

**Translation of Japanese Original****FINANCIAL REPORT FOR THE FISCAL PERIOD ENDED JULY 31, 2020(REIT)
(February 1, 2020 to July 31, 2020)**

September 14, 2020

Kenedix Residential Next Investment Corporation is listed on the Tokyo Stock Exchange with the securities code number 3278.

(URL <https://www.kdr-reit.com/en/>)

Representative: Keisuke Sato, Executive Director

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

Representative: Masahiko Tajima, CEO and President

Inquiries: Shin Yamamoto, Head of Planning Division, Residential REIT Department

TEL+81-3-5157-6011

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Preparing presentation material: Yes

Hold a financial brief meeting: No (Cancelled due to preventing the spread of coronavirus infection. Scheduled financial results presentation webcast (Japanese version) .)

(Amounts are rounded down to the nearest ¥million)

1. PERFORMANCE FOR THE FISCAL PERIOD ENDED JULY 31, 2020 (17TH FISCAL PERIOD)**(1) Business Results**

(Percentages show period-on-period changes)

	Operating Revenues (Millions of Yen)		Operating Income (Millions of Yen)		Ordinary Income (Millions of Yen)		Net Income (Millions of Yen)	
The 17th fiscal period ended July 31, 2020	8,374	(3.8%)	4,469	(4.9%)	3,808	(5.4%)	3,808	(5.4%)
The 16th fiscal period ended January 31, 2020	8,066	(-0.9%)	4,260	(-2.3%)	3,614	(-3.4%)	3,613	(-3.4%)

	Net Income per Unit (Yen)	Return on Unitholders' Equity	Ordinary Income to Total Assets	Ordinary Income to Operating Revenues
The 17th fiscal period ended July 31, 2020	4,028	3.1%	1.4%	45.5%
The 16th fiscal period ended January 31, 2020	3,981	3.0%	1.4%	44.8%

(2) Distribution

	Distribution per Unit (Excluding Excess of Earnings) (Yen)	Total Distributions (Excluding Excess of Earnings) (Millions of Yen)	Distribution in Excess of Earnings per Unit (Yen)	Total Distributions in Excess of Earnings (Millions of Yen)	Payout Ratio	Distribution Ratio to Unitholders' Equity
The 17th fiscal period ended July 31, 2020	4,065	3,866	-	-	101.5%	3.1%
The 16th fiscal period ended January 31, 2020	4,064	3,687	-	-	102.1%	3.1%

(Note 1) Total Distributions for the 16th and 17th fiscal periods is not the same amount as Net Income because of adding reversal of reserve for temporary difference adjustments and a part of Retained earnings brought forward.

(Note 2) Due to issuance of new investment units in the 17th period, Payout Ratio for each fiscal period is calculated as follows.
Payout Ratio = Total Distributions (Excluding Excess of Earnings) / Net income × 100

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(3) Financial Position

	Total Assets (Millions of Yen)	Unitholders' Equity (Millions of Yen)	Unitholders' Equity to Total Assets	Unitholders' Equity per Share of Common Stock (Yen)
As of July 31, 2020	272,960	127,457	46.7%	133,988
As of January 31, 2020	256,665	118,500	46.2%	130,584

(4) Cash Flow Position

	Cash Flow from Operating Activities (Millions of Yen)	Cash Flow from Investing Activities (Millions of Yen)	Cash Flow from Financing Activities (Millions of Yen)	Cash and Cash Equivalents at the End of the Period (Millions of Yen)
The 17th fiscal period ended July 31, 2020	5,565	-15,828	12,481	23,384
The 16th fiscal period ended January 31, 2020	5,685	-2,764	-1,955	21,165

2. FORECAST OF RESULTS FOR THE FISCAL PERIOD ENDING JANUARY 31, 2021 (August 1, 2020 to January 31, 2021) AND JULY 31, 2021 (February 1, 2021 to July 31, 2021)

(Percentages show period-on-period changes)

	Operating Revenues (Millions of Yen)	Operating Income (Millions of Yen)	Ordinary Income (Millions of Yen)	Net Income (Millions of Yen)	Distribution per Unit Excluding Excess of Earning	Distribution in Excess of Earnings per Unit
The 18th fiscal period ending January 31, 2021	8,369 (-0.1%)	4,348 (-2.7%)	3,649 (-4.2%)	3,649 (-4.2%)	4,066	-
The 19th fiscal period ending July 31, 2021	8,477 (1.3%)	4,413 (1.5%)	3,732 (2.3%)	3,731 (2.3%)	4,067	-

(Reference) Estimated net income per unit (Estimated Net Income / Estimated weighted average number of units)

The 18th fiscal period ending January 31, 2021 ¥3,836 The 19th fiscal period ending July 31, 2021 ¥3,923

Total Distributions for the 18th and 19th fiscal periods are not the same amount as Net Income because of adding reversal of reserve for temporary difference adjustments and a part of Retained earnings brought forward.

(Note) Distribution per unit is calculated based on the number of investment units issued and outstanding totaled 951,258 as of today.

3. OTHER

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

- (a) Changes concerning accounting policy accompanying amendments to accounting standards: No
- (b) Changes other than (a): No
- (c) Changes in accounting estimate: No
- (d) Retrospective restatement: No

(2) Number of Investment Unit Issued and Outstanding (including treasury units)

- (a) Number of investment units issued and outstanding at the end of the period (including treasury units)
As of January 31, 2020: 907,458 units As of July 31, 2020: 951,258 units
- (b) Number of treasury units at the end of the period
As of January 31, 2020: 0 units As of July 31, 2020: 0 units

[Provisional Translation Only]

English translation of the original Japanese document is provided solely for information purposes. Should there be any discrepancies between this translation and the Japanese original, the latter shall prevail.

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1. Financial Statements

(1) Balance Sheets

	(in thousands of yen)	
	16th Fiscal Period (As of January 31, 2020)	17th Fiscal Period (As of July 31, 2020)
Assets		
Current assets		
Cash and deposits	10,978,807	13,212,337
Cash and deposits in trust	10,187,104	10,171,729
Operating accounts receivable	37,373	31,793
Prepaid expenses	8,640	14,671
Consumption taxes receivable	-	35,339
Other	589	9,032
Total current assets	21,212,515	23,474,905
Noncurrent assets		
Property, plant and equipment		
Land	1,798,041	1,798,041
Buildings in trust	100,799,661	104,694,136
Accumulated depreciation	-11,698,397	-13,024,172
Buildings in trust, net	89,101,264	91,669,964
Structures in trust	1,089,011	1,127,421
Accumulated depreciation	-223,450	-252,221
Structures in trust, net	865,561	875,199
Machinery and equipment in trust	1,448,282	1,468,718
Accumulated depreciation	-353,874	-386,760
Machinery and equipment in trust, net	1,094,407	1,081,958
Tools, furniture and fixtures in trust	570,610	693,103
Accumulated depreciation	-81,223	-99,834
Tools, furniture and fixtures in trust, net	489,387	593,268
Land in trust	139,731,924	150,985,849
Total property, plant and equipment, net	233,080,586	247,004,281
Intangible assets		
Leasehold right in trust	1,227,187	1,225,462
Other	4,787	4,010
Total intangible assets	1,231,974	1,229,473
Investments and other assets		
Lease and guarantee deposits	89,097	89,210
Long-term prepaid expenses	945,375	1,014,382
Other	338	19,719
Total investments and other assets	1,034,810	1,123,311
Total noncurrent assets	235,347,371	249,357,066
Deferred assets		
Investment corporation bond issuance costs	49,303	45,185
Investment unit issuance costs	56,620	83,246
Total deferred assets	105,924	128,431
Total assets	256,665,810	272,960,403

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION (3278)

(in thousands of yen)

	16th Fiscal Period (As of January 31, 2020)	17th Fiscal Period (As of July 31, 2020)
Liabilities		
Current liabilities		
Operating accounts payable	595,433	626,063
Short-term loans payable	3,300,000	2,800,000
Current portion of long-term loans payable	10,100,000	10,850,000
Accounts payable-other	294,697	353,107
Accrued expenses	35,152	38,676
Income taxes payable	605	605
Accrued consumption taxes	53,827	10,812
Advances received	1,173,813	1,179,888
Deposits received	59,879	82,406
Other	4,090	1,704
Total current liabilities	15,617,497	15,943,264
Noncurrent liabilities		
Investment corporation bonds	7,000,000	7,000,000
Long-term loans payable	107,250,000	114,400,000
Tenant leasehold and security deposits in trust	3,059,671	3,132,139
Tenant lump sum deposits in trust	4,689,541	4,485,740
Asset retirement obligations	67,522	67,707
Other	481,213	473,947
Total noncurrent liabilities	122,547,949	129,559,535
Total liabilities	138,165,447	145,502,799
Net assets		
Unitholders' equity		
Unitholders' capital	99,731,514	108,550,294
Surplus		
Capital surplus	13,187,100	13,187,100
Voluntary retained earnings		
Reserve for temporary difference adjustments	*2 1,960,000	*2 1,940,000
Total voluntary retained earnings	1,960,000	1,940,000
Unappropriated retained earnings (undisposed loss)	4,072,277	4,212,398
Total surplus	19,219,377	19,339,498
Total unitholders' equity	118,950,891	127,889,792
Valuation and translation adjustments		
Deferred gains or losses on hedges	-450,527	-432,188
Total valuation and translation adjustments	-450,527	-432,188
Total net assets	*1 118,500,363	*1 127,457,603
Total liabilities and net assets	256,665,810	272,960,403

(2) Statements of Income and Retained Earnings

(in thousands of yen)

	16th Fiscal Period August 1, 2019 to January 31, 2020	17th Fiscal Period February 1, 2020 to July 31, 2020
Operating revenues		
Rent revenue-real estate	*1 7,472,039	*1 7,704,582
Other lease business revenue	*1 555,566	*1 585,197
Gain on sale of real estate property	*2 39,013	*2 84,437
Total operating revenues	8,066,618	8,374,217
Operating expenses		
Expenses related to rent business	*1 2,911,303	*1 3,005,600
Asset management fees	576,676	604,986
Asset custody fees	13,836	13,908
Administrative service fees	46,625	46,472
Directors' compensation	8,100	8,100
Other operating expenses	249,665	225,746
Total operating expenses	3,806,207	3,904,813
Operating income	4,260,411	4,469,404
Non-operating income		
Interest income	41	41
Dividends and redemption-prescription	1,394	1,240
Total non-operating income	1,435	1,282
Non-operating expenses		
Interest expenses	498,295	498,083
Interest expenses on investment corporation bonds	15,857	21,322
Borrowing expenses	112,332	115,280
Amortization of investment corporation bond issuance costs	3,534	4,118
Amortization of investment unit issuance costs	16,324	23,245
Other	1,500	-
Total non-operating expenses	647,845	662,051
Ordinary income	3,614,002	3,808,635
Income before income taxes	3,614,002	3,808,635
Income taxes		
Current	605	605
Total income taxes	605	605
Net income	3,613,397	3,808,030
Retained earnings brought forward	458,879	404,367
Unappropriated retained earnings (undisposed loss)	4,072,277	4,212,398

(3) Statements of Changes in Net Assets

16th Fiscal Period August 1, 2019 to January 31, 2020

(in thousands of yen)

	Unitholders' equity						
	Unitholders' capital	Capital surplus	Voluntary reserve		Unappropriated retained earnings (undisposed loss)	Total surplus	Total unitholders' equity
			Reserve for temporary difference adjustments	Total voluntary reserve			
Balance at the beginning of current period	99,731,514	13,187,100	1,980,000	1,980,000	4,125,881	19,292,981	119,024,495
Changes of items during the period							
Reversal of reserve for temporary difference adjustments			-20,000	-20,000	20,000	-	-
Dividends from surplus					-3,687,001	-3,687,001	-3,687,001
Net income					3,613,397	3,613,397	3,613,397
Net changes of items other than unitholders' equity							
Total changes of items during the period	-	-	-20,000	-20,000	-53,604	-73,604	-73,604
Balance at the end of current period	* 1 99,731,514	13,187,100	1,960,000	1,960,000	4,072,277	19,219,377	118,950,891

	Valuation and translation adjustments		Total net assets
	Deferred gains and losses on hedges	Total valuation and translation adjustments	
Balance at the beginning of current period	-483,092	-483,092	118,541,403
Changes of items during the period			
Provision for reserve for temporary difference adjustments			-
Dividends from surplus			-3,687,001
Net income			3,613,397
Net changes of items other than unitholders' equity	32,564	32,564	32,564
Total changes of items during the period	32,564	32,564	-41,039
Balance at the end of current period	-450,527	-450,527	118,500,363

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION (3278)

17th Fiscal Period February 1, 2020 to July 31, 2020

(in thousands of yen)

	Unitholders' equity						
	Unitholders' capital	Surplus					Total unitholders' equity
		Capital surplus	Voluntary reserve		Unappropriated retained earnings (undisposed loss)	Total surplus	
			Reserve for temporary difference adjustments	Total voluntary reserve			
Balance at the beginning of current period	99,731,514	13,187,100	1,960,000	1,960,000	4,072,277	19,219,377	118,950,891
Changes of items during the period							
Issuance of new investment units	8,818,779						8,818,779
Reversal of reserve for temporary difference adjustments			-20,000	-20,000	20,000	-	-
Dividends from surplus					-3,687,909	-3,687,909	-3,687,909
Net income					3,808,030	3,808,030	3,808,030
Net changes of items other than unitholders' equity							
Total changes of items during the period	8,818,779	-	-20,000	-20,000	140,121	120,121	8,938,900
Balance at the end of current period	* 1 108,550,294	13,187,100	1,940,000	1,940,000	4,212,398	19,339,498	127,889,792

	Valuation and translation adjustments		Total net assets
	Deferred gains and losses on hedges	Total valuation and translation adjustments	
Balance at the beginning of current period	-450,527	-450,527	118,500,363
Changes of items during the period			
Issuance of new investment units			8,818,779
Provision for reserve for temporary difference adjustments			-
Dividends from surplus			-3,687,909
Net income			3,808,030
Net changes of items other than unitholders' equity	18,339	18,339	18,339
Total changes of items during the period	18,339	18,339	8,957,239
Balance at the end of current period	-432,188	-432,188	127,457,603

(4) Distributions

	16th Fiscal Period (From August 1, 2019 to January 31, 2020)	17th Fiscal Period (From February 1, 2020 to July 31, 2020)
I. Retained earnings at the end of period	¥4,072,277,167	¥4,212,398,326
II. Revesal of voluntary reserve Reversal of reserve for temporary difference adjustments *1	¥20,000,000	¥20,000,000
III. Total distributions Distribution per unit	¥3,687,909,312 ¥4,064	¥3,866,863,770 ¥4,065
IV. Retained earnings brought forward to the next period	¥404,367,855	¥365,534,556
Method of calculating distribution amount	In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall not exceed its accounting profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥3,687,909,312, which is the amount of ¥3,613,397,493 in net income and ¥54,511,819 from retained earnings brought forward and reversal of reserve for temporary difference adjustments, as the distribution of earnings. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the 16th fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.	In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall not exceed its accounting profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥3,866,863,770, which is the amount of ¥3,808,030,471 in net income and ¥38,833,299 from retained earnings brought forward and reversal of reserve for temporary difference adjustments, as the distribution of earnings. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the 17th fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.

(5) Statements of Cash Flows

(in thousands of yen)

	16th Fiscal Period August 1, 2019 to January 31, 2020	17th Fiscal Period February 1, 2020 to July 31, 2020
Net cash provided by (used in) operating activities		
Income before income taxes	3,614,002	3,808,635
Depreciation and amortization	1,429,641	1,467,881
Amortization of investment corporation bond issuance expenses	3,534	4,118
Amortization of investment unit issuance costs	16,324	23,245
Interest income	-41	-41
Interest expenses	514,152	519,406
Decrease (increase) in operating accounts receivable	-1,368	5,580
Decrease (increase) in consumption taxes refund receivable	-	-35,339
Decrease (increase) in prepaid expenses	4,175	-6,031
Increase (decrease) in operating accounts payable	82,398	-112,093
Increase (decrease) in accounts payable-other	-9,042	58,913
Increase (decrease) in accrued consumption taxes	32,352	-43,015
Increase (decrease) in advances received	25,159	6,075
Decrease (increase) in long-term prepaid expenses	69,352	-69,007
Decrease in net property, plant and equipment held in trust due to sale	420,922	451,169
Other, net	4,194	12,738
Subtotal	6,205,759	6,092,236
Interest income received	41	41
Interest expenses paid	-519,985	-526,470
Income taxes (paid) refund	135	-604
Net cash provided by (used in) operating activities	5,685,950	5,565,201
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	-2,922,615	-15,697,335
Proceeds from investment securities	2,276	-
Payments of lease and guarantee deposits	-72	-112
Proceeds from lease and guarantee deposits	72	-
Repayments of tenant leasehold and security deposits in trust	-160,351	-134,722
Proceeds from tenant leasehold and security deposits in trust	120,380	207,190
Repayments of tenant lump sum deposits in trust	-72,386	-364,510
Proceeds from tenant lump sum deposits in trust	268,174	160,709
Net cash provided by (used in) investing activities	-2,764,521	-15,828,780
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	800,000	2,000,000
Decrease in short-term loans payable	-	-2,500,000
Proceeds from long-term loans payable	6,150,000	13,900,000
Repayments of long-term loans payable	-7,200,000	-6,000,000
Proceeds from issuance of investment corporation bond	1,982,489	-
Proceeds from issuance of investment units	-	8,768,907
Dividends paid	-3,687,673	-3,687,172
Net cash provided by (used in) financing activities	-1,955,184	12,481,735
Net increase (decrease) in cash and cash equivalents	966,243	2,218,156
Cash and cash equivalents at the beginning of period	20,199,667	21,165,911
Cash and cash equivalents at the end of period	*1 21,165,911	*1 23,384,067

(6) Notes to the Going Concern

Not applicable

(7) Important Accounting Standards

<p>1. Depreciation of fixed assets</p>	<p>(1) Property, plant and equipment (includes trust assets) The straight-line method is applied. Useful lives of the assets ranging are as follows: Buildings: 2 to 69 years Structures: 3 to 65 years Machinery and equipment: 8 to 40 years Tools, furniture and fixtures: 2 to 30 years</p> <p>(2) Intangible assets(includes trust assets) The straight-line method is applied. Land leasehold: Fixed term land leaseholds is amortized over a contractual period under the straight-line method.</p> <p>(3) Long-term prepaid expenses The straight-line method is applied.</p>
<p>2. Accounting policies for deferred assets</p>	<p>(1) Unit issuance costs Unit issuance costs are amortized over a period of 3 years under the straight-line method.</p> <p>(2) Investment corporation bond issuance costs Bond issuance costs are amortized by applying the straight-line method for the entire redemption period.</p>
<p>3. Accounting standards for revenues and expenses</p>	<p>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.</p> <p>When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥31,734 thousand and ¥1,263 thousand as of July 31, 2020 and January 31, 2020, respectively.</p>
<p>4. Accounting for hedges</p>	<p>(1) Hedge accounting method The deferred hedge method is applied. However, the special treatment is applied for the interest-rate swap agreements that meet the criteria.</p> <p>(2) Hedging instruments and risks hedged Hedge instruments The Investment Corporation enters into interest-rate swap transactions. Risks hedged Interest rates on debt.</p> <p>(3) Hedging policy The Investment Corporation enters into derivative transactions based on its risk management policies with the objective of hedging risks in accordance with its Articles of Incorporation.</p> <p>(4) Method of evaluating the effectiveness of hedging As for the method of assessment of the effectiveness of the hedge in the period from the inception of the hedge to the time of judgment of its effectiveness, the cumulative changes in cash flow of the hedged items and hedging instruments are compared and a judgment is made based on changed amount, etc. However, an assessment of the effectiveness of hedging activities is omitted in the case of interest rate swaps that meet the requirements for special treatment.</p>
<p>5. The scope of cash and cash equivalents on statements of cash flows</p>	<p>Cash and cash equivalents consist of cash on hand, deposits placed with banks and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of market value fluctuation, with maturities of three months or less from the date of purchase.</p>
<p>6. Other significant accounting policies utilized in the preparation of financial statements</p>	<p>(1) Accounting method for trust beneficiary interests in real estate and other assets The assets and liabilities as well as revenues and expenses of financial assets held in the form of trust beneficiary interests in real estate and other assets are recorded in full in the Investment Corporation’s balance sheets and statements of income. Important line items included in accounting for financial assets and liabilities in the Investment Corporation’s balance sheet are as follows: 1. Cash and deposits in trust 2. Buildings in trust, structures in trust, machinery and equipment in trust, tools, furniture and fixtures in trust, land in trust, leasehold right in trust 3. Tenant leasehold and security deposits in trust, tenant lump sum deposits in trust</p> <p>(2) Accounting method for consumption tax Consumption taxes are separately recorded. Non-deductible consumption taxes applicable to the acquisition of assets are included in the cost of acquisition for each asset.</p>

(Accounting standards issued but not yet effective)

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29 issued on March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 issued on March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States have jointly developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” (IFRS 15 (IASB) and Topic 606 (FASB)) in May 2014. Given the situation where IFRS 15 will be applied from fiscal years beginning on or after January 1, 2018 and that Topic 606 will be applied from fiscal years beginning after December 15, 2017, the ASBJ has developed comprehensive accounting standards for revenue recognition and issued them together with the implementation guidance.

The basic policy of the ASBJ when it developed the accounting standards for revenue recognition was to specify the accounting standards, incorporating the basic principles of IFRS 15 as a starting point, from the perspective of comparability between financial statements, which is one of the benefits of maintaining compatibility with IFRS 15. The basic policy also stipulates that if there is an item to which consideration should be given, such as practices that have been conducted thus far in Japan, alternative treatments will be added to the extent to which comparability is not impaired.

(2) Scheduled date of application

The accounting standards will be applied from the beginning of the fiscal period ending January 31, 2022.

(3) Impact of applying the accounting standards

The impact of applying “Accounting Standard for Revenue Recognition” and its guidance on The financial statements is currently under evaluation.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30 issued on July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31 issued on July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 issued on March 31, 2020)

(1) Overview

The IASB and the FASB have established detailed guidance regarding fair value measurement (IFRS 13 “Fair Value Measurement” (IASB) and Topic 820 “Fair Value Measurement” (FASB)). The ASBJ repeatedly considered the guidance regarding fair value of financial instruments and disclosure in order to improve the comparability with such international accounting standards, and issued “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement.”

(2) Scheduled date of application

The accounting standards will be applied from the beginning of the fiscal period ending January 31, 2022.

(3) Impact of applying the accounting standards

The impact of applying the “Accounting Standard for Fair Value Measurement” and its guidance on The financial statements is currently under evaluation.

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31 issued on March 31, 2020)

(1) Overview

Paragraph 125 of International Accounting Standard 1 (IAS 1), “Presentation of Financial Statements,” (issued by the IASB in 2003) requires disclosure of information about the “assumptions the entity makes about the future, and other major sources of estimation uncertainty.” In this regard, there has been a request that the major sources of estimation uncertainty should be disclosed in the notes to financial statements under Japanese GAAP to provide useful information to users of financial statements. In response to this request, the ASBJ developed and issued “Accounting Standard for Disclosure of Accounting Estimates.”

(2) Scheduled date of application

The accounting standard will be applied from the end of the fiscal period ending July 31, 2021.

- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24 issued on March 31, 2020)

(1) Overview

The ASBJ’s Standards Advisory Council recommended that the ASBJ consider enhancing disclosures for notes relating to “accounting policies and methods adopted in the cases where the relevant accounting standards were not clear.” In response to such recommendations, the ASBJ issued the revised “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.”

(2) Scheduled date of application

The accounting standard will be applied from the end of the fiscal period ending July 31, 2021.

(8) Notes to the Financial Statements

(Notes to the Balance Sheets)

- * 1. Minimum unitholders’ equity pursuant to Article 67-4 of the Law Concerning Investment Trusts and Investment Corporations Law

(in thousands of yen)

As of January 31, 2020	As of July 31, 2020
50,000	50,000

- *2. Reserve for temporary difference adjustments

16th Fiscal Period (As of January 31, 2020)

The following summarizes reserve for temporary difference adjustments.						(in thousands of yen)
Initial amount	Balance at the beginning of the period	Reserve during the period	Reversal during the period	Balance at the end of the period	Reason for reserve and reversal	
Gain on negative good will*	2,000,000	1,980,000	-	20,000	1,960,000	Appropriate for distribution

- * The Investment Corporation has reserved a part of gain on negative goodwill in the 13th fiscal period as reserve for temporary difference adjustments. At least 1% of the initial amount in equal installments over 50 years (100 fiscal periods) will be reversed every fiscal period starting from the next fiscal period after the period, in which the initial amount was reserved.

17th Fiscal Period (As of July 31, 2020)

The following summarizes reserve for temporary difference adjustments.						(in thousands of yen)
Initial amount	Balance at the beginning of the period	Reserve during the period	Reversal during the period	Balance at the end of the period	Reason for reserve and reversal	
Gain on negative good will*	2,000,000	1,960,000	-	20,000	1,940,000	Appropriate for distribution

- * The Investment Corporation has reserved a part of gain on negative goodwill in the 13th fiscal period as reserve for temporary difference adjustments. At least 1% of the initial amount in equal installments over 50 years (100 fiscal periods) will be reversed every fiscal period starting from the next fiscal period after the period, in which the initial amount was reserved.

3. Commitment line contracts

KDR has commitment line contracts with the banks with which it does business.

	As of January 31, 2020	As of July 31, 2020
Total amount of commitment line contracts	4,500,000	4,500,000
Balance of loans payable outstanding	-	-
Remaining amount	4,500,000	4,500,000

(Notes to the Statements of Income and Retained Earnings)

* 1. Breakdown of real estate rental business profit and loss

(in thousands of yen)

	From August 1, 2019 to January 31, 2020	From February 1, 2020 to July 31, 2020
A. Rental and other operating revenues:		
Rental revenues	7,089,789	7,315,802
Rental revenues from limited proprietary rights of land	43,749	43,750
Common area charges	338,499	345,030
Subtotal	7,472,039	7,704,582
Others:		
Parking space rental revenues	206,829	205,439
Miscellaneous	348,736	379,757
Subtotal	555,566	585,197
Total rental and other operating revenues	8,027,605	8,289,780
B. Property-related expenses:		
Property management fees and facility management fees	409,507	433,235
Utilities	95,299	89,588
Taxes	475,323	498,996
Repairs and maintenance	281,724	288,648
Insurance	12,023	12,101
Trust fees	55,272	55,499
Depreciation	1,428,865	1,467,105
Others	153,286	160,424
Total property-related expenses	2,911,303	3,005,600
C. Net operating income (A-B)	5,116,301	5,284,179

*2. Gain and Loss on sale of real estate property

16th Fiscal Period (August 1, 2019 to January 31, 2020)

(in thousands of yen)

Melody Heim Gotenyama	
Revenue from sale of the investment property	480,000
Costs of the investment property	420,922
Other sales expenses	20,063
Gain on sale of real estate property	39,013

17th Fiscal Period (February 1, 2020 to July 31, 2020)

(in thousands of yen)

KDX Residence Izumi Chuo	
Revenue from sale of the investment property	540,000
Costs of the investment property	451,169
Other sales expenses	4,392
Gain on sale of real estate property	84,437

(Notes to the Statements of Changes in Net Assets)

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

	From August 1, 2019 to January 31, 2020	From February 1, 2020 to July 31, 2020
Total number of authorized investment units	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	907,458 units	951,258 units

(Notes to Distributions)

16th Fiscal Period (August 1, 2019 to January 31, 2020)

*1. Reserve for temporary difference adjustments

The Investment Corporation has reserved ¥2,000,000,000 as reserve for temporary difference adjustments from gain on negative goodwill in the 13th fiscal period. At least 1% of the initial amount in equal installments over 50 years (100 fiscal periods) will be reversed every fiscal period applied to distribution starting from the 14th fiscal period distribution. It has been decided that ¥20,000,000 shall be reversed and applied to distribution in the 16th fiscal period distribution.

17th Fiscal Period (February 1, 2020 to July 31, 2020)

*1. Reserve for temporary difference adjustments

The Investment Corporation has reserved ¥2,000,000,000 as reserve for temporary difference adjustments from gain on negative goodwill in the 13th fiscal period. At least 1% of the initial amount in equal installments over 50 years (100 fiscal periods) will be reversed every fiscal period applied to distribution starting from the 14th fiscal period distribution. It has been decided that ¥20,000,000 shall be reversed and applied to distribution in the 17th fiscal period distribution.

(Notes to the Statements of Cash Flow)

* 1. Reconciliation of balance sheet items to cash and cash equivalents at end of period in the cash flows statements

	(in thousands of yen)	
	As of January 31, 2020	As of July 31, 2020
Cash and deposits	10,978,807	13,212,337
Cash and deposits in trust	10,187,104	10,171,729
Cash and cash equivalents	21,165,911	23,384,067

(Notes to the Lease Transactions)

Operating lease transactions (Lessee)

Unearned lease payments

	(in thousands of yen)	
	As of January 31, 2020	As of July 31, 2020
Due in 1 year	12,000	12,000
Due after 1 year	545,000	539,000
Total	557,000	551,000

Operating lease transactions (Lessor)

Unearned lease payments

	(in thousands of yen)	
	As of January 31, 2020	As of July 31, 2020
Due in 1 year	3,238,403	3,639,213
Due after 1 year	19,714,966	20,383,265
Total	22,953,370	24,022,478

(Notes to the Financial Instruments)

(A). Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

Bank deposits are for managing the Investment Corporation's surplus funds and are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited. Borrowings and investment corporation bonds are made primarily for the purpose of procuring funds for the acquisition of real estate and trust beneficiary interests in real estate and have a repayment date of a maximum of 9 years and 5 months as of July 31, 2020, the end of the 17th fiscal period, are exposed to liquidity risk where alternative funds may not be procured by the repayment date. Also, borrowings with floating interest rates are exposed to interest rate fluctuation risk. Derivatives are used for the purpose of hedging interest rate fluctuation risk for a certain portion of the borrowings.

(3) Risk management for financial instruments

a. Credit risk

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

b. Market risk

While borrowings with floating rates are exposed to interest rate volatility risk, such risk is monitored by adjusting the rate of the balance of borrowings with floating rates against the total borrowings according to the financial environment, interest rate forecasts by continuous monitoring, etc. and by using derivatives, etc. A risk management policy is established with regard to the execution and management of derivatives and such transactions are conducted based on this policy.

c. Liquidity risk

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

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

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

(B). Estimated Fair Value of Financial Instruments

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

As of January 31, 2020

(in thousands of yen)

	Carrying amount	Estimated fair value	Difference
(1) Cash and deposits	10,978,807	10,978,807	-
(2) Cash and deposits in trust	10,187,104	10,187,104	-
Total	21,165,911	21,165,911	-
(1) Short-term loans payable	3,300,000	3,300,000	-
(2) Current portion of long-term loans payable	10,100,000	10,112,003	12,003
(3) Investment corporation bonds	7,000,000	7,024,300	24,300
(4) Long-term loans payable	107,250,000	107,913,233	663,233
Total	127,650,000	128,349,537	699,537
Derivative transactions	-450,527	-450,527	-

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

As of July 31, 2020

(in thousands of yen)

	Carrying amount	Estimated fair value	Difference
(1) Cash and deposits	13,212,337	13,212,337	-
(2) Cash and deposits in trust	10,171,729	10,171,729	-
Total	23,384,067	23,384,067	-
(1) Short-term loans payable	2,800,000	2,800,000	-
(2) Current portion of long-term loans payable	10,850,000	10,863,234	13,234
(3) Investment corporation bonds	7,000,000	6,963,600	-36,400
(4) Long-term loans payable	114,400,000	114,986,963	586,963
Total	135,050,000	135,613,797	563,797
Derivative transactions	-432,188	-432,188	-

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

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

Assets

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

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

Liabilities

(1) Short-term loans payable

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

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

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

(3) Investment corporation bonds

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

Derivative transactions

Please refer to “Notes to the Derivative Transactions”.

Note 2: Redemption schedule for financial assets with maturities

As of January 31, 2020

(in thousands of yen)

	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
Cash and deposits	10,978,807	-	-	-	-	-
Cash and deposits in trust	10,187,104	-	-	-	-	-
Total	21,165,911	-	-	-	-	-

As of July 31, 2020

(in thousands of yen)

	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
Cash and deposits	13,212,337	-	-	-	-	-
Cash and deposits in trust	10,171,729	-	-	-	-	-
Total	23,384,067	-	-	-	-	-

Note 3: Redemption schedule for loans payable and investment corporation bonds

As of January 31, 2020

(in thousands of yen)

	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
Short-term loans payable	3,300,000	-	-	-	-	-
Investment corporation bonds	-	1,000,000	-	1,000,000	-	5,000,000
Long-term loans payable	10,100,000	14,400,000	18,250,000	14,400,000	12,000,000	48,200,000
Total	13,400,000	15,400,000	18,250,000	15,400,000	12,000,000	53,200,000

As of July 31, 2020

(in thousands of yen)

	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
Short-term loans payable	2,800,000	-	-	-	-	-
Investment corporation bonds	-	1,000,000	-	1,000,000	-	5,000,000
Long-term loans payable	10,850,000	19,650,000	13,350,000	14,850,000	13,550,000	53,000,000
Total	13,650,000	20,650,000	13,350,000	15,850,000	13,550,000	58,000,000

(Notes to the Derivative Transactions)

(1) Transactions not subject to hedge accounting

As of January 31, 2020 and as of July 31, 2020: Not applicable

(2) Transactions subject to hedge accounting

As of January 31, 2020

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Accounting method, in principle	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	60,950,000	53,450,000	-450,527	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	36,800,000	33,200,000	*	-
Total			97,750,000	86,650,000	-450,527	

*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 debt.

As of July 31, 2020

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Accounting method, in principle	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	66,650,000	63,650,000	-432,188	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	36,800,000	30,850,000	*	-
Total			103,450,000	94,500,000	-432,188	

*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 debt.

(Notes to the Related-Party Transactions)

1. Parent Company, major corporate unitholders and other

16th Fiscal Period (August 1, 2019 to January 31, 2020) and 17th Fiscal Period (February 1, 2020 to July 31, 2020): Not applicable

2. Affiliated companies and other

16th Fiscal Period (August 1, 2019 to January 31, 2020) and 17th Fiscal Period (February 1, 2020 to July 31, 2020): Not applicable

3. Fellow subsidiary companies and other

16th Fiscal Period (August 1, 2019 to January 31, 2020) and 17th Fiscal Period (February 1, 2020 to July 31, 2020): Not applicable

4. Directors, major individual unitholders and other

16th Fiscal Period (August 1, 2019 to January 31, 2020) and 17th Fiscal Period (February 1, 2020 to July 31, 2020): Not applicable

(Notes to the Tax-Effect Accounting)

The significant components of deferred tax assets and liabilities:

	(in thousands of yen)	
	As of January 31, 2020	As of July 31, 2020
Deferred tax assets:		
Valuation difference on other assets acquired by merger	697,994	678,375
Deferred gains or losses on hedges	141,875	142,170
Asset retirement obligations	21,242	21,300
Amortization of leasehold right in trust	723	1,266
Other	20	-
Subtotal deferred tax assets	861,856	843,112
Valuation allowance	-861,856	-843,112
Total deferred tax assets	-	-
Net deferred tax assets	-	-

The significant differences between the statutory tax rate and the effective tax rate:

	From August 1, 2019 to January 31, 2020	From February 1, 2020 to July 31, 2020
Statutory tax rate	31.51%	31.46%
Deductible cash distributions	-30.94%	-30.98%
Others	-0.55%	-0.46%
Effective tax rate	0.02%	0.02%

(Notes to Asset Retirement Obligations)

Asset retirement obligations reported on balance sheets

1. Summary of the asset retirement obligations

KDR has recognized the original state restoration obligations assumed under the general fixed-term land leasehold agreement as the asset retirement obligations in connection with Arute Ishiyagawa on June 3, 2019.

2. Method of calculating asset retirement obligations

Asset retirement obligations are calculated based on a discount rate of 0.54711% after the useful life has been estimated to be 47 years and one month 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

	(in thousands of yen)	
	From August 1, 2019 to January 31, 2020	From February 1, 2020 to July 31, 2020
Balance at the beginning of period	67,338	67,522
Accretion adjustment	184	184
Balance at the end of period	67,522	67,707

(Notes to the Investment and Rental Properties)

The Investment Corporation owns real estate for rental purposes in the Tokyo Metropolitan Area and other regional areas for the purpose of generating rental revenues. The book value and fair value concerning the above real estate for rental purposes are as follows.

(in thousands of yen)

		From August 1, 2019 to January 31, 2020	From February 1, 2020 to July 31, 2020
Book value	Balance at the beginning of period	233,496,342	234,307,773
	Changes during the period	811,431	13,921,970
	Balance at the end of period	234,307,773	248,229,744
Fair value at the end of period		279,986,000	295,688,000

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

Note 2: Among changes in the amount of real estate for rental purposes that occurred during the 16th fiscal period, the principal increase was the acquisition of real estate trust beneficiary interests in 2 properties totaling ¥2,006,136 thousand, and the principal decrease was the sales of real estate trust beneficiary interests in 1 property totaling ¥420,922 thousand and depreciation of ¥1,428,681 thousand and during the 17th fiscal period, the principal increase was the acquisition of real estate trust beneficiary interests in 8 properties totaling ¥15,324,167 thousand, and the principal decrease was the sales of real estate trust beneficiary interests in 1 property totaling ¥451,169 thousand and depreciation of ¥1,466,920 thousand.

Income and loss for real estate rental business in the fiscal periods ended January 31, 2020 and July 31, 2020 for real estate for rental purposes is listed in “Notes to the Statements of Income and Retained Earnings”.

(Notes to the Segment Information)

Segment information for the periods from August 1, 2019 to January 31, 2020 and from February 1, 2020 to July 31, 2020 is as follows:

(A) Segment information

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

(B) Related information

(1) Information about each product and service

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

(2) Information about each geographic area

(a) Net sales

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

(b) Property, plant and equipment

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

(3) Information about each major customer

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

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION (3278)

(Notes to Per Unit Information)

	From August 1, 2019 to January 31, 2020	From February 1, 2020 to July 31, 2020
Net asset value per unit	¥130,584	¥133,988
Net income per unit	¥3,981	¥4,028

Note 1: The weighted average number of units outstanding of 945,242 and 907,458 were used for the computation of the amount of net income per unit as of July 31, 2020 and January 31, 2020, respectively. Net income per unit after adjusting for residual units is not included because there were no residual investment units.

Note 2: The basis for calculating net income per unit is as follows:

	From August 1, 2019 to January 31, 2020	From February 1, 2020 to July 31, 2020
Net income (in thousands of yen)	3,613,397	3,808,030
Net income not available to ordinary unitholders (in thousands of yen)	-	-
Net income available to ordinary unitholders (in thousands of yen)	3,613,397	3,808,030
Weighted average number of units during the period (units)	907,458	945,242

(Notes to Important Subsequent Events)

Not applicable