

Semi-Annual Report

First Half of 2019

(36th Period – January to June 2019)

Including AIFMD Article 23 Information

Nippon Building Fund Inc.

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Note regarding the European Alternative Investment Fund Managers Directive (European Directive 2011/61/EU)

This report, which has been prepared to comply with Article 22 of the European Alternative Investment Fund Managers Directive (European Directive 2011/61/EU), or the AIFMD, also includes certain information required under Article 23 of the AIFMD. Such information required under Article 23 of the AIFMD is included in the Article 23 portion of this report starting on page 37 of this report.

Performance Results:

NBF is conducting asset management in accordance with its basic policy of “aim to achieve steady growth of its assets under management and to secure stable profits on a mid-to long-term basis.”

During the fiscal period under review, NBF acquired “G-BASE TAMACHI” (trust beneficiary right, total acquisition price: ¥28.2 billion) in March and April 2019. In addition, NBF additionally acquired ownership interest in “Osaki Bright Core -Bright Plaza” (real estate, acquisition price: ¥4.2 billion) and Nakanosakaue Sunbright Twin (real estate, acquisition price: ¥480 million) in its existing portfolio in April 2019 and June 2019, respectively. On the other hand, NBF disposed 2 properties namely “NBF Shibakouen Daimon Street Bldg.” (trust beneficiary right, disposition price: ¥6.2 billion) and “NBF Utsunomiya Bldg.” (real estate, disposition price: ¥3.05 billion) in February 2019.

NBF has endeavored to expand stable revenues from its rental business with respect to its existing portfolio by reinforcing measures for maintaining occupancy rates and increasing rents upon renewal of contracts through appropriate and flexible leasing activities with a good understanding of market trends and strengthened relationship with tenants. In addition, NBF has also put forth efforts to reduce costs by properly allocating timing and cost for renovation/construction while making strategic and rightly-focused additional investments. NBF also promotes ESG (environment, social and governance) initiatives and received “Green Star,” the highest rating in the GRESB (Global Real Estate Sustainability Benchmark) Real Estate Assessment, and “5-Star,” the top rating in the GRESB Score ranking conducted in 2019. In addition, it also received “A,” the top rating in the GRESB Public Disclosure Level evaluation scheme.

Overview of Performance and Distribution:

As the result of above-explained operations, NBF's performance results during the current period consisted of operating revenues of ¥38,529 million (an increase of ¥1,061million, or 2.8%, compared to the previous period), operating income from leasing activities of ¥17,927million (an increase of ¥292million, or 1.7%, compared to the previous period), operating income after asset management, custody and agent fees etc. of ¥16,731 million (an increase of ¥700million, or 4.4% compared to the previous period), ordinary income of ¥15,391 million (an increase of ¥872million, or 6.0%, compared to the previous period), and net income of ¥15,390 million (an increase of ¥871 million, or 6.0%, compared to the previous period).

In accordance with the distribution policy prescribed in its Articles of Incorporation, NBF decided to distribute ¥14,911million, the full amount arrived at by excluding from undistributed earnings fractions of distribution per unit of less than ¥1, so as to deduct the maximum amount of cash distribution of profit from taxable income through the application of preferential tax measures to investment corporations (Article 67-15 of the Act on Special Measures Concerning Taxation). As a result, the distribution per unit was ¥10,560 (an increase of ¥277, or 2.7% compared to the previous period).

Summary of Selected Financial Data

		36th Period from January 1, 2019 to June 30, 2019	35th Period from July 1, 2018 to December 31, 2018	34th Period from January 1, 2018 to June 30, 2018	36th Period from January 1, 2019 to June 30, 2019
		Yen in millions, except per unit data or where otherwise indicated			
		U.S. dollars in thousands except per unit data (Note 1)			
Operating revenues	Note 2	¥ 38,529	¥ 37,468	¥ 36,635	\$357,281
Revenues from property leasing		38,050	37,468	36,251	352,840
Gains on sales of investment properties		479	—	384	4,441
Operating expenses		21,798	21,437	20,860	202,131
Rental expenses		20,124	19,834	19,217	186,606
Ordinary income		15,391	14,519	14,012	142,724
Net income	(a)	15,390	14,519	14,010	142,714
Funds from operations	Note 3	22,133	21,614	20,695	205,239
Net operating income from property leasing activities	Note 3	25,148	24,729	24,102	233,200
Total amount of cash distribution	(b)	14,911	14,520	13,626	138,267
Depreciation and amortization		7,222	7,095	7,068	66,969
Capital expenditures		3,361	4,417	2,747	31,170
Total assets	(c)	1,043,765	1,024,893	1,020,237	9,678,831
Interest-bearing debt		435,750	418,125	417,500	4,040,708
Net assets	(d)	541,338	540,468	539,575	5,019,830
Total number of units issued (Units)	(e)	1,412,000	1,412,000	1,412,000	
Net assets per unit (Yen/\$)	(d) / (e)	383,384	382,768	382,135	3,555
Distribution per unit (Yen/\$)	(b) / (e)	10,560	10,283	9,650	98
Funds from operations per unit (Yen/\$)	Note 3	15,675	15,307	14,657	145
ROA	Note 3	1.5%	1.4%	1.4%	
(Annual rate)		(3.0%)	(2.8%)	(2.8%)	
ROE	Note 3	2.8%	2.7%	2.6%	
(Annual rate)		(5.7%)	(5.4%)	(5.2%)	
Loan to value (LTV)	Note 3	41.7%	40.8%	40.9%	
Capital ratio	(d) / (c)	51.9%	52.7%	52.9%	
Payout ratio	(b) / (a), Note 4	96.9%	100.0%	97.3%	
Number of days		181	184	181	
Number of investment properties	Note 5	71	72	72	
Number of tenants	Note 5	1,483	1,525	1,532	
Total rentable area (m ²)		1,091,311	1,084,895	1,084,931	
Occupancy rate (Average)	Note 5	99.5%	99.5%	99.3%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥107.84 = U.S. \$1.00, the approximate exchange rate on June 30, 2019.

2. Operating revenues do not include consumption tax.
3. All valuations are calculated through the following formulas. The figures in parentheses after ROA and ROE are annualized based on the six-month figures for the period.

Funds from operations: Net income (excluding Gains and Losses on sales of investment properties) + Depreciation and amortization

Net operating income from property leasing activities: (Revenue from property leasing – Rental expenses) + Depreciation and amortization

Funds from operations per unit: (Net income (excluding Gains and Losses on Sales of Investment Properties) + Depreciation and amortization) / Weighted average number of units issued and outstanding during the period

ROA: Ordinary income / (Initial total assets + Total assets at end of period) ÷ 2

ROE: Net income / (Initial net assets + Net assets at end of period) ÷ 2

LTV: Interest-bearing debt / Total assets
4. Payout ratio figures are calculated to one decimal place only.
5. 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, end-tenant basis, is the weighted average of month-end occupancy rate on a floor space basis.

Management's Discussion and Analysis

1. Distribution for the Current Period

Distribution per unit for the current period was ¥10,560. NBF expects to distribute almost all retained earnings at the current period end remaining after deducting the amount appropriated to the reserve for advanced depreciation of replacing specified assets as stipulated in Article 65-7 of the Act on Special Measures Concerning Taxation to be eligible for special tax treatment (Article 67-15 of the Act on Special Measures Concerning Taxation) that allows NBF to deduct its cash dividends of profits from taxable income.

	For the six months ended June 30, 2019	For the six months ended December 31, 2018	For the six months ended June 30, 2018
(Yen in thousands, except per unit amounts)			
Retained earnings	¥15,390,427	¥14,519,796	¥14,010,450
Undistributed earnings	745	200	933
Reserve for advanced depreciation	478,962	—	383,717
Total cash distribution	14,910,720	14,519,596	13,625,800
(Cash distribution per unit)	10,560	10,283	9,650
Distribution of accumulated earnings	14,910,720	14,519,596	13,625,800
(Distribution of accumulated earnings per unit)	10,560	10,283	9,650
Cash distribution in excess of accumulated earnings	—	—	—
(Per unit)	—	—	—

Notes:

1. Above cash distributions were paid after the period end.

2. Changes in Assets, Liabilities and Net Assets

Assets

As of June 30, 2019, total assets increased by ¥18,872 million to ¥1,043,765 million compared with December 31, 2018. Return on average total assets (ROA) for the six months ended June 30, 2019 increased to 1.5 percent from 1.4 percent for the previous six-month period.

Current assets decreased by ¥2,320 million to ¥19,089 million compared with December 31, 2018. Investment properties increased by ¥20,939 million to ¥1,016,929 million compared with December 31, 2018.

Liabilities

Current liabilities decreased by ¥49 million to ¥75,328 million compared with December 31, 2018, primarily because of a decrease in accrued consumption taxes compared with December 31, 2018, although long-term debt due within one year increased by ¥1,125 million to ¥62,250 million compared with December 31, 2018.

Long-term debt increased by ¥16,500 million to ¥373,500 million compared with December 31, 2018.

As a result, total interest-bearing liabilities increased by ¥17,625 million to ¥435,750 million compared with December 31, 2018. The ratio of long-term debt (for which the redemption period at the time of contract or issuance is more than one year) to total interest-bearing liabilities was 100 percent same as for the previous six-month period.

The loan-to-value ratio, calculated as the ratio of interest-bearing liabilities to total assets, increased to 41.7 percent as of June 30, 2019 from 40.8 percent as of December 31, 2018.

Notes:

1. Interest-bearing liabilities mean "Long-term debt due within one year" and "Long-term Debt".

Net assets

Net assets increased by ¥870 million to ¥541,338 million compared with December 31, 2018.

3. Funding

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 June 30, 2019, NBF had issued 1,412,000 units out of 4,000,000 total authorized units. NBF's units 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 units, NBF's units comprise the sole class of units authorized and issued by NBF.

Issue date	Remarks	Units issued and outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		(units)		(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	2,942	210,679	Note 5
August 10, 2005	Public offering	58,000	422,700	51,491	262,170	Note 6
March 16, 2006	Public offering	80,000	502,700	79,040	341,210	Note 7
March 29, 2006	Third party allocation	5,300	508,000	5,236	346,446	Note 8
February 4, 2008	Public offering	31,800	539,800	37,159	383,605	Note 9
March 4, 2008	Third party allocation	2,200	542,000	2,571	386,176	Note 10
January 26, 2011	Public offering	34,000	576,000	26,957	413,133	Note 11
February 22, 2011	Third party allocation	2,500	578,500	1,982	415,115	Note 12
January 25, 2012	Public offering	30,000	608,500	18,172	433,287	Note 13

February 21, 2012	Third party allocation	4,500	613,000	2,726	436,013	Note 14
January 23, 2013	Public offering	74,000	687,000	63,973	499,986	Note 15
January 31, 2013	Third party allocation	5,000	692,000	4,323	504,309	Note 16
January 1, 2014	Unit split	692,000	1,384,000	—	504,309	Note 17
March 19, 2014	Public offering	26,500	1,410,500	14,022	518,331	Note 18
March 28, 2014	Third party allocation	1,500	1,412,000	794	519,125	Note 19

Notes: 1. NBF was established with initial capital of ¥500,000 per unit.

2. Follow-on private offering at ¥500,000 per unit to raise funds for acquisition of 22 properties.
3. Public offering of new units for ¥625,000 per unit (excluding underwriting fee: ¥603,125) to repay debt and to fund property acquisition.
4. Public offering of new units for ¥759,500 per unit (excluding underwriting fee: ¥735,475) to repay debt, etc.
5. Additional issue of new units (third party allocation) for ¥735,475 per unit undertaken pursuant to the public offering in Note 4.
6. Public offering of new units for ¥916,300 per unit (excluding underwriting fee: ¥887,782) to repay debt and to fund property acquisition.
7. Public offering of new units for ¥1,019,200 per unit (excluding underwriting fee: ¥988,000) to repay debt and to fund property acquisition.
8. Additional issue of new units (third party allocation) for ¥988,000 per unit undertaken pursuant to the public offering in Note 7.
9. Public offering of new units for ¥1,205,400 per unit (excluding underwriting fee: ¥1,168,500) to repay debt and to fund property acquisition.
10. Additional issue of new units (third party allocation) for ¥1,168,500 per unit undertaken pursuant to the public offering in Note 9.
11. Public offering of new units for ¥818,025 per unit (excluding underwriting fee: ¥792,855) to repay debt and to fund property acquisition.
12. Additional issue of new units (third party allocation) for ¥792,855 per unit undertaken pursuant to the public offering in Note 11.
13. Public offering of new units for ¥624,975 per unit (excluding underwriting fee: ¥605,745) to repay debt and to fund property acquisition.
14. Additional issue of new units (third party allocation) for ¥605,745 per unit undertaken pursuant to the public offering in Note 13.
15. Public offering of new units for ¥891,800 per unit (excluding underwriting fee: ¥864,500) to repay debt and to fund property acquisition.
16. Additional issue of new units (third party allocation) for ¥864,500 per unit undertaken pursuant to the public offering in Note 15.
17. Effective January 1, 2014, NBF implemented a 2-for-1 unit split of its investment units.
18. Public offering of new units for ¥545,860 per unit (excluding underwriting fee: ¥529,150) to repay debt and to fund property acquisition.
19. Additional issue of new units (third party allocation) for ¥529,150 per unit undertaken pursuant to the public offering in Note 18.

Market Price of Units

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

	For the six months ended June 30, 2019	For the six months ended December 31, 2018	For the six months ended June 30, 2018
	(Yen)		
High	¥770,000	¥725,000	¥642,000
Low	688,000	610,000	545,000

Borrowings

Borrowings from financial institutions as of June 30, 2019 are shown below.

Long-term loans

Lender	Balance	Interest rate (%) (Note 1)	Due on	Repayment method	Use of funds	Notes
(Yen in millions)						
Development Bank of Japan Inc.	¥5,250	2.210%	August 30, 2019	(Note 2)		
	10,000	1.263%	July 2, 2023			
	13,000	0.747%	September 10, 2027			
	10,000	0.357%	February 15, 2028			
	10,000	0.256%	April 8, 2026			
	5,000	0.250%	June 1, 2026			
	5,000	0.387%	September 14, 2028			
	10,000	0.491%	September 27, 2029			
	6,000	0.230%	May 30, 2024			
	2,500	0.417%	May 23, 2029			
MUFG Bank, Ltd.	15,000	0.781%	July 31, 2020	Bullet payment	(Note 3)	Unsecured /unguaranteed /pari passu, See (Note 4)
	10,000	0.731%	February 26, 2021			
	5,000	1.040%	June 30, 2021			
	3,000	0.000%	July 31, 2019			
	7,000	0.358%	June 1, 2028			
	5,000	0.756%	July 2, 2019			
	10,000	0.611%	February 28, 2020			
	7,000	0.958%	May 29, 2020			
	4,000	0.180%	March 1, 2027			
	3,000	0.104%	February 28, 2025			
Sumitomo Mitsui Trust Bank, Limited	3,000	0.138%	February 27, 2026			
	10,000	1.130%	December 30, 2019			
	5,000	1.176%	March 5, 2021			
	3,000	0.202%	January 27, 2020			
	6,000	0.170%	September 11, 2019			
	6,000	0.223%	May 31, 2024			
	4,000	0.106%	May 31, 2024			
	5,000	0.090%	January 25, 2024			
	4,000	1.123%	December 30, 2022			
	10,000	0.982%	February 28, 2023			
Sumitomo Mitsui Banking Corporation	5,000	0.958%	April 28, 2023			
	6,000	0.523%	April 28, 2020			
	11,000	0.189%	June 1, 2029			
	1,000	0.148%	June 30, 2021			
	5,000	0.522%	July 16, 2021			
	3,000	0.300%	February 3, 2026			
	5,000	0.250%	May 22, 2026			
	5,000	0.655%	July 16, 2032			
	2,000	0.403%	April 28, 2028			
	5,000	0.646%	April 28, 2033			
Sumitomo Life Insurance Company	2,000	0.364%	March 31, 2032			
	3,000	0.650%	May 23, 2034			
	5,000	0.250%	September 14, 2026			
Shinkin Central Bank						

	3,000	0.381%	December 30, 2026		
	3,000	0.356%	June 1, 2027		
	4,000	0.433%	July 12, 2027		
	4,000	0.219%	March 29, 2024		
	3,000	0.100%	December 30, 2025		
	2,000	0.188%	April 28, 2028		
	6,000	0.307%	June 22, 2029		
Mizuho Bank, Ltd.	10,000	0.856%	February 28, 2022		
	8,000	1.070%	July 29, 2022		
	7,000	0.124%	November 30, 2025		
	(Note 5)				
Mizuho Trust & Banking Co., Ltd.	10,000	0.982%	February 28, 2023		
	4,000	0.947%	September 30, 2022		
TAIJU LIFE INSURANCE COMPANY LIMITED (Note 6)	2,000	1.128%	February 13, 2020		
	2,000	1.230%	March 30, 2021		
	2,000	1.033%	November 1, 2022		
	2,000	1.486%	May 30, 2025		
	2,000	1.047%	December 13, 2023		
	1,000	0.084%	March 31, 2025		
The Norinchukin Bank	5,000	0.721%	September 30, 2020		
	3,000	0.300%	June 21, 2027		
	2,000	0.270%	June 19, 2026		
THE BANK OF FUKUOKA, Ltd.	2,000	0.548%	June 30, 2023		
	2,000	0.238%	May 31, 2024		
	2,000	0.177%	June 30, 2022		
	2,000	0.300%	May 21, 2027		
Nippon Life Insurance Company	3,000	0.947%	September 30, 2022		
	2,000	0.400%	May 23, 2029		
The Daishi Bank, Ltd.	2,000	0.257%	March 1, 2024		
	2,000	0.245%	June 28, 2024		
DAIDO LIFE INSURANCE COMPANY	1,000	0.706%	October 2, 2020		
	1,000	0.456%	June 30, 2022		
	1,000	0.417%	September 11, 2023		
	1,000	0.302%	March 7, 2029		
TAIYO LIFE INSURANCE COMPANY	1,000	0.997%	July 2, 2021		
	1,000	0.958%	May 29, 2020		
	2,000	0.532%	July 9, 2021		
The Yamaguchi Bank, Ltd.	1,000	1.107%	September 4, 2020		
	1,000	0.477%	January 10, 2029	Bullet payment	(Note 3) Unsecured /unguaranteed
	2,000	0.400%	May 23, 2029		/pari passu, See (Note 4)
The Hachijuni Bank, Limited	1,000	0.638%	December 2, 2020		
	2,000	0.465%	June 26, 2020		
The Chugoku Bank, Limited	1,000	0.958%	May 29, 2020		
	2,000	0.605%	May 28, 2021		
The Iyo Bank, LTD.	1,000	0.631%	April 30, 2021		
	1,000	0.000%	January 27, 2022		
	(Note 5)				
	1,000	0.000%	June 30, 2025		
	(Note 5)				
Meiji Yasuda Life Insurance Company	3,000	1.277%	April 27, 2022		
The Yamanashi Chuo Bank, Ltd.	1,000	0.272%	October 11, 2024		
	1,000	0.275%	May 14, 2025		
	1,000	0.322%	March 28, 2031		
The 77 Bank, Ltd.	2,000	0.000%	June 30, 2023		
	(Note 5)				
	1,000	0.400%	May 23, 2029		
The Joyo Bank, Ltd.	1,000	0.562%	March 27, 2020		
	1,000	0.386%	March 3, 2027		
The Chiba Bank, Ltd.	1,000	0.258%	June 27, 2025		
	1,000	0.270%	May 22, 2026		
Resona Bank, Limited.	1,000	0.149%	June 1, 2027		
	(Note 5)				
Shinsei Bank, Limited	1,000	1.533%	May 30, 2025		
The Hiroshima Bank, Ltd.	1,000	0.000%	January 27, 2021		
	(Note 5)				
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Total long-term loans (Note 7)	¥398,750				
Total borrowings	¥398,750				

Notes:

1. Interest Rate is rounded down to the 3rd decimal point.
2. Scheduled for repayment of ¥250 million at six-month intervals and ¥5,250 million at the final maturity date.
3. Use of funds for the above includes acquisition of real estate or beneficiary interests, repayment of borrowings and working capital, etc.
4. A special agreement attached to "Loan Agreement" entered into between NBF and each financial institution provides that the above borrowings from all financial institutions rank pari passu to each other.
5. This loan is a floating rate loan. Other long-term loans are all fixed rate loans.
6. MITSUI LIFE INSURANCE COMPANY LIMITED has changed its name to TAIJU LIFE INSURANCE COMPANY LIMITED as of April 1, 2019.
7. The total amount of long-term loans (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.

(Yen in millions)

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Long-term loans	¥50,000	¥25,000	¥50,000	¥44,000

NBF Bonds

Issue	Issue date	Balance as of June 30, 2019 (Yen in millions)	Coupon (Note 1)	Maturity date	Redemption	Use of funds	Notes
No. 13 Unsecured Bonds	June 26, 2013	¥10,000	1.168%	June 26, 2023	Bullet payment	Note 2	Notes 3 and 4
No. 14 Unsecured Bonds	June 9, 2016	5,000	1.000%	June 8, 2046	Bullet payment	Note 2	Notes 3 and 4
No. 15 Unsecured Bonds	May 22, 2017	5,000	0.914%	May 22, 2037	Bullet payment	Note 2	Notes 3 and 4
No. 16 Unsecured Bonds	May 23, 2018	5,000	0.220%	May 23, 2025	Bullet payment	Note 2	Notes 3 and 4
No. 17 Unsecured Bonds	May 23, 2018	5,000	0.888%	May 21, 2038	Bullet payment	Note 2	Notes 3 and 4
No. 18 Unsecured Bonds	December 19, 2018	7,000	0.200%	January 10, 2024	Bullet payment	Note 2	Notes 3 and 4
Total (Note 5)		¥37,000					

Notes:

1. Interest Rate is rounded down to the 3rd decimal point.
2. Use of funds includes repayment of borrowings and investment corporation bonds, etc.
3. Rank pari passu with all other publicly and privately issued bonds.
4. Subject to provision of collateral restrictions.
5. 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.

(Yen in millions)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Investment corporation bonds	—	—	—	¥10,000	¥7,000

Others

NBF has security deposits totaling ¥53,480 million as of June 30, 2019.

■ Capital Expenditures

1. Planning

As of June 30, 2019, 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 current period	Cumulative amount paid
				(from January 1, 2019 to June 30, 2019)	
(Yen in millions)					
NBF Shinagawa Tower	Renewal construction to improve competitiveness	From January 2019 to December 2019	¥1,704	¥—	¥—
Sakaitsuji-Honmachi Center Bldg.	Renovation of air conditioning	From January 2020 to June 2020	642	—	—
Shinanobashi Mitsui Bldg.	Renovation of substation equipment	From June 2018 to April 2020	564	310	310
Shiba NBF Tower	Renovation of air conditioning	From July 2019 to June 2020	549	—	—
NBF Shibakouen Bldg.	Renovation of air conditioning	From July 2019 to June 2020	407	—	—
Shinjuku Mitsui Bldg. No.2	Renovation of substation equipment	From January 2020 to June 2020	360	—	—
Sakaitsuji-Honmachi Center Bldg.	Renovation of elevator	From August 2019 to June 2021	294	—	—
Aqua Dojima NBF Tower	Renovation of restroom	From January 2019 to December 2019	258	—	—
NBF Shibuya East	Renovation of air conditioning	From June 2019 to November 2020	230	—	—
Tsukuba Mitsui Bldg.	Renovation of elevator	From July 2019 to May 2020	220	—	—
Toyo-cho Center Bldg.	Renovation of air conditioning	From January 2020 to June 2020	216	—	—
NBF Unix Bldg.	Renovation of lighting equipment	From July 2019 to June 2020	169	—	—
Shin-Kawasaki Mitsui Bldg.	Renovation of air conditioning	From February 2019 to July 2019	150	—	—
Gate City Ohsaki	Renovation of air conditioning	From April 2019 to February 2020	135	—	—
Shinjuku Mitsui Bldg. No.2	Renovation of lighting equipment	From July 2019 to December 2019	133	—	—
NBF Shinagawa Tower	Renovation of emergency power equipment	From July 2019 to December 2020	126	—	—
Tsukuba Mitsui Bldg.	Renovation of lighting equipment	From July 2019 to December 2019	108	—	—

NBF Matsudo Bldg.	Renovation of lighting equipment	From November 2019 to June 2020	84	—	—
NBF Hiroshima Tatemachi Bldg.	Renovation of elevator	From March 2019 to November 2019	70	—	—
Sumitomo Densetsu Bldg.	Renovation of lighting equipment	From January 2020 to June 2020	57	—	—
NBF Ikebukuro City Bldg.	Renovation of air conditioning	From March 2020 to June 2020	50	—	—
Sapporo L-Plaza	Renovation of exterior	From July 2019 to December 2019	49	—	—
Jingumae M-SQUARE	Renovation of restroom	From May 2019 to August 2019	48	—	—
NBF Sapporo Minami Nijo Bldg.	Renovation of lighting equipment	From July 2019 to January 2020	47	—	—
Jingumae M-SQUARE	Leasehold improvement	From May 2019 to August 2019	45	—	—
NBF Matsudo Bldg.	Renovation of drain pipe	From January 2020 to June 2020	40	—	—
NBF Matsudo Bldg.	Renovation of exterior	From January 2020 to June 2020	30	—	—
NBF Urawa Bldg.	Renovation of exterior	From April 2020 to June 2020	18	—	—

2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NBF posted ¥4,275 million in capital expenditures together with ¥914 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
NBF Shinagawa Tower	Renewal construction to improve competitiveness, renovation of air exhaust fan, renovation of clean water pressurization supply pump unit, etc.	From January 2019 to June 2019	¥902
NBF Shibakouen Bldg.	Renovation of air conditioning, renovation of lighting equipment, renovation of watt-hour meter, etc.		254
Gate City Ohsaki	Renovation of air conditioning, earthquake resistance improvement of high ceiling, renovation of common hallway wall cloth, etc.		175
Sun Mullion NBF Tower	Renovation of air conditioning, construction of rooftop corridor frame, renovation of mechanical parking facilities, etc.		153
Shiba NBF Tower	Renovation of air conditioning, renovation of sprinkler pump, renovation of watt-hour meter, etc.		149
Tsukuba Mitsui Bldg.	Renovation of lighting equipment, renovation of elevator, renovation of fire shutter, etc.		136

Sumitomo Mitsui Banking Nagoya Bldg.	Renovation of air conditioning, reinstatement of rental room, renovation of mechanical parking facilities, etc.		102
NBF Hiroshima Tatemachi Bldg.	Renovation of lighting equipment, renovation of mechanical parking facilities, reinstatement of rental room, etc.		56
NBF Urawa Bldg.	Renovation of lighting equipment, renovation of watt-hour meter, renovation of air conditioning, etc.		40
Other buildings	Asset preservation construction and other renewal construction to improve tenant satisfaction, etc.		1,394
Total			¥3,361

■ Expenses regarding Entrustment, etc.

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

Item	For the six months ended June 30, 2019	For the six months ended December 31, 2018	For the six months ended June 30, 2018
	(Yen in millions)		
Asset management fees	¥1,427	¥1,386	¥1,340
Asset custody fees	49	50	48
Agent fees (stock transfer, accounting and administrative)	50	45	46
Directors' remuneration	13	13	13
Auditor's fees	15	14	14
Other expenses	120	95	182
Total	¥1,674	¥1,603	¥1,643

■ Trading Activities during the Current Period

1. Trading of Real Estate and Real Estate Held in Trust

The following table shows a summary of real estate and real estate held in trust, acquired or sold by NBF in the current period.

(Yen in millions)		
Acquisitions		
Name of building	Date	Acquisition price (Note 1)
G-BASE TAMACHI	March 29, 2019	¥19,740
	April 25, 2019	8,460
Osaki Bright Core - Bright Plaza(additional acquisition)	April 1, 2019	4,200
Nakanosakaue Sunbright Twin(additional acquisition)	June 14, 2019	480
Total		¥32,880

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

(Yen in millions)		
Sales		
Name of building	Date	Sale price
NBF Shibakouen Daimon Street Bldg.	February 15, 2019	¥6,200
NBF Utsunomiya Bldg.	February 15, 2019	3,050
Total		¥9,250

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. Transactions with Related Parties of Asset Management Company

(1) Ongoing Transactions

None. (No purchases, or sales or other transactions involving related parties.)

(2) Fees Paid for the Period from January 1, 2019 to June 30, 2019

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
Office management fees, etc. (Note 2)	¥1,520	Mitsui Fudosan Co., Ltd.	¥1,476	97.1%
		NBF Office Management Co., Ltd.	44	2.9%
Property maintenance fees	3,860	Mitsui Fudosan Co., Ltd.	801	20.7%
		Mitsui Fudosan Facilities Co., Ltd.	513	13.3%
		Mitsui Fudosan Facilities West Co., Ltd.	246	6.4%
		Mitsui Fudosan Building Management Co., Ltd.	243	6.3%
		Mitsui Fudosan Residential Lease Co.,Ltd.	1	0.0%

Leasing related service fees	136	Mitsui Fudosan Co., Ltd.	112	82.2%
		NBF Office Management Co., Ltd.	14	10.3%
		Mitsui Fudosan Realty Co., Ltd.	0	0.2%

Notes:

1. “Related parties” are defined as related parties of asset management companies under asset management agreement with NBF as defined in Article 123 of Order for Enforcement of the Law Concerning Investment Trusts and Investment Corporations, and Article 26, Section 27 of the Regulations regarding management report of the Investment trusts and Investment corporations set by the Investment Trusts Association, Japan. During the period from January 1, 2019 to June 30, 2019, transactions with and fees paid to, Mitsui Fudosan Co., Ltd., NBF Office Management Co., Ltd., Mitsui Fudosan Facilities Co., Ltd., Mitsui Fudosan Facilities West Co., Ltd., Mitsui Fudosan Building Management Co., Ltd., Mitsui Fudosan Residential Lease Co.,Ltd. and Mitsui Fudosan Realty Co., Ltd. which meet either of the said definitions, are as described above.
2. In terms of properties for which NBF has not entrusted office management businesses to Mitsui Fudosan Co., Ltd. due to its master leasing (14 properties: Roppongi T-CUBE, Nishi-Shinjuku Mitsui Bldg., Celestine Shiba Mitsui Bldg., Toranomon Kotohira Tower, Yotsuya Medical Bldg., Panasonic Tokyo Shiodome Bldg., NBF Ogawamachi Bldg., Gate City Ohsaki, Nakameguro GT Tower, Osaki Bright Core - Bright Plaza, Higashi Gotanda Square, Shin-Kawasaki Mitsui Bldg., Parale Mitsui Bldg. and Shinanobashi Mitsui Bldg.), NBF has entrusted them to NBF Office Management Co., Ltd. as business representative of the property owners or lessors.
3. In addition to the above fees paid, the following have been paid to related parties for repair and maintenance work, etc.

(Yen in millions)

Mitsui Fudosan Co., Ltd.	¥754
Mitsui Fudosan Building Management Co., Ltd	579
Mitsui Fudosan Facilities West Co., Ltd.	121
Mitsui Fudosan Reform Co. Ltd.	27
Mitsui Fudosan Facilities Co., Ltd.	10
MITSUI Designtec Co.,Ltd.	9
Mitsui Fudosan Residential Lease Co.,Ltd.	4
Harajuku-no-mori Co.,Ltd.	4
Mitsui Fudosan Realty Co., Ltd.	3

Financial Statements

NIPPON BUILDING FUND INC. BALANCE SHEETS

As of June 30, 2019 and December 31, 2018

	As of June 30, 2019	As of December 31, 2018
	(Yen in millions)	
Assets		
Current Assets:		
Cash and cash equivalents (Note 3)	¥ 17,345	¥ 20,206
Tenant receivables	869	332
Prepaid expenses	775	782
Other current assets	100	89
Total current assets	19,089	21,409
Investment Properties:		
Land including trust accounts (Notes 4,13)	700,463	681,865
Buildings and improvements including trust accounts (Notes 4,13)	436,388	428,838
Other tangible assets (Notes 4,13)	14,524	13,917
Less: accumulated depreciation (Notes 4,13)	(170,311)	(164,515)
Leasehold rights in trust accounts and other intangible assets (Note 13)	35,865	35,885
Total investment properties, net	1,016,929	995,990
Long-term Prepaid Expenses (Note 13)	17	19
Other Assets	7,730	7,475
Total Assets	¥1,043,765	¥1,024,893
Liabilities		
Current Liabilities:		
Long-term debt due within one year (Notes 3,6)	¥ 62,250	¥ 61,125
Accounts payable	7,382	7,374
Rents received in advance	4,565	4,647
Accrued expenses and other liabilities	1,131	2,231
Total current liabilities	75,328	75,377
Long-term Debt (Notes 3,6)	373,500	357,000
Tenant Security Deposits Including Trust Accounts (Note 3)	53,480	51,939
Other Liabilities	119	109
Total Liabilities	502,427	484,425
Net Assets (Note 5)		
Unitholders' Equity		
Unitholders' capital	519,125	519,125
Units authorized: 4,000,000 units		
Units issued and outstanding: 1,412,000 units		
Retained earnings	22,213	21,343
Total Net Assets	541,338	540,468
Total Liabilities and Net Assets	¥1,043,765	¥1,024,893

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

NIPPON BUILDING FUND INC. STATEMENTS OF INCOME

For the six months ended June 30, 2019, December 31, 2018 and June 30, 2018

	For the six months ended June 30, 2019	For the six months ended December 31, 2018	For the six months ended June 30, 2018
(Yen in millions)			
Operating Revenues and Expenses			
Operating Revenues:			
Rental (Note 7)	¥34,476	¥34,082	¥33,007
Other revenues related to property leasing (Note 7)	3,574	3,386	3,244
Gains on sales of investment properties (Note 8)	479	—	384
Total Operating Revenues	38,529	37,468	36,635
Operating Expenses:			
Property management fees (Note 7)	5,320	5,314	5,048
Real estate taxes (Note 7)	3,461	3,100	3,280
Repairs and maintenance (Note 7)	914	965	876
Insurance (Note 7)	33	33	34
Other rental expenses (Note 7)	3,174	3,327	2,911
Depreciation and amortization (Note 7)	7,222	7,095	7,068
Asset management fees	1,427	1,386	1,340
Other operating expenses	247	217	303
Total Operating Expenses	21,798	21,437	20,860
Operating Income	16,731	16,031	15,775
Non-Operating Revenues and Expenses			
Non-Operating Revenues:			
Interest income	0	0	0
Property tax refund and interest on refund	—	3	—
Other non-operating revenues	58	12	4
Non-Operating Expenses:			
Interest expense	(1,360)	(1,486)	(1,726)
Amortization of bond issuance costs	(10)	(8)	(5)
Other non-operating expenses	(28)	(33)	(36)
Ordinary Income	15,391	14,519	14,012
Income before Income Taxes	15,391	14,519	14,012
Current and deferred income taxes (Note 9)	(1)	(0)	(2)
Net Income	¥ 15,390	¥ 14,519	¥ 14,010

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

NIPPON BUILDING FUND INC.

STATEMENTS OF CHANGES IN NET ASSETS

For the six months ended June 30, 2019, December 31, 2018 and June 30, 2018

		(Yen in millions)		
	Number of Units	Unitholders' Capital	Retained Earnings	Total
Balance as of December 31, 2017	1,412,000	¥ 519,125	¥ 19,670	¥ 538,795
Cash dividends declared	—	—	(13,230)	(13,230)
Net income	—	—	14,010	14,010
Balance as of June 30, 2018	1,412,000	519,125	20,450	539,575
Cash dividends declared	—	—	(13,626)	(13,626)
Net income	—	—	14,519	14,519
Balance as of December 31, 2018	1,412,000	519,125	21,343	540,468
Cash dividends declared	—	—	(14,520)	(14,520)
Net income	—	—	15,390	15,390
Balance as of June 30, 2019	1,412,000	¥ 519,125	¥ 22,213	¥ 541,338

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 June 30, 2019, December 31, 2018 and June 30, 2018

	For the six months ended June 30, 2019	For the six months ended December 31, 2018	For the six months ended June 30, 2018
	(Yen in millions)		
Cash Flows from Operating Activities:			
Income before income taxes	¥ 15,391	¥ 14,519	¥ 14,012
Depreciation and amortization	7,222	7,095	7,068
Amortization of bond issuance costs	10	8	5
Interest expense	1,360	1,486	1,726
(Increase) Decrease in tenant receivables	(537)	25	(25)
Increase (Decrease) in accounts payable	3	1,173	261
Increase (Decrease) in rents received in advance	(83)	106	(356)
Decrease in investment properties due to sales	8,755	—	63,606
Cash payments of interest expense	(1,341)	(1,580)	(1,687)
(Increase) Decrease in consumption tax refund receivable	—	625	(625)
Others, net	(1,153)	1,427	(792)
Net Cash Provided by Operating Activities	29,627	24,884	83,193
Cash Flows from Investing Activities:			
Payments for purchases of investment properties	(36,598)	(4,369)	(95,153)
Proceeds from tenant security deposits	3,264	1,389	9,403
Payments for tenant security deposits	(1,724)	(718)	(6,873)
Payments for security deposits paid to lessors	(4)	(48)	(15)
Refunds from security deposits paid to lessors	2	4	2
Others, net	(527)	(380)	(528)
Net Cash Used in Investing Activities	(35,587)	(4,122)	(93,164)
Cash Flows from Financing Activities:			
Net proceeds from (repayment of) short-term loans	—	(4,000)	4,000
Proceeds from long-term debt	49,500	14,000	39,000
Repayment of long-term debt	(31,875)	(9,375)	(39,375)
Payments for bond issuance costs	(3)	(32)	(61)
Payment of dividends	(14,523)	(13,624)	(13,227)
Net Cash Used in Financing Activities	3,099	(13,031)	(9,663)
Net Change in Cash and Cash Equivalents	(2,861)	7,731	(19,634)
Cash and Cash Equivalents at the Beginning of Period	20,206	12,475	32,109
Cash and Cash Equivalents at the End of Period	¥ 17,345	¥ 20,206	¥ 12,475

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

NIPPON BUILDING FUND INC.

Notes To Financial Statements

For the six months ended June 30, 2019, December 31, 2018 and June 30, 2018

Note 1 – Organization and Basis of Presentation

Organization

Nippon Building Fund Inc. (hereinafter "NBF") was formed on March 16, 2001 as an investment corporation under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter the Investment Trust Law of Japan) with Mitsui Fudosan Co., Ltd., Sumitomo Mitsui Trust Bank, Limited., and Nippon Building Fund Management Ltd. (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 46% of NBFM while Sumitomo Life Insurance Company owns 35% and the remaining 19% is mainly owned by financial institutions.

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

As of June 30, 2019, NBF had ownership or beneficiary interests in 71 office properties containing approximately 1,091,311 square meters of rentable office space. As of June 30, 2019, NBF had leased office space to 1,483 tenants engaged in a variety of businesses. The occupancy rate for the office properties was approximately 99.5%.

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 Financial Instruments and Exchange Law and their related accounting regulations, and in conformity with accounting principles generally accepted in Japan (hereinafter "Japanese GAAP"), 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 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 Financial Instruments 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 includes the allocated purchase price, 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 the estimated useful lives. The estimated useful lives of the principal tangible fixed assets (including assets held in trust) are as follows:

Buildings and improvements including trust accounts	
Buildings and improvements	2-50 years
Other tangible assets	
Structures	2-50 years
Machinery and equipment	2-17 years
Tools, furniture and fixtures	2-19 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 when incurred.

Investment Corporation Bond Issuance Costs

Deferred investment corporation bond issuance costs are amortized using the straight-line method over the respective terms of the bonds.

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 and expensed when incurred. In terms of newly purchased properties, NBF capitalizes a portion of the real estate taxes that relate to a period from the purchase date of each property until the end of the calendar year as part of the acquisition cost of the relevant property. Capitalized real estate taxes amounted to ¥94 million for the period ended June 30, 2019 and ¥397 million for the period ended June 30, 2018. No capitalized real estate taxes were incurred for the period ended December 31, 2018.

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.

Note 3 – Financial Instruments

Status of Financial Instruments

Policy for Financial Instruments

NBF procures funds for acquisition of assets and repayment of debt, which includes repayment of tenant security deposits, loans and investment corporation bonds, through issuance of new investment units, bank loans and issuance of investment corporation bonds, with the aim of ensuring steady asset growth and stable earnings from a mid- and long-term angle.

As a general rule NBF invests surplus funds in deposits considering safety of the investments.

NBF may enter into derivative transactions solely for the purpose of reducing interest rate risks and other risks arising from liabilities. NBF does not engage in speculative transactions. Currently NBF is not engaged in any derivative transactions.

Financial Instruments, Their Risks and Risk Management System

Deposits are used for investment of NBF's surplus funds. These deposits are exposed to credit risks such as bankruptcy of the depository financial institutions. NBF limits credit risk by using only short-term deposits in financial institutions with high credit ratings.

Proceeds from loans and investment corporation bonds are used mainly to acquire real estate properties and repay outstanding loans and bonds. While these loans and bonds are exposed to liquidity risk, such risk is managed in the following ways such as diversifying the means of funding and lending institutions, dispersing repayment dates, establishing committed credit line, keeping sufficient liquidity in hand, and monitoring cash flows projected monthly.

Floating rate loans are exposed to interest-rate fluctuation. NBF limits the impact of such risks by maintaining the ratio of interest-bearing liabilities to total assets low and the level of long-term fixed-rate debt high.

Tenant security deposits are exposed to liquidity risk arising from vacating of properties by tenants due to the termination of contract. NBF manages this risk by monitoring forecasted cash flows on a monthly basis to ensure it has sufficient funds.

Supplemental Explanation regarding Fair Values of Financial Instruments

The fair value of financial instruments is based on their observable market value, if available. When there is no observable market value available, fair value is based on a price that is reasonably estimated. Since various factors are reflected in estimating the fair value, different assumptions and factors could result in a different value.

Estimated Fair Value of Financial Instruments

Book value, fair value and difference between the two as of June 30, 2019 are as follows.

The financial instruments for which it is very difficult to estimate the fair value are excluded from the following table (See Note 2. below).

(Yen in millions)			
	Book value	Fair value	Difference
Assets			
(1) Cash and cash equivalents	¥ 17,345	¥ 17,345	¥ —
Total	¥ 17,345	¥ 17,345	¥ —
Liabilities			
(1) Long-term debt due within one year	¥62,250	¥62,456	¥206
(2) Long-term debt	373,500	377,747	4,247
Total	¥435,750	¥440,203	¥4,453

Notes:

1. Methods to Estimate Fair Value of Financial Instruments

Assets:

(1) Cash and cash equivalents

Book values of those instruments are used to determine their fair values, as the book values are considered to approximate fair values because these instruments are settled within a short term period.

Liabilities:

(1) Long-term debt due within one year

Long-term debt due within one year which includes Long-term loans are as follows.

(Yen in millions)

	Book value	Fair value	Difference
(1) Long-term loans	¥62,250	¥62,456	¥206
Total	¥62,250	¥62,456	¥206

(1) Long-term loans

Fair values of floating rate long-term loans are based on the book values because the market interest rates are reflected within a short term period and the book values are considered to approximate fair values. Fair values of fixed rate long-term loans are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into.

(2) Long-term debt

Long-term debt which includes Investment corporation bonds and Long-term loans are as follows.

(Yen in millions)

	Book value	Fair value	Difference
(1) Investment corporation bonds	¥37,000	¥37,675	¥ 675
(2) Long-term loans	336,500	340,072	3,572
Total	¥373,500	¥377,747	¥4,247

(1) Investment corporation bonds

Fair values of investment corporation bonds are based on observable market value, if available. When there is no observable market value available, fair values are calculated based on the present value of principal and interest cash flows discounted at the current interest rate that is estimated by taking into consideration the remaining term of the investment corporation bonds and their credit risk.

(2) Long-term loans

Fair values of floating rate long-term loans are based on the book values because the market interest rates are reflected within a short term period and the book values are considered to approximate fair values. Fair values of fixed rate long-term loans are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into.

Book value, fair value and difference between the two as of December 31, 2018 are as follows.

The financial instruments for which it is very difficult to estimate the fair value are excluded from the following table (See Note 2. below).

(Yen in millions)

	Book value	Fair value	Difference
Assets			
(1) Cash and cash equivalents	¥ 20,206	¥ 20,206	¥ —
Total	¥ 20,206	¥ 20,206	¥ —
Liabilities			
(1) Long-term debt due within one year	¥61,125	¥61,377	¥252
(2) Long-term debt	357,000	361,552	4,552
Total	¥418,125	¥422,929	¥4,804

Notes:

1. Methods to Estimate Fair Value of Financial Instruments

Assets:

(1) Cash and cash equivalents

Book values of those instruments are used to determine their fair values, as the book values are considered to approximate fair values because these instruments are settled within a short term period.

Liabilities:

(1) Long-term debt due within one year

Long-term debt due within one year which includes Long-term loans are as follows.

(Yen in millions)

	Book value	Fair value	Difference
(1) Long-term loans	¥61,125	¥61,377	¥252
Total	¥61,125	¥61,377	¥252

(1) Long-term loans

Fair values of floating rate long-term loans are based on the book values because the market interest rates are reflected within a short term period and the book values are considered to approximate fair values. Fair values of fixed rate long-term loans are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into.

(2) Long-term debt

Long-term debt which includes Investment corporation bonds and Long-term loans are as follows.

(Yen in millions)

	Book value	Fair value	Difference
(1) Investment corporation bonds	¥37,000	¥37,033	¥ 33
(2) Long-term loans	320,000	324,519	4,519
Total	¥357,000	¥361,552	¥4,552

(1) Investment corporation bonds

Fair values of investment corporation bonds are based on observable market value, if available. When there is no observable market value available, fair values are calculated based on the present value of principal and interest cash flows discounted at the current interest rate that is estimated by taking into consideration the remaining term of the investment corporation bonds and their credit risk.

(2) Long-term loans

Fair values of floating rate long-term loans are based on the book values because the market interest rates are reflected within a short term period and the book values are considered to approximate fair values. Fair values of fixed rate long-term loans are based on the present value of principal and interest cash flows discounted at the current interest

rate estimated to be applied if similar new loans were entered into.

2. Financial Instruments for which it is Very Difficult to Estimate the Fair Value.

(Yen in millions)

	As of June 30, 2019	As of December 31, 2018
Tenant security deposits including trust accounts	¥53,480	¥51,939

Security deposits from tenants are not subject to fair value disclosure because they are not marketable, and actual deposit period is not estimable as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract, that makes a reasonable estimate of future cash flows difficult.

3. Redemption Schedule for Monetary Claims as of June 30, 2019

(Yen in millions)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Cash and cash equivalents	¥17,345	—	—	—	—	—

Redemption Schedule for Monetary Claims as of December 31, 2018

(Yen in millions)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Cash and cash equivalents	¥20,206	—	—	—	—	—

4. Repayment Schedule for Loans and Investment Corporation Bonds as of June 30, 2019

(Yen in millions)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Investment corporation bonds	¥ —	¥ —	¥ —	¥10,000	¥ 7,000	¥20,000
Long-term loans	62,250	50,000	25,000	50,000	44,000	167,500
Total	¥62,250	¥50,000	¥25,000	¥60,000	¥51,000	¥187,500

Repayment Schedule for Loans and Investment Corporation Bonds as of December 31, 2018

(Yen in millions)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Investment corporation bonds	¥ —	¥ —	¥ —	¥ —	¥10,000	¥27,000
Long-term loans	61,125	56,000	35,000	38,000	42,000	149,000
Total	¥61,125	¥56,000	¥35,000	¥38,000	¥52,000	¥176,000

Note 4 – Tangible Assets of Investment Properties

Tangible assets as of June 30, 2019 and December 31, 2018 consisted of the following:

	As of June 30, 2019			As of December 31, 2018		
	(Yen in millions)					
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥354,317	¥ —	¥354,317	¥351,817	¥ —	¥351,817
Land in trust	346,146	—	346,146	330,048	—	330,048
Land including trust total	700,463	—	700,463	681,865	—	681,865
Buildings and improvements	236,675	(81,241)	155,434	236,636	(78,441)	158,195
Buildings and improvements in trust	199,713	(79,862)	119,851	192,202	(77,003)	115,199
Buildings and improvements including those in trust total	436,388	(161,103)	275,285	428,838	(155,444)	273,394
Structures	3,371	(2,064)	1,307	3,346	(2,007)	1,339
Machinery and equipment	2,013	(1,476)	537	2,123	(1,525)	598
Tools, furniture and fixtures	2,005	(1,314)	691	1,991	(1,280)	711
Structures in trust	2,949	(1,617)	1,332	2,800	(1,560)	1,240
Machinery and equipment in trust	2,083	(1,558)	525	2,063	(1,545)	518
Tools, furniture and fixtures in trust	1,768	(1,179)	589	1,594	(1,154)	440
Construction in process	335	—	335	—	—	—
Other tangible assets total	14,524	(9,208)	5,316	13,917	(9,071)	4,846
Total	¥1,151,375	¥(170,311)	¥981,064	¥1,124,620	¥(164,515)	¥960,105

Note 5 – Net Assets

NBF issues only non-par value units in accordance with the Investment Trust Law of Japan and all of the issue prices of new units are 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 6 –Long-Term Debt

Long-term debt as of June 30, 2019 and December 31, 2018 consisted of the following:

	As of June 30, 2019	As of December 31, 2018
	(Yen in millions)	
Unsecured loans due 2019 to 2034 principally from banks and insurance companies with interest rates mainly ranging from 0.0% to 2.2%.....	¥398,750	¥381,125
1.168% unsecured bonds due 2023 (Note 1)	10,000	10,000
0.200% unsecured bonds due 2024 (Note 1)	7,000	7,000
0.220% unsecured bonds due 2025 (Note 1)	5,000	5,000
0.914% unsecured bonds due 2037 (Note 1)	5,000	5,000
0.888% unsecured bonds due 2038 (Note 1)	5,000	5,000
1.000% unsecured bonds due 2046 (Note 1)	5,000	5,000
	435,750	418,125
Less: amount due within one year.....	62,250	61,125
	¥373,500	¥357,000

Notes: 1. Subject to provision of collateral restrictions.

The annual maturities of long-term debt as of June 30, 2019 were as follows:

	(Yen in millions)
Due after one to two years	¥ 50,000
Due after two to three years	25,000
Due after three to four years	60,000
Due after four to five years	51,000
Due after five years	187,500

During the periods ended June 30, 2019 and December 31, 2018, NBF had commitment credit line contracts of ¥60 billion with several financial institutions to reduce refinancing risk. The unused amount of such committed credit lines was ¥60 billion as of June 30, 2019.

Note 7 – Rental Revenues and Expenses

Rental revenues and expenses for the periods ended June 30, 2019, December 31, 2018 and June 30, 2018 were as follows:

	For the six months ended June 30, 2019	For the six months ended December 31, 2018	For the six months ended June 30, 2018
	(Yen in millions)		
Revenues from Property Leasing:			
Rental:			
Rental revenues	¥31,695	¥31,261	¥30,262
Common area charges	2,556	2,585	2,584
Others	225	236	161
Subtotal	34,476	34,082	33,007
Other revenues related to property leasing:			
Parking lots	639	688	649
Facility charge	292	281	280
Incidental income	1,974	2,328	1,896

Cancellation fees.	334	52	363
Miscellaneous income	335	37	56
Subtotal	3,574	3,386	3,244
Total revenues from property leasing.	38,050	37,468	36,251
Rental Expenses:			
Property management fees.	5,320	5,314	5,048
Real estate taxes	3,461	3,100	3,280
Repairs and maintenance	914	965	876
Insurance	33	33	34
Other rental expenses	3,174	3,327	2,911
Depreciation and amortization.	7,222	7,095	7,068
Total rental expenses.	20,124	19,834	19,217
Operating Income from Property Leasing Activities. . .	¥17,926	¥17,634	¥17,034

Note 8 – Gains on Sales of Investment Properties

Gains on sales of investment properties for the periods ended June 30, 2019 and June 30, 2018 were as follows. No investment properties were sold during the periods ended December 31, 2018.

For the six months ended June 30, 2019

NBF Shibakouen Daimon Street Bldg.	(Yen in millions)
Proceeds from sale of investment property	¥6,200
Cost of sale of investment property	6,185
Other related sale expenses	9
Gain on sale of investment property	¥ 6

NBF Utsunomiya Bldg.	(Yen in millions)
Proceeds from sale of investment property	¥3,050
Cost of sale of investment property	2,570
Other related sale expenses	7
Gain on sale of investment property	¥ 473

For the six months ended June 30, 2018

NBF Hibiya Bldg.	(Yen in millions)
Proceeds from sale of investment property	¥64,000
Cost of sale of investment property	63,606
Other related sale expenses	10
Gain on sale of investment property	¥ 384

Note 9 – Income Taxes

NBF is subject to income taxes in Japan. The effective tax rate on NBF's income was 0.01% for the periods ended June 30, 2019 and June 30, 2018, and 0.00% for the period ended December 31, 2018. 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 June 30, 2019	For the six months ended December 31, 2018	For the six months ended June 30, 2018
Statutory tax rate	31.51%	31.51%	31.74%
Deductible dividends	(30.53)	(31.51)	(30.87)

Reserve for advanced depreciation	(0.98)	—	(0.87)
Others.	0.00	0.00	0.00
Effective tax rate.	0.01%	0.00%	0.01%

NBF was established as an investment corporation under the Investment Trust Law of Japan, and as long as an investment corporation distributes to its unitholders at least 90% of earnings available for dividends for a period and other requirements prescribed in Japanese tax regulations are met, the investment corporation is allowed to deduct total amount of dividends in calculating its taxable income under Japanese tax regulations.

Note 10 – Per Unit Information

Information about earnings per unit for the periods ended June 30, 2019, December 31, 2018 and June 30, 2018 and net assets per unit as of June 30, 2019, December 31, 2018 and June 30, 2018 were as follows.

The computation of earnings per unit is based on the weighted average number of units outstanding during the period. The computation of net assets per unit is based on the number of units outstanding at each period end.

	For the six months ended June 30, 2019	For the six months ended December 31, 2018	For the six months ended June 30, 2018
Earnings per Unit:			
Net income per unit (Yen)	¥10,899	¥10,282	¥9,922
Weighted average number of units outstanding	1,412,000	1,412,000	1,412,000
	As of June 30, 2019	As of December 31, 2018	As of June 30, 2018
Net Assets per Unit (Yen)	¥383,384	¥382,767	¥382,135

Note 11 – Leases

As Lessor

NBF leases some of its investment properties to outside parties under non-cancelable operating leases. As of June 30, 2019 and December 31, 2018, future minimum rental revenues under the non-cancelable operating leases are as follows:

	As of June 30, 2019	As of December 31, 2018
	(Yen in millions)	
Due within one year.....	¥ 20,578	¥ 19,008
Due after one year.....	48,096	43,197
Total	¥ 68,674	¥ 62,205

As Lessee

NBF leases some properties from outside parties under non-cancelable operating leases. As of June 30, 2019 and December 31, 2018, future minimum rental expenses under the non-cancelable operating leases are as follows:

	As of June 30, 2019	As of December 31, 2018
	(Yen in millions)	
Due within one year.....	¥ 1	¥ 2
Due after one year.....	—	0
Total	¥ 1	¥ 2

Note 12 – Transactions with Related Parties

(1) Parent Company and Major Corporate Unitholders

(For the six months ended June 30, 2019)

None applicable.

(For the six months ended December 31, 2018)

None applicable.

(For the six months ended June 30, 2018)

None applicable.

(2) Affiliates

(For the six months ended June 30, 2019)

None applicable.

(For the six months ended December 31, 2018)

None applicable.

(For the six months ended June 30, 2018)

None applicable.

(3) Sister Companies

(For the six months ended June 30, 2019)

None applicable.

(For the six months ended December 31, 2018)

None applicable.

(For the six months ended June 30, 2018)

None applicable.

(4) Directors and Major Individual Unitholders

(For the six months ended June 30, 2019)

None applicable.

(For the six months ended December 31, 2018)

None applicable.

(For the six months ended June 30, 2018)

None applicable

Note 13 – Investment and Rental Properties

NBF owns office buildings (including land) for rent in Tokyo and other areas. The carrying amounts, net changes in the carrying amounts and the fair value of the investment and rental properties are as follows.

(Yen in millions)

	For the six months ended June 30, 2019	For the six months ended December 31, 2018
Carrying amount		
Balance at beginning of the Fiscal Period	¥ 996,009	¥ 998,531
Amount of increase (decrease) during current period	20,602	(2,522)
Balance at end of the Fiscal Period	1,016,611	996,009
Fair value at end of the period	¥ 1,278,810	¥ 1,239,870

Notes:

- Carrying amounts represent acquisition cost less accumulated depreciation.
- The major increase in the fiscal period ended June 30, 2019 was mainly due to the acquisitions of 3 properties (G-BASE TAMACHI, Nakanosakaue Sunbright Twin (additional acquisition) and Osaki Bright Core - Bright Plaza (additional acquisition) ¥33,174 million) and the major decrease was mainly due to sale of 2 properties (NBF Shibakouen Daimon Street Bldg. and NBF Utsunomiya Bldg. ¥ 8,755 million) and recognition of depreciation costs.
The major decrease in the fiscal period ended December 31, 2018 was mainly recognition of depreciation costs.
- Fair value at end of the period is based on appraisals provided by independent real estate appraisers.

Information about profit and loss from investment and rental properties is disclosed in Note 7 (Rental Revenues and Expenses) and Note 8 (Gains on Sales of Investment Properties).

Note 14 – Segment Information

Segment Information

Segment information has been omitted as NBF has only one segment, which is real estate leasing business.

Related Information

(For the six months ended June 30, 2019)

1. Information by Products and Services

Disclosure of this information has been omitted as NBF has a single product/service line that accounts for more than 90% of total operating revenues.

2. Information by Geographic Areas

(1) Operating revenues

Disclosure of this information has been omitted as total domestic revenues account for more than 90% of total operating revenues.

(2) Investment properties

Disclosure of this information has been omitted as total domestic investment properties account for more than 90% of the book value of total investment properties.

3. Information on Major Tenants

(Yen in millions)

Tenant	Operating revenues	Related segment
Mitsui Fudosan Co., Ltd.	¥11,248	Real estate leasing business

Note: NBF leases properties to Mitsui Fudosan Co., Ltd. under a master lease agreement, and Mitsui Fudosan Co., Ltd. subleases such properties to subtenants. NBF leases other properties to Mitsui Fudosan Co., Ltd.

(For the six months ended December 31, 2018)

1. Information by Products and Services

Disclosure of this information has been omitted as NBF has a single product/service line that accounts for more than 90% of total operating revenues.

2. Information by Geographic Areas

(1) Operating revenues

Disclosure of this information has been omitted as total domestic revenues account for more than 90% of total operating revenues.

(2) Investment properties

Disclosure of this information has been omitted as total domestic investment properties account for more than 90% of the book value of total investment properties.

3. Information on Major Tenants

(Yen in millions)

Tenant	Operating revenues	Related segment
Mitsui Fudosan Co., Ltd.	¥11,279	Real estate leasing business

Note: NBF leases properties to Mitsui Fudosan Co., Ltd. under a master lease agreement, and Mitsui Fudosan Co., Ltd. subleases such properties to subtenants. NBF leases other properties to Mitsui Fudosan Co., Ltd.

(For the six months ended June 30, 2018)

1. Information by Products and Services

Disclosure of this information has been omitted as NBF has a single product/service line that accounts for more than 90% of total operating revenues.

2. Information by Geographic Areas

(1) Operating revenues

Disclosure of this information has been omitted as total domestic revenues account for more than 90% of total operating revenues.

(2) Investment properties

Disclosure of this information has been omitted as total domestic investment properties account for more than 90% of the book value of total investment properties.

3. Information on Major Tenants

(Yen in millions)

Tenant	Operating revenues	Related segment
Mitsui Fudosan Co., Ltd.	¥9,660	Real estate leasing business

Note: NBF leases properties to Mitsui Fudosan Co., Ltd. under a master lease agreement, and Mitsui Fudosan Co., Ltd. subleases such properties to subtenants. NBF leases other properties to Mitsui Fudosan Co., Ltd.

Note 15 – Significant Subsequent Events

None applicable.

III 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 June 30, 2019, NBFM has been entrusted as an asset management company only by 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 unitholders 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 Fee 1

The amount equivalent to 2.5% of the total amount of (i) rent, common area charges, parking lot charges, incidental income, facility charges, facility installation fees, delay damages, lease contract cancellation penalty or monies similar thereto and other leasing operating revenues arising from leasing operations, plus (ii) dividends, distributions or monies similar thereto and other proceeds attributable to Real Estate, etc. recorded by NBF (provided, however, that revenues from the sale of Real Estate, etc. will be excluded; hereinafter, "Leasing Revenues, etc." in this Paragraph) as calculated on each closing date (rounded down to the nearest yen) will be payable.

Management Fee 2

The amount equivalent to 3% of net income before income taxes (provided, however, that in the event a loss is carried forward, then the amount of income before income taxes remaining after the entire amount of such loss has been covered) prior to deduction of Management Fee 2 as calculated on each closing date (rounded down to the nearest yen; provided, however, that in the event of a negative amount, then 0 yen) will be payable.

Management Fee 3

In the event that Real Estate, etc. is newly acquired (in the event of merger by NBF, then succeeded by said merger) as Managed Assets, the amount of the acquisition price of said Real Estate, etc. (meaning the acquisition price of both land and buildings; in the event of the simultaneous acquisition of multiple units of Real Estate, etc., then the acquisition price of each Real Estate, etc., in the event of equity investment, then the equity investment amount, and in the event of merger by NBF, then the appraised value of each Real Estate, etc. succeeded by said merger at the time of the merger; provided, however, that national consumption tax, regional consumption tax and miscellaneous costs of acquisition or succession are excluded) multiplied by the following percentage rates, in principle, in total amount (rounded down to the nearest yen) will be payable; provided, however, that with the approval of the board of directors of NBF, compensation may be calculated using different rates not exceeding the following rates.

- | | |
|---|---------|
| • The portion up to and including ¥10,000 million | 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 |

Management Fee 4

In the event of sale of Real Estate, etc. owned as Managed Assets, the amount of the sales price of said Real Estate, etc. (in the event of the simultaneous sale of multiple units of Real Estate, etc., then the sales price of each Real Estate, etc.; provided, however, that national consumption tax, regional consumption tax and miscellaneous costs of sale are excluded) multiplied by the following percentage rates, in principle, in total amount (rounded down to the nearest yen) will be payable; provided, however, that with the approval of the board of directors of NBF, compensation may be calculated using different rates not exceeding the following rates.

- The portion up to and including ¥10,000 million 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 liability 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 “Nippon Building Fund Management Ltd.”)
June 16, 2001	Increased capital from ¥198 million to ¥495 million
September 30, 2007	Registered as a financial instruments firm with the Kanto Local Finance Bureau Chief (Financial Instruments) No. 371

List of Shareholders (as of June 30, 2019)

Name	Number of Shares Owned	Percent
Mitsui Fudosan Co., Ltd.	4,554	46.0%
Sumitomo Life Insurance Company	3,465	35.0
Sumitomo Mitsui Trust Bank, Limited	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
Britel Fund Trustees Limited	297	3.0
Total	9,900	100.0%

Directors and Staff

As of June 30, 2019, the directors and corporate auditors of NBFM are as follows. The staff other than directors and auditors of NBFM is comprised of 26 persons.

Name of Directors and Auditors	Title
Yoshiyuki Tanabe	President & CEO (standing)
Morio Shibata	Director, Head of Investment & Finance Group (standing)
Miki Takahashi	Director, Head of Administration Group (standing)
Masahiko Okamoto	Director
Yusuke Ogata	Director
Makoto Ishida	Corporate Auditor
Norio Morimoto	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:

As of March 31, 2019	(Yen in millions)
Total Assets	¥2,509
Total Liabilities	392
Total Net Assets	2,117



Independent Auditor's Report

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

We have audited the accompanying financial statements of Nippon Building Fund Inc.(a Japanese Real Estate Investment Trust), which comprise the balance sheets as at June 30, 2019 and December 31, 2018, and the statements of income, statements of changes in net assets and statements of cash flows for each of the six months ended June 30, 2019, December 31, 2018 and June 30, 2018, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nippon Building Fund Inc. as at June 30, 2019 and December 31, 2018, and their financial performance and cash flows for each of the six months ended June 30, 2019, December 31, 2018 and June 30, 2018 in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

October 17, 2019
Tokyo, Japan

Response to Article 23 of the European Alternative Investment Fund Managers Directive

DISCLAIMER

This document has been prepared solely for the purpose of providing U.K. and Dutch investors with certain information under Article 23 of the European Alternative Investment Fund Managers Directive (European Directive 2011/61/EU) as implemented in their respective jurisdictions, and does not constitute an offer to sell or a solicitation of any offer to buy the units of Nippon Building Fund Inc. (“NBF” or the “AIF”). Accordingly, you should not use this document for any other purpose.

Prohibition of Sales to EEA Retail Investors

The units of NBF are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area, or the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended, or the MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC, as amended, or the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC, as amended, the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014, or the PRIIPs Regulation, for offering or selling the units of NBF or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the units of NBF, or otherwise making them available, to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

United Kingdom

The units of NBF are being marketed in the United Kingdom pursuant to Article 59 of the United Kingdom Alternative Investment Fund Managers Regulations 2013. In accordance with this provision, Nippon Building Fund Management Ltd. (the “AIFM”) has notified the Financial Conduct Authority (the “FCA”) of its intention to offer these units in the United Kingdom. For the purposes of the United Kingdom Financial Services and Markets Act 2000 (“FSMA”) NBF is an unregulated collective investment scheme which has not been authorized by the FCA. Accordingly, any communications of an investor or inducement to invest in NBF may be made to: (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order; or (ii) high net worth companies and other persons to whom it may lawfully be

communicated, falling within Articles 49(2)(a) to (d) of the Order (all such persons together being referred to as “Relevant Persons”). In the United Kingdom, this document and its contents are directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any person who is not a Relevant Person may not act or rely on this document or any of its contents.

European Economic Area Investors

The Directive 2011/61/EU (the “Alternative Investment Fund Managers Directive”, or the “AIFMD”), was adopted on June 8, 2011 and was required to be implemented by each Member State of the EEA into its national legislation by July 22, 2013. The units of NBF may not be marketed (within the meaning given to the term “marketing” under the AIFMD), and the Communication may not be conducted, to prospective investors domiciled or with a registered office in any Member State of the EEA unless: (i) the units of NBF may be marketed under any national private placement regime (including under the AIFMD) or other exemption in that Member State; or (ii) the units of NBF can otherwise be lawfully marketed or sold in that Member State in circumstances in which the AIFMD does not apply, provided that any such offer or sale is not made to a retail investor as described above. We have made a notification to each of the Netherlands Authority for the Financial Markets and the United Kingdom Financial Conduct Authority pursuant to Article 42 of the AIFMD in order to market the units of NBF in the Netherlands and the United Kingdom, respectively.

Netherlands

The units of NBF are being marketed in the Netherlands under Section 1:13b of the Dutch Financial Supervision Act (Wet op het financieel toezicht, or the “Wft”). In accordance with this provision, the AIFM has notified the Dutch Authority for the Financial Markets of its intention to offer these units in the Netherlands. The units of NBF will not, directly or indirectly, be offered, sold, transferred or delivered in the Netherlands, except to or by individuals or entities that are qualified investors (gekwalificeerde beleggers) within the meaning of Article 1:1 of the Wft, and as a consequence neither the AIFM nor NBF is subject to the license requirement pursuant to the Wft. Consequently, neither the AIFM nor NBF is subject to supervision of the Dutch Central Bank (De Nederlandsche Bank, “DNB”) or the Netherlands Authority for Financial Markets (Autoriteit Financiële Markten, the “AFM”) and this Article 23 AIFMD prospectus is not subject to approval by the AFM. No approved prospectus is required to be published in the Netherlands pursuant to Article 3 of the European Directive 2003/71/EC (the EU Prospectus Directive) as amended and implemented in Netherlands law. The AIFM is solely subject to limited ongoing regulatory requirements as referred to in Article 42 of the AIFMD.

Article 23 (1)(a)	
Objectives of the AIF.	<p>Nippon Building Fund Inc. (“NBF” or the “AIF”) invests in office buildings in the Tokyo Central Business Districts (“CBDs”, which comprises the 23 wards of Tokyo), Other Greater Tokyo Areas (neighboring cities within Tokyo other than the 23 wards, such as Musashino and Tachikawa cities, as well as cities within the neighboring prefectures of Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi prefectures, including the cities of Yokohama, Kawasaki, Chiba, Kashiwa and Saitama) and Other Cities (principal regional cities, including Sapporo, Sendai, Niigata, Shizuoka, Hamamatsu, Nagoya, Kyoto, Osaka, Kobe, Okayama, Hiroshima, Takamatsu, Fukuoka and Kumamoto).</p> <p>The basic policy of NBF is to operate assets with the objective of assuring steady growth and stable profits for the mid to long term.</p>
Investment strategy.	<p>The investment strategy of NBF aims to assure steady growth of and stable profits from NBF’s portfolio for the mid to long term by considering the proportion of Japan’s office stock by region. Specifically, the strategy divides the investment area into three areas consisting of Tokyo CBDs, Other Greater Tokyo Areas and Other Cities in such manner that 70% or more of total investment assets is allocated to Tokyo CBDs and Other Greater Tokyo Areas and 30% or less to Other Cities. The purpose of this area diversification is to minimize cash flow risks such as those due to earthquakes and risk of vacancies. In general, NBF fully exploits its unique characteristics when conducting investment activities. It is one of the largest listed J-REITs on the Tokyo Stock Exchange in terms of total assets, and is able to take advantage of Mitsui Fudosan Group’s powerful information network, as well as the industry knowledge and familiarity that it has cultivated itself. NBF investment strategy focuses on expanding its asset portfolio by making aggressive acquisitions and flexible dispositions mainly of highly competitive office buildings, primarily in Tokyo CBDs while conducting appropriate risk management.</p>
Types of assets the AIF may invest in.	<p>Real estate, trust beneficiary interests in real estate, real estate securities, specified assets and other assets.</p>
Techniques it may employ and all associated risks.	<p>NBF achieves its objective by investing in real estate consisting of buildings primarily used for offices with their underlying land located in the Tokyo CBDs, Other Greater Tokyo Areas and Other Cities. NBF also invests in securities, beneficiary certificates representing beneficial interests in trusts and other assets backed by office properties.</p> <p>The principal risks with respect to investment in NBF are as follows:</p> <ul style="list-style-type: none"> (1) General Risks <ul style="list-style-type: none"> (a) Risks concerning NBF’s ability to make cash distributions (b) Risks concerning resale or redemption of investment units or investment corporation bonds

- (c) Risks concerning market price fluctuations of the investment units or investment corporation bonds
- (d) Risks concerning changes to treatment of investment corporations under legal, taxation and other systems
- (e) Risks concerning dilution of per-unit value through the issuance of new investment units
- (f) Risks concerning merger of investment corporations

(2) Risks Related to Product Structure and Affiliates of NBF

- (a) Risks concerning investment units or investment corporation bonds as financial products
- (b) Risks concerning fluctuations in revenues, expenditures and cash flow
- (c) Risks concerning loan-to-value ratio
- (d) Risks concerning borrowings and investment corporation bonds
- (e) Risks concerning insider trading
- (f) Risks concerning the asset manager
- (g) Risks concerning office management service providers
- (h) Risks concerning dependency on NBF's affiliates
- (i) Risks concerning conflict of interests between NBF and other corporations involved with the management of NBF
- (j) Risks concerning changes to NBF's investment policy
- (k) Risks concerning tenant leasehold deposits and security deposits
- (l) Risks of NBF going bankrupt or its registration being cancelled
- (m) Risks arising from bankruptcy of the seller of properties

(3) Risks Related to Real Estate

- (a) Risks concerning illiquidity in the real estate market and transactional costs
- (b) Risks concerning the defective title, design, construction (such as piles and beams), quality of materials or other defects or problems in the properties
- (c) Risks concerning competition in acquisition of properties
- (d) Risks concerning competition in seeking tenants
- (e) Risks concerning co-owned properties
- (f) Risks concerning compartmentalized ownership of buildings
- (g) Risks concerning properties on leased lands
- (h) Risks concerning leased properties
- (i) Risks concerning properties not in operation (including properties under development)
- (j) Risks concerning hazardous materials and radioactive contamination

- (k) Risks concerning strict environmental liabilities for the properties
- (l) Risks concerning reliance on expert appraisals and engineering, environmental and seismic reports as well as industry and market data
- (m) Risks concerning lease contracts in Japan
- (n) Risks concerning building damage and loss due to fire, explosion, lightning, wind, hail, snow, floods, electrical and mechanical hazards and other unexpected accidents
- (o) Risks concerning building damage and loss due to fire, explosion and collapse caused by earthquakes and other disasters such as eruptions, tsunami and liquefaction
- (p) Risks concerning the concentration of properties in the portfolio in certain areas
- (q) Risks concerning tenants' financial status and insolvency
- (r) Risks concerning fluctuation of profits due to a limited number of tenants
- (s) Risks concerning subleases
- (t) Risks concerning ownership liabilities related to real estate
- (u) Risks concerning repair and maintenance costs related to real estate
- (v) Risks concerning liability as the seller of properties
- (w) Risks related to holding partnership interests
- (x) Risks concerning complexity of ownership and other interests of properties and inaccuracy of real estate registration
- (y) Risks concerning administrative rules and regulations and prefectural or municipal ordinances for real estate
- (z) Risks concerning establishment of new or revisions of existing laws and regulations
- (aa) Risks concerning conclusion of post-dated sale agreements (forward commitment contracts)

(4) Risks Related to Trust Beneficiary Rights

- (a) Risks concerning investments in trust beneficiary interests
- (b) Risks concerning liquidity of beneficiary interests
- (c) Risks concerning insolvency of the trustee

(5) Risks Related to Taxation

- (a) Risks of failure to satisfy pass-through requirements due to inability to pay dividends and other reasons
- (b) Risks of failure to satisfy pass-through requirements due to excessive amount of tax burden

	<ul style="list-style-type: none"> (c) Risk of additional tax liability as a result of a tax audit, which could, among other things, retroactively cause us to fail to satisfy pass-through requirements (d) Risks that preferential tax measures associated with real estate acquisitions cannot be applied (e) Risks of failure to satisfy pass-through requirements due to treatment of NBF as a family corporation under Japanese tax law. (f) Risks of failure to satisfy pass-through requirements due to borrowings from companies or individuals other than institutional investors (g) Risks of failure to satisfy pass-through requirements due to the composition of investors (h) Risks concerning revisions of the general taxation system (i) Risks that tax burdens will increase due to discrepancies between accounting treatment and tax treatment
Any applicable investment restrictions.	<p>NBF is subject to investment restrictions under Japanese laws and regulations (e.g., the Act on Investment Trusts and Investment Corporations (the “ITA”), the Financial Instruments and Exchange Act (the “FIEA”)) as well as its articles of incorporation.</p> <p>NBF must invest primarily in specified assets as defined in the ITA. Specified assets include, but are not limited to, securities, real estate, leaseholds of real estate, surface rights (<i>chijō-ken</i>) (i.e., right to use land for the purpose of having a structure on it) or trust beneficiary interests for securities or real estate, leaseholds of real estate or surface rights. A listed J-REIT must invest substantially all of its assets in real estate, real estate-related assets and liquid assets as provided by the listing requirements. Real estate in this context includes, but is not limited to, real estate, leaseholds of real estate, surface rights, and trust beneficiary interests for these assets, and real estate-related assets in this context include, but are not limited to, anonymous association (<i>tokumei kumiai</i>) interests for investment in real estate. Pursuant to the ITA, investment corporations may not independently develop land for housing or to construct buildings, but must outsource such activities.</p>
Circumstances in which the AIF may use leverage.	<p>NBF may take out loans or issue long-term or short-term investment corporation bonds for the purpose of investing in properties, conducting repairs and related work, paying cash distributions, operating capital, repaying obligations (including repayment of tenant leasehold or security deposits, and obligations related to loans or long-term or short-term investment corporation bonds) and other activities.</p>
The types and sources of leverage permitted and associated risks.	<p>Loans or investment corporation bonds. Currently, all of NBF’s outstanding long- and short-term loans as well as outstanding investment corporation bonds are unsecured and unguaranteed.</p>

	<p>Loans or investment corporation bonds in which NBF enters or NBF issues may be subject to restrictive covenants in connection with any future indebtedness that may restrict operations and limit its ability to make cash distributions to unitholders, to dispose of properties or to acquire additional properties. Furthermore, if NBF were to violate such restrictive covenants, such as with regard to debt service coverage or loan-to-value ratios, lenders may be entitled to require NBF to collateralize portfolio properties or demand that the entire outstanding balance be paid.</p> <p>In the event of an increase in interest rates, to the extent that NBF has any debt with unhedged floating rates of interest or NBF incurs new debt, interest payments may increase, which in turn could reduce the amount of cash available for distributions to unitholders. Higher interest rates may also limit the capacity for short- and long-term borrowings, which would in turn limit NBF's ability to acquire properties, and could cause the market price of the units to decline.</p>
Any restrictions on leverage.	The maximum amount of each loan and investment corporation bond issuance will be 1 trillion yen, and the aggregate amount of all such debt will not exceed 1 trillion yen.
Any restrictions on collateral and asset reuse arrangements.	No applicable arrangements.
Maximum level of leverage which the AIFM is entitled to employ on behalf of the AIF.	NBF has set an upper limit of 56% as a general rule for its loan-to-value, or LTV, ratio, which is the ratio of (x) the aggregate principal amount of borrowings and investment corporation bonds to (y) the total assets of NBF's portfolio, in order to operate with a stable financial condition. NBF may, however, temporarily exceed such levels as a result of property acquisitions or other events.
Article 23(1) (b)	
Procedure by which the AIF may change its investment strategy / investment policy.	Amendment of the articles of incorporation. Amendment requires a quorum of a majority of the total issued units and at least a two-thirds vote of the voting rights represented at the meeting. Unitholders should note, however, that under the ITA and our articles of incorporation, unitholders who do not attend and exercise their voting rights at a general meeting of unitholders are deemed to be in agreement with proposals submitted at the meeting, except in cases where contrary proposals are also being submitted. Additionally, the guidelines of the AIFM, which provide more detailed policies within NBF's overall investment strategy and policy, can be modified without such formal amendment of the articles of incorporation.
Article 23(1) (c)	

<p>Description of the main legal implications of the contractual relationship entered into for the purpose of investment, including jurisdiction, applicable law, and the existence or not of any legal instruments providing for the recognition and enforcement of judgments in the territory where the AIF is established.</p>	<p>NBF has entered into the following agreements with Mitsui Fudosan Co., Ltd.:</p> <ul style="list-style-type: none"> • Master lease agreement under which NBF leases properties to Mitsui Fudosan Co., Ltd. under a master lease agreement, and Mitsui Fudosan Co., Ltd. subleases such properties to subtenants; • Direct lease agreements with Mitsui Fudosan Co., Ltd. as tenant; • Purchase and sale agreements regarding certain NBF assets originally held by Mitsui Fudosan Co., Ltd., and management contracts with regard to such assets; and • Agreements for the development of certain properties. <p>NBF has entered into the following agreements with Sumitomo Mitsui Trust Bank, Limited:</p> <ul style="list-style-type: none"> • A custody agreement regarding NBF's assets; • A transfer agent agreement regarding the units; • Loan agreements over certain of our short- and long-term loans; • Agreements establishing Sumitomo Mitsui Trust Bank, Limited as the trustee for certain trust beneficiary rights held by NBF; and • Various agreements related to our investment corporation bond offerings. <p>NBF has entered into the following agreements with Sumitomo Life Insurance Company:</p> <ul style="list-style-type: none"> • Loan agreements over certain of our long-term loans; • Lease agreements for certain properties with Sumitomo Life Insurance Company as tenant; and • Purchase and sale agreements regarding certain NBF assets originally held by Sumitomo Life Insurance Company. <p>All of the above agreements are governed by Japanese law.</p> <p>NBF is not involved in or threatened by any legal arbitration, administrative or other proceedings, the results of which might, individually or in the aggregate, be material.</p> <p>NBF is a corporate-type investment trust in the form of investment corporation (toshi hojin) provided for under the ITA. Therefore, the relationship between NBF and its unitholders is governed by NBF's articles of incorporation (as opposed to individual agreements), which can be amended from time to time upon resolution of a general unitholders' meeting. NBF's articles of incorporation stipulate rules relating to general unitholders meetings, including the convocation, setting of record date, exercise of voting rights, resolutions and election of NBF's directors.</p> <p>The relationship between NBF and its unitholders is also governed by, and is subject to the provisions of, Japanese law, including the ITA.</p> <p>The courts in Japan would recognize as a valid judgment any final and conclusive civil judgment for monetary claims (which, for this purpose, are limited to those of a purely civil</p>
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	<p>nature and do not include monetary claims of the nature of criminal or administrative sanction, such as punitive damages, even though they take the form of civil claims) against NBF obtained in a foreign court provided that (i) the jurisdiction of such foreign court is admitted under the laws of Japan, (ii) NBF has received service of process for the commencement of the relevant proceedings, otherwise than by a public notice or any method comparable thereto, or has appeared without any reservation before such foreign court, (iii) neither such judgment nor the relevant proceeding is repugnant to public policy as applied in Japan, (iv) there exists reciprocity as to the recognition by such foreign court of a final judgment obtained in a Japanese court and (v) there is no conflicting judgement on the subject matter by any Japanese court.</p>
Article 23(1) (d)	
<p>The identity of the AIFM, AIF's depositary, auditor and any other service providers and a description of their duties and the investors' rights thereto.</p>	<ul style="list-style-type: none"> • AIFM (Asset Manager): Nippon Building Fund Management Ltd. The AIFM provides services related to management and operation of assets, financing of the AIF, reporting to the AIF, and other matters delegated by the AIF. • Auditor: KPMG AZSA LLC The Auditor audits financial statements, prepares audit reports, and report to the supervisory directors if it finds any misconduct or any material fact that is in violation of laws and regulations or the articles of incorporation with regard to execution of the duties of the executive director. • Custodian and Transfer Agent: Sumitomo Mitsui Trust Bank, Ltd. The Custodian provides administrative services related to custody of assets and related documents. The Transfer Agent provides administrative services related to unitholders' roster, issuance of the investment units, payments of cash distributions to unitholders and addressing unitholders' claims, offers and notices. <p>Service providers owe contractual obligations under their respective agreements with the AIF or AIFM, as the case may be. In addition, the FIEA provides that an asset manager owes a J-REIT a fiduciary duty and must conduct its activities as the asset manager in good faith. The FIEA also prohibits an asset manager from engaging in certain specified conduct, including entering into transactions outside the ordinary course of business or with related parties of the asset manager that are contrary to or violate the J-REIT's interests. Pursuant to the ITA, the unitholders have the right to approve the execution or termination of the asset management agreement at a general meeting of unitholders.</p>
Article 23(1) (e)	

Description of how the AIFM complies with the requirements to cover professional liability risks (own funds / professional indemnity insurance).	Not applicable.
Article 23(1) (f)	
Description of any delegated management function such as portfolio management or risk management and of any safekeeping function delegated by the depositary, the identification of the delegate and any conflicts of interest that may arise from such delegations.	Not applicable. There is no delegation of such functions beyond the AIFM, which is responsible for portfolio and risk management, and the Custodian, which is responsible for safekeeping activities.
Article 23(1) (g)	
Description of the AIF's valuation procedure and pricing methodology, including the methods used in valuing hard-to-value assets.	NBF makes investment decisions based on its investment strategies and in accordance with its articles of incorporation and based on the results of due diligence, including the valuation of properties and consideration of the property appraisal value. The methods and standards that NBF uses for the evaluation of assets are based on the Regulations Concerning the Calculations of Investment Corporations, as well as the Regulations Concerning Real Estate Investment Trusts and Real Estate Investment Corporations and other regulations stipulated by ITA, in addition to Japanese GAAP. J-REITs may only use the valuation methods prescribed in the rules of the Investment Trusts Association, Japan, which emphasize market price valuation.

	<p>Regarding hard to value assets, such assets comprise tenant security deposits including trust accounts. Security deposits from tenants are not subject to fair value disclosure because they are not marketable, and actual deposit period is not estimable as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract. This makes a reasonable estimate of future cash flows difficult. Valuation of such hard to value assets is included in the notes to our financial statements.</p> <p>If asset valuation methods other than those mentioned in the paragraphs above are to be used in order to determine values for asset management reports, etc., valuation shall be conducted in the following manner.</p> <p>(1) Real estate, real estate leasehold rights and surface rights In principle, valuation shall be based on the appraisal by a real estate appraiser.</p> <p>(2) Trust beneficiary interests and equity interests in anonymous associations and voluntary associations</p> <p>Valuation shall be made by calculating the value of the equity interests in anonymous associations or voluntary associations in relation to real estate, real estate leasehold rights or surface rights, or the value of the trust beneficiary interests obtained by subtracting the amount of liabilities from the aggregate value of assets after (i) determining valuation as described in (1) above with respect to trust assets or the assets of anonymous associations composed of real estate, real estate leasehold rights or surface rights and (ii) determining valuation in accordance with general accepted accounting principles in Japan with respect to trust assets or the assets of anonymous associations or voluntary associations composed of financial assets.</p>
Article 23(1) (h)	
<p>Description of the AIF's liquidity risk management, including redemption rights in normal and exceptional circumstances and existing redemption arrangements with investors.</p>	<p>NBF seeks to manage the capital resources and liquidity sources to provide adequate funds for current and future financial obligations and other cash needs and acquisitions. NBF has entered into credit lines in the amount of 60 billion yen as of June 30, 2019, and has entered into loans and has issued investment corporation bonds in the past. While loans and investment corporation bonds are exposed to liquidity risk, such risk is managed in ways such as by diversifying the means of funding and lending institutions, dispersing repayment dates, establishing committed credit lines, and keeping sufficient liquidity in hand.</p> <p>NBF is a closed-end investment corporation, and unitholders are not entitled to request the redemption of their investment.</p>

Article 23(1) (i)									
<p>Description of all fees, charges and expenses and a maximum amount which is directly / indirectly borne by the investors.</p>	<ul style="list-style-type: none"> • Compensation: The articles of incorporation provide that the AIF may pay its executive and supervisory officers up to 700,000 yen per month. The board of officers is responsible for determining a reasonable compensation amount for the executive officer and each of the supervisory officers. • Asset Management Fee: The AIF will pay the Asset Manager an asset management fee as follows: <p>Management Fees 1 – The amount equivalent to 2.5% of the amount of the revenue arising from real estate, real estate-related and real estate-backed assets (“Real Estate”) as calculated on each closing date (provided, however, that revenues from the sale of Real Estate and other managed assets will be excluded) will be payable.</p> <p>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.</p> <p>Management Fees 3 – In the event that Real Estate is newly acquired (or acquired in connection with a merger executed by NBF), compensation equivalent to the total amount of the acquisition price of said Real Estate (meaning the acquisition price of both land and buildings, and in the event of the simultaneous acquisition of multiple units of Real Estate, 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 officers of NBF, compensation may be calculated using different rates not exceeding the following rates.</p> <table border="0"> <tr> <td>The portion up to and including ¥10,000 million</td><td>0.5%</td></tr> <tr> <td>The portion exceeding ¥10,000 million up to and including ¥30,000 million</td><td>0.2%</td></tr> <tr> <td>The portion exceeding ¥30,000 million up to and including ¥50,000 million</td><td>0.05%</td></tr> <tr> <td>The portion exceeding ¥50,000 million.....</td><td>nothing</td></tr> </table> <p>Management Fees 4 – In the event that Real Estate is sold, compensation equivalent to the total amount of the sale price of said Real Estate</p>	The portion up to and including ¥10,000 million	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
The portion up to and including ¥10,000 million	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								

(or the sale price of each unit, in the event where multiple units of said Real Estate are sold simultaneously), excluding the national consumption tax, regional consumption tax and miscellaneous costs of the sale, multiplied by one the following applicable percentage rates will, in principle, be payable; provided, however, that with the approval of the officers of NBF, different rates not exceeding the following rates may be used.

The portion up to and including ¥10,000 million	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

In addition to the above, NBF will pay the Asset Manager a management agent fee as follows: 3,000,000 yen per year for services related to the meetings of the board of officers and 5,000,000 yen per meeting for services related to the meeting of unitholders.

- Custodian Fee: The AIF will pay the Custodian as follows:

A yearly fee calculated as follows:

The amount of total assets as indicated at the beginning of the period trial balance x 0.01%

- Transfer Agent Fee (Standard Fee):

Standard transfer agent fees are for services such as the preparation, maintenance and storage of NBF's unitholder register; and preparation of materials concerning end-of-period unitholder statistical data (number of unitholders, total units held, distribution per geographic area). Monthly standard fees are determined by calculating one sixth of the total number of unitholders falling under each section as shown below. There is a minimum monthly fee of ¥200,000.

Up to 5,000.....	480 yen
5,001 to 10,000.....	420 yen
10,001 to 30,000.....	360 yen
30,001 to 50,000.....	300 yen
50,001 to 100,000.....	260 yen
More than 100,001.....	225 yen

NBF also pays certain *de minimis* fees in addition to the standard fee in connection with the administration and handling of distributions (minimum of 350,000 yen per distribution) and other shareholder related functions.

- Auditor Fee:

NBF may pay the accounting auditor up to ¥20 million per fiscal period. The board of officers is responsible for determining the compensation amount for the accounting auditor.

- Accounting Service Fee

One 12th of the following in either (1) or (2) below each month:

(1) A fixed amount of 10,900,000 yen.

(2) A variable amount calculated at April 1 and October 1 of each year in accordance with the following:

Fewer than 30

properties..... 800,000 yen per property

Between 30 and 60

properties..... 600,000 yen per property

More than 60

properties..... 400,000 yen per property

- Miscellaneous

NBF also pays fees to certain service providers in connection with:

- Administration of special accounts;
- Office management;
- Property control;
- Property transfer;
- Referral of tenants;
- Property development;
- Tax administration; and
- Administration for investment corporation bonds governance

Article 23(1) (j)

Description of the AIFM's procedure to ensure fair treatment of investors and details of any preferential treatment received by investors,

Under Article 77 paragraph 4 of the ITA, which applies the requirements of Article 109 paragraph 1 of the Companies Act to investment corporations, investment corporations are required to treat unitholders equally depending on the number and content of units held. In addition, upon liquidation, the allotment of residual assets to unitholders is required to be made equally depending on the number units held under Article 77 paragraph 2 item 2 and Article 158 of the ITA.

including detailing the type of investors and their legal or economic links with the AIF or AIFM.	
Article 23(1) (k)	
The latest annual report referred to in Article 22(1).	Additional information may be found in our most recent semi-annual report prepared in accordance with Article 22 of the AIFMD, which is available at the Asset Manager's office located at 16th Floor, Muromachi Furukawa Mitsui Building, 3-1, Nihonbashi Muromachi 2-chome, Chuo-ku, Tokyo, 103-0022, Japan.
Article 23(1) (l)	
The procedure and conditions for the issue and sale of the units.	NBF is authorized under the articles of incorporation to issue up to 4 million units. Its units have been listed on the Tokyo Stock Exchange since September 10, 2001. Secondary market sales and transfers of units will be conducted in accordance with the rules of the Tokyo Stock Exchange. Unit prices on the Tokyo Stock Exchange are determined on a real-time basis by the equilibrium between bids and offers. The Tokyo Stock Exchange sets daily price limits, which limit the maximum range of fluctuation within a single trading day. Daily price limits are set according to the previous day's closing price or special quote.
Article 23(1) (m)	
Latest net asset value of the AIF or latest market price of the unit or share of the AIF.	NBF's unit's latest market price is publicly available at the Tokyo Stock Exchange or from financial information vendors at https://www.reuters.com/finance/stocks/overview?symbol=8951.T

Article 23(1) (n)				
Details of the historical performance of the AIF, where available.	The units of NBF were listed on the Tokyo Stock Exchange on September 10, 2001. The most recent five fiscal period performance of the units is as follows.			
	Fiscal period (six months ended)	Total Assets (JPY million)	Total Net Assets (JPY million)	Net Assets per unit (base value) (JPY)
	June 30, 2019	1,043,765	541,338	383,384
	December 31, 2018	1,024,893	540,467	382,767
	June 30, 2018	1,020,237	539,574	382,135
	December 31, 2017	1,013,860	538,794	381,582
	June 30, 2017	1,023,900	537,002	380,313
Article 23(1) (o)				
Identity of the prime broker, any material arrangements of the AIF with its prime brokers, how conflicts of interest are managed with the prime broker and the provision in the contract with the depositary on the possibility of transfer and reuse of AIF assets, and information about any transfer of liability to the prime broker that may exist.	No applicable prime broker.			
Article 23(1) (p)				
Description of how and when periodic disclosures will be made in relation to	The AIFM will disclose the matters described in Articles 23(4) and 23(5) periodically through its Internet website and semi-annual report.			

leverage, liquidity and risk profile of the assets, pursuant to Articles 23(4) and 23(5).	
Article 23(2)	
The AIFM shall inform the investors before they invest in the AIF of any arrangement made by the depositary to contractually discharge itself of liability in accordance with Article 21(13).	Not applicable.
The AIFM shall also inform investors of any changes with respect to depositary liability without delay.	Not applicable.
Article 23(4)(a)	
Percentage of the AIF's assets which are subject to special arrangements arising from their illiquid nature. The percentage shall be calculated as the net value of those assets subject to special arrangements divided by the net asset value of the AIF concerned.	There are no assets that are subject to special arrangements arising from their illiquid nature.
Overview of any special arrangements, including whether they relate to side pockets, gates or other arrangements.	There are no such special arrangements.

Valuation methodology applied to assets which are subject to such arrangements.	There are no such special arrangements.
How management and performance fees apply to such assets.	There are no such special arrangements.
Article 23(4)(b)	
Any new arrangements for managing the liquidity of the AIF.	Any new arrangements or change in applicable arrangements will be disclosed at an appropriate time.
For each AIF that the AIFM manages that is not an unleveraged closed-end AIF, notify to investors whenever they make changes to its liquidity management systems (which enable an AIFM to monitor the liquidity risk of the AIF and to ensure the liquidity profile of the investments of the AIF complies with its underlying obligations) that are material in accordance with Article 106(1) of Regulation (EU) No 231/2013 (ie. there is a substantial likelihood that a reasonable investor, becoming aware of such information, would reconsider its investment in the AIF, including because such information could impact an investor's ability to exercise its rights in relation to its investment, or otherwise prejudice the interests of one or more investors in the AIF).	Any new arrangements or change in applicable arrangements will be disclosed at an appropriate time.
Immediately notify investors where they activate gates, side pockets or similar special arrangements or where they decide to suspend redemptions.	Any new arrangements or change in applicable arrangements will be disclosed at an appropriate time.
Overview of changes to liquidity arrangements, even if not special arrangements.	Any new arrangements or change in applicable arrangements will be disclosed at an appropriate time.

Terms of redemption and circumstances where management discretion applies, where relevant.	NBF is a closed-end investment corporation, and unitholders are not entitled to request the redemption of their investment.
Also any voting or other restrictions exercisable, the length of any lock-up or any provision concerning 'first in line' or 'pro-rating' on gates and suspensions shall be included.	There are no voting or other restrictions on the rights attaching to units.
Article 23(4)(c)	
The current risk profile of the AIF and the risk management systems employed by the AIFM to manage those risks.	<p>The appropriateness and effectiveness of the risk management structure are regularly evaluated and enhanced by the AIFM.</p> <p>Deposits are exposed to risks of failure of the financial institution holding the deposit and other credit risks, but such risks are controlled by striving to diversify the financial institutions holding the deposits.</p> <p>Funds from debts and investment corporation bonds are mainly used for asset acquisition or debt repayment, etc. While loans and investment corporation bonds are exposed to liquidity risk, such risk is managed in ways such as by diversifying the means of funding and lending institutions, dispersing repayment dates, establishing committed credit lines, and keeping sufficient liquidity in hand. Our credit line is in the amount of 60 billion yen; no amount has been drawn down as of June 30, 2019.</p> <p>Debt with a floating interest rate is exposed to interest rate fluctuation risks, but the impact that interest rate rises have on the operations is limited by maintaining the proportion of debt that is long-term fixed-rate debt at high levels, and setting a procurement limit depending on the economic and financial environment, terms of lease agreements with tenants, asset holding period and other factors.</p> <p>Furthermore, derivative transactions (interest rate swap transactions) are available as hedging instruments to mitigate the risks of rises in floating interest rates.</p> <p>Tenant security deposits are exposed to liquidity risk arising from vacating of properties by tenants due to the termination of contract.</p>

	NBF manages this risk by monitoring forecasted cash flows on a monthly basis to ensure it has sufficient funds.
Measures to assess the sensitivity of the AIF's portfolio to the most relevant risks to which the AIF is or could be exposed.	No such measures have been implemented.
If risk limits set by the AIFM have been or are likely to be exceeded and where these risk limits have been exceeded a description of the circumstances and the remedial measures taken.	No such situation has occurred.
Article 23(5)(a)	
Any changes to the maximum amount of leverage which the AIFM may employ on behalf of the AIF, calculated in accordance with the gross and commitment methods. This shall include the original and revised maximum level of leverage calculated in accordance with Articles 7 and 8 of Regulation (EU) No 231/2013, whereby the level of leverage shall be calculated as the relevant exposure divided by the net asset value of the AIF.	Any new arrangements or change in applicable arrangements will be disclosed at an appropriate time.
Any right of the reuse of collateral or any guarantee granted under the leveraging agreement, including the nature of the rights granted for the reuse of collateral and the nature of the guarantees granted.	No such right or guarantee exists.
Details of any change in service providers relating to the above.	Any new arrangements or change in applicable arrangements will be disclosed at an appropriate time.
Article 23(5)(b)	
Information on the total amount of leverage employed by the AIF	The aggregate amount of debt with interest is JPY 435,750 million as of June 30, 2019.

calculated in accordance with the
gross and commitment methods.

Disclaimer

This document contains translations of selected information described in the Securities Report (*Yuka shoken hokokusho*) filed on September 27, 2019 pursuant to the Securities Exchange Law of Japan, and the Financial Statements and the Performance Information Report for the period from January 1, 2019 to June 30, 2019, of Nippon Building Fund Inc. prepared pursuant to the Investment Trust Law of Japan.

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Many provisions of this document contain forward-looking statements and information. We base these statements on our beliefs as well as our assumptions based solely on certain limited information currently available to us. Because these statements reflect our current views concerning future events, these statements involve known and unknown risks, uncertainties and assumptions. Our future performance could materially differ from those set out in these forward-looking statements. We do not undertake and will not undertake to release revisions of forward-looking statements to reflect future events or circumstances or of any other statements or information contained herein.