



# NBF



## 7<sup>th</sup> Period

From : July 1, 2004 To : December 31, 2004

## NBF Report Jul. – Dec. 2004

**Nippon Building Fund Inc.**

7-2, Yaesu 2-chome, Chuo-ku, Tokyo, 104-0028, Japan

[http://www.nbf-m.com/nbf\\_e/](http://www.nbf-m.com/nbf_e/)

# Profile

Nippon Building Fund Inc. (formerly: "Office Building Fund of Japan, Inc." The current name was adopted on March 14, 2003, hereinafter "NBF") is a real estate fund structured in the form of an investment corporation as prescribed in the Investment Trust Law of Japan. It was formed on March 16, 2001 in Japan as an investment corporation with the objective of investing in assets, consisting primarily of Designated Assets (as this term is defined in the Investment Trust Law of Japan). The Investment Trust Law of Japan requires an investment corporation to be managed by an external entity; management of such assets is entrusted to an asset management company (in this case, "Nippon Building Fund Management Ltd." (formerly "Office Building Fund Management Japan Limited") hereinafter "NBFM") which undertakes such asset management.

NBF's primary investment objective is to achieve sustainable growth in portfolio value and stable profits on a mid-term to long-term basis. NBF intends to achieve this objective by investing in real estate consisting of buildings primarily used for offices with their underlying land located in Tokyo Central Business Districts (hereinafter "CBDs"), Other Greater Tokyo and Other Cities in Japan as well as securities, beneficiary certificates representing beneficiary interests in trusts (hereinafter "beneficiary certificates") and other assets backed by office properties (collectively hereinafter "Real Estate etc.")

NBF, which is a public corporation, is a closed-end fund whose shares are non-redeemable upon demand by a shareholder. The accounting period is six months, except for the first term. For tax reporting purposes, NBF may deduct its cash dividends of profits from taxable income under Japanese tax regulations if it distributes to its shareholders amounts being in excess of 90% of taxable income for the period and complies with other organizational and operational requirements. NBF will continue its efforts to satisfy these requirements.

# History of NBF

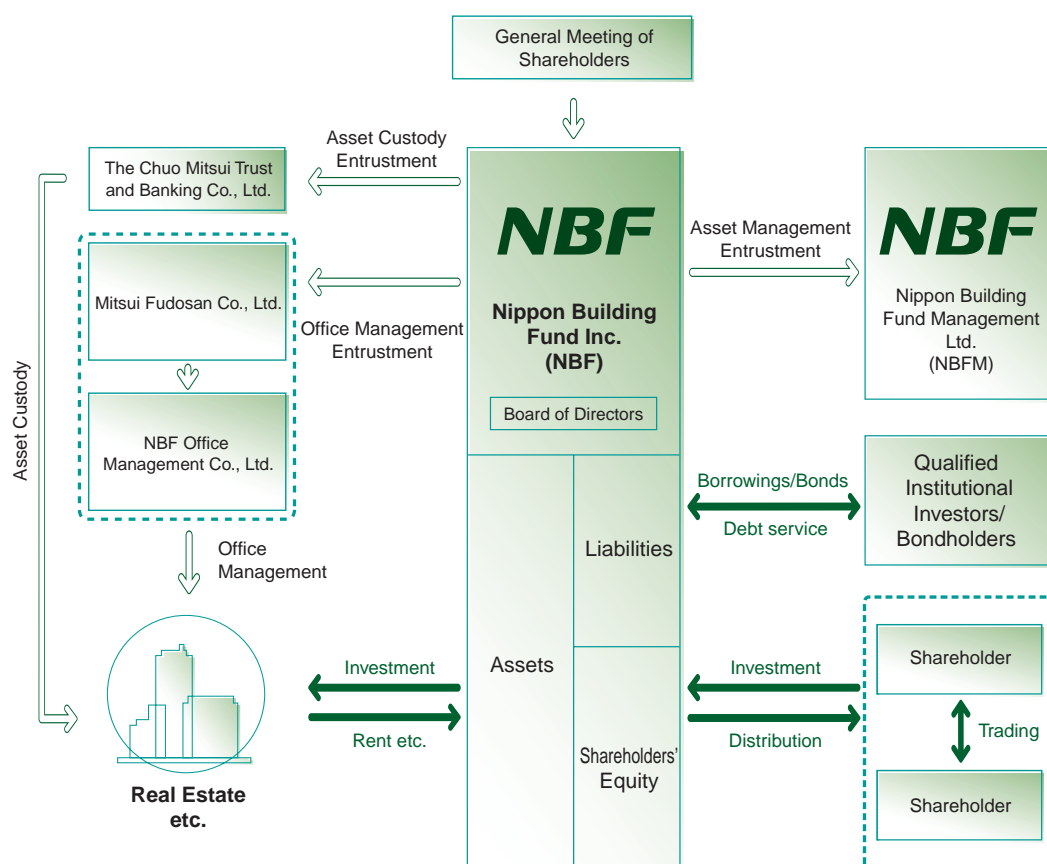
March 16, 2001	Established by founders: Mitsui Fudosan Co., Ltd., The Chuo Mitsui Trust and Banking Co., Ltd., and NBFM (at the time known as "MF Asset Management Co., Ltd.")
May 10, 2001	Registration under Article 187 of the Investment Trust Law of Japan
May 23, 2001	Commencement of business (acquiring trust beneficiary certificates with respect to properties consisting of 22 office buildings held in trust)
September 10, 2001	Listing of common shares on the Japanese Real Estate Investment Trust (hereinafter "J-REIT") section of the Tokyo Stock Exchange.



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# Business Structure



## Major Related Operating Entities

Assignment	Name
Asset Management Company .....	Nippon Building Fund Management Ltd. ("NBFM")
Asset Custodian .....	The Chuo Mitsui Trust and Banking Co., Ltd.
Office Management Company .....	Mitsui Fudosan Co., Ltd.
	NBF Office Management Co., Ltd.

# Financial Highlights

		7th Period from July 1, 2004 to December 31, 2004	6th Period from January 1, 2004 to June 30, 2004	5th Period from July 1, 2003 to December 31, 2003	4th Period from January 1, 2003 to June 30, 2003	3rd Period from July 1, 2002 to December 31, 2002
(Yen in million, except per share data or where otherwise indicated)						
Operating revenues		¥ 16,116	¥ 12,554	¥ 12,453	¥ 12,239	¥ 11,846
Income before income taxes		6,307	4,263	4,094	4,314	4,563
Net income	(a)	6,306	4,262	4,093	4,313	4,562
Total assets	(b)	430,378	366,200	314,362	307,688	290,725
Total shareholders' equity ("Net assets")	(c)	216,985	153,161	152,992	153,212	153,461
Total amount of cash distribution	(e)	6,306	4,262	4,093	4,313	4,562
Total number of common shares issued (shares)	(d)	364,700	280,700	280,700	280,700	280,700
Net assets per share (Yen)	(c) / (d)	594,968	545,641	545,038	545,823	546,710
Distribution per share (Yen)	(e) / (d)	17,291	15,185	14,582	15,367	16,253
NOI from property leasing activities	Note 2	10,238	8,311	7,964	8,057	7,886
FFO per share (Yen)	Note 2	23,060	24,203	23,141	23,794	23,635

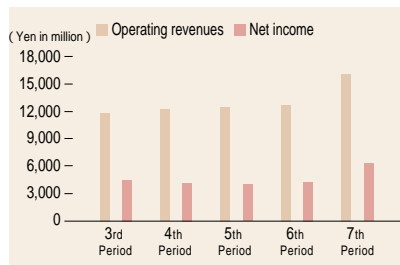
Note 1: Operating revenues do not include consumption taxes.

Note 2: All valuations are calculated through the following formulas. The figures in parenthesis are annualized based on the 6 month figures for the period.

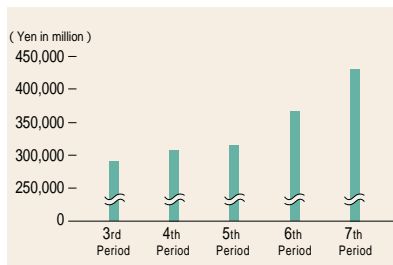
NOI (Net Operating Income) from property leasing activities: (Revenue from property leasing - Rental expenses) + Depreciation and amortization

FFO (Funds From Operation) per share: (Net income (excluding Gain on sale of investment properties) + Depreciation and Amortization)/Weighted average number of common shares issued and outstanding during the period.

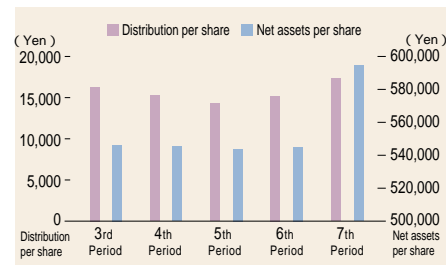
## Operating revenues Net income



## Total assets



## Distribution per share Net assets per share

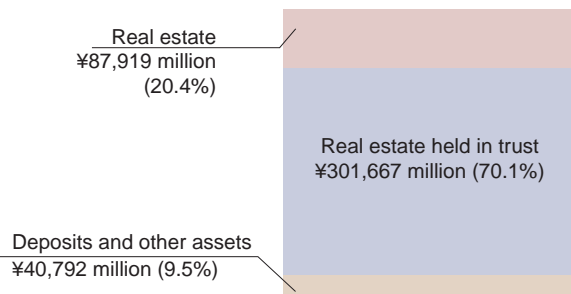


# Stock Price Performance



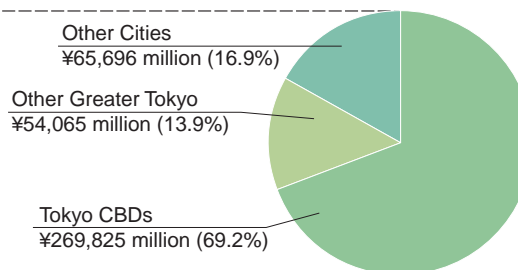
## Asset Allocation

Total Assets ¥430,378 million



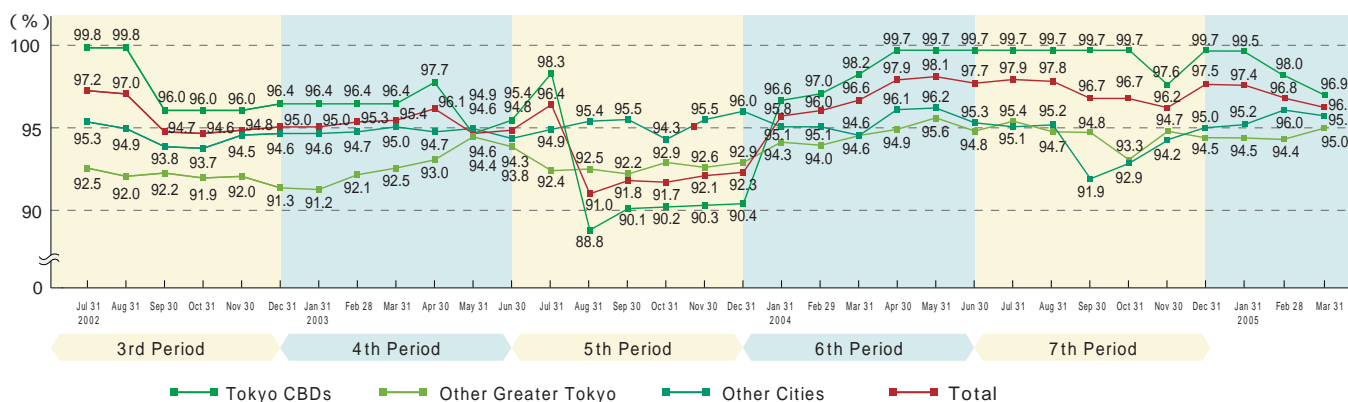
## Regional Allocation

Total Real Estate etc. ¥389,586 million



Note: Figures above are based on the book value as of December 31, 2004

## Occupancy Rate



Note: Occupancy rate: Ratio of gross leased area to total rentable area

## Major Tenants Roster

The outline of NBF's major tenants as of December 31, 2004 is as follows:

	Name of Tenants	Name of Building	Leased Space (m <sup>2</sup> )	Percentage of Total Rentable Area***
01	JFE Steel Corporation (*)	JFE Bldg.	65,280	14.5%
02	GlaxoSmithKline.KK. (*)	GSK Bldg. NBF Unix Bldg.	22,791	5.1%
03	Mitsui Fudosan (**)	Nakameguro GT Tower Toranomon Kotohira Tower Nishi-Shinjuku Mitsui Bldg.	20,426	4.5%
04	Fuji Xerox Co.	Shinjuku Mitsui Bldg. No.2 Tsukuba Mitsui Bldg. Nakano-Sakaue Sunbright Twin	17,526	3.9%
05	Nippon Steel Corporation (*)	Nippon Steel Building No.2	15,333	3.4%
06	NTT Communications	Kowa Nishi-Shinbashi Bldg. B	8,493	1.9%
07	Transcosmos Inc.	Shibuya Garden Front NBF Nagoya Hirokoji Bldg.	8,438	1.9%
08	Resona Bank Ltd.	Nihonbashi Muromachi Center Bldg. NBF Toranomon Bldg. Aqua Dojima Daiwa Dojima Bldg. NBF Hiroshima Tatemachi Bldg.	7,507	1.7%
09	NTT Data Corporation	NBF Shiba Koen Bldg. NBF Toranomon Bldg.	7,160	1.6%
10	Sumitomo Densetsu (*)	Sumitomo Densetsu Bldg.	5,978	1.3%

\* Indicates tenants with long-term lease contracts (JFE Steel Corporation's contract expires March 2011; GlaxoSmithKline's contract expires September 2010; Nippon Steel Corporation's contract expires November 2009; Sumitomo Densetsu's contract expires June 2008)

\*\* Mitsui Fudosan, the sole tenant of the property, pools profits from leasing operations and then distributes the proceeds proportionally in accordance with each owner's percentage of the total ownership interest.

\*\*\* Percentage of Total Rentable Area = Leased Space ÷ Total Rentable Area of All Properties in Portfolio



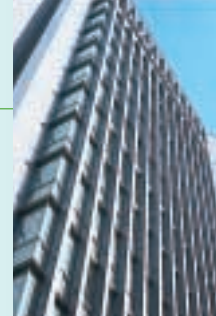
## The First Listed J-REIT

# NBF

- In September 2001, NBF was listed as the first investment corporation in Japan on the J-REIT section of the Tokyo Stock Exchange.

## The Largest Scale of any J-REIT

- The largest total market capitalization of any J-REIT (¥334,065 million as of March 31, 2005)
- The largest scale of managed assets (¥389,586 million as of December 31, 2004)



## Enrichment of Portfolio



- Specializes in investing in office buildings
- Possesses 47 properties focusing on large-scale office buildings in the Tokyo Central Business Districts (as of March 31, 2005)
- Diversified in other Tokyo markets as well as in regional cities.
- Total rentable space of 460,901m<sup>2</sup> (as of December 31, 2004)
- Diversified tenants (number of tenants at the end of the current period: 667)

## Financial Stability and Flexibility

- Ratings by Rating Agencies:
  - Standard & Poor's Long-term Corporate: A, Short-term Corporate: A-1, Outlook: stable
  - Moody's Issuer Rating: A2, Outlook: stable
  - R&I Issuer Rating: AA-
- Ratio of Interest-Bearing Debt to Total Assets: 41.7% (as of December 31, 2004)
- Ratio of Long Term and Fixed-Interest Rate Debt to total debt: 83.0% (as of December 31, 2004)
- Average years remaining till due date for long-term interest-bearing debt: 4.91 years (as of December 31, 2004)
- Funding through use of unsecured, non-guaranteed corporate loans

## Strategic Partnership with Mitsui Fudosan Co., Ltd.

- Utilization of the know-how of Mitsui Fudosan, the leading real estate company in Japan.

NBF acquired the following properties during the 7th period.

## NBF ALLIANCE

Tokyo CBDs



<b>Acquisition date</b>	July 1, 2004
<b>Outline of acquired property</b>	fee simple
<b>Acquisition price</b>	¥9,126 million
<b>Acquisition structure</b>	Trust
<b>Location</b>	2-1, Minami-aoyama 5-chome, Minato-ku, Tokyo
<b>Site area</b>	1,673.27m <sup>2</sup>
<b>Floor area of building</b>	6,214.73m <sup>2</sup>
<b>Structure</b>	Above ground 5 floors, below ground 1 floor
<b>Completion</b>	January 25, 1989



## Aqua Dojima Daiwa Dojima Bldg.

Other Cities



<b>Acquisition date</b>	September 30, 2004
<b>Outline of acquired property</b>	fee simple
<b>Acquisition price</b>	¥17,810 million
<b>Acquisition structure</b>	Trust
<b>Location</b>	4-16, Dojimahama 1-chome, Kita-ku, Osaka, Osaka
<b>Site area</b>	3,531.37m <sup>2</sup>
<b>Floor area of building</b>	35,912.97m <sup>2</sup>
<b>Structure</b>	Above ground 19 floors, below ground 2 floors
<b>Completion</b>	December 2, 1996



## S-ino Omiya North Wing

Other Greater Tokyo



<b>Acquisition date</b>	October 1, 2004 / November 1, 2004
<b>Outline of acquired property</b>	fee simple
<b>Acquisition price</b>	¥16,816 million
<b>Acquisition structure</b>	Real Estate
<b>Location</b>	10-15 (and 16), Sakuragi-cho 1-chome, Omiya-ku, Saitama, Saitama
<b>Site area</b>	Office building: 3,083.98m <sup>2</sup> Administrative building: 2,366.04m <sup>2</sup>
<b>Floor area of building</b>	Office building: 30,227.21m <sup>2</sup> Administrative building: 385.79m <sup>2</sup>
<b>Structure</b>	Office building: Above ground 20 floors, below ground 1 floor Administrative building: Below ground 2 floors
<b>Completion</b>	February 20, 2004

# New Acquisition

NBF acquired the following properties during the 7th period.

## Toranomon Kotohira Tower

Tokyo CBDs



<b>Acquisition date</b>	November 30, 2004
<b>Outline of acquired property</b>	co-ownership of condominium interest
<b>Acquisition price</b>	¥6,043 million
<b>Acquisition structure</b>	Real Estate and Superficies
<b>Location</b>	2-8, Toranomon 1-chome, Minato-ku, Tokyo
<b>Site area</b>	3,647.30m <sup>2</sup> (*)
<b>Floor area of building</b>	29,828.90m <sup>2</sup> (*)
<b>Structure</b>	Above ground 26 floors, below ground 3 floors
<b>Completion</b>	November 30, 2004
(*)Note: The figures given for "Site area" and "Floor area" above indicate the total site area and total floor area of this property. NBF owns about 29% of this property.	

NBF has acquired the following properties after the 7th period.

## Akasaka Sanno Square

Tokyo CBDs



<b>Acquisition date</b>	February 24, 2005
<b>Outline of acquired property</b>	fee simple
<b>Acquisition price</b>	¥6,250 million
<b>Acquisition structure</b>	Trust
<b>Location</b>	2-12, Akasaka 2-chome, Minato-ku, Tokyo
<b>Site area</b>	926.63m <sup>2</sup>
<b>Floor area of building</b>	7,427.94m <sup>2</sup>
<b>Structure</b>	Above ground 8 floors, below ground 1 floor
<b>Completion</b>	September 7, 1989

## Sakaisuji-Honmachi Center Bldg.

Other Cities



<b>Acquisition date</b>	March 25, 2005
<b>Outline of acquired property</b>	ownership / co-ownership of condominium interest
<b>Acquisition price</b>	¥6,500 million
<b>Acquisition structure</b>	Real Estate
<b>Location</b>	1-6, Honmachi 2-chome, Chuo-ku, Osaka
<b>Site area</b>	3,645.74m <sup>2</sup> (*)
<b>Floor area of building</b>	32,989.71m <sup>2</sup> (*)
<b>Structure</b>	Above ground 16 floors, below ground 1 floor
<b>Completion</b>	May 1991
(*)Note: The figures given for "Site area" and "Floor area" above indicate the total site area and total floor area of this property. NBF owns about 46.6% of this property.	



## NBF Higashi-Ginza Square

Tokyo CBDs



<b>Acquisition date</b>	March 28, 2005
<b>Outline of acquired property</b>	fee simple
<b>Acquisition price</b>	¥5,200 million
<b>Acquisition structure</b>	Trust
<b>Location</b>	13-14, Tsukiji 1-chome, Chuo-ku, Tokyo
<b>Site area</b>	940.09m <sup>2</sup>
<b>Floor area of building</b>	7,152.99m <sup>2</sup>
<b>Structure</b>	Above ground 9 floors, below ground 1 floor
<b>Completion</b>	February 28, 2005

## NBF Utsunomiya Bldg.

Other Greater Tokyo



<b>Acquisition date</b>	March 29, 2005
<b>Outline of acquired property</b>	fee simple
<b>Acquisition price</b>	¥2,435 million
<b>Acquisition structure</b>	Real Estate
<b>Location</b>	1-9, Higashi Shukugo 3-chome, Utsunomiya, Tochigi
<b>Site area</b>	2,074.16m <sup>2</sup>
<b>Floor area of building</b>	8,775.07m <sup>2</sup>
<b>Structure</b>	Above ground 8 floors
<b>Completion</b>	June 5, 1996

## NBF Platinum Tower

Tokyo CBDs

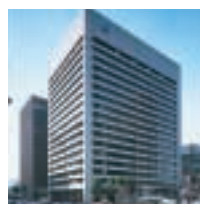
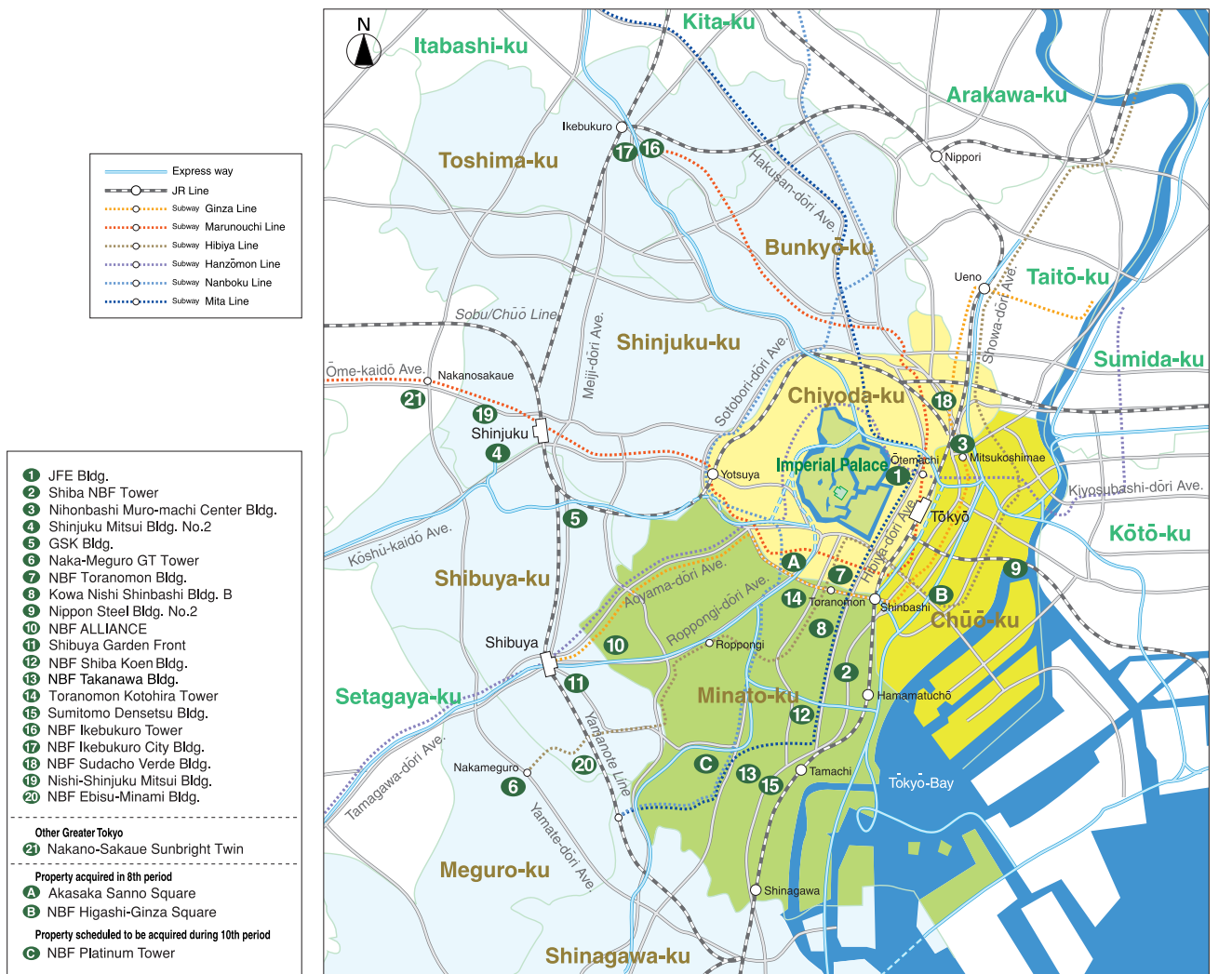


<b>Acquisition date</b>	March 31, 2006 (estimated)
<b>Outline of acquired property</b>	fee simple
<b>Acquisition price</b>	¥27,600 million (price may be adjusted upward to a maximum of ¥31,000 million depending on the seller's success in attracting tenants and improving current estimated profits)
<b>Acquisition structure</b>	Trust
<b>Location</b>	304, Shirokane 1-chome, Minato-ku, Tokyo
<b>Site area</b>	4,373.93m <sup>2</sup>
<b>Floor area of building</b>	50,630.91m <sup>2</sup> (estimated)
<b>Structure</b>	Above ground 26 floors, below ground 2 floors
<b>Completion</b>	November, 2005 (estimated)

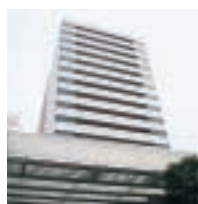
This is a conceptual drawing of what the completed project will look like. Thus, it may differ from the actual building.

# Location of Office Properties

## Tokyo CBDs



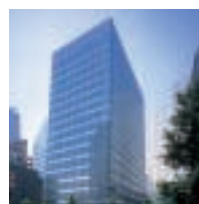
1 JFE Bldg.



2 Shiba NBF Tower



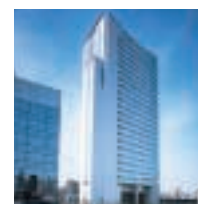
3 Nihonbashi Muro-machi Center Bldg.



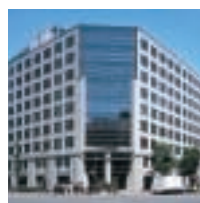
4 Shinjuku Mitsui Bldg. No.2



5 GSK Bldg.



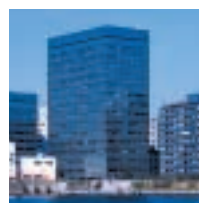
6 Naka-Meguro GT Tower



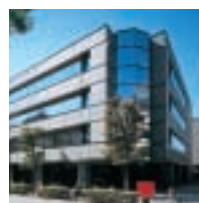
7 NBF Toranomon Bldg.



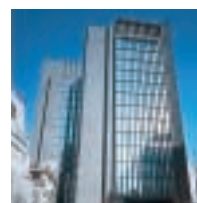
8 Kowa Nishi-Shinbashi Bldg. B



9 Nippon Steel Bldg. No.2



10 NBF ALLIANCE



11 Shibuya Garden Front

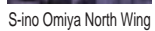
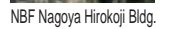
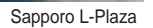


12 Toranomon Kotohira Tower

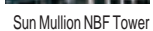
The map illustrates the Greater Tokyo Area, highlighting the locations of seven Japanese office buildings. The buildings are marked with red dots and labeled in white boxes:

- S-ino Omiya North Wing** (Saitama)
- Daido Life Omiya Bldg.** (Saitama)
- Tsukuba Mitsui Bldg.** (Tsukuba)
- NBF Matsudo Bldg.** (Matsudo)
- Nakano-Sakaue Sunbright Twin** (Tokyo)
- NBF Atsugi Bldg.** (Atsugi)
- Yokohama ST Bldg.** (Yokohama)

The map also shows major highways (expressways) and the JR Line network. The Tokyo Bay is visible in the lower right, and the surrounding prefectures of Saitama, Chiba, and Kanagawa are labeled. A red rectangle highlights the central Tokyo area, including the Yamanote Line and surrounding districts.



Aqua Dojima Daiwa  
Dojima Bldg.



# Properties Roster

The outline of NBF's properties as of December 31, 2004 is as follows:

Name of Building	Investment Type	Type of Ownership of the Buildings	Percentage of Ownership of the Buildings	Year Built	Acquisition Price	Book Value
			(%)		(Yen in millions)	
<b>Tokyo CBDs</b>						
JFE Bldg.	Trust	fee simple	100.0	1974	¥74,131	¥72,091
Shiba NBF Tower	Trust	fee simple	100.0	1986	32,000	33,058
Nihonbashi Muromachi Center Bldg.	Trust	fee simple	100.0	1986	23,945	24,308
Shinjuku Mitsui Bldg. No.2	Trust	fee simple	100.0	1983	16,285	15,700
GSK Bldg.	Trust	fee simple	100.0	1990	15,616	14,691
Nakameguro GT Tower	Ownership	condominium	60.5	2002	14,056	13,747
NBF Toranomon Bldg.	Trust	fee simple	100.0	1963	13,337	13,819
Kowa Nishi-Shinbashi Bldg. B	Trust	co-ownership of condominium	83.0	1994	13,217	12,641
Nippon Steel Bldg. No.2	Ownership	fee simple	100.0	1989	12,614	12,509
NBF ALLIANCE	Trust	fee simple	100.0	1989	9,126	9,455
Shibuya Garden Front	Ownership	co-ownership	50.0	2003	8,700	8,726
NBF Shiba Koen Bldg.	Ownership	fee simple	100.0	1990	6,770	6,852
NBF Takanawa Bldg.	Trust	fee simple	100.0	1987	6,667	6,357
Toranomon Kotohira Tower	Ownership	co-ownership of condominium	29.2	2004	6,043	6,260
Sumitomo Densetsu Bldg.	Trust	fee simple	100.0	1991	5,365	5,164
NBF Ikebukuro Tower	Trust	fee simple	100.0	1993	4,695	4,806
NBF Ikebukuro City Bldg.	Trust	fee simple	100.0	1993	4,428	4,490
NBF Sudacho Verde Bldg.	Ownership	fee simple	100.0	1988	2,380	2,455
Nishi-Shinjuku Mitsui Bldg.	Ownership	condominium	4.1	1999	1,603	1,647
NBF Ebisu Minami Bldg.	Ownership	fee simple	100.0	1991	1,000	1,050
<b>Other Greater Tokyo</b>						
Nakanosakaue Sunbright Twin	Trust	condominium	31.6	1996	8,979	8,854
Yokohama ST Bldg.	Trust	co-ownership	75.0	1987	13,529	12,991
NBF Atsugi Bldg.	Ownership	fee simple	100.0	1991	2,300	2,316
Tsukuba Mitsui Bldg.	Trust	fee simple	100.0	1990	8,876	8,219
S-ino Omiya North Wing	Ownership	fee simple	100.0	2004	16,816	16,939
Daido Life Omiya Bldg.	Trust	fee simple	100.0	1991	2,361	2,273
NBF Matsudo Bldg.	Ownership	fee simple	100.0	1992	2,455	2,472
<b>Other Cities</b>						
Sapporo L-Plaza	Ownership	condominium	36.0	2003	3,434	3,505
NBF Sapporo Minami Nijo Bldg.	Trust	fee simple	100.0	1990	1,870	1,757
NBF Sendai Honcho Bldg.	Trust	fee simple	100.0	1987	3,566	3,450
NBF Unix Bldg.	Trust	fee simple	100.0	1994	4,029	3,628
NBF Niigata Telecom Bldg.	Trust	fee simple	100.0	1989	3,958	3,777
NBF Nagoya Hirokoji Bldg.	Ownership	fee simple	100.0	2000	5,406	5,563
Aqua Dojima Daiwa Dojima Bldg.	Trust	fee simple	100.0	1996	17,810	18,392
Sun Mullion NBF Tower	Trust	fee simple	100.0	1996	10,500	9,954
NBF Sakai-Higashi Bldg.	Trust	fee simple	100.0	1991	2,227	2,116
NBF Tanimachi Bldg.	Trust	fee simple	100.0	1993	1,944	2,005
Aqua Dojima East	Trust	co-ownership of condominium	23.7	1993	1,914	1,976
Otemae Center Bldg.	Trust	fee simple	100.0	1992	1,826	1,731
NBF Shijo Karasuma Bldg.	Trust	fee simple	100.0	1991	1,627	1,478
NBF Hiroshima Tatemachi Bldg.	Ownership	fee simple	100.0	1991	2,930	3,049
Hiroshima Fukuromachi Bldg.	Ownership	co-ownership of condominium	10.4	2002	835	828
NBF Hakata Gion 21 Bldg.	Trust	fee simple	100.0	1993	2,629	2,487
Four (4) properties already sold	—	—	—	—	—	—
<b>Total</b>					393,800	389,586

Note 1: Percentage of total revenue is the ratio of revenue from each office property to total revenues from all office properties.

Note 2: Consent for disclosure was not obtained from tenants from whom rent revenue accounts for more than 80% of total rent revenues for the property. However, relevant figures are included in the total.

Note 3: Figures stated above are based on NBF's ownership interest.

Note 4: The figure (above, in the table, etc.) indicates the total sales price of the four (4) properties which have been already sold as of July 30, 2004.

Appraisal Value	Rentable Square Meters	Leased Square Meters at the End of Period	Occupancy Rates at the End of Period	Total Number of Tenants at the End of Period	Revenues	Percentage of Total Revenues (Note 1)
(Yen in millions)	(m <sup>2</sup> )	(m <sup>2</sup> )	(%)		(Yen in millions)	(%)
¥75,700	65,280	65,280	100.0	1	¥2,175	14.3
24,800	24,796	24,621	99.3	27	1,064	7.0
24,320	16,306	16,306	100.0	15	427	2.8
16,500	14,946	14,946	100.0	35	696	4.6
17,800	22,702	22,702	100.0	1	Note 2	Note 2
14,300	13,924	13,924	100.0	1	668	4.4
13,800	10,354	10,232	98.8	11	578	3.8
13,600	10,088	10,088	100.0	2	Note 2	Note 2
13,100	17,339	17,339	100.0	2	618	4.1
9,490	4,043	4,043	100.0	9	280	1.8
9,550	8,258	8,258	100.0	1	Note 2	Note 2
6,810	7,087	7,087	100.0	3	Note 2	Note 2
7,140	10,473	10,473	100.0	5	327	2.2
6,090	4,926	4,926	100.0	1	3	0.0
5,160	5,978	5,978	100.0	1	Note 2	Note 2
4,850	5,794	5,521	95.3	10	206	1.4
4,570	5,127	4,996	97.4	10	189	1.2
2,410	2,971	2,962	99.7	7	120	0.8
1,690	1,576	1,576	100.0	1	65	0.4
1,050	1,595	1,595	100.0	5	60	0.4
9,590	12,074	12,074	100.0	1	Note 2	Note 2
14,500	20,071	19,655	97.9	80	740	4.9
2,350	5,242	4,826	92.1	18	135	0.9
8,890	16,851	15,018	89.1	59	514	3.4
17,800	20,709	19,196	92.7	29	198	1.3
2,240	3,574	3,299	92.3	13	114	0.8
2,590	4,772	4,684	98.2	25	134	0.9
3,520	9,058	9,058	100.0	12	248	1.6
1,730	5,376	4,476	83.3	7	119	0.8
3,810	7,567	7,542	99.7	10	209	1.4
4,840	13,479	13,037	96.7	53	307	2.0
4,340	10,219	10,219	100.0	36	278	1.8
5,440	6,873	6,873	100.0	11	234	1.5
18,400	21,935	18,592	84.8	33	334	2.2
9,820	14,112	13,649	96.7	26	494	3.3
2,350	5,332	5,273	98.9	17	148	1.0
2,030	4,953	4,725	95.4	2	Note 2	Note 2
2,010	3,264	2,985	91.4	17	110	0.7
1,960	5,532	5,368	97.0	6	141	0.9
1,560	3,929	3,830	97.5	15	104	0.7
3,000	5,690	5,526	97.1	26	152	1.0
867	1,310	1,296	99.0	16	43	0.3
2,450	5,416	5,416	100.0	7	154	1.0
—	—	—	—	—	77	0.5
398,817	460,901	449,470	97.5	667	15,178	100.0





The number of executive directors of NBF is one or more, and the number of supervisory directors is four or fewer (but always equal to the number of executive directors, plus a minimum of one additional supervisory director) (Articles of Incorporation). At the end of the immediately preceding term the organization of NBF consisted of, in addition to the general meeting of the shareholders, two executive directors and four supervisory directors as well as a Board of Directors comprised of the executive directors and supervisory directors.

At the end of the immediately preceding term, members of the Board of Directors of NBF were as set forth in the table below.

Name of executive directors and supervisory directors	Title	
Sadafumi Abe	Executive Director	
Koichi Nishiyama	Executive Director	
Tomio Hirota	Supervisory Director	Lawyer
Akira Nishizawa	Supervisory Director	Real Estate Appraiser
Nobutoshi Kozuka	Supervisory Director	Certified Public Accountant, Certified Public Tax Accountant
Hideo Fukazawa	Supervisory Director	

Note: Koichi Nishiyama, Executive Director, is concurrently President & CEO of NBFM. No executive or supervisory director directly or indirectly holds any shares in NBF. Further, while some supervisory directors are concurrently officers in other corporations, there exist no conflicts of interest between said corporations and NBF.

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## Investment Policies of NBF

### 1. Basic Investment Policies

#### A. Basic Policies

NBF's primary investment objective is to achieve sustainable growth in portfolio value and stable profits on a mid-term to long-term basis. NBF achieves this objective by investing in real estate consisting of buildings primarily used for offices with their underlying land located in the Tokyo Central Business Districts (hereinafter "CBDs"), Other Greater Tokyo and Other Cities in Japan as well as securities, beneficiary certificates representing beneficial interests in trusts (hereinafter "beneficiary certificates") and other assets backed by office properties (collectively hereinafter "Real Estate etc.") ("Investment Objects and Policies", Articles of Incorporation). (Reference to : laws, legal documents, etc used as the basis or sources hereof are set forth in parenthesis herein.)

#### B. Investment Strategy

Nippon Building Fund Management Ltd. ("NBFM"), based on the investment strategy of NBF set forth below, invests and manages the assets of NBF. NBFM has established asset management guidelines based on the Articles of Incorporation of NBF and in accordance with the investment strategy of NBF.

##### (1) Strategy for Creation of the Portfolio

The goal of the portfolio is to generate steady growth and stable profits on a mid-term to long-term basis. The selection criteria of investment assets is based on, the composition of investment assets in the portfolio and based on consideration of a quantitative proportion of the office stock located in the various regions of Japan.

##### *Area Diversification*

The investment strategy of NBF divides the investment area into three areas consisting of Tokyo CBDs, Other Greater Tokyo and Other Cities in such manner that 70% or more of total investment assets (Real Estate etc.) is allocated to Tokyo CBDs and Other Greater Tokyo and 30% or less to Other Cities. The purpose of this area diversification is to mitigate cash flow risks such as earthquakes, risk of vacancies and so forth.

The following table sets forth abovesaid area diversification strategy.

Area and Allocation Ratio	Area Analysis
<b>Tokyo CBDs</b> 9 central wards in Tokyo : Chiyoda, Minato, Chuo, Shinjuku, Shinagawa, Shibuya, Toshima, Bunkyo and Meguro	Relatively high rent levels and low vacancy rates compared to Other Cities; also, relatively large market scale (both leasing and purchase/sale) with high growth rates. Relatively low yearly NOI yields. Relatively high liquidity at the time of sales.
<b>Other Greater Tokyo</b> Other 14 wards in Tokyo and Neighboring Cities (see Note 1 below) such as Musashino, Tachikawa, Yokohama, Kawasaki, Chiba, Kashiwa, Saitama etc.	Basic special characteristics are between those of Tokyo CBDs and Other Cities.
<b>Total of above two areas :70% or more</b>	
<b>Other Cities</b> Principal regional cities such as Sapporo, Sendai, Niigata, Shizuoka, Hamamatsu, Nagoya, Kyoto, Osaka, Kobe, Okayama, Hiroshima, Takamatsu, Fukuoka, Kumamoto etc.	Rent levels relatively low and vacancy rates relatively high compared to Tokyo CBDs. Also, scale of market is relatively small and growth rates relatively low. Relatively high yearly NOI yields. Relatively low liquidity at the time of sales.
<b>Total of above area: 30% or less</b>	
Note 1 "Neighboring Cities" refers to the Metropolis of Tokyo excluding its 23 wards, and the 6 prefectures of Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi.	
Note 2 Due to unforeseeable events such as, extreme fluctuations in macro-economic trends, financial trends, real estate market trends and so forth, it may not always be possible to operate in accordance with each of the above criteria ("Investment Objects and Policies", Articles of Incorporation).	

## (2) Acquisition Strategy

### *Ratio of Real Estate Assets*

NBF will maintain ratios of 75% or more with respect to the "Designated Real Estate Ratio". As of March 31, 2005, NBF satisfied the criteria.

- The "Designated Real Estate Ratio" means the ratio of the total amount of Designated Real Estate to the total amount of Designated Assets owned by NBF.

Note: Designated Real Estate includes real estate, real estate leasehold rights, superficies and beneficiary certificates backed by real estate, land leasehold rights and superficies (as designated under Article 83.4.3.1 of the Special Taxation Measures Law of Japan).

### ***Due Diligence***

When investing in office properties, selections will be made through comprehensive research and analysis based on the forecast investment yields resulting from their acquisition costs and their anticipated profits, future prospects and stability of the area of location, availability of measures responding to risks of deterioration and obsolescence, insurability and so forth. The details of the relevant criteria are set forth in the following table (“Investment Objects and Policies”, Articles of Incorporation).

Though such consideration will involve the study of the criteria included in the following table, it is possible that when NBF acquires or intends to acquire operating assets, not all of the following criteria will be satisfied.

<b>Item</b>	<b>Points to be reviewed</b>
Scale of building	Net rentable area, including net rentable area of entire building and standard net rentable area per floor. Desired total net rentable area is 1,650m <sup>2</sup> (approximately 500 <i>tsubo</i> ) or more. Standard net rentable area per floor is 330m <sup>2</sup> (approximately 100 <i>tsubo</i> ) or more.
Construction type and specifications of facilities	Building design and floor plan suitable for leasing, with divisibility, adequate ceiling height, electrical service, HVAC equipment etc.
Earthquake resistance	Ensure that construction quality exceeds earthquake standards (meaning those required pursuant to the Building Standards Law as amended in 1981) or standards equivalent thereto.
Measures regarding status of legal title	In cases such as co-ownership, divided condominium ownership, a building erected on leased land etc. where NBF will not obtain complete ownership of a building, following matters are appropriately treated. <ul style="list-style-type: none"> <li>• measures to protect security deposits, policies and measures regarding cash reserves for long-term renovation plans;</li> <li>• appropriate measures regarding demands for division of co-owned interests or the sale of a co-owner’s interest etc;</li> </ul>
Tenancy characteristics	Acceptable creditworthiness of tenants, purposes of use by tenants, configuration, and condition of collectibility of rents etc.
Environmental; condition of land etc.	Absence of harmful substances such as asbestos, (or countermeasures can be implemented for any such substances), non-existence of soil pollution etc.

### ***Uncompleted or Unleasable Properties***

In principle, NBF acquires Real Estate etc. which are leased/leasable assets at the time of closing. NBF may acquire a property which is not yet leasable at the time of closing based on consideration of the impact on NBF's asset management activities after taking into account the investment amount, the date of completion or of becoming leasable, estimated revenues and so forth; provided, however, that the contract amount of any such unleasable asset combined with the total contract amount of previously acquired unleasable assets (but excluding unleasable assets which thereafter become operational) will not exceed 10% of the total assets indicated on the most recent balance sheet of NBF. For this purpose, “leased/leasable assets” shall mean property with respect to which the construction of the building has been completed and such building is leased or leasable. Properties which are owned by NBF and have become operational at some point shall be deemed “leasable ” thereafter (including such cases as reconstruction or large-scale renovation of a building).

### (3) Management and Disposition Policies

Regarding acquired operating properties, the goal is to obtain steady growth of operating profits on a mid-term to long-term basis by planning to maintain and improve asset value and competitive ability through investment in facilities and by expanding income (increasing rents etc., increasing occupancy rates, extending the term of leases and rendering them more stable etc.) and reducing property-related expenses.

NBF will, in principle, for the purpose of assuring stable income on a mid-term to long-term basis, lease out all operating properties included in operating assets (including installation of parking lots, billboards etc.). When conducting such leasing, security deposits etc. and other similar monies may be received and said monies will be managed in accordance with the requirements of “Investment Objects and Policies” of the Articles of Incorporation (“Investment Objects and Policies”, Articles of Incorporation).

NBF is entitled to establish reserves for long-term renovations required to maintain and enhance the value of operating properties, reserves for payables, reserves for cash distributions and any other similar reserves etc. (Articles of Incorporation).

#### ***Reserves for Long-Term Renovations***

From the reserves set forth above, a portion corresponding to renovations, repairs and tenant improvements will be determined based on renovation plans for each building. As of March 31, 2005, foreseen reserves provided from January to December 2005 are as follows:

<b>Item</b>	<b>Reason</b>
Reserves for long-term renovations	Average annual amount over an approximately 10-year period based on engineering reports
Reserves for tenant improvements (reserves for future construction expenses required for spaces leased to tenants)	Expenses of providing “free access floor”(or raised floor); expenses for other move-in construction costs (partitions etc.)
<b>Total Foreseen Amount: (annual basis)    ¥1,865 million</b>	

(Note1) In addition to the above-mentioned amount, certain amounts are set aside as cash reserves for renovation pursuant to the administrative rules of the buildings in which NBF owns condominium interests, etc.

(Note 2) The amount of reserves set forth above is the total amount of reserves with respect to the 43 properties owned by NBF as of the end of December, 2004.

#### ***Measures to Avoid Reductions and Fluctuations in Operating Income***

In order to avoid large-scale reductions and fluctuations in operating income due to fire damage, withdrawal of tenants and so forth, efforts, such as area diversification and obtaining adequate fire and casualty insurances etc., will be exerted.

#### ***Appraisal Value etc.***

In the event that valuation of real estate, land leasehold rights and superficies (including beneficiary certificates, securities and tokumei-kumiai ownership interests, and other asset-backed instruments) is undertaken for the purpose of disclosure in Performance Information Reports etc., the value to be used for disclosure will, in principle, be the appraisal valuation provided by a certified real estate appraiser (Articles of Incorporation).

The appraisal value of property with respect to the period commencing on the acquisition thereof and ending on the date of disclosure of such value with respect to the next following closure of NBF's accounting term shall be the acquisition price of the said property (excluding miscellaneous acquisition costs, fixed assets tax, city-planning tax and consumption tax) as stated in the sale and purchase contract etc. for the said property.



***Disposition***

In disposing of individual operating properties, selections will be made through comprehensive research and analysis based on the forecasted income, actual and predicted fluctuations in asset value, future prospects and stability of the area of location, risks of deterioration and obsolescence of real estate and predicted costs thereof as well as the composition of the portfolio etc. Sell/hold studies will be periodically undertaken with respect to all operating properties (“Investment Objects and Policies”, Articles of Incorporation).

**(4) Financial Policies*****Issuance of Shares***

NBF may issue shares in order to undertake acquisition and renovation and so forth of assets and to provide allowance for funds required for working capital as well as for the repayment of debt (including security deposits, borrowings and repayment of obligations regarding NBF bonds etc.)

***Debt Financing***

NBF may raise capital (including use of the call loan market) and issue bonds in order to undertake acquisition and renovation and so forth of assets and to provide allowance for funds required for working capital as well as for the repayment of debt (including security deposits, borrowings and repayment of obligations regarding NBF bonds etc.) (“Investment Objects and Policies”, Articles of Incorporation).

Borrowings are limited to those from Qualified Institutional Investors as specified in Article 2.3.1 of the Securities and Exchange Law of Japan, in case capital is borrowed. Further, the total limit on all such borrowings and issues of NBF bonds will be ¥1,000,000 million. When undertaking borrowings or when issuing NBF bonds, NBF may provide operating assets as collateral (Articles of Incorporation).

***Loan to Value Ratio***

The ratio of the total amount of borrowings and issues of NBF bonds to the total amount of assets of NBF (Loan-to-Value ratio) is envisioned to be limited to 60%, but may temporarily exceed 60% when acquiring certain assets etc(Long and mid-term operating asset management policy and annual management plan established by the Asset Management Company).

***Derivatives***

In order to avoid risks of fluctuation in the prices of operating assets as well as risks of fluctuations in interest rates, futures transactions, option transactions, swap transactions and forward rate transactions with respect to Japanese interest rates may be undertaken (“Investment Objects and Policies”, Articles of Incorporation).

## Distribution Policies of NBF

### A. Distributions of Profits

A registered investment corporation may deduct its cash dividends of profits from taxable income under Japanese tax regulations if it distributes to its shareholders in excess of 90% of its taxable income and complies with other organizational and operational requirements. NBF intends to make dividend distributions that ensure that NBF satisfies those requirements.

NBF will, in principle, effect distributions in accordance with the followings policies (Articles of Incorporation).

#### *Earnings Available for Distributions*

NBF's earnings available for distributions is based on accounting of profits prepared in accordance with the Investment Trust Law and the Securities and Exchange Law of Japan and in conformity with generally accepted accounting principles in Japan.

The distributable amount which results from operation of managed assets of NBF (hereinafter, "Distributable Amount") shall be the amount of profit (the amount of net assets on the balance sheet less the amount of total expenses, capital surplus reserves and estimated variances) calculated on each closing date in accordance with the Investment Trust Law of Japan and corporate accounting principles generally deemed to be fair and appropriate.

#### *Cash Distribution of Profits*

The amount of cash distributions will be determined by NBF, such amount being in excess of 90% of taxable income available for dividends of NBF set forth in Article 67-15 of the Special Taxation Measures Law of Japan (hereinafter "Taxable Income Available for Dividends"); provided, however, that the maximum amount of distributions will be the Distributable Amount. NBF has the right to allow for long-term reserve for repair, reserve for outstanding claims, reserve for distributions and other reserves and allowances similar thereto which are deemed necessary for maintenance or appreciation of the assets of NBF.

### B. Distribution in Excess of Earnings

A registered investment corporation is allowed to distribute cash to its shareholders in excess of retained earnings under the Investment Trust Law of Japan, although the Investment Trusts Association of Japan has established rules such that a corporate-style J-REIT may pay out the excess of retained earnings for the period up to a maximum of 60% of depreciation for the period. NBF is entitled to make cash distributions of the amounts described below in excess of the Distributable Earnings in the following cases; provided, however, that the maximum amount of such distributions will be the amount set forth in the rules of the Investment Trusts Association of Japan (Article 15.2 of the Articles of Incorporation).

- Amount determined by NBF as being eligible for the requirements of the Special Taxation Treatment for Investment Corporations, in case of the Distributable Earnings being less than the Taxable Income Available for Dividends
- Amount determined by NBF not in excess of the amount of depreciation for the current term less the amount of appropriate reserves for the current term, if NBF determines it appropriate considering trends in macro-economic environments, real estate markets and leasing markets

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***NBF's Current Policy on Distributions in Excess of Profits***

As for cash distributions in excess of profits, as long as the current Japanese taxation treatment applicable to NBF's shareholders in Japan to whom such distributions are paid requires them to calculate capital gain or loss at the time of each distribution, NBF will not make distributions in excess of profits.

Notwithstanding the above, NBF may make distributions in excess of profits in accordance with the distribution policies stated above in order to meet "Requirement for Deduction from taxable income of Dividends of Profit, etc.", and if such distributions in excess of profits are deemed necessary by the Board of Directors of NBF.

**C. Method of Distributions**

Distributions will be made in cash, in principle, within three months from the closing date, to such shareholders or registered pledgees as are listed in the latest Shareholder Registry as of the closing date, in proportion to the number of shares owned by them (Articles of Incorporation).

**D. Prescription for Cash Distributions etc.**

NBF will be discharged from the obligation to pay distributions of profits three calendar years from the date of commencing payment. Interest will not accrue on unpaid distributions (Articles of Incorporation).

**Investment Restrictions**

NBF will invest neither in real estate located outside of Japan nor in assets denominated in non-Japanese currencies as specified in the Articles of Incorporation. Please see " Appendix Investment Restrictions" regarding other investment restrictions. Also, refer to " Basic Investment Policies (B) Investment Strategy" hereinabove.

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## **Performance Information Report**

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Related Parties Transactions

## Overview of NBF

### 1. Financial Highlights

		7th Period from July 1, 2004 to December 31, 2004	6th Period from January 1, 2004 to June 30, 2004	5th Period from July 1, 2003 to December 31, 2003
(Yen in millions, except per share data or where otherwise indicated)				
Operating revenues		<b>¥16,116</b>	¥12,554	¥12,453
Revenues from property leasing		<b>15,178</b>	12,458	12,453
Operating expenses		<b>8,587</b>	7,392	7,464
Rental expenses		<b>7,831</b>	6,775	6,891
Income before income taxes		<b>6,307</b>	4,263	4,094
Net income	(a)	<b>6,306</b>	4,262	4,093
Total assets	(b)	<b>430,378</b>	366,200	314,362
Total shareholders' equity ('Net assets')	(c)	<b>216,985</b>	153,161	152,992
Contributed capital		<b>210,679</b>	148,899	148,999
Total amount of cash distribution	(e)	<b>6,306</b>	4,262	4,093
Total number of common shares issued (shares)	(d)	<b>364,700</b>	280,700	280,700
Net assets per share (Yen)	(c) / (d)	<b>594,968</b>	545,641	545,038
Distribution per share (Yen)	(e) / (d)	<b>17,291</b>	15,185	14,582
Distribution of accumulated earnings per share (Yen)		<b>17,291</b>	15,185	14,582
Distribution in excess of accumulated earnings per share (Yen)		-	-	-
Return on total assets	Note 2	<b>1.58%</b> <b>(3.17%)</b>	1.25% (2.51%)	1.32% (2.63%)
ROE	Note 2	<b>3.41%</b> <b>(6.82%)</b>	2.78% (5.57%)	2.67% (5.35%)
Capital ratio	(c) / (b)	<b>50.4%</b>	41.8%	48.7%
Payout ratio	(e) / (a)	<b>100.0%</b>	99.9%	100.0%
Number of days		<b>184</b>	182	184
<b>Other supplementary data:</b>				
Number of investment properties	Note 4	<b>43</b>	43	33
Number of tenants	Note 4	<b>667</b>	629	511
Total rentable square meters		<b>460,901</b>	419,511	358,940
Occupancy rate	Note 4	<b>97.5%</b>	97.7%	92.3%
Depreciation and amortization		<b>2,891</b>	2,628	2,403
Capital expenditures		<b>431</b>	459	2,314
NOI from property leasing activities	Note 2	<b>10,238</b>	8,311	7,964
FFO per share (Yen)	Note 2	<b>23,060</b>	24,203	23,141

Note 1 Operating revenues do not include consumption taxes.

Note 2 All valuations are calculated through the following formulas. The figures in parenthesis are annualized based on the 6 months figures for the period.

Return on total assets: Income before income taxes / (Initial total assets + Total assets at end of period) ÷ 2

ROE: Net income / (Initial shareholders' equity + Shareholders' equity at end of period) ÷ 2

NOI (Net Operating Income) from property leasing activities:

(Revenue from property leasing - Rental expenses) + Depreciation and Amortization

FFO (Funds From Operation) per share : (Net income (excluding Gain on sale of investment properties) + Depreciation and Amortization)/

Weighted average number of common shares issued and outstanding during the period.

Note 3 As for payout ratio, figures beyond the first decimal place have been disregarded.

Note 4 Number of investment properties means units generally perceived to be one office building. Number of tenants means gross number of tenants by building. Occupancy rate is ratio of gross leased area to total rentable area at the end of the period.



## 2. Distribution for the Current Period

Distribution per share for the current period was ¥17,291. NBF expects to distribute almost all taxable income for the current period to be eligible for special tax treatment (Special Taxation Measures Law of Japan Article 67-15) that allows NBF to deduct its cash dividends of profits from taxable income.

	For the six months ended		
	December 31, 2004	June 30, 2004	December 31, 2003
	(Yen in thousands, except per share amount)		
Retained earnings	¥ 6,306,101	¥ 4,262,515	¥ 4,093,179
Undistributed earnings	73	86	12
Total cash distribution	6,306,028	4,262,430	4,093,167
(Total cash distribution per share)	17,291	15,185	14,582
Distribution of accumulated earnings	6,306,028	4,262,430	4,093,167
(Distribution of accumulated earnings per share)	17,291	15,185	14,582
Cash Distribution in excess of accumulated earnings (per share)			

Note Above cash distributions were paid after the period end.

## 3. Capitalization

### *Balance of Paid-in Capital*

NBF was established on March 16, 2001 with initial paid-in capital of ¥100 million. NBF began investing activities in May 2001 after ¥98,800 million was raised through private placements. As of December 31, 2004, NBF had issued 364,700 common shares out of 2,000,000 total authorized shares. NBF's common shares were listed on the J-REIT section of the Tokyo Stock Exchange in September 2001 upon the completion of a public offering. As the Investment Trust Law of Japan does not contain any provision for the issue of more than one class of shares, NBF's common shares comprise the sole class of shares authorized and issued by NBF.

Issue date	Remarks	Common Shares outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		(shares)		(Yen in millions)		
March 16, 2001	Initial capital (private)	200	200	¥ 100	¥ 100	Note 1
May 23, 2001	Private placement	197,600	197,800	98,800	98,900	Note 2
September 8, 2001	Public offering	82,900	280,700	49,999	148,899	Note 3
July 14, 2004	Public offering	80,000	360,700	58,838	207,737	Note 4
August 11, 2004	Third Party Allocation	4,000	364,700	2,941	210,678	Note 5

Note 1 NBF was established with initial capital of ¥500,000 per share.

Note 2 Follow-on private offering at ¥500,000 per share to raise funds for acquisition of 22 properties.

Note 3 Public offering of new units for ¥625,000 per share (excluding underwriting fee: ¥603,125) to repay debt and to fund property acquisition.

Note 4 Public offering of new units for ¥759,500 per share (excluding underwriting fee: ¥735,475) to repay debt etc.

Note 5 Additional issue of new units (third party allocation) for ¥735,475 per share undertaken pursuant to the public offering in Note 4.

### Market Price of shares

High/Low (closing price) of shares on the TSE:

	December 31, 2004	For the six months ended June 30, 2004	December 31, 2003
		(in Yen)	
High.	¥ 900,000	¥ 823,000	¥696,000
Low.	762,000	682,000	631,000

### Borrowings

Borrowings by financial institution as of December 31, 2004 are shown below.

#### Short-term debt

Lender	Balance	Average interest rate(%) (Note 1)	Due on (Note 2)	Repayment Method	Use of Funds	Notes
(Yen in millions)						
The Chuo Mitsui Trust and Banking Co., Ltd.	¥3,000	0.5%	January 31, 2005			
The Bank of Tokyo- Mitsubishi, Ltd.	3,000	0.5%	January 31, 2005			
The Norinchukin Bank	3,000	0.5%	January 31, 2005			
Sumitomo Mitsui Banking Corporation	3,000	0.5%	January 31, 2005			
The Hachijuni Bank, Ltd.	2,000	0.4%	March 31, 2005			
The Bank of Fukuoka, Ltd.	2,000	0.4%	January 31, 2005			
Shinkin Central Bank	1,000	0.4%	February 28, 2005			
The Kagoshima Bank, Ltd.	1,000	0.4%	January 31, 2005			Unsecured
The Chugoku Bank, Ltd.	1,000	0.4%	February 28, 2005			/unguaranteed
The Gunma Bank, Ltd.	1,000	0.4%	February 2, 2005	Bullet		/pari passu,
Mizuho Corporate Bank, Ltd.	1,000	0.5%	November 4, 2005	payment	(Note 3)	See (Note 4)
The Shizuoka Bank, Ltd.	1,000	0.4%	February 28, 2005			
The Yamaguchi Bank, Ltd.	1,000	0.4%	January 31, 2005			Floating rate
The Daishi Bank, Ltd.	1,000	0.3%	January 31, 2005			
Shinsei Bank, Ltd.	1,000	0.4%	January 31, 2005			
The Yamanashi Chuo Bank, Ltd.	500	0.4%	March 31, 2005			
Short-term debt Total	¥ 25,500					

#### Long-term debt

Sumitomo Life Insurance Company	¥ 12,000	1.7%	May 23, 2008			
	5,000	1.7%	July 16, 2009			
	5,000	2.1%	July 16, 2011			
	3,000	1.2%	February 3, 2010			
The Chuo Mitsui Trust and Banking Co., Ltd.	10,000	1.3%	May 23, 2006			
	9,000	1.3%	July 16, 2007			
	1,000	1.2%	March 30, 2009			
	5,000	1.6%	March 30, 2011			
Meiji Yasuda Life Insurance Company	3,000	2.1%	December 21, 2011			
	4,000	2.2%	April 27, 2012			Unsecured
	1,000	2.2%	May 23, 2012			/unguaranteed
	2,000	1.2%	February 26, 2010	Bullet		/pari passu,
The Norinchukin Bank	8,000	1.1%	November 20, 2008	payment	(Note 3)	See (Note 4)

**Long-term debt (continued)**

Lender	Balance	Average interest rate(%) (Note 1)	Due on	Repayment Method	Use of Funds	Notes
(Yen in millions)						
Mitsui Life Insurance Company, Ltd.	2,000	1.7%	February 13, 2012			Fixed rate
	4,000	1.8%	March, 30, 2012			
	2,000	1.6%	November 1, 2012			
Nippon Life Insurance Company	3,000	0.7%	August 9, 2005			
	2,000	0.7%	September 30, 2005			
	3,000	0.9%	October 30, 2009			
The Sumitomo Trust and Banking Co, Ltd.	6,000	1.3%	July 16, 2007			
The Dai-Ichi Mutual Life Insurance Company	2,000	0.7%	March 31, 2006			
	1,000	0.9%	September 29, 2006			
	2,000	0.8%	February 13, 2008			
Daido Life Insurance Company	2,000	1.2%	February 3, 2010			
	1,000	1.8%	March 30, 2012			
	1,000	2.0%	October 31, 2014			
Development Bank of Japan	4,000	1.8%	November 28, 2014			
Sumitomo Mitsui Banking Corporation	2,000	1.2%	March 12, 2007			
	1,000	1.5%	June 30, 2009			
The Joyo Bank, Ltd.	1,000	0.9%	May 23, 2006			
	1,000	1.4%	May 23, 2008			
The Iyo Bank, Ltd.	1,000	0.7%	March 31, 2006			
	1,000	0.7%	February 2, 2007			
The Bank of Tokyo- Mitsubishi, Ltd.	2,000	0.7%	September 28, 2007			
Taiyo Life Insurance Company	1,000	1.2%	February 12, 2010			
Zenkyoren (The National Mutual Insurance Federation of Agricultural Cooperatives)	1,000	1.7%	June 1, 2011			
Long-term debt Total	¥114,000					
Borrowings Total(Note 5)	¥139,500					

Note 1. Average interest rate is stated for each lender (average weighted by borrowing outstanding in case of more than one loan from the same lender) by rounding down to the second decimal place.

Note 2. With respect to the date of drawdown and date of repayment in case of more than one short-term loan from the same lender, the earliest date of repayment for all such loans coming due is given.

Note 3. Use of funds for the above includes acquisition of real estate or beneficiary interests, repayment of borrowings and working capital.

Note 4. A special agreement attached to "Loan Agreement" entered into between the NBF and each financial institution provides that the above borrowings from all financial institutions rank pari passu to each other.

Note 5. The total amount of long-term borrowings (i.e. excluding those expected to be repaid within one year) repayable within 5 years of the date of the balance sheet and expected to be repaid by specific year(s) is as follows.

(Unit : ¥1000)

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Amount Borrowed	15,000,000	20,000,000	23,000,000	10,000,000

### NBF Bonds

Issue	Issue Date	Balance as of December 31, 2004 (Yen in millions)	Coupon	Maturity Date	Redemption	Use of Proceeds	Note
No.2 Unsecured Bonds	Feb 10, 2003	¥ 10,000	0.75%	Feb 9, 2007	Bullet Payment	Note 1	Note 2
No.3 Unsecured Bonds	June 12, 2003	¥ 10,000	2.00%	June 12, 2018	Bullet Payment	Note 1	Note 2
No.4 Unsecured Bonds	September 22, 2004	¥ 10,000	1.04%	September 22, 2009	Bullet Payment	Note 1	Note 2
No.5 Unsecured Bonds	September 22, 2004	¥ 10,000	1.60%	September 22, 2011	Bullet Payment	Note 1	Note 2
Total(Note 3)		¥ 40,000					

Note 1. Use of funds includes acquisition of Real Estate etc., repayment of borrowings and working capital.

Note 2. The bonds are limited to qualified institutional investors and rank pari passu with other debts issued.

Note 3. The total amount of bonds repayable within 5 years of the date of the balance sheet and expected to be repaid by specific year(s) is as follows.

(Unit: ¥1000)

	within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Amount Borrowed	-	-	10,000,000	-	10,000,000

### Others

NBF has security deposits totaling ¥26,185 million as of December 31, 2004.

## 4. Major Shareholders

The following table sets forth our major shareholders' information as of December 31, 2004.

Name	Address	Number of Common Shares Owned	Ownership
Japan Trustee Services Bank, Ltd. ....	8-11, Harumi 1-Chome, Chuo-ku, Tokyo	25,391	6.96%
Mitsui Fudosan Co., Ltd. ....	1-1 Nihonbashi Muro-machi, 2-chome Chuo-ku, Tokyo	18,235	5.00
The Master Trust Bank of Japan, Ltd. ....	11-3 Hamamatsucho 2-chome Minato-ku, Tokyo	14,980	4.10
The Nomura Securities Co., Ltd. ....	9-1 Nihonbashi 1-chome, Chuo-ku, Tokyo	11,378	3.11
Sumitomo Life Insurance Company ....	18-24 Tsukiji 7-chome, Chuo-ku, Tokyo	11,256	3.08
Obic Business Consultants Co., Ltd. ....	8-1 Nishi Shinjuku 6-chome, Shinjuku-ku, Tokyo	10,619	2.91
Trust & Custody Services Bank, Ltd. ....	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-Chome, Chuo-ku, Tokyo	10,423	2.85
The Chugoku Bank, Ltd. ....	15-20 Marunouchi 1-chome, Okayama, Okayama	10,315	2.82
Meiji Yasuda Life Insurance Company ....	1-1, Marunouchi 1-chome, Chiyodaku, Tokyo	6,712	1.84
North Pacific Bank, Ltd. ....	11, Odori Nishi 3-chome, Chuo-ku, Sapporo, Hokkaido	6,205	1.70
Total		125,514	34.41%

## 5. Categories of Shareholders

( As of December 31, 2004 )

	Number of shareholders	Number of shares owned	Percent of total number of issued shares
Financial institutions	191	209,871	57.54%
Other legal entities	446	52,360	14.36
Overseas investors	197	39,169	10.74
Individuals and others	18,260	50,504	13.85
Securities companies	13	12,796	3.51
Japanese government and regional authorities	-	-	-
Total	19,107	364,700	100.0%



## Capital Expenditures

### 1. Planning

NBF is planning the following capital expenditures for the renovation of its properties. The amounts below include repairs and maintenance costs that will be expensed as incurred. Moreover, in addition to a steady program of expenditures for construction, repair and renovation of facilities, a program of renewal construction is being implemented in order to increase competitive power in the market as well as to increase the level of tenant satisfaction based on the results of tenant satisfaction surveys and neighboring competitive building specification surveys etc.

Name of Property			Objective	Estimated Duration	Estimated Amounts		
					Total Amounts	Payment for the	Cumulative Amount Paid
						Current Period	
						(from July 1, 2004 to December31, 2004)	
(Yen in millions)							
Sapporo Minami Nijo Bldg.	Renovation of heat source system etc.	From July 2005 To September 2005	¥ 56	¥ -	¥ -		
Hakata Gion 21 Bldg.	Renovation of Central Monitoring System	From July 2005 To September 2005	40	-	-		

### 2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NBF posted ¥ 431 million in capital expenditures together with ¥ 493 million for repairs and maintenance expenses.

Name of Property	Objective	Period	Expenditure (Yen in millions)
Tanimachi Kowa Bldg.	Renovation for leasing, rework of security system etc.		¥ 65
NBF Sendai Honcho Bldg.	Renovation of toilets, installation of OA floors, monitoring camera at the entrance etc.	From July 2004 To December 2004	40
Other buildings	Renovations intended to improve the level of tenant satisfaction		326
Total			¥ 431

### 3. Cash Reserve for Capital Improvements

NBF accumulates cash reserves from cash flows to prepare for large-scale mid-term to long-term capital improvements and repairs and maintenance that will be conducted in accordance with NBF's business plan for each property.

	As of December 31, 2004	As of June 30, 2004
	(Yen in millions)	
Reserve balance at the beginning of the period . . . . .	¥ 1,647	¥ 2,149
Amount accumulated in current period . . . . .	760	2,771
Withdrawal from reserves in the current period . . . . .	909	3,274
Amount carried forward . . . . .	¥ 1,498	¥ 1,647

Note 1 Upon the acquisition of Real Estate etc., NBF also assumed accumulated reserves of ¥ 898 million as of December 31, 2004 for capital expenditures from previous owners, which were not included in the above accumulated amounts.

Note 2 The reserve figures represent only the amount of reserves attributable to NBF's ownership interest, the amount of reserves attributable to other owners has been excluded.

### Expenses regarding Entrustment etc.

The following table sets forth the breakdown of entrustment fees etc. paid by NBF.

Item	For the six months ended		
	December 31, 2004	June 30, 2004	December 31, 2003
	(Yen in millions)		
Asset management fees . . . . .	¥ 575	¥ 443	¥ 438
Asset custody fees . . . . .	17	14	14
Agent fees (stock transfer, accounting and administrative)	55	45	38
Directors' remuneration . . . . .	11	11	11
Auditor's fees . . . . .	12	12	12
Other expenses . . . . .	86	92	60
Total	¥ 756	¥ 617	¥ 573

Note: In addition to the amounts stated above, there are asset management fees of ¥ 281 million for the period from July 1, 2004 to December 31, 2004, ¥ 242 million for the period from January 1, 2004 to June 30, 2004 and ¥ 48 million for the period from July 1, 2003 to December 31, 2003 related to investment in properties which were booked on each property.

## Trading Activities during the Current Period

### 1. Trading of Real Estate and Real Estate held in Trust

(Yen in millions)

Name of Building	Acquired		Transferred			
	Date	Acquisition Price (Note 1)	Date	Transfer Price (Note 2)	Book Value	Capital Gain/ Loss
ALLIANCE	July 1, 2004	9,126	-	-	-	-
Shinjuku Yocho-machi Bldg.	-	-	July 30, 2004	2,700	1,977	640
Inage Kaigan Bldg.	-	-	July 30, 2004	2,100	1,831	203
Hamamatsu City Bldg.	-	-	July 30, 2004	1,400	1,284	71
Kyomachibori Center Bldg.	-	-	July 30, 2004	900	846	24
Aqua Dojima Daiwa Dojima Bldg.	September 30, 2004	17,810	-	-	-	-
S-ino Omiya North Wing	October 1, 2004	11,236	-	-	-	-
S-ino Omiya North Wing	November 1, 2004	5,580	-	-	-	-
Toranomon Kotohira Tower	November 30, 2004	6,043	-	-	-	-
Sapporo L-Plaza	November 30, 2004	59	-	-	-	-
Sapporo L-Plaza	November 30, 2004	180	-	-	-	-
Nihonbashi Muromachi Center Bldg.	December 24, 2004	14,000	-	-	-	-
<b>Total</b>		<b>¥ 64,034</b>	<b>-</b>	<b>7,100</b>	<b>5,938</b>	<b>938</b>

Note 1 "Acquisition price" does not include national consumption tax, regional consumption tax and miscellaneous costs of acquisition.

Note 2 In addition to the above-listed "Transfer Price", there were other costs and expenses incurred for transfer, which are reflected in the amount of "Capital Gain/Loss". Breakdown of gain or loss on sale of each property is as follows:

#### Shinjuku Yocho-machi Bldg.

Revenue from sale of Real Estate etc.	2,700 million Yen
Cost of Real Estate etc.	1,977 million Yen
Other sales expenses	83 million Yen
Gain on sale of Real Estate etc	640 million Yen

#### Inage Kaigan Bldg.

Revenue from sale of Real Estate etc.	2,100 million Yen
Cost of Real Estate etc.	1,831 million Yen
Other sales expenses	66 million Yen
Gain on sale of Real Estate etc	203 million Yen

#### Hamamatsu City Bldg.

Revenue from sale of Real Estate etc.	1,400 million Yen
Cost of Real Estate etc.	1,284 million Yen
Other sales expenses	45 million Yen
Gain on sale of Real Estate etc	71 million Yen

#### Kyomachibori Center Bldg.

Revenue from sale of Real Estate etc.	900 million Yen
Cost of Real Estate etc.	846 million Yen
Other sales expenses	30 million Yen
Gain on sale of Real Estate etc	24 million Yen

## 2. Trading of Other Assets Including Total Amount and Transactions

Other major assets besides real estate and real estate held in trust stated above consist mostly of bank deposits or bank deposits included in assets held in trust.

## 3. Related Parties Transactions

### 1. Ongoing Transactions

None.

### 2. Fees Paid for the period from July 1, 2004 to December 31, 2004

Description of Transactions with Related Parties (Note 1)				
Category	Total Fees Paid (A) (Yen in millions)	Paid to	Amount of Payment (B) (Yen in millions)	B/A (Note 2)
Brokerage commissions	1,632	Mitsui Fudosan Co., Ltd.	1,562	95.7%
Office management fees etc. (Note 3)	722	Mitsui Fudosan Co., Ltd.	716	99.2%
		NBF Office Management Co., Ltd.	6	0.8%
Property transfer fees	29	Mitsui Fudosan Co., Ltd.	29	100.0%
Property maintenance fees	1,193	Daiichi Seibi Co., Ltd.	223	18.7%
		Mitsui Fudosan Co., Ltd.	140	11.7%
		Izumitec Co., Ltd.	118	9.9%
		Mitsui Fudosan Building Management Co., Ltd.	64	5.3%
		First Facilities Yokohama Co., Ltd.	6	0.5%
		Mitsui Fudosan Housing Lease Co., Ltd.	2	0.2%
		NBF Office Management Co., Ltd.	1	0.1%
Leasing related service fees	60	Mitsui Fudosan Co., Ltd.	10	16.3%
		NBF Office Management Co., Ltd.	10	16.0%
		Mitsui Fudosan Building Management Co., Ltd.	1	2.0%
Handling fees for private placement of NBF Bonds (Note 4)	80	Daiwa Securities SMBC Co., Ltd.	80	100.0%

Note 1 "Related parties" mean parties defined in Article 20 of the government ordinance regarding the Investment Trust Law of Japan, principally, parties related to an asset management company.

Note 2 Figures indicate percentages of total prices.

Note 3 NBF leases the Naka-Meguro GT Tower, Toranomon Kotohira Tower and the Nishi-Shinjuku Mitsui Building to Mitsui Fudosan Co., Ltd., which sub-leases them to sub-lessees. Accordingly, NBF does not entrust the office management business for those properties to Mitsui Fudosan. Instead, NBF Office Management Co., Ltd. has been entrusted to undertake such business on behalf of NBF, the owner and lessor of those properties.

Note 4 This amount represents the handling fees directly paid by NBF to Daiwa Securities SMBC Co., Ltd. for private placement of the No.4 and No. 5 NBF Bonds. In addition to the above fees, a certain portion of the fees paid by NBF to a third party (a company supervising investment company securities) for handling payments of principal and interest concerning the No.2 and No.3 NBF Bonds was paid by the said company to Daiwa Securities SMBC Co., Ltd.

Note 5 Public offering of new investment shares, the payment date for which was July 13, 2004, was conducted through a firm commitment underwriting agreement, under which an underwriting securities company underwrites shares at

an issue price and sells them at an offering price different from such issue price to general investors (“spread method”). In addition to the fees listed in the above table, the portion of ¥1,922 million which is the difference between the offering price and the issue price comprises actual underwriting fees for Nomura Securities Co., Ltd

Note 6 In addition to the above fees paid, the following have been paid to related parties for repair and maintenance work.

	(Yen in millions)
Daiichi Seibi Co., Ltd	¥ 112
Izumitec Co., Ltd.	79
Mitsui Fudosan Building Management Co., Ltd.	59
Mitsui Designtech Co., Ltd.	12
Mitsui Fudosan Housing Lease Co., Ltd.	7
Mitsui Fudosan Co., Ltd.	1

## **Financial Statements**

Independent Auditors' Report  
Balance Sheets  
Statements of Income  
Statements of Shareholders' Equity  
Statements of Cash Flows  
Notes to Financial Statements

**Independent Auditors' Report**

To the Board of Directors of  
Nippon Building Fund Inc.:

We have audited the accompanying balance sheets of Nippon Building Fund Inc. (a Japanese Real Estate Investment Trust) as of December 31, 2004 and June 30, 2004, and the related statements of income, shareholders' equity and cash flows for each of the six months ended December 31, 2004, June 30, 2004 and December 31, 2003 expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nippon Building Fund Inc. as of December 31, 2004 and June 30, 2004, and the results of its operations and its cash flows for each of the six months ended December 31, 2004, June 30, 2004 and December 31, 2003, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 11 to the financial statements, which states that Nippon Building Fund Inc. issued new unsecured bonds.

**KPMG AZSA & Co.**

Tokyo, Japan  
March 25, 2005



# NIPPON BUILDING FUND INC.

## BALANCE SHEETS

As of December 31, 2004 and June 30, 2004

	As of December 31, 2004	As of June 30, 2004
	(Yen in millions)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	¥ 38,489	¥ 32,160
Tenant receivables	183	242
Consumption tax refund receivables and other current assets	768	700
Total current assets	39,440	33,102
Investment properties:		
Land including trust accounts	243,359	205,600
Building and improvements including trust accounts	139,572	120,737
Other tangible assets	2,679	2,181
Less: accumulated depreciation	(15,913)	(13,543)
Leasehold rights in trust accounts and other intangible assets	19,848	16,840
Total investment properties, net	389,545	331,815
Other assets	1,393	1,283
<b>Total Assets</b>	¥ 430,378	¥ 366,200
<b>Liabilities</b>		
Current Liabilities:		
Short-term loans	¥ 25,500	¥ 64,050
Long-term debt due within one year	5,000	-
Accounts payable	4,234	1,582
Rents received in advance	2,589	2,611
Accrued expenses and other liabilities	844	881
Total current liabilities	38,167	69,124
Long-term debt	149,000	122,000
Tenant security deposits	26,185	21,878
Other liabilities	41	37
<b>Total Liabilities</b>	213,393	213,039
<b>Shareholders' Equity</b>		
Common shares, non-par value	210,679	148,899
Shares Authorized: 2,000,000 shares		
Shares Issued and Outstanding: 364,700 shares as of		
December 31, 2004 and 280,700 shares as of June 30, 2004		
Retained Earnings	6,306	4,262
<b>Total Shareholders' Equity</b>	216,985	153,161
<b>Total Liabilities and Shareholders' Equity</b>	¥ 430,378	¥ 366,200

The accompanying notes to financial statements are an integral part of these balance sheets.

## NIPPON BUILDING FUND INC.

### STATEMENTS OF INCOME

For the six months ended December 31, 2004, June 30, 2004 and December 31, 2003

	For the six months ended		
	December 31, 2004	June 30, 2004	December 31, 2003
	(Yen in millions)		
<b>Revenues:</b>			
Rental	¥ 13,610	¥ 11,265	¥ 10,476
Other revenues related to property leaseing	1,568	1,193	1,977
Gain on sale of investment properties	938	96	-
<b>Total Revenues</b>	<b>16,116</b>	<b>12,554</b>	<b>12,453</b>
<b>Operating Expenses:</b>			
Property management fees	1,954	1,623	1,632
Real estate taxes	1,167	1,193	1,097
Insurance	37	48	46
Repairs and maintenance	493	318	648
Other rental expenses	1,289	965	1,065
Depreciation and amortization	2,891	2,628	2,403
Asset management fees	575	443	438
Other expenses	181	174	135
<b>Total Operating Expenses</b>	<b>8,587</b>	<b>7,392</b>	<b>7,464</b>
<b>Operating Income</b>	<b>7,529</b>	<b>5,162</b>	<b>4,989</b>
Interest income	1	1	1
Interest expense	(1,012)	(871)	(782)
New investment shares issue costs	(154)	-	-
Amortization of deferred bond issue costs	(38)	(21)	(27)
Other expenses, net	(19)	(8)	(87)
<b>Income Before Income Taxes</b>	<b>6,307</b>	<b>4,263</b>	<b>4,094</b>
Current and deferred income taxes	(1)	(1)	(1)
<b>Net Income</b>	<b>¥ 6,306</b>	<b>¥ 4,262</b>	<b>¥ 4,093</b>

The accompanying notes to financial statements are an integral part of these statements.

## NIPPON BUILDING FUND INC.

### STATEMENTS OF SHAREHOLDERS' EQUITY

For the six months ended December 31, 2004, June 30, 2004 and December 31, 2003

		(Yen in millions)		
	Number of Common Shares	Common Shares	Retained Earnings	Total
<b>Balance as of June 30, 2003</b> .....	<b>280,700</b>	<b>¥148,899</b>	<b>¥4,313</b>	<b>¥153,212</b>
Cash Dividends declared	-	-	(4,313)	(4,313)
Net income .....	-	-	4,093	4,093
<b>Balance as of December 31, 2003</b> .....	<b>280,700</b>	<b>148,899</b>	<b>4,093</b>	<b>152,992</b>
Cash Dividends declared	-	-	(4,093)	(4,093)
Net income .....	-	-	4,262	4,262
<b>Balance as of June 30, 2004</b> .....	<b>280,700</b>	<b>148,899</b>	<b>4,262</b>	<b>153,161</b>
Cash Dividends declared	-	-	(4,262)	(4,262)
Issuance of New Shares through Public Offering as of July 14, 2004	80,000	58,838	-	58,838
Issuance of New Shares through Allocation to a Third Party as of August 11, 2004	4,000	2,942	-	2,942
Net income .....	-	-	6,306	6,306
<b>Balance as of December 31, 2004</b> .....	<b>364,700</b>	<b>¥210,679</b>	<b>¥6,306</b>	<b>¥216,985</b>

The accompanying notes to financial statements are an integral part of these statements.

## NIPPON BUILDING FUND INC. STATEMENTS OF CASH FLOWS

For the six months ended December 31, 2004, June 30, 2004 and December 31, 2003

	For the six months ended		
	December 31, 2004	June 30, 2004	December 31, 2003
	(Yen in millions)		
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥ 6,307	¥ 4,263	¥ 4,094
Depreciation and amortization	2,891	2,628	2,403
Amortization of deferred bond issue costs	38	21	27
Interest expense	1,012	871	782
Decrease(Increase) in tenant receivables	59	(106)	24
Increase (Decrease) in accounts payable	247	(2,477)	2,252
(Decrease) Increase in rents received in advance	(22)	781	10
Decrease in investment properties in trust accounts due to sale	5,939	261	-
Cash payments of interest expense	(919)	(790)	(769)
Other, net	(216)	(271)	195
<b>Net Cash Provided by Operating Activities</b>	<b>15,336</b>	<b>5,181</b>	<b>9,018</b>
<b>Cash Flows from Investing Activities:</b>			
Payments for purchases of investment properties	(62,304)	(52,337)	(12,249)
Payments for purchases of intangible assets	(1,837)	(29)	-
Proceeds from tenant security deposits	6,133	4,768	2,621
Payments for tenant security deposits	(1,826)	(1,619)	(5,259)
Refunds from security deposits paid to lessors	10	19	25
Payments for security deposits paid to lessors	(11)	(11)	(6)
Payments for purchases of other assets	(40)	(41)	(68)
<b>Net Cash Used in Investing Activities</b>	<b>(59,875)</b>	<b>(49,250)</b>	<b>(14,936)</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from short-term loans	58,400	214,450	48,700
Repayment of short-term loans	(96,950)	(183,550)	(42,500)
Proceeds from long-term debt	32,000	27,000	1,000
Payments for redemption of bonds	-	(8,000)	-
Payments for deferred bond issue costs	(99)	-	-
Proceeds from issuance of common shares	61,779	-	-
Payment of dividends	(4,262)	(4,089)	(4,312)
<b>Net Cash Provided by Financing Activities</b>	<b>50,868</b>	<b>45,811</b>	<b>2,888</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>6,329</b>	<b>1,742</b>	<b>(3,030)</b>
Cash and cash equivalents at the beginning of the period	32,160	30,418	33,448
<b>Cash and Cash Equivalents at the end of the period</b>	<b>¥ 38,489</b>	<b>¥ 32,160</b>	<b>¥ 30,418</b>

The accompanying notes to financial statements are an integral part of these statements.

## NOTES TO FINANCIAL STATEMENTS

Nippon Building Fund Inc.

December 31, 2004, June 30, 2004 and December 31, 2003

### Note 1 –Organization and Basis of Presentation

#### *Organization*

Nippon Building Fund Inc. (formerly: "Office Building Fund of Japan, Inc." The current name was adopted on March 14, 2003, hereinafter "NBF") was formed on March 16, 2001 as an investment corporation under the Investment Trust Law of Japan with Mitsui Fudosan Co., Ltd., The Chuo Mitsui Trust and Banking Co., Ltd., and Nippon Building Fund Management Ltd. (formerly: "Office Building Fund Management Japan Limited", hereinafter "NBFM") acting as sponsors. Registration with the Kanto Local Finance Bureau of the Ministry of Finance was completed on May 10, 2001 and NBF started acquisition of office properties on May 23, 2001.

NBF is an externally managed real estate fund, formed as an investment corporation. NBFM, as NBF's asset management company, is engaged in acquiring, managing, leasing, and renovating office properties. Mitsui Fudosan Co., Ltd. currently owns 43 % of NBFM while Sumitomo Life Insurance Company owns 35% and the remaining 22% is mainly owned by financial institutions.

On September 10, 2001, NBF had raised approximately ¥50,000 million through an initial public offering of common shares. Those common shares are listed on the J-REIT section of the Tokyo Stock Exchange.

As of December 31, 2004, NBF had ownership or beneficiary interests in 43 office properties containing approximately 460,901 rentable square meters of office space. As of December 31, 2004, NBF had leased office space to 667 tenants engaged in a variety of businesses. The occupancy rate for the office properties was approximately 97.5%.

#### *Basis of Presentation*

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Law of Japan and the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the financial statements of NBF prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language financial statements, but not required for fair presentation, is not presented in the accompanying financial statements. NBF does not prepare consolidated financial statements, as NBF has no subsidiaries.

### Note 2 –Summary of Significant Accounting Policies

#### *Cash and Cash Equivalents*

NBF considers all highly liquid investments with original maturity of three months or less to be cash and cash equivalents.

### ***Investment Properties***

Investment properties are recorded at cost, which included the allocated purchase price and related costs and expenses for acquisition of the office properties and the beneficiary interests of properties in trust. Property and equipment balances are depreciated using the straight-line method over estimated useful lives. Estimated useful lives of the principal tangible fixed assets (including assets held in trust) are as follows:

Buildings and improvements	2-50 years
Structures	2-52 years
Machinery and equipment	2-17 years
Tools, furniture and fixtures	2-16 years

Costs related to the renovation, construction and improvement of properties are capitalized. Expenditures for repairs and maintenance which do not add to the value or prolong the useful life of a property, are expensed as incurred.

In the period ended December 31, 2004, NBF did not adopt early the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption.

### ***Deferred Bond Issue Costs***

Deferred bond issue costs are amortized using the straight-line method over three years.

### ***New Investment Shares Issue Costs***

New investment shares issue costs are expensed in the period of payment.

The public offering of new investment shares on July 13, 2004 was conducted through an underwriting agreement under which an underwriting securities company underwrote all of the newly issued shares at an agreed issue price and sold them at an offering price different from such issue price to investors (“spread method”). Since, pursuant to such spread method, the difference between an offering price and the issue price is earned by an underwriting securities company as substantial underwriting fees, there were no underwriting fees paid by NBF to the underwriting securities company. In the case of the public offering of new investment shares on July 13, 2004, the total amount of the difference between the offering price and the issue price was ¥1,922 million, which would have been accounted for as new investment shares issue costs of NBF if it had been conducted through an underwriting agreement under which an underwriting securities company underwrites shares at an issue price and sells them at an offering price which is the same as such issue price (“conventional method”). Therefore, under the spread method, the new investment shares issue costs were recognized ¥1,922 million lower, and the operating income and the income before income taxes were resulted in ¥1,922 million greater than the case if the conventional method was applied.

### ***Income Taxes***

Income taxes are accounted for on the basis of income for financial statement purposes. The tax effect of temporary differences between the amounts of assets and liabilities for financial statements and for income tax purposes is recognized as deferred taxes.

### ***Real Estate Taxes***

Real estate taxes are imposed on properties on a calendar year basis. NBF is allocated the portion of the real

estate taxes related to the period following the purchase date of each property through the end of the year and the equivalent amounts of those allocated portions are capitalized as part of the acquisition costs of the relative properties. Capitalized real estate taxes amounted to ¥106 million for the period ended December 31, 2004 and ¥208 million for the period ended June 30, 2004 and ¥19 million for the period ended December 31, 2003, respectively.

### **Revenue Recognition**

NBF operates office properties that are rented to tenants on lease terms of generally two years, with monthly payments due in advance. Rental and other property income is recorded when due from tenants and is recognized monthly as it is earned. Common area charges provided for in tenant leases are recognized as income when earned and their amounts can be reasonably estimated.

### **Accounting Treatment of Beneficiary Interests in Trust Assets including Real Estate**

For trust beneficiary interests in real estate, all accounts of assets and liabilities within assets in trust as well as all income generated and expenses incurred from assets in trust are recorded in the relevant balance sheet and income statement accounts.

### **Reclassifications**

Certain reclassifications have been made to prior periods' financial statements to conform with the presentation used for the period ended December 31, 2004.

## **Note 3 – Schedule of tangible assets of investment properties**

Tangible assets as of December 31, 2004 and June 30, 2004 consisted of the following:

	As of December 31, 2004			As of June 30, 2004		
	(Yen in millions)					
	Acquisi- -tion Costs	Accumu- -lated Depreci- -ation	Book Value	Acquisi- -tion Costs	Accumu- -lated Depreci- -ation	Book Value
Land	¥ 43,064	¥ -	¥ 43,064	¥ 34,150	¥ -	¥ 34,150
Land in trust	200,295	-	200,295	171,450	-	171,450
<b>Land including trust total</b>	<b>243,359</b>	<b>-</b>	<b>243,359</b>	<b>205,600</b>	<b>-</b>	<b>205,600</b>
Buildings and improvements	42,803	(1,996)	40,807	31,378	(1,308)	30,070
Buildings and improvements in trust	96,769	(13,288)	83,481	89,359	(11,701)	77,658
<b>Building and improvements including trust</b>	<b>139,572</b>	<b>(15,284)</b>	<b>124,288</b>	<b>120,737</b>	<b>(13,009)</b>	<b>107,728</b>
Structures	671	(79)	592	449	(55)	394
Machinery and equipment	381	(31)	350	277	(17)	260
Tools, furniture and fixtures	94	(10)	84	44	(5)	39
Structures in trust	545	(154)	391	452	(134)	318
Machinery and equipment in trust.	640	(202)	438	648	(187)	461
Tools, furniture and fixtures in trust.	333	(153)	180	307	(136)	171
Construction in process in trust	15	-	15	4	-	4
<b>Other tangible assets total</b>	<b>2,679</b>	<b>(629)</b>	<b>2,050</b>	<b>2,181</b>	<b>(534)</b>	<b>1,647</b>
<b>Total</b>	<b>¥385,610</b>	<b>¥(15,913)</b>	<b>¥369,697</b>	<b>¥328,518</b>	<b>¥(13,543)</b>	<b>¥314,975</b>

#### Note 4 – Shareholders' Equity

NBF issues only non-par value shares in accordance with the Investment Trust Law of Japan and all of the issue price of new shares is designated as stated capital. NBF maintains at least ¥50 million as the minimum net assets as required by the Investment Trust Law of Japan.

#### Note 5 – Short-Term Loans and Long-Term Debt

Short-term loans consist of short-term notes and short-term borrowings under loan agreements. The annual interest rates on short-term loans outstanding are floating rates and at December 31, 2004 and June 30, 2004 ranging from 0.30% to 0.48% and from 0.41% to 0.52%, respectively. Long-term debt is fixed rates and as of December 31, 2004 and June 30, 2004 consisted of the following:

	(Yen in millions)	
	As of December 31, 2004	As of June 30, 2004
Unsecured loans due 2005 to 2014 principally from banks and insurance companies with interest rates mainly ranging from 0.7% to 2.2% .....	¥ 114,000	¥ 102,000
0.75% unsecured bonds due 2007.....	10,000	10,000
1.04% unsecured bonds due 2009.....	10,000	-
1.60% unsecured bonds due 2011 .....	10,000	-
2.00% unsecured bonds due 2018.....	10,000	10,000
	154,000	122,000
Less: amount due within one year.....	5,000	-
	¥ 149,000	¥ 122,000

The annual maturities of long-term debt as of December 31, 2004 were as follows:

	(Yen in millions)
2005 .....	¥ 5,000
2006 .....	15,000
2007 .....	30,000
2008 .....	23,000
2009 .....	20,000
Thereafter .....	61,000

During the period ended December 31, 2004, NBF obtained committed credit lines of ¥30 billion with certain financial institutions to reduce refinancing risk. The unused amount of such committed credit lines was ¥30 billion at December 31, 2004.



**Note 6 –Rental Revenues and Expenses**

Rental revenues and expenses for the periods ended December 31, 2004, June 30, 2004 and December 31, 2003 were as follows:

	For the six months ended		
	December 31, 2004	June 30, 2004	December 31, 2003
	(Yen in millions)		
<b>Revenues from Property Leasing :</b>			
Rental:			
Rental revenues . . . . .	¥ 11,955	¥ 9,953	¥ 9,154
Common area charges. . . . .	1,574	1,243	1,254
Others . . . . .	81	69	68
Subtotal . . . . .	13,610	11,265	10,476
Other revenues related to property leasing:			
Parking lots. . . . .	359	298	284
Facility charge . . . . .	67	63	60
Incidental income . . . . .	1,067	708	684
Cancellation fees. . . . .	59	116	938
Miscellaneous income . . . . .	16	8	11
Subtotal . . . . .	1,568	1,193	1,977
Total revenues from property leasing. . . . .	15,178	12,458	12,453
<b>Rental Expenses:</b>			
Property management fee. . . . .	1,954	1,623	1,632
Real estate taxes . . . . .	1,167	1,193	1,097
Repairs and maintenance . . . . .	493	318	648
Insurance . . . . .	37	48	46
Other rental expenses . . . . .	1,289	965	1,065
Depreciation and amortization . . . . .	2,891	2,628	2,403
Total rental expenses. . . . .	7,831	6,775	6,891
<b>Operating Income from Property Leasing Activities. . . . .</b>	<b>¥ 7,347</b>	<b>¥ 5,683</b>	<b>¥ 5,562</b>

**Note 7 – Breakdown of Gain on sale of investment properties**

On July 30, 2004, NBF sold four properties set forth below:

Shinjuku Yocho-machi Bldg.	(Yen in millions)
Revenue from sale of investment properties	¥ 2,700
Cost of investment properties	1,977
Other sales expenses	83
Gain on sale of investment properties	¥ 640
Inage Kaigan Bldg.	
Revenue from sale of investment properties	¥ 2,100
Cost of investment properties	1,831
Other sales expenses	66
Gain on sale of investment properties	¥ 203

**Hamamatsu City Bldg.**

Revenue from sale of investment properties	¥ 1,400
Cost of investment properties	1,284
Other sales expenses	45
Gain on sale of investment properties	¥ 71

**Kyomachibori Center Bldg.**

Revenue from sale of investment properties	¥ 900
Cost of investment properties	846
Other sales expenses	30
Gain on sale of investment properties	¥ 24

**Note 8 –Income Taxes**

NBF is subject to income taxes in Japan. The effective tax rate on NBF's income based on applicable Japanese tax law was 0.02% for the periods ended December 31, 2004, 0.01% for the periods ended June 30, 2004 and 0.02% for the periods ended December 31, 2003, respectively. The following table summarizes the significant differences between the statutory tax rates and NBF's effective tax rates for financial statement purposes.

**For the six months ended**

	<b>December 31, 2004</b>	<b>June 30, 2004</b>	<b>December 31, 2003</b>
Statutory effective tax rate . . . . .	39.39%	39.39%	39.39%
Deductible dividends paid . . . . .	(39.38)	(38.93)	(39.38)
Special deduction for expropriation etc.	-	(0.46)	-
Others . . . . .	0.01	0.01	0.01
Effective tax rate . . . . .	0.02 %	0.01 %	0.02%

NBF was established as an investment corporation under the Investment Trust Law of Japan, and as long as an investment corporation distributes to its shareholders at least 90% of taxable income for the period and other requirements are met, an investment corporation is allowed to deduct its dividends from taxable income under Japanese tax regulations.

**Note 9– Per Share Information**

Information about earnings per share for the periods ended December 31, 2004, June 30, 2004 and December 31, 2003 and net assets per share as of December 31, 2004 and June 30, 2004 was as follows.

The computation of earnings per share and net assets per share is based on the weighted average number of common shares outstanding during the period.

	For the six months ended		
	December 31, 2004	June 30, 2004	December 31, 2003
	(Yen)		
<b>Earnings per Share of Common Shares:</b>			
Net income:	¥ 17,607	¥ 15,185	¥ 14,582
Weighted average number of common shares outstanding:	358,157	280,700	280,700
	As of	As of	
	December 31, 2004	June 30, 2004	
<b>Net Assets Per Share. ....</b>	¥ 594,968	¥ 545,641	

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**Note 10–Leases**

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NBF leases its investment properties to outside parties under non-cancelable operating leases. As of December 31, 2004 and June 30, 2004, the future lease revenues under the non-cancelable operating leases are as follows:

	<u>As of December 31, 2004</u>	<u>As of June 30, 2004</u>
	(Yen in millions)	
Due within one year.....	¥ 10,266	¥ 10,446
Due after one year .....	17,089	21,421
Total.....	<u>¥ 27,355</u>	<u>¥ 31,867</u>

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**Note 11– Significant Subsequent Events**

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***Cash Distribution***

As of February 10, 2004, the Board of Directors of NBF declared to effect payment of a cash distribution of ¥17,291 per share aggregating ¥ 6,306million to shareholders of record on December 31, 2004.

***Issuance of Unsecured Bonds***

At the board meeting held on January 27, 2005, it was resolved that NBF issue unsecured bonds in the amount of ¥10,000 million with coupon of 0.80% due 2010. Receipt of the proceeds of such issue was completed on March 9, 2005. NBF intends to use such proceeds to repay short-term loans.

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## **Appendix**

### **Major Interested Parties**

#### **Nippon Building Fund Management Ltd. (Asset Management Company and Administrative Agent regarding the Management of Institutions, herein "NBFM")**

NBFM, as Asset Management Company provided for in the Investment Trust Law of Japan, performs management of NBF's assets and undertakes management of the institutions of NBF. As of March 31 2005, NBFM has been entrusted as an asset management company only by NBF.

As of the same date, NBFM has paid-in capital of ¥ 495 million. There is no capital relationship with NBF. Koichi Nishiyama, President & CEO of NBFM, is concurrently an executive director of NBF.

#### ***Operation***

- Undertakes asset management of NBF pursuant to an Asset Management Entrustment Agreement based on an entrustment from NBF in accordance with the Articles of Incorporation of NBF and the Investment Objects and Policies set forth therein.
- Undertakes management of the general affairs of the general meeting of shareholders and the Board of Directors as Administrative Agent regarding the Management of Institutions based on an entrustment from NBF and pursuant to an Agreement for General Administration Regarding the Management of Institutions.

#### ***Fees for the Asset Management Operation***

##### **Management Fees 1**

The amount equivalent to 2.5% effective from July 1, 2004 of the amount of the revenue arising from Real Estate etc. as calculated on each closing date (provided, however, that revenues from the sale of Real Estate etc. and other Managed Assets will be excluded) will be payable.

##### **Management Fees 2**

The amount equivalent to 3% of income before income tax (provided, however, that in the event a loss is carried forward, then the amount of income before income taxes remaining after such loss has been covered) prior to deduction of Management Fees 2 as calculated on each closing date will be payable.

##### **Management Fees 3**

In the event that Real Estate etc. is newly-acquired, compensation equivalent to the total amount of the acquisition price of said Real Estate etc. (meaning the acquisition price of both land and buildings, and in the event of the simultaneous acquisition of multiple units of Real Estate etc., the acquisition price of each item; provided, however, that national consumption tax, regional consumption tax and miscellaneous costs of acquisition are excluded) multiplied by the following percentage rates will, in principle, be payable; provided, however, that with the approval of the directors of NBF, compensation will be calculated within the scope decided up to the following maximum rates.

- |   |         |
|---|---------|
| • The portion up to and including ¥10,000million                            | 0.5%    |
| • The portion exceeding ¥10,000 million up to and including ¥30,000 million | 0.2%    |
| • The portion exceeding ¥30,000 million up to and including ¥50,000 million | 0.05%   |
| • The portion exceeding ¥ 50,000 million                                    | nothing |

**History of NBFM**

NBFM is an Asset Management Company which is a limited company duly established under the laws of Japan. Major events in the history of NBFM are as follows.

September 19, 2000	Established
November 17, 2000	Obtained license as a building lots and building transactions agent under the Building Lots and Building Transactions Law
January 29, 2001	Obtained approval as a discretionary transaction agent under the Building Lots and Building Transactions Law
February 15, 2001	Registered as a general real estate investment advisor under the Real Estate Investment Advisor Registration Regulations
March 7, 2001	Obtained approval as an Asset Management Company under the Investment Trust Law of Japan
March 22, 2001	Increased capital from ¥100 million to ¥198 million
May 23, 2001	Changed name (from "MF Asset Management Co., Ltd." to "Office Building Fund Management Japan Limited")
June 16, 2001	Increased capital from ¥198 million to ¥495 million
March, 2003	Changed name (from "Office Building Fund Management Japan Limited" to "Nippon Building Fund Management Ltd.")

**List of Shareholders ( as of December 31 2004 )**

Name	Number of shares owned	Percent
Mitsui Fudosan Co., Ltd.	4,257	43.0%
Sumitomo Life Insurance Company	3,465	35.0
The Chuo Mitsui Trust and Banking Co., Ltd.	495	5.0
Sumitomo Mitsui Banking Corporation	495	5.0
Daido Life Insurance Company	297	3.0
Mitsui Sumitomo Insurance Co., Ltd	297	3.0
Mitsui Mutual Life Insurance Company	297	3.0
Britel Fund Trustees Limited	297	3.0
Total	9,900	100.0%

**Directors and Staff**

As of April 1, 2005 the directors and corporate auditors of NBFM are as follows. The staff other than directors and auditors of NBFM is comprised of 14 persons.

Name of Directors and Auditors	Title
Koichi Nishiyama	President & CEO (standing)
Hiroyuki Sawa	Director, Head of Investment & Finance Group (standing)
Satoru Yamanaka	Director, Head of Administration Group (standing)
Yuri Giga	Director
Tamotsu Shinyama	Director
Yoshinori Nishitsuji	Corporate Auditor
Noriaki Moromachi	Corporate Auditor

***Outline of Financial Condition***

An outline of the financial condition of NBFM is as follows.

Outline of Principal Assets and Liabilities for the Most Recent Fiscal Year

<u>Current as of March 31, 2005</u>	<u>Yen in thousands</u>
Total Assets	1,655,814
Total Liabilities	451,128
Shareholders' Equity	1,204,686

Profit & Loss for the Most Recent Fiscal Year

First Fiscal Year	
From: April 1, 2004	
To: March 31, 2005	<u>Yen in thousands</u>
Operating Income	1,633,753
Ordinary Profit	1,069,218
Net Income	600,782

## Investment Objects

The Investment Objects of NBF specified in the Articles of Incorporation are as follows.

### A. Principal Investment Objects among Designated Assets

NBF will principally invest in the below-listed Designated Assets with the objective of assuring steady growth and stable profits from the Managed Assets.

- (1) Real estate, real estate leasehold interests and superficieses.
- (2) Beneficiary Certificates backed by real estate, land leasehold rights and superficieses, including inclusive trusts consisting of funds appurtenant to real estate.
- (3) *Tokumei-kumiai* ownership interests (provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above).
- (4) Preferred Investment Certificates of Special Purpose Companies (meaning those specified in Article 2.1.5.3 of the Securities and Exchange Law of Japan; provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above).
- (5) Special Purpose Beneficiary Certificates (meaning those specified in Article 2.1.7.4 of the Securities and Exchange Law of Japan; provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above).
- (6) Beneficiary Certificates of investment trusts (meaning those specified in Article 2.1.7 of the Securities and Exchange Law of Japan; provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above).
- (7) Investment Securities (meaning those specified in Article 2.1.7.2 of the Securities and Exchange Law of Japan; provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above).
- (8) Beneficiary Certificates of Money Trust (limited to those the trust assets of which are primarily invested and Managed Assets referred to in paragraph (1) above).

### B. Other Investment Objects among Designated Assets

NBF may, for the purpose of efficiently managing surplus funds, invest in the following Designated Assets.

- (1) Bank deposits.
- (2) Call loans.
- (3) Japanese Government Bonds, Notes and Bills
- (4) Regional Treasury Bonds, Notes and Bills
- (5) Commercial Paper
- (6) Designated Bonds of Special Purpose Companies (meaning those specified in Article 2.1.3.2 of the Securities and Exchange Law of Japan; provided, however, that this is limited to asset-backed securities principally referred to in paragraphs (1) and (2) of section (A) above).
- (7) Monetary Claims (excluding those subject to the provisions of Paragraphs 1, 12 and 14 of Article 3 of the government ordinance regarding the Investment Trust Law of Japan).



- (8) Beneficiary Certificates of Money Trust invested and managed for the purpose of any of the foregoing items.

Moreover, in order to avoid risks of fluctuation in the prices of the Managed Assets as well as risks of fluctuations in interest rates, futures transactions, option transactions, swap transactions and forward rate transactions with respect to Japanese interest rates may be undertaken. In addition, NBF may acquire shares of stock in real estate management companies etc. to the extent that such acquisition is incidental to NBF's investment in the principal Designated Assets.

### **C. Assets other than Designated Assets**

NBF may, for the purpose of efficiently managing surplus funds, invest in Certificates of Deposit issued by Japanese legal entities. In addition, NBF may invest in equity interests of partnerships defined under Article 667 of the Civil Code (but limited to such partnerships established by contribution of real estate, real estate leasehold rights and superficies for the purpose of leasing, operating or managing etc. of the same) as well as trademark rights to the extent that such investment is incidental to NBF's investment in the principal Designated Assets.

### **D. Investment in Ordinary Securities**

NBF does not, in principle, have the objective of investing in and managing assets which are securities, except for those described in A and B above.

## **Investment Restrictions**

- A. The investment restrictions specified in the Articles of Incorporation and the asset management guidelines applicable to NBF. Please also refer to "Investment Policies of NBF 1. Basic Investment Policies B. Investment Strategy" herein.

### ***Investment Location and Currencies***

NBF will invest neither in real estate located outside of Japan nor in assets denominated in non-Japanese currencies ("Investment Objects and Policies", Articles of Incorporation).

### ***Borrowing***

See "Investment Policies of NBF 1. Basic Investment Policies B. Investment Strategy (5) Financial Policies"

### ***Concentration of investment***

There is no limitation on concentration of investment. See "Investment Policies of NBF 1. Basic Investment Policies B. Investment Strategy (1) Strategy for Creation of the Portfolio".

### ***Investment in Other Funds***

See "Appendix Investment Objects A. Principal Investment Objects among Designated Assets".

The real estate held by such funds may not include any real estate located outside of Japan (Articles of Incorporation).

### ***Subscription and Margin Trading of Securities***

NBF may not subscribe to, or conduct margin trading of, securities.

### ***Compliance with Laws and Regulations***

The Managed Assets of NBF will be managed in compliance with Investment Trust Law of Japan and related regulations, the rules stipulated by the Investment Trusts Association (as amended), as well as "Investment Objects and Policies" of the Articles of Incorporation.

## **B. Compliance with the Investment Trust Law of Japan**

While a registered investment corporation must entrust business related to asset management to an asset management company, an asset management company is prohibited from performing certain acts related to the business of managing the assets of said investment corporation. As a result, an investment corporation is subject to certain investment restrictions (all references in parentheses below are to the provisions of the Investment Trust Law of Japan) besides restrictions applied to a registered investment corporation. NBF will naturally comply with such investment restrictions, a general overview of which follows.

### ***Reciprocal Transactions with Investment Corporations ( § 34.3.1.5)***

Transactions between investment corporations, the assets of which are managed by an asset management company are prohibited except for certain cases specified in the provisions of the government ordinance regarding the Investment Trust Law of Japan that are considered unlikely to result in failure to protect the interests of shareholders.

***Transactions by an Investment Corporation with Investment Trust Assets ( § 15.1.3)***

Transactions between an investment corporation and investment trust assets subject to asset management are prohibited except for certain cases specified in the provisions of the government ordinance regarding the Investment Trust Law of Japan that are considered unlikely to result in failure to protect the interests of shareholders.

***Transactions for the benefit of Third Parties ( § 34.3.1.6)***

An asset management company may not undertake transactions in certain securities based on fluctuations in the price, index, value, or amount of consideration related to transactions in the assets of an investment corporation, without a legally-valid reason, with the objective of benefiting a third party other than NBF or said investment.

***Transactions Harmful to the Interests of NBF ( § 34.3.1.7)***

An asset management company may not undertake transactions that are other than upon normal terms and conditions for such transaction, and further, such transaction upon said conditions would be harmful to the interests of the investment.

***Other Transactions specified in the Government Ordinance regarding the Investment Trust Law of Japan ( § 34.3.1.8)***

In the addition to the foregoing, those acts specified in the government ordinance regarding the Investment Trust Law of Japan being certain acts committed by an asset management company that would result in failure to protect the interests of shareholders, damage the fairness of the management of the assets of NBF, and pose a risk of damaging the good public reputation of NBF are prohibited.

***Limitation on Acquisition of the Same Issue of Shares ( § 194)***

A registered investment corporation may not acquire the same shares issued by a corporation in excess of 50/100 of total number of said issued and outstanding shares.

***Restriction on Acquisition of Own Shares and Acceptance of Pledge ( § 80.1)***

An investment corporation may not acquire shares issued by itself, or accept them for the purpose of pledge, unless it acquires shares issued by itself in the following cases

- when acquired as the result of merger;
- if necessary for attaining the purpose of exercising its rights; or
- when purchasing shares pursuant to the provisions of the Investment Trust Law of Japan.

***Restriction on Acquisition of Parent Corporation's Shares by Subsidiary Corporation ( § 81.1)***

An investment corporation (e.g. subsidiary), a majority of the shares of which is owned by another investment corporation (e.g. parent) may not acquire the shares of such parent investment corporation except in the following cases

- when acquired as the result of merger; or
- if necessary for attaining the purpose of exercising its rights.

***Restrictions of Transactions with Interested Parties*****( 1 ) Restriction on an asset management company ( § 34.3 )**

In accordance with the provisions of laws and regulations, an asset management company is prohibited from committing any of the following acts in connection with transactions with an Interested Party etc. "Interested Party etc." as used herein means a person who holds a majority of the shares of an asset management company or otherwise has a close relationship with said asset management company as designated by the government ordinance regarding the Investment Trust Law of Japan.

- a) An investment trust agent, trust company, financial institution engaged in trust business, investment advisor, residential land and building specialist etc. who is an Interested Party etc. of an asset management company undertakes a transaction which harms the interests of NBF with the objective of benefiting a customer etc. specified in the Investment Trust Law of Japan.
- b) Undertaking transactions which harm the interests of an investment corporation with the objective of benefiting an Interested Party etc. of NBFM.
- c) Undertaking transactions clearly recognized to be unnecessary in light of the management policies for the assets of an investment corporation, the amount of net assets of NBF, or market conditions, with the purpose of benefiting a securities company, registered financial institution, residential land and building specialist or other person specified in the government ordinance regarding the Investment Trust Law of Japan who is an Interested Party etc. of an asset management company.
- d) In the event that a securities company, who is an Interested Party etc. of an asset management company, acts as an underwriter in a securities transaction, undertaking transactions with the objective of fraudulently manipulating the market for the purpose of having an influence upon the conditions of the primary offer or secondary distribution of said securities not reflecting correct market pricing.
- e) In the event that an issuer, securities company or registered financial institution, who is an Interested Party etc. of an asset management company, undertakes a primary offer or secondary distribution of securities or participates in handling a primary offer, private offering, or secondary distribution at a time when the subscription amount of said acquisition or the amount of purchase offer of securities to said issuer, securities company or registered financial institution is not foreseen to reach that otherwise expected by said issuer, securities company or registered financial institution, acquiring or purchasing said securities with assets of NBF at the request of said issuer, securities company or registered financial institution.
- f) In the event that a specified real estate syndicate, who is an Interested Party etc. of an asset management company, makes a solicitation in connection with the execution of a specified real estate syndication agreement at a time when the contract amount of said specified real estate syndication agreement is not foreseen to reach that otherwise expected by said specified real estate syndicate, acquiring a *tokumei kumiai* interest pursuant to said specified real estate syndication agreement with assets of NBF at the request of said specified real estate syndicate.
- g) In the event that the manager of a *tokumei kumiai*, who is an Interested Party etc. of an asset management company, makes a solicitation in connection with the execution of a *tokumei kumiai* agreement at a time when the total investment amount otherwise obtained pursuant to said *tokumei kumiai* agreement is not

foreseen to reach that expected by the manager of said *tokumei kumiai*, acquiring a *tokumei kumai* interest pursuant to said *tokumei kumiai* agreement with assets of NBF at the request of the manager of said *tokumei kumiai*.

- h) In the event that a trust company, who is an Interested Party etc. of an asset management company, makes a solicitation in connection with the execution of a trust agreement at a time when the amount of trust assets otherwise obtained pursuant to said trust agreement is not foreseen to reach that expected by said trustee, acquiring a beneficiary certificate pursuant to said trust with assets of NBF at the request of said trustee.
- i) In the event that a distributor of trust beneficiary interests, who is an Interested Party etc. of an asset management company, distributes, or acts as an agency or intermediary of distribution of, trust beneficiary interests at a time when the total amount of purchase offer of said trust beneficiary interests to said distributor of trust beneficiary interests is not foreseen to reach that otherwise expected by said distributor of trust beneficiary interests, purchasing said trust beneficiary interests with assets of NBF at the request of said distributor of trust beneficiary interests.

## ( 2 ) Submission of written notice when conflict of interest is anticipated

### ***Submission of written notice when conflict of interest is anticipated*** (§34.6.2-4 of the Investment Trust Law)

An asset management company must, in the event that any sale or purchase of, or any other transaction set forth under the government ordinance regarding the Investment Trust Law with respect to, the Designated Assets (excluding the specified assets set forth under the Investment Trust Law and such assets as are set forth under the enforcement regulations of the Investment Trust Law, the same to apply hereinafter in this paragraph) is conducted between an investment corporation the assets of which are managed by said asset management company on one hand, and said asset management company, its director or executive officer, any other investment corporation, investment fund which directs management, Interested Party etc. or other person set forth under the government ordinance regarding the Investment Trust Law on the other, submit written notice, in accordance with the enforcement regulations of the Investment Trust Law, to said investment corporation, other investment corporations (which invest in the same kind of assets as the said Designated Assets) the assets of which are managed by said asset management company and other persons set forth under the government ordinance regarding the Investment Trust Law specifying the matters relating to such transaction; provided, however, that in lieu of such submission of written notice, said asset management company may, in accordance with the government ordinance regarding the Investment Trust Law, provide the matters to be specified in such written notice by such methods as using electronic information processing systems or other telecommunication technology which are set forth under the enforcement regulations of the Investment Trust Law with the consent of said investment corporation the assets of which are managed by said asset management company, other investment corporations (which invest in the same kind of assets as the said Designated Assets) the assets of which are managed by said asset management company and other persons set forth under the government ordinance regarding the Investment Trust Law.

## ( 3 ) Restriction on an investment corporation

### ***Restrictions on Asset Management*** ( § 195 )

A registered investment corporation must not, in principle, acquire or sell securities, lend or borrow securities, acquire or sell real estate, lease real estate or entrust the supervision of real estate (provided, however, that, it is acceptable to cause NBFM to act as an agent or broker concerning the purchase or leasing of residential building lots

or buildings) or otherwise engage in transactions concerning Designated Assets other than the preparation of residential building lots and design of buildings, with its executive directors or supervisory directors, asset management companies who perform asset management, close relatives of executive directors or supervisory directors, or persons or employees who perform duties similar to directors or auditors of an asset management company who perform asset management.

# Nippon Building Fund Inc.

## Corporate Data

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Corporate Office:	7-2, Yaesu 2-chome, Chuo-ku, Tokyo, 104-0028, Japan +81-3-3281-8810 <a href="http://www.nbf-m.com/nbf_e">http://www.nbf-m.com/nbf_e</a>
Date of Inception:	March 16, 2001
Capital:	Contributed capital and common shares issued and outstanding as of December 31, 2004: ¥210,679 million 364,700 shares
Shareholders:	19,107 (As of December 31, 2004)
Transfer Agent:	The Chuo Mitsui Trust and Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo, 105-8574, Japan
Business Office of the Transfer Agent:	Stock Transfer Agency Department of the Chuo Mitsui Trust and Banking Co., Ltd. 8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063, Japan +81-3-3323-7111
Independent Public Accountants:	KPMG AZSA & Co. AZSA Center Building 1-2, Tsukudo-cho, Shinjuku-ku, Tokyo, 162-8551, Japan
Investor Relations:	For further information, please contact our Asset Management company: Investor Relations of Financial Department Nippon Building Fund Management Ltd. 7-2, Yaesu 2-chome, Chuo-ku, Tokyo, 104-0028, Japan +81-3-3281-8810

This document contains translations of selected information described in the Securities Report (Yuka shoken hokokusho) filed on March 31, 2005 pursuant to the Securities Exchange Law of Japan, and the Financial Statements and the Performance Information Report for the period from July 1, 2004 to December 31, 2004, of Nippon Building Fund Inc. prepared pursuant to the Investment Trust Law of Japan.

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