

**KENEDIX**

Office Investment Corporation

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

**19<sup>th</sup> Fiscal Period**

**SEMIANNUAL REPORT**

May 1, 2014–October 31, 2014

**KENEDIX-REIT**

**TSE 8972**



## Top Message

In the 19th Fiscal Period, we bounded forward toward the next growth stage, approaching the medium-term goal of 400 billion yen in asset size based on acquisition price. After the public offering in May 2014, we acquired seven properties during the period, followed by another public offering at the start of the 20th Fiscal Period and the acquisition of five properties, boosting our portfolio size to 99 properties or 384.7 billion yen as of January 9, 2015.

With an eye on new growth opportunities, we are poised to further strengthen our presence as the No. 1 J-REIT for mid-sized office buildings.

Naokatsu Uchida  
*Executive Director*

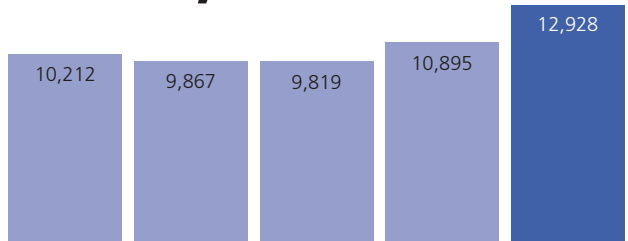
*Kenedix Office Investment Corporation*

# Capturing New Growth Opportunities in the Mid-sized Office Building Market

(As of October 31, 2014)

## Operating Revenues

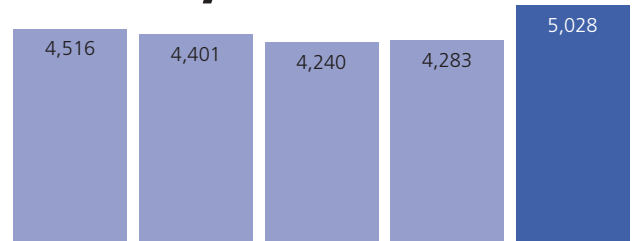
12,928 million yen



15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013) 18th Period (Ended Apr. 30, 2014) 19th Period (Ended Oct. 31, 2014)

## Operating Income

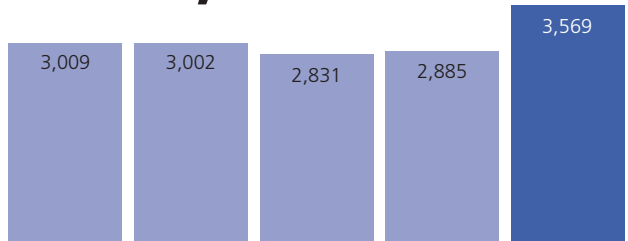
5,028 million yen



15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013) 18th Period (Ended Apr. 30, 2014) 19th Period (Ended Oct. 31, 2014)

## Net Income

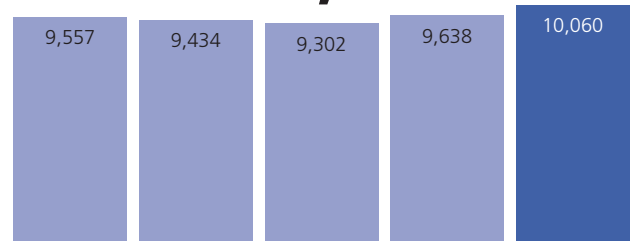
3,569 million yen



15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013) 18th Period (Ended Apr. 30, 2014) 19th Period (Ended Oct. 31, 2014)

## Distribution per Unit

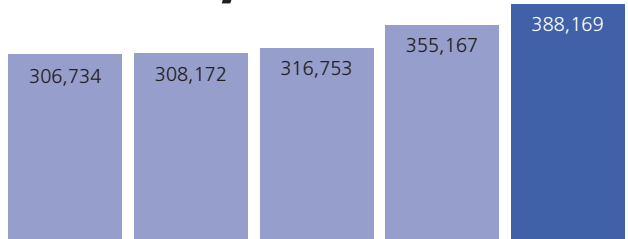
10,060 yen



15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013) 18th Period (Ended Apr. 30, 2014) 19th Period (Ended Oct. 31, 2014)

## Total Assets

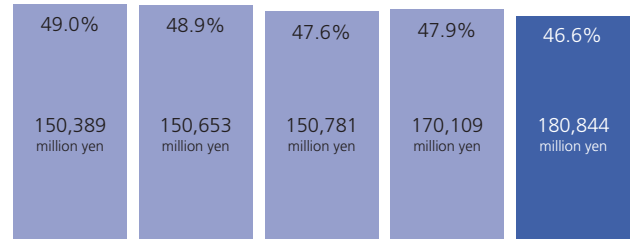
388,169 million yen



15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013) 18th Period (Ended Apr. 30, 2014) 19th Period (Ended Oct. 31, 2014)

## Net Assets Ratio / Unitholders' Equity

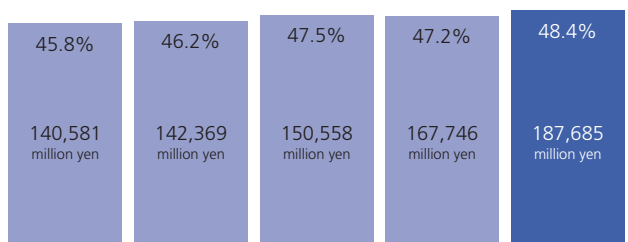
46.6%



15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013) 18th Period (Ended Apr. 30, 2014) 19th Period (Ended Oct. 31, 2014)

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

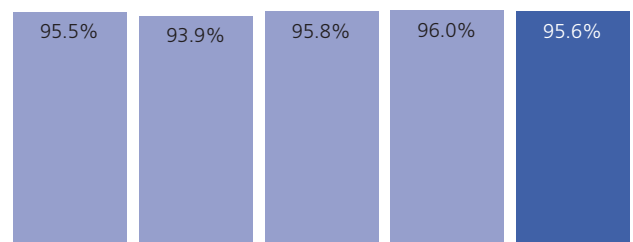
48.4%



15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013) 18th Period (Ended Apr. 30, 2014) 19th Period (Ended Oct. 31, 2014)

## Occupancy Rate

95.6%



15th Period (Ended Oct. 31, 2012) 16th Period (Ended Apr. 30, 2013) 17th Period (Ended Oct. 31, 2013) 18th Period (Ended Apr. 30, 2014) 19th Period (Ended Oct. 31, 2014)

## Consistently Acquiring Properties to Sustain External Growth, Continuous Improvement in Portfolio Quality Through Property Reshuffle

During the 19th Fiscal Period (ended October 2014), Kenedix Office Investment Corporation (KDO) acquired seven properties at a total acquisition price of 38.1 billion yen: KDX Toyosu Grand Square and two other properties in May 2014, followed by the Hiroshima Ekimae-dori Mark Building and Tosen Ikebukuro Building in September, and the Senri Life Science Center Building and Urban Square Yokohama in October.

All of these seven properties enjoy high tenancy demand and are highly competitive within their areas. We expect these acquisitions to contribute to long-term revenue as well as the overall profitability and stability of our portfolio.

We invest mainly in mid-sized office buildings in the Tokyo Metropolitan Area; however, three of the seven properties acquired during the fiscal period under review are located in other regional areas. This is consistent with our policy of investing in carefully selected properties that offer excellent location and tenant mix in other regional areas.

During the fiscal period under review, we also sold two properties, in the Shin-Yokohama area and Honmachi area in Osaka, for a total selling price of 2.6 billion yen. By reshuffling our properties, we are improving the quality of the portfolio.

## Maintain High Occupancy Rates, Steadily Increasing Upward Rent Renewals

Vacancy rates are improving and rents are rising in the office building leasing market. Buoyed by these favorable conditions, the Investment Corporation maintained high occupancy rates: 95.9% for office buildings in Tokyo's five central wards and 95.4% across all its office buildings, as of October 31, 2014.

Furthermore, thanks to the recovery in the office leasing market, we were able to take a strong position when negotiating with tenants. As a result, we managed to increase the proportion of upward rent revisions from that of the previous fiscal period (ended April 2014), both in terms of number of tenants and floor area leased.

We also place great importance on maintaining and improving property competitiveness by renovating and adding value. One such project undertaken during the fiscal period under review is the KDX Takawadai Building. By refurbishing the building's elevator hall, we were able to tap into hidden demand among existing tenants for greater floor space, and by refitting vacant office space on the first floor for retail use, we succeeded in attracting new tenants. As a result of these initiatives, the building's occupancy rate stands at 100% as of October 31, 2014.

## Reducing Financial Costs and Extending Debt Maturities, Maintaining Stable Financial Base

On the financial front, we steadily reduced financing costs and extended debt maturities amid sustained favorable funding conditions. We are focused on maintaining a high proportion of fixed-rate debt and optimizing the distribution of repayment dates when procuring funds in order to maintain and improve our financial stability.



Going forward, we will continue efforts to reduce financing costs by seeking better interest rates when refinancing our comparatively high-interest debt, giving due consideration to loan periods and other factors.

## Capital Increases through Three Consecutive Public Offerings, Now Approaching 400 Billion Yen in Assets

We raised additional capital through a public offering in November 2014. This capital increase served three purposes: to facilitate the improvement of the portfolio's profitability and of unitholders' value; to ensure greater stability in terms of revenue generation and enhance economies of scale by increasing the size of our portfolio; and to lower the LTV ratio with the aim of strengthening our financial foundation and enhancing our borrowing capacity for other property acquisitions.

The capital raised through this public offering was used to acquire five additional mid-sized office buildings. As a result, the Investment Corporation's portfolio stands at 99 properties with a total value of 384.7 billion yen as of January 9, 2015, bringing us close to the medium-term goal of 400 billion yen in assets. We have now conducted public offerings in three consecutive periods. I am confident that the success of these offerings will help the Investment Corporation achieve even greater growth and progress going forward.

## Distribution Per Unit Reaches 10,000 Yen Level, Increasing Unitholders' Value by Boosting Net Asset Value\*

Distribution per unit for the fiscal period under review was 10,060 yen, up from the previous fiscal period (ended April 2014), and exceeding 10,000 yen for the first time in four years. Positive factors behind this increase included income from newly acquired properties as well as dividends income from property-backed preferred securities. Meanwhile, increased costs included costs related to property acquisitions and a loss on sales of properties.

In the 20th Fiscal Period (ending April 2015), we expect both income and profit to continue to rise. Distribution per unit is forecast at 11,000 yen, up 940 yen from the previous fiscal period, reflecting contributions to income from newly acquired properties, dividends income from property-backed securities as well as reduced loss on property sales. As an aside, assuming the full period contribution of newly acquired properties, after taxes and other public dues, and excluding temporary income and costs, the distribution level based on actual earnings of the portfolio is expected to be between 10,200 and 10,300 yen.

Net asset value per unit after the public offering stood at 496,000 yen after the public offering.\* This was due to the sale of properties with unrealized losses, the acquisition of properties at prices below their respective appraisal values, increases in end-of-period appraisal values of existing portfolio properties, and the public offering at a unit price exceeding net asset value per unit.

We will continue to increase unitholders' value by acquiring new properties and reshuffling the portfolio.

\* Net Asset Value (NAV) = Period-end net assets - Unappropriated retained earnings [including reversal of negative goodwill] + Period-end appraisal value - Tangible fixed assets





## Using Our Wealth of Knowledge as the No. 1 Owner of Mid-Sized Office Buildings to Best Serve Investors

Japan's Government Pension Investment Fund (GPIF) and the Bank of Japan recently announced that they will increase their investments in J-REITs. What's more, in November 2014, the total market capitalization of all J-REITs surpassed 10 trillion yen for the first time. The Tokyo Stock Exchange REIT Index has seen solid growth since 2008. And, in light of the commencement of the Nippon Individual Savings Account (NISA) program, a tax-break scheme for small investments, J-REITs have been gaining attention due to their appealing rates of return. These facts illustrate the strength with which the market is growing and promise continued development.

In looking at the office building market, we believe that, among buildings of a given size, some properties are competitive and some are not. This is because the type of tenants targeted varies by building size.

The supply of new office buildings in Japan peaked for small- and mid-sized buildings around 1990, with Japan's economic bubble, and has been limited for the past 20 years. In contrast, there has been a constant supply of new large-scale office buildings. So, naturally, the factors influencing the competitiveness of large-scale buildings and small- and mid-sized buildings are different.

The difference is clear when comparing the data for office space in the 23 wards of Tokyo by size and year completed. Among small- and mid-sized buildings, those that were built more than 20 years ago make up 79% of total leasable floor space. The same figure for large-scale buildings is just 46%.

It is important, then, to maximize customer satisfaction and attract SMEs to mid-sized buildings that are over 20 years old, where the main volume of the market is. To that end, not only location is crucial, but so too are proper building management and operation as well as upgrades and renovations of facilities.

Our portfolio now consists of more than 90 office buildings, most of which are mid-sized. This is the most of any J-REIT. In addition to the benefits of accumulated expertise in building management and operations, we are seeing increasing economies of scale, including reduced operating and construction costs.

Because the limited supply of new mid-sized office buildings creates a favorable market environment, we expect to be able to maintain and increase the competitiveness of our buildings. We aim to increase rent revenues based not only on the overall recovery of the office building market, but also on diligent building operation focused on tenant satisfaction.

We will continue working to solidify our position as the No. 1 mid-sized office building owner in order to meet the expectations of our unitholders and fulfill our social mission.

内田直克

**Naokatsu Uchida**

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



## Management Team



### 1 Naokatsu Uchida

Director and COO, General Manager of Office REIT 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, joined Kenedix Office Partners, Inc. and was a member of the Financial Planning Division for approximately two years
- Appointed CEO and President of Kenedix Office Partners, Inc. on February 2, 2012
- CEO and President and COO, General Manager of Office REIT Division on October 1, 2013

### 2 Keisuke Sato

General Manager of Investment Management Dept., Office REIT Division

- Worked for Tokyu Land Corporation for approximately nine years (Urban Business Division)
- Joined Kenedix, Inc. after having worked for JPMorgan Securities Japan Co. Ltd., Prudential Real Estate Investors (Japan) K.K.
- Property appraiser
- Appointed General Manager of Investment Management Division, Kenedix Office Partners, Inc. on August 1, 2012
- Appointed General Manager of Investment Management Department, Office REIT Division on October 1, 2013

### 3 Tetsushi Ichikawa

General Manager of Finance & Accounting Dept.

- Worked for Sumitomo Mitsui Trust Bank for 15 years (Engaged in real estate finance, etc.)
- Joined Kenedix after having engaged in real estate investment banking and having served as director responsible for asset management business at Touchstone Capital Securities
- Appointed General Manager of Finance & Accounting Dept. on October 1, 2013 after serving as General Manager of Finance Group for Kenedix Residential Partners

### 4 Hikaru Teramoto

General Manager of Planning Dept., Office REIT Division

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



## External Growth

# Approaching the 400 Billion Yen Mile the Next Growth Stage

Our portfolio stands at **99** properties with a total acquisition price over **380** billion yen

The fiscal period under review started with a public offering, as did the previous fiscal period, and the acquisition of three properties, which took place on May 30, 2014.

Then, towards the end of the period, Kenedix Office Investment Corporation acquired four properties: Hiroshima Ekimae-dori Mark Building, Tosen Ikebukuro Building, Senri Life Science Center Building (see column at right) and Urban Square Yokohama, at a total acquisition price of 23.4 billion yen. Meanwhile, the Investment Corporation sold two properties, KDX Minami Semba Dai-1 Building and Nissou Dai-17 Building, on accounts of their leasing histories and expected future cash flows.

At the end of the period, our portfolio comprised 94 properties with a total acquisition price of 369.9 billion yen.

The portfolio is still growing. At the start of the 20th Fiscal Period (ending April 2015), the Investment Corporation decided to undertake a public offering for a third consecutive fiscal period. The resulting capital increase was used to fund the acquisition of five properties, Yokohama Nishiguchi SIA Building, Shin-Yokohama 214 Building, KDX Minami-Honmachi Building, BUREX Toranomom and KDX Sakura-dori Building, at a total acquisition price of 14.8 billion yen. We have also managed to expand the number of tenants to about 1,200 after the public offering in November 2014, from 1,036 after the public offering in May 2014, helping to secure a stable income base.

Although there are signs of overheating in real estate markets, especially in the Tokyo Metropolitan Area, comparable to the situation in 2007, we still see portfolio expansion as a major growth driver. Capitalizing on our information network and accumulated transaction know-how, we will take full advantage of the opportunities that can be found in the increasingly competitive acquisition environment.

Our portfolio stands at 99 properties or 384.7 billion yen as of January 9, 2015. As we approach the medium-term goal of 400 billion yen in asset size based on acquisition price, we are looking toward the next growth stage.

Column

## Senri Life Science Center Building

Since April 26, 2012, we have invested in the property through the acquisition of preferred securities issued by its owner, Senri Property TMK. The property is a multi-use office building comprising offices, retail shops, a rental hall and rental conference rooms. We decided to acquire the whole property on account of its location, building conditions and tenant diversity.

Property Data	
Total Leasable Area	17,220.91 m <sup>2</sup> *
Completion Date	June 30, 1992
Acquisition Price	13.0 billion yen

\* The figure does not include rental halls, rental conference rooms, or parking.

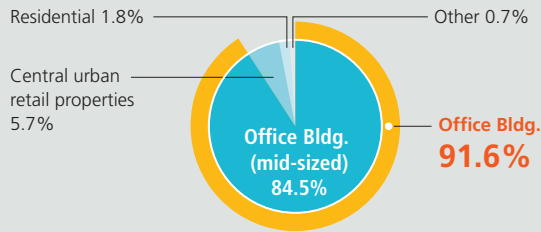




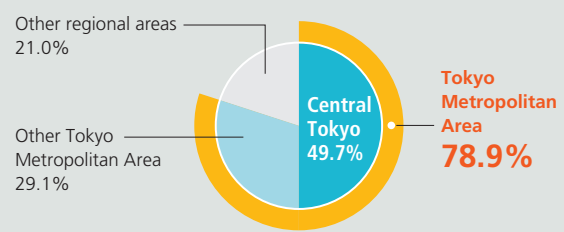
01  
External Growth

# stone with an Eye toward

### ● Breakdown by Asset Type

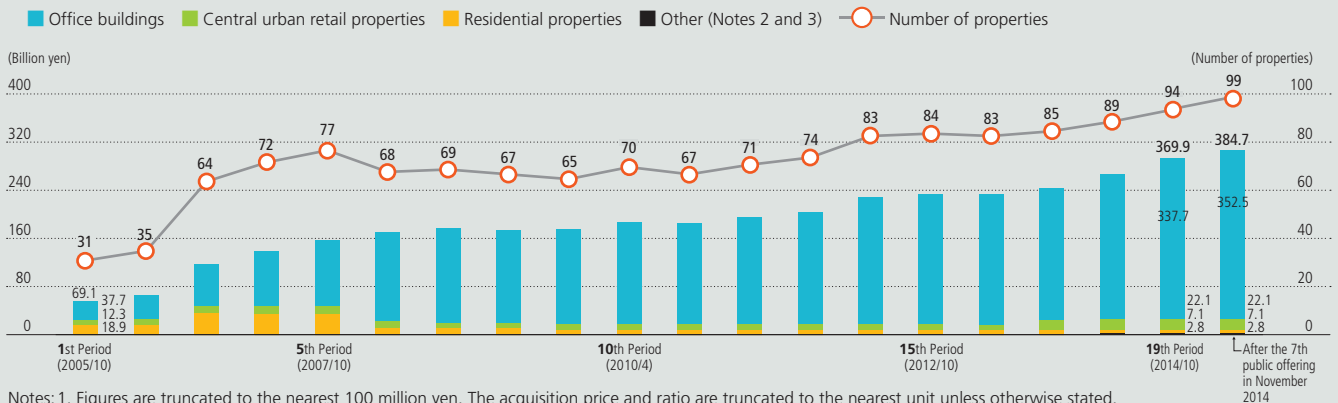


### ● Breakdown of Office Buildings by Region



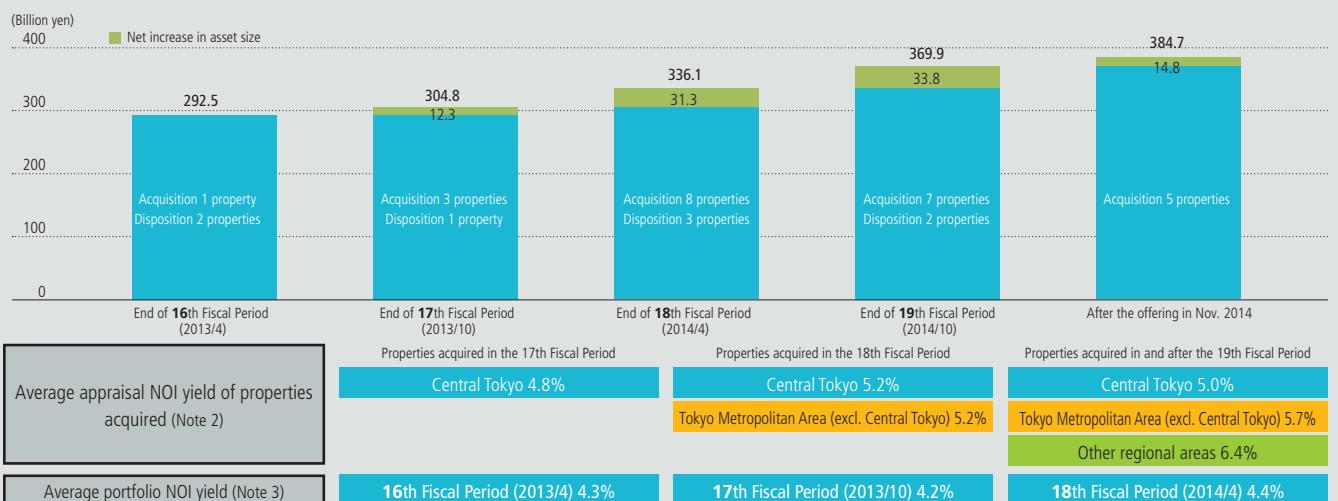
Notes: 1. The percentage breakdowns are calculated based on the acquisition price after the 7th public offering in November 2014 (Figures are truncated to the first decimal place).  
2. Central Tokyo represents Chiyoda, Chuo, Minato, Shibuya and Shinjuku wards.

### ● Portfolio Growth (Based on acquisition price) (Note 1)



Notes: 1. Figures are truncated to the nearest 100 million yen. The acquisition price and ratio are truncated to the nearest unit unless otherwise stated.  
2. "Other" for 14th and 15th fiscal periods is Kanazawa Nikko Building.  
3. "Other" for 18th Fiscal Period onwards is Shinjuku 6-chome Building (Land).  
4. Breakdown of asset type based on acquisition price (truncated to the first decimal place).

### ● Asset Size Growth (Note 1)



Notes: 1. Increase/decrease in asset size is based on acquisition price.  
2. Average appraisal NOI yield at the time of acquisition for anticipated/acquired properties is calculated by dividing total appraisal NOI by total acquisition price for each region for the properties acquired in relevant fiscal period or acquired after the 19th Fiscal Period. Figures are rounded to the first decimal place.  
3. Average portfolio NOI yield for 16th/17th/18th fiscal periods is calculated by dividing annualized NOI of the properties owned during the period based on actual results (for the properties acquired during each fiscal period, NOI is adjusted by dividing it by ratio of operating days to the number of days in each fiscal period) by total acquisition price. Figures are rounded to the first decimal place. For properties sold during the period, NOI yield is calculated by dividing NOI (actual results until the disposition date) by acquisition price (acquisition price times operating days divided by 365 days).

# Internal Growth

## Maintaining High Portfolio Occupancy Leasing Conditions

Office building occupancy rate of **95.4%** at the end of the 19th Fiscal Period

The fiscal period under review saw continued high occupancy rates and improvement in leasing conditions.

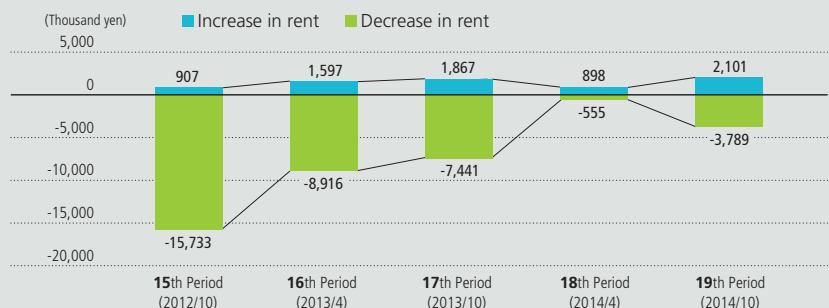
The occupancy rate for our office buildings at the end of the period stood at 95.4%, compared to 95.9% at the end of the previous fiscal period. The occupancy rate is expected to remain at this high level in the 20th Fiscal Period.

Looking at the tenant turnover of office buildings, although move-outs outpaced move-ins for the fiscal period under review, an increasing proportion of move-outs were for floor expansion purposes, reflecting improving business sentiment among SMEs.

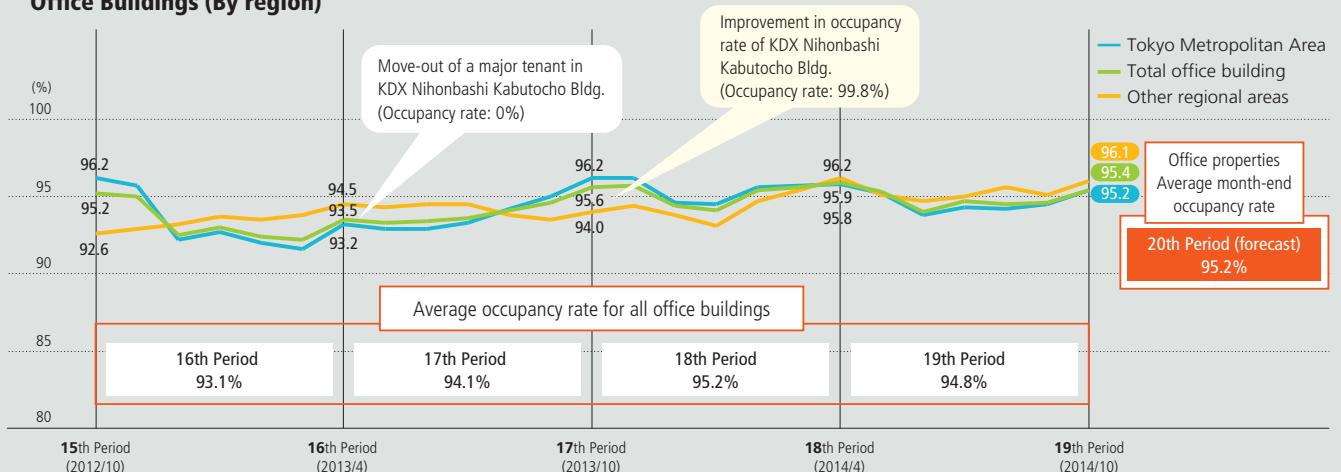
Continuing from the 18th Fiscal Period, we are seeing more cases of upward rent revision through negotiation with tenants. Our rent gap is shrinking, down from a peak of 21.7% at the end of the 13th Fiscal Period (2011/10) to 5.8% at the end of the fiscal period under review. As rent-free periods expire, the gap is also shrinking between the occupancy rate and the rent-based occupancy rate.

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

(Note)  
Note : Difference in monthly rent levels before and after rent revision , calculated separately for each tenant. Numbers are rounded to the nearest thousand yen.



### ● 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 20th Fiscal Period (2015/4) is calculated based on the Asset Management Company's earnings forecast for the 20th Fiscal Period.



02

Internal Growth

# ncy While Improving

We are proactively investing to renovate and upgrade the existing properties, reflecting what tenants need as revealed by customer satisfaction surveys. We also refit underused spaces to accommodate the diverse range of our tenants' needs. Combined with property management services provided by Kenedix Property Management, Inc. (KPM), these kinds of improvements help us bolster tenant satisfaction as well as find new tenants at favorable leasing terms. This translates into improved portfolio quality in terms of both occupancy and revenue (see column below).

For our environmental initiatives, we have been awarded the Green Star rating of the Global Real Estate Sustainability Benchmark (GRESB) survey for a third consecutive year in 2014, ranking first among seven players in Japan's office building division for the second consecutive year. As for safety and disaster management, the latest probable maximum loss (PML) survey conducted to evaluate earthquake risks brought our portfolio PML down to 2.38%. We will continue our efforts to meet sustainability needs, as is our responsibility as a J-REIT.

## Adding Value to Our Properties

### Upgrading value through renewal work

KDX Shinjuku Building



Measures

- Improvement in visibility by increasing brightness of building entrance
- Improvement in design and texture



Successfully increased newly contracted rent level

Change in contracted rent level\*

May 1, 2014	Dec. 1, 2014	Dec. 15, 2014
100.0%	105.6%	111.1%

\* Index value with the newly contracted rent on May 31, 2014 given a value of 100

### Upgrading value through change in floor use

KDX Sendai Building



Measures

- Implemented leasing activities targeted at retail tenants that can afford higher rent per square meter for the first floor
- Converted into retail space for stores



Attracted a new tenant without any downtime period, improving average rent per square meter

Occupancy rate	At the time of previous tenant's lease cancellation (As of Sep. 1, 2014)	At the time of current tenant's moving-in (As of Sep. 12, 2014)
	88.2%	94.4%

Average rent per square meter + 9.2% (Note)

Note: Average rent per square meter growth rate is calculated by comparing a weighted average rent (weighted based on contracted rent, incl. common area charge) of end-tenants in contract at each relevant data point. Numbers are truncated to the first decimal place.

# Financial Strategy

03  
Financial Strategy

## Making Timely Financial Decisions to Seize Opportunities

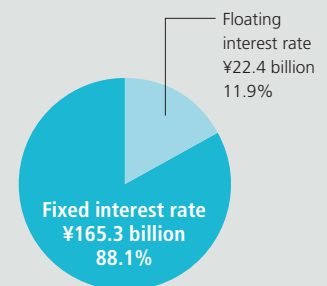
LTV ratio improved to **43.2%**, providing **460** billion yen in investment capacity

At the start of the fiscal period under review, the Investment Corporation raised 10.3 billion yen through a public offering, which was completed on June 24, 2014. Then, on November 6, 2014, we decided to undertake a public offering for a third consecutive fiscal period. This offering was completed on December 24, 2014 and resulted in a capital increase of 29.5 billion yen. The interest bearing debt ratio (LTV ratio), which rose to 48.4% at the end of the 19th Fiscal Period, decreased to 43.2% as of January 9, 2015. We will have an investment capacity of approximately 46 billion yen if we allow the LTV ratio to rise to 49%.

Meanwhile, we are continuing our efforts to reduce financing costs. We managed to reduce the average interest rate of our interest-bearing debt further, from 1.65% at the end of the 18th Fiscal Period to 1.46%. We also managed to extend the average remaining term to maturity from 3.1 years to 3.6 years.

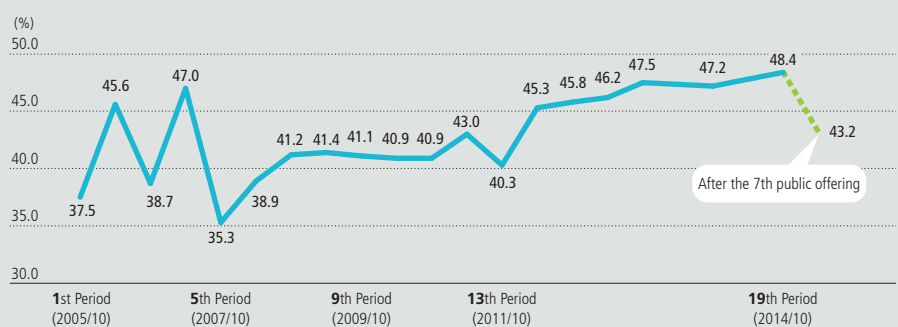
The aforementioned capital increase was partially used to repay 12.7 billion yen of our 15.9 billion yen short-term borrowings ahead of maturity (21st Fiscal Period, ending October 2015). We are building a sound financial base which allows us to make prompt decisions when opportunity arrives.

### ● Fixed Interest Rate (2014/10)



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).

### ● Changes in the LTV Ratio

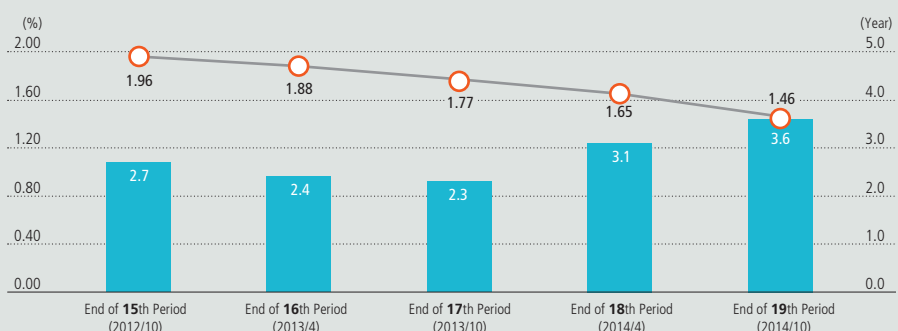


Note: LTV = Interest-bearing debt / Total assets

### ● Average Remaining Period to Maturity and Interest Rate in Each Fiscal Period

(Note)

- Weighted average remaining period to maturity (right axis)
- Weighted average interest rate (incl. up-front fees per year) (left axis)



Note: Average remaining period to maturity and interest rate are weighted averages based on outstanding debts at the end of each fiscal period (Average remaining period to maturities and interest rate are rounded to the second and first decimal places respectively).

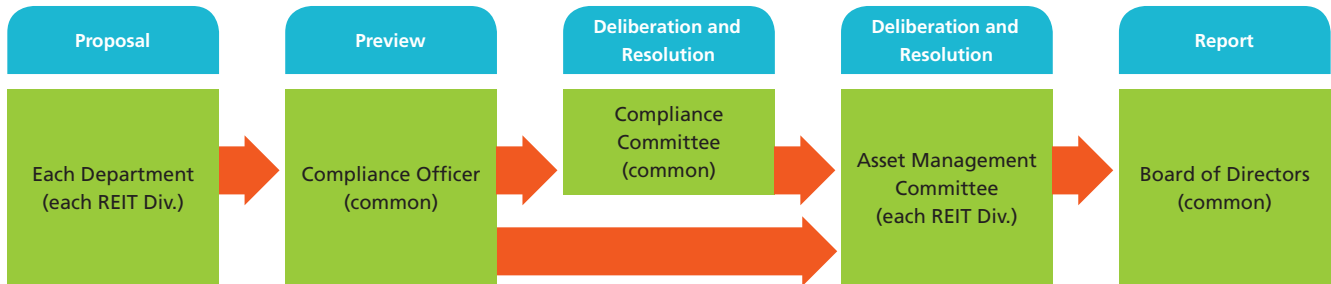


## Investment and Management Decision-making System

As the asset management company, Kenedix Real Estate Fund Management (KFM) creates guidelines governing our asset management. These Asset Management Guidelines (AMGs) define our investment policy, rules concerning transactions with related parties, distribution policy and disclosure policy.

The structure of the decision-making process is outlined below.

### KFM's Decision-making Process



#### 1. Investment Policy

The Investment Management Department of Office REIT Division proposes any revision of the AMGs to the Compliance Officer. After review, the Officer advances the revisions to the Compliance Committee where they are deliberated and resolved. Lastly, the Office REIT Division Asset Management Committee (OAMC) deliberates and reaches resolution on the revisions.

The AMGs may be revised to reflect changes in investment conditions and our investment policy, as well as other reasons such as changes in the legal or regulatory environment. Whenever the AMGs are changed, the General Manager of Office REIT Division must report each revision to the Board of Directors.

#### 2. Decision-making Process on Asset Management

##### ▶ Asset Management Plans

Relevant departments of Office REIT 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 OAMC deliberates and reaches resolution on these plans.

Each time a new property management plan is approved or revised, the General Manager of Office REIT Division must report this to the Board of Directors.

##### ▶ Acquisition and Sale of Properties

The Investment Management Department of Office REIT 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 the OAMC for final review and 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 the OAMC for final review and resolution. After a related-party transaction is approved, the Compliance Officer must report this transaction to the Board of Directors.

The Investment Management Department of Office REIT Division also proposes property sales or disposals to the Compliance Officer, who reviews the proposal and, when necessary, forwards it to the Compliance Committee. In the absence of conflicts or other issues, the Compliance Officer may send the proposal directly to the OAMC for final review and resolution.

## Environmental Initiatives

KFM undertakes investment management operations in accordance with the following environmental policies:

1. Compliance with Environmental Laws and Regulations
2. Promotion of Energy Conservation Measures
3. Reduction of Environmental Burden
4. Disclosure of Environmental Information
5. Environmental Education

Thanks to continuous efforts, we have won a range of certifications, including Green Star ratings from the Global Real Estate Sustainability Benchmark (GRESB) surveys.



## KENEDIX-REIT Portfolio (As of October 31, 2014)

The properties acquired during the 19th Fiscal Period are marked with red boxes.

	No.	Property Name	Location	Acquisition Price (mn yen) <Note 1>	Year Built <Note 2>	Occupancy Rate <Note 3>
Office (Tokyo Metropolitan Area)	A1	KDX Nihonbashi 313 Building	Chuo-ku, Tokyo	5,940	Apr. 1974	100.0%
	A3	Higashi-Kayabacho Yuraku Building	Chuo-ku, Tokyo	4,450	Jan. 1987	100.0%
	A4	KDX Hatchobori Building	Chuo-ku, Tokyo	3,680	Jun. 1993	100.0%
	A5	KDX Nakano-Sakaue Building	Nakano-ku, Tokyo	2,533	Aug. 1992	95.2%
	A6	Harajuku F.F. Building	Shibuya-ku, Tokyo	2,450	Nov. 1985	100.0%
	A7	FIK Minami Aoyama	Minato-ku, Tokyo	2,270	Nov. 1988	100.0%
	A8	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	96.5%
	A15	KDX Hamacho Building	Chuo-ku, Tokyo	2,300	Sep. 1993	88.7%
	A16	Toshin 24 Building	Yokohama, Kanagawa	5,300	Sep. 1984	94.1%
	A17	KDX Ebisu Building	Shibuya-ku, Tokyo	4,640	Jan. 1992	100.0%
	A19	KDX Hamamatsucho Building	Minato-ku, Tokyo	3,460	Sep. 1999	100.0%
	A20	KDX Kayabacho Building	Chuo-ku, Tokyo	2,780	Oct. 1987	84.9%
	A21	KDX Shinbashi Building	Minato-ku, Tokyo	3,728	Feb. 1992	100.0%
	A22	KDX Shin-Yokohama Building	Yokohama, Kanagawa	2,520	Sep. 1990	97.5%
	A26	KDX Kiba Building	Koto-ku, Tokyo	1,580	Oct. 1992	88.1%
	A27	KDX Kajicho Building	Chiyoda-ku, Tokyo	2,350	Mar. 1990	100.0%
	A28	KDX Nogizaka Building	Minato-ku, Tokyo	1,065	May 1991	86.8%
	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	100.0%
	A33	KDX Okachimachi Building	Taito-ku, Tokyo	2,000	Jun. 1988	100.0%
	A34	KDX Hon-Atsugi Building	Atsugi, Kanagawa	1,305	May 1995	100.0%
	A35	KDX Hachioji Building	Hachioji, Tokyo	1,155	Dec. 1985	72.7%
	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	77.8%
	A39	KDX Toranomom Building	Minato-ku, Tokyo	4,400	Apr. 1988	100.0%
	A40	Toranomon Toyo Building	Minato-ku, Tokyo	9,850	Aug. 1962	75.1%
	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	87.4%
	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	100.0%
	A48	KDX Kawasaki-Ekimae Hon-cho Building	Kawasaki, Kanagawa	3,760	Feb. 1985	100.0%
	A50	KDX Ikejiri-Oohashi Building	Meguro-ku, Tokyo	2,400	Sep. 1988	63.6%
	A51	KDX Hamacho Nakanohashi Building	Chuo-ku, Tokyo	2,310	Sep. 1988	88.3%
	A52	KDX Kanda Misaki-cho Building	Chiyoda-ku, Tokyo	1,380	Oct. 1992	86.8%
	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	90.7%	
A61	KDX Hamamatsucho Dai-2 Building	Minato-ku, Tokyo	2,200	Apr. 1992	100.0%	
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%	
A66	KDX Shinjuku Building	Shinjuku-ku, Tokyo	6,800	May 1993	91.8%	
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	86.6%	
A72	KDX Higashi-Shinagawa Building	Shinagawa-ku, Tokyo	4,590	Jan. 1993	56.7%	
A73	KDX Hakozaeki Building	Chuo-ku, Tokyo	2,710	Nov. 1993	89.3%	



	No.	Property Name	Location	Acquisition Price (mn yen) <Note 1>	Year Built <Note 2>	Occupancy Rate <Note 3>
	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	100.0%
	A78	KDX Tachikawa Ekimae Building	Tachikawa, Tokyo	1,267	Feb. 1990	100.0%
	A83	KDX Fuchu Building	Fuchu, Tokyo	6,120	Mar. 1996	97.6%
	A84	KDX Kasuga Building	Bunkyo-ku, Tokyo	2,800	Jun. 1992	100.0%
	A85	KDX Nakameguro Building	Meguro-ku, Tokyo	1,880	Oct. 1985	100.0%
	A86	KDX Omiya Building	Saitama, Saitama	2,020	Apr. 1993	100.0%
	A87	Itopia Nihonbashi SA Building	Chuo-ku, Tokyo	2,200	Jul. 1995	98.0%
	A88	Welship Higashi Shinjuku	Shinjuku-ku, Tokyo	1,900	Mar. 1990	100.0%
	A89	KDX Takanawadai Building	Minato-ku, Tokyo	5,250	Oct. 1985	100.0%
	A90	KDX Ikebukuro Building	Toshima-ku, Tokyo	3,900	Mar. 2009	100.0%
	A91	KDX Mita Building	Minato-ku, Tokyo	3,180	Mar. 1993	95.6%
	A92	KDX Akihabara Building	Chiyoda-ku, Tokyo	2,600	Dec. 1973	100.0%
	A93	Aplus Tokyo Building	Shinjuku-ku, Tokyo	4,350	Jan. 1994	100.0%
	A94	KDX Musashi-Kosugi Building	Kawasaki, Kanagawa	12,000	May 2013	100.0%
	A95	KDX Toyosu Grand Square	Koto-ku, Tokyo	8,666	Apr. 2008	87.0%
A96	Grace Building Takadanobaba	Toshima-ku, Tokyo	3,650	Oct. 1988	100.0%	
A99	Tosen Ikebukuro Building	Toshima-ku, Tokyo	1,934	Jul. 1988	100.0%	
A101	Urban Square Yokohama	Yokohama-shi, Kanagawa	7,210	Mar. 1994	100.0%	
Office (Other Regional Areas)	A12	Portus Center Building	Sakai, Osaka	5,570	Sep. 1993	97.5%
	A25	KDX Minami Semba Dai-2 Building	Osaka, Osaka	1,560	Sep. 1993	72.9%
	A42	Karasuma Building	Kyoto, Kyoto	5,400	Oct. 1982	100.0%
	A44	KDX Sendai Building	Sendai, Miyagi	2,100	Feb. 1984	94.4%
	A53	KDX Hakata-Minami Building	Fukuoka, Fukuoka	4,900	Jun. 1973	98.5%
	A54	KDX Kitahama Building	Osaka, Osaka	2,220	Jul. 1994	92.8%
	A58	KDX Nagoya Sakae Building	Nagoya, Aichi	7,550	Apr. 2009	99.3%
	A69	KDX Kobayashi-Doshomachi Building	Osaka, Osaka	2,870	Jul. 2009	91.3%
	A70	KDX Sapporo Building	Sapporo, Hokkaido	2,005	Oct. 1989	95.6%
	A79	KDX Nagoya Ekimae Building	Nagoya, Aichi	7,327	Apr. 1986	99.0%
	A80	Nagoya Nikko Shoken Building	Nagoya, Aichi	4,158	Aug. 1974	100.0%
	A81	Sendai Nikko Building	Sendai, Miyagi	950	Mar. 1989	87.7%
	A82	KDX Higashi Umeda Building	Osaka, Osaka	2,770	Jul. 2009	100.0%
A97	Fumix STM Building	Utsunomiya, Tochigi	2,350	Feb. 1999	97.0%	
A98	Hiroshima Ekimae-dori Mark Building	Hiroshima, Hiroshima	1,300	Jan. 1990	73.3%	
A100	Senri Life Science Center Building	Toyonaka-shi, Osaka	13,000	Jun. 1992	99.3%	
Office Subtotal (88 properties)				337,741	Avg. 22.7 years	95.4%
Residential	B18	Venus Hibarigaoka	Sapporo, Hokkaido	1,800	Mar. 1989	95.4%
	B19	Residence Charmante Tsukishima	Chuo-ku, Tokyo	5,353	Jan. 2004	100.0%
Residential Subtotal (2 properties)				7,153	Avg. 14.5 years	97.1%
Central Urban Retail	C1	Frame Jinnan-zaka	Shibuya-ku, Tokyo	9,900	Mar. 2005	93.6%
	C2	KDX Yoyogi Building	Shibuya-ku, Tokyo	2,479	Aug. 1991	100.0%
	C4	GINZA 4chome Tower	Chuo-ku, Tokyo	9,800	Nov. 2008	100.0%
Central Urban Retail Subtotal (3 properties)				22,179	Avg. 9.4 years	97.4%
Other	D2	Shinjuku 6-chome Building (Land)	Shinjuku-ku, Tokyo	2,880	—	100.0%
	Other Subtotal (1 property)				2,880	—
Total (94 properties)				369,954	Avg. 21.7 years	95.6%

Investment Security	Toyonaka Property TMK Preferred Securities	Toyonaka, Osaka	1,583	Jun. 1992
	G.K. RKF 43 Silent Partnership Equity Interest	Shinjuku-ku, Tokyo	1,107	Dec. 1979

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

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, 2014, and is rounded down to the first decimal place.

3. Occupancy rate is calculated by dividing leased floor area by leasable floor area as of October 31, 2014 and is rounded to the first decimal place. Occupancy rate subtotals and total are each calculated by dividing the sum of leased floor area by the sum of leasable floor area of the relevant category. The figure for Shinjuku 6-chome Building (Land) is calculated based on the total leasable area indicated in the land lease agreement.

## Financial Section

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## Financial Summary (Unaudited)

Historical Operating Trends  
For the 15th–19th Fiscal Periods

Period	Unit	15th Period (as of Oct. 31, 2012)	16th Period (as of Apr. 30, 2013)	17th Period (as of Oct. 31, 2013)	18th Period (as of Apr. 30, 2014)	19th Period (as of Oct. 31, 2014)
Operating revenues	mn yen	10,212	9,867	9,819	10,895	12,928
(Rental revenues)	mn yen	9,617	9,306	9,501	10,330	11,295
Operating expenses	mn yen	5,696	5,465	5,578	6,611	7,899
(Property-related expenses)	mn yen	4,822	4,740	4,845	5,047	5,557
Operating income	mn yen	4,516	4,401	4,240	4,283	5,028
Ordinary income	mn yen	3,011	3,003	2,832	2,887	3,570
Net income (a)	mn yen	3,009	3,002	2,831	2,885	3,569
Total assets (b)	mn yen	306,734	308,172	316,753	355,167	388,169
(Period-on-period change)	%	(+1.1)	(+0.5)	(+2.8)	(+12.1)	(+9.3)
Interest-bearing debt (c)	mn yen	140,581	142,369	150,558	167,746	187,685
(Period-on-period change)	%	(+2.3)	(+1.3)	(+5.8)	(+11.4)	(+11.9)
Unitholders' equity (d)	mn yen	150,389	150,653	150,781	170,109	180,844
(Period-on-period change)	%	(+0.2)	(+0.2)	(+0.1)	(+12.8)	(+6.3)
Unitholders' capital	mn yen	147,153	147,153	147,153	166,261	176,632
(Period-on-period change)	%	(0.0)	(0.0)	(0.0)	(+13.0)	(+6.2)
Number of investment units issued and outstanding (e)	unit	286,550	286,550	286,550	332,540	355,010
Unitholders' equity per unit (d)/(e)	yen	524,828	525,747	526,195	511,546	509,407
Total distribution (f)	mn yen	2,738	2,703	2,665	3,205	3,571
Distribution per unit (f)/(e)	yen	9,557	9,434	9,302	9,638	10,060
(Earnings distributed per unit)	yen	9,557	9,434	9,302	9,638	10,060
(Distribution in excess of earnings per unit)	yen	—	—	—	—	—
Return on assets (annualized) (Notes 1 and 2)	%	1.0 (2.0)	1.0 (2.0)	0.9 (1.8)	0.9 (1.7)	1.0 (1.9)
Return on net assets (annualized) (Notes 2 and 3)	%	2.0 (4.0)	2.0 (4.0)	1.9 (3.7)	1.8 (3.6)	2.0 (4.0)
Net assets ratio at end of period (d)/(b)	%	49.0	48.9	47.6	47.9	46.6
(Period-on-period change)	%	(-0.5)	(-0.1)	(-1.3)	(+0.3)	(-1.3)
Interest-bearing debt ratio at end of period (c)/(b)	%	45.8	46.2	47.5	47.2	48.4
(Period-on-period change)	%	(+0.5)	(+0.4)	(+1.3)	(-0.3)	(+1.1)
Payout ratio (Note 4) (f)/(a)	%	90.9	90.0	94.1	111.0	100.0
<b>Other references</b>						
Number of properties	properties	84	83	85	89	94
Total leasable floor area	m <sup>2</sup>	351,153.72	347,853.97	358,517.31	386,659.01	437,233.24
Occupancy ratio at end of period	%	95.5	93.9	95.8	96.0	95.6
Depreciation expenses for the period	mn yen	1,621	1,662	1,696	1,826	2,022
Capital expenditures for the period	mn yen	904	772	894	711	550
Leasing NOI (Net Operating Income) (Note 5)	mn yen	6,416	6,228	6,352	7,109	7,760
FFO (Funds From Operation) (Note 6)	mn yen	4,187	4,202	4,293	5,031	7,116
FFO per unit (Note 7)	yen	14,612	14,664	14,984	15,130	20,045

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 15th Fiscal Period are calculated based on a period of 184 days, 181 days for the 16th Fiscal Period, 184 days for the 17th Fiscal Period, 181 days for the 18th Fiscal Period and 184 days for the 19th 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.





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## Independent Auditor's Report

The Board of Directors  
 Kenedix Office Investment Corporation

Pursuant to Article 130 of the Act on Investment Trusts and Investment Corporations, we have audited the accompanying financial statements of Kenedix Office Investment Corporation ("the Investment Corporation"), which comprise the balance sheet as of October 31, 2014, 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 Office Investment Corporation as of October 31, 2014, and its financial performance for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young ShinNihon LLC*

December 15, 2014  
 Tokyo, Japan

## Balance Sheets

Kenedix Office Investment Corporation  
As of October 31, 2014 and April 30, 2014

	In thousands of yen	
	As of October 31, 2014	As of April 30, 2014
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and bank deposits (Note 12)	¥ 16,469,910	¥ 18,055,433
Rental receivables	293,161	252,557
Consumption tax refundable	752,671	219,447
Other current assets (Note 7)	402,016	74,267
<b>Total current assets</b>	<b>17,917,758</b>	<b>18,601,704</b>
<b>Property and equipment, at cost: (Notes 3, 11 and 13)</b>		
Land	257,050,371	238,469,273
Buildings and structures (Note 5)	128,517,097	112,658,980
Machinery and equipment	1,959,350	1,973,320
Tools, furniture and fixtures	507,707	472,990
Construction in progress	—	1,785
Less-accumulated depreciation	(22,554,292)	(21,048,808)
<b>Net property and equipment</b>	<b>365,480,233</b>	<b>332,527,540</b>
<b>Other assets:</b>		
Ground leasehold (Notes 11 and 13)	354,783	355,557
Investment securities (Note 12)	2,679,139	2,006,886
Corporate bond issuance costs	44,639	31,328
Unit issuance costs	164,421	107,995
Other assets (Notes 11 and 13)	1,528,661	1,536,342
<b>Total assets</b>	<b>¥388,169,634</b>	<b>¥355,167,352</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Trade and other payables	¥ 1,000,282	¥ 978,541
Short-term debt and current portion of long-term debt (Notes 4 and 12)	46,035,000	42,246,500
Deposits received	15,695	29,071
Rents received in advance	1,868,868	1,792,248
Other current liabilities	133,808	164,039
<b>Total current liabilities</b>	<b>49,053,653</b>	<b>45,210,399</b>
Corporate bonds (Notes 4 and 12)	8,300,000	6,300,000
Long-term debt (Notes 4 and 12)	133,350,000	119,200,000
Leasehold and security deposits received	16,621,220	14,347,418
<b>Total liabilities</b>	<b>207,324,873</b>	<b>185,057,817</b>
<b>Net Assets</b>		
<b>Unitholders' equity</b>		
Unitholders' capital	176,632,550	166,261,746
Units authorized: 2,000,000 units		
Units issued and outstanding: 355,010 and 332,540 units as of October 31, 2014 and April 30, 2014, respectively		
<b>Surplus</b>		
Voluntary retained earnings		
Reserve for reduction entry	642,566	961,750
Retained earnings	3,569,645	2,886,039
<b>Total surplus</b>	<b>4,212,211</b>	<b>3,847,789</b>
<b>Total unitholders' equity</b>	<b>180,844,761</b>	<b>170,109,535</b>
<b>Total net assets (Note 8)</b>	<b>180,844,761</b>	<b>170,109,535</b>
<b>Total liabilities and net assets</b>	<b>¥388,169,634</b>	<b>¥355,167,352</b>

See accompanying notes to the financial statements.

## Statements of Income and Retained Earnings

Kenedix Office Investment Corporation

For the six months period from May 1, 2014 to October 31, 2014 and November 1, 2013 to April 30, 2014

	In thousands of yen	
	From May 1, 2014 to October 31, 2014	From November 1, 2013 to April 30, 2014
<b>Operating revenues:</b>		
Rental revenues (Notes 10 and 11)	¥11,295,407	¥10,330,338
Gain on sale of real estate property (Note 10)	—	497,482
Dividends income	1,632,716	67,467
Total operating revenues	12,928,123	10,895,287
<b>Operating expenses:</b>		
Property-related expenses (Notes 10 and 11)	5,557,660	5,047,051
Loss on sale of real estate property (Note 10)	1,524,518	816,665
Asset management fees	643,211	564,461
Administrative service and custodian fees	72,536	69,161
Other operating expenses	101,500	114,550
Total operating expenses	7,899,425	6,611,888
<b>Operating income</b>	<b>5,028,698</b>	<b>4,283,399</b>
<b>Non-operating expenses:</b>		
Interest expense	1,115,016	1,039,564
Financing-related expenses	288,414	301,079
Amortization of unit issuance costs	37,204	40,502
Amortization of corporate bond issuance costs	4,888	4,323
Others, net	12,519	10,793
Total non-operating expenses	1,458,041	1,396,261
<b>Ordinary income</b>	<b>3,570,657</b>	<b>2,887,138</b>
Income before income taxes	3,570,657	2,887,138
Income taxes (Note 7)	1,215	1,266
<b>Net income</b>	<b>3,569,442</b>	<b>2,885,872</b>
Retained earnings at the beginning of period	203	167
<b>Retained earnings at the end of period</b>	<b>¥ 3,569,645</b>	<b>¥ 2,886,039</b>

See accompanying notes to the financial statements.

## Statements of Changes in Net Assets

Kenedix Office Investment Corporation

For the six months period from May 1, 2014 to October 31, 2014 and November 1, 2013 to April 30, 2014

	In thousands of yen					
	Unitholders' capital	Unitholders' equity			Total unitholders' equity	Total
		Voluntary retained earnings	Retained earnings	Total surplus		
<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>
Changes during the fiscal period						
New unit issuance	19,107,926	—	—	—	19,107,926	19,107,926
Provision of reserve for reduction entry	—	165,822	(165,822)	—	—	—
Payments of dividends	—	—	(2,665,488)	(2,665,488)	(2,665,488)	(2,665,488)
Net income	—	—	2,885,872	2,885,872	2,885,872	2,885,872
Total changes during the fiscal period	19,107,926	165,822	54,562	220,384	19,328,310	19,328,310
<b>Balance as of April 30, 2014</b>	<b>¥166,261,746</b>	<b>¥961,750</b>	<b>¥2,886,039</b>	<b>¥3,847,789</b>	<b>¥170,109,535</b>	<b>¥170,109,535</b>
Changes during the fiscal period						
New unit issuance	10,370,804	—	—	—	10,370,804	10,370,804
Reversal of reserve for reduction entry	—	(319,184)	319,184	—	—	—
Payments of dividends	—	—	(3,205,020)	(3,205,020)	(3,205,020)	(3,205,020)
Net income	—	—	3,569,442	3,569,442	3,569,442	3,569,442
Total changes during the fiscal period	10,370,804	(319,184)	683,606	364,422	10,735,226	10,735,226
<b>Balance as of October 31, 2014</b>	<b>¥176,632,550</b>	<b>¥642,566</b>	<b>¥3,569,645</b>	<b>¥4,212,211</b>	<b>¥180,844,761</b>	<b>¥180,844,761</b>

See accompanying notes to the financial statements.



## Notes to Financial Statements

Kenedix Office Investment Corporation

For the six months period from May 1, 2014 to October 31, 2014 and November 1, 2013 to April 30, 2014

### 1. ORGANIZATION AND BASIS OF PRESENTATION

#### ORGANIZATION

Kenedix Office 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 six public offerings and other means including global offerings. As a result, as of October 31, 2014, the end of the nineteenth fiscal period, the number of investment units issued and outstanding totaled 355,010 units.

The Investment Corporation is externally managed by Kenedix Real Estate Fund Management, Inc. (“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.

During the period ended October 31, 2014, the Investment Corporation acquired four office buildings (KDX Toyosu Grand Square: acquisition price of ¥8,666 million, Grace Building Takadanobaba: acquisition price of ¥3,650 million, Tosen Ikebukuro Building: acquisition price of ¥1,934 million, Urban Square Yokohama: acquisition price of ¥7,210 million) located in the Tokyo Metropolitan Area, three office buildings (Fumix STM Building: acquisition price of ¥2,350 million, Hiroshima Ekimae-dori Mark Building: acquisition price of ¥1,300 million, Senri Life Science Center Building: acquisition price of ¥13,000 million) located in Other Regional Areas, preferred equity securities (Toyonaka Property TMK: investment of ¥1,583 million) and sold KDX Minami Semba Dai-1 Building (initial acquisition price of ¥1,610 million) and Nissou Dai-17 Building (initial acquisition price of ¥2,710 million) (with a total disposition price of ¥2,600 million). As of October 31, 2014, the Investment Corporation had total unitholders’ capital of ¥176,633 million with 355,010 investment units outstanding. The balance of interest-bearing debt amounted to ¥187,685 million as of October 31, 2014, comprising ¥179,385 million in borrowings (¥163,485 million in long-term borrowings and ¥15,900 million in short-term borrowings) and ¥8,300 million in investment corporation bonds. The Investment Corporation owned a portfolio of 94 properties with a total acquisition price of ¥369,954 million containing a total leasable area of 437,233.24m<sup>2</sup> and 2 investment securities with a total acquisition price of ¥2,690 million. The occupancy ratio was approximately 95.6%. The portfolio of 94 properties consists of 88 office buildings, 2 residential properties, 3 central urban retail properties and 1 other property. 77 properties are located in the Tokyo Metropolitan Area and 17 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 period’s comparatives as supplemental information in the English translated financial statements although the Japanese audited financial statements only need to disclose the current period’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, 2014 to October 31, 2014	From November 1, 2013 to April 30, 2014
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 building 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 ¥87,637 thousand and ¥84,126 thousand as of October 31, 2014 and April 30, 2014, 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, 2014			As of April 30, 2014		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥257,050	¥ —	¥257,050	¥238,469	¥ —	¥238,469
Buildings and structures	128,517	21,473	107,044	112,659	20,012	92,647
Machinery and equipment	1,959	820	1,139	1,973	787	1,186
Tools, furniture and fixtures	508	261	247	473	249	224
Construction in progress	—	—	—	2	—	2
Total	¥388,034	¥22,554	¥365,480	¥353,576	¥21,048	¥332,528

### 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, 2014:

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Short-term debt	May 30, 2014	May 29, 2015	0.55%	¥ 500
	July 31, 2014	July 31, 2015	0.50%	1,000
	October 15, 2014	October 15, 2015	0.55%	8,000
	October 29, 2014	October 29, 2015	0.54%	3,000
	October 29, 2014	October 29, 2015	0.54%	2,000
	October 29, 2014	October 29, 2015	0.54%	1,400
Subtotal				15,900
Current portion of long-term debt	January 29, 2010	January 30, 2015	2.17%	¥ 960
	January 31, 2012	January 30, 2015	1.19%	1,500
	February 18, 2010	February 18, 2015	2.19%	1,725
	February 18, 2010	February 18, 2015	2.19%	1,275
	February 18, 2010	February 18, 2015	2.19%	750
	February 18, 2010	February 18, 2015	2.19%	375
	August 31, 2011	February 27, 2015	0.96%	1,500
	March 12, 2012	March 12, 2015	1.08%	1,000
	September 30, 2011	March 31, 2015	1.29%	2,500
	April 2, 2010	April 2, 2015	2.22%	1,550
	October 31, 2012	April 30, 2015	1.01%	2,500
	February 28, 2011	August 31, 2015	1.91%	3,000
	March 30, 2012	September 30, 2015	1.21%	2,000
	April 27, 2012	October 30, 2015	1.27%	1,000
	April 28, 2011	October 31, 2015	1.86%	1,500
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	
Subtotal				30,135
Long-term debt	May 1, 2006	April 30, 2016	2.73%	¥ 5,000
	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	1.41%	800
	December 1, 2010	November 12, 2015	1.41%	200
	December 1, 2010	November 12, 2017	2.21%	700
	January 31, 2011	January 29, 2016	1.94%	800
	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	1.26%	1,000
	April 28, 2011	January 29, 2016	1.89%	1,000
	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
	March 28, 2012	March 28, 2017	1.36%	500
March 28, 2012	March 28, 2019	1.77%	1,400	



Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term debt	March 28, 2012	March 28, 2019	1.77%	¥ 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	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, 2016	0.84%	1,500
	March 26, 2013	March 26, 2018	1.04%	1,000
	March 26, 2013	March 26, 2018	1.04%	1,000
	April 30, 2013	April 30, 2016	0.71%	1,000
	July 31, 2013	July 29, 2016	0.61%	1,500
	July 31, 2013	July 31, 2018	0.71%	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	0.97%	500
	August 19, 2013	August 19, 2018	0.95%	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
	November 12, 2013	November 12, 2018	0.82%	1,000
	November 12, 2013	November 12, 2020	1.07%	2,000
	November 12, 2013	November 12, 2020	1.07%	500
	November 29, 2013	November 30, 2018	0.84%	200
	November 29, 2013	November 30, 2020	1.12%	1,000
	November 29, 2013	November 30, 2020	1.12%	900
	January 10, 2014	January 31, 2021	1.21%	1,300
	January 31, 2014	January 31, 2017	0.67%	1,200
	January 31, 2014	January 31, 2020	0.93%	3,700
	January 31, 2014	January 31, 2021	1.13%	2,300
	March 12, 2014	March 12, 2018	0.75%	2,250
	March 12, 2014	March 31, 2019	0.78%	450
	March 12, 2014	March 12, 2020	0.92%	1,800
	March 12, 2014	March 12, 2023	1.36%	1,800
	March 20, 2014	March 12, 2020	0.91%	3,000
	March 20, 2014	September 20, 2021	1.01%	4,000
	March 20, 2014	March 20, 2022	1.20%	3,000
	March 20, 2014	March 12, 2023	1.35%	2,000
	March 31, 2014	March 31, 2019	0.76%	2,500
	April 22, 2014	October 31, 2020	0.95%	2,900
July 10, 2014	July 10, 2019	0.64%	500	
July 10, 2014	July 10, 2021	0.90%	2,000	
July 10, 2014	July 10, 2021	0.90%	500	
July 14, 2014	July 31, 2019	0.68%	1,000	
July 31, 2014	July 31, 2019	0.62%	1,000	
July 31, 2014	July 31, 2020	0.74%	2,700	
July 31, 2014	October 31, 2020	0.76%	300	
July 31, 2014	July 31, 2022	1.01%	2,200	
August 29, 2014	July 31, 2019	0.65%	1,000	
September 1, 2014	August 31, 2021	0.89%	800	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term debt	September 1, 2014	August 31, 2021	0.89%	¥ 500
	September 3, 2014	August 31, 2022	0.98%	1,000
	September 3, 2014	August 31, 2022	0.98%	950
	September 22, 2014	September 30, 2020	0.80%	2,700
	September 30, 2014	September 30, 2021	0.89%	1,000
	October 31, 2014	October 31, 2021	0.80%	3,000
	October 31, 2014	October 31, 2023	1.07%	2,000
	October 31, 2014	October 31, 2023	1.13%	1,500
	October 31, 2014	October 31, 2023	1.07%	1,000
	October 31, 2014	October 31, 2024	1.26%	2,000
	October 31, 2014	October 31, 2024	1.26%	1,000
Subtotal				133,350
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
	July 25, 2014	July 25, 2024	1.18%	2,000
Subtotal				8,300
Total				¥187,685

## 5. REDUCTION ENTRY

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

	In thousands of yen	
	As of October 31, 2014	As of April 30, 2014
Buildings and structures	¥26,230	¥26,230

## 6. PER UNIT INFORMATION

	Yen	
	From May 1, 2014 to October 31, 2014	From November 1, 2013 to April 30, 2014
Net asset value per unit	¥509,408	¥511,546
Net income per unit	¥ 10,150	¥ 8,767
Weighted average number of units (units)	351,672	329,164

The weighted average number of units outstanding of 351,672 and 329,164 as of October 31, 2014 and April 30, 2014 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 34%. 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 distributes in excess of 90% of its 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 ¥3,571 million (adding ¥2 million as the reversal of reserve for reduction entry) and ¥3,205 million (adding ¥319 million as the reversal of reserve for reduction entry) for the periods ended October 31, 2014 and April 30, 2014, such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.03% and 0.04% for the periods ended October 31, 2014 and April 30, 2014. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	As of October 31, 2014	As of April 30, 2014
Statutory tax rate	34.16%	36.59%
Deductible cash distributions	(34.17)	(40.62)
Others	0.04	4.07
Effective tax rate	0.03%	0.04%

The significant components of deferred tax assets and liabilities as of October 31, 2014 and April 30, 2014 were as follows:

	In thousands of yen	
	As of October 31, 2014	As of April 30, 2014
Deferred tax assets:		
Enterprise tax payable	¥ 30	¥ 34
Amortization of leasehold rights	2,071	1,808
Subtotal deferred tax assets	2,101	1,842
Valuation allowance	2,071	1,808
Total deferred tax assets	¥ 30	¥ 34

Tax rate changes after the nineteenth fiscal period

With the Local Corporation Tax Act (Act No. 11 of 2014) and the Act for Partial Amendment to Local Tax Law, Etc. (Act No. 4 of 2014) promulgated on March 31, 2014, the local corporation tax has been established and part of the special local corporation tax has been restored to corporate enterprise tax, becoming effective fiscal years starting on October 1, 2014 and after. Accordingly, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities concerning temporary differences, etc. expected to be resolved in accounting periods starting on October 1, 2014 and after will be changed to 34.15%. The effect of the announced tax rate changes is immaterial.

## 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 ¥254 million to Kenedix Real Estate Fund Management, Inc. The Investment Corporation had been entrusting all the Property Management Services to Kenedix Property Management, Inc. since September 1, 2014 for all its owned properties, except KDX Toyosu Grand Square, for which Kenedix Property Management, Inc. already conducts the property management services, and the Shinjuku 6-chome Building (Land).

### TRANSACTIONS WITH OTHER RELATED-PARTIES

Kenedix Property 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 Property Management, Inc. property management fees in accordance with the terms of its Property Management Agreements. For these services, the Investment Corporation paid ¥163 million to Kenedix Property Management, Inc.

The Investment Corporation acquired trust beneficiary interests in real estate from GK KRF 50 and YK KDX 6 with the acquisition prices of ¥8,667 million and ¥6,000 million, respectively. The acquisition prices were determined based on the related-parties' transaction rules.

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

Rental and other operating revenues, property-related expenses, gain and loss on sale of real estate property for the six months periods from May 1, 2014 to October 31, 2014 and November 1, 2013 to April 30, 2014 consist of the following:

	In thousands of yen	
	From May 1, 2014 to October 31, 2014	From November 1, 2013 to April 30, 2014
Rental and other operating revenues:		
Rental revenues	¥ 8,101,029	¥ 7,380,878
Common area charges	1,698,433	1,695,193
Subtotal	9,799,462	9,076,071
Others:		
Parking space rental revenues	350,221	326,300
Utility charge reimbursement	976,931	804,404
Miscellaneous	168,793	123,563
Subtotal	1,495,945	1,254,267
Total rental and other operating revenues	11,295,407	10,330,338



	In thousands of yen	
	From May 1, 2014 to October 31, 2014	From November 1, 2013 to April 30, 2014
<b>Property-related expenses:</b>		
Property management fees and facility management fees	¥ 1,074,236	¥ 1,016,938
Depreciation	2,022,380	1,826,542
Utilities	1,103,867	916,744
Taxes	916,289	847,466
Insurance	15,841	14,825
Repairs and maintenance	174,512	193,972
Trust fees	45,445	45,142
Others	205,090	185,422
<b>Total property-related expenses</b>	<b>5,557,660</b>	<b>5,047,051</b>

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

Revenue from sale of investment property	—	2,929,105
Cost of investment property	—	2,405,839
Other sales expenses	—	25,784
<b>Gain on sale of real estate property</b>	<b>—</b>	<b>497,482</b>

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

Revenue from sale of investment property	2,600,000	630,000
Cost of investment property	4,037,459	1,427,549
Other sales expenses	87,059	19,116
<b>Loss on sale of real estate property</b>	<b>¥ 1,524,518</b>	<b>¥ 816,665</b>

## 11 ■ PROPERTY INFORMATION

Type	Office Buildings		Residential Properties		Central Urban Retail Properties	Others
	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Tokyo Metropolitan Area
Number of properties	72	16	1	1	3	1

Property information	(In millions of yen)					
Acquisition price	¥271,712	¥66,030	¥5,353	¥1,800	¥22,180	¥2,880
Percentage of total acquisition price	73.44%	17.85%	1.45%	0.48%	6.00%	0.78%
Net book value	270,303	64,239	4,757	1,709	21,854	2,973
Appraisal value	265,242	60,538	4,900	1,590	23,240	2,960
Percentage of total appraisal value	73.99%	16.89%	1.37%	0.44%	6.48%	0.83%

**Financial results for the period from May 1, 2014 to October 31, 2014**

	(In thousands of yen)					
Rental and other operating revenues	¥8,150,479	¥2,278,765	¥149,482	¥89,819	¥558,853	¥68,009
Rental revenues	7,128,160	1,894,974	132,064	78,353	497,907	68,004
Other revenues	1,022,319	383,791	17,418	11,466	60,946	5
Property-related expenses	2,437,863	872,036	36,726	36,666	151,773	216
Property management fees	734,161	277,430	14,579	8,096	39,970	—
Taxes	660,580	197,491	10,004	7,617	40,596	1
Utilities	786,159	261,346	1,816	2,277	52,269	—
Repairs and maintenance	109,017	44,345	6,117	10,096	4,937	—
Insurance	9,869	5,024	276	297	375	—
Trust fees and other expenses	138,077	86,400	3,934	8,283	13,626	215
NOI (Net Operating Income)	5,712,616	1,406,729	112,756	53,153	407,080	67,793
Depreciation expenses	1,402,748	449,504	45,901	21,463	102,764	—
Operating income from property leasing activities	4,309,868	957,225	66,855	31,690	304,316	67,793
Capital expenditures	450,192	53,957	911	5,764	39,631	—
NCF (Net Cash Flow)	¥5,262,424	¥1,352,772	¥111,845	¥47,389	¥367,449	¥67,793

A breakdown of property type as of October 31, 2014 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	¥270,303	69.6%
		Other Regional Areas	64,239	16.6%
	Subtotal		334,542	86.2%
	Residential Properties	Tokyo Metropolitan Area	4,757	1.2%
		Other Regional Areas	1,709	0.4%
	Subtotal		6,466	1.6%
	Central Urban Retail Properties	Tokyo Metropolitan Area	21,854	5.6%
Subtotal		21,854	5.6%	
Other	Tokyo Metropolitan Area	2,973	0.8%	
Subtotal		2,973	0.8%	
Total			365,835	94.2%
Investment securities			2,679	0.7%
Bank deposits and other assets			19,656	5.1%
Total assets			388,170	100.0%
Total liabilities			207,325	53.4%
Net assets			¥180,845	46.6%

## 12 ■ FINANCIAL INSTRUMENTS

Nineteenth Fiscal Period (May 1, 2014 to October 31, 2014)

### (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 ten 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 transactions 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, 2014 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	¥ 16,469,910	¥ 16,469,910	¥ —
Subtotal	16,469,910	16,469,910	—
① Short-term debt	15,900,000	15,900,000	—
② Corporate bonds (including current portion of corporate bonds)	8,300,000	8,522,510	222,510
③ Long-term debt (including current portion of long-term debt)	163,485,000	164,117,409	632,409
Subtotal	¥187,685,000	¥188,539,919	¥854,919
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 the 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	¥77,850,000	¥71,850,000	*	—
Special treatment of interest-rate cap	Interest-rate cap	Long-term debt	3,000,000	3,000,000	*	—
Total			¥80,850,000	¥74,850,000		—

(\*) 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	¥2,679,139

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	¥16,469,910
Total	¥16,469,910

**\*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	¥15,900,000	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	—	—	4,500,000	1,800,000	—	2,000,000
Long-term debt	¥30,135,000	¥30,800,000	¥16,200,000	¥16,750,000	¥12,750,000	¥56,850,000

**13. INVESTMENT AND RENTAL PROPERTIES**

Nineteenth Fiscal Period (May 1, 2014 to October 31, 2014)

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, 2014 (In thousands of yen)
	As of April 30, 2014	Net change	As of October 31, 2014	
	¥332,883,295	¥32,951,800	¥365,835,095	¥358,470,000

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 7 properties totaling ¥38,462,889 thousand, the sale of 2 properties totaling ¥4,037,459 thousand and depreciation amounting to ¥2,022,380 thousand.

Income and loss in the fiscal period ended October 31, 2014 for real estate for rental purposes is listed in Note "10. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, GAIN AND LOSS ON SALE OF REAL ESTATE PROPERTY".

**14. SUBSEQUENT EVENTS****ISSUANCE OF NEW INVESTMENT UNITS**

On November 6, 2014 and November 19, 2014, the Board of Directors of the Investment Corporation resolved to issue new investment units as detailed below. The payments were completed on November 27, 2014 through a public offering. As a result of the issuance of new investment units, the Investment Corporation had total unitholders' capital of ¥204,901,648,020 with 402,695 investment units outstanding as of November 27, 2014.

Furthermore, when new investment units are issued through a third-party allotment with Nomura Securities Co., Ltd. as the allottee in connection with the secondary offering, the payment date will be December 24, 2014 (planned).

(Issuance of New Investment Units through Public Offering)

Issuance of New Investment Units	:47,685 units (Domestic Offering 23,750 units, International Offering 23,935 units)
Issue Price (Offer Price)	:¥614,250 per unit
Aggregate Issue Price (Total Offer Price)	:¥29,290,511,250
Issue Amount (Paid-in Value)	:¥592,830 per unit
Total Issue Amount (Aggregate Paid-in Value)	:¥28,269,098,550
Payment Date	:November 27, 2014

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

Issuance of New Investment Units (Maximum)	:2,190 units
Issue Amount (Paid-in Value)	:¥592,830 per unit
Total Issue Amount (Aggregate Paid-in Value) (Maximum)	:¥1,298,297,700
Payment Date	:December 24, 2014 (Planned)
Allottee	:Nomura Securities Co., Ltd.

(Use of proceeds)

The funds from the abovementioned public offering are allocated as the funds for acquiring properties in the twentieth fiscal period and a portion of the funds for the repayment of borrowings. Furthermore, the funds from the issuance of new investment units by third-party allotment are allocated as proceeds for a portion of the funds for future acquisition of specified assets and the repayment of borrowings.



## Statements of Cash Flows (Unaudited)

Kenedix Office Investment Corporation

For the six months period from May 1, 2014 to October 31, 2014 and November 1, 2013 to April 30, 2014

	In thousands of yen	
	From May 1, 2014 to October 31, 2014	From November 1, 2013 to April 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income before income taxes	¥ 3,570,657	¥ 2,887,138
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	2,340,487	2,158,841
Interest income	(650)	(572)
Interest expense	1,115,016	1,039,564
<b>Changes in assets and liabilities:</b>		
Rental receivables	(40,604)	1,501
Consumption tax refundable	(533,224)	(119,288)
Accrued consumption tax	(24,357)	(24,903)
Trade and other payables	169,776	(40,304)
Rents received in advance	76,620	285,630
Property and equipment due to sale	4,037,460	3,833,388
Others, net	(614,600)	(375,523)
Subtotal	10,096,581	9,645,472
Interest income received	650	572
Cash payments of interest expense	(1,116,994)	(1,049,144)
Cash payments of income taxes	(810)	(946)
<b>Net cash provided by operating activities</b>	<b>8,979,427</b>	<b>8,595,954</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(39,025,487)	(36,179,723)
Purchases of investment securities	(1,592,392)	(1,109,906)
Proceeds from investment securities	919,815	213,076
Proceeds from leasehold and security deposits received	3,064,543	2,339,795
Payments of leasehold and security deposits received	(924,131)	(759,482)
Payments of restricted bank deposits	(1,834,660)	(94,114)
Proceeds from restricted bank deposits	88,375	80,657
Others, net	—	180
<b>Net cash used in investing activities</b>	<b>(39,303,937)</b>	<b>(35,509,517)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short-term debt	17,900,000	3,000,000
Payments of short-term debt	(8,000,000)	(6,100,000)
Proceeds from long-term debt	28,650,000	37,800,000
Payments of long-term debt	(20,611,500)	(17,511,500)
Proceeds from issuance of investment units	10,277,174	18,978,331
Proceeds from issuance of investment corporation bonds	1,981,801	—
Payment of dividends	(3,204,772)	(2,664,276)
<b>Net cash provided by financing activities</b>	<b>26,992,703</b>	<b>33,502,555</b>
Net change in cash and cash equivalents	(3,331,807)	6,588,992
Cash and cash equivalents at the beginning of period	17,537,841	10,948,849
<b>Cash and cash equivalents at the end of period</b>	<b>¥ 14,206,034</b>	<b>¥ 17,537,841</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, 2014 and April 30, 2014:

	In thousands of yen	
	As of October 31, 2014	As of April 30, 2014
Cash and bank deposits	¥16,469,910	¥18,055,433
Restricted bank deposits (Note)	(2,263,876)	(517,592)
<b>Cash and cash equivalents</b>	<b>¥14,206,034</b>	<b>¥17,537,841</b>

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

# Unitholders' Information

## Kenedix Office 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 (19th and 20th Fiscal Periods)



## General Breakdown of Unitholders

	Foreign corporations and individuals	Other domestic corporations	Financial institutions (including securities companies)	Individuals and others	Total
End of the 19th Period	41.2% 146,421 units	1.4% 4,802 units	52.1% 184,795 units	5.3% 18,992 units	Total 355,010 units
End of the 18th Period	46.5% 154,538 units	1.5% 5,004 units	46.3% 153,837 units	5.8% 19,161 units	Total 332,540 units

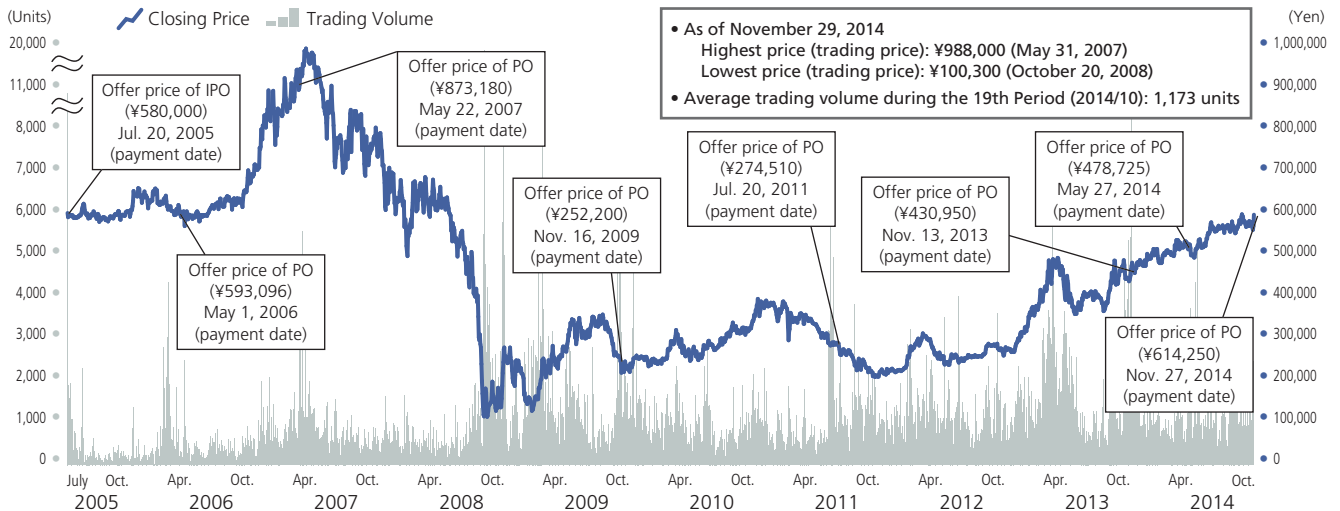
Note: Figures are rounded to the first decimal place.

## Top Ten Unitholders (As of October 31, 2014)

Name	Units Held	Share of Outstanding Units <Note>
Japan Trustee Services Bank, Ltd. (Trust Account)	59,140	16.65%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	41,253	11.62%
The Master Trust Bank of Japan, Ltd. (Trust Account)	32,536	9.16%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	18,518	5.21%
The Bank of New York Mellon SA/NV 10	12,919	3.63%
Nomura Bank (Luxembourg) S.A.	12,000	3.38%
State Street Bank and Trust Company	7,024	1.97%
Nomura Securities Co., Ltd.	6,849	1.92%
MSIP CLIENT SECURITIES	6,488	1.82%
JP Morgan Chase & Co. 385174	6,016	1.69%
<b>Total</b>	<b>202,743</b>	<b>57.10%</b>

Note: The percentage of shares are rounded down to the second decimal place.

## Unit Price and Trading Volume





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

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