OI S.A.
Form 425
October 04, 2013
Filed by Oi S.A.

Pursuant to Rules 425 and 163 of the Securities Act of 1933

Subject Company: Oi S.A.

Commission File No.: 001-15256

Subject Company: Portugal Telecom SGPS S.A.

Commission File No.: 001-13758

This document is an unofficial transcript of the conference call held on October 2, 2013. Due to audio quality and other factors, transcripts are not always precise. There is no assurance as to the accuracy, reliability or completeness of this transcript. Any person reading this transcript and relying on it should do so at his or her own risk. Please refer to the important notice at the end of this transcript.

CONFERENCE CALL TRANSCRIPT

Operator: Greetings and welcome to the Portugal Telecom Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Zeinal Bava, CEO for Oi and PT Portugal. Thank you, Mr. Bava. You may begin.

Zeinal Bava: Good afternoon ladies and gentlemen. Thank you for being on this call. It s Zeinal Bava here. I am also joined here by Bayard, CFO of Oi and Luis Pacheco de Melo, CFO of Portugal Telecom.

I would like to take the opportunity also to apologise for this delay. I was at a conference, a Sanford Bernstein Conference, which took a bit of my time. So I hope we can catch up quickly and go through some of these slides, so we can have ample time for Q&A.

As you know, we announced today a transaction which essentially looks to consolidate the industrial alliance with Oi and Portugal Telecom, which we signed in 2011. In fact, we signed the deal actually in 2010, and we crystallised the investment in 2011. We will be merging Oi and Portugal Telecom, the Oi Holding Companies, which are a group of companies, into a corporation. And this corporation will be listed on the Novo Mercado, New York Stock Exchange and New York Stock Exchange Euronext.

We think that we will be able to be in these three markets. We think that in these three markets, we will also, because we are in the Novo Mercado, enjoy higher liquidity, and we will also be able to tap into a diversified and more international shareholder base. We think that this transaction is a natural fulfillment of the alliance that we signed. It creates an entity with scale and diversified, not just in terms of geography, but also in terms of the scope of services that we are offering. We also believe that by bringing together Portugal Telecom and Oi, we will lower execution and operational risks. And I think we will essentially accelerate our ability to crystallise significant growth opportunities that we see in Brazil and that I will refer to a bit later in my presentation.

We ve provided you also with an estimate of synergies of R$5.5 billion. These are pre-tax synergies. And these synergies, as I will explain later, are synergies that we believe that we can deliver on, because we have been working together, Portugal Telecom and Oi, for quite some time. And as we speak, we have about 80 different work streams that are happening between the two companies, which in my view sooner rather than later will start delivering value for shareholders, not just of PT, but also for Oi.

As far as this deal, we will also be doing a capital increase. The minimum capital increase is R$7 billion. We are targeting an R$8 billion capital increase, and we believe that all this together will certainly improve the free cash flow profile of our company. The two companies that we are bringing together will have over 100 million customers in what we call strategic markets.

And worth highlighting, and this is in slide number five, is that we will have a pretty good mix of residential, prepaid and enterprise. And when you think about residential, again, you will see a pretty good mix in terms of broadband and pay-TV. The reason I mention this is because, as we have discussed in the past, we will look to replicate, where it makes sense, the convergence strategy that we have implemented in Portugal also to drive future growth in Brazil.

In terms of overall global scale, you will have seen certainly in slide number six that pro forma 2012 financial highlights, revenues are roughly at R$37.4 billion, EBITDA R$12.8 billion. The margin will see an uplift of about 300 basis points to 34.1%, and our operational free cash flow will be roughly R$4.2 billion.

Some of the highlights in slightly more detail: we will be combining all of these companies into a single listed entity. I think this is one of the most important outcomes of the transaction that we are announcing today. By combining these two companies in a listed entity, we will simplify the shareholding structure of Oi, and we will also put in place a higher standard of corporate governance. Later on in the presentation you will see, what the structure today of the Oi / Portugal Telecom ecosystem is, and you will see where we ll end up. We will end up essentially with one listed entity, one class of shares, no asymmetry in shares between voting and non-voting. So, all the shares will have exactly the same voting rights, same dividend rights, and like I said earlier, we think that this will contribute significantly to increase the liquidity in the future and also diversify the investor base.

With regard to the strategic alliance, I ll mention a couple of things. First is that when we discuss this alliance, we re talking about markets where together we operate and which have about 260 million PoPs. The second thing, which is extremely important to highlight, is that the work between Oi and PT is not starting today or tomorrow. The work has started between the two companies way back in 2011, April, when I took over as the Chairman of the Telecoms Committee and on the back of that Chairmanship that I had, we developed what was a turnaround plan for Oi, which we had to then, if you like, refresh earlier this year and that we are now beginning to implement successfully.

Well, in terms of governance, we will also have one unified management team for the two companies. So we will have an integrated decision making process. So, when it comes to discussing capital allocation, or for example, human talent allocation, we will look to see where the opportunities are, and where we think we can generate better returns. We think that these two companies together will allow sharing of best practices. We think that Oi has incredible fundamentals in terms of future growth in the Brazilian market, and we think PT brings to bear a very strong track record in technology and innovation, which no doubt you are aware, resulted in us actually inaugurating our new data centre, state-of-the-art data centre, in Portugal on the 23rd of this month.

The two companies will have 100 million customers, which means that we ll have scale, globally speaking. The combined revenues, OpEx and CapEx will also look pretty outstanding in the context of size in the sector, but as I ve said before our game plan is not to be the biggest, but to be the best. And in that regard again, synergies are something that we ll be driving. We ve identified R$ 5.5 billion of synergies. This is net present value. This is net present value pre-tax.

But as I ll discuss later, part of these are operating synergies, roughly R$3.3 billion, and the rest is financial synergies, R$2.2 billion.

With regard to the capital increase, I will mention also that R$ 2 billion of the cap increase that we proposed to do has been underwritten by Brazilian investors and by Banco Pactual. With regards to the two core shareholders of Portugal Telecom, which together have more than 20% of the capital, have also committed to, if you like, remain investors in this new company in the future. With regards to the shareholder remuneration policy, we ve indicated that we ll be paying R$500 million of dividends every year. As you know, with respect to fiscal year 2013 we will be paying those R$500 million in the month of October, which means that in respect of fiscal year 2013 we will have paid the dividends. And with regard to 2014, 2015 and 2016, the intention is to maintain the same level of dividend so that we can continue to, if you like, generate cash flow and continue to focus on deleveraging.

With regard to the description of the transaction in more detail, you will find a lot more details in the press releases we put out this morning, but allow me to spend a few seconds on slide number 10. The current shareholding structure, as you can see, is very complex. We have voting, non-voting stock, and the post transaction structure is a

very simple structure. We believe that this simple structure, with the highest level of governance standards, with a professional management team, no doubt will represent a good investment opportunity for investors that believe that these integrated companies can produce those synergies and that the growth in Brazil will be also, again, feasible in the context of the very large footprint that Oi has in that market.

With regard to the key transaction terms, we will combine the companies, we will simplify the structure, we will do the capital increase and we will migrate to the Novo Mercado. By the way, all the steps of the transaction are fully inter-conditional. This is a very important thing to highlight. All of these steps of the transaction are dependent on each other, and as far we are concerned, we need to get them all right and all together approved so that we can execute this transaction to the end.

Page 12, we ve just given you some additional information. If you are an Oi shareholder and if you have ON shares, you will end up with one share in this Newco which we call Corporation Co. If you are a PN shareholder, you will get 0.92 shares in CorpCo. As you will have, no doubt, have noticed, we decided to keep the market, if you like, discounts between ON and PN in order to move to the Novo Mercado.

This, as you know in the Brazilian market, can oscillate somewhere between sort of 8% to 9% that we are doing right now to 20% to 25%. And therefore, I would like to mention that we wanted to make this deal shareholder friendly and market friendly, and this is a reason why we decided to basically do the calculation based on VWAP of the last 30 days. For each PT share, PT shareholders will receive 0.633 shares in CorpCo plus 2.291 equivalent in CorpCo shares. Now these 2.291 will be converted into CorpCo shares at the same price as the book building price of that transaction. I have already mentioned that the core Brazilian and Portuguese shareholders are also backing this transaction.

With regard to the corporate governance, we will have a newly appointed Board of Directors, which will have an initial term of three years. The Chairman will be Mr. José Mauro, the Vice Chairman would be Mr. Granadeiro, and then you have already in page 13 the names of all the board members that will form part of the Newco board. We are talking about 11 individuals. A lot of them have substantial experience being board members and also in the telecom sector both in Portugal and in Brazil. With regard to the management team, we will have a unified management team. So we will run the businesses that we have as one single business, one single large business. I will be the CEO of Oi and Portugal Telecom. And this unified management team, as far as I m concerned, and with, if you like, the track record that we have already delivered on, has what it takes in order to actually deliver on, if you like, the synergies and the turnaround that we need to implement over the next few years.

Timetable: we expect this deal to take between five and six months. We are, of course, working very hard to accelerate the timetable, but there are number of conditions that are precedent. The transaction steps are fully inter-conditional. Shareholder and regulatory approvals will be required.

We also have to do successfully the liability management both at Portugal Telecom and Tpart, and of course, we are working towards having a full subscription of the capital increase, which, as I said, has R$7 billion as a minimum and R$8 billion as the target.

I m not going to take up a lot of your time to take you through all of the slides of Portugal Telecom, but allow me to focus on slide 19 only to mention that Portugal Telecom, in its home market, has been delivering superior performance despite a difficult macro environment. No doubt quarter-after-quarter you have seen that we have faced headwinds, notwithstanding the investment that we did to transform our company technologically. On the back of, if you like, the investments we made to transform our business model, we have been able to withstand these headwinds and deliver, if you like, performance ahead of consensus of the market but, particularly when it comes to the B2C markets, surprisingly good, especially in the residential segment.

Most of the investments in terms of completing the technological transformation of Portugal Telecom are pretty much done. Not only do we have more than 90% of the Portuguese population covered with LTE. We also have 1.6 million homes with fibre to the home. 92% of all mobile base stations are backhauling with fibre. Last but not least, recently we inaugurated the new data centre. So going forward, we believe we have the right platform to monetise additional services and, as the Portugal Telecom CFO has indicated in the past, the company will be looking to manage future CapEx based on demand as most of the investments that we needed to do to reposition the Company s services have been pretty much done.

Innovation is at the core of everything we do in Portugal. And this is one of the reasons why we believe that, if you align Portugal Telecom s technology lead and innovation lead with the scale in the Brazilian market and the unique footprint that Oi has in that market, we will certainly derive substantial synergies. But, most importantly, we will be able to execute and successfully and, hopefully, get it first time right. So, all-in-all, PT has demonstrated to all of you best-in-class execution in difficult environments. And we believe that it is uniquely positioned to take advantage of its leading market position in Portugal and technology lead in order to, if you like, benefit from potential recovery of the economy in the future.

With regard to Oi, allow me to mention a few more things. First and foremost, the footprint of Oi is a significant structural competitive advantage that the company has. We are present in 4,800 municipalities out of 5,500 municipalities in Brazil. Any recent study that you consult with regard to potential consumer demand in the future, you will conclude that in the future those cities that will be driving that demand are cities with PoPs of between 500,000 and a million. Those would be the main clusters of potential consumer demand and it is in those clusters that Oi has a unique presence. And therefore we believe that we are well positioned to capture the growth in telecom services in Brazil in the future. Now, that telecom services demand is underpinned by strong demographics, low unemployment rate and of course growing household income. I ve included slide 23 so that you can get a better sense for what is the market position of Oi in each state. I think it s the first time that we ve actually brought all this data together in one slide. And what you ll see is that whereas we have an attractive market share in mobiles in Ceará or in Pernambuco, in other markets, for example, if you take the Northern region, the Midwest region or the São Paulo region, our market share is clearly substandard if you take into account that we are in a four-player market and our market share in some of these regions is 14%. So, we continue to believe not only that there are substantial growth opportunities because household income is picking up, penetration of certain services is low, our market share in some of these services is also below where it should be. Having said that, we ll look to grow in the future with quality and with profitability. So, as far as we are concerned, we need to continue to work towards, if you like, increasing our share of wallet as opposed to engaging in any aggressive pricing behavior, which we have no intention of doing.

Four key priorities I highlighted to investors of Oi when we announced our second quarter results, first and foremost, actually it was three priorities plus one. The first of the three priorities is that we wanted to correct the cash flow profile of the company. The second is that we wanted to consolidate the business model and that we wanted to drive efficiency gains. And the third is that we needed to continue to grow. The financial leverage of an additional *real* of sales in Oi is pretty substantial. So, that s why growth will always be on our agenda. With regard to consolidating our business model, with regard to B2C, we clearly want to move towards bundles in convergence. With regard to mobility, clearly our short-term focus will be prepaid. And with regard to 3G and data, for example, we will look to actually push that as and when we have better 3G coverage in that market, which we are already working on and that we hope that we will have in place by the end of 2014. If you are thinking about B2B, we clearly want to move from telecoms to IT. Last week, we already launched a SmartCloud offer in Brazil, leveraging, if you like, the expertise that Portugal Telecom has in that area. With regard to efficiency gains, we see substantial improvements that we can do. For example, in field force, as I said early in my call, we have 80 work streams happening right now as we speak between Portugal Telecom and Oi, and about 30 of those work streams are aimed at us improving the quality of our service, simplifying processes and driving productivity in the company.

With regard to our cash flow profile, you saw us cut the dividend from R$2 billion to R$500 million. You ve heard me say before that we will do more with less, and clearly we will look to, if you like, establish partnerships with our suppliers so that we can have a win-win situation for both, taking into account the growth opportunities that we believe exist in Brazil.

With regards to culture, just to mention this one point. I am very proud to say that Oi team is extremely mobilised, engaged and I would say, you know, at this stage, extremely excited with the growth opportunities that we are seeing in the market, and I think most of us are focused on execution. So, as far as I am concerned, with the right leadership and focus on execution that I am seeing state after state in Oi, we should be able to deliver better performance, and I

hope that the second quarter that we announced probably marks the worst quarter ever in our company and that going forward, we should be able to deliver better performance to you.

In terms of strategic vision for the combined Oi and PT, first and foremost, the company will be operating in attractive markets. If anything, in Portugal we are geared for economic recovery and we can monetise all the investments we ve done in technology. In Brazil, we continue to see high growth coming not only from the market itself, but also from our ability to gain more share.

So this new company will have top line growth. This new company still has a lot to do in terms of evolving its business model. Now, clearly we do have leverage, and this is why the capital increase is very important for us to reduce our leverage and that s why you will have seen in the presentation that we believe that post this capital increase, we will have a pro forma net debt of R$41 billion and we will have a net debt to EBITDA ratio of 3.3 times. With regard to synergies, slide 37 of my presentation, R$5.5 billion pre-tax of which R$2.2 billion are financial, R$3.3 billion are operational. When I was preparing this slide with my team, we actually looked at some of the stats that exist out there of similar transactions, only to conclude that we are working on the basis that we will improve our CapEx and OpEx by 1% and all the relevant examples we have seen would seem to indicate that 3% to 5% would be acceptable. Now I grant that this is cross-border. This is not in-market consolidation, but I believe we can certainly do the R$260 million run rate that you have seen in slide 37 in this presentation, and we are highly motivated to deliver on that.

So, in conclusion, before I take any questions you may have, if you allow me, we think the company will have attractive growth prospects, diversification in terms of footprint, but also in terms of scope of business. We think that by bringing together execution expertise with the growth opportunities in Brazil, we should be able to crystallise these growth opportunities and monetise them sooner rather than later. Synergies and efficiency gains will underpin free cash flow improvement in the future. The capital increase will improve our financial flexibility, and we believe it will reduce the financial risks for those that want to invest in the company now or in the future.

With regard to the simplified governance, enough has been said. This is in my view a landmark transaction for Oi. We are moving from a very complex structure to a structure which, in my view, will make our company in the future eligible for more investment, not only because we will have state-of-the-art technology and so on and so forth, but also we will have governance of the highest standards in one listed entity in three different markets with high liquidity and, therefore, with a completely different appeal to the investor base.

So, thank you very much for being on this call. And on behalf of Oi and PT, thank you again. And my team and I are now available to take any questions that you may have. Thank you.

Questions & Answers

Operator: Ladies and gentlemen, we will now be conducting a question and answer session. If you would like to ask a question, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star-two if you d like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from Mathieu Robillard of BNP Paribas. Please go ahead.

Mathieu Robillard: Yes. Good afternoon. Thank you very much, and congratulations for the deal. I had a few questions, first starting with synergies. I think at the time when you announced the strategic partnership between Oi and PT, you had already indicated some synergies. And I wanted to understand why this full merger is going to add synergies on the top of that as you highlighted this is cross-border. Maybe that s an opportunity, the full merger, for you to implement some measures with Oi in a easier way by integrating the two companies, but maybe if you can give some clarification on that?

Second, with regard to the financial synergies, can you give a little bit of color into what you mean by that? Does that also imply tax synergies?

5

And then a second question in terms of the timing, I was wondering if some of the changes that may be happening at a competitor level in the Brazilian market influenced the decision in terms of the timing this deal? Thank you.

Zeinal Bava: Thank you, Mathieu. With regard to the synergies, let me say a couple of things here. First, we have been working together indeed, but a lot of it has been sharing of best practices. Are we purchasing equipment together? The answer is no, we are not. Okay? So, that s one example of further collaboration that I think we can have if we are just one company.

You might say, Why have we not done more? Well, we have different shareholder bases, so we need to make sure that a lot of these things that we do are arm s length also because of investors that we have in each company.

With regard to deploying, for example, talent, from Portugal into Brazil and vice versa instantly, I have to say that some of my engineers from Portugal are spending time in Brazil. They are learning a lot about the complexities of a company, a country of that size.

So, a lot of these things, in my view, will gather a different acceleration if we are managed together as one single entity, with just one set of shareholders. And therefore, we don t have to worry about where we are generating value and where we are actually keeping that value.

So, I think that the, if you like, informal relationship we have had which, by the way, has gone very well, because I was actually on both sides working at PT Portugal on one hand and Oi we need to formalise it, and I think this formalisation will happen with this merger. But I d just come back to the same point, are we purchasing together? No, we are not purchasing together. So, when I say that, You know what? We think there are CapEx synergies , indeed there are CapEx synergies on both sides, in both companies. And particularly, in my view, we will have significant CapEx synergies in Oi because we will continue to invest, if you like, to beef up a lot of the things that we re doing in the Brazilian market.

Financial synergies include everything that you mentioned. I d also say the following. Financial synergies for us also represent, if you like, opportunity for us to use some of the additional cash to pay down some of the more expensive debt. So that s some of the things that we re looking at.

So it s a combination of things. But we are I refer to the point earlier that when you put this into context of the benchmarks in the sector, you ll find that we re saying that this run rate will be about 1 percent of our OpEx and 1 percent of our CapEx, which is well below what we have seen in terms of the sector.

I think you asked a third question about timing. Was it the timing?

Mathieu Robilliard: Telecom Italia.

Zeinal Bava: Telecom Italia, sorry. With regard to the speculation in the market and so on and so forth, as in the past, I will not make any comment, but I would certainly say the following. I think the fact that we re moving to the Novo Mercado, the fact that we are simplifying our corporate structure will certainly position Oi, if you like, differently in the future because, as you can imagine, by, if you like, simplifying our corporate governance the way we are doing right now and opening up the possibility to have a different set of shareholders and a broader shareholder base, international, we will certainly be, if you like, looking at things in the future differently, you know, to where we are today. But, right now, the focus that we have is to get this transaction done, which will take between five to six months. And therefore, this is, if you like, step one of what we need to get done in this company. And alongside, don t forget, concurrently I have to deliver on my quarterly numbers to you. Thank you.

Mathieu Robilliard: Thank you very much.

Operator: Thank you. The next question is from Valder Nogueira of Santander. Please go ahead.

Valder Nogueira: Thank you for taking my questions. You know, lots of questions on this complex deal, but let me limit it to two questions. The first question is, on slide 11 of your presentation, you mentioned a R$ 4.5 billion

capital injection by PT into the entities within the Oi controlling group, okay? Does that R$ 4.5 billion of this recapitalization, will that be accounted for in the valuation of PT when you are measuring the value of the assets of PT before merging PT into Oi? That s the first question.

Zeinal Bava: Okay. Thank you. You all have seen from the details that we provided to you in our press release that there are a number of transactions that will happen above Oi and a number of transactions that will involve Oi. And some of these transactions involve different parts of this ecosystem. So the way I see this, you know, I look at the end result that comes out of this. And the end result for me is that we will have a company that will see a fresh capital injection whereby PT shareholders will have 38% of the new entity post the capital increase, and the Oi shareholders and those investors that will have come in the cap increase will have 62%.

So, all these transactions are inter-conditional. There are transactions between parties, some that do not involve Oi directly but that s why I m focused on the end result. And in the end result, as far as I m concerned, there are substantial benefits in us actually having a simplified structure and because, in my view, not only it will help us accelerate the turnaround and monetisation of the growth opportunities in the future but also to attract a different set of investors.

Valder Nogueira: No, I clearly understand that. But my question is simple. Would I have to consider either the net debt of PT when it is to be collapsed into Oi or in the Newco with R$4.5 billion in additional debt, or with less cash in order to do the valuation of the combined two entities, or not?

Zeinal Bava: If you allow me, I would encourage you to look at what we ve said will be the pro forma debt of this entity, which will be R$41.2 billion. And the net debt to EBITDA will be 3.3 times. So that s what I m looking at. So, there are these transactions happening. You will find a lot of details in the press release. Some have been disclosed in more details and so on and so forth. But what I see as the end result is R$ 41.2 billion of net debt, 3.3 times net debt to EBITDA which is, as you know, an improvement to where we are today, either at Oi or PT.

So together Oi and PT will end up in a situation where we will have better leverage ratios. We will have a diversified business in terms of the scope, but also geographically. So from a risk standpoint for those that are bondholders and lenders to either PT or Oi, in my view they will be better off than where they are today.

Valder Nogueira: Okay. And the second question is, correct me if I m wrong, the price for the capital increase at Oi has not been defined. The R$4.36 that we see in the press release is just a reference. If the capital increase were to take place based on the price that we calculated that was calculated to swap ratios into the Newco, is that right?

Zeinal Bava: Indeed, indeed. That was just for illustrative purposes, if you like. The price of the capital increase will of course depend on the deal dynamics, on the market conditions, and, of course, it will depend on everything else. We will do a book-building, and on the back of that book-building we will be able to ascertain what the right price is. In fact, when you see slide 12, you will see that we ve indicated that, for example, for each PT share you will get 0.633 shares in CorpCo, plus 2.2911; that 2.2911 will be converted at whatever the book-building price is when we close that capital increase.

Valder Nogueira: So we cannot assume that as a fixed number in order to look at potential arbitrage into opportunities between the price of PT and the current price of Oi? Because that number may change, that euro part of this compensation may change?

Zeinal Bava: Indeed, because 0.633 will not change, okay? So that s been carved in stone. The 2.2911 will convert into X number of shares depending on the price of the book building.

Valder Nogueira: Thank you, sir.

Zeinal Bava: Thank you very much. Thank you.

Operator: Thank you. The next question is from Tim Boddy of Goldman Sachs. Please go ahead.

Tim Boddy: Yes. Thanks for taking the question. And again congratulations on resolving the corporate governance challenge. I just wanted to ask a bit about why you re not raising more equity. On our kind of back-of-the-envelope numbers, obviously, the 3.3 times is trailing, and clearly Oi s EBITDA has fallen significantly in the second quarter. So it looks like you might still be in mid to high threes on a go forward basis. Does that give you the capacity to participate in any consolidation in the market, and would you be prepared to upscale the rights issue if the right opportunity develops in the next six to nine months? And then my second question is really just about, kind of, why now? You ve obviously been CEO at Oi now for some months. Can you just, I guess, give PT shareholders any indication that, after many years of decline, you re now really confident that free cash flow generation at Oi is turning the corner? Thank you.

Zeinal Bava: Okay. Thank you very much for your questions. And we ve indicated that we are targeting R$ 8 billion. And as you know, in these transactions you always have this hot issue and green shoe that could be exercised. So as far as we are concerned, what we would like to do is that we would like to deliver on the expectations of the market in the next couple of quarters. So that we can, if you like, increase the level of confidence in our ability to deliver on results and hopefully do this transaction at better prices in the best interest of all our shareholders.

So we are not ruling out anything right now, other than to say that if we ever to get to that position that you just mentioned, it would be a quality problem to have, and I have no doubt in my mind that my Board will be up to what s necessary to take the best decision in the best interest of all shareholders.

And many thanks for your comments on the corporate governance. I think this is one of the most important aspects of this transaction. We ll, after 10 years, have corporate governance that will be of the highest standard. And, therefore, a lot of those investors that in the past have indicated to me, they did like the Brazil story, they like telecom in Brazil, they like the fact that Portugal Telecom and Oi together, they complement each other, but the complex structure has actually kept them on the sidelines. I hope they see in this transaction a significant investment that we, the management team, are doing, but also that our Board is doing to make sure that Oi ranks among the best when it comes to corporate governance in the future.

With regard to why now, clearly when we announced our second quarter results we were upfront Bayard, my CFO, and I about the challenges that we were facing at Oi. And you all know that we felt that the second quarter results were well below what we believe they should have been. And clearly the company was facing a number of challenges. One of the challenges was that we were not pacing our CapEx, if you like, our investments with the ability of the company to generate cash, that we were increasing our net debt quarter after quarter, that we were not in instilling the kind of cost discipline that the company needs in a situation where you have a lot of debt. And therefore we indicated that we are going to focus on accounts payable, that we would focus on, for example, renegotiating a lot of our contracts with suppliers. We said that we would ensure that we have a direct attack on churn. So we are not just in the business of selling for the sake of selling. We want to make sure that whatever sales we do translate into cash flow for our company.

So, we believe we have started implementing on that, and I am very encouraged by the work that we are doing right now. And I think these last four months have also given, if you like, the Portugal Telecom Board pretty good insight on Oi. So that the level of comfort, if you like, on both sides of the company has increased substantially in the last four months, and today people felt very comfortable in taking this decision, which we believe works in the best interest of all the shareholders. Thank you.

Operator: Thank you. The next question is from Marcelo Santos of JP Morgan. Please go ahead.

Andre Baggio: Good morning. In fact, this is Andre Baggio from JP Morgan. You know, I think this corporate governance, it seems very interesting in the future. I guess here in Latin America, we want to understand better the steps which are being taken to reach this governance. So, if you could start with what is the current net debt to the

markets of the holding, Tpart, not only directly but indirectly with its shareholders AG Tel and LF Tel?

8

Zeinal Bava: Andre, thank you very much for your question. Don t get me wrong. I would ask you to speak directly to our IR to get those kinds of details, which probably you even have already. But you may want to check some of those numbers with them. But, again, I would go back to what I have said in my earlier response, that we should be focusing on where we end up in the end. And where we end up in the end is a company with R$41.2 billion of debt, with a much, much better balance sheet than it has today and with a net debt to EBITDA of 3.3 times.

Andre Baggio: You know, I m sorry to insist on this, but is there any risk that the minority shareholders at Oi complain with this kind of treatment to the whole PT part, if you don t disclose this information.

Zeinal Bava: Oh, I m just saying that you should call my IR. I am not going to we have about 500 people on the line. So, with those kinds of details, I suggest to speak to IR. What I will say to you is that when we think about the minorities at Oi or, if you like, there is no such thing as minorities. I mean, when I think about investors in my company, which is how we should be referring to them, rather than, you know, minorities and majorities. As far as we are concerned, as management, all the shareholders are the same.

We believe that, by moving to the Novo Mercado and by using, if you like, the current market prices of ON and PN, if you look at the current market prices of ON and PN, you will see that we were able to do this transaction at market prices, which for Novo Mercado is pretty good. And incidentally, you know certainly that TPart files accounts. So those accounts are available for you and for anyone that s interested in looking at them.

Andre Baggio: Okay. No, thanks and sorry for being used to the previous management authority that has not been treating well the minorities.

Zeinal Bava: Thank you. I appreciate, Andre, as usual your comments. I also would like to say to you that we are happy to see that the market reacted favorably to this transaction, both in Portugal and in Brazil. And I hope that this marks the beginning of a very different relationship that we can have with you in the future. Thank you.

Operator: Thank you. The next question is from Paul Marsh with Berenberg. Please go ahead.

Paul Marsh: Hi. Congratulations on the deal. I just wanted to ask you about your thoughts on the prospects for mobile consolidation in Brazil, and particularly how easy you think that s going to be. How sensitive do you think the authorities are with respect to some of the big, sort of globally public events that are coming up like the World Cup and the Olympics? Do you think there is some sensitivity to the execution risk of allowing a major breakup of TIM Brazil, say the second largest Brazilian mobile operator amongst the other three players?

Do you think the antitrust assessment would simply focus on regional market shares or would there be a bigger issue with the move from four to three? And do you think there are any other issues that we should be thinking of when we are thinking about how this whole potential consolidation scenario might play out? Thanks.

Zeinal Bava: Paul. Thank you very much for you question. As you can imagine, today I have been asked the same question a few times now, but allow me also to answer in the following way. Today I prefer to talk about the consolidation of this alliance. If I may add a couple of things, which may be of interest, I think any analysis will have to be done regionally. But that s, I think any legal counsel will be able to provide you much, much better insight than I can. What I can say, however, also is that the Olympic Games and World Cup, of course, impose on us the need for us to improve our quality of service. So, Oi is committed to deliver on all of the commitments we have made to ANATEL and to continue to invest in improving its quality of service. And the recent studies that have been put out by ANATEL are encouraging for us, but we are still long way from where we would like to be. So, good news in terms of recent studies by ANATEL. But we can certainly aspire to do better, and my team and I are committed to doing better in the future.

We think that the mobile segment in Brazil, especially for those that are investing in 3G and for those that have a sense for what the data opportunity is, is pretty significant. Smartphone penetration in Brazil is low. If you like, mobile data usage in Brazil continues to be fairly low. So, these are clearly two areas where we believe that there will be substantial growth in the future and where Oi expects to play a pivotal role. Thank you.

Paul Marsh: Thanks.

Operator: Thank you. The next question is from Andrew Campbell of Credit Suisse. Please go ahead.

Mr. Andrew Campbell: Yes. Thank you very much for taking my question.

I was hoping that you could help us a little bit to understand what the milestones will be in terms of completing the transaction, what the next steps would be. And in particular, is there any shareholder approval required at the Oi level, perhaps with regards to the capital increase?

And then, my second question is just on the final structure. I was wondering if you ll be providing any estimate of what the final shares outstanding will be. I know that it s not possible to know that number exactly. But perhaps with some assumptions, I thought that perhaps you could give us a general idea of where that would shake out. Thank you.

Mr. Zeinal Bava: Okay. Thank you.

As I indicated, we believe we can get this deal done in six months. If we were optimistic about it, we could say five months. So, somewhere between five and six months.

By the end of the year, we would hope that we can have the regulatory approvals in place. So, that, we think, is achievable, albeit it s ambitious. But we will have a team actually working through this timetable very aggressively.

And then, we will need to, if you like, execute the shareholder meetings as required. Particularly Portugal Telecom will need to basically do shareholder meetings to approve the sales of the asset sales and so on, which are implicit in the transaction that we are doing.

So, all things being equal, five months, 150 days, but somewhere between five and six months. By the end of the year, we hope that regulatory approvals will be in place.

So we will keep the market posted. And when we announce our results in November, hopefully we ll give you another update. But, as and when we have material information, we will make it available to the market immediately.

Thank you.

Mr. Andrew Campbell: Okay. Thank you. Do you have a position on whether or not the capital increase at Oi will require shareholder approval?

Mr. Zeinal Bava: Yes, it will require shareholder approval.

Mr. Andrew Campbell: Okay. And will that be just for the voting shares and the ON shares, or would it be for all shareholders?

Mr. Zeinal Bava: Yes, for both.

Mr. Andrew Campbell: Okay. And regarding my question on the shares outstanding.

Mr. Zeinal Bava: The whole thing, I mean, with regard to the capital increase, the voting shares will have to approve that in a shareholders meeting. And, like I say, we are working on the basis that this transaction is in the best interest of all shareholders. So, we would expect that to be approved.

Mr. Andrew Campbell: Okay. Great. Thank you.

Operator: Thank you. The next question is from Adrien Fourcade of Deutsche Bank. Please go ahead.

Mr. Adrien Fourcade: Yeah. Thank you. Basically I have three questions. The first one, what are your credit rating expectations for the merged group? Do you expect to stay investment grade, basically? The second one is, could you maybe give a bit of color on what you mean by liability management at the Portugal Telecom level for its debt? And finally, do you consider Africa still a core market?

Mr. Zeinal Bava: I ll get Bayard and Luis Pacheco to answer. So, maybe, Bayard, maybe you can just . . .

Mr. Bayard Gontijo: Sure.

Mr. Zeinal Bava: Position what the ratings are for Oi. Then, Luis, you can position what the ratings are for PT. And then Luis can perhaps answer the other two questions that you have, and I ll . . .

Mr. Bayard Gontijo: Okay.

Mr. Zeinal Bava: Conclude.

Mr. Bayard Gontijo: Okay. Regarding Oi s ratings, we have investment grade in the three agencies, Fitch, S&P, and Moody s. We do not have yet the results of the ratings for the agencies after the announcement. But, we do expect that Oi will maintain its investment grade. So, regarding Oi, that s the update we have, and we still have the three investment grades.

Mr. Luis Pacheco de Melo: Okay. On the Portugal Telecom bonds and ratings, basically, hopefully the rating agencies will come up with a comment these following days. But, if you were a bondholder of Portugal Telecom, from our side, we think the new entity and those bonds should be better now than they were before.

Mr. Zeinal Bava: I think with regard to the rating outlook, let me also highlight the following. We will diversify our business geographically. So, this new entity in the future will have a broad customer base, one hundred million consolidated customers. We will have businesses, if you like, in Africa, in Portugal, and in Brazil. We are doing the rights issue, and that rights issue will mean a capital injection into the new company.

So, you know, I have to believe that, with regard to where we are today, we will be better positioned than we were, for example, yesterday. So, clearly, as you know that in Portugal, the rating assessment has been weighed upon by sovereign risk and there are some technical issues in relation to that. But, if you just look at the fundamentals of the two companies that are coming together, clearly those fundamentals have improved with this transaction. Bear in mind also that we expect to deliver on synergies and these synergies will underpin the free cash flow of both companies.

So, when earlier on someone was asking me how do I see the cash flow profile of the company, you know, I see that as a big priority for our company. I will not over promise and under deliver, but we are clearly working to see if we can improve the free cash flow profile of the company sooner rather than later, because we believe that we need to maintain the focus on reducing our debt in the future.

Luis?

Mr. Luis Pacheco de Melo: With regards to your second question on the liability management, what we mean by that is that there are existing credit facilities at Portugal Telecom and also there is some language on the bond side that we ll need to deal with before closing, okay? So, we will have to engage in a liability management exercise both with the bank credit facilities suppliers and also with the bonds.

With regards to Africa, what I can say is that, basically, it s exactly the same as before. We like the assets that we own. They are very strong assets in their respective countries. They are leading assets in their respective countries. They continue to gain market share and to operate pretty well in those growth markets. They generate good cash flow. So, we are pretty happy with those assets.

Having said that, of course, I would say that Zeinal s time these days is spent more on Portugal, but especially also on Oi in Brazil, and therefore, the main focus will be for his management in these two markets. But, as I said before, these African assets are pretty good for us and they generate good cash and we are very happy with those.

11

Mr. Adrien Fourcade: Okay. Thank you very much.

Operator: Thank you. The next question is from Kartik Nehru of ESG. Please go ahead.

Mr. Kartik Nehru: Hi. Thanks for taking my question and congratulations. I just wanted to follow up on a couple of the questions that were asked before. And the reason I think it s important is because we just want to understand what the treatment of the OIBR4 shareholders are. I understand that on a combined basis, the company is better off. But, I just want to see how that value is shared between Portuguese shareholders and the Brazilian shareholders. So, the R$4.5 billion that is being recapitalised, I m just curious, again, as to whether that s being taken into account in the valuation of the Portuguese assets. And the second question I had is you, in the press release, stated that, by the second half of 2015, you would be free cash flow positive. What assumptions are you making on combined company EBITDA growth to get to that free cash flow positive state, given that Oi s EBITDA might decline next year because of new lease costs associated with the recent sales of towers and other non-core assets? Thank you.

Mr. Zeinal Bava: Thank you very much.

With regard to your first question, allow me to say the following. And I m sorry to be repetitive on this. I m looking at the end game here. And as I mentioned, there will be transactions happening between different parties above Oi. And with regard to the valuation of the assets that are being contributed to Oi by PT, we will have an independent valuation as per what the law obliges us to do. So, we will hire someone to actually valorise, to do a proper valuation, of the assets that are being contributed. And that work, as you can imagine, will be done in due course. So, at the time, probably we should be able to share with you what that will be. And I think you will be able to see that for yourself.

So, we have absolutely nothing to hide from you, other than to say that whatever the assets that Portugal Telecom will be contributing will be evaluated, it is called a laudo, and that laudo will be made available to everyone and it will be public information. So, at that time, you will certainly have the necessary information to reach whatever conclusions you would like to reach.

With regard to the free cash flow, if I understood your question, first it s predicated on Oi s projection for EBITDA for next year, which, as you can imagine, I cannot comment on because as we recently said, we ve changed our guidance to the market in terms of not having a guidance policy. So, I will refrain from commenting on what we think could happen in the future. But, I would like to tell you qualitatively that clearly we need to improve the cash flow profile of the company because, whilst we think that 3.3 times net debt to EBITDA after this transaction puts us, if you like, on the right track, we still need to do better, okay? Now, in order for us to do better, you know, again, I ll repeat what I said earlier. It s not just an issue of increasing the cost cutting in the company or having a larger scrutiny on where we invest. It is also to invest in growth. So, you mentioned asset disposals. These asset disposals for us are, if you like, long-term funding at lower cost, okay? So, we like to do those, independent of whether you book them above EBITDA or below EBITDA, because as far as we are concerned, we should be looking at the cash flow. So, when I look at the cash flow and when I look at those asset disposals, right now, for example, we are in the process of selling our mobile towers. So, when I look at these trades, what I see is us being able to tap cash longer term at cheaper cost, and, therefore, this is one way in which we will use to, if you like, underpin the free cash flow improvements at Oi.

So, it s not one single thing. It s a number of things that we are working on. And I hope that quarter after quarter we can prove to you that we are delivering on whatever we ve said to the market.

So, hopefully in November when we present our third quarter results, you can ask me the same question and I will tell you exactly what we ve done in the quarter to improve the cash flow profile of the company.

Thank you.

Operator: Thank you.

The next question is from Ottavio Adorisio of Societe Generale. Please go ahead.

Mr. Ottavio Adorisio: Hi. Good morning or good afternoon. I have three questions. First of all, congratulations on the deal, well structured, and it really goes to solve a number of your issues. The first one is basically, on page 10, you talk about that PT s shareholders to hold around 38.1 percent of the combined Newco, and then you basically provide a range going from 36.6 percent to 39.6 percent. So, I was just wondering if the range is basically pegged on the valuation of PT assets that basically will taken be in and recapitalising Oi s, or the 1.1 to 3.1.

The second one is on the synergies. There is a lot of emphasis on the NPV. If you can, just tell us the run rate of the operational, so how it will split between CapEx and OpEx, and where it s going to crystallise in Portugal and in Brazil, because basically providing NPV before pre-tax, of course the tax rate in the two countries are different. So, it will allow us to basically have a go and do our own calculations.

And the third one is basically going back on the previous questions about bonds and language. Basically you re going to have to talk to some bondholders to basically change some of the language. I was just wondering if any of the bonds that you have to somewhat change the structure of some covenants can veto the deal, or can that somewhat delay it? Thank you.

Mr. Zeinal Bava: Okay. Thank you very much. Let me perhaps answer the first two questions and I ll ask the CFOs to answer the third question.

With regard to page 10, we ve given you an indicative holding that the PT shareholders will have when the deal has been completed. And this is assuming, of course, constant share price, which is the sort of 38 percent. That range of 36.6, 39.6, if you like, is the collar, okay, that we believe that we need to put in place so that Brazilian, or if you like, Oi or PT can walk away from this transaction, okay?

So, if PT shareholders, after we have completed this transaction, let s say before we complete this transaction, if we ascertain that they have an ownership of below 36.6, it would give them the right to walk away. If, at the end of the transaction, they have an ownership which is above 39.6, Oi will have, you know, the right to walk away. So, Tpart, sorry, would have the right to walk away. But, I think the details of this have been included in the press releases. You will find that. But, essentially we are working with the midpoint of the two so that you have an indicative number to work with. And, like I say, this is just to make sure that both parties ultimately can do the right thing in the best interest of the shareholders.

With regard to the synergies, allow me to go to page 37. You will see in the page 37 that we ve calculated the NPV at R$5.5; R$2.2 are financial, R$3.3 are operational. And we ve indicated that the run rate of OpEx synergies will be R$192 million and the CapEx synergies will be R$69 million. So, together it will be R$261 million.

And now, where exactly we will book those, I think it s irrelevant if we become one company, it s totally irrelevant. And this is one of the reasons why, to be frank with you, by getting the two companies together will allow us to work much faster, because we won t have to worry about where is it that we book because it will be the same shareholder base in both companies.

So there you will find that information which, again, I repeat what I said earlier, it s about one percent, about 0.8 percent of our OpEx and about 1.1 percent of our CapEx in terms of improvement, which, like I said, it s conservative if you look at other transactions in the sector where these tend to be somewhere between 3 and 5 percent.

Would you like to answer the question?

Mr. Bayard Gontijo: Let me step in and answer regarding Oi. I mean, we do not see a change of control in the case of Oi s bonds. Therefore, there is no trigger in terms of event of default or debt acceleration. So, I mean, the bonds will remain the same.

Mr. Zeinal Bava: Luis?

13

Mr. Luis Pacheco de Melo: With regards to PT bonds, there are no change of control clauses in this case. What we can say is that we will need to change some of the language in some of the bonds, yes. And we would look forward to having an explicit guarantee from Oi or from CorpCo and to extend that into the PT bonds so that all the bonds at the new CorpCo or Oi will rank pari passu with the existing Oi bonds and all the debt.

Mr. Zeinal Bava: Okay. Thank you.

Operator: Thank you. The next question is from James McKenzie of Fidentiis. Please go ahead.

Mr. James McKenzie: Hi. Thanks very much for taking the question. Just a very quick one on the capital raising. I can see that between Portugal Telecom and the other, Telemar Part holders of Oi, you ve got around 40 percent of the total capital. Then, when I look at the capital raising together with Banco Pactual, the total contributions to the capital raising is around 25 percent. Does that mean, one, the capital raising is not going to be a rights issue? And two, could you give us a split between what s coming in from, if you like, the old Oi shareholders and Banco Pactual as the new Oi shareholder?

Mr. Zeinal Bava: Okay. Thank you. You know, the two billion that will be underwritten, if you like, for us, it s a significant vote of confidence in what we are trying to achieve. So, to get shareholders to commit in advance two billion in a rights issue that we will do worth somewhere between seven and eight billion it s great. And what I can say to you is that it will come from Tpart shareholders and Banco Pactual, and, as you will have seen, that AG and LF signed the MOU. So, they will also be contributing some of that cash.

So as far as we are concerned, you know, as a company, what we see is that these shareholders will take two billion of our stock when we place it. And I think, even for the market, it s great to see that existing shareholders are putting some of their money back to work in this company because they believe in the project.

Now, how that s going to be split between each shareholder and who the shareholders are, to be very candid with you, is completely secondary. I don t even worry about that, because as far as I am concerned, two billion *reais* is two billion *reais*. And, I know for fact that AG and LF will be investing, and I also know that Banco Pactual will be investing. So, I think the rest, frankly, to us, it s not as relevant. As far as we are concerned, you know, it s two billion, and that will come in at the time that we do the rights issue.

Mr. James McKenzie: And so, it is going to be a full rights issue, and then a rump placement if people don t pick up the rights?

Mr. Zeinal Bava: No, the thing is this. The existing shareholders of Oi will have, if you like, priority in the placement. So, if you are Oi shareholder, you know, you will have a priority.

Mr. James McKenzie: Okay. Brilliant. Thank you.

Mr. Zeinal Bava: And therefore, just to be clear, you will not be able to trade that priority right, okay? So, the issue is you will be treated with priority when the allocation is done. But it doesn t mean that you can sell that right to anybody else. Thank you.

Operator: Thank you. The next question is from Susana Salaru of Itau. Please go ahead.

Ms. Susana Salaru: Hi. Good morning. Well, actually good evening. Two quick questions here. First, just to clarify if the controlling shareholders will participate or won t participate during the approval process of the whole deal. That would be the first question. And the second question, regarding the leverage of 3.3 times, do you have any kind of plan to reduce it? And if you have, what would be the target net debt to EBITDA and when do you expect it to be

reached? That s it. Thank you.

Mr. Zeinal Bava: Thank you, Susana. With regard to your first question, all voting shareholders will participate. So anyone that has voting stock will be called to basically cast his vote in that decision. With regard to our net debt to EBITDA, clearly 3.3 times is a significant improvement to where we are. But, we clearly believe that we need to

maintain a high level of discipline in this company and continue the deleveraging process. And this is why I have been saying that we will maintain focus on cash flow generation in our company. We will be cautious in terms of where we deploy capital. We will look to do more with less money. So, as far as we are concerned, we will look to improve these ratios in the future as we generate this cash flow. Needless to say, however, we will also keep an eye on growth opportunities.

So, I think that if you take into account that Portugal Telecom has maturities of about 4.5 years, Oi has maturities of about 4.5, 4.6 years, I think on both sides we have a significant level of comfort to take the right decision in the best interest of the company medium to long term.

I ll also highlight the following. In the case of Oi, 99% of our debt is *real*-denominated, or it s already hedged. So, we have absolutely no ForEx exposure at Oi. Thank you.

Ms. Susana Salaru: Okay. Thank you.

Operator: Thank you. The next question is from Michael Morin of Morgan Stanley. Please go ahead.

Mr. Michael Morin: Thank you. So, Zeinal, on a pro forma basis, Oi is about 70 percent or a little bit more than 70 percent of the combined EBITDA. And yet, in the endgame, Oi shareholders would end up owning roughly 30 percent, current Oi shareholders would end up owning about 30 percent of the combined entity. Portugal Telecom would own 38. So, how does that math work in terms of Portugal Telecom ending up owning more of the company, given that they re about half the size of Oi?

Mr. Zeinal Bava: It s VWAP on market. This is what we ve done. In the same way that we concluded what the exchange ratio should be between ON and PN based on the VWAP on market, this is exactly the same thing we ve done here.

Mr. Michael Morin: Okay. Thank you.

Mr. Zeinal Bava: Thank you.

Operator: Thank you. The next question comes from Jean-François Paren of Crédit Agricole. Please go ahead.

Mr. Jean-François Paren: Yes. Good evening. A very quick question, just to clarify the situation as far as the debt is concerned. Most of the debt currently is issued from Portugal Telecom International Finance. I m not sure I got it right. You previously said that you would be looking at issuing some sort of guarantee from the new CorpCo or from Oi on that debt. Can you just clarify, please? Or, would there be a reason for you to transfer that debt onto the new CorpCo entity at a later stage? Thank you.

Mr. Bayard Gontijo: Jean, this is Bayard. What matters is that, by the end of the day, all the bonds will rank pari passu. We ll figure out if we re going to have the guarantees from Oi, from the CorpCo, whatever. But, all the bondholders will have the same rights, and that s the important message here.

Mr. Zeinal Bava: Was that clear?

Mr. Jean-François Paren: Yes, that s very clear. I just wanted to know if you ve got any idea how you are going to manage that, moving everything onto the same entity or just issuing a guarantee.

Mr. Zeinal Bava: I think the main message, as Bayard said, is that the bonds will rank pari passu. I think, in terms of the mechanics and so on and where we will have to take into account the number of other factors, which frankly, at

this stage, I m not able to share with you in detail because we haven t really gone through that in as much detail, because we continue to believe that bondholders will certainly realise that what we are putting together here will reduce financial risk and improve the quality, if you like, of the credit rating of the company. But I think the main thing is that all bondholders, as far we are concerned, will have the same rights. Thank you.

Mr. Jean-François Paren: Okay. Okay, thanks. Just one follow-up question. Do you think that the new change of corporate structure will enable you to, let s say, change the situation with the sovereign rating ceiling in any shape or form? Will that impact with both S&P and Moody s, or is it something you ve already discussed with them?

Mr. Zeinal Bava: Luis, please?

Mr. Luis Pacheco de Melo: If I understand correctly your question, on the new language that we will aim to put in our bonds, we ll try to eliminate that sovereign part that is weighing on our bonds as well. So, if you have an explicit guarantee from Oi, that is the case to fulfill. If we also have some language with regards to sovereign, in the case of PT Finance BV, it won t have a major impact because PT Finance BV it s outside Portugal, anyway, and it will have a guarantee from an entity in Brazil.

Mr. Jean-François Paren: Okay. Okay, thank you.

Mr. Luis Pacheco de Melo: Okay.

Mr. Zeinal Bava: Thank you.

Operator: Thank you. The next question is from Janet Sung of Loomis Sayles. Please go ahead.

Ms. Janet Sung: Hello. I have a question on your credit ratings again. As you alluded to before, your credit rating on the PT bonds had always been limited or constrained by the Portugal ceiling, sovereign ceiling. I was wondering, with this move, are you now considered to be a Portuguese company or a Brazilian company? And if so, would that sovereign ceiling be removed?

Mr. Zeinal Bava: The company will have residence in Rio. So, for all intents and purposes, the headquarters will be in Rio. So, it will be construed as a Brazilian company for the purposes that you are mentioning when it comes to rating in terms of sovereign risk.

Ms. Janet Sung: So, you will be now looked upon as a Brazilian company, clearly with a much higher ceiling from the sovereign rating basis, even though your business mix hasn t changed in terms of the nonconsolidated part in Portugal will still be there, and you still maintain your offices in Portugal.

Mr. Zeinal Bava: No yes. But the combined entity will have 75% of its business in Brazil.

Ms. Janet Sung: Yeah.

Mr. Zeinal Bava: Twenty-five percent will be in Portugal.

And I also have to work on the basis that the ratings in Portugal, the sovereign rating in Portugal will improve on the basis of the effort that s being made to improve, if you like, the state of the economy and so on and so forth.

So, for the purpose that you are mentioning, clearly we will be construed as being a Brazilian headquartered company. And as a result, the sovereign rating that will be applicable will be of Brazil and not of Portugal.

Ms. Janet Sung: And then, related to that, I was just curious. Have you yet received approval from Portugal, the government or the regulatory agency there, to allow you to delist from Lisbon and relist in Brazil as well as in NYSE, and also become de facto a Brazilian company?

Mr. Zeinal Bava: We will be listed in three markets. We will be listed in the Lisbon Stock Exchange. We will be

Ms. Janet Sung: Oh, you will be? Okay.

Mr. Zeinal Bava: Yes, we will be listed in Bovespa and in New York. So, we will have three listings.

Ms. Janet Sung: Right.

But, you are considered a Brazilian domiciled company pro forma.

Mr. Zeinal Bava: Yeah.

Ms. Janet Sung: And I was just surprised that Portugal would permit its incumbent telecom company to become really a foreign entity.

Mr. Zeinal Bava: You know, allow me to say the following. You know, we are a private company. As you can imagine, with regard to the regulatory approvals that you mentioned earlier, as I explained during the call, we are working to a deadline of 150 to 180 days. And we need to execute that.

Portugal Telecom right now has a pretty wide shareholder base, which includes Portuguese investors, Brazilian investors, U.S. investors, European, continental European investors, UK investors, and so on and so forth. So, when you think about the shareholder base of Portugal Telecom, we are diversified and we ve always enjoyed, I would say, a lot of support from international investors as well. So, I think we need to focus on what is material. And what s material is that we are putting together a strategic alliance between two companies which we hope will create value for all our shareholders and will also lead both companies to be more competitive in what is, if you like, a global sector where people are increasingly facing consolidation opportunities as well.

So, from that standpoint, whether we re talking about our employees, whether we re talking about our clients, whether we re talking about, if you like, the governments that are interested in us investing and promoting innovation and technology, all of those will be made easier and will be made better with this combination that we are proposing. Thank you very much.

Operator: Thank you. The next question is from Walter Piecyk of BTIG. Please go ahead.

Mr. Walter Piecyk: Thank you. I just want to go back to that range, the 36.6 to 39.6. I obviously understand that it s a cap and collar for the companies to walk away. I think the question was asking whether that was driven by how the PT assets would be valued or, I guess, I would ask is it also driven by the pricing on the secondary? And to the extent that the secondary plays a role, can you translate what that means as far as Oi s stock price on the low and high end, like how that would trigger into the 36.6 versus the 39.6? Thank you.

And then also I m sorry. In addition to the net debt number that you provided, the R$41.2, I assume that s a current net debt number. So, when you keep referencing this 3.3 leverage, that s current leverage. But, as you move forward, can you give us some sense of the direction of EBITDA when the deal closes, and where the debt levels are going to be upon closing and what that leverage might look like six months from now? Thank you.

Mr. Zeinal Bava: Okay. Thank you. With regard to the collar that I mentioned earlier and you mentioned now, of course it s optional, okay? So, it exists in order to give each party the option to. There are of course a number of things that will impact where we end up in terms of this ownership. You have ForEx on one hand. You have the pricing of the secondary offer on the other. So, I think, it s very difficult at this stage to give you any more insight other than to say, you know, this range is there. It s optional. It gives the Boards of the companies or, if you like, the companies the ability to do, if you like, a recheck of where we are. And with regard to where we end up, there are a number of other factors that will influence that.

With regard to this R$41.2, it s pro forma to June numbers. And, as you can imagine, I cannot make forward-looking statements with regard to where we will be other than to say that, as I said a number of times in this presentation, that we are committed to do more with less. And therefore, we would like to remain very focused on improving the cash

flow profile of this company and continue to deleverage this company in the future. Thank you.

Mr. Walter Piecyk: Okay. Thank you. But, the cash capital raise that you re very confident in, and you keep citing the performance of the stock today which can obviously be impacted by a number of different factors, is that what you re basing on your ability to raise this money, and there s really no bottom price that Oi would have to trade or that deal would have to be, that money would have to be raised at where you guys would be forced to walk away?

Mr. Zeinal Bava: I ll tell you this. When I saw the reaction of the markets in Portugal and, in PT stock or Oi stock, we were very happy to see the kind of support that we are getting from the market. And I think the market is beginning, in my view, to understand that the endgame is ultimately what matters. You know, if we move this company to a different governance from what it has today and we simplify the corporate structure, certainly we will have significant options in the future to consider, lots of things that in my view are possible for this company. But, clearly the short term, immediate in focus is to improve execution. And that s why we like to say in Oi, we need to stay focused on delivering on the synergies and so on and so forth. So, I think, ultimately, what will drive the success of this transaction will be the delivery of the numbers that we have to do in the next few quarters. It will depend on market conditions. And I think ultimately it will also very much depend on our ability to communicate our confidence about the optionality that Brazil confers.

So, if you think about Brazil and the telecom sector, again, I will refer to what I said earlier. If you are thinking pent up demand in Brazil or consumer demand in Brazil, these new clusters are emerging. And these clusters are emerging in areas where Oi has a unique position. So, it s all down to us being able to execute properly and deliver the number so that you can build your own confidence levels so that, when we do tap the market, you are there to invest in our company. And that will certainly give us a lot of pleasure and it will be an honor to have you as a shareholder. Thank you.

Operator: Thank you. And our final question comes from Giovanni Montalti of UBS. Please go ahead.

Mr. Giovanni Montalti: Hello. Good afternoon. Just a quick question. When do you think you will be able to give us guidance about the new entity? Thank you.

Mr. Zeinal Bava: Appreciate it. Thank you very much for your question. We ve taken a decision at Oi very recently, and we believe that, in the context of the volatility that we are seeing in the market, difficult market conditions, and also for us to keep flexibility in the way that we manage our company in what is a very competitive sector, that we will not provide the market any guidance other than the dividend announcement that we have made, and we believe that the CapEx guidance that we may end up giving you eventually as and when we think that we are in a position to do so.

So, I think you will hear us talk about the trends. You will hear us talk about where we are. I mean, there are a lot of analysts that are covering our stock. We believe that with the simplified corporate structure and with this new governance, we will have even more analysts covering our stock. So, you will have enough information in the market to be able to ascertain what are the financial metrics and the dynamics of the company. Thank you.

Thank you very much for being on this call, and I appreciate very much the opportunity to speak to you. My CFO, Bayard, and Luis Pacheco de Melo and our IR teams, are available to answer any questions that you may have in the future.

I also would like to thank the Portugal Telecom and the Oi finance teams. They have done a tremendous job in pulling together a lot of this information that we shared with you today.

So, again, thank you for being on this call, and I hope to see you soon. Thank you.

Important Notice

This communication is not an offering document and does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval in any jurisdiction in which distribution of an offering document or such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of that jurisdiction.

This communication contains information with respect to (1) the proposed capital increase and related public offering of common shares and preferred shares by Oi S.A. (Oi), (2) the proposed merger of shares (*incorporação de ações*) between Telemar Participações S.A. or another company identified for this purpose (CorpCo), on the one hand, and Oi, on the other hand, and (3) the proposed merger (*incorporação*) of Portugal Telecom, SGPS, S.A. (Portugal Telecom) with and into CorpCo (these transactions, together with any other transactions related thereto, the Business Combination).

Oi may file a registration statement (including a prospectus) with the U.S. Securities and Exchange Commission (the SEC) for the offering of its common shares and preferred shares to be issued in connection with its proposed capital increase. Before you invest, you should read the prospectus in that registration statement and other documents Oi has filed with the SEC for more complete information about Oi and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at www.sec.gov. Alternatively, Oi will arrange to send you the prospectus after filing if you request it by calling toll-free 1-855-672-2332.

In connection with the proposed merger of shares between CorpCo and Oi and the proposed merger of Portugal Telecom with and into CorpCo, CorpCo or one of its affiliates plans to file with the SEC (1) one or more registration statements on Form F-4, containing a prospectus or prospectuses which will be mailed to shareholders of Oi and/or Portugal Telecom, as applicable (other than non-U.S. persons as defined in the applicable rules of the SEC), and (2) other documents regarding the proposed Business Combination.

We urge investors and security holders to carefully read the relevant prospectuses and other relevant materials when they become available as they will contain important information about the proposed Business Combination.

Investors and security holders will be able to obtain the documents filed with the SEC regarding the proposed mergers, when available, free of charge on the SEC s website at www.sec.gov or from Portugal Telecom, Oi or CorpCo.

Forward-Looking Statements

This communication contains forward-looking statements. Statements that are not historical facts, including statements regarding the beliefs and expectations of Portugal Telecom, Oi or CorpCo, business strategies, future synergies and cost savings, future costs and future liquidity, are forward-looking statements. The words will, may, should, could, anticipates, intends, believes, estimates, expects, plans, target, goal and similar exp relate to Portugal Telecom, Oi or CorpCo, are intended to identify forward-looking statements and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, tendencies or results will actually occur. Such statements reflect the current views of management of Portugal Telecom, Oi and CorpCo, and are subject to a number of risks and uncertainties. These statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, corporate approvals, operational factors and other factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations. All forward-looking statements attributable to Portugal Telecom, Oi, CorpCo or their affiliates, or persons acting on their behalf, are expressly qualified in their entirety by the cautionary statements set forth in this paragraph. Undue reliance should not be placed on such statements. Forward-looking statements speak only as of the date they are made. Except as required under the U.S. federal securities laws and the rules and regulations of the SEC or of regulatory authorities in other applicable jurisdictions, Portugal Telecom, Oi, CorpCo and their affiliates do not have any intention or obligation to update or to publicly announce the results of any revisions to any of the forward-looking statements to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements. You are advised, however, to consult any further disclosures Portugal Telecom, Oi or CorpCo makes on related subjects in reports and communications Portugal Telecom, Oi and CorpCo file with the SEC.

19

;">Consolidated Statements of Operations

(unaudited)

	Three Months Ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue				
Management and leasing fees	$4,754,000	$4,101,000	$9,463,000	$7,257,000
Management and leasing fees — related party	9,356,000	6,131,000	17,313,000	11,716,000
Commissions	936,000	1,370,000	1,460,000	2,036,000
Commissions — related party	4,448,000	1,031,000	4,840,000	1,984,000
Sale of real estate	6,096,000	—	8,514,000	—
Rental income	10,365,000	1,477,000	16,762,000	2,947,000
Total revenue	35,955,000	14,110,000	58,352,000	25,940,000
Operating expenses				
Commission and marketing expenses	1,336,000	1,340,000	1,834,000	2,305,000
Compensation and related expenses	18,264,000	10,294,000	31,884,000	19,294,000
Cost of real estate sold	5,130,000	—	7,002,000	—
General and administrative	6,387,000	4,888,000	11,814,000	8,557,000
Depreciation and amortization	4,415,000	977,000	7,472,000	1,914,000
Rental operating expenses	4,582,000	921,000	7,685,000	1,791,000
Total operating expenses	40,114,000	18,420,000	67,691,000	33,861,000
Equity in joint venture income	11,920,000	5,108,000	11,576,000	10,624,000
Interest income from loan pool participations and notes receivable	3,281,000	2,876,000	6,226,000	3,414,000
Operating income	11,042,000	3,674,000	8,463,000	6,117,000
Non-operating income (expense)				
Interest income	127,000	25,000	167,000	55,000
Interest income — related party	72,000	1,182,000	72,000	2,269,000
Acquisition-related gain	—	—	9,459,000	—
Acquisition-related expenses	(510,000)	—	(510,000)	—
Gain on sale of marketable securities	—	—	—	2,931,000
Interest expense	(12,531,000)	(7,054,000)	(23,963,000)	(13,224,000)
Other	—	38,000	—	(74,000)
Loss from continuing operations before benefit from income taxes	(1,800,000)	(2,135,000)	(6,312,000)	(1,926,000)
Benefit from income taxes	469,000	1,138,000	2,172,000	2,621,000
(Loss) income from continuing operations	(1,331,000)	(997,000)	(4,140,000)	695,000
Discontinued operations				
(Loss) income from discontinued operations, net of income taxes	—	—	(3,000)	2,000
Gain (loss) from sale of real estate, net of income taxes	—	—	217,000	(212,000)
Net (loss) income	(1,331,000)	(997,000)	(3,926,000)	485,000
Net loss (income) attributable to the noncontrolling interests	899,000	(128,000)	1,898,000	(2,926,000)
Net loss attributable to Kennedy-Wilson Holdings, Inc.	(432,000)	(1,125,000)	(2,028,000)	(2,441,000)
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)	(2,036,000)	(4,072,000)	(4,072,000)

Net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(2,468,000)	$(3,161,000)	$(6,100,000)	$(6,513,000)
Basic and diluted earnings (loss) per share attributable to Kennedy-Wilson Holdings, Inc. common shareholders				
Continuing operations	$(0.03)	$(0.06)	$(0.10)	$(0.12)
Discontinued operations, net of income taxes	—	—	—	—
Earnings (loss) per share - basic and diluted [(a)]	$(0.03)	$(0.06)	$(0.09)	$(0.13)
Weighted average number of common shares outstanding	70,976,247	51,401,674	66,432,823	51,280,986
Dividends declared per common share	$0.07	$0.05	$0.14	$0.10

[(a)] EPS amounts may not add due to rounding.

See accompanying notes to consolidated financial statements.

2

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income
(unaudited)

	Three Months Ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net (loss) income	$(1,331,000)	$(997,000)	$(3,926,000)	$485,000
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on marketable securities	—	(1,998,000)	—	3,465,000
Unrealized foreign currency translation (loss) gain	(3,685,000)	1,688,000	(18,043,000)	(1,179,000)
Unrealized forward contract, foreign currency gain (loss)	2,239,000	(1,808,000)	5,835,000	2,180,000
Total other comprehensive (loss) income for the period	(1,446,000)	(2,118,000)	(12,208,000)	4,466,000
Comprehensive (loss) income	(2,777,000)	(3,115,000)	(16,134,000)	4,951,000
Comprehensive loss (income) attributable to noncontrolling interests	899,000	(128,000)	1,898,000	(2,926,000)
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(1,878,000)	$(3,243,000)	$(14,236,000)	$2,025,000

See accompanying notes to consolidated financial statements.

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Consolidated Statement of Equity
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	To
	Shares	Amount	Shares	Amount						
Balance at December 31, 2012	132,550	$—	63,772,598	$6,000	$512,835,000	$(5,910,000)	$12,569,000	$(9,856,000)	$9,136,000	$5
Issuance of 10,350,000 shares of common stock	—	—	10,350,000	1,000	153,870,000	—	—	—	—	153
Repurchase of 427,332 warrants	—	—	—	—	(1,393,000)	—	—	—	—	(1,
Retirement of common shares held in treasury	—	—	—	—	(9,856,000)	—	—	9,856,000	—	—
Shares forfeited under the 2009 Equity Participation Plan	—	—	(146,638)		(186,000)	—	—	—	—	(18
Stock-based compensation	—	—	—	—	8,283,000	—	—	—	—	8,2
Other comprehensive income:										
Unrealized foreign currency translation loss, net of tax of $12,027,000	—	—	—	—	—	—	(18,043,000)	—	—	(18
Unrealized forward contract foreign currency gain, net of tax of $3,887,000	—	—	—	—	—	—	5,835,000	—	—	5,8
Preferred stock dividends	—	—	—	—	—	(4,050,000)	—	—	—	(4,(
Common stock dividends	—	—	—	—	—	(10,273,000)	—	—	—	(10

Accretion of preferred stock issuance costs	—	—	—	—	22,000	(22,000)	—	—	—	—
Net loss	—	—	—	—	—	(2,028,000)	—	—	(1,898,000)	(3,9
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	2,428,000	2,4
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(148,000)	(14
Balance at June 30, 2013	132,550	$—	73,975,960	$7,000	$663,575,000	$(22,283,000)	$361,000	$—	$9,518,000	$6

See accompanying notes to consolidated financial statements.

4

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net (loss) income	$(3,926,000)	$485,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net (gain) loss from sale of real estate	(1,729,000)	212,000
Acquisition-related gain	(9,459,000)	—
Gain from sale of marketable securities	—	(2,931,000)
Depreciation and amortization	7,472,000	1,914,000
Benefit from deferred income taxes	(1,803,000)	(809,000)
Amortization of deferred loan costs	1,061,000	625,000
Amortization of discount and accretion of premium on issuance of the senior notes and mortgage loan payable	(542,000)	26,000
Equity in joint venture income	(11,576,000)	(10,624,000)
Accretion of interest income on loan pool participations and notes receivable	(5,548,000)	(3,224,000)
Operating distributions from joint ventures	12,782,000	24,271,000
Operating distributions from loan pool participation	5,129,000	22,106,000
Stock-based compensation	3,431,000	2,078,000
Change in assets and liabilities:		
Accounts receivable	(3,679,000)	(351,000)
Accounts receivable—related parties	223,000	(514,000)
Other assets	(7,989,000)	4,000
Accounts payable	289,000	(1,126,000)
Accrued expenses and other liabilities	974,000	(3,357,000)
Accrued salaries and benefits	(8,966,000)	(9,861,000)
Net cash (used in) provided by operating activities	(23,856,000)	18,924,000
Cash flows from investing activities:		
Additions to notes receivable	(5,700,000)	(4,466,000)
Collections of notes receivable	33,574,000	1,301,000
Additions to notes receivable—related parties	(8,552,000)	(15,925,000)
Collections of notes receivable—related parties	—	9,093,000
Net proceeds from sale of real estate	8,991,000	17,905,000
Purchases of and additions to real estate	(108,321,000)	(15,817,000)
Proceeds from sale of marketable securities	—	21,386,000
Proceeds from maturities of short term investments	10,000,000	—
Distributions from joint ventures	25,666,000	20,599,000
Contributions to joint ventures	(173,068,000)	(49,469,000)
Distributions from loan pool participations	49,602,000	—
Contributions to loan pool participations	(27,417,000)	(49,925,000)
Net cash used in investing activities	(195,225,000)	(65,318,000)
Cash flows from financing activities:		
Borrowings under line of credit	85,000,000	45,000,000
Repayment of line of credit	(55,000,000)	(10,811,000)
Borrowings under mortgage loans payable	68,330,000	—
Repayment of mortgage loans payable	(592,000)	—

Debt issue costs	(930,000)	(1,026,000)
Issuance of common stock	153,871,000	—
Repurchase of common stock	—	(47,000)
Repurchase of warrants	(1,393,000)	(1,395,000)
Dividends paid	(9,144,000)	(8,714,000)
Acquisition of noncontrolling interests	—	(473,000)
Contributions from noncontrolling interests	616,000	—
Distributions to noncontrolling interests	(148,000)	(4,931,000)
Net cash provided by financing activities	240,610,000	17,603,000
Effect of currency exchange rate changes on cash and cash equivalents	(2,733,000)	(641,000)
Net change in cash and cash equivalents	18,796,000	(29,432,000)
Cash and cash equivalents, beginning of period	120,855,000	115,926,000
Cash and cash equivalents, end of period	$139,651,000	$86,494,000

See accompanying notes to consolidated financial statements.

5

Table of Contents

Supplemental cash flow information:

	Six Months Ended June 30,	
	2013	2012
Cash paid for:		
Interest	$23,301,000	$13,821,000
Interest capitalized	804,000	1,359,000
Income taxes	2,281,000	85,000

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30,	
	2013	2012
Unrealized loss on marketable securities, net of tax	$—	$(3,465,000)
Accretion of preferred stock issuance costs	22,000	22,000
Dividends declared on common stock	5,179,000	2,756,000

During the six months ended June 30, 2013, the Company acquired the interest of some of its existing partners in a 615-unit apartment building in Northern California, increasing its ownership from 15% to 94%. As a result of obtaining control, the Company was required to consolidate the assets and liabilities at fair value in accordance with Business Combination guidance as described in note 4.

During the six months ended June 30, 2013, the Company sold a 50% interest in an entity that held a note receivable secured by the shopping center and 107 residential units in the United Kingdom to an institutional investor. As a result of the sale and loss of control, $96,031,000 in notes receivable and $78,704,000 in mortgage loans were deconsolidated as described in note 3.
See accompanying notes to consolidated financial statements.

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1—BASIS OF PRESENTATION

Kennedy-Wilson Holdings, Inc.'s (together with its wholly owned and controlled subsidiaries, "we," "us," "our," "the Company" or "Kennedy Wilson") unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") may have been condensed or omitted pursuant to SEC rules and regulations, although we believe that the disclosures are adequate to make their presentation not misleading. In the opinion of Kennedy Wilson, all adjustments, consisting of only normal and recurring items, necessary for a fair presentation of the results of operations for the three and six months ended June 30, 2013 and 2012 have been included. The results of operations for these periods are not necessarily indicative of results that might be expected for the full year ending December 31, 2013. For further information, your attention is directed to the footnote disclosures found in Kennedy Wilson's Annual Report on Form 10-K for the year ended December 31, 2012.

The consolidated financial statements include the accounts of Kennedy Wilson and its wholly owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, Kennedy Wilson evaluates its relationships with other entities to identify whether they are variable interest entities ("VIEs") as defined in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810-10 and to assess whether it is the primary beneficiary of such entities. If the determination is made that Kennedy Wilson is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with the ASC Subtopic 810-10. The ownership of the other interest holders in consolidated subsidiaries is reflected as noncontrolling interests.

The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosure about contingent assets and liabilities, and reported amounts of revenues and expenses. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

REVENUE RECOGNITION—Performance fees or carried interests are allocated to the general partner, special limited partner or asset manager of Kennedy Wilson's real estate funds and loan pool participations based on the cumulative performance of the funds and loan pools and are subject to preferred return thresholds of the limited partners and participants. At the end of each reporting period, Kennedy Wilson calculates the performance fee that would be due to the general partner, special limited partner or asset manager's interests for a fund or loan pool, pursuant to the fund agreement or participation agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as performance fees to reflect either (a) positive performance resulting in an increase in the performance fee allocated to the general partner or asset manager or (b) negative performance that would cause the amount due to Kennedy Wilson to be less than the amount previously recognized as revenue, resulting in a negative adjustment to performance fees allocated to the general partner or asset manager. Substantially all of the performance fees are recognized in management and leasing fees, and substantially all of the carried interest is recognized in equity in joint venture income in our consolidated statements of operations. Total performance fees recognized through June 30, 2013 that may be reversed in future periods if there is negative fund or loan pool performance totaled $17.8 million. Performance fees accrued as of June 30, 2013 and December 31, 2012 were $17.8 million and $12.8 million, respectively, and are included in accounts receivable—related parties in the accompanying consolidated balance sheet.

INVESTMENTS IN LOAN POOL PARTICIPATIONS AND NOTES RECEIVABLE—Interest income from investments in loan pool participations and notes receivable with declining credit quality are recognized on a level yield basis under the provisions of "Loans and Debt Securities Acquired with Deteriorated Credit Quality," ASC Subtopic 310-30, where a level yield model is utilized to determine a yield rate that, based upon projected future cash flows, accretes interest income over the estimated holding period. In the event that the present value of those future cash flows is less than net book value, a loss would be immediately recorded. When the future cash flows of a note cannot be reasonably estimated, cash payments are applied to the cost basis of the note until it is fully recovered before any interest income is recognized. Interest income from investments in notes receivable acquired at a discount are recognized using the effective interest method and interest income from notes receivable which the Company originates are recognized at the stated interest rate.

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

DISTRIBUTIONS FROM UNCONSOLIDATED REAL ESTATE JOINT VENTURES—During the quarter ended March 31, 2013, the Company changed its method of accounting for determining the allocation of cash flows received from unconsolidated real estate joint ventures on its consolidated statement of cash flows from the "cumulative earnings" method to the "look-through" method both of which are acceptable methods under GAAP. Under the "look-through" approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating dividend or distribution of the proceeds from the joint venture's sale of assets), in which case it is reported as an investing activity. The newly adopted method is preferable because it enables the Company to look to the nature and source of the distribution received and classify it appropriately between operating and investing activities on the statement of cash flows based upon the source, which allows the Company to present financial statements more consistent with accounting principles of consolidation. The effects of the change upon the six month period ended June 30, 2012 are as follows:

	Cumulative earnings method	Look-through method
Operating Cash Flows:		
Operating distributions from joint ventures	$15,248,000	$24,271,000
Net cash provided from operating activities	9,901,000	18,924,000
Investing Cash Flows:		
Investing distributions from joint ventures	29,622,000	20,599,000
Net cash used in investing activities	(56,295,000)	(65,318,000)

ACCOUNTS RECEIVABLE—Accounts receivable are recorded at the contractual amount as determined by the underlying agreements and do not bear interest. An allowance for doubtful accounts is provided when the Company determines there are probable credit losses in the Company’s existing accounts receivable based on historical experience. The Company reviews its accounts receivable for probable credit losses on a quarterly basis. As of June 30, 2013, the Company had an immaterial allowance for doubtful accounts and during the six months ended June 30, 2013 and 2012 recorded no provision for doubtful accounts.
FOREIGN CURRENCIES—The financial statements of subsidiaries located outside the United States are measured using the local currency as the functional currency. The assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date, and income and expenses are translated at the average monthly rate. The foreign currencies include the euro, the British pound sterling, and the Japanese yen. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in the consolidated statement of equity as a component of accumulated other comprehensive income.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES—All derivative instruments are recognized as either assets or liabilities in the balance sheet at their respective fair values. For derivatives designated in hedging relationships, changes in fair value of cash flow hedges or net investment hedges are recognized in accumulated other comprehensive income, to the extent the derivative is effective at offsetting the changes in the item being hedged until the hedged item affects earnings. Changes in fair value for fair value hedges are recognized in earnings.
RECENT ACCOUNTING PRONOUNCEMENTS— In February 2013, the FASB issued ASC Update No. 2013-02 "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." Update No. 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. ASC 2013-02 requires an entity to present separately information about the effects on net income of significant amounts reclassified out of each component of accumulated other comprehensive income. An entity can present the information on the face of the comprehensive income statement or as a separate disclosure in the notes to the financial

statements. Kennedy Wilson does not expect any effect from adoption as it has already adopted this policy.
The FASB did not issue any other ASCs during the first six months of 2013 that we expect to be applicable and have a material impact on our financial position or results of operations.

8

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 3—NOTES RECEIVABLE

The following table summarizes Kennedy Wilson's investment in notes receivable at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Note receivable, variable interest rate of 5.00% over LIBOR, interest only, due December 2016, secured by a shopping center and 107 residential units in the United Kingdom	$—	$122,770,000
Note receivable, fixed interest rate of 2.16%, due February 2017, secured by an office building in San Diego, CA	5,762,000	—
Note receivable, fixed interest rate of 10.75%, interest only, due October 2013, secured by a hotel in San Diego, CA[1]	4,275,000	4,275,000
Note receivable, fixed interest rate of 10.50%, interest only, due December 2013, secured by two office/research and development buildings in San Jose, CA. Repaid June 2013.	—	3,759,000
Note receivable, fixed interest rate of 11.50%, interest only, due November 2013, secured by 25 acres of land and an adjacent 204-slip marina in Portland, OR. Repaid May 2013.	—	3,000,000
Note receivable, fixed interest rate of 4%, interest only, due June 2017	1,193,000	1,193,000
Note receivable, fixed interest rate of 8%, interest only, due May 2013, secured by personal guarantees of borrowers[2]	900,000	900,000
Other	710,000	710,000
Notes receivable	12,840,000	136,607,000
Note receivable from a joint venture investment, fixed interest rate of 12%, principal and accrued interest due August 31, 2016.	2,544,000	—
Note receivable from a joint venture investment, fixed interest rate of 9%, principal and accrued interest due December 31, 2013.	6,008,000	—
Notes receivable — related parties	8,552,000	—
Notes receivable and notes receivable — related parties	$21,392,000	$136,607,000

[1] Note receivable was repaid in full in July 2013.
[2] The Company is currently in negotiations with debtor on an extension on the note receivable. The value of the collateral underlying the note receivable exceeds the carrying value of the note receivable.

During the six months ended June 30, 2013, Kennedy Wilson sold a 50% interest in an entity that held a note receivable secured by the shopping center and 107 residential units in the United Kingdom to an institutional investor. As a result of the sale and loss of control, Kennedy Wilson deconsolidated the investment and is accounting for it as an equity method investment.

Also during the six months ended June 30, 2013, Kennedy Wilson acquired a loan at a 23% discount with an unpaid principal balance of $7.4 million for $5.7 million on an office building in San Diego, CA. During the same period, Kennedy Wilson made loans of $2.5 million and $6.0 million to joint venture investments that are related parties. Notes receivable on buildings in San Jose, CA and a marina in Portland, OR were paid off during the quarter.

Interest Income from Notes Receivable

Kennedy Wilson recognized interest income on note receivables of $0.4 million and $0.3 million during the three months ended June 30, 2013 and 2012 and $0.8 million and $0.5 million for the six months ended June 30, 2013 and 2012.

9

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 4—REAL ESTATE

The following table summarizes Kennedy Wilson's investment in consolidated real estate properties at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Land	$157,662,000	$99,595,000
Buildings	335,297,000	193,302,000
Building improvements	6,213,000	3,964,000
	499,172,000	296,861,000
Less accumulated depreciation	(10,737,000)	(7,412,000)
Real estate, net	$488,435,000	$289,449,000

On June 27, 2013, the Company acquired a Class A office building in the golden triangle section of Beverly Hills, CA for $29.7 million which was financed with an $18.7 million mortgage loan and equity.

On April 29, 2013, the Company acquired a 450-unit apartment building in Salt Lake City, UT for $61.8 million and financed it with a $49.7 million mortgage loan and equity.

On March 28, 2013, the Company acquired the interest of some of its existing partners in a 615-unit apartment building in Northern California, increasing its ownership from 15% to 94%. The original 15% interest had a book value of $0 due to prior distributions. Cash consideration of $15.7 million was paid by the Company to increase its ownership in the property to 94%. As a result of obtaining control, the Company was required to consolidate the assets and liabilities at fair value in accordance with Business Combination guidance. Kennedy Wilson recorded an acquisition related gain in the amount of $9.5 million in the accompanying consolidated statements of operations for the six months ended June 30, 2013 as the fair value was in excess of the carrying value of its ownership interest. As the transaction was between willing third party market participants, the purchase price was an approximation of fair value.

Accordingly, $1.3 million in cash and cash equivalents, $0.1 million in accounts receivable, $2.2 million in other assets (including $1.2 million of acquired in-place lease values), $120.1 million in real estate, net, $0.1 million in accounts payable, $3.1 million in accrued expenses and other liabilities, $93.5 million in mortgage loans payable, and $1.8 million in noncontrolling interest were recorded as a result of the consolidation.

The results of operations of the assets acquired have been included in our consolidated financial statements since the date of its acquisition. The unaudited pro forma data presented below assumes that the acquisitions occurred as of January 1, 2012. The Company’s unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had this acquisition been consummated at the beginning of the periods presented.

	Unaudited			
	Three months ended June 30,		Six months ended June 30,	
Dollars in thousands, except for per share data	2013	2012	2013	2012
Pro forma revenues	$36,420	$18,062	$63,069	$33,785
Pro forma net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	(2,564)	(2,602)	(6,224)	(5,069)

Pro forma net loss per share:				
Basic and diluted	$(0.04)	$(0.05)	$(0.09)	$(0.10)

10

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 5—INVESTMENTS IN JOINT VENTURES
Kennedy Wilson has a number of joint venture interests, generally ranging from 5% to approximately 50%, that were formed to acquire, manage, develop, and/or sell real estate and invest in loan pools and discounted loan portfolios. Kennedy Wilson has significant influence over these entities, but not control, and accordingly, these investments are accounted for under the equity method.
Joint Venture Holdings
As of June 30, 2013 and December 31, 2012, the Company's equity investment in joint ventures totaled $694.7 million and $543.2 million, respectively.
The following table details our investments in joint ventures by investment type and geographic location as of June 30, 2013:

	Multifamily	Commercial	Loan	Residential	Other	Total
Western U.S.	$133,567,000	$170,102,000	$49,387,000	$61,215,000	$460,000	$414,731,000
Japan	76,707,000	—	—	—	—	76,707,000
United Kingdom	—	19,476,000	33,933,000	—	—	53,409,000
Ireland	77,438,000	60,339,000	—	—	—	137,777,000
Other U.S.	372,000	3,857,000	20,000	221,000	7,570,000	12,040,000
Total	$288,084,000	$253,774,000	$83,340,000	$61,436,000	$8,030,000	$694,664,000

The following table details our investments in joint ventures by investment type and geographic location as of December 31, 2012:

	Multifamily	Commercial	Loan	Residential	Other	Total
Western U.S.	$126,860,000	$141,572,000	$41,855,000	$51,784,000	$460,000	$362,531,000
Japan	102,658,000	—	—	—	—	102,658,000
Ireland	22,359,000	9,530,000	36,729,000	—	—	68,618,000
Other U.S.	356,000	3,518,000	20,000	222,000	5,270,000	9,386,000
Total	$252,233,000	$154,620,000	$78,604,000	$52,006,000	$5,730,000	$543,193,000

KW Residential LLC
The Company's largest joint venture investment, KW Residential, LLC ("KWR"), had a balance of $76.7 million and $102.7 million as of June 30, 2013 and December 31, 2012, respectively. KWR is a joint venture investment in a portfolio of 50 apartment buildings comprised of approximately 2,400 units, located primarily in Tokyo and surrounding areas. Kennedy Wilson owns approximately 41% of KWR.
During the three and six months ended June 30, 2013, Kennedy Wilson recognized $2.5 million and $6.3 million, respectively, in losses from foreign currency translation adjustments, net of hedges from its investment in KWR. For the three and six months ended June 30, 2012 Kennedy Wilson recognized $2.3 million and $2.1 million, respectively, in gains from foreign currency translation adjustments, net of hedges from its investment in KWR.
During the three and six months ended June 30, 2013 and 2012 the Company received the following cash distributions from its investment in KWR for the settlement of hedges, refinancing of property level debt, and operating distributions:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Settlement of hedges	$222,000	$—	$10,838,000	$—
Refinancing of property level debt	4,335,000	1,766,000	5,273,000	1,766,000
Operating distributions	514,000	1,398,000	2,465,000	7,257,000
Total	$5,071,000	$3,164,000	$18,576,000	$9,023,000

The cash received as a result of unwinding KWR's hedges will not be realized in our statement of operations until the underlying investment is substantially liquidated.

11

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

As of June 30, 2013, the Company did not have any other joint venture investments which individually exceeded 10% of the investments in the joint venture balance.

Irish Commercial Investment Joint Venture

On April 16, 2013, a joint venture investment of the Company foreclosed on a class A office building and adjacent 3.5 acre site in Dublin, Ireland. This constitutes an acquisition of a business under ASC 805 - Business Combinations. As a result of acquiring this business, the joint venture was required to consolidate the assets and liabilities at fair value in accordance with the aforementioned guidance. As the fair value of the business was in excess of the basis in the previously held mortgage notes, the joint venture recognized a $30.1 million acquisition related gain. The Company's portion of the gain was $15.0 million and was recognized in equity in joint venture income.

Contributions to Joint Ventures

During the six months ended June 30, 2013, Kennedy Wilson made $173.1 million in contributions to new and existing joint venture investments.

See the table below for a breakdown of contributions to new joint venture investments for the six months ended June 30, 2013:

	Multifamily		Commercial		Residential		
	Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties	Total
Western U.S.	$9,085,000	2	$22,695,000	3	$800,000	1	$32,580,000
United Kingdom	—	—	39,072,000	2	—	—	39,072,000
Ireland	57,951,000	1	—	—	—	—	57,951,000
Total contributions - new joint venture investments	$67,036,000	3	$61,767,000	5	$800,000	1	$129,603,000

In addition to the capital contributions above to new joint venture investments, Kennedy Wilson contributed $43.5 million to existing joint ventures to pay off external debt, fund our share of a development project and working capital needs.

Distributions from Joint Ventures

The following table details cash distributions by investment type and geographic location as of June 30, 2013:

	Multifamily		Commercial		Loan		Residential		Total	
	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing
Western U.S.	$3,555,000	$6,730,000	$3,814,000	$1,778,000	$—	$—	$2,049,000	$221,000	$9,418,000	$8,729,000
Japan	1,996,000	16,580,000	—	—	—	—	—	—	1,996,000	16,580,000
United Kingdom	—	—	—	—	226,000	304,000	—	—	226,000	304,000
Ireland	—	—	1,137,000	—	—	—	—	—	1,137,000	—
Other	5,000	—	—	—	—	—	—	53,000	5,000	53,000
Total	$5,556,000	$23,310,000	$4,951,000	$1,778,000	$226,000	$304,000	$2,049,000	$274,000	$12,782,000	$25,666,000

During the six months ended June 30, 2013, Kennedy Wilson received $38.4 million in operating and investing distributions from its joint ventures. Investing distributions resulted from KWR's favorable settlement of Japanese yen-related hedges and refinancing a portion of its multifamily portfolio and the refinancing of property level debt and loan resolutions. Operating distributions resulted from operating cash flow generated by the joint venture investments.

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Variable Interest Entities
Kennedy Wilson has determined that it has investments in five variable interest entities ("VIEs") as of June 30, 2013 and has concluded that Kennedy Wilson is not the primary beneficiary of any of the investments. As of June 30, 2013, the five VIEs had assets totaling $227.6 million with Kennedy Wilson’s exposure to loss as a result of its interests in these VIEs totaling $93.0 million related to its equity contributions.
The Company determines the appropriate accounting method with respect to all investments that are not VIEs based on the control-based framework (controlled entities are consolidated) provided by the consolidations guidance in ASC Topic 810. The Company's determination considers specific factors cited under ASC 810-20 "Control of Partnerships and Similar Entities" which presumes that control is held by the general partner (and managing member equivalents in limited liability companies). Limited partners' substantive participation rights may overcome this presumption of control. The Company accounts for joint ventures it is deemed not to control using the equity method of accounting while controlled entities are consolidated.
Capital Commitments
As of June 30, 2013, Kennedy Wilson has unfulfilled capital commitments totaling $7.2 million to four of its joint ventures. We may be called upon to contribute additional capital to joint ventures in satisfaction of Kennedy Wilson capital commitment obligations.
Guarantees
Kennedy Wilson has certain guarantees associated with loans secured by consolidated assets or assets held directly or in various joint ventures. As of June 30, 2013 the maximum potential amount of future payments (undiscounted) Kennedy Wilson could be required to make under the guarantees was approximately $55.7 million which is approximately 2.1% of the property level debt of the Company. The guarantees expire through 2015, and Kennedy Wilson’s performance under the guarantees would be required to the extent there is a shortfall upon liquidation between the principal amount of the loan and the net sale proceeds from the property. Based upon Kennedy Wilson’s evaluation of guarantees under ASC Subtopic 460-10 "Estimated Fair Value of Guarantees," the estimated fair value of guarantees made as of June 30, 2013 and December 31, 2012 is immaterial.

NOTE 6—INVESTMENT IN LOAN POOL PARTICIPATION
As of June 30, 2013 and December 31, 2012, the Company's investment in loan pool participations totaled $68.7 million and $95.6 million, respectively.

The Company's largest loan pool, which is secured by real estate primarily located in the United Kingdom (the “UK Loan Pool”), had a balance of $23.0 million and $60.4 million as of June 30, 2013 and December 31, 2012, respectively. In 2011, the Company, along with institutional partners, acquired this loan portfolio consisting of 58 performing loans. The 58 loans were secured by more than 170 properties comprised of the following product types: commercial, multifamily, retail, industrial, hotel and land. The Company, through a 50/50 joint venture with one of its partners, acquired a 25% participation interest in the pool for $440.9 million, of which $323.4 million was funded with debt, which was paid off on March 21, 2013. As of June 30, 2013, the unpaid principal balance ("UPB") of the loans was $316.7 million due to collections of $1.8 billion, representing 85% of the pool. The Company expects to accrete $19.8 million in interest income on the UK Loan Pool over the total estimated collection period (excluding asset management fees) and has accreted $13.8 million to date.

The following table represents the demographics of the Company's investment in the loan pools including the initial UPB and the UPB as of June 30, 2013.

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

			Unpaid Principal Balance					
Acquisition Date	Location	Kennedy Wilson Ownership	Initial	June 30, 2013	Kennedy Wilson Initial Equity Invested	Investment Balance at June 30, 2013	Expected Accretion Over Total Estimated Collection Period	Accreted to Date
February 2010	Western U.S.	15.0%	$342,395,000	$16,289,000	$11,154,000	$1,884,000	$4,620,000	$4,565,000
December 2011	United Kingdom	12.5%	2,111,326,000	316,682,000	61,200,000	22,996,000	19,762,000	13,763,000
April 2012	Western U.S.	75.0%	43,383,000	7,623,000	30,900,000	6,016,000	4,280,000	3,427,000
August 2012	Ireland	10.0%	477,169,000	408,160,000	7,032,000	7,613,000	1,774,000	256,000
December 2012	United Kingdom	5.0%	593,403,000	457,736,000	19,273,000	17,917,000	1,807,000	272,000
April 2013	United Kingdom	10.0%	177,170,000	176,790,000	12,988,000	12,293,000	3,924,000	164,000
		Total	$3,744,846,000	$1,383,280,000	$142,547,000	$68,719,000	$36,167,000	$22,447,000

The following table presents the interest income and foreign currency gain and (loss) recognized by Kennedy Wilson during the three and six months ended June 30, 2013 and 2012 for the loan pools that were outstanding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest income recognized	$2,892,000	$2,579,000	$5,410,000	$2,907,000
Foreign currency translation (loss) gain	(1,099,000)	(1,399,000)	(4,978,000)	651,000
Total	$1,793,000	$1,180,000	$432,000	$3,558,000

NOTE 7—FAIR VALUE MEASUREMENTS

The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Short-term investments	$—	$—	$—	$—
Investment in joint ventures	—	—	73,968,000	73,968,000
Currency forward contract	—	(437,000)	—	(437,000)
Total	$—	$(437,000)	$73,968,000	$73,531,000

The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
Short-term investments	$—	$10,000,000	$—	$10,000,000
Investments in joint ventures	—	—	68,363,000	68,363,000
Currency forward contract	—	(1,188,000)	—	(1,188,000)
Total	$—	$8,812,000	$68,363,000	$77,175,000

Short term investments

The carrying value of short-term investments approximates fair value due to the short-term maturities of these investments at December 31, 2012. The short-term investments matured during the second quarter of 2013.

Investments in joint ventures

Kennedy Wilson records its investments in KW Property Fund III, L.P., Kennedy Wilson Real Estate Fund IV, L.P., and SG KW Venture I, LLC (the "Funds") based upon the net assets that would be allocated to its interests in the Funds assuming the Funds were to liquidate their investments at fair value as of the reporting date. Kennedy Wilson's investment balance in the Funds was $27.0 million and $25.8 million at June 30, 2013 and December 31, 2012, respectively, which is included in investments in

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

joint ventures in the accompanying consolidated balance sheets. As of June 30, 2013, Kennedy Wilson had unfunded capital commitments to the Funds in the amount of $7.1 million.
Kennedy Wilson elected to use the fair value option ("FV Option") for two investments in joint venture entities to more accurately reflect the timing of the value created in the underlying investments and report those results in current operations. Kennedy Wilson's investment balance in the FV Option investments was $47.0 million and $42.6 million at June 30, 2013 and December 31, 2012, respectively, which are included in investments in joint ventures in the accompanying balance sheets.
The following table summarizes our investments in joint ventures held at fair value by type:

	June 30, 2013	December 31, 2012
Funds	$26,986,000	$25,795,000
FV Option	46,982,000	42,568,000
Total	$73,968,000	$68,363,000

The following table presents changes in Level 3 investments for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Beginning balance	$68,360,000	$51,139,000	$68,363,000	$51,382,000
Unrealized and realized gains	—	119,000	—	87,000
Unrealized and realized losses	—	—	—	—
Contributions	5,636,000	2,483,000	5,848,000	2,514,000
Distributions	(28,000)	(1,965,000)	(243,000)	(2,207,000)
Ending balance	$73,968,000	$51,776,000	$73,968,000	$51,776,000

The change in unrealized and realized gains and losses is included in equity in joint venture income in the accompanying statements of operations.
There was no material change in unrealized gains and losses on Level 3 investments during the three and six months ended June 30, 2013 and 2012 for investments still held as of June 30, 2013.
In estimating fair value of real estate held by the Funds and the two FV Option investments, Kennedy Wilson considers significant unobservable inputs such as capitalization and discount rates. The table below describes the range of unobservable inputs for real estate assets:

	Estimated Rates Used for	
	Capitalization rates	Discount Rates
Multifamily	5.75% - 7.00%	7.50% - 9.00%
Commercial	6.25% - 7.50%	7.00% - 9.75%
Retail	8.00%	9.00% - 12.00%
Land and condominium units	n/a	8.00% - 12.00%
Loan	n/a	2.00% - 9.30%

In valuing real estate, related assets and indebtedness, Kennedy Wilson considers significant inputs such as the term of the debt, value of collateral, market loan-to-value ratios, market interest rates and spreads, and credit quality of investment entities. The credit spreads used by Kennedy Wilson for these types of investments range from 2.00% to 9.30%.
The accuracy of estimating fair value for investments utilizing unobservable inputs cannot be determined with precision and cannot be substantiated by comparison to quoted prices in active markets. As such, estimated fair value may not be realized in a current sale or immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

measurement technique, and changes in the underlying assumptions used, including cap rates, discount rates, liquidity risks, and estimates of future cash flows, could significantly affect the fair value measurement amounts.

Currency forward contracts

Kennedy Wilson has currency forward contracts to manage its exposure to currency fluctuations between its functional currency (U.S. dollars) and the functional currency (euros) of certain of its wholly owned subsidiaries. To accomplish this objective, Kennedy Wilson hedged these exposures by entering into currency forward contracts to partially hedge Kennedy Wilson's exposure to its net investment in certain foreign operations caused by currency fluctuations. The currency forward contracts are valued based on the difference between the contract rate and the forward rate at maturity of the foreign currency applied to the notional value in that foreign currency discounted at a market rate for similar risks. Although Kennedy Wilson has determined that the majority of the inputs used to value its derivative fall within Level 2 of the fair value hierarchy, the counterparty risk adjustments associated with the derivative utilize Level 3 inputs. However, as of June 30, 2013, Kennedy Wilson assessed the significance of the impact of the counterparty valuation adjustments on the overall valuation of its derivative positions and determined that the counterparty valuation adjustments are not significant to the overall valuation of its derivative. As a result, Kennedy Wilson has determined that its derivative valuation in its entirety be classified in Level 2 of the fair value hierarchy.

Changes in fair value are recorded in other comprehensive income in the accompanying consolidated statements of comprehensive income (loss) as the portion of the currency forward contract used to hedge currency exposure of its certain wholly owned subsidiaries qualifies as a net investment hedge under ASC Topic 815. The fair value of the derivative instruments held as of June 30, 2013 are included in accrued expenses and other liabilities on the balance sheet.

The table below details the currency forward contracts Kennedy Wilson had as of June 30, 2013:

					Change in Unrealized Gains (Losses)	
Currency	Trade Date	Settlement Date	Exchange Rate	Fair Value	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
€16.0 million	5/31/2012	6/4/2015	1.2400	$(1,064,000)	$(202,000)	$394,000
€20.0 million	5/8/2013	5/10/2016	1.3133	(50,000)	(50,000)	(50,000)
€20.0 million	6/6/2013	6/10/2016	1.3105	(128,000)	(128,000)	(128,000)
€15.0 million	6/12/2013	6/14/2016	1.3312	205,000	205,000	205,000
€18.0 million	6/12/2013	8/14/2013	1.3336	600,000	600,000	600,000
			Total	$(437,000)	$425,000	$1,021,000

In order to manage currency fluctuations between the Company's functional currency (U.S. dollar) and the functional currency of KWR's functional currency (Japanese yen), the Company entered into forward foreign currency contracts to hedge a portion of its net investment in KWR. During the three and six months ended June 30, 2013, the Company recognized a gross unrealized gain of $3.3 million and $8.7 million, respectively, related to these hedges.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable including related party receivables, accounts payable, accrued expenses and other liabilities, accrued salaries and benefits, and deferred and accrued income taxes approximate fair value due to their short-term maturities. The carrying value of notes receivable (excluding related party notes receivable as they are presumed not to be an arm’s length transaction) approximates fair value as the terms are similar to loans with similar characteristics available in the market.

The Company accounts for its debt liabilities at face value plus net unamortized debt premiums. The fair value as of June 30, 2013 and December 31, 2012 for the senior notes payable, borrowings under lines of credit, mortgage loans payable and junior subordinated debentures were estimated to be approximately $829.9 million and $708.2 million,

respectively, based on a comparison of the yield that would be required in a current transaction, taking into consideration the risk of the underlying collateral and our credit risk to the current yield of a similar security, compared to their carrying value of $798.2 million and $686.2 million at June 30, 2013 and December 31, 2012, respectively.

16

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 8—OTHER ASSETS
Other assets consist of the following:

	June 30, 2013	December 31, 2012
Loan fees, net of accumulated amortization of $3,367,000 and $2,413,000 at June 30, 2013 and December 31, 2012, respectively	$13,633,000	$14,508,000
Deposits and other, net of accumulated amortization of $685,000 and $230,000 at June 30, 2013 and December 31, 2012, respectively	10,333,000	6,089,000
Acquired in-place leases, net of accumulated amortization of $6,464,000 and $3,086,000 at June 30, 2013 and December 31, 2012, respectively	7,585,000	9,311,000
Prepaid expenses	10,902,000	5,330,000
Office furniture and equipment net of accumulated amortization of $1,564,000 and $1,240,000 at June 30, 2013 and December 31, 2012, respectively	4,414,000	2,841,000
Other Assets	$46,867,000	$38,079,000

The estimated annual amortization expense of in-place leases for each of the years ending December 31, 2013 through December 31, 2017 approximates $2.7 million, $3.5 million, $1.1 million, $0.2 million and $0.0 million, respectively. Depreciation and amortization expense related to the above depreciable assets were $4.1 million and $1.1 million, for the six months ended June 30, 2013 and 2012, respectively.

NOTE 9—SENIOR NOTES

			June 30, 2013			December 31, 2012		
	Interest Rate	Maturity Date	Face Value	Unamortized Net Premium/(Discount)	Carrying Value	Face Value	Unamortized Net Premium/(Discount)	Carrying Value
2042 Notes	7.75%	12/1/2042	$55,000,000	$ —	$55,000,000	$55,000,000	$ —	$55,000,000
2019 Notes	8.75%	4/1/2019	350,000,000	4,348,000	354,348,000	350,000,000	4,640,000	354,640,000
Senior notes			$405,000,000	$ 4,348,000	$409,348,000	$405,000,000	$ 4,640,000	$409,640,000

The indentures governing the 2019 Notes and the 2042 Notes contain various restrictive covenants, including, among others, limitations on our ability and the ability of certain of our subsidiaries to incur or guarantee additional indebtedness, to make restricted payments, pay dividends or make any other distributions from restricted subsidiaries, redeem or repurchase capital stock, sell assets or subsidiary stock, engage in transactions with affiliates, create or permit liens on assets, enter into sale/leaseback transactions, and enter into consolidations or mergers. The indentures limit Kennedy-Wilson, Inc.'s ability and the ability of its restricted subsidiaries to incur additional indebtedness if, on the date of such incurrence and after giving effect to the new indebtedness, the maximum balance sheet leverage ratio (as defined in the indenture) is greater than 1.50 to 1.00. This ratio is measured at the time of incurrence of additional indebtedness. As of June 30, 2013, the balance sheet leverage ratio was 0.73 to 1.00. See Note 18 for the guarantor and non-guarantor financial statements.

17

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 10—MORTGAGE LOANS AND NOTES PAYABLE

Mortgage loans at June 30, 2013 and December 31, 2012 consist of the following:

Types of Property Pledged as Collateral	Region	Carrying Amount of Mortgage Notes as of [1] June 30, 2013	December 31, 2012
Notes receivable	United Kingdom	$—	$78,705,000
Multifamily properties [1]	Western U.S.	239,979,000	97,649,000
Commercial buildings	Western U.S.	72,946,000	54,296,000
Total mortgage loans payable		312,925,000	230,650,000
Notes payable		5,888,000	5,888,000
Total notes payable		5,888,000	5,888,000
Mortgage and notes payable[2]		$318,813,000	$236,538,000

[1] The mortgage loan payable balances include the unamortized debt premiums. Debt premiums represent the excess of the fair value of debt over the principal value of debt assumed in various acquisitions and are amortized into interest expense over the remaining term of the related debt in a manner that approximates the effective interest method. The unamortized loan premium as of June 30, 2013 and December 31, 2012 was $5.7 million and $2.3 million, respectively.
[2] The mortgage payables had a weighted average interest rate of 3.95% and 4.44% at June 30, 2013 and December 31, 2012 and the note payable had a 15.00% interest rate at June 30, 2013 and December 31, 2012.

In December 2012, Kennedy Wilson acquired a loan secured by a shopping center and 107 residential units in the United Kingdom. At the time of acquisition, Kennedy Wilson invested $43.6 million of equity and borrowed $79.3 million in order to finance the transaction (see Note 3). During the six months ended June 30, 2013, Kennedy Wilson sold a 50% interest in an entity that held a note receivable to an institutional investor. As a result of the sale, Kennedy Wilson deconsolidated the investment and is accounting for it as an equity method investment.

During the six months ended June 30, 2013, two mortgage loans were consolidated as part of the acquisition of an apartment building in northern California. Additionally, during the six months ended June 30, 2013, the acquisition of an apartment building in Salt Lake City, UT and an office building in Beverly Hills, CA were partially financed with mortgages. See note 4 for more detail on the acquisitions.

The aggregate maturities of mortgage loans and notes payable subsequent to June 30, 2013 are as follows :

2013	$13,141,000
2014	9,994,000
2015	5,095,000
2016	36,304,000
2017	31,018,000
Thereafter	217,544,000
	313,096,000
Debt premium	5,717,000
	$318,813,000

NOTE 11—LINE OF CREDIT

Kennedy-Wilson, Inc. has an unsecured revolving credit facility with U.S. Bank and East-West Bank for $100.0 million. The loan bears interest at a rate equal to LIBOR plus 2.75% and the maturity date is June 30, 2015. The revolving loan agreement that governs the unsecured credit facility requires Kennedy-Wilson, Inc. to maintain (i) a minimum rent, adjusted fixed charge coverage ratio (as defined in the revolving loan agreement) of not less than 1.50 to 1.00, measured on a four quarter rolling

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

average basis and (ii) maximum balance sheet leverage (as defined in the revolving loan agreement) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter. As of the most recent quarter end, Kennedy-Wilson, Inc.'s adjusted fixed charge coverage ratio was 2.59 to 1.00 and its balance sheet leverage ratio was 0.79 to 1.00.

The revolving loan agreement also requires Kennedy-Wilson, Inc. to maintain unrestricted cash, cash equivalents and publicly traded marketable securities in the aggregate amount of at least $40.0 million, tested quarterly and to maintain a maximum balance sheet leverage (as defined in the revolving loan agreement) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter. As of June 30, 2013, Kennedy-Wilson, Inc. was in compliance with these covenants

During the six months ended June 30, 2013, the Company drew $85.0 million on its unsecured credit facility to fund acquisitions. The Company repaid $55.0 million during the six months ended June 30, 2013. As of June 30, 2013, there was $30.0 million drawn on the unsecured credit facility and $70.0 million still available.

NOTE 12—JUNIOR SUBORDINATED DEBENTURES

In 2007, Kennedy Wilson issued junior subordinated debentures in the amount of $40.0 million. The debentures were issued to a trust established by Kennedy Wilson, which contemporaneously issued $40.0 million of trust-preferred securities to Merrill Lynch International. The interest rate on the debentures is fixed for the first ten years at 9.06%, and variable thereafter at LIBOR plus 3.70%. Interest is payable quarterly, with the principal due in 2037. Kennedy Wilson may redeem the debentures, in whole or in part, on any interest payment date at par.

The junior subordinated debentures require Kennedy Wilson to maintain (i) a fixed charge coverage ratio (as defined in the indenture governing our junior subordinated debentures) of not less than 1.75 to 1.00, measured on a four quarter rolling basis, and (ii) a ratio of total debt to net worth (as defined in the indenture governing the junior subordinated debentures) of not greater than 3.00 to 1.00 at any time. As of the most recent quarter end, Kennedy Wilson's fixed charge coverage ratio was 3.39 to 1.00 and ratio of total debt to net worth was 1.24 to 1.00. As of June 30, 2013, Kennedy Wilson was in compliance with these covenants.

NOTE 13—RELATED PARTY TRANSACTIONS

During the following periods, Kennedy Wilson earned fees and other income from affiliates and entities in which Kennedy Wilson holds ownership interests in the following amounts:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Management and leasing fees	$9,356,000	$6,131,000	$17,313,000	$11,716,000
Commissions	4,448,000	1,031,000	4,840,000	1,984,000
Related party revenue	$13,804,000	$7,162,000	$22,153,000	$13,700,000

NOTE 14—STOCKHOLDERS' EQUITY

Common Stock

In March 2013, Kennedy Wilson completed a follow-on offering of 9.0 million shares of its common stock, which raised $133.8 million of net proceeds. In April 2013, Kennedy Wilson issued approximately 1.4 million shares of its common stock as a result of the underwriters fully exercising their option to purchase additional shares, which resulted in net proceeds of $20.1 million.

Warrants

In April 2010, the Board of Directors authorized a warrants repurchase program enabling Kennedy Wilson to repurchase up to 12.5 million of its outstanding warrants. On May 7, 2013, Kennedy Wilson's board authorized an increase to its warrant repurchase program by 5.3 million warrants. The program now covers all currently outstanding

warrants issued by Kennedy Wilson.

Since April 2010, Kennedy Wilson has repurchased 12.4 million of its outstanding warrants for $20.6 million. During the six months ended June 30, 2013, Kennedy Wilson repurchased 0.4 million of its outstanding warrants for $1.4 million. As of June 30, 2013, there were 5.4 million warrants outstanding with a market value of $24.8 million.

19

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Dividend Distributions
During the following periods, Kennedy Wilson declared and paid the following cash distributions on its common and preferred stock:

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	Declared	Paid	Declared	Paid
Preferred Stock				
Series A	$3,000,000	$3,000,000	$3,000,000	$3,000,000
Series B	1,050,000	1,050,000	1,050,000	1,050,000
Total Preferred Stock	4,050,000	4,050,000	4,050,000	4,050,000
Common Stock	10,273,000	5,094,000	5,347,000	4,664,000
Total [1]	$14,323,000	$9,144,000	$9,397,000	$8,714,000

____

[1] Common stock dividends are declared at the end of each quarter and paid in the following quarter. The amount declared and not paid is accrued on the consolidated balance sheet.

Cumulative dividend distributions

Since being listed in November 2009, cumulative earnings, preferred and common dividends declared were:

	June 30, 2013
Cumulative preferred shareholders	$(28,618,000)
Cumulative common shareholders	(27,668,000)
Total cumulative dividends declared	$(56,286,000)

Stock Compensation
During the six months ended June 30, 2013 and 2012, Kennedy Wilson recognized $3.4 million and $2.1 million, respectively, of compensation expense related to the vesting of restricted stock grants.
Accumulated Other Comprehensive Income
The following table summarizes the changes in each component of accumulated other comprehensive income (loss), net of 40% estimated tax:

	Foreign Currency Translation	Forward Contract Foreign Currency	Total Accumulated Other Comprehensive Income
Balance at December 31, 2012	$10,800,000	$1,769,000	$12,569,000
Unrealized (losses) gains, arising during the period	(30,070,000)	9,722,000	(20,348,000)
Taxes on unrealized (losses) gains, arising during the period	12,027,000	(3,887,000)	8,140,000
Balance at June 30, 2013	$(7,243,000)	$7,604,000	$361,000

The local currencies for our interests in foreign operations include the euro, the British pound sterling, and the Japanese yen. The related amounts on our balance sheets are translated into U.S. dollars at the exchange rates at the respective financial statement date, while amounts on our statements of operations are translated at the average exchange rates during the respective period. The increase in the unrealized losses on foreign currency translation is a result of the strengthening of the U.S. dollar against the euro, the British pound and the Japanese yen during the six months ended June 30, 2013.

20

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

In order to manage currency fluctuations, the Company entered into forward foreign currency contracts to hedge a portion of its Japanese yen-based investments. During the six months ended June 30, 2013, the Company recognized a gross unrealized gain of $8.7 million related to these hedges. Additionally, during the year, KWR settled several Japanese yen-related hedges resulting in cash proceeds of $23.1 million, of which Kennedy Wilson received $10.8 million. The cash received as a result of unwinding these hedges will not be realized in our statement of operations until the underlying investment is substantially liquidated. Kennedy Wilson also has a currency forward contract to manage its exposure to currency fluctuations between its functional currency (U.S. dollars) and the functional currency (euros) of certain of its wholly-owned subsidiaries (see Note 7 for more detail). During the six months ended June 30, 2013, the Company recognized a gross unrealized gain of $1.0 million related to these hedges.

NOTE 15—EARNINGS PER SHARE
For the three and six months ended June 30, 2013, a total of 19,507,357 and 19,775,968, respectively, potentially dilutive securities have not been included in the diluted weighted average shares as they are anti-dilutive.
For the three and six months ended June 30, 2012, a total of 18,229,993 and 18,215,529, respectively, potentially dilutive securities have not been included in the diluted weighted average shares as they are anti-dilutive.
Potentially anti-dilutive securities include preferred stock, warrants, and unvested restricted stock grants.

NOTE 16—SEGMENT INFORMATION
Kennedy Wilson's business is defined by two core segments: KW Investments and KW Services. KW Investments invests in multifamily, residential and commercial properties as well as loans secured by real estate. KW Services provides a full array of real estate-related services to investors and lenders, with a strong focus on financial institution-based clients. Kennedy Wilson’s segment disclosure with respect to the determination of segment profit or loss and segment assets is based on these services and investments.
KW INVESTMENTS—Kennedy Wilson, on its own and through joint ventures, is an investor in real estate, including multifamily, residential and commercial properties as well as loans secured by real estate.

Substantially all of the revenue—related party was generated via inter-segment activity for the six months ended June 30, 2013 and 2012. Generally, this revenue consists of fees earned on investments in which Kennedy Wilson also has an ownership interest. The amounts representing investments with related parties and non-affiliates are included in the investment segment. No single third-party client accounted for 10% or more of Kennedy Wilson's revenue during any period presented in these financial statements.
There have been no changes in the basis of segmentation or in the basis of measurement of segment profit or loss since the December 31, 2012 financial statements.
KW SERVICES—Kennedy Wilson offers a comprehensive line of real estate services for the full life cycle of real estate ownership and investment to clients that include financial institutions, developers, builders and government agencies. Kennedy Wilson provides auction and conventional sales, property management, investment management, asset management, leasing, construction management, acquisitions, dispositions, research and trust services.
The following tables summarize Kennedy Wilson’s income activity by segment and corporate for the three and six months ended June 30, 2013 and 2012 and balance sheet data as of June 30, 2013 and December 31, 2012:

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Investments				
Sale of real estate	$6,096,000	$—	$8,514,000	$—
Rental income	10,365,000	1,477,000	16,762,000	2,947,000
Total revenue	16,461,000	1,477,000	25,276,000	2,947,000
Operating expenses	18,699,000	5,445,000	31,263,000	10,139,000
Depreciation and amortization	4,135,000	860,000	6,931,000	1,682,000
Total operating expenses	22,834,000	6,305,000	38,194,000	11,821,000
Equity in joint venture income	11,920,000	5,108,000	11,576,000	10,624,000
Interest income from loan pool participations and notes receivable	3,281,000	2,876,000	6,226,000	3,414,000
Operating income	8,828,000	3,156,000	4,884,000	5,164,000
Acquisition-related gain	—	—	9,459,000	—
Acquisition-related expenses	(510,000)	—	(510,000)	—
Gain on sale of marketable securities	—	—	—	2,931,000
Other	—	38,000	—	(74,000)
Interest income - related party	72,000	1,182,000	72,000	2,269,000
Interest expense	(2,817,000)	(159,000)	(4,559,000)	(317,000)
Income from continuing operations	5,573,000	4,217,000	9,346,000	9,973,000
Discontinued Operations				
(Loss) income from discontinued operations, net of income taxes	—	—	(3,000)	2,000
Gain (loss) from sale of real estate, net of income taxes	—	—	217,000	(212,000)
Income before benefit from income taxes	$5,573,000	$4,217,000	$9,560,000	$9,763,000

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Services				
Management and leasing fees and commissions	$5,690,000	$5,471,000	$10,923,000	$9,293,000
Management and leasing fees and commissions - related party	13,804,000	7,162,000	22,153,000	13,700,000
Total revenue	19,494,000	12,633,000	33,076,000	22,993,000
Operating expenses	9,886,000	9,062,000	18,252,000	16,666,000
Depreciation and amortization	147,000	34,000	267,000	67,000
Total operating expenses	10,033,000	9,096,000	18,519,000	16,733,000
Operating income	9,461,000	3,537,000	14,557,000	6,260,000
Income before benefit from income taxes	$9,461,000	$3,537,000	$14,557,000	$6,260,000

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Corporate				
Operating expenses	$7,114,000	$2,936,000	$10,704,000	$5,142,000
Depreciation and amortization	133,000	83,000	274,000	165,000
Total operating expenses	7,247,000	3,019,000	10,978,000	5,307,000
Operating loss	(7,247,000)	(3,019,000)	(10,978,000)	(5,307,000)
Interest income	127,000	25,000	167,000	55,000
Interest expense	(9,714,000)	(6,895,000)	(19,404,000)	(12,907,000)
Loss before benefit from income taxes	(16,834,000)	(9,889,000)	(30,215,000)	(18,159,000)
Benefit from income taxes	469,000	1,138,000	2,172,000	2,621,000
Net loss	$(16,365,000)	$(8,751,000)	$(28,043,000)	$(15,538,000)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Consolidated				
Management fees and commissions	$5,690,000	$5,471,000	$10,923,000	$9,293,000
Management fees and commissions - related party	13,804,000	7,162,000	22,153,000	13,700,000
Sale of real estate	6,096,000	—	8,514,000	—
Rental income	10,365,000	1,477,000	16,762,000	2,947,000
Total revenue	35,955,000	14,110,000	58,352,000	25,940,000
Operating expenses	35,699,000	17,443,000	60,219,000	31,947,000
Depreciation and amortization	4,415,000	977,000	7,472,000	1,914,000
Total operating expenses	40,114,000	18,420,000	67,691,000	33,861,000
Equity in joint venture income	11,920,000	5,108,000	11,576,000	10,624,000
Interest income from loan pool participations and notes receivable	3,281,000	2,876,000	6,226,000	3,414,000
Operating income	11,042,000	3,674,000	8,463,000	6,117,000
Interest income	127,000	25,000	167,000	55,000
Interest income - related party	72,000	1,182,000	72,000	2,269,000
Acquisition-related gain	—	—	9,459,000	—
Acquisition-related expenses	(510,000)	—	(510,000)	—
Gain on sale of marketable securities	—	—	—	2,931,000
Interest expense	(12,531,000)	(7,054,000)	(23,963,000)	(13,224,000)
Other	—	38,000	—	(74,000)
Loss from continuing operations before benefit from income taxes	(1,800,000)	(2,135,000)	(6,312,000)	(1,926,000)
Benefit from income taxes	469,000	1,138,000	2,172,000	2,621,000
Loss from continuing operations	(1,331,000)	(997,000)	(4,140,000)	695,000
Discontinued Operations				
(Loss) income from discontinued operations, net of income taxes	—	—	(3,000)	2,000
Gain (loss) from sale of real estate, net of income taxes	—	—	217,000	(212,000)
Net (loss) income	$(1,331,000)	$(997,000)	$(3,926,000)	$485,000

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

	June 30, 2013	December 31, 2012
Total Assets		
Investments	$1,284,469,000	$1,070,607,000
Services	106,327,000	105,370,000
Corporate	122,451,000	107,812,000
Total assets	$1,513,247,000	$1,283,789,000

NOTE 17—INCOME TAXES
In determining quarterly provisions for income taxes, Kennedy Wilson uses an effective tax rate based on actual year-to-date income and statutory tax rates. The effective tax rate also reflects Kennedy Wilson's assessment of its potential exposure for uncertain tax positions.
The fluctuations between periods in the Company's effective tax rate are mainly due to varying levels of income and amounts attributable to foreign sourced income and noncontrolling interests. Permanent differences that impact the Company's effective rate as compared to the U.S. federal statutory rate of 34% were not materially different in amount for all periods. The difference between the U.S. federal rate of 34% and the Company's effective rate is attributable to the taxation of foreign sourced income being taxed at rates lower than the U.S. domestic rate and income attributable to noncontrolling interests. The Company's subsidiaries in Ireland and the United Kingdom are subject to corporate tax rates of 12.5% and 23%, respectively.

NOTE 18—GUARANTOR AND NON-GUARANTOR FINANCIAL STATEMENTS
The following consolidating financial information and condensed consolidating financial information include:

(1) Condensed consolidating balance sheets as of June 30, 2013 and December 31, 2012; consolidating statements of operations for the three and six months ended June 30, 2013 and 2012; consolidating statements of comprehensive income for the three and six months ended June 30, 2013 and 2012; and condensed consolidating statements of cash flows for the six months ended June 30, 2013 and 2012, of (a) Kennedy-Wilson Holdings, Inc., as the parent, (b) Kennedy-Wilson, Inc., as the subsidiary issuer, (c) the guarantor subsidiaries, (d) the non-guarantor subsidiaries and (e) Kennedy-Wilson Holdings, Inc. on a consolidated basis; and

(2) Elimination entries necessary to consolidate Kennedy-Wilson Holdings, Inc., as the parent, with Kennedy-Wilson, Inc. and its guarantor and non-guarantor subsidiaries.

Kennedy Wilson owns 100% of all of the guarantor subsidiaries, and, as a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for these subsidiaries as of and for the six months ended June 30, 2013 or 2012.

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2013

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Assets						
Cash and cash equivalents	$107,370,000	$4,681,000	$12,370,000	$15,230,000	$—	$139,651,000
Accounts receivable	—	1,458,000	3,014,000	2,912,000	—	7,384,000
Accounts receivable — related parties	—	257,000	5,224,000	16,689,000	—	22,170,000
Intercompany receivables	—	5,704,000	—	—	(5,704,000)	—
Notes receivable	—	1,902,000	10,038,000	900,000	—	12,840,000
Notes receivable - related parties	—	6,008,000	2,544,000	—	—	8,552,000
Intercompany loans receivable	—	56,745,000	—	—	(56,745,000)	—
Real estate, net of accumulated depreciation	—	—	116,944,000	371,491,000	—	488,435,000
Investments in joint ventures	—	7,793,000	573,982,000	112,889,000	—	694,664,000
Investments in and advances to consolidated subsidiaries	539,626,000	954,964,000	193,965,000	—	(1,688,555,000)	—
Investments in loan pool participations	—	—	68,719,000	—	—	68,719,000
Other assets	—	17,635,000	12,143,000	17,089,000	—	46,867,000
Goodwill	—	—	17,216,000	6,749,000	—	23,965,000
Total assets	$646,996,000	$1,057,147,000	$1,016,159,000	$543,949,000	$(1,751,004,000)	$1,513,247,000
Liabilities and equity						
Liabilities						
Accounts payable	$142,000	$883,000	$538,000	$488,000	$—	$2,051,000
Accrued expenses and other liabilities	5,194,000	13,830,000	7,850,000	10,914,000	—	37,788,000
Intercompany payables	—	—	—	5,704,000	(5,704,000)	—
	—	9,050,000	1,253,000	1,046,000	—	11,349,000

Accrued salaries and benefits						
Deferred tax liability	—	14,410,000	(487,000)	(1,203,000)	—	12,720,000
Senior notes payable	—	409,348,000	—	—	—	409,348,000
Intercompany loans payable	—	—	—	56,745,000	(56,745,000)	—
Mortgage loans payable	—	—	52,041,000	266,772,000	—	318,813,000
Borrowings under line of credit	—	30,000,000	—	—	—	30,000,000
Junior subordinated debentures	—	40,000,000	—	—	—	40,000,000
Total liabilities	5,336,000	517,521,000	61,195,000	340,466,000	(62,449,000)	862,069,000
Equity						
Kennedy-Wilson Holdings, Inc. shareholders' equity	641,660,000	539,626,000	954,964,000	193,965,000	(1,688,555,000)	641,660,000
Noncontrolling interests	—	—	—	9,518,000	—	9,518,000
Total equity	641,660,000	539,626,000	954,964,000	203,483,000	(1,688,555,000)	651,178,000
Total liabilities and equity	$646,996,000	$1,057,147,000	$1,016,159,000	$543,949,000	$(1,751,004,000)	$1,513,247,000

25

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2012

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Assets						
Cash and cash equivalents	$—	$64,517,000	$38,489,000	$17,849,000	$—	$120,855,000
Short-term investments	—	10,000,000	—	—	—	10,000,000
Accounts receivable	—	377,000	2,105,000	1,165,000	—	3,647,000
Accounts receivable — related parties	—	186,000	4,774,000	17,433,000	—	22,393,000
Intercompany receivables	—	3,269,000	—	—	(3,269,000)	—
Notes receivable	—	1,902,000	133,805,000	900,000	—	136,607,000
Intercompany loans receivable	—	39,587,000	—	—	(39,587,000)	—
Real estate, net of accumulated depreciation	—	—	93,928,000	195,521,000	—	289,449,000
Investments in joint ventures	—	5,670,000	450,199,000	87,324,000	—	543,193,000
Investments in and advances to consolidated subsidiaries	514,310,000	873,768,000	142,441,000	—	(1,530,519,000)	—
Investment in loan pool participations	—	—	95,601,000	—	—	95,601,000
Other assets	—	18,443,000	11,505,000	8,131,000	—	38,079,000
Goodwill	—	—	17,216,000	6,749,000	—	23,965,000
Total assets	$514,310,000	$1,017,719,000	$990,063,000	$335,072,000	$(1,573,375,000)	$1,283,789,000
Liabilities						
Accounts payable	$—	$785,000	$236,000	$741,000	$—	$1,762,000
Accrued expenses and other liabilities	—	14,878,000	7,249,000	7,290,000	—	29,417,000
Intercompany payables	—	—	—	3,269,000	(3,269,000)	—
Accrued salaries and benefits	4,666,000	17,917,000	1,614,000	784,000	—	24,981,000
Deferred tax liability	—	20,189,000	2,327,000	155,000	—	22,671,000

Senior notes payable	—	409,640,000	—	—	—	409,640,000
Intercompany loans payable	—	—	—	39,587,000	(39,587,000)	—
Mortgage loans and notes payable	—	—	112,096,000	124,442,000	—	236,538,000
Junior subordinated debentures	—	40,000,000	—	—	—	40,000,000
Total liabilities	4,666,000	503,409,000	123,522,000	176,268,000	(42,856,000)	765,009,000
Equity						
Kennedy-Wilson Holdings, Inc. shareholders' equity	509,644,000	514,310,000	873,768,000	142,441,000	(1,530,519,000)	509,644,000
Noncontrolling interests	—	—	(7,227,000)	16,363,000	—	9,136,000
Total equity	509,644,000	514,310,000	866,541,000	158,804,000	(1,530,519,000)	518,780,000
Total liabilities and equity	$514,310,000	$1,017,719,000	$990,063,000	$335,072,000	$(1,573,375,000)	$1,283,789,000

26

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2013

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$—	$ 60,000	$3,068,000	$ 1,626,000	$—	$4,754,000
Management and leasing fees — related party	—	—	3,162,000	6,194,000	—	9,356,000
Commissions	—	374,000	281,000	281,000	—	936,000
Commissions — related party	—	—	776,000	3,672,000	—	4,448,000
Sale of real estate	—	—	6,096,000	—	—	6,096,000
Rental income	—	—	1,535,000	8,830,000	—	10,365,000
Total revenue	—	434,000	14,918,000	20,603,000	—	35,955,000
Operating expenses						
Commission and marketing expenses	—	264,000	1,042,000	30,000	—	1,336,000
Compensation and related expenses	1,662,000	8,601,000	3,375,000	4,626,000	—	18,264,000
Cost of real estate sold	—	—	5,130,000	—	—	5,130,000
General and administrative	308,000	2,266,000	747,000	3,066,000	—	6,387,000
Depreciation and amortization	—	133,000	1,148,000	3,134,000	—	4,415,000
Rental operating expenses	—	—	760,000	3,822,000	—	4,582,000
Total operating expenses	1,970,000	11,264,000	12,202,000	14,678,000	—	40,114,000
Equity in joint venture income (loss)	—	—	13,947,000	(2,039,000)	12,000	11,920,000
Interest income from loan pool participations and notes receivable	—	(38,000)	3,263,000	18,000	38,000	3,281,000
Income from consolidated subsidiaries	639,000	20,267,000	728,000	—	(21,634,000)	—
Operating (loss) income	(1,331,000)	9,399,000	20,654,000	3,904,000	(21,584,000)	11,042,000
Non-operating income (expense)						
Interest income	—	132,000	79,000	—	(84,000)	127,000
Interest income — related party	—	72,000	—	—	—	72,000
Acquisition-related expense	—	—	(232,000)	(278,000)	—	(510,000)
Interest expense	—	(9,706,000)	(234,000)	(2,625,000)	34,000	(12,531,000)
(Loss) income from continuing operations before benefit from income taxes	(1,331,000)	(103,000)	20,267,000	1,001,000	(21,634,000)	(1,800,000)
Benefit from income taxes	—	742,000	—	(273,000)	—	469,000
(Loss) income from continuing operations	(1,331,000)	639,000	20,267,000	728,000	(21,634,000)	(1,331,000)
Discontinued operations						
	—	—	—	—	—	—

Income from discontinued operations, net of income taxes						
Gain from sale of real estate, net of income taxes	—	—	—	—	—	—
Net (loss) income	(1,331,000)	639,000	20,267,000	728,000	(21,634,000)	(1,331,000)
Net loss attributable to the noncontrolling interests	—	—	—	899,000	—	899,000
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(1,331,000)	639,000	20,267,000	1,627,000	(21,634,000)	(432,000)
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)	—	—	—	—	(2,036,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(3,367,000)	$ 639,000	$20,267,000	$ 1,627,000	$(21,634,000)	$(2,468,000)

27

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2013

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$—	$ 135,000	$5,875,000	$3,453,000	$—	$9,463,000
Management and leasing fees — related party	—	—	6,818,000	10,495,000	—	17,313,000
Commissions	—	374,000	735,000	351,000	—	1,460,000
Commissions — related party	—	—	776,000	4,064,000	—	4,840,000
Sale of real estate	—	—	8,514,000	—	—	8,514,000
Rental income	—	—	3,215,000	13,547,000	—	16,762,000
Total revenue	—	509,000	25,933,000	31,910,000	—	58,352,000
Operating expenses						
Commission and marketing expenses	—	373,000	1,419,000	42,000	—	1,834,000
Compensation and related expenses	3,431,000	13,550,000	7,020,000	7,883,000	—	31,884,000
Cost of real estate sold	—	—	7,002,000	—	—	7,002,000
General and administrative	346,000	4,424,000	2,069,000	4,975,000	—	11,814,000
Depreciation and amortization	—	274,000	2,291,000	4,907,000	—	7,472,000
Rental operating expenses	—	—	1,644,000	6,041,000	—	7,685,000
Total operating expenses	3,777,000	18,621,000	21,445,000	23,848,000	—	67,691,000
Equity in joint venture income (loss)	—	—	14,912,000	(3,348,000)	12,000	11,576,000
Interest income from loan pool participations and notes receivable	—	—	6,190,000	36,000		6,226,000
Income from consolidated subsidiaries	(149,000)	34,670,000	9,480,000	—	(44,001,000)	—
Operating (loss) income	(3,926,000)	16,558,000	35,070,000	4,750,000	(43,989,000)	8,463,000
Non-operating income (expense)						
Interest income	—	172,000	79,000	—	(84,000)	167,000
Interest income — related party	—	72,000	—	—		72,000
Acquisition-related gain	—	—		9,459,000	—	9,459,000
Acquisition-related expense	—	—	(232,000)	(278,000)	—	(510,000)
Interest expense	—	(19,396,000)	(461,000)	(4,178,000)	72,000	(23,963,000)
(Loss) income from continuing operations before benefit from income taxes	(3,926,000)	(2,594,000)	34,456,000	9,753,000	(44,001,000)	(6,312,000)
Benefit from income taxes	—	2,445,000	—	(273,000)	—	2,172,000
	(3,926,000)	(149,000)	34,456,000	9,480,000	(44,001,000)	(4,140,000)

(Loss) income from continuing operations						
Discontinued operations						
Income from discontinued operations, net of income taxes	—	—	(3,000)	—	—	(3,000)
Gain from sale of real estate, net of income taxes	—	—	217,000	—	—	217,000
Net (loss) income	(3,926,000)	(149,000)	34,670,000	9,480,000	(44,001,000)	(3,926,000)
Net loss attributable to the noncontrolling interests	—	—	—	1,898,000	—	1,898,000
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(3,926,000)	(149,000)	34,670,000	11,378,000	(44,001,000)	(2,028,000)
Preferred dividends and accretion of preferred stock issuance costs	(4,072,000)	—	—	—	—	(4,072,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(7,998,000)	$ (149,000)	$34,670,000	$11,378,000	$(44,001,000)	$(6,100,000)

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2012

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$—	$ 313,000	$2,471,000	$ 1,317,000	$—	$4,101,000
Management and leasing fees — related party	—	—	2,622,000	3,509,000	—	6,131,000
Commissions	—	12,000	279,000	1,079,000	—	1,370,000
Commissions — related party	—	—	1,031,000	—	—	1,031,000
Rental income	—	—	150,000	1,327,000	—	1,477,000
Total revenue	—	325,000	6,553,000	7,232,000	—	14,110,000
Operating expenses						
Commission and marketing expenses	—	98,000	1,191,000	51,000	—	1,340,000
Compensation and related expenses	1,207,000	3,896,000	2,973,000	2,218,000	—	10,294,000
General and administrative	—	2,931,000	947,000	1,010,000	—	4,888,000
Depreciation and amortization	—	83,000	99,000	795,000	—	977,000
Rental operating expenses	—	—	250,000	671,000	—	921,000
Total operating expenses	1,207,000	7,008,000	5,460,000	4,745,000	—	18,420,000
Equity in joint venture income	—	364,000	4,525,000	219,000	—	5,108,000
Interest income from loan pool participations and notes receivable	—	—	2,857,000	19,000	—	2,876,000
Income from consolidated subsidiaries	210,000	10,236,000	1,808,000	—	(12,254,000)	—
Operating income	(997,000)	3,917,000	10,283,000	2,725,000	(12,254,000)	3,674,000
Non-operating income (expense)						
Interest income	—	1,000	24,000	—	—	25,000
Interest income — related party	—	1,182,000	—	—	—	1,182,000
Other	—	—	—	38,000	—	38,000
Interest expense	—	(6,529,000)	(71,000)	(454,000)	—	(7,054,000)
Income before benefit from income taxes	(997,000)	(1,429,000)	10,236,000	2,309,000	(12,254,000)	(2,135,000)
Benefit from income taxes	—	1,639,000	—	(501,000)	—	1,138,000
Income from continuing operations	(997,000)	210,000	10,236,000	1,808,000	(12,254,000)	(997,000)
Discontinued operations						
Income from discontinued operations, net of income taxes	—	—	—	—	—	—

Loss from sale of real estate, net of income taxes	—	—	—	—	—	—
Net (loss) income	(997,000)	210,000	10,236,000	1,808,000	(12,254,000)	(997,000)
Net income attributable to the noncontrolling interests	—	—	—	(128,000)	—	(128,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(997,000)	210,000	10,236,000	1,680,000	(12,254,000)	(1,125,000)
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)	—	—	—	—	(2,036,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(3,033,000)	$ 210,000	$10,236,000	$1,680,000	$(12,254,000)	$(3,161,000)

29

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Revenue						
Management and leasing fees	$—	$ 333,000	$4,061,000	$2,863,000	$—	$7,257,000
Management and leasing fees — related party	—	—	5,016,000	6,700,000	—	11,716,000
Commissions	—	55,000	841,000	1,140,000	—	2,036,000
Commissions — related party	—	—	1,984,000	—	—	1,984,000
Rental income	—	—	306,000	2,641,000	—	2,947,000
Total revenue	—	388,000	12,208,000	13,344,000	—	25,940,000
Operating expenses						
Commission and marketing expenses	—	98,000	2,090,000	117,000	—	2,305,000
Compensation and related expenses	2,078,000	6,923,000	5,945,000	4,348,000	—	19,294,000
General and administrative	—	4,666,000	1,885,000	2,006,000	—	8,557,000
Depreciation and amortization	—	165,000	192,000	1,557,000	—	1,914,000
Rental operating expenses	—	—	490,000	1,301,000	—	1,791,000
Total operating expenses	2,078,000	11,852,000	10,602,000	9,329,000	—	33,861,000
Equity in joint venture income	—	429,000	4,727,000	5,468,000	—	10,624,000
Interest income from loan pool participations and notes receivable	—	—	3,375,000	39,000	—	3,414,000
Income from consolidated subsidiaries	2,563,000	17,592,000	8,188,000	—	(28,343,000)	—
Operating income	485,000	6,557,000	17,896,000	9,522,000	(28,343,000)	6,117,000
Non-operating income (expense)						
Interest income	—	31,000	24,000	—	—	55,000
Interest income — related party	—	2,269,000	—	—	—	2,269,000
Gain on sale of marketable securities	—	2,931,000	—	—	—	2,931,000
Other	—	(112,000)	—	38,000	—	(74,000)
Interest expense	—	(12,235,000)	(118,000)	(871,000)	—	(13,224,000)
Income before benefit from income taxes	485,000	(559,000)	17,802,000	8,689,000	(28,343,000)	(1,926,000)
Benefit from income taxes	—	3,122,000	—	(501,000)	—	2,621,000
Income from continuing operations	485,000	2,563,000	17,802,000	8,188,000	(28,343,000)	695,000
Discontinued operations						

Income from discontinued operations, net of income taxes	—	—	2,000	—	—	2,000
Loss from sale of real estate, net of income taxes	—	—	(212,000)	—	—	(212,000)
Net (loss) income	485,000	2,563,000	17,592,000	8,188,000	(28,343,000)	485,000
Net income attributable to the noncontrolling interests	—	—	—	(2,926,000)	—	(2,926,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	485,000	2,563,000	17,592,000	5,262,000	(28,343,000)	(2,441,000)
Preferred dividends and accretion of preferred stock issuance costs	(4,072,000)	—	—	—	—	(4,072,000)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(3,587,000)	$ 2,563,000	$17,592,000	$5,262,000	$(28,343,000)	$(6,513,000)

30

Table of Contents
Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2013

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net (loss) income	$(1,331,000)	$ 639,000	$20,267,000	$ 728,000	$(21,634,000)	$(1,331,000)
Other comprehensive income (loss), net of tax:						
Unrealized foreign currency translation loss	(3,685,000)	(3,685,000)	(5,074,000)	(488,000)	9,247,000	(3,685,000)
Unrealized forward contract foreign currency gain	2,239,000	2,239,000	1,983,000	—	(4,222,000)	2,239,000
Total other comprehensive loss for the period	$(1,446,000)	$ (1,446,000)	$(3,091,000)	$ (488,000)	$5,025,000	$(1,446,000)
Comprehensive (loss) income	$(2,777,000)	$ (807,000)	$17,176,000	$ 240,000	$(16,609,000)	$(2,777,000)
Comprehensive loss attributable to noncontrolling interests	—	—	—	899,000	—	899,000
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(2,777,000)	$ (807,000)	$17,176,000	$ 1,139,000	$(16,609,000)	$(1,878,000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2012

	Parent	Kennedy-Wilson Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net (loss) income	$(997,000)	$ 210,000	$10,236,000	$ 1,808,000	$(12,254,000)	$(997,000)
Other comprehensive income (loss), net of tax:						
Unrealized holding gains on available-for-sale securities	—	(1,998,000)	—	—	—	(1,998,000)
Unrealized foreign currency translation gains (loss)	—	—	2,120,000	(432,000)	—	1,688,000
Unrealized forward contract foreign currency gain	—	(328,000)	(1,480,000)	—	—	(1,808,000)
Total other comprehensive income for the period	$—	$ (2,326,000)	$640,000	$ (432,000)	$—	$(2,118,000)
Comprehensive income	$(997,000)	$ (2,116,000)	$10,876,000	$ 1,376,000	$(12,254,000)	$(3,115,000)
	—	—	—	(128,000)	—	(128,000)

Comprehensive income attributable to noncontrolling interests						
Comprehensive income attributable to Kennedy-Wilson Holdings, Inc.	$(997,000)	$ (2,116,000)	$10,876,000	$ 1,248,000	$(12,254,000)	$(3,243,000)

31

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2013

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net (loss) income	$(3,926,000)	$(149,000)	$34,670,000	$9,480,000	$(44,001,000)	$(3,926,000)
Other comprehensive income (loss), net of tax:						
Unrealized foreign currency translation loss	(18,043,000)	(18,043,000)	(17,993,000)	(2,513,000)	38,549,000	(18,043,000)
Unrealized forward contract foreign currency gain	5,835,000	5,835,000	5,221,000	—	(11,056,000)	5,835,000
Total other comprehensive loss for the period	$(12,208,000)	$(12,208,000)	$(12,772,000)	$(2,513,000)	$27,493,000	$(12,208,000)
Comprehensive (loss) income	$(16,134,000)	$(12,357,000)	$21,898,000	$6,967,000	$(16,508,000)	$(16,134,000)
Comprehensive loss attributable to noncontrolling interests	—	—	—	1,898,000	—	1,898,000
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc.	$(16,134,000)	$(12,357,000)	$21,898,000	$8,865,000	$(16,508,000)	$(14,236,000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Consolidated Total
Net income	$485,000	$ 2,563,000	$17,592,000	$ 8,188,000	$(28,343,000)	$485,000
Other comprehensive income (loss), net of tax:						
Unrealized holding gains on available-for-sale securities	—	3,465,000	—	—	—	3,465,000
Unrealized foreign currency translation gains (loss)	—	96,000	(887,000)	(388,000)	—	(1,179,000)
Unrealized forward contract foreign currency gain	—	(328,000)	2,508,000	—	—	2,180,000
Total other comprehensive income for the period	$—	$ 3,233,000	$1,621,000	$ (388,000)	$—	$4,466,000

Comprehensive income	$485,000	$ 5,796,000	$19,213,000	$ 7,800,000	$(28,343,000)	$4,951,000
Comprehensive income attributable to noncontrolling interests	—	—	—	(2,926,000)	—	(2,926,000)
Comprehensive income attributable to Kennedy-Wilson Holdings, Inc.	$485,000	$ 5,796,000	$19,213,000	$ 4,874,000	$(28,343,000)	$2,025,000

32

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2013

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidated Total
Net cash provided by (used in) operating activities	$(189,000)	$ (46,382,000)	$16,795,000	$5,920,000	$(23,856,000)
Cash flows from investing activities:					
Additions to notes receivable	—	—	(5,700,000)	—	(5,700,000)
Collections of notes receivable	—	—	33,574,000	—	33,574,000
Additions to notes receivable—related parties	—	(6,008,000)	(2,544,000)	—	(8,552,000)
Net proceeds from sale of real estate	—	—	8,991,000	—	8,991,000
Purchases of and additions to real estate	—	—	(30,800,000)	(77,521,000)	(108,321,000)
Distributions from joint ventures	—	177,000	22,789,000	2,700,000	25,666,000
Contributions to joint ventures	—	(2,300,000)	(135,254,000)	(35,514,000)	(173,068,000)
Distributions from loan pool participations	—	—	49,602,000	—	49,602,000
Contributions to loan pool participations	—	—	(27,417,000)	—	(27,417,000)
Proceeds from maturities to short term investments	—	10,000,000	—	—	10,000,000
(Investments in) distributions from consolidated subsidiaries, net	(35,775,000)	(24,579,000)	26,469,000	33,885,000	—
Net cash provided by (used in) investing activities	(35,775,000)	(22,710,000)	(60,290,000)	(76,450,000)	(195,225,000)
Cash flows from financing activities:					
Borrowings under line of credit	—	85,000,000	—	—	85,000,000
Repayment of line of credit	—	(55,000,000)	—	—	(55,000,000)
Borrowings under mortgage loans payable	—	—	18,650,000	49,680,000	68,330,000
Debt issue costs	—	(930,000)	—	—	(930,000)
Repayment of mortgage loans payable	—	—	—	(592,000)	(592,000)
Issuance of common stock	153,871,000	—	—	—	153,871,000
Dividends paid	(9,144,000)	—	—	—	(9,144,000)
Repurchase of warrants	(1,393,000)	—	—	—	(1,393,000)
Intercompany receivables, net	—	(19,729,000)	136,000	19,593,000	—
Contributions from noncontrolling interests	—	—	—	616,000	616,000
Distributions to noncontrolling interests	—	—	—	(148,000)	(148,000)
Net cash provided by (used in) financing activities	143,334,000	9,341,000	18,786,000	69,149,000	240,610,000
Effect of currency exchange rate changes on cash and cash	—	(85,000)	(1,410,000)	(1,238,000)	(2,733,000)

equivalents					
Net change in cash and cash equivalents	107,370,000	(59,836,000)	(26,119,000)	(2,619,000)	18,796,000
Cash and cash equivalents, beginning of year	—	64,517,000	38,489,000	17,849,000	120,855,000
Cash and cash equivalents, end of period	$107,370,000	$ 4,681,000	$12,370,000	$15,230,000	$139,651,000

33

Table of Contents

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Parent	Kennedy-Wilson, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidated Total
Net cash (used in) provided by operating activities	$—	$ (35,269,000)	$54,210,000	$ (17,000)	$18,924,000
Cash flows from investing activities:					
Additions to notes receivable	—	—	(4,466,000)	—	(4,466,000)
Collections of notes receivable	—	—	1,301,000	—	1,301,000
Additions to notes receivable - related parties	—	(15,925,000)	—	—	(15,925,000)
Collections of notes receivable - related parties	—	9,093,000	—	—	9,093,000
Net proceeds from sale of real estate	—	—	17,905,000	—	17,905,000
Purchases of and additions to real estate	—	—	(15,702,000)	(115,000)	(15,817,000)
Proceeds from sales of marketable securities	—	21,386,000	—	—	21,386,000
Distributions from joint ventures	—	—	20,472,000	127,000	20,599,000
Contributions to joint ventures	—	(1,202,000)	(44,805,000)	(3,462,000)	(49,469,000)
Contributions to loan pool participations	—	—	(49,925,000)	—	(49,925,000)
(Investment in) distributions from consolidated subsidiaries, net	10,156,000	(37,006,000)	20,088,000	6,762,000	—
Net cash provided by (used in) investing activities	10,156,000	(23,654,000)	(55,132,000)	3,312,000	(65,318,000)
Cash flows from financing activities:					
Borrowings under line of credit	—	45,000,000	—	—	45,000,000
Repayment of lines of credit	—	(10,811,000)	—	—	(10,811,000)
Debt issue costs	—	(1,026,000)	—	—	(1,026,000)
Repurchase of common stock	(47,000)	—	—	—	(47,000)
Repurchase of warrants	(1,395,000)	—	—	—	(1,395,000)
Dividends paid	(8,714,000)	—	—	—	(8,714,000)
Acquisition of noncontrolling interests	—	—	—	(473,000)	(473,000)
Distributions to noncontrolling interests	—	—	—	(4,931,000)	(4,931,000)
Net cash (used in) provided by financing activities	(10,156,000)	33,163,000	—	(5,404,000)	17,603,000
Effect of currency exchange rate changes on cash and cash equivalents	—	—	(641,000)	—	(641,000)
Net change in cash and cash equivalents	—	(25,760,000)	(1,563,000)	(2,109,000)	(29,432,000)
Cash and cash equivalents, beginning of period	—	95,812,000	2,553,000	17,561,000	115,926,000
Cash and cash equivalents, end of period	$—	$ 70,052,000	$990,000	$ 15,452,000	$86,494,000

Kennedy-Wilson Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 19—SUBSEQUENT EVENTS

Subsequent to June 30, 2013, the Company and its equity partners acquired approximately $418.3 million of real estate investments, totaling 0.7 million rentable square feet of real estate, comprised of 15 commercial properties in which we invested $77.4 million in the United Kingdom and Ireland.

In July 2013, the Company drew an additional $40.0 million on its line of credit to fund acquisitions.

Table of Contents

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations contains forward-looking statements within the meaning of the federal securities laws. See the discussion under the heading “Forward-looking Statements” elsewhere in this report. Unless specifically noted otherwise, as used throughout this Management’s Discussion and Analysis section, “we,” “our,” "us," "the Company" or “Kennedy Wilson” refers to Kennedy-Wilson Holdings, Inc. and its subsidiaries.

Overview

Founded in 1977, we are an international real estate investment and services firm. We are a vertically-integrated real estate operating company with approximately 400 professionals in 24 offices throughout the United States, United Kingdom, Ireland, Spain and Japan. Based on management's estimate of fair value as of June 30, 2013, we have approximately $13.5 billion of real estate and real estate-related assets under our management ("AUM"), totaling approximately 64.4 million square feet of properties throughout the United States, Europe and Japan. This includes ownership in 16,679 multifamily apartment units, of which 2,030 units are owned by our consolidated subsidiaries and 14,649 are held in joint ventures.

AUM generally refers to the properties and other assets with respect to which we provide (or participate in) oversight, investment management services and other advice, and which generally consist of real estate properties or loans, and investments in joint ventures. Our AUM is principally intended to reflect the extent of our presence in the real estate market and is not the basis for determining our management fees. Our material assets under management consist of the total estimated fair value of the real estate properties and other assets either owned by third parties, wholly owned by us or held by joint ventures and other entities in which our sponsored funds or investment vehicles and client accounts have invested. Committed (but unfunded) capital from investors in our sponsored funds is not included in our AUM. The estimated value of development properties is included at estimated completion cost.

Our operations are defined by two core business units: KW Investments and KW Services.

KW Investments invests our capital and our partners' capital in real-estate related assets including multifamily, commercial, and residential properties as well as loans secured by real estate. Occasionally we will engage in development. We are diligent in our operations of these investments and typically look to maximize cash flow on our income-producing properties, value on our non-income-producing properties, and resolutions on our loans secured by real estate. We will utilize leverage on our investments where we feel appropriate. We are mindful of the amount of leverage we elect to use, our exposure to variable interest rates, and the timing of maturities.

KW Services provides a full array of real estate-related services to investors and lenders, with a strong focus on financial institution-based clients.

Table of Contents

The following table describes our investment account (Kennedy Wilson's equity in real estate and loan investments), which includes the following financial statement captions and is derived from our consolidated balance sheets, as of June 30, 2013 and December 31, 2012 (dollars in millions):

	June 30, 2013	December 31, 2012
Investment in joint ventures	$694.7	$543.2
Real estate, net of depreciation	488.4	289.4
Mortgage debt	(318.8)	(236.5)
Notes receivable	21.4	136.6
Acquired in-place lease value, net of amortization[1]	7.6	9.3
Loan pool participations	68.7	95.6
Total net investment account	962.0	837.6
Add back:		
Accumulated depreciation and amortization	19.5	12.0
Kennedy Wilson's share of accumulated depreciation and amortization included in investment in joint ventures	78.8	59.3
Total gross investment account	$1,060.3	$908.9

(1) Included in other assets.

The following table breaks down our net investment account information derived from our consolidated balance sheet, by investment type and geographic location as of June 30, 2013:

	Dollars in millions				
	Multifamily	Loans Secured by Real Estate	Commercial	Residential, Hotel, and Other [1]	Total
Western U.S.	$214.3	$80.3	$205.4	$113.9	$613.9
Other U.S.	0.4	—	3.6	8.6	12.6
Japan	76.7	—	6.8	—	83.5
United Kingdom	—	87.2	19.5	—	106.7
Ireland	77.4	7.6	60.3	—	145.3
Total	$368.8	$175.1	$295.6	$122.5	$962.0

(1) Includes for-sale residential properties, condominiums and residential land.

The following table breaks down our investment account information derived from our consolidated balance sheet, by investment type and geographic location as of December 31, 2012:

	Dollars in millions				
	Multifamily	Loans Secured by Real Estate	Commercial	Residential, Hotel, and Other [1]	Total
Western U.S.	$171.7	$69.0	$167.9	$106.9	$515.5
Other U.S.	0.4	—	3.3	10.5	14.2
Japan	102.7	—	8.6	—	111.3
United Kingdom	—	120.4	—	—	120.4
Ireland	22.4	44.3	9.5	—	76.2
Total	$297.2	$233.7	$189.3	$117.4	$837.6

(1) Includes for-sale residential properties, condominiums and residential land.

Table of Contents

Kennedy Wilson's Recent Highlights

Investments business

Investment account

- As of June 30, 2013, our gross investment account was $1.1 billion, compared to $908.9 million as of December 31, 2012. Accumulated depreciation and amortization was $98.3 million and $71.3 million as of June 30, 2013 and December 31, 2012, respectively. The net investment account was $962.0 million, compared to $837.6 million at December 31, 2012. The change in the net investment account was comprised of $233.3 million of cash contributed to and income earned on investments and $108.9 million of cash distributed from investments.
- As of June 30, 2013, the Company and its equity partners owned 19.3 million rentable square feet of real estate, including investments in 16,679 apartment units and 60 commercial properties. Additionally, as of June 30, 2013, the Company and its equity partners owned in excess of $2 billion in unpaid principal balance of loans secured by real estate.

Operating metrics

- During the six months ended June 30, 2013, our investments business achieved an EBITDA of $61.2 million, a 77% increase from $34.7 million for the same period in 2012.
- During the six months ended June 30, 2013, based on our investments in 11,923 same property multifamily units, rental revenues, net operating income and occupancy at the property level increased by 6%, 7% and 1%, respectively, from the same period in 2012. In addition, based on our investments in 3.0 million square feet of same property commercial real estate, rental revenues, net operating income and occupancy at the property level increased by 13%, 20% and 4%, respectively, from the same period in 2012.

Acquisition program

- From January 1, 2010 through June 30, 2013, the Company and its equity partners have acquired approximately $9.6 billion of real estate related investments (including unpaid principal balance of loan purchases). During the six months ended June 30, 2013, the Company and its equity partners acquired $1.6 billion of real estate related investments. This includes $834.1 million of real estate and $733.9 million of unpaid principal balance of loans secured by real estate in which we invested $155.9 million and $51.6 million, respectively. These investments were directed 40% and 60% to the Western US and the United Kingdom and Ireland, respectively.
- During the second quarter, the Company and its equity partner foreclosed on a Class A office building and adjacent 3.5 acre site in Dublin, Ireland. As a result of the foreclosure, the Company and its equity partner recognized a $30.1 million acquisition-related gain. The Company's portion of the gain was $15.0 million and was recognized in equity in joint venture income.

Property level debt financing

- During the six months ended June 30, 2013, the Company and its equity partners completed approximately $530.1 million of property financings and re-financings at an average interest rate of 3.13% and a weighted average maturity of 8.5 years. This includes re-financings of $122.1 million at a fixed interest rate of 1.35% in our Japanese multifamily portfolio.
- During the six months ended June 30, 2012, the Company and its equity partners completed approximately $283.3 million of property financings and re-financings at an average interest rate of 3.07% and a weighted average maturity of 8.0 years. This includes re-financings of $80.5 million at a fixed interest rate of 1.61% in our Japanese multifamily portfolio.
- As of June 30, 2013, the Company and its equity partners had approximately $2.6 billion of property level debt of which 70% is at fixed interest rates, 18% is floating with interest rate caps and 12% is at floating interest rates.

Key investment updates

UK Loan Pool

- Our book equity in this investment is $23.0 million; we own 12.5% before carried interest.
- In December 2011, the Company and its equity partners acquired a loan pool secured by real estate located in the United Kingdom with an unpaid principal balance of $2.1 billion. As of June 30, 2013, the unpaid principal balance was $316.7 million due to loan resolutions of approximately $1.8 billion, representing approximately 85% of the pool. During the six months ended June 30, 2013, the Company received $38.9 million in distributions related to

resolutions.

Japan multifamily

- Our book equity in this investment is $76.7 million; we own 40.9% before carried interest.
- We maintained 96% occupancy in 50 apartment buildings with a total of more than 2,400 units.

38

Table of Contents

- Since Fairfax Financial became our partner in the Japanese multifamily portfolio in September 2010, we have distributed a total of $96.0 million, of which our share was $45.0 million.

Services business

- Management and leasing fees and commissions increased by 44% to $33.1 million for the six months ended June 30, 2013, from $23.0 million for the same period in 2012.
- During the six months ended June 30, 2013, our services business achieved an EBITDA of $14.8 million, a 135% increase from $6.3 million for the same period in 2012.

Corporate financing

- In April 2013, we issued approximately 1.4 million shares of common stock as a result of the underwriters fully exercising their option to purchase additional shares, which resulted in gross proceeds of $21.2 million.

Subsequent events

- In July 2013, the Company and its equity partners have acquired approximately $418.3 million of real estate investments, totaling 0.7 million rentable square feet of real estate, comprised of 15 commercial properties, in the United Kingdom and Ireland in which we invested $77.4 million.
- In July, the Company drew an additional $40.0 million on its line of credit to fund acquisitions.

Table of Contents

Results of Operations

The following table sets forth items derived from our consolidated statement of operations for the three and six month periods ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue				
Management and leasing fees	$4,754,000	$4,101,000	$9,463,000	$7,257,000
Management and leasing fees - related party	9,356,000	6,131,000	17,313,000	11,716,000
Commissions	936,000	1,370,000	1,460,000	2,036,000
Commissions - related party	4,448,000	1,031,000	4,840,000	1,984,000
Sale of real estate	6,096,000	—	8,514,000	—
Rental income	10,365,000	1,477,000	16,762,000	2,947,000
Total revenue	35,955,000	14,110,000	58,352,000	25,940,000
Operating expenses				
Commission and marketing expenses	1,336,000	1,340,000	1,834,000	2,305,000
Compensation and related expenses	18,264,000	10,294,000	31,884,000	19,294,000
Cost of real estate sold	5,130,000	—	7,002,000	—
General and administrative	6,387,000	4,888,000	11,814,000	8,557,000
Depreciation and amortization	4,415,000	977,000	7,472,000	1,914,000
Rental operating expenses	4,582,000	921,000	7,685,000	1,791,000
Total operating expenses	40,114,000	18,420,000	67,691,000	33,861,000
Equity in joint venture income	11,920,000	5,108,000	11,576,000	10,624,000
Interest income from loan pool participations and notes receivable	3,281,000	2,876,000	6,226,000	3,414,000
Operating income	11,042,000	3,674,000	8,463,000	6,117,000
Non-operating income (expense)				
Interest income	199,000	1,207,000	239,000	2,324,000
Acquisition-related gain	—	—	9,459,000	—
Acquisition-related expenses	(510,000)	—	(510,000)	—
Gain on sale of marketable securities	—	—	—	2,931,000
Interest expense	(12,531,000)	(7,054,000)	(23,963,000)	(13,224,000)
Other	—	38,000	—	(74,000)
Loss from continuing operations before benefit from income taxes	(1,800,000)	(2,135,000)	(6,312,000)	(1,926,000)
Benefit from income taxes	469,000	1,138,000	2,172,000	2,621,000
(Loss) income from continuing operations	(1,331,000)	(997,000)	(4,140,000)	695,000
Discontinued Operations				
(Loss) income from discontinued operations, net of income taxes	—	—	(3,000)	2,000
Gain (loss) from sale of real estate, net of income taxes	—	—	217,000	(212,000)
Net (loss) income	(1,331,000)	(997,000)	(3,926,000)	485,000
Net loss (income) attributable to the noncontrolling interests	899,000	(128,000)	1,898,000	(2,926,000)
Net loss attributable to Kennedy-Wilson Holdings, Inc.	(432,000)	(1,125,000)	(2,028,000)	(2,441,000)
Preferred dividends and accretion of preferred stock issuance costs	(2,036,000)	(2,036,000)	(4,072,000)	(4,072,000)
Net loss attributable to Kennedy-Wilson Holdings, Inc. common	$(2,468,000)	$(3,161,000)	$(6,100,000)	$(6,513,000)

shareholders				
EBITDA [(1)]	$35,413,000	$17,611,000	$65,531,000	$35,902,000
Adjusted EBITDA [(2)]	$37,075,000	$18,818,000	$68,962,000	$37,980,000

---

(1) EBITDA represents net income before interest expense, our share of interest expense included in income from investments in joint ventures and loan pool participations, depreciation and amortization, our share of depreciation and amortization included in income from investments in joint ventures, and income taxes. We do not adjust EBITDA for gains or losses on the extinguishment of mortgage debt, as we are in the business of purchasing discounted notes secured by real estate and, in connection with these note purchases, we may resolve these loans through discounted payoffs with the borrowers. EBITDA is not a recognized term under GAAP and does not purport to be an alternative to net earnings as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain

40

Table of Contents

cash requirements such as interest payments, tax payments and debt service requirements. Our presentation of EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. EBITDA is not calculated under GAAP and should not be considered in isolation or as a substitute for net income, cash flows or other financial data prepared in accordance with GAAP or as a measure of our overall profitability or liquidity. Our management believes EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations.

(2) Adjusted EBITDA represents EBITDA, as defined above, adjusted to exclude stock based compensation expense. Our management uses Adjusted EBITDA to analyze our business because it adjusts EBITDA for items we believe will not be relevant or comparable to the nature of our business going forward. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe Adjusted EBITDA is useful to investors to assist them in getting a more meaningful picture of our results from operations. However, EBITDA and Adjusted EBITDA are not recognized measurements under GAAP, and when analyzing our operating performance, readers should use EBITDA and Adjusted EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA and Adjusted EBITDA are not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service payments. The amounts shown for EBITDA and Adjusted EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

We use certain non-GAAP measures to analyze our business including EBITDA[1] and Adjusted EBITDA,[2] which are calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net (loss) income	$(1,331,000)	$(997,000)	$(3,926,000)	$485,000
Non-GAAP adjustments:				
Add back:				
Interest expense	12,531,000	7,054,000	23,963,000	13,224,000
Kennedy Wilson's share of interest expense included in investment in joint ventures and loan pool participation	10,100,000	7,715,000	20,717,000	15,000,000
Depreciation and amortization	4,415,000	977,000	7,472,000	1,914,000
Kennedy Wilson's share of depreciation and amortization included in investment in joint ventures	10,167,000	4,000,000	19,477,000	7,900,000
Benefit from income taxes	(469,000)	(1,138,000)	(2,172,000)	(2,621,000)
EBITDA [1]	35,413,000	17,611,000	65,531,000	35,902,000
Stock-based compensation	1,662,000	1,207,000	3,431,000	2,078,000
Adjusted EBITDA [2]	$37,075,000	$18,818,000	$68,962,000	$37,980,000

(1) (2) See definitions in previous discussion.

The following tables summarize revenue, operating expenses, non-operating expenses, operating income (loss) and net income (loss) and calculates EBITDA[1] and Adjusted EBITDA[2] by our investments and services operating segments and corporate for the three and six months ended June 30, 2013 and 2012:

41

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Investments				
Rental income and sale of real estate	$16,461,000	$1,477,000	$25,276,000	$2,947,000
Operating expenses	(22,834,000)	(6,305,000)	(38,194,000)	(11,821,000)
Equity in joint venture income	11,920,000	5,108,000	11,576,000	10,624,000
Interest income from loan pool participations and notes receivable	3,281,000	2,876,000	6,226,000	3,414,000
Operating income	8,828,000	3,156,000	4,884,000	5,164,000
Interest income - related party	72,000	1,182,000	72,000	2,269,000
Acquisition-related gain	—	—	9,459,000	—
Acquisition-related expenses	(510,000)	—	(510,000)	—
Gain on sale of marketable securities	—	—	—	2,931,000
Interest expense	(2,817,000)	(159,000)	(4,559,000)	(317,000)
Other	—	38,000	—	(74,000)
Income from continuing operations	5,573,000	4,217,000	9,346,000	9,973,000
Discontinued operations				
(Loss) income from discontinued operations, net of income taxes	—	—	(3,000)	2,000
Gain (loss) from sale of real estate, net of income taxes	—	—	217,000	(212,000)
Income before benefit from taxes	5,573,000	4,217,000	9,560,000	9,763,000
Non-GAAP adjustments:				
Add back:				
Interest expense	2,817,000	159,000	4,559,000	317,000
Kennedy Wilson's share of interest expense included in investment in joint ventures and loan pool participation	10,100,000	7,715,000	20,717,000	15,000,000
Depreciation and amortization	4,135,000	860,000	6,931,000	1,682,000
Kennedy Wilson's share of depreciation and amortization included in investment in joint ventures	10,167,000	4,000,000	19,477,000	7,900,000
EBITDA and Adjusted EBITDA (1) (2)	$32,792,000	$16,951,000	$61,244,000	$34,662,000

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Services				
Management and leasing fees and commissions	$19,494,000	$12,633,000	$33,076,000	$22,993,000
Operating expenses	(10,033,000)	(9,096,000)	(18,519,000)	(16,733,000)
Operating income	9,461,000	3,537,000	14,557,000	6,260,000
Income before benefit for income taxes	9,461,000	3,537,000	14,557,000	6,260,000
Non-GAAP adjustments:				
Add back:				
Depreciation and amortization	147,000	34,000	267,000	67,000
EBITDA and Adjusted EBITDA (1) (2)	$9,608,000	$3,571,000	$14,824,000	$6,327,000

(1) (2) See definitions in previous discussion.

Table of Contents

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Corporate:				
Operating expenses	$(7,247,000)	$(3,019,000)	$(10,978,000)	$(5,307,000)
Operating loss	(7,247,000)	(3,019,000)	(10,978,000)	(5,307,000)
Interest income	127,000	25,000	167,000	55,000
Interest expense	(9,714,000)	(6,895,000)	(19,404,000)	(12,907,000)
Benefit for income taxes	469,000	1,138,000	2,172,000	2,621,000
Net loss	(16,365,000)	(8,751,000)	(28,043,000)	(15,538,000)
Non-GAAP adjustments:				
Add back:				
Interest expense	9,714,000	6,895,000	19,404,000	12,907,000
Depreciation and amortization	133,000	83,000	274,000	165,000
Benefit for income taxes	(469,000)	(1,138,000)	(2,172,000)	(2,621,000)
EBITDA [1]	(6,987,000)	(2,911,000)	(10,537,000)	(5,087,000)
Stock-based compensation	1,662,000	1,207,000	3,431,000	2,078,000
Adjusted EBITDA [2]	$(5,325,000)	$(1,704,000)	$(7,106,000)	$(3,009,000)

[1] [2] See definitions in previous discussion.

Our Consolidated Financial Results: Three Months Ended June 30, 2013 Compared to the Three Months Ended June 30, 2012

Our revenues for the three months ended June 30, 2013 and 2012 were $36.0 million and $14.1 million, respectively. Total operating expenses for the same periods were $40.1 million and $18.4 million, respectively, and net loss attributable to our common shareholders was $2.5 million and $3.2 million, respectively. Adjusted EBITDA was $37.1 million and $18.8 million, respectively, for the three months ended June 30, 2013 and 2012. The Company achieved a 97% increase in adjusted EBITDA for the three months ended June 30, 2013 as compared to the same period in 2012.

Revenues

Investments Segment Revenues

Rental income was $10.4 million for the three months ended June 30, 2013 as compared to $1.5 million for the same period in 2012. The $8.9 million increase is primarily due to revenue generated on three apartment buildings and one office building acquired during the fourth quarter of 2012, two office buildings consolidated during the fourth quarter of 2012, and two multifamily properties in the Western United States acquired during the second quarter of 2013.

During the three months ended June 30, 2013, we sold 22 condominium units and one retail unit, generating $6.1 million of proceeds from the sale of real estate.

Services Segment Revenues

Third Party Services - Third party services revenues are management and leasing fees as well as commissions earned from third parties and relate to assets in which we do not have an ownership interest.

Our third-party management and leasing service fees were $4.8 million for the three months ended June 30, 2013 as compared to approximately $4.1 million for the same period in 2012. In March 2012, we acquired Meyers Research ("Meyers"), a real estate consultancy firm specializing in capital sourcing and real estate research for the single-family homebuilding and multifamily apartment industries, which generated an additional $0.9 million in management fees during the three month period ended June 30, 2013. Furthermore, our existing third-party management and leasing revenue decreased by $0.3 million for the three months ended June 30, 2013 as compared to the same period in 2012 due to additional construction fees.

Our third-party commission revenues were $0.9 million for the three months ended June 30, 2013 as compared to approximately $1.4 million for the same period in 2012. During the three months ended June 30, 2013, we had a

decrease in auction sales as compared to the same period in 2012 as this business is typically counter cyclical. This led to lower third-party commission revenue.

Table of Contents

Related Party Services - Related party services business are management and leasing fees as well as commissions earned from our equity partners and relate to assets in which we have an ownership interest.
Our related party management and leasing services generated revenues of $9.4 million for the three months ended June 30, 2013 as compared to approximately $6.1 million for the same period in 2012. The $3.3 million or 54% increase primarily relates to an increase of $1.8 million in asset management fees earned on the UK Loan Pool due to the resolution period being shortened from three years to two due to quicker resolutions than initially anticipated, $0.8 million in asset management fees relating to a new loan pool in the United Kingdom that was entered into in December 2012, and $0.7 million in additional fees earned mainly due to the admission of new investors into one of our funds.
Our related party commission fees were $4.4 million for the three months ended June 30, 2013 as compared to approximately $1.0 million for the same period in 2012. The increase in third party commissions is due to increased investment activity in the three months ended June 30, 2013 as compared to the same period in 2012.

Operating Expenses
Investments Segment Operating Expenses
Operating expenses for the three months ended June 30, 2013 increased to $22.8 million compared to $6.3 million for the same period in 2012. The increase is attributable to the following:
Rental operating expenses increased by $3.7 million, primarily due to expenses in connection with three apartment buildings and one office building acquired during the fourth quarter of 2012, and two office buildings in the Western United States consolidated during the fourth quarter of 2012 as well as two multifamily properties in the Western United States acquired during the second quarter of 2013.
During the three months ended June 30, 2013, we had $5.1 million of sale-related costs from the sale of 22 condominium units and one retail unit with no comparable activity during the same period in 2012.
During the three months ended June 30, 2013, depreciation and amortization expense increased by $3.3 million compared to the same period in 2012 due to the acquisitions discussed above.
Compensation and related expenses increased by $3.5 million primarily due to the increase in accrued discretionary compensation in connection with the increase in Adjusted EBITDA. General and administrative expenses increased by $1.2 million compared to the prior period primarily due to the growth of our Company in the United Kingdom and Ireland to source and execute on acquisition opportunities. We have almost doubled our headcount in such locations as compared to June 30, 2012.
Services Segment Operating Expenses
Operating expenses (excluding depreciation and amortization expense) for the three months ended June 30, 2013 were $9.9 million as compared to $9.1 million for the same period in 2012. The increase is attributable to the following:
Compensation and related expenses increased by $0.3 million primarily due to the increase in accrued discretionary compensation in connection with the increase in Adjusted EBITDA. General and administrative expenses increased by $0.4 million primarily due to the growth of our company specifically in the United Kingdom, Ireland and Meyers. Commission and marketing expenses were flat compared to the prior period.
Corporate Operating Expenses
Operating expenses (excluding depreciation and amortization expense) for the three months ended June 30, 2013 were approximately $7.1 million as compared to $2.9 million for the same period in 2012. Compensation and related expenses increased by $4.2 million primarily due to the growth of the Company and an increase in accrued discretionary compensation in connection with the increase in Adjusted EBITDA.
Investments Segment Equity in Joint Venture Income
During the three months ended June 30, 2013, equity in joint venture income was $11.9 million as compared to $5.1 million for the same period in 2012. Income for the three months ended June 30, 2013 was primarily due to the foreclosure of a class A office building and an adjacent 3.5 acre site in Dublin, Ireland. As a result of the foreclosure, the joint venture was required to consolidate the assets and liabilities at fair value. As the fair value of the assets was in excess of the basis in the previously held mortgage notes, the joint venture recognized a $30.1 million

acquisition-related gain. The Company's portion of the gain was $15.0 million and was recognized in equity in joint venture income. Included in equity in joint venture income are one-time acquisition costs which are non-recurring. During the three months ended June 30, 2013, approximately $2.8 million of acquisition costs were

Table of Contents

included in equity in joint venture income as compared to $0.8 million for the same period in 2012. The increase is due to increased acquisition activity in 2013.

The income generated during the three months ended June 30, 2012 was primarily related to the sale of a 213-unit residential tower in San Jose, California and a 440-unit apartment building in Beaverton, Oregon, which generated a total gain of $15.1 million of which $5.3 million was a gain to us.

Our share of depreciation and amortization generated at the joint venture level was $10.2 million and $4.0 million for the three months ended June 30, 2013 and 2012, respectively. We look at equity in joint venture income plus our share of the joint ventures' depreciation and amortization to get a better sense of cash generated by our joint venture investments. The aggregate of these amounts were $22.1 million and $9.1 million for the three months ended June 30, 2013 and 2012, respectively.

Investments Segment Income from Loan Pool Participations and Notes Receivable

Income from loan pool participations and notes receivable was $3.3 million for the three months ended June 30, 2013 as compared to $2.9 million for the same period in 2012.

During the three months ended June 30, 2013, we accreted an additional $0.3 million of interest income on our UK Loan Pool as compared to the same period in 2012 due to the expected resolution period being shortened to two years from the initial budget of three years. Since the latter half of 2012, we have acquired two additional loan pools in the United Kingdom and one in Ireland, which together provided $0.4 million of interest income during the three months ended June 30, 2013. Offsetting these increases in the three months ended June 30, 2013 was a $0.4 million decrease in accreted interest income on our loan pools in the Western United States due to pools being fully resolved or close to being resolved.

Non-operating Items

Interest expense was $12.5 million for the three months ended June 30, 2013 compared to $7.1 million for same period in 2012. The increase is primarily attributable to the additional $100.0 million senior notes issued in December 2012 bearing interest at a rate of 8.75% per annum and the $55.0 million senior notes issued in November 2012 bearing interest at 7.75% per annum. In addition, we incurred additional interest expense associated with the mortgage loans on the acquisitions of three apartment buildings and one office building in the Western United States during the fourth quarter of 2012 as well as the acquisitions of two multifamily properties in the Western United States during 2013.

Non-operating expense was $0.5 million for the three months ended June 30, 2013 due to acquisition-related expenses from the purchase of an apartment building in Salt Lake City, UT, an office building in Beverly Hills, CA and a joint venture investment in a marina and multifamily property in Marina del Rey, CA. There was no comparable activity during the same period in 2012.

Benefit from income taxes was $0.5 million during the three months ended June 30, 2013 as compared to $1.1 million for the same period in 2012. During the three months ended June 30, 2013, we had domestic taxable losses of $3.1 million for which we received a tax benefit at the federal tax rate of approximately 34% offset by foreign taxable income of $1.2 million by our subsidiaries in the United Kingdom and Ireland which are subject to corporate tax rates of 23% and 12.5%, respectively, resulting in a net benefit from income taxes.

We had net loss of $0.9 million attributable to noncontrolling interest during the three months ended June 30, 2013 compared to net income of $0.1 million during the three months ended June 30, 2012. The net loss attributable to noncontrolling interest for the three months ended June 30, 2013 is mainly due to a consolidated fund that has investments in commercial properties. The loss is driven by interest expense and depreciation expense on the underlying properties.

Our Consolidated Financial Results: Six Months Ended June 30, 2013 Compared to the Six Months Ended June 30, 2012

Our revenues for the six months ended June 30, 2013 and 2012 were $58.4 million and $25.9 million, respectively. Total operating expenses for the same periods were $67.7 million and $33.9 million, respectively, and net loss attributable to our common shareholders was $6.1 million and $6.5 million, respectively. Adjusted EBITDA was $69.0 million and $38.0 million, respectively, for the six months ended June 30, 2013 and 2012. The Company

achieved a 81.6% increase in adjusted EBITDA for the six months ended June 30, 2013 as compared to the same period in 2012.

Revenues

Investments Segment Revenues

Rental income was $16.8 million for the six months ended June 30, 2013 as compared to $2.9 million for the same period in 2012. The $13.9 million increase is primarily due to the revenue generated on three apartment buildings and one office building

acquired during the fourth quarter of 2012, two office buildings in the Western United States consolidated during the fourth quarter of 2012 and two multifamily properties in the Western United States acquired during the second quarter of 2013.

During the six months ended June 30, 2013, we sold 37 condominium units and 1 retail unit, generating $8.5 million of proceeds from the sale of real estate with no comparable activity during the same period in 2012.

Services Segment Revenues

Third Party Services - Third party services revenues are management and leasing fees as well as commissions earned from third parties and relate to assets in which we do not have an ownership interest.

Our third-party management and leasing service fees were $9.5 million for the six months ended June 30, 2013 as compared to approximately $7.3 million for the same period in 2012. In March 2012, we acquired Meyers, a real estate consultancy firm specializing in capital sourcing and real estate research for the single-family homebuilding and multifamily apartment industries, which generated $1.9 million in management fees during the six month period ended June 30, 2013 as compared to $0.4 million for the same period in 2012. Furthermore, our existing third-party management and leasing revenue increased by $0.7 million for the six months ended June 30, 2013 as compared to the same period in 2012.

Our third-party commission revenues were $1.5 million for the six months ended June 30, 2013 as compared to approximately $2.0 million for the same period in 2012. During the six months ended June 30, 2013, we had a decrease in auction sales as compared to the same period in 2012 as this business is typically counter cyclical. This led to lower third-party commission revenue.

Related Party Services - These are management and leasing fees as well as commissions earned from our equity partners and relate to assets in which we have an ownership interest.

Our related party management and leasing services generated revenues of $17.3 million for the six months ended June 30, 2013 as compared to approximately $11.7 million for the same period in 2012. The $5.6 million or 47.8% increase primarily relates to an increase of $2.8 million in asset management fees earned on our UK Loan Pool due to the resolution period being shortened from three years to two due to quicker resolutions than initially anticipated, $1.8 million in asset management fees relating to a new loan pool in the United Kingdom that was entered into in December 2012, and $1.0 million in additional fees earned mainly due to the admission of new investors into one of our funds.

Our related party commission fees were $4.8 million for the six months ended June 30, 2013 as compared to approximately $2.0 million for the same period in 2012. The increase in third party commissions is due to increased investment activity in the six months ended June 30, 2013 as compared to the same period in 2012.

Operating Expenses

Investments Segment Operating Expenses

Operating expenses for the six months ended June 30, 2013 increased to $38.2 million compared to $11.8 million for the same period in 2012. The increase is primarily attributable to the following:

Rental operating expenses increased by $5.9 million primarily due to expenses in connection with three apartment buildings and one office building acquired during the fourth quarter of 2012, two office buildings in the Western United States consolidated during the fourth quarter of 2012 as well as two multifamily properties in the Western United States acquired during the second quarter of 2013.

During the six months ended June 30, 2013, we sold 37 condominium units and one retail unit, resulting in $7.0 million of sale-related costs with no comparable activity during the same period in 2012.

During the six months ended June 30, 2013, depreciation and amortization expense increased by $5.2 million compared to the same period in 2012 due to the acquisitions discussed above.

Compensation and related expenses increased by $6.0 million primarily due to an increase in accrued discretionary compensation in connection with the increase in Adjusted EBITDA. General and administrative expenses increased by $2.3 million primarily due to the growth of our Company in the United Kingdom and Ireland to source and execute on acquisition opportunities. We have almost doubled our headcount there since June 30, 2012.

Services Segment Operating Expenses

Operating expenses (excluding depreciation and amortization expense) for the six months ended June 30, 2013 were $18.3 million as compared to $16.7 million for the same period in 2012. The increase is attributable to the following: Compensation and related expenses increased by $1.3 million primarily due to the increase in accrued discretionary compensation in connection with the increase in Adjusted EBITDA. General and administrative expenses increased by $0.8 million

Table of Contents

primarily due to the growth of our company specifically in the United Kingdom, Ireland and Meyers. The increase described above was offset by a reduction in commission and marketing expenses of $0.5 million due to a reduction in auction sales.

Corporate Operating Expenses

Operating expenses (excluding depreciation and amortization expense) for the six months ended June 30, 2013 were approximately $10.7 million as compared to $5.1 million for the same period in 2012. Compensation and related expenses increased by $5.4 million primarily due to the increase in accrued discretionary compensation in connection with the increase in Adjusted EBITDA. General and administrative expenses increased by $0.2 million primarily due to our growth.

Investments Segment Equity in Joint Venture Income

During the six months ended June 30, 2013, equity in joint venture income was $11.6 million as compared to $10.6 million for the same period in 2012. The income for the three months ended June 30, 2013 was primarily due to the foreclosure of a class A office building and an adjacent 3.5 acre site in Dublin, Ireland. As a result of the foreclosure, the joint venture was required to consolidate the assets and liabilities at fair value. As the fair value of the assets was in excess of the basis in the previously held mortgage notes, the joint venture recognized a $30.1 million acquisition related gain. The Company's portion of the gain was $15.0 million and was recognized in equity in joint venture income. Included in equity in joint venture income are one-time acquisition costs which are non-recurring. During the six months ended June 30, 2013, approximately $2.8 million of acquisition costs were included in equity in joint venture income as compared to $0.8 million for the same period in 2012. The increase is due to increased acquisition activity in 2013.

The income generated during the six months ended June 30, 2012 was primarily related to the sale of a 180-unit apartment building in North Hollywood, California, which generated a total gain of $16.0 million, of which $5.2 million was a gain to us and our noncontrolling interest holders. Additionally, we sold a 213-unit residential tower in San Jose, California and a 440-unit apartment building in Beaverton, Oregon, which generated a total gain of $15.1 million of which $5.3 million was a gain to us.

Our share of depreciation and amortization generated at the joint venture level was $19.5 million and $7.9 million for the six months ended June 30, 2013 and 2012, respectively. We look at equity in joint venture income plus our share of the joint ventures depreciation and amortization to get a better sense of cash generated by our joint venture investments. The aggregate of these amounts were $31.1 million and $18.5 million for the six months ended June 30, 2013 and 2012, respectively.

Investments Segment Income from Loan Pool Participations and Notes Receivable

Income from loan pool participations and notes receivable increased $2.8 million to $6.2 million for the six months ended June 30, 2013 as compared to $3.4 million for the same period in 2012.

During the six months ended June 30, 2013, we accreted an additional $0.5 million of interest income on our UK Loan Pool as compared to the same period in 2012 due to the expected resolution period being shortened to two years from the initial budget of three years. Since the latter half of 2012, we have acquired two additional loan pools in the United Kingdom and one in Ireland, which together provided $0.6 million of interest income during the six months ended June 30, 2013. Additionally, we had a $1.4 million increase in accreted income from loan pools in the Western United States due to an increase in resolution periods on one pool in 2012 which led to a decrease in accreted income in the six months ended June 30, 2012. Income from notes receivable increased $0.3 million during June 30, 2013 due to a higher note receivable balance compared to the same period in 2012.

Non-operating Items

Acquisition-related gains were $9.5 million for the six months ended June 30, 2013 with no comparable activity during the same period in 2012. On March 28, 2013, the Company acquired the interest of some of its existing partners in a 615-unit apartment building in Northern California, increasing its ownership from 15% to 94%. The original 15% interest had a book value of $0 due to prior distributions. Cash consideration of $15.7 million was paid by the Company to increase its ownership in the property to 94%. As a result of obtaining control, the Company was required to consolidate the assets and liabilities at fair value. Kennedy Wilson recorded an acquisition related gain in the amount of $9.5 million as the fair value was in excess of the carrying value of its ownership interest. As the

transaction was between willing third party market participants, the purchase price was an approximation of fair value.

Non-operating expense was $0.5 million for the three months ended June 30, 2013 due to the purchase of an apartment building in Salt Lake City, UT, an office building in Beverly Hills, CA and a joint venture investment in a marina and multifamily property in Marina del Rey, CA. There was no comparable activity during the prior period.

Interest expense was $24.0 million for the six months ended June 30, 2013 compared to $13.2 million for same period in 2012. The increase is primarily attributable to the additional $100 million senior notes issued in December 2012 bearing interest

Table of Contents

at a rate of 8.75% per annum and the $55 million senior notes issued in November 2012 bearing interest at 7.75% per annum. In addition, we incurred additional interest expense associated with the mortgage loans on the acquisition of three apartment buildings and one office building in the western United States during the fourth quarter of 2012 as well as the acquisition of two multifamily properties in the western United States during 2013.
Benefit from income taxes was $2.2 million during the six months ended June 30, 2013 as compared to $2.6 million for the same period in 2012. During the six months ended June 30, 2013, we had domestic taxable losses of $9.0 million for which we received a tax benefit at the federal tax rate of approximately 34% offset by foreign taxable income of $2.6 million by our subsidiaries in the United Kingdom and Ireland, which are subject to corporate tax rates of 23% and 12.5%, respectively, resulting in a net benefit from income taxes.
We had net loss of $1.9 million attributable to a noncontrolling interest in 2013 compared to net income of $2.9 million in 2012. The net loss attributable to noncontrolling interest for the six months ended June 30, 2013 is mainly due to a consolidated fund that has investments in commercial properties. The loss was primarily driven by interest expense and depreciation expense on the underlying properties. During the six months ended June 30, 2012, the net income attributable to noncontrolling interest holders was primarily due to a gain from the sale of a multifamily property.

Liquidity and Capital Resources
Our liquidity and capital resources requirements include expenditures for joint venture investments, real estate, and real estate-related acquisitions and working capital needs. Historically, we have not required significant capital resources to support our services business. We finance these operations with internally generated funds, borrowings under our revolving line of credit, sales of real estate, resolutions in loan pools and sales of equity and debt securities. Our investments in real estate and real estate related assets are typically financed by loans secured primarily by the applicable investment. These loans are generally nonrecourse in that, in the event of default, recourse will be limited to the investment serving as collateral. In some cases, we guarantee a portion of the loan related to a joint venture investment, usually until some condition, such as completion of construction or leasing or certain net operating income criteria, has been met. We do not expect these guarantees to materially affect liquidity or capital resources.
We believe that our existing cash and cash equivalents plus capital generated from our services business, operating distributions from our properties, sales and refinances of our properties, resolutions in our loan pools, as well as our current line of credit, will provide us with sufficient capital requirements for at least the next twelve months.
To the extent that we engage in additional strategic investments, including real estate, loan portfolios, or acquisitions of other real estate-related companies, we may need to obtain third-party financing, which could include bank financing or the public sale or private placement of debt or equity securities.
Under our current joint venture strategy, we generally contribute property expertise and a fully funded initial cash contribution, with commitments to provide additional funding. Capital required for additional improvements and supporting operations during leasing and stabilization periods is generally obtained at the time of acquisition via debt financing or third-party investors. Accordingly, we generally do not have significant capital commitments with unconsolidated entities. However, there may be certain circumstances when we, usually with the other members of the joint venture entity, may be required to contribute additional capital for a limited period of time. As of June 30, 2013 we had $7.2 million in unfunded capital commitments to our joint venture investments.
Our need, if any, to raise additional funds to meet our capital requirements will depend on many factors, including the success and pace of the implementation of our strategy for growth. We regularly monitor capital-raising alternatives to be able to take advantage of other available avenues to support our working capital and investment needs, including strategic partnerships and other alliances, bank borrowings, and the sale of equity or debt securities. We expect to meet the repayment obligations of our senior notes and borrowing under our line of credit from cash generated by our business activities, including the sale of assets and the refinancing of debt.

Pipeline

As of June 30, 2013, we are under separate contracts to purchase 28 commercial real estate assets at an aggregate purchase price of approximately $1.2 billion. With respect to eight of such assets with an aggregate purchase price of approximately $0.4 billion, we have non-refundable deposits of approximately $20 million held in escrow. These transactions remain subject to customary closing conditions. With respect to the remaining 20 assets with an aggregate purchase price of approximately $0.8 billion, we have deposited a total of $5 million in escrow, which is refundable to us in the event that we choose to terminate the agreements for any reason prior to the expiration of the due diligence period or upon the failure or non-satisfaction of customary

48

Table of Contents

closing conditions. In the event that we consummate any of these acquisitions, we anticipate financing such transactions with a combination of property-level debt and third-party equity. Our equity investment in any of these acquisitions has not yet been determined.

European Liquidity and Capital Resources

During the six months ended June 30, 2013, the Company earned $2.6 million related to operations in the United Kingdom and Ireland. Foreign taxes of $0.3 million are included in the consolidated tax provision for income taxes related to the portion of income earned directly by our United Kingdom and Ireland subsidiaries for the six months ended June 30, 2013. U.S. domestic taxes have not been provided for in the consolidated tax provision with respect to amounts earned directly by these subsidiaries since the Company's current plan is to indefinitely invest amounts earned by these subsidiaries in the United Kingdom and Ireland operations. If these subsidiaries' cumulative earnings were repatriated to the United States, additional U.S. domestic taxes of $6.7 million would be incurred. Additionally, approximately $10.3 million of our consolidated cash and cash equivalents are held by our subsidiaries in the United Kingdom and Ireland.

Cash Flows

Operating

Our cash flows from operating activities are primarily dependent upon the operating distributions from our joint venture investments and loan pool participations, revenues from our services business, and operating expenses and other general and administrative costs. Net cash used in operating activities totaled $23.9 million for the six months ended June 30, 2013. This was primarily related to payments of accrued expenses and other liabilities and accrued salaries and benefits offset by operating distributions from our joint venture investments and loan pool participations of $17.9 million. Net cash provided by operating activities totaled $18.9 million for the six months ended June 30, 2012. This was primarily related to operating distributions from our joint venture investments and loan pool participations of $46.4 million offset by payments of accrued expenses and other liabilities and accrued salaries and benefits.

Investing

Our cash flows from investing activities are generally comprised of cash used to fund investments in our joint ventures, loan pool participations, property acquisitions, capital expenditures, and loans secured by real estate, as well as return of capital investments from dispositions or refinances on our hard assets and resolutions in our loan participations and loan pools. Net cash used in investing activities totaled $195.2 million for the six months ended June 30, 2013. This was primarily due to $173.1 million of equity invested in joint ventures of which $58.0 million related to the acquisition of a multifamily property in Dublin, $20.6 million was invested in the acquisition of a portfolio of 29 income-producing commercial properties located in the United Kingdom, $22.7 million for three commercial properties in the Western U.S., $18.5 million was contributed to a joint venture for the acquisition of four connections collateralized by five properties and $9.1 million for two multifamily properties in the Western U.S. We invested $108.3 million for the purchase and addition to real estate which included $61.4 million for an apartment building in Salt Lake City, UT, $29.7 million for an office building in Beverly Hills, CA and $15.7 million for an apartment building in Northern California. In addition, we invested $41.7 million to fund our equity in note receivables and investments in loan pool participations and we received $49.6 million in distributions from our loan pools primarily due to loan resolutions including $38.9 million from the UK Loan Pool. The cash used in the aforementioned investing activities was offset by receipt of $25.7 million in distributions from our joint ventures primarily due to refinancing of property level debt of $14.2 million and $10.8 million from the settlement of several Japanese yen-related hedges.

Net cash used in investing activities totaled $65.3 million for the six months ended June 30, 2012. This was primarily due to $49.5 million of equity invested in joint ventures of which $37.8 million was invested in the acquisition of five income producing multifamily properties located primarily in the Western U.S. and Ireland. In addition, we invested $67.5 million to fund our equity in participations in new loan pools. The cash used in the aforementioned investing activities was offset by receipt of $20.6 million in investing distribution from our joint ventures primarily due to the

sale of four multifamily properties located in the Western U.S. In addition, we sold a portion of our marketable securities which provided $21.4 million.

Financing

Our net cash related to financing activities is generally impacted by our borrowings and capital-raising activities net of dividends and distributions paid to common and preferred shareholders and noncontrolling interests. Net cash provided by financing activities totaled $240.6 million for the six months ended June 30, 2013. This was primarily due to net proceeds of $153.9 million received from the issuance of 10.4 million shares of common stock primarily to institutional investors, $68.3 million from borrowings under mortgage loans for the acquisition of an apartment building in Salt Lake City, UT and an office building

Table of Contents

in Beverly Hills, CA and net borrowings of $30.0 million on the Company's line of credit. These were offset by payments of cash dividends of $9.1 million to our common and preferred shareholders and $1.4 million for the repurchase of warrants.
Net cash provided by financing activities totaled $17.6 million for the six months ended June 30, 2012. This is primarily due to net borrowing under our line of credit of $34.2 million offset by payments of cash dividends of $8.7 million to our common and preferred shareholders, $4.9 million distributed to noncontrolling interest holders as a result of the sale of a 180-unit apartment building and $1.4 million for the repurchase of warrants.

Change in accounting methodology

During the quarter ended March 31, 2013, we changed our method of determining the allocation of cash flows received from unconsolidated real estate joint ventures. Previously, we utilized a "cumulative earnings" methodology which is one of two acceptable methods and which includes distributions received from unconsolidated real estate joint ventures as an operating activity up to the amount of the Company's cumulative equity in earnings of the equity method investment. Many of the Company's investments generate positive cash flow from their operations and their earnings are substantially (or often entirely) reduced by depreciation, which is a non-cash item. In those instances, which are common to our business, the cumulative earnings approach requires the distributions received from the operating cash flows of the unconsolidated real estate joint venture to be presented in the Company's statement of cash flows as an investing activity. A second acceptable method, the "look-through" method, evaluates the source of the underlying cash flows to determine whether the distribution received is a return on investment (operating cash flows) or a return of investment (investing cash flows). The look through method computes operating cash flows more consistently with how the Company determines and presents EBITDA, which is an important performance indicator of the Company and the real estate industry. The nature of the Company's business makes determining the source of such cash flows generally apparent because returns of investment are typically the result of a significant event or transaction. As such, the "look-through" method has been determined to be preferred for such unconsolidated real estate joint ventures and is reflected in our consolidated statement of cash flows.

Cumulative dividend distributions

The Company pays quarterly dividends on its common and preferred stock. The table below presents the cumulative dividends declared on common and preferred stock since being listed in November 2009:

	June 30, 2013
Cumulative preferred shareholders	$(28,618,000)
Cumulative common shareholders	(27,668,000)
Total cumulative dividends declared	$(56,286,000)

Warrant repurchases

In April 2010, the Board of Directors authorized a warrants repurchase program enabling Kennedy Wilson to repurchase up to 12.5 million of its outstanding warrants. On May 7, 2013, Kennedy Wilson's board authorized an increase to its warrant repurchase program by 5.3 million warrants. The program now covers all currently outstanding warrants issued by Kennedy Wilson.
Since April 2010, Kennedy Wilson has repurchased 12.4 million of its outstanding warrants for $20.6 million. Including the warrants repurchased in connection with the merger, the Company has repurchased 25.9 million warrants for $28.0 million or an average purchase price of $1.08 per warrant. The market price as of August 7, 2013 was $5.16 per warrant.

As of June 30, 2013 there were 5.4 million warrants outstanding with a market value of $24.8 million. During the six months ended June 30, 2013, Kennedy Wilson repurchased 0.4 million outstanding warrants for $1.4 million.

Table of Contents

Contractual Obligations and Commercial Commitments

At June 30, 2013, our contractual cash obligations, including debt and operating leases, included the following:

	Payments Due by Period				
	Total	Six Months Ending 12/31/2013	1-3 years	4-5 years	After 5 years
Contractual Obligations					
Borrowings: [1]					
Borrowings under line of credit	$30,000,000	$30,000,000	$—	$—	$—
Mortgage loan payable[2]	313,096,000	13,141,000	51,393,000	48,814,000	199,748,000
Subordinated debt	40,000,000	—	—	—	40,000,000
Senior Notes[3]	405,000,000	—	—	—	405,000,000
Total borrowings	788,096,000	43,141,000	51,393,000	48,814,000	644,748,000
Operating leases	9,653,000	1,232,000	4,794,000	1,427,000	2,200,000
Total contractual cash obligations	$797,749,000	$44,373,000	$56,187,000	$50,241,000	$646,948,000

(1) See notes 9-12 of our Notes to Consolidated Financial Statements. Figures do not include scheduled interest payments. Assuming each debt obligation is held until maturity, we estimate that we will make the following interest payments: six months ending December 31, 2013 - $33,409,000; 1-3 years - $149,279,000; 4-5 years - $91,614,000; After 5 years - $156,458,000. The interest payments on variable rate debt have been calculated using the interest rate in effect at June 30, 2013.

(2) Excludes $5.7 million of unamortized debt premiums on mortgage loan payables.

(3) Excludes $4.3 million of net unamortized debt premium on senior notes.

Indebtedness and Related Covenants

The following describes our corporate indebtedness and related covenants.

Junior Subordinated Debentures

In 2007, Kennedy Wilson issued junior subordinated debentures in the amount of $40.0 million. The debentures were issued to a trust established by Kennedy Wilson, which contemporaneously issued $40.0 million of trust preferred securities to Merrill Lynch International. The interest rate on the debentures is fixed for the first ten years at 9.06% and variable thereafter at LIBOR plus 3.70%. Interest is payable quarterly, with the principal due in 2037. Kennedy Wilson may redeem the debentures, in whole or in part, on any interest payment date at par.

Senior Notes Payable

In June 2012, Kennedy-Wilson, Inc., a wholly owned subsidiary of Kennedy Wilson, amended its existing unsecured revolving credit facility with U.S. Bank and East West Bank, which effectively increased the total principal amount available to be borrowed by an additional $25.0 million, for an aggregate of $100.0 million. The loans under the amended unsecured credit facility will bear interest at a rate equal to LIBOR plus 2.75%, and the maturity date was extended to June 30, 2015. As of June 30, 2013, there was $30.0 million drawn under the amended unsecured credit facility.

In April 2011, Kennedy-Wilson, Inc., a wholly owned subsidiary of Kennedy Wilson, issued $200.0 million in aggregate principal amount of its 8.750% senior notes due 2019, for approximately $198.6 million, net of discount. An additional $50.0 million in aggregate principal amount of its 8.750% senior notes due 2019 was issued in April 2011 for approximately $50.8 million, net of premium. In December 2012, Kennedy-Wilson, Inc. issued an additional $100.0 million aggregate principal amount of these 8.750% senior notes for approximately $105.3 million, net of premium. Collectively, the issuances are referred to as "the 2019 Notes." The terms of the 2019 Notes are governed by an indenture, dated as of April 5, 2011, by and among the issuer, Kennedy-Wilson Holdings, Inc, as parent guarantor; certain subsidiaries of the issuer, as subsidiary guarantors; and Wilmington Trust National Association (as successor to Wilmington Trust FSB), as amended by various subsequent supplemental indentures. The 2019 Notes bear interest at 8.750% per annum. Interest is payable on April 1 and October 1 of each year, until the maturity date of April 1,

2019. The issuer's obligations under the 2019 Notes are fully and unconditionally guaranteed by Kennedy-Wilson Holdings, Inc. and the subsidiary guarantors. At any time prior to April 1, 2015, the issuer may redeem the 2019 Notes, in whole or in part, at a price equal to 100% of the principal amount, plus an applicable "make-whole" premium and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time on or after April 1, 2015, the issuer may redeem the

Table of Contents

2019 Notes, in whole or in part, at the redemption prices specified in the indenture. Until April 1, 2014, the issuer may choose to redeem the 2019 Notes in an amount not to exceed in aggregate 35% of the original principal amount of the 2019 Notes together with any additional 2019 Notes issued under the indenture with money the issuer or Kennedy-Wilson Holdings, Inc. raises in certain equity offerings. The amount of the 2019 Notes included in the consolidated balance sheets, net of unamortized discount and premium, was $354.3 million at June 30, 2013.
In December 2012, Kennedy-Wilson, Inc. completed a public offering of $55.0 million aggregate principal amount of 7.750% Senior Notes due 2042 (the "2042 Notes"). The 2042 Notes were issued pursuant to an indenture dated as of November 28, 2012, by and among Kennedy-Wilson, Inc., as issuer, Kennedy-Wilson Holdings, Inc., as parent guarantor, certain subsidiaries of the issuer, as subsidiary guarantees and Wilmington Trust National Association, as trustee, as amended by various subsequent supplemental indentures. The issuer's obligations under the 2042 Notes are fully and unconditionally guaranteed by Kennedy Wilson and the subsidiary guarantors. At any time prior to December 1, 2017, the issuer may redeem the 2042 Notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus an applicable “make-whole” premium and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time on or after December 1, 2017, the issuer may redeem the 2042 Notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date. Interest on the 2042 Notes accrues at a rate of 7.750% per annum and is payable quarterly in arrears on March 1, June 1, September 1 and December 1 of each year, commencing on March 1, 2013. The 2042 Notes will mature on December 1, 2042. The amount of the 2042 Notes included in the accompanying consolidated balance sheets was $55.0 million at June 30, 2013.
Debt Covenants
The junior subordinated debentures, the unsecured credit facility with U.S. Bank and East West Bank, and the indenture governing the 2019 Notes and 2042 Notes contain numerous restrictive covenants that, among other things, limit Kennedy Wilson's and certain of its subsidiaries' ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. The unsecured credit facility and junior subordinated debentures also require Kennedy Wilson to maintain a minimum tangible net worth and a specified amount of cash and cash equivalents.
The junior subordinated debentures require Kennedy-Wilson, Inc. to maintain (i) a fixed charge coverage ratio (as defined in the indenture governing the junior subordinated debentures) of not less than 1.75 to 1.00, measured on a four-quarter rolling basis, and (ii) a ratio of total debt to net worth (as defined in the indenture governing the junior subordinated debentures) of not greater than 3.00 to 1.00 at anytime. As of the most recent quarter end, Kennedy Wilson's fixed charge coverage ratio was 3.39 to 1.00 and its ratio of total debt to net worth was 1.24 to 1.00. As of June 30, 2013, Kennedy Wilson was in compliance with these covenants.
The revolving loan agreement that governs the unsecured credit facility requires Kennedy Wilson to maintain (i) a minimum rent adjusted fixed charge coverage ratio (as defined in the revolving loan agreement) of not less than 1.50 to 1.00, measured on a four-quarter rolling average basis; (ii) maximum balance sheet leverage (as defined in the revolving loan agreement) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter; (iii) a maximum balance sheet leverage (as defined in the revolving loan agreement) of not greater than 1.50 to 1.00; and (iv) unrestricted cash, cash equivalents and publicly traded marketable securities in the aggregate amount of at least $40.0 million.
As of the most recent quarter end, Kennedy Wilson's adjusted fixed charge coverage ratio was 2.59 to 1.00 and its balance sheet leverage ratio was 0.79 to 1.00. As of June 30, 2013, Kennedy-Wilson, Inc. was in compliance with these covenants.
The indentures governing the 2019 Notes and 2042 Notes limit Kennedy-Wilson, Inc.'s ability to incur additional indebtedness if, on the date of such incurrence and after giving effect to the new indebtedness, Kennedy-Wilson, Inc.'s maximum balance sheet leverage ratio (as defined in the indenture) is greater than 1.50 to 1.00. This ratio is measured at the time of incurrence of additional indebtedness. As of June 30, 2013, the balance sheet leverage ratio was 0.73 to 1.00.

Off-Balance Sheet Arrangements

We have provided guarantees associated with loans secured by consolidated assets or assets held in various joint ventures. At June 30, 2013, the maximum potential amount of future payments (undiscounted) we could be required to make under the guarantees was approximately $55.7 million which is approximately 2% of property level debt of the Company. The guarantees expire through 2015, and our performance under the guarantees would be required to the extent there is a shortfall upon liquidation between the principal amount of the loan and the net sale proceeds of the applicable properties. If we were to become obligated to perform on these guarantees, it could have an adverse effect on our financial condition.

Table of Contents

As of June 30, 2013, we have unfulfilled capital commitments totaling $7.2 million to our joint ventures. As we identify investment opportunities in the future, we may be called upon to contribute additional capital to joint ventures in satisfaction of our capital commitment obligations.
Please refer to our Annual Report on Form 10-K for the year ended December 31, 2012 for discussion of our non-recourse carve-out guarantees arrangements, as there have been no material changes to that disclosure.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
The primary market risk exposure of our Company relates to changes in interest rates in connection with our short-term borrowings, some of which bear interest at variable rates based on the lender's base rate, prime rate, EURIBOR, GBP LIBOR, or LIBOR plus an applicable borrowing margin. These borrowings do not give rise to a significant interest rate risk because they have short maturities. However, the amount of income or loss we recognize for unconsolidated joint ventures may be impacted by changes in interest rates. Historically, the impact from the changes in rates has not been significant. Our exposure to market risk also consists of foreign currency exchange rate fluctuations related to our international operations.
Interest Rate Risk
We have established an interest rate management policy, which attempts to minimize our overall cost of debt while taking into consideration the earnings implications associated with the volatility of short-term interest rates. As part of this policy, we have elected to maintain a combination of variable and fixed rate debt. As of June 30, 2013, 70% of our property level debt is fixed rate, 18% is floating rate with interest caps and 12% is floating rate without interest caps.
The table below represents contractual balances of our financial instruments at the expected maturity dates as well as the fair value as of June 30, 2013. The expected maturity categories take into consideration actual amortization of principal and do not take into consideration reinvestment of cash. The weighted average interest rate for the various assets and liabilities presented are actual as of June 30, 2013. We closely monitor the fluctuation in interest rates, and if rates were to increase significantly, we believe that we would be able to either hedge the change in the interest rate or refinance the loans with fixed interest rate debt. All instruments included in this analysis are non-trading.

	Principal Maturing in:							Fair Value June 30,
(in thousands)	2013	2014	2015	2016	2017	Thereafter	Total	2013
Interest rate sensitive assets								
Cash equivalents	$139,561	$—	$—	$—	$—	$—	$139,561	$139,561
Average interest rate	0.25 %	— %	— %	— %	— %	— %	0.25 %	
Fixed rate receivables	$11,893	$—	$—	$3,737	$5,762	$—	$21,392	$21,392
Average interest rate	9.68 %	— %	— %	9.45 %	2.16 %	— %	7.62 %	
Total	$151,454	$—	$—	$3,737	$5,762	$—	$160,953	$160,953
Weighted average interest rate	0.99 %	— %	— %	9.45 %	2.16 %	— %	1.23 %	
Interest rate sensitive liabilities								
Variable rate borrowings	$4,391	$7,032	$30,000	$—	$29,000	$23,475	$93,898	$93,898
Average interest rate	4.25 %	3.71 %	2.95 %	— %	2.21 %	2.28 %	2.67 %	
	$7,761	$—	$—	$30,650	$—	$655,787	$694,198	$735,988

Fixed rate borrowings(1)								
Average interest rate	12.76 %	— %	— %	3.98 %	— %	7.20 %	7.12 %	
Total	$12,152	$7,032	$30,000	$30,650	$29,000	$679,262	$788,096	$829,886
Weighted average interest rate	9.69 %	3.71 %	2.95 %	3.98 %	2.21 %	7.03 %	6.59 %	

(1) Excludes $4.3 million of net unamortized premium on the Senior Notes and $5.7 million of unamortized premiums on mortgage loans payable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the record period covered by this report, our disclosure controls and

53

Table of Contents

procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Controls over Financial Reporting

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We may be involved in various legal proceedings arising in the ordinary course of business, none of which are currently material to our business and our financial statements taken as a whole. From time to time, our real estate management division is named in "slip and fall" type litigation relating to buildings we manage. Our standard management agreement contains an indemnity provision whereby the building owner indemnifies and agrees to defend our real estate management division against such claims. In such cases, we are defended by the building owner's liability insurer.

Item 1A. Risk Factors

The discussion of our business and operations in this Quarterly Report on Form 10-Q should be read together with the risk factors contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC, which describe various risks and uncertainties to which we are or may become subject. There were no material changes from the risk factors disclosed in Item 1A of our report on Form 10-K for the fiscal year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer.

32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KENNEDY-WILSON HOLDINGS, INC.

Dated: August 8, 2013

By: /S/ JUSTIN ENBODY
Justin Enbody
Chief Financial Officer
(Principal Financial Officer
and Accounting Officer)