KENEDIX

February 14, 2012

Summary of Consolidated Financial Results for the Year Ended December 31, 2011

[Japanese GAAP]

Described below is an abstract in English of the financial result for the fiscal year ended December 31, 2011 that was released today in Tokyo. The translation is prepared and provided for the purpose of the readers' convenience only. All of readers are strongly recommended to refer to the original version in Japanese of the news release for complete and accurate information.

Company name: Kenedix, Inc. Listing: First Section, Tokyo Stock Exchange
Stock code: 4321 URL: http://www.kenedix.com
President: Atsushi Kawashima
Contact: Taiji Yoshikawa, Director Tel: +81-3-3519-2530
Scheduled date of General Meeting of Shareholders: March 27, 2012
Scheduled date of payment of dividend: -
Scheduled date of filing of Annual Securities Report (*Yuka Shoken Houkokusho*): March 27, 2012
Preparation of supplementary materials for financial results: Yes
Holding of financial results meeting: Yes (for institutional investors and securities analysts)

(Amounts rounded off to million yen)

1. Consolidated Financial Results (Jan. 1, 2011 – Dec. 31, 2011)

(1) Consolidated results of operations

(Percentage figures for revenue, operating income, ordinary income and net income represent year-on-year changes)

	Revenue		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended Dec. 31, 2011	19,486	(49.5)	6,931	(5.5)	2,464	11.9	1,313	-
Year ended Dec. 31, 2010	38,589	(50.4)	7,331	(13.1)	2,202	877.2	(2,542)	-

Note: Comprehensive income (million yen) Dec. 2011: 1,314 (-%) Dec. 2010: (1,277) (-%)

	Net income per share, (basic)	Net income per share, (diluted)	Return on equity	Ordinary income/ total assets	Operating income/ revenue
	Yen	Yen	%	%	%
Year ended Dec. 31, 2011	573.18	-	2.2	1.2	35.6
Year ended Dec. 31, 2010	(1,563.02)	-	(4.8)	1.0	19.0

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates (million yen) Dec. 2011: (720) Dec. 2010: (50)

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2011	190,426	71,435	32.0	26,587.57
As of Dec. 31, 2010	206,228	71,147	29.1	26,216.42

Reference: Shareholders' equity (million yen) As of Dec. 31, 2011: 60,917 As of Dec. 31, 2010: 60,066

(3) Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Year ended Dec. 31, 2011	6,181	5,674	(14,461)	9,595
Year ended Dec. 31, 2010	23,737	(15,333)	(17,481)	12,616

2. Dividends

	Dividend per share					Total dividends (annual)	Payout ratio (consolidated)	Dividends/ net assets (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended Dec. 31, 2010	-	0.00	-	0.00	0.00	-	-	-
Year ended Dec. 31, 2011	-	0.00	-	0.00	0.00	-	-	-
Year ending Dec. 31, 2012 (forecast)	-	-	-	-	-		-	

Note: Dividend forecast for the year ending December 31, 2012 has not been determined at this time.

3. Forecast of Consolidated Income for the Year Ending December 31, 2012 (Jan. 1, 2012 – Dec. 31, 2012)

(Percentage figures represent year-on-year changes)

	Revenue		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	-	-	-	-	-	-	-	-	-
Full year	17,300	(11.2)	6,700	(3.3)	3,400	37.9	1,700	29.4	741.97

Note: The Company has decided not to announce forecasts for the first half of 2012. For more details, please refer to "Analysis of Results of Operations (Outlook for 2012)" on page 3.

4. Others

(1) Changes in significant consolidated subsidiaries (*Tokutei Kogaisha*) during the period: None

Newly added: - Excluded: -

(2) Changes in accounting principles, procedures, presentation methods, etc.

1) Changes caused by revision of accounting standards: Yes

2) Other changes: None

(3) Number of shares outstanding (common stock)

1) Number of shares outstanding at end of period (including treasury stock)

As of Dec. 31, 2011:	2,291,186 shares	As of Dec. 31, 2010:	2,291,186 shares

2) Number of shares of treasury stock at end of period

As of Dec. 31, 2011:	- shares	As of Dec. 31, 2010:	- shares

3) Average number of shares outstanding during the period

Year ended Dec. 31, 2011:	2,291,186 shares	Year ended Dec. 31, 2010:	1,626,948 shares

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results (Jan. 1, 2011 – Dec. 31, 2011)

(1) Non-consolidated results of operations *(Percentage figures represent year-on-year changes)*

	Revenue		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended Dec. 31, 2011	5,321	(9.4)	1,135	-	129	-	149	-
Year ended Dec. 31, 2010	5,875	(53.7)	(589)	-	(2,305)	-	(3,678)	-

	Net income per share, (basic)	Net income per share, (diluted)
	Yen	Yen
Year ended Dec. 31, 2011	65.43	-
Year ended Dec. 31, 2010	(2,260.61)	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2011	112,881	76,050	67.4	33,192.82
As of Dec. 31, 2010	116,497	75,910	65.2	33,131.53

Reference: Shareholders' equity (million yen) As of Dec. 31, 2011: 76,050 As of Dec. 31, 2010: 75,910

* Information regarding the implementation of audit procedures

This summary of financial results is exempted from audit procedures based on the Financial Instruments and Exchange Law. At the time of disclosure, the audit procedures for the consolidated financial statements have not been completed.

* Explanation of appropriate use of earnings forecasts, and other special items

Cautionary statement with respect to forward-looking statements

Forecasts of future performance in this report are based on assumptions judged to be valid and information currently available to the Company. Actual results are affected by various factors and may differ substantially. For discussion of the assumptions and other factors considered by the Company in preparing the above projections, please refer to page 3 of the attachments "Analysis of Results of Operations (Outlook for 2012)."

How to view supplementary materials for financial results

The Company plans to hold a financial results meeting for institutional investors and securities analysts on February 14, 2012. Materials to be distributed at this event will be available on the Company's website immediately thereafter.

Contents of Attachments

1. Results of Operations

(1) Analysis of Results of Operations

a. Summary of the fiscal year

In 2011, Japan began to recover from the damage inflicted by the Great East Japan Earthquake as manufacturing activity rebounded, consumer spending recovered and other economic indicators improved. However, the economic outlook in Japan remains uncertain because of slowing overseas economic growth due in part to the debt crisis in Europe, the prolonged strength of the yen and other factors.

In the real estate services and real estate finance sectors, where the Kenedix Group ("the Group") is active, the Bank of Japan established funds in 2010 for the purchase of assets that include J-REITs as part of comprehensive monetary easing measures. The limit for J-REIT purchases within these funds was raised to 110 billion yen and purchases totaled 66.1 billion yen as of December 31, 2011. Support from government policies like this produced an improvement in the environment for procuring funds. The resulting increase in J-REIT public offerings of stock, purchases of properties and other activities are supporting a recovery in the liquidity of the real estate market.

Since 2009, the Group has positioned the asset management business as the nucleus of the Group's business activities and taken many steps aimed at building a profit structure that is stable and resilient. The Group continued to make steady progress toward this goal in 2011. The Group concentrated on locating quality properties and providing investment opportunities to investors in Japan and other countries who are interested in purchasing Japanese real estate. The Group is also working on maintaining consistent growth in the volume of AUM, such as by upgrading asset management capabilities.

In the first half of 2011, inactivity in the real estate market caused by the Great East Japan Earthquake and uncertainty about the global market made it difficult to establish new funds and brought down the number of new asset management contracts. At the same time, the Group continued to sell properties under management as planned. The result was a temporary decrease in AUM. This decline was followed by an increase of 72.2 billion yen in new AUM in the third quarter of 2011, the largest AUM growth since the collapse of Lehman Brothers. Despite the difficult market conditions, the Group used its business and real estate information network to establish relationships with new investors and locate high-quality properties. There was also an increase in AUM at Kenedix Realty Investment Corporation. For 2011 as a whole, the Group was able to increase AUM by 13.4 billion yen. As a result, the Group's AUM as of December 31, 2011 totaled 1,111.3 billion yen, up 13.4 billion yen, or 1.2%, from the end of 2010.

Regarding fund procurement, refinancing was used to extend the length of loans and take many other actions to create a more stable structure for loans. In addition, all convertible bonds of 2,093 million yen that were to reach maturity in November 2012 were redeemed early in another step to further strengthen the Group's financial soundness.

There was a non-operating expense of 0.7 billion yen for equity in losses of non-consolidated subsidiaries and affiliates resulting mainly from asset disposals by real estate funds of an equity-method affiliate with which the Group makes minority equity investments. Furthermore, there was an extra-ordinary loss of 0.7 billion yen for the anticipated cost of repairs at earthquake damaged buildings and equipment that are owned by the Group, for losses on sales of investments in silent partnerships, and other items.

In 2011, consolidated revenue was down 49.5% from one year earlier to 19,486 million yen, operating income decreased 5.5% to 6,931 million yen, ordinary income increased 11.9% to 2,464 million yen and net income was 1,313 million yen compared with a 2,542 million yen loss one year earlier.

The following section explains performance by business segments.

1) Asset Management Business

In the asset management business, fee income, chiefly asset management fees, was lower than one year earlier. The primary causes were the receipt of a performance fee in 2010 associated with the transformation of a listed property trust in Australia into a privately held fund and the temporary decline in AUM in 2011. The result was a 12.2%

decrease in revenue to 5,772 million yen and a 13.3% decrease in operating income to 3,278 million yen.

2) Real Estate Investment Business

In the real estate investment business, there was leasing revenue from properties owned by the Group during the holding period as inventory and revenue from bulk sales of properties. The result was a 74.2% decrease in revenue to 6,775 million yen and a 6.6% decrease in operating income to 1,396 million yen.

3) Real Estate Leasing Business

In the real estate leasing business, there was consistent leasing revenue from properties owned by the Group that are classified as fixed assets because the properties are long-term holdings. The result was an 8.5% increase in revenue to 7,841 million yen and a 4.9% decrease in operating income to 2,911 million yen.

Kenedix has changed its segment classifications starting in 2011. Figures for 2010 have been recalculated according to new business segment categories.

b. Outlook for 2012

The outlook for financial markets is still unclear because of slowing overseas economic growth due in part to the European debt crisis, the prolonged strength of the yen and other factors. The Group has been concentrating on assembling a profit structure that can consistently generate earnings by implementing the medium-term management plan that was revised in February 2010 (announced at the information meeting for 2009 results). Due to these actions, net income was 1.3 billion yen in 2011. In 2012, the Group is aiming for more growth in revenue. Asset management fees from the 1,100 billion yen of AUM and steady leasing revenue from long-term holding properties will be the primary sources of revenue. The Group also plans to generate revenue by forming new private funds.

Based on this outlook, Kenedix expects revenue of 17,300 million yen, operating income of 6,700 million yen, ordinary income of 3,400 million yen and net income of 1,700 million yen.

Signs of a recovery in real estate market liquidity are starting to appear. However uncertainty about the business environment still remains. Furthermore, there are many sources of ambiguities associated with economic trends in Japan and other countries and with other events. In this environment, Kenedix anticipates large variations in the timing of starting new funds and in the size of newly established funds. As a result, Kenedix has decided not to announce a forecast for the first half of 2012. A first half forecast will be announced promptly if progress with regard to 2012 results of operations makes this possible.

(2) Analysis of Financial Position

The Group purchases and holds real estate through consolidated subsidiaries for the purpose of building a portfolio of quality properties in its own account.

These real estate acquisitions represent up-front investments for the purpose of generating a steady stream of earnings through the incorporation of these properties in real estate funds. At the time of acquisition, the Group intended to own of these properties for only a short time. However, due to the current decline in real estate market liquidity, the Group is holding these properties for a longer time. Consequently, the purpose of holding certain properties has been changed because they have become long-term holdings for the purpose of earning a consistent stream of leasing revenue.

Short-term bank loans have been the primary means of funding the acquisition of properties on our own investment account. Due to the longer holding period, there is a need to use fund procurement methods with a longer term.

In some cases, consolidated subsidiaries use non-recourse loans to procure funds to acquire properties. Such loans are solely the responsibility of the subsidiary holding the properties, and loan repayments can be no greater than cash flows from assets held by the subsidiary. Consequently, these non-recourse loans should be excluded from consideration when analyzing the Group’s debt-equity ratio.

The following table presents changes in the debt-equity ratio.

(Millions of yen)

	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Interest-bearing debt (1)	202,806	153,038	123,625	109,767
(Non-recourse loans included) (2)	(78,528)	(68,419)	(69,764)	(60,444)
Net assets (3)	57,558	54,525	71,147	71,435
Cash and deposits (4)	11,872	18,291	10,913	7,706
Net debt (5) ((1)-(2)-(4))	112,404	66,327	42,947	41,617
Net debt-equity ratio net of non-recourse loans (5)/(3) *(%)*	195.3	121.6	60.4	58.3

Balance Sheet Position

Total assets were 190,426 million yen as of December 31, 2011, 15,801 million yen less than as of December 31, 2010. The primary reasons were a decline in cash and deposits resulting from the repayment of interest-bearing debt, an 8,249 million yen decrease in property owned by the Group because of sale of these properties, and a 2,917 million yen decrease in investment securities due mainly to the booking of an equity in losses of non-consolidated subsidiaries and affiliates and sales of investments in silent partnerships. The change made during 2011 in the purpose of holding some properties resulted in the transfer 25,715 million yen of inventories to property and equipment at the end of 2011.

Total liabilities decreased 16,090 million yen to 118,990 million yen. This was mainly attributable to a decrease in interest-bearing debt by bond redemptions and loan repayments from the sale of properties.

Net assets increased 288 million yen to 71,435 million yen. Despite decreases of 562 million yen in minority interests in consolidated subsidiaries and 332 million yen in foreign currency translation adjustments, there was an increase of 1,305 million yen in retained earnings, mainly because of the booking of net income. Minority interests in consolidated subsidiaries represent primarily the investments of external parties in funds consolidated by the Group.

Cash Flows

Operating activities provided net cash of 6,181 million yen, investing activities provided net cash of 5,674 million yen and financing activities used net cash of 14,461 million yen. The result was a net decrease of 3,021 million yen in cash and cash equivalents during 2011 to 9,595 million yen as of December 31, 2011.

Operating Activities

Net cash provided by operating activities decreased 74.0% year on year to 6,181 million yen. This was mainly attributable to the booking of income before provision for income taxes of 2,294 million yen and the change in inventories of 1,984 million yen.

Investing Activities

Net cash provided by investing activities was 5,674 million yen compared to the net cash used of 15,333 million yen a year earlier. This was mainly attributable to the proceeds of 6,959 million yen from sales of property and equipment.

Financing Activities

Net cash used in financing activities decreased 17.3% year on year to 14,461 million yen. This was mainly attributable to loan repayments and bond redemptions.

(3) Basic Policy for Allocation of Earnings and Dividend for the Current and Next Fiscal Years

The Company positions the distribution of earnings to shareholders as one of its highest priorities. The basic policy regarding dividends is to make continuous dividend payments in line with consolidated operating results. The dividend for each year is determined by taking into account all applicable factors, including operating results, the need to retain earnings to generate growth, the dividend payout ratio and other items.

In 2011, the Group took actions aimed at assembling a profit structure that can consistently generate earnings by implementing the medium-term management plan that was revised in February 2010 (announced at the information meeting for 2009 results). Taking these steps resulted in net income of 1.3 billion yen in 2011. However, the outlook for financial markets is still unclear because of slowing overseas economic growth due in part to the European debt crisis, the prolonged strength of the yen and other factors. In this environment, maintaining an adequate level of short-term liquidity in order to preserve a stable financial position is one of the Group's priorities. Furthermore, the Group must retain funds because of plans to make a variety of investments to support earnings growth.

Because of this operating environment and the Group's performance, the Company has decided to make no dividend payment for 2011. No decision has been made at this time concerning the resumption of a dividend payment in 2012. The Group is dedicated to distributing earnings to shareholders while retaining the amount of funds needed to support growth in the coming years.

(4) Business Risk

The following is a list of items that may have a significant effect on investors' decisions. The Group is aware of these risks and is taking actions to prevent the occurrence of the problems and respond as necessary should a problem arise. Forward-looking statements in the document are based on the judgments of the Group's management as of the end of the fiscal year under review.

1) Economic downturn

The Group is engaged in the provision of real estate investment services and of real estate asset management services. An economic downturn, resulting from financial, political, or other factors whether in Japan or abroad, could depress real estate market conditions, for instance, by dampening interest in real estate investment, stifling real estate transactions, raising vacancy rates, and bringing down leasing rates. These events could adversely affect the Group's operating results.

2) Losses related to the re-valuation and impairment of assets invested in

The Company acquires real estate on its own investment account, as well as invests in real estate funds established by the Group. The value of assets invested in can be affected by re-valuation or asset impairment, or upon sale of the real estate, by losses from sales. These events could adversely affect the Group's operating results.

3) Fund procurement

The Group raises necessary funds through borrowings from financial institutions and the issuance of bonds, and carries out steady refinancing of its bank borrowings. There is a possibility that financial institutions may restrain their lending activities because of depressed financial or political conditions, or the Company's relationship with its creditors may deteriorate, or its credit worthiness (including credit rating) may substantially deteriorate. In any of these events, the Group may not be able to refinance its borrowings, or be forced to sell real estate owned by the Group on unfavorable terms in order to procure sufficient funds. This may adversely affect the Group's operating results and financial position.

4) Liquidity in the real estate market

Instability in the economic environment or real estate market may depress liquidity in real estate transactions. As a consequence, it may be impossible to sell real estate owned by the Company or by the Group's real estate funds, or to sell it as planned, or the real estate may have to be sold at unfavorable prices. This may adversely affect the Group's operating results and financial position.

5) Financial covenant

Some of the Group's bank borrowings are subject to the financial covenants provided in the loan agreements. Infringement on these restrictions and the invocation of acceleration clauses may trigger cross default clauses which do not only require the repayment of these borrowings but of all other outstanding borrowings of and bonds issued by the Company. This would negatively impact the Group's financial position. Also, with certain syndicated loans and other loans extended to the Company, there are restrictions as a covenant, for instance, not to post ordinary losses in the consolidated full-term and interim statements of income. In the case of infringement, there may be a negative impact on the Group's operations, results, and financial position, unless the creditors concerned endorse it as they may refuse a request by the Company not to invoke the acceleration clause.

In addition, there are also some restrictions on loans extended to one of the Company's subsidiaries, Kenedix Asset Management, Inc. These restrictions may make it impossible for the Company to receive the dividends from the subsidiary or its repayment of loans made by the Company, or the Company may have to provide financial support to the subsidiary in order to avoid infringement of the clauses. These events would affect the Group's operating results and financial position.

6) Competition

The performance of the real estate funds offered in the asset management business, the real estate investment business and the real estate leasing business, the Company's core businesses, are expected to face intensified competition as their performance is evaluated relative to various financial products and investments. In the event that real estate funds become less attractive than other types of investments, the Group's operating results may be adversely affected. Especially an early recovery in the real estate market may trigger increased competition.

7) Interest rates

In the event that interest rates rise in the future, the Group would see an increase in its cost of fund procurement as well as in the returns that client investors expect. Higher interest rates could also cause real estate prices to decline. These events may adversely affect the Group's operating results.

8) Recruiting activities

The Group is dedicated to offering competitive services based on the knowledge and experience of its workforce concerning real estate investments. Offering these services requires a team of talented employees. Accordingly, the Company has a policy of recruiting individuals with outstanding skills as required. However, the Company may not be able to hire a sufficient number of these individuals or may have to deal with a large defection of talented employees. These events could have an effect on business operations and may also adversely affect the Group's operating results.

9) Changes in laws and regulations

The Group is conducting its business activities in conformity with all currently applicable laws and regulations and subject to the risks associated with these laws and regulations. However, any future changes in these laws and regulations could have a negative impact on the Group's business activities. The Group is primarily subject to the following laws and regulations: Financial Instruments and Exchange Law, Building Lots and Buildings Transaction Business Law, the Law Concerning Investment Trusts and Investment Corporations, Soil Contamination Countermeasures, the Special Measures Law Concerning the Claims Servicing Business, Money Lending Law, and the Law for Architects and Building Engineers.

Due to the enactment of the Financial Instruments and Exchange Law in Japan, the real estate funds managed by the Group are now subject to the provisions of this law. Future changes to the laws and regulations or their interpretation and application may affect the Group's operating results.

10) Geographical bias and risk of disaster damage to real estate value

Most properties that the Group invests in, owns, or manages are located in the Tokyo area. Any deterioration in the economic conditions in this area may affect the Group's operating results. Also, the Tokyo area and other regions where the Group's properties are located may be subject to earthquakes, wars, terrorism, fires and other disasters. Such events could reduce the value of these properties, negatively affecting the Group's operating results and financial position.

11) Medium-term management plan

The Group has posted rapid growth in the scale of operations over the years. However, partly because of turmoil in the financial markets, liquidity in the real estate market has recently dropped sharply. Given this situation, the Group decided to rebuild its business model to the changed conditions, and in February 2009 it drafted a medium-term management plan for the five-year period starting in the fiscal year 2009. Based on this plan, the Group is aiming at: (1) an increase in assets under management, (2) an improvement in financial condition, by streamlining its balance sheet, and (3) the establishment of a stable profit structure. Among the measures taken is the transfer, in December 2009, of most asset management operations to two companies, Kenedix REIT Management, Inc. and Kenedix Advisors, Inc. As part of the same endeavor to strengthen and reorganize its asset management business, it also established Kenedix Asset Management, Inc. as the supervisory company for this business, and placed the above two companies under its control. In February 2010, the Group revised its medium-term management plan, in line with the reorganization of the Group structure and changes in the business environment. While maintaining its focus on the core asset management business, it decided to further increase assets under management, to accelerate the implementation of its medium-term management plan.

The Group will continue to take the actions outlined above. However, operational changes and changes in the environment, including fund procurement, liquidity in the real estate market, and other economic aspects, may make it impossible to realize the management plan.

12) Risks associated with defects and other problems involving real estate

Real estate, the primary asset in which the Group invests, has the potential of having defects and problems involving holders of rights, soil conditions, structural integrity of buildings and other items. Prior to acquiring a property, the Group conducts a rigorous due-diligence. However, the Group may incur unexpected costs to resolve defects, falsified structural designs, and other problems that emerge following an acquisition. These expenses may have a negative effect on the Group's operating results and financial position.

13) Mergers and acquisitions, equity alliances, and other actions

The Group views mergers and acquisitions and equity alliances as effective means of achieving growth. Such actions will be taken only when they will contribute to growth in assets under management or diversification of real estate investments, and generate synergies with existing businesses.

The Group will conduct thorough examinations and take steps to reduce all risks prior to executing a merger, acquisition or equity alliance. However, it is possible that, after the transaction is finalized, contingent liabilities or other problems may arise or that the counterparty or the Company may not perform as expected. These events may have an effect on the Group's operating results and financial position.

On July 15, 2010 the Company concluded an agreement on business alliance with ITOCHU Corporation, including the third-part allotment of new shares to ITOCHU, the consideration of a new jointly established real estate fund, the exchange of staff for asset management operations, and the mutual use of information on domestic and foreign investor networks. Based on this business alliance, the Company, on August 4, 2010, completed the receipt of funds from the issuance of new share via third-party allotment. The Company believes that the equity and business alliance with ITOCHU will further enhance its corporate value, as synergies with ITOCHU will help it flexibly respond to drastic environmental changes surrounding the real estate investment market, and meet diversified customer needs, in order to expanding the scale of its business for the future. However, there is a risk that these synergies and their benefits may not materialize as expected.

14) Determining of the scope of consolidation

Most of the private funds that are formed and managed by the Group are structured using silent partnership agreements, and ordinarily the investment interest of the operator of the silent partnership is held by the general incorporated association to ensure bankruptcy remoteness. In the real estate fund and NPL investment fund industries the Group belongs to, it is recognized that in these industries the accounting practices for determining control and influence with respect to asset management agreements and servicer agreements under such a structure have not yet been established.

On September 8, 2006 the Accounting Standards Board of Japan released its Practical Issues Task Force (PITF) No. 20, “Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations,” and the Group has applied the provisions of this PITF starting with the fiscal year 2006. Currently, the Group determines the scope of consolidation by deciding whether each fund or SPC is a subsidiary or affiliate by individually determining whether the Company exerts control or influence, taking into consideration the asset management agreement or silent partnership agreement.

In the event that accounting practices that differ greatly from the policies that have been adopted by the Company with respect to the determination of the scope of consolidation for SPCs become established as a result of the establishment of new accounting standards or the release of practical guidelines, this could cause substantial changes in the Company’s policies for determining the scope of consolidation, having an effect on the operating results and financial position of the Group.

15) Management of personal information

The Group stores all personal information of tenants and other parties involved in a responsible way. However, if unforeseen circumstances were to result in an information leak, it may be subject to indemnity charges and thus incur losses, as well as hurt the Group’s credibility. This may affect the Group’s operating results and financial position.

2. The Kenedix Group

The Kenedix Group is made up of Kenedix, Inc., 70 subsidiaries and 45 affiliates. The operations of the Group consist of three business sectors: (1) asset management, (2) real estate investment, and (3) real estate leasing.

These business segments are the same as the segment classifications listed in the section "Notes to Consolidated Financial Statements."

(1) Asset Management Business

The asset management business provides real estate investors, which are the clients of Kenedix, with a return on their investments by providing opportunities to purchase real estate and other assets and services for the operation and management of real estate (asset management service). In return for the provision of these services, we receive fees that can be divided into the following four general categories.

1) Acquisition fees: Fees received for providing real estate investors with investment opportunities

- We locate properties that match the needs of real estate investors and use funds in which our investors have contributed to purchase real estate and other assets.
- When we purchase real estate and other assets, we receive a fee that is a certain percentage of the purchase price.

2) Asset management fees: Fees received for the management of investments in real estate

- Our goal is to increase the value of assets by operating and managing real estate and other assets in a manner that preserves and increases revenue.
- We submit reports to real estate investors concerning the operations of portfolio properties.
- In return for these services, we receive a fee that is usually calculated as a certain percentage of the aggregate purchase prices of portfolio assets.

3) Disposition fees: Fees received in association with sales of real estate and other assets and the recovery of capital

- We earn profits by recovering invested capital through sales of real estate and other assets.
- When a property is sold, we receive a fee that is a certain percentage of the sales price.

4) Incentive fees: Fees received for achieving a particular return on investment

- When an investment reaches completion after all real estate and other assets have been sold, we receive a fee that is equal to part of the return, if any, that exceeds the target return that was determined in advance with the investors.

In addition to these four major categories of fees in the asset management business, we receive brokerage fees when we serve as a broker for a transaction, consulting fees when we use our real estate investment expertise to provide consulting and advisory services, and other types of fees.

(2) Real Estate Investment Business

The real estate investment business involves the ownership of real estate directly by the Group. In some cases, real estate is held temporarily prior to inclusion in a fund in order to facilitate the efficient establishment of a fund. In other cases, properties are held jointly in order to align the interests of a fund with those of the Group or held for other reasons. In addition, we purchase non-performing loans (NPL) for the purpose of making pure investments. Revenue in this business consists of the following items.

1) Leasing revenue

- This is leasing revenue from real estate for sale.

2) Revenue from real estate sales

- The sale of real estate for sale generates this revenue.

3) Dividend income from investment in TK

- As part of the asset management business, the Company makes minority equity investments with real estate investors, which are the client of Kenedix, in the funds that the Company has established and manages.
- Dividend income from investments in TK is the Company's share of the earnings or losses from funds.

4) Valuation loss of inventories

- The Company marks to market its real estate for sale at the end of each quarter.
- When the fair value of real estate for sale falls below book value, we record the difference as an inventory valuation loss.

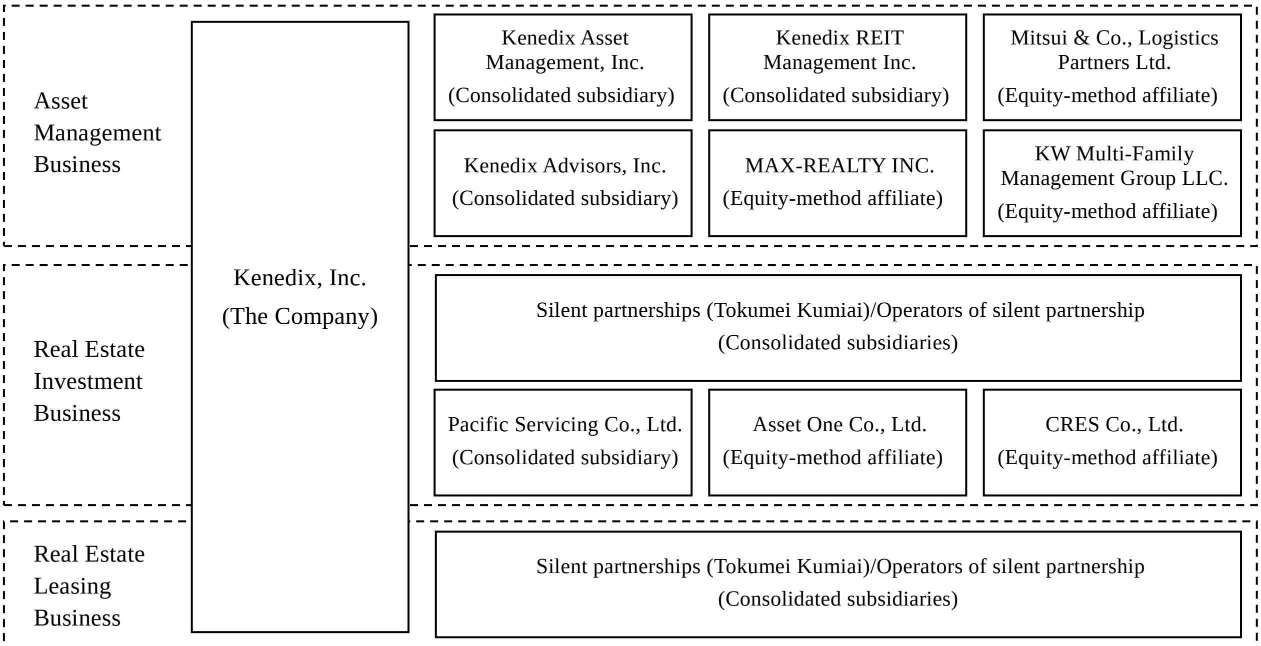
5) Gain/loss on sales and collection of acquired NPL

- The Company uses its expertise in real estate investing to invest in NPL.
- We record a profit or loss when we sell or collect an NPL that we have purchased.

(3) Real Estate Leasing Business

The real estate leasing business involves the leasing of land and buildings that are long-term holdings classified as fixed assets. Our goal is to increase the value of these assets by raising their profitability. We plan to accomplish this by strengthening leasing operations to increase occupancy rates and by streamlining the management of real estate to cut expenses in this business.

A summary of the structure and activities of the Group is shown below.



3. Management Policies

(1) Fundamental Management Policy

The Group is an organization specializing in real estate services and real estate finance. The Group’s overall goal is to maximize returns on investments to the real estate investors, which are clients of Kenedix. This is accomplished by leveraging the Group’s comprehensive research skills and extensive knowledge of the real estate business to accurately analyze and evaluate trends in a constantly changing market.

The Group will retain its commitment to meeting targets and to sincerity. Our goal is to establish long-term relationships based on trust with clients, employees and investors and to comply strictly with laws, regulations and other guidelines. By taking these actions, the Group is determined to maximize its corporate value in order to contribute to society.

(2) Targeted Performance Indicators

The goal of the Group is to end the policy of basing operations on making its own investments by expanding the balance sheet, which was the policy prior to the collapse of Lehman Brothers, and return to a focus on the asset management business. To accomplish this goal, we will continue to steadily increase AUM, lower the debt-equity ratio by downsizing the balance sheet, increase asset management fees, and take other actions.

(3) Medium- and Long-term Management Strategy

At present, it seems that there will be no immediate recovery in the real estate services and real estate finance sectors, which are primary markets for the Group’s business operations. However, the Group expects that these markets will become larger over the medium and long term. Accordingly, the Group will use its specialized skills and creativity to continue providing a comprehensive line of real estate asset management services.

The Group’s goal is to increase the amount of assets under management by skillfully targeting opportunities created when the market starts recovering. This will be accomplished by analyzing real estate market conditions and the financial needs of investors and responding with flexibility. Our objective is to earn an even more prominent position in the real estate market as an asset manager. In particular, the diversifying risk profiles of the Company’s clients will play a key role in the ability to utilize its large volume of real estate transaction information to create investment opportunities. We plan to aggressively form relationships with more investors in order to create these opportunities.

For the existing funds, the Group will sell assets in an efficient and appropriate manner while maintaining close communications with client investors. This will allow us to return capital and distribute earnings to these investors, thereby earning their satisfaction. Another objective of these activities is to deepen relationships rooted in trust with our client investors.

The Group continues to reduce properties in its own investment account in order to lower the level of business risk associated with changes in market conditions. This also allows the Group to improve its financial soundness by lowering interest-bearing debt.

The Group is determined to preserve the stability of its operations even when the operating climate is volatile. For this purpose, asset management fees and leasing income will be positioned as the primary sources of revenue. This is expected to increase the coverage ratio for SG&A expenses, interest expenses and other fixed expenses.

(4) Important Management Issues

At the beginning of 2011, there were emerging signs of a recovery in the liquidity of the real estate market because of the increasing volume of properties purchased by J-REITs. However, the pace of the rebound in liquidity subsequently slowed somewhat because of the Great East Japan Earthquake on March 11, 2011 and the effects of the U.S. credit rating reduction and European debt crisis. In this environment, the Group must strengthen the asset management business, which is a source of stable revenue, by increasing AUM in order to create more opportunities to earn fees.

One way to accomplish this goal is to establish residential J-REITs. Taking this step would allow the Group to establish relationships with new types of client investors. Residential J-REITs could also contribute to the maintaining the steady growth of AUM and generating new fee income. The Group will continue to make steady progress regarding residential J-REITs while adapting with flexibility and speed to changes in market conditions.

Reducing interest expenses is vital to the establishment of a profit structure that generates consistent earnings. The Group's interest expenses have increased because of costly loans that were obtained after the collapse of Lehman Brothers. The Group plans to resolve this problem by using proceeds from sales of properties to reduce these loans and refinancing to replace these loans with lower-cost loans. When refinancing these loans, longer-term loans will be used in order to improve the Group's financial soundness.

In the rapidly changing real estate market, success demands the ability to acquire the latest information and gain expertise in new business schemes, as well as the development of a talented workforce. With this in mind, the Group is dedicated to preserving and increasing the motivation of employees while constantly recruiting highly skilled workers.

Furthermore, the Group is monitoring changes in laws and regulations, such as Japan's enactment of the Financial Instruments and Exchange Law, and building an effective compliance system.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Year 2010 (As of Dec. 31, 2010)	Year 2011 (As of Dec. 31, 2011)
Assets		
Current assets		
Cash and deposits	10,913	7,706
Deposits held in trust	3,327	2,375
Accounts receivable-trade	1,642	2,041
Real estate for sale	43,006	15,306
Acquired non-performing loans	1,618	1,587
Income taxes refundable	319	380
Deferred tax assets	99	61
Other	2,200	1,207
Allowance for doubtful accounts	(414)	(506)
Total current assets	62,712	30,161
Fixed assets		
Property and equipment		
Buildings and structures	48,716	57,245
Accumulated depreciation	(1,828)	(2,587)
Buildings and structures, net	46,887	54,658
Land	71,511	82,927
Other	534	241
Accumulated depreciation	(103)	(120)
Other, net	430	120
Total property and equipment	118,830	137,707
Intangible assets		
Goodwill	-	117
Other	59	48
Total intangible assets	59	165
Investments and other assets		
Investment securities	19,442	16,524
Investment in capital	429	422
Long-term loans receivable	672	548
Deferred tax assets	343	472
Other	3,991	4,624
Allowance for doubtful accounts	(252)	(201)
Total investment and other assets	24,626	22,391
Total fixed assets	143,515	160,264
Total assets	206,228	190,426

(Millions of yen)

	Year 2010 (As of Dec. 31, 2010)	Year 2011 (As of Dec. 31, 2011)
Liabilities		
Current liabilities		
Accounts payable-trade	348	492
Short-term borrowings	7,577	6,489
Long-term borrowings-due within one year	21,216	32,121
Corporate bonds-due within one year	1,750	300
Accrued income taxes	1,031	520
Security deposits	1,449	-
Other	3,135	1,741
Total current liabilities	36,508	41,665
Long-term liabilities		
Bonds payable	6,793	1,600
Long-term borrowings	86,288	69,256
Deferred tax liabilities	1,880	1,564
Allowance for employees' retirement benefits	48	65
Long-term lease deposited	3,207	4,472
Other	354	364
Total long-term liabilities	98,571	77,324
Total liabilities	135,080	118,990
Net assets		
Shareholders' equity		
Common stock	31,322	31,322
Additional paid-in capital	31,581	31,581
Retained earnings	(2,594)	(1,289)
Total shareholders' equity	60,308	61,613
Accumulated other comprehensive income		
Net unrealized holding gains/losses on other securities	(84)	(206)
Foreign currency translation adjustments	(157)	(490)
Total accumulated other comprehensive income	(242)	(696)
Minority interests in consolidated subsidiaries	11,080	10,518
Total net assets	71,147	71,435
Total liabilities and net assets	206,228	190,426

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)	Year 2011 (Jan. 1, 2011 – Dec. 31, 2011)
Revenue	38,589	19,486
Cost of revenue	27,177	8,876
Gross profit	11,411	10,609
Selling, general and administrative expenses		
Directors’ and corporate auditors’ salaries	251	300
Salaries and bonuses	1,287	1,270
Commissions paid	678	539
Amortization of goodwill	192	-
Provision for doubtful accounts	366	328
Other	1,304	1,238
Total selling, general and administrative expenses	4,080	3,678
Operating income	7,331	6,931
Non-operating income		
Interest income	71	51
Dividends income	42	28
Interest on refund	7	3
Consumption taxes differential (after being offset by suspense payments and receipt)	419	217
Refunded consumption taxes	-	263
Gain on bond retirement	64	-
Other	87	146
Total non-operating income	692	711
Non-operating expenses		
Interest expense	4,543	3,929
Stock issue expenses	331	-
Commissions paid	700	324
Equity in losses of non-consolidated subsidiaries and affiliates	50	720
Other	195	201
Total non-operating expenses	5,821	5,177
Ordinary income	2,202	2,464
Extra-ordinary income		
Gain on sale of investment securities	0	25
Gain on sale of fixed assets	43	364
Gain on negative goodwill	31	-
Reversal of allowance for doubtful accounts	-	114
Other	0	32
Total extra-ordinary income	75	537

(Millions of yen)

	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)	Year 2011 (Jan. 1, 2011 – Dec. 31, 2011)
Extra-ordinary losses		
Loss on sale of investment securities	-	191
Loss on valuation of investment securities	15	113
Dilution losses from changes in equity interest	85	-
Loss on sale of fixed assets	435	-
Impairment loss	1,508	83
Loss on liquidation of subsidiaries and affiliates	554	-
Loss on disaster	-	277
Other	66	41
Total extra-ordinary losses	2,667	707
Income (loss) before income taxes and profit distribution to silent partners	(389)	2,294
Profit distribution to silent partners	16	0
Income (loss) before provision for income taxes	(406)	2,294
Current income taxes	1,570	780
Deferred income taxes	91	(286)
Total income taxes	1,662	494
Income before minority interests	-	1,799
Minority interests in income	474	486
Net income (loss)	(2,542)	1,313

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)	Year 2011 (Jan. 1, 2011 – Dec. 31, 2011)
Income before minority interests	-	1,799
Other comprehensive income		
Net unrealized holding gains/losses on other securities	-	(152)
Foreign currency translation adjustments	-	(332)
Share of other comprehensive income of associates accounted for using equity method	-	(0)
Total other comprehensive income	-	(485)
Comprehensive income	-	1,314
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	-	858
Comprehensive income attributable to minority interests	-	455

(3) Consolidated Statements of Changes in Net Assets

(Millions of yen)

	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)	Year 2011 (Jan. 1, 2011 – Dec. 31, 2011)
Shareholders' equity		
Common stock		
Balance at the end of previous period	23,787	31,322
Changes of items during the period		
Issuance of new shares	7,534	-
Total changes of items during the period	7,534	-
Balance at the end of current period	31,322	31,322
Additional paid-in capital		
Balance at the end of previous period	24,046	31,581
Changes of items during the period		
Issuance of new shares	7,534	-
Total changes of items during the period	7,534	-
Balance at the end of current period	31,581	31,581
Retained earnings		
Balance at the end of previous period	5	(2,594)
Changes of items during the period		
Net income (loss)	(2,542)	1,313
Change of scope of consolidation	(57)	(8)
Total changes of items during the period	(2,600)	1,305
Balance at the end of current period	(2,594)	(1,289)
Treasury stock		
Balance at the end of previous period	(88)	-
Changes of items during the period		
Change of scope of consolidation	88	-
Total changes of items during the period	88	-
Balance at the end of current period	-	-
Total shareholders' equity		
Balance at the end of previous period	47,751	60,308
Changes of items during the period		
Issuance of new shares	15,069	-
Net income (loss)	(2,542)	1,313
Change of scope of consolidation	30	(8)
Total changes of items during the period	12,557	1,305
Balance at the end of current period	60,308	61,613

(Millions of yen)

	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)	Year 2011 (Jan. 1, 2011 – Dec. 31, 2011)
Accumulated other comprehensive income		
Net unrealized holding gains/losses on other securities		
Balance at the end of previous period	31	(84)
Changes of items during the period		
Net changes of items other than shareholders’ equity	(115)	(122)
Total changes of items during the period	(115)	(122)
Balance at the end of current period	(84)	(206)
Deferred gains (losses) on hedges		
Balance at the end of previous period	(3)	-
Changes of items during the period		
Net changes of items other than shareholders’ equity	3	-
Total changes of items during the period	3	-
Balance at the end of current period	-	-
Foreign currency translation adjustments		
Balance at the end of previous period	(1,038)	(157)
Changes of items during the period		
Net changes of items other than shareholders’ equity	880	(332)
Total changes of items during the period	880	(332)
Balance at the end of current period	(157)	(490)
Total accumulated other comprehensive income		
Balance at the end of previous period	(1,009)	(242)
Changes of items during the period		
Net changes of items other than shareholders’ equity	767	(454)
Total changes of items during the period	767	(454)
Balance at the end of current period	(242)	(696)
Minority interests		
Balance at the end of previous period	7,784	11,080
Changes of items during the period		
Net changes of items other than shareholders’ equity	3,296	(562)
Total changes of items during the period	3,296	(562)
Balance at the end of current period	11,080	10,518
Total net assets		
Balance at the end of previous period	54,525	71,147
Changes of items during the period		
Issuance of new shares	15,069	-
Net income (loss)	(2,542)	1,313
Change of scope of consolidation	30	(8)
Net changes of items other than shareholders’ equity	4,064	(1,016)
Total changes of items during the period	16,621	288
Balance at the end of current period	71,147	71,435

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)	Year 2011 (Jan. 1, 2011 – Dec. 31, 2011)
Operating activities		
Income (loss) before provision for income taxes	(406)	2,294
Depreciation and amortization	1,255	1,350
Impairment loss	1,508	83
Amortization of goodwill	192	-
Loss (gain) on sales and collection of acquired non-performing loans	(0)	-
Loss (gain) on investments in silent partnership	784	-
Increase (decrease) in allowance for doubtful accounts	224	242
Loss on disaster	-	277
Interest income	(71)	(51)
Interest expense	4,543	3,929
Equity in (earnings) losses of non-consolidated subsidiaries and affiliates	50	720
Loss (gain) on sales of fixed assets	392	(364)
Loss (gain) on sales of investment securities	-	165
Loss (gain) on change in equity interest	85	-
Decrease (increase) in notes and accounts receivable-trade	(525)	(560)
Increase (decrease) in notes and accounts payable-trade	(82)	144
Decrease (increase) in inventories	18,188	1,984
Decrease (increase) in acquired non-performing loans	-	30
Proceeds from sale and collection of acquired non-performing loans	1,493	-
Decrease (increase) in silent partnership	-	869
Distributions from silent partnerships	828	-
Other, net	(1,069)	886
Subtotal	27,392	12,003
Interests and dividends received	149	97
Interests paid	(3,587)	(4,395)
Payments for loss on disaster	-	(166)
Income taxes paid	(1,277)	(1,675)
Income taxes refund	1,060	318
Net cash provided by operating activities	23,737	6,181
Investing activities		
Payment for purchase of property and equipment	(16,908)	(1,106)
Proceeds from sale of property and equipment	6,947	6,959
Payment for purchase of intangible assets	(33)	(7)
Payment for loans receivable	(46)	-
Proceeds from repayment of loans receivable	88	336
Payment for purchase of investment securities	(1,055)	(106)
Payment for purchase of stocks of subsidiaries and affiliates	(499)	(1,076)
Payment for purchase of investment in subsidiaries involving change in scope of consolidation	(1,797)	-
Other, net	(2,029)	676
Net cash provided by (used in) investing activities	(15,333)	5,674

(Millions of yen)

	Year 2010 (Jan. 1, 2010 – Dec. 31, 2010)	Year 2011 (Jan. 1, 2011 – Dec. 31, 2011)
Financing activities		
Proceeds from short-term borrowings	6,828	-
Repayment of short-term borrowings	(16,149)	-
Increase (decrease) in short-term borrowings	-	(1,088)
Proceeds from long-term borrowings	39,735	29,286
Repayment of long-term borrowings	(47,396)	(35,687)
Proceeds from issuance of new shares	14,738	-
Proceeds from issuance of bonds	100	1,498
Payment for redemption of bonds	(18,131)	(8,266)
Proceeds from minority interest	4,253	3
Dividends to minority interest	(15)	(48)
Distributions to minority interest	(1,437)	(364)
Other, net	(5)	206
Net cash used in financing activities	(17,481)	(14,461)
Effect of exchange rate changes on cash and cash equivalents	47	(314)
Increase (decrease) in cash and cash equivalents	(9,030)	(2,919)
Cash and cash equivalents at beginning of period	21,665	12,616
Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	(19)	(101)
Cash and cash equivalents at end of period	12,616	9,595

Segment Information

Year 2010 (Jan. 1, 2010 – Dec. 31, 2010) *(Millions of yen)*

	Reportable segment			Adjustment	Amount recorded in consolidated statements of income
	Asset Management Business	Real Estate Investment Business	Real Estate Leasing Business		
Revenue	6,574	26,219	7,224	(1,429)	38,589
Segment operating income	3,781	1,495	3,062	(1,008)	7,331
Segment assets	5,564	67,724	127,055	5,883	206,228

Year 2011 (Jan. 1, 2011 – Dec. 31, 2011) *(Millions of yen)*

	Reportable segment			Adjustment	Amount recorded in consolidated statements of income
	Asset Management Business	Real Estate Investment Business	Real Estate Leasing Business		
Revenue	5,772	6,775	7,841	(902)	19,486
Segment operating income	3,278	1,396	2,911	(655)	6,931
Segment assets	5,921	33,221	148,290	2,992	190,426