

## Greetings

We would like to express our sincere appreciation to all investors for their continued support. We are pleased to report on the performance results for the 18th fiscal year (January 1, 2012 to December 31, 2012).

During the fiscal year under review, we accomplished nearly all of the business plans set forth at the beginning of the fiscal year, such as through securing a net increase of assets under management (AUM), listing KENEDIX RESIDENTIAL INVESTMENT CORPORATION on the J-REIT market at the end of April last year, and furthermore, through the acquisition of Shinsei Bank's former headquarters building as a new development project. However, even with efforts to recover the financial position by streamlining the balance sheet and other means in order to offset the negative effects of the Lehman Shock, we recorded a net loss due to extraordinary loss, etc.

The matters of concern were mainly taken care of during the fiscal year and therefore we will work toward active growth going forward. We ask for your continued understanding and support with regard to our management policies.



**Atsushi Kawashima**  
Chairman



**Taisuke Miyajima**  
CEO & President

March 2013

## Acquisition of Shinsei Bank's former headquarters building as new three-company joint development project

The acquisition deal of Shinsei Bank's former headquarters building (Chiyoda Ward, Tokyo), was completed in December 2012.

The property was acquired by a special purpose company jointly established by Kenedix, Tokyu Land Corporation and the Development Bank of Japan, and is scheduled to be rebuilt into a rental office building with 20 floors above ground and two below with a total floor area of approximately 57,500 square meter. Utilizing the rare locational advantage close to the Kasumigaseki area as well as Hibiya Park, we will aim to promote urban regeneration and increase the property's value through the rebuilding.

Tokyu Land will provide project management services, while the Development Bank of Japan will serve as the financial adviser and Kenedix will undertake asset management operations for the project. It is expected to contribute to expanded revenues of the Kenedix Group overall through an increase of AUM.



### New Properties of 2012

Date	Property Category	Investor Category	Location	Kenedix Investment
Mar. 2012	Retail Facilities	Foreign Institutional Investor	Tokyo	×
Apr. 2012	Retail Facilities	Japanese Investor	Tokyo	×
May 2012	Office	Foreign Institutional Investor	Central Tokyo/ Other areas of Japan	×
May 2012	CMBS	Kenedix	-	○
May 2012	Residential Assets	Kenedix Residential Investment Corporation (newly listed)	Nationwide	○
Jul. 2012	Office	Foreign Institutional Investor	Osaka	×
Jul. 2012	Logistics (Development)	ITOCHU Corporation	Saitama	○
Aug. 2012	Office	Foreign Institutional Investor	Tokyo/Kanagawa	×
Sep. 2012	CMBS	Foreign Institutional Investor	-	○
Oct. 2012	Logistics (Development)	ITOCHU Corporation	Kanagawa	○
Oct. 2012	Office/Residential Assets	Foreign Institutional Investor	Tokyo	×
Dec. 2012	Office (Shinsei Bank's Former Headquarters Building)	Japanese Investor	Tokyo	○

## Management Interview

# Liquidation of Negative Legacies from the Lehman Shock

Kenedix posted a financial deficit in FY2012.

What were the reasons for the loss and what are the business strategies for a recovery?

This is an interview of Kenedix's top management Mr. Kawashima, the former president and new chairman, and Mr. Miyajima, the new president.



## New Wineskins for New Wine

—First of all, what were the reasons for the rotation of the president's position at the general meeting of shareholders in March?

**Kawashima:** I was appointed as president in 2007 just one year before the Lehman Shock hit the global market. As the real estate investment market was freezing up, we worked to stabilize the earnings base, downsize the balance sheet and reduce interest-bearing debt in a manner of returning to the starting point of asset management business. Those six years were immersed with measures of survival, and the results of those measures have now made an improvement of our financial position. That is the reason for the replacement of the president's position. Another reason might be that there are now positive signs in the real estate investment market. We want to have a new president face the challenges of the new business environment. In the spirit of "new wineskin for new wine", I have asked Mr. Miyajima, who entered the company the same year as myself and is known for his competence and reliability, to take this position.

—Now, President Miyajima, please introduce yourself.

**Miyajima:** I entered Kennedy Wilson Japan, the forerunner of this company, in 1998 after



"With all employees united as "one Kenedix," we will attain the new Medium-Term Management Plan and maximize shareholder value."

-Miyajima

working at a trust bank. After the establishment of Kenedix Realty Investment Corporation (KRI) in 2005 and its listing on the J-REIT market, I was entrusted for the next six years with KRI's asset management company, Kenedix Office Partners. We were able to expand the initial asset size of 66 billion yen to about 280 billion yen, and I was able to gain extremely valuable experience as asset manager through the planning of investment tactics and communication with global investors.

Being a member of the boat club when I was a student and coaching after graduation, I believe that I have a good understanding of the art of performance enhancement through teamwork. My principle is, as is my ambition, to always practice the presence of mind and to take a natural approach.



## Restoring Financial Soundness Actualizing Unrealized Losses

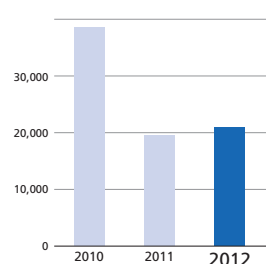
—What are your thoughts looking back at the fiscal period under review?

**Kawashima:** There are signs of improvement in the real estate investment market such as with the apparent bottoming out of office rents. The appetite of domestic and overseas investors is strong as well as the debt financing condition of banks. I believe

## Consolidated Financial Highlights

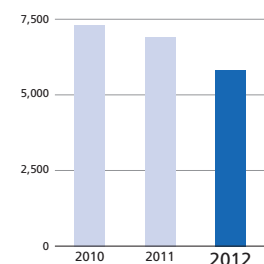
### Revenue

(Millions of yen)



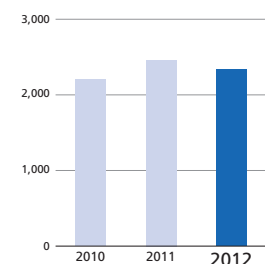
### Operating Income

(Millions of yen)



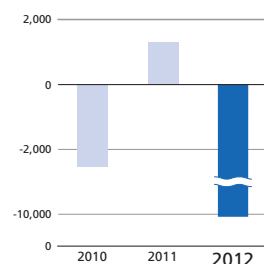
### Ordinary Income

(Millions of yen)



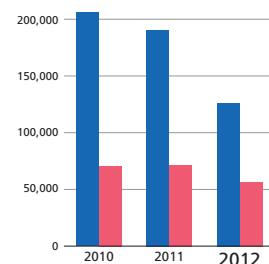
### Net Income

(Millions of yen)



### Total Assets / Net Assets

(Millions of yen) ■ Total Assets ■ Net Assets



## Interest-bearing Debt

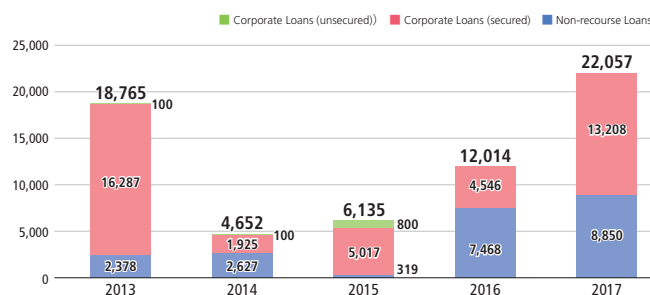
### Breakdown

(Millions of yen)



### Repayment Schedule

(Millions of yen)





“We restore financial soundness with a bold off-balancing of our assets”

-Kawashima

the business environment in general was not bad. In terms of the Group's accomplishments, there was the listing of Kenedix Residential Investment Corporation (KDR) at the end of April 2012 on the J-REIT market, the first listing of a J-REIT in four and a half years. Furthermore, with the acquisition of Shinsei Bank's former headquarters building as a development project and stepping up to a logistics facility's development project for the first time in four and a half years along with other efforts, I believe we were able to mark our presence in the market. In addition, assets under management (AUM) which were stagnant in the first half, gained momentum in the second half.

On the other hand, as we continued to downsize the balance sheet and reduce interest-bearing debt, we restored financial soundness with a bold off-balancing of our assets.

As a result, we posted operating revenue of 20.9 billion yen (year-on-year increase of 7.5%), operating income of 5.8 billion yen (year-on-year decrease of 15.8%), ordinary income of 2.3 billion yen (year-on-year decrease of 5.5%) and net loss of 10.1 billion yen (previous year was net income of 1.3 billion yen). Therefore, we posted financial deficit as announced in the notice of forecast revision.

**Miyajima:** As our total assets were reduced to about 130 billion yen, there is no need for further downsizing. In addition, with the new establishment of the Equity Investment Department which specializes in principal investment we are prepared to actively sally forth into the market. Equity as co-investment with client investors to establish private funds or bridge funds for REITs the Group manages are important for our growth. However, as risk control must be firmly implemented, we gave the equity division checking functions that are completely separate from the sales division.

## Developing a New “Medium-Term Management Plan” With Dividends Resuming in 3 Years

—What are your prospects for the next period?

## Outline of the New Medium-term Management Plan

Further strengthen the stable base for earnings by increasing assets under management (AUM)

2015 AUM target: ¥1.4 trillion  
(FY2012 balance: ¥1.1 trillion)

Raise investment returns by making extensive use of co-investments

¥13-15 billion of principal investments by 2015  
(FY2012 balance: ¥1.6 billion)

Strengthen the asset management business and enhance an operating framework that may include M&A and other new activities in the future

2015 asset management fee target: ¥3.6 billion  
(2012 results: ¥3.1 billion, gross operating income)

Resume dividend payments by no later than 2015, the new plan's final year

Ordinary income target ¥4.1 billion in 2015

**Kawashima:** I will basically leave the overall management to our new president and will commit myself to a supporting position.

**Miyajima:** We have developed a new “Medium-Term Management Plan” for the next three years. This is because we were able to achieve one of the pillars of the previous 5-year Medium-Term Management Plan from 2009 nearly one year ahead of schedule, that is, the downsizing of the balance sheet. The gist of the new plan is to firstly continue

to focus on the asset management business. The plan is to increase AUM, which was at 1.1 trillion yen at the end of the previous year, to 1.4 trillion yen in three years, centering in principle on J-REITs. Next is co-investment. By making extensive use of co-investment through equity, we will search for greater investment returns and form funds conducive to increasing AUM. The third major pillar of the new plan is to resume dividends. The financial conditions for distributing dividends have not been met following the Lehman Shock, but through further enhancement of the earnings base in the new plan, we will aim to resume dividends by the final fiscal period (ending December 2015).

—Do you have any closing remarks for your shareholders?

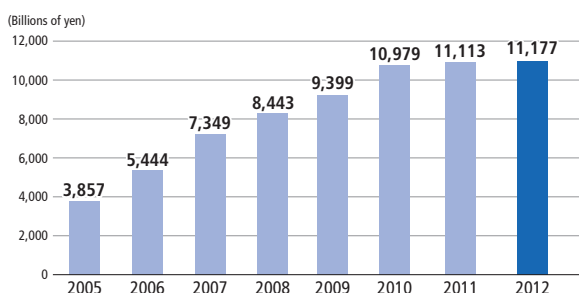
**Kawashima:** I see the FY2012 results as a forward-looking in terms of the restoration of financial soundness.

**Miyajima:** My management policy is united as “one Kenedix.” With increased number of employees, we are working to reform the personnel system in order to maximize each employee's capabilities. I believe the most important challenge of management is for all employees to work as one to accomplish the Medium-Term Management Plan and to use it as a base to maximize shareholder value in the end. We look forward to our investors continuing support.

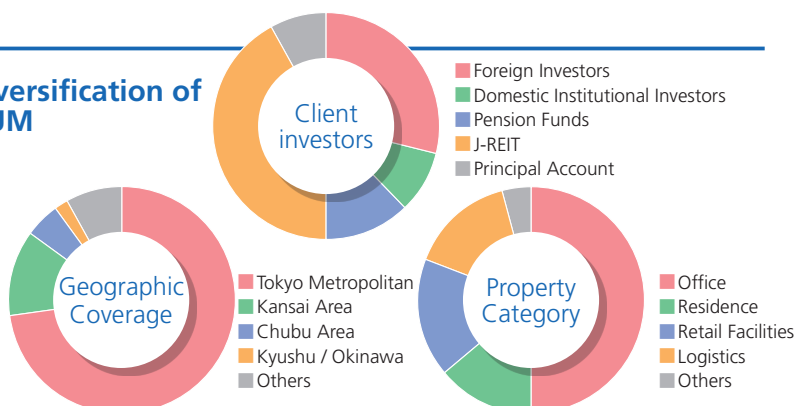


## Assets Under Management (AUM)

### Growth in AUM



### Diversification of AUM



Notes: The Kenedix Group uses the following standards for calculating the balance of assets under management (AUM) :- AUM includes real estate properties where the Kenedix Group performs asset management services, but does not include development projects prior to completion  
- AUM uses the acquisition cost of a property (net of taxes). Costs associated with acquisitions, capital expenditures to raise a property's value and other related items are included in the book value of a property for accounting purposes. However, these items are not included in AUM  
- AUM includes properties that the Kenedix Group holds itself for a short period of time.  
- AUM also includes properties held by J-REITs (Kenedix Realty Investment and Japan Logistics Fund) and LPT (Challenger Kenedix Japan Trust) that are managed by Kenedix affiliates



## KENEDIX Office Partners, INC.

Kenedix Office Partners, Inc. established in November 2003 is the asset management company of Kenedix Realty Investment Corporation (KRI). Listed in July 2005, KRI primarily invests in and manages mid-sized office buildings mainly in the Tokyo metropolitan area. According to the Tokyo Metropolitan Government survey, "offices with under 30 employees" account for more than 90% of all offices indicating that mid-sized offices is a premium market segment.

KRI managed 69 billion yen of assets when it was first listed, and now manages nearly 300 billion yen of assets. Asset size has grown by more than four times in seven plus years and KRI is positioned as one of the Group's core funds. In the mid to long term, KRI aims to increase this to 400 billion yen through external growth, internal growth and the financial strategy.

For the external growth, KRI plans to expand the asset size gradually while increasing the portfolio's profitability through effective replacement of properties. Also, customer satisfaction is extremely important from the viewpoint of internal growth. We conduct periodic surveys of tenants, seeking out the problems of

managed assets in terms of both hard and soft aspects. By providing feedback of improvement plan to the tenants and through a repetition of this process, tenant satisfaction should increase and consequently lead to maintaining or increasing occupancy rates as well as improving of rents. As for the financial strategy, KRI will take the opportunity of the favorable financial climate to decrease interest costs with the cooperation of partner financial institutions. With these three approaches we will focus on raising the investment value of KRI.

The comprehensive strengths of the Kenedix Group are also an important point. For example, there will be initiatives such as external growth through full utilization of the Group's information and gaining opportunities for property acquisitions in the future by way of joint investment in private funds established by the parent company. As KRI's asset size becomes larger, the management fees will increase, and contribution to the Group's overall value will lead to greater shareholder value.

**Naokatsu Uchida**  
CEO & President

### Focus Investing in the Mid-sized Office Buildings in the Tokyo Metropolitan Area

Prime business area which sustains the Japanese economy

Large number of tenants and tenant diversification by industry

Broad-based stock and superior properties

Mid-sized office buildings in the Tokyo Metropolitan Area

### Measures for maintaining/improving the quality of properties

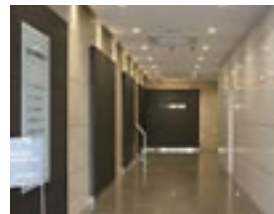
Adding value to buildings through planned renovations. We strictly comply with laws and regulations including the Building Standards Act.

Identifying tenants' needs through regular Customer Satisfaction Surveys leads to providing a safe, clean and comfortable office environment.

before



after





## KENEDIX Residential Partners, INC.

Kenedix Residential Partners, Inc. is the asset management company of Kenedix Residential Investment Corporation (KDR) which was listed on the Tokyo Stock Exchange REIT section in April last year. The investment targets of KDR are residential properties such as rental housing. It began with 20 properties and an asset size of approximately 33 billion yen. Being the first new J-REIT listing in four and a half years, KDR symbolizes the dawn of a new stage of growth for the J-REIT industry as a whole in a very meaningful way.

KDR, as a member of the Kenedix Group, will provide investor oriented management services. By pursuing dynamic and flexible real estate investment management, KDR aims for stable

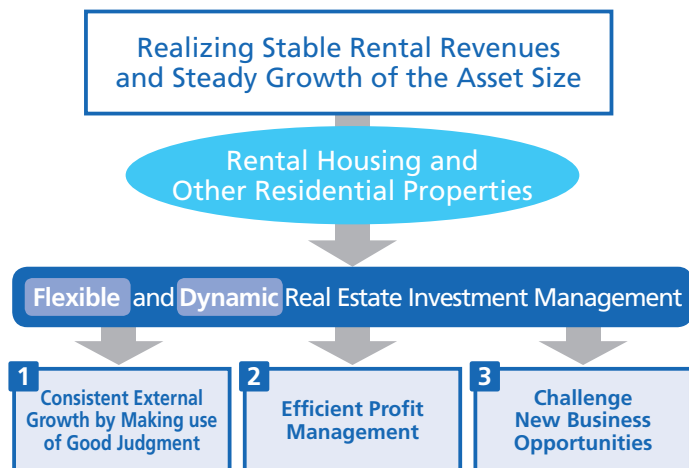
investment performance in the volatile market.

When KDR marks out an investment target, we put emphasis on the fascination and potential of the land, and are completely committed to location. KDR believes for example that places that are mature and historically significant, or places that have been developed as excellent residential areas will be very competitive in the long run as land with high status. It focuses not only on locations that are close to stations, but also on land that offers daily life convenience enhanced by infrastructure such as retail facilities, schools, hospitals and parks, or land with special markets where stable residential demand can be expected primarily from persons associated with schools, research institutes, offices and such that are nearby. A key point of discernment is the measure of investment it is able to calculate due to its familiarity with such markets. In addition, KDR invests in properties with residential units which are appropriate for the specific location. Preference of location differs between single persons and families. Single persons will place an emphasis on the distance from the nearest station when renting an apartment, but for child-rearing families, grocery stores within walking distance, abundant greenery and an excellent educational environment will be more attractive. Therefore, what is important is to ascertain whether or not residential units appropriate for the area are provided.

As of the end of its 1st Fiscal Period ended July 31, 2012, total asset is approximately 33 billion yen. The current goal is to increase to 100 billion yen at an early stage. Through investment management, KDR will steadily raise the portfolio performance.

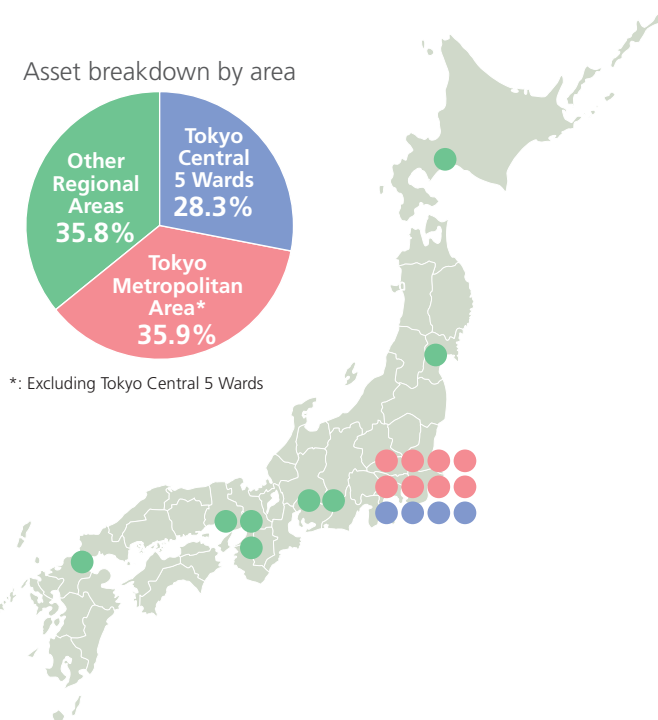
**Akira Tanaka**  
President

### Basic strategy

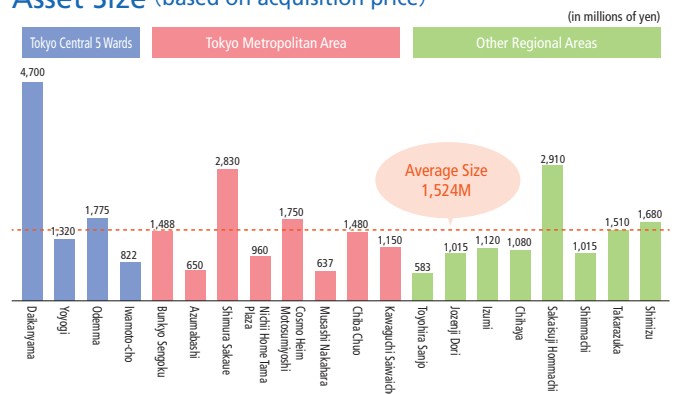


### Portfolio Summary

#### Area Diversification (based on acquisition price)

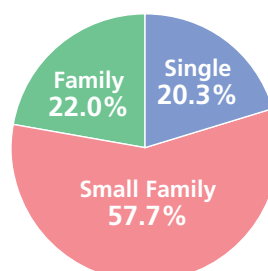


#### Asset Size (based on acquisition price)

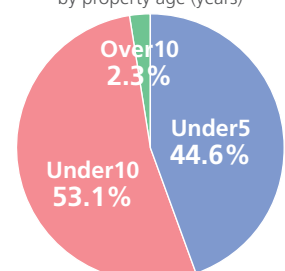


#### Room Type and Property Age (based on acquisition price)

Asset breakdown by room type



Asset breakdown by property age (years)



Note: Tokyo Central 5 Wards include Chiyoda-ku, Chuo-ku, Minato-ku, Shibuya-ku and Shinjuku-ku  
Tokyo Metropolitan Area includes Tokyo, Chiba, Kanagawa and Saitama  
Other Regional Areas include government-designated municipalities and other regional hub cities

Note: Property age calculated by the weighted average in periods from completion day to the end of July, 2012

## Company Information

<b>Company name</b>	Kenedix, Inc.
<b>Founded</b>	April 17, 1995
<b>Address</b>	Head office at 2-2-9, Shimbashi, Minato-ku, Tokyo, 105-0004
<b>Capital</b>	¥31,322,068,805
<b>Employees</b>	Over 180 on a consolidated basis
<b>Major bank relationships</b>	Sumitomo-Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Trust Bank, Ltd. Mizuho Bank, Ltd. Resona Bank, Ltd. Aozora Bank, Ltd.
<b>Our business</b>	Investment & Management of diversified real estate assets

## Managements

(As of March 27, 2013)

<b>Chairman</b>	Atsushi Kawashima	<b>Corporate Auditor</b>	Harutaka Hamaguchi
<b>President</b>	Taisuke Miyajima	<b>Corporate Auditor</b>	Ninji Hayashi
<b>Director</b>	Taiji Yoshikawa	<b>Corporate Auditor</b>	Shintaro Kanno
<b>Director</b>	Takashi Uematsu	<b>Corporate Auditor</b>	Haruo Funabashi
<b>Director</b>	Shuhei Shiozawa		
<b>Director</b>	Yasuo Ichikawa		

## Kenedix Group

Kenedix Asset Management, Inc.  
Kenedix Advisors, Inc.  
Kenedix Office Partners, Inc.  
Kenedix Residential Partners, Inc.  
Mitsui & Co., Logistics Partners Ltd.  
Kenedix Westwood, LLC  
KW Multi-Family Management Group, LLC

### Memorandum for Shareholders

<b>Business year</b>	January 1 to December 31
<b>Ordinary General Meeting of Shareholders</b>	To be held in March every year
<b>Record date</b>	December 31 every year
<b>Transfer agent</b>	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
<b>Mailing address</b>	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Division 8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063
<b>Telephone inquiries</b>	0120-782-031 (Toll free in Japan)
<b>Public announcements</b>	Notices will be posted in electronic format on our Internet web page ( <a href="http://www.kenedix.com">http://www.kenedix.com</a> ). However, notices will be published in the Nihon Keizai Shimbun when it is impossible to make electronic notification for unavoidable reasons.

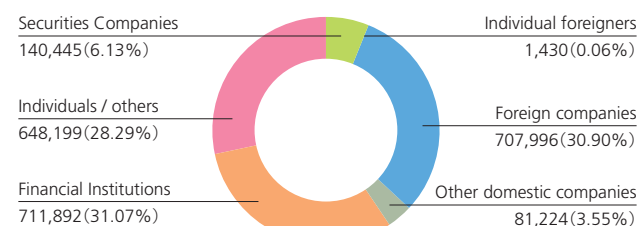
## Shares Issued and Shareholders

Total number of authorized shares	3,500,000
Number of total shares outstanding	2,291,186
Number of shareholders	22,327

## Major Shareholders (Top 5)

Name of Shareholders	Shares held	Shareholding (%)
Japan Trustee Services Bank, Ltd. Trust account	320,586	13.99
The Master Trust Bank of Japan, Ltd. Trust account	169,590	7.40
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	90,453	3.94
ITOCHU Corporation	60,000	2.61
Morgan Stanley & Co.LLC	47,418	2.06

## Distribution of Shares in Terms of Category of Holders



Note: The category "Individual persons/others" includes shares in the name of Japan Securities Depository Center, Inc.

## IR Calendar



## Website



Recent operating performance updates, IR materials and press releases are available.