BESTINVEST

KENEDIX

Realty Investment Corporation

15th Fiscal Period

SEMIANNUAL REPORT

May 1, 2012–October 31, 2012

TSE 8972

Kenedix Realty Investment Corporation (KENEDIX-REIT) is a Japanese real estate investment trust (J-REIT) listed on the Tokyo Stock Exchange (8972). Founded in May 2005, KENEDIX-REIT aims to be the No. 1 J-REIT focusing on mid-sized office buildings in the Tokyo Metropolitan Area. Over the medium- to long-term, KENEDIX-REIT is targeting a 400 billion yen portfolio.

KENEDIX-REIT is "Securing Quality and Value" for both investors and tenants through External Growth, Internal Growth and a stable Financial Strategy. KENEDIX-REIT acquires quality properties in sought-after locations, upgrades the buildings with strategic renovations to raise their appeal and energy efficiency, and maintains a conservative financial strategy as a foundation for sustainable growth.

KENEDIX-REIT remains committed to delivering stable returns to unitholders and superior service to tenants.

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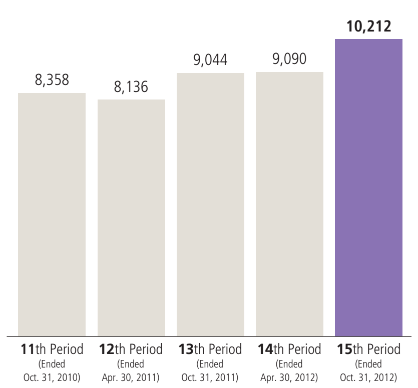
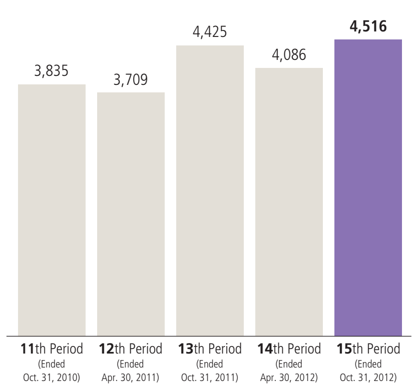
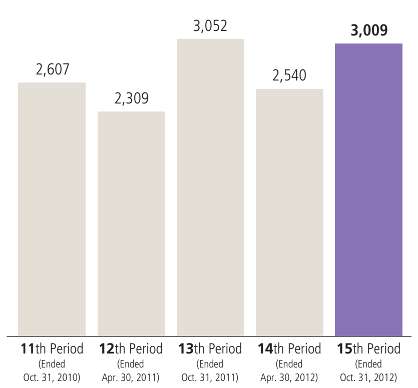
Operating Revenues (Million yen)



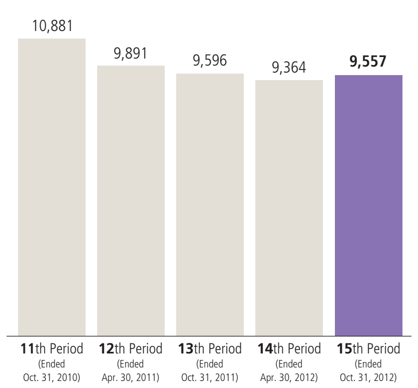
Operating Income (Million yen)



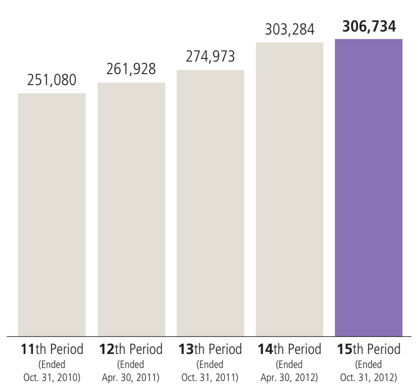
Net Income (Million yen)



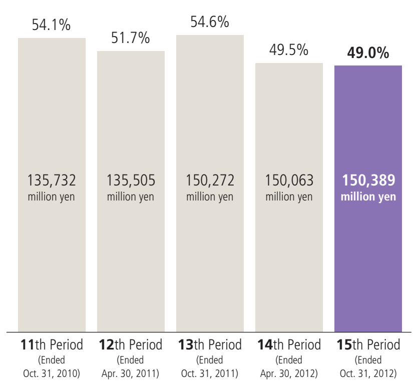
Distribution per Unit (Yen)



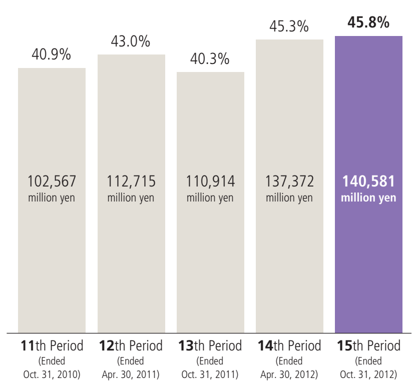
Total Assets (Million yen)



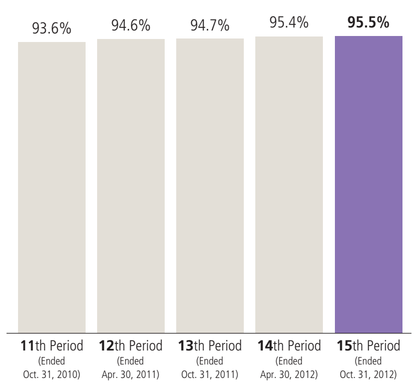
Unitholders' Equity Ratio / Unitholders' Equity



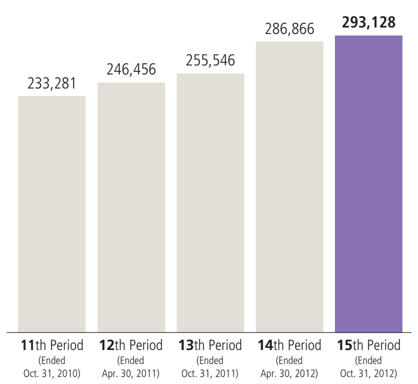
Interest-Bearing Debt Ratio (LTV Ratio) / Interest-Bearing Debt



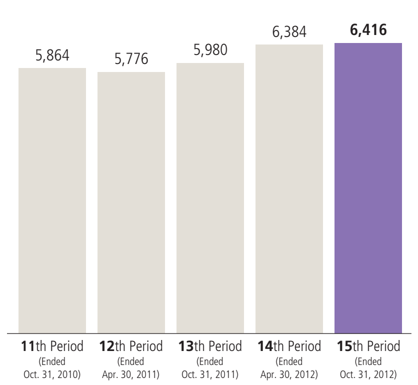
Occupancy Ratio



Portfolio Size (Million yen)



Leasing NOI (Net Operating Income) (Million yen)



Interview with the CEO and President

1. Strengthening Focus on Mid-sized Office Buildings
2. Maintaining High Occupancy
3. Improving Leasing Conditions
4. Preserving and Increasing the Value of Our Buildings
5. Making Use of Our Stable Financial Foundation

Question 1

Can you give us an overview of the changes to the management guidelines and the company name, which took place during the fiscal period under review?

Answer 1

The Investment Corporation has conducted investment and management focusing on mid-sized office buildings in the Tokyo Metropolitan Area, and intends to promote investment primarily in office buildings.

In line with this policy, in September 2012, the name of the asset management company was changed from Kenedix REIT Management to Kenedix Office Partners and the Management Guidelines were modified. These changes highlight our focus on office buildings. The main revision of the guidelines was an increase in the investment ratio target for office buildings from "50%-100%" to "80%-100%." Office buildings comprise over 90% of our portfolio, so now our name and management guidelines reflect this reality. "Partners" also reflects our dual role as a good partner with unitholders and with tenants.

Question 2

Can you tell us about the mid-sized office market?

Answer 2

We get constant information on buying and selling opportunities due to our track record of continuous property acquisition over the past three years, the extensive network we have built over years of acquisitions, and the network of our sponsor, Kenedix, Inc.

This gives us an edge, but competition is intensifying. We see more players, including private equity and foreign funds, entering the market, encouraged by the favorable financing environment. Many people believe the market has hit bottom and Japan's megabanks are offering very attractive financing terms, including non-recourse loans. As you might expect, not all players are disciplined. Some companies are buying properties at excessive valuations.

Question 3

From the perspective of external growth and improving portfolio quality, could you please discuss property dispositions and acquisitions?

Answer 3

During the fiscal period under review (ended October 2012), we acquired three mid-sized office buildings in the Tokyo Metropolitan Area. The lump-sum deal was brokered by Kenedix, Inc. A certain private fund actually wanted to sell four buildings at once, but only three met our criteria. So we acquired three buildings and the Kenedix Group took care of the remaining one. By collaborating with Kenedix, Inc., we obtained a very reasonable deal. Acquiring the buildings individually would have been much more expensive. Moreover, the actual NOI (weighted average) of the buildings is 6.9%, which is quite high.

During the fiscal period under review, we sold the KDX Omori Building, Gradito Kawaguchi, a residential property, and the Kanazawa Nikko Building,* a mixed-use building. Selling the latter two buildings strengthens our core focus. The decision to sell the KDX Omori Building was based on a comprehensive analysis of the building's long-term prospects and an attractive offer. We intend to continue to conduct replacement of assets to enhance the quality of the portfolio.

* Actual disposition took place on November 1, 2012 (the first day of the 16th Fiscal Period) for the Kanazawa Nikko Building.

Question 4

Could you tell us about your acquisition capacity?

Answer 4

We continue our policy of maintaining a conservative interest-bearing debt ratio (LTV ratio). Our LTV ratio stands at 45.8%. We could allow this to rise to 47%, which would be our all-time high, yielding additional investment capacity. By also mobilizing cash reserves, we would have roughly 5 billion yen for investment. We might also combine this with proceeds from property dispositions.

We mainly used the proceeds from the two property dispositions during the fiscal period under review for the early redemption of high-cost borrowings. This reduces our ongoing costs. Some of the gains were used as voluntary retained earnings. This reserve for reduction entry provides protection in the event of unexpected damage or loss. The gains didn't significantly bump up our cash position.

Question 5

What's the state of the office building leasing market?

Answer 5

Many say recovery in mid-sized office buildings lags large office buildings by about six to twelve months. Rather, the polarization between competitive properties and non-competitive properties is growing more pronounced across all classes. I really don't perceive a lag between large office buildings (Classes S and A) and mid-sized office buildings, the so-called Class B buildings KENEDIX-REIT focuses on. Indeed the recovery is more robust among our high-quality mid-sized office buildings than mediocre Class A buildings. People generally speak about Class S, A and B buildings in that order, but these designations are based on floor size, not quality. More numerous, mid-sized office buildings vary widely. Bad buildings can be really bad, but these aren't our buildings. Within the mid-sized office building market, we succeed in differentiating ourselves on quality.

Building Categories[1]	Floor Plate (Tsubo)[2]	Total Floor Area (Tsubo)[2]
Class S	500 or more	20,000 or more
Class A	200 or more	10,000 or more
Class B	Less than 200	Less than 10,000

Notes: 1. Standard for Tokyo. Specifications vary by market.
2. Tsubo = Approximately 3.3 square meters

Question 6

What's happening in terms of occupancy, rents and rent-free periods?

Answer 6

The overall occupancy ratio is very high: 95.5% across the portfolio at the end of the fiscal period under review and 94.3% on average during the period for office buildings, up 1.8 percentage points compared to the previous fiscal period.

Six-months ago I mentioned improving leasing rates and rental terms. The average rent-free period is shorter. Within the Tokyo Metropolitan Area, the figure stands at 3.9 months on average during the 15th Fiscal Period.* So the total downtime from lease termination to receiving rent (downtime period + rent-free period) is also becoming shorter, as you can see on pages 8-9, which translates into higher rent-based occupancy ratios and increased rental revenues.

* Compared to the average of 6.0 months during the 14th Fiscal Period. Also the average downtime decreased from 5.1 months to 3.0 months over the same period.

Question 7

What are you doing to raise customer satisfaction and promote internal growth?

Answer 7

Some of our buildings are over 20 years old, but we select only the best among them and add value to them through improvements and attentive service. The steady efforts of our in-house property managers, combined with frequent customer satisfaction (CS) surveys, are bearing fruit.

In order to increase customer satisfaction, we dispatch in-house property managers to take care of the buildings and conduct CS surveys on a regular basis. Thanks to these efforts, I believe the customers are satisfied with the site area as well as building quality and our services. As a result, existing tenants are expanding their rental space within the same building. We saw 20 such cases during this fiscal period, compared to 13 cases during the previous fiscal period. In particular, expansion needs are growing for small and medium-sized enterprises, which comprise the majority of our tenants. This can be seen as one indication of customer satisfaction. Approximately 94% of our tenants indicate they want to continue leasing their current premises.

Question 8

How are you preparing for the move-out of a major tenant in the KDX Nihonbashi Kabutocho Building?

Answer 8

The lease contract terminated on November 30, 2012. We already commenced leasing activities and are simultaneously carrying out restoration work, with plans to finish renovating common areas by March 2013.

About 200 people have come to see the building, with specific inquiries from over 10 parties from industries spanning IT, telecommunications, and manufacturing as well as financial institutions. We aren't worried about leasing this building. The location is excellent and the overall office building market is recovering. Rather, I think the issue is under what terms and timing. We are planning to lease the building to multiple tenants, but we haven't ruled out the possibility of leasing it to a single tenant at this moment. Rental revenues from the KDX Nihonbashi Kabutocho Building are not included in our earnings forecasts for the 16th Fiscal Period, but we aim to secure leasing revenues from the 17th Fiscal Period onward.

Question 9

Please tell us about the distribution situation.

Answer 9

The forecasted distribution for the 16th Fiscal Period is 8,880 yen per unit, up 380 yen from the forecast of 8,500 yen which was announced in October 2012. On the surface, this is lower than the distribution for the 15th Fiscal Period of 9,557 yen per unit.

Over the past two years, we maintained a distribution of 9,000 yen per unit or more by making use of gains from property sales. Similarly, the gain on sale of the Kanazawa Nikko Building will be used to raise the upcoming distribution to 8,880 yen. The gain on sale was not included in the forecast of 8,500 yen which was announced in October 2012. In fact, the level of the upcoming distribution, excluding the gain on sale, is not low compared to the past.

I will try to maximize distributions. Over the medium term, the distribution may increase significantly depending on our success in leasing the KDX Nihonbashi Kabutocho Building. We will aim for distributions on the level of 9,000 yen per unit. I believe we can secure this on a pure earnings basis, excluding the gain on sale, by fully leasing the KDX Nihonbashi Kabutocho Building.

Question 10

Lastly, do you have any special words for foreign investors?

Answer 10

With our established track record, I want investors to know that our buildings are relatively low-risk. Our properties may not be large, but they're high quality and marked by a distinguished level of service. We aim to become the No. 1 J-REIT in the mid-sized office building market. Actually, I am confident that we are already No. 1, but I want to firmly cement this position.

January 2013

内田直克

Naokatsu Uchida
CEO and President
Kenedix Office Partners, Inc.

External Growth

Strengthening Focus on Mid-sized Office Buildings

1.

Acquired Three Office Buildings

KENEDIX-REIT has grown rapidly through external growth, with its total acquisition price reaching 293.1 billion yen, up 40% compared to the end of the 9th Fiscal Period (October 31, 2009), and its investment totaling 84.0 billion yen over the three years from the 10th Fiscal Period to the end of the 15th Fiscal Period (October 31, 2012). During that same time frame, annual net operating income (NOI) increased by 4.6 billion yen, an impressive 53% improvement. External growth is one way we improve the profitability and quality of the portfolio.

During the 15th Fiscal Period, KENEDIX-REIT acquired three office buildings in the Tokyo Metropolitan Area: the Fuchu South Building, the Kasuga Business Center Building and the Nakameguro Business Center Building. The total acquisition value was 10.8 billion yen. Together, the three mid-sized office buildings boast an actual NOI (weighted average) of 6.9%. We also disposed of one office building and one non-core property for a total of 5.06 billion yen. This reshuffling further enhanced our portfolio quality.

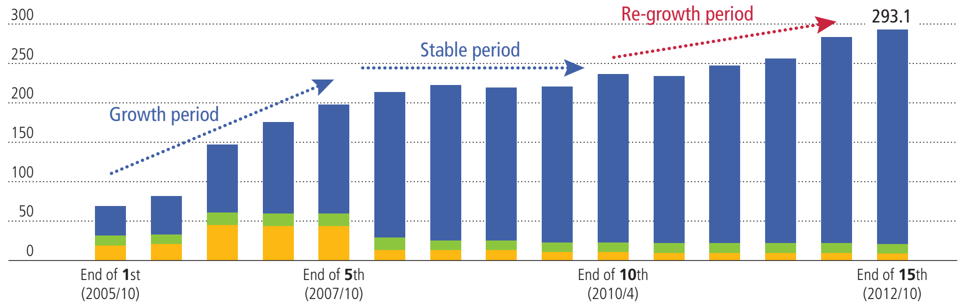
A83 Fuchu South Building **A84** Kasuga Business Center Building **A85** Nakameguro Business Center Building

Properties Acquired During the 15th Fiscal Period

Property Name	Fuchu South Building	Kasuga Business Center Building	Nakameguro Business Center Building	Total of 3 Properties
Location	Fuchu-shi, Tokyo	Bunkyo-ku, Tokyo	Meguro-ku, Tokyo	—
Gross Floor Area	16,647.00m²	6,444.31m²	3,455.90m²	**26,547.21m²**
Year Built	March 1996	June 1992	October 1985	—
Acquisition Price	6,120 million yen	2,800 million yen	1,880 million yen	**10,800 million yen**
Appraisal Value at Acquisition	6,550 million yen	2,970 million yen	2,220 million yen	**11,740 million yen**
Difference between Acquisition Price and Appraisal Value	-6.6%	-5.7%	-15.3%	**-8.0%**
Seller	Third Party	Third Party	Third Party	—
Actual NOI (Note 1)	420 million yen	178 million yen	149 million yen	**748 million yen**
Actual NOI/Acquisition Price	6.9%	6.4%	8.0%	**6.9%**
Appraisal NOI (Note 2)	389 million yen	168 million yen	130 million yen	**688 million yen**
Appraisal NOI/Acquisition Price	6.4%	6.0%	6.9%	**6.4%**

Notes: 1. Actual NOI shows the net operating income (annualized) estimated based on the operating income and operating expenses (after property tax and city planning tax) of relevant properties under the existing contracts with tenants as of September 21, 2012.
2. Appraisal NOI is the net operating income (annualized) calculated on the direct capitalization method. This is stated in the appraisal report released at the time of acquisition.
3. Actual NOI and Appraisal NOI are rounded down to the nearest million yen and percentages are rounded to the first decimal place.

Portfolio Growth (by acquisition price)
(Billion yen)



Notes: 1. The figures for the 14th and 15th Fiscal Periods include 645 million yen for the Kanazawa Nikko Building, which was sold on November 1, 2012.
2. Figures are rounded down to the nearest million yen.

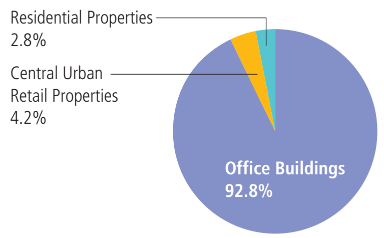
2.

Ratio of Office Buildings at 92.6% Demonstrates Strategic Focus

Overall, the portfolio increased to 293.1 billion yen during the 15th Fiscal Period. At the end of the period, October 31, 2012, 92.6% of the portfolio was comprised of mid-sized office buildings, with 57.5% of these located in Central Tokyo and 23.1% in the surrounding Tokyo Metropolitan Area.

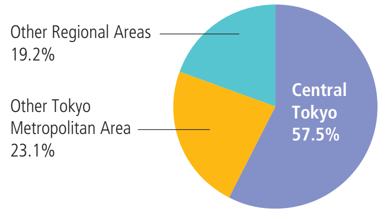
We are very strategic when it comes to property acquisitions. We focus on mid-sized office buildings, which account for the lion's share of office rental demand in the Tokyo Metropolitan Area, according to research by CB Richard Ellis (CBRE). In Tokyo, over 92.2% of offices have fewer than 30 employees, whereas offices with more than 100 employees account for just 1.6% of the market, according to the same source. In the world's largest metropolitan area, public transportation is indispensable in getting workers to their offices. Over 82% of our office buildings are situated within a five-minute walk of the nearest train or subway station. This makes them highly desirable.

Portfolio Breakdown by Property Type



(As of November 30, 2012)

Portfolio Breakdown by Region (office buildings)



(As of November 30, 2012)

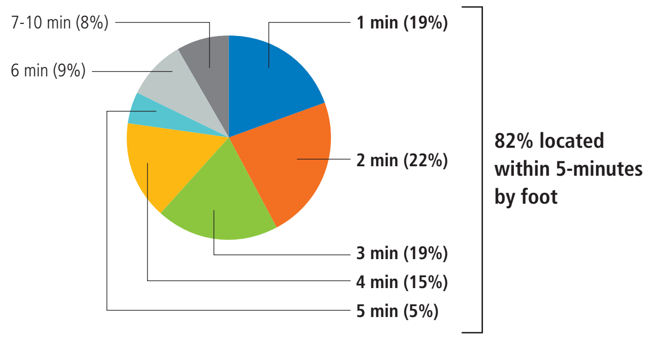
Notes: 1. The above percentages are calculated using the acquisition prices rounded down to the first decimal place.
2. Central Tokyo refers to the Tokyo central 5 wards: Chiyoda, Chuo, Minato, Shibuya and Shinjuku wards.

3.

Focusing on High Quality Mid-sized Office Buildings

Mid-sized office buildings are somewhat misleadingly categorized as Class B or Grade B office buildings, based on their size, but this does not mean they rank lower in terms of quality. KENEDIX-REIT focuses on high-quality mid-sized office buildings. From a prospective tenant's viewpoint, some of our buildings are superior in terms of quality, convenience and attractiveness. For this, we conduct customer satisfaction surveys on a regular basis to grasp and better meet customer demand.

Portfolio Breakdown by Distance from the Nearest Station (office buildings)



Note: As of the end of the 15th Fiscal Period.

4.

Balancing External Growth with Internal Growth

As more players enter the rebounding mid-sized office building market, there may be fewer opportunities for acquisitions. We follow stringent criteria and will not buy properties at excessive valuations. Fortunately, we have a robust network so we often hear about opportunities, including the purchase of equity stakes linked to real estate, that others miss. Going forward, external growth will continue to play a role in our growth story, but the acquisition pace may slow as we come to rely more heavily on portfolio reshuffling and internal growth amid a more competitive property market.

Internal Growth

Maintaining High Occupancy

1.
Enhancing Portfolio Quality through Internal Growth

KENEDIX-REIT has grown dramatically since its founding, and internal growth is playing an increasingly important role. Unsurpassed know-how provides ripe opportunities to improve occupancy, rents, and terms. Meanwhile, the economies of scale help us reduce costs.

2. 95.5%
Occupancy Ratio across the portfolio

During the 15th Fiscal Period (ended October 2012), the average occupancy ratio was 94.3% for office buildings, up 1.8% from the previous fiscal period. At the end of the 15th Fiscal Period the ratio reached 95.5% across the portfolio. Maintaining high occupancy helps secure the profitability of the existing portfolio. We do this through attentive property management, superior service and strategic building renovations to maintain and improve asset value.

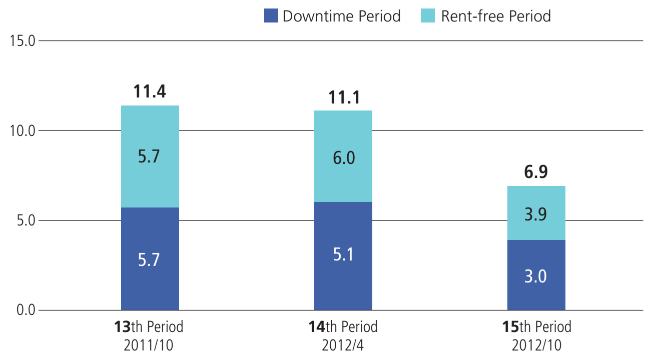
Improving Leasing Conditions

3. 3.9 months
Rent-Free Period Fell to 3.9 months in the Tokyo Metropolitan Area

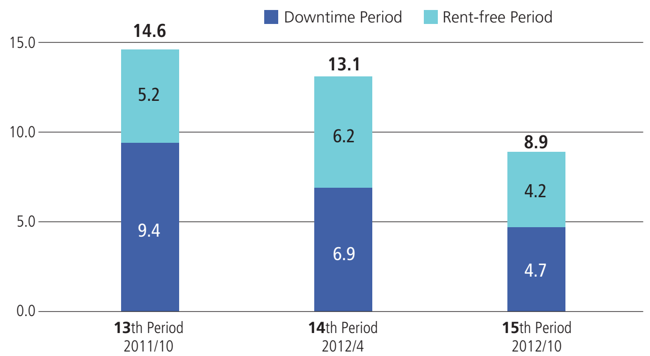
Clearly we are doing many things right when it comes to our existing clients…and also when it comes to finding new tenants. In addition to the shorter vacancy period, the initial rent-free period improved significantly, falling from 6.0 months to 3.9 months in the Tokyo Metropolitan Area and from 6.2 months to 4.2 months across the entire office portfolio. This is especially important when it comes to bridging the gap between the occupancy ratio and rent-based occupancy ratio. Altogether, the total downtime (downtime period + rent-free period) before we again receive leasing revenue fell from 11.1 months to 6.9 months in the Tokyo Metropolitan Area and from 13.1 months to 8.9 months across the entire office portfolio.

On another promising note, we saw a marked increase in existing tenants expanding their rental space within the same building. Such cases accounted for nearly 25% of new leasing contracts (on an area basis) during the fiscal period under review. These tenants pay higher rents with shorter rent-free periods compared with new tenants. In order to improve customer satisfaction (CS), we conduct CS surveys on a regular basis and take care of property management on our own. As a result, rents are firming, with the reduction upon contract renewal narrowing from 21.2% in the 14th Fiscal Period to 15.7% in the 15th Fiscal Period.

Downtime Period and Rent-free Period (Tokyo Metropolitan Area)



Downtime Period and Rent-free Period (Office Portfolio)



Notes: 1. Downtime period refers to the period from the cancellation date of the previous tenant's contract until the start date of a contract with a new tenant for the floor area. Rent-free period refers to the period from the start date of contract until the start date of contracted full rent. Above figures are monthly averages and are expressed in terms of months by dividing by 30 days.
2. The analysis is based on office floors on the 2nd floor or above and excludes buildings that were newly acquired during the relevant fiscal periods.

Preserving and Increasing the Value of Our Buildings

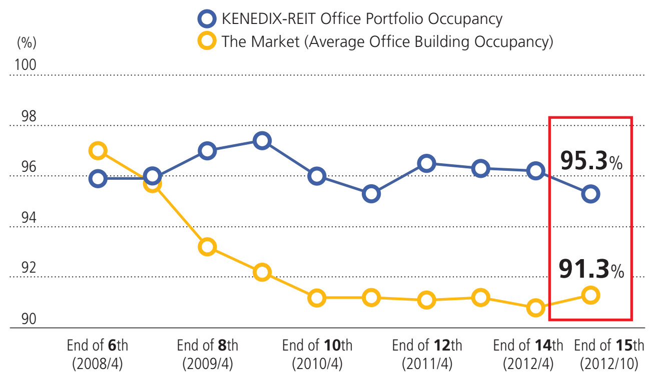
4.
Surpassing the Market Average in Central Tokyo: Rents and Occupancy

In the five wards of Central Tokyo, KENEDIX-REIT commands higher than market leasing rates, collecting an average 17,312 yen per tsubo against the market average of 16,628 yen. In addition, at 95.3% our occupancy ratio for central Tokyo beats the market average of 91.3%.

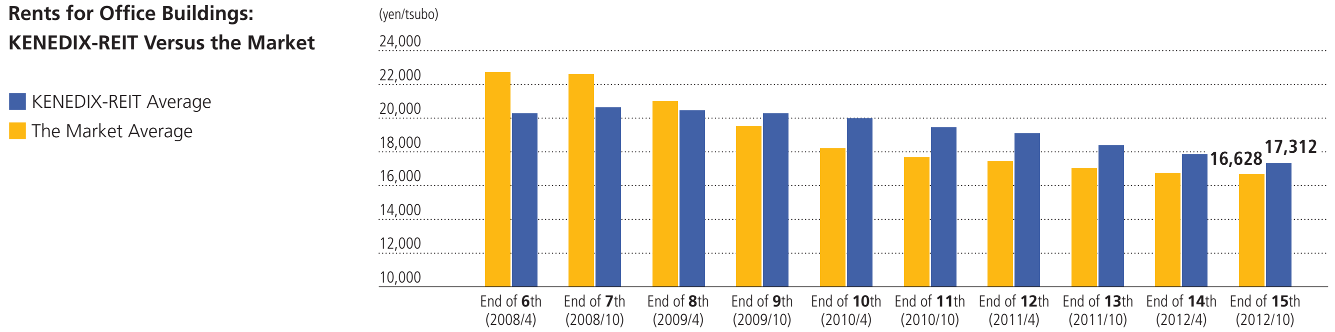
The KDX Nihonbashi Kabutocho Building is already undergoing renovation, but we aim to rapidly secure new tenants based on its appealing location and building specifications.

To achieve internal growth, we will continue aiming for stable occupancy and the improvement of leasing conditions. We will work to reduce move-outs by strengthening our relationships with existing tenants. And we will continue to increase revenue yields by shortening the vacancy and rent-free periods. As KENEDIX-REIT grows in scope, such internal growth will become an increasingly important value driver.

Central Tokyo Occupancy: KENEDIX-REIT Versus the Market



Rents for Office Buildings: KENEDIX-REIT Versus the Market



Note: Based on buildings in the Tokyo central 5 wards. Kenedix Office Partners created the chart using data provided by Miki Shoji, whose figures cover both existing and new buildings. Standard floor plans were used to calculate the KENEDIX-REIT office portfolio occupancy and rents.

5. 4.89% and
Portfolio PML and Public Safety

All 84 (as of the end of the 15th Fiscal Period) of our properties meet the latest earthquake resistance standards or possess equivalent quality. The probable maximum loss (PML) ratio of our portfolio currently stands at 4.89%.

KENEDIX-REIT is installing automated external defibrillators (AEDs) in its office buildings as a basic public service. Also, wireless LAN service is being introduced to building lobbies. This will be freely available to the public during emergencies and disasters.

6.
Environmental Initiatives

In terms of environmental performance, we have reduced unit energy consumption by 6.5% across the portfolio over the past three years. We will continue implementing energy saving and environmental initiatives, such as high-efficiency air conditioning systems and LED lighting systems. Some of our buildings have received Green Building Assessment Loans from Sumitomo Mitsui Banking Corporation (SMBC) and the Development Bank of Japan (DBJ). Moreover, these extensive efforts have won Kenedix Office Partners a "Green Star" rating, the highest rating of the Global Real Estate Sustainability Benchmark (GRESB).

Financial Strategy

Making Use of Our Stable Financial Foundation

1.

Maintaining a Conservative LTV Ratio at 45.8%

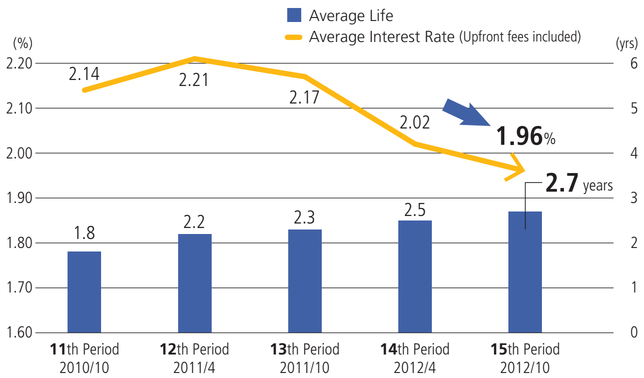
Financial strategy provides the stable foundation underlying KENEDIX-REIT. Over time, our steady financial strategy has proven remarkably resilient. The heart of this strategy is a conservative interest-bearing debt ratio (LTV ratio), which stood at 45.8% at the end of the fiscal period under review (ended October 2012). A conservative LTV ratio maintains financial stability and preserves funding flexibility.

2.

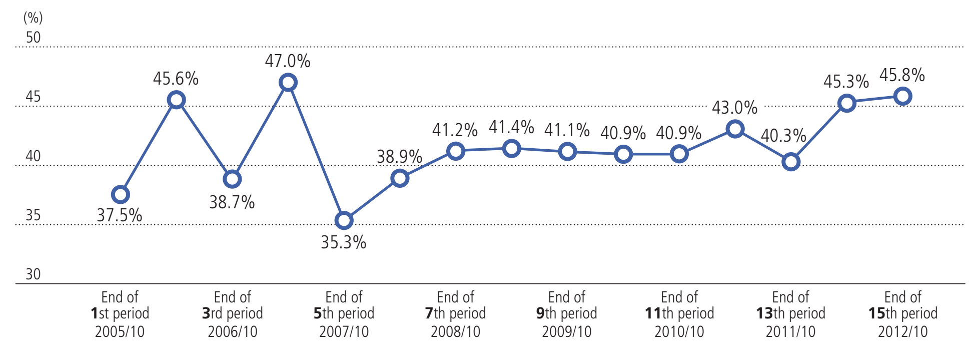
Minimizing Financing Costs and Extending Maturities

Our top priority is to reduce financing costs while maintaining financial stability. Therefore, we continue to focus on lowering borrowing interest rates as well as on diversifying debt maturities and extending the average life of our borrowings. In the fiscal period under review, the average interest rate dropped to 1.96% from 2.02% while the average life of our borrowings increased to 2.7 years (up from 2.5 years in the previous fiscal period). Also, we reduced the portion of floating-rate debt. Fixed-rate debt of 121.1 billion yen now accounts for 86.1% of our total debt, up from 79.3%. Altogether, we procured 17.5 billion yen through refinancing and 7.0 billion yen through new financing. In the process, we were able to diversify debt maturities. The 15th Fiscal Period further increased the financial efficiency and stability of KENEDIX-REIT.

Changes in Average Interest Rate / Average Life of Interest-Bearing Debt

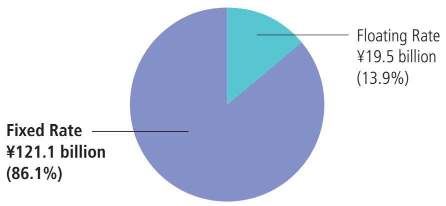


Changes in the Interest-Bearing Debt Ratio (LTV Ratio)

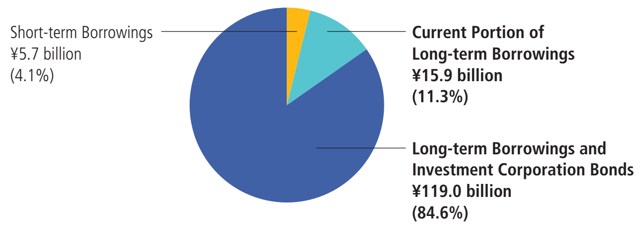


Note: Interest bearing debt ratio = Interest-bearing debt at end of period/Total assets

Proportion of Fixed-rate Debt vs Floating-rate Debt

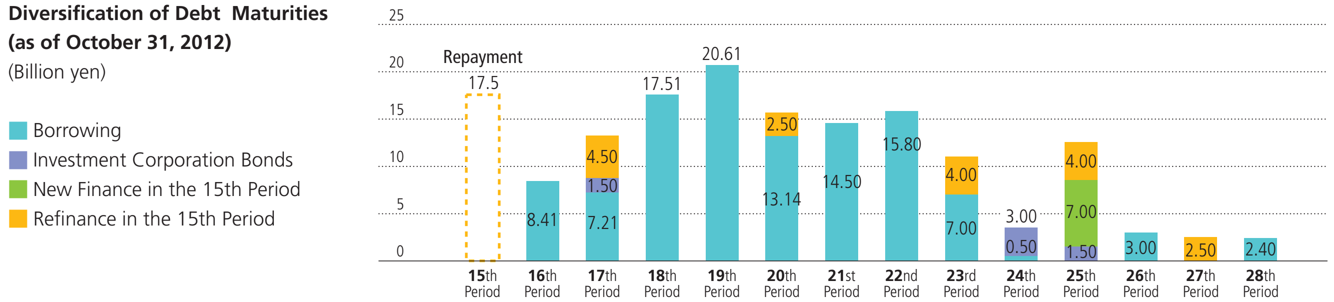


Debt Balance by Maturity



Note: Figures are rounded to the first decimal place.

Diversification of Debt Maturities (as of October 31, 2012)
(Billion yen)



Notes: The chart illustrates total debt amounts that mature in each period, including principal repayment based on contract (rounded to the second decimal place).

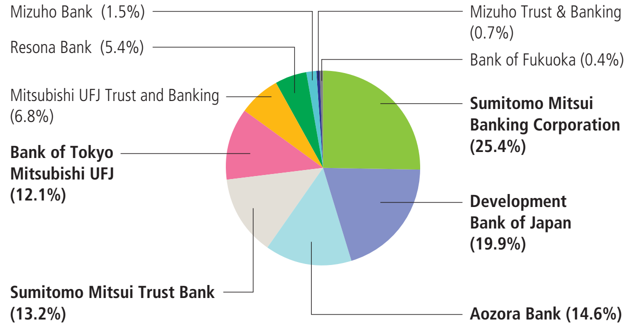
3.

Diversifying Our Financing Bases

During the 16th Fiscal Period, we seek to continue working to reduce financing costs and extend and diversify maturities. In terms of lenders, we have established good relationships with 10 banks and intend to continue to build good track records with them. We are also working to expand our lender base in consideration of future growth. In addition, we may increase our balance of borrowings in a well-proportioned manner with lenders with whom we have a relatively small balance of borrowings and may start transactions with new lenders with whom we determine a long-term relationship can be established.

In addition to borrowings, KENEDIX-REIT had issued a total of 6.0 billion yen in investment corporation bonds as of the end of the 15th Fiscal Period. Japan Credit Rating has assigned a credit rating of A to these bonds, with a positive outlook.

Breakdown of Lenders



Borrowing Amounts (Billion yen)

	Bank	As of Apr. 30, 2012	As of Oct. 31, 2012	Change
1	Sumitomo Mitsui Banking Corporation	32.0	34.2	+2.2
2	Development Bank of Japan	26.7	26.7	0
3	Aozora Bank	19.7	19.7	0
4	Sumitomo Mitsui Trust Bank	17.7	17.7	0
5	Bank of Tokyo Mitsubishi UFJ	16.3	16.3	0
6	Mitsubishi UFJ Trust and Banking	9.2	9.2	0
7	Resona Bank	7.3	7.3	0
8	Mizuho Bank	1.0	2.0	+1.0
9	Mizuho Trust & Banking	1.0	1.0	0
10	Bank of Fukuoka	0.5	0.5	0
	Total	131.4	134.6	+3.2

Note: Figures are rounded to the first decimal place.

KENEDIX-REIT Portfolio (As of October 31, 2012)

A13 KDX Kojimachi Building **A15** KDX Hamacho Building **A30** KDX Nishi-Gotanda Building **A33** KDX Okachimachi Building **A40** Toranomon Toyo Building

	No.	Property Name	Location	Acquisition Price (mn yen)	Year Built (Note 1)	Occupancy Ratio
Office (Tokyo Metropolitan Area)	A01	KDX Nihonbashi 313 Building	Chuo-ku, Tokyo	5,940	Apr. 1974	100.0%
	A03	Higashi-Kayabacho Yuraku Building	Chuo-ku, Tokyo	4,450	Jan. 1987	89.1%
	A04	KDX Hatchobori Building	Chuo-ku, Tokyo	3,680	Jun. 1993	100.0%
	A05	KDX Nakano-Sakaue Building	Nakano-ku, Tokyo	2,533	Aug. 1992	100.0%
	A06	Harajuku F.F. Building	Shibuya-ku, Tokyo	2,450	Nov. 1985	100.0%
	A07	FIK Minami Aoyama	Minato-ku, Tokyo	2,270	Nov. 1988	88.4%
	A08	Kanda Kihara Building	Chiyoda-ku, Tokyo	1,950	May 1993	100.0%
	A13	KDX Kojimachi Building	Chiyoda-ku, Tokyo	5,950	May 1994	100.0%
	A14	KDX Funabashi Building	Funabashi, Chiba	2,252	Apr. 1989	100.0%
	A15	KDX Hamacho Building	Chuo-ku, Tokyo	2,300	Sep. 1993	100.0%
	A16	Toshin 24 Building	Yokohama, Kanagawa	5,300	Sep. 1984	100.0%
	A17	KDX Ebisu Building	Shibuya-ku, Tokyo	4,640	Jan. 1992	100.0%
	A19	KDX Hamamatsucho Building	Minato-ku, Tokyo	3,460	Sep. 1999	100.0%
	A20	KDX Kayabacho Building	Chuo-ku, Tokyo	2,780	Oct. 1987	100.0%
	A21	KDX Shinbashi Building	Minato-ku, Tokyo	2,690	Feb. 1992	100.0%
	A22	KDX Shin-Yokohama Building	Yokohama, Kanagawa	2,520	Sep. 1990	95.4%
	A23	KDX Yotsuya Building	Shinjuku-ku, Tokyo	1,950	Oct. 1989	100.0%
	A26	KDX Kiba Building	Koto-ku, Tokyo	1,580	Oct. 1992	100.0%
	A27	KDX Kajicho Building	Chiyoda-ku, Tokyo	2,350	Mar. 1990	100.0%
	A28	KDX Nogizaka Building	Minato-ku, Tokyo	1,065	May 1991	78.1%
	A29	KDX Higashi-Shinjuku Building	Shinjuku-ku, Tokyo	2,950	Jan. 1990	100.0%
	A30	KDX Nishi-Gotanda Building	Shinagawa-ku, Tokyo	4,200	Nov. 1992	100.0%
	A31	KDX Monzen-Nakacho Building	Koto-ku, Tokyo	1,400	Sep. 1986	100.0%
	A32	KDX Shiba-Daimon Building	Minato-ku, Tokyo	6,090	Jul. 1986	82.8%
	A33	KDX Okachimachi Building	Taito-ku, Tokyo	2,000	Jun. 1988	100.0%
	A34	KDX Hon-Atsugi Building	Atsugi, Kanagawa	1,305	May 1995	86.0%
	A35	KDX Hachioji Building	Hachioji, Tokyo	1,155	Dec. 1985	100.0%
	A37	KDX Ochanomizu Building	Chiyoda-ku, Tokyo	6,400	Aug. 1982	90.1%
	A38	KDX Nishi-Shinjuku Building	Shinjuku-ku, Tokyo	1,500	Oct. 1992	100.0%
	A39	KDX Toranomon Building	Minato-ku, Tokyo	4,400	Apr. 1988	100.0%
	A40	Toranomon Toyo Building	Minato-ku, Tokyo	9,850	Aug. 1962	96.9%
	A41	KDX Shinjuku 286 Building	Shinjuku-ku, Tokyo	2,300	Aug. 1989	100.0%
	A45	KDX Roppongi 228 Building	Minato-ku, Tokyo	3,300	Apr. 1989	54.4%
	A46	Hiei Kudan-Kita Building	Chiyoda-ku, Tokyo	7,600	Mar. 1988	100.0%
	A47	KDX Shin-Yokohama 381 Building (Note 2)	Yokohama, Kanagawa	5,800	Mar. 1988	91.7%
	A48	KDX Kawasaki-Ekimae Hon-cho Building	Kawasaki, Kanagawa	3,760	Feb. 1985	100.0%
	A49	Nissou Dai-17 Building	Yokohama, Kanagawa	2,710	Jul. 1991	86.4%
	A50	Ikejiri-Oohashi Building	Meguro-ku, Tokyo	2,400	Sep. 1988	100.0%
	A51	KDX Hamacho Nakanohashi Building	Chuo-ku, Tokyo	2,310	Sep. 1988	100.0%
	A52	KDX Kanda Misaki-cho Building	Chiyoda-ku, Tokyo	1,380	Oct. 1992	100.0%
	A55	Shin-toshin Maruzen Building	Shinjuku-ku, Tokyo	2,110	Jul. 1990	100.0%
	A56	KDX Jimbocho Building	Chiyoda-ku, Tokyo	2,760	May 1994	100.0%
	A57	KDX Gobancho Building	Chiyoda-ku, Tokyo	1,951	Aug. 2000	100.0%
	A59	KDX Iwamoto-cho Building	Chiyoda-ku, Tokyo	1,864	Mar. 2008	100.0%
	A60	KDX Harumi Building	Chuo-ku, Tokyo	10,250	Feb. 2008	70.3%
	A61	KDX Hamamatsucho Dai-2 Building	Minato-ku, Tokyo	2,200	Apr. 1992	87.6%
	A62	Koishikawa TG Building	Bunkyo-ku, Tokyo	3,080	Nov. 1989	100.0%
	A63	Gotanda TG Building	Shinagawa-ku, Tokyo	2,620	Apr. 1988	100.0%
	A64	KDX Nihonbashi 216 Building	Chuo-ku, Tokyo	2,010	Oct. 2006	100.0%

A46 Hiei Kudan-Kita Building **A59** KDX Iwamoto-cho Building **A67** KDX Ginza 1chome Building **A75** KDX Nihonbashi Kabutocho Building **A42** Karasuma Building

	No.	Property Name	Location	Acquisition Price (mn yen)	Year Built (Note 1)	Occupancy Ratio
Office (Tokyo Metropolitan Area)	A66	KDX Shinjuku Building	Shinjuku-ku, Tokyo	6,800	May 1993	100.0%
	A67	KDX Ginza 1chome Building	Chuo-ku, Tokyo	4,300	Nov. 1991	100.0%
	A68	KDX Nihonbashi Honcho Building	Chuo-ku, Tokyo	4,000	Jan. 1984	100.0%
	A71	KDX Iidabashi Building	Shinjuku-ku, Tokyo	4,670	Mar. 1990	100.0%
	A72	KDX Higashi-Shinagawa Building	Shinagawa-ku, Tokyo	4,590	Jan. 1993	100.0%
	A73	KDX Hakozaki Building	Chuo-ku, Tokyo	2,710	Nov. 1993	100.0%
	A74	KDX Shin-Nihonbashi Building	Chuo-ku, Tokyo	2,300	Nov. 2002	100.0%
	A75	KDX Nihonbashi Kabutocho Building (Note 3)	Chuo-ku, Tokyo	11,270	Nov. 1998	100.0%
	A76	Ikebukuro Nikko Building	Toshima-ku, Tokyo	1,653	Mar. 1986	100.0%
	A77	Kabutocho Nikko Building II	Chuo-ku, Tokyo	1,280	Oct. 2001	100.0%
	A78	Tachikawa Ekimae Building	Tachikawa, Tokyo	1,267	Feb. 1990	100.0%
	A83	Fuchu South Building	Fuchu, Tokyo	6,120	Mar. 1996	98.2%
	A84	Kasuga Business Center Building	Bunkyo-ku, Tokyo	2,800	Jun. 1992	95.7%
	A85	Nakameguro Business Center Building	Meguro-ku, Tokyo	1,880	Oct. 1985	100.0%
Office (Other Regional Areas)	A12	Portus Center Building	Sakai, Osaka	5,570	Sep. 1993	89.5%
	A24	KDX Minami Semba Dai-1 Building	Osaka, Osaka	1,610	Mar. 1993	77.7%
	A25	KDX Minami Semba Dai-2 Building	Osaka, Osaka	1,560	Sep. 1993	100.0%
	A36	KDX Niigata Building	Niigata, Niigata	1,305	Jul. 1983	67.5%
	A42	Karasuma Building	Kyoto, Kyoto	5,400	Oct. 1982	99.2%
	A44	KDX Sendai Building	Sendai, Miyagi	2,100	Feb. 1984	93.8%
	A53	KDX Hakata-Minami Building	Fukuoka, Fukuoka	4,900	Jun. 1973	93.3%
	A54	KDX Kitahama Building	Osaka, Osaka	2,220	Jul. 1994	92.8%
	A58	KDX Nagoya Sakae Building	Nagoya, Aichi	7,550	Apr. 2009	100.0%
	A69	KDX Kobayashi-Doshomachi Building	Osaka, Osaka	2,870	Jul. 2009	91.3%
	A70	Kitananajo SIA Building	Sapporo, Hokkaido	2,005	Oct. 1989	100.0%
	A79	Nagoya Ekimae Sakura-dori Building	Nagoya, Aichi	7,327	Apr. 1986	93.8%
	A80	Nagoya Nikko Shoken Building	Nagoya, Aichi	4,158	Aug. 1974	98.0%
	A81	Sendai Nikko Building	Sendai, Miyagi	950	Mar. 1989	75.4%
	A82	View Flex Umeda Building	Osaka, Osaka	2,770	Jul. 2009	95.5%
	Office Subtotal (78 properties)			271,700	Avg. 22.3 years	95.2%
Residential (Tokyo Metropolitan Area)	B03	Court Mejiro	Shinjuku-ku, Tokyo	1,250	Mar. 1997	100.0%
	B19	Residence Charmante Tsukishima	Chuo-ku, Tokyo	5,353	Jan. 2004	100.0%
Residential (Other Regional Areas)	B18	Venus Hibarigaoka	Sapporo, Hokkaido	1,800	Mar. 1989	96.1%
	Residential Subtotal (3 properties)			8,403	Avg. 13.0 years	97.8%
Central Urban Retail (Tokyo Metropolitan Area)	C01	Frame Jinnan-zaka	Shibuya-ku, Tokyo	9,900	Mar. 2005	100.0%
	C02	KDX Yoyogi Building	Shibuya-ku, Tokyo	2,479	Aug. 1991	100.0%
	Central Urban Retail Subtotal (2 properties)			12,379	Avg. 10.3 years	100.0%
Others (Other Regional Areas)	D01	Kanazawa Nikko Building (Note 4)	Kanazawa, Ishikawa	645	Mar. 1989	100.0%
	Others Subtotal (1 property)			645	Avg. 23.6 years	100.0%
		Total (84 properties)		293,128	Avg. 21.5 years	95.5%
Investment Security		Senri Property TMK Preferred Securities	Toyonaka, Osaka	891	Jun. 1992	

Notes: 1. The year built refers to the date of construction completion recorded in the land register. The average age subtotal and total data are calculated using the weighted-average based on acquisition prices as of October 31, 2012, and are rounded down to the first decimal place.
2. KDX Shin-Yokohama 381 Building and KDX Shin-Yokohama 381 Building Annex Tower are indicated collectively as one property. Year of construction of existing tower is shown. Upon calculating the weighted-average portfolio age, the completion date (April 2009) for the KDX Shin-Yokohama 381 Building Annex Tower is not considered.
3. As of October 31, 2012, the Kabutocho Nikko Building. The name was changed to the KDX Nihonbashi Kabutocho Building effective from December 1, 2012.
4. Kanazawa Nikko Building was sold on November 1, 2012.
5. Amounts indicated have been rounded down.

Corporate Governance

With the aim of becoming an "autonomous J-REIT," KENEDIX-REIT endeavors to build a corporate governance system that fosters highly transparent asset management operations and fair transactions.

Ensuring management independence and transparency is extremely important in undertaking fair transactions and indispensable for promoting sound management practices. In order to comply with each legal regulation and realize asset management operations that are fair and highly transparent, Kenedix Office Partners, the asset management company of KENEDIX-REIT, is mindful of the following items, shown in the chart below. In particular, the Compliance Officer and the Compliance Committee function as two integral aspects of the corporate governance system, ensuring compliance with rules and regulations that govern J-REITs, organization-wide support and implementation.

Corporate Governance System of KENEDIX-REIT

KENEDIX-REIT has established a Board of Directors—a meeting of which is held on a regular basis—that is fully capable of undertaking operating decisions and functioning as a body that supervises the executive officer. Through the functions of the Board of Directors, KENEDIX-REIT grasps and oversees the status of Kenedix Office Partners' business operations.

Corporate Governance System of Kenedix Office Partners

Kenedix Office Partners endeavors to control the various risks related to investment management by preparing management guidelines and adhering to fundamental investment management concepts, including investment policies, transaction rules with interested parties, and policies of distribution and disclosure.

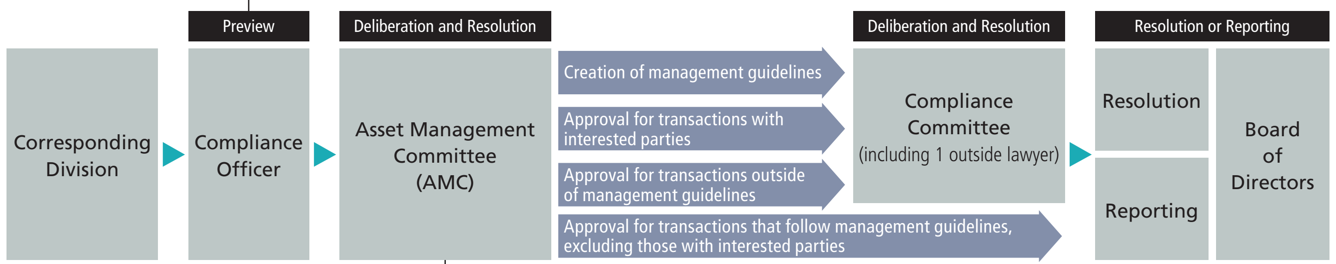
Furthermore, based on a review conducted by the Compliance Officer, important items that include transactions with interested parties are subject to strict protocols that involve deliberations and resolutions undertaken by the Asset Management Committee (AMC) and the Compliance Committee (whose members include one outside lawyer). Final decisions regarding such transactions are made by the Board of Directors.

AMC's Role in Advancing Decision Making

On a weekly basis, AMC members receive reports on tenant movements and plans, discuss measures to deal with negative movements, receive proposals on renovations and other improvements, and deliberate and approve property acquisitions and dispositions. While each division takes action to fulfill its respective areas of responsibility, the process of discussion and approval vets issues and ensures a flow of communication that is logical and meaningful to the decision-making process.

Decision Making at Kenedix Office Partners

The Compliance Officer previews the REIT's major pending decisions to ensure that no transactions are detrimental to the interests of investors, that the rules for deals with interested parties are obeyed and that the deals are implemented in accordance with established guidelines. The Compliance Officer also works to ensure that service providers are in compliance with the rules and regulations that govern J-REITs.



AMC is the crux of cross-organizational management and communication. Attendees of the AMC meetings comprise leaders and managers, and meetings related to property or other material decisions are attended by the CEO and President of Kenedix Office Partners, the General Manager of the Financial Planning Division (CFO), the General Manager of the Investment Management Division (CIO), the General Manager of the Property Management Division and the Compliance Officer.

Meetings of Committees in Each Fiscal Period

(Period)	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th	13th	14th	15th
Compliance Committee	7	7	7	8	6	8	9	8	8	10	7	7	8	6	7
Asset Management Committee	21	35	39	39	38	38	52	44	36	39	32	37	44	40	40
Kenedix Office Partners Board of Directors	9	7	9	8	9	7	10	8	10	12	11	9	11	9	12
KENEDIX-REIT Board of Directors	11	7	7	9	7	7	7	8	8	8	8	7	9	10	8

Financial Section

Contents

Financial Summary (Unaudited)

Historical Operating Trends
For the 11th–15th Fiscal Periods

Period	Unit	11th Period (as of Oct. 31, 2010)	12th Period (as of Apr. 30, 2011)	13th Period (as of Oct. 31, 2011)	14th Period (as of Apr. 30, 2012)	15th Period (as of Oct. 31, 2012)
Operating revenues	mn yen	8,358	8,136	9,044	9,090	10,212
(Rental revenues)	mn yen	8,242	8,136	8,498	9,090	9,617
Operating expenses	mn yen	4,522	4,427	4,618	5,004	5,696
(Property-related expenses)	mn yen	3,817	3,767	3,961	4,284	4,822
Operating income	mn yen	3,835	3,709	4,425	4,086	4,516
Ordinary income	mn yen	2,608	2,346	3,040	2,551	3,011
Net income (a)	mn yen	2,607	2,309	3,052	2,540	3,009
Total assets (b) (Period-on-period change)	mn yen %	251,080 (-0.2)	261,928 (+4.3)	274,973 (+5.0)	303,284 (+10.3)	306,734 (+1.1)
Interest-bearing debt (c) (Period-on-period change)	mn yen %	102,567 (-0.4)	112,715 (+9.9)	110,914 (-1.6)	137,372 (+23.9)	140,581 (+2.3)
Unitholders' equity (d) (Period-on-period change)	mn yen %	135,732 (+0.0)	135,505 (-0.2)	150,272 (+10.9)	150,063 (-0.1)	150,389 (+0.2)
Unitholders' capital (Period-on-period change)	mn yen %	133,129 (0.0)	133,129 (0.0)	147,153 (+10.5)	147,153 (0.0)	147,153 (0.0)
Number of investment units issued and outstanding (e)	unit	233,550	233,550	286,550	286,550	286,550
Unitholders' equity per unit (d)/(e)	yen	581,170	580,199	524,419	523,688	524,828
Total distribution (f)	mn yen	2,541	2,310	2,749	2,683	2,738
Distribution per unit (f)/(e)	yen	10,881	9,891	9,596	9,364	9,557
(Earnings distributed per unit)	yen	10,881	9,891	9,596	9,364	9,557
(Distribution in excess of earnings per unit)	yen	—	—	—	—	—
Return on assets (annualized) (Notes 1 and 2)	%	1.0 (2.1)	0.9 (1.8)	1.1 (2.2)	0.9 (1.8)	1.0 (2.0)
Return on net assets (annualized) (Notes 2 and 3)	%	1.9 (3.8)	1.7 (3.4)	2.1 (4.2)	1.7 (3.4)	2.0 (4.0)
Net assets ratio at end of period (d)/(b) (Period-on-period change)	%	54.1 (+0.1)	51.7 (-2.3)	54.6 (+2.9)	49.5 (-5.2)	49.0 (-0.5)
Interest-bearing debt ratio at end of period (c)/(b) (Period-on-period change)	%	40.9 (-0.1)	43.0 (+2.2)	40.3 (-2.7)	45.3 (+5.0)	45.8 (+0.5)
Payout ratio (Note 4) (f)/(a)	%	97.4	100.0	90.0	105.6	90.9
Other references						
Number of properties	properties	67	71	74	83	84
Total leasable floor area	m^2	267,737.33	286,237.93	300,016.89	340,589.96	351,153.72
Occupancy at end of period	%	93.6	94.6	94.7	95.4	95.5
Depreciation expenses for the period	mn yen	1,440	1,406	1,442	1,578	1,621
Capital expenditures for the period	mn yen	312	574	674	918	904
Leasing NOI (Net Operating Income) (Note 5)	mn yen	5,864	5,776	5,980	6,384	6,416
FFO (Funds From Operation) (Note 6)	mn yen	3,995	3,716	3,950	4,119	4,187
FFO per unit (Note 7)	yen	17,106	15,914	13,786	14,374	14,612

Notes: 1. Return on assets = Ordinary income/{(Total assets at beginning of period + Total assets at end of period)/2} × 100
2. Annualized values for the 11th Fiscal Period are calculated based on a period of 184 days, 181 days for the 12th Fiscal Period, 184 days for the 13th Fiscal Period, 182 days for the 14th Fiscal Period, and 184 days for the 15th Fiscal Period.
3. Return on net assets = Net income/{(Total net assets at beginning of period + Total net assets at end of period)/2} × 100
4. Payout ratio is rounded down to the first decimal place.
5. Leasing NOI = Rental revenues – Rental expenses + Depreciation expenses for the period
6. FFO = Net income + Depreciation expenses for the period – Gain on sale of real estate property + Loss on sale of real estate property
7. FFO per unit = FFO/Number of investment units issued and outstanding (figures below ¥1 rounded down)
8. Where applicable, figures are rounded down to the nearest million.

Independent Auditor's Report

The Board of Directors
Kenedix Realty Investment Corporation

Pursuant to Article 130 of the Act on Investment Trusts and Investment Corporations, we have audited the accompanying financial statements of Kenedix Realty Investment Corporation("the Investment Corporation"), which comprise the balance sheet as of October 31, 2012, and the statement of income and retained earnings, statement of changes in net assets and notes to the financial statements for the six-month period then ended and a summary of significant accounting policies and other explanatory information.

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 Realty Investment Corporation as of October 31, 2012, and its financial performance for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

December 11, 2012
Tokyo, Japan

Balance Sheets

Kenedix Realty Investment Corporation
As of October 31, 2012 and April 30, 2012

	In thousands of yen	
	As of October 31, 2012	As of April 30, 2012
ASSETS		
Current assets:		
Cash and bank deposits (Note 12)	¥ 11,513,930	¥ 14,019,939
Rental receivables	425,746	176,474
Consumption tax refundable	—	220,729
Other current assets (Note 7)	79,424	70,447
Total current assets	12,019,100	14,487,589
Property and equipment, at cost: (Notes 3, 11 and 13)		
Land	205,933,483	201,938,266
Buildings and structures (Note 5)	100,188,719	97,166,954
Machinery and equipment	1,548,922	1,540,138
Tools, furniture and fixtures	433,305	429,679
Construction in progress	6,699	6,894
Less-accumulated depreciation	(16,448,292)	(15,326,838)
Net property and equipment	291,662,836	285,755,093
Other assets:		
Ground leasehold (Notes 11 and 13)	357,881	358,655
Investment securities (Note 12)	896,655	896,655
Corporate bond issuance costs	32,669	39,405
Unit issuance costs	56,709	83,991
Other assets (Notes 11 and 13)	1,708,798	1,662,657
Total assets	¥306,734,648	¥303,284,045
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities:		
Trade and other payables	¥ 894,162	¥ 775,125
Current portion of corporate bonds (Notes 4 and 12)	1,500,000	—
Short-term debt and current portion of long-term debt (Notes 4 and 12)	19,700,000	26,580,000
Deposits received	18,964	27,249
Rents received in advance	1,482,863	1,887,967
Other current liabilities	328,146	220,298
Total current liabilities	23,924,135	29,490,639
Corporate bonds (Notes 4 and 12)	4,500,000	6,000,000
Long-term debt (Notes 4 and 12)	114,881,000	104,792,500
Leasehold and security deposits received	13,039,969	12,937,903
Total liabilities	156,345,104	153,221,042
Net Assets		
Unitholders' equity		
Unitholders' capital	147,153,820	147,153,820
Units authorized: 2,000,000 units		
Units issued and outstanding: 286,550 units		
As of October 31, 2012 and April 30, 2012, respectively		
Surplus		
Voluntary retained earnings		
Reserve for reduction entry	225,796	368,796
Retained earnings	3,009,928	2,540,387
Total surplus	3,235,724	2,909,183
Total unitholders' equity	150,389,544	150,063,003
Total net assets (Note 8)	150,389,544	150,063,003
Total liabilities and net assets	¥306,734,648	¥303,284,045

See accompanying notes to the financial statements.

Statements of Income and Retained Earnings

Kenedix Realty Investment Corporation
For the period from May 1, 2012 to October 31, 2012 and the period from November 1, 2011 to April 30, 2012

	In thousands of yen	
	From May 1, 2012 to October 31, 2012	From November 1, 2011 to April 30, 2012
Operating revenues:		
Rental revenues (Notes 10 and 11)	¥ 9,617,355	¥9,090,653
Gain on sale of real estate property (Note 10)	595,516	—
Total operating revenues	10,212,871	9,090,653
Operating expenses:		
Property-related expenses (Notes 10 and 11)	4,822,166	4,284,757
Loss on sale of real estate property (Note 10)	151,823	—
Asset management fees	548,085	491,073
Administrative service and custodian fees	68,539	80,726
Other operating expenses	105,575	147,751
Total operating expenses	5,696,188	5,004,307
Operating income	4,516,683	4,086,346
Non-operating expenses:		
Interest expense	1,093,771	1,058,930
Financing-related expenses	366,756	444,047
Amortization of unit issuance costs	27,282	27,282
Amortization of corporate bond issuance costs	6,736	9,001
Others, net	10,904	(4,723)
Total non-operating expenses	1,505,449	1,534,537
Ordinary income	3,011,234	2,551,809
Extraordinary losses		
Litigation settlement	—	10,000
Income before income taxes	3,011,234	2,541,809
Income taxes (Note 7)	1,439	1,526
Net income	3,009,795	2,540,283
Retained earnings at the beginning of period	133	104
Retained earnings at the end of period	¥ 3,009,928	¥2,540,387

See accompanying notes to the financial statements.

Statements of Changes in Net Assets

Kenedix Realty Investment Corporation
For the period from May 1, 2012 to October 31, 2012 and the period from November 1, 2011 to April 30, 2012

	In thousands of yen					
	Unitholders' Equity					
		Surplus				
		Voluntary retained earnings				
	Unitholders' capital	Reserve for reduction entry	Retained earnings	Total surplus	Total unitholders' equity	Total
Balance as of October 31, 2011	¥147,153,820	¥ 65,796	¥3,052,838	¥3,118,634	¥150,272,454	¥150,272,454
Changes during the fiscal period						
Reversal of reserve for reduction entry	—	303,000	(303,000)	—	—	—
Payments of dividends	—	—	(2,749,734)	(2,749,734)	(2,749,734)	(2,749,734)
Net income	—	—	2,540,283	2,540,283	2,540,283	2,540,283
Total changes during the fiscal period	—	303,000	(512,451)	(209,451)	(209,451)	(209,451)
Balance as of April 30, 2012	¥147,153,820	¥368,796	¥2,540,387	¥2,909,183	¥150,063,003	¥150,063,003
Changes during the fiscal period						
Reversal of reserve for reduction entry	—	(143,000)	143,000	—	—	—
Payments of dividends	—	—	(2,683,254)	(2,683,254)	(2,683,254)	(2,683,254)
Net income	—	—	3,009,795	3,009,795	3,009,795	3,009,795
Total changes during the fiscal period	—	(143,000)	469,541	326,541	326,541	326,541
Balance as of October 31, 2012	¥147,153,820	¥225,796	¥3,009,928	¥3,235,724	¥150,389,544	¥150,389,544

See accompanying notes to the financial statements.

Notes to Financial Statements

Kenedix Realty Investment Corporation
For the period from May 1, 2012 to October 31, 2012 and the period from November 1, 2011 to April 30, 2012

1. ORGANIZATION AND BASIS OF PRESENTATION

ORGANIZATION

Kenedix Realty Investment Corporation ("the Investment Corporation") was established on May 6, 2005 under the Act on Investment Trusts and Investment Corporations of Japan ("the Investment Trust Act"). On July 21, 2005, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange with a total of 75,400 investment units issued and outstanding (Securities Code: 8972). Subsequently, the Investment Corporation raised funds through four public offerings and other means including global offerings. As a result, as of October 31, 2012, the end of the fifteenth fiscal period, the number of investment units issued and outstanding totaled 286,550 units.

The Investment Corporation is externally managed by Kenedix Office Partners, Inc. (Note) ("the Asset Management Company") as its asset management company. In concert with the Asset Management Company, the Investment Corporation strives to maximize cash distribution to investors by securing stable earnings and sustainable investment growth. To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity. The Investment Corporation has partially changed the management guidelines contained in the company regulations of the Asset Management Company as of September 1, 2012, and raised the lower limit of the investment ratio of office buildings along with changing the upper limits, etc. of the investment ratio of other types of properties. (Note: As of September 1, 2012, Kenedix REIT Management, Inc. changed the company name. Same applies below.)

During the period ended October 31, 2012, the Investment Corporation acquired three office buildings (Fuchu South Building, Kasuga Business Center Building and Nakameguro Business Center Building: total acquisition price of ¥10,800 million) located in the Tokyo Metropolitan Area and sold KDX Omori Building (initial acquisition price of ¥3,500 million) and Gradito Kawaguchi (initial acquisition price of ¥1,038 million) (total sales price of ¥5,060 million). As of October 31, 2012, the Investment Corporation had total unitholders' capital of ¥147,154 million with 286,550 investment units outstanding. The balance of interest-bearing debt amounted to ¥140,581 million as of October 31, 2012, comprising ¥134,581 million in borrowings (¥128,881 million in long-term borrowings and ¥5,700 million in short-term borrowings) and ¥6,000 million in investment corporation bonds. The Investment Corporation owned a portfolio of 84 properties with a total acquisition price of ¥293,129 million containing a total leasable area of 351,153.72m^2 and preferred equity securities with a total acquisition price of ¥891 million. The occupancy ratio was approximately 95.5%. A portfolio of 84 properties consists of 78 office buildings, 3 residential properties, 2 central urban retail properties and one others. 67 properties are located in the Tokyo Metropolitan Area and 17 properties are located in Other Regional Areas.

BASIS OF PRESENTATION

The Investment Corporation maintains its accounting records and prepares its financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The financial statements are prepared in accordance with the Investment Trust Act.

The financial statements are basically a translation of the Japanese audited financial statements of the Investment Corporation. In preparing the accompanying financial statements, certain reclassifications have been made to the financial statements issued domestically in order to present them in a format which is familiar to readers outside Japan. Certain information in the business report and supplementary schedule has been omitted. Additional information has been added to the Japanese audited financial statements for the convenience of readers outside Japan and this includes disclosing the prior year's comparatives as supplemental information in the English translated financial statements although the Japanese audited financial statements only need to disclose the current year's information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) SECURITIES
Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

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

	From May 1, 2012 to October 31, 2012	From November 1, 2011 to April 30, 2012
Buildings and structures	2-49 years	2-49 years
Machinery and equipment	3-17 years	3-17 years
Tools, furniture and fixtures	3-20 years	3-20 years

(C) UNIT ISSUANCE COSTS
Unit issuance costs are amortized over a period of 3 years under the straight-line method.

(D) CORPORATE BOND ISSUANCE COSTS
Corporate bond issuance costs are amortized over a loan period under the straight-line method.

(E) 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 assets and liabilities within trust are recorded in the relevant balance sheets and statements of income and retained earnings.

(F) LEASEHOLD RIGHTS
Fixed term leasehold with special agreement on buildings sales, and the building are amortized over a contractual period of 48 years and 9 months under the straight-line method.

(G) REVENUE RECOGNITION
Operating revenues consist of rental revenues including base rents and common area charges, and other operating revenues including 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, respectively.

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

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥23,009 thousand and ¥23,881 thousand as of October 31, 2012 and April 30, 2012, respectively. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period to which the installments of such taxes correspond.

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

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

(K) DERIVATIVE FINANCIAL INSTRUMENTS
The Investment Corporation utilizes interest-rate swap agreements as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. The Investment Corporation deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap agreements because its interest-rate swap agreements met the criteria for deferral hedging accounting. However, the Investment Corporation adopted special treatment for interest-swap agreements if its interest-rate swap agreements met the criteria for hedging accounting under this treatment, whereby the net amount to be paid or received under the interest-rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. The hedge effectiveness for interest-rate swap contracts is assessed each fiscal period except for those that meet the criteria of special treatment.

(L) ROUNDING OF AMOUNTS PRESENTED
Amounts have been truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan, whereas amounts have been rounded to the nearest million in the accompanying financial statements. Totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

3. SCHEDULE OF PROPERTY

	In millions of yen					
	As of October 31, 2012			As of April 30, 2012		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥205,933	¥ —	¥205,933	¥201,938	¥ —	¥201,938
Buildings and structures	100,189	15,584	84,605	97,167	14,526	82,641
Machinery and equipment	1,549	638	911	1,540	590	950
Tools, furniture and fixtures	433	226	207	430	211	219
Construction in progress	7	—	7	7	—	7
Total	¥308,111	¥16,448	¥291,663	¥301,082	¥15,327	¥285,755

4. SHORT-TERM DEBT, LONG-TERM DEBT AND CORPORATE BONDS

The following summarizes short-term debt, long-term debt and corporate bonds outstanding as of October 31, 2012:

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Short-term debt	January 31, 2012	January 31, 2013	0.83%	¥ 1,200
	July 31, 2012	July 31, 2013	0.83%	1,500
	October 31, 2012	October 31, 2013	0.78%	3,000
Current portion of long-term debt	December 8, 2009	December 8, 2012	1.67%	500
	June 30, 2008	December 28, 2012	2.26%	3,000
	January 13, 2010	January 15, 2013	1.90%	1,000
	February 18, 2010	February 18, 2013	1.90%	1,500
	April 28, 2011	April 30, 2013	1.50%	1,000
	July 30, 2010	July 31, 2013	1.49%	500
	September 1, 2006	August 31, 2013	2.12%	3,000
	March 31, 2011	September 30, 2013	1.53%	2,000
	September 30, 2011	September 30, 2013	1.15%	1,000
	October 29, 2010	October 31, 2013	1.46%	500
Subtotal				19,700

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term debt	May 1, 2006	April 30, 2016	2.73%	5,000
	January 29, 2010	January 30, 2015	2.17%	1,056
	February 18, 2010	February 18, 2015	2.19%	4,675
	April 2, 2010	April 2, 2015	2.22%	1,750
	July 30, 2010	January 31, 2014	1.66%	3,700
	July 30, 2010	July 31, 2014	1.73%	3,700
	November 12, 2010	November 12, 2013	1.58%	2,700
	November 12, 2010	November 12, 2015	1.79%	2,000
	November 12, 2010	November 12, 2017	2.02%	2,300
	December 1, 2010	November 12, 2013	1.44%	800
	December 1, 2010	November 12, 2015	1.54%	1,000
	December 1, 2010	November 12, 2017	2.21%	700
	January 31, 2011	January 31, 2014	1.57%	1,300
	January 31, 2011	January 29, 2016	1.94%	800
	February 28, 2011	August 31, 2015	1.91%	3,000
	February 28, 2011	January 29, 2016	1.95%	500
	March 22, 2011	September 22, 2014	1.63%	2,700
	March 31, 2011	January 29, 2016	1.91%	2,000
	March 31, 2011	March 31, 2016	1.39%	1,000
	April 28, 2011	October 31, 2015	1.86%	1,500
	April 28, 2011	January 29, 2016	1.89%	1,000
	July 13, 2011	July 14, 2014	1.54%	1,000
	July 29, 2011	July 31, 2014	1.13%	3,200
	July 29, 2011	July 31, 2014	1.40%	300
	August 31, 2011	February 27, 2015	1.08%	1,500
	September 1, 2011	August 29, 2014	1.15%	1,000
	September 30, 2011	March 31, 2014	1.16%	2,500
	September 30, 2011	September 30, 2014	1.27%	1,000
	September 30, 2011	March 31, 2015	1.29%	2,500
	December 26, 2011	October 31, 2014	1.24%	2,500
	December 26, 2011	October 31, 2014	1.26%	5,000
	December 26, 2011	October 31, 2015	1.34%	4,500
	December 26, 2011	October 31, 2015	1.32%	2,500
	December 26, 2011	October 31, 2016	1.44%	4,500
	December 26, 2011	October 31, 2016	1.42%	2,500
	January 10, 2012	January 29, 2016	1.27%	2,500
	January 31, 2012	January 30, 2015	1.19%	1,500
	March 12, 2012	March 12, 2014	1.04%	6,300
	March 12, 2012	March 12, 2015	1.08%	1,000
	March 28, 2012	March 28, 2017	1.36%	500
	March 28, 2012	March 28, 2019	1.77%	2,400
	March 30, 2012	September 30, 2015	1.21%	2,000
	April 27, 2012	October 30, 2015	1.27%	1,000
	June 29, 2012	June 30, 2017	1.29%	1,500
	September 21, 2012	September 21, 2017	1.16%	7,000
	October 31, 2012	April 30, 2015	1.01%	2,500
	October 31, 2012	October 31, 2016	1.06%	2,500
	October 31, 2012	October 31, 2016	1.05%	1,500
	October 31, 2012	October 31, 2017	1.10%	2,500
	October 31, 2012	October 31, 2018	1.25%	2,500
Subtotal				114,881
Corporate bonds	March 15, 2007	March 15, 2017	2.37%	3,000
	September 15, 2011	September 13, 2013	1.59%	1,500
	March 8, 2012	September 8, 2017	2.00%	1,500
Subtotal				6,000
Total				¥140,581

5. REDUCTION ENTRY

The amount of reduction entry of property and equipment acquired by government subsidy

	In thousands of yen	
	As of October 31, 2012	As of April 30, 2012
Buildings and structures	¥26,230	¥26,230

6. PER UNIT INFORMATION

	Yen	
	From May 1, 2012 to October 31, 2012	From November 1, 2011 to April 30, 2012
Net asset value per unit	¥524,828	¥523,689
Net income per unit	¥ 10,504	¥ 8,865
Weighted average number of units (units)	286,550	286,550

The weighted average number of units outstanding of 286,550 was used for the computation of the amount of net income per unit as of October 31, 2012 and April 30, 2012. Net income per unit after adjusting for residual units is not included because there were no residual investment units.

7. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 40%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measure Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement that it currently distribute in excess of 90% of its net income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥2,739 million (deducting ¥271 million as the provision of reserve for reduction entry) and ¥2,683 million (including ¥143 million as the reversal of reserve for reduction entry) for the periods ended October 31, 2012 and April 30, 2012. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.05% and 0.06% for the periods ended October 31, 2012 and April 30, 2012. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	As of October 31, 2012	As of April 30, 2012
Statutory tax rate	36.59%	39.33%
Deductible cash distributions	(33.28)	(41.52)
Provision of reserve for reduction entry	(3.30)	—
Others	0.04	2.25
Effective tax rate	0.05%	0.06%

The significant components of deferred tax assets and liabilities as of October 31, 2012 and April 30, 2012 were as follows:

	In thousands of yen	
	As of October 31, 2012	As of April 30, 2012
Deferred tax assets:		
Enterprise tax payable	¥ 27	¥ 43
Amortization of leasehold rights	1,014	749
Subtotal deferred tax assets	1,041	792
Valuation allowance	1,014	749
Total deferred tax assets	¥ 27	¥ 43

8. NET ASSETS

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

9. RELATED-PARTY TRANSACTIONS

TRANSACTIONS WITH KENEDIX OFFICE PARTNERS, INC.

Kenedix Office Partners, Inc., a consolidated subsidiary of Kenedix, Inc., provides the Investment Corporation with property management services and related services. For these services, the Investment Corporation pays Kenedix Office Partners, Inc. property management fees in accordance with the terms of its Property Management Agreements. For these services, the Investment Corporation paid ¥373 million to Kenedix Office Partners, Inc.

10. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, GAIN ON SALE OF REAL ESTATE PROPERTY AND LOSS ON SALE OF REAL ESTATE PROPERTY

Rental and other operating revenues, property-related expenses, gain on sale of real estate property and loss on sale of real estate property for the periods from May 1, 2012 to October 31, 2012 and from November 1, 2011 to April 30, 2012 consist of the following:

	In thousands of yen	
	From May 1, 2012 to October 31, 2012	From November 1, 2011 to April 30, 2012
Rental and other operating revenues:		
Rental revenues	¥6,664,510	¥6,581,677
Common area charges	1,559,549	1,490,246
Subtotal	8,224,059	8,071,923
Others:		
Parking space rental revenues	286,632	271,260
Utility charge reimbursement	769,331	621,582
Miscellaneous	337,333	125,888
Subtotal	1,393,296	1,018,730
Total rental and other operating revenues	¥9,617,355	¥9,090,653
Property management fees and facility management fees	¥ 937,543	¥ 911,939
Depreciation	1,621,151	1,578,845
Utilities	790,093	663,800
Taxes	823,223	724,628
Insurance	14,673	14,084
Repairs and maintenance	400,960	165,367
Trust fees	42,682	47,277
Loss on retirement of fixed assets	17,689	3,719
Others	174,152	175,098
Total property-related expenses	¥4,822,166	¥4,284,757
Gain on sale of real estate property:		
Revenue from sale of investment property	¥4,200,000	¥ —
Cost of investment property	3,355,390	—
Other sales expenses	249,094	—
Gain on sale of real estate property	¥ 595,516	¥ —
Loss on sale of real estate property:		
Revenue from sale of investment property	¥ 860,000	¥ —
Cost of investment property	992,112	—
Other sales expenses	19,711	—
Loss on sale of real estate property	¥ 151,823	¥ —

11. PROPERTY INFORMATION

Details of the property portfolio as of October 31, 2012 were as follows:

Type	Office Buildings		Residential Properties		Central Urban Retail Properties	Others
Location	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas
Number of properties	63	15	2	1	2	1
Property information						(In millions of yen)
Acquisition price	¥219,406	¥52,295	¥6,603	¥1,800	¥12,380	¥ 645
Percentage of total acquisition price	74.85%	17.84%	2.25%	0.62%	4.22%	0.22%
Net book value	220,073	51,079	6,105	1,788	12,297	679
Appraisal value	202,737	44,569	5,476	1,540	11,150	1,090
Percentage of total appraisal value	76.06%	16.72%	2.05%	0.58%	4.18%	0.41%
Financial results for the period from May 1, 2012 to October 31, 2012						(In thousands of yen)
Rental and other operating revenues	¥6,792,155	¥2,137,711	¥199,735	¥91,321	¥334,010	¥62,423
Rental revenues	5,788,509	1,819,697	177,878	80,942	302,113	54,920
Other revenues	1,003,646	318,014	21,857	10,379	31,897	7,503
Property-related expenses	2,168,805	842,926	55,993	36,079	78,915	18,297
Property management fees	612,441	268,714	20,154	8,170	22,514	5,550
Taxes	582,622	193,399	14,376	7,622	20,276	4,928
Utilities	535,832	217,783	2,506	2,049	26,547	5,376
Repairs and maintenance	297,443	80,735	8,863	9,982	3,218	719
Insurance	8,234	5,317	388	324	199	211
Trust fees and other expenses	132,233	76,978	9,706	7,932	6,161	1,513
NOI (Net Operating Income)	4,623,350	1,294,785	143,742	55,242	255,095	44,126
Depreciation expenses	1,060,150	401,925	60,723	23,125	68,018	7,210
Operating income from property leasing activities	3,563,200	892,860	83,019	32,117	187,077	36,916
Capital expenditures	604,911	254,340	4,221	4,383	36,896	129
NCF (Net Cash Flow)	¥4,018,439	¥1,040,445	¥139,521	¥50,859	¥218,199	¥43,997

A breakdown of property-type as of October 31, 2012 was as follows:

Class of assets	Property type	Area	Balance at the end of period (In millions of yen)	Percentage of total assets
Property and equipment	Office Buildings	Tokyo Metropolitan Area	¥220,073	71.7%
		Other Regional Areas	51,079	16.7%
	Subtotal		271,152	88.4%
	Residential Properties	Tokyo Metropolitan Area	6,105	2.0%
		Other Regional Areas	1,788	0.6%
	Subtotal		7,893	2.6%
	Central Urban Retail Properties	Tokyo Metropolitan Area	12,297	4.0%
	Subtotal		12,297	4.0%
	Others	Other Regional Areas	679	0.2%
	Subtotal		679	0.2%
Total			292,021	95.2%
Investment securities			897	0.3%
Bank deposits and other assets			13,817	4.5%
Total assets			306,735	100.0%
Total liabilities			156,345	51.0%
Net assets			¥150,390	49.0%

12. FINANCIAL INSTRUMENTS

Fifteenth Fiscal Period (May 1, 2012 to October 31, 2012)

(A) OVERVIEW

(1) POLICY FOR FINANCIAL INSTRUMENTS

The Investment Corporation procures essential funds for acquiring properties and undertaking the repayment of loans primarily through bank loans and the issuance of corporate bonds and new investment units. The Investment Corporation uses derivatives for the purpose of hedging its exposure to changes in interest rates and does not enter into derivatives for speculative or trading purposes. Management of surplus funds is undertaken in a prudent manner that considers fully such factors as safety, liquidity, interest rate conditions and cash flows.

(2) TYPES OF FINANCIAL INSTRUMENTS AND RELATED RISK

Investment securities are preferred equity securities of TMK as set forth by the Act on Securitization of Assets and are exposed to credit risk of the issuer and risk of fluctuation of value of its property.

Debt and corporate bonds are used primarily for procuring funds necessary for the acquisition of properties and have a redemption date of a maximum of seven years following the accounting date. Although a certain portion of said liabilities are subject to interest rate fluctuation risk, the Investment Corporation utilizes derivatives (interest-rate swap transactions) in order to reduce such risk.

Interest-rate swap transactions are used as derivative financial instruments. Utilizing interest-rate swap transactions, the Investment Corporation fixes its interest expense for long-term debt bearing interest at a variable rate. With regard to hedge accounting methods, hedging instruments and hedged items, hedge policy, and the assessment of the effectiveness of hedging activities, please see 2. (K) Derivative Financial Instruments.

(3) RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

(a) Monitoring of market risk (the risks arising from fluctuations in interest rates and others)

The Investment Corporation uses interest-rate swap transactions in order to minimize risk arising from fluctuations in interest rates on funds procured. The Investment Corporation periodically reviews the value of the property and financial condition of the issuer with regard to investment securities.

(b) Monitoring of liquidity risk (the risk that the Investment Corporation may not be able to meet its obligations on scheduled due dates) associated with funds procurement

Although loans and other liabilities are subject to liquidity risk, the Investment Corporation reduces such risk by spreading out payment due dates and by using diversified fund procurement methods. 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 as of October 31, 2012 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Refer to note 2 below).

	In thousands of yen		
	Carrying value	Estimated fair value	Difference
① Cash and bank deposits	¥ 11,513,930	¥ 11,513,930	¥ —
Subtotal	11,513,930	11,513,930	—
① Short-term debt	5,700,000	5,700,000	—
② Corporate bonds (including current portion of corporate bonds)	6,000,000	5,916,450	(83,550)
③ Long-term debt (including current portion of long-term debt)	128,881,000	129,110,084	229,084
Subtotal	¥140,581,000	¥140,726,534	¥145,534
Derivative Transactions*	—	—	—

* The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parentheses representing net liability position.

note 1: METHODS TO DETERMINE THE ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS AND OTHER MATTERS RELATED TO SECURITIES AND DERIVATIVE TRANSACTIONS

ASSETS

① Cash and bank deposits

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

LIABILITIES

① Short-term debt

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

② Corporate bonds

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

③ Long-term debt

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. The fair value of long-term debt bearing interest at variable rate, which is subject to fixed interest rates resulting from interest-rate swaps and special treatment applied to said swaps, is based on the present value of the total of principal and interest, which is handled together with applicable interest-rate swaps, discounted by the interest rate to be applied if similar loans were entered into.

DERIVATIVE TRANSACTIONS

(1) ITEMS THAT ARE NOT APPLIED TO HEDGE ACCOUNTING

Not applicable

(2) ITEMS THAT ARE APPLIED TO HEDGE ACCOUNTING

Hedge accounting method	Type of derivative transactions	Hedged items	Contracted amount (In thousands of yen)		Fair value (In thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Special treatment of interest-rate swaps	Interest-rate swaps: Receive/floating and pay/fixed	Long-term debt	¥21,500,000	¥20,500,000	*	
Total			¥21,500,000	¥20,500,000		

* Special treatment of interest-rate swaps is reported at the fair value of applicable long-term debt. This is because such swaps are handled together with hedged long-term debt.

note 2: FINANCIAL INSTRUMENTS FOR WHICH IT IS EXTREMELY DIFFICULT TO DETERMINE THE FAIR VALUE

Classification	Carrying value (In thousands of yen)
Preferred equity securities	¥896,655

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

note 3: REDEMPTION SCHEDULE FOR RECEIVABLES

	Due within 1 year or less (In thousands of yen)
Cash and bank deposits	¥11,513,930
Total	¥11,513,930

note 4: REDEMPTION SCHEDULE FOR DEBT AND CORPORATE BONDS

	In thousands of yen					
	Due within 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 debt	¥ 5,700,000	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	1,500,000	—	—	—	4,500,000	—
Long-term debt	14,000,000	38,546,000	30,135,000	26,800,000	11,500,000	7,900,000

13. INVESTMENT AND RENTAL PROPERTIES

Fifteenth Fiscal Period (May 1, 2012 to October 31, 2012)

The Investment Corporation owns real estate for rental purposes mainly in the Tokyo Metropolitan Area for the purpose of generating rental revenues.

The carrying value in the balance sheets and corresponding fair value of those properties are as follows:

Carrying value (In thousands of yen)			Fair value as of October 31, 2012 (In thousands of yen)
As of April 30, 2012	Net change	As of October 31, 2012	
¥286,114,419	¥5,906,850	¥292,021,269	¥266,252,000

notes: 1. The carrying value represents the acquisition cost less accumulated depreciation.
2. The fair value is the appraisal value or the survey value determined by outside appraisers. The fair value of Kanazawa Nikko Building is based on the sales price of ¥780,000 thousand under the sales and purchase agreement dated November 1, 2012.
3. Among changes in the amount of real estate for rental purposes that occurred during the fiscal period under review, principal increases and decreases were the acquisition of 3 properties totaling ¥10,988,507 thousand, the sale of 2 properties totaling 4,347,502 and depreciation amounting to ¥1,621,151 thousand.

Income and loss in the fiscal period ended October 31, 2012 for real estate for rental purposes is listed in the Note "10. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, GAIN ON SALE OF REAL ESTATE PROPERTY AND LOSS ON SALE OF REAL ESTATE PROPERTY".

Statements of Cash Flows (Unaudited)

Kenedix Realty Investment Corporation
For the period from May 1, 2012 to October 31, 2012 and the period from November 1, 2011 to April 30, 2012

	In thousands of yen	
	From May 1, 2012 to October 31, 2012	From November 1, 2011 to April 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income taxes	¥ 3,011,234	¥ 2,541,809
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	1,965,534	1,872,257
Interest income	(857)	(674)
Interest expense	1,093,771	1,058,930
Loss on retirement of fixed assets	17,689	3,719
Litigation settlement	—	10,000
Changes in assets and liabilities:		
Rental receivables	(249,271)	(2,702)
Consumption tax refundable	220,729	(220,729)
Accrued consumption tax	122,971	(66,864)
Trade and other payables	98,211	(30,365)
Rents received in advance	(405,105)	606,160
Property and equipment due to sale	4,349,377	—
Others, net	(374,870)	(572,096)
Subtotal	9,849,413	5,199,445
Interest income received	857	674
Cash payments of interest expense	(1,108,485)	(1,044,716)
Litigation settlement paid	—	(10,000)
Cash payments of income taxes	(1,829)	(1,352)
Net cash provided by operating activities	8,739,956	4,144,051
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(11,909,217)	(32,830,637)
Purchase of investment securities	(5,655)	(891,000)
Proceeds from leasehold and security deposits received	1,155,231	2,494,697
Payments of leasehold and security deposits received	(1,012,861)	(900,339)
Payments of restricted bank deposits	(597,875)	(131,125)
Proceeds from restricted bank deposits	86,628	40,729
Others, net	—	(20)
Net cash used in investing activities	(12,283,749)	(32,217,695)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term debt	4,500,000	8,700,000
Payments of short-term debt	(13,500,000)	(4,200,000)
Proceeds from long-term debt	20,000,000	38,700,000
Payments of long-term debt	(7,791,500)	(9,241,500)
Proceeds from issuance of investment corporation bonds	—	1,481,583
Redemption of investment corporation bonds	—	(9,000,000)
Payments of investment unit issuance costs	—	(28,322)
Payment of dividends	(2,681,963)	(2,747,109)
Net cash provided by financing activities	526,537	23,664,652
Net change in cash and cash equivalents	(3,017,256)	(4,408,992)
Cash and cash equivalents at the beginning of period	13,519,011	17,928,003
Cash and cash equivalents at the end of period	¥ 10,501,755	¥ 13,519,011

See related notes.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (UNAUDITED)

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.

CASH AND CASH EQUIVALENTS (UNAUDITED)

Cash and cash equivalents consisted of the following as of October 31, 2012 and April 30, 2012:

	In thousands of yen	
	As of October 31, 2012	As of April 30, 2012
Cash and bank deposits	¥11,513,930	¥14,019,939
Restricted bank deposits (Note)	(1,012,175)	(500,928)
Cash and cash equivalents	¥10,501,755	¥13,519,011

note: Restricted bank deposits are retained for repayment of tenant leasehold and security deposits.

Unitholders' Information

Kenedix Realty Investment Corporation

Fiscal Periods: Six months ending April 30 and October 31
Stock Listing: Real Estate Investment Trust Market of the Tokyo Stock Exchange (Security Code: 8972)
Transfer Agent: Sumitomo Mitsui Trust Bank, Limited
1-4-1 Marunouchi, Chiyoda-ku, Tokyo Japan
Auditor: Ernst & Young ShinNihon LLC

IR Schedule (15th and 16th Fiscal Periods)

Oct. 2012	Dec. 2012	Jan. 2013	Apr. 2013	Jun. 2013	Jul. 2013
End of the 15th Period	Performance for the 15th Period is announced	Distributions for the 15th Period are paid	**End of the 16th Period**	Performance for the 16th Period is announced	Distributions for the 16th Period are paid

General Breakdown of Unitholders

	Foreign corporations and individuals	Other domestic corporations	Financial institutions (including securities companies)	Individuals and others
End of the **15**th Period	48.9%	1.6%	36.7%	12.7%
	140,129 units	4,672 units	105,245 units	36,504 units
End of the **14**th Period	43.4%	1.6%	43.1%	11.8%
	124,469 units	4,639 units	123,531 units	33,911 units

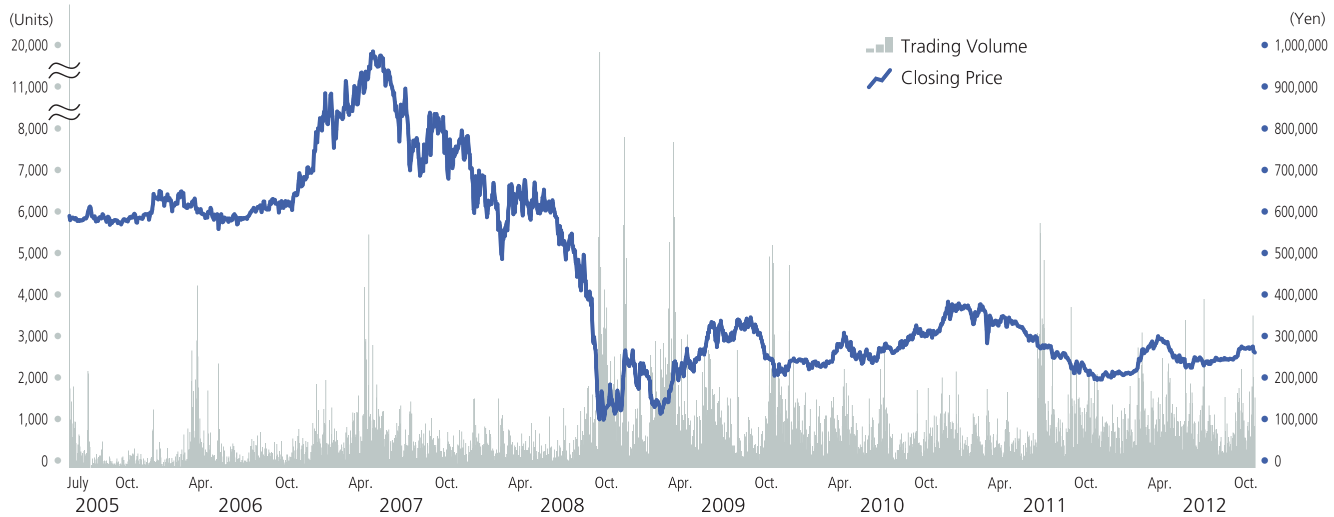
Note: Figures are rounded to the first decimal place.

Top Ten Unitholders (As of October 31, 2012)

Name	Units Held	Share of Outstanding Units
Japan Trustee Services Bank, Ltd. (Trust Account)	43,096	15.03%
The Nomura Trust and Banking Co., Ltd. (Trust Account)	19,108	6.66%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	17,406	6.07%
The Master Trust Bank of Japan, Ltd. (Trust Account)	11,789	4.11%
The Bank of New York, Treaty JASDEC Account	11,066	3.86%
JP Morgan Chase Bank 385174	8,420	2.93%
Nomura Bank (Luxembourg) S.A.	7,517	2.62%
Goldman Sachs and Company Regular Account	6,480	2.26%
State Street Bank and Trust Company	5,978	2.08%
State Street Bank and Trust Company 505104	5,358	1.86%
Total	136,218	47.53%

Note: The respective shares are rounded down to the second decimal place.

Unit Price Performance



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