Financial Section

Contents

Financial Summary (Unaudited)

Historical Operating Trends
For the 11th–15th Fiscal Periods

Period	Unit	11th Period (as of Oct. 31, 2010)	12th Period (as of Apr. 30, 2011)	13th Period (as of Oct. 31, 2011)	14th Period (as of Apr. 30, 2012)	15th Period (as of Oct. 31, 2012)
Operating revenues	mn yen	8,358	8,136	9,044	9,090	10,212
(Rental revenues)	mn yen	8,242	8,136	8,498	9,090	9,617
Operating expenses	mn yen	4,522	4,427	4,618	5,004	5,696
(Property-related expenses)	mn yen	3,817	3,767	3,961	4,284	4,822
Operating income	mn yen	3,835	3,709	4,425	4,086	4,516
Ordinary income	mn yen	2,608	2,346	3,040	2,551	3,011
Net income (a)	mn yen	2,607	2,309	3,052	2,540	3,009
Total assets (b)	mn yen	251,080	261,928	274,973	303,284	306,734
(Period-on-period change)	%	(-0.2)	(+4.3)	(+5.0)	(+10.3)	(+1.1)
Interest-bearing debt (c)	mn yen	102,567	112,715	110,914	137,372	140,581
(Period-on-period change)	%	(-0.4)	(+9.9)	(-1.6)	(+23.9)	(+2.3)
Unitholders' equity (d)	mn yen	135,732	135,505	150,272	150,063	150,389
(Period-on-period change)	%	(+0.0)	(-0.2)	(+10.9)	(-0.1)	(+0.2)
Unitholders' capital	mn yen	133,129	133,129	147,153	147,153	147,153
(Period-on-period change)	%	(0.0)	(0.0)	(+10.5)	(0.0)	(0.0)
Number of investment units issued and outstanding (e)	unit	233,550	233,550	286,550	286,550	286,550
Unitholders' equity per unit (d)/(e)	yen	581,170	580,199	524,419	523,688	524,828
Total distribution (f)	mn yen	2,541	2,310	2,749	2,683	2,738
Distribution per unit (f)/(e)	yen	10,881	9,891	9,596	9,364	9,557
(Earnings distributed per unit)	yen	10,881	9,891	9,596	9,364	9,557
(Distribution in excess of earnings per unit)	yen	—	—	—	—	—
Return on assets (annualized) (Notes 1 and 2)	%	1.0 (2.1)	0.9 (1.8)	1.1 (2.2)	0.9 (1.8)	1.0 (2.0)
Return on net assets (annualized) (Notes 2 and 3)	%	1.9 (3.8)	1.7 (3.4)	2.1 (4.2)	1.7 (3.4)	2.0 (4.0)
Net assets ratio at end of period (d)/(b)	%	54.1	51.7	54.6	49.5	49.0
(Period-on-period change)		(+0.1)	(-2.3)	(+2.9)	(-5.2)	(-0.5)
Interest-bearing debt ratio at end of period (c)/(b)	%	40.9	43.0	40.3	45.3	45.8
(Period-on-period change)		(-0.1)	(+2.2)	(-2.7)	(+5.0)	(+0.5)
Payout ratio (Note 4) (f)/(a)	%	97.4	100.0	90.0	105.6	90.9
Other references						
Number of properties	properties	67	71	74	83	84
Total leasable floor area	m^2	267,737.33	286,237.93	300,016.89	340,589.96	351,153.72
Occupancy at end of period	%	93.6	94.6	94.7	95.4	95.5
Depreciation expenses for the period	mn yen	1,440	1,406	1,442	1,578	1,621
Capital expenditures for the period	mn yen	312	574	674	918	904
Leasing NOI (Net Operating Income) (Note 5)	mn yen	5,864	5,776	5,980	6,384	6,416
FFO (Funds From Operation) (Note 6)	mn yen	3,995	3,716	3,950	4,119	4,187
FFO per unit (Note 7)	yen	17,106	15,914	13,786	14,374	14,612

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 11th Fiscal Period are calculated based on a period of 184 days, 181 days for the 12th Fiscal Period, 184 days for the 13th Fiscal Period, 182 days for the 14th Fiscal Period, and 184 days for the 15th 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.

Independent Auditor's Report

The Board of Directors
Kenedix Realty Investment Corporation

Pursuant to Article 130 of the Act on Investment Trusts and Investment Corporations, we have audited the accompanying financial statements of Kenedix Realty Investment Corporation("the Investment Corporation"), which comprise the balance sheet as of October 31, 2012, and the statement of income and retained earnings, statement of changes in net assets and notes to the financial statements for the six-month period then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Realty Investment Corporation as of October 31, 2012, 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 11, 2012
Tokyo, Japan

Balance Sheets

Kenedix Realty Investment Corporation
As of October 31, 2012 and April 30, 2012

	In thousands of yen	
	As of October 31, 2012	As of April 30, 2012
ASSETS		
Current assets:		
Cash and bank deposits (Note 12)	¥ 11,513,930	¥ 14,019,939
Rental receivables	425,746	176,474
Consumption tax refundable	—	220,729
Other current assets (Note 7)	79,424	70,447
Total current assets	12,019,100	14,487,589
Property and equipment, at cost: (Notes 3, 11 and 13)		
Land	205,933,483	201,938,266
Buildings and structures (Note 5)	100,188,719	97,166,954
Machinery and equipment	1,548,922	1,540,138
Tools, furniture and fixtures	433,305	429,679
Construction in progress	6,699	6,894
Less-accumulated depreciation	(16,448,292)	(15,326,838)
Net property and equipment	291,662,836	285,755,093
Other assets:		
Ground leasehold (Notes 11 and 13)	357,881	358,655
Investment securities (Note 12)	896,655	896,655
Corporate bond issuance costs	32,669	39,405
Unit issuance costs	56,709	83,991
Other assets (Notes 11 and 13)	1,708,798	1,662,657
Total assets	¥306,734,648	¥303,284,045
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities:		
Trade and other payables	¥ 894,162	¥ 775,125
Current portion of corporate bonds (Notes 4 and 12)	1,500,000	—
Short-term debt and current portion of long-term debt (Notes 4 and 12)	19,700,000	26,580,000
Deposits received	18,964	27,249
Rents received in advance	1,482,863	1,887,967
Other current liabilities	328,146	220,298
Total current liabilities	23,924,135	29,490,639
Corporate bonds (Notes 4 and 12)	4,500,000	6,000,000
Long-term debt (Notes 4 and 12)	114,881,000	104,792,500
Leasehold and security deposits received	13,039,969	12,937,903
Total liabilities	156,345,104	153,221,042
Net Assets		
Unitholders' equity		
Unitholders' capital	147,153,820	147,153,820
Units authorized: 2,000,000 units		
Units issued and outstanding: 286,550 units		
As of October 31, 2012 and April 30, 2012, respectively		
Surplus		
Voluntary retained earnings		
Reserve for reduction entry	225,796	368,796
Retained earnings	3,009,928	2,540,387
Total surplus	3,235,724	2,909,183
Total unitholders' equity	150,389,544	150,063,003
Total net assets (Note 8)	150,389,544	150,063,003
Total liabilities and net assets	¥306,734,648	¥303,284,045

See accompanying notes to the financial statements.

Statements of Income and Retained Earnings

Kenedix Realty Investment Corporation
For the period from May 1, 2012 to October 31, 2012 and the period from November 1, 2011 to April 30, 2012

	In thousands of yen	
	From May 1, 2012 to October 31, 2012	From November 1, 2011 to April 30, 2012
Operating revenues:		
Rental revenues (Notes 10 and 11)	¥ 9,617,355	¥9,090,653
Gain on sale of real estate property (Note 10)	595,516	—
Total operating revenues	10,212,871	9,090,653
Operating expenses:		
Property-related expenses (Notes 10 and 11)	4,822,166	4,284,757
Loss on sale of real estate property (Note 10)	151,823	—
Asset management fees	548,085	491,073
Administrative service and custodian fees	68,539	80,726
Other operating expenses	105,575	147,751
Total operating expenses	5,696,188	5,004,307
Operating income	4,516,683	4,086,346
Non-operating expenses:		
Interest expense	1,093,771	1,058,930
Financing-related expenses	366,756	444,047
Amortization of unit issuance costs	27,282	27,282
Amortization of corporate bond issuance costs	6,736	9,001
Others, net	10,904	(4,723)
Total non-operating expenses	1,505,449	1,534,537
Ordinary income	3,011,234	2,551,809
Extraordinary losses		
Litigation settlement	—	10,000
Income before income taxes	3,011,234	2,541,809
Income taxes (Note 7)	1,439	1,526
Net income	3,009,795	2,540,283
Retained earnings at the beginning of period	133	104
Retained earnings at the end of period	¥ 3,009,928	¥2,540,387

See accompanying notes to the financial statements.

Statements of Changes in Net Assets

Kenedix Realty Investment Corporation
For the period from May 1, 2012 to October 31, 2012 and the period from November 1, 2011 to April 30, 2012

	In thousands of yen					
	Unitholders' Equity					
		Surplus				
		Voluntary retained earnings				
	Unitholders' capital	Reserve for reduction entry	Retained earnings	Total surplus	Total unitholders' equity	Total
Balance as of October 31, 2011	**¥147,153,820**	**¥ 65,796**	**¥3,052,838**	**¥3,118,634**	**¥150,272,454**	**¥150,272,454**
Changes during the fiscal period						
Reversal of reserve for reduction entry	—	303,000	(303,000)	—	—	—
Payments of dividends	—	—	(2,749,734)	(2,749,734)	(2,749,734)	(2,749,734)
Net income	—	—	2,540,283	2,540,283	2,540,283	2,540,283
Total changes during the fiscal period	—	303,000	(512,451)	(209,451)	(209,451)	(209,451)
Balance as of April 30, 2012	**¥147,153,820**	**¥368,796**	**¥2,540,387**	**¥2,909,183**	**¥150,063,003**	**¥150,063,003**
Changes during the fiscal period						
Reversal of reserve for reduction entry	—	(143,000)	143,000	—	—	—
Payments of dividends	—	—	(2,683,254)	(2,683,254)	(2,683,254)	(2,683,254)
Net income	—	—	3,009,795	3,009,795	3,009,795	3,009,795
Total changes during the fiscal period	—	(143,000)	469,541	326,541	326,541	326,541
Balance as of October 31, 2012	**¥147,153,820**	**¥225,796**	**¥3,009,928**	**¥3,235,724**	**¥150,389,544**	**¥150,389,544**

See accompanying notes to the financial statements.

Notes to Financial Statements

Kenedix Realty Investment Corporation
For the period from May 1, 2012 to October 31, 2012 and the period from November 1, 2011 to April 30, 2012

1. ORGANIZATION AND BASIS OF PRESENTATION

ORGANIZATION

Kenedix Realty Investment Corporation (”the Investment Corporation”) was established on May 6, 2005 under the Act on Investment Trusts and Investment Corporations of Japan (”the Investment Trust Act”). On July 21, 2005, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange with a total of 75,400 investment units issued and outstanding (Securities Code: 8972). Subsequently, the Investment Corporation raised funds through four public offerings and other means including global offerings. As a result, as of October 31, 2012, the end of the fifteenth fiscal period, the number of investment units issued and outstanding totaled 286,550 units.

The Investment Corporation is externally managed by Kenedix Office Partners, Inc. (Note) (”the Asset Management Company”) as its asset management company. In concert 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 a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity. The Investment Corporation has partially changed the management guidelines contained in the company regulations of the Asset Management Company as of September 1, 2012, and raised the lower limit of the investment ratio of office buildings along with changing the upper limits, etc. of the investment ratio of other types of properties. (Note: As of September 1, 2012, Kenedix REIT Management, Inc. changed the company name. Same applies below.)

During the period ended October 31, 2012, the Investment Corporation acquired three office buildings (Fuchu South Building, Kasuga Business Center Building and Nakameguro Business Center Building: total acquisition price of ¥10,800 million) located in the Tokyo Metropolitan Area and sold KDX Omori Building (initial acquisition price of ¥3,500 million) and Gradito Kawaguchi (initial acquisition price of ¥1,038 million) (total sales price of ¥5,060 million). As of October 31, 2012, the Investment Corporation had total unitholders’ capital of ¥147,154 million with 286,550 investment units outstanding. The balance of interest-bearing debt amounted to ¥140,581 million as of October 31, 2012, comprising ¥134,581 million in borrowings (¥128,881 million in long-term borrowings and ¥5,700 million in short-term borrowings) and ¥6,000 million in investment corporation bonds. The Investment Corporation owned a portfolio of 84 properties with a total acquisition price of ¥293,129 million containing a total leasable area of 351,153.72m^2 and preferred equity securities with a total acquisition price of ¥891 million. The occupancy ratio was approximately 95.5%. A portfolio of 84 properties consists of 78 office buildings, 3 residential properties, 2 central urban retail properties and one others. 67 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 year’s comparatives as supplemental information in the English translated financial statements although the Japanese audited financial statements only need to disclose the current year’s information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) SECURITIES

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(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, 2012 to October 31, 2012	From November 1, 2011 to April 30, 2012
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 loan 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) LEASEHOLD RIGHTS

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

(G) REVENUE RECOGNITION

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

(H) TAXES ON PROPERTY AND EQUIPMENT

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

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥23,009 thousand and ¥23,881 thousand as of October 31, 2012 and April 30, 2012, 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 agreements 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 agreements because its interest-rate swap agreements met the criteria for deferral hedging accounting. However, the Investment Corporation adopted special treatment for interest-swap agreements if its interest-rate swap agreements met the criteria for hedging accounting under this treatment, whereby the net amount to be paid or received under the interest-rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. The hedge effectiveness for interest-rate swap 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

	In millions of yen					
	As of October 31, 2012			As of April 30, 2012		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥205,933	¥ —	¥205,933	¥201,938	¥ —	¥201,938
Buildings and structures	100,189	15,584	84,605	97,167	14,526	82,641
Machinery and equipment	1,549	638	911	1,540	590	950
Tools, furniture and fixtures	433	226	207	430	211	219
Construction in progress	7	—	7	7	—	7
Total	¥308,111	¥16,448	¥291,663	¥301,082	¥15,327	¥285,755

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, 2012:

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Short-term debt	January 31, 2012	January 31, 2013	0.83%	¥ 1,200
	July 31, 2012	July 31, 2013	0.83%	1,500
	October 31, 2012	October 31, 2013	0.78%	3,000
Current portion of long-term debt	December 8, 2009	December 8, 2012	1.67%	500
	June 30, 2008	December 28, 2012	2.26%	3,000
	January 13, 2010	January 15, 2013	1.90%	1,000
	February 18, 2010	February 18, 2013	1.90%	1,500
	April 28, 2011	April 30, 2013	1.50%	1,000
	July 30, 2010	July 31, 2013	1.49%	500
	September 1, 2006	August 31, 2013	2.12%	3,000
	March 31, 2011	September 30, 2013	1.53%	2,000
	September 30, 2011	September 30, 2013	1.15%	1,000
	October 29, 2010	October 31, 2013	1.46%	500
Subtotal				19,700

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term debt	May 1, 2006	April 30, 2016	2.73%	5,000
	January 29, 2010	January 30, 2015	2.17%	1,056
	February 18, 2010	February 18, 2015	2.19%	4,675
	April 2, 2010	April 2, 2015	2.22%	1,750
	July 30, 2010	January 31, 2014	1.66%	3,700
	July 30, 2010	July 31, 2014	1.73%	3,700
	November 12, 2010	November 12, 2013	1.58%	2,700
	November 12, 2010	November 12, 2015	1.79%	2,000
	November 12, 2010	November 12, 2017	2.02%	2,300
	December 1, 2010	November 12, 2013	1.44%	800
	December 1, 2010	November 12, 2015	1.54%	1,000
	December 1, 2010	November 12, 2017	2.21%	700
	January 31, 2011	January 31, 2014	1.57%	1,300
	January 31, 2011	January 29, 2016	1.94%	800
	February 28, 2011	August 31, 2015	1.91%	3,000
	February 28, 2011	January 29, 2016	1.95%	500
	March 22, 2011	September 22, 2014	1.63%	2,700
	March 31, 2011	January 29, 2016	1.91%	2,000
	March 31, 2011	March 31, 2016	1.39%	1,000
	April 28, 2011	October 31, 2015	1.86%	1,500
	April 28, 2011	January 29, 2016	1.89%	1,000
	July 13, 2011	July 14, 2014	1.54%	1,000
	July 29, 2011	July 31, 2014	1.13%	3,200
	July 29, 2011	July 31, 2014	1.40%	300
	August 31, 2011	February 27, 2015	1.08%	1,500
	September 1, 2011	August 29, 2014	1.15%	1,000
	September 30, 2011	March 31, 2014	1.16%	2,500
	September 30, 2011	September 30, 2014	1.27%	1,000
	September 30, 2011	March 31, 2015	1.29%	2,500
	December 26, 2011	October 31, 2014	1.24%	2,500
	December 26, 2011	October 31, 2014	1.26%	5,000
	December 26, 2011	October 31, 2015	1.34%	4,500
	December 26, 2011	October 31, 2015	1.32%	2,500
	December 26, 2011	October 31, 2016	1.44%	4,500
	December 26, 2011	October 31, 2016	1.42%	2,500
	January 10, 2012	January 29, 2016	1.27%	2,500
	January 31, 2012	January 30, 2015	1.19%	1,500
	March 12, 2012	March 12, 2014	1.04%	6,300
	March 12, 2012	March 12, 2015	1.08%	1,000
	March 28, 2012	March 28, 2017	1.36%	500
	March 28, 2012	March 28, 2019	1.77%	2,400
	March 30, 2012	September 30, 2015	1.21%	2,000
	April 27, 2012	October 30, 2015	1.27%	1,000
	June 29, 2012	June 30, 2017	1.29%	1,500
	September 21, 2012	September 21, 2017	1.16%	7,000
	October 31, 2012	April 30, 2015	1.01%	2,500
	October 31, 2012	October 31, 2016	1.06%	2,500
	October 31, 2012	October 31, 2016	1.05%	1,500
	October 31, 2012	October 31, 2017	1.10%	2,500
	October 31, 2012	October 31, 2018	1.25%	2,500
Subtotal				114,881
Corporate bonds	March 15, 2007	March 15, 2017	2.37%	3,000
	September 15, 2011	September 13, 2013	1.59%	1,500
	March 8, 2012	September 8, 2017	2.00%	1,500
Subtotal				6,000
Total				¥140,581

5. REDUCTION ENTRY

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

	In thousands of yen	
	As of October 31, 2012	As of April 30, 2012
Buildings and structures	¥26,230	¥26,230

6. PER UNIT INFORMATION

	Yen	
	From May 1, 2012 to October 31, 2012	From November 1, 2011 to April 30, 2012
Net asset value per unit	¥524,828	¥523,689
Net income per unit	¥ 10,504	¥ 8,865
Weighted average number of units (units)	286,550	286,550

The weighted average number of units outstanding of 286,550 was used for the computation of the amount of net income per unit as of October 31, 2012 and April 30, 2012. 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 40%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measure Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement that it currently distribute in excess of 90% of its net income 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 income in the form of cash distributions totaling ¥2,739 million (deducting ¥271 million as the provision of reserve for reduction entry) and ¥2,683 million (including ¥143 million as the reversal of reserve for reduction entry) for the periods ended October 31, 2012 and April 30, 2012. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.05% and 0.06% for the periods ended October 31, 2012 and April 30, 2012. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	As of October 31, 2012	As of April 30, 2012
Statutory tax rate	36.59%	39.33%
Deductible cash distributions	(33.28)	(41.52)
Provision of reserve for reduction entry	(3.30)	—
Others	0.04	2.25
Effective tax rate	0.05%	0.06%

The significant components of deferred tax assets and liabilities as of October 31, 2012 and April 30, 2012 were as follows:

	In thousands of yen	
	As of October 31, 2012	As of April 30, 2012
Deferred tax assets:		
Enterprise tax payable	¥ 27	¥ 43
Amortization of leasehold rights	1,014	749
Subtotal deferred tax assets	1,041	792
Valuation allowance	1,014	749
Total deferred tax assets	¥ 27	¥ 43

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 OFFICE PARTNERS, INC.

Kenedix Office Partners, 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 Office Partners, Inc. property management fees in accordance with the terms of its Property Management Agreements. For these services, the Investment Corporation paid ¥373 million to Kenedix Office Partners, Inc.

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

Rental and other operating revenues, property-related expenses, gain on sale of real estate property and loss on sale of real estate property for the periods from May 1, 2012 to October 31, 2012 and from November 1, 2011 to April 30, 2012 consist of the following:

	In thousands of yen	
	From May 1, 2012 to October 31, 2012	From November 1, 2011 to April 30, 2012
Rental and other operating revenues:		
Rental revenues	¥6,664,510	¥6,581,677
Common area charges	1,559,549	1,490,246
Subtotal	8,224,059	8,071,923
Others:		
Parking space rental revenues	286,632	271,260
Utility charge reimbursement	769,331	621,582
Miscellaneous	337,333	125,888
Subtotal	1,393,296	1,018,730
Total rental and other operating revenues	¥9,617,355	¥9,090,653
Property management fees and facility management fees	¥ 937,543	¥ 911,939
Depreciation	1,621,151	1,578,845
Utilities	790,093	663,800
Taxes	823,223	724,628
Insurance	14,673	14,084
Repairs and maintenance	400,960	165,367
Trust fees	42,682	47,277
Loss on retirement of fixed assets	17,689	3,719
Others	174,152	175,098
Total property-related expenses	¥4,822,166	¥4,284,757
Gain on sale of real estate property:		
Revenue from sale of investment property	¥4,200,000	¥ —
Cost of investment property	3,355,390	—
Other sales expenses	249,094	—
Gain on sale of real estate property	¥ 595,516	¥ —
Loss on sale of real estate property:		
Revenue from sale of investment property	¥ 860,000	¥ —
Cost of investment property	992,112	—
Other sales expenses	19,711	—
Loss on sale of real estate property	¥ 151,823	¥ —

11. PROPERTY INFORMATION

Details of the property portfolio as of October 31, 2012 were as follows:

Type	Office Buildings		Residential Properties		Central Urban Retail Properties	Others
Location	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas
Number of properties	63	15	2	1	2	1

Property information (In millions of yen)

Acquisition price	¥219,406	¥52,295	¥6,603	¥1,800	¥12,380	¥ 645
Percentage of total acquisition price	74.85%	17.84%	2.25%	0.62%	4.22%	0.22%
Net book value	220,073	51,079	6,105	1,788	12,297	679
Appraisal value	202,737	44,569	5,476	1,540	11,150	1,090
Percentage of total appraisal value	76.06%	16.72%	2.05%	0.58%	4.18%	0.41%

Financial results for the period from May 1, 2012 to October 31, 2012 (In thousands of yen)

Rental and other operating revenues	¥6,792,155	¥2,137,711	¥199,735	¥91,321	¥334,010	¥62,423
Rental revenues	5,788,509	1,819,697	177,878	80,942	302,113	54,920
Other revenues	1,003,646	318,014	21,857	10,379	31,897	7,503
Property-related expenses	2,168,805	842,926	55,993	36,079	78,915	18,297
Property management fees	612,441	268,714	20,154	8,170	22,514	5,550
Taxes	582,622	193,399	14,376	7,622	20,276	4,928
Utilities	535,832	217,783	2,506	2,049	26,547	5,376
Repairs and maintenance	297,443	80,735	8,863	9,982	3,218	719
Insurance	8,234	5,317	388	324	199	211
Trust fees and other expenses	132,233	76,978	9,706	7,932	6,161	1,513
NOI (Net Operating Income)	4,623,350	1,294,785	143,742	55,242	255,095	44,126
Depreciation expenses	1,060,150	401,925	60,723	23,125	68,018	7,210
Operating income from property leasing activities	3,563,200	892,860	83,019	32,117	187,077	36,916
Capital expenditures	604,911	254,340	4,221	4,383	36,896	129
NCF (Net Cash Flow)	¥4,018,439	¥1,040,445	¥139,521	¥50,859	¥218,199	¥43,997

A breakdown of property-type as of October 31, 2012 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	¥220,073	71.7%
		Other Regional Areas	51,079	16.7%
	Subtotal		271,152	88.4%
	Residential Properties	Tokyo Metropolitan Area	6,105	2.0%
		Other Regional Areas	1,788	0.6%
	Subtotal		7,893	2.6%
	Central Urban Retail Properties	Tokyo Metropolitan Area	12,297	4.0%
	Subtotal		12,297	4.0%
	Others	Other Regional Areas	679	0.2%
	Subtotal		679	0.2%
Total			292,021	95.2%
Investment securities			897	0.3%
Bank deposits and other assets			13,817	4.5%
Total assets			306,735	100.0%
Total liabilities			156,345	51.0%
Net assets			¥150,390	49.0%

12. FINANCIAL INSTRUMENTS

Fifteenth Fiscal Period (May 1, 2012 to October 31, 2012)

(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 of TMK as set forth by the Act on Securitization of Assets and are exposed to credit risk of the issuer and risk of fluctuation of value of its property.

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

Interest-rate swap transactions are used as derivative financial instruments. Utilizing interest-rate swap 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 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, 2012 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 note 2 below).

	In thousands of yen		
	Carrying value	Estimated fair value	Difference
① Cash and bank deposits	¥ 11,513,930	¥ 11,513,930	¥ —
Subtotal	11,513,930	11,513,930	—
① Short-term debt	5,700,000	5,700,000	—
② Corporate bonds (including current portion of corporate bonds)	6,000,000	5,916,450	(83,550)
③ Long-term debt (including current portion of long-term debt)	128,881,000	129,110,084	229,084
Subtotal	¥140,581,000	¥140,726,534	¥145,534
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.

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

DERIVATIVE TRANSACTIONS

(1) ITEMS THAT ARE NOT APPLIED TO HEDGE ACCOUNTING

Not applicable

(2) ITEMS THAT ARE APPLIED TO HEDGE ACCOUNTING

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	¥21,500,000	¥20,500,000	*	
Total			¥21,500,000	¥20,500,000		

* Special treatment of interest-rate swaps is reported at the fair value of applicable long-term debt. This is because such swaps are handled together with hedged long-term debt.

note 2: FINANCIAL INSTRUMENTS FOR WHICH IT IS EXTREMELY DIFFICULT TO DETERMINE THE FAIR VALUE

Classification	Carrying value (In thousands of yen)
Preferred equity securities	¥896,655

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

note 3: REDEMPTION SCHEDULE FOR RECEIVABLES

	Due within 1 year or less (In thousands of yen)
Cash and bank deposits	¥11,513,930
Total	¥11,513,930

note 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	¥ 5,700,000	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	1,500,000	—	—	—	4,500,000	—
Long-term debt	14,000,000	38,546,000	30,135,000	26,800,000	11,500,000	7,900,000

13. INVESTMENT AND RENTAL PROPERTIES

Fifteenth Fiscal Period (May 1, 2012 to October 31, 2012)

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, 2012 (In thousands of yen)
As of April 30, 2012	Net change	As of October 31, 2012	
¥286,114,419	¥5,906,850	¥292,021,269	¥266,252,000

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. The fair value of Kanazawa Nikko Building is based on the sales price of ¥780,000 thousand under the sales and purchase agreement dated November 1, 2012.

3. Among changes in the amount of real estate for rental purposes that occurred during the fiscal period under review, principal increases and decreases were the acquisition of 3 properties totaling ¥10,988,507 thousand, the sale of 2 properties totaling 4,347,502 and depreciation amounting to ¥1,621,151 thousand.

Income and loss in the fiscal period ended October 31, 2012 for real estate for rental purposes is listed in the Note "10. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, GAIN ON SALE OF REAL ESTATE PROPERTY AND LOSS ON SALE OF REAL ESTATE PROPERTY".

Statements of Cash Flows (Unaudited)

Kenedix Realty Investment Corporation
For the period from May 1, 2012 to October 31, 2012 and the period from November 1, 2011 to April 30, 2012

	In thousands of yen	
	From May 1, 2012 to October 31, 2012	From November 1, 2011 to April 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income taxes	¥ 3,011,234	¥ 2,541,809
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	1,965,534	1,872,257
Interest income	(857)	(674)
Interest expense	1,093,771	1,058,930
Loss on retirement of fixed assets	17,689	3,719
Litigation settlement	—	10,000
Changes in assets and liabilities:		
Rental receivables	(249,271)	(2,702)
Consumption tax refundable	220,729	(220,729)
Accrued consumption tax	122,971	(66,864)
Trade and other payables	98,211	(30,365)
Rents received in advance	(405,105)	606,160
Property and equipment due to sale	4,349,377	—
Others, net	(374,870)	(572,096)
Subtotal	9,849,413	5,199,445
Interest income received	857	674
Cash payments of interest expense	(1,108,485)	(1,044,716)
Litigation settlement paid	—	(10,000)
Cash payments of income taxes	(1,829)	(1,352)
Net cash provided by operating activities	8,739,956	4,144,051
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(11,909,217)	(32,830,637)
Purchase of investment securities	(5,655)	(891,000)
Proceeds from leasehold and security deposits received	1,155,231	2,494,697
Payments of leasehold and security deposits received	(1,012,861)	(900,339)
Payments of restricted bank deposits	(597,875)	(131,125)
Proceeds from restricted bank deposits	86,628	40,729
Others, net	—	(20)
Net cash used in investing activities	(12,283,749)	(32,217,695)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term debt	4,500,000	8,700,000
Payments of short-term debt	(13,500,000)	(4,200,000)
Proceeds from long-term debt	20,000,000	38,700,000
Payments of long-term debt	(7,791,500)	(9,241,500)
Proceeds from issuance of investment corporation bonds	—	1,481,583
Redemption of investment corporation bonds	—	(9,000,000)
Payments of investment unit issuance costs	—	(28,322)
Payment of dividends	(2,681,963)	(2,747,109)
Net cash provided by financing activities	526,537	23,664,652
Net change in cash and cash equivalents	(3,017,256)	(4,408,992)
Cash and cash equivalents at the beginning of period	13,519,011	17,928,003
Cash and cash equivalents at the end of period	¥ 10,501,755	¥ 13,519,011

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, 2012 and April 30, 2012:

	In thousands of yen	
	As of October 31, 2012	As of April 30, 2012
Cash and bank deposits	¥11,513,930	¥14,019,939
Restricted bank deposits (Note)	(1,012,175)	(500,928)
Cash and cash equivalents	¥10,501,755	¥13,519,011

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