Notes to the Consolidated Financial Statements

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

1. Matters concerning the scope of consolidation
   (1) Number of consolidated subsidiaries: 35
   Names of principal consolidated subsidiaries
   Kenedix Real Estate Fund Management, Inc.
   Kenedix Investment Partners, Inc.
   Kenedix Property Management, Inc
   Kenedix Engineering, Inc.
   Space Design, Inc.
   Kenedix Westwood, LLC
   Kenedix Asia Pte. Ltd.
   28 other subsidiaries

   (2) Names of principal non-consolidated subsidiaries
   The Intermark Sdn.Bhd. and 1 other subsidiary
   Bit Realty, Inc. and 4 other subsidiaries
   In accordance with Article 63, Paragraph 1, Item 2 of the Ordinance on Company Accounting, The Intermark Sdn.Bhd., a non-consolidated subsidiary, and 1 other subsidiary were excluded from the scope of consolidation, as the inclusion of these subsidiaries within the scope of consolidation may significantly affect the decisions of interested parties.

   In addition, 5 non-consolidated subsidiaries including Bit Realty, Inc. were excluded from the scope of consolidation, as they are small-scale businesses with none of their combined total assets, revenue, profit or loss (amounts equivalent to the Company's interests in these subsidiaries) or retained earnings (amounts equivalent to the Company's interests in these subsidiaries) having material impact on the Consolidated Financial Statements.

   (3) Changes in the scope of consolidation
   Kenedix Investment Partners, Inc. and 12 other companies have been included in the scope of consolidation as they were newly established. Meanwhile, the following companies have been excluded from the scope of consolidation: KRF68 Silent Partnership and 10 other companies due to the termination of their silent partnership contracts, etc.; and Kenedix Development, Inc. and 2 other companies due to the transfer of shares, etc.

   (4) Matters concerning accounting periods of consolidated subsidiaries
   Of the consolidated subsidiaries, 17 subsidiaries employed different accounting closing dates from that of the Consolidated Financial Statements but their closing dates do not deviate from the consolidated closing date by more than three months. For these subsidiaries, the Consolidated Financial Statements applied their financial statements as of the respective closing dates.
   Additionally, for 7 consolidated subsidiaries, the Consolidated Financial Statements applied their provisional financial statements closed on either the consolidated closing date or a specific date within three months of the consolidated closing date.
   For any of them, appropriate adjustments were made for significant transactions that arose between the relevant closing dates and the consolidated closing date.

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

   (2) Affiliates accounted for under the equity method
   Number of affiliates accounted for under the equity method: 25
   Names of principal affiliates accounted for under the equity method
   MUL Realty Advisers Co., Ltd.
   KW Multi-Family Management Group, LLC
   Premier REIT Advisors Co., Ltd.
   AIRA Property Public Company Limited
   CRE, Inc.
   SQUEEZE Inc.
   KDA CAPITAL SQUARE LIMITED PARTNERSHIP
   18 other affiliates

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

The Intermark Sdn. Bhd. and 1 other subsidiary

Bit Realty, Inc. and 5 other subsidiaries

In accordance with Article 69, Paragraph 1, Item 2 of the Ordinance on Company Accounting, The Intermark Sdn. Bhd., a non-consolidated subsidiary not accounted for under the equity method and 1 other subsidiary not accounted for under the equity method, were excluded from the scope of application of the equity method, as the inclusion of these subsidiaries within the scope of application may significantly affect the decisions of interested parties.

In addition, 6 non-consolidated subsidiaries not accounted for under the equity method including Bit Realty, Inc. were excluded from the scope of application of the equity method because the impact of each of their profit or loss (amounts equivalent to the Company's interests in these subsidiaries) and retained earnings (amounts equivalent to the Company's interests in these subsidiaries), etc. were little and these subsidiaries, as a whole, were insignificant.

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

Due to the investment in SQUEEZE Inc. in accordance with the establishment of 6 companies including KDA CAPITAL SQUARE LIMITED PARTNERSHIP, these companies are accounted for under the equity method. Meanwhile, KSLF8 Silent Partnership has been excluded from the scope of application of the equity method, following the termination of its silent partnership, and Mitsui & Co., Logistics Partners Ltd. and 1 other company have been excluded from the scope of application of the equity method, following the partial transfer of shares, etc.

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

In respect of the financial statements of 14 affiliates accounted for under the equity method, the Consolidated Financial Statements applied their provisional financial statements closed on either the consolidated closing date or a specific date.

In this case, appropriate adjustments were made for significant transactions that arose between the relevant closing dates and the consolidated closing date.

3. Matters concerning accounting policies

(1) Evaluation standards and methods for principal assets

1) Marketable securities

Other securities

Securities with market quotations	Stated at market value at the accounting closing date (Unrealized gains or losses are comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.)
Securities without market quotations	Stated at cost by the moving-average method However, investments in silent partnership are stated on an individual specified cost basis. The details are described in "(10) Accounting method for investments in silent partnerships."

2) Derivatives: Market value method

3) Inventories: Real estate for sale (including real-estate trust beneficiary rights)

Primarily stated at cost on an individual specified cost basis (the balance sheet value is computed by the method of devaluing book price to reflect declines in profitability).

Real estate for sale in process (including real-estate trust beneficiary rights)

Primarily stated at cost on an individual specified cost basis (the balance sheet value is computed by the method of devaluing book price to reflect declines in profitability).

(2) Depreciation and amortization method for principal depreciable assets

1) Property and equipment (excluding lease assets)	Straight-line method Useful lives of principal property and equipment are as follows. Buildings and structures: 2-48 years Others (furniture and fixtures): 2-20 years
2) Intangible assets (excluding lease assets)	The costs for software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method.
3) Lease assets	Lease assets are depreciated by the straight-line method over the lease period without residual value.
4) Long-term prepaid expenses	Straight-line method

(3) Accounting method for significant deferred assets

Bond issuance cost

This cost is fully charged to income when it is paid.

(4) Recognition of significant allowances

1) Allowance for doubtful accounts

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

2) Provision for management board incentive plan trust

To provide for the delivery of the Company's stocks to Directors in accordance with the Policy on Directors' Stock Compensation, the Company records the amount of projected benefit obligations at the end of the consolidated fiscal year.

3) Provision for stock payment

To provide for the delivery of the Company's stocks to employees in accordance with the Stock Distribution Rules, the Company records the amount of projected benefit obligations at the end of the consolidated fiscal year.

(5) Accounting method for employees' retirement benefits

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

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

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

Assets and liabilities of overseas subsidiaries are translated into Japanese yen using the spot exchange rates on the consolidated closing date, while revenue and expenses are translated into Japanese yen using the average exchanges rates during the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments under the net assets section.

(7) Accounting method for significant hedge transactions

1) Hedge accounting method

The Group adopts the deferred hedge accounting.

However, exceptional accounting treatment is applied to an interest-rate swap that meets the requirement of such treatment.

2) Hedging instrument and hedged item

Hedging instrument……Interest-rate swap

Hedging item……Borrowing

3) Hedge policy

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

4) Method for evaluating hedging effectiveness

Hedging effectiveness is basically measured by comparing the accumulated changes in cash flow of the hedged item with those of the hedging instrument. However, the evaluation is omitted for those to which the exceptional accounting treatment is applicable.

(8) Accounting method for consumption tax

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

(9) The application of the consolidated tax payment system

The Company and certain consolidated subsidiaries have adopted the consolidated tax payment system.

(10) Accounting method for investments in silent partnerships

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

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

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

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

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

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

(13) Accounting method for purchased receivables

In collection of purchased receivables, the Group subtracts the amount of collection from the acquisition cost of each relevant purchased receivable and records the amount of collection in excess of the acquisition cost as revenue on a net amount basis.

(14) Accounting method and period for amortization of goodwill

Goodwill is amortized using the straight-line method over the estimated effective period of their useful lives (generally 10 years).

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

4. Changes in disclosure method

(Consolidated Balance Sheet)

In the previous fiscal year, "income taxes refundable" (0 million yen for the consolidated fiscal year under review) was reported as a separate item. As this item has decreased in significance, it has been included in "other" under current assets.

(Consolidated Statement of Income)

In the previous fiscal year, "dividends income" (21 million yen for the previous consolidated fiscal year) was included in "other" under non-operating income. As this item has increased in significance, it has been reported as a separate item.

In the previous fiscal year, "gain on sales of stocks of subsidiaries and affiliates" (148 million yen for the previous consolidated fiscal year) was included in "other" under extraordinary income. As this item has increased in significance, it has been reported as a separate item.

In the previous fiscal year, "loss on liquidation of investment in capital" (7 million yen for the consolidated fiscal year under review) was reported as a separate item. As this item has decreased in significance, it has been included in "other" under extraordinary loss.

Notes to Consolidated Balance Sheet

	(Millions of yen)
1. Accumulated depreciation of property and equipment	2,564

2. Assets pledged as collateral and collateralized liabilities

(1) Assets pledged as collateral

	(Millions of yen)
Buildings and structures	1,120
Land	292
Other under property and equipment	0
Leasehold right	200

(2) Collateralized liabilities

	(Millions of yen)
Long-term borrowings — due within one year	44
Long-term borrowings	536

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

1) Assets pledged as collateral

	(Millions of yen)
Deposits held in trust	2,473
Real estate for sale	34,574
Real estate for sale in process	6,465
Buildings and structures	14,343
Land	14,579
Construction in progress	1,191
Other under property and equipment	5
Leasehold right	3,366
Other under investment and other assets	1,328

2) Collateralized liabilities

	(Millions of yen)
Short-term non-recourse borrowings	344
Long-term non-recourse borrowings — due within one year	3,741
Non-recourse bonds payable	1,500
Long-term non-recourse borrowings	53,976

The above liabilities represent the loans advanced to the Group's 14 consolidated subsidiaries which own the assets pledged as collateral listed in the above 1). The repayment of these loans is limited to the amounts of their assets.

Notes to Consolidated Statement of Income

Impairment loss

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

Principal use	Description of assets	Location
Real estate for rent	Buildings and structures, and Land	Fukagawa, Hokkaido
Real estate for rent	Buildings and structures, and Land	Hakodate, Hokkaido
Real estate for rent	Buildings and structures, and Land	Ebetsu, Hokkaido
Real estate for rent	Buildings and structures, and other	Minato-ku, Tokyo
Real estate for rent	Buildings and structures, and other	Taito-ku, Tokyo
Real estate for rent	Other	Chiyoda-ku, Tokyo
Real estate for rent	Other	Chuo-ku, Tokyo
Shared assets	Buildings and structures, and other	Chiyoda-ku, Tokyo

The Group's assets are generally grouped on an individual basis.
Furthermore, shared assets such as the head office, etc., are grouped on a per-company basis.
Of the real estate for rent and shared assets, those with recoverable values that fell short of their book values were written down, and the reduced amounts were recorded as impairment loss under extraordinary loss.
The recoverable value used for the measurement of impairment loss for the consolidated fiscal year under review was estimated based on the net realizable value or use value, and the net realizable value was estimated based on the appraised value, etc. made by a real-estate appraiser. For the use value, as estimated future cash flows are negative, the recoverable values were calculated as zero. Specific discount rates were not calculated as estimated future cash flows are negative.

(Amount of impairment loss) (Millions of yen)

Description of assets	Amount
Buildings and structures	1,030
Land	306
Other	40
Total	1,377

Notes to Consolidated Statement of Changes in Net Assets

1. Matters concerning the class and total number of shares issued and treasury stocks

(Shares)

Class of shares	As of Jan. 1, 2018	Increase	Decrease	As of Dec. 31, 2018
Shares issued Common stock	239,779,300	100,300	14,656,800	225,222,800
Treasury stocks Common stock(Note)	911,100	15,628,600	14,721,000	1,818,700

(Note)
The number of treasury stocks at the end of the fiscal year under review includes 1,356,100 shares held in the BBT and 462,600 shares held in the J-ESOP.

2. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 27, 2018	Common stock	1,438	6.00	Dec. 31, 2017	Mar. 28, 2018

(Note)
The total amount of dividends resolved at the Ordinary General Meeting of Shareholders held on March 27, 2018 includes 3 million yen for treasury stock of 637.5 thousand shares held in the BBT, and 1 million yen for treasury stock of 273.6 thousand shares held in the J-ESOP as of the record date of Dec. 31, 2017.

(2) Dividends with a record date during the current fiscal year, but with an effective date in the following fiscal year

The above matter is scheduled to be resolved as follows.

Resolution	Class of shares	Resource of Dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 26, 2019	Common stock	Retained earnings	1,576	7.00	Dec. 31, 2018	Mar. 27, 2019

(Note)
The total amount of dividends to be resolved at the Ordinary General Meeting of Shareholders held on March 26, 2019 includes 9 million yen for treasury stock of 1,356,100 shares held in the BBT, and 3 million yen for treasury stock of 462,600 shares held in the J-ESOP as of the record date of Dec. 31, 2018.

3. Class and number of shares subjective to subscription rights to shares as of the end of the consolidated fiscal year under review (excluding ones of which the commencement date of exercise period has not yet arrived)

Common stock of 44,200 shares

Notes to Financial Instruments

1. Matters concerning the financial instruments

(1) The Group's policy for financial instruments

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

(2) Details of financial instruments and associated risks

Accounts receivable — trade and purchased receivables, which are operating claims, are exposed to the clients' credit risk.

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

Payment terms of accounts payable — trade and accrued income taxes, which are operating liabilities, are within 1 year. Borrowings are intended to finance the Group's capital requirements particularly for investments and working capital. Repayment due dates for these liabilities are not longer than 18 years from the settlement dates.

(3) Risk management system for financial instruments

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

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

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

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

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

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

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

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

2. Matters concerning the market value of financial instruments

The book value on the consolidated balance sheet and market value of financial instruments as of December 31, 2018 as well as the differences between these values are described below. Financial instruments whose market values appear to be extremely difficult to determine are not included in the table. (See (Note 2))

(Millions of yen)

		Book value on the consolidated balance sheet	Market value	Difference
Assets	(1) Cash and deposits	52,959	52,959	—
	(2) Deposits held in trust	2,769	2,769	—
	(3) Accounts receivable — trade	1,716		
	Allowance for doubtful accounts*1	(1)		
		1,715	1,715	—
	(4) Purchased receivables	89	89	—
	(5) Operating loans	597	597	—
	(6) Investment securities	12,311	12, 994	682
Liabilities	(1) Accounts payable — trade	499	499	—
	(2) Short-term non-recourse borrowings	344	344	—
	(3) Accrued income taxes	2,607	2,607	—
	(4) Long-term borrowings (including long-term borrowings — due within one year)	18,764	18,818	53
	(5) Long-term non-recourse borrowings (including long-term non-recourse borrowings — due within one year)	57,718	57,718	—
	(6) Non-recourse bonds payable	1,500	1,500	—
Derivative transaction*2		[(132)]	[(132)]	—

*1 Allowance for doubtful accounts provided individually on this item is deducted.

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

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

Assets

(1) Cash and deposits and (2) Deposits held in trust

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

(3) Accounts receivable — trade

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

(4) Purchased receivables (5) Operating loans

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

(6) Investment securities

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

Liabilities

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

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

(4) Long-term borrowings (including long-term borrowings — due within one year) and (5) Long-term non-recourse borrowings (including long-term non-recourse borrowings — due within one year)

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

(6) Non-recourse bonds payable

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

Derivative transaction

This is recorded using prices quoted for the relevant derivatives by the respective contracting financial institutions.

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

(Millions of yen)

Item	Book value on the consolidated balance sheet
Unlisted shares, etc.*1	25,259
Investments in capital*2	359
Long-term security deposits*3	2,217

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

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

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

Notes to Real Estate for Rent, etc.

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

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

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

(Millions of yen)

Book value on the consolidated balance sheet	Market value as of Dec. 31, 2018
31,613	39,106

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

2. The market value as of Dec. 31, 2018 was based mainly on the appraised value of the real estate for rent made by an outside real-estate appraiser (including those adjusted using relevant indexes).

3. For real estate for rent under development (5,304 million yen on the consolidated balance sheet) is not included above because it appears to be extremely difficult to determine their market values.

Notes to Per Share Information

1. Net assets per share 411.97 yen
2. Net income per share 54.11 yen

Notes to Significant Subsequent Events

Not applicable.

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

Notes to the Non-consolidated Financial Statements

Notes to Significant Accounting Policies

1. Evaluation standards and methods for assets

(1) Evaluation standards and methods for marketable securities

Stocks of subsidiaries and affiliates	Stated at cost by the moving-average method
Other securities	
Securities with market quotations	Stated at market value at the accounting closing date (Unrealized gains or losses are comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.)
Securities without market quotations	Stated at cost by the moving-average method However, investments in silent partnership are stated on an individual specified cost basis. The details are described in "7. Accounting method for investments in silent partnerships."
(2) Evaluation standards and methods for derivatives	Market value method

2. Depreciation methods for fixed assets

(1) Property and equipment (excluding lease assets)	Straight-line method Useful lives of principal property and equipment are as follows. Buildings: 7-18 years Tools, furniture and fixtures: 2-20 years
(2) Intangible assets (excluding lease assets)	The costs for software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method.
(3) Lease assets	Lease assets are depreciated by the straight-line method over the lease period without residual value.
(4) Long-term prepaid expenses	Straight-line method

3. Recognition of allowances

(1) Allowance for doubtful accounts

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

(2) Allowance for employees' retirement benefits

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

(3) Provision for management board incentive plan trust

To provide for the delivery of the Company's stocks to Directors in accordance with the Policy on Directors' Stock Compensation, the Company records the amount of projected benefit obligations at the end of the fiscal year under review.

(4) Provision for stock payment

To provide for the delivery of the Company's stocks to employees in accordance with the Stock Distribution Rules, the Company records the amount of projected benefit obligations at the end of the fiscal year under review.

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

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

5. Accounting method for consumption tax

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

6. The application of the consolidated tax payment system

The consolidated tax payment system is applied.

7. Accounting method for investments in silent partnerships

For the investment in a silent partnership, the Company recognizes the equivalent amount of its interest in the assets of the relevant partnership as "money invested in real estate for sale" under current assets, "investment securities" and "other securities of subsidiaries and affiliates" under investment and other assets. The Company records such asset items when it makes an investment in a silent partnership. The Company records the equivalent amount of its

interest in a net gain or loss made by the relevant partnership as "revenue" or "cost of revenue," while the same amount is either added to or deducted from such asset items. Redemption of the investment from an operator is recorded by deducting the redeemed amount from such asset items.

8. Changes in disclosure method

(Non-consolidated Statement of Income)

In the previous fiscal year, "gain on sales of investment securities" (116 million yen for the previous fiscal year) under extraordinary income was reported as a separate item. As this item has decreased in significance, it has been included in "other" under extraordinary income.

In the previous fiscal year, "loss on valuation of investment securities" (247 million yen for the previous fiscal year) under extraordinary loss was reported as a separate item. As this item has decreased in significance, it has been included in "other" under extraordinary loss.

In the previous fiscal year, "loss on valuation of investments in capital" (5 million yen for the previous fiscal year) under extraordinary loss was reported as a separate item. As this item has decreased in significance, it has been included in "other" under extraordinary loss.

Notes to Non-consolidated Balance Sheet

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

	(Millions of yen)
Short-term monetary claims	5,451
Short-term monetary liabilities	56

2. Accumulated depreciation of property and equipment (Millions of yen) 76

3. Guarantees

The Company provides guarantees for the borrowings from financial institutions by the following companies.

	(Millions of yen)
Kenedix Asia Pte. Ltd.	1,620
KDA Capital Malaysia Sdn. Bhd.	916

Notes to Non-consolidated Statement of Income

Transactions with subsidiaries and affiliates	(Millions of yen)
Operating transactions	
Revenue	9,278
Cost of revenue	242
Transactions other than operating transactions	273

Notes to Non-consolidated Statement of Changes in Net Assets

Class and number of treasury stocks as of the end of fiscal year under review

Common stock of 1,818,700 shares

Notes to Tax Effect Accounting

Breakdown of major factors that caused deferred tax assets and liabilities

(1) Deferred tax assets (current)	(Millions of yen)
Operating loss carried forward	67
Accrued business taxes	108
Accrued rent expenses	73
Other	103
Subtotal	353
Valuation allowance	(15)
Total deferred tax assets (current)	338

(2) Deferred tax assets (fixed)	(Millions of yen)
Loss on valuation of investment securities	34
Loss on valuation of stocks of subsidiaries and affiliates	43
Dividend income from investment in silent partnerships	920
Difference from the book value of stocks of subsidiaries and affiliates	1,178
Other	325
Subtotal	2,502
Valuation allowance	(2,122)
Elimination with deferred tax liabilities (long-term)	(379)
Total deferred tax assets (fixed)	—

(3) Deferred tax liabilities (long-term)	(Millions of yen)
Net unrealized holding gains/losses on other securities	634
Property and equipment corresponding to asset retirement obligations	40
Subtotal	675
Elimination with deferred tax assets (fixed)	(379)
Total deferred tax liabilities (long-term)	295

Notes to Transactions between Related Parties

Attribute	Name	Ratio of voting rights holding	Type of relationship	Summary of transactions	Amount of transaction during the fiscal year under review (Millions of yen)	Accounting item	Balance as of Dec. 31, 2018 (Millions of yen)
Subsidiary	HKDX Silent Partnership	—	Silent partnership investment	—	—	Other securities of subsidiaries and affiliates	1,317
Subsidiary	Kenedix Westwood, LLC	100%	Financial assistance	Loans	1,779	—	—
				Collection of loans	6,228		
				Interest receipt	42		
Subsidiary	KRF22 Silent Partnership	—	Silent partnership investment	Profit distribution	4,700	Other securities of subsidiaries and affiliates	92
Subsidiary	KRF45 Silent Partnership	—	Silent partnership investment	Investment	230	—	—
				Profit distribution	3,266		
				Revenue	3,685		
Affiliate	KRF48 Silent Partnership	—	Silent partnership investment	—	—	Other securities of subsidiaries and affiliates	2,146
Subsidiary	KRF50 Silent Partnership	—	Silent partnership investment	Profit distribution	1,792	—	—
Subsidiary	KSLF5 Silent Partnership	—	Silent partnership investment	Profit distribution	206	Other securities of subsidiaries and affiliates	3,057
Subsidiary	Kenedix Asia Pte. Ltd.	100%	Financial assistance	Loans	1,360	Long-term loans to subsidiaries and affiliates	1,360
				Loans	220	Other current assets	220
				Collection of loans	4,489		
				Interest receipt	21	—	—
			Loan guarantee	Guarantees for bank loans (Note)	1,620	—	—
Affiliate	KSLF8 Silent Partnership	—	Silent partnership investment	Profit distribution	1,331	—	—
Subsidiary	JRP7 Silent Partnership	—	Silent partnership investment	Profit distribution	1,286	—	—
Subsidiary	KRF66 Silent Partnership	—	Silent partnership investment	Profit distribution	1,812	—	—
Subsidiary	KRF69 Silent Partnership	—	Silent partnership investment	Investment	1,647	Investment in real estate for sale	1,724
				Profit distribution	19		
Subsidiary	KRF70 Silent Partnership	—	Silent partnership investment	Profit distribution	1,435	—	—
Subsidiary	KRF71 Silent Partnership	—	Silent partnership investment	Investment	2,948	—	—
				Profit distribution	3,037		
Subsidiary	Motosumiyoshi Co., Ltd.	99%	Financial assistance	Loans	1,405	Long-term loans to subsidiaries and affiliates	1,635
				Interest receipt	33	Other current assets	33
Subsidiary	RRB Silent Partnership	—	Silent partnership investment	Investment	2,000	Other securities of subsidiaries and affiliates	1,957
				Profit distribution	21		
				Loans	2,720	Operating loans	2,720
				Interest receipt	67	—	—
Subsidiary	Portion Co., Ltd.	99%	Financial assistance	Loans	1,476	Long-term loans to subsidiaries and affiliates	1,476
				Interest receipt	10	Other current assets	10
Subsidiary	KRF75 Silent Partnership	—	Silent partnership investment	Investment	1,855	Investment in real estate for sale	438
				Profit distribution	1,405		
Affiliate	Owl TMK	—	Investment in TMK	Investment	2,250	Other securities of subsidiaries and affiliates	83
				Profit distribution	2,187		
Subsidiary	KRF73 Silent Partnership	—	Silent partnership investment	Investment	1,890	Investment in real estate for sale	1,866
Subsidiary	KRF77 Silent Partnership	—	Silent partnership investment	Investment	2,940	Investment in real estate for sale	2,941
Subsidiary	KRF80 Silent Partnership	—	Silent partnership investment	Investment	2,050	Investment in real estate for sale	2,050

(Note) The amount represents the balance of loan guarantees at the end of the fiscal year. The Company does not receive any guarantee fee.

Terms and conditions of transactions are determined on similar terms and conditions applied to general transactions, in consideration of the market prices and other factors.

Notes to Per Share Information

1. Net assets per share	400.94 yen
2. Net income per share	51.19 yen

Notes to Significant Subsequent Events

Not applicable.

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