Notes to the Consolidated Financial Statements

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

1. Matters concerning the scope of consolidation
   (1) Number of consolidated subsidiaries: 44
   Names of principal consolidated subsidiaries
   Kenedix Real Estate Fund Management, Inc.
   Kenedix Development, Inc.
   Pacific Servicing Co., Ltd.
   Space Design, Inc.
   Kenedix Property Management, Inc.
   Kenedix Westwood, LLC
   Kenedix GP, LLC
   37 other subsidiaries

   (2) Names of principal non-consolidated subsidiaries
   Kenedix Master Tk, LLC
   Kenedix Insurance Agency, Inc.
   Japan Senior Living Partners, Inc., and 5 other subsidiaries
   In accordance with Article 63, Paragraph 1, Item 2 of the Ordinance on Company Accounting, Kenedix Master Tk, LLC, a non-consolidated subsidiary, was excluded from the scope of consolidation, as this subsidiary is the operator of a silent partnership contract and the value of assets and gains or losses attributable to the Group was effectively small.
   In addition, 7 non-consolidated subsidiaries including Kenedix Insurance Agency, Inc. and Japan Senior Living Partners, Inc. were excluded from the scope of consolidation, as they are small-scale businesses with none of their combined total assets, net sales, net income or loss (amounts equivalent to the Company's interests in these subsidiaries) or retained earnings (amounts equivalent to the Company's interests in these subsidiaries) having material impact on the Consolidated Financial Statements.

   (3) Changes in the scope of consolidation
   From the fiscal year under review, the following companies have been included in the scope of consolidation: KRF43 Silent Partnership, KRF50 Silent Partnership, Kenedix Property Management, Inc. and 16 other companies as they were newly established. Meanwhile, from the fiscal year under review, the following companies which were the Group's consolidated subsidiaries in the previous fiscal year have been excluded from the scope of consolidation: Enshu Capital 2 Silent Partnership and 10 other companies due to the termination of their silent partnership contracts; and Marusan Hasegawa Silent Partnership due to a decrease in its significance.

   (4) Matters concerning accounting periods of consolidated subsidiaries
   Of the consolidated subsidiaries, 14 subsidiaries employed different accounting closing dates from that of the Consolidated Financial Statements but their closing dates do not deviate from the consolidated closing date by more than three months. For these subsidiaries, the Consolidated Financial Statements applied their financial statements as of the respective closing dates.
   Additionally, for 21 consolidated subsidiaries, the Consolidated Financial Statements applied their provisional financial statements closed on either the consolidated closing date or a specific date within three months of the consolidated closing date.
   For any of them, appropriate adjustments were made for significant transactions that arose between the relevant closing dates and the consolidated closing date.

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

   (2) Affiliates accounted for under the equity method
   Number of affiliates accounted for under the equity method: 13
   Names of principal affiliates accounted for under the equity method
   Mitsui & Co., Logistics Partners Ltd.
   Asset One Co., Ltd.
   CRES Co., Ltd.
   KW Multi-Family Management Group, LLC
   Touchstone Holdings Co., Ltd.
   KENEDIX Private Investment Corporation
   Premier REIT Advisors Co., Ltd. (PRA)
   6 other affiliates

(3) Principal non-consolidated subsidiaries and affiliates not accounted for under the equity method

1) Number of non-consolidated subsidiaries: 8

Kenedix Master Tk, LLC

Kenedix Insurance Agency, Inc.

Japan Senior Living Partners, Inc. and 5 other subsidiaries

2) Number of affiliates: 1

Topaz Private Debt I LPS

In accordance with Article 69, Paragraph 1, Item 2 of the Ordinance on Company Accounting, Kenedix Master Tk, LLC, a non-consolidated subsidiary not accounted for under the equity method, was excluded from the scope of application of the equity method, as this subsidiary is the operator of a silent partnership contract and the value of assets and gains or losses attributable to the Group was effectively small.
In addition, 8 non-consolidated subsidiaries not accounted for under the equity method including Kenedix Insurance Agency, Inc., Japan Senior Living Partners, Inc. and Topaz Private Debt I LPS were excluded from the scope of application of the equity method because the impact of each of their net income or loss (amounts equivalent to the Company's interests in these subsidiaries) and retained earnings (amounts equivalent to the Company's interests in these subsidiaries), etc. were little and these subsidiaries, as a whole, were insignificant.

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

4 companies including Premier REIT Advisors Co., Ltd. (PRA) are accounted for under the equity method due to the acquisition of shares in these companies and other reasons. KENEDIX Private Investment Corporation is also accounted for under the equity method, as its significance has increased. Furthermore, 12 companies including Ichiro Five SPC have been excluded from the scope of application of the equity method, following the completion of their liquidations.

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

In respect of the financial statements of 8 affiliates accounted for under the equity method, the Consolidated Financial Statements applied their provisional financial statements closed on either the consolidated closing date or a specific date.
In this case, appropriate adjustments were made for significant transactions that arose between the relevant closing dates and the consolidated closing date.

3. Matters concerning accounting standards

(1) Evaluation standards and methods for principal assets

1) Marketable securities

Other securities

Securities with market quotations	Stated at market value at the accounting closing date (Unrealized gains or losses are comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.)
Securities without market quotations	Stated at cost by the moving-average method However, investments in silent partnership are stated on an individual specified cost basis. The details are described in "(10) Accounting method for investments in silent partnerships."
2) Derivatives	Market value method
3) Inventories	Real estate for sale (including real-estate trust beneficiary rights) Primarily stated at cost on an individual specified cost basis (the balance sheet value is computed by the method of devaluing book price to reflect declines in profitability). Real estate for sale, except those acquired temporarily for the purpose of incorporating in funds structured by the Group, is written off and the depreciation is recorded as cost of revenue. Useful lives of these assets are in general 14–43 years.

(2) Depreciation and amortization method for principal depreciable assets

1) Property and equipment (excluding lease assets)	Straight-line method Useful lives of principal property and equipment are as follows. Buildings and structures: 11-50 years Others (furniture and fixtures): 2-20 years
2) Intangible assets (excluding lease assets)	The costs for software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method.
3) Lease assets	Lease assets are depreciated by the straight-line method over the lease period without residual value.
4) Long-term prepaid expenses	Straight-line method

(3) Accounting method for deferred assets

1) Stock issuance cost	These costs are fully charged to income when they are paid.
2) Bond issuance cost	These costs are fully charged to income when they are paid.

(4) Recognition of significant allowances

1) Allowance for doubtful accounts

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

2) Provision for contingent loss

In preparation for contingent losses with a high probability of occurring in the future, the individual risk of each contingent event is considered and a reasonably calculated estimated loss amount is reported.

(5) Accounting method for employees' retirement benefits

The simplified valuation method is applied to the calculation of net defined benefit liability and employees' retirement benefit expenses, with the total amount required for benefits for voluntary retirement at the end of the fiscal year reported as retirement benefit obligations.

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

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

(7) Hedge accounting method

1) Hedge accounting method

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

2) Hedging instruments and hedging items

Hedging instruments ……………… Interest-rate swap and interest-rate cap agreements
Hedging items …………………… Borrowings

3) Hedging policy

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

4) Method for evaluating hedging effectiveness

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

(8) Accounting method for consumption tax

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

(9) The application of the consolidated tax payment system

The Company and certain consolidated subsidiaries have adopted the consolidated tax payment system from the consolidated fiscal year under review.

(10) Accounting method for investments in silent partnerships

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

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

The Company's consolidated subsidiaries are operators of silent partnerships and commissioned to provide services related to the business. As assets of silent partnerships are attributed to operators, all the assets, as well as gains or losses made by the silent partnerships, are incorporated in the Consolidated Financial Statements and stated on a gross amount basis.

Invested funds in silent partnerships are recorded as "other" under long-term liabilities when the Group receives these funds. The equivalent amount of the investors' interests in net gains or losses made by the silent partnerships are recorded as "profit distribution to silent partnerships," which is presented immediately above "income before income taxes" on the Consolidated Statement of Income, while the same amount is either added to or deducted from "other" under long-term liabilities. Withdrawal of an investment is recorded by deducting the relevant amount from "other" under long-term liabilities.

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

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

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

(13) Accounting method for acquired non-performing loans

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

(14) Accounting method and period for amortization of goodwill

Goodwill and negative goodwill recognized on and before March 31, 2010 are amortized using the straight-line method over the estimated effective period of their useful lives (generally 10 years).

Goodwill with insignificant value is amortized in a lump sum for the fiscal year it was recognized.

4. Changes in disclosure method

(Relating to the Consolidated Balance Sheet)

In the previous fiscal year, "non-recourse bonds—due within one year" (19 million yen in the previous fiscal year) and "long-term non-recourse borrowings—due within one year" (622 million yen in the previous fiscal year) were included in "corporate bonds—due within one year" and "long-term borrowings—due within one year" under "current liabilities," while "non-recourse bonds payable" (2,909 million yen in the previous fiscal year) and "long-term non-recourse borrowings" (24,796 million yen in the previous fiscal year) were included in "bonds payable" and "long-term borrowings" under "long-term liabilities." In line with the application of the "Accounting Standard for Consolidated Financial Statements" (Accounting Standards Board of Japan ("ASBJ") Statement No. 22, March 25, 2011), these items are reported separately from the fiscal year under review.

"Allowance for employees' retirement benefits," which was disclosed during the previous fiscal year, has been disclosed as "net defined benefit liability" from the fiscal year under review, in line with the application of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012).

(Consolidated Statement of Income)

In the previous fiscal year, "consumption taxes differential (after being offset by suspense payments and receipt)" (0 million yen in the fiscal year under review) was reported as a separate item under non-operating income. As this item has decreased in significance, it has been included in "other" under non-operating income.

In the previous fiscal year, "stock issuance cost" (0 million yen in the fiscal year under review) was reported as a separate item under non-operating expenses. As this item has decreased in significance, it has been included in "other" in non-operating expenses.

Notes to Consolidated Balance Sheet

	(Millions of yen)
1. Accumulated depreciation of property and equipment	2,558

2. Assets pledged as collateral and collateralized liabilities

(1) Assets pledged as collateral

	(Millions of yen)
Deposits held in trust	119
Buildings and structures	6,257
Land	11,824
Other under property and equipment	805
Leasehold right	2,856
Other under investment and other assets	292

(2) Collateralized liabilities

	(Millions of yen)
Short-term borrowings	4,630
Long-term borrowings — due within one year	4,493
Long-term borrowings	2,476

(3) Assets pledged as collateral for non-recourse debts

1) Assets pledged as collateral

	(Millions of yen)
Cash and deposits	542
Deposits held in trust	3,170
Real estate for sale	12,114
Buildings and structures	28,001
Land	69,371
Other under property and equipment	3
Other under investment and other assets	2,908

2) Collateralized liabilities

	(Millions of yen)
Short-term non-recourse borrowings	837
Non-recourse bonds — due within one year	146
Long-term non-recourse borrowings — due within one year	1,210
Non-recourse bonds payable	8,334
Long-term non-recourse borrowings	72,359

The above liabilities represent the loans advanced to the Group's 16 consolidated subsidiaries which own the assets pledged as collateral listed in the above 1). The repayment of these loans is limited to the amounts of their assets.

Notes to Consolidated Statement of Changes in Net Assets

Matters concerning the class and total number of shares issued

Shares issued

Common stock 265,658,200 shares

Notes to Financial Instruments

1. Matters concerning the financial instruments

(1) The Group's policy for financial instruments

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

(2) Details of financial instruments and associated risks

Accounts receivable — trade and acquired non-performing loans, which are operating claims, are exposed to the clients' credit risk. Income taxes refundable represent a refund of income taxes that is recovered in a short period of time.

Investment securities consist in large part of investment units of real-estate investment trust and are exposed to the risk of market price fluctuations. Long-term loans receivable are loans advanced to trading partners, etc. and are exposed to the credit risk of the borrowers.

Payment terms of accounts payable — trade and accrued income taxes, which are operating liabilities, are within 1 year. Borrowings and bonds payable are intended to finance the Group's capital requirements particularly for investments and working capital. Repayment due dates for these liabilities are not longer than 22 years from the settlement dates. Part of them bears variable interest rates and is exposed to the risk of interest rate fluctuations, but the Group uses derivative transactions to hedge against the risk. The derivative transactions represent interest-rate swap and interest-rate cap agreements designed to hedge against the risk of fluctuations in interest rates on the borrowings. For details on hedging instruments, hedging items, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to the aforementioned "(7) Hedge accounting method" in "3. Matters concerning accounting standards."

(3) Risk management system for financial instruments

1) Management of credit risk (the risk that trading partners may default)

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

2) Management of market risk (the risk arising from fluctuations in foreign exchange rates, interest rates, etc.)

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

3) Management of liquidity risk associated with financing activities (the risk that the Group may fail to meet its obligations on due dates)

The Group manages the liquidity risk through the deployment of funding plans, which are formulated and updated on a timely basis by a department in charge based on reports submitted by each business unit, as well as by maintaining sufficient liquidity on hand at all times.

(4) Supplementary explanations on matters concerning market value of financial instruments

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

2. Matters concerning the market value of financial instruments

The book value on the consolidated balance sheet and market value of financial instruments as of December 31, 2014 as well as the differences between these values are described below. Financial instruments whose market values appear to be extremely difficult to determine are not included in the table. (See (Note 2))

(Millions of yen)

		Book value on the consolidated balance sheet	Market value	Difference
Assets	(1) Cash and deposits	28,546	28,546	—
	(2) Deposits held in trust	3,290	3,290	—
	(3) Accounts receivable — trade	1,213		
	Allowance for doubtful accounts*1	(6)		
		1,206	1,206	—
	(4) Acquired non-performing loans	95		
	Allowance for doubtful accounts*1	(33)		
		62	62	—
	(5) Income taxes refundable	2,017	2,017	—
	(6) Investment securities	5,538	5,538	—
	(7) Long-term loans receivable	803	803	—
Liabilities	(1) Accounts payable — trade	625	625	—
	(2) Short-term borrowings	4,630	4,630	—
	(3) Short-term non-recourse borrowings	837	837	—
	(4) Accrued income taxes	427	427	—
	(5) Non-recourse bonds payable (including non-recourse bonds — due within one year)	8,481	8,481	—
	(6) Long-term borrowings (including long-term borrowings — due within one year)	19,096	19,120	24
	(7) Long-term non-recourse borrowings (including long-term non-recourse borrowings — due within one year)	73,569	73,569	—
Derivative transaction*2		[37]	[37]	—

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

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

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

Assets

(1) Cash and deposits, (2) Deposits held in trust and (5) Income taxes refundable

These are recorded using book values as their market values approximate their book values because of their short-term maturities.

(3) Accounts receivable — trade

These are recorded using book values as their market values approximate their book values because of their short-term maturities. For specific receivables to which the Group provides allowance for doubtful accounts on an individual basis, the market value is measured by deducting an estimated irrecoverable amount (the amount of allowance) from the relevant receivable.

(4) Acquired non-performing loans and (7) Long-term loans receivable

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

(6) Investment securities

Stocks, etc. are recorded using stock exchange quoted prices.

Liabilities

(1) Accounts payable — trade, (2) Short-term borrowings, (3) Short-term non-recourse borrowings and (4) Accrued income taxes

These are recorded using book values as their market values approximate their book values because of their short-term maturities.

(5) Non-recourse bonds payable (including non-recourse bonds — due within one year) and (7) Long-term non-recourse borrowings (including long-term non-recourse borrowings — due within one year)

Those with variable interest rates are recorded using book values as their market values are deemed to approximate their book values because their variable interest rates reflect the market prices and the Group's credit standing has not changed significantly since it implemented these bonds.

(6) Long-term borrowings (including long-term borrowings — due within one year)

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

Derivative transaction

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

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

(Millions of yen)

Item	Book value on the consolidated balance sheet
Unlisted shares, etc.*1	16,848
Investments in capital*2	485
Long-term security deposits*3	5,218

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

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

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

Notes to Real Estate for Rent, etc.

1. Matters concerning the status of real estate for rent, etc.

Some of the Group's consolidated subsidiaries own office buildings for rent in Tokyo and other areas.

2. Matters concerning the market value of real estate for rent, etc.

(Millions of yen)

Book value on the consolidated balance sheet	Market value as of Dec. 31, 2014
121,559	123,464

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

2. The market value as of Dec. 31, 2014 was based mainly on the appraised value of the real estate for rent made by an outside real-estate appraiser (including those adjusted using relevant indexes).

Notes to Per Share Information

1. Net assets per share	290.62 yen
2. Net income per share	18.24 yen

Notes to Significant Subsequent Events

On January 6, 2015, the Group entered into an agreement for the sale of trust beneficiary rights with Kenedix Retail REIT Corporation, stating that the Group would sell trust beneficiary rights (fixed assets) held by a consolidated subsidiary of the Company.

This contract will become effective if the following condition precedents are met. The investment units of Kenedix Retail REIT Corporation must be listed on the Real Estate Investment Trust Market established by the Tokyo Stock Exchange, Inc. Kenedix Retail REIT Corporation must also raise the funds necessary to pay the purchase price agreed upon in the contract by the sale date (including but not limited to financing through loans and increases of capital).

1. Reasons for the sale
   The Company will execute this sale in order to restructure its assets through the sale of real estate holdings and support the growth of J-REITs affiliated with the Company, one of the key policies of the medium-term management plan formulated on February 14, 2013 (including some revisions made on August 9, 2013).

2. Details of the assets to be sold and their use prior to the sale
   Trust beneficiary rights to 4 properties consisting of commercial facilities and land held as assets in trust.

3. Name of the purchasing entity
   Kenedix Retail REIT Corporation

4. Timing of sale
   Transfer date:
   February 10, 2015

5. Sale price
   31,517 million yen (total amount for 4 properties)

Other Notes

Impairment loss

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

Principal use	Description of assets	Location
Real estate for rent	Buildings and structures / Land	Nishinomiya, Hyogo Prefecture
Real estate for rent	Buildings and structures / Land	Sapporo, Hokkaido
Real estate for rent	Buildings and structures / Land	Mito, Ibaraki Prefecture
Real estate for rent	Buildings and structures / Land	Ota-ku, Tokyo
Real estate for rent	Goodwill	Matsumoto, Nagano Prefecture
Corporate asset	Buildings and structures	Osaka, Osaka Prefecture
Corporate asset	Other	Chuo-ku, Tokyo

The Group’s assets are generally grouped on an individual basis.

Of the real estate for rent, those with recoverable values that fell short of their book values were written down, and the reduced amounts were recorded as impairment loss under extraordinary loss.

The recoverable value was estimated based on the net realizable value, which was set using its projected sale value.

(Amount of impairment loss) (Millions of yen)

Description of assets	Amount
Buildings and structures	885
Land	1,231
Other	0
Goodwill	90
Total	2,206

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

Notes to the Non-consolidated Financial Statements

Notes to Significant Accounting Policies

1. Evaluation standards and methods for assets
   (1) Evaluation standards and methods for marketable securities

Stocks of subsidiaries and affiliates	Stated at cost by the moving-average method
Other securities	
Securities with market quotations	Stated at market value at the accounting closing date (Unrealized gains or losses are comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.)
Securities without market quotations	Stated at cost by the moving-average method However, investments in silent partnership are stated on an individual specified cost basis. The details are described in “8. Accounting method for investments in silent partnerships.”
(2) Evaluation standards and methods for derivatives	Market value method

2. Depreciation methods for fixed assets

(1) Property and equipment (excluding lease assets)	Straight-line method Useful lives of principal property and equipment are as follows. Buildings: 15 years Tools, furniture and fixtures: 3-20 years
(2) Intangible assets (excluding lease assets)	The costs for software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method.
(3) Lease assets	Lease assets are depreciated by the straight-line method over the lease period without residual value.
(4) Long-term prepaid expenses	Straight-line method

3. Recognition of allowances
   (1) Allowance for doubtful accounts

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

   (2) Allowance for employees’ retirement benefits

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

   (3) Provision for contingent loss

   In preparation for contingent losses with a high probability of occurring in the future, the individual risk of each contingent event is considered and a reasonably calculated estimated loss amount is reported.

4. Accounting standards for the translation of foreign currency-denominated assets and liabilities into Japanese yen

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

5. Hedge accounting method
   (1) Hedge accounting method

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

   (2) Hedging instruments and hedging items
   1) Hedging instruments ……………Interest-rate swap agreements
   2) Hedging items …………………Borrowings

   (3) Hedging policy

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

   (4) Method for evaluating hedging effectiveness

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

6. Accounting method for consumption tax

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

7. The application of the consolidated tax payment system

The consolidated tax payment system is applied from the fiscal year under review.

8. Accounting method for investments in silent partnerships

For the investment in a silent partnership, the Company recognizes the equivalent amount of its interest in the assets of the relevant partnership as "money invested in real estate for sale" under current assets, "investment securities" and "other securities of subsidiaries and affiliates" under investment and other assets. The Company records such asset items when it makes an investment in a silent partnership. The Company records the equivalent amount of its interest in a net gain or loss made by the relevant partnership as "revenue" or "cost of revenue," while the same amount is either added to or deducted from such asset items. Redemption of the investment from an operator is recorded by deducting the redeemed amount from such asset items.

9. Changes in disclosure method

(Non-consolidated Statements of Income)

Until the previous fiscal year, "loss on valuation of investment in capital" (10 million yen in the previous fiscal year) was included under "other." As this item has increased in significance, it has been reported as a separate item.

Notes to Non-consolidated Balance Sheet

1. Monetary claims and liabilities to subsidiaries and affiliates (excluding those reported separately)

	(Millions of yen)
Short-term monetary claims	792
Short-term monetary liabilities	103
Long-term monetary liabilities	164

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

65

3. Assets pledged as collateral and collateralized liabilities

The Company has pledged 1,026 million yen worth of stocks of subsidiaries and affiliates as collateral for long-term borrowings due within one year equivalent to 800 million yen and long-term borrowings equivalent to 9,400 million yen.

4. Guarantee liabilities

The Company concluded an agreement to guarantee the rent obligations owed by Healthcare One, LLC and 3 other companies for 7 years, with a value not exceeding 633 million yen, and the rent obligations owned by Healthcare Five, LLC, for 2 years, with a value not exceeding 87 million yen.

Notes to Non-consolidated Statement of Income

Transactions with subsidiaries and affiliates	(Millions of yen)
Operating transactions	
Revenue	10,617
Cost of revenue	115
Selling, general and administrative expenses	106
Transactions other than operating transactions	2,193

Notes to Tax Effect Accounting

Breakdown of major factors that caused deferred tax assets and liabilities

(1) Deferred tax assets (current)

	(Millions of yen)
Operating loss carried forward	6,977
Accrued business taxes	38
Dividend income from investment in silent partnerships	14
Other	120
Subtotal	7,151
Valuation allowance	6,305
Total deferred tax assets (current)	845

(2) Deferred tax assets (fixed)

	(Millions of yen)
Loss on valuation of investment securities	200
Loss on valuation of stocks of subsidiaries and affiliates	1,431
Dividend income from investment in silent partnerships	1,334
Difference from the book value of stocks of subsidiaries and affiliates	1,371
Other	121
Subtotal	4,460
Valuation allowance	3,990
Total deferred tax assets (fixed)	469

(3) Deferred tax liabilities (long-term)

	(Millions of yen)
Net unrealized holding gains/losses on other securities	496
Property and equipment corresponding to asset retirement obligations	9
Total	506
Deferred tax liabilities (long-term), net	36

Notes to Transactions between Related Parties

Attribute	Name	Ratio of voting rights holding	Type of relationship	Summary of transactions	Amount of transaction during the fiscal year under review (Millions of yen)	Accounting item	Balance as of Dec. 31, 2014 (Millions of yen)
Subsidiary	Kenedix Development, Inc.	Holding Direct 100%	Financial assistance	Interest receipt	104	–	–
				Loans collected	2,789	–	–
					5,366	–	–
Subsidiary	KWR Fourth Silent Partnership	–	Silent partnership investment	Profit distribution	2,017	–	–
Subsidiary	HKDX Silent Partnership	–	–	Collateral deposit	3,610	–	–
			Silent partnership investment	Investment	100	Other securities of subsidiaries and affiliates	4,744
Subsidiary	KWO Third Silent Partnership	–	Silent partnership investment	Profit Distribution	15	Other securities of subsidiaries and affiliates	2,622
Subsidiary	KW Property 6 Silent Partnership	–	Silent partnership investment	Profit Distribution	153	Other securities of subsidiaries and affiliates	3,984
Subsidiary	K&U Investment Silent Partnership	–	Silent partnership investment	Profit Distribution	42	Other securities of subsidiaries and affiliates	1,180
Subsidiary	KW Property 2 Silent Partnership	–	Silent partnership investment	Profit distribution	1,475	Other securities of subsidiaries and affiliates	745
Subsidiary	KRF6 Silent Partnership	–	Silent partnership investment	Profit distribution	2,300	–	–
Subsidiary	KRF22 Silent Partnership	–	–	Collateral deposit	4,460	–	–
			Silent partnership investment	Investment	710	Other securities of subsidiaries and affiliates	5,844
Subsidiary	KRF25 Silent Partnership	–	Silent partnership investment	Profit distribution	3,135	Other securities of subsidiaries and affiliates	1,020
Subsidiary	KRF33 Silent Partnership	–	Silent partnership investment	Profit distribution	1,386	–	–
Subsidiary	KRF40 Silent Partnership	–	–	Collateral deposit	4,460	–	–
			Silent partnership investment	Investment	900	Other securities of subsidiaries and affiliates	3,218
Subsidiary	KRF41 Silent Partnership	–	Silent partnership investment	Profit distribution	3,068	–	–
Subsidiary	KRF43 Silent Partnership	–	Silent partnership investment	Investment	1,148	Other securities of subsidiaries and affiliates	1,078
			–	Profit distribution	70		
Subsidiary	Creek Investment 2 Silent Partnership	–	Silent partnership investment	Investment	1,500	Money invested in real estate for sale	610
			–	Profit distribution	64		
Subsidiary	KRF44 Silent Partnership	–	Silent partnership investment	Investment	2,770	Other securities of subsidiaries and affiliates	2,804
Subsidiary	KRF50 Silent Partnership	–	Silent partnership investment	Investment	6,625	Other securities of subsidiaries and affiliates	5,661
			–	Profit distribution	1,170		
Subsidiary	KRF30 Silent Partnership	–	Silent partnership investment	Investment	1	Other securities of subsidiaries and affiliates	1,500

Attribute	Name	Ratio of voting rights holding	Type of relationship	Summary of transactions	Amount of transaction during the fiscal year under review (Millions of yen)	Accounting item	Balance as of Dec. 31, 2014 (Millions of yen)
Subsidiary	Roseo Silent Partnership	―	Silent partnership investment	Profit distribution	130	Other securities of subsidiaries and affiliates	5,186
Subsidiary	KF Silent Partnership	―	Silent partnership investment	Investment	2,500	Other securities of subsidiaries and affiliates	2,527
Subsidiary	JRP3 Silent Partnership	―	Silent partnership investment	Investment	1,470	Other securities of subsidiaries and affiliates	1,443
			―	Profit distribution	48		
Affiliate	JFW Silent Partnership	―	Silent partnership investment	Investment	1,940	Other securities of subsidiaries and affiliates	1,940
Subsidiary	Swift Silent Partnership	―	Financial assistance	Interest receipt	208	―	―
				Funds collected	6,186	―	―
Subsidiary	Space Design, Inc.	Holding Direct 99%	Financial assistance	Funds collected	1,718	Long-term loans to subsidiaries and affiliates	762
						Interest receivable	8
Subsidiary	MH Investment Silent Partnership	―	Silent partnership investment	Investment	1,660	―	―
Subsidiary	Marusan Hasegawa Co., Ltd.	―	Financial assistance	Loans	891	―	―
				Funds collected	891	―	―
			Borrowing of funds	Borrowing of funds	1,310	―	―
				Repayment of funds	1,310	―	―
			Silent partnership investment	Profit distribution	1,981	―	―

1. Terms and conditions of transactions are determined on similar terms and conditions applied to general transactions, in consideration of the market prices and other factors.
2. Interest rates on loans are reasonably determined in consideration of the money market rates.
3. In the fiscal year under review, the Company reported 1,937 million yen in reversal of allowance for doubtful accounts.

Notes to Per Share Information

1. Net assets per share	293.95 yen
2. Net income per share	30.77 yen

Notes to Significant Subsequent Events

Not applicable

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