Notes to the Consolidated Financial Statements

Notes to Significant Matters Providing the Basis for the Preparation of Consolidated Financial Statements

1. Matters concerning the scope of consolidation
   (1) Number of consolidated subsidiaries: 51
      Names of principal consolidated subsidiaries
      Kenedix Asset Management, Inc.
      Kenedix Advisors, Inc.
      Kenedix Office Partners, Inc.
      Kenedix Residential Partners, Inc.
      Kenedix Development, Inc.
      Pacific Servicing Co., Ltd.
      Kenedix Westwood, LLC
      Kenedix GP, LLC
      43 other subsidiaries

   (2) Names of principal non-consolidated subsidiaries
      Kenedix Master Tk, LLC
      KRF40, LLC and 4 other subsidiaries
      In accordance with Article 63, Paragraph 1, Item 2 of the Ordinance on Company Accounting, 2 non-consolidated subsidiaries including Kenedix Master Tk, LLC were excluded from the scope of consolidation, as they are principally the operators of silent partnership contracts and the value of their assets and gains or losses attributable to the Group was effectively small.
      In addition, 4 non-consolidated subsidiaries including KRF40, LLC were excluded from the scope of consolidation, as they are small-scale businesses with none of their combined total assets, net sales, net income or loss (amounts equivalent to the Company’s interests in these subsidiaries) or retained earnings (amounts equivalent to the Company’s interests in these subsidiaries) having material impact on the Consolidated Financial Statements.

   (3) Matters concerning changes in the scope of consolidation
      From the fiscal year under review, Kenedix Residential Partners, Inc. has been included in the scope of consolidation due to an increase in its significance.
      Meanwhile, from the fiscal year under review, the following companies which were the Group’s consolidated subsidiaries in the previous fiscal year have been excluded from the scope of consolidation: Human Asset No. 2 Silent Partnership and 3 other companies due to the termination of their silent partnership contracts; Y.K. KW Property 8 and 4 other companies following the completion of their liquidations; and Silver Wave Silent Partnership and 2 other companies as a result of the transfer of the entire equity interests in them.

   (4) Matters concerning accounting periods of consolidated subsidiaries
      Of the consolidated subsidiaries, 18 subsidiaries employed different accounting closing dates from that of the Consolidated Financial Statements but their closing dates do not deviate from the consolidated closing date by more than three months. For these subsidiaries, the Consolidated Financial Statements applied their financial statements as of the respective closing dates.
      Additionally, for 21 consolidated subsidiaries, the Consolidated Financial Statements applied their provisional financial statements closed on either the consolidated closing date or a specific date within three months of the consolidated closing date.
      For any of them, appropriate adjustments were made for significant transactions that arose between the relevant closing dates and the consolidated closing date.

2. Matters concerning application of the equity method
   (1) Non-consolidated subsidiaries accounted for under the equity method
      There are no non-consolidated subsidiaries accounted for under the equity method.

   (2) Affiliates accounted for under the equity method
      Number of affiliates accounted for under the equity method: 25
      Names of principal affiliates accounted for under the equity method
      Mitsui & Co., Logistics Partners Ltd.
      Asset One Co., Ltd.
      CRES Co., Ltd.
      KW Multi-Family Management Group, LLC
      Touchstone Holdings Co., Ltd.
      20 other affiliates
(3) Principal non-consolidated subsidiaries not accounted for under the equity method

Kenedix Master Tk, LLC
KRF40, LLC and 4 other subsidiaries

In accordance with Article 69, Paragraph 1, Item 2 of the Ordinance on Company Accounting, 2 non-consolidated subsidiaries not accounted for under the equity method including Kenedix Master Tk, LLC were excluded from the scope of application of the equity method, as they are principally the operators of silent partnership contracts and the value of their assets and gains or losses attributable to the Group was effectively small.

In addition, 4 non-consolidated subsidiaries not accounted for under the equity method including KRF40, LLC were excluded from the scope of application of the equity method because the impact of each of their net income or loss (amounts equivalent to the Company’s interests in these subsidiaries) and retained earnings (amounts equivalent to the Company’s interests in these subsidiaries), etc. were little and these subsidiaries, as a whole, were insignificant.

(4) Matters concerning changes in the scope of application of the equity method

From the fiscal year under review, the following companies which were affiliates accounted for under the equity method until the end of the previous fiscal year have been excluded from the scope of application of the equity method: Fairy Castle One Silent Partnership and 1 other company due to the termination of their silent partnership contracts; Ichiro 4 Specific Purpose Company and 10 other companies following the completion of their liquidations; Wonderland Six Silent Partnership and 5 other companies as a result of the transfer of the entire equity interests in them; and MAX-REALTY as its influence on the Consolidated Financial Statements has become effectively insignificant.

(5) Accounting for affiliates accounted for under the equity method employing different accounting closing dates

Of the affiliates accounted for under the equity method, 2 affiliates employed different accounting closing dates from that of the Consolidated Financial Statements, but the Consolidated Financial Statements applied their financial statements as of the respective closing dates.

Additionally, in respect of the financial statements of 17 affiliates accounted for under the equity method, the Consolidated Financial Statements applied their provisional financial statements closed on either the consolidated closing date or a specific date.

For any of them, appropriate adjustments were made for significant transactions that arose between the relevant closing dates and the consolidated closing date.

3. Matters concerning accounting standards

(1) Evaluation standards and methods for principal assets

1) Marketable securities

Other securities

Securities with market quotations

Stated at market value at the accounting closing date
(Unrealized gains or losses are comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.)

Securities without market quotations

Stated at cost by the moving-average method

However, investments in silent partnership are stated on an individual specified cost basis. The details are described in "(8) Accounting method for investments in silent partnerships."

2) Derivatives

Market value method

3) Inventories

Real estate for sale (including real-estate trust beneficiary rights)

Primarily stated at cost on an individual specified cost basis (the balance sheet value is computed by the method of devaluing book price to reflect declines in profitability). Real estate for sale, except those acquired temporarily for the purpose of incorporating in funds structured by the Group, is written off and the depreciation is recorded as cost of revenue. Useful lives of these assets are in general 12-36 years.
(2) Depreciation and amortization method for principal depreciable assets

1) Property and equipment (excluding lease assets)

   * Straight-line method
   * However, some consolidated subsidiaries employ the declining balance method.
   * Useful lives of principal property and equipment are as follows.
     - Buildings and structures: 11-50 years
     - Others (furniture and fixtures): 5-15 years

2) Intangible assets (excluding lease assets)

   * The costs for software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method.

3) Lease assets

   * Lease assets are depreciated by the straight-line method over the lease period without residual value.

4) Long-term prepaid expenses

   * Straight-line method

(3) Accounting method for deferred assets

Bond issuance cost

   * These costs are fully charged to income when they are paid.

(4) Recognition of significant allowances

1) Allowance for doubtful accounts

   * To provide for potential loss on loans, the Group records an allowance for the expected amount of irrecoverable loans. Allowances for ordinary receivables are computed based on the historical rate of default. Allowances for acquired non-performing loans and highly doubtful accounts including receivables where the collection is at risk, consist of the individually estimated uncollectible amounts.

2) Allowance for employees’ retirement benefits

   * To provide for the payment of employees’ retirement benefits, the Group records an allowance for estimated retirement benefits, based on the projected retirement benefit obligations as of the end of the fiscal year under review.

(5) Accounting standards for the translation of principal foreign currency-denominated assets and liabilities into Japanese yen

Foreign currency-denominated monetary claims and obligations are translated into Japanese yen, using the spot exchange rates on the consolidated closing date, and the resulting translation gains and losses are recognized as income and expenses. Assets, liabilities, income and expenses of overseas subsidiaries are translated into Japanese yen using the spot exchange rates on the consolidated closing date, and the resulting translation gains and losses are recorded as foreign currency translation adjustments under the net assets section.

(6) Hedge accounting method

1) Hedge accounting method

   * The Group adopts the deferred hedge accounting. However, exceptional accounting treatments are applied to certain interest-rate swaps which meet the requirement of exceptional accounting treatment.

2) Hedging instruments and hedging items

   - Hedging instruments: Interest-rate swap agreements
   - Hedging items: Borrowings

3) Hedging policy

   * Based on the internal rules that stipulate the authority concerning derivatives transactions and other regulations, the Group mitigates the risk of interest rate fluctuations associated with the hedging items to a defined level.

4) Method for evaluating hedging effectiveness

   * Hedging effectiveness is basically measured by comparing the accumulated changes in cash flow of the hedging items with those of the hedging instruments. However, for those to which the exceptional accounting treatments are applicable, the evaluation of hedging effectiveness is omitted.

(7) Accounting method for consumption tax

Transactions subject to consumption tax are recorded at the amount exclusive of consumption tax. However, consumer tax and other taxes imposed on non-tax-deductible assets are recorded as an expense for the fiscal year when they were incurred.

(8) Accounting method for investments in silent partnerships

For the investment in a silent partnership, the Group recognizes the equivalent amount of its interest in the assets of the relevant partnership as “investment securities.” The Group records “investment securities” when it makes an investment in a silent partnership. The Group records the equivalent amount of interests in a net gain or loss made by the relevant partnership (including silent partnerships which are affiliates of the Company) as “revenue” or “cost of revenue,” while the same amount is either added to or deducted from “investment securities.” Redemption of the investment from an operator is recorded by deducting the redeemed amount from “investment securities.”

(9) Accounting method for deposits of investments in silent partnerships

The Company’s consolidated subsidiaries are operators of silent partnerships and commissioned to provide services related to the business. As assets of silent partnerships are attributed to operators, all the assets, as well as gains or losses made by the silent partnerships, are incorporated in the Consolidated Financial Statements and stated on a
Invested funds in silent partnerships are recorded as “other” under long-term liabilities when the Group receives these funds. The equivalent amount of the investors’ interests in net gains or losses made by the silent partnerships are recorded as “profit distribution to silent partnerships,” which is presented immediately above “loss before income taxes” on the Consolidated Statement of Income, while the same amount is either added to or deducted from “other” under long-term liabilities. Withdrawal of an investment is recorded by deducting the relevant amount from “other” under long-term liabilities.

Equity interests in silent partnerships which are consolidated subsidiaries of the Company, held by partners of the silent partnerships other than the Group companies are recognized as “minority interests” and profit distributed to such partners other than the Group companies is recorded as “minority interests.”

(10) Accounting method for trust beneficiary rights in real-estate trusts

For trust beneficiary rights in its real-estate trusts, all assets and liabilities with respect to the asset in trust, as well as income generated or expenses incurred with respect to the asset in trust, are recorded in relevant items on the Consolidated Balance Sheet and Consolidated Statement of Income.

(11) Accounting method for acquired non-performing loans

In collection of acquired non-performing loans, the Group subtracts the amount of collection from the acquisition cost of each relevant acquired non-performing loan and records the amount of collection in excess of the acquisition cost as revenue on a net amount basis.

(12) Accounting method and period for amortization of goodwill

Goodwill and negative goodwill recognized on and before March 31, 2010 are amortized using the straight-line method over the estimated effective period of their useful lives (generally 10 years). Goodwill with insignificant value is amortized in a lump sum for the fiscal year it was recognized.

4. Additional Information

(Application of the Accounting Standard for Accounting Changes and Error Corrections)

The Group adopted “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24, December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, December 4, 2009) for accounting changes and corrections of prior period errors which are made on and after the beginning of the fiscal year under review.

5. Changes in disclosure method

(Consolidated Statement of Income)

From the fiscal year under review, “dividends income” and “interest on refund” under non-operating income (16 million yen and 2 million yen, respectively, for the fiscal year under review), which were separately reported for the previous fiscal year, have been reported as components of “other” under non-operating income, as they have become insignificant.
Notes to Consolidated Balance Sheet (Millions of yen)

1. Accumulated depreciation of property and equipment 2,784

2. Assets pledged as collateral and collateralized liabilities
   (1) Assets pledged as collateral (Millions of yen)
   Cash and deposits 186
   Deposits held in trust 404
   Real estate for sale 780
   Buildings and structures 16,247
   Land 32,132
   Other under property and equipment 2
   Investment securities 2,878
   Other under investment and other assets 1,435

   (2) Collateralized liabilities (Millions of yen)
   Short-term borrowings 2,192
   Long-term borrowings — due within one year 13,294
   Long-term borrowings 13,114

   (3) Assets pledged as collateral for non-recourse debts
   1) Assets pledged as collateral (Millions of yen)
   Cash and deposits 2
   Deposits held in trust 375
   Real estate for sale 9,173
   Buildings and structures 9,996
   Land 21,268
   Other under property and equipment 0
   Other under investment and other assets 1,266

   2) Collateralized liabilities (Millions of yen)
   Long-term borrowings — due within one year 2,358
   Corporate bonds — due within one year 19
   Bonds payable 1,928
   Long-term borrowings 15,834

   The above liabilities represent the loans advanced to the Group’s 7 consolidated subsidiaries which own the assets pledged as collateral listed in the above 1). The repayment of these loans is limited to the amounts of their assets.

3. Guarantee liabilities
   The Group concluded an agreement to guarantee the rent obligations owed by Healthcare One, LLC and 3 other companies for 7 years, with a value not exceeding 796 million yen.
   Separately, the Group concluded an agreement to guarantee the rent obligations owed by Transam Alpha, LLC for 5 years, with a monthly value not exceeding 64 million yen.

Notes to Consolidated Statement of Changes in Net Assets
Matters concerning the class and total number of shares issued
Shares issued
Common stock 2,291,186 shares

Notes to Financial Instruments
1. Matters concerning the financial instruments
   (1) The Group’s policy for financial instruments
   The Group raises its necessary funds mainly through bank loans and bond issuance, while temporary idle funds are invested in low-risk financial assets. It conducts derivative contracts with the objective of avoiding risks as described below and does not engage in either speculative transactions or unusual trading of financial instruments whose market values widely fluctuate.

   (2) Details of financial instruments and associated risks
   Accounts receivable — trade and acquired non-performing loans, which are operating claims, are exposed to the clients’ credit risk. Income taxes refundable represent a refund of income taxes that is recovered in a short period of time. Investment securities consist in large part of investment units of real-estate investment trust and are exposed to the risk of market price fluctuations. Long-term loans receivable are loans advanced to trading partners, etc. and are exposed to the credit risk of the borrowers. Payment terms of accounts payable — trade and accrued income taxes, which are operating liabilities, are within 1 year. Borrowings and bonds payable are intended to finance the Group’s capital requirements particularly for investments and working capital. Repayment due dates for these liabilities are not longer than 5 years from the settlement dates. Part of them bears variable interest rates and is exposed to the risk of interest rate fluctuations, but the Group uses derivative transactions to hedge against the risk. The derivative transactions represent interest-rate swap agreements designed to hedge against the risk of fluctuations in interest rates on the borrowings. For details

(3) Risk management system for financial instruments

1) Management of credit risk (the risk that trading partners may default)
With regard to accounts receivable — trade and acquired non-performing loans, a department in charge regularly monitors principal trading partners’ financial conditions and manages payment dates and outstanding balances of each trading partner’s liabilities so that it can identify and mitigate the potential default of the trading partners at the earliest possible time, arising from the deterioration of their financial conditions or other factors. Further, with regard to long-term loans receivable, the Group regularly assesses major borrowers’ financial conditions, their purposes of loans, etc. both prior and subsequent to the accommodation of loans.

2) Management of market risk (the risk arising from fluctuations in foreign exchange rates, interest rates, etc.)
The Group uses interest-rate swap agreements to mitigate the risk of fluctuations in interest payments on its borrowings. With regard to investment securities, it regularly comprehends the movement in market values, market conditions, issuers’ financial conditions and other factors. The Group enters into derivative contracts with high credit rated domestic financial institutions only and therefore does not assume the risk of counterparty default on these contracts. Further, the execution and management of derivative transactions of the Group are conducted in accordance with the Group’s internal rules and require approval by a Director responsible for derivative transactions.

3) Management of liquidity risk associated with financing activities (the risk that the Group may fail to meet its obligations on due dates)
The Group manages the liquidity risk through the deployment of funding plans, which are formulated and updated on a timely basis by a department in charge based on reports submitted by each business unit, as well as by maintaining sufficient liquidity on hand at all times.

(4) Supplementary explanations on matters concerning market value of financial instruments
The market value of financial instruments is stated at either their prices as quoted in respective markets or, if no market quotations are available, reasonably estimated values. These estimated values incorporate variable factors, and therefore they may vary according to differently employed preconditions, etc.

2. Matters concerning the market value of financial instruments
The book value on the consolidated balance sheet and market value of financial instruments as of December 31, 2012 as well as the differences between these values are described below. Financial instruments whose market values appear to be extremely difficult to determine are not included in the table. (See (Note 2))

<table>
<thead>
<tr>
<th>Assets</th>
<th>Book value on the consolidated balance sheet</th>
<th>Market value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Cash and deposits</td>
<td>13,813</td>
<td>13,813</td>
<td></td>
</tr>
<tr>
<td>(2) Deposits held in trust</td>
<td>827</td>
<td>827</td>
<td></td>
</tr>
<tr>
<td>(3) Accounts receivable — trade</td>
<td>1,505</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts*1</td>
<td>(245)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Acquired non-performing loans</td>
<td>1,628</td>
<td>1,260</td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts*1</td>
<td>(40)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Income taxes refundable</td>
<td>1,587</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Investment securities</td>
<td>733</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Long-term loans receivable</td>
<td>548</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Accounts payable — trade</td>
<td>134</td>
<td>134</td>
<td></td>
</tr>
<tr>
<td>(2) Short-term borrowings</td>
<td>2,192</td>
<td>2,192</td>
<td></td>
</tr>
<tr>
<td>(3) Accrued income taxes</td>
<td>412</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Bonds payable (including corporate bonds — due within one year)</td>
<td>3,448</td>
<td>3,621</td>
<td>172</td>
</tr>
<tr>
<td>(5) Long-term borrowings (including long-term borrowings — due within one year)</td>
<td>57,982</td>
<td>57,976</td>
<td>5</td>
</tr>
</tbody>
</table>

| Derivative transaction*2                    | [44]                                       | [44]         |           |

*1 Allowance for doubtful accounts provided individually on these items is deducted.

*2 Receivables and payables incurred by derivative transactions are presented in net. Net payables are presented in brackets "[ ]".

(Note 1) Matters concerning the calculation method for the market value of financial instruments, and marketable securities

Assets
(1) Cash and deposits, (2) Deposits held in trust and (5) Income taxes refundable
These are recorded using book values as their market values approximate their book values because of their short-term maturities.
(3) Accounts receivable — trade
These are recorded using book values as their market values approximate their book values because of their short-
term maturities. For specific receivables to which the Group provides allowance for doubtful accounts on an
individual basis, the market value is measured by deducting an estimated irrecoverable amount (the amount of
allowance) from the relevant receivable.

(4) Acquired non-performing loans and (7) Long-term loans receivable
The market values of these assets are calculated by discounting the compound amount (i.e. the principal and
interest income), using an assumed rate applied to a similar type of new loan. For specific receivables to which the
Group provides allowance for doubtful accounts on an individual basis, the market value is measured by
deducting an estimated irrecoverable amount (the amount of allowance) from the relevant receivable.

(6) Investment securities
Stocks, etc. are recorded using stock exchange quoted prices.

Liabilities
(1) Accounts payable — trade, (2) Short-term borrowings and (3) Accrued income taxes
These are recorded using book values as their market values approximate their book values because of their short-
term maturities.

(4) Bonds payable (including corporate bonds — due within one year)
Those with variable interest rates are recorded using book values as their market values are deemed to
approximate their book values because their variable interest rates reflect the market prices and the Group’s credit
standing has not changed significantly since it implemented these bonds. For those with fixed interest rates, the
market value is estimated by discounting the compound amount (i.e. the principal and interest income), using an
assumed rate applied to a similar type of newly issued corporate bond.

(5) Long-term borrowings (including long-term borrowings — due within one year)
Those with variable interest rates are recorded using book values as their market values are deemed to
approximate their book values because their variable interest rates reflect the market prices and the Group’s credit
standing has not changed significantly since it implemented these borrowings. For those with fixed interest rates,
the market value is estimated by discounting the compound amount (i.e. the principal and interest income), using
an assumed rate applied to a similar type of newly made borrowings.

(6) Derivative transaction
This is recorded using prices quoted for the relevant derivatives by the respective contracting financial institutions.
Interest-rate swaps subject to exceptional accounting treatments are recognized together with their hedging items
(i.e. long-term borrowings), and therefore their market values are included in the values of the relevant long-term
borrowings.

(Note 2) Financial instruments whose market values appear to be extremely difficult to determine

<table>
<thead>
<tr>
<th>Item</th>
<th>Book value on the consolidated balance sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlisted shares, etc.*1</td>
<td>11,381</td>
</tr>
<tr>
<td>Investments in capital*2</td>
<td>360</td>
</tr>
<tr>
<td>Long-term security deposits*3</td>
<td>3,012</td>
</tr>
</tbody>
</table>

*1 The market values of unlisted shares, etc. are not included in (6) Investment securities, as they are not quoted on a stock exchange and it appears to be extremely difficult to determine their market values.

*2 The market value of investments in capital is not disclosed, as they are not quoted on a stock exchange and it appears to be extremely difficult to determine their market values.

*3 The market value of long-term security deposits deposited by the lessees of leasehold properties is not disclosed, as it appears to be extremely difficult to determine reasonable estimates of future cash flows because there are no market prices available and it is difficult to calculate the effective periods of deposits between the lessees’ move-in and move-out.

Notes to Real Estate for Rent, etc.

1. Matters concerning the status of real estate for rent, etc.
   Some of the Group’s consolidated subsidiaries own office buildings for rent in Tokyo and other areas.

2. Matters concerning the market value of real estate for rent, etc.
   (Millions of yen)
<table>
<thead>
<tr>
<th>Book value on the consolidated balance sheet</th>
<th>Market value as of Dec. 31, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>80,760</td>
<td>72,996</td>
</tr>
</tbody>
</table>

Notes: 1. The book value on the consolidated balance sheet was gained by deducting the accumulated depreciation and the accumulated impairment loss from the acquisition cost.

2. The market value as of Dec. 31, 2012 was based mainly on the appraised value of the real estate for rent made by an outside real-estate appraiser (including those adjusted using relevant indexes).
Notes to Tax Effect Accounting
1. Breakdown of major factors that caused deferred tax assets and liabilities
   (1) Deferred tax assets (current)  (Millions of yen)
      Provision of allowance for doubtful accounts in excess of tax allowance maximum 84
      Operating loss carried forward 8,724
      Loss on valuation of inventories 700
      Accrued business taxes 52
      Other 62
      Subtotal 9,624
      Valuation allowance (9,583)
      Deferred tax assets (current), net 41
   (2) Deferred tax assets (fixed)  (Millions of yen)
      Provision of allowance for doubtful accounts in excess of tax allowance maximum 124
      Loss on valuation of investment securities 1,103
      Depreciation in excess of tax allowance maximum 387
      Loss on valuation of inventories 390
      Dividend income from investment in silent partnerships 209
      Elimination of unrealized income 244
      Impairment loss 349
      Other 67
      Subtotal 2,876
      Valuation allowance (2,615)
      Offset with deferred tax liabilities (long-term) (4)
      Deferred tax assets (fixed), net 256
   (3) Deferred tax liabilities (long-term)  (Millions of yen)
      Valuation difference on investment securities 34
      Property and equipment corresponding to asset retirement obligations 20
      Reserve for advanced depreciation of replaced property 1,106
      Subtotal 1,160
      Offset with deferred tax assets (fixed) (4)
      Deferred tax liabilities (long-term), net 1,156

2. Breakdown of major factors that caused the significant differences between statutory tax rates and effective income tax rates after the adoption of tax effect accounting
   This is omitted as the Group reported loss before income taxes.

Notes to Per Share Information
1. Net assets per share 22,182.10 yen
2. Net loss per share 4,420.43 yen

Notes to Significant Subsequent Events
   Not applicable
Other Notes

Impairment loss

The Group recorded impairment loss on the following assets for the fiscal year under review.

<table>
<thead>
<tr>
<th>Principal use</th>
<th>Description of assets</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate for rent</td>
<td>Buildings and structures / Land</td>
<td>Tokyo, etc.</td>
</tr>
<tr>
<td>Idle assets</td>
<td>Land</td>
<td>Miyagi prefecture</td>
</tr>
</tbody>
</table>

The Group’s assets are generally grouped on an individual basis. Of the real estate for rent and idle assets, those with recoverable values that fell short of their book values were written down, and the reduced amounts were recorded as impairment loss under extraordinary loss.

The recoverable value was estimated based on the net realizable value and use value.

The net realizable value was set using its projected sale value, while the use value was computed by discounting future cash flows using a rate of 7%.

<table>
<thead>
<tr>
<th>(Amount of impairment loss)</th>
<th>(Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description of assets</td>
<td>Amount</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>1,130</td>
</tr>
<tr>
<td>Land</td>
<td>2,092</td>
</tr>
<tr>
<td>total</td>
<td>3,223</td>
</tr>
</tbody>
</table>

(Note) Fractions of figures stated in Notes to the Consolidated Financial Statements are rounded down.
Notes to the Non-consolidated Financial Statements

Notes to Significant Accounting Policies

1. Evaluation standards and methods for assets
   (1) Evaluation standards and methods for marketable securities
      Stocks of subsidiaries and affiliates: Stated at cost by the moving-average method.
      Other securities:
      - Securities with market quotations: Stated at market value at the accounting closing date.
        (Unrealized gains or losses are comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.)
      - Securities without market quotations: Stated at cost by the moving-average method.
        However, investments in silent partnership are stated on an individual specified cost basis. The details are described in “7. Accounting method for investments in silent partnerships.”
   (2) Evaluation standards and methods for derivatives
      Market value method

2. Depreciation methods for fixed assets
   (1) Property and equipment (excluding lease assets)
      Straight-line method
      Useful lives of principal property and equipment are as follows.
      - Buildings: 6-15 years
      - Tools, furniture and fixtures: 5-15 years
   (2) Intangible assets (excluding lease assets)
      The costs for software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method.
   (3) Lease assets
      Lease assets are depreciated by the straight-line method over the lease period without residual value.
   (4) Long-term prepaid expenses
      Straight-line method

3. Recognition of allowances
   (1) Allowance for doubtful accounts
      To provide for potential loss on loans, the Company records an allowance for the expected amount of irrecoverable loans. Allowances for ordinary receivables are computed based on the historical rate of default. Allowances for acquired non-performing loans and highly doubtful accounts including receivables where the collection is at risk, consist of the individually estimated uncollectible amounts.
   (2) Allowance for employees’ retirement benefits
      To provide for the payment of employees’ retirement benefits, the Company records an allowance for estimated retirement benefits, based on the projected retirement benefit obligations as of the end of the fiscal year under review.

4. Accounting standards for the translation of foreign currency-denominated assets and liabilities into Japanese yen
   Foreign currency-denominated monetary claims and obligations are translated into Japanese yen, using the spot exchange rates on the accounting closing date, and the resulting translation gains and losses are recognized as income and expenses.

5. Hedge accounting method
   (1) Hedge accounting method
      The Company adopts the deferred hedge accounting.
      However, exceptional accounting treatments are applied to certain interest-rate swaps which meet the requirement of exceptional accounting treatment.
   (2) Hedging instruments and hedging items
      1) Hedging instruments: Interest-rate swap agreements
      2) Hedging items: Borrowings
   (3) Hedging policy
      Based on the internal rules that stipulate the authority concerning derivatives transactions and other regulations, the Company mitigates the risk of interest rate fluctuations associated with the hedging items to a defined level.
   (4) Method for evaluating hedging effectiveness
      Hedging effectiveness is basically measured by comparing the accumulated changes in the cash flow of the hedging items with those of the hedging instruments. However, for those to which the exceptional accounting treatments are applicable, the evaluation of hedging effectiveness is omitted.

6. Accounting method for consumption tax
   Transactions subject to consumption tax are recorded at the amount exclusive of consumption tax. However, consumer tax and other taxes imposed on non-tax-deductible assets are recorded as an expense for the fiscal year when they were incurred.
7. Accounting method for investments in silent partnerships
For the investment in a silent partnership, the Company recognizes the equivalent amount of its interest in the assets of the relevant partnership as “money invested in real estate for sale” under current assets, “investment securities” and “other securities of subsidiaries and affiliates” under investment and other assets. The Company records such asset items when it makes an investment in a silent partnership. The Company records the equivalent amount of its interest in the relevant partnership as revenue or cost of revenue, while the same amount is either added to or deducted from such asset items. Redemption of the investment from an operator is recorded by deducting the redeemed amount from such asset items.

8. Accounting method for acquired non-performing loans
In collection of acquired non-performing loans, the Company subtracts the amount of collection from the acquisition cost of each relevant acquired non-performing loan and records the amount of collection in excess of acquisition cost as revenue on a net amount basis.

9. Additional Information
(Application of the Accounting Standard for Accounting Changes and Error Corrections)
The Company adopted “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24, December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, December 4, 2009) for accounting changes and corrections of prior period errors which are made on and after the beginning of the fiscal year under review.

10. Changes in disclosure method
(Non-consolidated Balance Sheet)
From the fiscal year under review, “acquired non-performing loans” under current assets (0 million yen for the fiscal year under review), which was separately reported until the previous fiscal year, has been reported as a component of “other” under current assets, as it has become insignificant.
(Non-consolidated Statement of Income)
From the fiscal year under review, “bonds interest” under non-operating expenses (1 million yen for the fiscal year under review), which was separately reported until the previous fiscal year, has been reported as a component of “other” under non-operating expenses, as it has become insignificant.
From the fiscal year under review, “gain on liquidation of subsidiaries and affiliates” under extraordinary income (2 million yen for the fiscal year under review), which was separately reported until the previous fiscal year, has been reported as a component of “other” under extraordinary income, as it has become insignificant.

Notes to Non-consolidated Balance Sheet
1. Monetary claims and liabilities to subsidiaries and affiliates (excluding those reported separately) (Millions of yen)
   - Short-term monetary claims 557
   - Long-term monetary claims 134
   - Short-term monetary liabilities 19
   - Long-term monetary liabilities 256

2. Accumulated depreciation of property and equipment (Millions of yen)
   110

3. Assets pledged as collateral and collateralized liabilities
   The Company has pledged 90 million yen worth of short-term loans to subsidiaries and affiliates and 300 million yen worth of stocks of subsidiaries and affiliates as collateral for long-term borrowings equivalent to 380 million yen, and has pledged 1,016 million yen worth of other securities of subsidiaries and affiliates as collateral for short-term borrowings equivalent to 1,000 million yen.

4. Guarantee liabilities
   The Company concluded an agreement to guarantee the rent obligations owed by Healthcare One, LLC and 3 other companies for 7 years, with a value not exceeding 796 million yen. Separately, the Company concluded an agreement to guarantee the rent obligations owed by Transam Alpha, LLC for 5 years, with a monthly value not exceeding 64 million yen.

Notes to Non-consolidated Statement of Income
Transactions with subsidiaries and affiliates (Millions of yen)
   Operating transactions
   - Revenue 2,660
   - Cost of revenue 59
   - Selling, general and administrative expenses 30
   - Transactions other than operating transactions 1,142
Notes to Tax Effect Accounting

1. Breakdown of major factors that caused deferred tax assets and liabilities

<table>
<thead>
<tr>
<th>(1) Deferred tax assets (current) (Millions of yen)</th>
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</thead>
<tbody>
<tr>
<td>Operating loss carried forward</td>
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<td>Accrued business taxes</td>
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<td>Other</td>
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<tr>
<td>Subtotal</td>
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<tr>
<td>Valuation allowance</td>
</tr>
<tr>
<td>Deferred tax assets (current), net</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>(2) Deferred tax assets (fixed) (Millions of yen)</th>
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<tbody>
<tr>
<td>Provision of allowance for doubtful accounts in excess of</td>
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<tr>
<td>tax allowance maximum</td>
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<tr>
<td>Loss on valuation of investment securities</td>
</tr>
<tr>
<td>Loss on valuation of stocks of subsidiaries and affiliates</td>
</tr>
<tr>
<td>Dividend income from investment in silent partnerships</td>
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<tr>
<td>Other</td>
</tr>
<tr>
<td>Subtotal</td>
</tr>
<tr>
<td>Valuation allowance</td>
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<td>Deferred tax assets (fixed), net</td>
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</table>

<table>
<thead>
<tr>
<th>(3) Deferred tax liabilities (long-term) (Millions of yen)</th>
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<td>Property and equipment corresponding to asset retirement obligations</td>
</tr>
<tr>
<td>Subtotal</td>
</tr>
<tr>
<td>Deferred tax liabilities (long-term), net</td>
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</tbody>
</table>

2. Breakdown of major factors that caused the significant differences between statutory tax rates and effective income tax rates after the adoption of tax effect accounting

This is omitted as the Company reported loss before income taxes.
<table>
<thead>
<tr>
<th>Attribute</th>
<th>Name</th>
<th>Ratio of voting rights holding (held)</th>
<th>Type of relationship</th>
<th>Summary of transactions</th>
<th>Amount of transaction (Millions of yen)</th>
<th>Accounting item</th>
<th>Balance as of Dec. 31, 2012 (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Attribute</td>
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<td>Type of relationship</td>
<td>Summary of transactions</td>
<td>Amount of transaction (Millions of yen)</td>
<td>Accounting item</td>
<td>Balance as of Dec. 31, 2012 (Millions of yen)</td>
</tr>
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<td>5,079</td>
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</tbody>
</table>

(Notes) Terms and conditions of transactions and their policies
1. Terms and conditions of transactions are determined on similar terms and conditions applied to general transactions, in consideration of the market prices and other factors.
2. Interest rates on loans are reasonably determined in consideration of the money market rates.
3. The Company recorded 2,285 million yen in allowance for doubtful accounts for loans advanced to subsidiaries and affiliates. In addition, the Company recorded provision of allowance for doubtful accounts equivalent to 2,103 million yen for the fiscal year under review.

Notes to Per Share Information
1. Net assets per share 29,119.82 yen
2. Net loss per share 4,107.90 yen
Notes to Significant Subsequent Events
    Not applicable

(Note) Fractions of figures stated in Notes to the Non-consolidated Financial Statements are rounded down.