KENEDIX

February 14, 2014

Summary of Consolidated Financial Results for the Year Ended December 31, 2013

[Japanese GAAP]

Described below is an abstract in English of the financial result for the fiscal year ended December 31, 2013 that was released today in Tokyo. The translation is prepared and provided for the purpose of the readers' convenience only. All of readers are strongly recommended to refer to the original version in Japanese of the news release for complete and accurate information.

Company name: Kenedix, Inc. Listing: First Section, Tokyo Stock Exchange
Stock code: 4321 URL: http://www.kenedix.com
Representative: Taisuke Miyajima, CEO & President
Contact: Taiji Yoshikawa, Director Tel: +81-3-5623-8400
Scheduled date of General Meeting of Shareholders: March 26, 2014
Scheduled date of payment of dividend: -
Scheduled date of filing of Annual Securities Report (*Yuka Shoken Houkokusho*): March 26, 2014
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, 2013 – Dec. 31, 2013)

(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, 2013	22,456	7.2	6,914	18.5	4,878	109.5	1,985	-
Year ended Dec. 31, 2012	20,957	7.5	5,837	(15.8)	2,328	(5.5)	(10,128)	-

Note: Comprehensive income (million yen) Year ended Dec. 31, 2013: 2,652 (-%) Year ended Dec. 31, 2012: (9,599) (-%)

	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, 2013	8.29	-	3.3	3.6	30.8
Year ended Dec. 31, 2012	(44.20)	-	(18.1)	1.5	27.9

Reference: Equity in earnings of affiliates (million yen) Year ended Dec. 31, 2013: 87 Year ended Dec. 31, 2012: (146)
Note: Kenedix conducted a 100-for-1 common stock split on July 1, 2013. Net income per share (basic) has been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2013	148,398	74,341	48.0	268.27
As of Dec. 31, 2012	126,270	56,071	40.2	221.82

Reference: Shareholders' equity (million yen) As of Dec. 31, 2013: 71,268 As of Dec. 31, 2012: 50,823
Note: Kenedix conducted a 100-for-1 common stock split on July 1, 2013. Net assets per share have been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(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, 2013	(2,787)	8,947	9,036	29,622
Year ended Dec. 31, 2012	10,545	31,276	(37,108)	14,452

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, 2012	-	0.00	-	0.00	0.00	-	-	-
Year ended Dec. 31, 2013	-	0.00	-	0.00	0.00	-	-	-
Year ending Dec. 31, 2014 (forecast)	-	0.00	-	3.00	3.00		26.6	

Note: Payment of the year-end dividend for 2014 will require the approval of resolutions at the general meeting of shareholders for a reduction in the capital surplus and a transfer from other additional paid-in capital to retained earnings in order to offset the accumulated loss on the Kenedix non-consolidated financial statements. Assuming that these resolutions are approved, Kenedix plans to pay a dividend for 2014 that is not more than net income in 2014.

3. Forecast of Consolidated Income for the Year Ending December 31, 2014 (Jan. 1, 2014 – Dec. 31, 2014)

(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	21,000	(6.5)	5,200	(24.8)	4,100	(15.9)	3,000	51.1	11.29

* **Notes**

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

Newly added: 1 (Space Design, Inc.) Excluded: -

(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, 2013: 265,658,200 shares As of Dec. 31, 2012: 229,118,600 shares

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

As of Dec. 31, 2013: - shares As of Dec. 31, 2012: - shares

3) Average number of shares outstanding during the period

Year ended Dec. 31, 2013: 239,492,525 shares Year ended Dec. 31, 2012: 229,118,600 shares

Note: Kenedix conducted a 100-for-1 common stock split on July 1, 2013. Number of shares outstanding (common stock) has been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results (Jan. 1, 2013 – Dec. 31, 2013)

(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, 2013	5,132	5.4	162	-	(597)	-	(15,642)	-
Year ended Dec. 31, 2012	4,868	(8.5)	(629)	-	(2,753)	-	(9,411)	-

	Net income per share, (basic)	Net income per share, (diluted)
	Yen	Yen
Year ended Dec. 31, 2013	(65.3)	-
Year ended Dec. 31, 2012	(41.1)	-

Note: Kenedix conducted a 100-for-1 common stock split on July 1, 2013. Net income per share (basic) has been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2013	104,992	69,207	65.9	260.3
As of Dec. 31, 2012	97,523	66,718	68.4	291.2

Reference: Shareholders' equity (million yen) As of Dec. 31, 2013: 69,163 As of Dec. 31, 2012: 66,718

Note: Kenedix conducted a 100-for-1 common stock split on July 1, 2013. Net assets per share have been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

* 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 2014)."

How to view supplementary materials for financial results

Kenedix plans to hold a financial results meeting for institutional investors and securities analysts on February 14, 2014. Materials to be distributed at this event will be available on the Company's website immediately thereafter.

Contents of Attachments

1. Analysis of Results of Operations and Financial Position

There were improvements during 2013 in Japan in personal consumption, manufacturing, corporate earnings, jobs and many other economic indicators because of monetary easing by the Bank of Japan and government economic stimulus measures. As a result, Japan is moving closer to ending deflation.

Tokyo's selection to host the 2020 Olympics and Paralympics is creating hopes for contributions to the performance of domestic-demand industries like real estate. Furthermore, the United States is expected to continue its monetary easing stance for the time being. The result was a stock market rally in the second half of 2013 that helped raise the Tokyo Stock Exchange index by 51% for the entire year.

In the real estate services and real estate finance sectors, where the Kenedix Group operates, purchases by J-REITs totaled about 2.2 trillion yen as the volume of transactions was high. This set a new record by surpassing the previous all-time high of almost 2 trillion yen in 2006. In addition, the 2013 standard land prices (Land Price Survey for Prefectures) announced in September 2013 showed that land prices are recovering, chiefly in urban areas. For example, prices of commercial land in Japan's three major metropolitan areas increased for the first time in five years. In addition, there were signs of a broad-based recovery. In particular, average vacancy rates declined and average monthly leasing rates rebounded, primarily at class A office buildings.

The Group has set the following four initiatives to build a profit structure that is stable and resilient and to accomplish the goals of the medium-term management plan: (1) further 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)early resumption of dividend payments based on the results of operations for 2014.

There were a number of measures during 2013 regarding these initiatives that contributed to the continued growth of business operations. First, AUM increased to 1.2 trillion yen due to a number of actions. There were public offerings of stock by Kenedix Residential Investment Corporation and Kenedix Office Investment Corporation (formerly Kenedix Realty Investment Corporation), which are managed by Kenedix Real Estate Fund Management, Inc., along with property acquisitions using the proceeds. New private funds contributed to growth in AUM, too. Second, Kenedix used a public offering of stock and other measures to procure 17.8 billion yen. These funds were used for investments such as purchases of properties for Kenedix's own account, mainly using co-investments, and strategic investments to expand business operations, including the growth of AUM. Third was actions involving a stable profit structure. One was the acquisition of Space Design, Inc. in order to add a new non-asset real estate business to the Kenedix Group. Another was the establishment of Kenedix Private Investment Corporation for the purpose of creating a platform to build relationships with real estate investors, which is a new customer segment for Kenedix.

(1) Analysis of Results of Operations

a. Summary of the fiscal year

In 2013, based on the above medium-term management plan, the Kenedix Group worked on increasing AUM while responding with speed and accuracy to the rapid changes in market conditions. The Group made co-investments in office buildings and residential properties, and signed agreement to provide asset management service for the properties. As the Group also continued to sell properties under management, its AUM increased 88.5 billion yen to 1,206.3 billion yen as of December 31, 2013.

Regarding the financial position, improvements in terms of loans and other actions reduced interest expenses by 43.9% or 1,221 million yen from 2012 and produced other benefits that reduced financial expenses and strengthened the Group's financial soundness.

In 2013, consolidated revenue was up 7.2% from 2012 to 22,456 million yen, operating income increased 18.5% to 6,914 million yen, ordinary income increased 109.5% to 4,878 million yen and net income was 1,985 million yen compared with a net loss of 10,128 million yen in 2012.

The following section explains performance by business segments.

1) Asset Management Business

In the asset management business, asset management fees were stable but revenue was down 13 million yen from 2012. The reason was a decline in transactions among Kenedix Group companies, including transactions that generate asset management fees at funds. This was caused by substantial sales during the year of properties held in principal accounts. The result was a 0.2% decrease in revenue to 7,233 million yen and a 6.8% decrease in operating income to 3,900 million yen.

2) Real Estate Investment Business

In the real estate investment business, there were gains on sales of properties held in principal accounts as inventories, gains on redemptions of commercial mortgage backed securities and other sources of income. The result was a 65.3% increase in revenue to 9,393 million yen and operating income of 2,085 million yen compared with a 782 million yen loss in 2012.

3) Real Estate Leasing Business

The real estate leasing business includes the revenue and income of newly consolidated subsidiary Space Design, Inc. in the fourth quarter of 2013 and other new sources of revenue such as master leases. However, leasing revenue was lower than in 2012 because of significant sales of properties held in principal accounts. The result was a 27.1% decrease in revenue to 6,476 million yen and a 42.0% decrease in operating income to 1,829 million yen.

b. Outlook for 2014

Kenedix expects revenue of 21,000 million yen, operating income of 5,200 million yen, ordinary income of 4,100 million yen and net income of 3,000 million yen in 2014. Kenedix is aiming to reach the medium-term plan goals ahead of the target date by quickly raising AUM to 1.4 trillion yen in order to increase asset management fees, which are a stable source of revenue, and by making substantial co-investments and taking other actions.

(2) Analysis of Financial Position

Balance Sheet Position

Total assets were 148,398 million yen as of December 31, 2013, 22,128 million yen more than as of December 31, 2012. This was mainly because of acquisition of new properties held in principal accounts and fund procurement by the issuance of new shares.

Total liabilities increased 3,857 million yen to 74,056 million yen. This was mainly attributable to an increase in non-recourse loans due to the above mentioned acquisition of new properties held in principal accounts. Furthermore, loans were refinanced in order to extend the length of loans and other improvements in their terms were taken to improve financial soundness.

Net assets increased 18,270 million yen to 74,341 million yen mainly because of net income and increases in common stock and additional paid-in capital due to the issuance of new shares.

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. 2010	Dec. 2011	Dec. 2012	Dec. 2013
Interest-bearing debt (1)	123,625	109,767	63,623	66,025
(Non-recourse loans included) (2)	(69,764)	(60,444)	(21,640)	(28,347)
Net assets (3)	71,147	71,435	56,071	74,341
Cash and deposits (4)	10,913	7,706	13,813	25,795
Net debt (5) ((1)-(2)-(4))	42,947	41,617	28,168	11,883
Net debt-equity ratio net of non-recourse loans (5)/(3) *(%)*	60.4	58.3	50.2	16.0

Cash Flows

Operating activities used net cash of 2,787 million yen, investing activities provided net cash of 8,947 million yen and financing activities provided net cash of 9,036 million yen. The result was an increase of 15,170 million yen in cash and cash equivalents during 2013 to 29,622 million yen as of the end of December 2013.

Operating Activities

Net cash used in operating activities was 2,787 million yen, compared with 10,545 million yen provided in 2012. This was mainly attributable to income before income taxes of 2,734 million yen, a decrease in silent partnership of 1,879 million yen, a decrease in acquired non-performing loans of 1,270 million yen, while there was an increase in inventories of 10,691 million yen.

Investing Activities

Net cash provided by investing activities decreased 71.4% from 2012 to 8,947 million yen. This was mainly attributable to the proceeds of 16,447 million yen from sales of property and equipment, while there were payments of 2,276 million yen for the purchase of intangible assets, and 2,095 million yen for the purchase of investment securities.

Financing Activities

Net cash provided by financing activities was 9,036 million yen, compared with 37,108 million yen used in 2012. This was mainly attributable to the proceeds of 17,647 million yen from issuance of new shares, while there was a net decrease of 7,010 million yen in long-term borrowings.

(3) Basic Policy for Allocation of Earnings and Dividend for 2013 and 2014

Kenedix 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 2013, there were many initiatives for building a profit structure that can be consistently profitable. These actions were based on the medium-term management plan. Due to these initiatives, net income was 1.9 billion yen in 2013.

However, Kenedix was unable to pay a dividend because of the 11.7 billion yen non-consolidated accumulated loss. Consequently, there was no dividend applicable to 2013.

For 2014, Kenedix plans to pay a dividend of 3 yen per share with no interim dividend. Payment of this dividend will require the approval of resolutions at the ordinary general meeting of shareholders and other procedures for securing funds that are available for distribution. For example, the capital surplus will have to be reduced and a transfer from other additional paid-in capital to retained earnings will be needed to offset the accumulated loss. Kenedix will continue to work on building a profit structure that can be consistently profitable by implementing the medium-term management plan. The goal is to pay a dividend that is backed by consistent earnings from asset management operations. 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, there has been no interim dividend before. 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.

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 (partially revised in August 2013 and February 2014) 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) early resumption of dividend payments based on the results of operations for 2014. 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.

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," (Last revised on March 25, 2011), 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 fully understands the importance of handling personal information of tenants and other parties, and stores all these information 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., 42 subsidiaries and 20 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.

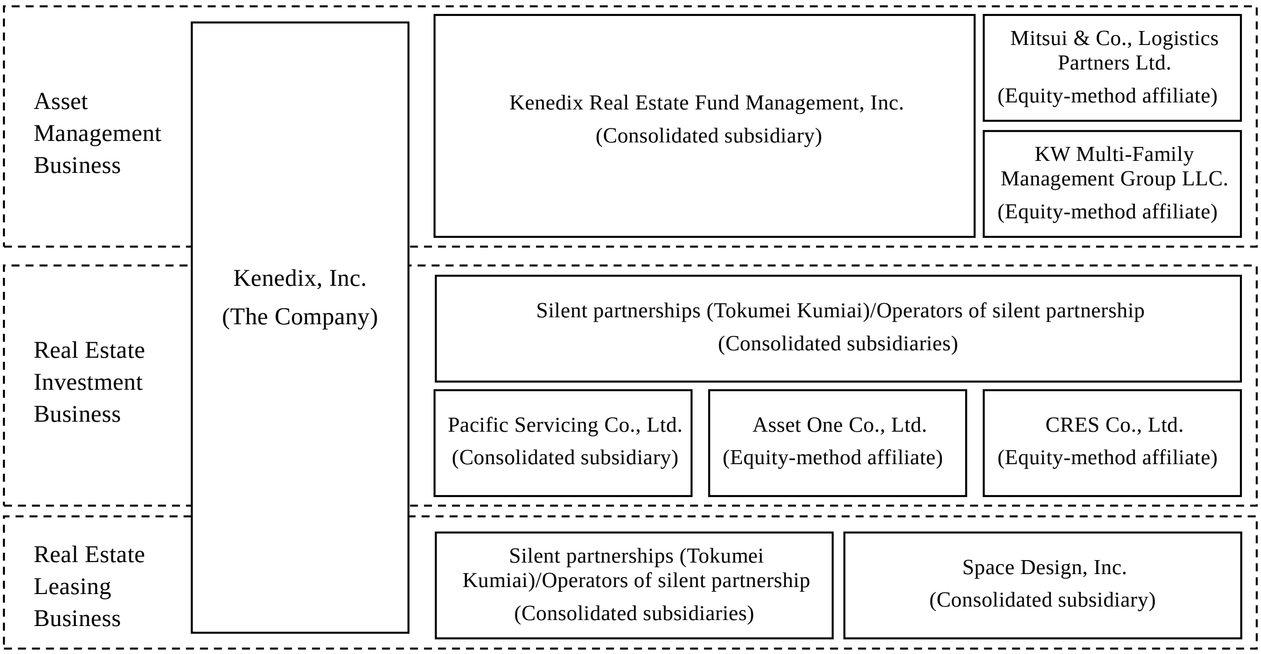
5) Gain/loss on sales and collection of acquired NPL

- 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 mainly 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 (partially revised in August 2013 and February 2014) 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
- Early resumption of dividend payments based on the consolidated results of operations for 2014

(4) Important Management Issues

In 2013, there were public offerings of stock by Kenedix Residential Investment Corporation and Kenedix Office Investment Corporation (formerly Kenedix Realty Investment Corporation), which are managed by Kenedix Real Estate Fund Management, Inc., along with property acquisitions using the proceeds. The Group's assets under management (AUM) increased to 1.2 trillion yen, making steady progress toward the goals of the medium-term management plan. The Group views these changes 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 Office Investment Corporation (formerly Kenedix Realty Investment Corporation), Kenedix Residential Investment Corporation, Kenedix Private 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 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

- Use the Investor Development Team 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)

	FY2012 (As of Dec. 31, 2012)	FY2013 (As of Dec. 31, 2013)
Assets		
Current assets		
Cash and deposits	13,813	25,795
Deposits held in trust	827	1,103
Accounts receivable-trade	1,505	1,079
Real estate for sale	9,953	14,950
Acquired non-performing loans	1,628	353
Securities	-	5,000
Income taxes refundable	733	169
Deferred tax assets	41	156
Other	319	1,243
Allowance for doubtful accounts	(286)	(87)
Total current assets	28,536	49,763
Fixed assets		
Property and equipment		
Buildings and structures	29,842	31,089
Accumulated depreciation	(2,686)	(2,680)
Buildings and structures, net	27,156	28,408
Land	53,721	49,941
Other	157	309
Accumulated depreciation	(98)	(74)
Other, net	59	235
Total property and equipment	80,937	78,586
Intangible assets		
Leasehold right	-	2,861
Goodwill	105	412
Other	65	63
Total intangible assets	170	3,338
Investment and other assets		
Investment securities	12,316	11,889
Investment in capital	360	461
Long-term loans receivable	548	548
Deferred tax assets	256	63
Other	3,480	3,984
Allowance for doubtful accounts	(337)	(236)
Total investment and other assets	16,625	16,710
Total fixed assets	97,733	98,635
Total assets	126,270	148,398

	FY2012 (As of Dec. 31, 2012)	FY2013 (As of Dec. 31, 2013)
		(Millions of yen)
Liabilities		
Current liabilities		
Accounts payable-trade	134	594
Short-term borrowings	2,192	3,541
Long-term borrowings-due within one year	16,552	7,211
Corporate bonds-due within one year	19	19
Accrued income taxes	412	156
Other	1,543	1,729
Total current liabilities	20,855	13,253
Long-term liabilities		
Bonds payable	3,428	2,909
Long-term borrowings	41,429	52,344
Deferred tax liabilities	1,156	1,389
Allowance for employees' retirement benefits	83	107
Long-term security deposits	3,012	3,701
Other	233	351
Total long-term liabilities	49,343	60,803
Total liabilities	70,199	74,056
Net assets		
Shareholders' equity		
Common stock	31,322	40,237
Additional paid-in capital	31,581	40,496
Retained earnings	(11,593)	(9,605)
Total shareholders' equity	51,310	71,128
Accumulated other comprehensive income		
Net unrealized holding gains/losses on other securities	(57)	398
Foreign currency translation adjustments	(429)	(257)
Total accumulated other comprehensive income	(486)	140
Subscription rights to shares	—	44
Minority interests	5,247	3,028
Total net assets	56,071	74,341
Total liabilities and net assets	126,270	148,398

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

Consolidated Statements of Income

(Millions of yen)

	FY2012 (Jan. 1, 2012 – Dec. 31, 2012)	FY2013 (Jan. 1, 2013 – Dec. 31, 2013)
Revenue	20,957	22,456
Cost of revenue	11,556	11,378
Gross profit	9,401	11,077
Total selling, general and administrative expenses	3,563	4,162
Operating income	5,837	6,914
Non-operating income		
Interest income	26	26
Consumption taxes differential (after being offset by suspense payments and receipt)	98	5
Equity in earnings of affiliates	-	87
Foreign currency transaction gain	13	61
Other	121	94
Total non-operating income	259	275
Non-operating expenses		
Stock issue expenses	-	182
Interest expenses	2,782	1,561
Commissions paid	811	563
Equity in losses of affiliates	146	-
Other	28	4
Total non-operating expenses	3,768	2,312
Ordinary income	2,328	4,878
Extraordinary income		
Gain on sales of fixed assets	741	144
Gain on sales of investment securities	179	1
Other	4	0
Total extraordinary income	925	146
Extraordinary loss		
Loss on sales of investment securities	1,221	241
Loss on valuation of investment securities	2,634	2
Loss on sales of fixed assets	1,287	1,855
Impairment loss	3,223	48
Office transfer expenses	―	132
Loss on liquidation of subsidiaries and affiliates	3,827	-
Other	193	11
Total extraordinary losses	12,386	2,291
Income (loss) before income taxes and profit distribution to silent partners	(9,132)	2,734
Profit distribution to silent partnerships	0	(0)
Income (loss) before income taxes	(9,132)	2,734
Current income taxes	891	646
Deferred income taxes	(203)	72
Total income taxes	688	718
Income (loss) before minority interests	(9,821)	2,015
Minority interests	306	29
Net income (loss)	(10,128)	1,985

Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2012 (Jan. 1, 2012 – Dec. 31, 2012)	FY2013 (Jan. 1, 2013 – Dec. 31, 2013)
Income (loss) before minority interests	(9,821)	2,015
Other comprehensive income		
Net unrealized holding gains/losses on other securities	161	465
Foreign currency translation adjustments	60	171
Share of other comprehensive income of associates accounted for using equity method	0	-
Total other comprehensive income	221	637
Comprehensive income	(9,599)	2,652
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(9,918)	2,613
Comprehensive income attributable to minority interests	318	39

(3) Consolidated Statements of Changes in Net Assets

FY2012 (Jan. 1, 2012 – Dec. 31, 2012)

(Millions of yen)

	Shareholders' equity			
	Common stock	Additional paid-in capital	Retained earnings	Total shareholders' equity
Balance as of Jan. 1, 2012	31,322	31,581	(1,289)	61,613
Changes in the fiscal year				
Net loss			(10,128)	(10,128)
Change of scope of consolidation			(175)	(175)
Net changes of items other than shareholders' equity				
Total changes in the fiscal year			(10,303)	(10,303)
Balance as of Dec. 31, 2012	31,322	31,581	(11,593)	51,310

(Millions of yen)

	Accumulated other comprehensive income			Minority interests	Total net assets
	Net unrealized holding gains/losses on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance as of Jan. 1, 2012	(206)	(490)	(696)	10,518	71,435
Changes in the fiscal year					
Net loss					(10,128)
Change of scope of consolidation					(175)
Net changes of items other than shareholders' equity	149	60	209	(5,270)	(5,060)
Total changes in the fiscal year	149	60	209	(5,270)	(15,364)
Balance as of Dec. 31, 2012	(57)	(429)	(486)	5,247	56,071

FY2013 (Jan. 1, 2013 – Dec. 31, 2013)

(Millions of yen)

	Shareholders' equity			
	Common stock	Additional paid-in capital	Retained earnings	Total shareholders' equity
Balance as of Jan. 1, 2013	31,322	31,581	(11,593)	51,310
Changes in the fiscal year				
Net income			1,985	1,985
Issuance of new shares	8,915	8,915		17,830
Change of scope of consolidation			1	1
Net changes of items other than shareholders' equity				
Total changes in the fiscal year	8,915	8,915	1,987	19,818
Balance as of Dec. 31, 2013	40,237	40,496	(9,605)	71,128

(Millions of yen)

	Accumulated other comprehensive income			Subscription rights to shares	Minority interests	Total net assets
	Net unrealized holding gains/losses on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance as of Jan. 1, 2013	(57)	(429)	(486)	-	5,247	56,071
Changes in the fiscal year						
Net income						1,985
Issuance of new shares						17,830
Change of scope of consolidation						1
Net changes of items other than shareholders' equity	455	171	627	44	(2,219)	(1,547)
Total changes in the fiscal year	455	171	627	44	(2,219)	18,270
Balance as of Dec. 31, 2013	398	(257)	140	44	3,028	74,341

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2012 (Jan. 1, 2012 – Dec. 31, 2012)	FY2013 (Jan. 1, 2013 – Dec. 31, 2013)
Operating activities		
Income (loss) before income taxes	(9,132)	2,734
Depreciation and amortization	1,392	960
Increase (decrease) in allowance for doubtful accounts	(84)	(306)
Loss on liquidation of subsidiaries and affiliates	3,827	-
Interest income	(26)	(26)
Interest expense	2,782	1,561
Equity in (earnings) losses of non-consolidated subsidiaries and affiliates	146	(87)
Loss (gain) on sales of fixed assets	545	1,710
Loss (gain) on sales of investment securities	1,042	239
Loss (gain) on valuation of investment securities	2,634	2
Impairment loss	3,223	48
Decrease (increase) in notes and accounts receivable-trade	372	548
Increase (decrease) in notes and accounts payable-trade	(223)	88
Decrease (increase) in inventories	5,353	(10,691)
Decrease (increase) in acquired non-performing loans	(40)	1,270
Decrease (increase) in silent partnership	2,193	1,879
Other, net	586	(700)
Subtotal	14,591	(770)
Interests and dividends received	53	50
Interests paid	(2,640)	(1,650)
Payments for loss on disaster	(106)	-
Income taxes paid	(1,731)	(1,150)
Income taxes refund	378	733
Net cash provided by (used in) operating activities	10,545	(2,787)
Investing activities		
Payment for purchase of property and equipment	(547)	(396)
Proceeds from sale of property and equipment	34,509	16,447
Payment for purchase of intangible assets	(18)	(2,276)
Payment for purchase of investment securities	(2,876)	(2,095)
Proceeds from redemption of investment securities	-	1,016
Payments into time deposits	-	(2,003)
Proceeds from withdrawal of time deposits	-	100
Payment for purchase of stocks of subsidiaries and affiliates	(600)	(602)
Payment for purchase of investment in subsidiaries involving change in scope of consolidation	-	(1,822)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	-	76
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(19)	-
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	-	20
Other, net	828	482
Net cash provided by investing activities	31,276	8,947

(Millions of yen)

	FY2012 (Jan. 1, 2012 – Dec. 31, 2012)	FY2013 (Jan. 1, 2013 – Dec. 31, 2013)
Financing activities		
Increase (decrease) in short-term borrowings	(4,296)	1,349
Proceeds from long-term borrowings	29,420	36,594
Repayment of long-term borrowings	(61,365)	(43,605)
Proceeds from issuance of bonds	1,940	999
Payment for redemption of bonds	(411)	(1,519)
Proceeds from issuance of new shares	-	17,647
Proceeds from minority interests	18	1,403
Dividends to minority interests	(91)	(134)
Distributions to minority interests	(1,617)	(3,691)
Other, net	(705)	(6)
Net cash provided by (used in) financing activities	(37,108)	9,036
Effect of exchange rate changes on cash and cash equivalents	(24)	137
Increase (decrease) in cash and cash equivalents	4,689	15,335
Cash and cash equivalents at beginning of period	9,595	14,452
Increase (decrease) in cash and cash equivalents resulting from changes in scope of consolidation	167	(164)
Cash and cash equivalents at end of period	14,452	29,622

Segment Information

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

FY2013 (Jan. 1, 2013– Dec. 31, 2013) *(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	7,233	9,393	6,476	(647)	22,456
Segment operating income	3,900	2,085	1,829	(899)	6,914
Segment assets	5,483	29,392	89,922	23,599	148,398