

Semi-Annual Report

Second Half of 2017

(33rd Period – July to December 2017)

Including AIFMD Article 23 Information

Nippon Building Fund Inc.

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

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

Performance Results

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

In the fiscal period under review NBF intended to improve the underlying earnings capability of the portfolio in the mid-to-long-term through asset replacement and determined the disposition of NBF Hibiya Bldg. (trust beneficiary interests; disposition price: ¥64.0 billion), GSK Bldg. (trust beneficiary interests; disposition price: ¥17.0 billion) and NBF Shin-Urayasu Tower (trust beneficiary interests; disposition price: ¥11.7 billion), the acquisition of Roppongi T-CUBE (trust beneficiary interests; acquisition price: ¥62.8 billion) and the additional acquisition of Celestine Shiba Mitsui Bldg. (real property, acquisition price: ¥19.5 billion) on December 18, 2017. Of these, NBF Shin-Urayasu Tower was delivered on December 20, 2017 and GSK Bldg. was delivered on December 26, 2017. NBF Hibiya Bldg., Roppongi T-CUBE and Celestine Shiba Mitsui Bldg. were delivered on March 30, 2018.

NBF has endeavored to expand stable revenues from its rental business with respect to its existing portfolio by reinforcing measures for maintaining occupancy rates and increasing rents upon renewal of contracts through appropriate and flexible leasing activities with a good understanding of market trends and strengthened relationship with tenants. In addition, NBF has also put forth efforts to reduce costs by properly allocating timing and cost for renovation/construction while making strategic and rightly-focused additional investments.

Overview of Performance and Distribution

NBF's performance results during the current period consisted of operating revenues of ¥42,125 million (an increase of ¥5,716 million, or 15.7%, compared to the previous period), operating income from leasing activities of ¥16,466 million (an increase of ¥23 million, or 0.1%, compared to the previous period), operating income after asset management, custody and agent fees etc. of ¥16,552 million (an increase of ¥1,438 million, or 9.5% compared to the previous period), ordinary income of ¥14,682 million (an increase of ¥1,572 million, or 12.0%, compared to the previous period), and net income of ¥14,682 million (an increase of ¥1,572 million, or 12.0%, compared to the previous period). Moreover, part of the gain on sale of GSK Bldg. will be internally retained as reserve for reduction entry.

In accordance with the distribution policy prescribed in its Articles of Incorporation, NBF decided to distribute ¥13,230 million, the entire amount arrived by subtracting the provision of reserve for reduction entry (¥1,452 million) from undistributed earnings, so that it will be enabled to deduct the maximum amount of cash distribution of profit from its taxable income through the application of preferential tax measures to investment corporations (Article 67-15 of the Act on Special Measures Concerning Taxation). As a result, the distribution per unit was ¥9,370 (an increase of ¥241, or 2.6% compared to the previous period).

Summary of Selected Financial Data

		33rd Period from July 1, 2017 to December 31, 2017	32nd Period from January 1, 2017 to June 30, 2017	31st Period from July 1, 2016 to December 31, 2016	33rd Period from July 1, 2017 to December 31, 2017
		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	¥ 42,125	¥ 36,410	¥ 35,849	\$373,818
Revenues from property leasing		36,560	36,190	35,849	324,435
Gains on sales of investment properties		5,565	220	—	49,383
Operating expenses		25,573	21,296	21,245	226,936
Rental expenses		20,095	19,747	19,743	178,321
Losses on sales of investment properties		3,843	—	—	34,100
Ordinary income		14,683	13,111	12,521	130,293
Net income	(a)	14,682	13,110	12,520	130,288
Funds from operations	Note 3	20,151	20,137	19,690	178,814
Net operating income from property leasing activities	Note 3	23,656	23,690	23,276	209,923
Total amount of cash distribution	(b)	13,230	12,890	12,520	117,406
Depreciation and amortization		7,191	7,248	7,170	63,811
Capital expenditures		2,966	3,229	2,220	26,320
Total assets	(c)	1,013,861	1,023,901	1,030,435	8,996,900
Interest-bearing debt		413,875	425,250	431,625	3,672,686
Net assets	(d)	538,795	537,003	536,413	4,781,212
Total number of units issued (Units)	(e)	1,412,000	1,412,000	1,412,000	
Net assets per unit (Yen/\$)	(d) / (e)	381,583	380,314	379,896	3,386
Distribution per unit (Yen/\$)	(b) / (e)	9,370	9,129	8,867	83
Funds from operations per unit (Yen/\$)	Note 3	14,271	14,261	13,945	127
ROA	Note 3	1.4%	1.3%	1.2%	
(Annual rate)		(2.9%)	(2.6%)	(2.4%)	
ROE	Note 3	2.7%	2.4%	2.3%	
(Annual rate)		(5.5%)	(4.9%)	(4.7%)	
Loan to value (LTV)	Note 3	40.8%	41.5%	41.9%	
Capital ratio	(d) / (c)	53.1%	52.4%	52.1%	
Payout ratio	(b) / (a), Note 4	90.1%	98.3%	99.9%	
Number of days		184	181	184	
Number of investment properties	Note 5	72	74	75	
Number of tenants	Note 5	1,554	1,590	1,614	
Total rentable area (m ²)		1,051,588	1,094,812	1,098,022	
Occupancy rate (Average)	Note 5	98.8%	98.7%	98.2%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥112.69 = U.S. \$1.00, the approximate

exchange rate on December 31, 2017.

2. Operating revenues do not include consumption tax.

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

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

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

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

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

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

LTV: Interest-bearing debt / Total assets

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

5. Number of investment properties means units generally perceived to be one office building. Number of tenants means gross number of tenants by building. Occupancy rate, end-tenant basis, is the weighted average of month-end occupancy rate on a floor space basis.

Management's Discussion and Analysis

1. Distribution for the Current Period

Distribution per unit for the current period was ¥9,370. NBF expects to distribute almost all retained earnings at the current period end remaining after deducting the amount appropriated to the reserve for advanced depreciation of replacing specified assets as stipulated in Article 65-7 of the Act on Special Measures Concerning Taxation to be eligible for special tax treatment (Article 67-15 of the Act on Special Measures Concerning Taxation) that allows NBF to deduct its cash dividends of profits from taxable income.

	For the six months ended December 31, 2017	For the six months ended June 30, 2017	For the six months ended December 31, 2016
(Yen in thousands, except per unit amounts)			
Retained earnings	¥14,682,709	¥13,110,702	¥12,521,124
Undistributed earnings	—	572	920
Reserve for advanced depreciation	1,452,269	219,981	—
Total cash distribution	13,230,440	12,890,148	12,520,204
(Cash distribution per unit)	9,370	9,129	8,867
Distribution of accumulated earnings	13,230,440	12,890,148	12,520,204
(Distribution of accumulated earnings per unit)	9,370	9,129	8,867
Cash distribution in excess of accumulated earnings	—	—	—
(Per unit)	—	—	—

Notes:

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

2. Changes in Assets, Liabilities and Net Assets

Assets

As of December 31, 2017, total assets decreased by ¥10,040 million to ¥1,013,861 million compared with June 30, 2017. Return on average total assets (ROA) for the six months ended December 31, 2017 increased to 1.4 percent from 1.3 percent for the previous six-month period.

Current assets increased by ¥20,803 million to ¥33,319 million compared with June 30, 2017. Investment properties decreased by ¥31,177 million to ¥973,483 million compared with June 30, 2017.

Liabilities

Current liabilities decreased by ¥21,087 million to ¥61,120 million compared with June 30, 2017, primarily because of a decrease in short-term loans and long-term debt due within one year compared with June 30, 2017.

Long-term debt increased by ¥10,625 million to ¥365,125 million compared with June 30, 2017.

As a result, total interest-bearing liabilities decreased by ¥11,375 million to ¥413,875 million compared with June 30, 2017. The ratio of long-term debt (for which the redemption period at the time of contract or issuance is more than one year) to total interest-bearing liabilities increased to 100 percent as of December 31, 2017 from 97.2 percent as of June 30, 2017.

The loan-to-value ratio, calculated as the ratio of interest-bearing liabilities to total assets, decreased to 40.8 percent as of December 31, 2017 from 41.5 percent as of June 30, 2017.

Net assets

Net assets increased by ¥1,792 million to ¥538,795 million compared with June 30, 2017.

3. Funding

Balance of Paid-in Capital

NBF was established on March 16, 2001 with initial paid-in capital of ¥100 million. NBF began investing activities in May 2001 after ¥98,800 million was raised through private placements. As of December 31, 2017, NBF had issued 1,412,000 units out of 4,000,000 total authorized units. NBF's units were listed on the J-REIT section of the Tokyo Stock Exchange in September 2001 upon the completion of a public offering. As the Investment Trust Law of Japan does not contain any provision for the issue of more than one class of units, NBF's units comprise the sole class of units authorized and issued by NBF.

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

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

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

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

Market Price of Units

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

	For the six months ended December 31, 2017	For the six months ended June 30, 2017	For the six months ended December 31, 2016
		(Yen)	
High	¥595,000	¥655,000	¥658,000
Low	535,000	574,000	591,000

Borrowings

Borrowings from financial institutions as of December 31, 2017 are shown below.

Long-term loans

Lender	Balance	Average interest rate (%)	Due on	Repayment method	Use of funds	Notes
	(Yen in millions)					
Development Bank of Japan Inc.	¥10,000	2.41750%	May 30, 2018			
	2,875	2.17000%	April 28, 2019	(Note 1)		
	6,000	2.21000%	August 30, 2019	(Note 2)		
	10,000	1.26375%	July 2, 2023			
	13,000	0.74750%	September 10, 2027			
	10,000	0.35750%	February 15, 2028			
	10,000	0.25630%	April 8, 2026			
	5,000	0.25000%	June 1, 2026			
	5,000	0.38750%	September 14, 2028			
	10,000	0.49130%	September 27, 2029			
Mitsubishi UFJ Trust and Banking Corporation	15,000	1.06000%	March 1, 2019			
	15,000	0.78125%	July 31, 2020			
	10,000	0.73125%	February 26, 2021	Bullet	(Note 3)	Unsecured
	5,000	1.04000%	June 30, 2021	payment		/unguaranteed
	3,000	0.03283%	July 31, 2019			/pari passu,
		(Note 5)				See (Note 4)
	7,000	0.35880%	June 1, 2028			
Sumitomo Mitsui Trust Bank, Limited	10,000	1.16125%	June 1, 2018			
	10,000	1.13000%	December 30, 2019			
	5,000	1.17625%	March 5, 2021			
	5,000	0.16500%	January 25, 2019			
	3,000	0.20250%	January 27, 2020			
	6,000	0.17000%	September 11, 2019			
Sumitomo Mitsui Banking Corporation	4,000	1.12375%	December 30, 2022			
	10,000	0.98250%	February 28, 2023			
	5,000	0.95875%	April 28, 2023			
	6,000	0.52375%	April 28, 2020			
	11,000	0.16545%	June 1, 2029			
		(Note 5)				
	1,000	0.14830%	June 30, 2021			
Mizuho Bank, Ltd.	7,000	1.24750%	November 30, 2018			
	10,000	0.85625%	February 28, 2022			
	8,000	1.07000%	July 29, 2022			
Sumitomo Life Insurance Company	7,000	2.13375%	May 23, 2018			
	5,000	0.52250%	July 16, 2021			
	3,000	0.30000%	February 3, 2026			
	5,000	0.25000%	May 22, 2026			
	5,000	0.65500%	July 16, 2032			
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,000	0.75625%	July 2, 2019			
	10,000	0.61125%	February 28, 2020			
	7,000	0.95875%	May 29, 2020			
Shinkin Central Bank	5,000	0.25000%	September 14, 2026			
	3,000	0.38130%	December 30, 2026			
	3,000	0.35630%	June 1, 2027			

	4,000	0.43380%	July 12, 2027			
Mizuho Trust & Banking Co., Ltd.	10,000	0.98250%	February 28, 2023			
	4,000	0.94750%	September 30, 2022			
MITSUI LIFE INSURANCE COMPANY LIMITED	2,000	1.12875%	February 13, 2020			
	2,000	0.94250%	March 29, 2019			
	2,000	1.23000%	March 30, 2021			
	2,000	1.03375%	November 1, 2022			
	2,000	1.48625%	May 30, 2025			
Nippon Life Insurance Company	2,000	1.04750%	December 13, 2023			
	2,000	1.27500%	October 19, 2018			
	2,000	1.34375%	May 31, 2019			
THE BANK OF FUKUOKA, Ltd.	3,000	0.94750%	September 30, 2022			
	2,000	0.54875%	June 30, 2023			
	2,000	0.23880%	May 31, 2024			
	2,000	0.17750%	June 30, 2022			
The Norinchukin Bank	5,000	0.72125%	September 30, 2020			
The Daishi Bank, Ltd.	1,000	0.49875%	April 27, 2018			
	2,000	0.25750%	March 1, 2024			
	2,000	0.24500%	June 28, 2024			
Resona Bank, Limited.	3,000	1.04375%	March 8, 2019			
	1,000	0.12545%	June 1, 2027			
		(Note 5)				
DAIDO LIFE INSURANCE COMPANY	1,000	0.94250%	March 29, 2019			
	1,000	0.70625%	October 2, 2020			
	1,000	0.45625%	June 30, 2022			
	1,000	0.41750%	September 11, 2023			
TAIYO LIFE INSURANCE COMPANY	1,000	0.99750%	July 2, 2021	Bullet payment	(Note 3)	Unsecured /unguaranteed /pari passu, See (Note 4)
	1,000	0.95875%	May 29, 2020			
	2,000	0.53250%	July 9, 2021			
The Hachijuni Bank, Limited	1,000	0.63875%	December 2, 2020			
	2,000	0.46500%	June 26, 2020			
The Chugoku Bank, Limited	1,000	0.95875%	May 29, 2020			
	2,000	0.60500%	May 28, 2021			
The Iyo Bank, LTD.	1,000	0.63120%	April 30, 2021			
	1,000	0.03416%	January 27, 2022			
		(Note 5)				
	1,000	0.03983%	June 30, 2025			
		(Note 5)				
The Yamaguchi Bank, Ltd.	1,000	1.08750%	May 1, 2019			
	1,000	1.10750%	September 4, 2020			
	1,000	0.47750%	January 10, 2029			
Meiji Yasuda Life Insurance Company	3,000	1.27750%	April 27, 2022			
The Joyo Bank, Ltd.	1,000	0.56250%	March 27, 2020			
	1,000	0.38630%	March 3, 2027			
The 77 Bank, Ltd.		0.01983%	June 30, 2023			
	2,000	(Note 5)				
The Gunma Bank, Ltd.	1,000	0.69125%	May 31, 2018			
Shinsei Bank, Limited	1,000	1.53375%	May 30, 2025			
The Hiroshima Bank, Ltd.		0.02416%	January 27, 2021			
	1,000	(Note 5)				
The Yamanashi Chuo Bank, Ltd.	1,000	0.27250%	October 11, 2024			
Total long-term loans (Note 6)		¥383,875				
Total borrowings		¥383,875				

Notes:

1. Scheduled for repayment of ¥125 million at six-month intervals and ¥2,625 million at the final maturity date.
2. Scheduled for repayment of ¥250 million at six-month intervals and ¥5,250 million at the final maturity date.
3. Use of funds for the above includes acquisition of real estate or beneficiary interests, repayment of borrowings and working capital, etc.
4. A special agreement attached to "Loan Agreement" entered into between NBF and each financial institution provides that the above borrowings from all financial institutions rank pari passu to each other.
5. This loan is a floating rate loan. Other long-term loans are all fixed rate loans.
6. 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	¥61,125	¥56,000	¥35,000	¥38,000

NBF Bonds

Issue	Issue date	Balance as of December 31, 2017 (Yen in millions)	Coupon	Maturity date	Redemption	Use of funds	Notes
No. 3 Unsecured Bonds	June 12, 2003	¥10,000	2.00000%	June 12, 2018	Bullet payment	Note 1	Notes 2 and 4
No. 13 Unsecured Bonds	June 26, 2013	10,000	1.16800%	June 26, 2023	Bullet payment	Note 1	Notes 3 and 5
No. 14 Unsecured Bonds	June 9, 2016	5,000	1.00000%	June 8, 2046	Bullet payment	Note 1	Notes 3 and 5
No. 15 Unsecured Bonds	May 22, 2017	5,000	0.91400%	May 22, 2037	Bullet payment	Note 1	Notes 3 and 5
Total (Note 6)		¥30,000					

Notes:

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

(Yen in millions)

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

Others

NBF has security deposits totaling ¥48,738 million as of December 31, 2017.

■ Capital Expenditures

1. Planning

As of December 31, 2017, 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	Cumulative amount paid
				current period	
				(from July 1, 2017 to December 31, 2017)	
(Yen in millions)					
NBF Platinum Tower	Renovation of emergency power generators	From August 2017 to December 2018	¥845	¥—	¥—
Chofu South Gate Bldg.	Renovation of emergency power generators	From September 2017 to December 2018	502	—	—
Shinjuku Mitsui Bldg. No.2	Renovation of emergency power generators	From January 2018 to December 2018	284	—	—
Shiba NBF Tower	Renovation of air conditioning①	From January 2018 to June 2018	246	—	—
NBF Shibakouen Bldg.	Renovation of air conditioning	From July 2018 to December 2018	240	—	—
Shiba NBF Tower	Renovation of air conditioning②	From July 2018 to December 2018	221	—	—
Sun Mullion NBF Tower	Renovation of air conditioning①	From January 2018 to June 2018	210	—	—
Shin-Kawasaki Mitsui Bldg.	Renovation of emergency power generators	From July 2017 to February 2018	199	—	—
Sun Mullion NBF Tower	Renovation of air conditioning②	From July 2018 to December 2018	192	—	—
NBF Shinkawa Bldg.	Renovation of air sanitation (West Building)	From July 2018 to December 2018	159	—	—
NBF Ikebukuro East	Renovation of Piping facility①	From October 2017 to June 2018	152	—	—
Nakanosakaue Sunbright Twin	Renovation of central monitoring facilities	From February 2017 to August 2018	151	—	—
NBF Utsunomiya Bldg.	Renovation of air conditioning①	From January 2018 to June 2018	142	—	—
NBF Ikebukuro East	Renovation of Piping facility②	From May 2018 to December 2018	124	—	—
Nakanosakaue Sunbright Twin	Renovation of security system	From February 2017 to March 2018	120	—	—

Nishi-Shinjuku Mitsui Bldg.	Renovation of fire alarm system	From August 2017 to March 2018	120	—	—
Shinjuku Mitsui Bldg. No.2	Renovation of elevator	From January 2018 to June 2018	116	—	—
NBF Utsunomiya Bldg.	Renovation of air conditioning②	From July 2018 to December 2018	105	—	—
NBF Shibakouen Daimon Street Bldg.	Renovation of sanitation	From July 2018 to November 2018	101	—	—
NBF Akasaka Sanno Square	Renovation of air conditioning①	From March 2018 to June 2018	76	—	—
NBF Akasaka Sanno Square	Renovation of air conditioning②	From September 2018 to November 2018	65	—	—
NBF Utsunomiya Bldg.	Renovation of restroom	From January 2018 to June 2018	30	—	—
NBF Urawa Bldg.	Renovation of restroom①	From April 2018 to June 2018	25	—	—
NBF Urawa Bldg.	Renovation of restroom②	From July 2018 to September 2018	25	—	—

2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NBF posted ¥3,906 million in capital expenditures together with ¥940 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
Sun Mullion NBF Tower	Renovation of air conditioning, renovation of parking equipment, renovation of water supply pump, etc.	From July 2017 to December 2017	¥501
Shiba NBF Tower	Renovation of air conditioning, renovation of lighting equipment, renovation of air supply and exhaust fan, etc.		347
Tsukuba Mitsui Bldg.	Renovation of air conditioning, renovation of security monitoring system, renovation of emergency lighting, etc.		193
NBF Utsunomiya Bldg.	Renovation of air conditioning, renovation of parking equipment, construction of partition wall, etc.		193
Yokohama ST Bldg.	Renovation of air conditioning, renovation of parking equipment, renovation of fire extinguishing facilities, etc.		145
NBF Shinkawa Bldg.	Renovation of water supply equipment (Residential Building), renovation of fire alarm system (East Building), Renovation of sanitation (East Building), etc.		129
Nakanosakaue Sunbright Twin	Renovation of security system, renovation of rectifier, renovation of gondola, etc.		124

Shinjuku Mitsui Bldg. No.2	Renovation of elevator, renovation of emergency power generators, construction of sound insulating partition wall, etc.		118
Shin-Kawasaki Mitsui Bldg.	Renovation of air conditioning, renovation of common use department ITV camera facilities, renovation of parking equipment, etc.		115
NBF Akasaka Sanno Square	Renovation of air conditioning, renovation of flue gas window, etc.		73
NBF Sapporo Minami Nijo Bldg	Replacement of fan coil units, renovation of air conditioning, construction of waterproof bank of fan coil units, etc.		21
Other buildings	Asset preservation construction and other renewal construction to improve tenant satisfaction, etc.		1,007
Total			¥2,966

■ Expenses regarding Entrustment, etc.

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

Item	For the six months ended December 31, 2017	For the six months ended June 30, 2017	For the six months ended December 31, 2016
	(Yen in millions)		
Asset management fees	¥1,368	¥1,310	¥1,283
Asset custody fees	50	50	50
Agent fees (stock transfer, accounting and administrative)	46	52	46
Directors' remuneration	13	13	13
Auditor's fees	14	14	14
Other expenses	144	110	96
Total	¥1,635	¥1,549	¥1,502

■ Trading Activities during the Current Period

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

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

Name of building	(Yen in millions)	
	Sale	
	Date	Sale price
GSK Bldg.	December 26, 2017	¥17,000
NBF Shin-Urayasu Tower	December 20, 2017	¥11,700
Total		¥28,700

(New acquisitions and sale)

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

(Yen in millions)		
Acquisition		
Name of building	Date	Acquisition price
Roppongi T-cube	March 30, 2018	¥62,800
Celestine Shiba Mitsui Bldg.(additional acquisition)	March 30, 2018	¥19,500
Osaki Bright Core - Bright Plaza(additional acquisition)	March 30, 2018	¥9,780
Total		¥92,080

(Yen in millions)		
Sale		
Name of building	Date	Sale price
NBF Hibiya Bldg.	March 30, 2018	¥64,000
Total		¥64,000

2. Trading of Other Assets Including Total Amount and Transactions

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

3. Transactions with Related Parties of Asset Management Company

(1) Ongoing Transactions

Category	Amount of purchase price, etc.(Note 2)(Note 3)	
	Purchase price, etc. (Yen in millions)	Sale price, etc. (Yen in millions)
	¥— (—)	¥28,700 (100%)
Total amount	Amount of purchases from related parties, etc.	Amount of sales from related parties, etc.
	— (—)	17,000 (59.2%)
Breakdown of transactions with related parties, etc.		
Mitsui Fudosan Residential Co., Ltd.	— (—)	17,000 (59.2%)
Total	— (—)	17,000 (59.2%)

(2) Fees Paid for the Period from July 1, 2017 to December 31, 2017

Category	Total fees paid (A) (Yen in millions)	Description of transactions with related parties (Note 1)		B/A
		Paid to	Amount of payment (B) (Yen in millions)	
Office management fees, etc.	¥1,519	Mitsui Fudosan Co., Ltd.	¥1,478	97.3%

(Note 2)		NBF Office Management Co., Ltd.	41	2.7%
Property maintenance fees	3,769	Mitsui Fudosan Facilities Co., Ltd.	636	16.9%
		Mitsui Fudosan Co., Ltd.	493	13.1%
		Mitsui Fudosan Building Management Co., Ltd.	248	6.6%
		Mitsui Fudosan Facilities West Co., Ltd.	241	6.4%
		Mitsui Fudosan Residential Lease Co.,Ltd.	1	0.0%
Leasing related service fees	110	Mitsui Fudosan Co., Ltd.	81	73.6%
		NBF Office Management Co., Ltd.	13	11.9%
		Mitsui Fudosan Realty Co., Ltd.	1	0.7%

Notes:

1. “Related parties” are defined as related parties of asset management companies under asset management agreement with NBF as defined in Article 123 of Order for Enforcement of the Law Concerning Investment Trusts and Investment Corporations, and Article 26, Section 27 of the Regulations regarding management report of the Investment trusts and Investment corporations set by the Investment Trusts Association, Japan. During the period from July 1, 2017 to December 31, 2017, 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., Mitsui Fudosan Facilities West Co., Ltd., Mitsui Fudosan Residential Lease Co.,Ltd. and Mitsui Fudosan Realty Co., Ltd. which meet either of the said definitions, are as described above.
2. In terms of properties for which NBF has not entrusted office management businesses to Mitsui Fudosan Co., Ltd. due to its master leasing (13 properties: Nishi-Shinjuku Mitsui Bldg., Toranomon Kotohira Tower, Celestine Shiba Mitsui Bldg., Yotsuya Medical Bldg., Panasonic Tokyo Shiodome Bldg., NBF Ogawamachi Bldg., Gate City Ohsaki, Nakameguro GT Tower, Higashi Gotanda Square, Osaki Bright Core - Bright Plaza, Shin-Kawasaki Mitsui Bldg., Parale Mitsui Bldg. and Shinanobashi Mitsui Bldg.), NBF has entrusted them to NBF Office Management Co., Ltd. as business representative of the property owners or lessors.
3. In addition to the above fees paid, the following have been paid to related parties for repair and maintenance work, etc.

(Yen in millions)

Mitsui Fudosan Co., Ltd.	¥473
Mitsui Fudosan Building Management Co., Ltd	395
Mitsui Fudosan Facilities West Co., Ltd.	125
MITSUI Designtec Co.,Ltd.	27
Mitsui Fudosan Facilities Co., Ltd.	18
Mitsui Fudosan Reform Co., Ltd.	5
Mitsui Fudosan Residential Lease Co.,Ltd.	5
Harajuku-no-mori Co.,Ltd.	4
Mitsui Fudosan Realty Co., Ltd.	3
Mitsuihome Linkage Co.,Ltd.	0

NIPPON BUILDING FUND INC. BALANCE SHEETS

As of December 31, 2017 and June 30, 2017

	As of December 31, 2017	As of June 30, 2017
	(Yen in millions)	
Assets		
Current Assets:		
Cash and cash equivalents (Note 3)	¥ 32,109	¥ 11,377
Tenant receivables	331	377
Prepaid expenses	613	613
Other current assets	266	149
Total current assets	33,319	12,516
Investment Properties:		
Land including trust accounts (Notes 4,13)	666,224	685,133
Buildings and improvements including trust accounts (Notes 4,13)	411,282	422,313
Other tangible assets (Notes 4,13)	13,612	13,666
Less: accumulated depreciation (Notes 4,13)	(153,560)	(152,397)
Leasehold rights in trust accounts and other intangible assets (Note 13)	35,925	35,945
Total investment properties, net	973,483	1,004,660
Long-term Prepaid Expenses (Note 13)	26	28
Other Assets	7,033	6,697
Total Assets	¥1,013,861	¥1,023,901
Liabilities		
Current Liabilities:		
Short-term loans (Notes 3,6)	¥ —	¥ 12,000
Long-term debt due within one year (Notes 3,6)	48,750	58,750
Accounts payable	5,776	4,643
Rents received in advance	4,898	4,975
Accrued expenses and other liabilities	1,696	1,839
Total current liabilities	61,120	82,207
Long-term Debt (Notes 3,6)	365,125	354,500
Tenant Security Deposits Including Trust Accounts (Note 3)	48,738	50,123
Other Liabilities	83	68
Total Liabilities	475,066	486,898
Net Assets (Note 5)		
Unitholders' Equity		
Unitholders' capital	519,125	519,125
Units authorized: 4,000,000 units		
Units issued and outstanding: 1,412,000 units		
Retained earnings	19,670	17,878
Total Net Assets	538,795	537,003
Total Liabilities and Net Assets	¥1,013,861	¥1,023,901

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

NIPPON BUILDING FUND INC.

STATEMENTS OF INCOME

For the six months ended December 31, 2017, June 30, 2017 and December 31, 2016

	For the six months ended December 31, 2017	For the six months ended June 30, 2017	For the six months ended December 31, 2016
(Yen in millions)			
Operating Revenues and Expenses			
Operating Revenues:			
Rental (Note 7)	¥33,222	¥33,130	¥32,570
Other revenues related to property leasing (Note 7)	3,338	3,060	3,279
Gains on sales of investment properties (Note 8)	5,565	220	—
Total Operating Revenues	42,125	36,410	35,849
Operating Expenses:			
Property management fees (Note 7)	5,229	5,106	5,171
Real estate taxes (Note 7)	3,422	3,455	3,343
Repairs and maintenance (Note 7)	940	933	857
Insurance (Note 7)	37	38	39
Other rental expenses (Note 7)	3,276	2,967	3,163
Depreciation and amortization (Note 7)	7,191	7,248	7,170
Losses on sales of investment properties (Note 8)	3,843	—	—
Asset management fees	1,368	1,310	1,283
Other operating expenses	267	239	219
Total Operating Expenses	25,573	21,296	21,245
Operating Income	16,552	15,114	14,604
Non-Operating Revenues and Expenses			
Non-Operating Revenues:			
Interest income	0	0	0
Other non-operating revenues	3	3	4
Non-Operating Expenses:			
Interest expense	(1,832)	(1,958)	(2,036)
Amortization of bond issuance costs	(4)	(4)	(6)
Other non-operating expenses	(36)	(44)	(45)
Ordinary Income	14,683	13,111	12,521
Income before Income Taxes	14,683	13,111	12,521
Current and deferred income taxes (Note 9)	(1)	(1)	(1)
Net Income	¥ 14,682	¥ 13,110	¥ 12,520

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

NIPPON BUILDING FUND INC.

STATEMENTS OF CHANGES IN NET ASSETS

For the six months ended December 31, 2017, June 30, 2017 and December 31, 2016

		(Yen in millions)		
	Number of Units	Unitholders' Capital	Retained Earnings	Total
Balance as of June 30, 2016	1,412,000	¥ 519,125	¥ 16,624	¥ 535,749
Cash dividends declared	—	—	(11,856)	(11,856)
Net income	—	—	12,520	12,520
Balance as of December 31, 2016	1,412,000	519,125	17,288	536,413
Cash dividends declared	—	—	(12,520)	(12,520)
Net income	—	—	13,110	13,110
Balance as of June 30, 2017	1,412,000	519,125	17,878	537,003
Cash dividends declared	—	—	(12,890)	(12,890)
Net income	—	—	14,682	14,682
Balance as of December 31, 2017	1,412,000	¥ 519,125	¥ 19,670	¥ 538,795

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

NIPPON BUILDING FUND INC. STATEMENTS OF CASH FLOWS

For the six months ended December 31, 2017, June 30, 2017 and December 31, 2016

	For the six months ended December 31, 2017	For the six months ended June 30, 2017	For the six months ended December 31, 2016
	(Yen in millions)		
Cash Flows from Operating Activities:			
Income before income taxes	¥ 14,683	¥ 13,111	¥ 12,521
Depreciation and amortization	7,191	7,248	7,170
Amortization of bond issuance costs	4	4	6
Interest expense	1,832	1,958	2,036
(Increase) Decrease in tenant receivables	46	(24)	8
Increase (Decrease) in accounts payable	1,134	(712)	647
Increase (Decrease) in rents received in advance	(77)	27	50
Decrease in investment properties due to sales	26,944	1,683	—
Cash payments of interest expense	(1,869)	(2,004)	(2,141)
Others, net	(202)	118	570
Net Cash Provided by Operating Activities	49,686	21,409	20,867
Cash Flows from Investing Activities:			
Payments for purchases of investment properties	(2,776)	(2,697)	(14,879)
Proceeds from tenant security deposits	2,104	1,281	2,612
Payments for tenant security deposits	(3,488)	(1,415)	(1,729)
Payments for security deposits paid to lessors	(0)	(12)	(5)
Refunds from security deposits paid to lessors	4	10	3
Others, net	(535)	(310)	(206)
Net Cash Used in Investing Activities	(4,691)	(3,143)	(14,204)
Cash Flows from Financing Activities:			
Net proceeds from (repayment of) short-term loans	(12,000)	5,000	(1,000)
Proceeds from long-term debt	20,000	20,000	13,000
Repayment of long-term debt	(19,375)	(31,375)	(13,375)
Payments for bond issuance costs	—	(36)	(1)
Payment of dividends	(12,888)	(12,517)	(11,854)
Net Cash Used in Financing Activities	(24,263)	(18,928)	(13,230)
Net Change in Cash and Cash Equivalents	20,732	(662)	(6,567)
Cash and Cash Equivalents at the Beginning of Period	11,377	12,039	18,606
Cash and Cash Equivalents at the End of Period	¥ 32,109	¥ 11,377	¥ 12,039

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

NIPPON BUILDING FUND INC.

Notes To Financial Statements

For the six months ended December 31, 2017, June 30, 2017 and December 31, 2016

Note 1 – Organization and Basis of Presentation

Organization

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

NBF is an externally managed real estate fund, formed as an investment corporation. NBFM, as NBF's asset management company, is engaged in acquiring, managing, leasing, and renovating office properties. Mitsui Fudosan Co., Ltd. currently owns 46% of NBFM while Sumitomo Life Insurance Company owns 35% and the remaining 19% is mainly owned by financial institutions.

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

As of December 31, 2017, NBF had ownership or beneficiary interests in 72 office properties containing approximately 1,051,588 square meters of rentable office space. As of December 31, 2017, NBF had leased office space to 1,554 tenants engaged in a variety of businesses. The occupancy rate for the office properties was approximately 98.9%.

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:

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

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

Investment Corporation Bond Issuance Costs

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

Income Taxes

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

Real Estate Taxes

Real estate taxes are imposed on properties on a calendar year basis and expensed when incurred. In terms of newly purchased properties, NBF capitalizes a portion of the real estate taxes that relate to a period from the purchase date of each property until the end of the calendar year as part of the acquisition cost of the relevant property. Capitalized real estate taxes amounted to ¥41 million for the period ended June 30, 2017 and ¥18 million for the period ended December 31, 2016. No capitalized real estate taxes were incurred for the period ended December 31, 2017.

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.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period's presentation.

Note 3 – Financial Instruments

Status of Financial Instruments

Policy for Financial Instruments

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

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

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

Financial Instruments, Their Risks and Risk Management System

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

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

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

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

Supplemental Explanation regarding Fair Values of Financial Instruments

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

Estimated Fair Value of Financial Instruments

Book value, fair value and difference between the two as of December 31, 2017 are as follows.

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

(Yen in millions)			
	Book value	Fair value	Difference
Assets			
(1) Cash and cash equivalents	¥ 32,109	¥ 32,109	¥ —
Total	¥ 32,109	¥ 32,109	¥ —
Liabilities			
(1) Long-term debt due within one year	¥48,750	¥49,125	¥375
(2) Long-term debt	365,125	369,874	4,749
Total	¥413,875	¥418,999	¥5,124

Notes:

1. Methods to Estimate Fair Value of Financial Instruments

Assets:

(1) Cash and cash equivalents

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

Liabilities:

(1) Long-term debt due within one year

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

(Yen in millions)

	Book value	Fair value	Difference
(1) Investment corporation bonds	¥10,000	¥10,083	¥ 83
(2) Long-term loans	38,750	39,042	292
Total	¥48,750	¥49,125	¥375

(1) Investment corporation bonds

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

(2) Long-term loans

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

(2) 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	¥20,000	¥19,971	¥ (29)
(2) Long-term loans	345,125	349,903	4,778
Total	¥365,125	¥369,874	¥4,749

(1) Investment corporation bonds

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

(2) Long-term loans

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

Book value, fair value and difference between the two as of June 30, 2017 are as follows.

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

(Yen in millions)

	Book value	Fair value	Difference
Assets			
(1) Cash and cash equivalents	¥ 11,377	¥ 11,377	¥ —
Total	¥ 11,377	¥ 11,377	¥ —
Liabilities			
(1) Short-term loans	¥ 12,000	¥ 12,000	¥ —
(2) Long-term debt due within one year	58,750	59,412	662
(3) Long-term debt	354,500	360,888	6,388
Total	¥425,250	¥432,300	¥7,050

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	¥10,176	¥ 176
(2) Long-term loans	48,750	49,236	486
Total	¥58,750	¥59,412	¥662

(1) Investment corporation bonds

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

(2) Long-term loans

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

(3) Long-term debt

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

(Yen in millions)

	Book value	Fair value	Difference
(1) Investment corporation bonds	¥20,000	¥19,881	¥ (119)
(2) Long-term loans	334,500	341,007	6,507
Total	¥354,500	¥360,888	¥6,388

(1) Investment corporation bonds

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

(2) Long-term loans

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

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

(Yen in millions)

	As of December 31, 2017	As of June 30, 2017
Tenant security deposits including trust accounts	¥48,738	¥50,123

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

3. Redemption Schedule for Monetary Claims as of December 31, 2017

(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	¥32,109	—	—	—	—	—

Redemption Schedule for Monetary Claims as of June 30, 2017

(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	¥11,377	—	—	—	—	—

4. Repayment Schedule for Loans and Investment Corporation Bonds as of December 31, 2017

(Yen in millions)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Investment corporation bonds	¥10,000	¥ —	¥ —	¥ —	¥ —	¥20,000
Long-term loans	38,750	61,125	56,000	35,000	38,000	155,000
Total	¥48,750	¥61,125	¥56,000	¥35,000	¥38,000	¥175,000

Repayment Schedule for Loans and Investment Corporation Bonds as of June 30, 2017

(Yen in millions)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans	¥12,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	10,000	—	—	—	—	20,000
Long-term loans	48,750	41,250	62,250	50,000	25,000	156,000
Total	¥70,750	¥41,250	¥62,250	¥50,000	¥25,000	¥176,000

Note 4– Schedule of Tangible Assets of Investment Properties

Tangible assets as of December 31, 2017 and June 30, 2017 consisted of the following:

	As of December 31, 2017			As of June 30, 2017		
	(Yen in millions)					
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥328,987	¥ —	¥328,987	¥339,584	¥ —	¥339,584
Land in trust	337,237	—	337,237	345,549	—	345,549
Land including trust total	666,224	—	666,224	685,133	—	685,133
Buildings and improvements	226,317	(71,223)	155,094	231,914	(69,279)	162,635
Buildings and improvements in trust	184,965	(73,827)	111,138	190,399	(74,808)	115,591
Buildings and improvements including those in trust total	411,282	(145,050)	266,232	422,313	(144,087)	278,226
Structures	3,303	(1,868)	1,435	3,319	(1,810)	1,509
Machinery and equipment	2,041	(1,394)	647	2,004	(1,331)	673
Tools, furniture and fixtures	1,827	(1,153)	674	1,879	(1,149)	730
Structures in trust	2,777	(1,449)	1,328	2,806	(1,405)	1,401
Machinery and equipment in trust	2,013	(1,471)	542	1,977	(1,420)	557
Tools, furniture and fixtures in trust	1,651	(1,175)	476	1,681	(1,195)	486
Other tangible assets total	13,612	(8,510)	5,102	13,666	(8,310)	5,356
Total	¥1,091,118	¥(153,560)	¥937,558	¥1,121,112	¥(152,397)	¥968,715

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, 2017 was at 0.05%. Long-term debt as of December 31, 2017 and June 30, 2017 consisted of the following:

	As of December 31, 2017	As of June 30, 2017
	(Yen in millions)	
Unsecured loans due 2018 to 2032 principally from banks and insurance companies with interest rates mainly ranging from 0.0% to 2.4%.....	¥383,875	¥383,250
2.00% unsecured bonds due 2018 (Note 2)	10,000	10,000
1.17% unsecured bonds due 2023 (Note 1)	10,000	10,000
0.91% unsecured bonds due 2037 (Note 1)	5,000	5,000
1.00% unsecured bonds due 2046 (Note 1)	5,000	5,000
	413,875	413,250
Less: amount due within one year.....	48,750	58,750
	¥365,125	¥354,500

Notes: 1. Subject to provision of collateral restrictions.

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

The annual maturities of long-term debt as of December 31, 2017 were as follows:

	(Yen in millions)
Due after one to two years	¥ 61,125
Due after two to three years	56,000
Due after three to four years	35,000
Due after four to five years	38,000
Due after five years	155,000

During the periods ended December 31, 2017 and June 30, 2017, NBF had commitment credit line contracts of ¥60 billion with several financial institutions to reduce refinancing risk. The unused amount of such committed credit lines was ¥60 billion as of December 31, 2017.

Note 7 – Rental Revenues and Expenses

Rental revenues and expenses for the periods ended December 31, 2017, June 30, 2017 and December 31, 2016 were as follows:

	For the six months ended December 31, 2017	For the six months ended June 30, 2017	For the six months ended December 31, 2016
(Yen in millions)			
Revenues from Property Leasing:			
Rental:			
Rental revenues	¥30,509	¥30,357	¥29,761
Common area charges	2,598	2,660	2,696
Others	115	113	113
Subtotal	33,222	33,130	32,570
Other revenues related to property leasing:			
Parking lots	710	684	691
Facility charge	272	280	261
Incidental income	2,211	1,953	2,201
Cancellation fees	64	63	52
Miscellaneous income	81	80	74
Subtotal	3,338	3,060	3,279
Total revenues from property leasing	36,560	36,190	35,849
Rental Expenses:			
Property management fees	5,229	5,106	5,171
Real estate taxes	3,422	3,455	3,343
Repairs and maintenance	940	933	857
Insurance	37	38	39
Other rental expenses	3,276	2,967	3,163
Depreciation and amortization	7,191	7,248	7,170
Total rental expenses	20,095	19,747	19,743
Operating Income from Property Leasing Activities. . .	¥16,466	¥16,443	¥16,106

Note 8 – Gains and Losses on Sales of Investment Properties

Gains and losses on sales of investment properties for the periods ended December 31, 2017 and June 30, 2017 were as follows. No investment properties were sold during the period ended December 31, 2016.

For the six months ended December 31, 2017

GSK Bldg.	(Yen in millions)
Proceeds from sale of investment property	¥17,000
Cost of sale of investment property	11,426
Other related sale expenses	9
Gain on sale of investment property	¥ 5,565
NBF Shin-Urayasu Tower	(Yen in millions)
Proceeds from sale of investment property	¥11,700
Cost of sale of investment property	15,518
Other related sale expenses	25
Loss on sale of investment property	¥ 3,843

For the six months ended June 30, 2017

Aqua Dojima East	(Yen in millions)
Proceeds from sale of investment property	¥1,910
Cost of sale of investment property	1,683
Other related sale expenses	7
Gain on sale of investment property	¥ 220

Note 9 – Income Taxes

NBF is subject to income taxes in Japan. The effective tax rate on NBF's income was 0.00% for the period ended December 31, 2017, 0.01% for the periods ended June 30, 2017 and December 31, 2016. The following table summarizes the significant differences between the statutory tax rates and NBF's effective tax rates for financial statement purposes.

	For the six months ended December 31, 2017	For the six months ended June 30, 2017	For the six months ended December 31, 2016
Statutory tax rate	31.74%	31.74%	31.74%
Deductible dividends	(28.60)	(31.21)	(31.74)
Reserve for advanced depreciation	(3.14)	(0.53)	—
Others	0.00	0.00	0.00
Effective tax rate	0.00%	0.01%	0.01%

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

Note 10 – Per Unit Information

Information about earnings per unit for the periods ended December 31, 2017, June 30, 2017 and December 31, 2016 and net assets per unit as of December 31, 2017, June 30, 2017 and December 31, 2016 were as follows.

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

	For the six months ended December 31, 2017	For the six months ended June 30, 2017	For the six months ended December 31, 2016
Earnings per Unit:			
Net income per unit (Yen)	¥10,398	¥9,285	¥8,867
Weighted average number of units outstanding	1,412,000	1,412,000	1,412,000
	As of December 31, 2017	As of June 30, 2017	As of December 31, 2016
Net Assets per Unit (Yen)	¥381,583	¥380,314	¥379,896

Note 11 – Leases

As Lessor

NBF leases some of its investment properties to outside parties under non-cancelable operating leases. As of December 31, 2017 and June 30, 2017, future minimum rental revenues under the non-cancelable operating leases are as follows:

	As of December 31, 2017	As of June 30, 2017
	(Yen in millions)	
Due within one year.....	¥ 20,921	¥ 20,697
Due after one year.....	47,467	30,865
Total	¥ 68,388	¥ 51,562

As Lessee

NBF leases some of its investment properties from outside parties under non-cancelable operating leases. As of December 31, 2017 and June 30, 2017, future minimum rental expenses under the non-cancelable operating leases are as follows:

	As of December 31, 2017	As of June 30, 2017
	(Yen in millions)	
Due within one year.....	¥ 2	¥ 2
Due after one year.....	1	1
Total	¥ 3	¥ 3

Note 12 – Transactions with Related Parties

(1) Parent Company and Major Corporate Unitholders

(For the six months ended December 31, 2017)

None applicable.

(For the six months ended June 30, 2017)

None applicable.

(For the six months ended December 31, 2016)

None applicable.

(2) Affiliates

(For the six months ended December 31, 2017)

None applicable.

(For the six months ended June 30, 2017)

None applicable.

(For the six months ended December 31, 2016)

None applicable.

- (3) Sister Companies
 (For the six months ended December 31, 2017)
 None applicable.
 (For the six months ended June 30, 2017)
 None applicable.
 (For the six months ended December 31, 2016)
 None applicable.
- (4) Directors and Major Individual Unitholders
 (For the six months ended December 31, 2017)
 None applicable.
 (For the six months ended June 30, 2017)
 None applicable.
 (For the six months ended December 31, 2016)
 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 December 31, 2017	For the six months ended June 30, 2017
Carrying amount		
Balance at beginning of the Fiscal Period	¥ 1,004,687	¥ 1,010,223
Amount of increase (decrease) during current period	(31,179)	(5,536)
Balance at end of the Fiscal Period	973,508	1,004,687
Fair value at end of the period	¥ 1,187,580	¥ 1,194,070

Notes:

- Carrying amounts represent acquisition cost less accumulated depreciation.
- The major decrease in the fiscal period ended December 31, 2017 was mainly due to sales of GSK Bldg. and NBF Shin-Urayasu Tower which amounted to ¥ 26,944 million and recognition of depreciation costs.
 The major increase in the fiscal period ended June 30, 2017 was mainly due to the acquisitions of a property (Kowa Nishi-Shinbashi Bldg. B (additional acquisition), ¥39 million) and the major decrease was mainly due to sale of Aqua Dojima East which amounted to ¥ 1,683 million and recognition of depreciation costs.
- Fair value at end of the period is based on appraisals provided by independent real estate appraisers.

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

Note 14 – Segment Information

Segment Information

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

Related Information

(For the six months ended December 31, 2017)

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.	¥8,316	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, 2017)

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.	¥8,188	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, 2016)

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.	¥7,878	Real estate leasing business

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

Note 15 – Significant Subsequent Events

None applicable.

III Appendix

■ Major Interested Parties

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

NBFM, as Asset Management Company provided for in the Investment Trust Law of Japan, performs management of NBF's assets and undertakes management of the institutions of NBF. As of December 31, 2017, NBFM has been entrusted as an asset management company only by NBF.

Operation

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

Fees for the Asset Management Operation

Management Fees 1

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

Management Fees 2

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

Management Fees 3

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

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

History of NBFM

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

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

List of Shareholders (as of December 31, 2017)

Name	Number of Shares Owned	Percent
Mitsui Fudosan Co., Ltd.	4,554	46.0%
Sumitomo Life Insurance Company	3,465	35.0
Sumitomo Mitsui Trust Bank, Limited	495	5.0
Sumitomo Mitsui Banking Corporation	495	5.0
Daido Life Insurance Company	297	3.0
Mitsui Sumitomo Insurance Co., Ltd.	297	3.0
Britel Fund Trustees Limited	297	3.0
Total	9,900	100.0%

Directors and Staff

As of April 1, 2018, the directors and corporate auditors of NBFM are as follows. The staff other than directors and auditors of NBFM is comprised of 26 persons.

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

Outline of Financial Condition

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

Outline of principal assets and liabilities for the most recent fiscal year:

As of March 31, 2017	(Yen in millions)
Total Assets	¥2,476
Total Liabilities	441
Total Net Assets	2,035



Independent Auditor's Report

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

We have audited the accompanying financial statements of Nippon Building Fund Inc.(a Japanese Real Estate Investment Trust), which comprise the balance sheets as at December 31, 2017 and June 30, 2017, and the statements of income, statements of changes in net assets and statements of cash flows for each of the six months ended December 31, 2017, June 30, 2017 and December 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nippon Building Fund Inc. as at December 31, 2017 and June 30, 2017, and their financial performance and cash flows for each of the six months ended December 31, 2017, June 30, 2017 and December 31, 2016 in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

April 16, 2018
Tokyo, Japan

DISCLAIMER

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

Prohibition of Sales to EEA Retail Investors

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

United Kingdom

The units of NBF are being marketed in the United Kingdom pursuant to Article 59 of the United Kingdom Alternative Investment Fund Managers Regulations 2013. In accordance with this provision, Nippon Building Fund Management Ltd. (the “AIFM”) has notified the Financial Conduct Authority (the “FCA”) of its intention to offer these units in the United Kingdom. For the purposes of the United Kingdom Financial Services and Markets Act 2000 (“FSMA”) NBF is an unregulated collective investment scheme which has not been authorized by the FCA. Accordingly, any communications of an investor or inducement to invest in NBF may be made to: (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order; or (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Articles 49(2)(a) to (d) of the Order (all such persons together being referred to as “Relevant Persons”). In the United Kingdom, this document and its contents are directed only at Relevant Persons and must not be acted on or relied on by

persons who are not Relevant Persons. Any person who is not a Relevant Person may not act or rely on this document or any of its contents.

European Economic Area Investors

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

Netherlands

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

Article 23 (1)(a)	
Objectives of the AIF.	Nippon Building Fund Inc. (“NBF” or the “AIF”) invests in office buildings in the Tokyo Central Business Districts (“CBDs”, which comprises the 23 wards of Tokyo), Other Greater Tokyo Areas (neighboring cities within Tokyo other than the 23 wards, such as Musashino and Tachikawa cities, as well as cities within the neighboring prefectures of Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi prefectures, including the cities of Yokohama, Kawasaki, Chiba, Kashiwa and Saitama) and Other Cities (principal regional cities, including Sapporo, Sendai, Niigata, Shizuoka, Hamamatsu, Nagoya, Kyoto, Osaka, Kobe, Okayama, Hiroshima, Takamatsu, Fukuoka and Kumamoto). The basic policy of NBF is to operate assets with the objective of assuring steady growth and stable profits for the mid to long term.
Investment strategy.	The investment strategy of NBF aims to assure steady growth of and stable profits from NBF’s portfolio for the mid to long term by considering the proportion of Japan’s office stock by region. Specifically, the strategy divides the investment area into three areas consisting of Tokyo CBDs, Other Greater Tokyo Areas and Other Cities in such manner that 70% or more of total investment assets is allocated to Tokyo CBDs and Other Greater Tokyo Areas and 30% or less to Other Cities. The purpose of this area diversification is to minimize cash flow risks such as those due to earthquakes and risk of vacancies. In general, NBF fully exploits its unique characteristics when conducting investment activities. It is one of the largest listed J-REITs on the Tokyo Stock Exchange in terms of total assets, and is able to take advantage of Mitsui Fudosan Group’s powerful information network, as well as the industry knowledge and familiarity that it has cultivated itself. NBF investment strategy focuses on expanding its asset portfolio by making aggressive acquisitions and flexible dispositions mainly of highly competitive office buildings, primarily in Tokyo CBDs while conducting appropriate risk management.
Types of assets the AIF may invest in.	Real estate, trust beneficiary interests in real estate, real estate securities, specified assets and other assets.
Techniques it may employ and all associated risks.	NBF achieves its objective by investing in real estate consisting of buildings primarily used for offices with their underlying land located in the Tokyo CBDs, Other Greater Tokyo Areas and Other Cities. NBF also invests in securities, beneficiary certificates representing beneficial interests in trusts and other assets backed by office properties. The principal risks with respect to investment in NBF are as follows: (1) General Risks (a) Risks concerning NBF’s ability to make cash distributions (b) Risks concerning resale or redemption of investment units or investment corporation bonds

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

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

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

(3) Risks Related to Real Estate

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

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

(4) Risks Related to Trust Beneficiary Rights

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

(5) Risks Related to Taxation

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

	(c) Risk of additional tax liability as a result of a tax audit, which could, among other things, retroactively cause us to fail to satisfy pass-through requirements (d) Risks that preferential tax measures associated with real estate acquisitions cannot be applied (e) Risks of failure to satisfy pass-through requirements due to treatment of NBF as a family corporation under Japanese tax law. (f) Risks of failure to satisfy pass-through requirements due to borrowings from companies or individuals other than institutional investors (g) Risks of failure to satisfy pass-through requirements due to the composition of investors (h) Risks concerning revisions of the general taxation system (i) Risks that tax burdens will increase due to discrepancies between accounting treatment and tax treatment
Any applicable investment restrictions.	NBF is subject to investment restrictions under Japanese laws and regulations (e.g., the Act on Investment Trusts and Investment Corporations (the “ITA”), the Financial Instruments and Exchange Act (the “FIEA”)) as well as its articles of incorporation. NBF must invest primarily in specified assets as defined in the ITA. Specified assets include, but are not limited to, securities, real estate, leaseholds of real estate, surface rights (<i>chijō-ken</i>) (i.e., right to use land for the purpose of having a structure on it) or trust beneficiary interests for securities or real estate, leaseholds of real estate or surface rights. A listed J-REIT must invest substantially all of its assets in real estate, real estate-related assets and liquid assets as provided by the listing requirements. Real estate in this context includes, but is not limited to, real estate, leaseholds of real estate, surface rights, and trust beneficiary interests for these assets, and real estate-related assets in this context include, but are not limited to, anonymous association (<i>tokumei kumiai</i>) interests for investment in real estate. Pursuant to the ITA, investment corporations may not independently develop land for housing or to construct buildings, but must outsource such activities.
Circumstances in which the AIF may use leverage.	NBF may take out loans or issue long-term or short-term investment corporation bonds for the purpose of investing in properties, conducting repairs and related work, paying cash distributions, operating capital, repaying obligations (including repayment of tenant leasehold or security deposits, and obligations related to loans or long-term or short-term investment corporation bonds) and other activities.
The types and sources of leverage permitted and associated risks.	Loans or investment corporation bonds. Currently, all of NBF’s outstanding long- and short-term loans as well as outstanding investment corporation bonds are unsecured and unguaranteed.

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

Article 23(1) (c)	
Description of the main legal implications of the contractual relationship entered into for the purpose of investment, including jurisdiction, applicable law, and the existence or not of any legal instruments providing for the recognition and enforcement of judgments in the territory where the AIF is established.	NBF has entered into the following agreements with Mitsui Fudosan Co., Ltd.: • Master lease agreement under which NBF leases properties to Mitsui Fudosan Co., Ltd. under a master lease agreement, and Mitsui Fudosan Co., Ltd. subleases such properties to subtenants; • Direct lease agreements with Mitsui Fudosan Co., Ltd. as tenant; • Purchase and sale agreements regarding certain NBF assets originally held by Mitsui Fudosan Co., Ltd., and management contracts with regard to such assets; and • Agreements for the development of certain properties. NBF has entered into the following agreements with Sumitomo Mitsui Trust Bank, Limited: • A custody agreement regarding NBF's assets; • A transfer agent agreement regarding the units; • Loan agreements over certain of our short- and long-term loans; • Agreements establishing Sumitomo Mitsui Trust Bank, Limited as the trustee for certain trust beneficiary rights held by NBF; and • Various agreements related to our investment corporation bond offerings. NBF has entered into the following agreements with Sumitomo Life Insurance Company: • Loan agreements over certain of our long-term loans; • Lease agreements for certain properties with Sumitomo Life Insurance Company as tenant; and • Purchase and sale agreements regarding certain NBF assets originally held by Sumitomo Life Insurance Company. All of the above agreements are governed by Japanese law. NBF is not involved in or threatened by any legal arbitration, administrative or other proceedings, the results of which might, individually or in the aggregate, be material. NBF is a corporate-type investment trust in the form of investment corporation (toshi hojin) provided for under the ITA. Therefore, the relationship between NBF and its unitholders is governed by NBF's articles of incorporation (as opposed to individual agreements), which can be amended from time to time upon resolution of a general unitholders' meeting. NBF's articles of incorporation stipulate rules relating to general unitholders meetings, including the convocation, setting of record date, exercise of voting rights, resolutions and election of NBF's directors. The relationship between NBF and its unitholders is also governed by, and is subject to the provisions of, Japanese law, including the ITA.

	The courts in Japan would recognize as a valid judgment any final and conclusive civil judgment for monetary claims (which, for this purpose, are limited to those of a purely civil nature and do not include monetary claims of the nature of criminal or administrative sanction, such as punitive damages, even though they take the form of civil claims) against NBF obtained in a foreign court provided that (i) the jurisdiction of such foreign court is admitted under the laws of Japan, (ii) NBF has received service of process for the commencement of the relevant proceedings, otherwise than by a public notice or any method comparable thereto, or has appeared without any reservation before such foreign court, (iii) neither such judgment nor the relevant proceeding is repugnant to public policy as applied in Japan, (iv) there exists reciprocity as to the recognition by such foreign court of a final judgment obtained in a Japanese court and (v) there is no conflicting judgement on the subject matter by any Japanese court.
Article 23(1) (d)	
The identity of the AIFM, AIF's depositary, auditor and any other service providers and a description of their duties and the investors' rights thereto.	• AIFM (Asset Manager): Nippon Building Fund Management Ltd. • Auditor: KPMG AZSA LLC • Custodian and Transfer Agent: Sumitomo Mitsui Trust Bank, Ltd. Service providers owe contractual obligations under their respective agreements with the AIF or AIFM, as the case may be. In addition, the FIEA provides that an asset manager owes a J-REIT a fiduciary duty and must conduct its activities as the asset manager in good faith. The FIEA also prohibits an asset manager from engaging in certain specified conduct, including entering into transactions outside the ordinary course of business or with related parties of the asset manager that are contrary to or violate the J-REIT's interests. Pursuant to the ITA, the unitholders have the right to approve the execution or termination of the asset management agreement at a general meeting of unitholders.
Article 23(1) (e)	
Description of how the AIFM complies with the requirements to cover professional liability risks (own funds / professional indemnity insurance).	Not applicable.

Article 23(1) (f)	
Description of any delegated management function such as portfolio management or risk management and of any safekeeping function delegated by the depositary, the identification of the delegate and any conflicts of interest that may arise from such delegations.	Not applicable. There is no delegation of such functions beyond the AIFM, which is responsible for portfolio and risk management, and the Custodian, which is responsible for safekeeping activities.
Article 23(1) (g)	
Description of the AIF's valuation procedure and pricing methodology, including the methods used in valuing hard-to-value assets.	NBF makes investment decisions based on its investment strategies and in accordance with its articles of incorporation and based on the results of due diligence, including the valuation of properties and consideration of the property appraisal value. The methods and standards that NBF uses for the evaluation of assets are based on the Regulations Concerning the Calculations of Investment Corporations, as well as the Regulations Concerning Real Estate Investment Trusts and Real Estate Investment Corporations and other regulations stipulated by ITA, in addition to Japanese GAAP. J-REITs may only use the valuation methods prescribed in the rules of the Investment Trusts Association, Japan, which emphasize market price valuation. Regarding hard to value assets, such assets comprise tenant security deposits including trust accounts. Security deposits from tenants are not subject to fair value disclosure because they are not marketable, and actual deposit period is not estimable as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract. This makes a reasonable estimate of future cash flows difficult. Valuation of such hard to value assets is included in the notes to our financial statements.

	If asset valuation methods other than those mentioned in the paragraphs above are to be used in order to determine values for asset management reports, etc., valuation shall be conducted in the following manner. (1) Real estate, real estate leasehold rights and surface rights In principle, valuation shall be based on the appraisal by a real estate appraiser. (2) Trust beneficiary interests and equity interests in anonymous associations and voluntary associations Valuation shall be made by calculating the value of the equity interests in anonymous associations or voluntary associations in relation to real estate, real estate leasehold rights or surface rights, or the value of the trust beneficiary interests obtained by subtracting the amount of liabilities from the aggregate value of assets after (i) determining valuation as described in (1) above with respect to trust assets or the assets of anonymous associations composed of real estate, real estate leasehold rights or surface rights and (ii) determining valuation in accordance with general accepted accounting principles in Japan with respect to trust assets or the assets of anonymous associations or voluntary associations composed of financial assets.
Article 23(1) (h)	
Description of the AIF's liquidity risk management, including redemption rights in normal and exceptional circumstances and existing redemption arrangements with investors.	NBF seeks to manage the capital resources and liquidity sources to provide adequate funds for current and future financial obligations and other cash needs and acquisitions. NBF has entered into credit lines in the amount of 60 billion yen as of December 31, 2017, and has entered into loans and has issued investment corporation bonds in the past. While loans and investment corporation bonds are exposed to liquidity risk, such risk is managed in ways such as by diversifying the means of funding and lending institutions, dispersing repayment dates, establishing committed credit lines, and keeping sufficient liquidity in hand. NBF is a closed-end investment corporation, and unitholders are not entitled to request the redemption of their investment.
Article 23(1) (i)	
Description of all fees, charges and expenses and a maximum amount which is directly / indirectly borne by the investors.	• Compensation: The articles of incorporation provide that the AIF may pay its executive and supervisory officers up to 700,000 yen per month. The board of officers is responsible for determining a reasonable compensation amount for the executive officer and each of the supervisory officers. • Asset Management Fee: The AIF will pay the Asset Manager an asset management fee as follows:

Management Fees 1 – The amount equivalent to 2.5% of the amount of the revenue arising from real estate, real estate-related and real estate-backed assets (“Real Estate”) as calculated on each closing date (provided, however, that revenues from the sale of Real Estate and other managed assets will be excluded) will be payable.

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 is newly acquired (or acquired in connection with a merger executed by NBF), compensation equivalent to the total amount of the acquisition price of said Real Estate (meaning the acquisition price of both land and buildings, and in the event of the simultaneous acquisition of multiple units of Real Estate, the acquisition price of each item, provided, however, that national consumption tax, regional consumption tax and miscellaneous costs of acquisition are excluded) multiplied by the following percentage rates will, in principle, be payable, provided, however, that with the approval of the officers of NBF, compensation may be calculated using different rates not exceeding the following rates.

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

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

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

A yearly fee calculated as follows:

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

- Transfer Agent Fee (Standard Fee):

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

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

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

- Auditor Fee:

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

- Accounting Service Fee

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

- (1) A fixed amount of 10,900,000 yen.
- (2) A variable amount calculated at April 1 and October 1 of each year in accordance with the following:

Fewer than 30 properties.....	800,000 yen per property
Between 30 and 60 properties.....	600,000 yen per property
More than 60 properties.....	400,000 yen per property

- Miscellaneous

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

- Administration of special accounts;
- Office management;
- Property control;
- Property transfer;
- Referral of tenants;
- Property development;

	○ Tax administration; and ○ Administration for investment corporation bonds governance
Article 23(1) (j)	
Description of the AIFM's procedure to ensure fair treatment of investors and details of any preferential treatment received by investors, including detailing the type of investors and their legal or economic links with the AIF or AIFM.	Under Article 77 paragraph 4 of the ITA, which applies the requirements of Article 109 paragraph 1 of the Companies Act to investment corporations, investment corporations are required to treat unitholders equally depending on the number and content of units held. In addition, upon liquidation, the allotment of residual assets to unitholders is required to be made equally depending on the number units held under Article 77 paragraph 2 item 2 and Article 158 of the ITA.
Article 23(1) (k)	
The latest annual report referred to in Article 22(1).	Additional information may be found in our most recent semi-annual report prepared in accordance with Article 22 of the AIFMD, which is available at the Asset Manager's office located at 38th Floor, GranTokyo North Tower, 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-6738, Japan.
Article 23(1) (l)	
The procedure and conditions for the issue and sale of the units.	NBF is authorized under the articles of incorporation to issue up to 4 million units. Its units have been listed on the Tokyo Stock Exchange since September 10, 2001. Secondary market sales and transfers of units will be conducted in accordance with the rules of the Tokyo Stock Exchange. Unit prices on the Tokyo Stock Exchange are determined on a real-time basis by the equilibrium between bids and offers. The Tokyo Stock Exchange sets daily price limits, which limit the maximum range of fluctuation within a single trading day. Daily price limits are set according to the previous day's closing price or special quote.
Article 23(1) (m)	
Latest net asset value of the AIF or latest market price of the unit or share of the AIF.	NBF's unit's latest market price is publicly available at the Tokyo Stock Exchange or from financial information vendors at http://www.reuters.com/finance/stocks/overview?symbol=8951.T

Article 23(1) (n)				
Details of the historical performance of the AIF, where available.	The units of NBF were listed on the Tokyo Stock Exchange on September 10, 2001. The most recent five fiscal period performance of the units is as follows.			
	Fiscal period (six months ended)	Total Assets (JPY million)	Total Net Assets (JPY million)	Net Assets per unit (base value) (JPY)
	December 31, 2017	1,013,860	538,794	381,582
	June 30, 2017	1,023,900	537,002	380,313
	December 31, 2016	1,030,434	536,413	379,896
	June 30, 2016	1,029,045	535,749	379,425
	December 31, 2015	1,012,708	534,287	378,390
Article 23(1) (o)				
Identity of the prime broker, any material arrangements of the AIF with its prime brokers, how conflicts of interest are managed with the prime broker and the provision in the contract with the depositary on the possibility of transfer and reuse of AIF assets, and information about any transfer of liability to the prime broker that may exist.	No applicable prime broker.			
Article 23(1) (p)				
Description of how and when periodic disclosures will be made in relation to	The AIFM will disclose the matters described in Articles 23(4) and 23(5) periodically through its Internet website and semi-annual report.			

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

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

Terms of redemption and circumstances where management discretion applies, where relevant.	NBF is a closed-end investment corporation, and unitholders are not entitled to request the redemption of their investment.
Also any voting or other restrictions exercisable, the length of any lock-up or any provision concerning 'first in line' or 'pro-rating' on gates and suspensions shall be included.	There are no voting or other restrictions on the rights attaching to units.
Article 23(4)(c)	
The current risk profile of the AIF and the risk management systems employed by the AIFM to manage those risks.	The appropriateness and effectiveness of the risk management structure are regularly evaluated and enhanced by the AIFM. Deposits are exposed to risks of failure of the financial institution holding the deposit and other credit risks, but such risks are controlled by striving to diversify the financial institutions holding the deposits. Funds from debts and investment corporation bonds are mainly used for asset acquisition or debt repayment, etc. While loans and investment corporation bonds are exposed to liquidity risk, such risk is managed in ways such as by diversifying the means of funding and lending institutions, dispersing repayment dates, establishing committed credit lines, and keeping sufficient liquidity in hand. Our credit line is in the amount of 60 billion yen; no amount has been drawn down as of December 31, 2017. Debt with a floating interest rate is exposed to interest rate fluctuation risks, but the impact that interest rate rises have on the operations is limited by maintaining the proportion of debt that is long-term fixed-rate debt at high levels, and setting a procurement limit depending on the economic and financial environment, terms of lease agreements with tenants, asset holding period and other factors. Furthermore, derivative transactions (interest rate swap transactions) are available as hedging instruments to mitigate the risks of rises in floating interest rates. 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.
Measures to assess the sensitivity of the AIF's portfolio to the most relevant risks to which the AIF is or could be exposed.	No such measures have been implemented.
If risk limits set by the AIFM have been or are likely to be exceeded and where these risk limits have been exceeded a description of the circumstances and the remedial measures taken.	No such situation has occurred.
Article 23(5)(a)	
Any changes to the maximum amount of leverage which the AIFM may employ on behalf of the AIF, calculated in accordance with the gross and commitment methods. This shall include the original and revised maximum level of leverage calculated in accordance with Articles 7 and 8 of Regulation (EU) No 231/2013, whereby the level of leverage shall be calculated as the relevant exposure divided by the net asset value of the AIF.	Any new arrangements or change in applicable arrangements will be disclosed at an appropriate time.
Any right of the reuse of collateral or any guarantee granted under the leveraging agreement, including the nature of the rights granted for the reuse of collateral and the nature of the guarantees granted.	No such right or guarantee exists.
Details of any change in service providers relating to the above.	Any new arrangements or change in applicable arrangements will be disclosed at an appropriate time.
Article 23(5)(b)	
Information on the total amount of leverage employed by the AIF	The aggregate amount of debt with interest is JPY 413,875 million as of December 31, 2017.

calculated in accordance with the
gross and commitment methods.

Disclaimer

This document contains translations of selected information described in the Securities Report (*Yuka shoken hokokusho*) filed on March 29, 2018 pursuant to the Securities Exchange Law of Japan, and the Financial Statements and the Performance Information Report for the period from July 1, 2017 to December 31, 2017, of Nippon Building Fund Inc. prepared pursuant to the Investment Trust Law of Japan.

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

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

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