

16<sup>th</sup>  
Fiscal Period

# KENEDIX-REIT

## *Semiannual Report*



Naokatsu Uchida  
CEO and President  
Kenedix Office Partners, Inc.

# CEO's Letter

## Improving Portfolio Quality through Proactive Reshuffling

**D**uring the 16th Fiscal Period, we managed to steadily reshuffle our portfolio in line with KENEDIX-REIT's management policy. As bipolarization becomes more prominent in the mid-sized office building market in terms of quality, we seek to further improve the quality of our portfolio. We are determined to occupy the high-end position in this segment, firmly establishing our presence in the market as the No.1 J-REIT in mid-sized office buildings.

Review of

*16th Fiscal Period*

Outlook and Strategies for

*17th Fiscal Period*

### 1. Review of 16th Fiscal Period

#### Question 1

Can you please begin with an overview of the 16th Fiscal Period (ended April 2013)?

#### Answer 1

**D**uring this half-year period, we improved the quality of the portfolio, our property management and our financial position. KENEDIX-REIT acquired the Nomura Fudosan Omiya Kyodo Building, an office building in Omiya Ward, Saitama City. Omiya is located within the Tokyo Metropolitan Area, where stable demand for office spaces is expected. The highly competitive building is within minutes from JR Omiya Station, a major transfer station in the northern Tokyo Metropolitan Area. This marked our first office property acquisition in Saitama Prefecture, bringing regional diversity to our portfolio.

Meanwhile, in November 2012, we sold the Kanazawa Nikko Building. We acquired this non-office building as part of an attractive multi-property deal, and following acquisition sought to dispose of it on favorable terms. We also sold the KDX Yotsuya Building, an office building which was expected to see a decline in NOI, in April 2013. With the accelerating pace of transactions in the real estate market, we are working to improve the quality of our portfolio through proactive asset reshuffling.

As for the management of the existing properties, we achieved a rapid lease up of the KDX Nihonbashi Kabutocho Building, which saw the move-out of a major tenant at the end of November 2012.

On the financial front, our focus remains firmly on stable financial management, which is achieved by maintaining a conservative interest-bearing debt ratio (LTV ratio), increasing the proportion of fixed-rate and long-term borrowings, and diversifying debt maturities. We will continue our policy of maintaining a high proportion of fixed-rate debt and reducing financing costs. Lastly, I should add, that our credit rating from Japan Credit Rating Agency, Ltd. improved one notch from A to A+ in March 2013, thanks to our history of sound portfolio and financial management.

## 2. Outlook and Strategies for 17th Fiscal Period

### Question 2

How is leasing progressing and, also, how does KENEDIX-REIT stand out from other J-REITs?

### Answer 2

I see some positive signs for the 17th Fiscal Period. We successfully leased the KDX Nihonbashi Kabutocho Building, where the single tenant terminated the lease for the entire building on November 31, 2012. We renovated the building to accommodate multiple tenants and, within six months of lease termination, we had contracted leases for 100.0% (as of July 31, 2013) of the space. Portfolio-wide, the average occupancy rate currently stands at 93.1% for our office buildings, but with the full leasing of the KDX Nihonbashi Kabutocho Building, I expect the rate will improve to around 96% during the 17th Fiscal Period.

Trends in both rental revenue and cash-flow are positive. I see signs of bottoming out. I also expect the turnover rate will improve with the declining number of lease terminations.

Moving forward, we will redouble our efforts to improve leasing rates and terms. The Asset Management Company has its own internal property management division, ensuring prompt understanding and the accurate reflection of tenant needs. We upgrade buildings in line with tenant expectations and conduct regular customer satisfaction (CS) surveys of our tenants to ensure that what they value is what we value. Our heightened responsiveness shows, providing tenants with strong motivation to renew their leases. Through these and other efforts, we continuously seek to raise tenant satisfaction. Ultimately, this will be reflected in better profitability and the distribution to our unitholders.

### Question 3

What is the outlook for the office leasing market, especially with regard to occupancy and rents?

### Answer 3

The supply and demand balance has been improving in the office leasing market since early 2013, bringing a welcome end to marked over-supply, widely known as the "2012 problem." Among promising signs on the demand side, we are receiving more inquiries about move-ins for both space expansion and contraction. Simultaneously, polarization is becoming more prominent between competitive and non-competitive properties. While high-quality properties located in competitive areas are very popular with rising occupancy rates from new tenants, the situation remains difficult for non-competitive properties.

The outlook for office demand depends very much on corporate earnings. We need to keep a close eye on the impact of Abenomics on boosting the economy and corporate performance. The widening quality gap is expected to be especially pronounced in the market for mid-sized office buildings, where we specialize. As such, enhancing the competitiveness of our properties gains even more importance.

### Question 4

Can you tell us more about your financial strategy?

### Answer 4

Our policy of diversifying debt maturities, extending the average life of debt, and heavily favoring fixed-rate interest over floating remains unchanged. During the 16th Fiscal Period, we continued to maintain the high level of fixed-rate debt at approximately 86%, amid rising concern over interest rate risk, and managed to steadily reduce financing costs while maintaining a conservative LTV ratio.

In terms of lenders, we maintain strong relationships with 10 lenders. We

consider opportunities to broaden and balance our lender base, either by initiating transactions with new lenders or increasing borrowings from existing lenders with whom we have a relatively small balance. We intend to build long-term relationships with our lenders based on deep understanding of the REIT market.

#### Question 5

Lastly, please tell us about the unitholder distribution.

#### Answer 5

The distribution per unit for the period under review was 9,434 yen, up 554 yen from the initial forecast of 8,800 yen announced in December 2012, thanks to capital gains from sales of properties, proactive leasing of existing properties, and reduction of financing costs. Nevertheless, the figure remained 123 yen short of the distribution for the 15th Fiscal Period (ended October 2012). Positive factors, such as the capital gains from the property sales and the full period operation of the three properties acquired during the 15th Fiscal Period, were more than offset by the move-out of a major tenant at the end of November 2012. Meanwhile, a portion of the aforementioned capital gains has been retained as a provision for reserve for reduction entry in order to maintain stable distribution levels in the future.

The distribution per unit for the 17th Fiscal Period is expected to be 8,830 yen, incorporating a part of the capital gain from the sale of the Ikebukuro Nikko Building, which was sold in May 2013.

We also managed to fully lease the KDX Nihonbashi Kabutocho Building around the end of July 2013. We will enhance the quality of our portfolio management with an eye on increasing the distribution to the mid-9,000 yen range.

#### Question 6

Please tell us your outlook for both the J-REIT market and KENEDIX-REIT.

#### Answer 6

The real estate market is expected to rise going forward, supported by the bold monetary easing implemented since December 2012 with the inauguration of the Abe Cabinet, which has vowed to end deflation and set the target inflation rate at 2%. The anticipated price increase is expected to push up both rental revenue and asset values. The revision of the Investment Trust Act is also expected to buoy the J-REIT market, along with the introduction of a tax-exempt investment program and other similar measures.

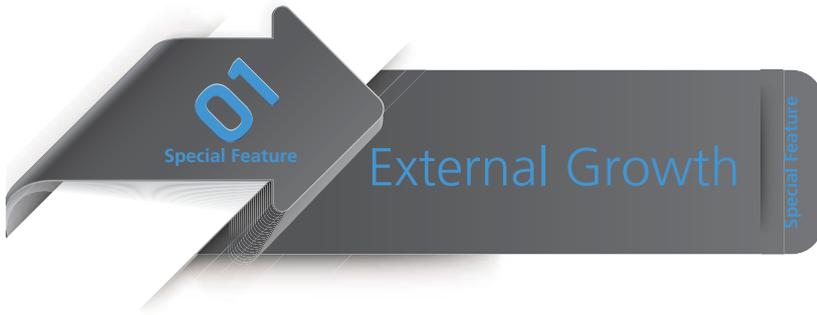
KENEDIX-REIT has established a unique presence in the J-REIT market with its extensive portfolio of mid-sized office buildings in the Tokyo Metropolitan Area. Capitalizing on our expertise in the management of the mid-sized office buildings, as well as our broad network and economies of scale, we seek to offer greater satisfaction to a diverse range of tenants through our real-estates services. Aiming to become the No. 1 J-REIT in the mid-sized office building market, we will continue our effort to be the best in the market, maximizing unitholder value and fulfilling our social mission as a J-REIT.

July 2013

内田直克

Naokatsu Uchida  
CEO and President  
Kenedix Office Partners, Inc.

# External Growth



# Successful Property Replacement and Diversification of Investment Method

## Property Replacement

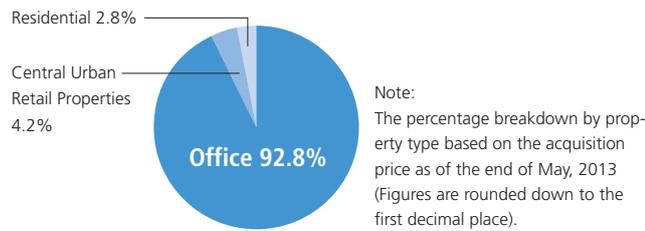
During the fiscal period under review, KENEDIX-REIT successfully increased its portfolio weighting in mid-sized office buildings in the Tokyo Metropolitan Area. KENEDIX-REIT acquired one office building, the Nomura Fudosan Omiya Kyodo Building, on March 26, 2013 for an acquisition price of 2,020 million yen, and sold two buildings, the Kanazawa Nikko Building and the KDX Yotsuya Building, on November 1, 2012 and April 24, 2013, respectively.

After reaching an agreement on March 21, 2013, KENEDIX-REIT sold the Ikebukuro Nikko Building during

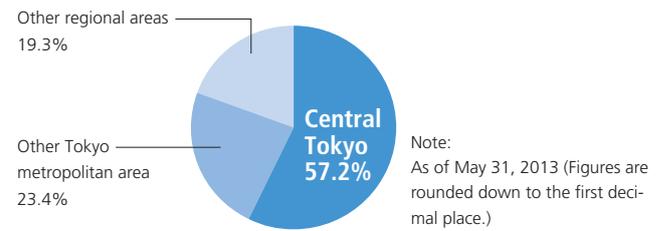
the current fiscal period for a sales price of 1,970 million yen on May 10, 2013.

As a result, the number of properties owned as of May 31, 2013 (excluding the preferred equity securities) amounts to 82, with a total acquisition price of 290,900 million yen. Since KENEDIX-REIT's listing in 2005, the total acquisition price of its properties has more than quadrupled. Looking at the portfolio as a whole, 92.8% was comprised of office buildings, 4.2% of central urban retail properties, and 2.8% of residential properties on an acquisition price basis as of May 31, 2013.

### Distribution by property type (based on acquisition price)



### Distribution of office buildings by region (based on acquisition price)

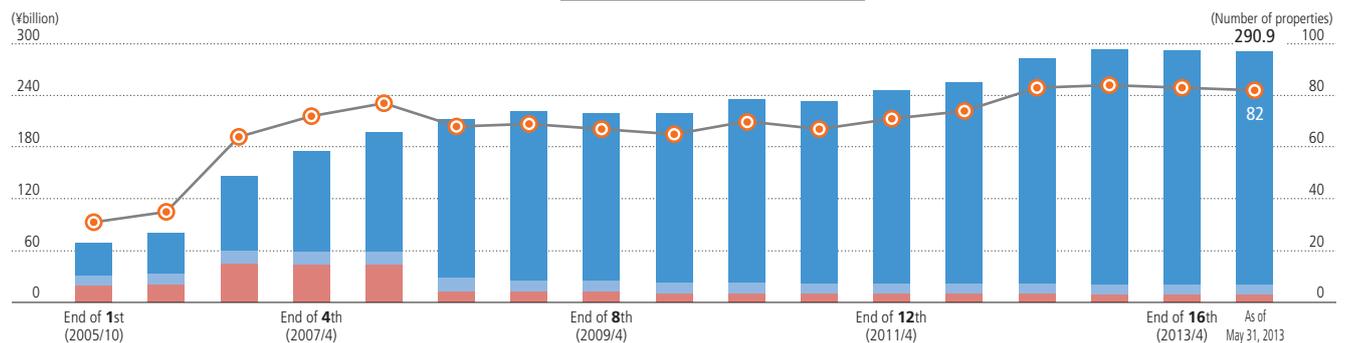


### Portfolio Growth (by acquisition price)

(Billion yen)

■ Office Buildings  
■ Central Urban Retail Properties  
■ Residential Properties

○ Number of properties



Notes: 1. Figures are rounded down to the nearest ¥100 million.

2. Central Tokyo represents Chiyoda, Chuo, Minato, Shibuya and Shinjuku wards.

## Diversifying Investment Methods

**W**hile enhancing the focus on high-quality mid-sized office buildings, KENEDIX-REIT has been working to diversify investment methods. Specifically, we are utilizing both the robust network of the Asset Management Company, as well as the support provided by our sponsor, Kenedix Inc.

Both of these routes proved fruitful during the period under review. The Asset Management Company led to the acquisition of the Nomura Fudosan Omiya Kyodo Building, whereas Kenedix Inc. and Kenedix Advisors Co., Ltd. were integral to acquiring the silent partnership equity interest in the DNI Mita Building from a third party with a sponsor.

## Acquired During the 16th Fiscal Period

### Utilizing the original network of the Asset Management Company

#### Nomura Fudosan Omiya Kyodo Building



Gross floor area: 5,055.50m<sup>2</sup>  
 Year built: April 1993  
 Occupancy rate (As of Apr. 30, 2013): 88.3%  
 Acquisition price: ¥ 2.02 billion  
 Appraisal value at the time of acquisition: 2.20 billion yen  
 Difference between acquisition price and appraisal value: -1.8 billion yen (-8.2%)

### Utilizing the support-line from the Sponsor, Kenedix, Inc.

#### DNI Mita Building



Gross floor area: 5,007.98m<sup>2</sup>  
 Year built: March 1993  
 Appraisal value: ¥3.43 billion  
 Occupancy rate (As of Apr. 30, 2013): 72.5%

### Overview of Equity Interest in Silent Partnership

GK KRF31	
(Asset)	(Liabilities)
Trust beneficiary interest etc.: ¥4.69 billion	Non-recourse loan : ¥2.87 billion Other liabilities: ¥0.21 billion
Other assets: ¥0.34 billion	(Equity)
	Silent partnership equity interest etc.: ¥1.95 billion
	<div style="display: flex; justify-content: space-around;"> <div style="border: 1px dashed red; padding: 2px;"> <b>KRI</b> (approx 48.2%)                             </div> <div style="border: 1px dashed red; padding: 2px;"> <b>Kenedix</b> (approx 51.8%)                             </div> </div>

- Acquired silent partnership equity interest of G.K. KRF 31 with Kenedix, whose asset consists of a trust beneficiary interest in DNI Mita Building
- Secured preferential negotiation right of DNI Mita Building at time of acquisition of the silent partnership equity interest. By submitting a notice of interest of purchasing the asset for above ¥3,180 million before November 23, 2014, the preferential negotiation right will be granted
- Assumed dividend yield of the silent partnership is 13.8%

## Portfolio Reshuffle

## Sold During 16th Fiscal Period and After

#### Kanazawa Nikko Building



Sales price: ¥0.78 billion  
 Settlement date: November 1, 2012  
 Reasons for sales

- Acquired as a part of a portfolio transaction (eight properties) although the property by itself did not meet our investment criteria as it is classified as "Other" property type and the acquisition price falls below minimum investment value of ¥1 billion → Have been seeking sales opportunity right after the time of acquisition
- Sales price that exceeds book value by ¥0.10 billion (+15.2%)

#### KDX Yotsuya Building



Sales price: ¥2.40 billion  
 Settlement date: April 24, 2013  
 Reasons for sales

- Current contracted rent is higher than the market average → future cash flow growth potential is limited
- Received a notice of lease cancellation from a tenant on the first floor → Risk of a drop in rental revenue at the time of lease cancellation in the near future
- Sales price that exceeds book value by ¥0.43 billion (+22.2%) and appraisal value by ¥20 million (+0.8%)

#### Ikebukuro Nikko Building (Note)



Sales price: ¥1.97 billion  
 Settlement date: May 10, 2013  
 Reasons for sales

- Risk of falling profitability assessed based on current building specifications and replacement expenses of building facilities
- Sales price that exceeds assumed book value by ¥0.29 billion (+17.8%) and appraisal value by ¥0.27 billion (+15.9%)

Note: The purchase and sales agreement for Ikebukuro Nikko Building was concluded on March 21, 2013 during the 16th period and was sold on May 10, 2013.

## Internal Growth



# Improving Occupancy and Leasing Conditions *through* Enhanced Property Management and Building Maintenance

### Successful Leasing of KDX Nihonbashi Kabutocho Building

**A**round the end of July 2013, we managed to lease-up the KDX Nihonbashi Kabutocho Building, achieving a contract rate of 100.0% within six months from the termination of the entire building lease on November 30, 2012. We renovated the building to accommodate multiple tenants and made other building upgrades such as modernizing common spaces. Thanks to these efforts, we managed to diversify tenants, which now consist of manufacturers, trading companies and service providers. This should translate into an improved portfolio occupancy rate from the 17th Fiscal Period.

### Value-up works for KDX Nihonbashi Kabutocho Building

Changed the building specification to accommodate a multi-tenants switching from a single-tenant property. Concurrently, improved functionality and interior of the building.

Common corridor



### Leasing Status (Note 1-2)

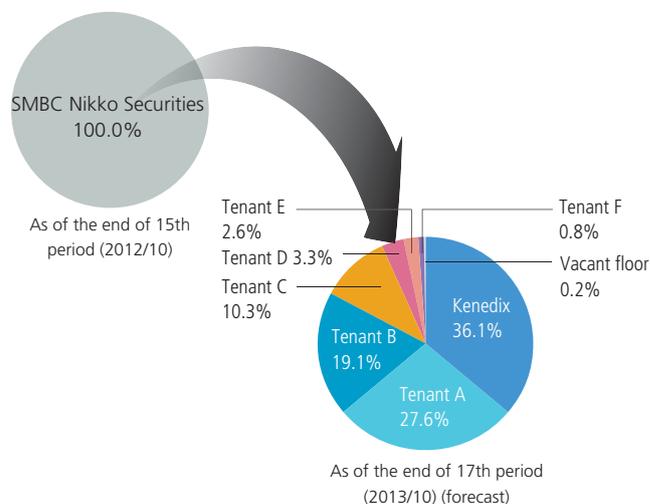
	Actual		Forecast
	As of the end of 16th period (2013/4)	As of 2013/5/31	As of the end of 17th period (2013/10)
Occupancy rate (%) (Note 2)	13.4	16.8	100.0

Notes:

- Figures are based on the lease contracts concluded as of May 31, 2013 material with an assumption that no tenant would move out up until the end of 17th period. All data are subject to change depending on actual performance.
- Occupancy rate for the contract that has started is calculated by dividing leased floor area by leasable floor area and is rounded to the first decimal place.

### Achieved Introduction of Multi-tenants

A wide range of tenants including service, manufacturer, wholesale, retail and restaurant, etc. concluded lease contracts.



While optimizing the portfolio, KENEDIX-REIT looks for ways to advance the quality of operations in terms of occupancy and leasing terms. These advances are achieved by proactive leasing activities and bolstering customer satisfaction.

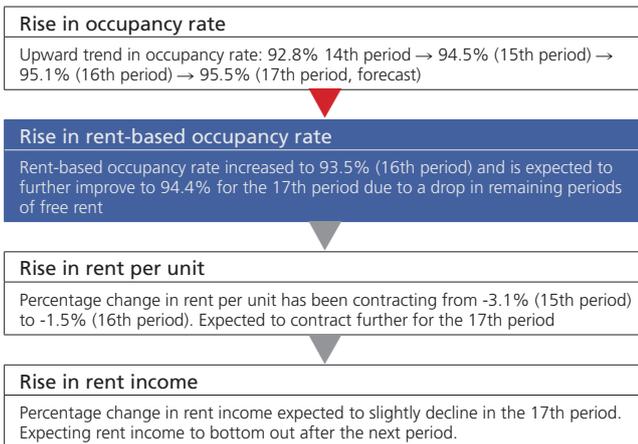
The average occupancy ratio for office buildings was 93.5% at the end of the 16th Fiscal Period, down from 95.2% at the end of the 15th Fiscal Period, mainly due to the move-out of the single tenant of the KDX Nihonbashi Kabutocho Building, which accounts for 2.5% of the entire portfolio. Positive signs are, however, emerging for the 17th Fiscal Period including successful leasing activities and the bottoming out of rental revenue.

### Improving Trends in Rental Revenue

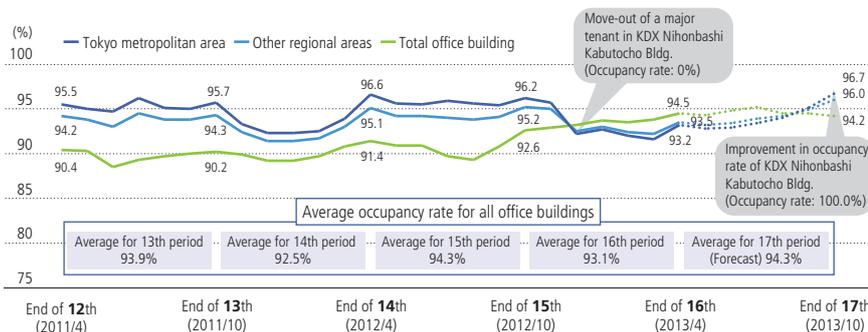
We are carrying on our efforts to maintain rental terms. In fact, we are already seeing signs of a bottoming out with regard to rental revenue from existing properties.

Meanwhile, polarization is widening between competitive and non-competitive properties. In addition to location, maintenance and services are becoming key factors for attracting tenants, as well as compliance with the latest earthquake resistance standards.

### Key Steps to Rent Income Recovery



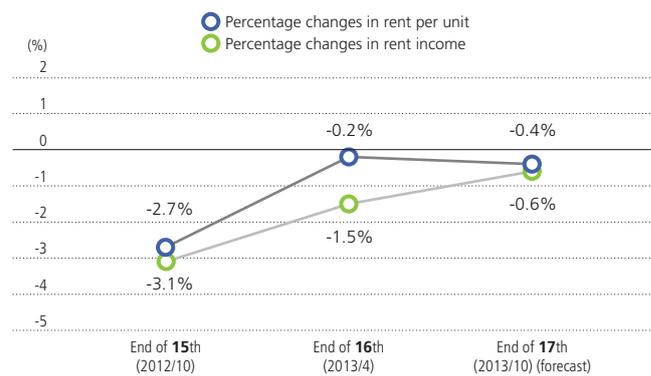
### Occupancy rate performance of office buildings (by region)



KENEDIX-REIT has established a unique position in the mid-sized office building market as an owner of over 80 properties. This is the foundation of our expertise in the maintenance and servicing of buildings, which is handled by our in-house property managers. We can also leverage economies of scale to receive discounts when implementing renovations such as the installation of LED lighting.

We will capitalize on our unique advantage in order to offer greater satisfaction to our tenants.

### Percentage Changes in Rent Per Unit and Rental Revenue



### Diversifying Our Tenant Base

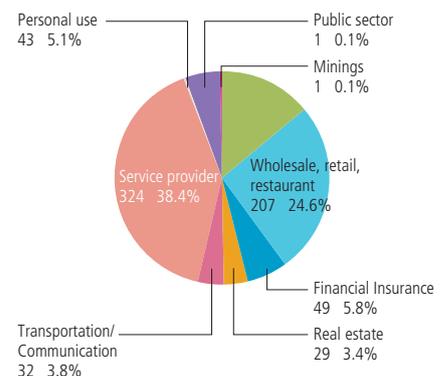
The number of end-tenants for our office buildings was 878 as of the end of the fiscal period under review, 89.7% of whom rent less than 200 tsubo.\* Furthermore, we have managed to attract tenants from various sectors. By diversifying the tenant base, we can make sure that the impact of a move-out of a major tenant or sluggish performance in certain sectors would have a relatively limited effect on our portfolio performance.

\*100 tsubo is approximately 330 m<sup>2</sup>.

Through steady efforts to improve the quality of our portfolio management, we seek to enhance the visibility of our profit outlook and maximize the distribution to our unitholders.

### Distribution by Type of Tenant

(based on number of tenant)



Note: The above chart shows the breakdown of tenants by the type of business they are in, based on the total number of tenants in office portfolio (aggregated by name-base)

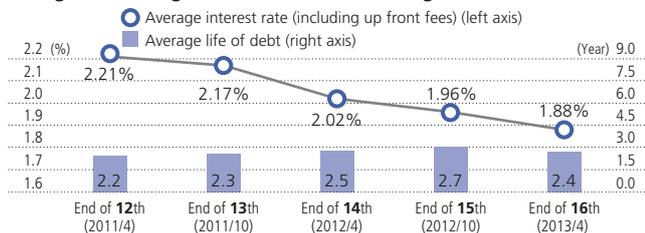


## Maintaining a Stable Financial Base through Sound Management and Risk Control

**K**ENEDIX-REIT's focus in terms of financial management remains firmly on maintaining a conservative interest-bearing debt ratio (LTV ratio), diversifying debt maturities, and prioritizing fixed interest rates. As a result, KENEDIX has managed to substantially reduce financing costs.

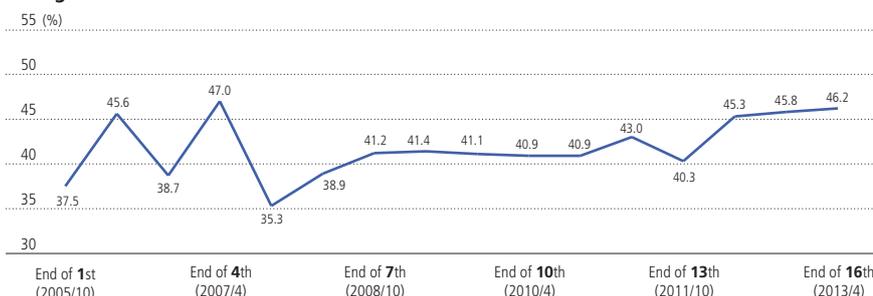
Our LTV ratio stood at 46.2% at the end of the 16th Fiscal Period, slightly higher than 45.8% at the end of the 15th Fiscal Period. We managed to reduce the average interest rate (including upfront fees) from 1.96% to 1.88%. We will continue our efforts to increase the portion of our borrowings with fixed-rate interest, in order to hedge the risk of rising interest rates. Fixed-rate debt, which stands at 121.9 billion yen, now accounts for 85.6% of our total debt, against floating-rate debt of 20.5 billion yen. We will also continue our efforts to extend the average life of our borrowings and diversify debt maturities.

### Changes in Average Interest Rate and Average Life of Debt



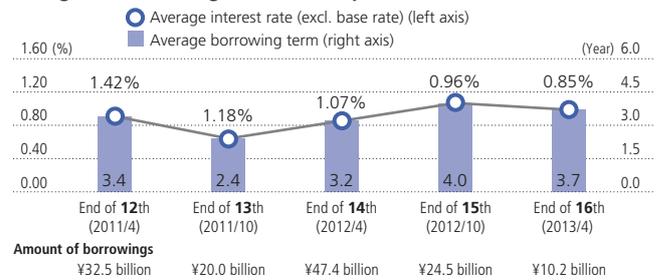
Note: Average interest rate and average life of debt are weighted averages based on outstanding debts at the end of each fiscal period. Average interest rate (including up front fees) and average life of debt are rounded to the second and first decimal places respectively.

### Changes in the LTV Ratio



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

### Changes in borrowings for relevant periods



Notes: 1. Average borrowing term is a weighted average based on amount of borrowings (rounded to the first decimal place).  
2. Average interest rates weighted by amount of new borrowings and by adding annualized upfront fee to the spread cost for total debt costs (rounded to the second decimal place).  
3. Borrowings that are repaid within the same period are not included for the calculation.

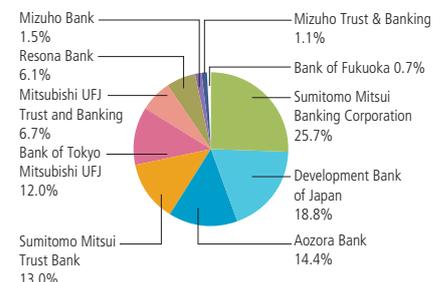
### High Credit Standing Allows Greater Flexibility

On March 8, 2013, Japan Credit Rating Agency, Ltd. (JCR) upgraded our credit ratings (long-term issuer rating and shelf registration ratings) by one notch from A to A+, based on our conservative financial management as well as improved portfolio quality.

### Rebalancing Our Borrowings

We maintain good relationships with 10 lenders. We are receptive to broadening our lender base in order to accommodate future growth. We will examine opportunities to increase the volume of transactions with lenders with whom we have a relatively small balance of borrowings, or we may commence transactions with new lenders.

### Breakdown of Lenders



# KENEDIX-REIT Portfolio (As of April 30, 2013)



**A13** KDX Kojimachi Building

**A15** KDX Hamacho Building

**A30** KDX Nishi-Gotanda Building

**A33** KDX Okachimachi Building

**A40** Toranomom 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	99.7%
	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	100.0%
	A08	Kanda Kihara Building	Chiyoda-ku, Tokyo	1,950	May 1993	86.5%
	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	92.9%
	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	100.0%
	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	79.1%
	A33	KDX Okachimachi Building	Taito-ku, Tokyo	2,000	Jun. 1988	100.0%
	A34	KDX Hon-Atsugi Building	Atsugi, Kanagawa	1,305	May 1995	95.7%
	A35	KDX Hachioji Building	Hachioji, Tokyo	1,155	Dec. 1985	100.0%
	A37	KDX Ochanomizu Building	Chiyoda-ku, Tokyo	6,400	Aug. 1982	100.0%
	A38	KDX Nishi-Shinjuku Building	Shinjuku-ku, Tokyo	1,500	Oct. 1992	100.0%
	A39	KDX Toranomom Building	Minato-ku, Tokyo	4,400	Apr. 1988	100.0%
	A40	Toranomom 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	100.0%	
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	46.7%	
A50	Ikejiri-Oohashi Building	Meguro-ku, Tokyo	2,400	Sep. 1988	91.3%	
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	85.7%	
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	72.2%	
A61	KDX Hamamatsucho Dai-2 Building	Minato-ku, Tokyo	2,200	Apr. 1992	100.0%	
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%	
A66	KDX Shinjuku Building	Shinjuku-ku, Tokyo	6,800	May 1993	96.5%	



**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 (Other Regional Areas)	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	13.4%
	A76	Ikebukuro Nikko Building (Note 3)	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	97.2%
	A84	Kasuga Business Center Building	Bunkyo-ku, Tokyo	2,800	Jun. 1992	92.4%
	A85	Nakameguro Business Center Building	Meguro-ku, Tokyo	1,880	Oct. 1985	100.0%
	A86	Nomura Fudosan Omiya Kyodo Building	Saitama, Saitama	2,020	Apr. 1993	95.1%
	A12	Portus Center Building	Sakai, Osaka	5,570	Sep. 1993	98.6%
	A24	KDX Minami Semba Dai-1 Building	Osaka, Osaka	1,610	Mar. 1993	82.9%
	A25	KDX Minami Semba Dai-2 Building	Osaka, Osaka	1,560	Sep. 1993	94.1%
	A36	KDX Niigata Building	Niigata, Niigata	1,305	Jul. 1983	61.9%
	A42	Karasuma Building	Kyoto, Kyoto	5,400	Oct. 1982	98.3%
	A44	KDX Sendai Building	Sendai, Miyagi	2,100	Feb. 1984	96.8%
	A53	KDX Hakata-Minami Building	Fukuoka, Fukuoka	4,900	Jun. 1973	94.9%
	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	93.5%
	A70	Kitananajo SIA Building	Sapporo, Hokkaido	2,005	Oct. 1989	94.4%
	A79	KDX Nagoya Ekimae Building (Note 5)	Nagoya, Aichi	7,327	Apr. 1986	100.0%
	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	KDX Higashi Umeda Building	Osaka, Osaka	2,770	Jul. 2009	100.0%	
Office Subtotal (78 properties)				271,771	Avg. 22.7 years	93.5%
Residential	B03	Court Mejiro	Shinjuku-ku, Tokyo	1,250	Mar. 1997	90.1%
	B19	Residence Charmante Tsukishima	Chuo-ku, Tokyo	5,353	Jan. 2004	100.0%
	B18	Venus Hibarigaoka	Sapporo, Hokkaido	1,800	Mar. 1989	96.3%
Residential Subtotal (3 properties)				8,403	Avg. 13.5 years	97.0%
Central Urban Retail	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. 10.8 years	100.0%
<b>Total (83 properties)</b>				<b>292,553</b>	<b>Avg. 22.0 years</b>	<b>93.9%</b>
Investment Security	Senri Property TMK Preferred Securities		Toyonaka, Osaka	891	Jun. 1992	
	Silent partnership equity interest of G.K. KRF 31 (DNI Mita Building) (Note 4)		Minato-ku, Tokyo	200	Mar. 1993	

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 April 30, 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. Purchase and sales agreement of Ikebukuro Nikko Building was concluded on March 21, 2013 during the 16th period and the property was sold on May 10, 2013.  
4. Acquired silent partnership equity interests during the 17th period (May 23, 2013).  
5. Nagoya Ekimae Sakura-dori Building and View Flex Umeda Building were renamed KDX Nagoya Ekimae Building and KDX Higashi Umeda Building, respectively, on April 1, 2013.  
6. Amounts indicated have been rounded down.

## Management Team



**1 Naokatsu Uchida**  
Representative Director

- Worked for Mitsubishi UFJ Trust and Banking Corporation for approximately 17 years (Real Estate Division, Real Estate Project Origination Division)
- After working for Joint Asset Management Co., Ltd. as its Representative Director, he joined Kenedix Office Partners, Inc. where he was a member of the Financial Planning Division for approximately two years
- Appointed Representative Director of Kenedix Office Partners, Inc. on February 2, 2012

**3 Fumihiko Shimodome**  
Director & General Manager of Property Management Division

- Worked for Mitsui Fudosan Building Management for 12 years
- Joined Kenedix Office Partners, Inc. in January 2011 after serving for Pacific Management and as a director for the asset management companies of Nippon Commercial Investment Corporation
- Appointed Director and General Manager of Property Management Division on July 1, 2012 after working as PM Manager of Property Management Division

**2 Keisuke Sato**  
Director & General Manager of Investment Management Division

- Worked for Tokyu Land Corporation for approximately nine years
- Joined Kenedix, Inc. after having worked for JPMorgan Securities Japan Co., Ltd. and Prudential Real Estate Investors (Japan) K.K.
- Real estate appraiser
- Appointed Director and General Manager of Investment Management Division on August 1, 2012

**4 Hikaru Teramoto**  
Director & General Manager of Financial Planning Division

- After working for Sakura Bank for six years, he moved to Sakura Securities, Daiwa Securities SMBC, and Goldman Sachs where he engaged in investment banking for ten years
- Joined Kenedix Office Partners, Inc. after having worked for Goldman Sachs Realty Japan
- Appointed Director and General Manager of Financial Planning Division on August 1, 2012

# 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	16th
Compliance Committee	7	7	7	8	6	8	9	8	8	10	7	7	8	6	7	7
Asset Management Committee	21	35	39	39	38	38	52	44	36	39	32	37	44	40	40	41
Kenedix Office Partners Board of Directors	9	7	9	8	9	7	10	8	10	12	11	9	11	9	12	9
KENEDIX-REIT Board of Directors	11	7	7	9	7	7	7	8	8	8	8	7	9	9	8	8

# Financial Section

## Contents

Independent Auditor's Report	16
Balance Sheets	17
Statements of Income and Retained Earnings	18
Statements of Changes in Net Assets	18
Notes to Financial Statements	19
Statements of Cash Flows (Unaudited)	29

## Financial Summary (Unaudited)

Historical Operating Trends  
For the 12th–16th Fiscal Periods

Period	Unit	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)	16th Period (as of Apr. 30, 2013)
Operating revenues	mn yen	8,136	9,044	9,090	10,212	9,867
(Rental revenues)	mn yen	8,136	8,498	9,090	9,617	9,306
Operating expenses	mn yen	4,427	4,618	5,004	5,696	5,465
(Property-related expenses)	mn yen	3,767	3,961	4,284	4,822	4,740
Operating income	mn yen	3,709	4,425	4,086	4,516	4,401
Ordinary income	mn yen	2,346	3,040	2,551	3,011	3,003
Net income (a)	mn yen	2,309	3,052	2,540	3,009	3,002
Total assets (b)	mn yen	261,928	274,973	303,284	306,734	308,172
(Period-on-period change)	%	(+4.3)	(+5.0)	(+10.3)	(+1.1)	(+0.5)
Interest-bearing debt (c)	mn yen	112,715	110,914	137,372	140,581	142,369
(Period-on-period change)	%	(+9.9)	(-1.6)	(+23.9)	(+2.3)	(+1.3)
Unitholders' equity (d)	mn yen	135,505	150,272	150,063	150,389	150,653
(Period-on-period change)	%	(-0.2)	(+10.9)	(-0.1)	(+0.2)	(+0.2)
Unitholders' capital	mn yen	133,129	147,153	147,153	147,153	147,153
(Period-on-period change)	%	(0.0)	(+10.5)	(0.0)	(0.0)	(0.0)
Number of investment units issued and outstanding (e)	unit	233,550	286,550	286,550	286,550	286,550
Unitholders' equity per unit (d)/(e)	yen	580,199	524,419	523,688	524,828	525,747
Total distribution (f)	mn yen	2,310	2,749	2,683	2,738	2,703
Distribution per unit (f)/(e)	yen	9,891	9,596	9,364	9,557	9,434
(Earnings distributed per unit)	yen	9,891	9,596	9,364	9,557	9,434
(Distribution in excess of earnings per unit)	yen	—	—	—	—	—
Return on assets (annualized) (Notes 1 and 2)	%	0.9 (1.8)	1.1 (2.2)	0.9 (1.8)	1.0 (2.0)	1.0 (2.0)
Return on net assets (annualized) (Notes 2 and 3)	%	1.7 (3.4)	2.1 (4.2)	1.7 (3.4)	2.0 (4.0)	2.0 (4.0)
Net assets ratio at end of period (d)/(b)	%	51.7	54.6	49.5	49.0	48.9
(Period-on-period change)	%	(-2.3)	(+2.9)	(-5.2)	(-0.5)	(-0.1)
Interest-bearing debt ratio at end of period (c)/(b)	%	43.0	40.3	45.3	45.8	46.2
(Period-on-period change)	%	(+2.2)	(-2.7)	(+5.0)	(+0.5)	(+0.4)
Payout ratio (Note 4) (f)/(a)	%	100.0	90.0	105.6	90.9	90.0
<b>Other references</b>						
Number of properties	properties	71	74	83	84	83
Total leasable floor area	m <sup>2</sup>	286,237.93	300,016.89	340,589.96	351,153.72	347,853.97
Occupancy at end of period	%	94.6	94.7	95.4	95.5	93.9
Depreciation expenses for the period	mn yen	1,406	1,442	1,578	1,621	1,662
Capital expenditures for the period	mn yen	574	674	918	904	772
Leasing NOI (Net Operating Income) (Note 5)	mn yen	5,776	5,980	6,384	6,416	6,228
FFO (Funds From Operation) (Note 6)	mn yen	3,716	3,950	4,119	4,187	4,202
FFO per unit (Note 7)	yen	15,914	13,786	14,374	14,612	14,664

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 12th Fiscal Period are calculated based on a period of 181 days, 184 days for the 13th Fiscal Period, 182 days for the 14th Fiscal Period, 184 days for the 15th Fiscal Period and 181 days for the 16th 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

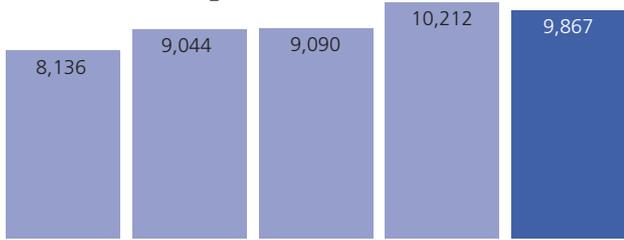
6. FFO = Net income + Depreciation expenses for the period – Gain on sale of real estate property + Loss on sale of real estate property

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.

### Operating Revenues

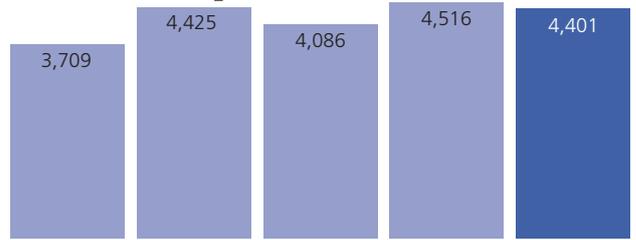
9,867 million yen



12th Period (Ended Apr. 30, 2011) 13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013)

### Operating Income

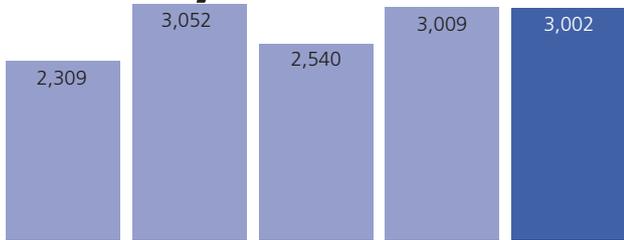
4,401 million yen



12th Period (Ended Apr. 30, 2011) 13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013)

### Net Income

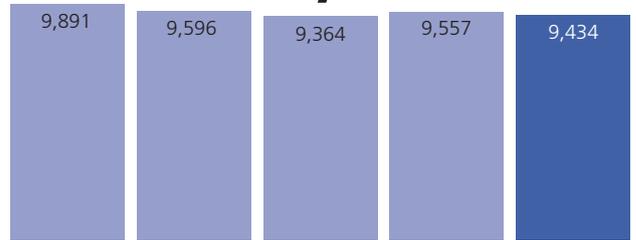
3,002 million yen



12th Period (Ended Apr. 30, 2011) 13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013)

### Distribution per Unit

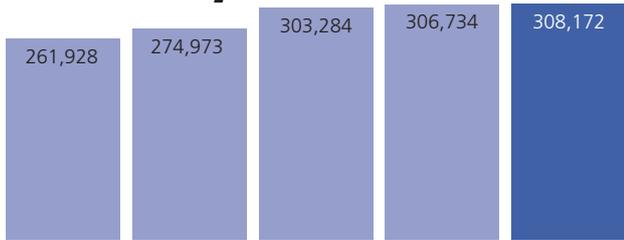
9,434 yen



12th Period (Ended Apr. 30, 2011) 13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013)

### Total Assets

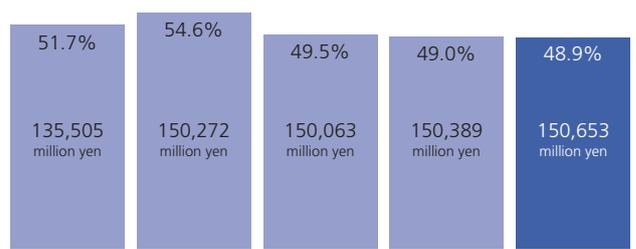
308,172 million yen



12th Period (Ended Apr. 30, 2011) 13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013)

### Net Assets Ratio / Unitholders' Equity

48.9%



12th Period (Ended Apr. 30, 2011) 13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013)

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

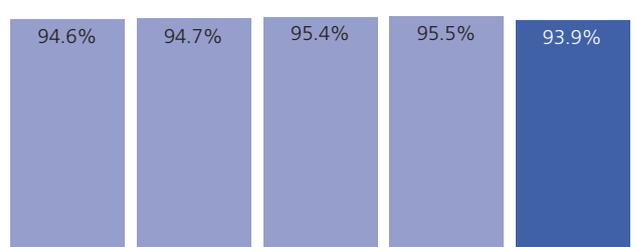
46.2%



12th Period (Ended Apr. 30, 2011) 13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013)

### Occupancy Ratio

93.9%



12th Period (Ended Apr. 30, 2011) 13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013)

## 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 April 30, 2013, 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 April 30, 2013, and its financial performance for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

June 19, 2013  
Tokyo, Japan

*Ernst & Young Spinnihon LLC*

# Balance Sheets

Kenedix Realty Investment Corporation  
As of April 30, 2013 and October 31, 2012

	In thousands of yen	
	As of April 30, 2013	As of October 31, 2012
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and bank deposits (Note 12)	¥ 14,813,927	¥ 11,513,930
Rental receivables	185,047	425,746
Other current assets (Note 7)	76,501	79,424
Total current assets	15,075,475	12,019,100
<b>Property and equipment, at cost: (Notes 3, 11 and 13)</b>		
Land	205,702,745	205,933,483
Buildings and structures (Note 5)	100,488,908	100,188,719
Machinery and equipment	1,557,795	1,548,922
Tools, furniture and fixtures	446,748	433,305
Construction in progress	6,699	6,699
Less-accumulated depreciation	(17,966,695)	(16,448,292)
Net property and equipment	290,236,200	291,662,836
<b>Other assets:</b>		
Ground leasehold (Notes 11 and 13)	357,106	357,881
Investment securities (Note 12)	896,655	896,655
Corporate bond issuance costs	26,043	32,669
Unit issuance costs	37,806	56,709
Other assets (Notes 11 and 13)	1,542,881	1,708,798
<b>Total assets</b>	<b>¥308,172,166</b>	<b>¥306,734,648</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Trade and other payables	¥ 863,231	¥ 894,162
Current portion of corporate bonds (Notes 4 and 12)	1,500,000	1,500,000
Short-term debt and current portion of long-term debt (Notes 4 and 12)	30,000,000	19,700,000
Deposits received	16,967	18,964
Rents received in advance	1,686,455	1,482,863
Other current liabilities	366,030	328,146
Total current liabilities	34,432,683	23,924,135
Corporate bonds (Notes 4 and 12)	4,500,000	4,500,000
Long-term debt (Notes 4 and 12)	106,369,500	114,881,000
Leasehold and security deposits received	12,216,921	13,039,969
<b>Total liabilities</b>	<b>157,519,104</b>	<b>156,345,104</b>
<b>Net Assets</b>		
<b>Unitholders' equity</b>		
Unitholders' capital	147,153,820	147,153,820
Units authorized: 2,000,000 units		
Units issued and outstanding: 286,550 units		
As of April 30, 2013 and October 31, 2012, respectively		
<b>Surplus</b>		
Voluntary retained earnings		
Reserve for reduction entry	497,043	225,796
Retained earnings	3,002,199	3,009,928
Total surplus	3,499,242	3,235,724
Total unitholders' equity	150,653,062	150,389,544
<b>Total net assets (Note 8)</b>	<b>150,653,062</b>	<b>150,389,544</b>
<b>Total liabilities and net assets</b>	<b>¥308,172,166</b>	<b>¥306,734,648</b>

See accompanying notes to the financial statements.

## Statements of Income and Retained Earnings

Kenedix Realty Investment Corporation

For the period from November 1, 2012 to April 30, 2013 and the period from May 1, 2012 to October 31, 2012

	In thousands of yen	
	From November 1, 2012 to April 30, 2013	From May 1, 2012 to October 31, 2012
<b>Operating revenues:</b>		
Rental revenues (Notes 10 and 11)	¥9,306,087	¥ 9,617,355
Gain on sale of real estate property (Note 10)	462,044	595,516
Dividends income	99,168	—
Total operating revenues	9,867,299	10,212,871
<b>Operating expenses:</b>		
Property-related expenses (Notes 10 and 11)	4,740,084	4,822,166
Loss on sale of real estate property (Note 10)	—	151,823
Asset management fees	553,018	548,085
Administrative service and custodian fees	69,474	68,539
Other operating expenses	103,073	105,575
Total operating expenses	5,465,649	5,696,188
<b>Operating income</b>	<b>4,401,650</b>	<b>4,516,683</b>
<b>Non-operating expenses:</b>		
Interest expense	1,046,727	1,093,771
Financing-related expenses	315,050	366,756
Amortization of unit issuance costs	18,903	27,282
Amortization of corporate bond issuance costs	6,626	6,736
Others, net	10,939	10,904
Total non-operating expenses	1,398,245	1,505,449
<b>Ordinary income</b>	<b>3,003,405</b>	<b>3,011,234</b>
Income before income taxes	3,003,405	3,011,234
Income taxes (Note 7)	1,329	1,439
<b>Net income</b>	<b>3,002,076</b>	<b>3,009,795</b>
Retained earnings at the beginning of period	123	133
<b>Retained earnings at the end of period</b>	<b>¥3,002,199</b>	<b>¥ 3,009,928</b>

See accompanying notes to the financial statements.

## Statements of Changes in Net Assets

Kenedix Realty Investment Corporation

For the period from November 1, 2012 to April 30, 2013 and the period from May 1, 2012 to October 31, 2012

	In thousands of yen					
	Unitholders' Equity					Total
	Unitholders' capital	Surplus			Total unitholders' equity	
Voluntary retained earnings		Retained earnings	Total surplus			
	Reserve for reduction entry					
<b>Balance as of April 30, 2012</b>	<b>¥147,153,820</b>	<b>¥ 368,796</b>	<b>¥ 2,540,387</b>	<b>¥ 2,909,183</b>	<b>¥150,063,003</b>	<b>¥150,063,003</b>
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
<b>Balance as of October 31, 2012</b>	<b>¥147,153,820</b>	<b>¥ 225,796</b>	<b>¥ 3,009,928</b>	<b>¥ 3,235,724</b>	<b>¥150,389,544</b>	<b>¥150,389,544</b>
Changes during the fiscal period						
Provision of reserve for reduction entry	—	271,247	(271,247)	—	—	—
Payments of dividends	—	—	(2,738,558)	(2,738,558)	(2,738,558)	(2,738,558)
Net income	—	—	3,002,076	3,002,076	3,002,076	3,002,076
Total changes during the fiscal period	—	271,247	(7,729)	263,518	263,518	263,518
<b>Balance as of April 30, 2013</b>	<b>¥147,153,820</b>	<b>¥ 497,043</b>	<b>¥ 3,002,199</b>	<b>¥ 3,499,242</b>	<b>¥150,653,062</b>	<b>¥150,653,062</b>

See accompanying notes to the financial statements.

# Notes to Financial Statements

Kenedix Realty Investment Corporation

For the period from November 1, 2012 to April 30, 2013 and the period from May 1, 2012 to October 31, 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 April 30, 2013, the end of the sixteenth 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.

During the period ended April 30, 2013, the Investment Corporation acquired one office building (Nomura Fudosan Omiya Kyodo Building: acquisition price of ¥2,020 million) located in the Tokyo Metropolitan Area and sold KDX Yotsuya Building (initial acquisition price of ¥1,950 million) and Kanazawa Nikko Building (initial acquisition price of ¥645 million). As of April 30, 2013, 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 ¥142,369 million as of April 30, 2013, comprising ¥136,369 million in borrowings (¥130,669 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 83 properties with a total acquisition price of ¥292,553 million containing a total leasable area of 347,853.97m<sup>2</sup> and preferred equity securities with a total acquisition price of ¥891 million. The occupancy ratio was approximately 93.9%. A portfolio of 83 properties consists of 78 office buildings, 3 residential properties, 2 central urban retail properties. 67 properties are located in the Tokyo Metropolitan Area and 16 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 November 1, 2012 to April 30, 2013	From May 1, 2012 to October 31, 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 ¥10,265 thousand and ¥23,009 thousand as of April 30, 2013 and October 31, 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 and interest-rate cap 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 and interest-rate cap agreements because its interest-rate swap agreements and interest-rate cap agreements met the criteria for deferral hedging accounting. However, the Investment Corporation adopted special treatment for interest-swap agreements and interest-rate cap agreements if its interest-rate swap agreements and interest-rate cap 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 and interest-rate cap contract is added to or deducted from the interest on the assets or liabilities for which the swap and cap contract was executed. The hedge effectiveness for interest-rate swap contracts and interest-rate cap contract 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 April 30, 2013			As of October 31, 2012		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥205,703	¥ —	¥205,703	¥205,933	¥ —	¥205,933
Buildings and structures	100,489	17,042	83,447	100,189	15,584	84,605
Machinery and equipment	1,558	683	875	1,549	638	911
Tools, furniture and fixtures	447	242	205	433	226	207
Construction in progress	6	—	6	7	—	7
<b>Total</b>	<b>¥308,203</b>	<b>¥17,967</b>	<b>¥290,236</b>	<b>¥308,111</b>	<b>¥16,448</b>	<b>¥291,663</b>

## 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 April 30, 2013:

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Short-term debt	July 31, 2012	July 31, 2013	0.81%	¥ 1,500
	October 31, 2012	October 31, 2013	0.76%	3,000
	January 31, 2013	January 31, 2014	0.74%	1,200
Subtotal				5,700
Current portion of long-term debt	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
	November 12, 2010	November 12, 2013	1.58%	1,500
	November 12, 2010	November 12, 2013	1.58%	800
	November 12, 2010	November 12, 2013	1.58%	400
	December 1, 2010	November 12, 2013	1.41%	500
	December 1, 2010	November 12, 2013	1.41%	200
	December 1, 2010	November 12, 2013	1.41%	100
	July 30, 2010	January 31, 2014	1.66%	3,700
	January 31, 2011	January 31, 2014	1.57%	1,300
	March 12, 2012	March 12, 2014	1.02%	2,250
	March 12, 2012	March 12, 2014	1.02%	1,800
March 12, 2012	March 12, 2014	1.02%	1,800	
March 12, 2012	March 12, 2014	1.02%	450	
September 30, 2011	March 31, 2014	1.16%	2,500	
Subtotal				24,300

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%	1,032
	February 18, 2010	February 18, 2015	2.19%	1,898
	February 18, 2010	February 18, 2015	2.19%	1,403
	February 18, 2010	February 18, 2015	2.19%	825
	February 18, 2010	February 18, 2015	2.19%	413
	April 2, 2010	April 2, 2015	2.22%	1,700
	July 30, 2010	July 31, 2014	1.73%	3,700
	November 12, 2010	November 12, 2015	1.79%	1,200
	November 12, 2010	November 12, 2015	1.79%	800
	November 12, 2010	November 13, 2017	2.02%	2,300
	December 1, 2010	November 12, 2015	1.51%	800
	December 1, 2010	November 12, 2015	1.51%	200
	December 1, 2010	November 12, 2017	2.21%	700
	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	1.37%	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	1.11%	2,200
	July 29, 2011	July 31, 2014	1.11%	1,000
	July 29, 2011	July 31, 2014	1.40%	300
	August 31, 2011	February 27, 2015	1.05%	1,500
	September 1, 2011	August 29, 2014	1.15%	1,000
	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%	2,000
	December 26, 2011	October 31, 2014	1.26%	2,000
	December 26, 2011	October 31, 2014	1.26%	1,000
	December 26, 2011	October 31, 2015	1.34%	2,500
	December 26, 2011	October 31, 2015	1.32%	2,500
	December 26, 2011	October 31, 2015	1.34%	2,000
	December 26, 2011	October 31, 2016	1.44%	2,500
	December 26, 2011	October 31, 2016	1.42%	2,500
	December 26, 2011	October 31, 2016	1.44%	2,000
	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, 2015	1.08%	1,000
	March 28, 2012	March 28, 2017	1.36%	500
	March 28, 2012	March 28, 2019	1.77%	1,400
	March 28, 2012	March 28, 2019	1.77%	1,000
	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%	5,000
	September 21, 2012	September 21, 2017	1.16%	1,000
	September 21, 2012	September 21, 2017	1.16%	1,000
	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
	December 10, 2012	December 12, 2016	0.98%	500
	December 28, 2012	December 28, 2016	1.01%	2,000
	December 28, 2012	December 28, 2017	1.09%	500
	December 28, 2012	December 29, 2017	1.09%	500

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
	January 15, 2013	January 16, 2017	0.97%	1,000
	February 18, 2013	February 18, 2016	0.84%	1,500
	March 26, 2013	March 26, 2018	1.04%	1,000
	March 26, 2013	March 26, 2018	1.04%	1,000
	April 30, 2013	April 28, 2016	0.73%	1,000
Subtotal				106,370
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				¥136,670

## 5. REDUCTION ENTRY

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

	In thousands of yen	
	As of April 30, 2013	As of October 31, 2012
Buildings and structures	¥26,230	¥26,230

## 6. PER UNIT INFORMATION

	Yen	
	From November 1, 2012 to April 30, 2013	From May 1, 2012 to October 31, 2012
Net asset value per unit	¥525,748	¥524,828
Net income per unit	¥ 10,477	¥ 10,504
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 April 30, 2013 and October 31, 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 ¥2,703 million (deducting ¥299 million as the provision of reserve for reduction entry) and ¥2,739 million (deducting ¥271 million as the provision of reserve for reduction entry) for the periods ended April 30, 2013 and October 31, 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 0.04% and 0.05% for the periods ended April 30, 2013 and October 31, 2012. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	As of April 30, 2013	As of October 31, 2012
Statutory tax rate	36.59%	36.59%
Deductible cash distributions	(32.93)	(33.28)
Provision of reserve for reduction entry	(3.64)	(3.30)
Others	0.03	0.04
Effective tax rate	0.04%	0.05%

The significant components of deferred tax assets and liabilities as of April 30, 2013 and October 31, 2012 were as follows:

	In thousands of yen	
	As of April 30, 2013	As of October 31, 2012
Deferred tax assets:		
Enterprise tax payable	¥ 36	¥ 27
Amortization of leasehold rights	1,278	1,014
Subtotal deferred tax assets	1,314	1,041
Valuation allowance	1,278	1,014
Total deferred tax assets	¥ 36	¥ 27

## 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 ¥350 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 November 1, 2012 to April 30, 2013 and May 1, 2012 to October 31, 2012 consist of the following:

	In thousands of yen	
	From November 1, 2012 to April 30, 2013	From May 1, 2012 to October 31, 2012
<b>Rental and other operating revenues:</b>		
Rental revenues	¥6,628,333	¥6,664,510
Common area charges	1,589,549	1,559,549
Subtotal	8,217,882	8,224,059
<b>Others:</b>		
Parking space rental revenues	292,402	286,632
Utility charge reimbursement	681,272	769,331
Miscellaneous	114,531	337,333
Subtotal	1,088,205	1,393,296
Total rental and other operating revenues	¥9,306,087	¥9,617,355
Property management fees and facility management fees	¥ 951,905	¥ 937,543
Depreciation	1,662,016	1,621,151
Utilities	753,048	790,093
Taxes	820,158	823,223
Insurance	14,837	14,673
Repairs and maintenance	322,652	400,960
Trust fees	42,926	42,682
Loss on retirement of fixed assets	5,193	17,689
Others	167,349	174,152
Total property-related expenses	¥4,740,084	¥4,822,166

**Gain on sale of real estate property:**

Revenue from sale of investment property	¥3,180,000	¥4,200,000
Cost of investment property	2,641,181	3,355,390
Other sales expenses	76,775	249,094
Gain on sale of real estate property	¥ 462,044	¥ 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

Type	Office Buildings		Residential Properties		Central Urban Retail Properties	Others
	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas
Location						
Number of properties	63	15	2	1	2	—
Property information	(In millions of yen)					
Acquisition price	¥219,476	¥52,295	¥6,603	¥1,800	¥12,380	¥—
Percentage of total acquisition price	75.02%	17.88%	2.26%	0.61%	4.23%	—
Net book value	219,586	50,961	6,049	1,767	12,231	—
Appraisal value	201,898	44,510	5,573	1,560	11,150	—
Percentage of total appraisal value	76.28%	16.82%	2.10%	0.59%	4.21%	—

**Financial results for the period from November 1, 2012 to April 30, 2013**

(In thousands of yen)

	Office Buildings	Residential Properties	Central Urban Retail Properties	Others
Rental and other operating revenues	¥6,579,818	¥2,111,248	¥187,011	¥92,433
Rental revenues	5,842,021	1,820,672	167,125	82,393
Other revenues	737,797	290,576	19,886	10,040
Property-related expenses	2,054,384	860,216	52,569	37,293
Property management fees	630,404	271,094	19,550	8,148
Taxes	577,776	200,730	12,938	7,617
Utilities	531,610	192,914	2,524	2,351
Repairs and maintenance	185,501	118,176	6,261	9,556
Insurance	8,828	5,109	374	325
Trust fees and other expenses	120,265	72,193	10,922	9,296
NOI (Net Operating Income)	4,525,434	1,251,032	134,442	55,140
Depreciation expenses	1,106,779	406,519	57,417	22,111
Operating income from property leasing activities	3,418,655	844,513	77,025	33,029
Capital expenditures	479,908	289,152	1,116	546
NCF (Net Cash Flow)	¥4,045,526	¥ 961,880	¥133,326	¥54,594

**A breakdown of property-type as of April 30, 2013 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	¥219,586	71.3%
		Other Regional Areas	50,961	16.5%
	Subtotal		270,547	87.8%
	Residential Properties	Tokyo Metropolitan Area	6,048	2.0%
		Other Regional Areas	1,767	0.5%
	Subtotal		7,816	2.5%
	Central Urban Retail Properties	Tokyo Metropolitan Area	12,231	4.0%
	Subtotal		12,231	4.0%
Total			290,594	94.3%
Investment securities			897	0.3%
Bank deposits and other assets			16,681	5.4%
Total assets			308,172	100.0%
Total liabilities			157,519	51.1%
Net assets			¥150,653	48.9%

# 12 ■ FINANCIAL INSTRUMENTS

Sixteenth Fiscal Period (November 1, 2012 to April 30, 2013)

## (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 and interest-rate cap transaction) in order to reduce such risk.

Interest-rate swap transactions and interest-rate cap transaction are used as derivative financial instruments. Utilizing interest-rate swap transactions and interest-rate cap transaction, 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 and interest-rate cap transaction 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 April 30, 2013 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	¥ 14,813,927	¥ 14,813,927	¥ —
Subtotal	14,813,927	14,813,927	—
① Short-term debt	5,700,000	5,700,000	—
② Corporate bonds (including current portion of corporate bonds)	6,000,000	5,974,800	(25,200)
③ Long-term debt (including current portion of long-term debt)	130,669,500	130,858,276	188,776
Subtotal	¥142,369,500	¥142,553,076	¥163,576
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	¥20,500,000	¥20,500,000	*	
Special treatment of interest-rate cap	Interest-rate cap	Long-term debt	1,000,000	1,000,000	*	
Total			¥21,500,000	¥21,500,000		

\* Special treatment of interest-rate swaps and interest-rate cap is reported at the fair value of applicable long-term debt. This is because such swaps and cap 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	¥14,813,927
Total	¥14,813,927

**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	—	—	3,000,000	1,500,000	—
Long-term debt	¥24,300,000	¥36,669,500	¥32,800,000	¥15,000,000	¥17,000,000	¥4,900,000

# 13. INVESTMENT AND RENTAL PROPERTIES

Sixteenth Fiscal Period (November 1, 2012 to April 30, 2013)

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 April 30, 2013 (In thousands of yen)	
As of October 31, 2012	Net change	As of April 30, 2013	
¥292,021,269	¥(1,427,529)	¥290,593,741	¥264,961,000

- 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 Ikebukuro Nikko Building is based on the sales price of ¥1,970,000 thousand under the sales and purchase agreement dated May 10, 2013.  
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 1 properties totaling ¥2,108,384 thousand, the sale of 2 properties totaling ¥2,641,181 thousand and depreciation amounting to ¥1,662,016 thousand.

Income and loss in the fiscal period ended April 30, 2013 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 November 1, 2012 to April 30, 2013 and the period from May 1, 2012 to October 31, 2012

	In thousands of yen	
	From November 1, 2012 to April 30, 2013	From May 1, 2012 to October 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income before income taxes	¥ 3,003,405	¥ 3,011,234
<b>Adjustments to reconcile income before income taxes to net cash provided by operating activities:</b>		
Depreciation and amortization	1,981,289	1,965,534
Interest income	(558)	(857)
Interest expense	1,046,727	1,093,771
Loss on retirement of fixed assets	5,193	17,689
<b>Changes in assets and liabilities:</b>		
Rental receivables	240,699	(249,271)
Consumption tax refundable	—	220,729
Accrued consumption tax	68,323	122,971
Trade and other payables	(102,818)	98,211
Rents received in advance	203,593	(405,105)
Property and equipment due to sale	2,641,181	4,349,377
Others, net	(129,157)	(374,870)
Subtotal	8,957,877	9,849,413
Interest income received	558	857
Cash payments of interest expense	(1,076,960)	(1,108,485)
Cash payments of income taxes	(1,092)	(1,829)
<b>Net cash provided by operating activities</b>	<b>7,880,383</b>	<b>8,739,956</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,860,168)	(11,909,217)
Purchase of investment securities	—	(5,655)
Proceeds from leasehold and security deposits received	639,486	1,155,231
Payments of leasehold and security deposits received	(1,409,380)	(1,012,861)
Payments of restricted bank deposits	—	(597,875)
Proceeds from restricted bank deposits	569,851	86,628
<b>Net cash provided by investing activities</b>	<b>(3,060,211)</b>	<b>(12,283,749)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short-term debt	1,200,000	4,500,000
Payments of short-term debt	(1,200,000)	(13,500,000)
Proceeds from long-term debt	9,000,000	20,000,000
Payments of long-term debt	(7,211,500)	(7,791,500)
Payment of dividends	(2,738,824)	(2,681,963)
<b>Net cash provided by financing activities</b>	<b>(950,324)</b>	<b>526,537</b>
Net change in cash and cash equivalents	3,869,848	(3,017,256)
Cash and cash equivalents at the beginning of period	10,501,755	13,519,011
<b>Cash and cash equivalents at the end of period</b>	<b>¥14,371,603</b>	<b>¥ 10,501,755</b>

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 April 30, 2013 and October 31, 2012:

	In thousands of yen	
	As of April 30, 2013	As of October 31, 2012
Cash and bank deposits	¥14,813,927	¥11,513,930
Restricted bank deposits (note)	(442,324)	(1,012,175)
Cash and cash equivalents	¥14,371,603	¥10,501,755

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 (16th and 17th Fiscal Periods)



### General Breakdown of Unitholders

	Foreign corporations and individuals	Other domestic corporations	Financial institutions (including securities companies)	Individuals and others
End of the 16th Period	48.5%	1.7%	39.9%	9.9%
	138,868 units	4,932 units	114,334 units	28,416 units
End of the 15th Period	48.9%	1.6%	36.7%	12.7%
	140,129 units	4,672 units	105,245 units	36,504 units

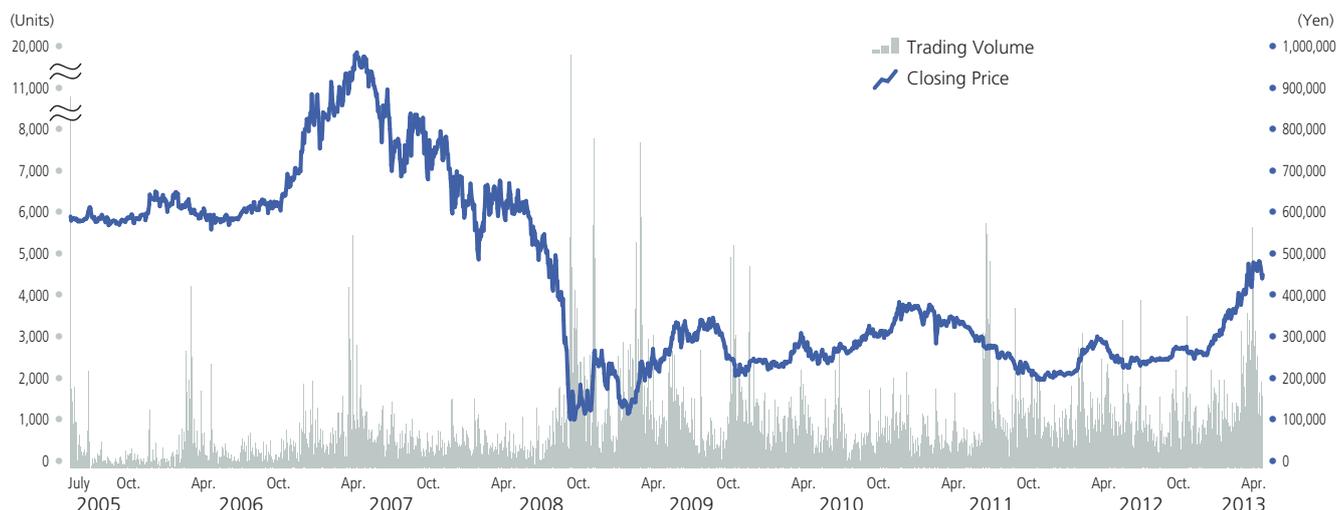
Note: Figures are rounded to the first decimal place.

### Top Ten Unitholders (As of April 30, 2013)

Name	Units Held	Share of Outstanding Units
Japan Trustee Services Bank, Ltd. (Trust Account)	41,175	14.36%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	20,273	7.07%
The Master Trust Bank of Japan, Ltd. (Trust Account)	18,374	6.41%
The Nomura Trust and Banking Co., Ltd. (Trust Account)	17,953	6.26%
JP Morgan Chase Bank 385174	8,540	2.98%
The Bank of New York, Treaty JASDEC Account	8,494	2.96%
State Street Bank and Trust Company (Note 2)	7,418	2.58%
State Street Bank and Trust Company (Note 3)	7,164	2.50%
Nomura Bank (Luxembourg) S.A.	6,660	2.32%
MSIP CLIENT SECURITIES	4,864	1.69%
<b>Total</b>	<b>140,915</b>	<b>49.17%</b>

Notes: 1. The respective shares are rounded down to the second decimal place.  
 2. The standing proxy is Custody department of The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch.  
 3. The standing proxy is Settlement & Clearing Services Division, Mizuho Corporate Bank, Ltd., which became the surviving company in an absorption-type merger with Mizuho Bank, Ltd. on July 1, 2013 when it simultaneously changed its name to Mizuho Bank, Ltd.

### Unit Price Performance





<http://www.kdx-reit.com/eng/>

**Disclaimer:** Disclaimer: This semiannual report includes translations of certain documents originally filed and made available in Japan in accordance with the Securities and Exchange Law of Japan. The English language semiannual report was prepared solely for the convenience of readers outside Japan and is not intended to constitute a document for an offer to sell, or seeking an offer to buy, any securities of KENEDIX Realty Investment Corporation (KENEDIX-REIT).

English terms for Japanese legal, accounting, tax and business concepts used herein may not be precisely identical to the concept of the equivalent Japanese terms. With respect to any and all terms herein, including without limitation, financial statements, if there exist any discrepancies in the meaning or interpretation thereof between the original Japanese documents and English translation contained herein, the original Japanese documents will always govern the meaning and interpretation.

None of KENEDIX-REIT, Kenedix Office Partners, Inc. nor any of their respective directors, officers, employees, partners, unitholders, agents, affiliates nor their advisors shall be responsible or liable for the completeness, appropriateness, or accuracy of English translations or the selection of the portion(s) of any document(s) translated into English.

The financial statements of KENEDIX-REIT have been prepared in accordance with generally accepted accounting principles in Japan (Japanese GAAP), which may materially differ in certain respects from generally accepted accounting principles of other jurisdictions.

This semiannual report contains forward-looking statements. These statements appear in a number of places in this semiannual report and include statements regarding the intent, belief, or current and future expectations of KENEDIX-REIT or Kenedix Office Partners, Inc. with respect to its business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Accordingly, readers of this document should not interpret the forward-looking statements included herein as predictions or representations of future events or circumstances.

Potential risks and uncertainties also include those identified and discussed in this document. Given these risks and uncertainties, readers of this document are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of information produced herein. We disclaim any obligation to update or, except in the limited circumstances required by the Tokyo Stock Exchange, announce publicly any revisions to any of the forward-looking statements contained in these documents.