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**Nippon Building Fund Inc.**

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## First Half of 2014

(26th Period – January to June 2014)

### NBF Report

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



# Profile

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

NBF employs funds raised through unitholder subscriptions and borrowings to invest in real estate, real estate-backed securities, trust beneficiary rights and other assets with the objective of sustainable growth in portfolio value and stable profits on a medium-to-long-term basis. NBF primarily invests in office buildings in the central business districts of Tokyo, other Greater Tokyo and other cities in Japan.

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







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# Introduction

(As of June 30, 2014)

An office-specialized J-REIT, sponsored by Mitsui Fudosan Co., Ltd.

## NBF Policies

## STRATEGIES

### Portfolio Strategy

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

### Financial Strategy

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

### Leasing Strategy

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

### Property Management Strategy

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



## Increase Unitholder Value

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

## FEATURES

### Portfolio Quality

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

**Ratio of investment in 5 wards of central Tokyo** **51.5%**  
(Share of investment in 23 wards of Tokyo 78.0%)  
(Acquisition price basis)

**High occupancy rate**

**Average occupancy rate during the period\*** **97.0%**  
(1H/2014 (26th Period))

**Appraisal value**

**Unrealized gain ratio** **7.1%**

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

### Financial Fundamentals

**Sound LTV control**

**LTV** (Interest-bearing debt to asset\* ratio) **43.1%**

**Diversified Long-Term Fixed-Rate Debt**

**Long-term fixed-rate interest-bearing debt ratio** **96.4%**

**Average maturity** **4.53 years**  
(Long-term interest-bearing debt)

\*Book value basis

### Size

**The largest J-REIT**

**Total assets\*** **¥1,040.6 billion**

**Market cap** **¥835.9 billion**

**Properties** **73**

**Total rentable area** **1.07 million m<sup>2</sup>**

\*Book value basis

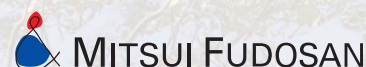
### Sponsor

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

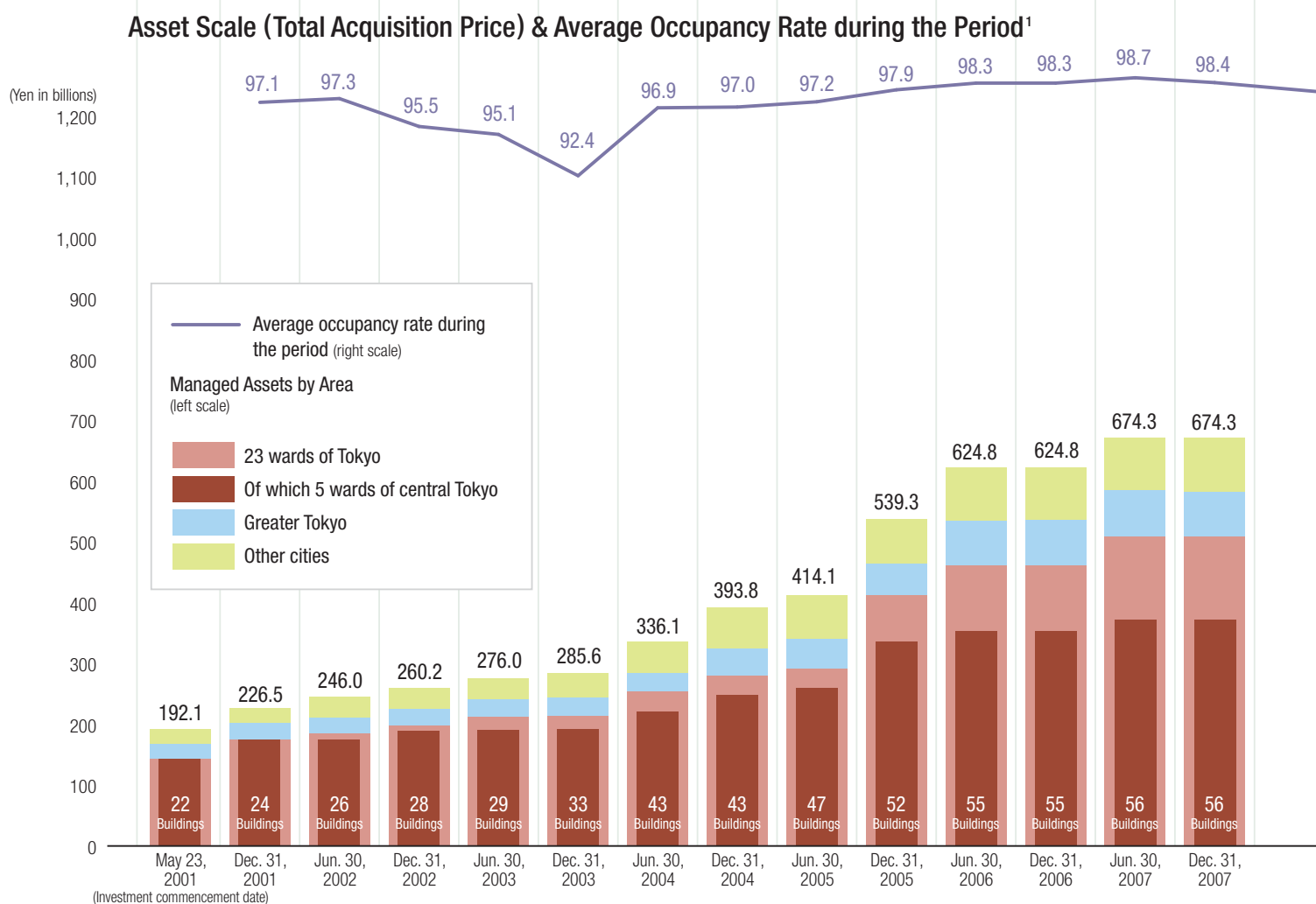
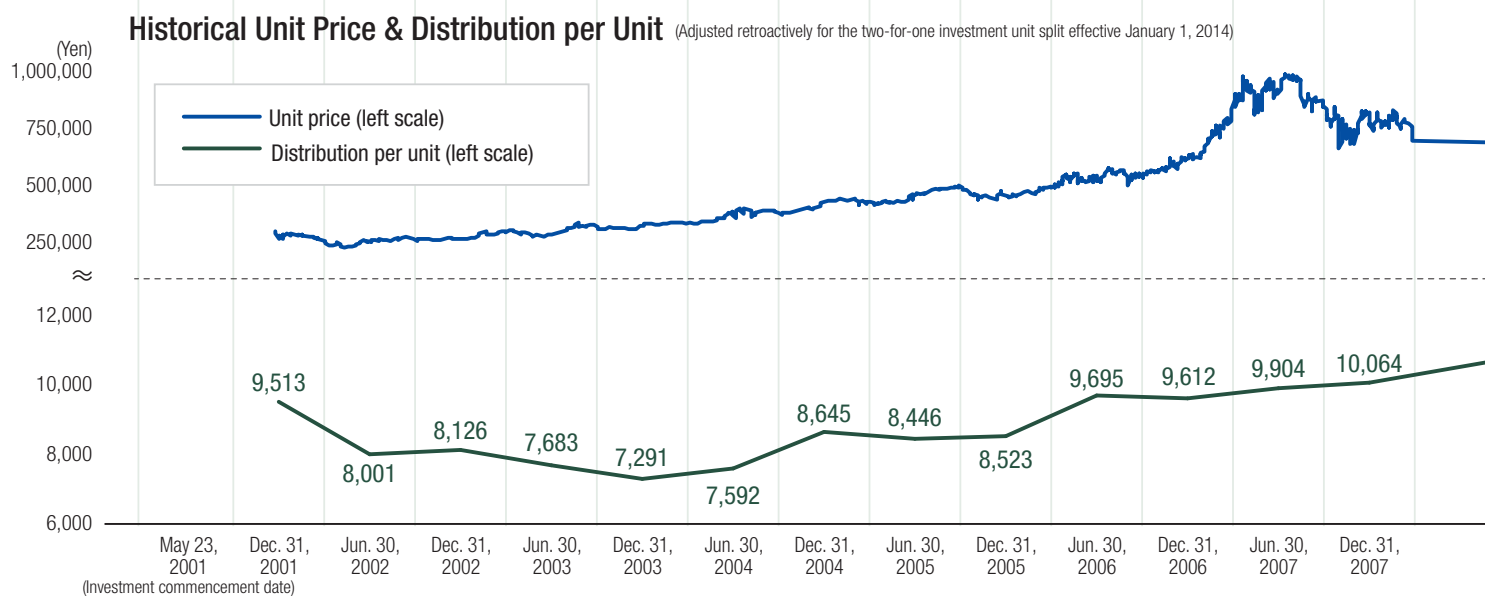
**Leverage the comprehensive strengths of the Mitsui Fudosan Group**

**Leasing capabilities**

**Property management capabilities**

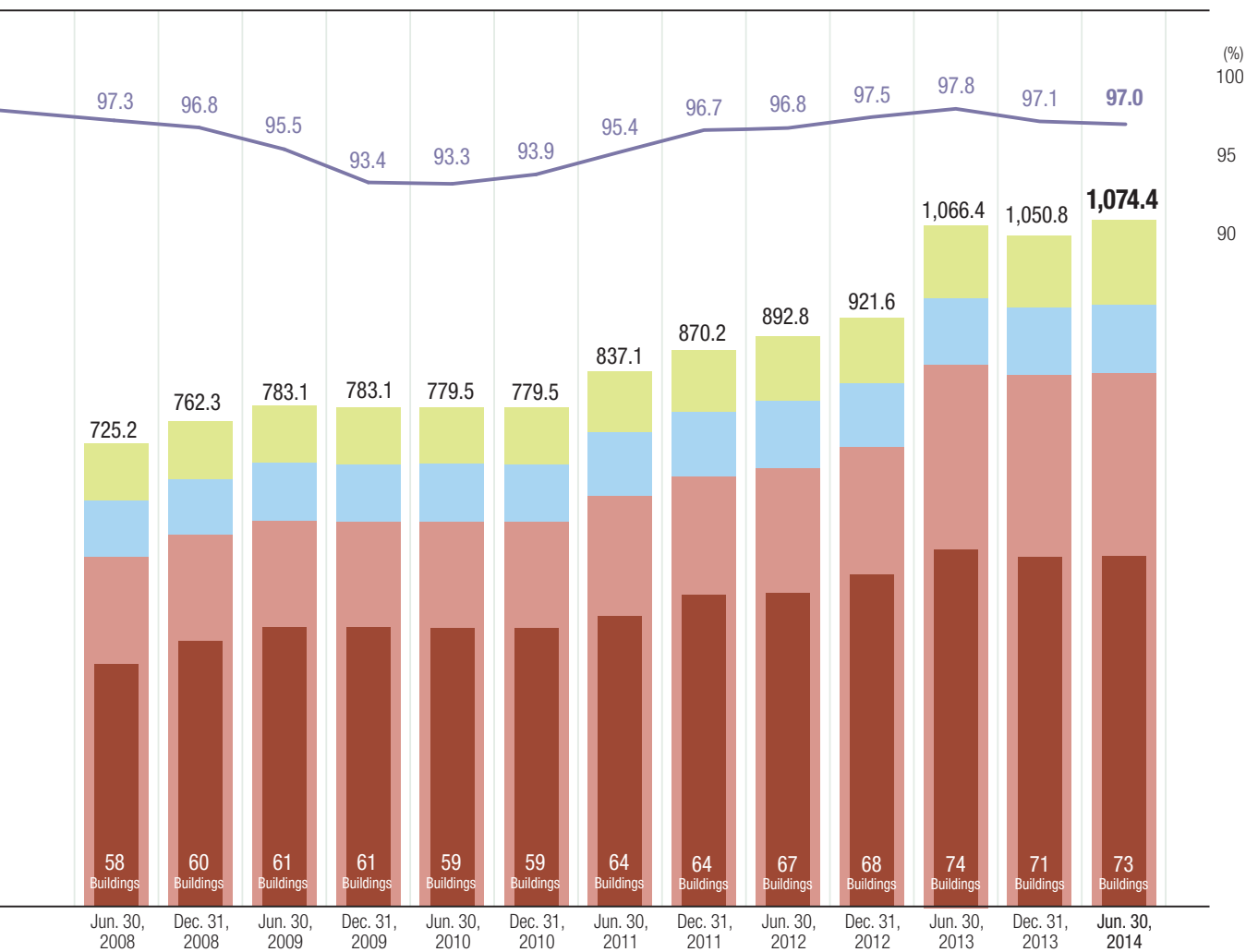


# A Track Record of Steady Growth



Notes:

1. Average occupancy rate during the period: weighted average of month-end occupancy rate on a floor space basis
2. Data uses the new geographical categories introduced on June 30, 2014.





# Portfolio Overview (As of June 30, 2014)

Property Name	Acquisition Price (Yen in millions)	Book Value (Yen in millions)	Appraisal Value (Yen in millions)	Total Rentable Area (m <sup>2</sup> )	Total Leased Area (m <sup>2</sup> )	Occupancy Rate (%)	Total Number of Tenants
1 NBF Osaka Bldg.	66,660	68,144	74,700	74,425	74,425	100.0	1
2 NBF Hibiya Bldg.	63,500	64,289	53,300	27,576	27,398	99.4	94
3 Gate City Ohsaki	57,281	49,948	59,300	41,860	39,843	95.2	78
4 Nishi-Shinjuku Mitsui Bldg.	45,145	34,051	41,700	33,338	33,320	99.9	32
5 Nakanosakaue Sunbright Twin	40,750	37,022	30,100	32,021	32,021	100.0	17
6 Mitsubishi Heavy Industries Head Office Bldg.	36,300	36,572	43,500	35,641	35,581	99.8	11
7 NBF Toyosu Canal Front	35,200	30,769	35,500	36,638	36,625	100.0	9
8 Shiba NBF Tower	32,000	27,961	26,900	24,728	24,728	100.0	34
9 NBF Platinum Tower	31,000	27,596	55,600	33,503	33,503	100.0	6
10 NBF Minami-Aoyama Bldg.	31,000	31,556	17,000	9,631	7,380	76.6	9
11 NBF COMODIO Shiodome	28,800	28,437	30,600	20,538	17,210	83.8	12
12 NBF Toyosu Garden Front	25,018	23,564	27,900	28,299	28,299	100.0	4
13 Toranomon Kotohira Tower	24,543	19,283	31,200	16,848	16,848	100.0	24
14 Nakameguro GT Tower	23,856	18,827	19,900	21,423	21,423	100.0	19
15 Celestine Shiba Mitsui Bldg.	22,500	22,709	23,400	16,915	16,915	100.0	8
16 NBF Ochanomizu Bldg.	20,840	20,601	12,000	6,627	3,645	55.0	3
17 NBF Shibuya Garden Front	20,269	19,286	25,900	16,516	16,516	100.0	1
18 NBF Ginza Street Bldg.	17,000	17,554	14,900	3,440	3,440	100.0	1
19 Shinjuku Mitsui Bldg. No.2	16,285	16,426	15,900	14,874	14,798	99.5	47
20 GSK Bldg.	14,434	12,087	17,800	20,426	20,426	100.0	1
21 River City M-SQUARE	13,350	12,808	14,800	16,232	15,406	94.9	7
22 NBF Toranomon Bldg.	13,337	13,115	16,000	10,067	9,994	99.3	15
23 Kowa Nishi-Shinbashi Bldg. B	13,217	11,361	13,700	10,088	10,088	100.0	20
24 NBF Shinkawa Bldg.	12,614	10,745	13,420	17,307	17,207	99.4	35
25 Shinbashi M-SQUARE	11,900	11,976	12,600	5,392	5,392	100.0	7
26 NBF Ueno Bldg.	10,400	9,881	8,460	8,504	7,653	90.0	4
27 NBF Alliance	9,126	9,417	11,100	4,033	4,033	100.0	7
28 Yotsuya Medical Bldg.	8,800	8,015	7,390	7,481	5,508	73.6	36
29 NBF Ikebukuro East	8,630	8,868	9,210	11,073	11,073	100.0	20
30 Higashi Gotanda Square	8,350	8,149	8,060	6,166	4,304	69.8	6
31 NBF Shibuya East	8,000	8,028	6,090	4,999	4,999	100.0	4
32 NBF Shibakouen Bldg.	6,770	6,351	7,570	7,084	7,033	99.3	18
33 NBF Takanawa Bldg.	6,667	6,507	6,990	10,458	8,715	83.3	12
34 NBF Akasaka Sanno Square	6,250	6,298	6,410	5,258	5,258	100.0	6
35 NBF Shibakouen Daimon Street Bldg.	6,100	6,274	4,180	3,428	3,428	100.0	8
36 Sumitomo Densetsu Bldg.	5,365	4,864	5,370	5,991	5,991	100.0	1
37 NBF Higashi-Ginza Square	5,200	4,582	7,100	4,871	4,871	100.0	8
38 Panasonic Tokyo Shiodome Bldg.	5,075	5,098	5,440	4,577	4,577	100.0	1
39 NBF Ogawamachi Bldg.	4,940	5,105	5,410	4,805	4,805	100.0	15
40 Nihonbashi Kabuto-cho M-SQUARE	4,850	4,713	5,030	3,298	3,298	100.0	2
41 NBF Ikebukuro Tower	4,695	4,432	5,100	5,642	5,642	100.0	16
42 NBF Ikebukuro City Bldg.	4,428	4,210	4,760	5,127	5,127	100.0	11
43 Ryukakusan Bldg.	4,050	4,483	4,220	5,332	5,332	100.0	8
44 Jingumae M-SQUARE	3,700	3,724	3,700	7,232	6,422	88.8	7
<b>23 Wards of Tokyo Total</b>	<b>838,196</b>	<b>785,707</b>	<b>849,210</b>	<b>689,711</b>	<b>670,497</b>	<b>97.2</b>	<b>685</b>
45 Chofu South Gate Bldg.	9,320	8,777	9,650	13,762	13,762	100.0	1
46 Shin-Kawasaki Mitsui Bldg.	25,820	23,107	20,800	39,837	38,464	96.6	17
47 Yokohama ST Bldg.	13,529	12,420	14,100	20,047	19,918	99.4	94
48 Parale Mitsui Bldg.	3,800	3,195	3,610	12,545	11,837	94.4	34
49 NBF Atsugi Bldg.	2,300	2,214	2,080	5,242	5,242	100.0	19
50 Tsukuba Mitsui Bldg.	8,875	6,516	7,210	16,826	16,147	96.0	65
51 NBF Utsunomiya Bldg.	2,435	2,249	2,210	6,160	6,160	100.0	40
52 S-ino Omiya North Wing	16,816	14,248	19,000	20,698	20,487	99.0	42
53 NBF Urawa Bldg.	2,000	1,871	1,840	3,455	3,455	100.0	13
54 NBF Shin-Urayasu Tower	15,700	15,683	10,700	22,804	19,101	83.8	47
55 NBF Matsudo Bldg.	2,455	2,253	2,160	4,770	4,770	100.0	26
<b>Greater Tokyo Total</b>	<b>103,051</b>	<b>92,539</b>	<b>93,360</b>	<b>166,145</b>	<b>159,342</b>	<b>95.9</b>	<b>398</b>
56 Sapporo L-Plaza	4,404	3,437	6,810	11,396	10,990	96.4	13
57 NBF Sapporo Minami Nijo Bldg.	1,870	1,664	1,290	5,351	5,351	100.0	3
58 NBF Sendai Honcho Bldg.	3,566	3,440	2,830	7,514	7,514	100.0	10
59 NBF Unix Bldg.	4,028	3,003	3,370	13,267	13,267	100.0	50
60 NBF Niigata Telecom Bldg.	3,957	3,516	2,910	10,208	10,079	98.7	34
61 Sumitomo Mitsui Banking Nagoya Bldg.	14,900	14,864	15,600	17,658	17,658	100.0	12
62 NBF Nagoya Hirokoji Bldg.	7,232	6,622	6,920	9,873	8,928	90.4	23
63 Aqua Dojima NBF Tower	17,810	16,028	16,500	21,917	21,339	97.4	43
64 Nakanoshima Central Tower	14,900	15,066	15,500	17,325	17,325	100.0	19
65 Shinanobashi Mitsui Bldg.	14,400	10,894	13,800	25,314	24,992	98.7	56
66 Sakaisuji-Honmachi Center Bldg.	12,700	12,272	12,300	23,230	22,053	94.9	54
67 Sun Mullion NBF Tower	10,500	7,576	7,040	14,954	14,954	100.0	30
68 Aqua Dojima East	1,914	1,696	1,400	3,245	3,101	95.6	20
69 NBF Hiroshima Tatemachi Bldg.	2,930	2,781	2,310	5,567	5,496	98.7	32
70 Hiroshima Fukuromachi Bldg.	2,215	1,984	2,220	3,927	3,794	96.6	11
71 NBF Matsuyama Nichigin-mae Bldg.	3,310	3,302	3,490	5,998	5,666	94.5	20
72 Hakata Gion M-SQUARE	8,000	7,473	8,740	14,328	14,328	100.0	16
73 NBF Kumamoto Bldg.	4,500	4,172	3,760	7,931	7,542	95.1	17
<b>Other Cities Total</b>	<b>133,138</b>	<b>119,797</b>	<b>126,790</b>	<b>219,001</b>	<b>214,376</b>	<b>97.9</b>	<b>463</b>
<b>Total</b>	<b>1,074,386</b>	<b>998,043</b>	<b>1,069,360</b>	<b>1,074,857</b>	<b>1,044,216</b>	<b>97.1</b>	<b>1,546</b>

(As of June 30, 2014)



**18 Properties ¥133.1 billion**





# To Our Unitholders



**Kenichi Tanaka**

President and CEO of Nippon Building Fund Management Ltd.

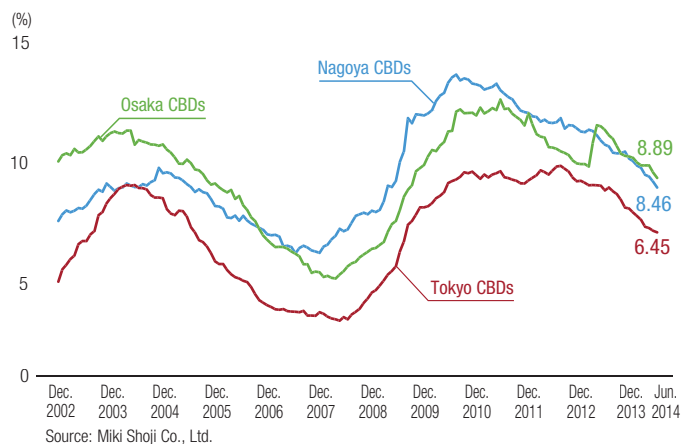
## Improvement in both the Japanese economy and real estate market

During the six months ended June 30, 2014 (the “26th Period”), the Japanese economy was affected by a surge in demand ahead of an increase in the consumption tax and a drop in demand after the increase, but continued to recover overall because of growth in capital expenditures reflecting robust corporate earnings, as well as the broader effects of

the government’s economic policies and bold monetary easing by the Bank of Japan.

In the office building leasing market, the supply-demand balance is likely to continue to improve because the supply of new office buildings remains at the historical average while active demand for office space is expected to continue, backed by improved corporate earnings and expansion in employment. Under these conditions, rents for

### Average Vacancy Rates in Major Central Business Districts (CBDs)



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

### Average Asking Rents in Tokyo CBDs



highly competitive prime office buildings are expected to continue to rise.

In the office building transaction market, the favorable fund procurement environment supported ongoing strong interest among major investors in Japan and overseas. A growing number of investors forecast steady gains in office building prices, and transactions are expected to remain brisk. Moreover, interest rates are at low levels because the Bank of Japan has maintained a policy of aggressive monetary easing, resulting in a robust supply of capital to the real estate market. However, NBF realizes that it must pay close attention to future interest rate risk.

### Enhancing the quality of our portfolio

NBF aims to increase unitholder value under a basic policy of stable growth in distribution per unit over the medium-to-long term and expansion in net asset value per unit. Initiatives in the 26th Period based on this policy enhanced the quality of our portfolio.

In the office building leasing market, vacancy rates have continued to improve in the Tokyo central business districts and asking rents for highly

competitive office buildings are rising. With this recovery, we expect lease revenues from our existing portfolio properties to stop decreasing in the first half of 2015. Our policy going forward is to focus on internal growth backed by high occupancy rates.

We also generated external growth by acquiring a total of three new properties (including an additional acquisition) from January to March 2014, primarily from our sponsors, for ¥24.8 billion. This consisted of one property in the five wards of central Tokyo and two properties in Osaka. We also disposed of a portion of the GSK Building site for ¥3,080 million. In addition, we added to acquisition capacity with a capital increase in March 2014 to prepare for opportunities to invest in external growth.

We expect our markets to remain brisk, and intend to proactively invest in carefully selected properties.

### Increasing unitholder value

NBF will continue to focus on increasing unitholder value by taking full advantage of its features and strengths to achieve mid-to-long-term growth in distribution per unit and expansion of net asset value.

#### Office Floor Space Supply and Demand (Net Absorption) in the 23 Wards of Tokyo





# CIO and CFO Message

## Koji Matsufuji

CIO and CFO of Nippon Building Fund Management Ltd.



### Steadily enhancing portfolio quality

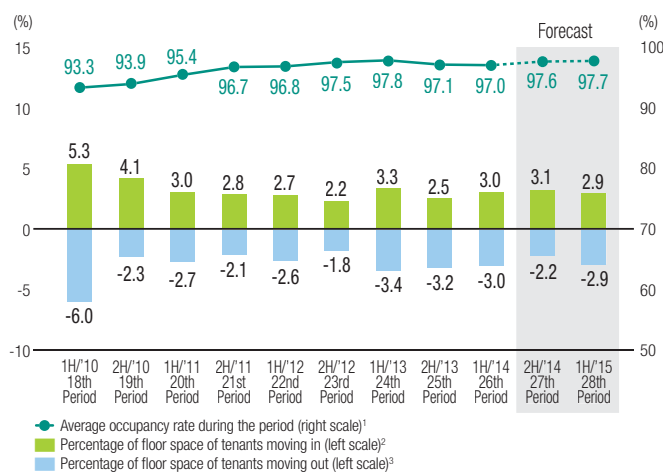
Anticipating the recovery of the office building market, in 2013 we enhanced the quality of NBF's portfolio by acquiring nine properties for ¥156.9 billion. These were primarily high-quality, large-scale properties in the 23 wards of Tokyo. During the 26th Period, we acquired three properties from January to March 2014. In January, we made an additional acquisition for ¥6,200 million at Sakaisuji-Honmachi Center Building, a property in which NBF had existing interests. With this additional acquisition, NBF now owns the entire property. In March, we acquired Jingumae M-SQUARE for ¥3,700 million from our main sponsor Mitsui Fudosan, and Nakanoshima Central Tower for ¥14,900 million from our second major sponsor Sumitomo Life Insurance Company.

The average NOI yield for these three properties is 5.5 percent, which is higher than the average NOI yield for NBF's overall portfolio. All three properties are highly

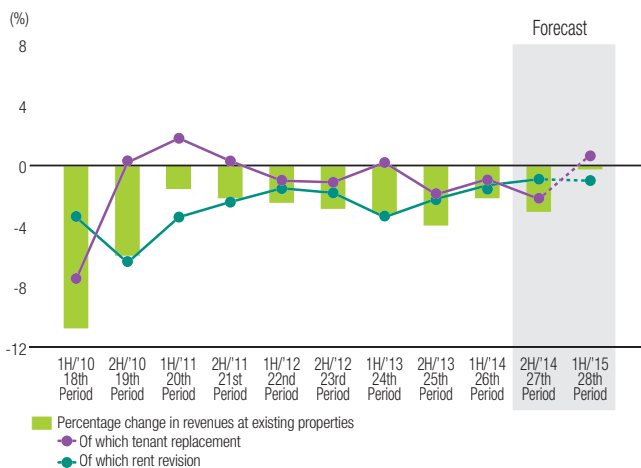
competitive and in excellent locations. Nakanoshima Central Tower (built in 2005) is located in the Nakanoshima area of Osaka, where a large number of office buildings are concentrated. Jingumae M-SQUARE (built in 2009) is located in Shibuya-ku, where vacancy rates are relatively low relative even for the 23 wards of Tokyo. Sakaisuji-Honmachi Center Building (additional acquisition) is located in a primarily business district in the Osaka area. Moreover, having 100-percent ownership of this property will contribute to enhancing NBF's portfolio over the medium-to-long term in ways such as improving its competitiveness.

We made property dispositions as well as acquisitions. Two of the three dispositions in the 25th Period were in the Kansai area, and were replaced with acquisitions during the 26th Period in the Osaka area, which enabled us to strengthen NBF's Kansai area portfolio. In addition, we sold the NBF Nihonbashi Muromachi Center Building to Mitsui Fudosan in 2013, which generated a gain on sale of over

### Average Occupancy Rate and Percentage of Floor Space of Tenants Moving In and Out



### Revenues from Leasing at Existing Properties (Annualized PoP Comparison)



¥4.0 billion. Also, in January 2014 we sold a portion of the GSK Building site to the Tokyo Metropolitan Government for ¥3,080 million, generating a gain on sale of ¥1.9 billion.

A portion of the gain on sale of investment properties has been allocated to internal reserves. Consequently, internal reserves as of June 30, 2014 totaled approximately ¥4.2 billion, or about ¥3,000 per unit.

As a result of these activities, NBF owned 73 properties as of June 30, 2014, with total investment on an acquisition price basis of ¥1,074.4 billion.

### Securing acquisition capacity while maintaining a solid financial base

We continue to practice conservative financial management and maintain a financial base that allows us to respond to changes in financial market conditions and property acquisition opportunities. We keep the LTV ratio within a target range of 36 to 46 percent, with a maximum of 56 percent, to maintain a constant level of acquisition capacity. Although we acquired new properties during the 26th Period, LTV as of June 30, 2014 was 43.1 percent, compared with 43.8 percent as of December 31, 2013, due to the capital increase implemented in March 2014. Consequently, we were able to increase acquisition capacity to ¥55.0 billion within an LTV of 46 percent, up from ¥42.0 billion as of December 31, 2013. NBF intends to use this acquisition capacity to generate further growth.

### Revenues from existing properties to stabilize in the 28th Period with replacement tenants filling space vacated by a major tenant

Revenues from property leasing for existing properties have continued to decrease since the financial crisis of 2008, but the rate of decrease has leveled out. Although this rate of decrease will worsen temporarily in the 27th Period due to the impact of downtime caused by major tenant departures in the 25th and 26th Periods, full replacement is in sight with new tenants already decided for approximately 90 percent of the vacated space. As a result, the situation has recovered to a point where we can announce that in the 28th Period (the first half of 2015) we expect revenues from property leasing to stop decreasing for existing properties in our portfolio.

### Improved profitability at existing properties and continued proactive and selective investment

We will work to improve the profitability of existing properties and intend to increase revenues from property leasing. For contract renewals involving rent changes, rent increases exceeded rent decreases on a transaction basis during the first

half of 2014. We were able to promote leasing activities in a favorable leasing market. Conditions are now such that we can look forward to internal growth from full-scale rent increases in the future. With vacancy rates also continuing to improve, the office leasing market is undergoing a positive transition.

Regarding external growth, brisk activity is expected to continue in the real estate trading market because the supply of new office buildings remains at the historical average while demand for office buildings is projected to increase backed by improved corporate results. NBF will continue to focus on selectively investing in highly competitive properties, and will also engage in property replacement.

## Acquisitions from January to March 2014

**We made three acquisitions in 2014, for ¥24.8 billion.**



#### Sakaisuji-Honmachi Center Building (Additional acquisition)

Location	Honmachi, Chuo-ku, Osaka
Acquisition date	January 30, 2014
Acquisition price	¥6,200 million
Appraisal value (At time of acquisition)	¥6,530 million
NOI yield	5.60%
Share	50.72% (100% after acquisition)
Seller	S.J. Office Select G.K.



#### Nakanoshima Central Tower

Location	Nakanoshima, Kita-ku, Osaka
Acquisition date	March 31, 2014
Acquisition price	¥14,900 million
Appraisal value (At time of acquisition)	¥15,100 million
NOI yield	5.13%
Share	40%
Seller	Sumitomo Life Insurance Company



#### Jingumae M-SQUARE

Location	Jingumae, Shibuya-ku, Tokyo
Acquisition date	March 5, 2014
Acquisition price	¥3,700 million
Appraisal value (At time of acquisition)	¥3,700 million
NOI yield	7.17%
Share	Land: Fixed-term sub-subleasehold for business Building: Ownership 100%
Seller	Mitsui Fudosan Co., Ltd.



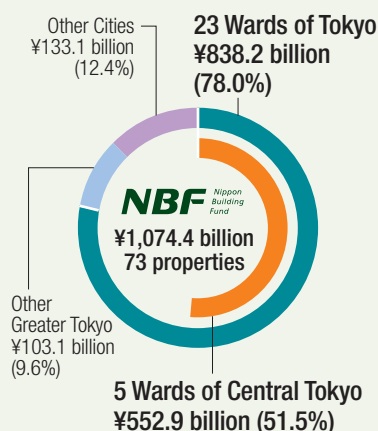
# Strategies

## Portfolio

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

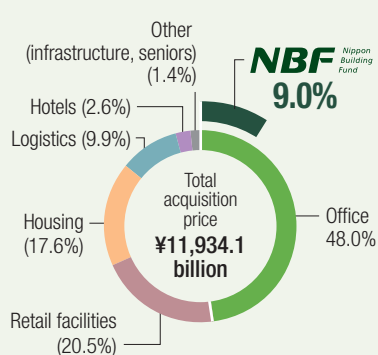
### Investment by Region

(As of June 30, 2014)



### NBF's J-REIT Market Share

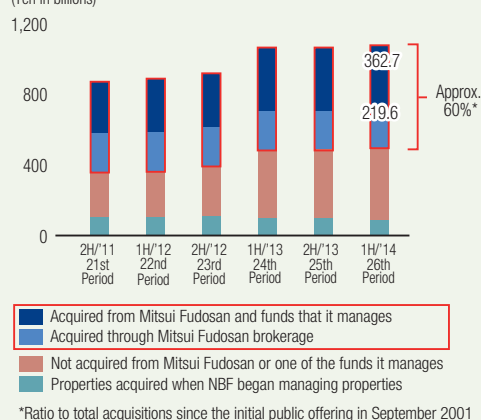
(As of June 30, 2014)



Source: Asset management companies, compiled from publicly available information

### Total Acquisitions by Seller

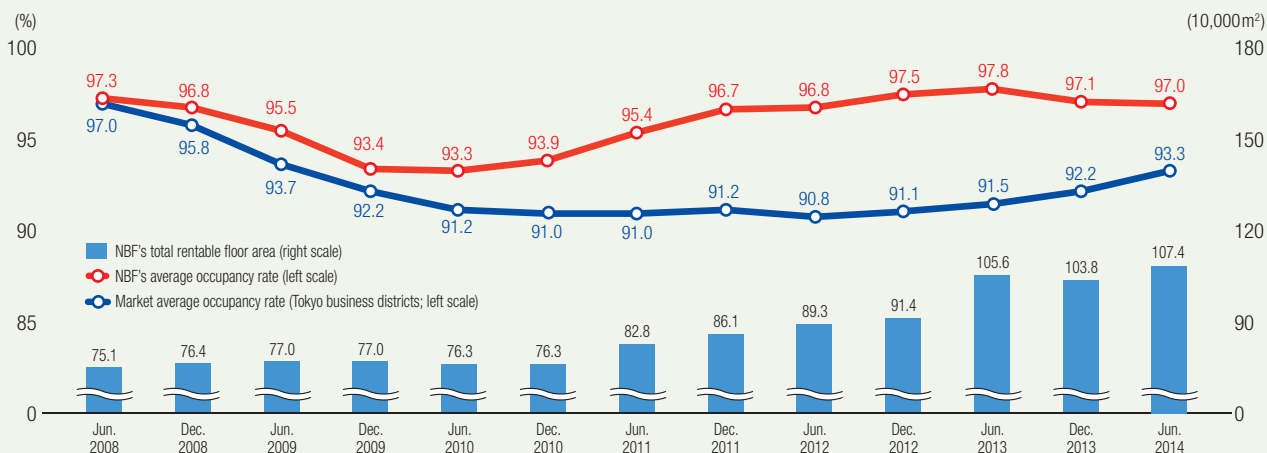
(Yen in billions)



## Leasing

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

### Average Occupancy Rate and Total Rentable Area

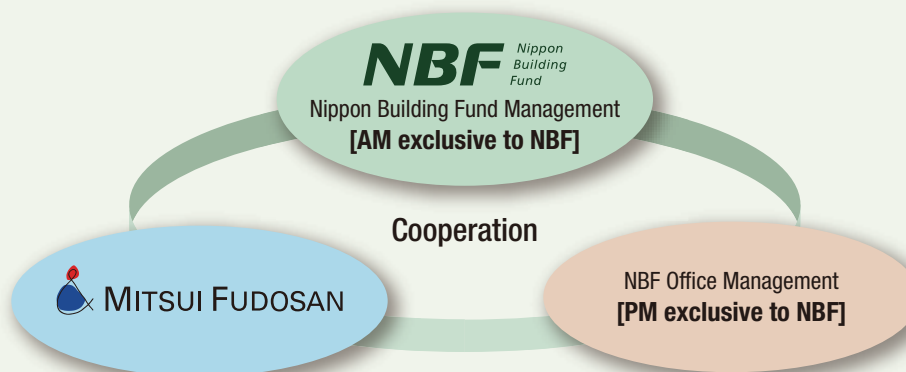


## Property Management

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

### Property Management Structure

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



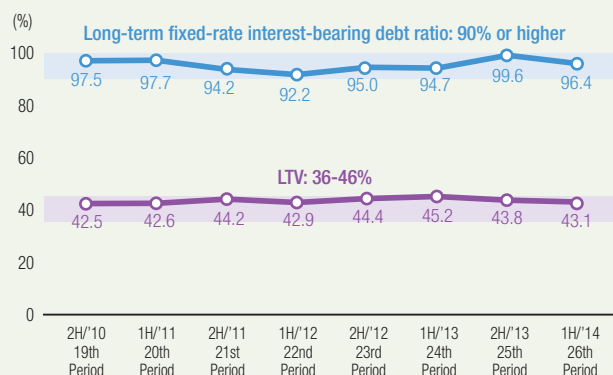
- New tenant leasing
- Provides management and operation expertise and operating systems
- Overall management of subleased properties

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

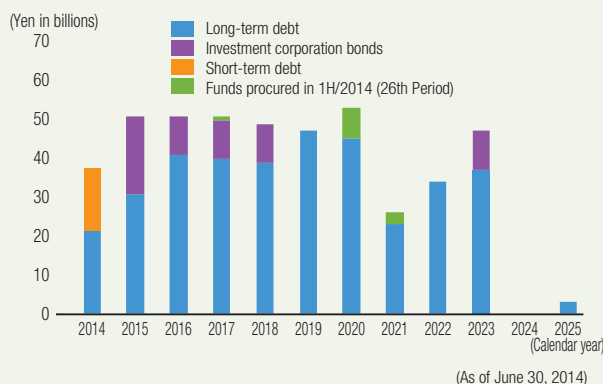
## Financial

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

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



### Debt Maturity Schedule





# Highlights

## Performance

### Total Operating Revenues

**¥36,562** million  
-1.5%

### Net Income

**¥12,771** million  
-3.8%

### Total Assets\*

**¥1,041** billion  
+1.7%

### Average Occupancy Rate

**97.0%**  
-0.1 points

\*Book value basis

### Distribution per Unit

**¥8,152**  
-¥493\*

### NAV per Unit

**¥421,123**  
+¥13,691\*

\*Based on adjusted figures for the 25th Period reflecting the 2-for-1 investment unit split effective January 1, 2014

# Management Team and Management Structure

(As of June 30, 2014)

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

## Nippon Building Fund Inc.

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

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

### General Meeting of Unitholders

Specific matters pertaining to NBF that are subject to the Investment Trust Law of Japan or the Company's articles of incorporation are decided by resolution of the General Meeting of Unitholders, which convenes at least once every two years, in principle. The eighth General Meeting of Unitholders convened on March 14, 2013. The date of the next General Meeting of Unitholders has not been set.

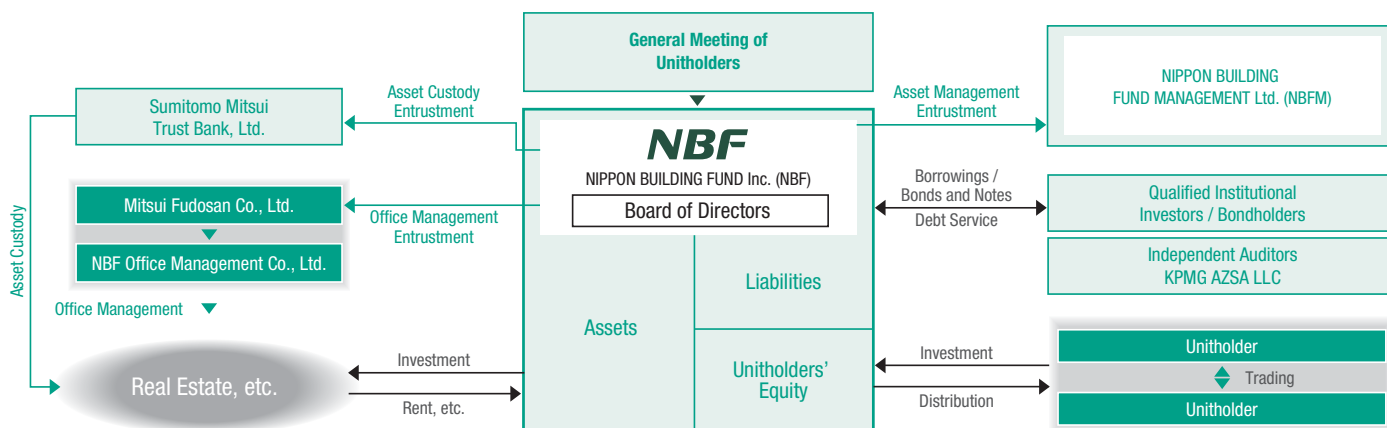
The General Meeting of Unitholders adopts or vetoes

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

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

NBF's articles of incorporation stipulate that NBF must have one or more executive directors and four or fewer supervisory directors, but the number of supervisory directors must always be at least one greater than the number of executive directors. As of June 30, 2014, NBF had one executive director and three supervisory directors.

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





## Management Team



From left: Tetsuro Tsugawa, Tsutomu Nishikawa, Yoshiyuki Hirai, Yutaka Fukaya

	Name	Career Summary
Executive Director	Tsutomu Nishikawa	Appointed Executive Director of NBF in March 2011 after serving as an executive officer of Mitsui Fudosan Co., Ltd. Reappointed in March 2013.
Supervisory Directors	Yoshiyuki Hirai	Appointed Supervisory Director of NBF in March 2009 and reappointed in March 2013. Real Estate Appraiser.
	Tetsuro Tsugawa	Appointed Supervisory Director of NBF in March 2013. Attorney.
	Yutaka Fukaya	Appointed Supervisory Director of NBF in March 2013. Certified Public Accountant and Certified Public Tax Accountant.

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

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

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

The executive director serving as of June 30, 2014 was elected with the consent of all unitholders on March 14, 2013. The three supervisory directors and the substitute executive director were elected at the General Meeting of Unitholders held on March 14, 2013, and assumed office on March 17, 2013.

## Nippon Building Fund Management Ltd.

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

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

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

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

### History of NBFM

NBFM is an Asset Management Company which is a limited liability company duly established under the laws of

Japan. Major events in the history of NBFM are as follows.

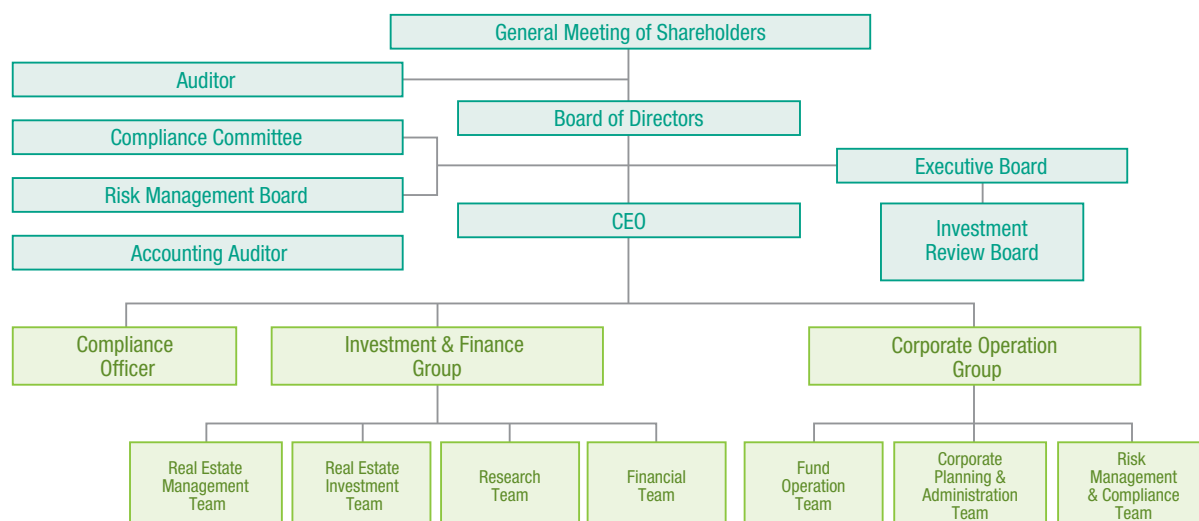
September 19, 2000	Established
November 17, 2000	Obtained license as a building lots and building transactions agent under the Building Lots and Building Transactions Law
January 29, 2001	Obtained approval as a discretionary transaction agent under the Building Lots and Building Transactions Law
February 15, 2001	Registered as a general real estate investment advisor under the Real Estate Investment Advisor Registration Regulations
March 7, 2001	Obtained approval as an Asset Management Company under the Investment Trust Law of Japan
March 22, 2001	Increased capital from ¥100 million to ¥198 million
May 23, 2001	Changed name (from "MF Asset Management Co., Ltd." to "Office Building Fund Management Japan Limited")
June 16, 2001	Increased capital from ¥198 million to ¥495 million
March 14, 2003	Changed name (from "Office Building Fund Management Japan Limited" to "Nippon Building Fund Management Ltd.")
September 30, 2007	Registered as a financial instruments firm with the Kanto Local Finance Bureau Chief (Financial Instruments) No. 371

### List of Shareholders (as of June 30, 2014)

Name	Number of Shares Owned	Percent
Mitsui Fudosan Co., Ltd.	4,257	43.0%
Sumitomo Life Insurance Company	3,465	35.0
Sumitomo Mitsui Trust Bank, Limited	495	5.0
Sumitomo Mitsui Banking Corporation	495	5.0
Daido Life Insurance Company	297	3.0
Mitsui Sumitomo Insurance Co., Ltd.	297	3.0
Mitsui Life Insurance Company Limited	297	3.0
Britel Fund Trustees Limited	297	3.0
<b>Total</b>	<b>9,900</b>	<b>100.0%</b>



## Management Structure



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

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

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

## Nippon Building Fund Management Ltd. Management Team

Name	Title	Career Summary
Kenichi Tanaka	President and CEO	Apr. 1982 Joined Mitsui Fudosan Co., Ltd. Apr. 2007 General Manager, Operating Administration Department of Mitsui Fudosan Co., Ltd. Apr. 2010 General Manager, Residential Leasing Business Department, Accommodations Business Division of Mitsui Fudosan Co., Ltd. Apr. 2012 Appointed President and CEO of Nippon Building Fund Management Ltd. (current position)
Koji Matsufuji	Director, Chief Investment Officer, Chief Financial Officer	Apr. 1987 Joined Mitsui Fudosan Co., Ltd. Apr. 2005 Manager, PM-II, Kansai Branch of Mitsui Fudosan Building Management Co., Ltd. Apr. 2006 Associate General Manager, Kansai Branch of Mitsui Fudosan Building Management Co., Ltd. Apr. 2007 Executive Manager, Development Planning Group, Regional Development Department, Retail Properties Division of Mitsui Fudosan Co., Ltd. Apr. 2010 General Manager of Business Promotion Department of NBF Office Management Co., Ltd. Apr. 2013 Appointed Director, Chief Investment Officer and Chief Financial Officer of Nippon Building Fund Management Ltd. (current position)
Masahiko Misao	Director, Chief Operating Officer	Apr. 1980 Joined Sumitomo Life Insurance Company Apr. 2003 General Manager, Real Property Department of Sumitomo Life Insurance Company Mar. 2008 Director and General Manager, Commercial Operation Department, Shinagawa Intercity Management Co., Ltd. Apr. 2012 Appointed Director and Chief Operating Officer of Nippon Building Fund Management Ltd. (current position)
Hiromu Yamanaka	Director (Part-time)	Apr. 2013 Became Director of Nippon Building Fund Management Ltd. (current position)
Hiroshi Yabuki	Director (Part-time)	Apr. 2013 Became Director of Nippon Building Fund Management Ltd. (current position)
Yasushi Akimoto	Auditor (Part-time)	Apr. 2013 Became Auditor of Nippon Building Fund Management Ltd. (current position)
Kenshi Ueda	Auditor (Part-time)	Apr. 2013 Became Auditor of Nippon Building Fund Management Ltd. (current position)

### Compliance Initiatives

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

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

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

### Risk Management System

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

#### NBF

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

#### Nippon Building Fund Management Ltd.

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

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

#### Fundamental Policy on Conflict of Interest Transactions

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

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

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

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

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

In examining the transaction contents, Nippon Building



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

### Asset Management Fee Structure

#### Operation

Nippon Building Fund Management Ltd. undertakes asset management of NBF pursuant to an Asset Management Entrustment Agreement based on an entrustment from NBF in accordance with the Articles of Incorporation of NBF and the Investment Objects and Policies set forth therein. In addition, Nippon Building Fund Management Ltd. undertakes management of the general affairs of the general meeting of unitholders and the Board of Directors as Administrative Agent regarding the Management of Institutions based on an entrustment from NBF and pursuant to an Agreement for General Administration Regarding the Management of Institutions.

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 may be calculated using different rates not exceeding the following rates.

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

### Fees for the Asset Management Operation

#### Management Fees 1

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

#### Management Fees 2

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

#### Management Fees 3

In the event that Real Estate, etc. is newly acquired, 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

# Investment and Distribution Policies

## Investment Policies of NBF

### A. Basic Policies

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

### B. Investment Strategy

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

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

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

#### Area Diversification

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

The following table sets forth above said area diversification strategy.

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

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

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

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

### (2) Acquisition Strategy

#### a) Ratio of Real Estate Assets

NBF will maintain a ratio of 75% or more with respect to the "Designated Real Estate Ratio" ("Investment Objectives and Policies," Articles of Incorporation). As of June 30, 2014, NBF satisfied the criteria.

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

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

#### b) Due Diligence

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

set forth in the following table.

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

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

### c) Uncompleted or Unleasable Properties

In principle, NBF acquires Real Estate, etc. which are leased/leasable assets at the time of closing. NBF may acquire a property which is not yet leasable at the time of closing based on consideration of the impact on NBF's asset management activities after taking into account the investment amount, the date of completion or of becoming leasable, estimated revenue and so forth, provided, however, that the contract amount of any such unleasable asset combined with the total contract amount of previously acquired unleasable assets (but excluding unleasable assets which thereafter become operational) will not exceed 10% of the total assets indicated on the most recent balance sheet of

NBF. For this purpose, "leased/leasable assets" shall mean property with respect to which the construction of the building has been completed and such building is leased or leasable. Properties which are owned by NBF and have become operational at some point shall be deemed "leasable" thereafter (including such cases as reconstruction or large-scale renovation of a building) ("Investment Objectives and Policies," Articles of Incorporation).

## (3) Management and Disposition Policies

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

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

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

### a) Reserves for Long-Term Renovations

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

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

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

### c) Disposition

In disposing of individual operating properties, selections will be made through comprehensive research and analysis based on the forecasted income, actual and predicted fluctuations in asset value, future prospects and stability of the area of location, risks of deterioration and



obsolescence of real estate and predicted costs thereof as well as the composition of the portfolio, etc. Sell/hold studies will be periodically undertaken with respect to all operating properties ("Investment Objectives and Policies," Articles of Incorporation).

## (4) Financial Policies

### a) Issuance of Units

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

### b) Debt Financing

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

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

### c) Loan-to-Value Ratio

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

### d) Derivative Transactions

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

## (5) Disclosure Policy

NBF's policy on disclosure is to earn recognition from society by showing itself to be an open and transparent investment company. It also works at all times to engender an environment in which it can

disseminate fair and unbiased information to all its investors without delay. In addition to conducting disclosure in the style required by the Investment Trust and Investment Corporation Law of Japan, the Financial Instruments and Exchange Law of Japan, the Tokyo Stock Exchange, the Investment Trusts Association and other laws and organizations, NBF also voluntarily discloses information it deems necessary for investor decision-making.

### a) Appraisal Value, etc.

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

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

## Investment Objectives of NBF

### Investment Restrictions in Articles of Incorporation

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

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

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

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

(8) Investment Securities (meaning those specified in Article 2.1.11 of the Financial Instruments and Exchange Law of Japan, provided, however, that this is limited to those the assets of which are primarily invested and Managed Assets principally referred to in paragraphs (1) and (2) above)

(9) Beneficiary Certificates of Money Trust (limited to those the trust assets of which are primarily invested and Managed Assets referred to in paragraph (1), (3) or (4) above, provided, however, that those that are deemed securities are excluded)

#### B. Other Investment Objectives among Designated Assets

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

- (1) Bank deposits
- (2) Certificates of deposit issued by Japanese legal entities
- (3) Call loans
- (4) Japanese government bonds, notes and bills (meaning those specified in Article 2.1.1 of the Financial Instruments and Exchange Law of Japan)
- (5) Regional treasury bonds, notes and bills (meaning those specified in Article 2.1.2 of the Financial Instruments and Exchange Law of Japan)
- (6) Commercial paper (meaning that specified in Article 2.1.15 of the Financial Instruments and Exchange Law of Japan)
- (7) Designated bonds of Special Purpose Companies (meaning those specified in Article 2.1.4 of the Financial Instruments and Exchange Law of Japan, provided, however, that this is limited to asset-backed securities principally referred to in paragraphs (1) and (2) of section A above)
- (8) Monetary claims (limited to those claims that are deemed Designated Assets under the Investment Trust Law of Japan other than those referred to in section A and above)
- (9) Securities (other than those listed in section A and above)
- (10) Rights to financial derivative transactions (limited to those specified in Article 2.20 of the Financial Instruments and Exchange Law of Japan)

#### C. Assets Other than Designated Assets

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

- (1) Equity interests of partnerships, excluding assets in section A, paragraph (4)
- (2) Easements
- (3) Trademark rights

- (4) Copyrights
- (5) Chattels
- (6) Emission credits (including emission credits for greenhouse gases) or other similar carbon dioxide equivalent quotas based on the Act on Promotion of Global Warming Countermeasures of Japan (Act No. 117 of 1998, including subsequent revisions)
- (7) Requisite ancillary rights to Designated Assets referred to in section A

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

## Distribution Policies of NBF

### A. Distributions of Profits

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

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

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

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

**(2)** The amount of cash distributions will be determined by NBF, such amount being in excess of 90% of earnings available for dividends of NBF set forth in Article 67.15 of the Special Taxation Measures Law of Japan (hereinafter “Distributable Earnings”), provided, however, that the maximum amount of distributions will be the Distributable Amount. NBF has

the right to allow for long-term reserve for renovations, reserve for payables, reserve for cash distributions and other reserves and allowances similar thereto which are deemed necessary for maintaining or enhancing the assets of NBF.

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

### B. Distribution in Excess of Earnings

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

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

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

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

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



## C. Method of Distributions

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

## D. Prescription for Cash Distributions, etc.

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

# Investment Restrictions

## A. Investment Restrictions in Articles of Incorporation

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

### (1) Investment Location and Currencies

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

### (2) Borrowing

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

### (3) Concentration of Investment

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

### (4) Investment Objectives

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

financial derivatives transactions solely to hedge against risks, including risks of fluctuation in interest rates for debt (“Investment Objectives and Policies,” Articles of Incorporation).

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

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

## (5) Compliance with Laws and Regulations

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

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

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

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

### a) Internal Transactions (§ 42.2.1)

Transactions between an asset management company and its directors or officers are prohibited except for certain cases specified in Article 128 of the government ordinance regarding the Financial Instruments and Exchange Law that are considered unlikely to result in failure to protect the interests of unitholders, damage fair transactions or discredit the financial instruments business.

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

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

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

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

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

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

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

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

- (i) Transactions among the auditors, officers and employees of an asset management company
- (ii) Transactions for the benefit of the investment management company or third parties that would be harmful to the interests of the investment corporation
- (iii) Transactions for the benefit of third parties that are not necessary according to investment management policies, the financial condition of assets under management, or market conditions
- (iv) Asset management that introduces unfair restrictions or other limitations from external entities
- (v) The sale or purchase of investment securities, or similar transactions, with the objective of unfairly inflating transaction amounts or artificially inflating prices
- (vi) Transactions between third parties and their agents (excluding specific transactions to which rights holders have agreed pursuant to advance explanation of the rationale for the transaction)
- (vii) When entities as specified below engage in underwriting investment securities or other transactions, requested tenders or acquisitions of investment securities when the subject investment securities to be acquired by or the amount subscribed under the tender agreement by the said underwriter differ from the planned amounts
  - (a) foreign entities including corporations for their own account (as stipulated by Cabinet Office Ordinance §126.3)
  - (b) entities that hold more than 50/100 of the total amount of investment securities representing underlying managed assets issued in the two most recent fiscal years, as defined by §2.8.1-3, §2.8.8 and §2.8.9 of the Financial Instruments and Exchange Law (limited to investment securities that give holders rights in the said managed assets and such rights)
  - (viii) Other activities prohibited by Cabinet Office Ordinance 130

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

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

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

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

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

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

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

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

**C. Other Restrictions****Subscription and Margin Trading of Securities**

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

# Management's Discussion and Analysis

## Summary of Selected Financial Data

		26th Period from January 1, 2014 to June 30, 2014	25th Period from July 1, 2013 to December 31, 2013	24th Period from January 1, 2013 to June 30, 2013	26th Period from January 1, 2014 to June 30, 2014
		Yen in millions, except per unit data or where otherwise indicated			U.S. dollars in thousands except per unit data (Note 1)
Operating revenues	Note 2	¥ 36,562	¥ 37,135	¥ 35,720	\$ 360,995
Revenues from property leasing		34,659	34,845	33,623	342,210
Gain on sale of investment properties		1,903	2,290	2,097	18,785
Operating expenses		20,763	20,737	19,904	205,006
Rental expenses		19,254	18,910	18,285	190,103
Loss on sale of investment property		—	286	—	—
Ordinary income		12,772	13,278	12,942	126,108
Net income	(a)	12,771	13,277	12,941	126,098
Funds from operations	Note 3	17,946	18,203	17,542	177,189
Net operating income from property leasing activities	Note 3	22,482	22,864	22,036	221,982
Total amount of cash distribution	(b)	11,511	11,965	11,663	113,652
Depreciation and amortization		7,077	6,930	6,698	69,876
Capital expenditures		1,646	1,981	1,704	16,252
Total assets	(c)	1,040,572	1,022,812	1,047,992	10,274,212
Interest-bearing debt		448,500	447,875	473,250	4,428,318
Net assets	(d)	534,821	519,198	517,584	5,280,617
Total number of units issued (Units)*	(e)	1,412,000	692,000	692,000	
Net assets per unit (Yen/\$)*	(d) / (e)	378,768	750,286	747,954	3,740
Distribution per unit (Yen/\$)*	(b) / (e)	8,152	17,290	16,854	80.5
Funds from operations per unit (Yen/\$)*	Note 3	12,818	26,304	25,714	126.6
ROA	Note 3	1.2%	1.3%	1.3%	
(Annual rate)		(2.5%)	(2.6%)	(2.7%)	
ROE	Note 3	2.4%	2.6%	2.7%	
(Annual rate)		(4.8%)	(5.1%)	(5.4%)	
Loan to value (LTV)	Note 3	43.1%	43.8%	45.2%	
Capital ratio	(d) / (c)	51.4%	50.8%	49.4%	
Payout ratio	(b) / (a), Note 4	90.1%	90.1%	90.1%	
Number of days		181	184	181	
Number of investment properties	Note 5	73	71	74	
Number of tenants	Note 5	1,546	1,481	1,524	
Total rentable area (m <sup>2</sup> )		1,074,857	1,038,549	1,055,729	
Occupancy rate (Average)	Note 5	97.0%	97.1%	97.8%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥101.28 = U.S.\$1.00, the approximate exchange rate on June 30, 2014.

2. Operating revenues do not include consumption tax.

3. All valuations are calculated through the following formulas. The figures in parentheses after ROA and ROE are annualized based on the six-month figures for the period.

Funds from operations: Net income (excluding Gain and Loss on sale of investment properties) + Depreciation and amortization

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

Funds from operations per unit: (Net income (excluding Gain and Loss on sale of investment properties) + Depreciation and amortization) / Weighted average number of units issued and outstanding during the period

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

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

LTV: Interest-bearing debt / Total assets

4. Payout ratio figures are calculated to one decimal place only.

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

\* Effective January 1, 2014, NBF implemented a 2-for-1 unit split of the units held by unitholders registered on the register of unitholders as of December 31, 2013.



## Operating Environment and Results

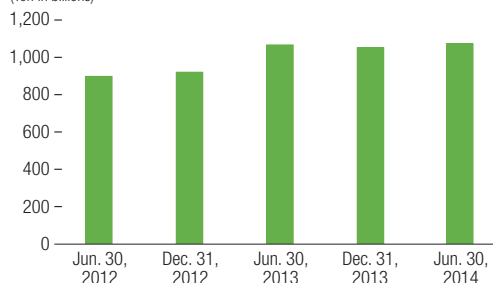
During the six months ended June 30, 2014 (the "26th Period"), domestic demand drove economic growth in Japan in the first half of the period as personal consumption rose sharply due to a surge in demand ahead of the consumption tax increase, while corporate capital expenditures increased strongly, reflecting robust corporate earnings. From April 2014, demand fell in the wake of the consumption tax increase, particularly in personal consumption and housing investment. However, the drop in consumption and production has been gradually easing, and the moderate recovery of the Japanese economy continued through the period. In the office building leasing market, vacancy rates in central Tokyo declined steadily as the supply of new properties remained limited and demand associated with floor space expansions within the same properties and relocations to larger sites was solid. The market recovered steadily, including an upturn in asking rents in Tokyo central business districts (CBDs), which had been flat, reflecting steady improvement in the supply-demand balance. Strong demand continued in the office building transaction market, driven by a favorable fund procurement environment along with expectations of medium-term improvement in the office building market. In Tokyo CBDs, market activity was brisk, including movement toward sales of large-scale properties, and selling prices also continued to rise.

Under these conditions, NBF continued to manage its assets in accordance with its basic policy of investing in high-quality office buildings that are highly competitive in terms of location, size and facilities, and are expected to generate stable cash flow from rents. During the 26th Period, NBF acquired the Sakaisuji-Honmachi Center Building (additional acquisition, trust beneficiary interests, acquisition price of ¥6.2 billion), in January 2014, and Jingumae M-SQUARE (real property [building and fixed-term sub-subleasehold for business], ¥3.7 billion) and Nakanoshima Central Tower (co-ownership, ¥14.9 billion) in March 2014. In addition, NBF disposed of a portion of the GSK Building site in January 2014 (disposition price of ¥3.0 billion). For properties already in its portfolio, NBF systematically conducted property management, renovations and new construction to further raise tenant satisfaction. NBF also worked to secure stable revenues from property leasing by setting appropriate rents for new tenants and revising rents for tenants renewing their lease contracts while keeping abreast of market trends.

NBF's real estate portfolio as of June 30, 2014 consisted of 73 properties. Total investment on an acquisition price basis was ¥1,074.4 billion. Total rentable area was 1,074,857 m<sup>2</sup>. The average occupancy rate after taking master leases into account was 97.0 percent, a 0.1 percentage point decrease from December 31, 2013 and the total number of tenants was 1,546.

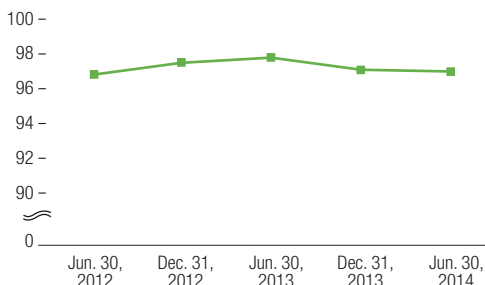
**Total Investment**

(Yen in billions)



**Average Occupancy Rate**

(%)

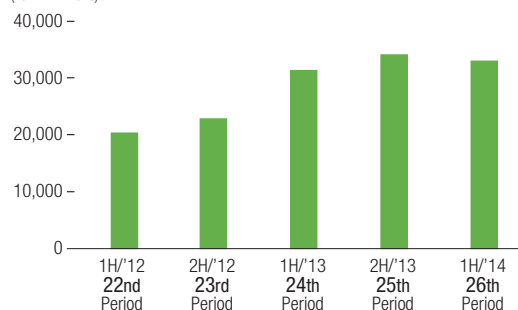


## Overview of Performance

During the 26th Period, gain on sale of investment property decreased, while property taxes and other taxes and dues increased because of new property acquisitions in the previous year. As a result, operating revenues decreased ¥573 million, or 1.5 percent, to ¥36,562 million, operating income from property leasing activities decreased ¥529 million, or 3.3 percent, to ¥15,405 million, operating income decreased ¥599 million, or 3.7 percent, to ¥15,799 million, ordinary income decreased ¥505 million, or 3.8 percent, to ¥12,772 million, and net income decreased ¥505 million, or 3.8 percent, to ¥12,771 million. Distribution per unit was ¥8,152.

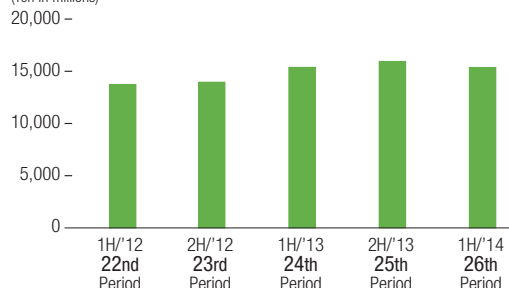
### Operating Revenues

(Yen in millions)



### Operating Income From Property Leasing Activities

(Yen in millions)



## Distribution for the Current Period

Distribution per unit for the current period was ¥8,152. NBF expects to distribute all retained earnings at the current period end remaining after deducting the amount appropriated to the reserve for advanced depreciation of non-current assets as stipulated in Article 64 of the Special Taxation Measures Law of Japan 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.

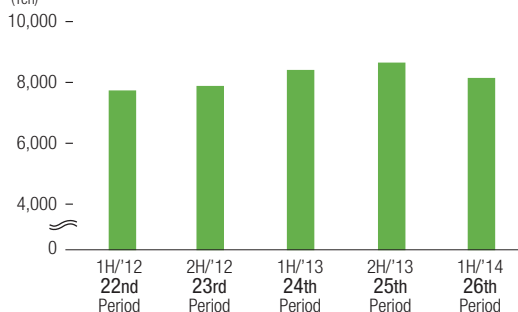
	For the six months ended June 30, 2014	For the six months ended December 31, 2013	For the six months ended June 30, 2013
(Yen in thousands, except per unit amounts)			
Retained earnings	¥12,771,238	¥13,276,613	¥12,941,753
Undistributed earnings	—	—	—
Reserve for advanced depreciation	1,260,614	1,311,933	1,278,785
Total cash distribution	11,510,624	11,964,680	11,662,968
(Cash distribution per unit)	8,152	17,290	16,854
Distribution of accumulated earnings	11,510,624	11,964,680	11,662,968
(Distribution of accumulated earnings per unit)	8,152	17,290	16,854
Cash distribution in excess of accumulated earnings	—	—	—
(Per unit)	—	—	—

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

2. Effective January 1, 2014, NBF implemented a 2-for-1 unit split of its investment units.

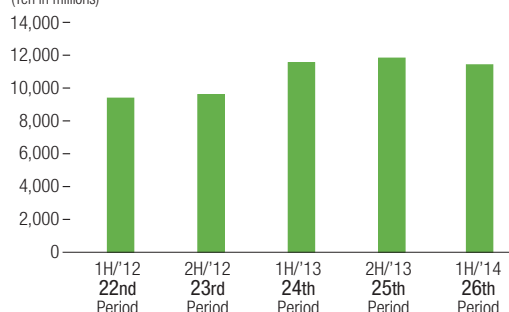
### Distribution per Unit

(Yen)



### Total Amount of Cash Distribution

(Yen in millions)



Adjusted for the investment unit split. Rounded down to the nearest yen.

## Changes in Assets, Liabilities and Net Assets

### Assets

As of June 30, 2014, total assets increased by ¥17,760 million to ¥1,040,572 million compared with December 31, 2013. Return on average total assets (ROA) for the six months ended June 30, 2014 decreased to 1.24 percent from 1.28 percent for the previous six-month period.

Current assets decreased by ¥1,881 million to ¥35,467 million compared with December 31, 2013. Investment properties increased by ¥18,908 million to ¥998,078 million compared with December 31, 2013.

### Liabilities

Current liabilities increased by ¥2,932 million to ¥62,982 million compared with December 31, 2013, primarily because of an increase in short-term loans compared with December 31, 2013.

Long-term debt decreased by ¥3,375 million to ¥395,750 million compared with December 31, 2013.

As a result, total interest-bearing liabilities increased by ¥625 million to ¥448,500 million compared with December 31, 2013. However, the ratio of long-term fixed-rate debt (for which the redemption period at the time of contract or issuance is more than one year) to total interest-bearing liabilities decreased to 96.4 percent as of June 30, 2014 from 99.6 percent as of December 31, 2013.

The loan-to-value ratio, calculated as the ratio of interest-bearing liabilities to total assets, decreased to 43.1 percent as of June 30, 2014 from 43.8 percent as of December 31, 2013.

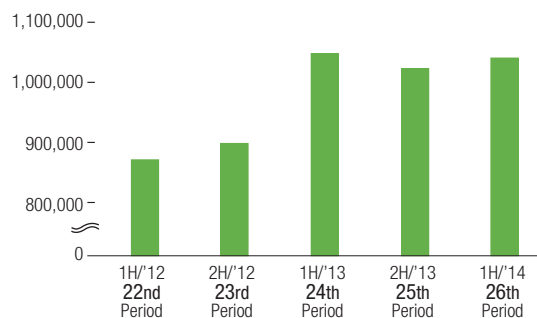
In addition, NBF worked to diversify funding sources. In January 2013, NBF updated a shelf registration to publicly offer up to ¥200 billion in bonds. The unused limit as of June 30, 2014 is ¥190 billion.

### Net assets

Net assets increased by ¥15,623 million to ¥534,821 million compared with December 31, 2013.

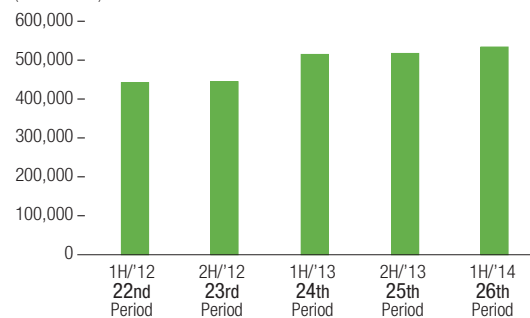
#### Total Assets

(Yen in millions)



#### Net Assets

(Yen in millions)



## Funding

### Balance of Paid-in Capital

NBF was established on March 16, 2001 with initial paid-in capital of ¥100 million. NBF began investing activities in May 2001 after ¥98,800 million was raised through private placements. As of June 30, 2014, NBF had issued 1,412,000 units out of 4,000,000 total authorized units. NBF's units were listed on the J-REIT section of the Tokyo Stock Exchange in September 2001 upon the completion of a public offering. As the Investment Trust Law of Japan does not contain any provision for the issue of more than one class of units, NBF's units comprise the sole class of units authorized and issued by NBF.



Issue date	Remarks	Units issued and outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		(Units)		(Yen in millions)		
March 16, 2001	Initial capital (private)	200	200	¥ 100	¥ 100	Note 1
May 23, 2001	Private placement	197,600	197,800	98,800	98,900	Note 2
September 8, 2001	Public offering	82,900	280,700	49,999	148,899	Note 3
July 14, 2004	Public offering	80,000	360,700	58,838	207,737	Note 4
August 11, 2004	Third party allocation	4,000	364,700	2,942	210,679	Note 5
August 10, 2005	Public offering	58,000	422,700	51,491	262,170	Note 6
March 16, 2006	Public offering	80,000	502,700	79,040	341,210	Note 7
March 29, 2006	Third party allocation	5,300	508,000	5,236	346,446	Note 8
February 4, 2008	Public offering	31,800	539,800	37,159	383,605	Note 9
March 4, 2008	Third party allocation	2,200	542,000	2,571	386,176	Note 10
January 26, 2011	Public offering	34,000	576,000	26,957	413,133	Note 11
February 22, 2011	Third party allocation	2,500	578,500	1,982	415,115	Note 12
January 25, 2012	Public offering	30,000	608,500	18,172	433,287	Note 13
February 21, 2012	Third party allocation	4,500	613,000	2,726	436,013	Note 14
January 23, 2013	Public offering	74,000	687,000	63,973	499,986	Note 15
January 31, 2013	Third party allocation	5,000	692,000	4,323	504,309	Note 16
January 1, 2014	Unit split	692,000	1,384,000	—	504,309	Note 17
March 19, 2014	Public offering	26,500	1,410,500	14,022	518,331	Note 18
March 28, 2014	Third party allocation	1,500	1,412,000	794	519,125	Note 19

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

## Market Price of Units

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

	For the six months ended June 30, 2014	For the six months ended December 31, 2013	For the six months ended June 30, 2013
		(Yen)	
High	¥609,000	¥623,000	¥717,500
Low	523,000	533,000	446,000

Note: As of January 1, 2014 NBF implemented a 2-for-1 unit split of its investment units. The above prices before ex-date (December 26, 2013) have been adjusted to reflect the split for comparative purposes, dividing the price by two.

## Borrowings

Borrowings from financial institutions as of June 30, 2014 are shown below.

### Short-term loans

Lender	Balance	Average interest rate (%)	Due on (Note 1)	Repayment method	Use of funds	Notes
(Yen in millions)						
Shinsei Bank, Limited	¥ 8,000	0.2%	July 31, 2014	Bullet payment	(Note 4)	Unsecured /unguaranteed/pari passu, See (Note 5)
Mizuho Bank, Ltd.	4,000	0.2%	July 31, 2014			
Resona Bank, Limited.	2,000	0.2%	July 31, 2014			
The Norinchukin Bank	2,000	0.2%	July 31, 2014			
<b>Total short-term loans</b>	<b>¥16,000</b>					

### Long-term loans

Lender	Balance	Average interest rate (%)	Due on (Note 1)	Repayment method	Use of funds	Notes
(Yen in millions)						
Development Bank of Japan Inc.	¥ 4,000	1.8%	November 28, 2014	(Note 2) (Note 3)		
	10,000	1.5%	September 11, 2015			
	10,000	1.8%	September 27, 2017			
	10,000	2.0%	February 15, 2016			
	10,000	2.4%	May 30, 2018			
	3,750	2.2%	April 28, 2019			
	7,750	2.2%	August 30, 2019			
	10,000	1.3%	July 2, 2023			
Mitsubishi UFJ Trust and Banking Corporation	3,000	1.8%	July 31, 2014			
	1,000	1.8%	September 30, 2014			
	7,000	1.5%	March 4, 2016			
	15,000	1.1%	March 1, 2019			
	15,000	0.8%	July 31, 2020			
	10,000	0.7%	February 26, 2021			
	5,000	1.0%	June 30, 2021			
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,000	1.8%	September 30, 2014			
	4,000	1.0%	June 1, 2017			
	5,000	0.8%	July 2, 2019			
	10,000	0.6%	February 28, 2020			
	7,000	1.0%	May 29, 2020			
Mizuho Bank, Ltd.	7,000	1.2%	November 30, 2018	Bullet payment	(Note 4)	Unsecured /unguaranteed /pari passu, See (Note 5) Fixed rate
	2,000	0.7%	February 7, 2017			
	10,000	0.9%	February 28, 2022			
	8,000	1.1%	July 29, 2022			
Sumitomo Mitsui Banking Corporation	4,000	1.1%	December 30, 2022			
	10,000	1.0%	February 28, 2023			
	5,000	1.0%	April 28, 2023			
	6,000	0.5%	April 28, 2020			
	1,000	0.3%	June 30, 2017			
Sumitomo Mitsui Trust Bank, Limited.	10,000	1.2%	June 1, 2018			
	10,000	1.1%	December 30, 2019			
	5,000	1.2%	March 5, 2021			
Sumitomo Life Insurance Company	5,000	1.9%	May 23, 2016			
	7,000	2.1%	May 23, 2018			
	5,000	1.7%	July 16, 2014			
	3,000	1.8%	February 3, 2016			
	5,000	1.0%	July 19, 2017			
Zenkyoren (The National Mutual Insurance Federation of Agricultural Cooperatives)	10,000	1.5%	September 11, 2015			
	10,000	2.3%	May 30, 2016			
Mizuho Trust Banking Co., Ltd.	10,000	1.0%	February 28, 2023			
	4,000	0.9%	September 30, 2022			
MITSUI LIFE INSURANCE COMPANY, LIMITED	2,000	1.1%	February 13, 2020			
	2,000	0.9%	March 29, 2019			
	2,000	1.2%	March 30, 2021			
	2,000	1.0%	November 1, 2022			
	2,000	1.5%	May 30, 2025			
	2,000	1.0%	December 13, 2023			
Nippon Life Insurance Company	2,000	1.4%	April 1, 2015			
	2,000	1.3%	October 19, 2018			
	2,000	1.3%	May 31, 2019			
	3,000	0.9%	September 30, 2022			

Lender	Balance	Average interest rate (%)	Due on (Note 1)	Repayment method	Use of funds	Notes
(Yen in millions)						
THE BANK OF FUKUOKA, Ltd.	2,000	1.0%	June 1, 2017	Bullet payment	(Note 4)	Unsecured /unguaranteed /pari passu. See (Note 5) Fixed rate
	2,000	0.6%	June 30, 2017			
	4,000	0.5%	July 12, 2017			
Resona Bank, Limited.	3,000	2.0%	October 30, 2015			
	1,000	1.0%	June 1, 2017			
	3,000	1.0%	March 8, 2019			
Shinkin Central Bank	3,000	1.0%	June 1, 2017			
	3,000	0.7%	December 30, 2016			
TAIYO LIFE INSURANCE COMPANY	1,000	1.7%	December 15, 2014			
	2,000	2.1%	July 11, 2014			
	1,000	2.0%	August 31, 2015			
	1,000	1.0%	July 2, 2021			
	1,000	1.0%	May 29, 2020			
The Norinchukin Bank	5,000	0.7%	September 30, 2020			
The Chugoku Bank, Limited	2,000	1.0%	February 25, 2016			
	1,000	1.0%	May 29, 2020			
	2,000	0.6%	May 28, 2021			
The Daishi Bank, Ltd.	2,000	0.7%	March 3, 2017			
	2,000	0.6%	June 30, 2017			
	1,000	0.5%	April 27, 2018			
DAIDO LIFE INSURANCE COMPANY	1,000	2.0%	October 31, 2014			
	2,000	1.6%	February 3, 2015			
	1,000	0.9%	March 29, 2019			
	1,000	0.7%	October 2, 2020			
The Hachijuni Bank, Ltd.	1,000	1.8%	March 30, 2015			
	1,000	0.6%	December 2, 2020			
	2,000	0.5%	June 26, 2020			
The Yamaguchi Bank, Ltd.	1,000	0.9%	January 4, 2017			
	1,000	1.1%	May 1, 2019			
	1,000	1.1%	September 4, 2020			
Meiji Yasuda Life Insurance Company	3,000	1.3%	April 27, 2022			
The Joyo Bank, Ltd.	1,000	0.7%	March 3, 2017			
	1,000	0.6%	March 27, 2020			
The Yamanashi Chuo Bank, Ltd.	1,000	0.4%	December 28, 2015			
The Gunma Bank, Ltd.	1,000	0.7%	May 31, 2018			
The Iyo Bank, LTD.	1,000	0.6%	April 30, 2021			
Shinsei Bank, Limited	1,000	1.5%	May 30, 2025			
<b>Total long-term loans</b>	<b>¥372,500</b>					

**Total borrowings (Note 6) ¥388,500**

- Notes: 1. With respect to the date of repayment in case of more than one short-term loan from the same lender, the earliest date of repayment for all such loans coming due is given.  
2. Scheduled for repayment of ¥125 million at six-month intervals and ¥2,625 million at the final maturity date.  
3. Scheduled for repayment of ¥250 million at six-month intervals and ¥5,250 million at the final maturity date.  
4. Use of funds for the above includes acquisition of real estate or beneficiary interests, repayment of borrowings and working capital, etc.  
5. A special agreement attached to "Loan Agreement" entered into between NBF and each financial institution provides that the above borrowings from all financial institutions rank pari passu to each other.  
6. The total amount of long-term loans (i.e. excluding those expected to be repaid within one year) repayable within 5 years of the date of the balance sheet and expected to be repaid by specific year(s) is as follows.

(Yen in millions)				
	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Long-term loans	¥62,750	¥24,750	¥48,750	¥36,250

## NBF Bonds

Issue	Issue date	Balance as of June 30, 2014 (Yen in millions)	Coupon	Maturity date	Redemption	Use of proceeds	Notes
No. 3 Unsecured Bonds	June 12, 2003	¥10,000	2.00%	June 12, 2018	Bullet payment	Note 1	Notes 2 and 4
No. 7 Unsecured Bonds	November 9, 2005	10,000	1.85%	November 9, 2015	Bullet payment	Note 1	Notes 3 and 5
No. 10 Unsecured Bonds	May 24, 2007	10,000	2.04%	May 24, 2017	Bullet payment	Note 1	Notes 3 and 5
No. 11 Unsecured Bonds	January 28, 2010	10,000	1.23%	January 28, 2015	Bullet payment	Note 1	Notes 3 and 5
No. 12 Unsecured Bonds	September 15, 2011	10,000	0.64%	September 15, 2016	Bullet payment	Note 1	Notes 3 and 5
No. 13 Unsecured Bonds	June 26, 2013	10,000	1.17%	June 26, 2023	Bullet payment	Note 1	Notes 3 and 5
<b>Total (Note 6)</b>		<b>¥60,000</b>					



- Notes: 1. Use of funds includes acquisition of real estate, repayment of borrowings and investment corporation bonds, etc.  
2. These bonds are only issued to qualified institutional investors.  
3. Rank pari passu with all other publicly and privately issued bonds.  
4. Subject to provision of collateral and financial restrictions pursuant to material decline in credit rating.  
5. Subject to provision of collateral restrictions.  
6. The total amount of bonds repayable within 5 years of the date of the balance sheet and expected to be repaid by specific year(s) is as follows.

	(Yen in millions)				
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Investment corporation bonds	¥10,000	¥10,000	¥20,000	¥10,000	—

## Others

NBF has security deposits totaling ¥46,237 million as of June 30, 2014.

## Capital Expenditures

### 1. Planning

As of June 30, 2014, 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 January 1, 2014 to June 30, 2014)	Cumulative amount paid
				(Yen in millions)	
Tsukuba Mitsui Bldg.	Renovation of air conditioning	From July 2014 to December 2014	¥513	¥—	¥—
NBF Shinkawa Bldg.	Renovation of power generation facilities (East Building)	From July 2014 to December 2014	317	—	—
Aqua Dojima NBF Tower	Renovation of air conditioning	From September 2014 to December 2014	292	—	—
NBF Shinkawa Bldg.	Renovation of power generation facilities (West Building)	From January 2015 to June 2015	289	—	—
Tsukuba Mitsui Bldg.	Renovation of air conditioning	From January 2015 to June 2015	256	—	—
Yokohama ST Bldg.	Renovation of air conditioning	From January 2015 to June 2015	253	—	—
NBF Ikebukuro East	Renovation of air conditioning	From November 2014 to March 2015	230	—	—
NBF Ikebukuro East	Renovation of air conditioning	From April 2015 to June 2015	230	—	—
Aqua Dojima NBF Tower	Renovation of air conditioning	From March 2015 to June 2015	221	—	—
NBF Shinkawa Bldg.	Renovation of air conditioning (East Building)	From February 2015 to June 2015	185	—	—
GSK Bldg.	Renovation of exterior	From September 2014 to March 2015	175	—	—
NBF Shinkawa Bldg.	Renovation of air conditioning (West Building)	From July 2014 to December 2014	162	—	—
NBF Shinkawa Bldg.	Renovation of air conditioning (East Building)	From July 2014 to December 2014	161	—	—
NBF Shibuya East	Renovation of air conditioning	From December 2014 to March 2015	150	—	—
NBF Shinkawa Bldg.	Renovation of air conditioning (West Building)	From February 2015 to June 2015	138	—	—
Nishi-Shinjuku Mitsui Bldg.	Renovation of security system	From September 2014 to March 2015	136	—	—
Yokohama ST Bldg.	Renovation of air conditioning	From July 2014 to December 2014	120	—	—
Sumitomo Mitsui Banking Nagoya Bldg.	Renovation of exterior	From February 2015 to May 2015	104	—	—
Sun Mullion NBF Tower	Renovation of fire alarm system	From March 2015 to June 2015	98	—	—
NBF Matsudo Bldg.	Renovation of air conditioning	From September 2014 to December 2014	88	—	—
NBF Matsudo Bldg.	Renovation of air conditioning	From March 2015 to June 2015	87	—	—
Aqua Dojima East	Renovation of restroom	From November 2014 to November 2014	23	—	—

## 2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NBF posted ¥1,646 million in capital expenditures together with ¥719 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
Yokohama ST Bldg.	Renovation of air conditioning, renovation of fire extinguishing facilities, renovation of mechanical parking lot facilities, etc.	From January 2014 to June 2014	¥ 288
NBF Shinkawa Bldg.	Renovation of air conditioning, renovation of restroom, renovation of common area, etc.		203
Nakanosakaue Sunbright Twin	Renovation of air circuit breaker, expansion of branch power board in electrical room, etc.		153
Gate City Ohsaki	Renovation of signboards, renovation of tide plates, renovation of air conditioning, etc.		127
NBF Matsudo Bldg.	Renovation of air conditioning, leasehold improvement, installation of mailboxes, etc.		56
Parale Mitsui Bldg.	Renovation of fire extinguishing facilities, renovation of common use department lighting equipment, leasehold improvement, etc.		50
Other buildings	Asset preservation construction and other renewal construction to improve tenant satisfaction, etc.		769
Total			¥1,646

## Expenses regarding Entrustment, etc.

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

Item	For the six months ended June 30, 2014	For the six months ended December 31, 2013	For the six months ended June 30, 2013
	(Yen in millions)		
Asset management fees	¥1,261	¥1,282	¥1,241
Asset custody fees	48	50	42
Agent fees (stock transfer, accounting and administrative)	49	48	52
Directors' remuneration	13	13	12
Auditor's fees	14	14	14
Other expenses	124	134	258
<b>Total</b>	<b>¥1,509</b>	<b>¥1,541</b>	<b>¥1,619</b>

## Trading Activities during the Current Period

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

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

(Yen in millions)		
Name of building	Acquisitions	
	Date	Acquisition price (Note 1)
Sakaitsuji-Honmachi Center Bldg. (Additional Acquisition)	January 30, 2014	¥ 6,200
Jingumae M-SQUARE	March 5, 2014	3,700
Nakanoshima Central Tower	March 31, 2014	14,900
<b>Total</b>		<b>¥24,800</b>

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

(Yen in millions)		
Name of building	Sale	
	Date	Sale price
GSK Bldg. (disposition of a portion of site area)	January 10, 2014	¥3,085
<b>Total</b>		<b>¥3,085</b>

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

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

## 3. Transactions with Related Parties and Transactions with Major Shareholders of Asset Management Company

## (1) Ongoing Transactions

Category	Amount of purchase price, etc. (Note 2) (Note 3)	
	Purchase price, etc. (Yen in millions)	Sale price, etc. (Yen in millions)
Total amount	¥24,800	¥3,085
	Amount of purchases from related parties, etc.	Amount of sales from related parties, etc.
	¥18,600 (75.0)	¥ — (—)
Breakdown of transactions with related parties, etc.		
Mitsui Fudosan Co., Ltd.	¥ 3,700 (14.9)	¥ — (—)
Sumitomo Life Insurance Company	14,900 (60.1)	— (—)
<b>Total</b>	<b>¥18,600 (75.0)</b>	<b>¥ — (—)</b>

## (2) Fees Paid for the Period from January 1, 2014 to June 30, 2014

Category	Total fees paid (A) (Yen in millions)	Description of transactions with related parties (Note 1)		
		Paid to	Amount of payment (B) (Yen in millions)	B/A (%)
Office management fees, etc. (Note 4)	¥1,362	Mitsui Fudosan Co., Ltd.	¥1,322	97.1%
		NBF Office Management Co., Ltd.	40	2.9
Property maintenance fees	3,530	Mitsui Fudosan Facilities Co., Ltd.	594	16.8
		Mitsui Fudosan Co., Ltd.	477	13.5
		Mitsui Fudosan Building Management Co., Ltd.	269	7.6
		First Facilities West Co., Ltd.	152	4.3
		Mitsui Fudosan Housing Lease Co., Ltd.	2	0.0
Leasing related service fees	95	Mitsui Fudosan Co., Ltd.	23	24.5
		NBF Office Management Co., Ltd.	10	11.0
		Mitsui Fudosan Realty Co., Ltd.	3	2.7
		Mitsui Fudosan Building Management Co., Ltd.	0	0.3

- Notes: 1. "Related parties" are defined as related parties of asset management companies under asset management agreement with NBF as defined in Article 123 of Order for Enforcement of the Law Concerning Investment Trusts and Investment Corporations, and Article 26, Section 27 of the Regulations regarding management report of the Investment trusts and Investment corporations set by the Investment Trusts Association, Japan. "Major shareholders" are the major shareholders of asset management companies as defined in Article 29, Section 4, Paragraph 2 of the Financial Instruments and Exchange Law. During the period from January 1, 2014 to June 30, 2014, transactions with and fees paid to, Mitsui Fudosan Co., Ltd., NBF Office Management Co., Ltd., Mitsui Fudosan Facilities Co., Ltd., Mitsui Fudosan Building Management Co., Ltd., First Facilities West Co., Ltd., Mitsui Fudosan Housing Lease Co., Ltd. and Mitsui Fudosan Realty Co., Ltd. which meet either of the said definitions, are as described above.
2. Figures indicate contractual sales prices.
3. Figures indicate percentages of total prices.
4. In terms of properties for which NBF has not entrusted office management businesses to Mitsui Fudosan Co., Ltd. due to its master leasing (12 properties: Gate City Ohsaki, Nishi-Shinjuku Mitsui Bldg., Toranomon Kotohira Tower, Nakameguro GT Tower, Celestine Shiba Mitsui Bldg., Yotsuya Medical Bldg., Higashi Gotanda Square, Panasonic Tokyo Shiodome Bldg., NBF Ogawamachi Bldg., Shin-Kawasaki Mitsui Bldg., Parale Mitsui Bldg. and Shinanobashi Mitsui Bldg.), NBF has entrusted them to NBF Office Management Co., Ltd. as business representative of the property owners or lessors.
5. In addition to the above fees paid, the following have been paid to related parties for repair and maintenance work, etc.

	(Yen in millions)
Mitsui Fudosan Co., Ltd.	¥474
Mitsui Fudosan Facilities Co., Ltd.	381
Mitsui Fudosan Building Management Co., Ltd.	188
First Facilities West Co., Ltd.	35
Mitsui Fudosan Housing Lease Co., Ltd.	9
Mitsui Fudosan Realty Co., Ltd.	3
Harajuku-no-mori Co., Ltd.	2
Mitsui Fudosan Retail Management Co., Ltd.	0



# Financial Statements

## Balance Sheets

NIPPON BUILDING FUND INC.  
As of June 30, 2014 and December 31, 2013

	As of June 30, 2014	As of December 31, 2013
	(Yen in millions)	
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents (Note 3)	¥ 34,334	¥ 36,510
Tenant receivables	397	349
Other current assets	736	489
Total current assets	35,467	37,348
Investment Properties:		
Land including trust accounts (Notes 4, 13)	663,301	651,605
Buildings and improvements including trust accounts (Notes 4, 13)	398,310	384,412
Other tangible assets (Notes 4, 13)	12,577	12,207
Less: accumulated depreciation (Notes 4, 13)	(111,882)	(104,826)
Leasehold rights in trust accounts and other intangible assets (Note 13)	35,772	35,772
Total investment properties, net	998,078	979,170
Other Assets	7,027	6,294
<b>Total Assets</b>	<b>¥1,040,572</b>	<b>¥1,022,812</b>
<b>Liabilities</b>		
Current Liabilities:		
Short-term loans (Notes 3, 6)	¥ 16,000	¥ 2,000
Long-term debt due within one year (Notes 3, 6)	36,750	46,750
Accounts payable	4,159	4,370
Rents received in advance	4,510	4,273
Accrued expenses and other liabilities	1,563	2,657
Total current liabilities	62,982	60,050
Long-term Debt (Notes 3, 6)	395,750	399,125
Tenant Security Deposits Including Trust Accounts (Note 3)	46,237	44,363
Other Liabilities	782	76
<b>Total Liabilities</b>	<b>505,751</b>	<b>503,614</b>
<b>Net Assets (Note 5)</b>		
Unitholders' Equity		
Unitholders' capital	519,125	504,309
Units authorized: 4,000,000 units		
Units issued and outstanding: 1,412,000 units		
Retained earnings	15,696	14,889
<b>Total Net Assets</b>	<b>534,821</b>	<b>519,198</b>
<b>Total Liabilities and Net Assets</b>	<b>¥1,040,572</b>	<b>¥1,022,812</b>

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

## Statements of Income

NIPPON BUILDING FUND INC.

For the six months ended June 30, 2014, December 31, 2013 and June 30, 2013

	For the six months ended June 30, 2014	For the six months ended December 31, 2013	For the six months ended June 30, 2013
	(Yen in millions)		
<b>Operating Revenues and Expenses</b>			
<b>Operating Revenues:</b>			
Rental (Note 7)	¥31,536	¥31,424	¥30,752
Other revenues related to property leasing (Note 7)	3,123	3,421	2,871
Gain on sale of investment properties (Note 8)	1,903	2,290	2,097
<b>Total Operating Revenues</b>	<b>36,562</b>	<b>37,135</b>	<b>35,720</b>
<b>Operating Expenses:</b>			
Property management fees (Note 7)	4,891	4,950	4,741
Real estate taxes (Note 7)	3,260	2,786	2,900
Repairs and maintenance (Note 7)	719	739	1,085
Insurance (Note 7)	39	39	37
Other rental expenses (Note 7)	3,268	3,466	2,824
Depreciation and amortization (Note 7)	7,077	6,930	6,698
Loss on sale of investment property (Note 8)	—	286	—
Asset management fees	1,261	1,282	1,241
Other operating expenses	248	259	378
<b>Total Operating Expenses</b>	<b>20,763</b>	<b>20,737</b>	<b>19,904</b>
<b>Operating Income</b>	<b>15,799</b>	<b>16,398</b>	<b>15,816</b>
<b>Non-Operating Revenues and Expenses</b>			
<b>Non-Operating Revenues:</b>			
Interest income	4	4	4
Property tax refund and interest on tax refund	—	—	255
<b>Non-Operating Expenses:</b>			
Interest expense	(2,938)	(3,080)	(3,001)
Amortization of bond issuance costs	(14)	(13)	(11)
New investment units issuance costs	(35)	—	(85)
Other non-operating expenses, net	(44)	(31)	(36)
<b>Ordinary Income</b>	<b>12,772</b>	<b>13,278</b>	<b>12,942</b>
<b>Income before Income Taxes</b>	<b>12,772</b>	<b>13,278</b>	<b>12,942</b>
Current and deferred income taxes (Note 9)	(1)	(1)	(1)
<b>Net Income</b>	<b>¥12,771</b>	<b>¥13,277</b>	<b>¥12,941</b>

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

## Statements of Changes in Net Assets

NIPPON BUILDING FUND INC.

For the six months ended June 30, 2014, December 31, 2013 and June 30, 2013

	Number of Units	(Yen in millions)		
		Unitholders' Capital	Retained Earnings	Total
Balance as of December 31, 2012	613,000	¥436,013	¥ 9,991	¥446,004
Cash dividends declared	—	—	(9,657)	(9,657)
Issuance of new units through public offering as of January 23, 2013	74,000	63,973	—	63,973
Issuance of new units through allocation to a third party as of January 31, 2013	5,000	4,323	—	4,323
Net income	—	—	12,941	12,941
Balance as of June 30, 2013	692,000	504,309	13,275	517,584
Cash dividends declared	—	—	(11,663)	(11,663)
Net income	—	—	13,277	13,277
Balance as of December 31, 2013	692,000	504,309	14,889	519,198
Unit split of its investment units as of January 1, 2014	692,000	—	—	—
Cash dividends declared	—	—	(11,964)	(11,964)
Issuance of new units through public offering as of March 19, 2014	26,500	14,022	—	14,022
Issuance of new units through allocation to a third party as of March 28, 2014	1,500	794	—	794
Net income	—	—	12,771	12,771
Balance as of June 30, 2014	1,412,000	¥519,125	¥ 15,696	¥534,821

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

## Statements of Cash Flows

NIPPON BUILDING FUND INC.

For the six months ended June 30, 2014, December 31, 2013 and June 30, 2013

	For the six months ended June 30, 2014	For the six months ended December 31, 2013	For the six months ended June 30, 2013
	(Yen in millions)		
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥ 12,772	¥ 13,278	¥ 12,942
Depreciation and amortization	7,077	6,930	6,698
Amortization of bond issuance costs	14	13	11
Interest expense	2,938	3,080	3,001
(Increase) Decrease in tenant receivables	(48)	51	(79)
Increase (Decrease) in accounts payable	(295)	(383)	62
Increase (Decrease) in rents received in advance	237	(119)	442
Decrease in investment properties due to sale	1,182	15,382	11,998
Cash payments of interest expense	(2,897)	(3,221)	(2,773)
(Increase) Decrease in consumption tax refund receivable	(140)	1,875	(1,875)
Others, net	(495)	1,274	(285)
<b>Net Cash Provided by Operating Activities</b>	<b>20,345</b>	<b>38,160</b>	<b>30,142</b>
<b>Cash Flows from Investing Activities:</b>			
Payments for purchases of investment properties	(26,770)	(2,109)	(162,268)
Payments for purchases of intangible assets	(7)	(75)	(56)
Proceeds from tenant security deposits	4,994	1,588	6,465
Payments for tenant security deposits	(3,119)	(3,536)	(3,159)
Payments for security deposits paid to lessors	(878)	(4)	(6)
Others, net	(184)	(237)	(752)
<b>Net Cash Used in Investing Activities</b>	<b>(25,964)</b>	<b>(4,373)</b>	<b>(159,776)</b>
<b>Cash Flows from Financing Activities:</b>			
Net proceeds from (repayment of) short-term loans	14,000	(23,000)	5,000
Proceeds from long-term debt	12,000	24,000	85,000
Repayment of long-term debt	(25,375)	(26,375)	(16,375)
Proceeds from issuance of new units	14,781	—	68,210
Payments for bond issuance costs	—	(3)	(51)
Payment of dividends	(11,963)	(11,659)	(9,655)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>3,443</b>	<b>(37,037)</b>	<b>132,129</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(2,176)</b>	<b>(3,250)</b>	<b>2,495</b>
Cash and Cash Equivalents at the Beginning of Period	36,510	39,760	37,265
<b>Cash and Cash Equivalents at the End of Period</b>	<b>¥ 36,510</b>	<b>¥ 36,510</b>	<b>¥ 39,760</b>

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



# Notes to Financial Statements

NIPPON BUILDING FUND INC.

For the six months ended June 30, 2014, December 31, 2013 and June 30, 2013

## Note 1 Organization and Basis of Presentation

### Organization

Nippon Building Fund Inc. (hereinafter "NBF") was formed on March 16, 2001 as an investment corporation under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter the Investment Trust Law of Japan) with Mitsui Fudosan Co., Ltd., Sumitomo Mitsui Trust Bank, Limited., and Nippon Building Fund Management Ltd. (hereinafter "NBFM") acting as sponsors. Registration with the Kanto Local Finance Bureau of the Ministry of Finance was completed on May 10, 2001 and NBF started acquisition of office properties on May 23, 2001.

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

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

As of June 30, 2014, NBF had ownership or beneficiary interests in 73 office properties containing approximately 1,074,857 square meters of rentable office space. As of June 30, 2014, NBF had leased office space to 1,175 tenants engaged in a variety of businesses. The occupancy rate for the office properties was approximately 97.9%.

### Basis of Presentation

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

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

## Note 2 Summary of Significant Accounting Policies

### Cash and Cash Equivalents

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

### Investment Properties

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

<b>Buildings and improvements including trust accounts</b>	
Buildings and improvements	2-50 years
<b>Other tangible assets</b>	
Structures	2-50 years
Machinery and equipment	2-17 years
Tools, furniture and fixtures	2-19 years

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

### Investment Corporation Bond Issuance Costs

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

## New Investment Units Issuance Costs

The issuance costs of new investment units are expensed when incurred.

## Income Taxes

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

## Real Estate Taxes

Real estate taxes are imposed on properties on a calendar year basis and expensed when incurred. In terms of newly purchased properties, NBF capitalizes a portion of the real estate taxes that relate to a period from the purchase date of each property until the end of the calendar year as part of the acquisition cost of the relevant property. Capitalized real estate taxes amounted to ¥160 million for the period ended June 30, 2014, ¥2 million for the period ended December 31, 2013 and ¥741 million for the period ended June 30, 2013.

## Revenue Recognition

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

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

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

### Note 3

### Financial Instruments

## Status of Financial Instruments

### *Policy for Financial Instruments*

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

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

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

### *Financial Instruments, Their Risks and Risk Management System*

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

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

Short-term loans are exposed to interest-rate fluctuation. NBF limits the impact of such risks by maintaining the debt-asset ratio low and the level of long-term fixed-rate debt high.

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

### *Supplemental Explanation regarding Fair Values of Financial Instruments*

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

### Estimated Fair Value of Financial Instruments

Book value, fair value and difference between the two as of June 30, 2014 are as follows.

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

	(Yen in millions)		
	Book value	Fair value	Difference
<b>Assets</b>			
(1) Cash and cash equivalents	¥ 34,334	¥ 34,334	¥ —
Total	¥ 34,334	¥ 34,334	¥ —
<b>Liabilities</b>			
(1) Short-term loans	¥ 16,000	¥ 16,000	¥ —
(2) Long-term debt due within one year	36,750	36,924	174
(3) Long-term debt	395,750	407,951	12,201
Total	¥448,500	¥460,875	¥12,375

Notes: 1. Methods to Estimate Fair Value of Financial Instruments

Assets:

(1) Cash and cash equivalents

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

Liabilities:

(1) Short-term loans

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

(2) Long-term debt due within one year

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

	(Yen in millions)		
	Book value	Fair value	Difference
(1) Investment corporation bonds	¥10,000	¥10,061	¥ 61
(2) Long-term loans	26,750	26,863	113
Total	¥36,750	¥36,924	¥174

1) Investment corporation bonds

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

2) Long-term loans

Fair values of long-term loans are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into.

(3) Long-term debt

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

	(Yen in millions)		
	Book value	Fair value	Difference
(1) Investment corporation bonds	¥ 50,000	¥ 51,841	¥ 1,841
(2) Long-term loans	345,750	356,110	10,360
Total	¥395,750	¥407,951	¥12,201

1) Investment corporation bonds

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

2) Long-term loans

Fair values of long-term loans are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into.

Book value, fair value and difference between the two as of December 31, 2013 are as follows.

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

	(Yen in millions)		
	Book value	Fair value	Difference
<b>Assets</b>			
(1) Cash and cash equivalents	¥ 36,510	¥ 36,510	¥ —
Total	¥ 36,510	¥ 36,510	¥ —
<b>Liabilities</b>			
(1) Short-term loans	¥ 2,000	¥ 20,000	¥ —
(2) Long-term debt due within one year	46,750	47,108	358
(3) Long-term debt	399,125	408,094	8,969
Total	¥447,875	¥457,202	¥9,327

Notes: 1. Methods to Estimate Fair Value of Financial Instruments

Assets:

(1) Cash and cash equivalents

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

Liabilities:

(1) Short-term loans

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

(2) Long-term debt due within one year

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

(Yen in millions)

	Book value	Fair value	Difference
(1) Investment corporation bonds	¥10,000	¥10,060	¥ 60
(2) Long-term loans	36,750	37,048	298
Total	¥46,750	¥47,108	¥358

1) Investment corporation bonds

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

2) Long-term loans

Fair values of long-term loans are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into.

(3) Long-term debt

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

(Yen in millions)

	Book value	Fair value	Difference
(1) Investment corporation bonds	¥ 60,000	¥ 61,833	¥1,833
(2) Long-term loans	339,125	346,261	7,136
Total	¥399,125	¥403,094	¥8,969

1) Investment corporation bonds

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

2) Long-term loans

Fair values of long-term loans are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into.

2. Financial Instruments for Which It Is Very Difficult to Estimate the Fair Value.

(Yen in millions)

	As of June 30, 2014	As of December 31, 2013
Tenant security deposits including trust accounts	¥46,237	¥44,363

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

3. Redemption Schedule for Monetary Claims as of June 30, 2014

(Yen in millions)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Cash and cash equivalents	¥34,334	—	—	—	—	—

Redemption Schedule for Monetary Claims as of December 31, 2013

(Yen in millions)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Cash and cash equivalents	¥36,510	—	—	—	—	—

4. Repayment Schedule for Loans and Investment Corporation Bonds as of June 30, 2014

(Yen in millions)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans	¥16,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	10,000	10,000	20,000	10,000	—	10,000
Long-term loans	26,750	62,750	24,750	48,750	36,250	173,250
Total	¥52,750	¥72,750	¥44,750	¥58,750	¥36,250	¥183,250

Repayment Schedule for Loans and Investment Corporation Bonds as of December 31, 2013

(Yen in millions)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans	¥ 2,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	10,000	20,000	10,000	10,000	10,000	10,000
Long-term loans	36,750	30,750	40,750	39,750	38,750	189,125
Total	¥48,750	¥50,750	¥50,750	¥49,750	¥48,750	¥199,125



## Note 4 Schedule of Tangible Assets of Investment Properties

Tangible assets as of June 30, 2014 and December 31, 2013 consisted of the following:

	As of June 30, 2014			As of December 31, 2013		
	(Yen in millions)					
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 314,324	¥ —	¥314,324	¥ 309,607	¥ —	¥309,607
Land in trust	348,977	—	348,977	341,998	—	341,998
Land including trust total	663,301	—	663,301	651,605	—	651,605
Buildings and improvements	212,213	(48,036)	164,177	203,960	(45,382)	158,578
Buildings and improvements in trust	186,097	(57,713)	128,384	180,452	(53,742)	126,710
Buildings and improvements including those in trust total	398,310	(105,749)	292,561	384,412	(99,124)	285,288
Structures	3,148	(1,390)	1,758	3,037	(1,329)	1,708
Machinery and equipment	1,675	(923)	752	1,738	(901)	837
Tools, furniture and fixtures	1,507	(770)	737	1,437	(702)	735
Structures in trust	2,800	(1,025)	1,775	2,746	(943)	1,803
Machinery and equipment in trust	1,777	(1,113)	664	1,688	(987)	701
Tools, furniture and fixtures in trust	1,589	(912)	677	1,561	(840)	721
Construction in process	81	—	81	—	—	—
Other tangible assets total	12,577	(6,133)	6,444	12,207	(5,702)	6,505
Total	¥1,074,188	¥(111,882)	¥962,306	¥1,048,224	¥(104,826)	¥943,398

## Note 5 Net Assets

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

## Note 6 Short-Term Loans and Long-Term Debt

Short-term loans consist of short-term notes and short-term borrowings under loan agreements. The annual interest rates on short-term loans outstanding are floating rates and on June 30, 2014 and December 31, 2013 were at 0.20% and 0.23% respectively. Long-term debt is at fixed rates and as of June 30, 2014 and December 31, 2013 consisted of the following:

	As of June 30, 2014	As of December 31, 2013
	(Yen in millions)	
Unsecured loans due 2014 to 2025 principally from banks and insurance companies with interest rates mainly ranging from 0.3% to 2.4%	¥372,500	¥375,875
1.74% unsecured bonds due 2014 (Note 1)	—	10,000
1.23% unsecured bonds due 2015 (Note 1)	10,000	10,000
1.85% unsecured bonds due 2015 (Note 1)	10,000	10,000
0.64% unsecured bonds due 2016 (Note 1)	10,000	10,000
2.04% unsecured bonds due 2017 (Note 1)	10,000	10,000
2.00% unsecured bonds due 2018 (Note 2)	10,000	10,000
1.17% unsecured bonds due 2023 (Note 1)	10,000	10,000
	432,500	445,875
Less: amount due within one year	36,750	46,750
	¥395,750	¥399,125

Notes: 1. Subject to provision of collateral restrictions.

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

The annual maturities of long-term debt as of June 30, 2014 were as follows:

	(Yen in millions)
Due after one to two years	¥ 72,750
Due after two to three years	44,750
Due after three to four years	58,750
Due after four to five years	36,250
Due after five years	183,250

During the period ended June 30, 2014, NBF obtained committed credit lines of ¥60 billion with certain financial institutions to reduce refinancing risk. The unused amount of such committed credit lines was ¥60 billion on June 30, 2014.

## Note 7 Rental Revenues and Expenses

Rental revenues and expenses for the periods ended June 30, 2014, December 31, 2013 and June 30, 2013 were as follows:

	For the six months ended June 30, 2014	For the six months ended December 31, 2013	For the six months ended June 30, 2013
	(Yen in millions)		
<b>Revenues from Property Leasing:</b>			
Rental:			
Rental revenues	¥28,519	¥28,440	¥27,727
Common area charges	2,906	2,872	2,910
Others	111	112	115
Subtotal	31,536	31,424	30,752
Other revenues related to property leasing:			
Parking lots	655	656	648
Facility charge	248	239	222
Incidental income	2,031	2,358	1,893
Cancellation fees	124	111	52
Miscellaneous income	65	57	56
Subtotal	3,123	3,421	2,871
Total revenues from property leasing	34,659	34,845	33,623
<b>Rental Expenses:</b>			
Property management fees	4,891	4,950	4,741
Real estate taxes	3,260	2,786	2,900
Repairs and maintenance	719	739	1,085
Insurance	39	39	37
Other rental expenses	3,268	3,466	2,824
Depreciation and amortization	7,077	6,930	6,698
Total rental expenses	19,254	18,910	18,285
<b>Operating Income from Property Leasing Activities</b>	<b>¥15,405</b>	<b>¥15,935</b>	<b>¥15,338</b>

## Note 8 Gain and Loss on Sale of Investment Properties

Gain and loss on sale of investment properties for the periods ended June 30, 2014, December 31, 2013 and June 30, 2013 were as follows.

### For the six months ended June 30, 2014

GSK Bldg.	(Yen in millions)
Proceeds from sale of investment property	¥3,085
Cost of sale of investment property	1,182
Other related sale expenses	—
Gain on sale of investment property	¥1,903

### For the six months ended December 31, 2013

NBF Nihonbashi Muromachi Center Bldg. (50% quasi co-ownership)	(Yen in millions)
Proceeds from sale of investment property	¥14,100
Cost of sale of investment property	11,978
Other related sale expenses	4
Gain on sale of investment property	¥ 2,118

NBF Shijo Karasuma Bldg.	(Yen in millions)
Proceeds from sale of investment property	¥1,600
Cost of sale of investment property	1,376
Other related sale expenses	52
Gain on sale of investment property	¥ 172

NBF Sakai-Higashi Bldg.	(Yen in millions)
Proceeds from sale of investment property	¥1,800
Cost of sale of investment property	2,028
Other related sale expenses	58
Loss on sale of investment property	¥ 286

### For the six months ended June 30, 2013

NBF Nihonbashi Muromachi Center Bldg. (50% quasi co-ownership)	(Yen in millions)
Proceeds from sale of investment property	¥14,100
Cost of sale of investment property	11,998
Other related sale expenses	5
Gain on sale of investment property	¥ 2,097

## Note 9 Income Taxes

NBF is subject to income taxes in Japan. The effective tax rate on NBF's income was 0.01% for the periods ended June 30, 2014, December 31, 2013 and June 30, 2013. The following table summarizes the significant differences between the statutory tax rates and NBF's effective tax rates for financial statement purposes.

	For the six months ended June 30, 2014	For the six months ended December 31, 2013	For the six months ended June 30, 2013
Statutory tax rate	36.59%	36.59%	36.59%
Deductible dividends	(32.98)	(32.97)	(32.97)
Reserve for advanced depreciation	(3.61)	(3.62)	(3.62)
Others	0.01	0.01	0.01
Effective tax rate	0.01%	0.01%	0.01%

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

The “Act for Partial Revision of Income Tax Act, etc.” (Act No. 10 of 2014) was promulgated on March 31, 2014. In accordance with the promulgation, the special corporate tax for reconstruction is no longer imposed at the fiscal period beginning April 1, 2014. This change had little impact on the deferred tax assets and the income taxes-deferred.

## Note 10 Per Unit Information

Information about earnings per unit for the periods ended June 30, 2014, December 31, 2013 and June 30, 2013 and net assets per unit as of June 30, 2014, December 31, 2013 and June 30, 2013 were as follows.

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

Effective January 1, 2014, NBF implemented a 2-for-1 unit split of the units held by unitholders registered on the register of unitholders as of December 31, 2013. Net asset value per unit and net income per unit have been adjusted to reflect the unit split as if it had been effective on January 1, 2013.

	For the six months ended June 30, 2014	For the six months ended December 31, 2013	For the six months ended June 30, 2013
<b>Earnings per Unit:</b>			
Net income per unit (Yen)	¥9,122	¥9,592	¥9,485
Weighted average number of units outstanding	1,400,014	1,384,000	1,364,354
	As of June 30, 2014	As of December 31, 2013	As of June 30, 2013
<b>Net Assets per Unit (Yen)</b>	<b>¥378,768</b>	<b>¥375,143</b>	<b>¥373,977</b>

## Note 11 Leases

### As Lessor

NBF leases some of its investment properties to outside parties under non-cancelable operating leases. As of June 30, 2014 and December 31, 2013, future minimum rental revenues under the non-cancelable operating leases are as follows:

	As of June 30, 2014	As of December 31, 2013
	(Yen in millions)	
Due within one year	¥22,208	¥23,066
Due after one year	30,223	35,815
Total	¥52,431	¥58,881

### As Lessee

NBF leases some of its investment properties from outside parties under non-cancelable operating leases. As of June 30, 2014 and December 31, 2013, future minimum rental expenses under the non-cancelable operating leases are as follows:

	As of June 30, 2014	As of December 31, 2013
	(Yen in millions)	
Due within one year	¥ 1	¥2
Due after one year	—	0
Total	¥ 1	¥2



## Note 12 Transactions with Related Parties

### (1) Parent Company and Major Corporate Unitholders

(For the six months ended June 30, 2014)

None applicable.

(For the six months ended December 31, 2013)

None applicable.

(For the six months ended June 30, 2013)

None applicable.

### (2) Affiliates

(For the six months ended June 30, 2014)

None applicable.

(For the six months ended December 31, 2013)

None applicable.

(For the six months ended June 30, 2013)

None applicable.

### (3) Sister Companies

(For the six months ended June 30, 2014)

None applicable.

(For the six months ended December 31, 2013)

None applicable.

(For the six months ended June 30, 2013)

None applicable.

### (4) Directors and Major Individual Unitholders

(For the six months ended June 30, 2014)

None applicable.

(For the six months ended December 31, 2013)

None applicable.

(For the six months ended June 30, 2013)

None applicable

## Note 13 Investment and Rental Property

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

	(Yen in millions)	
	For the six months ended June 30, 2014	For the six months ended December 31, 2013
Carrying amount		
Balance at beginning of the Fiscal Period	¥ 979,217	¥ 999,269
Amount of increase (decrease) during current period	18,827	(20,052)
Balance at end of the Fiscal Period	998,044	979,217
Fair value at end of the period	¥1,069,360	¥1,035,870

Notes: 1. Carrying amounts represent acquisition cost less accumulated depreciation.

2. The major increase in the fiscal period ended June 30, 2014 was mainly due to the acquisitions of 3 properties (Sakaisuji-Honmachi Center Bldg. (Additional Acquisition), Jingumae M-SQUARE and Nakanoshima Central Tower, ¥25,221 million) and the major decrease was mainly due to disposition of portion of site area of GSK Bldg. which amounted to ¥1,182 million and recognition of depreciation costs.

The major decrease in the fiscal period ended December 31, 2013 was mainly due to sale of NBF Nihonbashi Muromachi Center Bldg. (50% quasi co-ownership), NBF Sakai-Higashi Bldg. and NBF Shijo Karasuma Bldg. which amounted to ¥15,382 million and recognition of depreciation costs.

3. Fair value at end of the period is based on appraisals provided by independent real estate appraisers.

Information about profit and loss from investment and rental properties is disclosed in Note 7 (Rental Revenues and Expenses).

## Note 14 Segment Information

### Segment Information

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

### Related Information

(For the six months ended June 30, 2014)

#### 1. Information by Products and Services

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

#### 2. Information by Geographic Areas

##### (1) Operating revenues

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

##### (2) Investment properties

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

#### 3. Information on Major Tenants

(Yen in millions)

Tenant	Operating revenues	Related segment
Mitsui Fudosan Co., Ltd.	¥8,095	Real estate leasing business

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

(For the six months ended December 31, 2013)

#### 1. Information by Products and Services

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

#### 2. Information by Geographic Areas

##### (1) Operating revenues

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

##### (2) Investment properties

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

#### 3. Information on Major Tenants

(Yen in millions)

Tenant	Operating revenues	Related segment
Mitsui Fudosan Co., Ltd.	¥8,208	Real estate leasing business

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

(For the six months ended June 30, 2013)

#### 1. Information by Products and Services

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

#### 2. Information by Geographic Areas

##### (1) Operating revenues

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

##### (2) Investment properties

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

#### 3. Information on Major Tenants

(Yen in millions)

Tenant	Operating revenues	Related segment
Mitsui Fudosan Co., Ltd.	¥7,228	Real estate leasing business

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

# Independent Auditor's Report



## Independent Auditor's Report

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

We have audited the accompanying financial statements of Nippon Building Fund Inc. (a Japanese Real Estate Investment Trust), which comprise the balance sheets as at June 30, 2014 and December 31, 2013, and the statements of income, statements of changes in net assets and statements of cash flows for each of the six months ended June 30, 2014, December 31, 2013 and June 30, 2013, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nippon Building Fund Inc. as at June 30, 2014 and December 31, 2013, and their financial performance and cash flows for each of the six months ended June 30, 2014, December 31, 2013 and June 30, 2013 in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

October 24, 2014  
Tokyo, Japan

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

# Corporate Data

(As of June 30, 2014)

Corporate Office	38th Floor, GranTokyo North Tower, 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6738, Japan +81-3-6259-8681 <a href="http://www.nbf-m.com/nbf_e/">http://www.nbf-m.com/nbf_e/</a>
Date of Inception	March 16, 2001
Capital	Contributed capital and units issued and outstanding: ¥519,124 million 1,412,000 units
Unitholders	16,777
Transfer Agent	Sumitomo Mitsui Trust Bank, Ltd. 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan
Business Office of the Transfer Agent	Stock Transfer Agency Department of Sumitomo Mitsui Trust Bank, Ltd. 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan +81-3-3323-7111
Independent Auditors	KPMG AZSA LLC AZSA Center Building 1-2, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8551, Japan
Investor Relations	For further information, please contact our asset management company: Investor Relations of Financial Department Nippon Building Fund Management Ltd. 38th Floor, GranTokyo North Tower, 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6738, Japan Tel. : +81-3-6259-8681

This document contains translations of selected information described in the Securities Report (*Yuka shoken hokokusho*) filed on September 29, 2014 pursuant to the Securities Exchange Law of Japan, and the Financial Statements and the Performance Information Report for the period from January 1, 2014 to June 30, 2014, of Nippon Building Fund Inc. prepared pursuant to the Investment Trust Law of Japan.

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

English terms for Japanese legal, accounting, tax and business concepts used herein may not be precisely identical to the concept of the equivalent Japanese terms. With respect to any and all terms herein, including without limitation, financial statements, if there exist any discrepancies in the meaning or interpretation thereof between the original Japanese documents and English statements contained herein, the original Japanese documents will always govern the meaning and interpretation. None of Nippon Building Fund Inc., Nippon Building Fund Management Ltd. or any of their respective directors, officers, employees, partners, unitholders/shareholders, agents or affiliates will be responsible or liable for the completeness, appropriateness or accuracy of English

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

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

# Investors' Information

(As of June 30, 2014)

## Fiscal Periods

Six months ending June 30 and December 31

## Total Number of Units Issued

26th Period (From January 1, 2014 to June 30, 2014) **1,412,000 units\***

25th Period (From July 1, 2013 to December 31, 2013) **692,000 units**

\*Effective January 1, 2014, NBF implemented a 2-for-1 split of the units held by unitholders registered on the register of unitholders as of December 31, 2013.

## Distribution per Unit

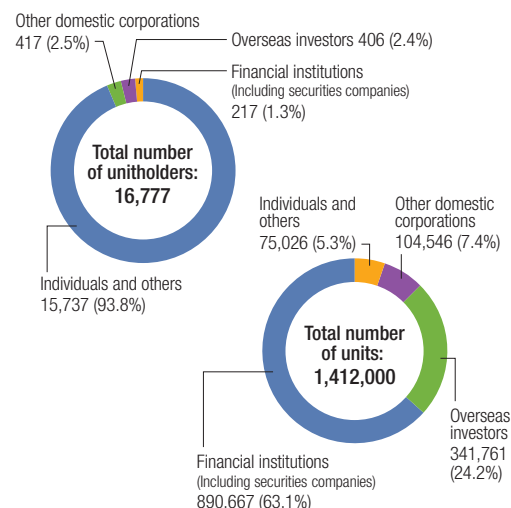
Confirmed distribution for the 26th Period

For the operating period from January 1, 2014 to June 30, 2014 (6 months) **¥8,152 per unit**

Expected distribution for the 27th Period

For the operating period from July 1, 2014 to December 31, 2014 (6 months) **¥7,520 per unit**

## Unitholders



## Top 10 Unitholders

Name	Number of Units Held	Percentage of Total
Japan Trustee Services Bank, Ltd.	297,253	21.1 %
Trust & Custody Services Bank, Ltd.	115,648	8.2
The Master Trust Bank of Japan, Ltd.	113,740	8.1
The Nomura Trust and Banking Co., Ltd.	75,258	5.3
Mitsui Fudosan Co., Ltd.	47,630	3.4
Sumitomo Life Insurance Company	24,512	1.7
Nomura Bank (Luxembourg) SA	22,096	1.6
State Street Bank West Client-Treaty	20,896	1.5
State Street Bank - West Pension Fund - Clients Exempt	18,499	1.3
The Chugoku Bank, Ltd.	15,648	1.1

## Historical Unit Price



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



