



**NBF**



## 9th Period

From : July 1, 2005 To : December 31, 2005

## NBF Report Jul.– Dec. 2005

**Nippon Building Fund Inc.**

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

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

## Profile

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

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

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

## History of NBF

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



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## The First Listed J-REIT

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# NBF

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

## The Largest Scale of any J-REIT

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- The largest total market capitalization of any J-REIT (¥553,720 million as of March 31, 2006)
- The largest scale of managed assets (¥539,395 million as of December 31, 2005)



## Enrichment of Portfolio

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- Specializes in investing in office buildings
- Possesses 52 properties focusing on large-scale office buildings in the Tokyo Central Business Districts (as of December 31, 2005)
- Diversified in other Tokyo markets as well as in regional cities.
- Total rentable area of 578,243m<sup>2</sup> (as of December 31, 2005)
- Diversified tenants (number of tenants at the end of the current period: 868)

## Financial Stability and Flexibility

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- Ratings by Rating Agencies (as of May 31, 2006):
  - Standard & Poor's Long-term Corporate: A, Short-term Corporate: A-1, Outlook: positive
  - Moody's Issuer Rating: A2, Outlook: positive
  - R&I Issuer Rating: AA-
- Ratio of Interest-Bearing Debt to Total Assets: 48.5% (as of December 31, 2005)
- Ratio of Long Term and Fixed-Interest Rate Debt to total debt: 75.0% (as of December 31, 2005)
- Average years remaining till due date for long-term interest-bearing debt: 5.36 years (as of December 31, 2005)
- Funding through use of unsecured, non-guaranteed corporate loans

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

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

# To Our Shareholders

## Operating Environment

In 2005, Japan's economy strongly confirmed a trend of resumption of new capital expenditures by business corporations, shortages of manpower, and a moderate but steady trend of continuous economic recovery from a long-term stagnation lead by domestic demand as evidenced by the recovering mood of consumer spending.

In the office building lease market, booming companies continue to increase or integrate their floor space, resulting in high occupancy rates mainly in highly competitive, newly built, large-scale office buildings. Rent levels as a whole are starting to mark increases: in local cities, declines in rent levels are slowing, and in the Tokyo and Nagoya areas, rent levels for new contracts are seeing increases.

## Two Topics for 2005

Against this background, there were two major topics for NBF in 2005. One was the acquisition of the Yamato Seimei Bldg. in October, and the other was our receipt of a termination notice last November from JFE Steel Corporation, the sole tenant of the JFE Bldg.

## Acquisition of the Yamato Seimei Bldg.

The Yamato Seimei Bldg., adjacent to the Teikoku Hotel and Hibiya Park, is located in the highest class area of Hibiya, one of the prime central Tokyo locations for office buildings. The price of the entire building, being 26 stories, was ¥63.5 billion and this prime office building constitutes part of NBF's core assets. We are very pleased that NBF was able to acquire this building without competition through private negotiations with the seller. It was also confirmed with respect to this building that the recent increasing level of rents in Tokyo is available, and an upside effect on earnings yield is appearing.

It is also very satisfactory that NBF was able to achieve, in acquiring the Yamato Seimei Bldg., ¥500 billion (based on acquisition price) in total assets, which has been NBF's target since its listing on the stock exchange.

## Exchange of the JFE Bldg.

Another topic was NBF's receipt of a lease termination notice from JFE Steel Corporation. On November 30, 2005 NBF received a termination notice effective as of March 31, 2007 from JFE Steel Corporation, the tenant of the JFE Bldg. JFE Steel Corporation is leasing the entire JFE Bldg., and the percentage represented by rent paid by it to the entire rental revenues from NBF's portfolio is 11.2%. In light of the importance of the JFE Bldg. to NBF's portfolio, measures with respect to the departure of the tenant of the JFE Bldg. were considered by NBF.

Among such measures against the departure of the tenant of the JFE Bldg., NBF specifically studied (1) exchanging the JFE Bldg. for other performing properties which can replace the JFE Bldg., (2) enhancing the competitiveness of the JFE Bldg. through large-scale renovation and leasing activities, and (3) reconstruction of the JFE Bldg., etc.

As the result of such review, NBF decided to transfer the JFE Bldg. to Mitsui Fudosan Co., Ltd. and in return to acquire from Mitsui Fudosan Co., Ltd. (1) Toranomon Kotohira Tower (additional acquisition), (2) Gate City Ohsaki, (3) Nishi-Shinjuku Mitsui Bldg. (additional acquisition), (4) Parale Mitsui Bldg. and (5) Shinanobashi Mitsui Bldg. ("the Exchange Transaction"). In compliance with the requirements of Article 50 of the Corporation Tax Law, the appraisal gain from the Exchange Transaction with respect to the JFE Bldg. was transferred to the properties acquired in exchange without actually accounting for the same, and as the result the performance of NBF's portfolio was successfully enhanced.

NBF believes that through the Exchange Transaction it succeed in (1) promptly responding to the departure of the tenant of the JFE Bldg., (2) secure and stable cash-flow from the 5 exchanged properties as well as implementation of asset management consistent with NBF's asset management policy ("to achieve sustainable growth in portfolio value and stable profits on a mid-term and long-term basis"), and (3) further strengthening NBF's portfolio through acquisition of the 5 very competitive exchanged properties.



Koichi Nishiyama,  
Executive Director of Nippon Building  
Fund Inc.  
President & CEO of Nippon Building  
Fund Management Ltd.,

Sadafumi Abe,  
Executive Director of Nippon Building  
Fund Inc.

## Prospects of Performance in the 10th and 11th periods

During the 10th period (Jan.-June 2006), NBF foresees operating revenues of ¥24,044 million, net income of ¥9,448 million and a cash distribution per share of ¥18,600. During the 11th period (July-Dec 2006), NBF foresees operating revenues of ¥25,076 million, net income of ¥9,093 million and a cash distribution per share of ¥17,900. (Those figures do not include the effects of future acquisitions of properties or issues of new shares.)

The reason why the figures for operating revenues, net income and cash distribution during the 10th period are higher is that those figures include ¥1,440 million of total gain on sale of real properties etc. resulting from sale of the Otemae Center Bldg. and the exchange of the JFE Bldg. for 5 properties during the 10th period.

### Prospects of Performance (JPY mil. Except per Unit Data)

	9th Period (actual) (July 1, 2005-December 31, 2005)	10th Period (January 1, 2006-June 30, 2006)	11th Period (July 1, 2006-December 31, 2006)
Revenues from Property Leasing	19,363	22,604	25,076
Capital Gains from Disposal of Properties	0	1,440	0
Net Income	7,205	9,448	9,093
Distribution Per Unit	¥17,046	¥18,600	¥17,900

## NBF's Second Phase

NBF believes that its first phase has been completed through the Exchange Transaction as (1) its total assets (based on acquisition price) have reached ¥624.8 billion; (2) the quality of its portfolio has been enhanced; (3) the risk arising from the fact that the largest tenant in its portfolio had an option to terminate the lease during its term (which was one of the risks that NBF had borne since its listing on the stock exchange) was eliminated; and (4) it has established a strong portfolio which constitutes a firm foundation for further development in the future.

In the second phase, NBF will pursue enhancement of the NBF brand through maximum utilization of its strong portfolio established during the first phase.

Specifically, NBF will strive toward constant internal growth exploiting the platform of Mitsui Fudosan Co., Ltd. with its tenant-leasing ability and building management ability, etc., as well as devoting careful attention to tenants. For external growth, NBF will pursue further growth of asset scale by rigorously selecting high quality properties, continuously exploiting the pipeline between NBF and Mitsui Fudosan Co., Ltd., and establishing diversified routes. NBF will pursue stable financial management by controlling LTV (loan-to-value ratio).

Through those measures, NBF expects to maintain its original asset management policy (to "achieve sustainable growth in portfolio value and stable profits on a mid-term and long-term basis") while flexibly responding to various circumstances such as fluctuations in occupancy rates or rent levels of individual properties, changes in economic climate due to interest rates hikes, etc., or changes in real estate markets.

While we are grateful to our shareholders for leading and supporting us, our intention is to continuously strive to maximize shareholder value by means of establishing an "NBF brand" and further confirming our number one position among J-REITs.

*Koichi Nishiyama*

Koichi Nishiyama

Executive Director of Nippon Building Fund Inc.  
President & CEO of Nippon Building Fund Management Ltd.



# Financial Highlights

		9th Period from July 1, 2005 to December 31, 2005	8th Period from January 1, 2005 to June 30, 2005	7th Period from July 1, 2004 to December 31, 2004	6th Period from January 1, 2004 to June 30, 2004	5th Period from July 1, 2003 to December 31, 2003
(Yen in million, except per share data or where otherwise indicated)						
Operating revenues		¥ 19,363	¥ 16,731	¥ 16,116	¥ 12,554	¥ 12,453
Income before income taxes		7,206	6,162	6,307	4,263	4,094
Net income	(a)	7,205	6,161	6,306	4,262	4,093
Total assets	(b)	564,902	449,556	430,378	366,200	314,362
Total shareholders' equity ("Net assets")	(c)	269,375	216,840	216,985	153,161	152,992
Total amount of cash distribution	(e)	7,205	6,161	6,306	4,262	4,093
Total number of common shares issued (shares)	(d)	422,700	364,700	364,700	280,700	280,700
Net assets per share (Yen)	(c) / (d)	637,274	594,571	594,968	545,641	545,038
Distribution per share (Yen)	(e) / (d)	17,046	16,893	17,291	15,185	14,582
NOI from property leasing activities	Note 2	13,333	11,457	10,238	8,311	7,964
FFO per share (Yen)	Note 2	26,505	25,887	23,060	24,203	23,141

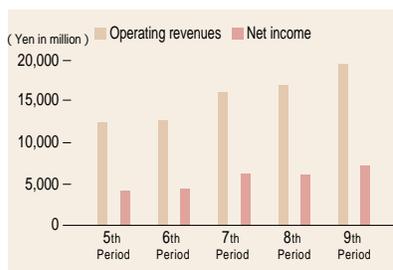
Note 1: Operating revenues do not include consumption taxes.

Note 2: All valuations are calculated through the following formulas.

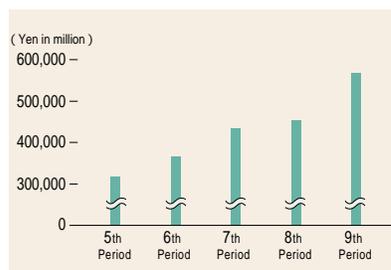
NOI (Net Operating Income) from property leasing activities: (Revenue from property leasing - Rental expenses) + Depreciation and amortization

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

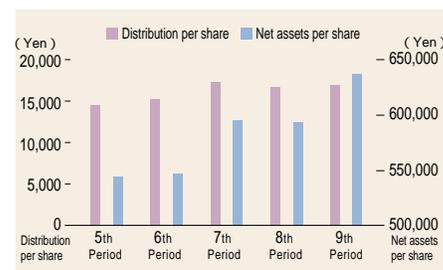
## Operating revenues Net income



## Total assets



## Distribution per share Net assets per share



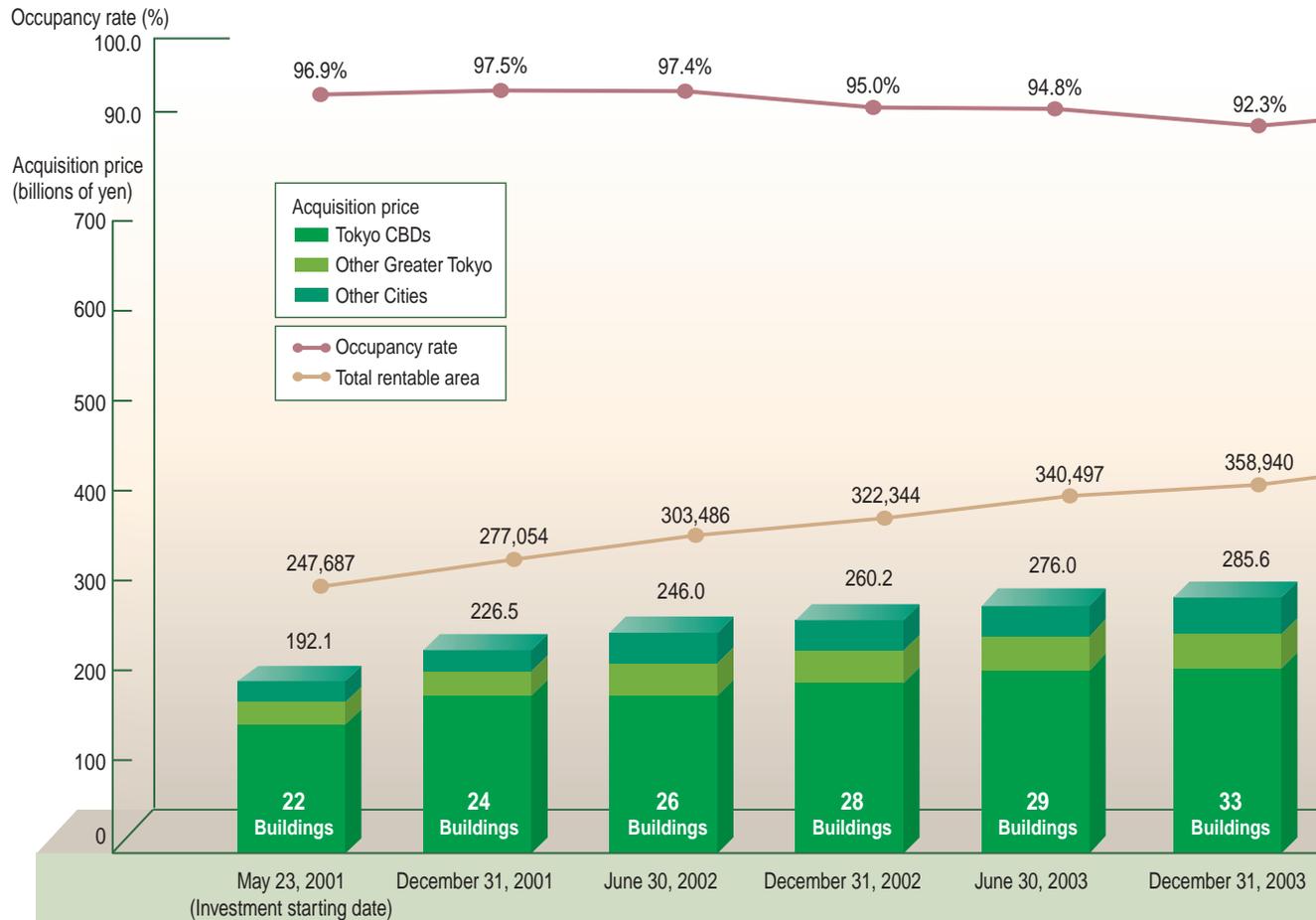
## Stock Price Performance





# Overview of NBF

## Track Record of Steady Growth and Dividend



	19,026	16,003	16,253	15,367	14,582
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September 10, 2001  
Listed on Tokyo Stock Exchange

[Main acquisition]  
Shiba NBF Tower  
Acquired in July 2001



[Main acquisition]  
Nakanosakaue Sunbright Twin  
Acquired in February 2002 and March 2002

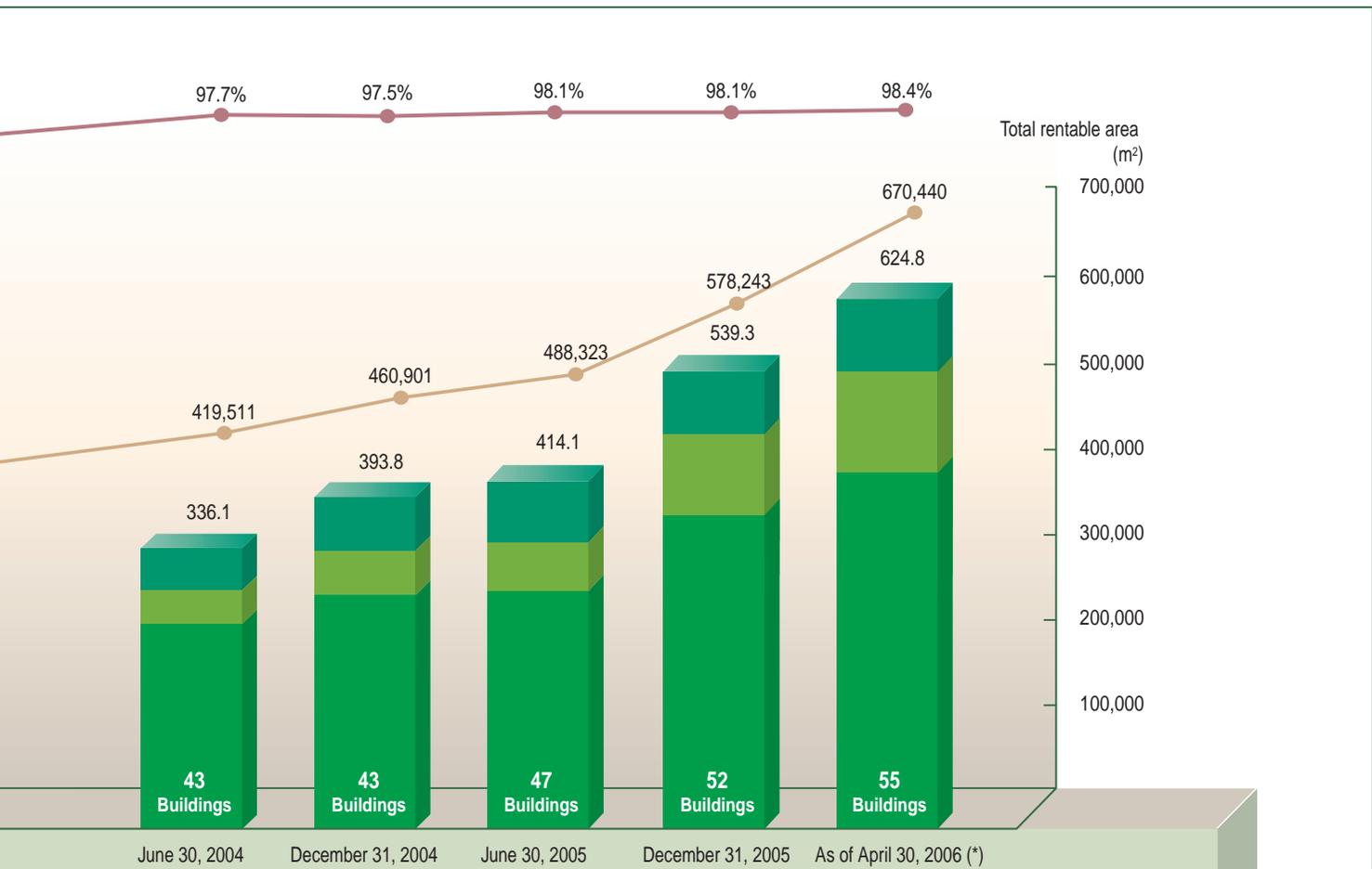
In 2003  
NBF's Year 2003  
Problem (problem of  
tenants moving out of  
Shiba NBF Tower and  
Sumitomo Densetsu  
Bldg.) was solved.



[Main acquisition]  
Nakameguro GT Tower  
Acquired in February 2003 and September 2003

September 2003  
Decided to acquire NBF  
Platinum Tower, which is a  
development property.  
Acquired in March 2006

(\*) Note: Figures as of April 30, 2006 includes the real properties etc. to be acquired, but excludes those to be assigned during the 10th period. Furthermore, figures for occupancy rates of properties and for total rentable area owned by NBF as of December 31, 2005 are figures at the date of the statement on December 31, 2005. Figures for other properties are figures at the date of the statement on December 31, 2005 based on the information provided by sellers.



15,185	17,291	16,893	17,046	-	Distribution per share (Yen)
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July and August 2004  
Implemented equity finance with total issue amount of 63.7 billion yen.  
August 2005  
Implemented equity finance with total issue amount of 53.1 billion yen.



[Main acquisition]  
NBF Toranomon Bldg. (formerly Daiya Toranomon Bldg.)  
Acquired in June 2004



October 2005  
Achieved the target of total assets (total of acquisition price) of 500 billion yen.

[Main acquisition]  
IST Bldg.  
Acquired in September 2005  
Yamato Seimei Bldg.  
Acquired in October 2005



Established a solid portfolio

[Planned acquisition]  
To be acquired in April 2006  
Gate City Ohsaki, etc.

## Enhanced Portfolio

NBF achieved the target of the current period to "achieve ¥500 billion (based on the total acquisition price) in assets by the end of March 2006" six months ahead of schedule, without awaiting the end of March 2006.

NBF also completed its first phase by entirely achieving its target for the current period through a transaction whereby the JFE Bldg. was exchanged for five properties including the Nishi-Shinjuku Mitsui Bldg. (additional acquisition).

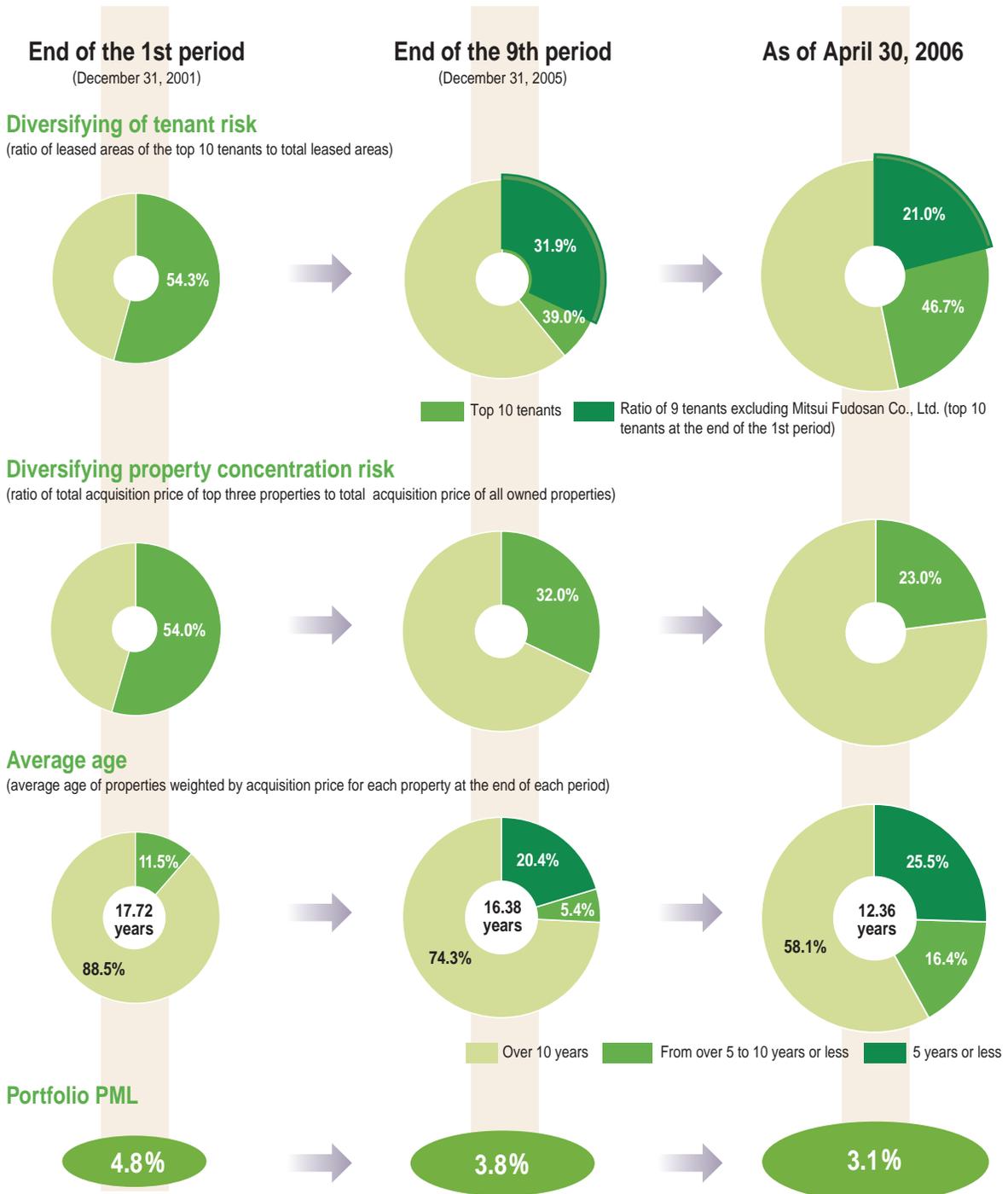
In the second phase, NBF will pursue enhancement of the NBF brand through maximum utilization of its strong portfolio established during the first phase.



(\* ) Note: Figures as of April 30, 2006 includes the real properties etc. to be acquired, but excludes those to be assigned during the 10th period.

## Enrichment of Portfolio

With the increase in asset value our portfolio has improved in quality, as can be seen in the graphs below which compare our portfolio at the end of the 1st period, the end of the 9th period, and as of April 30, 2006.



(\*) Note: Figures as of April 30, 2006 includes the real properties etc. to be acquired, but excludes those to be assigned during the 10th period. Furthermore, figures for occupancy rates of properties and for total rentable area owned by NBF as of December 31, 2005 are figures at the date of the statement on December 31, 2005. Figures for other properties are figures at the date of the statement on December 31, 2005 based on the information provided by sellers.

# New Acquisition

NBF acquired the following properties during the 9th period.

## Yamato Seimei Bldg.

Tokyo CBDs



<b>Acquisition date</b>	October 20, 2005
<b>Outline of acquired property</b>	fee simple
<b>Acquisition price</b>	¥63,500 million
<b>Acquisition structure</b>	Trust
<b>Location</b>	1-7, Uchisaiwaicho 1-chome, Chiyoda-ku, Tokyo
<b>Site area</b>	5,065.35m <sup>2</sup>
<b>Floor area of building</b>	50,847.51m <sup>2</sup>
<b>Structure</b>	Above ground 26 floors, below ground 4 floors
<b>Completion</b>	June 30, 1984

IST Bldg.

Other Greater Tokyo



<b>Acquisition date</b>	September 13, 2005
<b>Outline of acquired property</b>	fee simple
<b>Acquisition price</b>	¥35,200 million
<b>Acquisition structure</b>	Trust
<b>Location</b>	6-52, Toyosu 5-chome, Koto-ku, Tokyo
<b>Site area</b>	14,335.60m <sup>2</sup>
<b>Floor area of building</b>	46,002.37m <sup>2</sup>
<b>Structure</b>	Above ground 11 floors
<b>Completion</b>	September 7, 2004

# New Acquisition

NBF acquired the following properties during the 10th period.

## NBF Platinum Tower

Tokyo CBDs



<b>Acquisition date</b>	March 31, 2006
<b>Outline of acquired property</b>	fee simple
<b>Acquisition price</b>	¥31,000 million
<b>Acquisition structure</b>	Trust
<b>Location</b>	17-3, Shirokane 1-chome, Minato-ku, Tokyo
<b>Site area</b>	4,373.93m <sup>2</sup>
<b>Floor area of building</b>	48,762.65m <sup>2</sup>
<b>Structure</b>	Above ground 26 floors, below ground 2 floors
<b>Completion</b>	November 21, 2005

Shin-Kawasaki Mitsui Bldg.

Other Greater Tokyo



<b>Acquisition date</b>	March 31, 2006
<b>Outline of acquired property</b>	co-ownership
<b>Acquisition price</b>	¥20,300 million
<b>Acquisition structure</b>	Ownership
<b>Location</b>	890-12, Kashimada, Saiwai-ku, Kawasaki, Kanagawa
<b>Site area</b>	19,478.07m <sup>2</sup> (*)
<b>Floor area of building</b>	138,485.98m <sup>2</sup> (*)
<b>Structure</b>	Above ground 32 floors, below ground 2 floors
<b>Completion</b>	May 22, 1989

(\*) Note: The figures given for "Site area" and "Floor area" above indicate the total site area and total floor area of this property. NBF owns about 35.0% of this property.

# New Acquisition

NBF acquired the following properties during the 10th period.

## Gate City Ohsaki

Tokyo CBDs



<b>Acquisition date</b>	April 24, 2006
<b>Outline of acquired property</b>	co-ownership of condominium
<b>Acquisition price</b>	¥30,100 million
<b>Acquisition structure</b>	Ownership
<b>Location</b>	11-1, 2, 6, Ohsaki 1-chome, Shinagawa-ku, Tokyo
<b>Site area</b>	42,509.31m <sup>2</sup> (*)
<b>Floor area of building</b>	287,349.75m <sup>2</sup> (*)
<b>Structure</b>	Above ground 24 floors, below ground 4 floors
<b>Completion</b>	January 6, 1999

(\*) Note: The figures given for "Site area" and "Floor area" above indicate the total site area and total floor area of this property. NBF owns about 12.89% of this property.

Shinanobashi Mitsui Bldg.

Other Cities



<b>Acquisition date</b>	April 24, 2006
<b>Outline of acquired property</b>	co-ownership
<b>Acquisition price</b>	¥14,400 million
<b>Acquisition structure</b>	Ownership
<b>Location</b>	11-7, Utsubohonmachi 1-chome, Nishi-ku, Osaka, Osaka
<b>Site area</b>	4,298.26m <sup>2</sup> (*)
<b>Floor area of building</b>	36,301.54m <sup>2</sup> (*)
<b>Structure</b>	Above ground 12 floors, below ground 2 floors
<b>Completion</b>	September 29, 1982

(\*) Note: The figures given for "Site area" and "Floor area" above indicate the total site area and total floor area of this property. NBF owns about 99.0% of this property.



Parale Mitsui Bldg.

Other Greater Tokyo



<b>Acquisition date</b>	April 24, 2006
<b>Outline of acquired property</b>	co-ownership of condominium
<b>Acquisition price</b>	¥3,800 million
<b>Acquisition structure</b>	Ownership
<b>Location</b>	8, Higashidacho, Kawasaki-ku, Kawasaki, Kanagawa
<b>Site area</b>	5,673.25m <sup>2</sup> (*)
<b>Floor area of building</b>	50,934.97m <sup>2</sup> (*)
<b>Structure</b>	Above ground 22 floors, below ground 1 floor
<b>Completion</b>	October 16, 1990

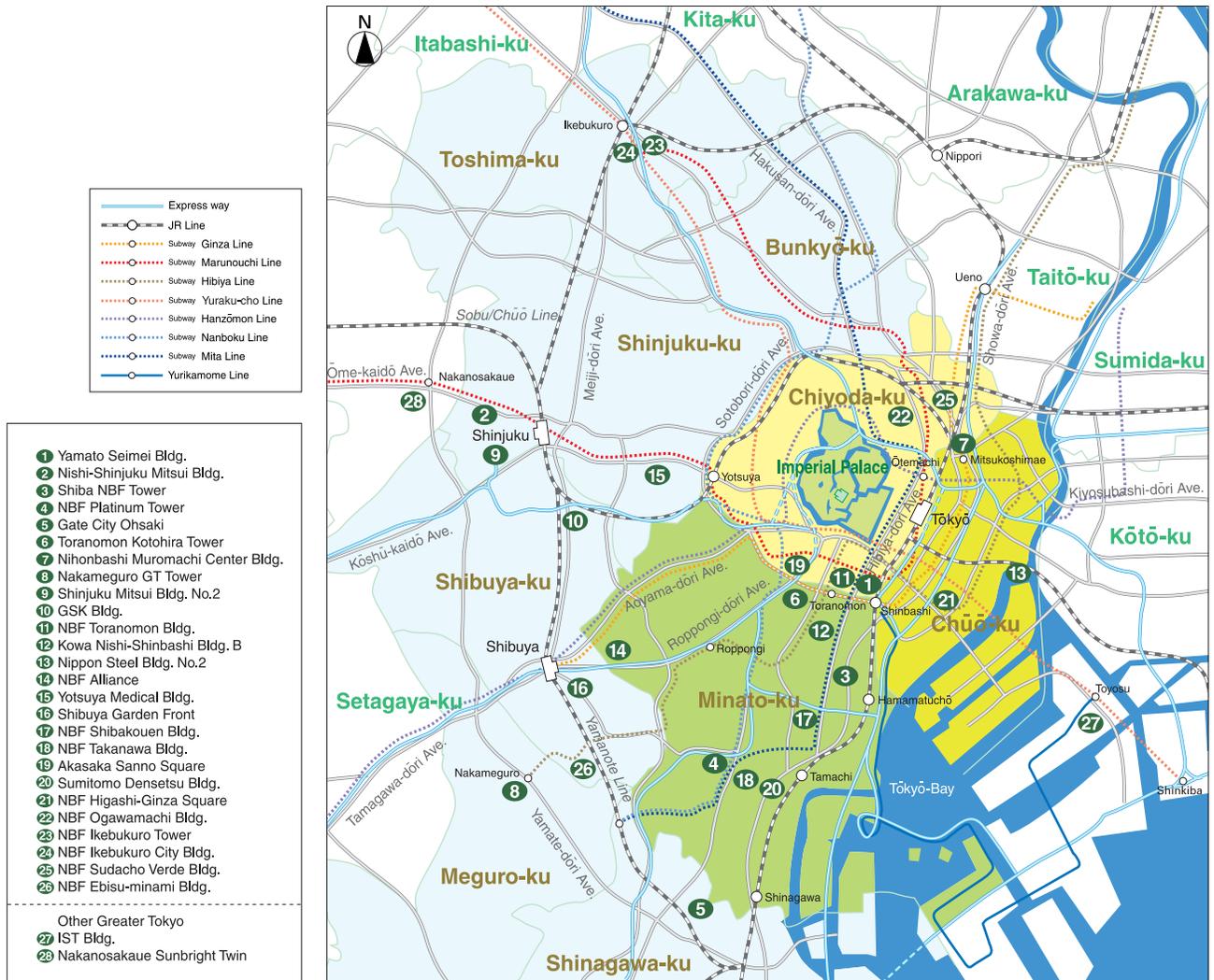
(\*) Note: The figures given for "Site area" and "Floor area" above indicate the total site area and total floor area of this property. NBF owns about 72.62% of this property.



# Location of Office Properties

## Tokyo CBDs

As of April 30, 2006



3 Shiba NBF Tower



7 Nihonbashi Muromachi Center Bldg.



8 Nakameguro GT Tower



9 Shinjuku Mitsui Bldg. No.2



11 NBF Toranomom Bldg.



16 Shibuya Garden Front



19 Akasaka Sanno Square



21 NBF Higashi-Ginza Square

Note: The map of the above includes the real properties etc. to be acquired, but excludes those to be assigned during the 10th period.

## Other Greater Tokyo



23 Nakanosakaue Sunbright Twin



30 Yokohama ST Bldg.



33 Tsukuba Mitsui Bldg.



35 S-ino Omiya North Wing

## Other Cities



45 Aqua Dojima NBF Tower

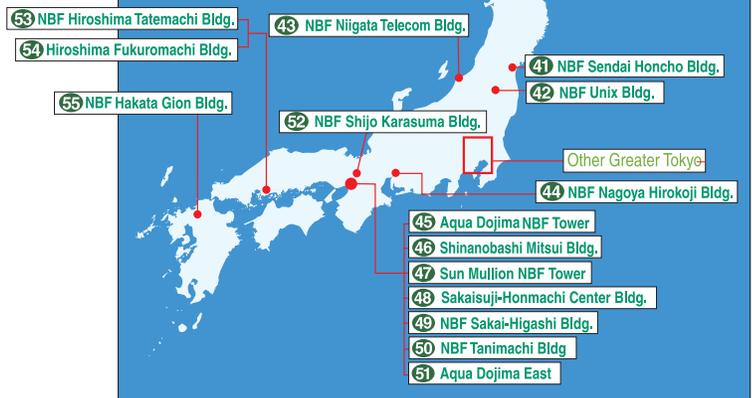
51 Aqua Dojima East



47 Sun Mullion NBF Tower



48 Sakaisuji-Honmachi Center Bldg.



Note: The map of the above includes the real properties etc. to be acquired, but excludes those to be assigned during the 10th period.

# Properties Roster

The outline of NBF's properties as of December 31, 2005 is as follows:

Name of Building	Investment Type	Type of Ownership of the Buildings	Percentage of Ownership of the Buildings	Year Built	Acquisition Price	Book Value
			(%)		(Yen in millions)	
<b>Tokyo CBDs</b>						
JFE Bldg.	Trust	fee simple	100.0	1974	74,131	71,802
Yamato Seimei Bldg.	Trust	fee simple	100.0	1984	63,500	64,626
Shiba NBF Tower	Trust	fee simple	100.0	1986	32,000	32,474
Nihonbashi Muromachi Center Bldg.	Trust	fee simple	100.0	1986	23,945	24,177
Nakameguro GT Tower	Ownership	condominium	93.1	2002	23,856	23,514
Shinjuku Mitsui Bldg. No.2	Trust	fee simple	100.0	1983	16,285	15,816
GSK Bldg.	Trust	fee simple	100.0	1990	15,616	14,445
NBF Toranomon Bldg.	Trust	fee simple	100.0	1963	13,337	13,707
Kowa Nishi-Shinbashi Bldg. B	Trust	co-ownership of condominium	83.0	1994	13,217	12,487
Nippon Steel Bldg. No.2	Ownership	fee simple	100.0	1989	12,614	12,279
NBF Alliance	Trust	fee simple	100.0	1989	9,126	9,431
Yostuya Medical Bldg.	Trust	fee simple	100.0	2004	8,800	8,913
Shibuya Garden Front	Ownership	co-ownership	50.0	2003	8,700	8,613
NBF Shibakouen Bldg.	Ownership	fee simple	100.0	1990	6,770	6,778
NBF Takanawa Bldg.	Trust	fee simple	100.0	1987	6,667	6,300
Akasaka Sanno Square	Trust	fee simple	100.0	1989	6,250	6,327
Toranomon Kotohira Tower	Ownership	co-ownership of condominium	29.2	2004	6,043	6,168
Sumitomo Densetsu Bldg.	Trust	fee simple	100.0	1991	5,365	5,060
NBF Higashi-Ginza Square	Trust	fee simple	100.0	2005	5,200	5,223
NBF Ogawamachi Bldg.	Ownership	condominium	83.8	1986	4,940	4,995
NBF Ikebukuro Tower	Trust	fee simple	100.0	1993	4,695	4,659
NBF Ikebukuro City Bldg.	Trust	fee simple	100.0	1993	4,428	4,477
NBF Sudacho Verde Bldg.	Ownership	fee simple	100.0	1988	2,380	2,469
Nishi-Shinjuku Mitsui Bldg.	Ownership	condominium	4.1	1999	1,603	1,618
NBF Ebisu-minami Bldg.	Ownership	fee simple	100.0	1991	1,000	1,040
<b>Other Greater Tokyo</b>						
IST Bldg.	Trust	fee simple	100.0	2004	35,200	35,158
Nakanosakaue Sunbright Twin	Trust	condominium	31.6	1996	8,979	8,647
Yokohama ST Bldg.	Trust	co-ownership	75.0	1987	13,529	12,838
NBF Atsugi Bldg.	Ownership	fee simple	100.0	1991	2,300	2,260
Tsukuba Mitsui Bldg.	Trust	fee simple	100.0	1990	8,876	7,985
NBF Utsunomiya Bldg.	Ownership	fee simple	100.0	1996	2,435	2,608
S-ino Omiya North Wing	Ownership	fee simple	100.0	2004	16,816	16,694
Daido Life Omiya Bldg.	Trust	fee simple	100.0	1991	2,361	2,253
NBF Urawa Bldg.	Ownership	fee simple	100.0	1990	2,000	2,015
NBF Matsudo Bldg.	Ownership	fee simple	100.0	1992	2,455	2,422
<b>Other Cities</b>						
Sapporo L-Plaza	Ownership	condominium	46.2	2003	4,405	4,420
NBF Sapporo Minami Nijo Bldg.	Trust	fee simple	100.0	1990	1,870	1,787
NBF Sendai Honcho Bldg.	Trust	fee simple	100.0	1987	3,566	3,404
NBF Unix Bldg.	Trust	fee simple	100.0	1994	4,029	3,545
NBF Niigata Telecom Bldg.	Trust	fee simple	100.0	1989	3,958	3,720
NBF Nagoya Hirokoji Bldg.	Ownership	fee simple	100.0	2000	5,406	5,463
Aqua Dojima NBF Tower	Trust	fee simple	100.0	1996	17,810	17,935
Sun Mullion NBF Tower	Trust	fee simple	100.0	1996	10,500	9,644
Sakaisuji-Honmachi Center Bldg.	Ownership	co-ownership of condominium	49.3	1991	6,500	6,538
NBF Sakai-Higashi Bldg.	Trust	fee simple	100.0	1991	2,227	2,092
NBF Tanimachi Bldg.	Trust	fee simple	100.0	1993	1,944	1,966
Aqua Dojima East	Trust	co-ownership of condominium	23.7	1993	1,914	1,936
Otemae Center Bldg.	Trust	fee simple	100.0	1992	1,826	1,682
NBF Shijo Karasuma Bldg.	Trust	fee simple	100.0	1991	1,627	1,440
NBF Hiroshima Tatemachi Bldg.	Ownership	fee simple	100.0	1991	2,930	3,001
Hiroshima Fukuromachi Bldg.	Ownership	co-ownership of condominium	10.4	2002	835	806
NBF Hakata Gion Bldg.	Trust	fee simple	100.0	1993	2,629	2,441
<b>Total</b>					<b>539,395</b>	<b>532,098</b>

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

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

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

Appraisal Value	Rentable Square Meters	Leased Square Meters at the End of Period	Occupancy Rates at the End of Period	Total Number of Tenants at the End of Period	Revenues	Percentage of Total Revenues (Note 1)
(Yen in millions)	(m <sup>2</sup> )	(m <sup>2</sup> )	(%)		(Yen in millions)	(%)
87,300	65,280	65,280	100	1	2,175	11.3
60,800	27,640	26,395	95.5	62	585	3.0
26,500	24,728	24,728	100	28	1,060	5.5
26,300	16,306	16,306	100	15	884	4.6
23,900	21,423	21,423	100	1	866	4.5
18,700	14,946	14,712	98.4	36	662	3.4
18,700	22,702	22,702	100	1	Note 2	Note 2
17,000	10,354	10,232	98.8	12	582	3.0
14,900	10,088	10,088	100	2	Note 2	Note 2
13,830	17,338	17,338	100	2	615	3.2
11,000	4,043	4,043	100	9	286	1.5
9,000	7,450	7,450	100	1	171	0.9
11,900	8,258	8,258	100	1	Note 2	Note 2
7,530	7,087	7,087	100	3	Note 2	Note 2
7,800	10,473	10,473	100	5	325	1.7
7,100	5,258	5,258	100	6	233	1.2
7,880	4,926	4,926	100	1	195	1.0
5,310	5,978	5,978	100	1	Note 2	Note 2
6,210	4,871	4,871	100	9	232	1.2
5,310	4,805	4,805	100	1	91	0.5
5,180	5,736	5,736	100	12	209	1.1
4,830	5,127	5,127	100	12	183	0.9
2,490	2,971	2,971	100	4	114	0.6
1,970	1,576	1,576	100	1	58	0.3
1,360	1,595	1,595	100	3	57	0.3
35,700	36,764	36,144	98.3	8	667	3.4
10,800	12,074	12,074	100	1	Note 2	Note 2
16,700	20,071	20,071	100	85	745	3.8
2,510	5,230	4,936	94.4	19	139	0.7
9,260	16,842	14,365	85.3	62	488	2.5
2,540	6,095	6,019	98.8	33	136	0.7
18,400	20,699	20,651	99.8	34	719	3.7
2,280	3,574	3,574	100	15	120	0.6
2,010	3,455	3,144	91	13	51	0.3
2,670	4,772	4,498	94.3	25	124	0.7
4,820	11,396	11,396	100	12	287	1.5
1,630	5,352	5,352	100	10	122	0.6
3,870	7,567	7,542	99.7	10	225	1.2
4,710	13,479	12,185	90.4	52	296	1.5
4,440	10,221	10,124	99	37	275	1.4
5,840	6,873	6,631	96.5	10	234	1.2
19,200	21,935	21,900	99.8	40	819	4.2
9,900	14,120	13,657	96.7	27	424	2.2
6,710	11,438	10,084	88.2	39	319	1.6
2,450	5,327	4,737	88.9	16	130	0.7
1,970	4,953	4,725	95.4	2	Note 2	Note 2
2,020	3,243	2,720	83.9	16	104	0.5
2,060	5,532	5,532	100	6	129	0.7
1,660	3,929	3,831	97.5	15	102	0.5
2,880	5,617	5,336	95	28	202	1.1
881	1,310	1,296	99	16	43	0.2
2,590	5,416	5,416	100	8	159	0.8
583,301	578,243	567,298	98.1	868	19,363	100.0



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

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

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

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## Investment Policies of NBF

### 1. Basic Investment Policies

#### A. Basic Policies

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

#### B. Investment Strategy

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

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

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

##### *Area Diversification*

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

The following table sets forth abovesaid area diversification strategy.

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

## (2) Acquisition Strategy

### *Ratio of Real Estate Assets*

NBF will maintain ratios of 75% or more with respect to the "Designated Real Estate Ratio". As of March 30, 2006, NBF satisfied the criteria.

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

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

### ***Due Diligence***

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

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

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

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

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

### (3) Management and Disposition Policies

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

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

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

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

From the reserves set forth above, a portion corresponding to renovations, repairs and tenant improvements will be determined based on renovation plans for each building. As of March 30, 2006, foreseen reserves provided from January to December 2006 are as follows:

Item	Reason
Reserves for long-term renovations	Average annual amount over an approximately 10-year period based on engineering reports
Reserves for tenant improvements (reserves for future construction expenses required for spaces leased to tenants)	Expenses of providing “free access floor” (or raised floor); expenses for other move-in construction costs (partitions etc.)
<b>Total Foreseen Amount: (annual basis)    ¥2,434 million</b>	

Note 1: In addition to the above-mentioned amount, certain amounts are set aside as cash reserves for renovation pursuant to the administrative rules of the buildings in which NBF owns condominium interests, etc.

Note 2: The amount of reserves set forth above is the total amount of reserves with respect to the 52 properties owned by NBF as of the end of December, 2005.

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

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

#### *Appraisal Value etc.*

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

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

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### ***Disposition***

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

## **(4) Financial Policies**

### ***Issuance of Shares***

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

### ***Debt Financing***

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

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

### ***Loan to Value Ratio***

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

### ***Derivatives***

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

## Distribution Policies of NBF

### A. Distributions of Profits

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

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

#### *Earnings Available for Distributions*

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

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

#### *Cash Distribution of Profits*

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

### B. Distribution in Excess of Earnings

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

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

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

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

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

**C. Method of Distributions**

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

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

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

**Investment Restrictions**

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

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## **Performance Information Report**

### **Overview of NBF**

1. Financial Highlights
2. Distribution for the Current Period
3. Capitalization
4. Major Shareholders
5. Categories of Shareholders

### **Capital Expenditures**

1. Planning
2. Capital Expenditures for the Current Period
3. Cash Reserve for Capital Improvements

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

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

1. Trading of Real Estate and Real Estate held in Trust
2. Trading of Other Assets Including Total Amount and Transactions
3. Related Parties Transactions

## Overview of NBF

### 1. Financial Highlights

		9th Period from July 1, 2005 to December 31, 2005	8th Period from January 1, 2005 to June 30, 2005	7th Period from July 1, 2004 to December 31, 2004
(Yen in millions, except per share data or where otherwise indicated)				
Operating revenues		<b>¥19,363</b>	¥16,731	¥16,116
Revenues from property leasing		<b>19,363</b>	16,731	15,178
Operating expenses		<b>10,582</b>	9,344	8,587
Rental expenses		<b>9,694</b>	8,554	7,831
Income before income taxes		<b>7,206</b>	6,162	6,307
Net income	(a)	<b>7,205</b>	6,161	6,306
Total assets	(b)	<b>564,902</b>	449,556	430,378
Total shareholders' equity ('Net assets')	(c)	<b>269,375</b>	216,840	216,985
Contributed capital		<b>262,170</b>	210,679	210,679
Total amount of cash distribution	(e)	<b>7,205</b>	6,161	6,306
Total number of common shares issued (shares)	(d)	<b>422,700</b>	364,700	364,700
Net assets per share (Yen)	(c) / (d)	<b>637,274</b>	594,571	594,968
Distribution per share (Yen)	(e) / (d)	<b>17,046</b>	16,893	17,291
Distribution of accumulated earnings per share (Yen)		<b>17,046</b>	16,893	17,291
Distribution in excess of accumulated earnings per share (Yen)		-	-	-
Return on total assets	Note 2	<b>1.42%</b> <b>(2.84%)</b>	1.40% (2.80%)	1.58% (3.17%)
ROE	Note 2	<b>2.96%</b> <b>(5.93%)</b>	2.84% (5.68%)	3.41% (6.82%)
Capital ratio	(c) / (b)	<b>47.7%</b>	48.2%	50.4%
Payout ratio	(e) / (a)	<b>99.9%</b>	99.9%	100.0%
Number of days		<b>184</b>	181	184
<b>Other supplementary data:</b>				
Number of investment properties	Note 4	<b>52</b>	47	43
Number of tenants	Note 4	<b>868</b>	763	667
Total rentable square meters		<b>578,243</b>	488,323	460,901
Occupancy rate	Note 4	<b>98.1%</b>	98.1%	97.5%
Depreciation and amortization		<b>3,664</b>	3,280	2,891
Capital expenditures		<b>618</b>	702	431
NOI from property leasing activities	Note 2	<b>13,333</b>	11,457	10,238
FFO per share (Yen)	Note 2	<b>26,505</b>	25,887	23,060

Note 1: Operating revenues do not include consumption taxes.

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

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

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

NOI (Net Operating Income) from property leasing activities :

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

FFO (Funds From Operation) per share :

$(\text{Net income (excluding Gain on sale of investment properties)} + \text{Depreciation and Amortization}) / \text{Weighted average number of common shares issued and outstanding during the period.}$

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

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

## 2. Distribution for the Current Period

Distribution per share for the current period was ¥17,046. NBF expected to distribute almost all taxable income for the current period to be eligible for special tax treatment (Special Taxation Measures Law of Japan Article 67-15) that allows NBF to deduct its cash dividends of profits from taxable income.

	For the six months ended		
	December 31, 2005	June 30, 2005	December 31, 2004
	(Yen in thousands, except per share amount)		
Retained earnings	¥ 7,205,589	¥ 6,161,091	¥ 6,306,101
Undistributed earnings	245	214	73
Total cash distribution	7,205,344	6,160,877	6,306,028
(Total cash distribution per share)	17,046	16,893	17,291
Distribution of accumulated earnings	7,205,344	6,160,877	6,306,028
(Distribution of accumulated earnings per share)	17,046	16,893	17,291
Cash Distribution in excess of accumulated earnings (per share)			

Note: Above cash distributions were paid after the period end.

## 3. Capitalization

### *Balance of Paid-in Capital*

NBF was established on March 16, 2001 with initial paid-in capital of ¥100 million. NBF began investing activities in May 2001 after ¥98,800 million was raised through private placements. As of December 31, 2005, NBF had issued 422,700 common shares out of 2,000,000 total authorized shares. NBF's common shares were listed on the J-REIT section of the Tokyo Stock Exchange in September 2001 upon the completion of a public offering. As the Investment Trust Law of Japan does not contain any provision for the issue of more than one class of shares, NBF's common shares comprise the sole class of shares authorized and issued by NBF.

Issue date	Remarks	Common Shares outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		(shares)		(Yen in millions)		
March 16, 2001	Initial capital (private)	200	200	¥ 100	¥ 100	Note 1
May 23, 2001	Private placement	197,600	197,800	98,800	98,900	Note 2
September 8, 2001	Public offering	82,900	280,700	49,999	148,899	Note 3
July 14, 2004	Public offering	80,000	360,700	58,838	207,737	Note 4
August 11, 2004	Third Party Allocation	4,000	364,700	2,942	210,679	Note 5
August 10, 2005	Public offering	58,000	422,700	51,491	262,170	Note 6

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

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

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

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

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

Note 6: Public offering of new units for ¥916,300 per share (excluding underwriting fee: ¥887,782) to repay debt and to fund property acquisition.

### Market Price of shares

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

	For the six months ended		
	December 31, 2005	June 30, 2005	December 31, 2004
	(in Yen)		
High.	¥ 1,020,000	¥1,000,000	¥ 900,000
Low.	891,000	849,000	762,000

### Borrowings

Borrowings by financial institution as of December 31, 2005 are shown below.

#### Short-term debt

Lender	Balance	Average interest rate(%) (Note 1)	Due on (Note 2)	Repayment Method	Use of Funds	Notes
(Yen in millions)						
The Chuo Mitsui Trust and Banking Co., Ltd.	¥ 5,000	0.4%	January 16, 2006			
The Bank of Tokyo- Mitsubishi UFJ, Ltd.	5,000	0.4%	January 16, 2006			
Sumitomo Mitsui Banking Corporation	5,000	0.4%	January 16, 2006			
The Hachijuni Bank, Ltd.	3,000	0.3%	January 16, 2006			
The Bank of Fukuoka, Ltd.	4,000	0.3%	January 16, 2006			
Shinkin Central Bank	3,000	0.3%	January 16, 2006			
The Kagoshima Bank, Ltd.	2,000	0.3%	January 16, 2006			Unsecured
The Chugoku Bank, Ltd.	3,000	0.3%	January 16, 2006			/unguaranteed
The Gunma Bank, Ltd.	2,000	0.3%	January 16, 2006	Bullet		/pari passu,
Mizuho Corporate Bank, Ltd.	4,000	0.3%	January 16, 2006	payment	(Note 3)	See (Note 4)
The Shizuoka Bank, Ltd.	2,000	0.3%	January 16, 2006			
The Yamaguchi Bank, Ltd.	1,000	0.4%	January 31, 2006			Floating rate
The Daishi Bank, Ltd.	4,000	0.3%	January 16, 2006			
Shinsei Bank, Ltd.	5,000	0.3%	January 16, 2006			
The Yamanashi Chuo Bank, Ltd.	1,500	0.3%	January 16, 2006			
Short-term debt Total	¥ 49,500					

#### Long-term debt

Sumitomo Life Insurance Company	¥ 12,000	1.7%	May 23, 2008			
	5,000	1.7%	July 16, 2009			
	5,000	2.1%	July 19, 2011			
	3,000	1.2%	February 3, 2010			
The Chuo Mitsui Trust and Banking Co., Ltd.	10,000	1.3%	May 23, 2006			
	9,000	1.3%	July 16, 2007			
	1,000	1.2%	March 30, 2009			
	5,000	1.6%	March 30, 2011			
Meiji Yasuda Life Insurance Company	3,000	2.1%	December 21, 2011			
	4,000	2.2%	April 27, 2012			Unsecured
	1,000	2.2%	May 23, 2012			/unguaranteed
	2,000	1.2%	February 26, 2010	Bullet		/pari passu,
The Norinchukin Bank	8,000	1.1%	November 20, 2008	payment	(Note 3)	See (Note 4)
Mitsui Life Insurance Company, Ltd.	2,000	1.7%	February 13, 2012			
	4,000	1.8%	March 30, 2012			Fixed rate
	2,000	1.6%	November 1, 2012			
	3,000	1.6%	December 13, 2013			
Nippon Life Insurance Company	3,000	0.9%	October 30, 2009			
	2,000	0.8%	April 1, 2010			
	2,000	1.1%	October 19, 2010			
The Sumitomo Trust and Banking Co, Ltd.	6,000	1.3%	July 16, 2007			

**Long-term debt (continued)**

Lender	Balance	Average interest rate(%) (Note 1)	Due on	Repayment Method	Use of Funds	Notes
(Yen in millions)						
The Dai-Ichi Mutual Life Insurance Company	2,000	0.7%	March 31, 2006			
	1,000	0.9%	September 29, 2006			
	2,000	0.8%	February 13, 2008			
Daido Life Insurance Company	2,000	1.2%	February 3, 2010			
	1,000	1.8%	March 30, 2012			
	1,000	1.4%	October 4, 2013			
	1,000	2.0%	October 31, 2014			
Development Bank of Japan	4,000	1.8%	November 28, 2014			
	10,000	1.5%	September 11, 2015			
	10,000	1.8%	September 27, 2017			
Sumitomo Mitsui Banking Corporation	1,000	1.2%	March 12, 2007			
	1,000	1.2%	March 12, 2007			
	1,000	1.5%	June 30, 2009			
The Joyo Bank, Ltd.	1,000	0.9%	May 23, 2006			
	1,000	1.4%	May 23, 2008			
The Iyo Bank, Ltd.	1,000	0.7%	March 31, 2006			
	1,000	0.7%	February 2, 2007			
The Bank of Tokyo- Mitsubishi UFJ, Ltd.	2,000	0.7%	September 28, 2007			
Taiyo Life Insurance Company	1,000	1.2%	February 12, 2010			
	1,000	1.7%	December 15, 2014			
Zenkyoren (The National Mutual Insurance Federation of Agricultural Cooperatives)	1,000	1.7%	June 1, 2011			
	10,000	1.5%	September 11, 2015			
Long-term debt Total	¥148,000					
Borrowings Total(Note 5)	¥197,500					

- Note 1: Average interest rate is stated for each lender (average weighted by borrowing outstanding in case of more than one loan from the same lender) by rounding to the second decimal place.
- Note 2: With respect to the date of drawdown and date of repayment in case of more than one short-term loan from the same lender, the earliest date of repayment for all such loans coming due is given.
- Note 3: Use of funds for the above includes acquisition of real estate or beneficiary interests, repayment of borrowings and working capital.
- Note 4: A special agreement attached to "Loan Agreement" entered into between the NBF and each financial institution provides that the above borrowings from all financial institutions rank pari passu to each other.
- Note 5: The total amount of long-term borrowings (i.e. excluding those expected to be repaid within one year) repayable within 5 years of the date of the balance sheet and expected to be repaid by specific year(s) is as follows.

(Unit : ¥1000)

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Amount Borrowed	20,000,000	23,000,000	10,000,000	12,000,000

### NBF Bonds

Issue	Issue Date	Balance as of December 31, 2005 (Yen in millions)	Coupon	Maturity Date	Redemption	Use of Proceeds	Note
No.2 Unsecured Bonds	February 10, 2003	¥ 10,000	0.75%	February 9, 2007	Bullet Payment	Note 1	Note 2
No.3 Unsecured Bonds	June 12, 2003	¥ 10,000	2.00%	June 12, 2018	Bullet Payment	Note 1	Note 2
No.4 Unsecured Bonds	September 22, 2004	¥ 10,000	1.04%	September 22, 2009	Bullet Payment	Note 1	Note 2
No.5 Unsecured Bonds	September 22, 2004	¥ 10,000	1.60%	September 22, 2011	Bullet Payment	Note 1	Note 2
No.6 Unsecured Bonds	March 9, 2005	¥ 10,000	0.80%	March 9, 2010	Bullet Payment	Note 1	Note 2
No.7 Unsecured Bonds	November 9, 2005	¥ 10,000	1.85%	November 9, 2015	Bullet Payment	Note 1	Note 2
Total(Note 3)		¥60,000					

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

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

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

(Unit: ¥1000)

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

### Others

NBF has security deposits totaling ¥31,489 million as of December 31, 2005.

## 4. Major Shareholders

The following table sets forth our major shareholders' information as of December 31, 2005.

Name	Address	Number of Common Shares Owned	Ownership
Japan Trustee Services Bank, Ltd. ....	8-11, Harumi 1-Chome, Chuo-ku, Tokyo	39,679	9.39%
The Master Trust Bank of Japan, Ltd. ....	11-3 Hamamatsucho 2-chome Minato-ku, Tokyo	20,767	4.91
NikkoCiti Trust and Banking Corporation ....	3-14, Higashi Shinagawa 2-chome, Shinagawa-ku, Tokyo	20,518	4.85
Mitsui Fudosan Co., Ltd. ....	1-1 Nihonbashi Muro-machi, 2-chome Chuo-ku, Tokyo	18,235	4.31
Trust & Custody Services Bank, Ltd. ....	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-Chome, Chuo-ku, Tokyo	14,144	3.35
Sumitomo Life Insurance Company ....	18-24 Tsukiji 7-chome, Chuo-ku, Tokyo	11,256	2.66
The Chugoku Bank, Ltd. ....	15-20 Marunouchi 1-chome, Okayama, Okayama	10,315	2.44
Obic Business Consultants Co., Ltd. ....	8-1 Nishi Shinjuku 6-chome, Shinjuku-ku, Tokyo	9,812	2.32
The Ikeda Bank, Ltd. ....	1-11 Jonan 2-chome, Ikeda, Osaka	6,133	1.45
The Gibraltar Life Insurance Co., Ltd. ....	8-11, Harumi 1-Chome, Chuo-ku, Tokyo	5,701	1.35
Total		156,560	37.03%

**5. Categories of Shareholders**

( As of December 31, 2005 )

	<b>Number of shareholders</b>	<b>Number of shares owned</b>	<b>Percent of total number of issued shares</b>
Financial institutions	194	248,440	58.78%
Other legal entities	412	49,061	11.61
Overseas investors	246	70,013	16.56
Individuals and others	19,004	48,373	11.44
Securities companies	17	6,813	1.61
Japanese government and regional authorities	-	-	-
Total	19,873	422,700	100.0%

## Capital Expenditures

### 1. Planning

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

Name of Property	Objective	Estimated Duration	Estimated Amounts		
			Total Amounts	Payment for the Current Period (from July 1, 2005 to December 31, 2005)	Cumulative Amount Paid
(Yen in millions)					
NBF Sendai Honcho Bldg.	Rework of air-conditioning (Phase I)	From January 2006 To June 2006	¥ 93	¥ -	¥ -
NBF Niigata Telecom Bldg.	Renovation of Central Monitoring System	From April 2006 To April 2006	39	-	-
NBF Ikebukuro City Bldg.	Renovation of HVAC equipment	From April 2006 To May 2006	44	-	-
NBF Toranomon Bldg.	Renovation of 8th floor	From July 2006 To November 2006	300	-	-
NBF Sendai Honcho Bldg.	Rework of air-conditioning (Phase 2)	From July 2006 To December 2006	113	-	-

### 2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NBF posted ¥ 619 million in capital expenditures together with ¥ 462 million for repairs and maintenance expenses.

Name of Property	Objective	Period	Expenditure (Yen in millions)
NBF Utsunomiya Bldg	Improvement for leasing, enhancement of lighting in common use areas		¥ 93
NBF Sapporo Minami Nijo Bldg.	Renovation of heat source system and parking area etc	From June 2005 To December 2005	41
Other buildings	Renovations intended to improve the level of tenant satisfaction		485
Total			¥ 619

### 3. Cash Reserve for Capital Improvements

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

	As of December 31, 2005	As of June 30, 2005
	(Yen in millions)	
Reserve balance at the beginning of the period .....	¥ 1,655	¥ 1,498
Amount accumulated in current period .....	1,013	962
Withdrawal from reserves in the current period .....	1,501	805
Amount carried forward .....	¥ 1,167	¥ 1,655

Note 1: Upon the acquisition of Real Estate etc., NBF also assumed accumulated reserves of ¥1,005 million as of December 31, 2005 for capital expenditures from previous owners, which were not included in the above accumulated amounts.

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

### Expenses regarding Entrustment etc.

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

Item	For the six months ended		
	December 31, 2005	June 30, 2005	December 31, 2004
	(Yen in millions)		
Asset management fees .....	¥ 707	¥ 609	¥ 575
Asset custody fees .....	21	19	17
Agent fees (stock transfer, accounting and administrative) .....	57	56	55
Directors' remuneration .....	11	11	11
Auditor's fees .....	12	12	12
Other expenses .....	80	83	86
Total	¥ 888	¥ 790	¥ 756

Note: In addition to the amounts stated above, there are asset management fees of ¥ 325 million for the period from July 1, 2005 to December 31, 2005, ¥ 102 million for the period from January 1, 2005 to June 30, 2005 and ¥ 281 million for the period from July 1, 2004 to December 31, 2004 related to investment in properties which were booked on each property.

## Trading Activities during the Current Period

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

(Yen in millions)

Name of Building	Acquired	
	Date	Acquisition Price (Note 1)
Yotsuya Medical Bldg.	August 31, 2005	8,800
IST Bldg.	September 13, 2005	35,200
Naka-Meguro GT Tower	September 27, 2005	5,600
Naka-Meguro GT Tower	September 27, 2005	4,200
NBF Urawa Bldg.	September 30, 2005	2,000
NBF Ogawamachi Bldg.	September 30, 2005	4,940
Sapporo L-Plaza	October 5, 2005	970
Yamato Seimei Bldg.	October 20, 2005	63,500
Total		¥ 125,210

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

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

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

### 3. Related Parties Transactions

#### 1. Ongoing Transactions

None.

#### 2. Fees Paid for the period from July 1, 2005 to December 31, 2005

Category	Total Fees Paid (A) (Yen in millions)	Description of Transactions with Related Parties (Note 1)		B/A (Note 2)
		Paid to	Amount of Payment (B) (Yen in millions)	
Brokerage commissions	1,364	Mitsui Fudosan Investment Advisors, Inc	953	69.8%
		Mitsui Fudosan Co., Ltd.	382	28.0%
Office management fees etc. (Note 3)	901	Mitsui Fudosan Co., Ltd.	879	97.5%
		NBF Office Management Co., Ltd.	16	1.8%
Property transfer fees	19	Mitsui Fudosan Co., Ltd.	19	100.0%
Property maintenance fees	1,434	First Facilities Co., Ltd.	229	16.0%
		Mitsui Fudosan Co., Ltd.	212	14.8%
		First Facilities West Co., Ltd.	145	10.1%
		Mitsui Fudosan Building Management Co., Ltd.	80	5.6%
		First Facilities Yokohama Co., Ltd.	11	0.8%
		Mitsui Fudosan Housing Lease Co., Ltd.	3	0.2%
		NBF Office Management Co., Ltd.	1	0.0%
Leasing related service fees	70	NBF Office Management Co., Ltd.	24	34.3%
		Mitsui Fudosan Co., Ltd.	11	15.9%
		Mitsui Real Estate Sales Co, Ltd.	1	0.8%

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

Note 2: Figures indicate percentages of total prices.

Note 3: NBF leases the Naka-Meguro GT Tower, Toranomom Kotohira Tower, NBF Ogawamachi Bldg. and the Nishi-Shinjuku Mitsui Building to Mitsui Fudosan Co., Ltd., which sub-leases them to sub-lessees. Further, the Sumitomo Trust & Banking Co., Ltd., as trustee, also leases the Yotsuya Medical Bldg. to Mitsui Fudosan Co., Ltd. which sub-leases it to sub-lessees. Accordingly, NBF does not entrust the office management business for those properties to Mitsui Fudosan. Instead, NBF Office Management Co., Ltd. has been entrusted to undertake such business on behalf of NBF, the owner and lessor of those properties.

Note 4: This amount represents the handling fees directly paid by NBF to Daiwa Securities SMBC Co., Ltd. for underwriting fees of the No.6 NBF Bonds. In addition to the above fees, a certain portion of the fees paid by NBF to a third party (a company supervising investment company securities) for handling payments of principal and interest concerning the No.2, No.3, No.4, No.5 and No.6 NBF Bonds was paid by the said company to Daiwa Securities SMBC Co., Ltd.

Note 5: A public offering of new investment shares, the payment date for which was August 10, 2005, was conducted through a firm commitment underwriting agreement, under which an underwriting securities company underwrote shares at an issue price and sold them at an offering price different from such issue price to general investors ("spread method"). In addition to the fees listed in the above table, a portion of ¥1,654 million, which is the difference between the offering price and the issue price, comprises actual underwriting fees for Nomura Securities Co., Ltd.

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

	(Yen in millions)
First Facilities Co., Ltd.	¥ 128
First Facilities West Co., Ltd.	120
Mitsui Fudosan Building Management Co., Ltd.	71
Mitsui Designtech Co., Ltd.	47
Mitsui Fudosan Housing Lease Co., Ltd.	4
First Facilities Yokohama Co., Ltd.	2
Mitsui Fudosan Co., Ltd.	1

## **Financial Statements**

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

Independent Auditors' Report

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

We have audited the accompanying balance sheets of Nippon Building Fund Inc. (a Japanese Real Estate Investment Trust) as of December 31, 2005 and June 30, 2005, and the related statements of income, shareholders' equity and cash flows for each of the six months ended December 31, 2005, June 30, 2005 and December 31, 2004 expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nippon Building Fund Inc. as of December 31, 2005 and June 30, 2005, and the results of its operations and its cash flows for each of the six months ended December 31, 2005, June 30, 2005 and December 31, 2004, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 11 to the financial statements, which states that Nippon Building Fund Inc. issued new shares and that Nippon Building Fund Inc. concluded an exchange contract of fixed assets on February 24, 2006.

**KPMG ABSA & Co.**

Tokyo, Japan  
May 29, 2006

**NIPPON BUILDING FUND INC.**  
**BALANCE SHEETS**

As of December 31, 2005 and June 30, 2005

	<u>As of</u> <u>December 31, 2005</u>	<u>As of</u> <u>June 30, 2005</u>
(Yen in millions)		
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	¥ 29,713	¥ 39,857
Tenant receivables	238	280
Consumption tax refund receivables and other current assets	1,384	202
Total current assets	31,335	40,339
Investment properties:		
Land including trust accounts	352,506	256,439
Building and improvements including trust accounts	178,416	147,602
Other tangible assets	4,126	3,065
Less: accumulated depreciation	(22,849)	(19,188)
Leasehold rights in trust accounts and other intangible assets	19,844	19,846
Total investment properties, net	532,043	407,764
Other assets	1,524	1,453
<b>Total Assets</b>	¥ 564,902	¥ 449,556
<b>Liabilities</b>		
Current Liabilities:		
Short-term loans	¥ 49,500	¥ 33,700
Long-term debt due within one year	15,000	19,000
Accounts payable	2,234	2,210
Rents received in advance	3,153	2,780
Accrued expenses and other liabilities	1,104	932
Total current liabilities	70,991	58,622
Long-term debt	193,000	147,000
Tenant security deposits	31,489	27,049
Other liabilities	47	45
<b>Total Liabilities</b>	295,527	232,716
<b>Shareholders' Equity</b>		
Common shares, non-par value	262,170	210,679
Shares Authorized: 2,000,000 shares		
Shares Issued and Outstanding: 422,700 shares		
Retained Earnings	7,205	6,161
<b>Total Shareholders' Equity</b>	269,375	216,840
<b>Total Liabilities and Shareholders' Equity</b>	¥ 564,902	¥ 449,556

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

**NIPPON BUILDING FUND INC.**  
**STATEMENTS OF INCOME**

For the six months ended December 31, 2005, June 30, 2005 and December 31, 2004

	For the six months ended		
	December 31, 2005	June 30, 2005	December 31, 2004
	(Yen in millions)		
<b>Revenues:</b>			
Rental	¥ 17,429	¥ 15,114	¥ 13,610
Other revenues related to property leasing	1,934	1,617	1,568
Gain on sale of investment properties	-	-	938
<b>Total Revenues</b>	<b>19,363</b>	<b>16,731</b>	<b>16116</b>
<b>Operating Expenses:</b>			
Property management fees	2,373	2,050	1,954
Real estate taxes	1,593	1,579	1,167
Insurance	30	27	37
Repairs and maintenance	462	383	493
Other rental expenses	1,572	1,235	1,289
Depreciation and amortization	3,664	3,280	2,891
Asset management fees	707	609	575
Other expenses	181	181	181
<b>Total Operating Expenses</b>	<b>10,582</b>	<b>9,344</b>	<b>8,587</b>
<b>Operating Income</b>	<b>8,781</b>	<b>7,387</b>	<b>7,529</b>
Interest income	1	10	1
Interest expense	(1,366)	(1,163)	(1,012)
New investment shares issue costs	(103)	-	(154)
Amortization of deferred bond issue costs	(57)	(47)	(38)
Other expenses, net	(50)	(25)	(19)
<b>Income Before Income Taxes</b>	<b>7,206</b>	<b>6,162</b>	<b>6,307</b>
Current and deferred income taxes	(1)	(1)	(1)
<b>Net Income</b>	<b>¥ 7,205</b>	<b>¥ 6,161</b>	<b>¥ 6,306</b>

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

**NIPPON BUILDING FUND INC.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**

For the six months ended December 31, 2005, June 30, 2005 and December 31, 2004

	(Yen in millions)			
	Number of Common Shares	Common Shares	Retained Earnings	Total
Balance as of June 30, 2004 .....	280,700	148,899	4,262	153,161
Cash Dividends declared .....	-	-	(4,262)	(4,262)
Issuance of New Shares through Public Offering as of July 14, 2004 .....	80,000	58,838	-	58,838
Issuance of New Shares through Allocation to a Third Party as of August 11, 2004 .....	4,000	2,942	-	2,942
Net income .....	-	-	6,306	6,306
Balance as of December 31, 2004 .....	364,700	210,679	6,306	216,985
Cash Dividends declared .....	-	-	(6,306)	(6,306)
Net income .....	-	-	6,161	6,161
Balance as of June 30, 2005 .....	364,700	¥210,679	¥6,161	¥216,840
Cash Dividends declared .....	-	-	(6,161)	(6,161)
Issuance of New Shares through Public Offering as of August 10, 2005 .....	58,000	51,491	-	51,491
Net income .....	-	-	7,205	7,205
Balance as of December 31, 2005 .....	422,700	262,170	7,205	269,375

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, 2005, June 30, 2005 and December 31, 2004

	For the six months ended		
	December 31, 2005	June 30, 2005	December 31, 2004
	(Yen in millions)		
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥ 7,206	¥ 6,162	¥ 6,307
Depreciation and amortization	3,664	3,280	2,891
Amortization of deferred bond issue costs	57	47	38
Interest expense	1,366	1,163	1,012
(Increase) Decrease in tenant receivables	42	(96)	59
Increase (Decrease) in accounts payable	(83)	426	247
Increase (Decrease) in rents received in advance	373	191	(22)
Decrease in investment properties in trust accounts due to sale	-	-	5,939
Cash payments of interest expense	(1,191)	(1,142)	(919)
(Increase) Decrease in consumption tax refund receivable	(1,074)	517	(60)
Other, net	11	108	(156)
<b>Net Cash Provided by Operating Activities</b>	<b>10,371</b>	<b>10,656</b>	<b>15,336</b>
<b>Cash Flows from Investing Activities:</b>			
Payments for purchases of investment properties	(127,850)	(22,828)	(62,304)
Payments for purchases of intangible assets	(0)	(1,123)	(1,837)
Proceeds from tenant security deposits	5,368	2,271	6,133
Payments for tenant security deposits	(928)	(1,407)	(1,826)
Refunds from security deposits paid to lessors	1	4	10
Payments for security deposits paid to lessors	(5)	(7)	(11)
Payments for purchases of other assets	(66)	(40)	(40)
<b>Net Cash Used in Investing Activities</b>	<b>(123,480)</b>	<b>(23,130)</b>	<b>(59,857)</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from short-term loans	184,200	159,000	58,400
Repayment of short-term loans	(168,400)	(150,800)	(96,950)
Proceeds from long-term debt	42,000	12,000	32,000
Payments for deferred bond issue costs	(63)	(56)	(99)
Proceeds from issuance of common shares	51,388	-	61,779
Payment of dividends	(6,160)	(6,302)	(4,262)
<b>Net Cash Provided by Financing Activities</b>	<b>102,965</b>	<b>13,842</b>	<b>50,868</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(10,144)</b>	<b>1,368</b>	<b>6,329</b>
Cash and cash equivalents at the beginning of the period	39,857	38,489	32,160
<b>Cash and Cash Equivalents at the end of the period</b>	<b>¥ 29,713</b>	<b>¥ 39,857</b>	<b>¥ 38,489</b>

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

## NOTES TO FINANCIAL STATEMENTS

Nippon Building Fund Inc.

December 31, 2005, June 30, 2005 and December 31, 2004

### 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 Investment Trust Law of Japan with Mitsui Fudosan Co., Ltd., The Chuo Mitsui Trust and Banking Co., Ltd., 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 common shares. Those common shares are listed on the J-REIT section of the Tokyo Stock Exchange.

As of December 31, 2005, NBF had ownership or beneficiary interests in 52 office properties containing approximately 578,243 rentable square meters of office space. As of December 31, 2005, NBF had leased office space to 868 tenants engaged in a variety of businesses. The occupancy rate for the office properties was approximately 98.1%.

#### *Basis of Presentation*

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

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

### Note 2 – Summary of Significant Accounting Policies

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

Buildings and improvements	2-50 years
Structures	2-52 years
Machinery and equipment	2-17 years
Tools, furniture and fixtures	2-18 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.

### ***New Investment Shares Issue Cost***

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

The public offering of new investment shares on August 10, 2005 was conducted through an underwriting agreement under which an underwriting securities company underwrote all of the newly issued shares at an agreed issue price and sold them at an offering price different from such issue price to investors (“spread method”). Since, pursuant to such spread method, the difference between an offering price and an issue price is earned by an underwriting securities company as substantial underwriting fees, there were no underwriting fees paid by NBF to the underwriting securities company. In the case of the public offering of new investment shares on August 10, 2005, the total amount of the difference between the offering price and the issue price was ¥1,654 million, which would have been accounted for as new investment shares issue costs of NBF if it had been conducted through an underwriting agreement under which an underwriting securities company underwrites shares at an issue price and sells them at an offering price which is the same as such issue price (“conventional method”). Therefore, under the spread method, the new investment shares issue costs were recognized ¥1,654 million lower, and the operating income and the income before income taxes were resulted in ¥1,654 million greater than the case if the conventional method was applied.

### ***Income Taxes***

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

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

Real estate taxes are imposed on properties on a calendar year basis. NBF is allocated the portion of the real estate taxes related to the period following the purchase date of each property through the end of the year and the equivalent amounts of those allocated portions are capitalized as part of the acquisition costs of the relative properties. Capitalized real estate taxes amounted to ¥197 million for the period ended December 31, 2005 and ¥71 million for the period ended June 30, 2005 and ¥106 million for the period ended December 31, 2004, 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.

### Accounting standards for impairment of fixed assets

Effective July 1, 2005, NBF adopted accounting standards for impairment of fixed assets ( " Opinion on Establishment of Accounting Standards for Impairment of Fixed Assets " issued by the Business Accounting Deliberation Council on August 9, 2002) and the guidance on accounting standards for impairment of fixed assets (the " Financial Accounting Standard Guidance No. 6 " issued by the Accounting Standards Board of Japan on October 31, 2003).

The adoption of the standard had no effect on the statements of income for the fiscal period ended December 31, 2005.

### Reclassifications

Certain reclassifications have been made to prior periods' financial statements to conform with the presentation used for the period ended December 31, 2005.

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

Tangible assets as of December 31, 2005 and June 30, 2005 consisted of the following:

	As of December 31, 2005			As of June 30, 2005		
	Acquisition Costs	Accumulated Depreciation	Book Value	Acquisition Costs	Accumulated Depreciation	Book Value
Land	¥ 57,979	¥ -	¥ 57,979	¥ 47,840	¥ -	¥ 47,840
Land in trust	294,527	-	294,527	208,599	-	208,599
<b>Land including trust total</b>	<b>352,506</b>	<b>-</b>	<b>352,506</b>	<b>256,439</b>	<b>-</b>	<b>256,439</b>
Buildings and improvements	55,303	(3,895)	51,408	47,170	(2,875)	44,295
Buildings and improvements in trust	123,113	(18,000)	105,113	100,432	(15,535)	84,897
<b>Building and improvements including trust</b>	<b>178,416</b>	<b>(21,895)</b>	<b>156,521</b>	<b>147,602</b>	<b>(18,410)</b>	<b>129,192</b>
Structures	890	(141)	749	706	(106)	600
Machinery and equipment	540	(82)	458	494	(54)	440
Tools, furniture and fixtures	116	(27)	89	106	(18)	88
Structures in trust	1,158	(214)	944	585	(181)	404
Machinery and equipment in trust	925	(288)	637	796	(245)	551
Tools, furniture and fixtures in trust	492	(202)	290	361	(174)	187
Construction in process in trust	5	-	5	17	-	17
<b>Other tangible assets total</b>	<b>4,126</b>	<b>(954)</b>	<b>3,172</b>	<b>3,065</b>	<b>(778)</b>	<b>2,287</b>
<b>Total</b>	<b>¥535,048</b>	<b>¥(22,849)</b>	<b>¥512,199</b>	<b>¥407,106</b>	<b>¥(19,188)</b>	<b>¥387,918</b>

**Note 4 – Shareholders' Equity**

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

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

Short-term loans consist of short-term notes and short-term borrowings under loan agreements. The annual interest rates on short-term loans outstanding are floating rates and at December 31, 2005 and June 30, 2005 ranging from 0.24% to 0.37% and from 0.29% to 0.45%, respectively. Long-term debt is fixed rates and as of December 31, 2005 and June 30, 2005 consisted of the following:

	(Yen in millions)	
	As of December 31, 2005	As of June 30, 2005
Unsecured loans due 2006 to 2017 principally from banks and insurance companies with interest rates mainly ranging from 0.7% to 2.2% .....	¥ 148,000	¥ 116,000
0.75% unsecured bonds due 2007 .....	10,000	10,000
1.04% unsecured bonds due 2009 .....	10,000	10,000
0.80% unsecured bonds due 2010 .....	10,000	10,000
1.60% unsecured bonds due 2011 .....	10,000	10,000
1.85% unsecured bonds due 2015 .....	10,000	-
2.00% unsecured bonds due 2018 .....	10,000	10,000
	208,000	166,000
Less: amount due within one year .....	15,000	19,000
	¥ 193,000	¥ 147,000

The annual maturities of long-term debt as of December 31, 2005 were as follows:

	(Yen in millions)
2006 .....	¥ 15,000
2007 .....	30,000
2008 .....	23,000
2009 .....	20,000
2010 .....	22,000
Thereafter .....	98,000

During the period ended December 31, 2005, NBF obtained committed credit lines of ¥30 billion with certain financial institutions to reduce refinancing risk. The unused amount of such committed credit lines was ¥30 billion at December 31, 2005.

**Note 6 –Rental Revenues and Expenses**

Rental revenues and expenses for the periods ended December 31, 2005, June 30, 2005, and December 31, 2004 were as follows:

	For the six months ended		
	December 31, 2005	June 30, 2005	December 31, 2004
	(Yen in millions)		
<b>Revenues from Property Leasing :</b>			
Rental:			
Rental revenues .....	¥ 15,356	¥ 13,291	¥ 11,955
Common area charges .....	1,966	1,741	1,574
Others .....	107	82	81
Subtotal .....	17,429	15,114	13,610
Other revenues related to property leasing:			
Parking lots .....	459	412	359
Facility charge .....	70	68	67
Incidental income .....	1,331	1,025	1,067
Cancellation fees .....	49	100	59
Miscellaneous income .....	25	12	16
Subtotal .....	1,934	1,617	1,568
Total revenues from property leasing .....	19,363	16,731	15,178
<b>Rental Expenses:</b>			
Property management fee .....	2,373	2,050	1,954
Real estate taxes .....	1,593	1,579	1,167
Repairs and maintenance .....	462	383	493
Insurance .....	30	27	37
Other rental expenses .....	1,572	1,235	1,289
Depreciation and amortization .....	3,664	3,280	2,891
Total rental expenses .....	9,694	8,554	7,831
<b>Operating Income from Property Leasing Activities</b>	<b>¥ 9,669</b>	<b>¥ 8,177</b>	<b>¥ 7,347</b>

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

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

	(Yen in millions)
Shinjuku Yocho-machi Bldg.	
Revenue from sale of investment properties	¥ 2,700
Cost of investment properties	1,977
Other sales expenses	83
Gain on sale of investment properties	¥ 640
Inage Kaigan Bldg.	
Revenue from sale of investment properties	¥ 2,100
Cost of investment properties	1,831
Other sales expenses	66
Gain on sale of investment properties	¥ 203
Hamamatsu City Bldg.	
Revenue from sale of investment properties	¥ 1,400
Cost of investment properties	1,284
Other sales expenses	45
Gain on sale of investment properties	¥ 71
Kiomachibori Center Bldg.	
Revenue from sale of investment properties	¥ 900
Cost of investment properties	846
Other sales expenses	30
Gain on sale of investment properties	¥ 24
Total	
Revenue from sale of investment properties	¥7,100
Cost of investment properties	5,937
Other sales expenses	225
Gain on sale of investment properties	¥ 938

**Note 8 –Income Taxes**

NBF is subject to income taxes in Japan. The effective tax rate on NBF's income based on applicable Japanese tax law was 0.01% for the periods ended December 31, 2005 and, 0.02% for the periods ended June 30, 2005 and December 31, 2004, respectively. The following table summarizes the significant differences between the statutory tax rates and NBF's effective tax rates for financial statement purposes.

	For the six months ended		
	December 31, 2005	June 30, 2005	December 31, 2004
Statutory effective tax rate .....	39.39%	39.39%	39.39%
Deductible dividends paid .....	(39.39)	(39.38)	(39.38)
Others .....	0.01	0.01	0.01
Effective tax rate .....	0.01%	0.02%	0.02%

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

**Note 9– Per Share Information**

Information about earnings per share for the periods ended December 31, 2005, June 30, 2005 and December 31, 2004 and net assets per share as of December 31, 2005 and June 30, 2005 was as follows.

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

	For the six months ended		
	December 31, 2005	June 30, 2005	December 31, 2004
		(Yen)	
<b>Earnings per Share of Common Shares:</b>			
Net income:	¥ 17,570	¥ 16,893	¥ 17,607
Weighted average number of common shares outstanding:	410,091	364,700	358,157
	As of December 31, 2005	As of June 30, 2005	
<b>Net Assets Per Share:</b>	¥ 637,274	¥ 594,571	

**Note 10–Leases**

NBF leases some of its investment properties to outside parties under non-cancelable operating leases. As of December 31, 2005 and June 30, 2005, the future lease revenues under the non-cancelable operating leases are as follows:

	<u>As of December 31, 2005</u>	<u>As of June 30, 2005</u>
	(Yen in millions)	
Due within one year .....	¥ 6,145	¥ 10,068
Due after one year .....	6,291	11,673
Total.....	<u>¥ 12,436</u>	<u>¥ 21,741</u>

**Note 11– Significant Subsequent Events**
**Cash Distribution**

As of February 24, 2006, the Board of Directors of NBF declared to effect payment of a cash distribution of ¥17,046, per share aggregating ¥7,205 million, to shareholders of record on December 31, 2005.

**Issues of New Shares**

On February 24, 2006 and again on March 8, 2006, the Board of Directors of NBF resolved to issue new shares and having received full payment on March 16, 2006 and March 29, 2006 said shares were issued in accordance with the following conditions.

As the result, the total amount of stated capital increased to ¥346,447 million and the number of shares issued increased to 508,000.

**A. Issuance of new shares through public offering**

( ) Offering method	: Public offering
( ) Number of shares issued	: 80,000 shares
( ) Offering price per share	: 1,019,200 Yen per share
( ) Total offering price	: 81,536 million Yen
( ) Issue price per share	: 988,000 Yen per share
( ) Total issue price	: 79,040 million Yen
( ) Payment date	: March 16, 2006
( ) Initial date subject to distribution	: January 1, 2006

**B. Issue of new shares through public allocation to a third party**

( ) Offering method	: Allocation to a third party
( ) Number of shares issued	: 5,300 shares
( ) Proceeds per share	: 988,000 Yen per share
( ) Aggregate proceeds	: 5,236 million Yen
( ) Payment date	: March 29, 2006
( ) Initial date subject to distribution	: January 1, 2006
( ) Allottee	: Nomura Securities Co., Ltd.
( ) Number of allocated shares	: 5,300 shares

***Use of Procured Proceeds***

The proceeds procured through this public offering and the allocation to a third party were applied to repayment of loans and acquisition of real estate etc.

***Exchange of Fixed Assets***

NBF decided to implement a fixed asset exchange transaction with Mitsui Fudosan Co., Ltd. by entering into an exchange agreement dated February 24, 2006. The transaction and delivery of the properties were completed on April 24, 2006.

With respect to the land component of the properties acquired through the exchange transaction, NBF expects to apply the reduced value rule as defined under Article 50 of the Corporation Tax Law .

As a result of out of profits upon the sale of the transferred assets (expected to be approximately ¥18.5 billion) will be used to off set against to acquisition cost of the properties acquired through the exchange transaction.

If it applies that rule a maximum allowable amount this exchange transaction, approximately ¥700 million of profits will recorded.

**A. Assets Transferred in Exchange Transaction**

## JFE Bldg.

- Sales Price : 91,000 million Yen
- Book Value ( December 31, 2005 ) : 71,802 million Yen
- Classification of asset sold : Trust

**B. Assets to be Acquired through Exchange Transaction**

## Nishi-Shinjyuku Mitsui Bldg.(additional acquisition)

- Acquisition Price : 43,300 million Yen
- Classification of assets acquired : Real Estate

## Gate City Ohsaki

- Acquisition Price : 30,100 million Yen
- Classification of assets acquired : Real Estate

## Toranomom Kotohira Tower(additional acquisition)

- Acquisition Price : 18,500 million Yen
- Classification of assets acquired : Real Estate and surface rights

## Parale Mitsui Bldg

- Acquisition Price : 3,800 million Yen
- Classification of assets acquired : Real Estate

## Shinanobashi Mitsui Bldg

- Acquisition Price : 14,400 million Yen
- Classification of assets acquired : Real Estate

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## Appendix

### **Major Interested Parties**

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

NBFM, as Asset Management Company provided for in the Investment Trust Law of Japan, performs management of NBF's assets and undertakes management of the institutions of NBF. As of March 30, 2006, NBFM has been entrusted as an asset management company only by NBF.

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

#### ***Operation***

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

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

##### Management Fees 1

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

##### Management Fees 2

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

##### Management Fees 3

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

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

### ***History of NBFM***

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

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

### ***List of Shareholders*** ( as of December 31, 2005 )

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

### ***Directors and Staff***

As of March 30, 2006, the directors and corporate auditors of NBFM are as follows. The staff other than directors and auditors of NBFM is comprised of 17 persons.

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

***Outline of Financial Conditio***

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

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

Current as of March 31, 2006	Yen in thousands
Total Assets	1,799,163
Total Liabilities	377,888
Shareholders' Equity	1,421,275

## Profit &amp; Loss for the Most Recent Fiscal Year

First Fiscal Year From: April 1, 2005 To: March 31, 2006	Yen in thousands
Operating Income	1,282,093
Ordinary Profit	1,284,785
Net Income	742,444

## Investment Objects

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

### A. Principal Investment Objects among Designated Assets

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

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

### B. Other Investment Objects among Designated Assets

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

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

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

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

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

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

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

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## Investment Restrictions

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

### *Investment Location and Currencies*

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

### *Borrowing*

See "Investment Policies of NBF 1. Basic Investment Policies B. Investment Strategy (4) Financial Policies".

### *Concentration of investment*

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

### *Investment in Other Funds*

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

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

### *Subscription and Margin Trading of Securities*

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

### *Compliance with Laws and Regulations*

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

- B. Compliance with the Investment Trust Law of Japan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## ***Restrictions of Transactions with Interested Parties***

### **(1) Restriction on an asset management company (§34.3)**

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

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

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

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

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

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

### **(3) Restriction on an investment corporation**

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

A registered investment corporation must not, in principle, acquire or sell securities, lend or borrow securities, acquire or sell real estate, lease real estate or entrust the supervision of real estate (provided, however, that, it is acceptable to cause NBFM to act as an agent or broker concerning the purchase or leasing of residential building lots or buildings) or otherwise engage in transactions concerning Designated Assets other than the preparation of residential building lots and design of buildings, with its executive directors or supervisory directors, asset management companies who perform asset management, close relatives of executive directors or supervisory directors, or persons or employees who perform duties similar to directors or auditors of an asset management company who perform asset management.



# Nippon Building Fund Inc.

## Corporate Data

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<b>Corporate Office:</b>	7-2, Yaesu 2-chome, Chuo-ku, Tokyo, 104-0028, Japan +81-3-3281-8810 <a href="http://www.nbf-m.com/nbf_e">http://www.nbf-m.com/nbf_e</a>
<b>Date of Inception:</b>	March 16, 2001
<b>Capital:</b>	Contributed capital and common shares issued and outstanding as of December 31, 2005: ¥262,170 million 422,700 shares
<b>Shareholders:</b>	19,873 (As of December 31, 2005)
<b>Transfer Agent:</b>	The Chuo Mitsui Trust and Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo, 105-8574, Japan
<b>Business Office of the Transfer Agent:</b>	Stock Transfer Agency Department of the Chuo Mitsui Trust and Banking Co., Ltd. 8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063, Japan +81-3-3323-7111
<b>Independent Public Accountants:</b>	KPMG AZSA & Co. AZSA Center Building 1-2, Tsukudo-cho, Shinjuku-ku, Tokyo, 162-8551, Japan
<b>Investor Relations:</b>	For further information, please contact our Asset Management company: Investor Relations of Financial Department Nippon Building Fund Management Ltd. 7-2, Yaesu 2-chome, Chuo-ku, Tokyo, 104-0028, Japan +81-3-3281-8810

This document contains translations of selected information described in the Securities Report (Yuka shoken hokokusho) filed on March 30, 2006 pursuant to the Securities Exchange Law of Japan, and the Financial Statements and the Performance Information Report for the period from July 1, 2005 to December 31, 2005, of Nippon Building Fund Inc. prepared pursuant to the Investment Trust Law of Japan.

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