

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2014 (Nine Months Ended September 30, 2014)

[Japanese GAAP]

Described below is an English translation of the financial result for the first nine months of the fiscal year ending December 31, 2014 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 payment of dividend: -	
Scheduled date of filing of Quarterly Report: November 11, 2014	
Preparation of supplementary materials for financial results: Yes	
Holding of financial results meeting: No	

(Amounts rounded off to million yen)

1. Consolidated Financial Results (Jan. 1, 2014 – Sep. 30, 2014)

(1) 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	%
Nine months ended Sep. 30, 2014	19,741	63.4	6,281	26.3	5,262	53.6	5,945	161.5
Nine months ended Sep. 30, 2013	12,081	(11.4)	4,975	(4.7)	3,426	57.4	2,273	-

Note: Comprehensive income (million yen) Sep. 30, 2014: 6,817 (136.6%) Sep. 30, 2013: 2,881 (-%)

	Net income per share, (basic)	Net income per share, (diluted)
	Yen	Yen
Nine months ended Sep. 30, 2014	22.38	22.36
Nine months ended Sep. 30, 2013	9.85	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2014	209,898	86,553	37.4
As of Dec. 31, 2013	148,398	74,341	48.0

Reference: Shareholders' equity (million yen) As of Sep. 30, 2014: 78,555 As of Dec. 31, 2013: 71,268

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Dec. 31, 2013	-	0.00	-	0.00	0.00
Year ending Dec. 31, 2014	-	0.00	-	-	-
Year ending Dec. 31, 2014 (forecast)	-	-	-	3.00	3.00

Note: Revision of dividend forecast most recently announced: None

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	25,000	11.3	7,400	7.0	5,500	12.8	4,000	101.5	15.06

Note: Revision of earnings forecast most recently announced: None

4. Notes

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

Newly added: 2 (KRF43 Silent Partnership, KRF50 Silent Partnership) Excluded: -

Note: Please refer to “2. Matters Related to Summary Information (Notes), (1) Changes in Significant Subsidiaries during the Period” on page 4 of the attachments for further information.

(2) Application of special accounting methods in the preparation of quarterly consolidated financial statements: Yes

Note: Please refer to “2. Matters Related to Summary Information (Notes), (1) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements” on page 4 of the attachments for further information.

(3) 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

(4) Number of shares outstanding (common stock)

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

As of Sep. 30, 2014:	265,658,200 shares	As of Dec. 31, 2013:	265,658,200 shares
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2) Number of shares of treasury stock at end of period

As of Sep. 30, 2014:	- shares	As of Dec. 31, 2013:	- shares
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3) Average number of shares outstanding during the period

Nine months ended Sep. 30, 2014:	265,658,200 shares	Nine months ended Sep. 30, 2013:	230,674,789 shares
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* Information regarding the implementation of quarterly review procedures

The current quarterly financial statements are exempted from quarterly review procedures based on the Financial Instruments and Exchange Law of Japan. At the time of disclosure, we have completed the review process for these consolidated statements.

* 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 “Explanation of Consolidated Forecast and Other Forward-looking Statements.”

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1. Qualitative Information on Quarterly Consolidated Financial Performance

During the first nine months of 2014, Japan's economy was sluggish as the downturn in demand following the rush to buy prior to the April 2014 consumption tax increase was longer than expected. However, demand is expected to recover slowly because the economy is fundamentally sound with steady improvements in jobs and personal income.

In the real estate services and real estate finance sectors, where the Kenedix Group operates, there are signs of an end to the decline in the real estate leasing market and start of a recovery. Average vacancy rates and average monthly leasing rates are rebounding, beginning with high-quality properties. Furthermore, there is growing competition among buyers of real estate. J-REITs are accounting for a smaller share of purchases than in 2013 and there are currently many large-scale purchases mainly by Japanese real estate companies and overseas funds.

The Group is using the following four initiatives to build a stronger base of operations 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. By implementing a variety of measures, the Group is making rapid progress toward reaching the goals of the medium-term management plan.

(1) Explanation of Results of Operations

There have been many activities in the first nine months of 2014 to build a stronger base for growth. Sales of properties held in principal accounts continued since the beginning of 2014 and the proceeds from these sales, along with funds procured from the stock offering in 2013, are being used for investments and other actions.

In March, operations started at the privately owned REIT Kenedix Private Investment Corporation. In addition, operations started at Kenedix Property Management, Inc., which is a property management company. Furthermore, preparations are under way for the establishment of a retail facility J-REIT and a senior healthcare J-REIT. These measures are aimed at building a stable base of operations by increasing the volume of consistent fee-based services and further diversifying the activities of the Kenedix Group.

At the end of the third quarter, assets under management totaled 1,239.2 billion yen. This is a net decrease of 13.5 billion yen from the end of the second quarter but a net increase of 32.9 billion yen (2.7%) from the end of 2013.

Interest-bearing debt on a consolidated basis at the end of the third quarter was 45,386 million yen more than at the end of 2013 because of the establishment of new funds for further growth. But the financial position remains sound as this debt is 53.1% of total assets.

In the first nine months of 2014, consolidated revenue was up 63.4% year on year to 19,741 million yen, operating income increased 26.3% to 6,281 million yen, ordinary income increased 53.6% to 5,262 million yen and net income increased 161.5% to 5,945 million yen.

The following section explains performance by business segments.

1) Asset Management Business

In the Asset Management Business, asset management fees were stable and there was an increase in incentive fees, which are received based on the performance of a fund when it ends. The result was a 21.9% (1,189 million yen) increase in revenue to 6,614 million yen and a 26.0% increase in operating income to 3,840 million yen.

2) Real Estate Investment Business

In the Real Estate Investment Business, revenue and earnings were higher mainly because of gains on the sale of real estate, an increase in dividends income, and an increase in rental revenue due to growth in properties held in principal accounts. The result was a 120.8% increase in revenue to 6,362 million yen and a 70.9% increase in operating income to 1,904 million yen.

3) Real Estate Leasing Business

In the Real Estate Leasing Business, leasing revenue was higher as rental revenue increased along with growth in properties held in principal accounts. In addition, there was a growth in master lease revenue and rent income at Space Design, Inc., which became a consolidated subsidiary in 2013. The result was a 78.4% increase in revenue to 7,598 million yen and a 21.7% increase in operating income to 1,750 million yen.

(2) Explanation of Financial Position

Total assets were 209,898 million yen as of September 30, 2014, 61,499 million yen more than as of December 31, 2013. Growth in properties held in principal accounts resulting from the establishment and consolidation of new real estate funds and an investment in Kenedix Private Investment Corporation were mainly responsible for the increase in total assets.

Total liabilities increased 49,288 million yen to 123,344 million yen. Most of this increase was the result of growth in loans associated with the establishment and consolidation of new real estate funds.

Net assets increased 12,211 million yen to 86,553 million yen mainly because of net income and the increase in minority interests.

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

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

(Millions of yen)

	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Sep. 2014
Interest-bearing debt (1)	123,625	109,767	63,623	66,025	111,412
(Non-recourse loans included) (2)	(69,764)	(60,444)	(21,640)	(28,347)	(80,105)
Net assets (3)	71,147	71,435	56,071	74,341	86,553
Cash and deposits (4)	10,913	7,706	13,813	25,795	18,879
Net debt (5) ((1)-(2)-(4))	42,947	41,617	28,168	11,883	12,427
Net debt-equity ratio net of non-recourse loans (5)/(3) (%)	60.4	58.3	50.2	16.0	14.4

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

We maintain the 2014 forecasts, which was announced on August 7, 2014 in the press release titled "Notice of Forecast Revision."

2. Matters Related to Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

KRF43 Silent Partnership and KRF50 Silent Partnership have become specified subsidiaries (*Tokutei Kogaisha*) of the Company in the first nine months of 2014.

(2) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements

Calculation of tax expense

The tax expense was calculated by first estimating the effective tax rate after the application of tax effect accounting with respect to income before income taxes during the fiscal year, and multiplying that rate by the quarterly income before income taxes.

However, the Company uses legally stipulated effective tax rates to calculate tax expenses for cases in which using estimated tax rates gives a noticeably irrational result.

(3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements

Not applicable.

3. Quarterly Consolidated Financial Statements**(1) Consolidated Balance Sheets***(Millions of yen)*

	FY2013 (As of Dec. 31, 2013)	Third quarter of 2014 (As of Sep. 30, 2014)
Assets		
Current assets		
Cash and deposits	25,795	18,879
Deposits held in trust	1,103	3,632
Accounts receivable-trade	1,079	1,298
Real estate for sale	14,950	12,279
Investment in real estate for sale	-	2,887
Acquired non-performing loans	353	301
Securities	5,000	-
Income taxes refundable	169	949
Deferred tax assets	156	159
Other	1,243	2,060
Allowance for doubtful accounts	(87)	(61)
Total current assets	49,763	42,387
Fixed assets		
Property and equipment		
Buildings and structures	31,089	43,284
Accumulated depreciation	(2,680)	(2,699)
Buildings and structures, net	28,408	40,584
Land	49,941	93,208
Other	309	1,102
Accumulated depreciation	(74)	(72)
Other, net	235	1,029
Total property and equipment	78,586	134,822
Intangible assets		
Leasehold right	2,861	2,828
Goodwill	412	898
Other	63	74
Total intangible assets	3,338	3,801
Investment and other assets		
Investment securities	11,889	21,236
Investment in capital	461	498
Long-term loans receivable	548	1,059
Deferred tax assets	63	66
Other	3,984	6,143
Allowance for doubtful accounts	(236)	(117)
Total investment and other assets	16,710	28,886
Total fixed assets	98,635	167,510
Total assets	148,398	209,898

(Millions of yen)

	FY2013 (As of Dec. 31, 2013)	Third quarter of 2014 (As of Sep. 30, 2014)
Liabilities		
Current liabilities		
Accounts payable-trade	594	590
Short-term borrowings	3,541	4,633
Short-term non-recourse borrowings	-	837
Long-term borrowings-due within one year	6,589	8,650
Long-term non-recourse borrowings-due within one year	622	1,501
Non-recourse bonds-due within one year	19	146
Accrued employees' bonuses	-	78
Accrued income taxes	156	467
Other	1,729	2,711
Total current liabilities	13,253	19,618
Long-term liabilities		
Long-term borrowings	27,547	18,022
Long-term non-recourse borrowings	24,796	69,281
Non-recourse bonds payable	2,909	8,339
Deferred tax liabilities	1,389	1,585
Allowance for employees' retirement benefits	107	117
Long-term security deposits	3,701	6,033
Other	351	346
Total long-term liabilities	60,803	103,726
Total liabilities	74,056	123,344
Net assets		
Shareholders' equity		
Common stock	40,237	40,237
Additional paid-in capital	40,496	28,782
Retained earnings	(9,605)	8,986
Total shareholders' equity	71,128	78,006
Accumulated other comprehensive income		
Net unrealized holding gains/losses on other securities	398	782
Deferred gains or losses on hedges	-	(12)
Foreign currency translation adjustments	(257)	(221)
Total accumulated other comprehensive income	140	549
Subscription rights to shares	44	93
Minority interests	3,028	7,903
Total net assets	74,341	86,553
Total liabilities and net assets	148,398	209,898

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

	First nine months of 2013 (Jan. 1, 2013 – Sep. 30, 2013)	First nine months of 2014 (Jan. 1, 2014 – Sep. 30, 2014)
Revenue	12,081	19,741
Cost of revenue	4,374	10,001
Gross profit	7,706	9,739
Total selling, general and administrative expenses	2,731	3,457
Operating income	4,975	6,281
Non-operating income		
Interest income	21	56
Equity in earnings of affiliates	51	299
Foreign currency transaction gain	29	34
Other	80	107
Total non-operating income	183	497
Non-operating expenses		
Interest expenses	1,152	1,116
Commissions paid	435	360
Other	144	39
Total non-operating expenses	1,732	1,516
Ordinary income	3,426	5,262
Extraordinary income		
Gain on sales of fixed assets	134	3,276
Other	1	10
Total extraordinary income	136	3,287
Extraordinary loss		
Loss on sales of fixed assets	215	747
Impairment loss	48	652
Office transfer expenses	95	-
Other	0	50
Total extraordinary losses	360	1,450
Income before income taxes and profit distribution to silent partners	3,202	7,099
Profit distribution to silent partnerships	(0)	0
Income before income taxes	3,202	7,099
Income taxes	744	690
Income before minority interests	2,457	6,409
Minority interests	184	464
Net income	2,273	5,945

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

	First nine months of 2013 (Jan. 1, 2013 – Sep. 30, 2013)	First nine months of 2014 (Jan. 1, 2014 – Sep. 30, 2014)
Income before minority interests	2,457	6,409
Other comprehensive income		
Net unrealized holding gains/losses on other securities	324	384
Deferred gains or losses on hedges	-	(12)
Foreign currency translation adjustments	98	36
Total other comprehensive income	423	408
Comprehensive income	2,881	6,817
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	2,687	6,353
Comprehensive income attributable to minority interests	194	463

(3) Notes to Quarterly Consolidated Financial Statements

Going-concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

First nine months of 2013 (Apr. 1, 2013 – Sep. 30, 2013)

1. Significant Changes in Shareholders' Equity

Kenedix sold stock through a public offering with a payment date of September 19, 2013 and through a private placement with a payment date of September 30, 2013. Accordingly, capital stock and capital reserves increased 8,915 million yen each during the first nine months of 2013, to 40,237 million yen and 40,496 million yen, respectively, at the end of the third quarter of 2013.

First nine months of 2014 (Apr. 1, 2014 – Sep. 30, 2014)

1. Significant Changes in Shareholders' Equity

The Kenedix Board of Directors approved a resolution on February 25, 2014 to submit a proposal for the reduction of the capital reserve and appropriation of surplus at the 19th ordinary general meeting of shareholders held on March 26, 2014. The proposal was approved by shareholders.

(1) Objective of reduction of capital reserve and appropriation of surplus

The capital reserve was reduced to cover the deficit in retained earnings carried forward for the purpose of securing flexibility and mobility of its financial strategy going forward and to make possible an early resumption of dividend payments.

(2) Details of reduction of capital reserve and appropriation of surplus

1) In accordance with the provisions of Paragraph 1, Article 448 of the Companies Act, the Company reduced the capital reserve by 11,714,250,268 yen and transferred an equivalent amount to other capital surplus.

- Amount of capital reserve reduced
Capital reserve: 11,714,250,268 yen (out of 40,496,497,868 yen)
Amount of capital reserve after reduction: 28,782,247,600 yen

2) In accordance with the provision of Article 452 of the Companies Act, the full amount of 11,714,250,268 yen in other capital surplus following the transfer described in 1) above was transferred to retained earnings carried forward to cover the deficit.

- Item and amount reduced
Other capital surplus: 11,714,250,268 yen
- Item and amount increased
Retained earnings carried forward: 11,714,250,268 yen

(3) Effective date

March 27, 2014

Segment and Other Information**Segment Information**

I. First nine months of 2013 (Jan. 1, 2013 – Sep. 30, 2013)

1. Information related to revenue, profit and losses for each reportable segment

(Millions of yen)

	Reportable segment			Total	Adjustment (Note 1)	Amount recorded in consolidated statements of income (Note 2)
	Asset Management Business	Real Estate Investment Business	Real Estate Leasing Business			
Revenue						
(1) External sales	4,939	2,881	4,259	12,081	-	12,081
(2) Inter-segment sales and transfers	485	-	-	485	(485)	-
Total	5,424	2,881	4,259	12,566	(485)	12,081
Segment operating income	3,047	1,114	1,438	5,600	(625)	4,975

Notes: 1. The (625) million yen adjustment to segment operating income includes corporate costs that cannot be allocated to reportable segments. Corporate costs mainly include general and administrative expenses that cannot be attributed to reportable segments.

2. Segment operating income is adjusted with operating income shown on the consolidated statements of income.

2. Information related to impairment losses on fixed assets, or goodwill, etc. for each reportable segment

Material impairment losses related to fixed assets

An impairment loss of 48 million yen on fixed assets was booked in the Real Estate Leasing Business.

Significant change in goodwill

A goodwill of 336 million yen was booked in the Asset Management Business due to the additional acquisition of shares of Kenedix Office Partners, Inc. (present Kenedix Real Estate Fund Management, Inc.).

II. First nine months of 2014 (Jan. 1, 2014 – Sep. 30, 2014)

1. Information related to revenue, profit and losses for each reportable segment

(Millions of yen)

	Reportable segment			Total	Adjustment (Note 1)	Amount recorded in consolidated statements of income (Note 2)
	Asset Management Business	Real Estate Investment Business	Real Estate Leasing Business			
Revenue						
(1) External sales	5,780	6,362	7,598	19,741	-	19,741
(2) Inter-segment sales and transfers	834	-	-	834	(834)	-
Total	6,614	6,362	7,598	20,575	(834)	19,741
Segment operating income	3,840	1,904	1,750	7,494	(1,213)	6,281

Notes: 1. The (1,213) million yen adjustment to segment operating income includes corporate costs that cannot be allocated to reportable segments. Corporate costs mainly include general and administrative expenses that cannot be attributed to reportable segments.

2. Segment operating income is adjusted with operating income shown on the consolidated statements of income.

2. Information related to impairment losses on fixed assets, or goodwill, etc. for each reportable segment

Material impairment losses related to fixed assets

An impairment loss of 551 million yen on fixed assets were booked in the Real Estate Leasing Business in the first nine months of 2014.

Significant change in goodwill

A goodwill of 643 million yen was booked in the Asset Management Business in the first nine months of 2014 due to the inclusion of Kenedix Property Management, Inc. as a consolidated subsidiary. In addition, an impairment loss on goodwill of 90 million yen was booked in the Real Estate Leasing Business.