Use	Remarks
						(Note2) (Note3)			
(in thousands of yen)					(%)				
Long-term loans payable	Mitsubishi UFJ Trust and Banking Corporation	450,000	-	-	450,000	0.987	March 31, 2023	(Note5)	Unsecured/ Non-guaranteed
	Resona Bank, Ltd.	200,000	-	-	200,000				
	The Musashino Bank, Ltd.	150,000	-	-	150,000				
	Development Bank of Japan Inc. (Note6)	1,500,000	-	-	1,500,000	1.013	March 31, 2023		
	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	1.110	March 31, 2024		
	Mizuho Bank, Ltd.	1,150,000	-	-	1,150,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000				
	Mizuho Trust & Banking Co., Ltd.	700,000	-	-	700,000				
	Sumitomo Mitsui Trust Bank, Ltd.	650,000	-	-	650,000				
	Resona Bank, Ltd.	500,000	-	-	500,000				
	Sumitomo Mitsui Banking Corporation	1,500,000	-	-	1,500,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	400,000	-	-	400,000	1.243	April 16, 2025		
	Mizuho Bank, Ltd.	710,000	-	-	710,000	0.368	September 30, 2019		
	Sumitomo Mitsui Trust Bank, Ltd.	620,000	-	-	620,000				
	Sumitomo Mitsui Trust Bank, Ltd.	450,000	-	-	450,000	0.803	September 30, 2024		
	Development Bank of Japan Inc. (Note6)	890,000	-	-	890,000	0.760	September 30, 2024		
	Sumitomo Mitsui Banking Corporation	2,670,000	-	-	2,670,000	0.932	April 21, 2026		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	890,000	-	-	890,000	0.888	October 31, 2025		
	The Gunma Bank, Ltd. (Note6)	-	500,000	-	500,000	0.550	September 30, 2021		
	Development Bank of Japan Inc. (Note6)	-	2,000,000	-	2,000,000	1.049			
Mizuho Trust & Banking Co., Ltd. (Note6)	-	1,000,000	-	1,000,000	1.049	January 31, 2027			
Resona Bank, Ltd.	-	500,000	-	500,000	1.002				
Subtotal	53,380,000	4,000,000	-	57,380,000					
Total	¥69,300,000	¥10,500,000	¥7,100,000	¥72,700,000					

Note1: Annual repayments of long-term loans payable (except for current portion of long-term loans payable) scheduled after the balance sheet date are as follows:

	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands yen)				
Long-term loans payable	¥5,650,000	¥8,330,000	¥7,000,000	¥7,500,000	¥28,900,000

Note2: All debts except for the following Note6 are borrowings at a floating rate.

Note3: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps are indicated.

Note4: All the repayment methods of debt financing except for the following Note7 are lump-sum repayments on the due date.

Note5: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note6: Borrowings at a fixed rate.

Note7: Partial prepayment of 600,000 thousand was made on October 31, 2016.

Note8: Borrowings listed in the current portion of long-term loans payable were listed in long-term loans payable in the previous fiscal period.

The following summarizes short-term loans payable and long-term loans payable outstanding as of September 30, 2016:

Classification	Lender	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Average interest rate	Payment due date	Use	Remarks
						(Note2) (Note3)			
					(in thousands of yen)	(%)			
Short-term loans payable	Sumitomo Mitsui Banking Corporation	¥2,050,000	¥ -	¥ -	¥2,050,000	0.539	October 2, 2016	(Note5)	Unsecured/ Non-guaranteed
	Sumitomo Mitsui Banking Corporation	2,450,000	-	-	2,450,000	0.539	October 2, 2016		
	Sumitomo Mitsui Banking Corporation	450,000	-	-	450,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	450,000	-	-	450,000				
	Mizuho Bank, Ltd.	400,000	-	-	400,000	0.489	February 10, 2017		
	Resona Bank, Ltd.	250,000	-	-	250,000				
	Aozora Bank, Ltd.	250,000	-	-	250,000				
	Sumitomo Mitsui Trust Bank, Ltd.	200,000	-	-	200,000				
	Sumitomo Mitsui Banking Corporation	-	4,140,000	-	4,140,000	0.484	April 21, 2017		
	Mizuho Bank, Ltd.	-	360,000	-	360,000				
	Sumitomo Mitsui Banking Corporation (Note7)	-	800,000	800,000	-	0.488	April 21, 2017		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,070,000	-	1,070,000	0.484	April 21, 2017		
	Subtotal	6,500,000	6,370,000	800,000	12,070,000				
Long-term loans payable	Sumitomo Mitsui Banking Corporation	2,300,000	-	-	2,300,000	0.751	February 10, 2020	(Note5)	Unsecured/ Non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	800,000	-	-	800,000				
	Mizuho Bank, Ltd.	400,000	-	-	400,000				
	Mizuho Trust & Banking Co., Ltd.	350,000	-	-	350,000				
	Sumitomo Mitsui Banking Corporation	2,400,000	-	-	2,400,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	800,000	-	-	800,000				
	Mitsubishi UFJ Trust and Banking Corporation	800,000	-	-	800,000				
	Sumitomo Mitsui Trust Bank, Limited	550,000	-	-	550,000				
	Aozora Bank, Ltd.	500,000	-	-	500,000				
	Resona Bank, Limited	500,000	-	-	500,000				
	The Gunma Bank, Ltd.	400,000	-	-	400,000				
	The Musashino Bank, Ltd.	400,000	-	-	400,000				
	Mizuho Bank, Ltd.	350,000	-	-	350,000				
	Mizuho Trust & Banking Co., Ltd.	300,000	-	-	300,000				
	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	700,000	-	-	700,000				
	Sumitomo Mitsui Trust Bank, Limited	500,000	-	-	500,000				
Aozora Bank, Ltd.	450,000	-	-	450,000					
Resona Bank, Limited	450,000	-	-	450,000					
Mizuho Bank, Ltd.	400,000	-	-	400,000					

Classification	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Average interest rate (Note2) (Note3)	Payment due date (Note4)	Use	Remarks
Lender	(in thousands of yen)				(%)			
Sumitomo Mitsui Banking Corporation	2,600,000	-	-	2,600,000				
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	800,000	-	-	800,000				
Sumitomo Mitsui Trust Bank, Limited	600,000	-	-	600,000	0.978	February 10, 2022		
Aozora Bank, Ltd.	400,000	-	-	400,000				
Mizuho Trust & Banking Co., Ltd.	400,000	-	-	400,000				
Mizuho Bank, Ltd.	300,000	-	-	300,000				
Resona Bank, Limited	300,000	-	-	300,000				
Development Bank of Japan Inc. (Note6)	1,500,000	-	-	1,500,000	0.925	February 10, 2021		
Development Bank of Japan Inc. (Note6)	1,600,000	-	-	1,600,000	1.033	February 10, 2022		
Sumitomo Mitsui Banking Corporation	4,600,000	-	-	4,600,000	1.366	April 16, 2025		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	750,000	-	-	750,000				
Aozora Bank, Ltd.	500,000	-	-	500,000				
Mizuho Bank, Ltd.	400,000	-	-	400,000	0.534	March 31, 2019		
Sumitomo Mitsui Trust Bank, Limited	200,000	-	-	200,000				
Resona Bank, Limited	200,000	-	-	200,000				
The Musashino Bank, Ltd.	150,000	-	-	150,000				
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000			(Note5)	Unsecured/ Non-guaranteed
Sumitomo Mitsui Trust Bank, Limited	600,000	-	-	600,000				
Mizuho Bank, Ltd.	400,000	-	-	400,000	0.975	March 31, 2023		
Resona Bank, Limited	400,000	-	-	400,000				
Mizuho Trust & Banking Co., Ltd.	400,000	-	-	400,000				
Mitsubishi UFJ Trust and Banking Corporation	400,000	-	-	400,000				
Development Bank of Japan Inc. (Note6)	1,500,000	-	-	1,500,000	0.994	March 31, 2023		
Sumitomo Mitsui Banking Corporation	1,850,000	-	-	1,850,000				
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	550,000	-	-	550,000				
Sumitomo Mitsui Trust Bank, Ltd.	500,000	-	-	500,000	0.545	March 31, 2019		
Resona Bank, Ltd.	300,000	-	-	300,000				
The Musashino Bank, Ltd.	250,000	-	-	250,000				
Mitsubishi UFJ Trust and Banking Corporation	450,000	-	-	450,000				
Resona Bank, Ltd.	200,000	-	-	200,000	0.987	March 31, 2023		
The Musashino Bank, Ltd.	150,000	-	-	150,000				
Development Bank of Japan Inc. (Note6)	1,500,000	-	-	1,500,000	1.013	March 31, 2023		

Classification	Lender	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Average interest rate	Payment due date (Note4)	Use	Remarks
						(Note2) (Note3)			
(in thousands of yen)						(%)			
Long-term loans payable	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	1.110	March 31, 2024		
	Mizuho Bank, Ltd.	1,150,000	-	-	1,150,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000				
	Mizuho Trust & Banking Co., Ltd.	700,000	-	-	700,000				
	Sumitomo Mitsui Trust Bank, Ltd.	650,000	-	-	650,000				
	Resona Bank, Ltd.	500,000	-	-	500,000				
	Sumitomo Mitsui Banking Corporation	1,500,000	-	-	1,500,000	1.243	April 16, 2025	(Note5)	Unsecured/ Non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	400,000	-	-	400,000				
	Mizuho Bank, Ltd.	-	710,000	-	710,000				
	Sumitomo Mitsui Trust Bank, Ltd.	-	620,000	-	620,000				
	Sumitomo Mitsui Trust Bank, Ltd.	-	450,000	-	450,000				
	Development Bank of Japan Inc. (Note6)	-	890,000	-	890,000				
	Sumitomo Mitsui Banking Corporation	-	2,670,000	-	2,670,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	890,000	-	890,000				
	Subtotal	51,000,000	6,230,000	-	57,230,000				
	Total	¥ 57,500,000	¥12,600,000	¥800,000	¥69,300,000				

Note1: Annual repayments of long-term loans payable (except for current portion of long-term loans payable) scheduled after the balance sheet date are as follows:

	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands yen)				
Long-term loans payable	¥3,850,000	¥6,980,000	¥7,000,000	¥7,000,000	¥32,400,000

Note2: All debts except for the following Note6 are borrowings at a floating rate.

Note3: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps are indicated.

Note4: All the repayment methods of debt financing except for the following Note7 are lump-sum repayments on the due date.

Note5: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note6: Borrowings at a fixed rate.

Note7: Prepayment was made on May 31, 2016.

21. INVESTMENT CORPORATION BONDS

Outstanding Investment corporation bonds as of March 31, 2017 are as follows.

Series	Date of issue	Balance at the beginning of period		Decrease during the period		Balance at the end of period	Interest rate	Repayment date	Use	Remarks
		¥	-	¥	-					
		(in thousands of yen)				(%)				
First series of unsecured investment corporation bonds (Note 1)	October 31, 2016	¥	-	¥	-	¥1,000,000	0.200	October 29, 2021	(Note2)	Unsecured
Second series of unsecured investment corporation bonds (Note 1)	October 31, 2016		-		-	1,000,000	0.600	October 30, 2026		
Total		¥	-	¥	-	¥2,000,000				

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

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

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

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

Outstanding Investment corporation bonds as of September 30, 2016

Not applicable

22. DISTRIBUTIONS

	From October 1, 2016 to March 31, 2017	From April 1, 2016 to September 30, 2016
I. Retained earnings at the end of period	¥2,584,343,087	¥2,518,802,609
II. Distributions in excess of earnings	-	¥36,330,700
Of which, allowance for temporary difference adjustments	-	¥36,330,700
III. Incorporation into unitholders' capital	¥30,838,850	-
Of which, reversal of allowance for temporary difference adjustments	¥30,838,850	-
IV. Total distributions	¥2,553,287,800	¥2,523,716,300
Distributions per unit	¥6,044	¥5,974
Of which, distributions of earnings	¥2,553,287,800	¥2,487,385,600
Of which, distributions of earnings per unit	¥6,044	¥5,888
Of which, allowance for temporary difference adjustments	-	¥36,330,700
Of which, distributions in excess of earnings per unit (allowance for temporary difference adjustments)	-	¥86
V. Retained earnings brought forward to the next period	¥216,437	¥31,417,009

Method of calculating distribution amount	<p>In accordance with the policy described in Article 39-1 of its Articles of Incorporation, KRR determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law and shall be up to its profits as the maximum amount. Following this policy, KRR has decided that it shall distribute ¥2,553,287,800 which is almost the entire amount of income as defined in Article 136-1 of the Investment Trust Act after deduction of reversal of allowance for temporary difference adjustments (as defined in Article 2-2-30 of the Ordinance on Accountings of Investment Corporations). Procedures for the distribution of amounts exceeding distributable income are outlined in Article 39-2 of KRR's Articles of Incorporation. In the fourth fiscal period, KRR has decided not to distribute cash in excess of distributable profit.</p>	<p>In accordance with the policy described in Article 39-1 of its Articles of Incorporation, KRR determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law and shall be up to its profits as the maximum amount. Following this policy, KRR has decided that it shall distribute ¥2,487,385,600 which is almost the entire amount of income as defined in Article 136-1 of the Investment Trust Act. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 39-2 of KRR's Articles of Incorporation. Furthermore, in accordance with the policy for "Distribution of Money in Excess of Profits" as stated in Article 39-2 of KRR's Articles of Incorporation, KRR made a distribution in excess of earnings of ¥36,330,700 for allowance for temporary difference adjustments (as defined in Article 2-2-30 (a) of the Ordinance on Accountings of Investment Corporations) for the purpose of reflecting the effect on distributions of the difference in earnings calculated under Japanese GAAP and Japanese tax laws (as defined in Article 2-2-30 (a) of the Ordinance on Accountings of Investment Corporations) in association with the amortization of fixed-term land leasehold rights and of the item deducted from net asset (as defined in Article 2-2-30 (b) of the Ordinance on Accountings of Investment Corporations) in association with deferred losses on hedges.</p>
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4th Fiscal Period (From October 1, 2016 to March 31, 2017)

1. Reasons, related assets and allowance

(in thousands of yen)

Related assets, etc.	Reason	Allowance for temporary difference adjustments
Deferred gains or losses on hedges	Changes in the fair value of derivative instruments	¥30,838

2. Method of reversal

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

3rd Fiscal Period (From April 1, 2016 to September 30, 2016)

1. Reasons, related assets and allowance

(in thousands of yen)

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

2. Method of reversal

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

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