



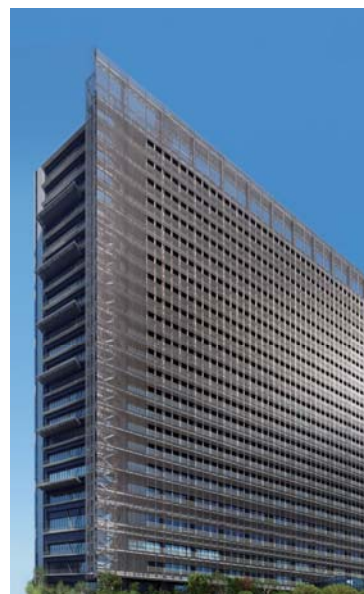
# Semi-Annual Report Second Half of 2015

including AIFMD Article 23 Information

(29th Period – July to December 2015)

## NBF Report

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







## Profile

On September 10, 2001, Nippon Building Fund Inc. (NBF) became the first Japanese real estate investment trust (J-REIT) to list on the J-REIT section of the Tokyo Stock Exchange. Today, NBF has the largest market capitalization and assets under management among J-REITs.

NBF employs funds raised through unitholder subscriptions and borrowings to invest in real estate, real estate-backed securities, trust beneficiary rights and other assets with the objective of sustainable growth in portfolio value and stable profits on a medium-to-long-term basis.

NBF primarily invests in office buildings in the central business districts of Tokyo, other Greater Tokyo and other cities in Japan.

Going forward, NBF will continue its steady management for the high quality and growth befitting the number one J-REIT.



Ueno East Tower, scheduled for acquisition on June 1, 2016

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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 64 of this report.



NBF is an office-specialized J-REIT, sponsored by Mitsui Fudosan Co., Ltd.

# NBF Policies

## STRATEGIES

### Portfolio Strategy

- Make aggressive acquisitions and flexible dispositions
- Focus on highly competitive office buildings, primarily in Tokyo central business districts (CBDs)
- Expand assets
- Use the Mitsui Fudosan Group pipeline

### Financial Strategy

- Maintain a conservative loan-to-value (LTV) ratio of 36-46% and a long-term fixed-rate debt ratio of 90% or higher to enable flexible financing and acquisitions
- Diversify debt to reduce financial risk

### Leasing Strategy

- Use the sales capabilities of the Mitsui Fudosan Group for leasing and tenant retention
- Maintain a high occupancy rate

### Property Management Strategy

- Use the comprehensive capabilities of the Mitsui Fudosan Group
- Maintain and increase asset value through strategic investment
- Use NBF's exclusive property management (PM) company to deliver high-quality management

## Increase Unitholder Value

- Stable medium-to-long-term growth in distribution per unit (DPU)
- Expansion of net asset value (NAV) per unit

## FEATURES

(As of December 31, 2015)

### Portfolio Quality

**Focused investment in highly competitive prime office buildings**

**Ratio of investment in 5 wards of central Tokyo 51.7%**

(Share of investment in 23 wards of Tokyo 78.1%)  
(Acquisition price basis)

**High occupancy rate**

**Average occupancy rate during the period\* 96.8%**

(2H/2015 (29th Period))

**Appraisal value**

**Unrealized gain ratio 12.8%**

\*Average occupancy rate during the period: weighted average of month-end occupancy rate on a floor space basis

### Financial Fundamentals

**Sound LTV control**

**LTV (Interest-bearing debt to asset\* ratio) 41.3%**

**Diversified long-term fixed-rate debt**

**Long-term fixed-rate debt ratio 95.2%**

**Average maturity 4.11 years**  
(Long-term interest-bearing debt)

**Maintain high credit ratings**

**JCR AA+ R&I AA S&P A+**

\*Book value basis

### Size

**The largest J-REIT**

**Total assets\* ¥1,012.7 billion**

**Market cap ¥814.7 billion**

**Properties 74**

**Total rentable area 1.079 million m<sup>2</sup>**

### Sponsor

**Property acquisition pipeline from the Mitsui Fudosan Group**

**Leverage the comprehensive strengths of the Mitsui Fudosan Group**

**Leasing capabilities**

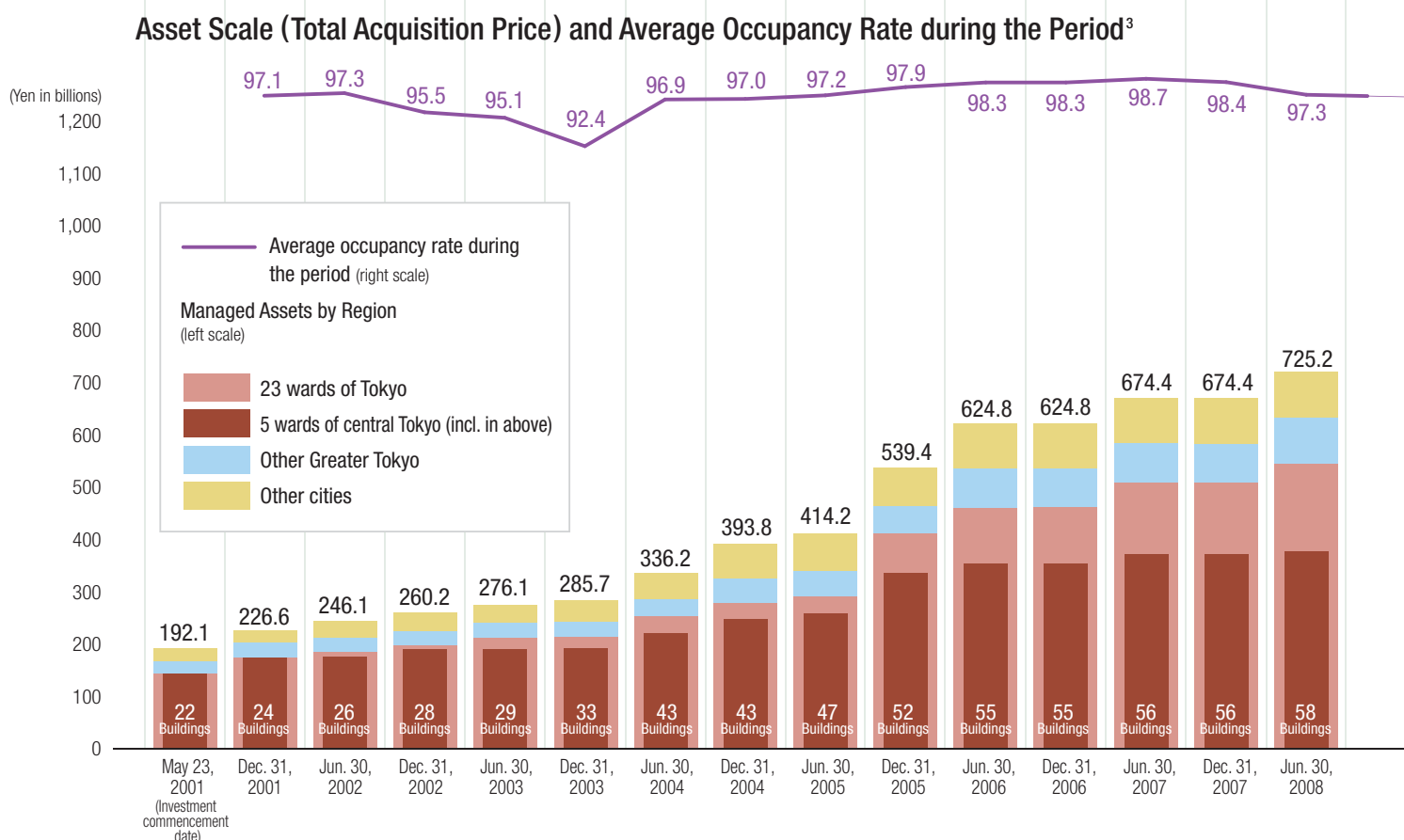
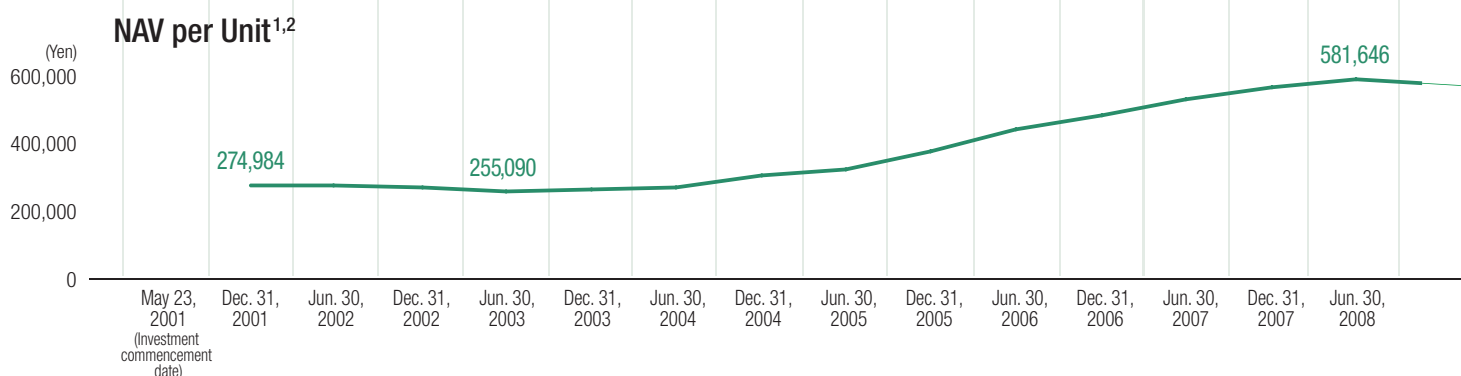
**Property management capabilities**



**MITSUI FUDOSAN**

\*Book value basis

# A Track Record of Steady Growth



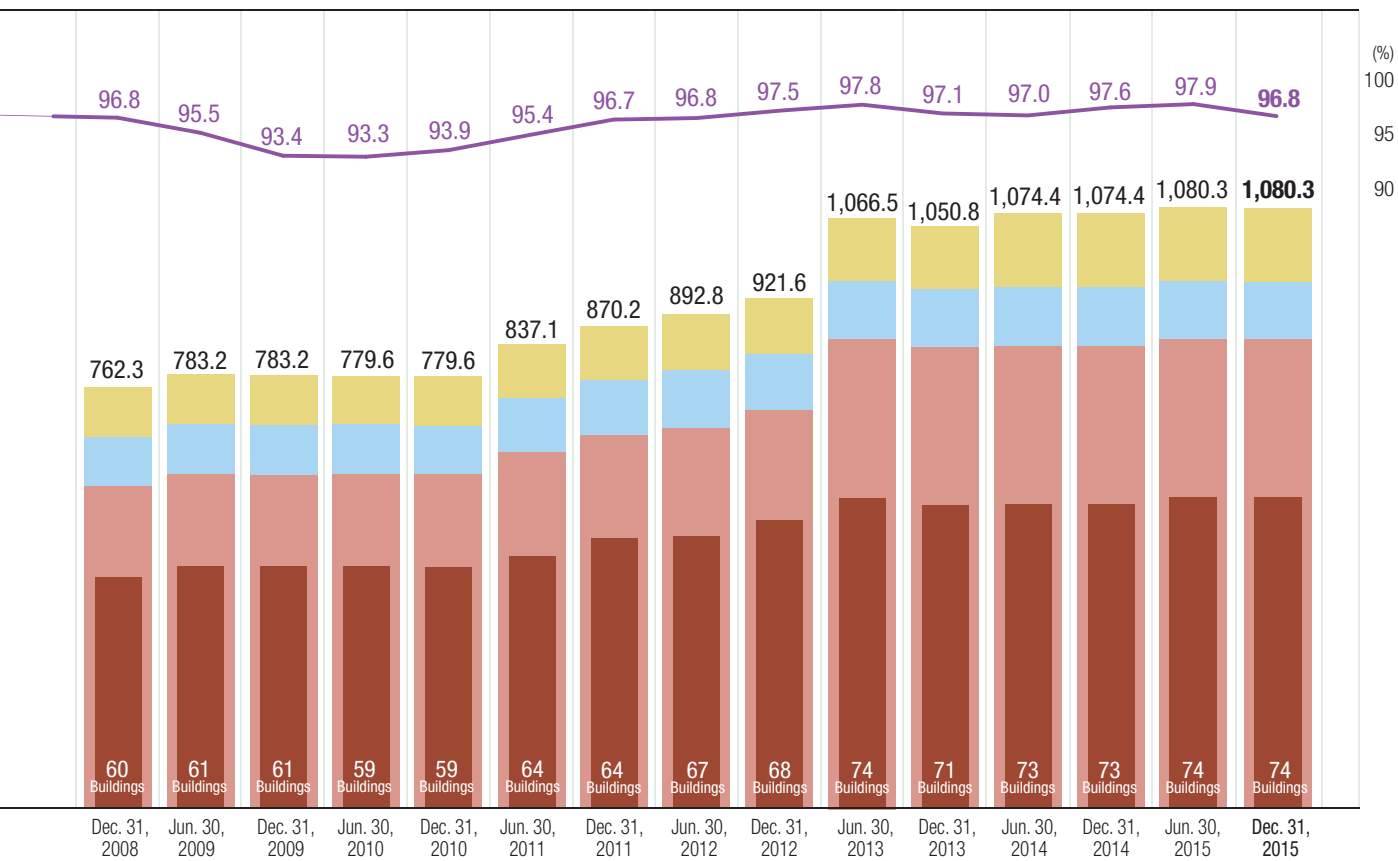
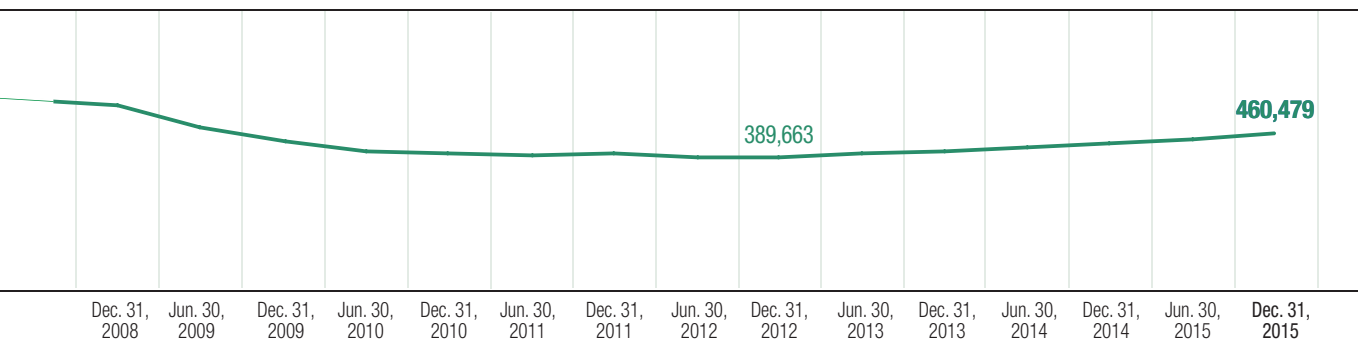
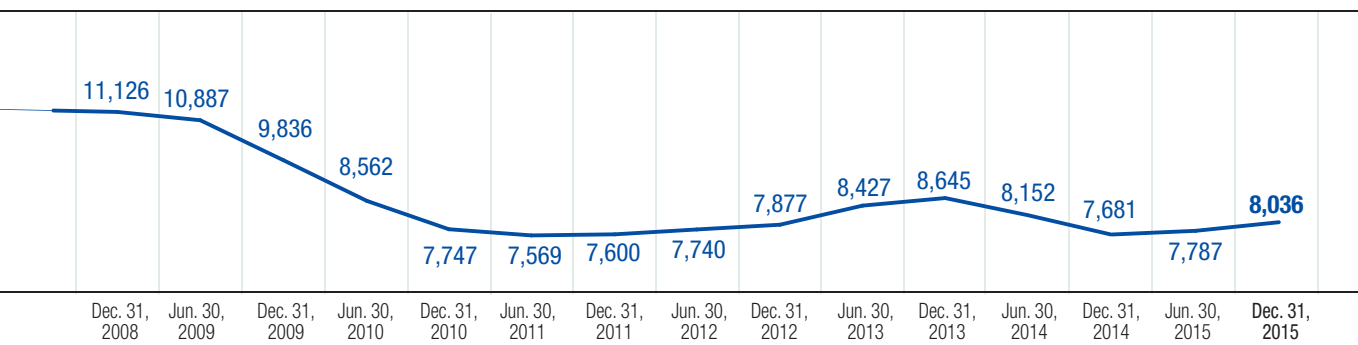
Notes:

1. Historical data for the 25th Period, the six months ended December 31, 2013, and before are adjusted for the two-for-one investment unit split. Figures are rounded down to the nearest yen.

2. NAV per unit = (Unitholder's capital + Reserve for advanced depreciation + Unrealized gain or loss on appraisal value at period end) ÷ Issued and outstanding units as of period end.

3. Average occupancy rate during the period: weighted average of month-end occupancy rate on a floor space basis

4. Data uses the new geographical categories introduced on June 30, 2014.



## To Our Unitholders



**Kenichi Tanaka**

President and CEO of  
Nippon Building Fund Management Ltd.

### Operating Environment and Results

During the six months ended December 31, 2015 (the “29th Period”), the Japanese economy continued to recover moderately as evidenced by strong corporate performance and accompanying improvement in the employment and income environment against the backdrop of government economic policies and the monetary policies of the Bank of Japan, although some weaknesses such as weaker exports and production affected by the slowdown in the economies of emerging nations including China.

The Japanese economy is expected to continue recovering moderately supported by the ongoing improvement in the employment and income environment and the effects of various government policies. At the same time, the deceleration in the economies of emerging nations including China, movement of crude oil prices and reemergence of debt problems in Europe are among the

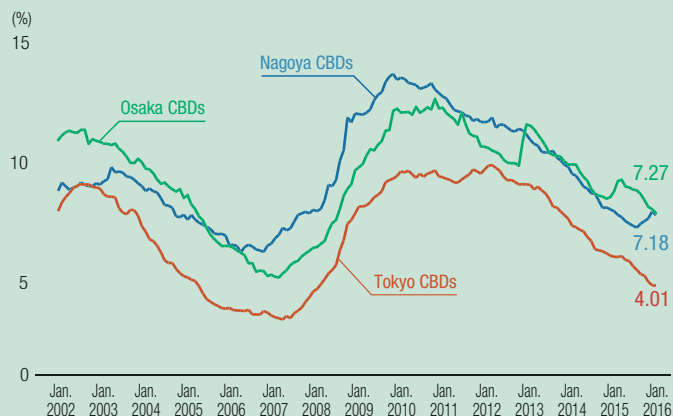
issues that require our attention while the normalization of U.S. financial policies progresses.

In the office building leasing market, favorable corporate performance is leading to tenants adding space, and relocations to new offices are brisk. As a result, the vacancy rate in Tokyo central business districts has continued to decrease. In addition, asking rents at buildings continue to rise incrementally in Tokyo central business districts with the tightening of supply and demand.

New supply is expected to increase centering on Tokyo central business districts over the medium term, but vacancy rates are expected to decrease while rents continue to rise moderately driven by continued solid demand for office space resulting from the improved corporate performance and employment environment.

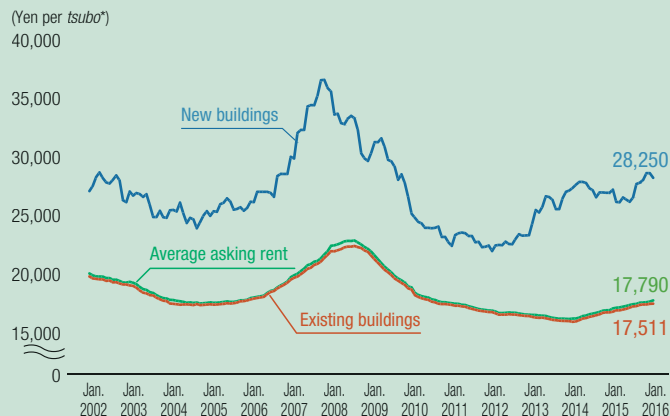
In the office building transaction market, given the favorable fund procurement environment, the appetite for

**Average Vacancy Rates for Tokyo, Osaka and Nagoya CBDs**



Tokyo CBDs: Chiyoda-ku, Chuo-ku, Minato-ku, Shinjuku-ku, Shibuya-ku  
Osaka CBDs: Umeda area, Minamimorimachi area, Yodoyabashi & Honmachi areas,  
Funaba area, Shinsaibashi & Nanba areas, Shin Osaka area  
Nagoya CBDs: Nagoya Station area, Fushimi area, Sakae area, Marunouchi area

**Average Asking Rents for Tokyo CBDs**



New buildings: 18 buildings  
Existing buildings: 2,580 buildings  
Average: 2,598 buildings



transactions is strong among real estate market participants including J-REITs, private equity funds and overseas investors, backed by rising property prices in anticipation of expected improvement in the office leasing market over the medium term. Under these circumstances, competition to acquire properties is intensifying, causing a further decline in expected cap rates and further rise in purchase and sale prices.

Real estate prices are expected to rise because the deal flow among investors in Japan and overseas is forecast to remain brisk given the continued favorable fund procurement environment.

Under these conditions, NBF is conducting investment activities in accordance with its basic policy of investing in high-quality office buildings that are highly competitive in terms of location, size and facilities, and that are expected to generate stable cash flows from rents. For properties already in its portfolio, NBF works to expand revenues from property leasing through systematically conducting property management, renovations and new construction to further raise tenant satisfaction as well as by setting appropriate rents for new tenants and revising rents for tenants renewing their lease contracts while keeping abreast of market trends.

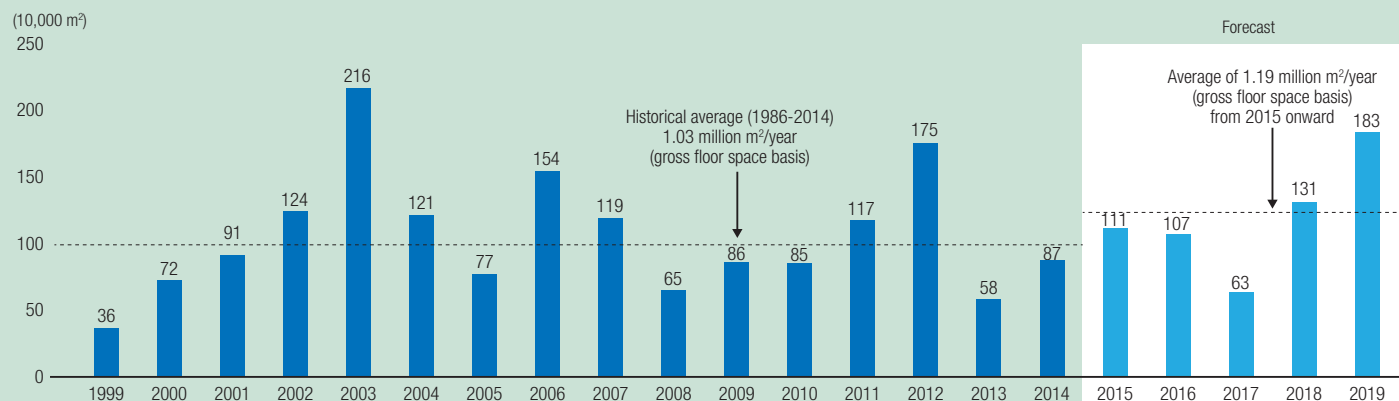
NBF's real estate portfolio as of December 31, 2015 consisted of 74 properties. Total investment on an acquisition price basis was ¥1,080.3 billion. Total rentable area was 1,079 thousand m<sup>2</sup>. The average occupancy rate during the period was 96.8 percent, a 1.1 percentage point decrease from the previous period, and the total number of tenants was 1,595.

## Overview of Performance

As the result of above-explained operations, NBF's performance results during the reported period consisted of operating revenues of ¥34,641million (a increase of ¥48million, or 0.1%, compared to the previous period), operating income from leasing activities of ¥14,905million (a decrease of ¥118million, or 0.8%, compared to the previous period), operating income after asset management, custody and agent fees etc. of ¥13,476million (a decrease of ¥97 million, or 0.7% compared to the previous period), ordinary income of ¥10,978million (a decrease of ¥18million, or 0.2%, compared to the previous period), and net income of ¥10,977million (a decrease of ¥18million, or 0.2%, compared to the previous period).

In accordance with the distribution policy prescribed in its Articles of Incorporation, NBF is to make cash distributions so that the preferential tax measures to investment corporations (Article 67-15 of the Act on Special Measures Concerning Taxation) will be applied. In addition, NBF decided to reverse part of the reserve for advanced depreciation (¥370 million) during the reported period by taking into consideration the temporary impact of a large tenant moving out. Thus, NBF has decided to distribute the entire amount arrived at by adding the amount of reversal of reserve for advanced depreciation to undistributed earnings, excluding fractions of the distribution per unit that are less than ¥1. As a result, the distribution per unit was ¥8,036.

## New Supply of Large-Scale Office Buildings in the 23 Wards of Tokyo



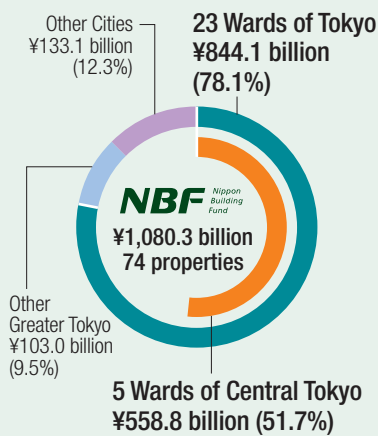


## Portfolio

- Make aggressive acquisitions and flexible dispositions
- Focus on highly competitive office buildings, primarily in Tokyo CBDs
- Expand assets
- Use the Mitsui Fudosan Group pipeline

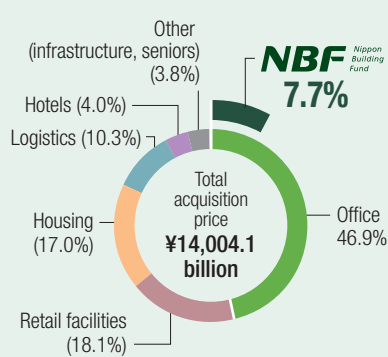
### Investment by Region

(As of December 31, 2015)



### NBF's J-REIT Market Share

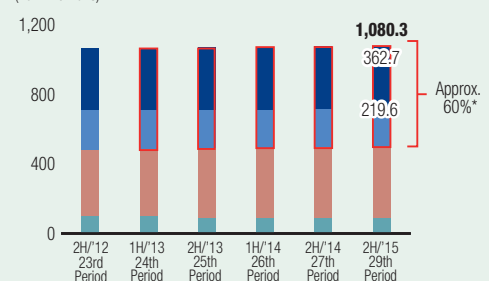
(As of December 31, 2015) (Total Acquisition Price)



Source: Asset management companies, compiled from publicly available information

### Total Acquisitions by Seller

(Yen in billions)



■ Acquired from Mitsui Fudosan and funds that it manages

■ Acquired through Mitsui Fudosan brokerage

■ Acquisition from other (external) sources

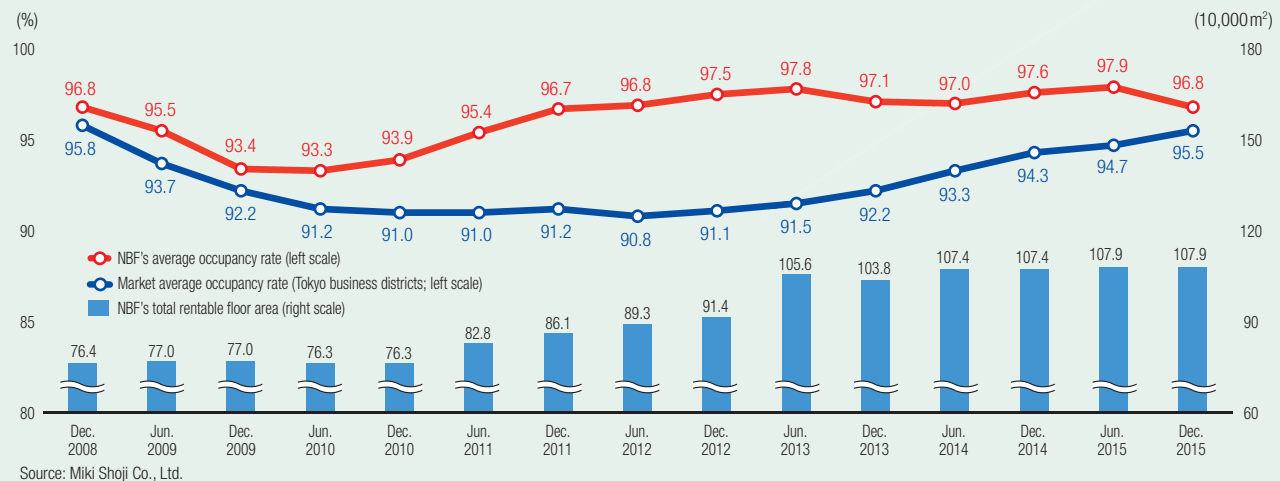
■ Properties acquired when NBF began managing properties

\*Ratio to total acquisitions since the initial public offering in September 2001

## Leasing

- Use the sales capabilities of the Mitsui Fudosan Group for leasing and tenant retention
- Maintain a high occupancy rate

### Average Occupancy Rate and Total Rentable Area

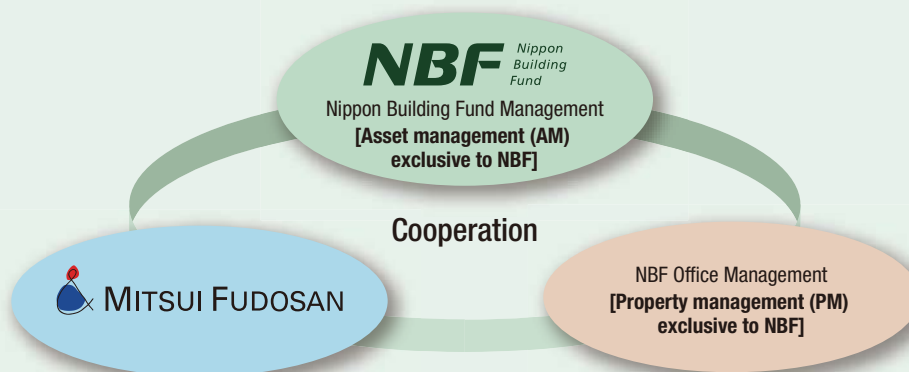


## Property Management

- Use the comprehensive capabilities of the Mitsui Fudosan Group
- Maintain and increase asset value through strategic investment
- Use NBF's exclusive PM company to deliver high-quality management

### Property Management Structure

- Formulate and execute management and operation plans
- Formulate and execute large-scale repair plans
- Approval for major issues



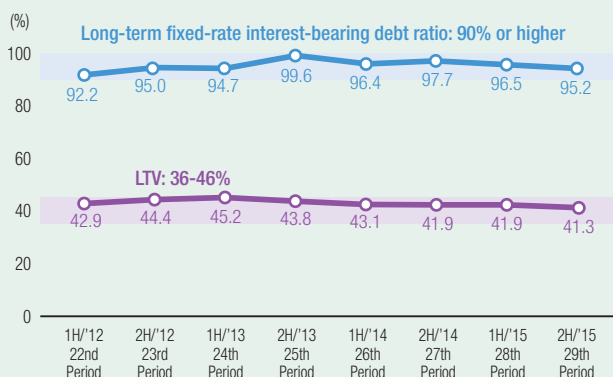
- New tenant leasing
- Provides management and operation expertise and operating systems
- Overall management of subleased properties

- Overall property management (excluding subleased properties)
- Responds to existing tenants
- Unified administration of management information for all operating properties

## Financial

- Maintain a conservative LTV of 36-46% and a long-term fixed-rate interest-bearing debt ratio of 90% or higher to enable flexible financing and acquisitions
- Diversify debt to reduce financial risk

### LTV and Long-Term Fixed-Rate Interest-Bearing Debt Ratio



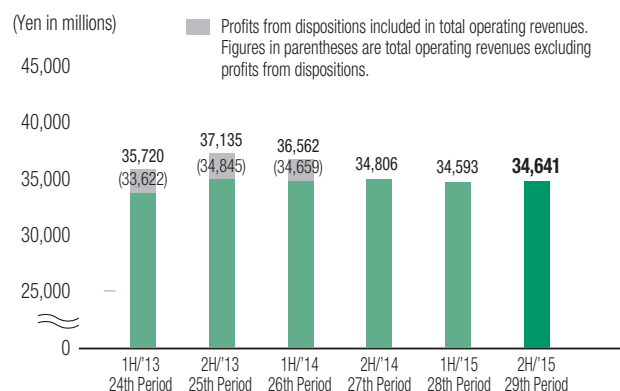
### Debt Maturity Schedule



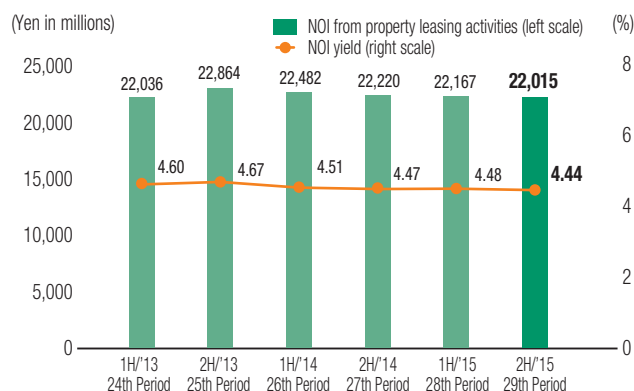


# Performance Highlights

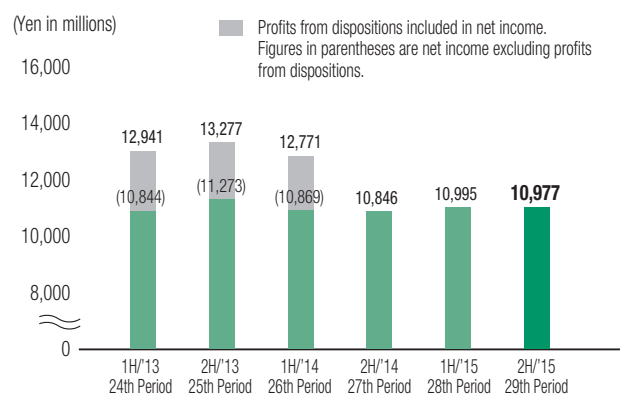
## Total Operating Revenues



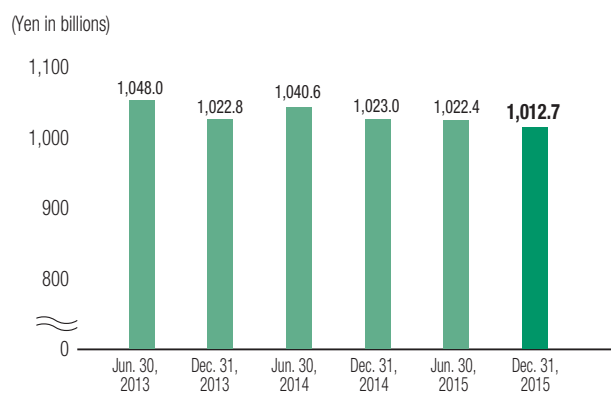
## NOI from Property Leasing Activities<sup>1</sup> and NOI



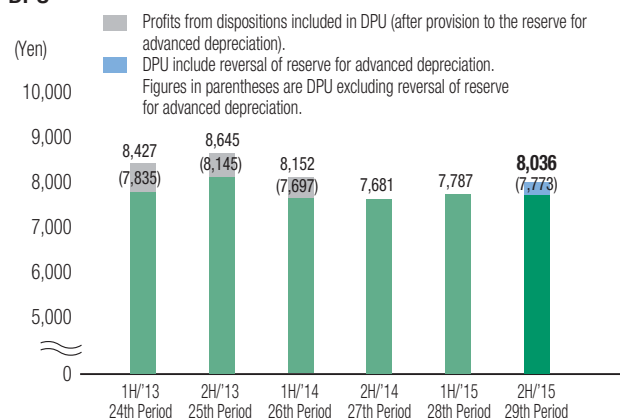
## Net Income



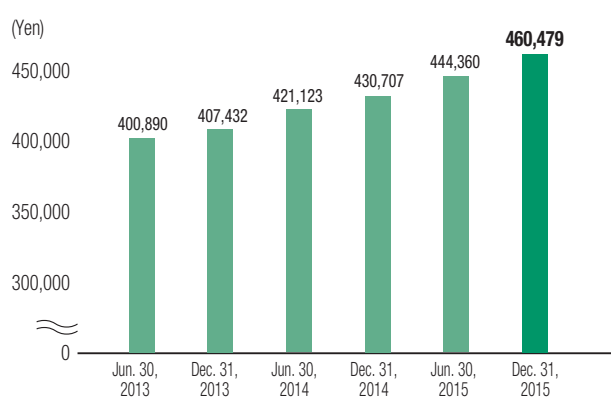
## Total Assets



## DPU<sup>3</sup>



## NAV per Unit<sup>3</sup>



Notes: 1. NOI from property leasing activities does not include such items as gain or loss on sale of investment properties.

2. NOI yield = NOI from properties held at beginning of period/Period-end book value of properties held at beginning of period

3. Figures for the 24 and 25 Periods are adjusted for the two-for-one investment unit split. Figures are rounded down to the nearest yen.

# Sustainability Initiatives

## NBF Receives the Top “Green Star” Evaluation in the Global Real Estate Sustainability Benchmark (GRESB) Survey

During the 2015 Survey, NBF’s initiatives were highly appreciated in both dimensions of "Management and Policy" and "Implementation and Measurement" as sustainability efforts, and it received a "Green Star", which is the highest rating.

### GRESB Overview

The Global Real Estate Sustainability Benchmark (GRESB) survey is an indicator that evaluates the sustainability initiatives of real estate companies and REITs rather than particular real assets.



## ● Improving Business Continuity and Creating Added Value

### Disaster Prevention and BCP Measures

**Installing emergency power generators**  
(Additional power generator)



NBF Shinkawa Bldg. West Tower

**Introducing system for safe evacuation**

- Sensor network and algorithm will estimate the damage to the building and provide the real-time evacuation routes for occupants.



Sumitomo Mitsui Banking Nagoya Bldg.

**Improving earthquake-resistance of elevators**

(Installation and renewal of earthquake sensors)



NBF Platinum Tower

## ● Achieving occupant comfort while minimizing environmental impacts / Community engagements

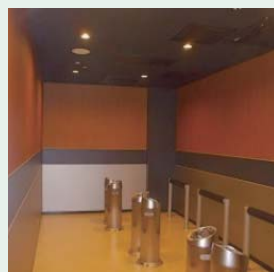
### Retrofit to improve energy efficiency

**Common Area Lighting Upgrades**  
(Installation of LED Lighting)



NBF Shin-Urayasu Tower

**Separation of Smoking Room**  
(Smoking Rooms)



Higashi Gotanda Square

**HVAC Retrofit**  
(Installation of High-Efficiency Air Conditioning)



NBF Shibuya East

### CS improvement and Community Engagement Programs

**Various Events**

- Concerts and various other events are held to promote communication between occupants and local community.



Sumitomo Mitsui Banking Nagoya Bldg.

# Portfolio Overview (As of December 31, 2015)



For further information, click here to jump to the relevant page on NBF's website.

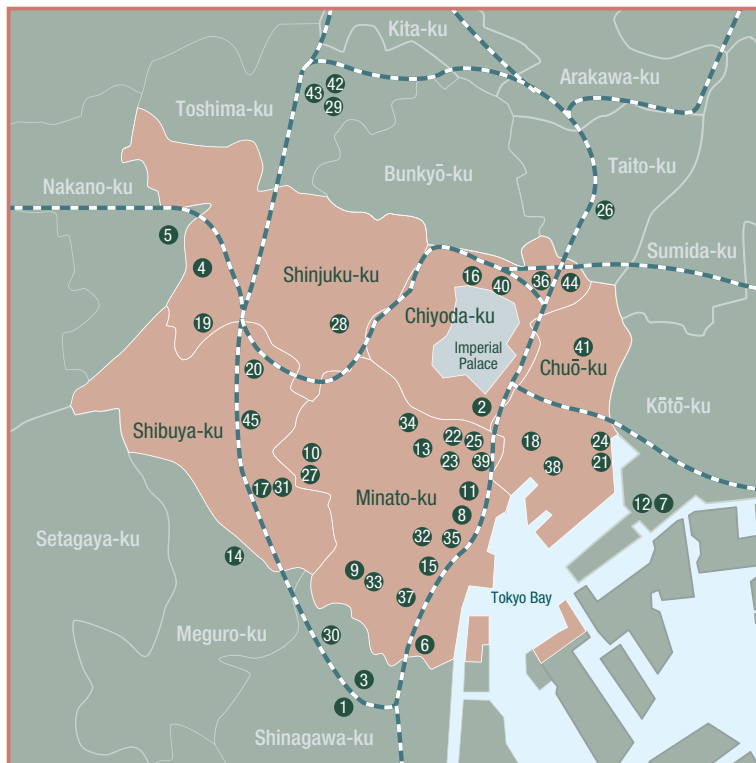
Property Name	Acquisition Price (Yen in millions)	Book Value (Yen in millions)	Appraisal Value (Yen in millions)	Total Rentable Area (m <sup>2</sup> )	Total Leased Area (m <sup>2</sup> )	Occupancy Rate (%)	Total Number of Tenants
1 NBF Osaka Bldg.	66,660	66,984	79,900	74,425	74,425	100.0	1
2 NBF Hibiya Bldg.	63,500	64,024	54,400	27,572	27,388	99.3	95
3 Gate City Ohsaki	57,281	49,195	63,600	41,881	39,218	93.6	78
4 Nishi-Shinjuku Mitsui Bldg.	45,145	33,624	41,400	33,338	33,320	99.9	39
5 Nakanosakaue Sunbright Twin	40,750	36,576	30,800	32,021	32,021	100.0	17
6 Mitsubishi Heavy Industries Head Office Bldg.	36,300	36,094	45,600	35,641	35,641	100.0	11
7 NBF Toyosu Canal Front	35,200	30,053	33,300	36,674	24,148	65.8	10
8 Shiba NBF Tower	32,000	27,236	28,700	24,730	24,730	100.0	33
9 NBF Platinum Tower	31,000	26,914	58,900	33,503	33,503	100.0	6
10 NBF Minami-Aoyama Bldg.	31,000	31,551	18,100	9,631	9,521	98.9	12
11 NBF COMODIO Shiodome	28,800	28,080	32,200	20,538	20,538	100.0	15
12 NBF Toyosu Garden Front	25,018	23,095	28,100	28,289	28,289	100.0	5
13 Toranomon Kotohira Tower	24,543	18,862	32,800	16,848	16,848	100.0	24
14 Nakameguro GT Tower	23,856	18,083	21,100	21,423	21,423	100.0	19
15 Celestine Shiba Mitsui Bldg.	22,500	22,420	25,200	16,915	11,677	69.0	6
16 NBF Ochanomizu Bldg.	20,840	20,292	13,000	6,627	6,627	100.0	6
17 NBF Shibuya Garden Front	20,269	18,978	29,000	16,516	16,516	100.0	1
18 NBF Ginza Street Bldg.	17,000	17,537	16,000	3,440	3,440	100.0	1
19 Shinjuku Mitsui Bldg. No. 2	16,285	16,058	17,200	14,828	14,617	98.6	50
20 GSK Bldg.	14,434	11,850	16,600	20,426	20,426	100.0	1
21 River City M-SQUARE	13,350	12,444	15,500	16,232	16,232	100.0	8
22 NBF Toranomon Bldg.	13,337	13,114	16,300	10,067	10,039	99.7	15
23 Kowa Nishi-Shinbashi Bldg. B	13,217	11,110	14,200	10,088	9,976	98.9	19
24 NBF Shinkawa Bldg.	12,614	12,055	13,980	17,307	17,178	99.3	35
25 Shinbashi M-SQUARE	11,900	11,809	13,600	5,392	5,392	100.0	7
26 NBF Ueno Bldg.	10,400	9,559	8,870	8,504	8,504	100.0	6
27 NBF ALLIANCE	9,126	9,365	11,700	4,033	4,033	100.0	8
28 Yotsuya Medical Bldg.	8,800	7,856	7,360	7,481	7,349	98.2	39
29 NBF Ikebukuro East	8,630	9,087	9,650	11,073	10,835	97.9	20
30 Higashi Gotanda Square	8,350	7,928	8,020	6,166	6,115	99.2	11
31 NBF Shibuya East	8,000	8,121	6,630	4,999	4,999	100.0	4
32 NBF Shibakouen Bldg.	6,770	6,207	7,780	7,084	7,084	100.0	18
33 NBF Takanawa Bldg.	6,667	6,377	7,140	10,458	10,147	97.0	12
34 NBF Akasaka Sanno Square	6,250	6,242	6,250	5,258	5,258	100.0	6
35 NBF Shibakouen Daimon Street Bldg.	6,100	6,230	4,280	3,432	3,432	100.0	8
36 NBF Kandasudacho Bldg.	5,960	6,006	7,550	4,470	4,470	100.0	9
37 Sumitomo Densetsu Bldg.	5,365	4,787	5,740	5,991	5,991	100.0	1
38 NBF Higashi-Ginza Square	5,200	4,482	7,120	4,871	4,871	100.0	7
39 Panasonic Tokyo Shiodome Bldg.	5,075	5,031	5,850	4,577	4,577	100.0	1
40 NBF Ogawamachi Bldg.	4,940	5,083	5,660	4,805	4,805	100.0	16
41 Nihonbashi Kabuto-cho M-SQUARE	4,850	4,617	5,300	3,298	3,298	100.0	2
42 NBF Ikebukuro Tower	4,695	4,323	5,390	5,631	5,631	100.0	17
43 NBF Ikebukuro City Bldg.	4,428	4,140	5,060	5,127	5,127	100.0	11
44 Ryukakusan Bldg.	4,050	4,396	4,450	5,332	5,332	100.0	10
45 Jingumae M-SQUARE	3,700	3,539	3,750	7,232	7,232	100.0	8
<b>23 Wards of Tokyo Total</b>	<b>844,156</b>	<b>781,436</b>	<b>893,030</b>	<b>694,173</b>	<b>672,222</b>	<b>96.8</b>	<b>728</b>
46 Chofu South Gate Bldg.	9,320	8,456	9,970	13,762	13,762	100.0	1
47 Shin-Kawasaki Mitsui Bldg.	25,820	22,522	21,800	39,837	38,452	96.5	20
48 Yokohama ST Bldg.	13,529	12,505	14,800	20,047	19,753	98.5	94
49 Parale Mitsui Bldg.	3,800	3,149	3,750	12,545	12,545	100.0	34
50 NBF Atsugi Bldg.	2,300	2,145	2,140	5,242	5,242	100.0	19
51 Tsukuba Mitsui Bldg.	8,875	7,213	7,450	16,697	15,171	90.9	61
52 NBF Utsunomiya Bldg.	2,435	2,177	2,050	6,160	6,160	100.0	40
53 S-ino Omiya North Wing	16,816	13,931	19,300	20,698	20,139	97.3	43
54 NBF Urawa Bldg.	2,000	1,828	2,060	3,455	3,455	100.0	12
55 NBF Shin-Urayasu Tower	15,700	15,610	9,980	22,760	19,856	87.2	52
56 NBF Matsudo Bldg.	2,455	2,301	2,280	4,770	4,677	98.0	24
<b>Other Greater Tokyo Total</b>	<b>103,051</b>	<b>91,841</b>	<b>95,580</b>	<b>165,972</b>	<b>159,210</b>	<b>95.9</b>	<b>400</b>
57 Sapporo L-Plaza	4,404	3,295	6,920	11,396	11,396	100.0	13
58 NBF Sapporo Minami Nijo Bldg.	1,870	1,609	1,330	5,351	5,351	100.0	3
59 NBF Sendai Honcho Bldg.	3,566	3,339	2,890	7,514	7,514	100.0	9
60 NBF Unix Bldg.	4,028	2,928	3,390	13,267	13,260	100.0	52
61 NBF Niigata Telecom Bldg.	3,957	3,427	2,970	10,208	9,333	91.4	30
62 Sumitomo Mitsui Banking Nagoya Bldg.	14,900	14,620	16,000	17,658	17,340	98.2	11
63 NBF Nagoya Hirokoji Bldg.	7,232	6,405	7,050	9,876	9,876	100.0	23
64 Aqua Dojima NBF Tower	17,810	16,158	17,100	21,917	20,833	95.1	42
65 Nakanoshima Central Tower	14,900	14,732	16,400	17,355	16,030	92.4	20
66 Shinanobashi Mitsui Bldg.	14,400	10,707	12,800	25,314	24,383	96.3	64
67 Sakaisuji-Honmachi Center Bldg.	12,700	12,191	12,900	23,230	23,230	100.0	52
68 Sun Mullion NBF Tower	10,500	7,343	6,950	14,954	14,954	100.0	29
69 Aqua Dojima East	1,914	1,695	1,440	3,245	3,115	96.0	20
70 NBF Hiroshima Tatemachi Bldg.	2,930	2,706	2,390	5,567	5,473	98.3	32
71 Hiroshima Fukuromachi Bldg.	2,215	1,906	2,310	3,927	3,927	100.0	12
72 NBF Matsuyama Nichigin-mae Bldg.	3,310	3,186	3,630	5,983	5,753	96.2	21
73 Hakata Gion M-SQUARE	8,000	7,191	9,000	14,328	13,790	96.2	16
74 NBF Kumamoto Bldg.	4,500	4,008	3,910	7,931	7,931	100.0	18
<b>Other Cities Total</b>	<b>133,138</b>	<b>117,455</b>	<b>129,380</b>	<b>219,019</b>	<b>213,490</b>	<b>97.5</b>	<b>467</b>
<b>Total</b>	<b>1,080,346</b>	<b>990,734</b>	<b>1,117,990</b>	<b>1,079,164</b>	<b>1,044,921</b>	<b>96.8</b>	<b>1,595</b>



# Location of Office Properties (As of December 31, 2015)

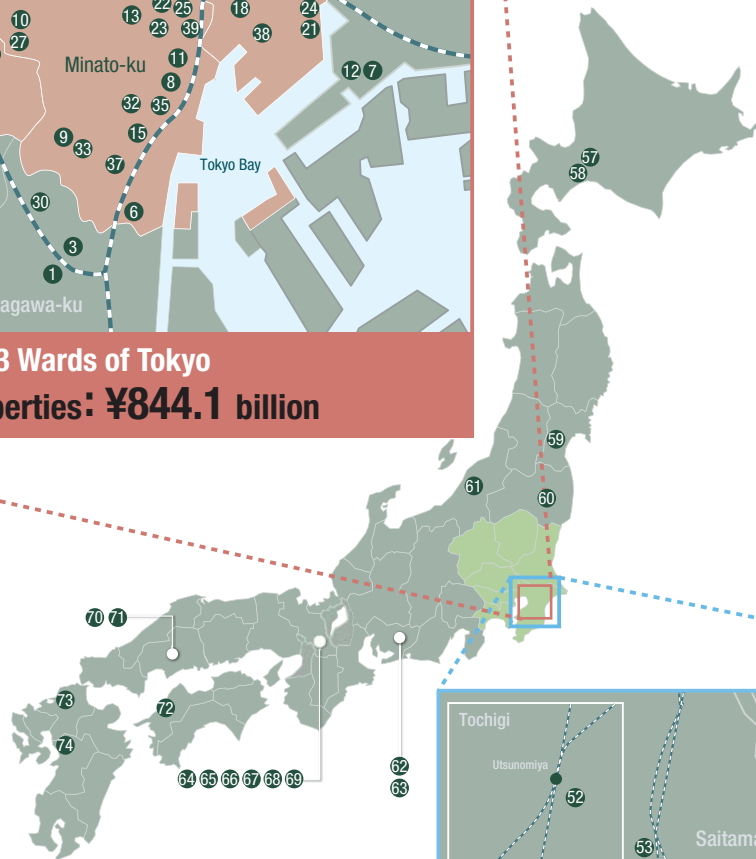
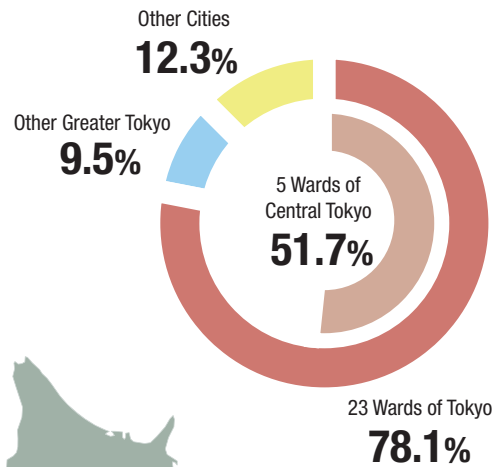


For further information, click here to jump to the relevant page on NBF's website.



**23 Wards of Tokyo**  
**45 Properties: ¥844.1 billion**

## Investment by Region



**Other Cities**  
**18 Properties: ¥133.1 billion**



**Other Greater Tokyo**  
**11 Properties: ¥103.1 billion**

# Major Assets

(As of December 31, 2015) (Building numbers correspond to those on pages 12 and 13.)

## 23 Wards of Tokyo

③ Gate City Ohsaki



⑥ Mitsubishi Heavy Industries Head Office Bldg.



⑦ NBF Toyosu Canal Front



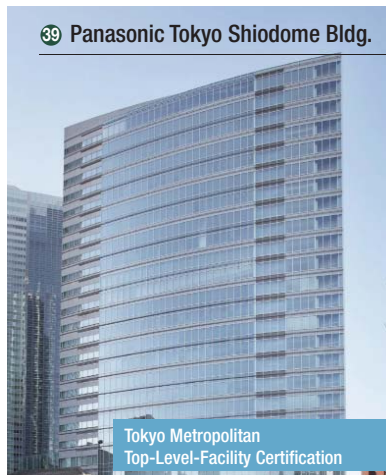
⑫ NBF Toyosu Garden Front



③⑥ NBF Kandasudacho Bldg.



③⑨ Panasonic Tokyo Shiodome Bldg.



②① River City M-SQUARE





## Other Greater Tokyo

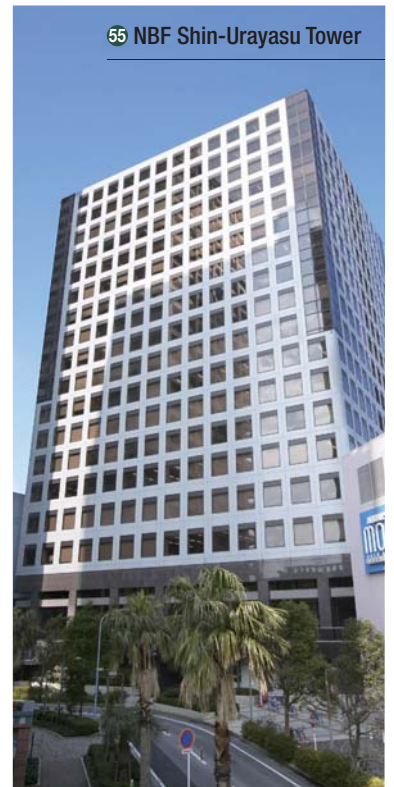
47 Shin-Kawasaki Mitsui Bldg.



48 Yokohama ST Bldg.



55 NBF Shin-Urayasu Tower



## Other Cities

62 Sumitomo Mitsui Banking Nagoya Bldg.



65 Nakanoshima Central Tower



73 Hakata Gion M-SQUARE





# Management Team and Management Structure (As of December 31, 2015)

Nippon Building Fund Inc. (NBF) is an investment corporation that takes a medium-to-long-term perspective with the aim of generating steady asset growth and stable profits. NBF continues to do its utmost for investors.

## Nippon Building Fund Inc.

Nippon Building Fund Inc. is an investment corporation established with the objective of investing in assets, primarily Designated Assets as defined by the Investment Trust Law of Japan. NBF entrusts the management of its assets to Nippon Building Fund Management Ltd., which is an asset management company.

NBF's primary investment objective is to achieve sustainable growth in portfolio value and stable profits on a medium-to-long-term basis. NBF achieves this objective by investing in real estate consisting of buildings primarily used for offices with their underlying land located in the central business districts (CBDs) of Tokyo, other Greater Tokyo and other cities in Japan. NBF also invests in securities, beneficiary certificates representing beneficial interests in trusts and other assets backed by office properties.

### General Meeting of Unitholders

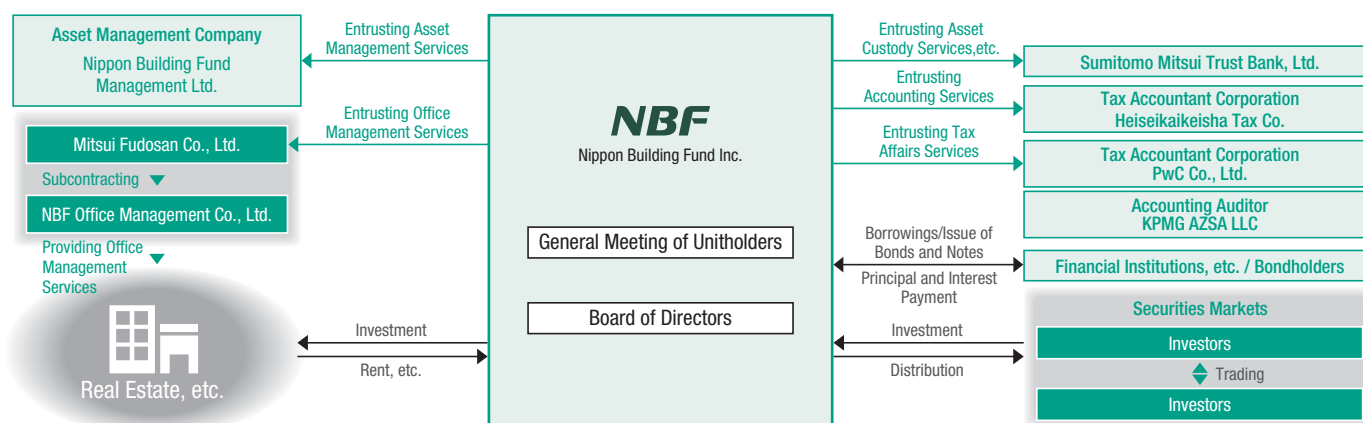
Specific matters pertaining to NBF that are subject to the Investment Trust Law of Japan or the Company's Articles of Incorporation are decided by resolution of the General Meeting of Unitholders, which convenes at least once every two years, in principle. The ninth General Meeting of Unitholders convened on March 12, 2015. The date of the next General Meeting of Unitholders has not been set.

The General Meeting of Unitholders adopts or vetoes resolutions on the basis of a simple majority of the voting rights of unitholders in attendance, unless otherwise stipulated by laws, regulations or NBF's Articles of Incorporation. Decisions on substantive matters such as changes in the Articles of Incorporation require the attendance of unitholders that control a simple majority of total units issued and outstanding, and a two-thirds majority of the voting rights of such unitholders. In addition, any change in the asset management policies and standards, which are stipulated by NBF's Articles of Incorporation, requires an extraordinary resolution of unitholders as outlined above.

### Executive Directors, Supervisory Directors and the Board of Directors

NBF's Articles of Incorporation stipulate that NBF must have one or more executive directors and four or fewer supervisory directors, but the number of supervisory directors must always be at least one greater than the number of executive directors. As of March 12, 2015, NBF had one executive director and three supervisory directors.

NBF's executive director is responsible for business execution and has authority for all judicial and extrajudicial proceedings related to the operations of NBF. Supervisory directors are responsible for supervising execution by the executive director.



## Management Team



From left: Yutaka Fukaya, Yoshiaki Kageyama, Tetsuro Tsugawa, Hakaru Goto

	Name	Career Summary
Executive Director	Yoshiaki Kageyama	Appointed Executive Director of NBF in March 2015 after serving as a standing auditor of Mitsui Fudosan Realty Co., Ltd.
	Tetsuro Tsugawa	Reappointed Supervisory Director of NBF in March 2015. Attorney.
Supervisory Directors	Yutaka Fukaya	Reappointed Supervisory Director of NBF in March 2015. Certified Public Accountant and Certified Public Tax Accountant.
	Hakaru Goto	Appointed Supervisory Director of NBF in March 2015. Real Estate Appraiser.

The Board of Directors consists of the executive and supervisory directors. Its responsibilities include authorizing business execution and supervising the performance of the executive director. Resolutions by the Board of Directors require a simple majority with more than half of the members of the Board in attendance.

The bylaws of NBF's Board of Directors stipulate that executive and supervisory directors may not participate in decisions in which they have a vested interest. Executive and supervisory directors with such financial interest shall not be included in the number of executive and supervisory directors in attendance for such decisions.

The terms of office of the executive director and supervisory directors are two years from the time they assume office. The terms of executive directors and supervisory directors selected to fill a vacancy or to increase the number of directors expire at the same time as the remaining terms of their predecessors or the current directors.

A new executive director was elected with the consent of unitholders at the General Meeting of Unitholders held on March 12, 2015. Two of the three supervisory directors were reelected and one new supervisory director was elected at the same time, and assumed office on March 17, 2015.

## Nippon Building Fund Management Ltd.

NBF entrusts asset management to Nippon Building Fund Management Ltd. under an asset management agreement.

### Matters Entrusted to Nippon Building Fund Management Ltd.

As the asset management company required by the Investment Trust Law of Japan, Nippon Building Fund Management Ltd. manages NBF's assets in accordance with the asset management objectives and policies stipulated by NBF's Articles of Incorporation. In addition, in accordance with the manager of general administration contract designating

Nippon Building Fund Management Ltd. as the institutional manager of NBF's assets, Nippon Building Fund Management Ltd. executes certain responsibilities in connection with the operation of the General Meeting of Shareholders and the Board of Directors as manager of general administration.

### 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 "Office Building Fund Management Japan Limited")
June 16, 2001	Increased capital from ¥198 million to ¥495 million
March 14, 2003	Changed name (from "Office Building Fund Management Japan Limited" to "Nippon Building Fund Management Ltd.")
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 December 31, 2015)

Name	Number of Shares Owned	Percent
Mitsui Fudosan Co., Ltd.	4,257	43.0%
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
Mitsui Life Insurance Co., Ltd.	297	3.0
The Britel Fund Trustees Limited	297	3.0
<b>Total</b>	<b>9,900</b>	<b>100.0%</b>

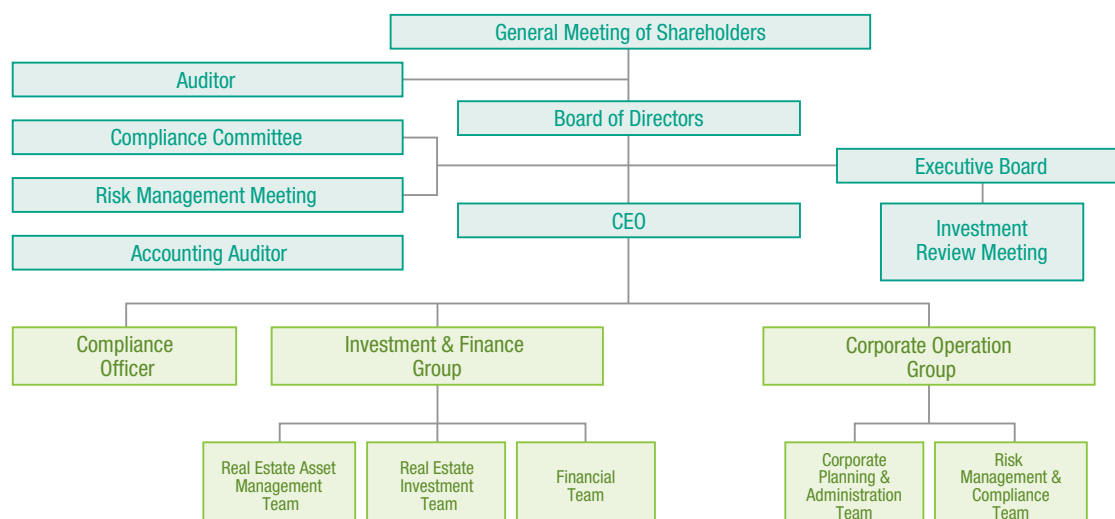
### Outline of Financial Condition

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, 2015	(Yen in millions)
Total Assets	¥2,183
Total Liabilities	362
Total Net Assets	1,821



## Management Structure



### Management Structure of Nippon Building Fund Management Ltd.

The Board of Directors makes decisions on the basic management policies of Nippon Building Fund Management Ltd. and oversees execution of the duties of the representative director. The president, who is the representative director, supervises and executes the operations of Nippon Building Fund Management Ltd. The heads of the Investment

& Finance Group and the Corporate Operation Group also serve as directors, and oversee their respective divisions under the direction and oversight of the president. Corporate auditors conduct accounting audits and operational audits of Nippon Building Fund Management Ltd. The Compliance Officer oversees compliance for the asset management company and is responsible for internal administration in connection with internal audits at the asset management company.

## Directors and Staff

As of December 31, 2015, the directors and corporate auditors of NBFM are as follows. The staff other than directors and auditors of NBFM is comprised of 23 persons.

Name of Directors and Auditors	Title
Kenichi Tanaka	President & CEO (standing)
Morio Shibata	Director, CIO & CFO (standing)
Miki Takahashi	Director, COO (standing)
Hiromu Yamanaka	Director
Hiroshi Yabuki	Director
Yoichi Kunikane	Corporate Auditor
Kenshi Ueda	Corporate Auditor

## Compliance Initiatives

The management of NBF and Nippon Building Fund Management Ltd. conduct honest and appropriate business activities while maintaining rigorous compliance by adhering to all relevant laws and regulations, based on a high level of corporate ethics.

The bylaws of NBF's Board of Directors stipulate that Board of Directors' meetings are to be held at least once every three months. In practice, NBF holds such meetings once a month. At Board meetings, the executive director reports on the execution of his duties and supervisory directors ensure that oversight and check-and-balance systems are functioning properly.

Nippon Building Fund Management Ltd. views compliance as a management strategy, with a fundamental compliance policy of conducting operations honestly and fairly while maintaining a rigorous compliance system based on a high level of corporate ethics. Specifically, Nippon Building Fund Management Ltd. has established a Compliance Committee, consisting of the Compliance Officer, the president, the head of the Investment & Finance Group, the head of the Corporate Operation Group and an outside committee member. Initiatives to enhance awareness of and adherence to compliance include the establishment of Compliance Rules and a Compliance Manual. In addition, a Compliance Program is formulated each year to verify the progress of the execution plan for that year and identify any problem areas.

## Risk Management System

NBF and Nippon Building Fund Management Ltd. have established the following risk management system to avoid and minimize risks related to investments.

### NBF

NBF's Risk Management Regulations define risk management policies and procedures. The Risk Management Meeting convenes once every three months and undertakes deliberation, monitoring and other initiatives to ensure that the entrusted asset managers are conducting their duties with due care in good faith in a manner consistent with its fiduciary duty to the conservation and maintenance of entrusted assets.

### Nippon Building Fund Management Ltd.

Nippon Building Fund Management Ltd. formulates a Management Policy, a Medium-to-Long-Term Asset Management Policy and an Annual Management Plan to follow in managing NBF's assets. In addition, Nippon Building Fund Management Ltd. has set Asset Management Guidelines as a set of standards to follow.

## Policy and Management System for Dealing with Conflict of Interest Transactions

### Fundamental Policy on Conflict of Interest Transactions

Nippon Building Fund Management Ltd. is constantly aware of its accountability to NBF and NBF's unitholders with regard to any transactions in which the interests of NBF and the interests of Nippon Building Fund Management Ltd. and its related corporations or customers may conflict. Nippon Building Fund Management Ltd. follows voluntary rules stipulated in laws and internal bylaws to proactively prevent conflicts of interest.

All decisions made in executing the management of NBF's assets are subject to the approval of the president, and are made after going through discussions by the Investment Review Meeting and Executive Board of Nippon Building Fund Management Ltd. Sponsor companies are not permitted to intervene in the decision-making process.

### Voluntary Rules for Conflict of Interest Transactions Stipulated in Internal Bylaws

Nippon Building Fund Management Ltd. has set voluntary rules in its internal bylaws to address transactions with parties, including sponsor companies that have interests in Nippon Building Fund Management Ltd.

The voluntary rules require the Investment Division, which initiates the transaction, as well as the Compliance Department, the Investment Review Meeting and other units to protect NBF's managed assets and profits by fully examining the transaction contents according to the voluntary rules set in the internal bylaws in the event of a transaction in which the interests of Nippon Building Fund Management Ltd. and parties that have interests in Nippon Building Fund Management Ltd. may conflict with the interests of NBF. These rules are designed from the standpoint of accountability to NBF and its unitholders.

In examining the transaction contents, Nippon Building Fund Management Ltd. solicits the opinions of attorneys, certified tax accountants and other third-party experts as needed. In addition, when purchasing real estate or other assets from parties that have interests in Nippon Building Fund Management Ltd., the purchase price is strictly set, in principle no higher than the appraised value according to a real estate appraiser with no vested interest.

## Sustainability Initiatives

### Policy for Initiatives

Nippon Building Fund Management Ltd. ("NBFM"), to which Nippon Building Fund Inc. ("NBF") entrusts asset management services, established a "Policy for Environmental Considerations" in March 2015.

## Basic Policy

NBFM, in recognition of the importance of environmental considerations, etc. for carrying out real property investment and management activities, strives to achieve asset management activities giving consideration to reduction of environmental load, enhancement of safety, security and comfort, as well as diversified affiliations and collaborations with various entities, in line with the “Group Environmental Policy” established by the Mitsui Fudosan Group.

## Initiatives for Environmental Considerations

### (1) Reduction of environmental load

#### • Promoting energy saving and reduction of CO<sub>2</sub> emissions

By promoting efficient use of energy in real property investment and management activities and pursuing introduction of energy-saving facilities, etc., NBFM endeavors to reduce CO<sub>2</sub> emissions through energy saving.

#### • Preserving the water environment and promoting resource saving and waste reduction

NBFM aims to preserve the water environment by initiatives for saving water and introduction of water-saving devices. NBFM also makes an effort to promote the 3Rs (reduce, reuse and recycle) for resource saving and waste reduction.

### (2) Enhancement of safety, security and comfort

#### • Enhancement of safety and security

NBFM promotes improvement of response times during emergencies and strengthens preparedness during normal times, and strives to implement disaster prevention and BCP measures in office buildings, the major assets for which it manages investments.

#### • Enhancement of comfort

NBFM aims to improve customer satisfaction (CS) of tenants of office buildings, the major assets for NBFM's management of investment, by enhancing the level of comfort.

## Diversified Affiliations and Collaborations with Various Entities

### (1) Coordination with outside related parties

To implement this Policy, NBFM strives to collaborate and cooperate with outside related parties such as property management companies, tenants and local communities, etc.

### (2) Training of officers and employees

NBFM aims to improve awareness of environmental considerations by training its officers and employees through continuous implementation of education and encouragement of activities relating thereto.

## Information Disclosure to Related Parties such as Investors, and Utilization of Environmental Certification and Evaluation

NBFM endeavors to actively disclose this Policy and its compliance herewith, etc. to related parties such as investors and tenants. In addition, NBFM will consider the use of environmental certification and evaluation to achieve goals based on this Policy.

## Asset Management Fee Structure Operation

Nippon Building Fund Management Ltd. 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. In addition, Nippon Building Fund Management Ltd. 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 Fees 1

The amount equivalent to 2.5% effective from July 1, 2003 of the amount of the revenue arising from Real Estate, etc. as calculated on each closing date (provided, however, that revenues from the sale of Real Estate, etc. and other Managed Assets will be excluded) will be payable.

### Management Fees 2

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

### Management Fees 3

In the event that Real Estate, etc. is newly acquired (in the event of merger, succession of status by merger), compensation equivalent to the total 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., the acquisition price of each item, and in the event of merger, the appraised value of Real Estate, etc. succeeded by NBF at the time of the merger, provided, however, that national consumption tax, regional consumption tax and miscellaneous costs of acquisition are excluded) multiplied by the following percentage rates will, in principle, be payable, provided, however, that with the approval of the directors of NBF, compensation 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

# Investment and Distribution Policies

## Investment Policies of NBF

### A. Basic Policies

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

### B. Investment Strategy

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

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

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

#### Area Diversification

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

The following table sets forth above said area diversification strategy.

Area and Allocation Ratio	Area Analysis
<b>Tokyo CBDs</b> 23 wards of Tokyo with a focus on the 5 central wards of Chiyoda, Chuo, Minato, Shinjuku and Shibuya	<ul style="list-style-type: none"><li>■ Relatively high rent levels and low vacancy rates compared to Other Cities; also, relatively large market scale (both leasing and purchase/sale) with high growth rates.</li><li>■ Relatively low yearly NOI yields.</li><li>■ Relatively high liquidity at the time of sale.</li></ul>
<b>Other Greater Tokyo</b> Neighboring cities (see Note 1 below) such as Musashino, Tachikawa, Yokohama, Kawasaki, Chiba, Kashiwa, Saitama, etc.	<ul style="list-style-type: none"><li>■ Basic special characteristics are between those of Tokyo CBDs and Other Cities.</li></ul>

#### Total of above two areas: 70% or more

<b>Other Cities</b> Principal regional cities such as Sapporo, Sendai, Niigata, Shizuoka, Hamamatsu, Nagoya, Kyoto, Osaka, Kobe, Okayama, Hiroshima, Takamatsu, Fukuoka, Kumamoto, etc.	<ul style="list-style-type: none"><li>■ Rent levels relatively low and vacancy rates relatively high compared to Tokyo CBDs, with some variance by each area's characteristics; also, relatively small market scale and low growth rates.</li><li>■ Relatively high yearly NOI yields.</li><li>■ Relatively low liquidity at the time of sales.</li></ul>
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#### Total of above area: 30% or less

Notes: 1. "Neighboring cities" refers to the metropolis of Tokyo excluding its 23 wards, and the 6 prefectures of Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi.  
2. Due to unforeseeable events, such as extreme fluctuations in macroeconomic trends, financial trends, real estate market trends and so forth, it may not always be possible to operate in accordance with each of the above criteria ("Investment Objectives and Policies," Articles of Incorporation).

### (2) Acquisition Strategy

#### a) Ratio of Real Estate Assets

NBF will maintain a ratio of 75% or more with respect to the "Designated Real Estate Ratio" ("Investment Objectives and Policies," Articles of Incorporation). As of June 30, 2015, NBF satisfied the criteria.

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

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

#### b) Due Diligence

When investing in office properties, selections will be made through comprehensive research and analysis based on the forecast investment yields resulting from the acquisition costs and their anticipated profits, future prospects and stability of the area of location, availability of measures responding to risks of deterioration and obsolescence, insurability and so forth of the relevant office properties (or Beneficiary



Certificates backed by such office properties) ("Investment Objectives and Policies," Articles of Incorporation). The details of the relevant criteria are set forth in the following table.

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

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

### c) Uncompleted or Unleasable Properties

In principle, NBF acquires Real Estate, etc. which are leased/leasable assets at the time of closing. NBF may acquire a property which is not yet leasable at the time of closing based on consideration of the impact on NBF's asset management activities after taking into account the investment amount, the date of completion or of becoming leasable, estimated revenue and so forth, provided, however, that the contract amount of any such unleasable asset combined with the total contract

amount of previously acquired unleasable assets (but excluding unleasable assets which thereafter become operational) will not exceed 10% of the total assets indicated on the most recent balance sheet of NBF. For this purpose, "leased/leasable assets" shall mean property with respect to which the construction of the building has been completed and such building is leased or leasable. Properties which are owned by NBF and have become operational at some point shall be deemed "leasable" thereafter (including such cases as reconstruction or large-scale renovation of a building) ("Investment Objectives and Policies," Articles of Incorporation).

## (3) Management and Disposition Policies

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

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

NBF is entitled to establish reserves for long-term renovations required to maintain and enhance the value of operating properties, reserves for payables, reserves for cash distributions and any other similar reserves, etc. (Article 14.1 (2) of the Articles of Incorporation).

### a) Reserves for Long-Term Renovations

From the reserves set forth above, a portion corresponding to renovations, repairs and tenant improvements will be determined based on renovation plans for each building.

### b) Measures to Avoid Reductions and Fluctuations in Operating Income

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

### c) Disposition

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

## (4) Financial Policies

### a) Issuance of Units

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

### b) Debt Financing

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

Borrowings are limited to those from Qualified Institutional Investors as specified in the Financial Instruments and Exchange Law of Japan, in case capital is borrowed. Further, the total limit on all such borrowings and issues of NBF bonds will be ¥1,000,000 million. When undertaking borrowings or when issuing NBF bonds, NBF may provide operating assets as collateral (Article 15 of the Articles of Incorporation).

### c) Loan-to-Value Ratio

The ratio of the total amount of borrowings and issues of NBF bonds to the total amount of assets of NBF (loan-to-value ratio) is envisioned to be limited to 56%, but may temporarily exceed 56% when acquiring certain assets, etc. (medium-to-long-term operating asset management policy and annual management plan established by the Asset Management Company).

### d) Derivative Transactions

NBF purchases rights in derivatives transactions solely to hedge against risks, including risks of fluctuation in interest rates for debt, as set out in Article 2.20 of the Financial Instruments and Exchange Law of Japan ("Investment Objectives and Policies," Articles of Incorporation).

## (5) Disclosure Policy

NBF's policy on disclosure is to earn recognition from society by showing itself to be an open and transparent investment company. It also works at all times to engender an environment in which it can disseminate fair and unbiased information to all its investors without delay. In addition to conducting disclosure in the style required by the Investment Trust and Investment Corporation Law of Japan, the Financial Instruments and Exchange Law of Japan, the Tokyo Stock Exchange, the Investment Trusts Association and other laws and organizations, NBF also voluntarily discloses information it deems necessary for investor decision-making.

### a) Appraisal Value, etc.

In the event that NBF undertakes asset valuation for the purpose of disclosure in Performance Information Reports, etc. using methods and standards different from those it has set forth, (a) the disclosure value to be used for real estate, real estate leasehold rights and superficies will, in principle, be the appraised valuation provided by a certified real estate appraiser, and (b) the disclosure value to be used for beneficiary certificates, equity interests of *tokumei kumiai* and equity interests of partnerships for which respective assets are real estate, real estate leasehold rights or superficies will be the calculated value of equity interests of each based on the value of their respective assets as determined in (a) plus the fair value of any financial assets as determined in conformity with generally accepted accounting principles, less trust and total *tokumei kumiai* liabilities (Articles of Incorporation).

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

## Investment Objectives of NBF

### Investment Restrictions in Articles of Incorporation

The Investment Objectives of NBF specified in the Articles of Incorporation are as follows. Please also refer to “B. Investment Strategy” of “Investment Policies of NBF” herein.

#### A. Principal Investment Objectives among Designated Assets

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

- (1) Real estate, real estate leasehold interests and superficieses
- (2) Beneficiary Certificates backed by real estate, real estate leasehold rights and superficieses, including inclusive trusts consisting of funds appurtenant to real estate
- (3) *Tokumei kumiai* ownership interests as defined by Article 535 of the Commercial Code of Japan (provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above)
- (4) Equity interests in partnerships as defined by Article 667 of the Civil Code of Japan (limited to leased, operating and managed partnership assets primarily referred to in paragraphs (1) and (2) above that are specified in Article 2.2.5 of the Financial Instruments and Exchange Law of Japan)
- (5) Preferred Investment Certificates of Special Purpose Companies (meaning those specified in Article 2.1.8 of the Financial Instruments and Exchange Law of Japan, provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above)
- (6) Special Purpose Beneficiary Certificates (meaning those specified in Article 2.1.13 of the Financial Instruments and Exchange Law of Japan, provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above)
- (7) Beneficiary Certificates of investment trusts (meaning those specified in Article 2.1.10 of the Financial Instruments and Exchange Law of Japan, provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above)
- (8) Investment Securities (meaning those specified in Article 2.1.11 of the Financial Instruments and Exchange Law of Japan, provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above)
- (9) Beneficiary Certificates of Money Trust (limited to those the trust assets of which are primarily invested and Managed Assets referred to in paragraph (1), (3) or (4) above, provided, however, that those that are deemed securities are excluded)

## B. Other Investment Objectives among Designated Assets

NBF may, in the course of efficiently managing funds or in other cases as necessary, invest in the following Designated Assets.

- (1) Bank deposits
- (2) Certificates of deposit issued by Japanese legal entities
- (3) Call loans
- (4) Japanese government bonds, notes and bills (meaning those specified in Article 2.1.1 of the Financial Instruments and Exchange Law of Japan)
- (5) Regional treasury bonds, notes and bills (meaning those specified in Article 2.1.2 of the Financial Instruments and Exchange Law of Japan)
- (6) Commercial paper (meaning that specified in Article 2.1.15 of the Financial Instruments and Exchange Law of Japan)
- (7) Designated bonds of Special Purpose Companies (meaning those specified in Article 2.1.4 of the Financial Instruments and Exchange Law of Japan, provided, however, that this is limited to asset-backed securities principally referred to in paragraphs (1) and (2) of section A above)
- (8) Monetary claims (limited to those claims that are deemed Designated Assets under the Investment Trust Law of Japan other than those referred to in section A and above)
- (9) Securities (other than those listed in section A and above)
- (10) Rights to financial derivative transactions (limited to those specified in Article 2.20 of the Financial Instruments and Exchange Law of Japan)
- (11) Renewable energy power generation facilities (meaning those specified in Article 3.11 of the Order for Enforcement of the Investment Trust Act (Cabinet Order No. 480 of 2000, including amendments thereto))

## C. Assets Other than Designated Assets

NBF may, in the course of efficiently managing funds or in other cases as necessary, invest in the following assets.

- (1) Equity interests of partnerships, excluding assets in section A, paragraph (4)
- (2) Easements
- (3) Trademark rights
- (4) Copyrights
- (5) Chattels
- (6) Emission credits (including emission credits for greenhouse gases) or other similar carbon dioxide equivalent quotas based on the Act on Promotion of Global Warming Countermeasures of Japan (Act No. 117 of 1998, including subsequent revisions)

- (7) Requisite ancillary rights to Designated Assets referred to in section A

**D. In the event that securities with “rights to be indicated on securities” as specified in Article 2.2 of the Financial Instruments and Exchange Law of Japan are not issued, such rights shall be deemed securities to which sections A through C above are applicable.**

## Distribution Policies of NBF

### A. Distributions of Profits

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

NBF will, in principle, effect distributions in accordance with the following policies (Article 14.1 of the Articles of Incorporation).

**(1)** NBF's earnings available for distributions are based on accounting of profits prepared in accordance with the Investment Trust Law and in conformity with generally accepted accounting principles in Japan.

The distributable amount which results from operation of managed assets of NBF (hereinafter, “Distributable Amount”) shall be the amount of profit (the amount of net assets on the balance sheet less the amount of total expenses, capital surplus reserves and estimated or equivalent variances) calculated on each closing date.

**(2)** The amount of cash distributions will be determined by NBF, such amount being in excess of 90% of earnings available for dividends of NBF set forth in Article 67.15 of the Special Taxation Measures Law of Japan (hereinafter “Distributable Earnings”), provided, however, that the maximum amount of distributions will be the Distributable Amount. NBF has the right to allow for long-term reserve for renovations, reserve for payables, reserve for cash distributions and other reserves and allowances similar thereto which are deemed necessary for maintaining or enhancing the assets of NBF.



**(3)** Earnings retained and not allocated to cash distributions or otherwise available for distribution as of the closing date will be managed in accordance with “Investment Objectives and Policies” in the Articles of Incorporation.

## B. Distribution in Excess of Earnings

A registered investment corporation is allowed to distribute cash to its unitholders in excess of the Distributable Amount under the Financial Instruments and Exchange Law of Japan, although the Investment Trusts Association of Japan has established rules such that a corporate-style J-REIT may pay out the excess of retained earnings for the period up to a maximum of 60% of depreciation for the period. NBF is entitled to make cash distributions of the amounts described below in excess of the Distributable Amount in the following cases, provided, however, that the maximum amount of such distributions will be the amount set forth in the rules of the Investment Trusts Association of Japan (Article 14.2 of the Articles of Incorporation).

**(1)** Amount determined by NBF as being eligible for the requirements of Article 39.32.3 of the Special Taxation Treatment for Investment Corporations, in case of the Distributable Amount being less than the Taxable Income Available for Dividends.

**(2)** Amount determined by NBF not in excess of the amount of depreciation for the current term less the amount of appropriate reserves for the current term, if NBF determines it appropriate considering trends in macroeconomic environments, real estate markets and leasing markets.

**(3)** Amount determined by NBF if NBF determines it appropriate for reducing its tax burden.

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

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

## C. Method of Distributions

Distributions will be made in cash, in principle, within three months from the closing date, to such unitholders or registered pledgees as are listed or recorded in the latest Unitholder Registry as of the closing date, in proportion to the number of units owned by or pledged to them (Article 14.3 of the Articles of Incorporation).

## D. Prescription for Cash Distributions, etc.

NBF will be discharged from the obligation to pay distributions of profits three calendar years from the date of commencing payment. Interest will not accrue on unpaid distributions (Article 14.4 of the Articles of Incorporation).

# Investment Restrictions

## A. Investment Restrictions in Articles of Incorporation

The investment restrictions specified in the Articles of Incorporation and the asset management guidelines applicable to NBF. Please also refer to “Investment Policies of NBF, B. Investment Strategy” herein.

### (1) Investment Location and Currencies

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

### (2) Borrowing

See “Investment Policies of NBF, B. Investment Strategy, (4) Financial Policies.”

### (3) Concentration of Investment

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

### (4) Investment Objectives

NBF does not invest aggressively in the Monetary Claims and Securities referred to in “Investment Objectives, B. Other Investment Objectives among Designated Assets.” Rather, NBF takes into account their stability and liquidity based on the extent of their relationship with

Designated Assets referred to in “Investment Objectives, A. Principal Investment Objectives among Designated Assets.” NBF invests in rights to financial derivatives transactions solely to hedge against risks, including risks of fluctuation in interest rates for debt (“Investment Objectives and Policies,” Articles of Incorporation).

Moreover, investment in other funds (investment securities or Beneficiary Certificates) is limited mainly to those the assets of which are referred to in “Investment Objectives of NBF, A. Principal Investment Objectives among Designated Assets,” paragraphs (1) and (2).

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

## **(5) Compliance with Laws and Regulations**

The Managed Assets of NBF will be managed in compliance with the Financial Instruments and Exchange Law of Japan and related regulations, the rules stipulated by the Investment Trusts Association (as amended), as well as “Investment Objectives and Policies” of the Articles of Incorporation.

## **B. Compliance with the Financial Instruments and Exchange Law and the Investment Trust Law of Japan**

NBF is subject to restrictions on investment under the Financial Instruments and Exchange Law and the investment Trust Law of Japan. Main restrictions are as follows.

**(1)** Pursuant to Article 198.1 of the Investment Trust Law of Japan, a registered investment corporation must entrust business related to asset management to an asset management company registered as a financial instrument firm, but an asset management company is prohibited from performing certain acts related to the business of managing the assets of said investment corporation. As a result, an investment corporation is subject to certain investment restrictions (all references in parentheses below are to the provisions of the Financial Instruments and Exchange Law of Japan, except where stated otherwise) besides restrictions applied to a registered investment corporation. NBF will naturally comply with such investment restrictions, a general overview of which follows.

### **a) Internal Transactions (§ 42.2.1)**

Transactions between an asset management company and its directors or officers are prohibited except for certain cases specified in Article 128 of the government ordinance regarding the Financial Instruments and

Exchange Law that are considered unlikely to result in failure to protect the interests of unitholders, damage fair transactions or discredit the financial instruments business.

### **b) Reciprocal Transactions with Managed Assets (§ 42.2.2)**

Transactions between asset management companies of investment corporation assets are prohibited except for certain cases specified in the provisions of the government ordinance regarding the Financial Instruments and Exchange Law of Japan that are considered unlikely to result in failure to protect the interests of unitholders, damage fair transactions or discredit the financial instruments business.

### **c) Transactions for the Benefit of Third Parties (§ 42.2.3)**

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

### **d) Transactions Harmful to the Interests of NBF (§ 42.2.4)**

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

### **e) Other Transactions Defined by Cabinet Office Ordinances**

In addition to the above, the following activities are prohibited (§42.2.7 of the Financial Instruments and Exchange Law, Cabinet Office Ordinance §130).

- (i) Transactions among the auditors, officers and employees of an asset management company
- (ii) Transactions for the benefit of the investment management company or third parties that would be harmful to the interests of the investment corporation
- (iii) Transactions for the benefit of third parties that are not necessary according to investment management policies, the financial condition of assets under management, or market conditions
- (iv) Asset management that introduces unfair restrictions or other limitations from external entities
- (v) The sale or purchase of investment securities, or similar transactions, with the objective of unfairly inflating transaction amounts or artificially inflating prices

- (vi) Transactions between third parties and their agents (excluding specific transactions to which rights holders have agreed pursuant to advance explanation of the rationale for the transaction)
- (vii) When entities as specified below engage in underwriting investment securities or other transactions, requested tenders or acquisitions of investment securities when the subject investment securities to be acquired by or the amount subscribed under the tender agreement by the said underwriter differ from the planned amounts
  - (a) foreign entities including corporations for their own account (as stipulated by Cabinet Office Ordinance §126.3)
  - (b) entities that hold more than 50/100 of the total amount of investment securities representing underlying managed assets issued in the two most recent fiscal years, as defined by §2.8.1-3, §2.8.8 and §2.8.9 of the Financial Instruments and Exchange Law (limited to investment securities that give holders rights in the said managed assets and such rights)
- (viii) Other activities prohibited by Cabinet Office Ordinance 130

## **(2) Limitation on Acquisition of the Same Issue of Units (§ 194 of the Investment Trust Law)**

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

## **(3) Restriction on Acquisition of Own Units and Acceptance of Pledge (§ 80.1 of the Investment Trust Law)**

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

- when acquired from another investment corporation as the surviving entity of a merger;
- when purchasing units pursuant to the provisions of the Investment Trust Law of Japan; or
- when purchasing units pursuant to a government ordinance regarding the Investment Trust Law of Japan.

## **(4) Restriction on Acquisition of Parent Corporation's Units by Subsidiary Corporation (§ 81.1.2)**

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

- when acquired from another investment corporation as the surviving entity of a merger; or
- when purchasing units pursuant to a government ordinance regarding the Investment Trust Law of Japan.

## **C. Other Restrictions**

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

Pursuant to the guidelines set by its asset management company, NBF may not subscribe to, or conduct margin trading of, securities.



## Summary of Selected Financial Data

		29th Period from July 1, 2015 to December 31, 2015	28th Period from January 1, 2015 to June 30, 2015	27th Period from July 1, 2014 to December 31, 2014	29th Period from July 1, 2015 to December 31, 2015
		U.S. dollars in thousands except per unit data (Note 1)			
		Yen in millions, except per unit data or where otherwise indicated			
Operating revenues	Note 2	¥ 34,641	¥ 34,593	¥ 34,806	\$288,026
Revenues from property leasing		34,641	34,593	34,806	288,026
Operating expenses		21,165	21,020	21,182	175,979
Rental expenses		19,736	19,571	19,749	164,102
Ordinary income		10,978	10,996	10,847	91,280
Net income	(a)	10,977	10,995	10,846	91,271
Funds from operations	Note 3	18,088	18,140	18,009	150,391
Net operating income from property leasing activities	Note 3	22,015	22,167	22,220	183,045
Total amount of cash distribution	(b)	11,347	10,995	10,846	94,345
Depreciation and amortization		7,111	7,145	7,163	59,122
Capital expenditures		2,839	2,656	2,329	23,606
Total assets	(c)	1,012,708	1,022,386	1,022,952	8,420,288
Interest-bearing debt		418,375	428,750	428,125	3,478,631
Net assets	(d)	534,288	534,306	534,156	4,442,404
Total number of units issued (Units)	(e)	1,412,000	1,412,000	1,412,000	
Net assets per unit (Yen/\$)	(d) / (e)	378,390	378,403	378,297	3,146
Distribution per unit (Yen/\$)	(b) / (e)	8,036	7,787	7,681	67
Funds from operations per unit (Yen/\$)	Note 3	12,809	12,847	12,754	107
ROA	Note 3	1.1%	1.1%	1.1%	
(Annual rate)		(2.2%)	(2.2%)	(2.1%)	
ROE	Note 3	2.1%	2.1%	2.0%	
(Annual rate)		(4.1%)	(4.1%)	(4.1%)	
Loan to value (LTV)	Note 3	41.3%	41.9%	41.9%	
Capital ratio	(d) / (c)	52.8%	52.3%	52.2%	
Payout ratio	(b) / (a), Note 4	103.3%	99.9%	99.9%	
Number of days		184	181	184	
Number of investment properties	Note 5	74	74	73	
Number of tenants	Note 5	1,595	1,579	1,568	
Total rentable area (m <sup>2</sup> )		1,079,164	1,079,185	1,074,771	
Occupancy rate (Average)	Note 5	96.8%	97.9%	97.6%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120.27 = U.S. \$1.00, the approximate exchange rate on December 31, 2015.

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 Gain on sale 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 Gain on sale 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 ratio of gross leased area to total rentable area at the end of the period.

## Operating Environment and Results

During the six months ended December 31, 2015 (the “29th Period”), the Japanese economy continued to recover moderately as evidenced by strong corporate performance and accompanying improvement in the employment and income environment against the backdrop of government economic policies and the monetary policies of the Bank of Japan, although some weaknesses such as weaker exports and production affected by the slowdown in the economies of emerging nations including China.

The Japanese economy is expected to continue recovering moderately supported by the ongoing improvement in the employment and income environment and the effects of various government policies. At the same time, the deceleration in the economies of emerging nations including China, movement of crude oil prices and reemergence of debt problems in Europe are among the issues that require our attention while the normalization of U.S. financial policies progresses.

In the office building leasing market, favorable corporate performance is leading to tenants adding space, and relocations to new offices are brisk. As a result, the vacancy rate in Tokyo central business districts has continued to decrease. In addition, asking rents at buildings continue to rise incrementally in Tokyo central business districts with the tightening of supply and demand.

New supply is expected to increase centering on Tokyo central business districts over the medium term, but vacancy rates are expected to decrease while rents continue to rise moderately driven by continued solid demand for office space resulting from the improved corporate performance and employment environment.

In the office building transaction market, given the favorable fund procurement environment, the appetite for transactions is strong among real estate market participants including J-REITs, private equity funds and overseas investors, backed by rising property prices in anticipation of expected improvement in the office leasing market over the medium term. Under these circumstances, competition to acquire properties is intensifying, causing a further decline in expected cap rates and further rise in purchase and sale prices.

Real estate prices are expected to rise because the deal flow among investors in Japan and overseas is forecast to remain brisk given the continued favorable fund procurement environment.

Under these conditions, NBF is conducting investment activities in accordance with its basic policy of investing in high-quality office buildings that are highly competitive in terms of location, size and facilities, and that are expected to generate stable cash flows from rents. For properties already in its portfolio, NBF works to expand revenues from property leasing through systematically conducting property management, renovations and new construction to further raise tenant satisfaction as well as by setting appropriate rents for new tenants and revising rents for tenants renewing their lease contracts while keeping abreast of market trends.

NBF's real estate portfolio as of December 31, 2015 consisted of 74 properties. Total investment on an acquisition price basis was ¥1,080.3 billion. Total rentable area was 1,079 thousand m<sup>2</sup>. The average occupancy rate during the period was 96.8 percent, a 1.1 percentage point decrease from the previous period, and the total number of tenants was 1,595.

## Overview of Performance and Distribution

As the result of above-explained operations, NBF's performance results during the reported period consisted of operating revenues of ¥34,641million (an increase of ¥48million, or 0.1%, compared to the previous period), operating income from leasing activities of ¥14,905million (a decrease of ¥118million, or 0.8%, compared to the previous period), operating income after asset management, custody and agent fees etc. of ¥13,476million (a decrease of ¥97 million, or 0.7% compared to the previous period), ordinary income of ¥10,978million (a decrease of ¥18million, or 0.2%, compared to the previous period), and net income of ¥10,977million (a decrease of ¥18million, or 0.2%, compared to the previous period).

In accordance with the distribution policy prescribed in its Articles of Incorporation, NBF is to make cash distributions so that the preferential tax measures to investment corporations (Article 67-15 of the Act on Special



Measures Concerning Taxation) will be applied. In addition, NBF decided to reverse part of the reserve for advanced depreciation (¥370 million) during the reported period by taking into consideration the temporary impact of a large tenant moving out. Thus, NBF has decided to distribute the entire amount arrived at by adding the amount of reversal of reserve for advanced depreciation to undistributed earnings, excluding fractions of the distribution per unit that are less than ¥1. As a result, the distribution per unit was ¥8,036.

## Management's Discussion and Analysis

### 1. Distribution for the Current Period

NBF decided to reverse part of the reserve for advanced depreciation (¥370,000 thousands) during the reported period by taking into consideration the temporary impact of a large tenant moving out. Thus, NBF has decided to distribute the entire amount arrived at by adding the amount of reversal of reserve for advanced depreciation to undistributed earnings, excluding fractions of the distribution per unit that are less than ¥1. As a result, the distribution per unit for the current period was ¥8,036. NBF expects to distribute almost all retained earnings at the current period end to be eligible for special tax treatment (Special Taxation Measures Law of Japan Article 67-15) that allows NBF to deduct its cash dividends of profits from taxable income.

	For the six months ended December 31, 2015	For the six months ended June 30, 2015	For the six months ended December 31, 2014
(Yen in thousands, except per unit amounts)			
Retained earnings	¥10,977,737	¥10,995,810	¥10,846,081
Undistributed earnings	905	566	509
Reversal of reserve for advanced depreciation	370,000	—	—
Total cash distribution	11,346,832	10,995,244	10,845,572
(Cash distribution per unit)	8,036	7,787	7,681
Distribution of accumulated earnings	11,346,832	10,995,244	10,845,572
(Distribution of accumulated earnings per unit)	8,036	7,787	7,681
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 December 31, 2015, total assets decreased by ¥9,677 million to ¥1,012,708 million compared with June 30, 2015. Return on average total assets (ROA) for the six months ended December 31, 2015 was 1.08 percent same as for the previous six-month period.

Current assets decreased by ¥5,538 million to ¥14,902 million compared with June 30, 2015. Investment properties decreased by ¥4,274 million to ¥990,699 million compared with June 30, 2015.

#### Liabilities

Current liabilities decreased by ¥16,890 million to ¥74,794 million compared with June 30, 2015, primarily because of a decrease in long-term debt due within one year compared with June 30, 2015.

Long-term debt increased by ¥6,625 million to ¥355,625 million compared with June 30, 2015.

As a result, total interest-bearing liabilities decreased by ¥10,375 million to ¥418,375 million compared with June 30, 2015. 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 decreased 97.1 percent as of December 31, 2015 from 98.4 percent as of June 30, 2015.

The loan-to-value ratio, calculated as the ratio of interest-bearing liabilities to total assets, decreased 41.3 percent as of December 31, 2015 from 41.9 percent as of June 30, 2015.

In addition, NBF worked to diversify funding sources. In January 2015, NBF updated a shelf registration to publicly offer up to ¥200 billion in bonds, as a shelf registration that NBF updated in January 2013 has expired.

#### Net assets

Net assets decreased by ¥18 million to ¥534,288 million compared with June 30, 2015.

### 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 December 31, 2015, 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 December 31, 2015	For the six months ended June 30, 2015	For the six months ended December 31, 2014
		(Yen)	
High	¥589,000	¥640,000	¥622,000
Low	491,000	536,000	546,000

**Borrowings**

Borrowings from financial institutions as of December 31, 2015 are shown below.

**Short-term loans**

Lender	Balance	Average interest rate (%)	Due on (Note 1)	Repayment method	Use of funds	Notes
(Yen in millions)						
Sumitomo Mitsui Trust Bank, Limited	¥7,000	0.2%	January 8, 2016			
Shinsei Bank, Limited	3,000	0.2%	January 8, 2016	Bullet payment	(Note 4)	Unsecured /unguaranteed
Resona Bank, Limited.	1,000	0.2%	January 8, 2016			/pari passu, See (Note 5)
The Yamanashi Chuo Bank, Ltd.	1,000	0.1%	January 8, 2016			
Total short-term loans	¥12,000					

**Long-term loans**

Lender	Balance	Average interest rate (%)	Due on (Note 1)	Repayment method	Use of funds	Notes
(Yen in millions)						
Development Bank of Japan Inc.	10,000	1.8%	September 27, 2017			
	10,000	2.0%	February 15, 2016			
	10,000	2.4%	May 30, 2018			
	3,375	2.2%	April 28, 2019	(Note 2)		
	7,000	2.2%	August 30, 2019	(Note 3)		
	10,000	1.3%	July 2, 2023			
Mitsubishi UFJ Trust and Banking Corporation	13,000	0.7%	September 10, 2027			
	7,000	1.5%	March 4, 2016			
	15,000	1.1%	March 1, 2019			
	15,000	0.8%	July 31, 2020			
	10,000	0.7%	February 26, 2021			
	5,000	1.0%	June 30, 2021	Bullet payment	(Note 4)	Unsecured /unguaranteed
Sumitomo Mitsui Trust Bank, Limited	3,000	0.1% (Note 6)	July 31, 2019			/pari passu, See (Note 5)
	10,000	1.2%	June 1, 2018			
	10,000	1.1%	December 30, 2019			
	5,000	1.2%	March 5, 2021			
	5,000	0.2%	January 25, 2019			
	3,000	0.2%	January 27, 2020			
Mizuho Bank, Ltd.	6,000	0.2%	September 11, 2019			
	7,000	1.2%	November 30, 2018			
	2,000	0.7%	February 7, 2017			
	10,000	0.9%	February 28, 2022			
Sumitomo Mitsui Banking Corporation	8,000	1.1%	July 29, 2022			
	4,000	1.1%	December 30, 2022			
	10,000	1.0%	February 28, 2023			
	5,000	1.0%	April 28, 2023			
	6,000	0.5%	April 28, 2020			
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000	0.3%	June 30, 2017			
	4,000	1.0%	June 1, 2017			
	5,000	0.8%	July 2, 2019			

	10,000	0.6%	February 28, 2020	
	7,000	1.0%	May 29, 2020	
Sumitomo Life Insurance Company	5,000	1.9%	May 23, 2016	
	7,000	2.1%	May 23, 2018	
	3,000	1.8%	February 3, 2016	
	5,000	1.0%	July 19, 2017	
	5,000	0.5%	July 16, 2021	
Mizuho Trust & Banking Co., Ltd.	10,000	1.0%	February 28, 2023	
	4,000	0.9%	September 30, 2022	
MITSUI LIFE INSURANCE COMPANY LIMITED	2,000	1.1%	February 13, 2020	
	2,000	0.9%	March 29, 2019	
	2,000	1.2%	March 30, 2021	
	2,000	1.0%	November 1, 2022	
	2,000	1.5%	May 30, 2025	
	2,000	1.0%	December 13, 2023	
Zenkyoren (National Mutual Insurance Federation of Agricultural Cooperatives)	10,000	2.3%	May 30, 2016	Bullet payment
THE BANK OF FUKUOKA, Ltd.	2,000	1.0%	June 1, 2017	
	2,000	0.6%	June 30, 2017	
	4,000	0.5%	July 12, 2017	
	2,000	0.5%	June 30, 2023	
Nippon Life Insurance Company	2,000	1.3%	October 19, 2018	
	2,000	1.3%	May 31, 2019	
	3,000	0.9%	September 30, 2022	
Shinkin Central Bank	3,000	1.0%	June 1, 2017	
	3,000	0.7%	December 30, 2016	
The Norinchukin Bank	5,000	0.7%	September 30, 2020	
The Chugoku Bank, Limited	2,000	1.0%	February 25, 2016	
	1,000	1.0%	May 29, 2020	
	2,000	0.6%	May 28, 2021	
The Daishi Bank, Ltd.	2,000	0.7%	March 3, 2017	
	2,000	0.6%	June 30, 2017	
	1,000	0.5%	April 27, 2018	
Resona Bank, Limited.	1,000	1.0%	June 1, 2017	
	3,000	1.0%	March 8, 2019	
TAIYO LIFE INSURANCE COMPANY	1,000	1.0%	July 2, 2021	
	1,000	1.0%	May 29, 2020	
	2,000	0.5%	July 9, 2021	
DAIDO LIFE INSURANCE COMPANY	1,000	0.9%	March 29, 2019	
	1,000	0.7%	October 2, 2020	
	1,000	0.5%	June 30, 2022	
	1,000	0.4%	September 11, 2023	
The Hachijuni Bank, Ltd.	1,000	0.6%	December 2, 2020	
	2,000	0.5%	June 26, 2020	
The Iyo Bank, LTD.	1,000	0.6%	April 30, 2021	
	1,000	0.1%	January 27, 2022	
	(Note 6)			
	1,000	0.2%	June 30, 2025	
	(Note 6)			
The Yamaguchi Bank, Ltd.	1,000	0.9%	January 4, 2017	
	1,000	1.1%	May 1, 2019	
	1,000	1.1%	September 4, 2020	
Meiji Yasuda Life Insurance Company	3,000	1.3%	April 27, 2022	
The Joyo Bank, Ltd.	1,000	0.7%	March 3, 2017	
	1,000	0.6%	March 27, 2020	
The 77 Bank, Ltd.		0.1%		
	2,000		June 30, 2023	
	(Note 6)			
The Gunma Bank, Ltd.	1,000	0.7%	May 31, 2018	
Shinsei Bank, Limited	1,000	1.5%	May 30, 2025	
The Hiroshima Bank, Ltd.		0.1%		
	1,000		January 27, 2021	
	(Note 6)			
Total long-term loans	¥366,375			
Total borrowings (Note 7)	¥378,375			

Notes:

1. With respect to the date of repayment in case of more than one short-term loan from the same lender, the earliest date of repayment for all such loans coming due is given.
2. Scheduled for repayment of ¥125 million at six-month intervals and ¥2,625 million at the final maturity date.

3. Scheduled for repayment of ¥250 million at six-month intervals and ¥5,250 million at the final maturity date.
4. Use of funds for the above includes acquisition of real estate or beneficiary interests, repayment of borrowings and working capital, etc.
5. 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.
6. This loan is a floating rate loan. Other long-term loans are all fixed rate loans.
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	¥40,750	¥38,750	¥61,125	¥56,000

**NBF Bonds**

Issue	Issue date	Balance as of December 31, 2015 (Yen in millions)	Coupon	Maturity date	Redemption	Use of proceeds	Notes
No. 3 Unsecured Bonds	June 12, 2003	¥10,000	2.00%	June 12, 2018	Bullet payment	Note 1	Notes 2 and 4
No. 10 Unsecured Bonds	May 24, 2007	10,000	2.04%	May 24, 2017	Bullet payment	Note 1	Notes 3 and 5
No. 12 Unsecured Bonds	September 15, 2011	10,000	0.64%	September 15, 2016	Bullet payment	Note 1	Notes 3 and 5
No. 13 Unsecured Bonds	June 26, 2013	10,000	1.17%	June 26, 2023	Bullet payment	Note 1	Notes 3 and 5
Total (Note 6)		¥40,000					

Notes:

1. Use of funds includes acquisition of real estate, repayment of borrowings and investment corporation bonds, etc.
2. These bonds are only issued to qualified institutional investors.
3. Rank pari passu with all other publicly and privately issued bonds.
4. Subject to provision of collateral and financial restrictions pursuant to material decline in credit rating.
5. Subject to provision of collateral restrictions.
6. 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	¥10,000	¥10,000	—	—

**Others**

NBF has security deposits totaling ¥47,929 million as of December 31, 2015.

## ■ Capital Expenditures

### 1. Planning

As of December 31, 2015, 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 July 1, 2015 to December 31, 2015)	
(Yen in millions)					
Tsukuba Mitsui Bldg.	Renovation of air conditioning①	From January 2016 to June 2016	271	—	—
Yokohama ST Bldg.	Renovation of air conditioning①	From January 2016 to June 2016	265	—	—
Tsukuba Mitsui Bldg.	Renovation of air conditioning②	From July 2016 to December 2016	259	—	—
Aqua Dojima NBF Tower	Renovation of air conditioning	From January 2016 to June 2016	232	—	—
NBF Shin-Urayasu Tower	Renovation of hot and chilled water generator	From July 2016 to December 2016	162	—	—
Shiba NBF Tower	Renovation of air conditioning	From July 2016 to December 2016	154	—	—
Yokohama ST Bldg.	Renovation of air conditioning②	From July 2016 to December 2016	138	—	—
NBF Ikebukuro East	Renovation of air conditioning	From July 2015 to March 2016	123	—	—
Chofu South Gate Bldg.	Renovation of emergency power generators	From July 2016 to December 2016	122	—	—
Gate City Ohsaki	Attachment of emergency power generators	From July 2015 to March 2016	118	—	—
Nakanoshima Central Tower	Renovation of emergency power generators for oil tank	From June 2016 to December 2016	102	—	—
NBF Atsugi Bldg.	Renovation of exterior	From July 2016 to October 2016	34	—	—
Aqua Dojima East	Renovation of air conditioning	From August 2016 to December 2016	21	—	—

## 2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NBF posted ¥2,839 million in capital expenditures together with ¥713 million for repairs and maintenance expenses.



Name of property	Objective	Period	Expenditure (Yen in millions)
NBF Shinkawa Bldg.	Renovation of emergency power generators(West Building), renovation of air conditioning (East Building), renovation of air conditioning (West Building), etc.	From July 2015 to December 2015	¥694
Tsukuba Mitsui Bldg.	Renovation of air conditioning, leasehold improvement, renovation of gondola, etc.		320
NBF Ikebukuro East	Renovation of air conditioning, leasehold improvement, business continuity planning countermeasure work, etc.		280
Aqua Dojima NBF Tower	Renovation of air conditioning, construction of partition wall, leasehold improvement, etc.		222
NBF Shin-Urayasu Tower	Renovation of hot and chilled water generator, renovation of common use department lighting equipment, leasehold improvement, etc.		154
Yokohama ST Bldg.	Renovation of air conditioning, business continuity planning countermeasure work, renovation of security camera, etc.		125
Aqua Dojima East	Renovation of air conditioning, renovation of shutter switch, renovation of sprinkler, etc.		21
Other buildings	Asset preservation construction and other renewal construction to improve tenant satisfaction, etc.		1,023
Total			¥2,839

## ■ Expenses regarding Entrustment, etc.

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

Item	For the six months ended December 31, 2015	For the six months ended June 30, 2015	For the six months ended December 31, 2014
	(Yen in millions)		
Asset management fees	¥1,206	¥1,205	¥1,206
Asset custody fees	49	49	50
Agent fees (stock transfer, accounting and administrative)	48	53	49
Directors' remuneration	13	13	13
Auditor's fees	14	14	14
Other expenses	98	115	101
Total	¥1,428	¥1,449	¥1,433

## ■ Trading Activities during the Current Period

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

None.

### 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 July 1, 2015 to December 31, 2015

Category	Total fees paid (A) (Yen in millions)	Description of transactions with related parties (Note 1)		B/A
		Paid to	Amount of payment (B) (Yen in millions)	
Office management fees, etc. (Note 2)	1,452	Mitsui Fudosan Co., Ltd.	1,414	97.4%
		NBF Office Management Co., Ltd.	38	2.6%
Property maintenance fees	3,693	Mitsui Fudosan Facilities Co., Ltd.	593	16.0%
		Mitsui Fudosan Co., Ltd.	472	12.8%
		Mitsui Fudosan Building Management Co., Ltd.	248	6.7%
		First Facilities West Co., Ltd.	220	6.0%
		Mitsui Fudosan Housing Lease Co., Ltd.	3	0.1%
Leasing related service fees	128	Mitsui Fudosan Co., Ltd.	89	69.6%
		NBF Office Management Co., Ltd.	12	9.1%
		Mitsui Fudosan Realty Co., Ltd.	1	1.1%

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 July 1, 2015 to December 31, 2015, transactions with and fees paid to, Mitsui Fudosan Co., Ltd., NBF Office Management Co., Ltd., Mitsui Fudosan Facilities Co., Ltd., Mitsui Fudosan Building Management Co., Ltd., First Facilities West Co., Ltd., Mitsui Fudosan Housing 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 (12 properties: Gate City Ohsaki, Nishi-Shinjuku Mitsui Bldg., Toranomon Kotohira Tower,

Nakameguro GT Tower, Celestine Shiba Mitsui Bldg., Yotsuya Medical Bldg., Higashi Gotanda Square, Panasonic Tokyo Shiodome Bldg., NBF Ogawamachi Bldg., 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 Building Management Co., Ltd	¥486
Mitsui Fudosan Facilities Co., Ltd.	352
Mitsui Fudosan Co., Ltd.	345
First Facilities West Co., Ltd.	316
Mitsui Fudosan Housing Lease Co., Ltd.	8
Harajuku-no-mori Co.,Ltd.	4
Mitsui Fudosan Realty Co., Ltd.	0
MITSUI Designtec Co.,Ltd.	0
Mitsui Home Linkage Co.,Ltd.	0

## NIPPON BUILDING FUND INC. BALANCE SHEETS

As of December 31, 2015 and June 30, 2015

	As of December 31, 2015	As of June 30, 2015
	(Yen in millions)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents (Note 3)	¥ 14,006	¥ 19,500
Tenant receivables	329	413
Prepaid expenses	473	434
Other current assets	94	93
Total current assets	14,902	20,440
Investment Properties:		
Land including trust accounts (Notes 4,12)	666,723	666,717
Buildings and improvements including trust accounts (Notes 4,12)	408,293	405,631
Other tangible assets (Notes 4,12)	12,934	12,879
Less: accumulated depreciation (Notes 4,12)	(133,144)	(126,145)
Leasehold rights in trust accounts and other intangible assets (Note 12)	35,893	35,891
Total investment properties, net	990,699	994,973
Long-term prepaid expenses	38	42
Other Assets	7,069	6,931
<b>Total Assets</b>	<b>¥1,012,708</b>	<b>¥1,022,386</b>
<b>Liabilities</b>		
Current Liabilities:		
Short-term loans (Notes 3,6)	¥ 12,000	¥ 7,000
Long-term debt due within one year (Notes 3,6)	50,750	72,750
Accounts payable	5,488	5,059
Rents received in advance	4,815	4,569
Accrued expenses and other liabilities	1,741	2,306
Total current liabilities	74,794	91,684
Long-term Debt (Notes 3,6)	355,625	349,000
Tenant Security Deposits Including Trust Accounts (Note 3)	47,929	47,322
Other Liabilities	72	74
<b>Total Liabilities</b>	<b>478,420</b>	<b>488,080</b>
<b>Net Assets</b> (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	15,163	15,181
<b>Total Net Assets</b>	<b>534,288</b>	<b>534,306</b>
<b>Total Liabilities and Net Assets</b>	<b>¥1,012,708</b>	<b>¥1,022,386</b>

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 December 31, 2015, June 30, 2015 and December 31, 2014

	For the six months ended December 31, 2015	For the six months ended June 30, 2015	For the six months ended December 31, 2014
(Yen in millions)			
<b>Operating Revenues and Expenses</b>			
<b>Operating Revenues:</b>			
Rental (Note 7)	¥31,269	¥31,396	¥31,457
Other revenues related to property leasing (Note 7)	3,372	3,197	3,349
<b>Total Operating Revenues</b>	<b>34,641</b>	<b>34,593</b>	<b>34,806</b>
<b>Operating Expenses:</b>			
Property management fees (Note 7)	5,096	5,008	5,024
Real estate taxes (Note 7)	3,341	3,365	3,231
Repairs and maintenance (Note 7)	713	626	571
Insurance (Note 7)	40	39	40
Other rental expenses (Note 7)	3,436	3,388	3,720
Depreciation and amortization (Note 7)	7,111	7,145	7,163
Asset management fees	1,206	1,205	1,206
Other operating expenses	222	244	227
<b>Total Operating Expenses</b>	<b>21,165</b>	<b>21,020</b>	<b>21,182</b>
<b>Operating Income</b>	<b>13,476</b>	<b>13,573</b>	<b>13,624</b>
<b>Non-Operating Revenues and Expenses</b>			
<b>Non-Operating Revenues:</b>			
Interest income	2	2	4
<b>Non-Operating Expenses:</b>			
Interest expense	(2,452)	(2,535)	(2,726)
Amortization of bond issuance costs	(8)	(8)	(14)
Other non-operating expenses, net	(40)	(36)	(41)
<b>Ordinary Income</b>	<b>10,978</b>	<b>10,996</b>	<b>10,847</b>
<b>Income before Income Taxes</b>	<b>10,978</b>	<b>10,996</b>	<b>10,847</b>
Current and deferred income taxes (Note 8)	(1)	(1)	(1)
<b>Net Income</b>	<b>¥ 10,977</b>	<b>¥ 10,995</b>	<b>¥ 10,846</b>

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 December 31, 2015, June 30, 2015 and December 31, 2014

		(Yen in millions)		
	Number of Units	Unitholders' Capital	Retained Earnings	Total
Balance as of June 30, 2014 .....	1,412,000	¥ 519,125	¥ 15,696	¥ 534,821
Cash dividends declared .....	—	—	(11,511)	(11,511)
Net income .....	—	—	10,846	10,846
Balance as of December 31, 2014 .....	1,412,000	519,125	15,031	534,156
Cash dividends declared .....	—	—	(10,845)	(10,845)
Net income .....	—	—	10,995	10,995
Balance as of June 30, 2015 .....	1,412,000	519,125	15,181	534,306
Cash dividends declared .....	—	—	(10,995)	(10,995)
Net income .....	—	—	10,977	10,977
Balance as of December 31, 2015 .....	1,412,000	¥ 519,125	¥ 15,163	¥ 534,288

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

## NIPPON BUILDING FUND INC.

### STATEMENTS OF CASH FLOWS

For the six months ended December 31, 2015, June 30, 2015 and December 31, 2014

	For the six months ended December 31, 2015	For the six months ended June 30, 2015	For the six months ended December 31, 2014
	(Yen in millions)		
Cash Flows from Operating Activities:			
Income before income taxes	¥ 10,978	¥ 10,996	¥ 10,847
Depreciation and amortization	7,111	7,145	7,163
Amortization of bond issuance costs	8	8	14
Interest expense	2,452	2,535	2,726
(Increase) Decrease in tenant receivables	84	(47)	31
Increase (Decrease) in accounts payable	462	(1,081)	2,031
Increase (Decrease) in rents received in advance	246	(60)	119
Cash payments of interest expense	(2,648)	(2,519)	(2,899)
(Increase) Decrease in consumption tax refund receivable	—	—	140
Others, net	(396)	(794)	1,079
Net Cash Provided by Operating Activities	18,297	16,183	21,251
Cash Flows from Investing Activities:			
Payments for purchases of investment properties	(2,787)	(8,318)	(2,435)
Payments for purchases of intangible assets	(17)	(44)	(97)
Proceeds from tenant security deposits	1,755	1,935	2,178
Payments for tenant security deposits	(1,148)	(1,306)	(1,723)
Payments for security deposits paid to lessors	(43)	(2)	(6)
Others, net	(182)	(165)	(179)
Net Cash Used in Investing Activities	(2,422)	(7,900)	(2,262)
Cash Flows from Financing Activities:			
Net proceeds from (repayment of) short-term loans	5,000	—	(9,000)
Proceeds from long-term debt	20,000	16,000	10,000
Repayment of long-term debt	(35,375)	(15,375)	(21,375)
Payment of dividends	(10,994)	(10,847)	(11,509)
Net Cash Used in Financing Activities	(21,369)	(10,222)	(31,884)
Net Change in Cash and Cash Equivalents	(5,494)	(1,939)	(12,895)
Cash and Cash Equivalents at the Beginning of Period	19,500	21,439	34,334
Cash and Cash Equivalents at the End of Period	¥ 14,006	¥ 19,500	¥ 21,439

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

## Notes To Financial Statements

For the six months ended December 31, 2015, June 30, 2015 and December 31, 2014

### **Note 1 – Organization and Basis of Presentation**

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#### ***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 43% of NBFM while Sumitomo Life Insurance Company owns 35% and the remaining 22% is mainly owned by financial institutions.

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

As of December 31, 2015, NBF had ownership or beneficiary interests in 74 office properties containing approximately 1,079,164 square meters of rentable office space. As of December 31, 2015, NBF had leased office space to 1,199 tenants engaged in a variety of businesses. The occupancy rate for the office properties was approximately 97.8%.

#### ***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**

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#### ***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. No capitalized real estate taxes were incurred for the period ended December 31, 2015 and December 31, 2014. Capitalized real estate taxes amounted to ¥14 million for the period ended June 30, 2015.

### ***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 December 31, 2015 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	¥ 14,006	¥ 14,006	¥ —
Total	¥ 14,006	¥ 14,006	¥ —
Liabilities			
(1) Short-term loans	¥ 12,000	¥ 12,000	¥ —
(2) Long-term debt due within one year	50,750	50,958	208
(3) Long-term debt	355,625	367,136	11,511
Total	¥418,375	¥430,094	¥11,719

## 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) Short-term loans

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.

## (2) Long-term debt due within one year

Long-term debt due within one year which includes Investment corporation bonds and Long-term loans are as follows.

(Yen in millions)

	Book value	Fair value	Difference
(1) Investment corporation bonds	¥10,000	¥10,025	¥ 25
(2) Long-term loans	40,750	40,933	183
Total	¥50,750	¥50,958	¥208

## (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.

## (3) 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	¥ 30,000	¥ 31,163	¥ 1,163
(2) Long-term loans	325,625	335,973	10,348
Total	¥355,625	¥367,136	¥11,511

## (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 June 30, 2015 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
<b>Assets</b>			
(1) Cash and cash equivalents	¥ 19,500	¥ 19,500	¥ —
<b>Total</b>	¥ 19,500	¥ 19,500	¥ —
<b>Liabilities</b>			
(1) Short-term loans	¥ 7,000	¥ 7,000	¥ —
(2) Long-term debt due within one year	72,750	73,348	598
(3) Long-term debt	349,000	359,406	10,406
<b>Total</b>	¥428,750	¥439,754	¥11,004

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) Short-term loans

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.

(2) Long-term debt due within one year

Long-term debt due within one year which includes Investment corporation bonds and Long-term loans are as follows.

(Yen in millions)			
	Book value	Fair value	Difference
(1) Investment corporation bonds	¥10,000	¥10,062	¥ 62
(2) Long-term loans	62,750	63,286	536
<b>Total</b>	¥72,750	¥73,348	¥598

(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.

(3) 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	¥ 40,000	¥ 41,320	¥ 1,320
(2) Long-term loans	309,000	318,086	9,086
Total	¥349,000	¥359,406	¥10,406

## (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 December 31, 2015	As of June 30, 2015
Tenant security deposits including trust accounts	¥47,929	¥47,322

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 December 31, 2015

(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	¥14,006	—	—	—	—	—

## Redemption Schedule for Monetary Claims as of June 30, 2015

(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	¥19,500	—	—	—	—	—

4. Repayment Schedule for Loans and Investment Corporation Bonds as of December 31, 2015

(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
Short-term loans	¥12,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	10,000	10,000	10,000	—	—	10,000
Long-term loans	40,750	40,750	38,750	61,125	56,000	129,000
Total	¥62,750	¥50,750	¥48,750	¥61,125	¥56,000	¥139,000

Repayment Schedule for Loans and Investment Corporation Bonds as of June 30, 2015

(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
Short-term loans	¥7,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	10,000	20,000	10,000	—	—	10,000
Long-term loans	62,750	24,750	48,750	41,250	56,250	138,000
Total	¥79,750	¥44,750	¥58,750	¥41,250	¥56,250	¥148,000

## Note 4— Schedule of Tangible Assets of Investment Properties

Tangible assets as of December 31, 2015 and June 30, 2015 consisted of the following:

	As of December 31, 2015			As of June 30, 2015		
	(Yen in millions)					
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥317,746	¥ —	¥317,746	¥317,740	¥ —	¥317,740
Land in trust	348,977	—	348,977	348,977	—	348,977
<b>Land including trust total</b>	<b>666,723</b>	<b>—</b>	<b>666,723</b>	<b>666,717</b>	<b>—</b>	<b>666,717</b>
Buildings and improvements	218,876	(58,849)	160,027	217,284	(55,259)	162,025
Buildings and improvements in trust	189,417	(66,963)	122,454	188,347	(63,935)	124,412
<b>Buildings and improvements including those in trust total</b>	<b>408,293</b>	<b>(125,812)</b>	<b>282,481</b>	<b>405,631</b>	<b>(119,194)</b>	<b>286,437</b>
Structures	3,178	(1,608)	1,570	3,174	(1,538)	1,636
Machinery and equipment	1,845	(1,149)	696	1,822	(1,072)	750
Tools, furniture and fixtures	1,618	(966)	652	1,601	(904)	697
Structures in trust	2,823	(1,230)	1,593	2,822	(1,164)	1,658
Machinery and equipment in trust	1,832	(1,293)	539	1,816	(1,239)	577
Tools, furniture and fixtures in trust	1,638	(1,086)	552	1,617	(1,034)	583
Construction in process	—	—	—	27	—	27
<b>Other tangible assets total</b>	<b>12,934</b>	<b>(7,332)</b>	<b>5,602</b>	<b>12,879</b>	<b>(6,951)</b>	<b>5,928</b>
<b>Total</b>	<b>¥1,087,950</b>	<b>¥(133,144)</b>	<b>¥954,806</b>	<b>¥1,085,227</b>	<b>¥(126,145)</b>	<b>¥959,082</b>

**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 – Short-Term Loans and Long-Term Debt**

Short-term loans consist of short-term notes and short-term borrowings under loan agreements. The annual interest rates on short-term loans outstanding are floating rates and on December 31, 2015 and June 30, 2015 were at 0.15% respectively. Long-term debt as of December 31, 2015 and June 30, 2015 consisted of the following:

	As of December 31, 2015	As of June 30, 2015
	(Yen in millions)	
Unsecured loans due 2016 to 2027 principally from banks and insurance companies with interest rates mainly ranging from 0.1% to 2.4% .....	¥366,375	¥371,750
1.85% unsecured bonds due 2015 (Note 1) .....	—	10,000
0.64% unsecured bonds due 2016 (Note 1) .....	10,000	10,000
2.04% unsecured bonds due 2017 (Note 1) .....	10,000	10,000
2.00% unsecured bonds due 2018 (Note 2) .....	10,000	10,000
1.17% unsecured bonds due 2023 (Note 1) .....	10,000	10,000
	406,375	421,750
Less: amount due within one year.....	50,750	72,750
	¥355,625	¥349,000

Notes: 1. Subject to provision of collateral restrictions.

2. Subject to provision of collateral and financial restrictions pursuant to material decline in credit rating.

The annual maturities of long-term debt as of December 31, 2015 were as follows:

	(Yen in millions)
Due after one to two years .....	¥ 50,750
Due after two to three years .....	48,750
Due after three to four years .....	61,125
Due after four to five years .....	56,000
Due after five years .....	139,000

During the periods ended December 31, 2015 and June 30, 2015, 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 December 31, 2015.

## Note 7 – Rental Revenues and Expenses

Rental revenues and expenses for the periods ended December 31, 2015, June 30, 2015 and December 31, 2014 were as follows:

	For the six months ended December 31, 2015	For the six months ended June 30, 2015	For the six months ended December 31, 2014
	(Yen in millions)		
<b>Revenues from Property Leasing:</b>			
Rental:			
Rental revenues . . . . .	¥28,457	¥28,494	¥28,426
Common area charges . . . . .	2,701	2,789	2,917
Others . . . . .	111	113	114
Subtotal . . . . .	31,269	31,396	31,457
Other revenues related to property leasing:			
Parking lots . . . . .	692	678	683
Facility charge . . . . .	251	259	245
Incidental income . . . . .	2,180	2,045	2,330
Cancellation fees . . . . .	163	100	14
Miscellaneous income . . . . .	86	115	77
Subtotal . . . . .	3,372	3,197	3,349
Total revenues from property leasing . . . . .	34,641	34,593	34,806
<b>Rental Expenses:</b>			
Property management fees . . . . .	5,096	5,008	5,024
Real estate taxes . . . . .	3,341	3,365	3,231
Repairs and maintenance . . . . .	713	626	571
Insurance . . . . .	40	39	40
Other rental expenses . . . . .	3,436	3,388	3,720
Depreciation and amortization . . . . .	7,110	7,145	7,163
Total rental expenses . . . . .	19,736	19,571	19,749
<b>Operating Income from Property Leasing Activities . . . . .</b>	<b>¥14,905</b>	<b>¥15,022</b>	<b>¥15,057</b>

**Note 8 – 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 December 31, 2015, June 30, 2015 and December 31, 2014. 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 December 31, 2015	For the six months ended June 30, 2015	For the six months ended December 31, 2014
Statutory tax rate . . . . .	32.31%	34.15%	34.16%
Deductible dividends . . . . .	(33.39)	(34.15)	(34.15)
Reversal of reserve for advanced depreciation . . . . .	1.09	—	—
Others . . . . .	0.01	0.01	0.01
Effective tax rate . . . . .	0.01%	0.01%	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 9 – Per Unit Information**

Information about earnings per unit for the periods ended December 31, 2015, June 30, 2015 and December 31, 2014 and net assets per unit as of December 31, 2015, June 30, 2015 and December 31, 2014 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 December 31, 2015	For the six months ended June 30, 2015	For the six months ended December 31, 2014
<b>Earnings per Unit:</b>			
Net income per unit (Yen)	¥7,774	¥7,787	¥7,681
Weighted average number of units outstanding	1,412,000	1,412,000	1,412,000
	As of December 31, 2015	As of June 30, 2015	As of December 31, 2014
<b>Net Assets per Unit (Yen)</b>	¥378,390	¥378,403	¥378,297



**Note 10 – Leases****As Lessor**

NBF leases some of its investment properties to outside parties under non-cancelable operating leases. As of December 31, 2015 and June 30, 2015, future minimum rental revenues under the non-cancelable operating leases are as follows:

	As of December 31, 2015	As of June 30, 2015
	(Yen in millions)	
Due within one year.....	¥ 19,535	¥ 20,307
Due after one year .....	26,210	25,974
Total.....	¥ 45,745	¥ 46,281

**As Lessee**

NBF leases some of its investment properties from outside parties under non-cancelable operating leases. As of December 31, 2015 and June 30, 2015, future minimum rental expenses under the non-cancelable operating leases are as follows:

	As of December 31, 2015	As of June 30, 2015
	(Yen in millions)	
Due within one year.....	¥ 2	¥ —
Due after one year .....	5	—
Total.....	¥ 7	¥ —

**Note 11 – Transactions with Related Parties**

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## (1) Parent Company and Major Corporate Unitholders

(For the six months ended December 31, 2015)

None applicable.

(For the six months ended June 30, 2015)

None applicable.

(For the six months ended December 31, 2014)

None applicable.

## (2) Affiliates

(For the six months ended December 31, 2015)

None applicable.

(For the six months ended June 30, 2015)

None applicable.

(For the six months ended December 31, 2014)

None applicable.

## (3) Sister Companies

(For the six months ended December 31, 2015)

None applicable.

(For the six months ended June 30, 2015)

None applicable.

(For the six months ended December 31, 2014)

None applicable.

## (4) Directors and Major Individual Unitholders

(For the six months ended December 31, 2015)

None applicable.

(For the six months ended June 30, 2015)

None applicable.

(For the six months ended December 31, 2014)

None applicable

**Note 12 – Investment and Rental Property**

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 December 31, 2015	For the six months ended June 30, 2015
Carrying amount		
Balance at beginning of the Fiscal Period	¥ 994,984	¥ 993,411
Amount of increase (decrease) during current period	(4,250)	1,573
Balance at end of the Fiscal Period	990,734	994,984
Fair value at end of the period	¥ 1,117,990	¥ 1,099,110

Notes:

1. Carrying amounts represent acquisition cost less accumulated depreciation.
2. The major decrease in the fiscal period ended December 31, 2015 was mainly due to recognition of depreciation costs.  
The major increase in the fiscal period ended June 30, 2015 was mainly due to the acquisitions of a property (NBF Kandasudacho Bldg., ¥ 6,036 million) and the major decrease was mainly due to recognition of depreciation costs.
3. 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).

**Note 13 – 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 December 31, 2015)

## 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.	¥7,497	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.

(For the six months ended June 30, 2015)

## 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.	¥7,736	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.

(For the six months ended December 31, 2014)

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.	¥7,910	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.

## Note 14 – Significant Subsequent Events

None applicable.



# Independent Auditor's Report



## 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 December 31, 2015 and June 30, 2015, and the statements of income, statements of changes in net assets and statements of cash flows for each of the six months ended December 31, 2015, June 30, 2015 and December 31, 2014, 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 misstatements, 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 judgement, 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 December 31, 2015 and June 30, 2015, and their financial performance and cash flows for each of the six months ended December 31, 2015, June 30, 2015 and December 31, 2014 in accordance with accounting principles generally accepted in Japan.

*KPMG AZSA LLC*

April 1, 2016  
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



# 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.

### ***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, Nippon Building Fund Management Ltd. (the “AIFM”) has notified the Dutch Authority for the Financial Markets certain matters in accordance with the AIFMD. 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 (*gekwalficeerde 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. The AIFM is therefore solely subject to limited ongoing regulatory requirements as referred to in Article 42 of the AIFMD.

### ***United Kingdom***

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, the AIFM has notified the Financial Conduct Authority (the “FCA”) certain matters in accordance with the AIFMD.

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 communication of an invitation or inducement to invest in NBF may be made to persons in the United Kingdom only if the communication falls within one or more of the categories of exempt financial promotions under the Financial Services and Markets Act (Financial Promotion) Order 2005 (the “Order”), such as financial promotions communicated to:

- (1) persons who are investment professionals, as defined in article 19 of the Order;
- (2) persons who are certified high net worth individuals, as defined in article 48 of the Order;

- (3) persons who are high net worth companies, unincorporated associations, or other entities listed in article 49 of the Order; or
- (4) persons who are certified sophisticated investors, as defined in article 50 of the Order,

or if the communication is made to persons to whom such an invitation or inducement may otherwise lawfully be communicated. The distribution of this document to any person in the United Kingdom in circumstances not falling within one of the above categories is not permitted and may contravene FSMA. No person falling outside those categories should treat this document as constituting a promotion to him, or act on it for any purposes whatever.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) no offer of units of NBF may be made to the public in that Relevant Member State except in circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of units shall require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive, or a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression “an offer of units to the public” in relation to any units in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the units to be offered so as to enable an investor to decide to purchase or subscribe the units, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

### ***Japan***

This document is not an offer to sell or a solicitation of any offer to buy the units of NBF in Japan.

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.	Real estate, trust beneficiary interests in real estate, real estate securities, specified assets and other assets.
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"> <li>(1) General Risks <ul style="list-style-type: none"> <li>(a) Risks concerning NBF’s ability to make cash distributions</li> <li>(b) Risks concerning resale or redemption of investment units or investment corporation bonds</li> </ul> </li> </ul>

- (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
- (c) Risk of additional tax liability as a result of a tax audit, which could, among other

	<p>things, retroactively cause us to fail to satisfy pass-through requirements</p> <p>(d) Risks that preferential tax measures associated with real estate acquisitions cannot be applied</p> <p>(e) Risks of failure to satisfy pass-through requirements due to treatment of NBF as a family corporation under Japanese tax law.</p> <p>(f) Risks of failure to satisfy pass-through requirements due to borrowings from companies or individuals other than institutional investors</p> <p>(g) Risks of failure to satisfy pass-through requirements due to the composition of investors</p> <p>(h) Risks concerning revisions of the general taxation system</p> <p>(i) Risks that tax burdens will increase due to discrepancies between accounting treatment and tax treatment</p>
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</p>

	<p>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.
<b>Article 23(1) (b)</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.
<b>Article 23(1) (c)</b>	
Description of the main legal implications of the contractual	<p>NBF has entered into the following agreements with Mitsui Fudosan Co., Ltd.:</p> <ul style="list-style-type: none"> <li>• 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;</li> </ul>

<p>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>	<ul style="list-style-type: none"> <li>• Direct lease agreements with Mitsui Fudosan Co., Ltd. as tenant;</li> <li>• Purchase and sale agreements regarding certain NBF assets originally held by Mitsui Fudosan Co., Ltd., and management contracts with regard to such assets; and</li> <li>• Agreements for the development of certain properties.</li> </ul> <p>NBF has entered into the following agreements with Sumitomo Mitsui Trust Bank, Limited:</p> <ul style="list-style-type: none"> <li>• A custody agreement regarding NBF's assets;</li> <li>• A transfer agent agreement regarding the units;</li> <li>• Loan agreements over certain of our short- and long-term loans;</li> <li>• Agreements establishing Sumitomo Mitsui Trust Bank, Limited as the trustee for certain trust beneficiary rights held by NBF; and</li> <li>• Various agreements related to our investment corporation bond offerings.</li> </ul> <p>NBF has entered into the following agreements with Sumitomo Life Insurance Company:</p> <ul style="list-style-type: none"> <li>• Loan agreements over certain of our long-term loans;</li> <li>• Lease agreements for certain properties with Sumitomo Life Insurance Company as tenant; and</li> <li>• Purchase and sale agreements regarding certain NBF assets originally held by Sumitomo Life Insurance Company.</li> </ul> <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><b>Article 23(1) (d)</b></p>	
<p>The identity of the AIFM, AIF's depository, auditor and any other service providers and a description of their duties and the investors' rights thereto.</p>	<ul style="list-style-type: none"> <li>• AIFM (Asset Manager): Nippon Building Fund Management Ltd.</li> <li>• Auditor: KPMG AZSA LLC</li> <li>• Custodian and Transfer Agent: Sumitomo Mitsui Trust Bank, Ltd.</li> </ul> <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>
<p><b>Article 23(1) (e)</b></p>	

Description of how the AIFM complies with the requirements to cover professional liability risks (own funds / professional indemnity insurance).	Not applicable.
<b>Article 23(1) (f)</b>	
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.
<b>Article 23(1) (g)</b>	
Description of the AIF's valuation procedure and pricing methodology, including the methods used in valuing hard-to-value	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>assets.</p>	<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>
<p><b>Article 23(1) (h)</b></p>	
<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 December 31, 2015, 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)									
Description of all fees, charges and expenses and a maximum amount which is directly / indirectly borne by the investors.	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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> <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>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</p> </li> </ul>	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								

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 12<sup>th</sup> 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

	<ul style="list-style-type: none"> <li>• Miscellaneous</li> </ul> <p>NBF also pays fees to certain service providers in connection with:</p> <ul style="list-style-type: none"> <li>○ Administration of special accounts;</li> <li>○ Office management;</li> <li>○ Property control;</li> <li>○ Property transfer;</li> <li>○ Referral of tenants;</li> <li>○ Property development;</li> <li>○ Tax administration; and</li> <li>○ Administration for investment corporation bonds governance</li> </ul>
<b>Article 23(1) (j)</b>	
Description of the AIFM's procedure to ensure fair treatment of investors and details of any preferential treatment received by investors, including detailing the type of investors and their legal or economic links with the AIF or AIFM.	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.
<b>Article 23(1) (k)</b>	
The latest annual report referred to in Article 22(1).	Not applicable. (The semiannual reports of the AIF are, however, available at <a href="http://www.nbf-m.com/nbf_e/">http://www.nbf-m.com/nbf_e/</a> )
<b>Article 23(1) (l)</b>	
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 <a href="http://www.reuters.com/finance/stocks/overview?symbol=8951.T">http://www.reuters.com/finance/stocks/overview?symbol=8951.T</a>			
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)
	December 31, 2015	1,012,708	534,287	378,390
	June 30, 2015	1,022,385	534,306	378,403
	December 31, 2014	1,022,952	534,156	378,297
	June 30, 2014	1,040,572	534,821	378,768
	December 31, 2013	1,022,812	519,198	375,143
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	No applicable prime broker.			

liability to the prime broker that may exist.	
<b>Article 23(1) (p)</b>	
Description of how and when periodic disclosures will be made in relation to leverage, liquidity and risk profile of the assets, pursuant to Articles 23(4) and 23(5).	The AIFM will disclose the matters described in Articles 23(4) and 23(5) periodically through its Internet website and semi-annual report.
<b>Article 23(2)</b>	
The AIFM shall inform the investors before they invest in the AIF of any arrangement made by the depository 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 depository liability without delay.	Not applicable.
<b>Article 23(4)(a)</b>	
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	There are no assets that are subject to special arrangements arising from their illiquid nature.



special arrangements divided by the net asset value of the AIF concerned.	
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.
<b>Article 23(4)(b)</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.
<b>Article 23(4)(c)</b>	
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 December 31, 2015.</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> <p>NBF manages this risk by monitoring forecasted cash flows on a monthly basis to ensure it has sufficient funds.</p>
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.
<b>Article 23(5)(a)</b>	
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.
<b>Article 23(5)(b)</b>	
Information on the total amount of leverage employed by the AIF calculated in accordance with the gross and commitment methods.	The aggregate amount of debt with interest is JPY 418,375 million as of December 31, 2015.

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Date of Inception	March 16, 2001
Capital	Contributed capital and units issued and outstanding: ¥519,124 million 1,412,000 units
Unitholders	15,489
Transfer Agent	Sumitomo Mitsui Trust Bank, Ltd. 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan
Business Office of the Transfer Agent	Stock Transfer Agency Department of Sumitomo Mitsui Trust Bank, Ltd. 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan +81-3-3323-7111
Independent Auditors	KPMG AZSA LLC AZSA Center Building 1-2, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8551, Japan
Investor Relations	For further information, please contact our asset management company: Investor Relations of Financial Department Nippon Building Fund Management Ltd. 38th Floor, GranTokyo North Tower, 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6738, Japan +81-3-6259-8681

This document contains translations of selected information described in the Securities Report (*Yuka shoken hokokusho*) filed on March 30, 2016 pursuant to the Securities Exchange Law of Japan, and the Financial Statements and the Performance Information Report for the period from July 1, 2015 to December 31, 2015, of Nippon Building Fund Inc. prepared pursuant to the Investment Trust Law of Japan.

This English-language document was prepared solely for the convenience of and reference by overseas investors. It neither corresponds to the original Japanese documents nor is intended to constitute a disclosure document. The Japanese-language Securities Report and the Financial Statements and the Performance Information Report for the aforementioned period should always be referred to as originals of this document.

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The financial statements of Nippon Building Fund Inc. have been prepared in accordance with generally accepted accounting principles in Japan (Japanese GAAP), which may materially differ in certain respects from generally accepted accounting principles in other jurisdictions.

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.

## Fiscal Periods

Six months ending June 30 and December 31

## Total Number of Units Issued

29th Period (From July 1, 2015 to December 31, 2015)	<b>1,412,000</b> units
28th Period (From January 1, 2015 to June 30, 2015)	<b>1,412,000</b> units

## Distribution per Unit

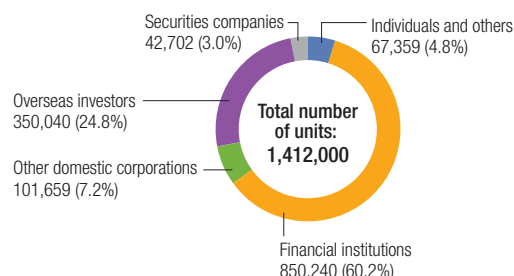
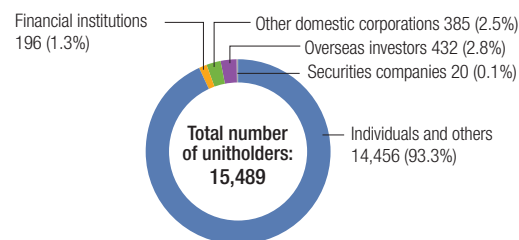
Confirmed distribution for the 29th Period

For the operating period from July 1, 2015 to December 31, 2015 (6 months) **¥8,036** per unit

Expected distribution for the 30th Period

For the operating period from January 1, 2016 to June 30, 2016 (6 months) **¥8,260** per unit

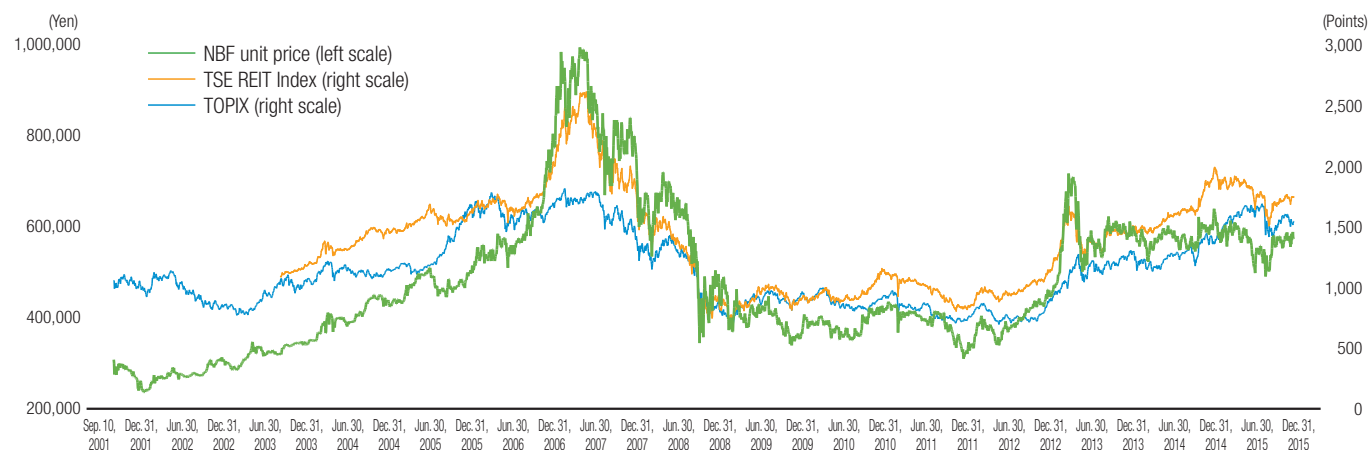
## Unitholders



## Top 10 Unitholders

Name	Number of Units Held	Percentage of Total
Japan Trustee Services Bank, Ltd.	278,869	19.7%
Trust & Custody Services Bank, Ltd.	152,103	10.8
The Master Trust Bank of Japan, Ltd.	112,845	8.0
The Nomura Trust and Banking Co., Ltd.	54,824	3.9
Mitsui Fudosan Co., Ltd.	47,630	3.4
STATE STREET BANK WEST CLIENT - TREATY 505234	27,216	1.9
Sumitomo Life Insurance Company	24,512	1.7
STATE STREET BANK-WEST PENSION FUND CLIENTS - EXEMPT 505233	23,512	1.7
STATE STREET BANK AND TRUST COMPANY 505223	22,592	1.6
Nomura Securities Co., Ltd.	20,570	1.5

## Historical Unit Price



Adjusted retroactively for the two-for-one investment unit split effective as of January 1, 2014.





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## **Nippon Building Fund Inc.**

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Tokyo 100-6738, Japan

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