

Summary of Consolidated Financial Results for the Year Ended December 31, 2012

[Japanese GAAP]

Described below is an abstract in English of the financial result for the fiscal year ended December 31, 2012 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.

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 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, 2013
 Scheduled date of payment of dividend: -
 Scheduled date of filing of Annual Securities Report (*Yuka Shoken Houkokusho*): March 27, 2013
 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, 2012 – Dec. 31, 2012)

(1) Consolidated results of operations (Percentage figures for revenue and incomes represent year-on-year changes)

	Revenue		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended Dec. 31, 2012	20,957	7.5	5,837	(15.8)	2,328	(5.5)	(10,128)	-
Year ended Dec. 31, 2011	19,486	(49.5)	6,931	(5.5)	2,464	11.9	1,313	-

Note: Comprehensive income (million yen) Year ended Dec. 31, 2012: (9,599) (-%) Year ended Dec. 31, 2011: 1,314 (-%)

	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, 2012	(4,420.43)	-	(18.1)	1.5	27.9
Year ended Dec. 31, 2011	573.18	-	2.2	1.2	35.6

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates (million yen)

Year ended Dec. 31, 2012: (146) Year ended Dec. 31, 2011: (720)

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2012	126,270	56,071	40.2	22,182.10
As of Dec. 31, 2011	190,426	71,435	32.0	26,587.57

Reference: Shareholders' equity (million yen) As of Dec. 31, 2012: 50,823 As of Dec. 31, 2011: 60,917

(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, 2012	10,545	31,276	(37,108)	14,452
Year ended Dec. 31, 2011	6,181	5,674	(14,461)	9,595

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, 2011	-	0.00	-	0.00	0.00	-	-	-
Year ended Dec. 31, 2012	-	0.00	-	0.00	0.00	-	-	-
Year ending Dec. 31, 2013 (forecast)	-	-	-	-	-	-	-	-

Note: Dividend forecast for the year ending December 31, 2013 has not been determined at this time.

3. Forecast of Consolidated Income for the Year Ending December 31, 2013 (Jan. 1, 2013 – Dec. 31, 2013)

(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
Full year	16,800	(19.8)	4,550	(22.0)	2,900	24.5	1,000	-	436.46

*** Notes**

(1) Changes in significant consolidated subsidiaries (*Tokutei Kogaisha*) during the period: Yes

Newly added: -

Excluded: 1 (Tokumei Kumiai Silver Wave)

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(3) Number of shares outstanding (common stock)

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

As of Dec. 31, 2012: 2,291,186 shares As of Dec. 31, 2011: 2,291,186 shares

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

As of Dec. 31, 2012: - shares As of Dec. 31, 2011: - shares

3) Average number of shares outstanding during the period

Year ended Dec. 31, 2012: 2,291,186 shares Year ended Dec. 31, 2011: 2,291,186 shares

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results (Jan. 1, 2012 – Dec. 31, 2012)

(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, 2012	4,868	(8.5)	(629)	-	(2,753)	-	(9,411)	-
Year ended Dec. 31, 2011	5,321	(9.4)	1,135	-	129	-	149	-

	Net income per share, (basic)	Net income per share, (diluted)
	Yen	Yen
Year ended Dec. 31, 2012	(4,107.90)	-
Year ended Dec. 31, 2011	65.43	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2012	97,523	66,718	68.4	29,119.82
As of Dec. 31, 2011	112,881	76,050	67.4	33,192.82

Reference: Shareholders' equity (million yen) As of Dec. 31, 2012: 66,718 As of Dec. 31, 2011: 76,050

* 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 2013)."

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, 2013. Materials to be distributed at this event will be available on the Company's website immediately thereafter.

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1. Results of Operations

In 2012, there were signs of an economic recovery in Japan mainly because of growing public-works expenditures for earthquake recovery projects and solid consumer spending. However, slowing global economic growth caused by debt problems in Europe, falling exports from Japan due to tension with China and other events made the overall economic situation uncertain.

In the real estate services and real estate finance sectors, where the Kenedix Group operates, there were indications of a rebound in Japan's real estate market. One reason was support from the Bank of Japan, such as the establishment of funds for the purchase of assets that include J-REITs. There were also substantial property acquisitions in association with J-REIT IPOs and J-REIT stock offerings. A decline in the average vacancy rate for office buildings was another positive sign.

To respond with flexibility to rapid changes in the operating environment, the Group has been making steady progress with three initiatives in the medium-term management plan that started in 2009: (1) increasing assets under management (AUM), (2) downsizing the balance sheet, and (3) building a stable profit structure.

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.

(1) Analysis of Results of Operations

a. Summary of the fiscal year

In 2012, Kenedix worked on increasing AUM while responding with speed and accuracy to the rapid changes in market conditions. One highlight was the listing of the first new J-REIT in four and a half years: Kenedix Residential Investment Corporation. In addition, the Group added to its AUM an office building in Uchisaiwaicho in Tokyo's Chiyoda-ku, the largest single property under management in the Group's history, and added properties under development in the logistics sector, where demand for facilities is increasing because of the ongoing shift in the structure of retailing in Japan. There were also substantial sales of properties under management. As a result, the Group's AUM as of December 31, 2012 totaled 1,117.7 billion yen, 0.6% more than one year earlier.

Regarding the financial position, proceeds from sales of properties held in principal accounts were used to repay loans. Additionally, loans that were refinanced have lower interest rates and other improvements in their terms. These actions reduced interest expenses by 29.2% from 2011 to 1,147 million yen and produced other benefits that reduced financial expenses and strengthened the Group's financial soundness.

Extraordinary losses totaled 12,386 million yen. Major components of these losses are a 3,827 million yen loss on liquidation of subsidiaries and affiliates due to the sale of an investment in a silent partnership, a 3,223 million yen impairment loss for properties held in principal accounts, and a 2,634 million yen loss on valuation of investment securities primarily for specified bonds secured by real estate.

In 2012, consolidated revenue was up 7.5% from 2011 to 20,957 million yen, operating income decreased 15.8% to 5,837 million yen, ordinary income decreased 5.5% to 2,328 million yen and net loss was 10,128 million yen compared with net income of 1,313 million yen in 2011.

The following section explains performance by business segments.

1) Asset Management Business

In the asset management business, asset management fees were stable and there was an increase in acquisition fees because of the addition to AUM of a large Tokyo office building in Uchisaiwaicho, Chiyoda-ku and the listing of Kenedix Residential Investment Corporation. The result was an increase of 1,474 million yen, or 25.5%, in revenue to 7,246 million yen and a 27.7% increase in operating income to 4,185 million yen.

The asset management business is positioned as the primary source of the Group's revenue and earnings. In 2012, operating income of this business accounted for 63.8% of total segment operating income compared with 43.2% in 2011. This increase demonstrates the steady progress the Group is making toward building a stable profit structure.

2) Real Estate Investment Business

In the real estate investment business, there was leasing revenue from properties held in principal accounts as inventory and revenue from bulk sales of properties. However, there was a valuation loss of inventories of 1,220 million yen resulting from using the mark-to-market method. Consequently, revenue decreased 16.1% to 5,682 million yen and there was an operating loss of 782 million yen compared with operating income of 1,396 million yen in 2011.

3) Real Estate Leasing Business

In the real estate leasing business, there was consistent leasing revenue from properties held in principal accounts that are classified as fixed assets because the properties are long-term holdings. In addition, there were sales of properties held in principal accounts as part of measures to downsize the balance sheet. The result was a 13.3% increase in revenue to 8,880 million yen and an 8.3% increase in operating income to 3,155 million yen.

b. Outlook for 2013

Kenedix expects revenue of 16,800 million yen, operating income of 4,550 million yen, ordinary income of 2,900 million yen and net income of 1,000 million yen in 2013. Kenedix plans to use the new funds generated from measures to improve financial soundness for increasing earnings from same-boat investments with client real estate investors. Another goal is more growth in the asset management business by continuing to increase AUM, which will raise stable sources of revenue.

(2) Analysis of Financial Position

Balance Sheet Position

Total assets were 126,270 million yen as of December 31, 2012, 64,155 million yen less than as of December 31, 2011. This was mainly because of sale of properties held in principal accounts.

Total liabilities decreased 48,791 million yen to 70,199 million yen. This decrease was mainly attributable to the repayment of loans by using proceeds from sales of properties held in principal accounts. Furthermore, loans were refinanced in order to extend the length of loans and other actions were taken to improve financial soundness.

Net assets decreased 15,364 million yen to 56,071 million yen mainly because of net loss and the decline in minority interests in association with the sale of investments in silent partnerships. The equity ratio increased significantly, rising to 40.2% from 32.0% at the end of December 2011.

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.

Reference: Cash flow indicators

(Millions of yen)

	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012
Interest-bearing debt (1)	153,038	123,625	109,767	63,623
(Non-recourse loans included) (2)	(68,419)	(69,764)	(60,444)	(21,640)
Net assets (3)	54,525	71,147	71,435	56,071
Cash and deposits (4)	18,291	10,913	7,706	13,813
Net debt (5) ((1)-(2)-(4))	66,327	42,947	41,617	28,168
Net debt-equity ratio net of non-recourse loans (5)/(3) (%)	121.6	60.4	58.3	50.2

Cash Flows

Operating activities provided net cash of 10,545 million yen, investing activities provided net cash of 31,276 million yen and financing activities used net cash of 37,108 million yen. The result was a net increase of 4,856 million yen in cash and cash equivalents during 2012 to 14,452 million yen as of the end of December 2012.

Operating Activities

Net cash provided by operating activities increased 70.6% year on year to 10,545 million yen. This was mainly attributable to the decrease in inventories of 5,353 million yen and the decrease in silent partnership of 2,193 million yen.

Investing Activities

Net cash provided by investing activities increased 451.2% year on year to 31,276 million yen. This was mainly attributable to the proceeds of 34,509 million yen from sales of property and equipment in association with sales of properties held in principal accounts.

Financing Activities

Net cash used in financing activities increased 156.6% year on year to 37,108 million yen. The main use of cash was loan repayments that were funded by proceeds from sales of properties held in principal accounts.

(3) Basic Policy for Allocation of Earnings and Dividend for 2012 and 2013

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 2012, there was a consolidated net loss of 10.1 billion yen because of extraordinary losses of 12.3 billion yen resulting primarily from sales of owned real estate. Because of the results of operations, the Company has decided to make no dividend payment for 2012.

Furthermore, no decision has been made at this time concerning the resumption of a dividend payment in 2013. The Company is determined to use the medium-term management plan announced in February 2013 to build a profit structure that can be consistently profitable in order to resume dividend payments and increase the dividend payout ratio.

In accordance with the Articles of Incorporation, the year-end dividend payment requires the approval of a resolution at the ordinary general meeting of shareholders but the interim dividend, which has a record date of June 30, can be paid by a resolution of the Board of Directors. However, due to the current need to increase retained earnings, there was no interim dividend in 2012. Kenedix plans to pay only a year-end dividend that reflects consolidated results of operations.

(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 established a medium-term management plan in February 2013 that covers the three-year period from 2013 to 2015. Based on this plan, the Group is aiming at: (1) strengthen the stable base for earnings by increasing assets under management (AUM), (2) raise investment returns by making extensive use of co-investments, (3) strengthen the asset management business and build an operating framework that may include M&A and other new activities in the future, and (4) resume dividend payments by no later than 2015, the medium-term management plan's final year. The Group will take numerous actions aimed at achieving the goals of the 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 expand 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., 57 subsidiaries and 25 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 “Segment Information.”

(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 investment opportunities concerning real estate, loans backed by 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.

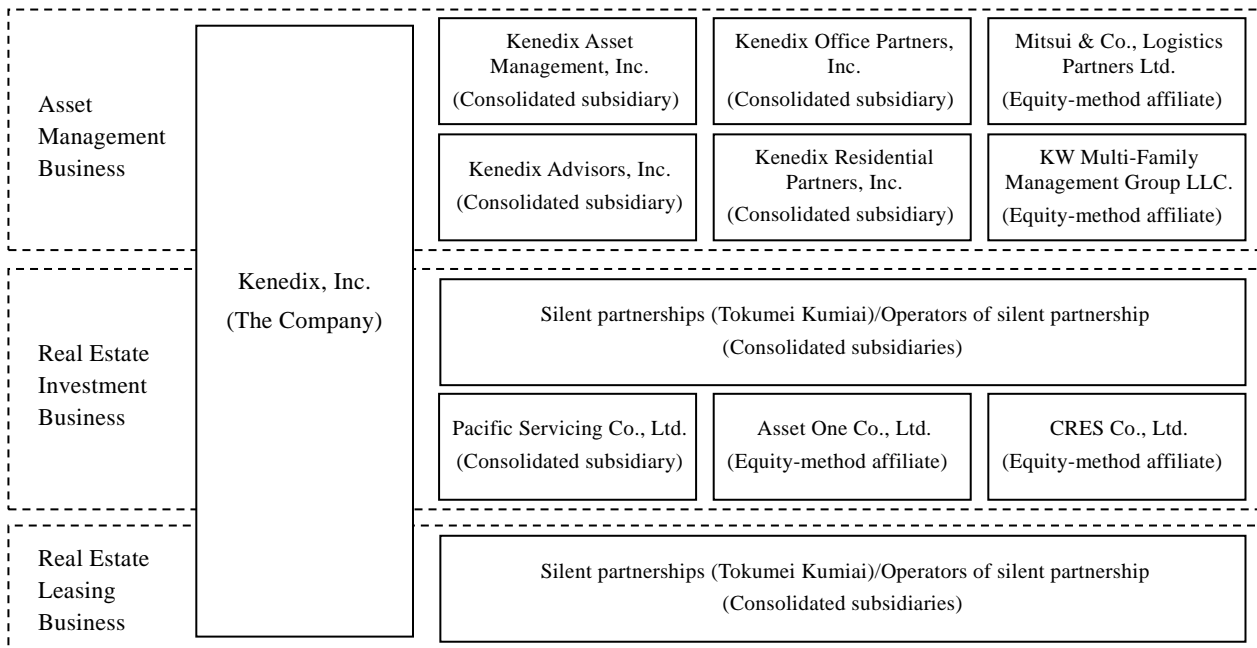
5) Gain/loss on sales and collection of acquired NPL

- 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 focus on the core asset management business in order to maintain the stability of business operations. To accomplish this goal, the most important performance indicator is assets under management (AUM). The Group is dedicated to increasing corporate value through the growth of AUM.

(3) Medium- and Long-term Management Strategy

The Group began a real estate asset management business just as Japan's real estate securitization market was emerging. Since then, the Group has been responding with flexibility to numerous events, notably the sudden downturn in market conditions caused by the global financial crisis. The Group remains committed to providing high-quality real estate asset management services that can contribute to the further advancement of the real estate investment market in Japan as well as raise the value of real estate.

The Group has established a medium-term management plan in February 2013 that covers the three-year period from 2013 to 2015. The plan has the following main objectives in order to make the Kenedix Group one of the leaders in the real estate investment market

- Strengthen the stable base for earnings by increasing assets under management (AUM)
- Raise investment returns by making extensive use of co-investments
- Strengthen the asset management business and build an operating framework that may include M&A and other new activities in the future
- Resume dividend payments by no later than 2015, the new plan's final year.

(4) Important Management Issues

In 2012, there were signs of an upturn in Japan's real estate market. One positive development was the listings of a number of J-REITs including Kenedix Residential Investment Corporation, which is managed by Kenedix Residential Partners, Inc. The Group views these changes in its operating environment as an excellent opportunity and is aggressively using AUM growth to create more opportunities for earning fee income. By using the following initiatives, the Group aims to strengthen its core asset management business.

(1) Strengthen the stable base for earnings by increasing AUM

- Support the growth of Kenedix-affiliated J-REITs: Kenedix Realty Investment Corporation, Kenedix Residential Investment Corporation and Japan Logistics Fund, Inc.
- Strengthen capabilities for private funds, primarily development funds, bridge funds for REITs, and opportunity funds
- Reinforce activities involving operational assets (healthcare facilities, retail facilities, hotels and other properties)

(2) Raise investment returns by making extensive use of co-investments

- Use the Equity Investment Department, which was established in October 2012, to actively increase principal investment and upgrade monitoring of these investments
- Use co-investments with client investors to invest in development projects (built-to-suit logistics facilities, residential properties, healthcare facilities and other properties)
- Use co-investments with client investors to invest in bridge funds for REITs
- Use co-investments with client investors to invest in opportunity funds
- Make investments by Kenedix alone while maintaining the proper balance with co-investments

(3) Establishment of other operating frameworks

- Established the Investor Development Team in January 2013 to increase the ability to form relationships with new investors
- Build a framework for using capital in Japan for overseas real estate investments
- Seek opportunities for strategic acquisitions and other activities that can increase Kenedix shareholder value

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)*

	FY2011 (As of Dec. 31, 2011)	FY2012 (As of Dec. 31, 2012)
Assets		
Current assets		
Cash and deposits	7,706	13,813
Deposits held in trust	2,375	827
Accounts receivable-trade	2,041	1,505
Real estate for sale	15,306	9,953
Acquired non-performing loans	1,587	1,628
Income taxes refundable	380	733
Deferred tax assets	61	41
Other	1,207	319
Allowance for doubtful accounts	(506)	(286)
Total current assets	30,161	28,536
Fixed assets		
Property and equipment		
Buildings and structures	57,245	29,842
Accumulated depreciation	(2,587)	(2,686)
Buildings and structures, net	54,658	27,156
Land	82,927	53,721
Other	241	157
Accumulated depreciation	(120)	(98)
Other, net	120	59
Total property and equipment	137,707	80,937
Intangible assets		
Goodwill	117	105
Other	48	65
Total intangible assets	165	170
Investments and other assets		
Investment securities	16,524	12,316
Investment in capital	422	360
Long-term loans receivable	548	548
Deferred tax assets	472	256
Other	4,624	3,480
Allowance for doubtful accounts	(201)	(337)
Total investment and other assets	22,391	16,625
Total fixed assets	160,264	97,733
Total assets	190,426	126,270

	<i>(Millions of yen)</i>	
	FY2011	FY2012
	(As of Dec. 31, 2011)	(As of Dec. 31, 2012)
Liabilities		
Current liabilities		
Accounts payable-trade	492	134
Short-term borrowings	6,489	2,192
Long-term borrowings-due within one year	32,121	16,552
Corporate bonds-due within one year	300	19
Accrued income taxes	520	412
Other	1,741	1,543
Total current liabilities	41,665	20,855
Long-term liabilities		
Bonds payable	1,600	3,428
Long-term borrowings	69,256	41,429
Deferred tax liabilities	1,564	1,156
Allowance for employees' retirement benefits	65	83
Long-term lease deposited	4,472	3,012
Other	364	233
Total long-term liabilities	77,324	49,343
Total liabilities	118,990	70,199
Net assets		
Shareholders' equity		
Common stock	31,322	31,322
Additional paid-in capital	31,581	31,581
Retained earnings	(1,289)	(11,593)
Total shareholders' equity	61,613	51,310
Accumulated other comprehensive income		
Net unrealized holding gains/losses on other securities	(206)	(57)
Foreign currency translation adjustments	(490)	(429)
Total accumulated other comprehensive income	(696)	(486)
Minority interests in consolidated subsidiaries	10,518	5,247
Total net assets	71,435	56,071
Total liabilities and net assets	190,426	126,270

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income**Consolidated Statements of Income***(Millions of yen)*

	FY2011 (Jan. 1, 2011 – Dec. 31, 2011)	FY2012 (Jan. 1, 2012 – Dec. 31, 2012)
Revenue	19,486	20,957
Cost of revenue	8,876	11,556
Gross profit	10,609	9,401
Total selling, general and administrative expenses	3,678	3,563
Operating income	6,931	5,837
Non-operating income		
Interest income	51	26
Consumption taxes differential (after being offset by suspense payments and receipt)	217	98
Refunded consumption taxes	263	-
Other	178	134
Total non-operating income	711	259
Non-operating expenses		
Interest expense	3,929	2,782
Commissions paid	324	811
Equity in losses of non-consolidated subsidiaries and affiliates	720	146
Other	201	28
Total non-operating expenses	5,177	3,768
Ordinary income	2,464	2,328
Extra-ordinary income		
Reversal of allowance for doubtful accounts	114	-
Gain on sale of fixed assets	364	741
Gain on sale of investment securities	25	179
Other	32	4
Total extra-ordinary income	537	925
Extra-ordinary losses		
Loss on sale of investment securities	191	1,221
Loss on valuation of investment securities	113	2,634
Loss on sale of fixed assets	-	1,287
Loss on disaster	277	-
Impairment loss	83	3,223
Loss on liquidation of subsidiaries and affiliates	-	3,827
Other	41	193
Total extra-ordinary losses	707	12,386
Income (loss) before income taxes and profit distribution from silent partnerships	2,294	(9,132)
Profit distribution from silent partnerships	0	0
Income (loss) before provision for income taxes	2,294	(9,132)
Current income taxes	780	891
Deferred income taxes	(286)	(203)
Total income taxes	494	688
Income (loss) before minority interests	1,799	(9,821)
Minority interests in income	486	306
Net income (loss)	1,313	(10,128)

Consolidated Statements of Comprehensive Income*(Millions of yen)*

	FY2011 (Jan. 1, 2011 – Dec. 31, 2011)	FY2012 (Jan. 1, 2012 – Dec. 31, 2012)
Income (loss) before minority interests	1,799	(9,821)
Other comprehensive income		
Net unrealized holding gains/losses on other securities	(152)	161
Foreign currency translation adjustments	(332)	60
Share of other comprehensive income of associates accounted for using equity method	(0)	0
Total other comprehensive income	(485)	221
Comprehensive income	1,314	(9,599)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	858	(9,918)
Comprehensive income attributable to minority interests	455	318

(3) Consolidated Statements of Changes in Net Assets*(Millions of yen)*

	FY2011 (Jan. 1, 2011 – Dec. 31, 2011)	FY2012 (Jan. 1, 2012 – Dec. 31, 2012)
Shareholders' equity		
Common stock		
Balance at the beginning of current period	31,322	31,322
Balance at the end of current period	31,322	31,322
Additional paid-in capital		
Balance at the beginning of current period	31,581	31,581
Balance at the end of current period	31,581	31,581
Retained earnings		
Balance at the beginning of current period	(2,594)	(1,289)
Changes of items during the period		
Net income (loss)	1,313	(10,128)
Change of scope of consolidation	(8)	(175)
Total changes of items during the period	1,305	(10,303)
Balance at the end of current period	(1,289)	(11,593)
Total shareholders' equity		
Balance at the beginning of current period	60,308	61,613
Changes of items during the period		
Net income (loss)	1,313	(10,128)
Change of scope of consolidation	(8)	(175)
Total changes of items during the period	1,305	(10,303)
Balance at the end of current period	61,613	51,310
Accumulated other comprehensive income		
Net unrealized holding gains/losses on other securities		
Balance at the beginning of current period	(84)	(206)
Changes of items during the period		
Net changes of items other than shareholders' equity	(122)	149
Total changes of items during the period	(122)	149
Balance at the end of current period	(206)	(57)
Foreign currency translation adjustments		
Balance at the beginning of current period	(157)	(490)
Changes of items during the period		
Net changes of items other than shareholders' equity	(332)	60
Total changes of items during the period	(332)	60
Balance at the end of current period	(490)	(429)
Total accumulated other comprehensive income		
Balance at the beginning of current period	(242)	(696)
Changes of items during the period		
Net changes of items other than shareholders' equity	(454)	209
Total changes of items during the period	(454)	209
Balance at the end of current period	(696)	(486)

(Millions of yen)

	FY2011 (Jan. 1, 2011 – Dec. 31, 2011)	FY2012 (Jan. 1, 2012 – Dec. 31, 2012)
Minority interests		
Balance at the beginning of current period	11,080	10,518
Changes of items during the period		
Net changes of items other than shareholders' equity	(562)	(5,270)
Total changes of items during the period	(562)	(5,270)
Balance at the end of current period	10,518	5,247
Total net assets		
Balance at the beginning of current period	71,147	71,435
Changes of items during the period		
Net income (loss)	1,313	(10,128)
Change of scope of consolidation	(8)	(175)
Net changes of items other than shareholders' equity	(1,016)	(5,060)
Total changes of items during the period	288	(15,364)
Balance at the end of current period	71,435	56,071

(4) Consolidated Statements of Cash Flows*(Millions of yen)*

	FY2011 (Jan. 1, 2011 – Dec. 31, 2011)	FY2012 (Jan. 1, 2012 – Dec. 31, 2012)
Operating activities		
Income (loss) before provision for income taxes	2,294	(9,132)
Depreciation and amortization	1,350	1,392
Increase (decrease) in allowance for doubtful accounts	242	(84)
Loss on liquidation of subsidiaries and affiliates	-	3,827
Interest income	(51)	(26)
Interest expense	3,929	2,782
Equity in (earnings) losses of non-consolidated subsidiaries and affiliates	720	146
Loss (gain) on sales of fixed assets	(364)	545
Loss (gain) on sales of investment securities	165	1,042
Loss (gain) on valuation of investment securities	113	2,634
Impairment loss	83	3,223
Loss on disaster	277	-
Decrease (increase) in notes and accounts receivable-trade	(560)	372
Increase (decrease) in notes and accounts payable-trade	144	(223)
Decrease (increase) in inventories	1,984	5,353
Decrease (increase) in acquired non-performing loans	30	(40)
Decrease (increase) in silent partnership	869	2,193
Other, net	772	586
Subtotal	12,003	14,591
Interests and dividends received	97	53
Interests paid	(4,395)	(2,640)
Payments for loss on disaster	(166)	(106)
Income taxes paid	(1,675)	(1,731)
Income taxes refund	318	378
Net cash provided by operating activities	6,181	10,545
Investing activities		
Payment for purchase of property and equipment	(1,106)	(547)
Proceeds from sale of property and equipment	6,959	34,509
Payment for purchase of intangible assets	(7)	(18)
Proceeds from repayment of loans receivable	336	-
Payment for purchase of investment securities	(106)	(2,876)
Payment for purchase of stocks of subsidiaries and affiliates	(1,076)	(600)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	-	(19)
Other, net	676	828
Net cash provided by investing activities	5,674	31,276

(Millions of yen)

	FY2011 (Jan. 1, 2011 – Dec. 31, 2011)	FY2012 (Jan. 1, 2012 – Dec. 31, 2012)
Financing activities		
Increase (decrease) in short-term borrowings	(1,088)	(4,296)
Proceeds from long-term borrowings	29,286	29,420
Repayment of long-term borrowings	(35,687)	(61,365)
Proceeds from issuance of bonds	1,498	1,940
Payment for redemption of bonds	(8,266)	(411)
Proceeds from minority interests	3	18
Dividends to minority interests	(48)	(91)
Distributions to minority interests	(364)	(1,617)
Other, net	206	(705)
Net cash used in financing activities	(14,461)	(37,108)
Effect of exchange rate changes on cash and cash equivalents	(314)	(24)
Increase (decrease) in cash and cash equivalents	(2,919)	4,689
Cash and cash equivalents at beginning of period	12,616	9,595
Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	(101)	167
Cash and cash equivalents at end of period	9,595	14,452

Segment Information

FY2011 (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

FY2012 (Jan. 1, 2012– Dec. 31, 2012)

(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	7,246	5,682	8,880	(852)	20,957
Segment operating income	4,185	(782)	3,155	(720)	5,837
Segment assets	5,648	24,441	87,608	8,571	126,270