

# NBF Report Jan.-Jun. 2002

## 2<sup>nd</sup> Period

From : January 1, 2002

To : June 30, 2002



**Office Building Fund of Japan, Inc.**

2-7-2 Yaesu, Chuo-ku, Tokyo, Japan <http://www.nbf-m.com/nbf/>

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The preparation of this report reflects the most recent six-month accounting period of NBF (ended June 30, 2002). The report with respect to the first period (ended December 31, 2001) includes a “Message from NBFM to the NBF Shareholders” as well as information concerning “Investment Policies of NBF”, “Distribution Policies of NBF”, “Overview of Related Operating Entities”, “Investment Objects and Investment Restrictions”, which are excluded herefrom (and from any even-numbered period report) but are available by reference to NBF’s previous period report.

This document contains translations of selected information described in the Securities Report (*yuka shoken hokokusho*) filed on September 26, 2002 pursuant to the Securities Exchange Law of Japan, and the Financial Statements and the Performance Information Report for the period from January 1, 2002 to June 30, 2002, of Office Building Fund of Japan, 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 and neither corresponds to the original Japanese documents nor is it 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.

English terms for Japanese legal, accounting, tax and business concepts used herein may not be precisely identical to the concept of the equivalent Japanese terms. With respect to any and all terms herein, including without limitation, financials statements, if there exist any discrepancies in the meaning or interpretation thereof between the original Japanese documents and English statements contained herein, the original Japanese documents will always govern the meaning and interpretation. None of Office Building Fund of Japan, Inc., Office Building Fund Management Japan, Ltd. or any of their respective directors, officers, employees, partners, shareholders, agents or affiliates will be responsible or liable for the completeness, appropriateness or accuracy of English translations or the selection of the portions(s) of any document(s) translated into English. No person has been authorized to give any information or make any representations other than as contained in this document in relation to the matters set out in this document, and if given or made, such information or representation must not be relied upon as having been authorized by Office Building Fund of Japan, Inc., Office Building Fund Management Japan, Ltd. or any of their respective directors, officers, employees, partners, shareholders, agents or affiliates.

The financial statements of Office Building Fund of Japan, 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.



# Introduction

Office Building Fund of Japan, Incorporated (hereinafter “NBF”, being an abbreviation of “Nihon Building Fund toshi-hojin”) was formed on March 16, 2001 in Japan as an investment corporation under the Law concerning Investment Trusts and Investment Corporations of Japan (“the Investment Trust Law of Japan”) with the objective investing assets consisting primarily of Designated Assets (as this term is defined in the Investment Trust Law of Japan), and in accordance with said law which requires an investment corporation to be managed by an external entity, management of such assets is entrusted to an asset management company (in this case, Office Building Fund Management Japan, Ltd. hereinafter “NBFM”, being an abbreviation of “Nihon Building Fund Management”) which undertakes such asset management.

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

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

## History of NBF

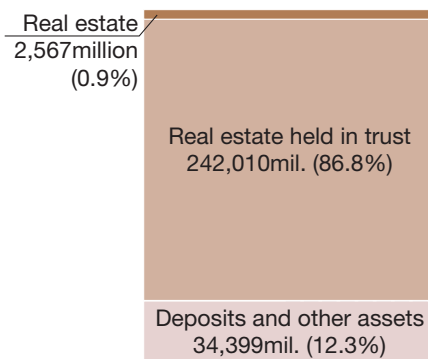
March 16, 2001	Established by founders: Mitsui Fudosan Co. Ltd., The Chuo Mitsui Trust and Banking Co., Ltd., and NBFM (formerly “MF Asset Management Co., Ltd.”)
May 10, 2001	Registration under Article 187 of the Investment Trust Law of Japan
May 23, 2001	Commencement of business (acquiring trust beneficiary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



# Portfolio Snapshot

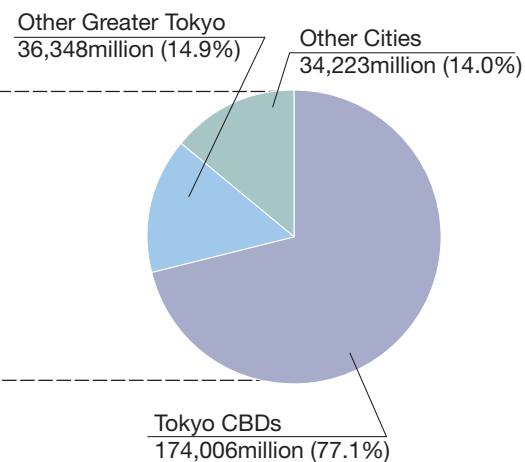
## Asset allocation

Total Assets ¥278,975 mil.



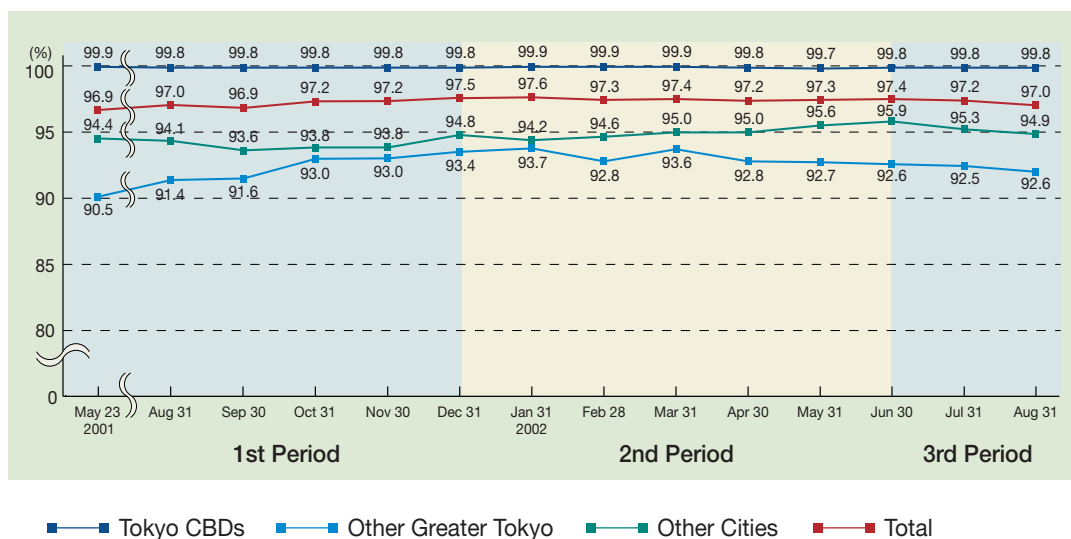
## Regional allocation

Total Real Estate etc. ¥244,577 mil.



Note: Figures above are based on the book value as of June 30, 2002.

## Occupancy rates



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

# Acquisition

NBF acquired the following property on September 30, 2002. An overview of the property as of its date of acquisition is as follows.

## Nishi-Shinjuku Mitsui Building



Acquisition date:	September 30, 2002
Outline of Acquired Property :	condominium interest being 18th floor
Acquisition prices:	¥1,603 million
Acquisition structure:	Real Estate
Location:	24-1, 6-chome, Shinjuku -ku, Tokyo
Site area:	Size of total site 10,014.02m <sup>2</sup> (including office building , residential building and common area)
Floor area of building:	floor space of divided condominium interests are 1,558.18m <sup>2</sup> out of the gross floor area of the entire building: 84,634.02m <sup>2</sup> (including the office building , the residential building and common areas)
Structure:	Steel-framed reinforced concrete building, Flat roof Above ground: 27 floors, below ground: 2 floors
Completion:	April 28, 1999
Number of tenants:	1
Rentable area:	1,576.23m <sup>2</sup>
Leased area:	1,576.23m <sup>2</sup>
Occupancy rate:	100%

NBF plans to acquire the following property on February 3, 2003. An overview of the property as of August 22, 2002 (date of the acquisition contract) is as follows.

## Naka-Meguro GT Tower



Expected Acquisition date:	February 3, 2003
Outline of Acquired Property :	condominium interest
Acquisition price:	¥13,763 million
Acquisition structure:	Real Estate
Location:	1-1, 2-chome, Kami- Meguro , Meguro-ku, Tokyo
Site area:	6,971.15m <sup>2</sup> (including an office building , a residential building and a building for retail, residential and public use) in which NBF holds an interest of 46.8819%.
Floor area of building:	Gross floor area of the entire building: 56,171.33m <sup>2</sup> Floor space of divided condominium interests of NBF: office: condominium interest in the 14th to 25th floors of the office building totaling 11,485.20m <sup>2</sup> retail : condominium interest in the B1 and B2 floors of the office building totaling 2,051.15m <sup>2</sup>
Structure:	Steel-framed reinforced concrete building, Flat roof Above ground: 25 floors, below ground: 3 floors
Completion:	March 25, 2002
Expected Number of tenants:	1 (Note3)
Rentable area:	13,569.15m <sup>2</sup>
Expected Leased area:	13,569.15m <sup>2</sup>
Expected Occupancy rate:	100%

Note 1. Site area and construction date stated in the outlines are as specified in the real estate register.

Note 2. Acquisition price and expected acquisition price stated does not include national consumption tax, regional consumption tax and miscellaneous costs of acquisition.

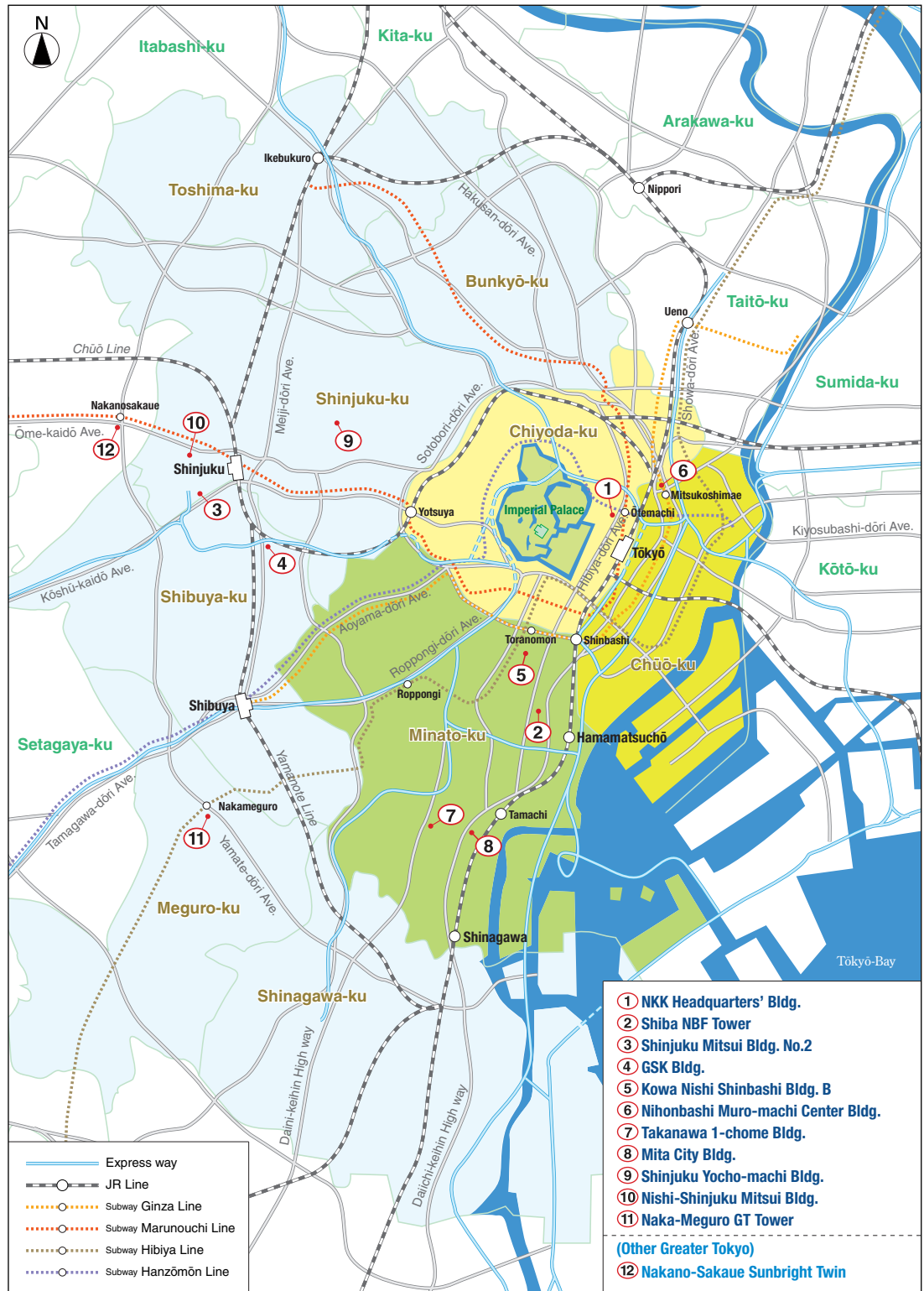
Note 3. Mitsui Fudosan is the tenant of the property and a master lessor of 15 sub-tenants as of October 1, 2002.



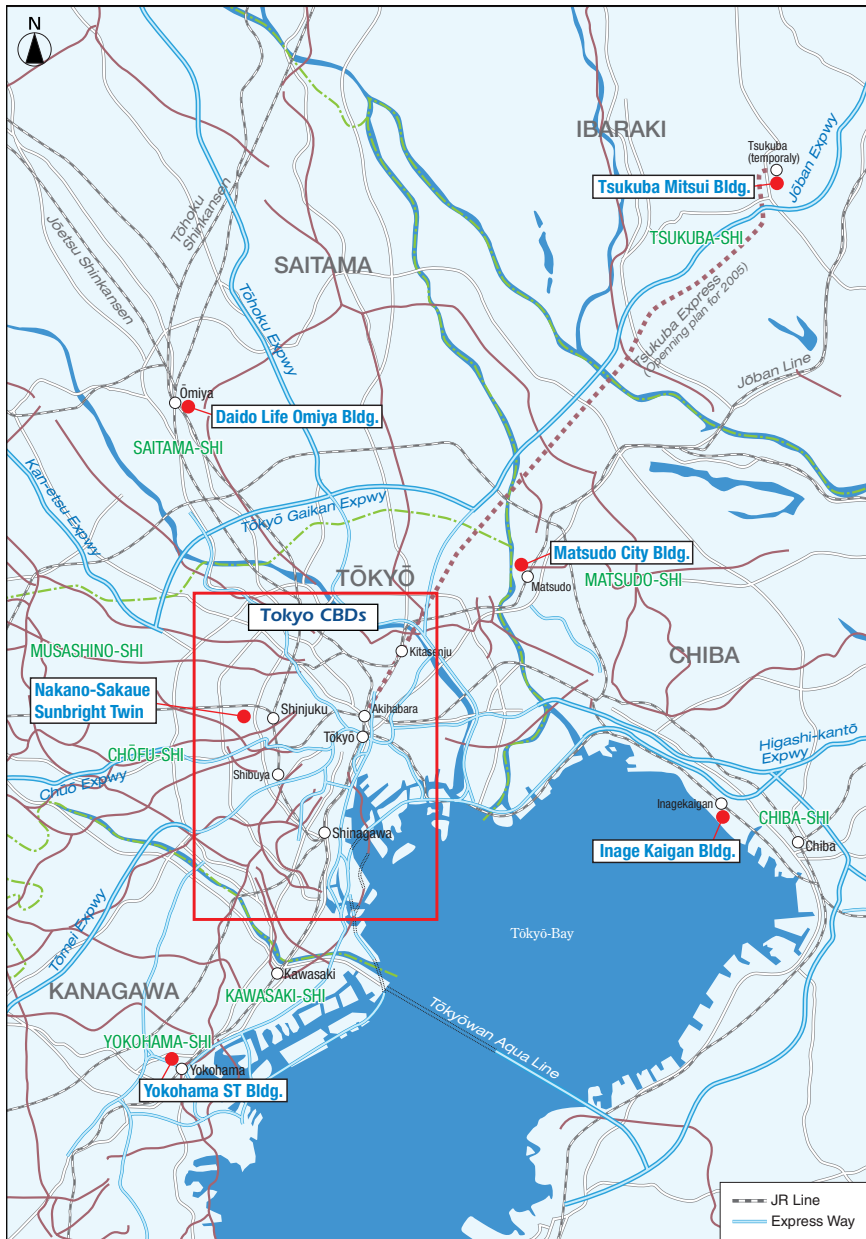


# Location of Office Properties

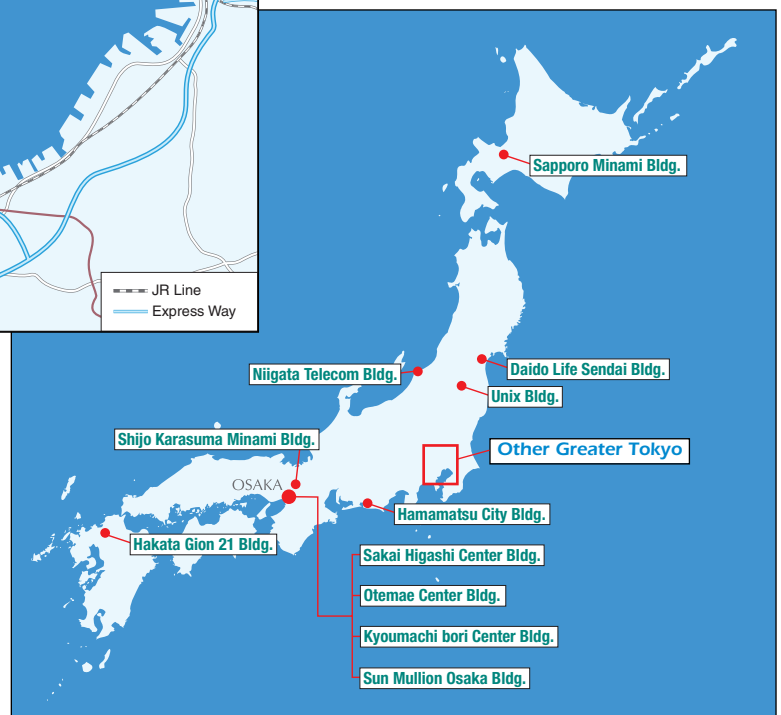
## Tokyo CBDs



## Other Greater Tokyo

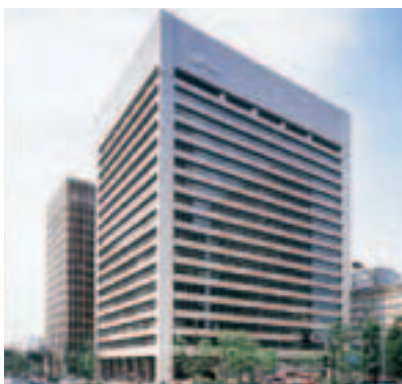


## Other Cities





## Tokyo CBDs



### NKK Headquarters' Bldg.

Location	: 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Site area	: 5,495.49m <sup>2</sup>
Floor area of building	: 62,949.13m <sup>2</sup>
Structure	: Above ground: 18 floors, below ground 4 floors
Completion	: June 1974



### Shiba NBF Tower

Location	: 1-30, Shiba Daimon 1-chome, Minato-ku, Tokyo
Site area	: 6,475.44m <sup>2</sup> (*)
Floor area of building	: 44,437.17m <sup>2</sup>
Structure	: Above ground: 18 floors, below ground 3 floors
Completion	: October 1986

(\*)Note: NBF has leasehold right in trust for most of the land underlying of the building.



### Shinjuku Mitsui Bldg. No.2

Location	: 2-11, Nishi Shinjuku 3-chome, Shinjuku-ku, Tokyo
Site area	: 2,980.64m <sup>2</sup>
Floor area of building	: 27,685.90m <sup>2</sup>
Structure	: Above ground: 18 floors, below ground 4 floors
Completion	: October 1983



**GSK Bldg.**

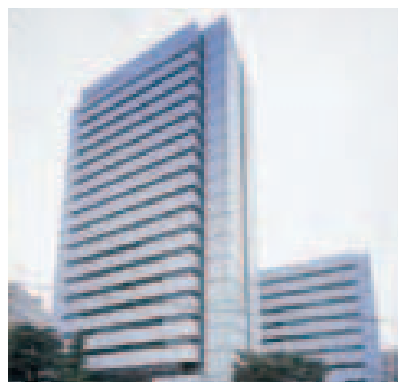
Location : 6-15, Sendagaya 4-chome,  
Shibuya-ku, Tokyo

Site area : 5,335.28m<sup>2</sup>

Floor area of building : 29,137.86m<sup>2</sup>

Structure : Above ground: 18 floors,  
below ground 4 floors

Completion : November 1990

**Kowa Nishi Shinbashi Bldg. B**

Location : 14-1, Nishi Shinbashi 2-chome, Minato-  
ku, Tokyo

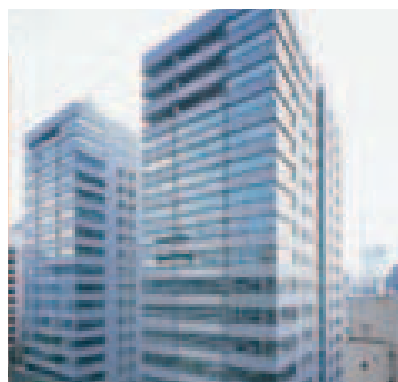
Site area : 2,449.40m<sup>2</sup> (\*)

Floor area of building : 20,180.42m<sup>2</sup> (\*)

Structure : Above ground: 16 floors,  
below ground 2 floors

Completion : August 1994

(\*)Note: Condominium ownership of the building (partly co-owned interest thereof). NBF owns approx.83% of the entire building.  
For further information, see page33, Note5 of Selected Data by Property

**Nihonbashi Muro-machi Center Bldg.**

Location : 2-15, Nihonbashi Muro-machi  
3-chome, Chuo-ku, Tokyo

Site area : 3,097.74m<sup>2</sup> (\*)

Floor area of building : 23,019.01m<sup>2</sup> (\*)

Structure : Above ground: 12 floors,  
below ground 1 floor

Completion : October 1986

(\*)Note: Ownership interest is of floors 6-12 of the building. Above figures for floor area are for the entire building.  
For further information, see page33, Note6 of Selected Data by Property





### **Takanawa 1-chome Bldg.**

Location	: 3-13, Takanawa 1-chome, Minato-ku, Tokyo
Site area	: 2,618.77m <sup>2</sup>
Floor area of building	: 12,847.59m <sup>2</sup>
Structure	: Above ground: 9 floors
Completion	: November 1987



### **Mita City Bldg.**

Location	: 12-15, Mita 3-chome, Minato-ku, Tokyo
Site area	: 1,458.95m <sup>2</sup>
Floor area of building	: 9,185.13m <sup>2</sup>
Structure	: Above ground: 12 floors, below ground 1 floor
Completion	: June 1991



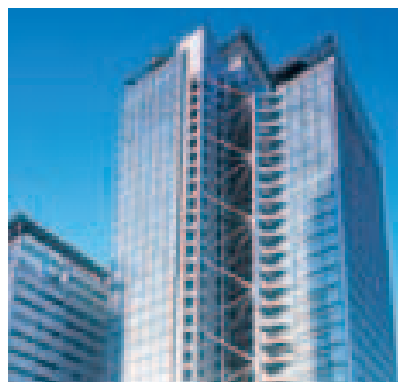
### **Shinjuku Yocho-machi Bldg.**

Location	: 10-10, Yocho-machi, Shinjuku-ku, Tokyo
Site area	: 1,984.82m <sup>2</sup>
Floor area of building	: 7,185.38m <sup>2</sup>
Structure	: Above ground: 7 floors, below ground 1 floor
Completion	: January 1989

## Other Greater Tokyo

### Nakano-Sakaue Sunbright Twin

Location	: 46-1, Honcho 2-chome, Nakano-ku, Tokyo
Site area	: Size of total site 10,331.90m <sup>2</sup>
Floor area of building	: Floor space of divided condominium interests are 10,955.90m <sup>2</sup> and 984.32m <sup>2</sup> respectively, out of the gross floor area of the entire building: 63,396.95m <sup>2</sup> (including common areas)
Structure	: Steel-framed reinforced concrete building, Flat roof Above ground: 30 floors, below ground: 2 floors
Completion:	September 1996



### Yokohama ST Bldg.

Location	: 11-15, Hokko1-chome, Nishi-ku, Yokohama, Kanagawa
Site area	: 6,348.45m <sup>2</sup> (*)
Floor area of building	: 42,568.77m <sup>2</sup> (*)
Structure	: Above ground: 18 floors, below ground 2 floors
Completion	: October 1987

(\*)Note: Co-ownership of 75% of the land and the building.

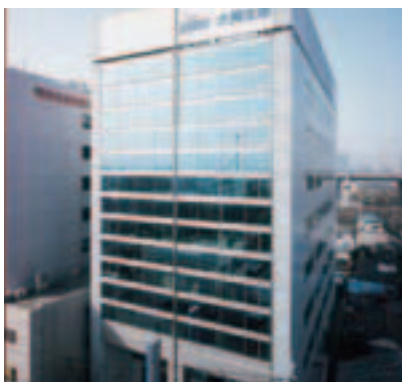


### Tsukuba Mitsui Bldg.

Location	: 6-1, Takezono 1-chome, Tsukuba, Ibaraki
Site area	: 6,280.82m <sup>2</sup> (*)
Floor area of building	: 26,266.10m <sup>2</sup> (*)
Structure	: Above ground: 19 floors, below ground 2 floors
Completion	: March 1990

(\*)Note: Co-ownership of 75% of the land and the building.





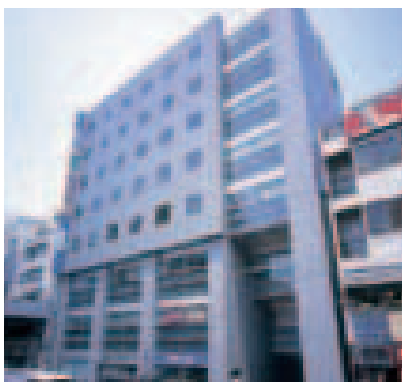
### **Daido Life Omiya Bldg.**

Location : 23-1, Yoshijiki-cho 1-chome,  
Saitama, Saitama  
Site area : 1,290.21m<sup>2</sup>  
Floor area of building : 6,155.16m<sup>2</sup>  
Structure : Above ground: 8 floors  
Completion : October 1991



### **Inage Kaigan Bldg.**

Location : 23-2, Takasu 3-chome, Mihama-ku,  
Chiba, Chiba  
Site area : 1,884.29m<sup>2</sup>  
Floor area of building : 7,175.12m<sup>2</sup>  
Structure : Above ground: 7 floors  
Completion : November 1992



### **Matsudo City Bldg.**

Location : 18-4, Hon-cho, Matsudo, Chiba  
Site area : 1,064.25m<sup>2</sup>  
Floor area of building : 6,386.17m<sup>2</sup>  
Structure : Above ground: 8 floors  
Completion : August 1992

## Other Cities

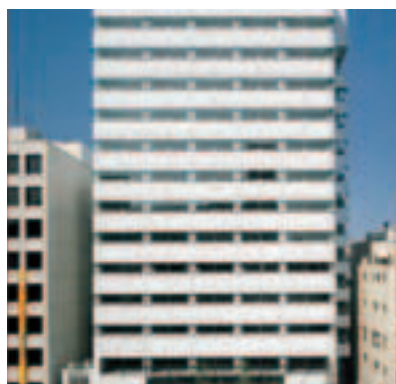
### Sapporo Minami Nijo Bldg.

Location	: 18-1, Minami Nijo Nishi 2-chome, Chuo-ku, Sapporo, Hokkaido
Site area	: 970.42m <sup>2</sup>
Floor area of building	: 8,149.78m <sup>2</sup>
Structure	: Above ground: 9 floors, below ground 2 floors
Completion	: November 1990



### Daido Life Sendai Bldg.

Location	: 16-10, Honcho 2-chome, Aoba-ku, Sendai, Miyagi
Site area	: 1,658.99m <sup>2</sup>
Floor area of building	: 10,585.42m <sup>2</sup>
Structure	: Above ground: 14 floors, below ground 1 floor
Completion	: June 1987



### Unix Bldg.

Location	: 6-6, Sakae-cho, Fukushima, Fukushima
Site area	: 3,112.75m <sup>2</sup>
Floor area of building	: 23,420.12m <sup>2</sup>
Structure	: Above ground: 11 floors, below ground 2 floors
Completion	: September 1994

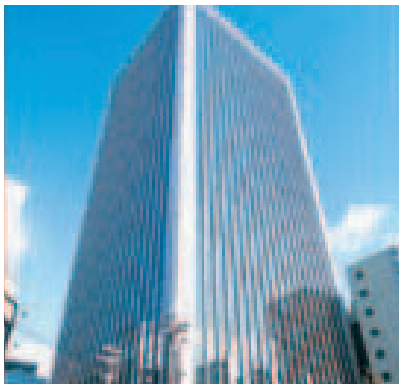






### Niigata Telecom Bldg.

Location	: 4-27, Bandai 4-chome, Niigata, Niigata
Site area	: 2,385.83m <sup>2</sup>
Floor area of building	: 14,146.71m <sup>2</sup>
Structure	: Above ground: 10 floors
Completion	: May 1989



### Sun Mullion NBF Tower

Location	: 6-12, Minami-Honmachi 2-chome, Chuo-ku, Osaka, Osaka
Site area	: 2,150.36m <sup>2</sup>
Floor area of building	: 23,755.80m <sup>2</sup>
Structure	: Steel-framed reinforced concrete Above ground: 22 floors, below ground: 2 floors
Completion	: January 1996

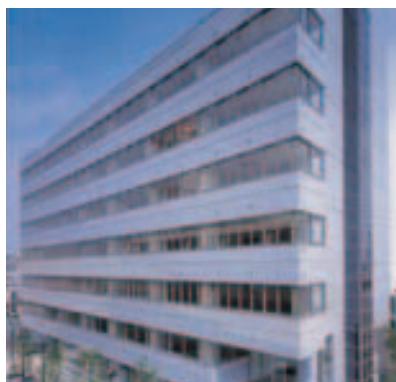


### Hamamatsu City Bldg.

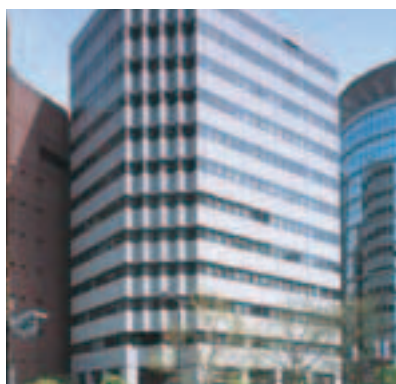
Location	: Denmacho 312-1, Hamamatsu, Shizuoka
Site area	: 1,144.81m <sup>2</sup>
Floor area of building	: 6,931.30m <sup>2</sup>
Structure	: Above ground: 9 floors
Completion	: December 1990

**Sakai Higashi Center Bldg.**

Location : 3-11, Kita Kawara-machi 1-chome,  
Sakai, Osaka  
Site area : 1,978.53m<sup>2</sup>  
Floor area of building : 7,294.35m<sup>2</sup>  
Structure : Above ground: 8 floors  
Completion : June 1991

**Otemae Center Bldg.**

Location : 2-15, Otemae 1-chome, Chuo-ku,  
Osaka, Osaka  
Site area : 1,038.25m<sup>2</sup>  
Floor area of building : 7,580.74m<sup>2</sup>  
Structure : Above ground: 13 floors,  
below ground 1 floor  
Completion : June 1992

**Kyouchimachibori Center Bldg.**

Location : 17-16, Kyouchimachibori 1-chome,  
Nishi-ku, Osaka, Osaka  
Site area : 530.21m<sup>2</sup>  
Floor area of building : 3,919.95m<sup>2</sup>  
Structure : Above ground: 10 floors,  
below ground 1 floor  
Completion : April 1987





### Shijo Karasuma Minami Bldg.

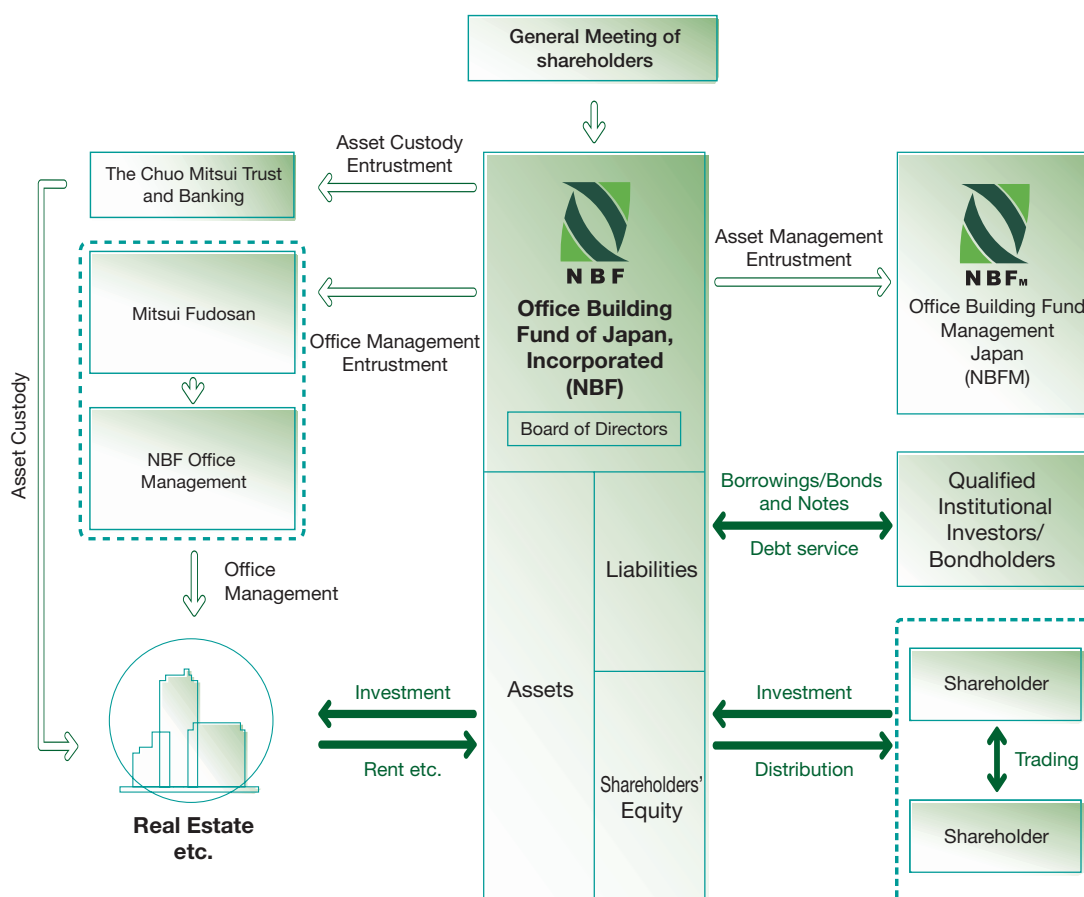
Location	: Dojishacho167, Karasuma Nishi-iru, Ayanokoji, Shimogyo-ku, Kyoto, Kyoto
Site area	: 761.21m <sup>2</sup>
Floor area of building	: 5,792.21m <sup>2</sup>
Structure	: Above ground: 9 floors, below ground 1 floor
Completion	: September 1991



### Hakata Gion 21 Bldg.

Location	: 2-1, Gion-cho, Hakata-ku, Fukuoka, Fukuoka
Site area	: 1,394.88m <sup>2</sup>
Floor area of building	: 7,477.69m <sup>2</sup>
Structure	: Above ground: 9 floors
Completion	: April 1993

## Related Entities of NBF



## Major Related Operating Entities

Assignment	Name
Asset Management Company	Office Building Fund Management Japan, Ltd. ("NBFM")
Asset Custodian	The Chuo Mitsui Trust and Banking Co., Ltd.
Transfer Agent	The Chuo Mitsui Trust and Banking Co., Ltd.
Accounting Agent	Makoto Sugai of Heiseikaikeisha Accounting Office
Administrative Agent	Office Building Fund Management Japan, Ltd. ("NBFM")
Bond Trustee	The Norinchukin Bank





## **I Performance Information Report**

### **■ Investment Performance Overview**

Financial Highlights

Performance Review for the Current Period

Management Discussion on Investment Policy and Outlook

### **■ Overview of NBF**

Distributions for the Current Period

Capitalization

Major Shareholders

Categories of Shareholders

### **■ Outline of Investment Portfolio**

Portfolio Summary

Selected Data by Property

Selected Office Leasing Data by Property

Selected Financial Data by Property

Major Tenants Roster

Other Assets

### **■ Capital Expenditures**

Planning

Capital Expenditures for the Current Period

Cash Reserve for Capital Improvements

### **■ Expenses regarding Entrustment etc.**

### **■ Trading Activities during the Current Period**

Trading of Real Estate and Real Estate held in Trust

Trading of Other Assets Including Total Amount and Transactions

Related Parties Transactions

## ■ Investment Performance Overview

### 1. Financial Highlights

		2nd Period from January 1, 2002 to June 30, 2002	1st Period from March 16, 2001 (date of inception) to December 31, 2001
(Yen in millions, except per share data or where otherwise indicated)			
Operating revenues		¥ 11,259	¥ 12,561
Revenues from property leasing		11,259	12,561
Operating expenses		6,252	6,395
Rental expenses		5,623	5,737
Income before income taxes		4,493	5,342
Net income	(a)	4,492	5,341
Total assets	(b)	278,976	256,847
Total shareholders' equity ('Net assets')	(c)	153,391	154,240
Contribution capital		148,899	148,899
Total amount of cash distribution	(e)	4,492	5,340
Total number of common shares issued (shares)	(d)	280,700	280,700
Net assets per share (Yen)	(c) / (d)	546,460	549,482
Distribution per share (Yen)	(e) / (d)	16,003	19,026
Distribution of net income per share (Yen)		16,003	19,026
Distribution in excess of net income per share (Yen)		—	—
Return on total assets	Note 2	1.68%(3.35%)	2.25% (3.68%)
ROE	Note 2	2.92%(5.84%)	4.22% (6.91%)
Capital ratio	(c) / (b)	55.0%	60.1%
Payout ratio	(e) / (a)	100.0%	99.9%
Number of days	Note 2	181	223
<b>Other supplement data :</b>			
Number of investment properties	Note 3	26	24
Number of tenants	Note 3	448	411
Total rentable square meters		303,485	277,054
Occupancy rate	Note 3	97.4%	97.5%
Depreciation and amortization		1,947	2,170
Capital expenditure		454	494
NOI from property leasing activities	Note 2	7,583	8,993

Note 1 Operating revenues do not include consumption taxes.

Note 2 All valuations are calculated through the following formula. The figures in parenthesis are converted to an annual basis as actual investing activities began on May 23, 2001 for the first period and as 6 months figures adjusted for the second period. The adjective "Initial" used in the following formula means figures as of May 23, 2001.

Return on total assets:  $\text{Income before income taxes} / (\text{Initial total assets} + \text{Total assets at end of term}) \div 2$

ROE:  $\text{Net income} / ((\text{Initial shareholders' equity} + \text{Shareholders' equity at end of term}) \div 2)$

Net Operating Income (NOI) from property leasing activities:

$(\text{Revenue from property leasing} - \text{Rental expenses}) + \text{Depreciation and Amortization}$

Note 3 Number of investment properties means units generally perceived to be one office building. Number of tenants means gross number of tenants by building. Occupancy rate is ratio of gross leased area to total rentable area at the end of period.

## 2. Performance Review for the Current Period

### *About NBF*

Office Building Fund of Japan, Inc. (“NBF”) was formed on March 16, 2001 as an investment corporation under the Investment Trust Law of Japan with Mitsui Fudosan Co. Ltd., The Chuo Mitsui Trust and Banking Co. Ltd. and Office Building Fund Management Japan Limited (“NBFM”) acting as founders. Registration with 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 a fully integrated, self-administered and externally managed real estate investment company. NBFM, an asset management company of NBF, is engaged in acquiring, owning, managing, leasing, and renovating office properties. NBFM is currently 43% owned by Mitsui Fudosan Co., Ltd., 35% owned by Sumitomo Life Insurance Company and 22% owned by others.

### *Investment Climate and Operating Performance*

While certain economic indicators point towards a recovery, the Japanese economy as a whole continues to be weak. Overall demand for office space is sagging, and while demand in the Tokyo CBDs is comparatively strong due to the needs for consolidation or integration of office space, occupancy rates in the Other Cities continue to fall across the board. In short, the entire situation during the first half of 2002 was one of weakness. On the other hand, transactions in the office property market tended to be relatively active, where sales by Japanese companies as well as buying and selling by domestic and foreign-capitalized real estate investment funds are moving forward.

Faced with this environment, NBF has a fundamental policy of investing in very desirable office properties with competitive ability in terms of their location, size and equipment specification in order to attract prime tenants with the result of relatively stable cash flow and a decreased risk of sudden drops in the value of assets.

During the current period, with even more strict selections in investments in accordance with such policies, NBF acquired the two recently-constructed, comparatively high-grade high rise office properties; “Sun Mullion NBF Tower” in central Osaka (the acquisition price of ¥10,500 million is based on the sales and purchase agreement, hereinafter the same to apply) and “Nakano-Sakaue Sun Bright Twin” (condominium interest acquired for approximately ¥8,430 million) in the Other Greater Tokyo area. Further, NBF acquired supplemental condominium interest in the “Nakano-Sakaue Sun Bright Twin” from another owner (approximate acquisition cost: ¥540 million).

As of June 30, 2002, NBF owned or had beneficiary interests in 26 office properties comprising a total investment of approximately ¥246,000 million and a total rentable area of approximately 303,000square meters (approximately 92,000 tsubo).

Occupancy rates of office space in entire NBF’s office portfolio was 97.4%, continuing at a very high level by utilizing strong leasing abilities of Mitsui Fudosan Group and making efforts to increase the level of satisfaction of such tenants.

Further, NBF intends to cut back leasing operational costs, starting with competitive bidding of

building maintenance companies and revision of the provisions of our building maintenance contracts with them.

### ***Outline of Funding***

Regarding funding through interest-bearing obligations such as loans etc., NBF intends to practice financial prudence by focusing on highly flexible unsecured non-guaranteed bank loans (such interest-bearing obligations comprised 36.0% of total assets as of the close of the current period). Also, from the viewpoint of minimizing risks of future increases in interest rates, an aggressive program of replacing short-term loans with long-term fixed interest loans is under way and the portion of interest-bearing obligations represented by long-term loans at the close of the current term was 66.7%. NBF has obtained the following issuer ratings with the objective of diversifying future funding methods.

Rating Agency	Date of Acquisition	Rating Description
Standard & Poors	May 1, 2002	Long Term Corporate : A Short Term Corporate : A-1 Outlook : stable
Moody's Investors Service	May 30, 2002	Issuer Rating: A3 Outlook : stable

### ***Outline of Business Results and Distributions***

Business results for operations during the current period consisted of operating revenues of ¥11,259 million and operating income from leasing activities of ¥5,636 million, with operating income of ¥5,007 million after deduction of expenses such as compensation paid to the asset manager and other business entrustment costs leading to income before income taxes of ¥4,493 million.

In addition, NBF distributed almost 100% of unappropriated profit (¥16,003 per share) in accordance with the distribution policies of the Articles of Incorporation and assumes that the regulations concerning the deduction of such distribution from taxable income (Special Taxation Measures Law Article 67-15) will apply, resulting in net income of ¥4,492 million for the current period.

Further, while the ratio of net income to net assets for the current period on an annualized basis decreased from 6.9% to 5.8%, this was occasioned by an increase in net assets pursuant to the issue of new common shares during the preceding period.

## **3. Management Discussion on Investment Policy and Outlook**

### **(a) Operating Policies**

From the viewpoint of the currently-depressed domestic economy and in light of uncertainties in the U.S. economy, the influence of stagnating demand and the expected peak in 2003 in the supply of newly-constructed large-scale buildings will cause the future office leasing business in the Tokyo area to experience an overall increase in vacancy rates as well as a drop in rent levels. On the other hand, while certain markets in Other Cities may experience stability, the ongoing weakening of regional economies and further concentration of business activities in the Tokyo area will cause business conditions to languish. At the same time, the characteristics of office demands of tenants, aside from

leasing costs, now focus of the availability of HVAC equipment, the existence of raised floors, electrical service capacity, general condition of floor plate, number of parking spaces and so forth. Tenants have become increasingly demanding when selecting office space. It is accordingly expected that properties which ascertain such various needs of tenants and can meet the needs for consolidation or integration of office space etc. will likely find themselves at full occupancy a relatively short time following completion of construction.

On the other hand, as for the market for the purchase and sale of office properties, such market is expected to gradually elicit sales of properties by companies under pressure to sell assets for the purpose of business restructuring and prior to the required adoption of accounting of impairment of properties as well as the sale of assets by private funds including foreign-capitalized entities. This tendency may provide opportunities to acquire desirable properties.

In this environment, it is difficult for NBF to anticipate a strong increase in rental income from existing properties over the short term, and while there is concern regarding a temporary increase in vacancy rates, NBF's policy over the medium-term is to assure the steady growth of operating assets and the receipt of stable profits through implementation of the following investment strategies.

**(b) Management Strategies**

Operating Strategies for Existing Properties

- Pursue stabilization of leasing revenues through execution of longer-term lease agreements that provide for prohibition of cancellation etc.
- Undertake renovation work to meet tenant needs in the quest to maintain a high level of occupancy, based on continuation of the client satisfaction survey,
- Assign priority to aggressively undertaking renovation work concentrating on HVAC equipment and the creation of raised floors in buildings based on the conditions of individual markets and from the viewpoint of maintaining and increasing competitive ability,
- Pursue the target of reducing building maintenance costs by 10% by 2003, with the plan to reduce such costs at least 5% during 2002. In order to achieve the goal, NBF will optimize the quality of such management and continue to obtain bids from, and to revise the provisions of contracts with the building maintenance companies.

Strategies for New Investment

- Continue to invest in the Tokyo CBDs, in recognition of the trend towards concentration of business activities in Tokyo, but in order to avoid an excessive concentration in a certain area, and from the viewpoint of diversification of the portfolio, continue to study increasing the level of investment in the Tokyo CBDs other than Chiyoda-ku, Chuo-ku and Minato-ku.
- Due to the fact that the Greater Tokyo Area and Other Cities markets are comparatively smaller than that of the Tokyo CBDs, and profitability differs greatly depending on the competitive strength of a particular building, undertake investment through a rigid selection process based on location.
- Properties are to be selected through emphasis on the following factors:
  - (a) Properties which are expected to satisfy the need for consolidation and integration of office space, that is to say, generous size floor plate for each building, recently-constructed, convenient location and equipped with individual HVAC equipment,



raised floors and ample parking spaces.

- (b) From the viewpoint of type of tenants and lease contract provisions, properties which can be expected to have stable profits following 2003 and increasing profitability thereafter. The acquisition of desirable condominium ownership interests that meet the criteria set forth above will be carefully considered after study as to potential profitability, various risk factors and so forth.

Further, when acquiring new properties, excessive price competition through bidding will be actively avoided with the purpose of making timely acquisitions based on a network of private contacts as well as by otherwise striving to obtain pertinent information.

#### Financial Strategies Etc.

As for financing, and in particular the provision of operating funds through borrowings, NBF is preparing for future increases in interest rates by continuing to base its funding needs on long-term fixed interest borrowings. Further, from the viewpoint of expanding a stable funding base, measures such as obtaining a commitment line of credit as well as the issuance of bonds are being considered.

NBF believes that transparency of investment management is essential to gain investor confidence. In addition to timely disclosures as required under the rules of the Tokyo Stock Exchange, NBF regularly discloses such information as descriptive summaries of the properties, monthly portfolio performance (occupancy rates, etc.), new acquisitions, distributions, Q&A, etc. that are readily accessible on the website (<http://www.nbf-m.com/nbf/>).

## ■ Overview of NBF

### 1. Distribution for the Current Period

Distribution per share for the current period was ¥16,003. NBF expects to distribute almost all taxable income for the current period to be eligible for special tax treatment (Special Taxation Measures Law of Japan Article 67-15) that allows NBF to deduct its cash dividends of profits from taxable income.

	For the period from January 1, 2002 to June 30, 2002	For the period from March 16, 2001 to December 31, 2001
	(Yen in thousands, except per share amount)	
Net income. . . . .	¥ 4,492,139	¥ 5,340,714
Retained earnings. . . . .	96	116
Total cash distribution. . . . .	4,492,042	5,340,598
(Total cash distribution per share)	16,003	19,026
Cash Dividends. . . . .	4,492,042	5,340,598
(Cash distribution per share)	16,003	19,026
Cash Distributions in excess of accumulated earnings (per share)	—	—

Note Above cash dividends were paid after the period end.

### 2. Capitalization

#### *Balance of Paid-in Capital*

The following table sets forth the capital balance for the current period. NBF was established on March 16, 2001 with initial paid-in capital of ¥100 million. NBF began investing activities in May 2001 after ¥98,800 million was raised through private placements. As of June 30, 2002 NBF had issued 280,700 common shares out of 2,000,000 total authorized shares. NBF's common shares were listed on the J-REIT section of the Tokyo Stock Exchange in September 2001 upon the completion of a public offering. As the Investment Trust Law of Japan does not contain any provision for the issue of more than one class of shares, said common shares comprise the sole class of shares authorized and issued by NBF.

Payment date	Remarks	Common Shares outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		(shares)		(Yen in millions)		
March 15, 2001	Initial capital (private)	200	200	¥ 100	¥ 100	Note 1
May 22, 2001	Private placement	197,600	197,800	98,800	98,900	Note 2
September 7, 2001	Public offering	82,900	280,700	49,999	148,899	Note 3

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

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

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

### Market Price of shares

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

	For the period from January 1, 2002 to June 30, 2002	For the period from September 10, 2001 to December 31, 2001
(in Yen)		
High .....	¥ 581,000	¥ 616,000
Low .....	474,000	480,000

### Borrowings

Borrowings by financial institution as of June 30, 2002 are shown below.

Category	Lender	Borrowed on	Balance (Yen in millions)	Average interest rate (Note1)	Due on	Repay- ment Method	Use of Funds	Note
Short-term debt	The Chuo Mitsui Trust and Banking Co., Ltd.	May 23, 2002	¥12,600	0.5%	May 23, 2003	Bullet payment	(Note3)	Unsecured /unguaranteed /pari passu, See (Note4)  Floating rate
	Bank of Tokyo Mitsubishi	June 17, 2002	9,600	0.5%	July 17, 2002			
	The Sumitomo Mitsui Banking Corp.	June 21, 2002	5,750	0.5%	July 19, 2002			
	Mizuho Corporate Bank	May 23, 2002	2,200	0.5%	July 23, 2002			
	The Norinchukin Bank	May 23, 2002	1,500	0.5%	May 23, 2002			
	The Hachijuni bank	June 10, 2002	1,300	0.5%	July 10, 2002			
	Yamanashi Chuo Bank	June 21, 2002	500	0.5%	July 19, 2002			
	Sub Total		33,450					
Long-term debt	Sumitomo Life Insurance Company	May 23, 2001	12,000	1.7%	May 23, 2008	Bullet payment	(Note3)	Unsecured /unguaranteed /pari passu, See (Note4)  Fixed rate
		July 16, 2001	5,000	1.7%	July 16, 2009			
		July 16, 2001	5,000	2.1%	July 16, 2011			
	The Chuo Mitsui Trust and Banking Co., Ltd..	May 23, 2001	10,000	1.3%	May 23, 2006			
		July 16, 2001	9,000	1.3%	July 16, 2007			
	Yasuda Life Insurance	December 21, 2001	3,000	2.1%	December 21, 2011			
		April 27, 2002	4,000	2.2%	April 27, 2012			
		May 23, 2002	1,000	2.2%	May 23, 2012			
	Sumitomo Trust and Banking Corp.	July 16, 2001	6,000	1.3%	July 16, 2007			
	The Sumitomo Mitsui Banking Corp.	March 12, 2002	2,000	1.2%	March 12, 2007			
	Joyo Bank	May 23, 2002	1,000	0.9%	May 23, 2006			
		May 23, 2002	1,000	1.4%	May 23, 2008			
	Sub Total		59,000					
Total			¥92,450					

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

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

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

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

### ***NBF Bonds***

<b>Issue</b>	<b>Issue Date</b>	<b>Balance as of June 30, 2002 (Yen in millions)</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Redemption</b>	<b>Use of Proceeds</b>	<b>Note</b>
No.1 Unsecured Bond	May 23, 2001	¥ 8,000	0.68%	May 21, 2004	Bullet Payment	Note 1	Note 2
Total		¥ 8,000					

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

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

### ***Others***

NBF has security deposits totaling ¥21,654 million as of June 30,2002.

### 3. Major Shareholders

The following table sets forth our major shareholders' information as of June 30, 2002.

Name	Address	Number of Common Shares Owned	Ownership
Mitsui Fudosan Co., Ltd. ....	2-1-1 Nihonbashi Muro-machi, Chuo-ku, Tokyo	16,200	5.8%
Goldman Sachs International ..... (Standing Proxy: Goldman Sachs (Japan) Ltd.)	133 Fleet Street London EC4A 2BB, U.K. (ARK Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo)	14,109	5.0%
Obic Business Consultants Co., Ltd. ....	Shinjuku Mitsui Bldg., 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo	10,524	3.7%
The Nomura Securities Co., Ltd. ....	1-9-1 Nihonbashi, Chuo-ku, Tokyo	10,494	3.7%
Kajima Corp. ....	1-2-7 Moto Akasaka, Minato-ku, Tokyo	10,000	3.6%
Sumitomo Life Insurance Company ....	7-18-24 Tsukiji, Chuo-ku, Tokyo	10,000	3.6%
Aozora Bank, Ltd. ....	1-13-10 Kudan-Kita, Chiyoda-ku, Tokyo	10,000	3.6%
The Chase Manhattan Bank NA London .... (Standing Proxy: Kabuto-cho Custody Operation Room, Mizuho Corporate Bank, Limited)	Woolgate House, Coleman Street, London EC2P 2HD, England (6-7 Nihonbashi Kabuto-cho, Chuo-ku, Tokyo)	6,959	2.5%
Yasuda Mutual Life Insurance Company ....	1-9-1 Nishi Shinjuku, Shinjuku-ku, Tokyo	6,712	2.4%
The Hachijuni Bank, Ltd. ....	178-8 Okada, Nagano, Nagano	6,000	2.1%
Total		100,998	36.0%

### 4. Categories of Shareholders

(as of June 30, 2002)

	Number of shareholders	Number of shares owned	Percent of number of shares owned
Financial institutions	101	95,418	34.0%
Other legal entities	502	68,609	24.4%
Foreigners	118	60,328	21.5%
Foreign retailers	(4 of above)	(14 of above)	(0.0)%
Retailers and others	12,534	45,042	16.1%
Securities companies	7	11,303	4.0%
Japanese government and regional authorities	0	0	0.0%
Total	13,262	280,700	100.0%

Note Japan Securities Depository Center (JASDEC) is included in "Other legal entities".



## ■ Outline of Investment Portfolio

### 1. Portfolio Summary

Asset type	Region	As of June 30, 2002		As of December 31, 2001	
		Investments	Investments / total assets	Investments	Investments/ total assets
		(Yen in millions)	(%)	(Yen in millions)	(%)
Real estate . . . . .	Other Greater Tokyo. . . .	¥ 2,567	0.9%	¥ 2,597	1.0%
Real estate held in trust. . . .	Tokyo CBDs . . . . .	174,006	62.4%	175,009	68.2%
	Other Greater Tokyo. . . .	33,781	12.1%	24,391	9.5%
	Other Cities. . . . .	34,223	12.3%	23,669	9.2%
Subtotal of Real estate and Real estate held in trust . . . .		244,577	87.7%	225,666	87.9%
Deposits and other assets . . . . .		34,399	12.3%	31,181	12.1%
Total assets		¥ 278,976	100.0%	¥ 256,847	100.0%

Note Investments above are based on the book value as of June 30, 2002 and December 31, 2001, respectively.

## 2. Selected Data by Property

The outline of NBF's properties as of June 30, 2002 and December 31, 2001, is as follows.

Name of Building	Invest-ment Type (Note 1)	Type of Ownership of the Buildings	Percent-age of Ownership of the Buildings	Year Built	Book Value		Appraisal Value (Note2)		Probable Maximum Loss (PML) (Note 3)
					As of June 30, 2002	As of December 31, 2001	As of June 30, 2002	As of December 31, 2001	
			(%)		(Yen in millions)		(Yen in millions)		(%)
NKK Headquarters'	Trust	fee simple	100	1974	¥73,425	¥73,728	¥73,018	¥73,826	10.0
Shiba NBF Tower (Note 4)	Trust	fee simple	100	1986	32,094	32,366	30,400	31,500	6.8
Shinjuku Mitsui Bldg.	Trust	fee simple	100	1983	16,117	16,186	16,800	16,700	10.0
GSK Bldg.	Trust	fee simple	100	1990	15,332	15,454	18,000	17,100	2.2
Kowa Nishi Shinbashi Bldg. B	Trust	condominium	83 (Note5)	1994	13,034	13,113	13,670	13,880	6.0
Nihonbashi Muro-machi Center Bldg.	Trust	condominium	100 (Note6)	1986	9,897	9,920	10,600	10,300	12.6
Takanawa 1-chome Bldg.	Trust	fee simple	100	1987	6,567	6,614	6,930	6,980	15.0
Mita City Bldg.	Trust	fee simple	100	1991	5,230	5,292	5,320	5,280	12.9
Shinjuku Yocho-machi	Trust	fee simple	100	1989	2,310	2,332	2,450	2,480	14.0
Nakano-Sakaue Sunbright Twin	Trust	condominium	32	1996	9,404	—	9,330	—	2.8
Yokohama ST Bldg.	Trust	co-ownership	75	1987	13,519	13,398	14,261	14,195	6.4
Tsukuba Mitsui Bldg.	Trust	co-ownership	75	1990	6,626	6,728	6,720	6,742	11.0
Daido Life Omiya Bldg.	Trust	fee simple	100	1991	2,325	2,346	2,660	2,630	14.8
Matsudo City Bldg.	Ownership	fee simple	100	1992	2,567	2,597	2,580	2,700	10.8
Inage Kaigan Bldg.	Trust	fee simple	100	1992	1,907	1,918	1,830	1,810	13.0
Sapporo Minami Nijo Bldg.	Trust	fee simple	100	1990	1,832	1,852	2,030	2,030	6.8
Daido Life Sendai Bldg.	Trust	fee simple	100	1987	3,509	3,533	3,640	3,640	3.9
Unix Bldg.	Trust	fee simple	100	1994	3,892	3,954	4,230	4,260	1.6
Niigata Telecom Bldg.	Trust	fee simple	100	1989	3,903	3,940	4,330	4,310	12.0
Hamamatsu City Bldg.	Trust	fee simple	100	1990	1,349	1,365	1,258	1,299	6.1
Sun Mullion NBF Tower	Trust	fee simple	100	1996	10,781	—	10,060	—	2.3
Sakai Higashi Center	Trust	fee simple	100	1991	2,206	2,210	2,461	2,450	10.2
Otemae Center Bldg.	Trust	fee simple	100	1992	1,801	1,817	2,180	2,090	5.4
KyomachiboriCenter Bldg.	Trust	fee simple	100	1987	765	761	660	710	8.6
Shijo Karasuma Minami	Trust	fee simple	100	1991	1,590	1,612	1,708	1,760	17.0
Hakata Gion 21 Bldg.	Trust	fee simple	100	1993	2,595	2,618	2,506	2,472	13.0
Total	—	—	—	—	¥244,577	¥225,666	¥249,632	¥231,144	4.8

Note1 All financial activities in the properties are accounted for in the appropriate financial statements of each property, even in case of trust beneficiary interests or in case where a trust contains more than one building.

Note 2 Appraisal values as of June 30, 2002 and December 31, 2001 are based on the appraisal methods prescribed in the Articles of Incorporation and in the guidelines set forth by the Investment Trusts

- Association of Japan. The above values have been prepared by Tanizawa Real Estate Appraisal.
- Note 3 The figures for “probable maximum loss” of real estate (excluding the NKK Headquarters' Bldg.) were obtained from the report of Engineering & Risk Services Corporation (ERS). As for the NKK Headquarters' Bldg., the figure was obtained from the report of Nikken Sekkei Co., Ltd. Probable maximum loss is used as an index to estimate the earthquake resistance of buildings or foundations of buildings. In the report provided by ERS, the loss factor indicates only the ratio of restoration costs against the cost of reconstruction of buildings themselves (structural materials, non-structural materials and construction facilities) and incidental damages such as damage to production equipment or machinery, furniture or fixtures, damage due to water or fire, indemnification of affected persons, or loss of business due to suspension of business. These reports were provided with respect to each entire building, regardless of NBF's ownership interest therein, and accordingly the figure above represents each entire building.
- Note4 Most of the land underlying the Shiba NBF Tower (6,075.38 m<sup>2</sup> out of 6,475.44 m<sup>2</sup>) is owned by the Japanese Red Cross Society. It simultaneously entrusted the leasehold with respect to the leased land, along with its own building and land, to the Trustee. The leasehold was entrusted with the consent of the owner of said land.
- Note5 A condominium interest is owned in the Kowa Nishi-Shinbashi Building B, and the Trustee holds 100% (floor area of 2,237.25 m<sup>2</sup>) of the residential portion, 799,574/1,000,000 (floor area of 12,435.64 m<sup>2</sup>) of the office and storage portions, 830,050/1,000,000 (floor area of 1,101.77 m<sup>2</sup>) of the parking portions and , 830,050/1,000,000 (floor area of 234.10 m<sup>2</sup>) of the common area . The foregoing numerical values represent NBF's weighted average ownership ratio.
- Note6 The trustee of the Nihonbashi Muro-machi Center Bldg. owns 100% of the interests in the portion of offices consisting of the 6th through 12th floors (floor space of 7,755.94 m<sup>2</sup>), 45.11% of the parking portion (floor space of 1,141.83 m<sup>2</sup>) and 45.11% of the common use space established pursuant to an agreement.

### 3. Selected Office Leasing Data by Property

The following table sets forth selected information relating to office leasing as of June 30, 2002.

Current period (January 1, 2002-June 30, 2002)	Rentable Square Meters (Note1)	Leased Square Meters at the End of Period (Note1)	Occupancy Rates at the End of Period (Note2)	Total Number of Tenants at the End of Period
NKK Headquarters' Bldg.	65,280	65,280	100.0%	1
Shiba NBF Tower	24,560	24,412	99.4%	2
Shinjuku Mitsui Bldg. No.2	14,946	14,786	98.9%	28
GSK Bldg.	20,407	20,407	100.0%	1
Kowa Nishi Shinbashi Bldg. B	10,088	10,088	100.0%	2
Nihonbashi Muro-machi Center Bldg.	8,041	8,041	100.0%	8
Takanawa 1-chome Bldg.	10,473	10,473	100.0%	4
Mita City Bldg.	6,002	6,002	100.0%	1
Shinjuku Yocho-machi Bldg.	5,177	5,177	100.0%	4
Nakano-Sakaue Sunbright Twin	12,220	12,220	100.0%	1
Yokohama ST Bldg.	20,064	19,864	99.0%	75
Tsukuba Mitsui Bldg.	12,649	10,177	80.5%	57
Daido Life Omiya Bldg.	3,604	3,525	97.8%	8
Matsudo City Bldg.	4,771	4,328	90.7%	24
Inage Kaigan Bldg.	5,881	4,710	80.1%	13
Sapporo Minami Nijo Bldg.	5,376	5,266	97.9%	7
Daido Life Sendai Bldg.	7,510	7,498	99.8%	7
Unix Bldg.	13,478	12,910	95.8%	58
Niigata Telecom Bldg.	10,257	9,884	96.4%	34
Hamamatsu City Bldg.	5,152	4,172	81.0%	24
Sun Mullion NBF Tower	14,210	13,516	95.1%	29
Sakai Higashi Center Bldg.	5,360	5,360	100.0%	16
Otemae Center Bldg.	5,532	5,532	100.0%	7
Kyomachibori Center Bldg.	3,112	2,569	82.5%	13
Shijo Karasuma Minami Bldg.	3,918	3,918	100.0%	17
Hakata Gion 21 Bldg.	5,417	5,417	100.0%	7
Total	303,485	295,532	97.4%	448

Note 1 Figures stated above are based on NBF's ownership interest.

Note 2 Occupancy rates is the ratio of leased area to rentable area at the end of period.

#### 4. Selected Financial Data by Property

The following table sets forth selected information relating to office leasing for the period from January 1, 2002 to June 30, 2002.

Current period (January 1, 2002-June 30, 2002)	Revenue	Percent of total revenue (Note1)	Operating Expenses	Net Operating Income (Note3)	Capital Expendi- tures	Operating Days in the current period
	(Yen in millions)	(%)		(Yen in millions)		
NKK Headquarters' Bldg. (Note5)	¥ 2,175	19.3%	¥ 721	¥ 1,757	¥ 0	181
Shiba NBF Tower	1,635	14.5%	832	1,093	19	181
Shinjuku Mitsui Bldg. No.2	751	6.7%	382	481	42	181
GSK Bldg.	(Note2)	(Note2)	(Note2)	542	19	181
Kowa Nishi Shinbashi Bldg. B	(Note2)	(Note2)	(Note2)	419	3	181
Nihonbashi Muro-machi Center Bldg.	473	4.2%	205	301	9	181
Takanawa 1-chome Bldg.	355	3.1%	151	252	1	181
Mita City Bldg.	(Note2)	(Note2)	(Note2)	189	0	181
Shinjuku Yocho-machi Bldg.	124	1.1%	75	73	1	181
Nakano-Sakaue Sunbright Twin	(Note2)	(Note2)	(Note2)	243	0	150/97(Note6)
Yokohama ST Bldg.	788	7.0%	424	505	262	181
Tsukuba Mitsui Bldg.	385	3.4%	295	205	13	181
Daido Life Omiya Bldg.	138	1.2%	85	74	1	181
Matsudo City Bldg.	141	1.3%	94	77	0	181
Inage Kaigan Bldg.	144	1.3%	87	80	12	181
Sapporo Minami Nijo Bldg.	143	1.3%	72	93	1	181
Daido Life Sendai Bldg.	246	2.2%	111	168	8	181
Unix Bldg.	327	2.9%	228	166	5	181
Niigata Telecom Bldg.	282	2.5%	152	172	5	181
Hamamatsu City Bldg.	96	0.9%	73	49	9	181
Sun Mullion NBF Tower	335	3.0%	206	247	1	111
Sakai Higashi Center Bldg.	157	1.4%	80	101	20	181
Otemae Center Bldg.	162	1.4%	90	97	8	181
KyoumachiboriCenter Bldg.	48	0.4%	32	21	9	181
Shijo Karasuma Minami Bldg.	119	1.1%	70	75	4	181
Hakata Gion 21 Bldg.	163	1.4%	87	103	2	181
Total	¥11,259	100.0%	¥ 5,623	¥ 7,583	¥ 454	—

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

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

Note 3 Net Operating Income of an individual property is calculated through the following formula:  
(Revenue from property leasing — Rental expenses) + Depreciation and Amortization

Note 4 Figures stated above are based on NBF's ownership interest.

Note 5 NKK Corporation, who is the only tenant of NKK Headquarters' Bldg, is responsible for capital expenditures.

Note 6 Figures indicate for each condominium interest of Nakano-Sakaue Sunbright Twin acquired separately.

## **Breakdown of Operating Expenses**

Current period (January 1, 2002-June 30, 2002)	Operating Expenses	Real Estate Taxes	Utility Charges	Building Mainte- nance Costs	Office Manage- ment Fee	Repairs and Main- tenance	Land and House Rent	Casualty Insurance & Trust Charges	Other Expenses	Depre- ciation
(Yen in millions)										
NKK Headquarters' Bldg. (Note 2)	¥ 721	¥ 281	¥ 0	¥ 0	¥ 122	¥ 0	¥ 0	¥ 15	¥ 0	¥ 303
Shiba NBF Tower	832	79	76	139	84	40	109	10	3	291
Shinjuku Mitsui Bldg. No.2	382	75	47	69	38	26	0	12	4	112
GSK Bldg.	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	141
Kowa Nishi Shinbashi Bldg. B	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	82
Nihonbashi Muro-machi Center Bldg.	205	47	22	44	24	30	0	5	0	33
Takanawa 1-chome Bldg.	151	27	24	19	19	8	0	5	0	49
Mita City Bldg.	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	63
Shinjuku Yocho-machi Bldg.	75	13	11	13	6	6	0	1	0	23
Nakano-Sakaue Sunbright Twin	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	(Note1)	102
Yokohama ST Bldg.	424	66	64	64	47	30	0	6	5	141
Tsukuba Mitsui Bldg.	295	25	49	57	18	22	0	5	4	115
Daido Life Omiya Bldg.	85	8	7	12	7	28	0	1	0	21
Matsudo City Bldg.	94	10	11	12	7	24	0	0	0	30
Inage Kaigan Bldg.	87	15	23	16	7	1	0	2	0	23
Sapporo Minami Nijo Bldg.	72	14	12	12	7	3	0	1	0	22
Daido Life Sendai Bldg.	111	22	22	18	13	1	0	2	1	33
Unix Bldg.	228	44	41	47	15	10	0	2	0	67
Niigata Telecom Bldg.	152	25	24	30	14	10	0	3	4	42
Hamamatsu City Bldg.	73	10	10	15	4	5	0	1	0	26
Sun Mullion NBF Tower	206	0	19	32	18	11	0	4	4	118
Sakai Higashi Center Bldg.	80	10	11	13	8	11	0	1	0	25
Otemae Center Bldg.	90	14	16	18	8	6	0	1	1	25
KyomachiboriCenter Bldg.	32	6	5	6	2	6	0	0	0	5
Shijo Karasuma Minami Bldg.	70	8	8	11	6	8	0	1	0	27
Hakata Gion 21 Bldg.	87	17	13	18	8	2	0	2	0	27
Total	¥ 5,623	¥ 977	¥ 644	¥ 890	¥ 590	¥ 315	¥ 109	¥ 102	¥ 32	¥ 1,947

- Note 1 The consent for disclosure was not obtained from tenants from whom rent revenue accounts for more than 80% of total rent revenue of the property. However, relevant figures are included in the total.
- Note 2 NKK Corporation, who is the only tenant of NKK Headquarters' Bldg, is responsible for costs of administration and maintenance, repair, retention and renewal, etc. except for casualty insurance and real estate taxes.
- Note 3 Figures stated above are based on NBF's ownership interest.



## 5. Major Tenants Roster

Building leases in Japan are usually for a relatively short term (most commonly two years) and subject to automatic renewals unless either party gives notice to the contrary. Such leases also typically allow for termination by the lessee before the expiry of the term upon six months' prior written notice. However, in Japan there also exists a special type of building lease known as "*teiki tatemono chintaishaku*" which is for a fixed term that cannot be terminated by the landlord prior to the expiry of its term or by the tenant without compensation to the landlord with regard to the remaining period. Such fixed term lease agreement may set a fixed rental amount that is not subject to adjustment.

NBF's ten major tenants by leased area as of June 30, 2002 are listed in the table set forth below.

	Name of Tenants	Name of Building	Leased square meters	Expiration Date (Note1)	Percent of total rentable area
1	NKK Corporation	NKK Headquarters' Bldg.	65,280	March 23, 2011 (Note 2)	21.5%
2	GlaxoSmithKline. KK.	GSK Bldg.	20,407	September 30, 2010 (Note 3)	6.7%
3	Fuji Xerox Co., Ltd.	Shinjuku Mitsui Bldg. No.2 /Nakano-Sakaue Sunbright Twin /Tsukuba Mitsui Bldg. / Hamamatsu City Bldg.	17,905	June 30, 2003	5.9%
4	Matsushita Investment and Development Incorporation	Shiba NBF Tower	17,855	September 30, 2002	5.9%
5	NTT Communications Corporation	Kowa Nishi Shinbashi Bldg. B	8,493	December 21, 2002	2.8%
6	Canon Sales Co., Ltd.	Mita City Bldg./Tsukuba Mitsui Bldg. /Unix Bldg.	6,682	July 31, 2003	2.2%
7	T&D Financial Life Insurance Company (formerly "Tokyo Life Insurance Company")	Shiba NBF Tower	6,557	July 4, 2002 (Note 4)	2.2%
8	Sumitomo Life Insurance Company	Yokohama ST Bldg. and other 6 buildings	6,191	July 29, 2002	2.0%
9	Toden Kogyo Co., Ltd.	Takanawa 1-chome Bldg.	5,411	July 31, 2002	1.8%
10	Dai Nippon Printing Co., Ltd.	Shinjuku Yocho-machi Bldg.	3,966	May 31, 2004	1.3%

Note 1 The expiration date in cases where the tenant has several lease contracts with respect to the real estate owned by NBF indicates the earliest expiration date out of said contracts.

Note 2 The lease contract with NKK Corporation is of the abovementioned "*teiki tatemono chintaishaku*" type; provided, however, that the lessee may terminate the contract by notifying the lessor in writing prior to the end of March during each of the years 2006 to 2008 with termination to be effective as of the end of March of the immediately following year. Also, the lessee may terminate the contract by payment of the amount equal to the rent for the remaining term of the lease contract. Further, as NKK Corporation is responsible for costs of administration and maintenance, repair, retention and renewal, etc. during the term of the contract, common area charges are not collected. Upon complete vacation due to the expiration or termination of contract as stated above, NKK Corporation will be, in principle, be released from the obligation to restore the

- premises to their original condition.
- Note 3 Although the term of the lease contract with Glaxo Smith Kline K.K. is relatively long compared with lease contracts commonly used in Japan, it is not an above-stated “*teiki tatemono chintaishaku*” type of contract. Glaxo Smith Kline K.K. may exercise its priority right to offer to purchase and negotiate during the applicable period (being the two-month period commencing October 1 and ending November 30, during each year of the period commencing October 1, 2002 and ending September 30, 2007). In the event that the lessee offers to purchase the GSK Building, it has the priority right to negotiate with NBF. Terms and conditions such as the price determination method etc. are separately set forth, but NBF is under no obligation to sell the building.
- Note 4 The term of the lease contract with T & D Financial Life Insurance Company (formerly “Tokyo Life Insurance Company”) is one year, and the contract provides for automatic annual renewal with termination possible upon three months prior notice from the lessee. As of August 20, 2002, the trustee and the lessee had agreed to ignore the aforesaid notice of termination provision and had agreed, as of July 31, 2002, to terminate the contract effective September 25, 2002.
- Note 5 Percent of total rentable area is calculated by dividing the area leased by the tenant by the total leased area (in square meters). Total rentable area and leased area (in square meters) are based on NBF’s ownership interest.

## 6. Other Assets

Real estate held in trust is included in the Selected Data by Property (Sec. 2). There are no other significant investment assets in the portfolio as of June 30, 2002 and December 31, 2001.

## ■ Capital Expenditures

### 1. Planning

NBF is planning the following capital expenditures for the renovation of the 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.

Property (Location)	Objective	Estimated Duration	Estimated Amounts		
			Total Amounts	Payment for the Current Period (January 1, 2002 -June 30, 2002)	Cumulative Amount Paid
(Yen in millions)					
Shiba NBF Tower	Renewal of central surveillance board	From September 2002 To March 2003	¥ 350	—	—
	Renovation work of lower floors	From September 2002 To December 2002	800	—	—
	Other renovation work	From September 2002 To March 2003	110		

## 2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. We posted ¥454 million in capital expenditures together with ¥315 million for repairs and maintenance expenses.

Name of Property	Objective	Period	Expenditure (Yen in millions)
Yokohama ST Bldg. . . . .	Renovation of regenerating system and renewal of ductwork	From January 2002 To May 2002	¥ 243
Other installations and renovations . . . . (OA floor, HVAC, Parking, Securities, etc.)	n.a.	n.a	211
Total			¥ 454

## 3. Cash Reserve for Capital Improvements

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

	As of June 30, 2002	As of December 31, 2001
	(Yen in millions)	
Reserve balance at the beginning of the period. . . . .	¥ 877	—
Amount accumulated in current period . . . . .	1,129	¥ 1,260
Withdrawal from reserves in the current period . . . . .	597	383
Amount carried forward . . . . .	¥ 1,409	¥ 877

Note 1 Upon the acquisitions of the Real Estate etc., NBF also assumed accumulated reserves of ¥675 million as of June 30, 2002 for capital expenditures from previous owners, which were not included in the above amount accumulated.

Note2 With respect to the first as well as the current periods, the amount of reserves jointly owned together with other owners attributable to the ownership interests of said other owners has been excluded and the figures represent only the amount of reserves attributable to NBF's ownership interest.

## ■ Expenses regarding Entrustment etc.

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

Item	For the period from January 1, 2002 to June 30, 2002	For the period from March 16, 2001 to December 31, 2001
	(Yen in millions)	
Asset management fees. . . . .	¥ 477	¥ 542
Asset custody fees. . . . .	11	12
Agent fees (stock transfer, accounting and administrative) .	39	50
Director's remuneration. . . . .	11	12
Auditor's fees. . . . .	9	10
Other expenses. . . . .	82	32
Total. . . . .	¥ 629	¥ 658

Note In addition to the amounts stated above, there are asset management fees of ¥103 million for the period from March 16, 2001 to December 31, 2001 and ¥ 96 million for the period from January 1, 2002 to June 30, 2002 related to investment in properties, which were booked on each property.

## ■Trading Activities during the period from January 1, 2002 to June 30, 2002

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

Name of Building	(Yen in millions)					
	Acquired			Transferred		
	Date	Acquisition Price	Date	Transfer Price	Book Value	Capital Gain/Loss
Sun Mullion NBF Tower	March 12, 2002	¥ 10,500	—	—	—	—
Nakano-Sakaue Sun Bright Twin	February 1, 2002	8,433	—	—	—	—
Nakano-Sakaue Sun Bright Twin	March 26, 2002	546	—	—	—	—
Total		¥ 19,479	—	—	—	—

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

Note2. All buildings acquired during the period from January 1, 2002 to June 30, 2002 are real estate held in trust.

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

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

### 3. Related Parties Transactions

#### 1. Ongoing Transactions

None.

#### 2. Fees Paid for the period from January 1, 2002 to June 30, 2002

Category	Total Fees Paid (A) (Yen in millions)	Description of Transactions with Related Party (Note 1)		B/A
		Paid to	Amount of Payment (B) (Yen in million)	
Office management fees	¥ 617	Mitsui Fudosan Co., Ltd.	¥ 617	100.0%
Property transfer fees	8	Mitsui Fudosan Co., Ltd.	8	100.0%
Property maintenance fees	890	Mitsui Fudosan Co., Ltd.	121	13.6%
		Daiichi Seibi Co., Ltd.	20	2.3%
		MF Building Management Co., Ltd	12	1.3%
		Mitsui Fudosan Housing Lease Co., Ltd.	1	0.1%
		NBF Office Management	1	0.1%
Leasing related service fees	22	NBF Office Management	7	30.8%
		Mitsui Fudosan Co., Ltd.	2	10.0%

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

Note 2. In addition to the above fees paid, the following have been paid to related parties for repair and maintenance work.

	(Yen in million)
Mitsui Fudosan Co., Ltd.	¥ 99
MF Building Management Co., Ltd.	23
Daiichi Seibi Co., Ltd	6
Mitsui Fudosan Housing Lease Co., Ltd.	0.06
Mitsui Fudosan Construction Co., Ltd.	0.04
(present Mirai Construction Co., Ltd.)	

## **II Financial Statements**

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





### Report of Independent Public Accountants

To the Shareholders and the Board of Directors of Office Building Fund of Japan, Inc.:

We have audited the accompanying balance sheets of Office Building Fund of Japan, Inc. (a Japanese Real Estate Investment Trust) as of June 30, 2002 and December 31, 2001, and the related statements of income, shareholders' equity and cash flows for the six months ended June 30, 2002 and for the period from March 16, 2001 (date of inception) to December 31, 2001, expressed in Japanese yen. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Office Building Fund of Japan, Inc. as of June 30, 2002 and December 31, 2001, and the results of its operations and its cash flows for the six months ended June 30, 2002 and for the period from March 16, 2001 (date of inception) to December 31, 2001, in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis during the periods.

*Asahi & Co.*

Tokyo, Japan

September 20, 2002

## OFFICE BUILDING FUND OF JAPAN, INC.

### BALANCE SHEETS

As of June 30, 2002 and December 31, 2001

	As of June 30, 2002	As of December 31, 2001
	(Yen in millions)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	¥ 32,883	¥ 27,667
Tenant receivables	183	109
Consumption tax refund receivables and other assets	303	3,030
Total current assets	33,369	30,806
Investment properties:		
Land including trust accounts	152,178	143,951
Building and improvements including trust accounts	78,520	66,237
Other tangible assets	1,101	804
Less: accumulated depreciation	(4,108)	(2,164)
Leasehold rights in trust accounts and other intangible assets	16,818	16,822
Total investment properties-net	244,509	225,650
Other assets	1,098	391
<b>Total Assets</b>	¥ 278,976	¥ 256,847
<b>Liabilities</b>		
Current Liabilities:		
Short-term loans	¥ 33,450	¥ 20,900
Accounts payable	1,388	1,131
Rents received in advance	1,669	1,523
Accrued expenses and other liabilities	403	372
Total current liabilities	36,910	23,926
Long-term debt	67,000	58,000
Tenant security deposits	21,654	20,666
Other liabilities	21	15
<b>Total Liabilities</b>	125,585	102,607
<b>Shareholders' Equity</b>		
Common shares, non-par value	148,899	148,899
Shares Authorized: 2,000,000 shares		
Shares Issued and Outstanding: 280,700 shares		
Retained Earnings	4,492	5,341
<b>Total Shareholders' Equity</b>	153,391	154,240
<b>Total Liabilities and Shareholders' Equity</b>	¥ 278,976	¥ 256,847

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

## OFFICE BUILDING FUND OF JAPAN, INC.

### STATEMENTS OF INCOME

For the six months ended June 30, 2002 and for the period from March 16, 2001 (Date of inception) to December 31, 2001

	For the period from January 1, 2002 to June 30, 2002	For the period from March 16, 2001 to December 31, 2001
(Yen in millions, except per share amounts)		
<b>Revenues:</b>		
Rental	¥ 10,427	¥ 11,555
Others	832	1,006
<b>Total Revenues</b>	<b>11,259</b>	<b>12,561</b>
<b>Operating Expenses:</b>		
Property management fees	1,545	1,780
Real estate taxes	977	486
Insurance	52	52
Repairs and maintenance	315	369
Other rental expenses	787	880
Depreciation and amortization	1,947	2,170
Asset management fees	477	542
Other expenses	152	116
<b>Total Operating Expenses</b>	<b>6,252</b>	<b>6,395</b>
Interest income	3	2
Other non-operating income	10	—
Interest expense	(521)	(570)
Initial public offering costs	—	(187)
Issuance costs of common shares	—	(58)
Amortization of deferred bond issue costs	(6)	(11)
<b>Income Before Income Taxes</b>	<b>4,493</b>	<b>5,342</b>
Current and deferred income taxes	(1)	(1)
<b>Net Income</b>	<b>¥ 4,492</b>	<b>¥ 5,341</b>

	(Yen)	
<b>Earnings per Share of Common Shares :</b>		
Net income:	¥ 16,003	¥ 22,271
Weighted average number of common shares outstanding:	280,700	239,807

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

## OFFICE BUILDING FUND OF JAPAN, INC. STATEMENTS OF SHAREHOLDERS' EQUITY

For the six months ended June 30, 2002 and for the period from March 16, 2001 (Date of inception) to December 31, 2001

	Number of Common Shares	(Yen in millions)			Total
		Common Shares	Retained Earnings		
Initial capital contribution. . . . .	200	¥ 100	¥ —	¥	100
Issuance of common shares under private offering on May 23, 2001 . . . . .	197,600	98,800	—		98,800
Issuance of common shares under initial public offering on September 10, 2001. . . . .	82,900	49,999	—		49,999
Net income . . . . .	—	—	5,341		5,341
<b>Balance as of December 31, 2001 . . . . .</b>	<b>280,700</b>	<b>148,899</b>	<b>5,341</b>		<b>154,240</b>
Cash Dividends declared . . . . .	—	—	(5,341)		(5,341)
Net income . . . . .	—	—	4,492		4,492
<b>Balance as of June 30, 2002 . . . . .</b>	<b>280,700</b>	<b>¥148,899</b>	<b>¥ 4,492</b>		<b>¥ 153,391</b>

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

## OFFICE BUILDING FUND OF JAPAN, INC.

### STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2002 and for the period from March 16, 2001 (Date of inception) to December 31, 2001

	For the period from January 1, 2002 to June 30, 2002	For the period from March 16, 2001 to December 31, 2001
	(Yen in millions)	
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 4,493	¥ 5,342
Depreciation and amortization	1,947	2,170
Amortization of deferred bond issue costs	6	11
Interest expense	521	570
Tenant receivables	(74)	(109)
Accounts payable	257	1,131
Rents received in advance	146	1,523
Cash payments of interest expense	(496)	(317)
Other-net	2,667	(2,914)
<b>Net Cash Provided by Operating Activities</b>	<b>9,467</b>	<b>7,407</b>
<b>Cash Flows from Investing Activities:</b>		
Payments for purchases of investment properties	(20,806)	(227,820)
Proceeds from tenant security deposits	1,501	21,286
Payments for tenant security deposits	(512)	(620)
Refunds from security deposits paid to lessors	14	12
Payments for security deposits paid to lessors	(1)	(363)
Payments for purchases of other assets	(675)	—
<b>Net Cash Used in Investing Activities</b>	<b>(20,479)</b>	<b>(207,505)</b>
<b>Cash Flows by Financing Activities:</b>		
Proceeds from short-term loans	96,750	201,000
Repayment of short-term loans	(84,200)	(180,100)
Proceeds from long-term debts	9,000	58,000
Payments for deferred bond issue costs	—	(34)
Proceeds from issuance of common shares	—	148,899
Payment of dividends	(5,322)	—
<b>Net Cash Provided by Financing Activities</b>	<b>16,228</b>	<b>227,765</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>5,216</b>	<b>27,667</b>
Cash and cash equivalents at beginning of period	27,667	—
<b>Cash and Cash Equivalents at end of period</b>	<b>¥ 32,883</b>	<b>¥ 27,667</b>

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

## NOTES TO FINANCIAL STATEMENTS

Office Building Fund of Japan, Inc.

December 31, 2001 and June 30, 2002

### Note 1 –Organization and Basis of Presentation

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#### ***Organization***

Office Building Fund of Japan, Inc. (“NBF”) was formed on March 16, 2001 as an investment corporation under the Investment Trust Law of Japan with Mitsui Fudosan Co., Ltd., The Chuo Mitsui Trust and Banking Co., Ltd., and Office Building Fund Management Japan Limited (“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 a fully integrated, self-administered, and externally managed real estate investment company. NBFM, as NBF’s asset management company, is engaged in acquiring, owning, managing, leasing, and renovating office properties. NBFM is currently 43% owned by Mitsui Fudosan Co., Ltd., 35% owned by Sumitomo Life Insurance Company and 22% owned by others.

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

As of June 30, 2002, NBF owned or beneficiary interests in 26 Office Properties containing approximately 303,000 rentable square meters of office space. As of June 30, 2002, NBF had leased office space to 448 tenants engaged in a variety of businesses. The occupancy rate for the Office Properties was approximately 97.4%.

#### ***Basis of Presentation***

NBF maintains its records and prepares financial statements in Japanese yen and in accordance with the provisions set forth in the Investment Trust Law of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles generally accepted in Japan. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices. The accompanying financial statements have been translated from the audited financial statements that were prepared for Japanese domestic purposes from accounts and records maintained by NBF and were filed with Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. NBF has not prepared consolidated financial statements, as NBF has no subsidiaries.

In preparing the accompanying financial statements, certain reclassifications and modifications have been made in the financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. The statements of shareholders’ equity and cash flows have been prepared for the purpose of inclusion in the accompanying financial statements, although such statements were not required for domestic purposes and were not filed with regulatory authorities.



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**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***

Investments properties are recorded at cost, which included the allocated purchase price and related costs and expenses for acquisition of the office properties and the beneficiary interests of properties in trust. Property and equipment balances are depreciated using the straight-line method over estimated useful lives. The estimated useful lives of the buildings vary from 16 to 50 years. Costs related to the renovation, construction and improvement of properties are capitalized. Expenditures for repairs and maintenance which do not add to the value or prolong the useful life of a property, are expensed as incurred.

***Deferred Bond Issue Costs***

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

***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 income taxes.

***Real Estate Taxes***

Real estate taxes are imposed on properties on a calendar year basis. NBF is allocated the portion of the real estate taxes related to the period following the purchase date of each property through the end of the year and the equivalent amounts of those allocated portions are capitalized as part of the acquisition costs of the relative properties. Capitalized real estate taxes amounted to ¥182 million for the period ended June 30, 2002 and ¥88 million for the period ended December 31, 2001, respectively.

***Revenue Recognition***

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

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

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

***Per Share Amounts***

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

### Note 3 – Schedule of Other Tangible Assets

Other tangible assets as of June 30, 2002 and December 31, 2001 consisted of the following:

	As of June 30, 2002			As of December 31, 2001		
	(Yen in millions)					
	Acquisi- -tion Costs	Accumu- -lated Depreci- -ation	Book Value	Acquisi- -tion Costs	Accumu- -lated Depreci- -ation	Book Value
Structures in trust . . . . .	¥ 371	¥ (49)	¥ 322	¥ 283	¥ (26)	¥ 257
Machinery and equipment in trust	531	(60)	471	358	(31)	327
Tools, furniture and fixtures in trust. . . . .	197	(47)	150	161	(24)	137
Other. . . . .	2	(0)	2	2	(1)	1
Total	¥ 1,101	¥ (156)	¥ 945	¥ 804	¥ (82)	¥ 722

### Note 4 – Shareholders' Equity

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

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

Short-term loans consist of short-term notes and short-term borrowings under loan agreements. The annual interest rates on short-term loans outstanding are floating rate and at June 30, 2002 and December 31, 2001 mainly ranging from 0.46% to 0.54% and from 0.30% to 0.50%, respectively. Long-term debts are fixed rate and as of June 30, 2002 and December 31, 2001 consisted of the following:

	(Yen in millions)	
	As of June 30, 2002	As of December 31, 2001
Unsecured loans due 2006 to 2012 principally from banks and insurance companies with interest rates mainly ranging from 1.3% to 2.2% . . . . .	¥ 59,000	¥ 50,000
0.68% unsecured bonds due 2004 . . . . .	8,000	8,000
	¥ 67,000	¥ 58,000

The annual maturities of long-term debt at June 30, 2002 were as follows:

Year ending December 31	(Yen in millions)
2002 . . . . .	-
2003 . . . . .	-
2004 . . . . .	¥ 8,000
2005 . . . . .	-
2006 . . . . .	11,000
Thereafter . . . . .	48,000

## Note 6 –Rental Revenues and Expenses

Rental revenues and expenses for the period ended June 30, 2002 and December 31, 2001 were as follows:

	For the period from January 1, 2002 to June 30, 2002	For the period from March 16, 2001 to December 31, 2001
(Yen in millions)		
<b>Revenues from Property Leasing :</b>		
Rental:		
Rental revenues . . . . .	¥ 8,971	¥ 9,922
Common area charges. . . . .	1,422	1,590
Others . . . . .	34	43
Subtotal . . . . .	10,427	11,555
Others:		
Parking lots. . . . .	248	307
Facility charge . . . . .	54	50
Incidental income. . . . .	488	624
Cancellation fees. . . . .	13	5
Miscellaneous income . . . . .	29	20
Subtotal . . . . .	832	1,006
Total revenues from property leasing . . . . .	11,259	12,561
<b>Rental Expenses:</b>		
Property management fee. . . . .	1,545	1,780
Real estate taxes . . . . .	977	486
Repairs and maintenance . . . . .	315	369
Insurance . . . . .	52	52
Other rental expenses . . . . .	787	880
Depreciation and amortization. . . . .	1,947	2,170
Total rental expenses. . . . .	5,623	5,737
<b>Operating Income from Property Leasing Activities. . .</b>	<b>¥ 5,636</b>	<b>¥ 6,824</b>

## Note 7 –Income Taxes

NBF is subject to income taxes in Japan. The effective tax rate on NBF's income based on applicable Japanese tax law was 0.02% for the period ended June 30, 2002 and approximately 0.03% for the period ended December 31, 2001. The following table summarizes the significant differences between the statutory tax rates and NBF's effective tax rates for financial statement purposes for the period from January 1, 2002 to June 30, 2002 and the period from March 16, 2001 to December 31, 2001.

	For the period from January 1, 2002 to June 30, 2002	For the period from March 16, 2001 to December 31, 2001
Statutory effective tax rate . . . . .	39.39 %	39.39 %
Deductible dividends paid. . . . .	(39.37)	(39.38)
Others . . . . .	0.00	0.02
Effective tax rate . . . . .	0.02 %	0.03 %

NBF has elected to be treated as an investment corporation under the Investment Trust Law of Japan. As long as an investment corporation distributes to its shareholders at least 90% of taxable income for

the period and other requirements are met, an investment corporation is allowed to deduct its dividends from taxable income under Japanese tax regulations.

#### Note 8—Leases

NBF leases its real estate properties to outside parties under non-cancelable operating leases. As of June 30, 2002 and December 31, 2001, the future lease revenue under the non-cancelable operating leases are as follows:

	As of June 30, 2002	As of December 31, 2001
	(Yen in millions)	
Due within one year.....	¥ 4,630	¥ 4,671
Due after one year.....	16,414	18,606
Total.....	<u>¥ 21,044</u>	<u>¥ 23,277</u>

#### Note 9— Significant Subsequent Events

As of August 20, 2002, the Board of Directors of NBF resolved to effect payment of a cash distribution of ¥16,003 per share aggregating ¥4,492 million to shareholders of record on June 30, 2002.

# Office Building Fund of Japan, Inc

## Corporate Data

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### **Corporate Office:**

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

+81-3-3281-8810

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

### **Date of Inception:**

March 16, 2001

### **Capital:**

Contributed capital and common shares issued and outstanding as of June 30, 2002:

¥148,899 million

280,700 shares

### **Shareholders:**

13,262 (As of June 30, 2002)

### **Transfer Agent**

The Chuo Mitsui Trust and Banking Co., Ltd.

3-33-1, Shiba, Minato-ku, Tokyo, 168-0023, Japan

+81-3-3323-7111

### **Independent Public Accountants**

Asahi & Co.

Asahi Center Building

1-2, Tsukudo-cho, Shinjuku-ku, Tokyo, 162-8551, Japan

### **Investor Relations**

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