

# 17th Fiscal Period

SEMIANNUAL REPORT

May 1, 2013–October 31, 2013



Focusing on  
**Mid-sized**  
Office Buildings in the  
**Tokyo Metropolitan Area**

# KENEDIX-REIT

## Top Interview

# Succeeding with our Strategy of Focusing on Mid-sized Office Buildings in the Tokyo Metropolitan Area —Moving Ahead to Further Growth



The 17th Fiscal Period proved to be a turning point for KENEDIX-REIT in moving ahead to a further stage of growth.

During the fiscal period under review, KENEDIX-REIT increased its capital by 19.1 billion yen through a public offering and third-party allotment.

With eight recent property acquisitions, the KENEDIX-REIT portfolio grew to 89 properties—the most of any J-REIT in the mid-sized office building market. The total acquisition price also surpassed 320 billion yen.

Looking to the future, KENEDIX-REIT has set sights on expanding the portfolio to 400 billion yen in terms of acquisition price.

**Naokatsu Uchida**

*Executive Director*

*Kenedix Realty Investment Corporation*

Note:

As resolved at the Seventh General Meeting of Unitholders on January 22, 2014, the Investment Corporation will change its corporate name to Kenedix Office Investment Corporation from February 3, 2014.

## Question 1

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**Please review KENEDIX-REIT's business performance during the 17th Fiscal Period.**

### Answer 1

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Operating revenues in the period under review edged down 0.5% from the 16th Fiscal Period to 9.8 billion yen, operating income fell 3.7% to 4.2 billion yen, and net income was down 5.7% to 2.8 billion yen. Although both revenues and profits decreased, I believe we have established a firm footing to ensure that this period marks the bottom as we move toward sustained recovery.

The portfolio as of the end of the period under review consisted of 85 properties, with a total acquisition price of 304.8 billion yen.

The portfolio is comprised of 89.9% office buildings, 7.2% central urban retail properties and 2.7% residential properties based on acquisition price. As of the end of the 17th Fiscal Period, the occupancy rate increased to 95.8%, with both operations and management on a stable footing.

Property management for all properties held by the Investment Corporation is conducted by the asset management company, which was recently renamed to Kenedix Real Estate Fund Management, Inc. Thanks to its expertise in property management, the occupancy rate for our office buildings located within the Tokyo Metropolitan Area reached 96.2% at the end of the 17th Fiscal Period, while that for all our office buildings hit 95.6%, an increase of 2.1 percentage points from the end of the 16th Fiscal Period.

Turning to cash distributions per unit, these amounted to 9,302 yen. Distributions are paid in accordance with Article 67-15 of the Special Taxation Measures Law (STML). In the period under review, we also allocated a portion of unappropriated retained earnings to retained earnings as a reserve for reduction entry, in accordance with the "Special Provisions for Taxation in the Event of Advance Acquisition of Land, etc. in 2009 and 2010" (STML Article 66-2). Specifically, we set aside 165 million yen, an amount within the scope allowed by the application of STML Articles 66-2 and 67-15, from unappropriated retained earnings as a reserve for reduction entry. Virtually all remaining unappropriated retained earnings were then distributed to unitholders, resulting in distributions per unit of 9,302 yen.

## Question 2

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**Would you elaborate on business operations during the 17th Fiscal Period?**

### Answer 2

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During the fiscal period under review, we successfully raised 19.1 billion yen in additional capital and proactively moved to acquire new properties.

We acquired Itopia Nihonbashi SA Building and Ginza 4chome Tower in August 2013, and Welship Higashi-Shinjuku the following month. Then in the current period, we acquired SIA Takanawadai Building, Ikebukuro 261 Building, DNI Mita Building and Akihabara SF Building in November and three additional floors of KDX Shinbashi Building, where we have had partial ownership, in December. Of the eight properties recently acquired, five were acquired directly from the market, using our multiple acquisition pipelines: a continuing strength that ensures KENEDIX-REIT is well positioned for opportunities.

As a result, our portfolio size expanded to 89 properties with a total acquisition price exceeding 320 billion yen. The number of end tenants also reached 1,000. We are steadily establishing our position as the No. 1 J-REIT in the mid-sized office building market. We are now determined to expand the portfolio to 400 billion yen, as our next target.

## Question 3

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**Please tell us about the recent capital increase. Was it intended to finance the recent property acquisitions?**

### Answer 3

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That was the main purpose of the capital increase, but we are also thinking of future acquisitions. If an opportunity arises to acquire properties within our target range, we want to be able to move quickly to acquire them at favorable terms. For that, we need to have a certain borrowing capacity. As we used a portion of the capital increase to repay some of our borrowings, I believe we now have a borrowing capacity of up to 20 billion yen.

As a result, our interest-bearing debt ratio (LTV ratio) decreased to 44.4%. It had been as high as 47.5% at the end of the 17th Fiscal Period. So I think we made a significant move in that regard. Investor response has been favorable overall.

Summary of 5th Public Offering			
Offering structure	Global offering (Japanese offering + Reg. S + 144A)	Newly issued units	45,990 units (incl. OA options of 2,190 units) (16.0% of units outstanding)
Launch date	October 24, 2013	Units outstanding after issuance of new units	332,540 units
Pricing date	November 6, 2013	Offer price	430,950 yen
Payment date	Public offering: November 13, 2013 Over-allotment ("OA"): December 10, 2013	Issue price	415,480 yen
Units outstanding	286,550 units (as of launch date)	Total issue price	19,107 million yen

Effects of Public Offering				
		16th (2013/4) Period	Properties acquired after 17th (2013/10) Period	After public offering
Improving portfolio profitability and stability (Note 1)	Number of properties	82 properties	8 properties	89 properties
	Total acquisition price	290.9 billion yen	29.8 billion yen	320.7 billion yen
	Average NOI yield	4.2%	5.1%	4.3%
	Average NOI yield (after depreciation)	3.1%	4.3%	3.2%
	Occupancy rate	93.8%	95.1%	94.1%
	Number of tenants	991	63	1,050
Strengthening financial stability and securing acquisition capacity (Note 2)	LTV	46.2%		44.4%
	NAV per unit (Note 3)	426,000 yen		435,000 yen

Notes:

- Average NOI yield and average NOI yield after depreciation are as of the end of fiscal period for the 16th (2013/4) Period and, for the properties acquired after the 17th Period, are based on appraisal NOI included in the relevant appraisal report at the time of acquisition. Occupancy rate and number of tenants are as of the end of fiscal period for the 16th (2013/4) Period and are as of July 31, 2013 for the properties acquired after the 17th Period. For the calculation of a number of properties after 5th public offering, KDX Shinbashi is counted as one for both existing portion and additional acquisition of compartmentalized portion.
- Figures are estimates calculated based on relevant numbers as of the end of fiscal period for the 16th (2013/4) Period and as of December 10, 2013 for the properties acquired after the 17th Period.
- NAV per unit is calculated by subtracting the amount of DPU and is truncated to the nearest thousand yen. For NAV per unit after public offering, figures are estimates which are calculated by subtracting the amount of DPU for the 17th Fiscal Period.

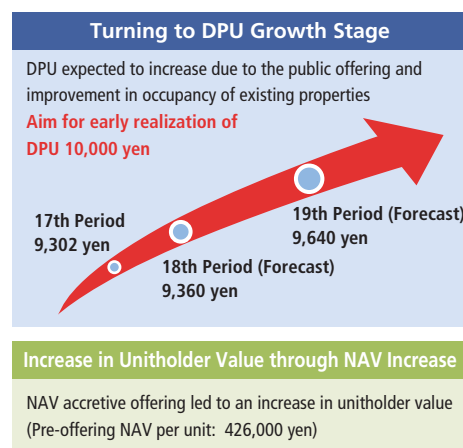
## Question 4

**How was your outlook on distribution when issuing new investment units, in light of the expected dilution?**

### Answer 4

The net asset value (NAV) per share increased, while LTV decreased. As we have managed to fully lease the KDX Nihonbashi Kabutocho Building, we are set to raise the distribution per unit (DPU) to the mid-9,000 yen range, our initial target, by the 19th Fiscal Period. Our distribution forecast for the 19th Fiscal Period is currently 9,640 yen per unit. This is achievable without using capital gains, and our plans are earning high marks from overseas investors.

The recently acquired properties boast nearly 100% occupancy rates and are expected to generate profit in the 18th or 19th Fiscal Period. The exception is the three additional floors acquired of the KDX Shinbashi Building, where we are just starting leasing. Considering rent-free periods, we may need to wait until the 20th Fiscal Period before these begin to support distribution growth.



## Question 5

**With the portfolio again expanding, do you see KENEDIX-REIT as being at a new growth stage?**

### Answer 5

With the number of end tenants exceeding 1,000, our profit base is sufficiently diversified and stable. The eight recently acquired buildings boast a weighted-average NOI of 5.1%, and are expected to raise the average NOI of the existing portfolio which currently stands at 4.2%. I think we are now well positioned for a new phase of growth.

## Question 6

**Is there any concern about profitability and customer satisfaction as the portfolio grows in size?**

### Answer 6

Not really. I expect customer satisfaction to remain high. Looking at tenant move-ins and move-outs in particular, we see some of our tenants moving to other Kenedix-managed buildings as they expand their office spaces. We have just obtained the result of our 5th customer satisfaction survey, and it shows that more tenants wish to continue using our buildings than in previous surveys. Moreover, customer satisfaction tends to be higher among tenants who have occupied our buildings for a while versus newly acquired building tenants. This is something that we can be proud of.

With regard to profitability, we have the management expertise to raise the value of acquired buildings. For example, with the KDX Omiya Building acquired in March 2013, we managed to raise the NOI by 21 million yen (16.4%) and appraisal value by 180 million yen (8.2%), by implementing value-up renovations and optimizing management costs. This is a major achievement that illustrates our strength in the mid-sized office building market, and will serve as a benchmark case as we move ahead with our growth strategy.

We are formulating an action plan for further renovations that increase value based on the results of the survey. I want to see high levels of customer satisfaction leading to an increase in occupancy and ultimately to an increase in unit rents.

## Question 7

**What about your financial strategy?**

### Answer 7

We are still tackling the legacy of the Lehman Crisis, which pushed up overall financial costs. The average interest rate of our borrowings is still high, and I see a room for improvement. As the high-cost borrowings from the 2008-2009 period gradually reach maturity, we expect to reduce our interest costs through refinancing.

## Question 8

**Lastly, can you tell us more about your future strategy in light of the results of the 17th Fiscal Period?**

### Answer 8

The 17th Fiscal Period marked the bottom in terms of business performance. We have made a turn for the better. The outlook is mostly bullish for the 18th Fiscal Period and even more so for the 19th Fiscal Period.

We will continue to have three active drivers of growth: external growth, internal growth and financial strategy. The primary growth driver is of course external growth, and this is backed and reinforced by sound internal growth and financial strategy.

Momentum is growing as Japan attracts increasing attention from overseas investors, thanks to recent developments such as Abenomics and Tokyo's selection to host the 2020 Summer Olympics.

The long-expected recovery of the Japanese real estate market is just taking-off. Although some investors remain skeptical about our ability to raise rents, these are certain to increase going forward. In fact, rents are just beginning to return to levels common at the turn of the century. Rents are still working toward pre-Lehman levels, before the crisis led to a major plunge in the real estate market. We are far from reaching the peak—I believe there is a much room for raising rents and generating greater profit.

Although competition is intensifying among buyers as the economy improves, we have earned the trust of the market, and this trust, steadily built over years, is another one of our major competitive advantages. Through timely property acquisitions and effective portfolio reshuffling, we seek to raise the quality of our entire portfolio even further.

From the 18th Fiscal Period onward, based on solid business performance, we will advance with our growth strategy to firmly establish KENEDIX-REIT as the No. 1 J-REIT in the mid-sized office building market.

January 2014

内田直克

Naokatsu Uchida

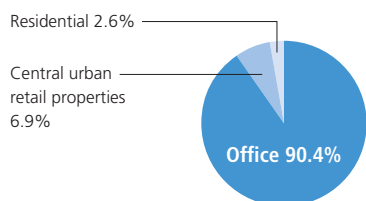
Executive Director, Kenedix Realty Investment Corporation

# Taking-off with the Momentum of a Capital Increase to Become the No.1 J-REIT in the Mid-sized Office Building Market



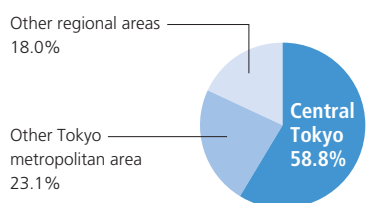
Portfolio expanded to **89** properties  
with a total acquisition price of **320** billion yen

## Distribution by Property Type (Based on acquisition price)



Note: The percentage breakdown by property type based on the acquisition price after the public offering (As of December 10, 2013) (Figures are rounded down to the first decimal place).

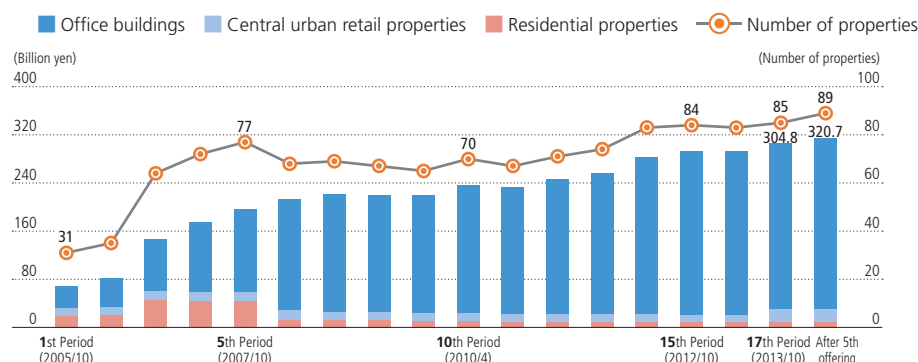
## Distribution of Office Buildings by Region (Based on acquisition price)



Notes:

1. After the public offering (As of December 10, 2013) (Figures are rounded down to the first decimal place.)
2. Central Tokyo represents Chiyoda, Chuo, Minato, Shibuya and Shinjuku wards.

## Portfolio Growth (By acquisition price)



Note: Figures are rounded down to the nearest ¥100 million.

During the fiscal period under review, KENEDIX-REIT announced a decision to issue new investment units, which was implemented from November to December 2013. The resulting capital increase of 19 billion yen will be used to finance the property acquisitions of the 18th Fiscal Period as well as planned future acquisitions.

With a sound financial outlook, KENEDIX-REIT acquired three properties during the 17th Fiscal Period, and concluded agreements to acquire five more properties during the 18th Fiscal Period. These acquisitions will raise the portfolio size to 89 properties with a total acquisition price of 320 billion yen.

The three properties acquired during the 17th Fiscal Period (Itopia Nihonbashi SA Building, Ginza 4chome Tower and Welship Higashi-Shinjuku), as well as the five properties to be acquired during the 18th Fiscal Period (SIA Takanawadai Building, Ikebukuro 261 Building, DNI Mita Building, Akihabara SF Building and KDX Shinbashi Building\*), are mostly located within the five central wards of Tokyo: the area where KENEDIX-REIT has traditionally focused. By maintaining our focus, in terms of location and building type, we seek to maximize economies of scale and the quality of our portfolio.

\*Acquired three additional floors of KDX Shinbashi Building, where we have had partial ownership since May 1, 2006, to obtain a full ownership of the property.

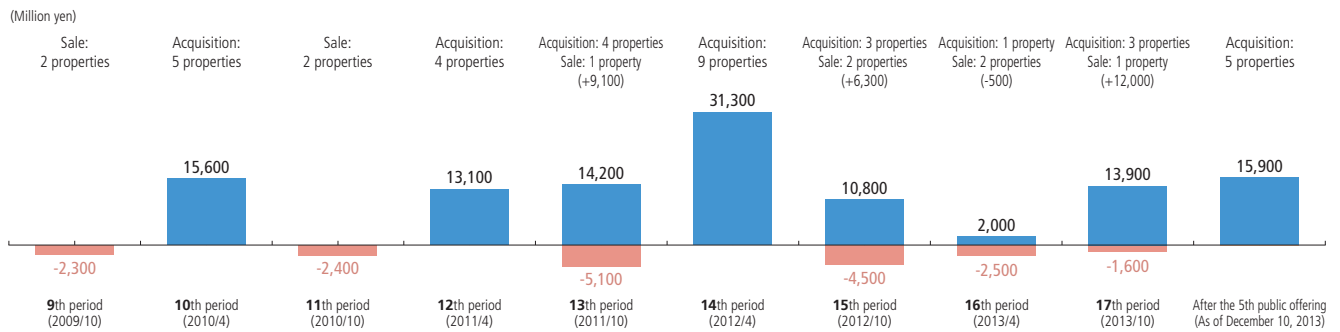
## Number of properties by property type

	End of 17th Period (2013/10)	After the public offering (As of December 10, 2013)
Office	79	83
Central urban retail	3	3
Residential	3	3
<b>Total</b>	<b>85</b>	<b>89</b>

Acquired **5** properties from the market  
and **3** properties through our support  
line and a silent partnership

We have already outpaced our competitors in terms of the number of portfolio properties, and KENEDIX-REIT is still on the look out for promising new acquisitions. While competition is intensifying among buyers, we benefit from a strong acquisition pipeline, as well as a strong track record in the office building market. Buoyed by a successful capital increase, KENEDIX-REIT is now poised to make a real take-off, aiming to expand the portfolio to 400 billion yen in terms of acquisition price, as the No.1 J-REIT in the mid-sized office building market.

**Change in Asset Size**



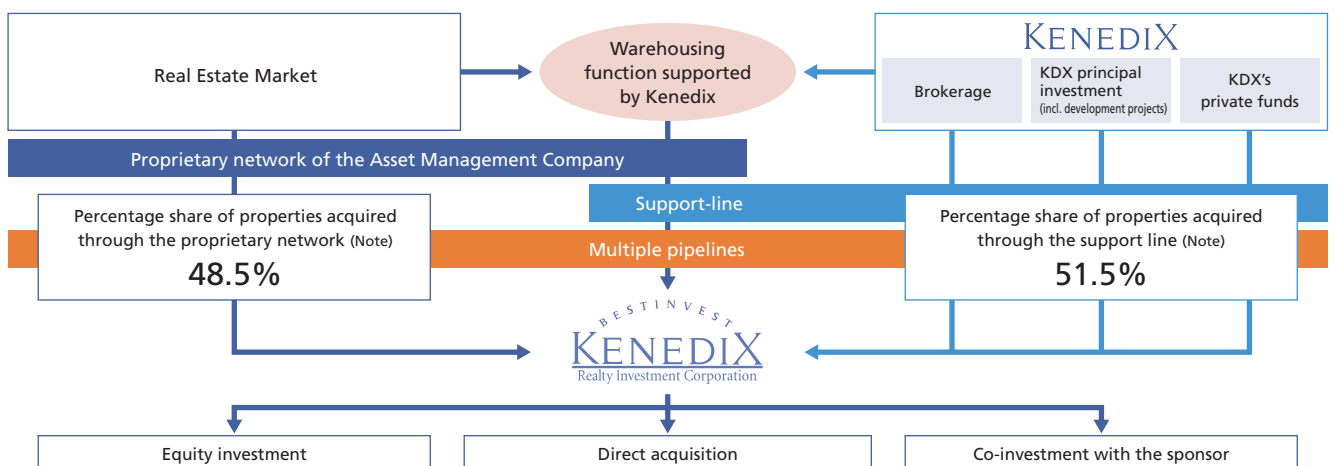
Note: Change in asset size is calculated based on acquisition price and is truncated to the nearest 100 million yen.

**Track Record of Property Acquisitions and Dispositions (Note 1)**



Notes: 1. Figures are truncated to the nearest 100 million yen. 2. Change in asset size is calculated based on acquisition price.

**Our Multiple Pipelines and Diversification of Acquisition Methods**



Note: Percentage share of properties is calculated based on acquisition prices of properties that are acquired between the 1st and 17th periods and after the public offering.

# Improving Leasing Conditions through Enhanced Property Management and Customer Satisfaction

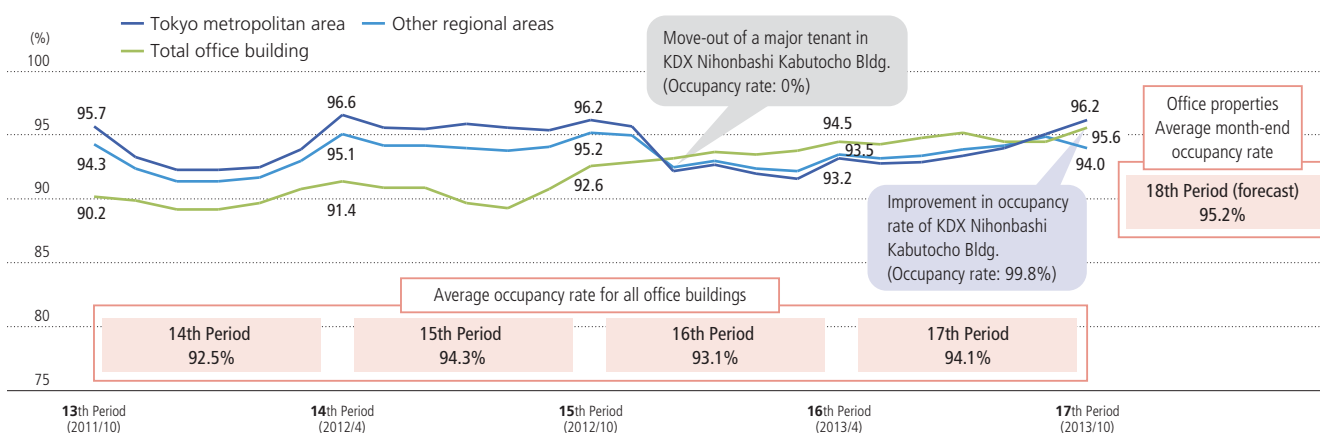


Average occupancy rate at **94.1%** with **94.0%** of tenants highly to maintain continuous occupancy

During the fiscal period under review, KENEDIX-REIT conducted the fifth customer satisfaction survey through its asset management company. The responses were favorable overall, with an increased proportion of tenants wishing to continue using our buildings. In fact, we are seeing more tenants renting additional space within the same building or moving to another building owned by KENEDIX-REIT. Moreover, customer satisfaction tends to be higher among tenants who have occupied our buildings for a while versus newly acquired building tenants. With the average occupancy rate at 94.1%, we are now prioritizing the improvement of leasing conditions over additional efforts to improve the already high occupancy rate. We are confident that high levels of customer satisfaction will lead to higher unit rents as well as shorter rent-free periods.

KDX Omiya Building is a case in point. Acquired during the 16th Fiscal Period, customer satisfaction for this building was initially low, as is the case for many properties at the time of acquisition. We promptly implemented value-up renovations, modernizing the entrance and air-conditioning system, and revised management costs. As a result, the occupancy rate went up, which combined with reduced management costs led to a higher NOI and appraisal value. Ultimately, we managed to revise rents upward. This highlights how our property management expertise can be

**Occupancy Rate Performance of Office Buildings (By region)**



Note: Occupancy rate is calculated by dividing leased area by leasable area and is rounded to the first decimal place. Average month-end occupancy rate of office properties is a simple average of monthly-end occupancy rates for each period. The forecast occupancy rate for the 18th Fiscal Period (2014/4) is calculated based on the Asset Management Company's earnings forecast for the 18th Fiscal Period.



employed to make the most of our external growth, which is essential for establishing a solid track record of growth.

As the portfolio approaches 100 properties, we are building an intensive service network, supported by an increasing number of select subcontractors. Our focus on mid-sized office buildings in central Tokyo is bringing improved service quality thanks to the concentration of knowhow and significant economies of scale.

We are also aware of the substantial role we play in society, as expectations for real-estate companies continue to increase. Forming an integral part of the social infrastructure, office buildings are required to be disaster-resilient as well as environment friendly. In terms of resilience, KENEDIX-REIT maintains a probable maximum loss (PML) rate below 5%. In terms of the environment, we have successfully obtained the Green Star rating of the Global Real Estate Sustainability Benchmark (GRESB) for two consecutive years, ranking top among eight competitors in

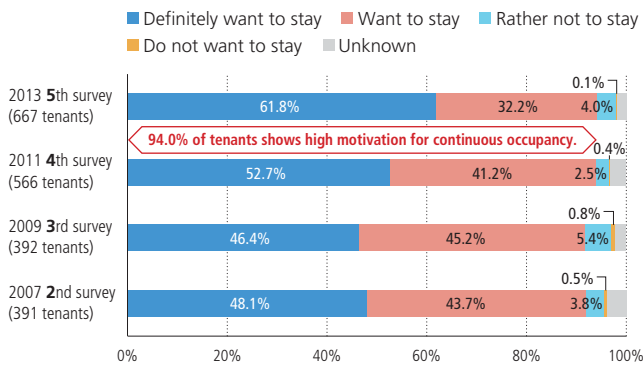
the Japanese office building division. Although these efforts have yet to directly translate into improved NOI, rents and cash flow, we believe they are integral to improving customer satisfaction and attracting investment in the future.



Within our niche, there is much more we can do. Mid-sized office buildings comprise nearly 30% of the rental office building market. Many of these buildings are old, and benefit greatly from renovation work. Just by replacing the air-conditioning system, we can significantly reduce CO<sub>2</sub> emissions and realize ongoing cost savings.

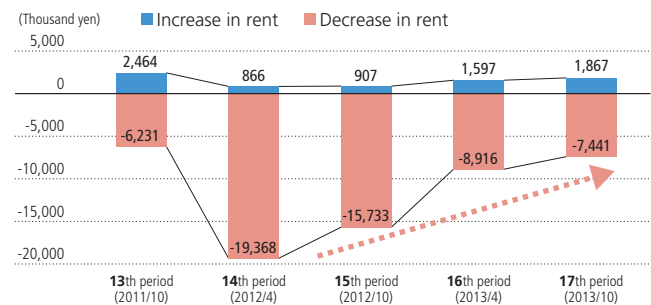
Some 90% of business establishments in Tokyo employ less than 30 persons. By capturing this potentially large demand and by satisfying their needs at reasonable costs, we seek to become the No.1 property owner in terms of both scale and quality in the mid-sized office building market.

### Motivation for Continuous Occupancy



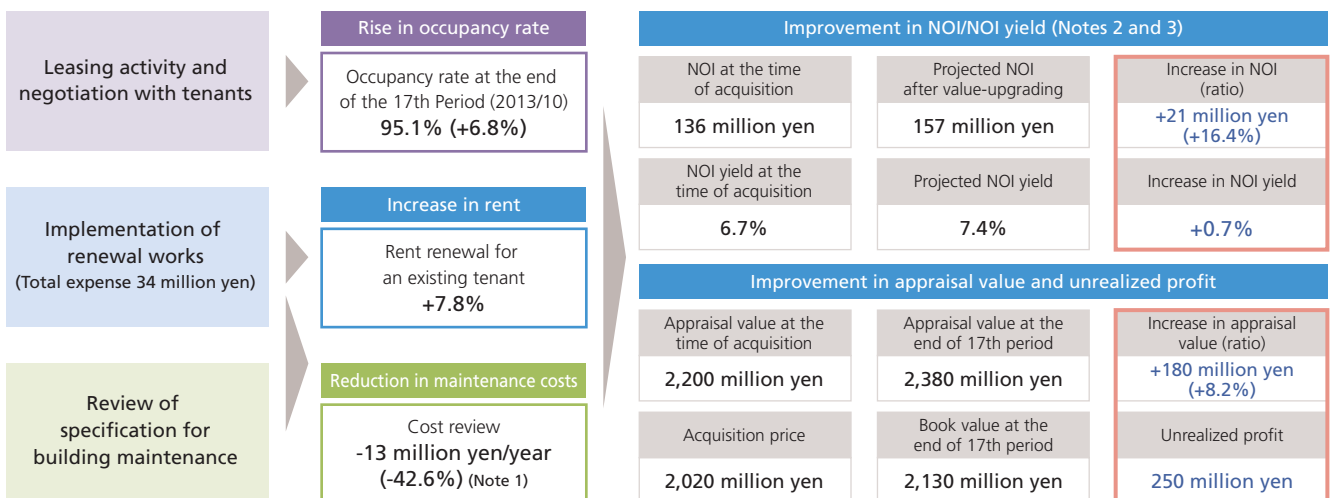
Note: Result on survey that interviewed persons in charge of general affairs

### Change in Rent Level at Time of Rent Revision (Based on monthly rent)



Note: The above figures are the monthly rent level difference before and after the rent revision and are calculated separately for each tenant. Numbers are rounded to the nearest ¥1,000.

### Effects of Value-upgrading Measures for KDX Omiya Bldg. (Acquired on March 26, 2013)



Notes:

- Total amount of reduction in maintenance cost and of increase in rent are estimates that take into account changes in contract amount (annualized) based on contracts as of November 30, 2013. No assurance is given with respect to future maintenance costs and rent. Of the 13 million yen reduction in administration cost, 8.5 million yen comes from the introduction of no-man operation.
- NOI and NOI yield as of the acquisition date are calculated based on annualized operating income and operating expense as of March 26, 2013. NOI and NOI yield after value-upgrading are estimates calculated using annualized operating income and operating expense based on contracts as of November 30, 2013. No assurance is given with respect to future NOI and NOI yield.
- NOI is truncated to the nearest million. NOI yield is rounded down to the first decimal place.

# Capital Increase Creates a Sound Financial Basis for Future Property Acquisitions



Capital increase of **19.1** billion yen  
 Reduces LTV ratio to **44.4%**

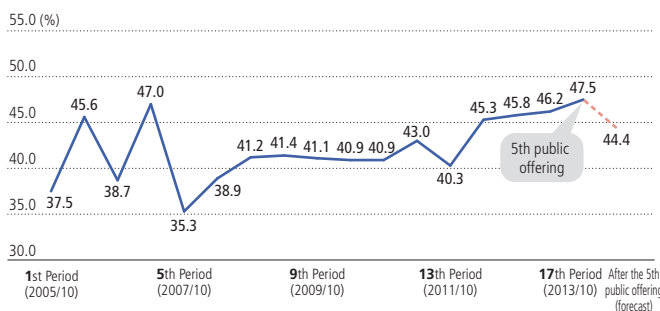
During the fiscal period under review, KENEDIX-REIT moved to increase its capital by 19.1 billion yen through the issuance of new investment units. As a result, the interest-bearing debt ratio (LTV ratio) decreased from 46.2% at the end of the 16th Fiscal Period to 44.4%, and is now below the 45% level, which we believe is a prudent level over the long term for conservative financial management.

A lower LTV ratio means a greater ability to procure funds in a timely manner when the opportunity arises to acquire new properties. An increased borrowing capability also means reduced dependence on capital markets and less financial uncertainty, which enables a proactive expansion strategy going forward.

Meanwhile, we are continuing our steady efforts to reduce debt costs. We have managed to reduce the average interest rate (including upfront fees) through the refinancing of high-interest loans borrowed right after the Lehman Shock. And we still see room for further improvement, even in light of our ongoing efforts to increase the relative portion of fixed-rate debt, which currently stands at 82.8%. We will also continue our efforts to extend the average life of our borrowings and diversify debt maturities.

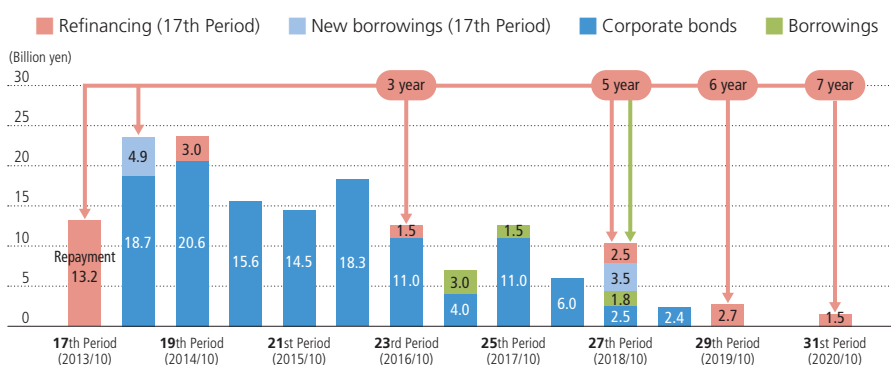
In line with our refinancing efforts, we have worked to maintain strong relationships with a number of quality lenders. During the 17th Fiscal Period, we were able to expand this circle of lenders by four. At October 31, 2013, KENEDIX-REIT was engaged in transactions with 14 lenders. Supported by this sound financial foundation, we seek to fully capitalize on opportunities for further growth in the expanding market.

### Changes in the LTV Ratio



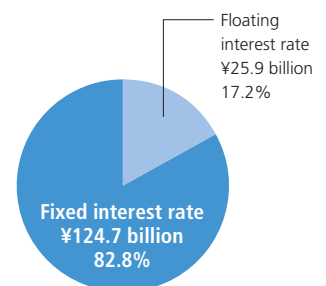
Note: LTV = Interest-bearing debt at end of period / Total assets

### Diversification of Debt Maturities as of the End of the 17th Period (2013/10)



Note: The chart illustrates total debt amounts that reach maturity in each period, including repayment of a part of principle based on contract (rounded to the first decimal place).

### Fixing Interest Rate (2013/10)



Note: Fixed rate includes borrowings that are fixed through interest rate swap but excludes those that are hedged by interest rate cap (numbers are rounded to the first decimal place).

## Management Team



### 1 Naokatsu Uchida

Director and COO, Kenedix Real Estate Fund Management, Inc.  
KRI General Manager of Fund Division

- Worked for Mitsubishi UFJ Trust and Banking Corporation for approximately 17 years (Real Estate Division, Real Estate Project Origination Division)
- After working for Joint Asset Management Co., Ltd. as its Representative Director, he joined Kenedix Office Partners, Inc. where he was a member of the Financial Planning Division for approximately two years
- Appointed Representative Director of Kenedix Office Partners, Inc. on February 2, 2012
- Appointed Director and COO of Kenedix Real Estate Fund Management, Inc. and KRI General Manager of Fund Division on October 1, 2013

### 3 Fumihiko Shimodome

General Manager of Property Management Department

- Worked for Mitsui Fudosan Building Management for 12 years
- Joined Kenedix Office Partners, Inc. in January 2011 after serving for Pacific Management and as a director for the asset management companies of Nippon Commercial Investment Corporation
- Appointed Director and General Manager of Property Management Division on July 1, 2012 after working as PM Manager of Property Management Division
- Appointed General Manager of Property Management Department, KRI Fund Division on October 1, 2013

### 2 Keisuke Sato

General Manager of Investment Management Department

- Worked for Tokyo Land Corporation for approximately nine years
- Joined Kenedix, Inc. after having worked for JPMorgan Securities Japan Co., Ltd. and Prudential Real Estate Investors (Japan) K.K.
- Real estate appraiser
- Appointed Director and General Manager of Investment Management Division on August 1, 2012
- Appointed General Manager of Investment Management Department, KRI Fund Division on October 1, 2013

### 4 Hikaru Teramoto

General Manager of Planning Department

- After working for Sakura Bank for six years, he moved to Sakura Securities, Daiwa Securities SMBC, and Goldman Sachs where he engaged in investment banking for ten years
- Joined Kenedix Office Partners, Inc. after having worked for Goldman Sachs Realty Japan
- Appointed Director and General Manager of Financial Planning Division on August 1, 2012
- Appointed General Manager of Planning Department, KRI Fund Division on October 1, 2013

## KENEDIX-REIT Portfolio (As of October 31, 2013)

	No.	Property Name	Location	Acquisition Price (mn yen) <Note 1>	Year Built <Note 2>	Occupancy Ratio <Note 3>
Office (Tokyo Metropolitan Area)	A01	KDX Nihonbashi 313 Building	Chuo-ku, Tokyo	5,940	Apr. 1974	100.0%
	A03	Higashi-Kayabacho Yuraku Building	Chuo-ku, Tokyo	4,450	Jan. 1987	100.0%
	A04	KDX Hatchobori Building	Chuo-ku, Tokyo	3,680	Jun. 1993	100.0%
	A05	KDX Nakano-Sakaue Building	Nakano-ku, Tokyo	2,533	Aug. 1992	100.0%
	A06	Harajuku F.F. Building	Shibuya-ku, Tokyo	2,450	Nov. 1985	100.0%
	A07	FIK Minami Aoyama	Minato-ku, Tokyo	2,270	Nov. 1988	100.0%
	A08	Kanda Kihara Building	Chiyoda-ku, Tokyo	1,950	May 1993	76.2%
	A13	KDX Kojimachi Building	Chiyoda-ku, Tokyo	5,950	May 1994	100.0%
	A14	KDX Funabashi Building	Funabashi, Chiba	2,252	Apr. 1989	100.0%
	A15	KDX Hamacho Building	Chuo-ku, Tokyo	2,300	Sep. 1993	88.7%
	A16	Toshin 24 Building	Yokohama, Kanagawa	5,300	Sep. 1984	91.1%
	A17	KDX Ebisu Building	Shibuya-ku, Tokyo	4,640	Jan. 1992	83.4%
	A19	KDX Hamamatsucho Building	Minato-ku, Tokyo	3,460	Sep. 1999	100.0%
	A20	KDX Kayabacho Building	Chuo-ku, Tokyo	2,780	Oct. 1987	100.0%
	A21	KDX Shinbashi Building	Minato-ku, Tokyo	2,690	Feb. 1992	100.0%
	A22	KDX Shin-Yokohama Building	Yokohama, Kanagawa	2,520	Sep. 1990	92.9%
	A26	KDX Kiba Building	Koto-ku, Tokyo	1,580	Oct. 1992	100.0%
	A27	KDX Kajicho Building	Chiyoda-ku, Tokyo	2,350	Mar. 1990	100.0%
	A28	KDX Nogizaka Building	Minato-ku, Tokyo	1,065	May 1991	100.0%
	A29	KDX Higashi-Shinjuku Building	Shinjuku-ku, Tokyo	2,950	Jan. 1990	100.0%
	A30	KDX Nishi-Gotanda Building	Shinagawa-ku, Tokyo	4,200	Nov. 1992	100.0%
	A31	KDX Monzen-Nakacho Building	Koto-ku, Tokyo	1,400	Sep. 1986	100.0%
	A32	KDX Shiba-Daimon Building	Minato-ku, Tokyo	6,090	Jul. 1986	92.9%
	A33	KDX Okachimachi Building	Taito-ku, Tokyo	2,000	Jun. 1988	100.0%
	A34	KDX Hon-Atsugi Building	Atsugi, Kanagawa	1,305	May 1995	89.0%
	A35	KDX Hachioji Building	Hachioji, Tokyo	1,155	Dec. 1985	100.0%
	A37	KDX Ochanomizu Building	Chiyoda-ku, Tokyo	6,400	Aug. 1982	100.0%
	A38	KDX Nishi-Shinjuku Building	Shinjuku-ku, Tokyo	1,500	Oct. 1992	100.0%
	A39	KDX Toranomom Building	Minato-ku, Tokyo	4,400	Apr. 1988	100.0%
	A40	Toranomom Toyo Building	Minato-ku, Tokyo	9,850	Aug. 1962	96.9%
	A41	KDX Shinjuku 286 Building	Shinjuku-ku, Tokyo	2,300	Aug. 1989	100.0%
	A45	KDX Roppongi 228 Building	Minato-ku, Tokyo	3,300	Apr. 1989	63.1%
	A46	Hiei Kudan-Kita Building	Chiyoda-ku, Tokyo	7,600	Mar. 1988	100.0%
	A47	KDX Shin-Yokohama 381 Building	Yokohama, Kanagawa	5,800	Mar. 1988	99.2%
A48	KDX Kawasaki-Ekimae Hon-cho Building	Kawasaki, Kanagawa	3,760	Feb. 1985	100.0%	
A49	Nissou Dai-17 Building	Yokohama, Kanagawa	2,710	Jul. 1991	81.7%	
A50	KDX Ikejiri-Oohashi Building	Meguro-ku, Tokyo	2,400	Sep. 1988	91.3%	
A51	KDX Hamacho Nakanohashi Building	Chuo-ku, Tokyo	2,310	Sep. 1988	100.0%	
A52	KDX Kanda Misaki-cho Building	Chiyoda-ku, Tokyo	1,380	Oct. 1992	73.7%	
A55	Shin-toshin Maruzen Building	Shinjuku-ku, Tokyo	2,110	Jul. 1990	100.0%	
A56	KDX Jimbocho Building	Chiyoda-ku, Tokyo	2,760	May 1994	100.0%	
A57	KDX Gobancho Building	Chiyoda-ku, Tokyo	1,951	Aug. 2000	100.0%	
A59	KDX Iwamoto-cho Building	Chiyoda-ku, Tokyo	1,864	Mar. 2008	100.0%	
A60	KDX Harumi Building	Chuo-ku, Tokyo	10,250	Feb. 2008	71.2%	
A61	KDX Hamamatsucho Dai-2 Building	Minato-ku, Tokyo	2,200	Apr. 1992	87.5%	
A62	Koishikawa TG Building	Bunkyo-ku, Tokyo	3,080	Nov. 1989	100.0%	
A63	Gotanda TG Building	Shinagawa-ku, Tokyo	2,620	Apr. 1988	100.0%	
A64	KDX Nihonbashi 216 Building	Chuo-ku, Tokyo	2,010	Oct. 2006	100.0%	

	No.	Property Name	Location	Acquisition Price (mn yen) <Note 1>	Year Built <Note 2>	Occupancy Ratio <Note 3>	
Office (Tokyo Metropolitan Area)	A66	KDX Shinjuku Building	Shinjuku-ku, Tokyo	6,800	May 1993	88.3%	
	A67	KDX Ginza 1chome Building	Chuo-ku, Tokyo	4,300	Nov. 1991	100.0%	
	A68	KDX Nihonbashi Honcho Building	Chuo-ku, Tokyo	4,000	Jan. 1984	100.0%	
	A71	KDX Iidabashi Building	Shinjuku-ku, Tokyo	4,670	Mar. 1990	100.0%	
	A72	KDX Higashi-Shinagawa Building	Shinagawa-ku, Tokyo	4,590	Jan. 1993	100.0%	
	A73	KDX Hakozaeki Building	Chuo-ku, Tokyo	2,710	Nov. 1993	100.0%	
	A74	KDX Shin-Nihonbashi Building	Chuo-ku, Tokyo	2,300	Nov. 2002	100.0%	
	A75	KDX Nihonbashi Kabutocho Building	Chuo-ku, Tokyo	11,270	Nov. 1998	99.8%	
	A77	Kabutocho Nikko Building II	Chuo-ku, Tokyo	1,280	Oct. 2001	100.0%	
	A78	Tachikawa Ekimae Building	Tachikawa, Tokyo	1,267	Feb. 1990	100.0%	
	A83	Fuchu South Building	Fuchu, Tokyo	6,120	Mar. 1996	97.2%	
	A84	KDX Kasuga Building	Bunkyo-ku, Tokyo	2,800	Jun. 1992	92.4%	
	A85	KDX Nakameguro Building	Meguro-ku, Tokyo	1,880	Oct. 1985	100.0%	
	A86	KDX Omiya Building	Saitama, Saitama	2,020	Apr. 1993	95.1%	
		A87	Itopia Nihonbashi SA Building	Chuo-ku, Tokyo	2,200	Jul. 1995	100.0%
		A88	Welship Higashi Shinjuku	Shinjuku-ku, Tokyo	1,900	Mar. 1990	100.0%
Office (Other Regional Areas)	A12	Portus Center Building	Sakai, Osaka	5,570	Sep. 1993	95.8%	
	A24	KDX Minami Semba Dai-1 Building	Osaka, Osaka	1,610	Mar. 1993	90.4%	
	A25	KDX Minami Semba Dai-2 Building	Osaka, Osaka	1,560	Sep. 1993	82.2%	
	A36	KDX Niigata Building	Niigata, Niigata	1,305	Jul. 1983	63.7%	
	A42	Karasuma Building	Kyoto, Kyoto	5,400	Oct. 1982	94.3%	
	A44	KDX Sendai Building	Sendai, Miyagi	2,100	Feb. 1984	91.5%	
	A53	KDX Hakata-Minami Building	Fukuoka, Fukuoka	4,900	Jun. 1973	93.9%	
	A54	KDX Kitahama Building	Osaka, Osaka	2,220	Jul. 1994	92.8%	
	A58	KDX Nagoya Sakae Building	Nagoya, Aichi	7,550	Apr. 2009	100.0%	
	A69	KDX Kobayashi-Doshomachi Building	Osaka, Osaka	2,870	Jul. 2009	100.0%	
	A70	Kitananajo SIA Building	Sapporo, Hokkaido	2,005	Oct. 1989	89.8%	
	A79	KDX Nagoya Ekimae Building	Nagoya, Aichi	7,327	Apr. 1986	100.0%	
	A80	Nagoya Nikko Shoken Building	Nagoya, Aichi	4,158	Aug. 1974	98.0%	
	A81	Sendai Nikko Building	Sendai, Miyagi	950	Mar. 1989	87.7%	
	A82	KDX Higashi Umeda Building	Osaka, Osaka	2,770	Jul. 2009	100.0%	
	Office Subtotal (79 properties)				274,218	Avg. 23.2 years	95.6%
Residential	B03	Court Mejiro	Shinjuku-ku, Tokyo	1,250	Mar. 1997	100.0%	
	B19	Residence Charmante Tsukishima	Chuo-ku, Tokyo	5,353	Jan. 2004	100.0%	
	B18	Venus Hibarigaoka	Sapporo, Hokkaido	1,800	Mar. 1989	94.2%	
	Residential Subtotal (3 properties)				8,403	Avg. 14.0 years	96.7%
Central Urban Retail	C01	Frame Jinnan-zaka	Shibuya-ku, Tokyo	9,900	Mar. 2005	100.0%	
	C02	KDX Yoyogi Building	Shibuya-ku, Tokyo	2,479	Aug. 1991	100.0%	
	C04	Ginza 4chome Tower	Chuo-ku, Tokyo	9,800	Nov. 2008	100.0%	
	Central Urban Retail Subtotal (3 properties)				22,179	Avg. 8.4 years	100.0%
Total (85 properties)				304,800	Avg. 21.8 years	95.8%	
Investment Security	Senri Property TMK Preferred Securities		Toyonaka, Osaka	891	Jun. 1992		
	Silent partnership equity interest of G.K. KRF 31 (DNI Mita Building) <Note 4>		Minato-ku, Tokyo	200	Mar. 1993		

Notes: 1. Acquisition price is the purchase price of the trust beneficiary interests etc. acquired by KRI.

2. Year built shows the completion date recorded in land register book. The average value shown in subtotal section is a weighted average number calculated based on acquisition prices with a base date of October 31, 2013, and is rounded down to the first decimal place.

3. Occupancy ratio is calculated by dividing leased floor area by leasable floor area as of October 31, 2013 and is rounded to the first decimal place.

4. KRI acquired DNI Mita Building on November 18, 2013 and the silent partnership equity interest will be refunded during the 18th period.

## Corporate Governance

### Change of the Asset Management Company

On October 1, 2013, the asset management company of Kenedix Realty Investment Corporation (KRI) was transferred from Kenedix Office Partners, Inc. to Kenedix Real Estate Fund Management, Inc. Four directors and three statutory auditors were appointed to the new asset management company.

### Investment and Management Decision-making System of Kenedix Real Estate Fund Management

As the asset management company of KRI, Kenedix Real Estate Fund Management creates guidelines governing KRI's asset management. These Asset Management Guidelines define KRI's

fundamental philosophy including its investment policy, rules concerning transactions with related parties, distribution policy and its disclosure policy.

Kenedix Real Estate Fund Management may also propose property management plans in accordance with the Asset Management Guidelines, identify properties for possible investment and decide whether to support particular acquisitions.

The structure of the decision-making process outlined below illustrates the creation and revision of individual Asset Management Guidelines, as well as property management plans for the acquisition and sale of properties.

#### ■ Decision-making Process



#### 1. KRI's Decision-making Process for Asset Management Investment Policy

The Investment Management Department of KRI's Fund Division proposes any revision of the Asset Management Guidelines to the Compliance Officer. After review by the Officer, the revisions are advanced to the Compliance Committee where they are deliberated and resolved. Lastly, the Asset Management Committee of KRI deliberates and reaches resolution on the revisions.

The Asset Management Guidelines may be revised to reflect changes in investment conditions and KRI's investment policy, as well as other reasons such as changes in the legal or regulatory environment. Whenever the Management Guidelines are changed, the General Manager of KRI's Fund Division is responsible for reporting each revision to the Board of Directors.

#### 2. KRI's Decision-making Process on Asset Management

##### ▶ Property Management Plans

Relevant departments of KRI's Fund Division may propose property management plans to the Compliance Officer. After review by the Officer, the plans are deliberated and resolved in the Compliance Committee. Following that, the Asset Management Committee of KRI deliberates and reaches resolution on these plans.

Each time a new property management plan is approved or revised, KRI's General Manager of the Fund Division is charged with reporting this to the Board of Directors.

##### ▶ Acquisition and Sale of Properties

The Investment Management Department of KRI's Fund Division selects properties for possible acquisition according to an agreed upon process. The Investment Management Department first proposes property acquisitions to the Compliance Officer. When the Officer concludes there are no conflicts or other issues, the Officer then forwards the proposal to KRI's Asset Management Committee for review and ultimate resolution.

In the event that the Compliance Officer identifies such issues as related-party transactions, potential regulatory conflicts or other cases the Officer deems require closer scrutiny, the proposal must be submitted for review and resolution by the Compliance Committee before proceeding to KRI's Asset Management Committee for final review and resolution. The Compliance Committee is free to solicit opinions from outside experts and forward these to KRI's Asset Management Committee for reference in reaching a resolution.

The Investment Management Department of KRI's Fund Division also proposes property sales or disposals to the Compliance Officer. In a similar manner, the Officer reviews it and, when necessary, forwards the proposal to the Compliance Committee, which can then advance the matter to KRI's Asset Management Committee. In the absence of conflicts or other issues, the Compliance Officer may send the proposal directly to KRI's Asset Management Committee for ultimate review and resolution.

## Financial Section

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## Financial Summary (Unaudited)

Historical Operating Trends  
For the 13th–17th Fiscal Periods

Period	Unit	13th Period (as of Oct. 31, 2011)	14th Period (as of Apr. 30, 2012)	15th Period (as of Oct. 31, 2012)	16th Period (as of Apr. 30, 2013)	17th Period (as of Oct. 31, 2013)
Operating revenues	mn yen	9,044	9,090	10,212	9,867	9,819
(Rental revenues)	mn yen	8,498	9,090	9,617	9,306	9,501
Operating expenses	mn yen	4,618	5,004	5,696	5,465	5,578
(Property-related expenses)	mn yen	3,961	4,284	4,822	4,740	4,845
Operating income	mn yen	4,425	4,086	4,516	4,401	4,240
Ordinary income	mn yen	3,040	2,551	3,011	3,003	2,832
Net income (a)	mn yen	3,052	2,540	3,009	3,002	2,831
Total assets (b)	mn yen	274,973	303,284	306,734	308,172	316,753
(Period-on-period change)	%	(+5.0)	(+10.3)	(+1.1)	(+0.5)	(+2.8)
Interest-bearing debt (c)	mn yen	110,914	137,372	140,581	142,369	150,558
(Period-on-period change)	%	(-1.6)	(+23.9)	(+2.3)	(+1.3)	(+5.8)
Unitholders' equity (d)	mn yen	150,272	150,063	150,389	150,653	150,781
(Period-on-period change)	%	(+10.9)	(-0.1)	(+0.2)	(+0.2)	(+0.1)
Unitholders' capital	mn yen	147,153	147,153	147,153	147,153	147,153
(Period-on-period change)	%	(+10.5)	(0.0)	(0.0)	(0.0)	(0.0)
Number of investment units issued and outstanding (e)	unit	286,550	286,550	286,550	286,550	286,550
Unitholders' equity per unit (d)/(e)	yen	524,419	523,688	524,828	525,747	526,195
Total distribution (f)	mn yen	2,749	2,683	2,738	2,703	2,665
Distribution per unit (f)/(e)	yen	9,596	9,364	9,557	9,434	9,302
(Earnings distributed per unit)	yen	9,596	9,364	9,557	9,434	9,302
(Distribution in excess of earnings per unit)	yen	—	—	—	—	—
Return on assets (annualized) (Notes 1 and 2)	%	1.1 (2.2)	0.9 (1.8)	1.0 (2.0)	1.0 (2.0)	0.9 (1.8)
Return on net assets (annualized) (Notes 2 and 3)	%	2.1 (4.2)	1.7 (3.4)	2.0 (4.0)	2.0 (4.0)	1.9 (3.7)
Net assets ratio at end of period (d)/(b)	%	54.6	49.5	49.0	48.9	47.6
(Period-on-period change)	%	(+2.9)	(-5.2)	(-0.5)	(-0.1)	(-1.3)
Interest-bearing debt ratio at end of period (c)/(b)	%	40.3	45.3	45.8	46.2	47.5
(Period-on-period change)	%	(-2.7)	(+5.0)	(+0.5)	(+0.4)	(+1.3)
Payout ratio (Note 4) (f)/(a)	%	90.0	105.6	90.9	90.0	94.1
<b>Other references</b>						
Number of properties	properties	74	83	84	83	85
Total leasable floor area	m <sup>2</sup>	300,016.89	340,589.96	351,153.72	347,853.97	358,517.31
Occupancy ratio at end of period	%	94.7	95.4	95.5	93.9	95.8
Depreciation expenses for the period	mn yen	1,442	1,578	1,621	1,662	1,696
Capital expenditures for the period	mn yen	674	918	904	772	894
Leasing NOI (Net Operating Income) (Note 5)	mn yen	5,980	6,384	6,416	6,228	6,352
FFO (Funds From Operation) (Note 6)	mn yen	3,950	4,119	4,187	4,202	4,293
FFO per unit (Note 7)	yen	13,786	14,374	14,612	14,664	14,984

Notes: 1. Return on assets = Ordinary income / ((Total assets at beginning of period + Total assets at end of period) / 2) × 100

2. Annualized values for the 13th Fiscal Period are calculated based on a period of 184 days, 182 days for the 14th Fiscal Period, 184 days for the 15th Fiscal Period, 181 days for the 16th Fiscal Period and 184 days for the 17th Fiscal Period.

3. Return on net assets = Net income / ((Total net assets at beginning of period + Total net assets at end of period) / 2) × 100

4. Payout ratio is rounded down to the first decimal place.

5. Leasing NOI = Rental revenues – Rental expenses + Depreciation expenses for the period

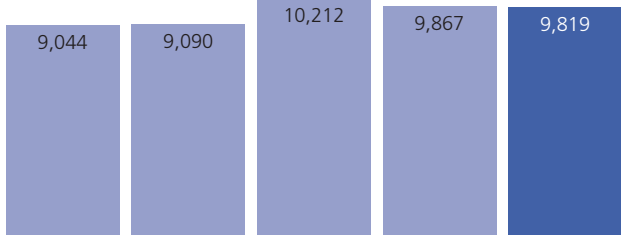
6. FFO = Net income + Depreciation expenses for the period – Gain on sale of real estate property + Loss on sale of real estate property

7. FFO per unit = FFO / Number of investment units issued and outstanding (figures below ¥1 rounded down)

8. Where applicable, figures are rounded down to the nearest million.

**Operating Revenues**

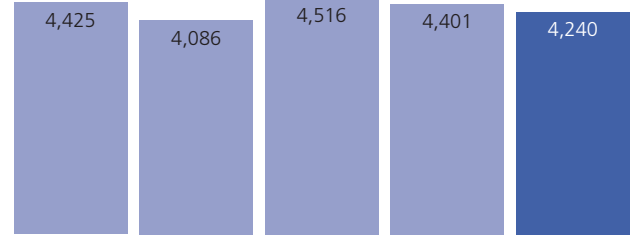
**9,819** million yen



13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013)

**Operating Income**

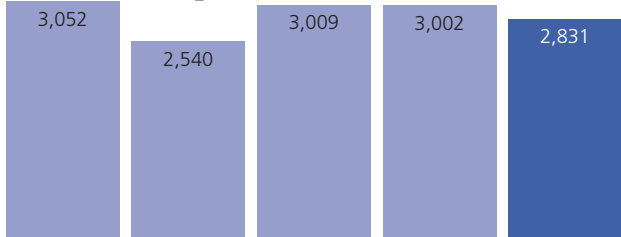
**4,240** million yen



13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013)

**Net Income**

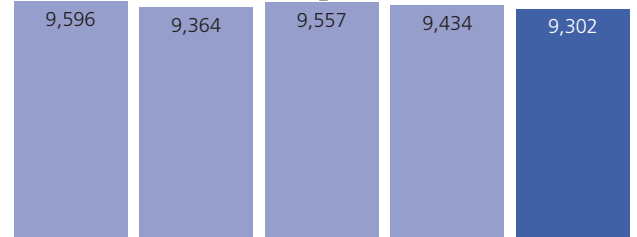
**2,831** million yen



13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013)

**Distribution per Unit**

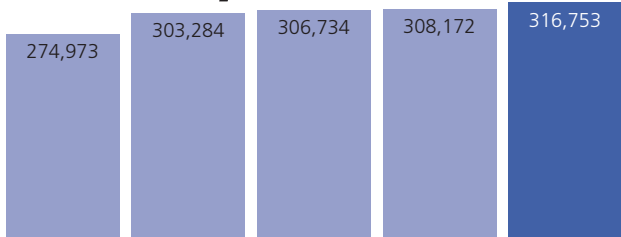
**9,302** yen



13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013)

**Total Assets**

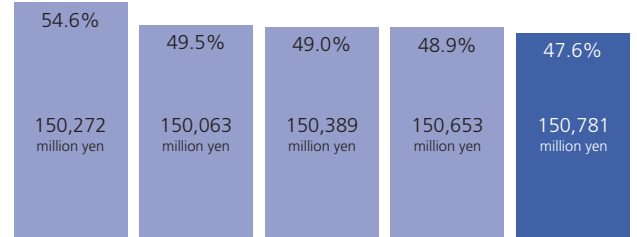
**316,753** million yen



13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013)

**Net Assets Ratio / Unitholders' Equity**

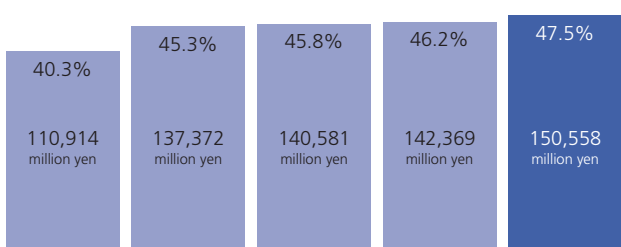
**47.6%**



13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013)

**Interest-Bearing Debt Ratio (LTV Ratio) / Interest-Bearing Debt**

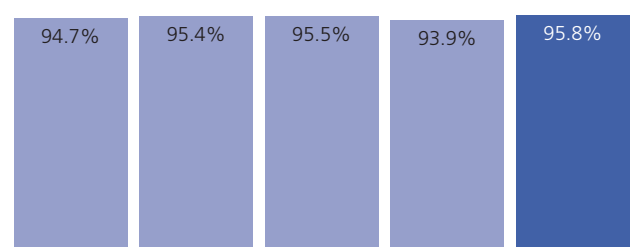
**47.5%**



13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013)

**Occupancy Ratio**

**95.8%**



13th Period (Ended Oct. 31, 2011) 14th Period (Ended Apr. 30, 2012) 15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013)





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## Independent Auditor's Report

The Board of Directors  
 Kenedix Realty Investment Corporation

Pursuant to Article 130 of the Act on Investment Trusts and Investment Corporations, we have audited the accompanying financial statements of Kenedix Realty Investment Corporation ("the Investment Corporation"), which comprise the balance sheet as of October 31, 2013, and the statement of income and retained earnings, statement of changes in net assets and notes to the financial statements for the six-month period then ended and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Realty Investment Corporation as of October 31, 2013, and its financial performance for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

December 12, 2013  
 Tokyo, Japan

*Ernst & Young ShinNihon LLC*

## Balance Sheets

Kenedix Realty Investment Corporation  
As of October 31, 2013 and April 30, 2013

	In thousands of yen	
	As of October 31, 2013	As of April 30, 2013
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and bank deposits (Note 12)	¥ 11,452,986	¥ 14,813,927
Rental receivables	254,059	185,047
Consumption tax refundable	100,159	—
Other current assets (Note 7)	228,433	76,501
<b>Total current assets</b>	<b>12,035,637</b>	<b>15,075,475</b>
<b>Property and equipment, at cost: (Notes 3, 11 and 13)</b>		
Land	215,346,646	205,702,745
Buildings and structures (Note 5)	103,827,730	100,488,908
Machinery and equipment	1,766,278	1,557,795
Tools, furniture and fixtures	455,837	446,748
Construction in progress	4,914	6,699
Less-accumulated depreciation	(19,630,791)	(17,966,695)
<b>Net property and equipment</b>	<b>301,770,614</b>	<b>290,236,200</b>
<b>Other assets:</b>		
Ground leasehold (Notes 11 and 13)	356,332	357,106
Investment securities (Note 12)	1,106,339	896,655
Corporate bond issuance costs	35,651	26,043
Unit issuance costs	18,903	37,806
Other assets (Notes 11 and 13)	1,429,698	1,542,881
<b>Total assets</b>	<b>¥316,753,174</b>	<b>¥308,172,166</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Trade and other payables	¥ 810,169	¥ 863,231
Current portion of corporate bonds (Notes 4 and 12)	—	1,500,000
Short-term debt and current portion of long-term debt (Notes 4 and 12)	46,800,000	30,000,000
Deposits received	6,162	16,967
Rents received in advance	1,506,618	1,686,455
Other current liabilities	202,575	366,030
<b>Total current liabilities</b>	<b>49,325,524</b>	<b>34,432,683</b>
Corporate bonds (Notes 4 and 12)	6,300,000	4,500,000
Long-term debt (Notes 4 and 12)	97,458,000	106,369,500
Leasehold and security deposits received	12,888,425	12,216,921
<b>Total liabilities</b>	<b>165,971,949</b>	<b>157,519,104</b>
<b>Net Assets</b>		
<b>Unitholders' equity</b>		
Unitholders' capital	147,153,820	147,153,820
Units authorized: 2,000,000 units		
Units issued and outstanding: 286,550 units		
As of October 31, 2013 and April 30, 2013, respectively		
<b>Surplus</b>		
Voluntary retained earnings		
Reserve for reduction entry	795,928	497,043
Retained earnings	2,831,477	3,002,199
<b>Total surplus</b>	<b>3,627,405</b>	<b>3,499,242</b>
<b>Total unitholders' equity</b>	<b>150,781,225</b>	<b>150,653,062</b>
<b>Total net assets (Note 8)</b>	<b>150,781,225</b>	<b>150,653,062</b>
<b>Total liabilities and net assets</b>	<b>¥316,753,174</b>	<b>¥308,172,166</b>

See accompanying notes to the financial statements.

## Statements of Income and Retained Earnings

Kenedix Realty Investment Corporation

For the six months period from May 1, 2013 to October 31, 2013 and November 1, 2012 to April 30, 2013

	In thousands of yen	
	From May 1, 2013 to October 31, 2013	From November 1, 2012 to April 30, 2013
<b>Operating revenues:</b>		
Rental revenues (Notes 10 and 11)	¥9,501,700	¥9,306,087
Gain on sale of real estate property (Note 10)	234,506	462,044
Dividends income	82,984	99,168
Total operating revenues	9,819,190	9,867,299
<b>Operating expenses:</b>		
Property-related expenses (Notes 10 and 11)	4,845,827	4,740,084
Asset management fees	549,899	553,018
Administrative service and custodian fees	69,226	69,474
Other operating expenses	113,451	103,073
Total operating expenses	5,578,403	5,465,649
<b>Operating income</b>	<b>4,240,787</b>	<b>4,401,650</b>
<b>Non-operating expenses:</b>		
Interest expense	1,050,678	1,046,727
Financing-related expenses	321,587	315,050
Amortization of unit issuance costs	18,903	18,903
Amortization of corporate bond issuance costs	6,143	6,626
Others, net	10,495	10,939
Total non-operating expenses	1,407,806	1,398,245
<b>Ordinary income</b>	<b>2,832,981</b>	<b>3,003,405</b>
Income before income taxes	2,832,981	3,003,405
Income taxes (Note 7)	1,504	1,329
<b>Net income</b>	<b>2,831,477</b>	<b>3,002,076</b>
Retained earnings at the beginning of period	—	123
<b>Retained earnings at the end of period</b>	<b>¥2,831,477</b>	<b>¥3,002,199</b>

See accompanying notes to the financial statements.

## Statements of Changes in Net Assets

Kenedix Realty Investment Corporation

For the six months period from May 1, 2013 to October 31, 2013 and November 1, 2012 to April 30, 2013

	In thousands of yen					
	Unitholders' equity					Total
	Unitholders' capital	Surplus			Total unitholders' equity	
		Voluntary retained earnings	Retained earnings	Total surplus		
Reserve for reduction entry						
<b>Balance as of October 31, 2012</b>	<b>¥147,153,820</b>	<b>¥225,796</b>	<b>¥3,009,928</b>	<b>¥3,235,724</b>	<b>¥150,389,544</b>	<b>¥150,389,544</b>
Changes during the fiscal period						
Provision of reserve for reduction entry	—	271,247	(271,247)	—	—	—
Payments of dividends	—	—	(2,738,558)	(2,738,558)	(2,738,558)	(2,738,558)
Net income	—	—	3,002,076	3,002,076	3,002,076	3,002,076
Total changes during the fiscal period	—	271,247	(7,729)	263,518	263,518	263,518
<b>Balance as of April 30, 2013</b>	<b>¥147,153,820</b>	<b>¥497,043</b>	<b>¥3,002,199</b>	<b>¥3,499,242</b>	<b>¥150,653,062</b>	<b>¥150,653,062</b>
Changes during the fiscal period						
Provision of reserve for reduction entry	—	298,885	(298,885)	—	—	—
Payments of dividends	—	—	(2,703,314)	(2,703,314)	(2,703,314)	(2,703,314)
Net income	—	—	2,831,477	2,831,477	2,831,477	2,831,477
Total changes during the fiscal period	—	298,885	(170,722)	128,163	128,163	128,163
<b>Balance as of October 31, 2013</b>	<b>¥147,153,820</b>	<b>¥795,928</b>	<b>¥2,831,477</b>	<b>¥3,627,405</b>	<b>¥150,781,225</b>	<b>¥150,781,225</b>

See accompanying notes to the financial statements.

## Notes to Financial Statements

Kenedix Realty Investment Corporation

For the six months period from May 1, 2013 to October 31, 2013 and November 1, 2012 to April 30, 2013

### 1. ORGANIZATION AND BASIS OF PRESENTATION

#### ORGANIZATION

Kenedix Realty Investment Corporation (“the Investment Corporation”) was established on May 6, 2005 under the Act on Investment Trusts and Investment Corporations of Japan (“the Investment Trust Act”). On July 21, 2005, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange with a total of 75,400 investment units issued and outstanding (Securities Code: 8972). Subsequently, the Investment Corporation raised funds through four public offerings and other means including global offerings. As a result, as of October 31, 2013, the end of the seventeenth fiscal period, the number of investment units issued and outstanding totaled 286,550 units.

The Investment Corporation is externally managed by Kenedix Real Estate Fund Management, Inc. (Note) (“the Asset Management Company”) as its asset management company. The Investment Corporation entrusts the Asset Management Company and in collaboration with the Asset Management Company, the Investment Corporation strives to maximize cash distribution to investors by securing stable earnings and sustainable investment growth. To this end, the Investment Corporation adopts the basic policy of conducting dynamic and flexible investment stance that seeks to respond to its environment and market trends, and endeavors to ensure a timely response to opportunities. (Note: On effective from October 1, 2013, the Asset Management Company for the Investment Corporation, Kenedix Office Partners, Inc. was integrated with Kenedix Advisors, Inc. and with Kenedix Residential Partners, Inc. as the surviving corporation. Kenedix Residential Partners, Inc. was renamed Kenedix Real Estate Fund Management, Inc. as part of the integration.)

During the period ended October 31, 2013, the Investment Corporation acquired two office buildings (Itopia Nihonbashi SA Building: acquisition price of ¥2,200 million, Welship Higashi-Shinjuku: acquisition price of ¥1,900 million) located in the Tokyo Metropolitan Area, one central urban retail property (Ginza 4chome Tower: acquisition price of ¥9,800 million), an equity interest in a Japanese silent partnership (tokumei kumiai, “TK”) for a trust beneficiary interest in DNI Mita Building (acquisition price of ¥200 million) and sold Ikebukuro Nikko Building (initial acquisition price of ¥1,653 million). As of October 31, 2013, the Investment Corporation had total unitholders’ capital of ¥147,154 million with 286,550 investment units outstanding. The balance of interest-bearing debt amounted to ¥150,558 million as of October 31, 2013, comprising ¥144,258 million in borrowings (¥135,158 million in long-term borrowings and ¥9,100 million in short-term borrowings) and ¥6,300 million in investment corporation bonds. The Investment Corporation owned a portfolio of 85 properties with a total acquisition price of ¥304,800 million containing a total leasable area of 358,517.31m<sup>2</sup> and preferred two investment securities with a total acquisition price of ¥1,091 million. The occupancy ratio was approximately 95.8%. A portfolio of 85 properties consists of 79 office buildings, 3 residential properties, 3 central urban retail properties. 69 properties are located in the Tokyo Metropolitan Area and 16 properties are located in Other Regional Areas.

#### BASIS OF PRESENTATION

The Investment Corporation maintains its accounting records and prepares its financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The financial statements are prepared in accordance with the Investment Trust Act.

The financial statements are basically a translation of the Japanese audited financial statements of the Investment Corporation. In preparing the accompanying financial statements, certain reclassifications have been made to the financial statements issued domestically in order to present them in a format which is familiar to readers outside Japan. Certain information in the business report and supplementary schedule has been omitted. Additional information has been added to the Japanese audited financial statements for the convenience of readers outside Japan and this includes disclosing the prior year’s comparatives as supplemental information in the English translated financial statements although the Japanese audited financial statements only need to disclose the current year’s information.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (A) SECURITIES

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method. Concerning silent partnership (tokumei kumiai, “TK”) interests, the method of incorporating the amount of equity equivalent to the portion that corresponds to the net gain or loss of TK is adopted.

**(B) PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets ranging as stated below:

	From May 1, 2013 to October 31, 2013	From November 1, 2012 to April 30, 2013
Buildings and structures	2-49 years	2-49 years
Machinery and equipment	3-17 years	3-17 years
Tools, furniture and fixtures	3-20 years	3-20 years

**(C) UNIT ISSUANCE COSTS**

Unit issuance costs are amortized over a period of 3 years under the straight-line method.

**(D) CORPORATE BOND ISSUANCE COSTS**

Corporate bond issuance costs are amortized over a maturity period under the straight-line method.

**(E) ACCOUNTING TREATMENT OF TRUST BENEFICIARY INTERESTS IN REAL ESTATE**

For trust beneficiary interests in real estate, which are commonly utilized in the ownership of commercial properties in Japan, all assets and liabilities within trust are recorded in the relevant balance sheets and statements of income and retained earnings.

**(F) GROUND LEASEHOLD**

Fixed term leasehold on a building and the special agreement on buildings sales, and the building are amortized over a contractual period of 48 years and 9 months under the straight-line method.

**(G) REVENUE RECOGNITION**

Operating revenues consist of rental revenues including base rents and common area charges, and other operating revenues including utility charge reimbursements, parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease. Utility charge reimbursements are recognized when earned and their amounts can be reasonably estimated. Reimbursements from tenants including utility charge reimbursements are recorded on a gross basis and such amounts are recorded both as revenues and expenses during the fiscal period, respectively.

**(H) TAXES ON PROPERTY AND EQUIPMENT**

Property-related taxes including property taxes, city planning taxes and depreciable property taxes are imposed on properties on a calendar year basis. These taxes are generally charged to operating expenses for the period, for the portion of such taxes corresponding to said period. Under the Japanese tax rule, the seller of the property at the time of disposal is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued property-related tax liabilities.

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥26,946 thousand and ¥10,265 thousand as of October 31, 2013 and April 30, 2013, respectively. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period to which the installments of such taxes correspond.

**(I) INCOME TAXES**

Deferred tax assets and liabilities are computed based on the difference between the financial statements and income tax bases of assets and liabilities using the statutory tax rates.

**(J) CONSUMPTION TAXES**

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Non-deductible consumption taxes applicable to the acquisition of assets are included in the cost of acquisition for each asset.

**(K) DERIVATIVE FINANCIAL INSTRUMENTS**

The Investment Corporation utilizes interest-rate swap and interest-rate cap contracts as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. The Investment Corporation deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap and interest-rate cap contracts because these contracts met the criteria for deferral hedging accounting. However, the Investment Corporation adopted the special treatment for interest-swap and interest-rate cap contracts if they met the criteria for hedging accounting under this treatment, whereby the net amount to be paid or received under the interest-rate swap or interest-rate cap contract is added to or deducted from the interest on the assets or liabilities for which the swap or cap contract was executed. The hedge effectiveness for interest-rate swap and interest-rate cap contracts is assessed each fiscal period except for those that meet the criteria of special treatment.

**(L) ROUNDING OF AMOUNTS PRESENTED**

Amounts have been truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan, whereas amounts have been rounded to the nearest million in the accompanying financial statements. Totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

### 3. SCHEDULE OF PROPERTY AND EQUIPMENT

	In millions of yen					
	As of October 31, 2013			As of April 30, 2013		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥215,346	¥ —	¥215,346	¥205,703	¥ —	¥205,703
Buildings and structures	103,828	18,638	85,190	100,489	17,042	83,447
Machinery and equipment	1,766	732	1,034	1,558	683	875
Tools, furniture and fixtures	456	260	196	447	242	205
Construction in progress	5	—	5	6	—	6
<b>Total</b>	<b>¥321,401</b>	<b>¥19,630</b>	<b>¥301,771</b>	<b>¥308,203</b>	<b>¥17,967</b>	<b>¥290,236</b>

### 4. SHORT-TERM DEBT, LONG-TERM DEBT AND CORPORATE BONDS

The following summarizes short-term debt, long-term debt and corporate bonds outstanding as of October 31, 2013:

Classification	Drawdown date	Last Repayment date	Weighted-average interest rate	Balance (In millions of yen)
Short-term debt	January 31, 2013	January 31, 2014	0.68%	¥ 1,200
	August 19, 2013	November 29, 2013	0.55%	1,000
	August 19, 2013	November 29, 2013	0.60%	1,000
	August 19, 2013	February 19, 2014	0.60%	1,000
	September 13, 2013	March 13, 2014	0.57%	1,000
	September 13, 2013	March 13, 2014	0.57%	900
	October 31, 2013	October 31, 2014	0.55%	3,000
	<b>Subtotal</b>			
Current portion of long-term debt	November 12, 2010	November 12, 2013	1.58%	¥ 1,500
	November 12, 2010	November 12, 2013	1.58%	800
	November 12, 2010	November 12, 2013	1.58%	400
	December 1, 2010	November 12, 2013	1.32%	500
	December 1, 2010	November 12, 2013	1.32%	200
	December 1, 2010	November 12, 2013	1.32%	100
	July 30, 2010	January 31, 2014	1.66%	3,700
	January 31, 2011	January 31, 2014	1.57%	1,300
	March 12, 2012	March 12, 2014	0.96%	2,250
	March 12, 2012	March 12, 2014	0.96%	1,800
	March 12, 2012	March 12, 2014	0.96%	1,800
	March 12, 2012	March 12, 2014	0.96%	450
	September 30, 2011	March 31, 2014	1.16%	2,500
	July 13, 2011	July 14, 2014	1.54%	1,000
	July 30, 2010	July 31, 2014	1.73%	3,700
	July 29, 2011	July 31, 2014	1.03%	2,200
July 29, 2011	July 31, 2014	1.03%	1,000	

Classification	Drawdown date	Last Repayment date	Weighted-average interest rate	Balance (In millions of yen)
Current portion of long-term debt	July 29, 2011	July 31, 2014	1.40%	¥ 300
	September 1, 2011	August 29, 2014	1.15%	1,000
	March 22, 2011	September 22, 2014	1.63%	2,700
	September 30, 2011	September 30, 2014	1.27%	1,000
	December 26, 2011	October 31, 2014	1.24%	2,500
	December 26, 2011	October 31, 2014	1.26%	2,000
	December 26, 2011	October 31, 2014	1.26%	2,000
	December 26, 2011	October 31, 2014	1.26%	1,000
Subtotal				37,700
Long-term debt	May 1, 2006	April 30, 2016	2.73%	¥ 5,000
	January 29, 2010	January 30, 2015	2.17%	1,008
	February 18, 2010	February 18, 2015	2.19%	1,840
	February 18, 2010	February 18, 2015	2.19%	1,360
	February 18, 2010	February 18, 2015	2.19%	800
	February 18, 2010	February 18, 2015	2.19%	400
	April 2, 2010	April 2, 2015	2.22%	1,650
	November 12, 2010	November 12, 2015	1.79%	1,200
	November 12, 2010	November 12, 2015	1.79%	800
	November 12, 2010	November 12, 2017	2.02%	2,300
	December 1, 2010	November 12, 2015	1.46%	800
	December 1, 2010	November 12, 2015	1.46%	200
	December 1, 2010	November 12, 2017	2.21%	700
	January 31, 2011	January 29, 2016	1.94%	800
	February 28, 2011	August 31, 2015	1.91%	3,000
	February 28, 2011	January 29, 2016	1.95%	500
	March 31, 2011	January 29, 2016	1.91%	2,000
	March 31, 2011	March 31, 2016	1.31%	1,000
	April 28, 2011	October 31, 2015	1.86%	1,500
	April 28, 2011	January 29, 2016	1.89%	1,000
	August 31, 2011	February 27, 2015	0.99%	1,500
	September 30, 2011	March 31, 2015	1.29%	2,500
	December 26, 2011	October 31, 2015	1.34%	2,500
	December 26, 2011	October 31, 2015	1.32%	2,500
	December 26, 2011	October 31, 2015	1.34%	2,000
	December 26, 2011	October 31, 2016	1.44%	2,500
	December 26, 2011	October 31, 2016	1.42%	2,500
	December 26, 2011	October 31, 2016	1.44%	2,000
	January 10, 2012	January 29, 2016	1.27%	2,500
	January 31, 2012	January 30, 2015	1.19%	1,500
	March 12, 2012	March 12, 2015	1.08%	1,000
	March 28, 2012	March 28, 2017	1.36%	500
	March 28, 2012	March 28, 2019	1.77%	1,400
	March 28, 2012	March 28, 2019	1.77%	1,000
	March 30, 2012	September 30, 2015	1.21%	2,000
	April 27, 2012	October 30, 2015	1.27%	1,000
	June 29, 2012	June 30, 2017	1.29%	1,500
	September 21, 2012	September 21, 2017	1.16%	5,000
	September 21, 2012	September 21, 2017	1.16%	1,000
	September 21, 2012	September 21, 2017	1.16%	1,000
	October 31, 2012	April 30, 2015	1.01%	2,500
	October 31, 2012	October 31, 2016	1.06%	2,500
	October 31, 2012	October 31, 2016	1.05%	1,500
	October 31, 2012	October 31, 2017	1.10%	2,500
	October 31, 2012	October 31, 2018	1.25%	2,500
	December 10, 2012	December 12, 2016	0.98%	500
	December 28, 2012	December 28, 2016	1.01%	2,000
December 28, 2012	December 28, 2017	1.09%	500	
December 28, 2012	December 29, 2017	1.09%	500	
January 15, 2013	January 15, 2017	0.97%	1,000	
February 18, 2013	February 18, 2017	0.84%	1,500	
March 26, 2013	March 26, 2018	1.04%	1,000	
March 26, 2013	March 26, 2018	1.04%	1,000	

Classification	Drawdown date	Last Repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term debt	April 30, 2013	April 30, 2016	0.73%	¥ 1,000
	July 31, 2013	July 29, 2016	0.63%	1,500
	July 31, 2013	July 31, 2018	0.73%	500
	August 19, 2013	August 19, 2018	0.95%	1,000
	August 19, 2013	August 19, 2018	0.95%	1,000
	August 19, 2013	August 19, 2018	0.95%	500
	August 19, 2013	August 19, 2018	0.95%	500
	August 19, 2013	August 19, 2018	0.97%	500
	August 30, 2013	August 31, 2018	1.08%	700
	August 30, 2013	August 31, 2018	1.08%	500
	August 30, 2013	August 31, 2018	1.08%	300
	August 30, 2013	August 31, 2020	1.42%	1,500
	September 30, 2013	September 30, 2019	1.06%	1,800
	September 30, 2013	September 30, 2019	1.06%	900
	October 31, 2013	October 31, 2018	0.89%	500
Subtotal				97,458
Corporate bonds	March 15, 2007	March 15, 2017	2.37%	¥ 3,000
	March 8, 2012	September 8, 2017	2.00%	1,500
	September 12, 2013	September 12, 2018	1.00%	1,800
Subtotal				6,300
Total				¥150,558

## 5. REDUCTION ENTRY

The amount of reduction entry of property and equipment acquired by government subsidy

	In thousands of yen	
	As of October 31, 2013	As of April 30, 2013
Buildings and structures	¥26,230	¥26,230

## 6. PER UNIT INFORMATION

	Yen	
	From May 1, 2013 to October 31, 2013	From November 1, 2012 to April 30, 2013
Net asset value per unit	¥526,195	¥525,748
Net income per unit	¥ 9,881	¥ 10,477
Weighted average number of units (units)	286,550	286,550

The weighted average number of units outstanding of 286,550 as of October 31, 2013 and April 30, 2013 was used for the computation of the amount of net income per unit. Net income per unit after adjusting for residual units is not included because there were no residual investment units.

## 7. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 37%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measures Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement that it currently distribute in excess of 90% of our distributable profits as defined in the Special Taxation Measures Law of Japan for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed in excess of 90% of its distributable profit in the form of cash distributions totaling ¥2,665 million (deducting ¥166 million as the provision of reserve for reduction entry) and ¥2,703 million (deducting ¥299 million as the provision of reserve for reduction entry) for the periods ended October 31, 2013 and April 30, 2013. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.05% and 0.04% for the periods ended October 31, 2013 and April 30, 2013.



The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	As of October 31, 2013	As of April 30, 2013
Statutory tax rate	36.59%	36.59%
Deductible cash distributions	(34.43)	(32.93)
Provision of reserve for reduction entry	(2.14)	(3.64)
Others	0.03	0.02
Effective tax rate	0.05%	0.04%

The significant components of deferred tax assets and liabilities as of October 31, 2013 and April 30, 2013 were as follows:

	In thousands of yen	
	As of October 31, 2013	As of April 30, 2013
Deferred tax assets:		
Enterprise tax payable	¥ 47	¥ 36
Amortization of leasehold rights	1,543	1,278
Subtotal deferred tax assets	1,590	1,314
Valuation allowance	1,543	1,278
Total deferred tax assets	¥ 47	¥ 36

## 8. NET ASSETS

The Investment Corporation issues only non-par value units in accordance with the Investment Trust Act. The entire amount of the issue price of new units is designated as stated capital. The Investment Corporation is required to maintain net assets of at least ¥50 million as required by the Investment Trust Act.

## 9. RELATED-PARTY TRANSACTIONS

### TRANSACTIONS WITH KENEDIX REAL ESTATE FUND MANAGEMENT, INC.

Kenedix Real Estate Fund Management, Inc., a consolidated subsidiary of Kenedix, Inc., provides the Investment Corporation with property management services and related services. For these services, the Investment Corporation pays Kenedix Real Estate Fund Management, Inc. property management fees in accordance with the terms of its Property Management Agreements. For these services, the Investment Corporation paid ¥362 million to Kenedix Real Estate Fund Management, Inc.

## 10. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, GAIN ON SALE OF REAL ESTATE PROPERTY

Rental and other operating revenues, property-related expenses, gain on sale of real estate property for the six months periods from May 1, 2013 to October 31, 2013 and November 1, 2012 to April 30, 2013 consist of the following:

	In thousands of yen	
	From May 1, 2013 to October 31, 2013	From November 1, 2012 to April 30, 2013
<b>Rental and other operating revenues:</b>		
Rental revenues	¥6,649,670	¥6,628,333
Common area charges	1,587,331	1,589,549
Subtotal	8,237,001	8,217,882
<b>Others:</b>		
Parking space rental revenues	299,884	292,402
Utility charge reimbursement	851,381	681,272
Miscellaneous	113,434	114,531
Subtotal	1,264,699	1,088,205
Total rental and other operating revenues	9,501,700	9,306,087
<b>Property-related expenses:</b>		
Property management fees and facility management fees	951,025	951,905
Depreciation	1,696,849	1,662,016
Utilities	928,822	753,048
Taxes	851,090	820,158
Insurance	14,372	14,837
Repairs and maintenance	173,604	322,652
Trust fees	42,377	42,926
Loss on retirement of fixed assets	10,114	5,193
Others	177,574	167,349
Total property-related expenses	¥4,845,827	¥4,740,084

**Gain on sale of real estate property:**

Revenue from sale of investment property	¥1,970,000	¥3,180,000
Cost of investment property	1,672,153	2,641,181
Other sales expenses	63,341	76,775
Gain on sale of real estate property	¥ 234,506	¥ 462,044

# 11

## PROPERTY INFORMATION

Type	Office Buildings		Residential Properties		Central Urban Retail Properties
	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area
Number of properties	64	15	2	1	3

**Property information**

(In millions of yen)

	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area
Acquisition price	¥221,923	¥52,295	¥6,603	¥1,800	¥22,180
Percentage of total acquisition price	72.81%	17.16%	2.17%	0.58%	7.28%
Net book value	221,450	50,919	5,994	1,745	22,019
Appraisal value	205,818	44,417	5,573	1,560	21,870
Percentage of total appraisal value	73.71%	15.91%	2.00%	0.55%	7.83%

**Financial results for the period from May 1, 2013 to October 31, 2013**

(In thousands of yen)

	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area
Rental and other operating revenues	¥6,601,873	¥2,162,391	¥188,186	¥91,588	¥457,662
Rental revenues	5,757,566	1,825,792	167,392	81,547	404,704
Other revenues	844,307	336,599	20,794	10,041	52,958
Property-related expenses	2,119,341	847,177	55,248	32,414	94,798
Property management fees	621,588	270,775	19,350	8,255	31,057
Taxes	602,884	207,590	13,006	7,608	20,002
Utilities	647,058	238,328	2,696	2,174	38,566
Repairs and maintenance	104,826	52,181	7,176	7,643	1,778
Insurance	8,484	4,963	357	311	257
Trust fees and other expenses	134,501	73,340	12,663	6,423	3,138
NOI (Net Operating Income)	4,482,532	1,315,214	132,938	59,174	362,864
Depreciation expenses	1,117,815	414,689	57,561	21,437	85,347
Operating income from property leasing activities	3,364,717	900,525	75,377	37,737	277,517
Capital expenditures	513,966	376,034	2,908	—	1,120
NCF (Net Cash Flow)	¥3,968,566	¥ 939,180	¥130,030	¥59,174	¥361,744

A breakdown of property-type as of October 31, 2013 was as follows:

Class of assets	Property type	Area	Balance at the end of period	
			(In millions of yen)	Percentage of total assets
Property and equipment	Office Buildings	Tokyo Metropolitan Area	¥221,450	69.9%
		Other Regional Areas	50,919	16.1%
	Subtotal	272,369	86.0%	
	Residential Properties	Tokyo Metropolitan Area	5,994	1.9%
		Other Regional Areas	1,745	0.6%
	Subtotal	7,739	2.4%	
	Central Urban Retail Properties	Tokyo Metropolitan Area	22,019	7.0%
Subtotal	22,019	7.0%		
Total			302,127	95.4%
Investment securities			1,106	0.3%
Bank deposits and other assets			13,520	4.3%
Total assets			316,753	100.0%
Total liabilities			165,972	52.4%
Net assets			¥150,781	47.6%

# 12 ■ FINANCIAL INSTRUMENTS

Seventeenth Fiscal Period (May 1, 2013 to October 31, 2013)

## (A) OVERVIEW

### (1) POLICY FOR FINANCIAL INSTRUMENTS

The Investment Corporation procures essential funds for acquiring properties and undertaking the repayment of loans primarily through bank loans and the issuance of corporate bonds and new investment units. The Investment Corporation uses derivatives for the purpose of hedging its exposure to changes in interest rates and does not enter into derivatives for speculative or trading purposes. Management of surplus funds is undertaken in a prudent manner that considers fully such factors as safety, liquidity, interest rate conditions and cash flows.

### (2) TYPES OF FINANCIAL INSTRUMENTS AND RELATED RISK

Investment securities are preferred equity securities issued by a special purpose entity (tokutei mokuteki kaisha, "TMK") as set forth by the Act on Securitization of Assets and Japanese silent partnership (tokumei kumiai, "TK") interests are exposed to credit risk of the issuer and risk of fluctuation of value of its property.

Debt and corporate bonds are used primarily for procuring funds necessary for the acquisition of properties and have a redemption date of a maximum of seven years following the accounting date. Although a certain portion of said liabilities are subject to interest rate fluctuation risk, the Investment Corporation utilizes derivatives (interest-rate swap and interest-rate cap transactions) in order to reduce such risk.

Interest-rate swap and interest-rate cap transactions are used as derivative financial instruments. Utilizing interest-rate swap and interest-rate cap transactions, the Investment Corporation fixes its interest expense for long-term debt bearing interest at a variable rate. With regard to hedge accounting methods, hedging instruments and hedged items, hedge policy, and the assessment of the effectiveness of hedging activities, please see 2. (K) Derivative Financial Instruments.

### (3) RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

#### (a) Monitoring of market risk (the risks arising from fluctuations in interest rates and others)

The Investment Corporation uses interest-rate swap transactions and interest-rate cap transaction in order to minimize risk arising from fluctuations in interest rates on funds procured. The Investment Corporation periodically reviews the value of the property and financial condition of the issuer with regard to investment securities.

#### (b) Monitoring of liquidity risk (the risk that the Investment Corporation may not be able to meet its obligations on scheduled due dates) associated with funds procurement

Although loans and other liabilities are subject to liquidity risk, the Investment Corporation reduces such risk by spreading out payment due dates and by using diversified fund procurement methods. Liquidity risk is also managed by such means as regularly checking the balance of cash reserves.

### (4) SUPPLEMENTARY EXPLANATION OF THE ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

## (B) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of financial instruments on the balance sheet as of October 31, 2013 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Refer to \*2 below).

	In thousands of yen		
	Carrying value	Estimated fair value	Difference
① Cash and bank deposits	¥ 11,452,986	¥ 11,452,986	¥ —
Subtotal	11,452,986	11,452,986	—
① Short-term debt	9,100,000	9,100,000	—
② Corporate bonds (including current portion of corporate bonds)	6,300,000	6,482,910	182,910
③ Long-term debt (including current portion of long-term debt)	135,158,000	135,751,380	593,380
Subtotal	¥150,558,000	¥151,334,290	¥776,290
Derivative Transactions (*)	—	—	—

(\*) The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parentheses representing net liability position.

### \*1: METHODS TO DETERMINE THE ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS AND OTHER MATTERS RELATED TO SECURITIES AND DERIVATIVE TRANSACTIONS

#### ASSETS

##### ① Cash and bank deposits

Since these items are settled in a short period of time, their carrying value approximates fair value.

#### LIABILITIES

##### ① Short-term debt

Since these items are settled in a short period of time, their carrying value approximates fair value.

##### ② Corporate bonds

The fair value of corporate bonds is based on quoted market prices.

##### ③ Long-term debt

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. The fair value of long-term debt bearing interest at variable rates, which is subject to fixed interest rates resulting from interest-rate swaps and special treatment applied to said swaps, is based on the present value of the total of principal and interest, which is handled together with applicable interest-rate swaps, discounted by the interest rate to be applied if similar loans were entered into.

#### DERIVATIVE TRANSACTIONS

##### ① Hedge accounting not applied

Not applicable

##### ② Hedge accounting applied

Hedge accounting method	Type of derivative transactions	Hedged items	Contracted amount (In thousands of yen)		Fair value (In thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Special treatment of interest-rate swaps	Interest-rate swaps: Receive/floating and pay/fixed	Long-term debt	¥26,700,000	¥20,700,000	*	—
Special treatment of interest-rate cap	Interest-rate cap	Long-term debt	3,000,000	3,000,000	*	—
<b>Total</b>			<b>¥29,700,000</b>	<b>¥23,700,000</b>		<b>—</b>

(\*) Interest-rate swaps and interest-rate caps for which the special treatment is applied are accounted for together with the underlying hedged item. As a result, their fair value is included in the fair value of the hedged long-term debt.

### \*2: FINANCIAL INSTRUMENTS FOR WHICH IT IS EXTREMELY DIFFICULT TO DETERMINE THE FAIR VALUE

Classification	Carrying value (In thousands of yen)
Investment securities	¥1,106,339

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above preferred equity securities of TMK and TK interests are not included in the preceding table.

### \*3: REDEMPTION SCHEDULE FOR RECEIVABLES

	Due within 1 year or less (In thousands of yen)
Cash and bank deposits	¥11,452,986
<b>Total</b>	<b>¥11,452,986</b>

### \*4: REDEMPTION SCHEDULE FOR DEBT AND CORPORATE BONDS

	In thousands of yen					
	Due within 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term debt	¥ 9,100,000	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	—	—	—	4,500,000	1,800,000	—
Long-term debt	¥37,700,000	¥30,558,000	¥30,800,000	¥15,000,000	¥14,500,000	¥6,600,000

## 13. INVESTMENT AND RENTAL PROPERTIES

Seventeenth Fiscal Period (May 1, 2013 to October 31, 2013)

The Investment Corporation owns real estate for rental purposes mainly in the Tokyo Metropolitan Area for the purpose of generating rental revenues.

The carrying value in the balance sheets and corresponding fair value of those properties are as follows:

Carrying value (In thousands of yen)			Fair value as of October 31, 2013 (In thousands of yen)
As of April 30, 2013	Net change	As of October 31, 2013	
¥290,593,741	¥11,533,520	¥302,127,261	¥279,238,000

notes: 1. The carrying value represents the acquisition cost less accumulated depreciation.  
 2. The fair value is the appraisal value or the survey value determined by outside appraisers.  
 3. Among changes in the amount of real estate for rental purposes that occurred during the fiscal period under review, principal increases and decreases were the acquisition of 3 properties totaling ¥14,020,279 thousand, the sale of 1 property totaling ¥1,672,153 thousand and depreciation amounting to ¥1,696,849 thousand.

Income and loss in the fiscal period ended October 31, 2013 for real estate for rental purposes is listed in the Note "10.

BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, GAIN ON SALE OF REAL ESTATE PROPERTY".

## 14. SUBSEQUENT EVENTS

### ISSUANCE OF THE NEW INVESTMENT UNITS

On October 24, 2013 and November 6, 2013, the Board of Directors of the Investment Corporation resolved to issue new investment units as detailed below. The payments were completed on November 13, 2013 through issuance of public offering, and the payments were completed on December 10, 2013 through issuance of third-party allotment. As a result of the issuance of new investment units, the Investment Corporation had total unitholders' capital of ¥166,261,745,670 with 332,540 investment units outstanding as of December 10, 2013.

(Issuance of New Investment Units through Public Offering)

Issuance of New Investment Units	: 43,800 units (Domestic Offering 21,900 units, International Offering 21,900 units)
Issue Price (Offer Price)	: ¥430,950 per unit
Aggregate Issue Price (Total Offer Price)	: ¥18,875,610,000
Issue Amount (Paid-in Value)	: ¥415,480 per unit
Total Issue Amount (Aggregate Paid-in Value)	: ¥18,198,024,000
Payment Date	: November 13, 2013

(Issuance of New Investment Units through Third-Party Allotment)

Issuance of New Investment Units	: 2,190 units
Issue Amount (Paid-in Value)	: ¥415,480 per unit
Total Issue Amount (Aggregate Paid-in Value)	: ¥909,901,200
Payment Date	: December 10, 2013
Allottee	: Nomura Securities Co., Ltd.

(Use of proceeds)

The funds from the Domestic Offering and International Offering, allocated as a portion of the funds for the acquired properties in Eighteenth Fiscal Period and residual amounts allocated as a portion of the funds for the repayment of borrowings alongside the acquisition of assets acquired in the Seventeenth Fiscal Period. Furthermore, because cash on hand was allocated as a portion of the funds for the acquisition of properties acquired in the Seventeenth Fiscal Period, the funds from the issuance of new Investment Units by third-party allotment are allocated to as proceed to compensate for the decrease of cash on hand resulting from the allocation.

## Statements of Cash Flows (Unaudited)

Kenedix Realty Investment Corporation

For the six months period from May 1, 2013 to October 31, 2013 and November 1, 2012 to April 30, 2013

	In thousands of yen	
	From May 1, 2013 to October 31, 2013	From November 1, 2012 to April 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income before income taxes	¥ 2,832,981	¥ 3,003,405
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	2,023,561	1,981,289
Interest income	(565)	(558)
Interest expense	1,050,678	1,046,727
Loss on retirement of fixed assets	10,114	5,193
<b>Changes in assets and liabilities:</b>		
Rental receivables	(69,012)	240,699
Consumption tax refundable	(100,159)	—
Accrued consumption tax	(155,406)	68,323
Trade and other payables	109,022	(102,818)
Rents received in advance	(179,837)	203,593
Property and equipment due to sale	1,672,153	2,641,181
Others, net	(212,763)	(129,157)
Subtotal	6,980,767	8,957,877
Interest income received	565	558
Cash payments of interest expense	(1,056,258)	(1,076,960)
Cash payments of income taxes	(890)	(1,092)
<b>Net cash provided by operating activities</b>	<b>5,924,184</b>	<b>7,880,383</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(15,090,275)	(2,860,168)
Purchases of investment securities	(202,400)	—
Proceeds from leasehold and security deposits received	1,161,189	639,486
Payments of leasehold and security deposits received	(623,098)	(1,409,380)
Payments of restricted bank deposits	(94,092)	—
Proceeds from restricted bank deposits	32,279	569,851
Others, net	(292)	—
<b>Net cash used in investing activities</b>	<b>(14,816,689)</b>	<b>(3,060,211)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short-term debt	7,900,000	1,200,000
Payments of short-term debt	(4,500,000)	(1,200,000)
Proceeds from long-term debt	11,700,000	9,000,000
Payments of long-term debt	(7,211,500)	(7,211,500)
Proceeds from issuance of investment corporation bonds	1,784,250	—
Redemption of investment corporation bonds	(1,500,000)	—
Payment of dividends	(2,702,999)	(2,738,824)
<b>Net cash provided by (used in) financing activities</b>	<b>5,469,751</b>	<b>(950,324)</b>
Net change in cash and cash equivalents	(3,422,754)	3,869,848
Cash and cash equivalents at the beginning of period	14,371,603	10,501,755
<b>Cash and cash equivalents at the end of period</b>	<b>¥ 10,948,849</b>	<b>¥14,371,603</b>

See related notes.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (UNAUDITED)

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, deposits placed with banks and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of market value fluctuation, with maturities of three months or less from the date of purchase.

#### CASH AND CASH EQUIVALENTS (UNAUDITED)

Cash and cash equivalents consisted of the following as of October 31, 2013 and April 30, 2013:

	In thousands of yen	
	As of October 31, 2013	As of April 30, 2013
Cash and bank deposits	¥11,452,986	¥14,813,927
Restricted bank deposits (Note)	(504,137)	(442,324)
<b>Cash and cash equivalents</b>	<b>¥10,948,849</b>	<b>¥14,371,603</b>

Note: Restricted bank deposits are retained for repayment of tenant leasehold and security deposits.

## Unitholders' Information

### Kenedix Realty Investment Corporation

**Fiscal Periods:** Six months ending April 30 and October 31  
**Stock Listing:** Real Estate Investment Trust Market of the Tokyo Stock Exchange (Security Code: 8972)  
**Transfer Agent:** Sumitomo Mitsui Trust Bank, Limited  
**Auditor:** Ernst & Young ShinNihon LLC

### IR Schedule (17th and 18th Fiscal Periods)



### General Breakdown of Unitholders

	Foreign corporations and individuals	Other domestic corporations	Financial institutions (including securities companies)	Individuals and others
End of the 17th Period	48.5%	1.5%	41.8%	8.2%
	138,897 units	4,342 units	119,684 units	23,627 units
End of the 16th Period	48.5%	1.7%	39.9%	9.9%
	138,868 units	4,932 units	114,334 units	28,416 units

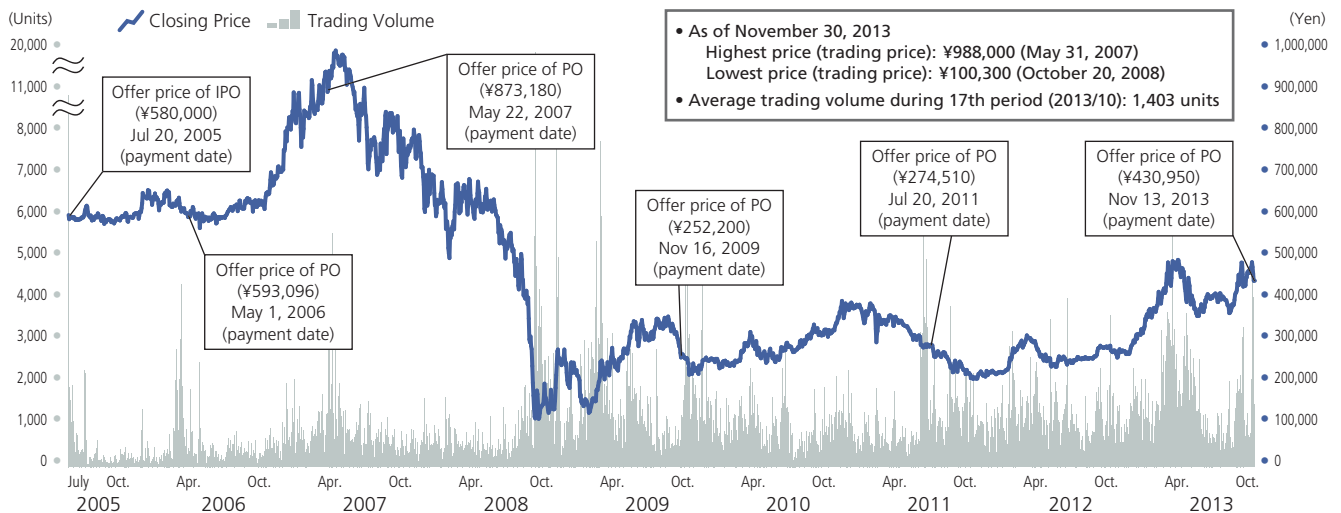
Note: Figures are rounded to the first decimal place.

### Top Ten Unitholders (As of October 31, 2013)

Name	Units Held	Share of Outstanding Units <Note 1>
Japan Trustee Services Bank, Ltd. (Trust Account)	45,429	15.85%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	21,793	7.60%
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,244	6.71%
The Nomura Trust and Banking Co., Ltd. (Trust Account)	18,830	6.57%
The Bank of New York, Treaty JASDEC Account	10,828	3.77%
State Street Bank and Trust Company (Note 2)	6,948	2.42%
JP Morgan Chase & Co. 385174	6,820	2.38%
State Street Bank and Trust Company (Note 3)	6,424	2.24%
Nomura Bank (Luxembourg) S.A.	6,176	2.15%
State Street Bank and Trust Company 505223	5,501	1.91%
<b>Total</b>	<b>147,993</b>	<b>51.64%</b>

Notes: 1. The percentage of shares are rounded down to the second decimal place.  
 2. The standing proxy is Settlement & Clearing Services Division, Mizuho Bank, Ltd.  
 3. The standing proxy is Custody department of The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch.

### Unit Price and Trading Volume





<http://www.kdx-reit.com/eng/>

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