



NAF Report

September 2015 – February 2016

<http://www.naf-r.jp/english/>

20th

Period

Profile

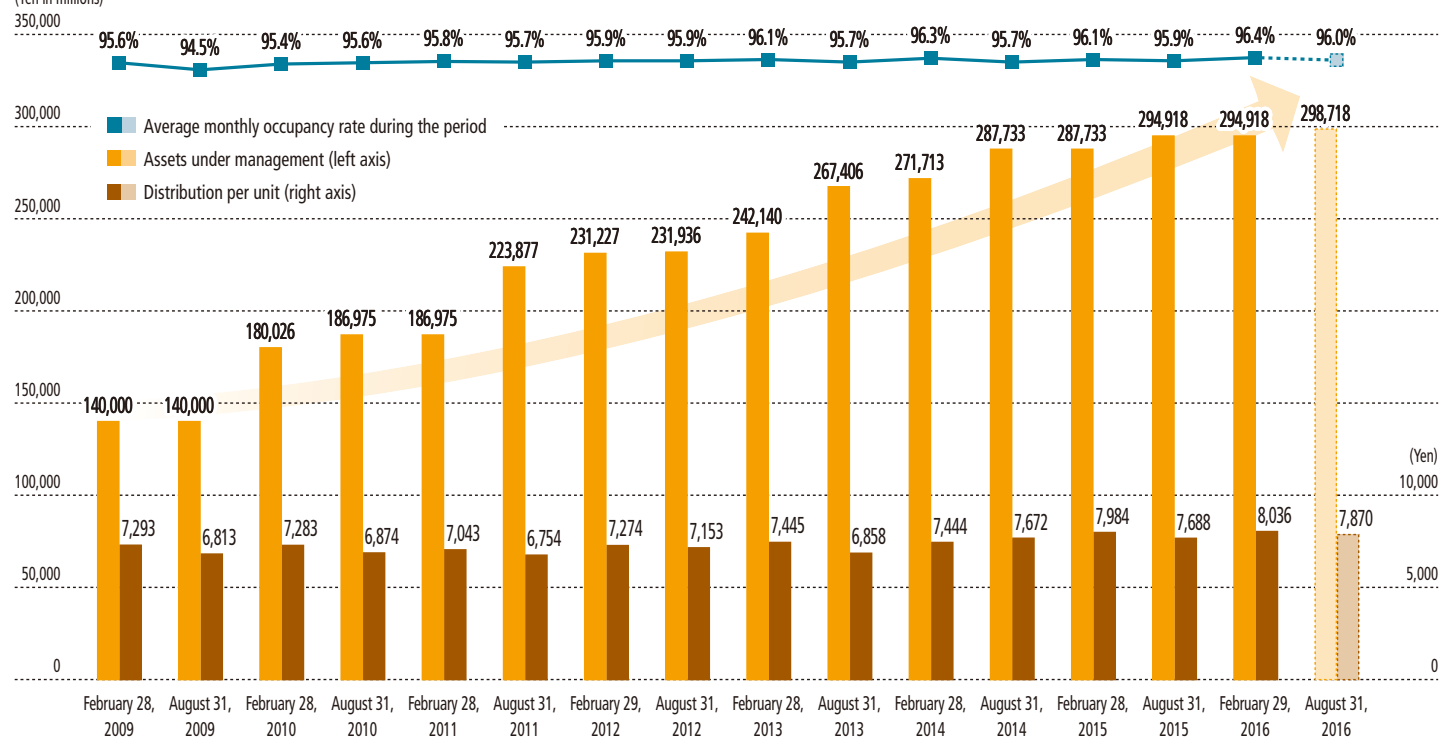
Nippon Accommodations Fund Inc. ("NAF") was incorporated as an investment corporation on October 12, 2005 with an initial investment by Mitsui Fudosan Co., Ltd. ("Mitsui Fudosan"), and was listed on the Tokyo Stock Exchange on August 4, 2006 with assets of more than ¥100 billion. NAF invests in accommodation assets* located mainly in the 23 wards of Tokyo. The Investment Trust and Investment Corporation Act of Japan requires an investment corporation to be managed by an external entity. NAF's assets are managed by Mitsui Fudosan Accommodations Fund Management Co., Ltd., a 100 percent subsidiary of Mitsui Fudosan.

* Accommodation assets in this report are defined as rental apartments, corporate housing, dormitories/student apartments, serviced apartments and senior residences. They do not include hotel properties.



Asset Growth (Acquisition Price Basis)/Average Monthly Occupancy Rate/Distribution per Unit

(Yen in millions)



(Forecast announced Apr. 19, 2016)

Note: NAF implemented a two-for-one split of investment units with an effective date of March 1, 2014. Distribution per unit for the period ended February 28, 2014 and earlier is adjusted for this split (actual distribution divided in half, rounded down to the nearest yen).

NAF Snapshot

Profitability (20th Period)

96.4%

An average monthly occupancy rate of 96.4 percent

5.3%

Net operating income (NOI) yield* of 5.3 percent

¥8,036

Distribution per unit of ¥8,036 for the 20th Period

Outstanding Portfolio (As of February 29, 2016)

¥294,918 million

Portfolio of 116 superior properties with a total acquisition price of ¥294,918 million

**476,444.82m²/
11,558 units**

11,558 units with a total rentable area of 476,444.82m²

87.5%

87.5 percent of portfolio located in the 23 wards of Tokyo

Financial Stability (As of February 29, 2016)

AA-, A+, A3

Rated AA- by Rating and Investment Information; A+ (Long-term) and A-1 (Short-term) by Standard & Poor's; and A3 by Moody's

50.2%

LTV (Loan-to-value) ratio of 50.2 percent, long-term debt ratio of 96.6 percent

*Weighted average of annual NOI yield on the acquisition value of each property

Contents

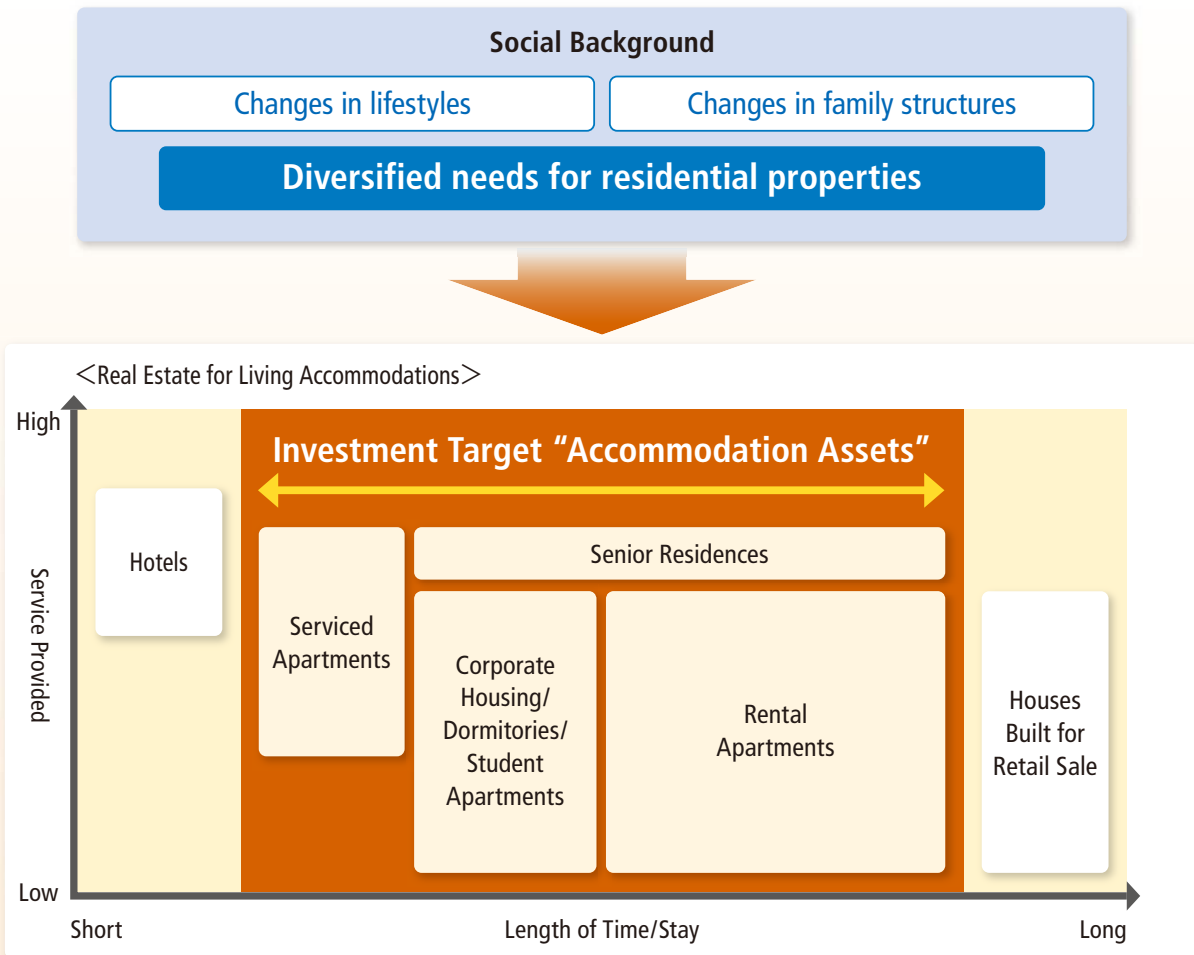
NAF Snapshot.....	1	Facts and Figures	34
NAF's Two Core Strategies.....	2	Rental Apartment Investment Characteristics	1
To Our Stakeholders.....	4	Corporate Structure and Governance	3
Portfolio Strategy	6	Primary Related Corporations	6
Portfolio Summary	8	Portfolio Policy.....	8
Management's Discussion and Analysis	10	Corporate Data.....	12
Financial Statements.....	18	Status of Unitholders.....	13
Notes to Financial Statements	22		
Independent Auditor's Report.....	33		

Note: In this report, amounts less than 1 million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

NAF's Two Core Strategies

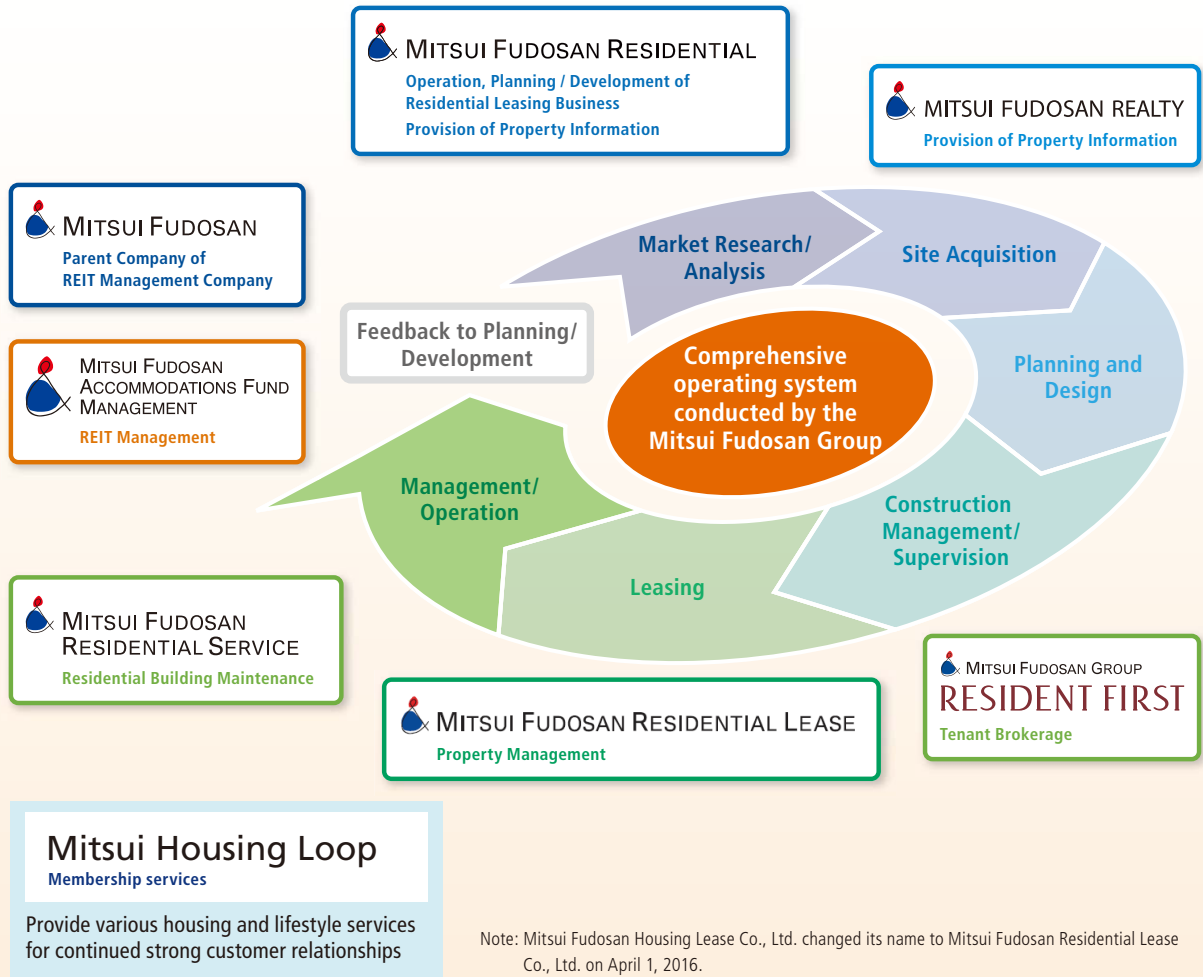
Investment in Accommodation Assets

Investment in accommodation assets to meet diversified needs for residential properties



Leveraging the Mitsui Fudosan Group

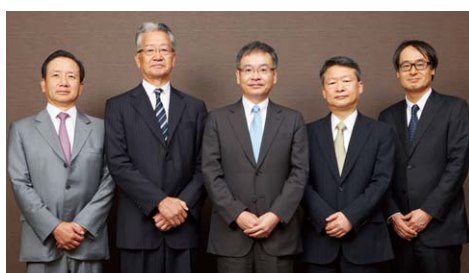
Delivering quality portfolio and efficient operating system by leveraging the Mitsui Fudosan Group's value chain



To Our Stakeholders



Nippon Accommodations Fund Inc. Management Team



From left: Tsunehisa Ota, Nobumi Tobari, Tateyuki Ikura,
Hiroyuki Sodeyama, Hiroaki Saito

Nobumi Tobari	Executive Director
Tateyuki Ikura	Executive Director
Hiroyuki Sodeyama (Certified Public Accountant, Certified Public Tax Accountant)	Supervisory Director
Tsunehisa Ota (Attorney at Law)	Supervisory Director
Hiroaki Saito (Certified Public Tax Accountant, Real Estate Appraiser)	Supervisory Director

We are enhancing value for our unitholders by generating steady growth from an expanding portfolio of quality properties.

During the six months ended February 29, 2016 (the “20th Period”), the Japanese economy continued to recover gradually due to factors such as improved corporate earnings and employment conditions, although there was weakness in some sectors including exports. Looking ahead, the gradual economic recovery is expected to continue, with ongoing improvement in the employment and income environment, as well as the effect of various government policies. At the same time, weakness is apparent in overseas economies, including downturns in China, other emerging economies in Asia and resource producing countries, with the risk of an economic decline in Japan. Therefore, rising uncertainty in overseas economies and the effect of volatility in financial and capital markets require careful attention.

In the residential rental market, occupancy rates remained high at rental apartments held by J-REITs, with ongoing gradual increases in rents. Moreover, stable demand is expected in the 23 wards of Tokyo, where nearly 90 percent of NAF’s portfolio is located, and in the centers of other major cities. Contributing factors include the continuing influx of people into these areas from other regions and growth in the number of households due to an increase in single- and two-person households. At the same time, the balance of supply and demand is expected to remain favorable for the time being due to factors such as the limited supply of the quality rental apartments in which NAF typically invests.

In the real estate trading market, competition for property acquisitions remains overheated. Therefore, the acquisition environment remains challenging due to factors such as further decreases in expected yield and increases in acquisition and disposition prices for quality rental real estate.

In this environment, Mitsui Fudosan Residential Lease Co., Ltd., our master property management company, and Mitsui Fudosan Accommodations Fund Management Co., Ltd., our asset management company, conducted collaborative management and other activities, which successfully maintained NAF’s average monthly occupancy rate at a high level of 96.4 percent during the 20th Period.

As a result, distribution per unit was ¥8,036. This report presents our results and operational status for the 20th Period.

NAF will continue working to earn the trust of our unitholders and requests your continued support and cooperation.

June 2016

Tateyuki Ikura

Executive Director of Nippon Accommodations Fund Inc.
President and CEO of Mitsui Fudosan Accommodations Fund Management Co., Ltd.

Financial Highlights

	19th Period (Actual) (Ended August 31, 2015)	20th Period (Actual) (Ended February 29, 2016)	21st Period (Forecast) (Ending August 31, 2016)
Total revenues	¥10,435 million	¥10,433 million	¥10,546 million
Operating income	¥4,372 million	¥4,531 million	¥4,456 million
Net income	¥3,725 million	¥3,893 million	¥3,813 million
Total assets	¥295,644 million	¥293,684 million	—
LTV (Loan-to-value) ratio	50.6%	50.2%	—
Distribution per unit (Yen)	¥7,688	¥8,036	¥7,870
Assets under management			
Acquisition price basis	¥294,918 million	¥294,918 million	¥298,718 million
Number of properties	116	116	119

Note: The above forecast was announced on April 19, 2016.

New Acquisitions in the 21st Period

NAF acquired a total of three properties in March and April 2016, after the end of the 20th Period.

Property name	Location	Acquisition price (Yen in millions)	Rentable units	Acquisition date
120 Park Axis Magome Residence	Ota-ku, Tokyo	1,450	55 residential	April 7, 2016
121 Park Axis Higashi Ueno	Taito-ku, Tokyo	1,250	45 residential	April 7, 2016
119 Dormy Nishi Ogikubo	Suginami-ku, Tokyo	1,100	71 residential	March 30, 2016
Total		3,800	171 residential	



120 Park Axis Magome Residence



121 Park Axis Higashi Ueno

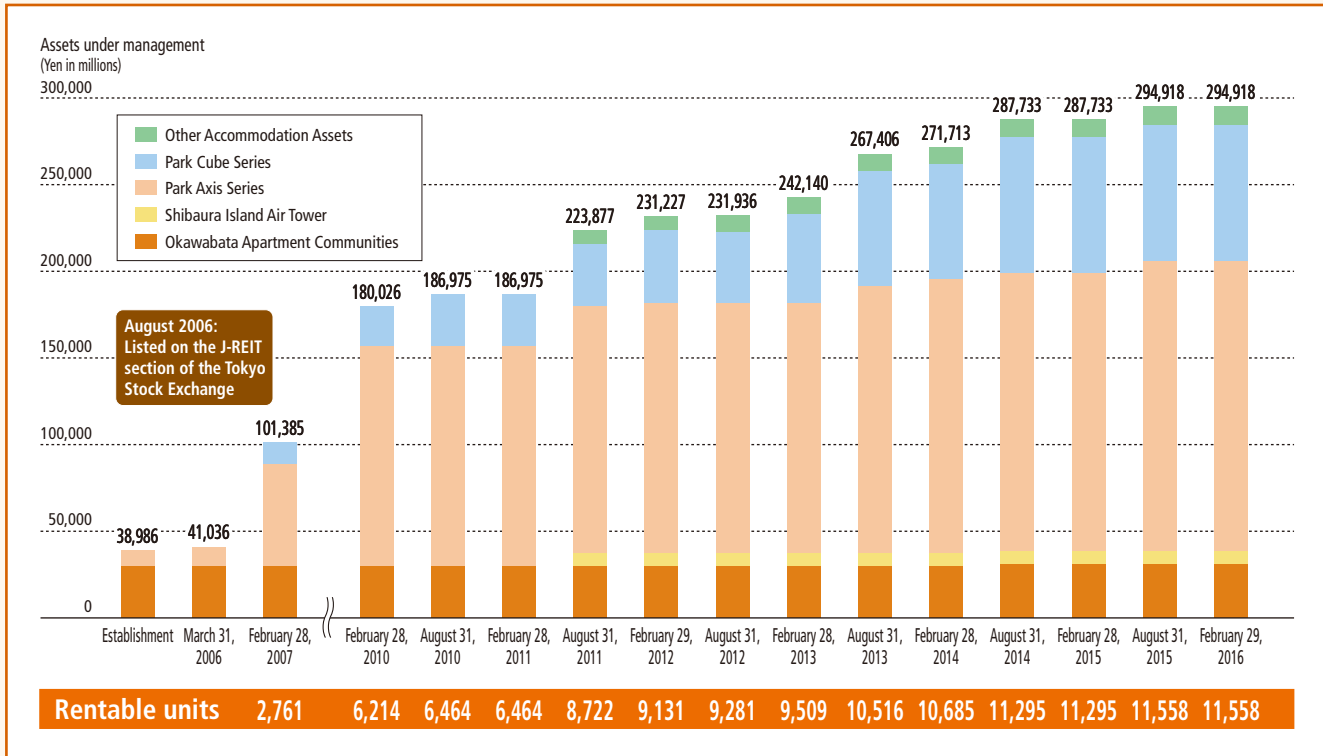


119 Dormy Nishi Ogikubo

Portfolio Strategy

Steady Portfolio Expansion

NAF has steadily expanded its portfolio, primarily by acquiring properties in the Park Axis series. NAF's portfolio as of February 29, 2016, the end of the 20th Period, consisted of 116 properties valued at ¥294,918 million on an acquisition price basis.

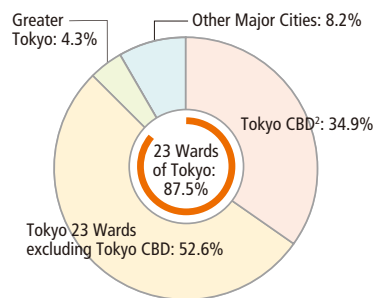


Rental Apartments Characteristics

(As of February 29, 2016)

1. Location

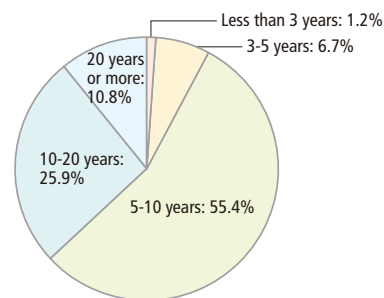
87.5% in the 23 wards of Tokyo



2. Property Age⁴

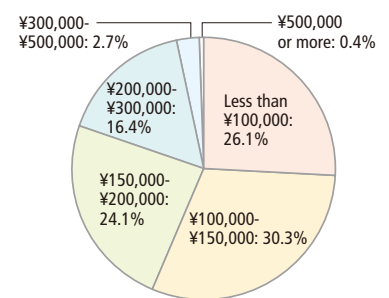
Average 10.5 years

[8.5 years excluding Okawabata Apartment Communities]



3. Monthly Rent⁵

Average ¥150 thousand per unit



Notes: 1. The data above are calculations for rental apartments owned as of February 29, 2016 and do not include other accommodation assets.

2. Tokyo CBD (Central Business District) includes Minato, Chuo and Chiyoda wards.

3. The calculations for graphs 1 and 2 above are based on acquisition price. The calculations for graph 3 above are based on units, excluding retail units.

4. The calculations are based on individual property age as of February 29, 2016.

5. The calculations are based on total monthly rent (rent and common area fees) per unit as of February 29, 2016.

Portfolio Composition

Rental apartments have a lower earnings fluctuation risk than real estate leased for other uses. By concentrating the majority of its portfolio in the 23 wards of Tokyo where demand for rental apartments is strong, NAF achieves even greater earnings stability.



Note: Portfolio as of February 29, 2016

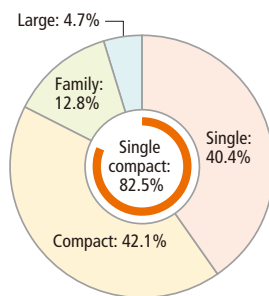
NAF aims for steady portfolio expansion centered on properties in the high-quality Park Axis series planned and developed by the Mitsui Fudosan Group, complemented with acquisitions of properties that meet NAF's proprietary standards in the Park Cube series constructed by other developers. In addition, NAF focuses investment on single and compact apartments for which it expects high occupancy rates, as well as on large-scale and relatively new properties. Geographically, NAF invests mainly within the 23 wards of Tokyo while also acquiring carefully selected properties in major regional cities.

NAF also invests in accommodation assets* other than rental apartments.

*NAF defines accommodation assets as rental apartments, corporate housing, dormitories/student apartments, serviced apartments and senior residences.

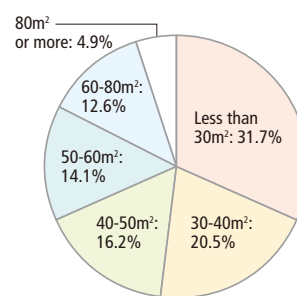
4. Category³

Single and compact units: 82.5%



5. Unit Area

Average 43.0m² per unit



Notes: 1. The data above are calculations for rental apartments owned as of February 29, 2016 and do not include other accommodation assets.

2. The calculations for graphs 4 and 5 above are based on units, excluding retail units.

3. The calculations are based on unit categories as of February 29, 2016.

Portfolio Summary (As of February 29, 2016)

No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (m ²)	Rentable Units	PML (Note 2) (%)
1	Okawabata Apartment Communities	Chuo-ku, Tokyo	30,816	10.4	43,812.41	544	
	River Point Tower						1.8
	Park Side Wings						2.7
	Pier West House						2.7
	Okawabata Parking						1.7
2	Park Axis Gakugei Daigaku	Setagaya-ku, Tokyo	1,760	0.6	2,437.66	64	5.0
4	Park Axis Shibuya Jinnan	Shibuya-ku, Tokyo	3,230	1.1	2,766.62	75	4.1
5	Park Axis Aoyama Kotto Dori	Minato-ku, Tokyo	1,730	0.6	1,537.24	40	4.5
6	Park Axis Kagurazaka Stage	Shinjuku-ku, Tokyo	1,400	0.5	1,891.05	59	3.0
7	Park Axis Shirokanedai	Minato-ku, Tokyo	5,140	1.7	4,704.44	99	4.2
8	Park Axis Bunkyo Stage	Bunkyo-ku, Tokyo	4,440	1.5	6,078.93	154	3.6
9	Park Axis Tsukishima	Chuo-ku, Tokyo	930	0.3	1,383.99	30	3.2
10	Park Axis Otsuka	Toshima-ku, Tokyo	1,655	0.6	2,606.37	52	2.4
11	Park Axis Minami Azabu	Minato-ku, Tokyo	3,939	1.3	3,938.14	64	3.0
12	Park Axis Shibuya	Shibuya-ku, Tokyo	1,282	0.4	1,094.28	20	4.1
13	Park Axis Nihonbashi Stage	Chuo-ku, Tokyo	7,557	2.6	10,025.40	184 residential, 1 retail, etc.	4.5
14	Park Axis Hamamatsucho	Minato-ku, Tokyo	2,025	0.7	2,426.45	80	3.3
15	Park Axis Hongo no Mori	Bunkyo-ku, Tokyo	2,910	1.0	3,317.94	86 residential, 1 retail, etc.	4.0
16	Park Axis Tameike Sanno	Minato-ku, Tokyo	2,860	1.0	2,710.69	70	3.5
17	Park Axis Roppongi Hinokicho Koen	Minato-ku, Tokyo	2,170	0.7	2,054.46	46	5.8
18	Park Axis Ochanomizu Stage	Bunkyo-ku, Tokyo	9,710	3.3	12,025.25	324	3.9
19	Park Axis Okachimachi	Taito-ku, Tokyo	1,070	0.4	1,621.73	42	4.0
20	Park Cube Hongo	Bunkyo-ku, Tokyo	1,760	0.6	2,160.12	60	3.9
21	Park Cube Kanda	Chiyoda-ku, Tokyo	2,454	0.8	3,194.59	95	2.4
22	Park Cube Ichigaya	Shinjuku-ku, Tokyo	1,949	0.7	2,288.46	53	2.9
23	Park Cube Asakusa Tawaramachi	Taito-ku, Tokyo	2,508	0.9	4,012.68	76	2.8
24	Park Cube Ueno	Taito-ku, Tokyo	2,233	0.8	3,041.61	91	2.8
28	Park Cube Ikebukuro Kanamecho	Toshima-ku, Tokyo	1,608	0.5	1,886.82	65	3.8
29	Park Axis Meguro Honcho	Meguro-ku, Tokyo	1,810	0.6	1,884.77	60	5.8
30	Park Axis Shin Itabashi	Itabashi-ku, Tokyo	3,430	1.2	4,395.99	152	3.4 East, 3.3 West
31	Park Axis Akihabara	Chiyoda-ku, Tokyo	1,200	0.4	1,346.07	41	3.3
32	Park Axis Toyochi	Koto-ku, Tokyo	3,950	1.3	5,412.40	140	5.8
33	Park Axis Takinogawa	Kita-ku, Tokyo	1,820	0.6	2,924.75	48 residential, 1 retail, etc.	4.0
34	Park Axis Asakusabashi	Taito-ku, Tokyo	2,717	0.9	3,400.78	78 residential, 1 retail, etc.	3.2
38	Park Axis Nihonbashi Hamacho	Chuo-ku, Tokyo	5,540	1.9	6,999.83	118	4.2
39	Park Cube Yoyogi Tomigaya	Shibuya-ku, Tokyo	1,975	0.7	1,929.10	38	5.8
41	Park Axis Monzen Nakacho	Koto-ku, Tokyo	1,700	0.6	1,886.39	55	5.1
42	Park Cube Itabashi Honcho	Itabashi-ku, Tokyo	4,170	1.4	5,317.07	165 residential, 1 retail, etc.	2.9
43	Park Cube Gakugei Daigaku	Meguro-ku, Tokyo	910	0.3	957.88	24	6.8
44	Park Cube Oimachi	Shinagawa-ku, Tokyo	1,440	0.5	1,511.12	65	3.2
46	Park Axis Nishigahara	Kita-ku, Tokyo	840	0.3	1,435.83	46	2.4
47	Park Axis Kinshicho	Sumida-ku, Tokyo	1,448	0.5	2,288.13	65	4.2
48	Park Axis Tatsumi Stage	Koto-ku, Tokyo	7,464	2.5	16,474.06	299 residential, 1 retail, etc.	5.1
51	Park Axis Kameido	Koto-ku, Tokyo	2,359	0.8	3,986.78	118	5.6
52	Park Axis Honancho	Nakano-ku, Tokyo	745	0.3	1,231.08	31	3.0
53	Park Axis Itabashi	Kita-ku, Tokyo	1,448	0.5	2,567.96	64	5.3
54	Park Axis Oshiage	Sumida-ku, Tokyo	1,193	0.4	2,121.29	57 residential, 1 retail, etc.	4.9
55	Park Axis Takadanobaba	Toshima-ku, Tokyo	1,222	0.4	1,463.25	36 residential, 1 retail, etc.	2.7
59	Park Axis Toyosu	Koto-ku, Tokyo	14,300	4.8	25,537.94	401 residential, 2 retail, etc.	3.9
60	Park Axis Hatchobori	Chuo-ku, Tokyo	1,760	0.6	2,416.29	63 residential, 1 retail, etc.	3.2
61	Park Axis Itabashi Honcho	Itabashi-ku, Tokyo	987	0.3	2,048.31	66	4.0
62	Park Axis Sumiyoshi	Sumida-ku, Tokyo	1,006	0.3	1,785.72	60	7.4
63	Park Cube Yotsuya Sanhome	Shinjuku-ku, Tokyo	2,749	0.9	3,599.82	130	5.1
64	Park Cube Hatchobori	Chuo-ku, Tokyo	4,200	1.4	5,191.86	118 residential, 2 retail, etc.	2.4
68	Park Axis Kamata Ichibankan	Ota-ku, Tokyo	1,069	0.4	1,721.28	63	6.7
70	Park Axis Taito Negishi	Taito-ku, Tokyo	672	0.2	1,283.13	40	4.2
72	Park Axis Komagome	Toshima-ku, Tokyo	1,389	0.5	1,979.51	39 residential, 1 retail, etc.	2.5
74	Park Axis Itabashi Honcho Nibankan	Itabashi-ku, Tokyo	1,859	0.6	3,661.58	99	3.1
75	Shibaura Island Air Tower (Note 3)	Minato-ku, Tokyo	7,905	2.7	17,646.33	270 residential, 2 retail, etc.	
	Air Tower						1.9
	Air Terrace						7.5
84	Park Cube Higashi Shinagawa	Shinagawa-ku, Tokyo	6,060	2.1	10,636.67	201	3.5
86	Park Cube Sasazuka	Shibuya-ku, Tokyo	2,200	0.7	2,416.00	92 residential, 1 retail, etc.	3.4
88	Park Axis Higashi Jujo	Kita-ku, Tokyo	1,700	0.6	2,893.54	70 residential, 1 retail, etc.	3.1
91	Park Cube Heiwadai	Nerima-ku, Tokyo	1,204	0.4	2,656.00	34	2.8
92	Park Cube Meguro Tower	Meguro-ku, Tokyo	9,000	3.1	12,367.62	193 residential, 1 retail, etc.	2.2
93	Park Cube Nihonbashi Suitengu	Chuo-ku, Tokyo	2,711	0.9	4,235.33	77	4.4

No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (m ²)	Rentable Units	PML (Note 2) (%)
94	Park Cube Ginza East	Chuo-ku, Tokyo	2,269	0.8	3,358.63	77	3.0
95	Park Cube Kayabacho	Chuo-ku, Tokyo	1,105	0.4	1,695.06	27 residential, 1 retail, etc.	3.2
96	Park Cube Honjo Azumabashi	Sumida-ku, Tokyo	1,252	0.4	2,241.63	45	4.6
97	Park Axis Kiyosumi Shirakawa	Koto-ku, Tokyo	696	0.2	1,159.84	36	3.7
98	Park Axis Asakusabashi Nichome	Taito-ku, Tokyo	1,079	0.4	1,569.00	48	3.4
99	Park Axis Nishi Sugamo	Kita-ku, Tokyo	1,439	0.5	2,326.32	56	3.9
100	Park Axis Ueno	Taito-ku, Tokyo	1,389	0.5	1,992.29	59	3.3
101	Park Axis Akihabara East	Taito-ku, Tokyo	1,369	0.5	1,890.20	58	3.8
102	Park Axis Kayabacho	Chuo-ku, Tokyo	1,809	0.6	2,355.07	72	3.0
104	Park Axis Kinshicho Shinsui Koen	Sumida-ku, Tokyo	1,369	0.5	2,085.62	60	7.5
105	Park Cube Kasuga Andozaka	Bunkyo-ku, Tokyo	2,670	0.9	3,581.09	68	2.7
106	Park Cube Kameido	Koto-ku, Tokyo	3,020	1.0	4,442.09	121 residential, 1 retail, etc.	5.5
108	Park Axis Shin Okachimachi East	Taito-ku, Tokyo	1,299	0.4	1,847.01	49	3.0
110	Park Axis Nihonbashi Honcho	Chuo-ku, Tokyo	1,469	0.5	1,808.12	49	2.5
111	Park Cube Nishigahara Stage	Kita-ku, Tokyo	4,110	1.4	19,693.35	357 residential, 1 retail, etc.	2.5
112	Park Cube Atagoyama Tower	Minato-ku, Tokyo	8,650	2.9	8,389.91	165	2.4
113	Park Axis Shibaura	Minato-ku, Tokyo	1,045	0.4	1,273.60	42	5.2
114	Park Axis Asakusa Kuramae	Taito-ku, Tokyo	1,095	0.4	1,456.35	45	3.0
115	Park Axis Kamata Station Gate	Ota-ku, Tokyo	4,144	1.4	4,582.72	157 residential, 1 retail, etc.	3.2
116	Park Axis Kinshicho Residence	Sumida-ku, Tokyo	1,251	0.4	1,793.33	56	4.0
117	Park Axis Oshiage Sumida Koen	Sumida-ku, Tokyo	1,055	0.4	1,610.49	49	5.2
23	Wards of Tokyo Total		248,874	84.4	365,780.51	7,885 residential, 23 retail, etc.	
26	Park Cube Keio Hachioji II	Hachioji-shi, Tokyo	1,130	0.4	3,082.32	47 residential, 1 retail, etc.	4.0
40	Park Axis Nishi Funabashi	Funabashi-shi, Chiba	1,020	0.3	2,074.35	55	3.2
66	Park Axis Yokohama Idogaya	Yokohama-shi, Kanagawa	1,419	0.5	2,706.59	99 residential, 1 retail, etc.	6.3
67	Park Axis Chiba Shinmachi	Chiba-shi, Chiba	1,679	0.6	3,318.15	77 residential, 7 retail, etc.	1.9
69	Park Axis Chiba	Chiba-shi, Chiba	970	0.3	2,270.32	91	2.3
85	Park Cube Kita Matsudo	Matsudo-shi, Chiba	1,200	0.4	2,358.66	108 residential, 1 retail, etc.	1.6
87	Park Cube Musashi Kosugi	Kawasaki-shi, Kanagawa	2,250	0.8	3,057.36	136	3.3
102	Park Axis Yokohama Tanmachi Koen	Yokohama-shi, Kanagawa	1,119	0.4	1,682.46	63	4.1
109	Park Axis Yokohama Yamashitacho	Yokohama-shi, Kanagawa	1,539	0.5	2,325.92	70 residential, 1 retail, etc.	8.2
	Greater Tokyo Total		12,326	4.2	22,876.13	746 residential, 11 retail, etc.	
27	Park Axis Meieki Minami	Nagoya-shi, Aichi	2,440	0.8	5,565.13	169	3.7
35	Park Axis Marunouchi	Nagoya-shi, Aichi	1,920	0.7	3,821.75	98 residential, 1 retail, etc.	2.9
36	Park Axis Ropponmatsu	Fukuoka-shi, Fukuoka	1,515	0.5	3,473.67	111 residential, 1 retail, etc.	2.5
37	Park Axis Hakataeki Minami	Fukuoka-shi, Fukuoka	1,890	0.6	4,668.29	176 residential, 1 retail, etc.	3.0
45	Park Axis Naka Gofukumachi	Fukuoka-shi, Fukuoka	742	0.3	2,707.88	112	2.9
49	Park Axis Shirakabe	Nagoya-shi, Aichi	1,547	0.5	4,735.89	86	3.0
50	Park Axis Sendai	Sendai-shi, Miyagi	2,320	0.8	8,843.17	204	2.8
56	Park Axis Hakata Minoshima	Fukuoka-shi, Fukuoka	960	0.3	3,461.85	112	2.7
57	Park Axis Takamiya Higashi	Fukuoka-shi, Fukuoka	605	0.2	2,289.21	70	5.1
58	Park Axis Sapporo Shokubutsuen Mae	Sapporo-shi, Hokkaido	1,650	0.6	7,845.01	146	1.1
65	Park Axis Shin Sapporo	Sapporo-shi, Hokkaido	827	0.3	3,729.05	84 residential, 1 retail, etc.	2.4
71	Park Axis Esaka Hiroshibacho	Suita-shi, Osaka	2,369	0.8	4,309.24	130	4.9
73	Park Axis Utsubo Koen	Osaka-shi, Osaka	2,399	0.8	4,952.45	133	8.6
107	Park Cube Kitahama	Osaka-shi, Osaka	1,970	0.7	4,683.33	138	5.7
	Other Major Cities Total		23,154	7.9	65,085.92	1,769 residential, 4 retail, etc.	
	Rental Apartments Total		284,354	96.4	453,742.56	10,400 residential, 38 retail, etc.	
76	Dormy Ashiya	Ashiya-shi, Hyogo	928	0.3	2,826.00	140	6.6
77	Kawaijuku Kyoto Gakushin Ryo	Kyoto-shi, Kyoto	991	0.3	2,785.40	134	12.9
78	Sundai Horikawa Ryo	Kyoto-shi, Kyoto	916	0.3	2,043.32	113	8.8
79	Dormitory Rakuoku	Kyoto-shi, Kyoto	374	0.1	1,035.00	69	8.8
80	Rikkyo University International Dormitory (RUID) Shiki	Shiki-shi, Saitama	1,478	0.5	2,293.20	126	3.0
81	Dormy Naka Itabashi	Itabashi-ku, Tokyo	1,041	0.4	1,911.00	105	5.5
82	Philosophia Nishidai	Itabashi-ku, Tokyo	1,249	0.4	2,184.00	120	5.3
83	Dormy Musashi Kosugi	Kawasaki-shi, Kanagawa	1,152	0.4	1,996.47	111	7.3
89	Artis Sendai Kakyoin	Sendai-shi, Miyagi	540	0.2	1,564.40	60	3.0
90	Artis Sendai Kimachi Dori	Sendai-shi, Miyagi	1,160	0.4	4,063.47	142	2.7
118	Medical Home Granda Sangen Jaya (Land with leasehold interest)	Setagaya-ku, Tokyo	735	0.2	—	—	—
	Other Accommodation Assets Total		10,564	3.6	22,702.26	1,120	
	Grand Total		294,918	100.0	476,444.82	11,558	2.4 (Portfolio PML)

Notes: 1. Acquisition Price does not include acquisition-related expenses, property tax or consumption tax.

2. PML = Probable maximum loss

Portfolio PML is the PML for all NAF's portfolio, 115 properties excluding Medical Home Granda Sangen Jaya (Land with leasehold interest).

3. Rentable units and rentable area for Shibaura Island Air Tower are calculated by multiplying NAF's equity share (31%) by the property's total rentable units (871 residential, 7 retail, etc.) and total rentable area (56,923.63m²) and rounded to the nearest unit and one-hundredth of a square meter, respectively.

Management's Discussion and Analysis

Summary of Selected Financial Data

	Yen in millions (Except per unit data or where otherwise indicated)			U.S. dollars in thousands (Note 1) (Except per unit data)
	20th Period September 1, 2015 to February 29, 2016	19th Period March 1, 2015 to August 31, 2015	18th Period September 1, 2014 to February 28, 2015	20th Period September 1, 2015 to February 29, 2016
Total revenues (Note 2)	¥ 10,433	¥ 10,435	¥ 10,129	\$ 91,823
Rental revenues	10,052	9,959	9,778	88,470
Other revenues related to property leasing	380	475	350	3,344
Operating expenses	5,901	6,062	5,754	51,936
Income before income taxes	3,894	3,725	3,685	34,272
Net income (a)	3,893	3,725	3,684	34,263
Funds from operations (Note 3)	5,967	5,808	5,759	52,517
Net operating income from property leasing activities (Note 3)	7,723	7,564	7,524	67,972
Total amount of cash distribution (b)	3,893	3,725	3,683	34,263
Depreciation and amortization	2,073	2,083	2,075	18,245
Capital expenditures	240	163	159	2,112
Total assets (c)	293,684	295,644	290,463	2,584,791
Interest-bearing debt	147,500	149,500	154,500	1,298,186
Total net assets (d)	139,567	139,398	129,441	1,228,366
Total number of common units issued (Units) (e)	484,522	484,522	461,422	
Net assets per unit (Yen/\$) (d) / (e)	288,051	287,703	280,526	2,535.21
Distribution per unit (Yen/\$) (b) / (e)	8,036	7,688	7,984	70.72
Funds from operations per unit (Yen/\$) (Note 3)	12,315	11,988	12,481	108.38
ROA (Note 4)	1.3%	1.3%	1.3%	
(Annual rate)	(2.7%)	(2.5%)	(2.6%)	
ROE (Note 4)	2.8%	2.8%	2.8%	
(Annual rate)	(5.6%)	(5.5%)	(5.7%)	
LTV (Loan-to-value) ratio (Note 3)	50.2%	50.6%	53.2%	
Capital ratio (d) / (c)	47.5%	47.2%	44.6%	
Payout ratio (b) / (a) (Note 5)	100.0%	100.0%	100.0%	
Number of days in the period	182	184	181	
Number of investment properties (Note 6)	116	116	112	
Total rentable area (m ²)	476,444	476,444	468,458	
Average occupancy rate at the end of the period (Note 6)	97.0%	96.2%	96.6%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥113.62 = U.S.\$1.00, the approximate exchange rate as of February 29, 2016.

2. "Total revenues" do not include consumption tax.

3. Funds from operations: Net income + Depreciation and amortization – Gain on sale of investment properties

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

Funds from operations per unit: (Net income + Depreciation and amortization – Gain on sale of investment properties) ÷ Total number of units issued and outstanding at the end of the period

LTV ratio: Interest-bearing debt ÷ Total assets

4. ROA: Income before income taxes ÷ ((Initial total assets + Total assets at the end of the period) ÷ 2)

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

The figures in parentheses are annualized based on the number of actual days in each period.

Annual equivalent amounts for the period ended February 29, 2016: Amount for the period ÷ Actual days in the period (182) x 365 days

Annual equivalent amounts for the period ended August 31, 2015: Amount for the period ÷ Actual days in the period (184) x 365 days

Annual equivalent amounts for the period ended February 28, 2015: Amount for the period ÷ Actual days in the period (181) x 365 days

Net assets and total assets used in calculating ROA and ROE are beginning-of-period and period-end averages, respectively.

5. "Payout ratio" is calculated to one decimal place only.

6. "Number of investment properties" means properties generally perceived to be one residential building.

"Average occupancy rate at the end of the period" is the ratio of gross leased area to total rentable area at the end of the period.

Overview

Investment Environment and Operating Performance

During the six months ended February 29, 2016 (the “20th Period”), the Japanese economy continued to recover gradually due to factors such as improved corporate earnings and employment conditions, although there was weakness in some sectors including exports. Looking ahead, the gradual economic recovery is expected to continue, with ongoing improvement in the employment and income environment, as well as the effect of various government policies. At the same time, weakness is apparent in overseas economies, including downturns in China, other emerging economies in Asia and resource producing countries, with the risk of an economic decline in Japan. Therefore, rising uncertainty in overseas economies and the effect of volatility in financial and capital markets require careful attention.

In the J-REIT market, two new J-REITS listed their shares while capital increases through public offerings by existing listed J-REITS were brisk. The Tokyo Stock Exchange REIT Index rose to 1,873.29 points at the end of the period (February 29, 2016) as a result of quantitative and qualitative monetary easing with negative interest rates by the Bank of Japan.

In the residential rental market, occupancy rates remained high at rental apartments held by J-REITs, with ongoing gradual increases in rents. Moreover, stable demand is expected in the 23 wards of Tokyo, where nearly 90 percent of NAF’s portfolio is located, and in the centers of other major cities. Contributing factors include the continuing influx of people into these areas from other regions and growth in the number of households due to an increase in single- and two-person households. At the same time, the balance of supply and demand is expected to remain favorable for the time being due to factors such as the limited supply of the quality rental apartments in which NAF typically invests.

In the real estate trading market, competition for property acquisitions remains overheated. Therefore, the acquisition environment remains challenging due to factors such as further decreases in expected yield and increases in acquisition and disposition prices for quality rental real estate.

No properties were acquired during the period under review, and NAF’s assets under management at the end of the period under review were unchanged from the end of the previous period. As a result, NAF’s portfolio as of February 29, 2016 consisted of 116 properties valued at ¥294,918 million on an acquisition price basis.

NAF has chosen Mitsui Fudosan Residential Lease Co., Ltd. as master property management company (below, “Master PM”) on management of NAF’s rental apartments portfolio. The company and the asset management company collaborate in the management of properties NAF owns with the aim of implementing effective management and operational activities based on regional characteristics and the individual features of each property. These include efforts such as speedy management and operations by the Master PM by applying the portfolio management system, the tenant recruiting activities suited to the circumstances of individual properties, the streamlining efforts such as reduction of management cost, etc., and providing tenants the “accommodation” services by corresponding to various needs based on the results of resident questionnaires.

In order to maintain and improve the competitiveness of NAF’s portfolio, operations are adequately planned and carried out at the asset management company. These include appropriate renewal work according to the property age, and work to enhance the property value at Okawabata Apartment Communities, which is one of the core properties of NAF. In addition, NAF is not only making continuous efforts to reduce costs, but also introducing such features as environmentally friendly, energy-saving facilities in a timely manner.

In the period under review, NAF carried out renovations in private areas at Okawabata Apartment Communities and common areas at Park Cube Nishigahara Stage. Changes implemented at other properties include reviews of contract capacity for electricity through the introduction of controllable circuit breakers, and work to change the lighting in common areas to LED lighting.

As a result of these activities, the occupancy rate for NAF’s overall portfolio as of February 29, 2016 remained at a high level of 97.0 percent.

Consequently, for the 20th Period, total revenues were ¥10,433 million, operating income was ¥4,531 million, income before income taxes was ¥3,894 million and net income was ¥3,893 million.

Changes in Assets, Liabilities and Net Assets

Total assets as of February 29, 2016 were essentially unchanged, a decrease of ¥1,960 million from August 31, 2015 to ¥293,684 million. Total current assets decreased by ¥240 million to ¥8,833 million and total investment properties net of accumulated depreciation compared with August 31, 2015 decreased by ¥1,705 million to ¥283,143 million as a result of normal depreciation.

One of NAF's basic policies is to carry out operations, while paying attention to risk factors and market trends, in a conservative manner that gives consideration to such matters as maintaining stable distributions in the medium and long term. Based on this policy, during the period under review, while taking into account market trends and interest rate levels, NAF refinanced its existing loans and repaid ¥2,000 million of its loans.

As a result, at the end of the period, total interest-bearing debt amounted to ¥147,500 million, the long-term debt ratio was 96.6 percent, the fixed-rate debt ratio was 96.6 percent, the LTV (loan-to-value) ratio was 50.2 percent. The average annual current maturity of long-term interest-bearing debt was 4.3 years and the number of financial institutions was 21. Furthermore, the weighted average interest rate at the end of the period was 0.84 percent.

NAF has also established a commitment line with a total maximum borrowing amount of ¥10,000 million, for the purpose of securing flexible and stable fund procurement methods.

Net assets totaled ¥139,567 million as of February 29, 2016. Unitholders' capital was unchanged at ¥135,603 million, and retained earnings increased to ¥3,963 million from ¥3,795 million as of August 31, 2015.

Distributions to Unitholders

NAF determines the amount of cash distributions such that they exceed 90 percent of NAF's retained earnings available for dividends as set forth in Article 67-15 of the Act on Special Measures Concerning Taxation. For the 20th Period, cash distributions totaled ¥3,893,618,792 or ¥8,036 per unit.

	Yen in thousands, except per unit amounts		
	20th Period September 1, 2015 to February 29, 2016	19th Period March 1, 2015 to August 31, 2015	18th Period September 1, 2014 to February 28, 2015
Retained earnings	¥3,893,706	¥3,725,260	¥3,684,248
Undistributed earnings	87	255	255
Total cash distribution	3,893,618	3,725,005	3,683,993
(Per unit)	8,036	7,688	7,984
Distribution of retained earnings	3,893,618	3,725,005	3,683,993
(Per unit)	8,036	7,688	7,984
Cash distribution in excess of retained earnings	—	—	—
(Per unit)	—	—	—

Note: The above cash distributions were paid after the close of the period.

Funding

Balance of Paid-in Capital

NAF was established on October 12, 2005 with initial paid-in capital of ¥100 million. NAF began investing activities on November 29, 2005 after ¥21,140 million was raised through private placement. As of February 29, 2016, NAF had issued 484,522 investment units out of 4,000,000 total authorized units. NAF's investment units were listed on the J-REIT section of the Tokyo Stock Exchange in August 2006 upon the completion of a public offering. As the Investment Trust and Investment Corporation Act of Japan does not contain any provision for the issuance of more than one class of units, NAF's investment units comprise the sole class of units authorized and issued by NAF.

Issue date	Remarks	Units outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		(Units)		(Yen in millions)		
October 12, 2005	Initial capital (private)	200	200	¥ 100	¥ 100	Note 1
November 29, 2005	Private placement	42,280	42,480	21,140	21,240	Note 2
August 3, 2006	Public offering	67,200	109,680	37,611	58,851	Note 3
September 4, 2006	Third-party allocation	3,800	113,480	2,126	60,978	Note 4
November 4, 2009	Public offering	42,000	155,480	19,795	80,773	Note 5
December 1, 2009	Third-party allocation	698	156,178	328	81,102	Note 6
March 1, 2011	Public offering	37,500	193,678	21,539	102,641	Note 7
March 28, 2011	Third-party allocation	1,033	194,711	593	103,235	Note 8
March 1, 2013	Public offering	34,000	228,711	21,204	124,439	Note 9
March 26, 2013	Third-party allocation	2,000	230,711	1,247	125,686	Note 10
March 1, 2014	Split of investment units	230,711	461,422	—	125,686	Note 11
March 2, 2015	Public offering	22,000	483,422	9,444	135,131	Note 12
March 24, 2015	Third-party allocation	1,100	484,522	472	135,603	Note 13

Notes: 1. NAF 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 investment properties.
3. Public offering of new units for ¥580,000 per unit (excluding underwriting fee: ¥559,700) to fund property acquisition.
4. Additional issue of new units (third-party allocation) for ¥559,700 per unit undertaken pursuant to the public offering in Note 3.
5. Public offering of new units for ¥487,910 per unit (excluding underwriting fee: ¥471,311) to fund property acquisition.
6. Additional issue of new units (third-party allocation) for ¥471,311 per unit undertaken pursuant to the public offering in Note 5.
7. Public offering of new units for ¥593,872 per unit (excluding underwriting fee: ¥574,380) to fund property acquisition.
8. Additional issue of new units (third-party allocation) for ¥574,380 per unit undertaken pursuant to the public offering in Note 7.
9. Public offering of new units for ¥644,816 per unit (excluding underwriting fee: ¥623,652) to fund property acquisition.
10. Additional issue of new units (third-party allocation) for ¥623,652 per unit undertaken pursuant to the public offering in Note 9.
11. NAF implemented a two-for-one split of investment units with the effective date of March 1, 2014.
12. Public offering of new units for ¥443,868 per unit (excluding underwriting fee: ¥429,300) to fund property acquisition.
13. Additional issue of new units (third-party allocation) for ¥429,300 per unit undertaken pursuant to the public offering in Note 12.

Market Price of Units

High/Low (closing price) of units on the Tokyo Stock Exchange:

	20th Period September 1, 2015 to February 29, 2016 (Yen)	19th Period March 1, 2015 to August 31, 2015 (Yen)	18th Period September 1, 2014 to February 28, 2015 (Yen)	17th Period March 1, 2014 to August 31, 2014 (Yen)	16th Period September 1, 2013 to February 28, 2014 (Yen)
High	¥448,000	¥481,000	¥500,000	¥400,000	¥732,000 (Note) 353,500
Low	364,000	396,500	370,000	339,000	635,000 (Note) 351,000

Note: Unit prices are for the term following the ex-rights date (February 26-28, 2014) for the investment unit split.

Borrowings

Borrowings from financial institution as of February 29, 2016 are shown below.

Short-term loans

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity (Note 2)	Repayment method	Use of funds	Notes
The 77 Bank, Ltd.	¥2,000	0.1%	March 31, 2016	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
Shinsei Bank, Limited	3,000	0.1%	March 31, 2016			
Total short-term loans	¥5,000					

Long-term loans (Note 5)

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
Sumitomo Mitsui Banking Corporation	¥ 5,000	1.2%	August 13, 2018	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
	5,500	0.9%	February 28, 2020			
	3,000	0.7%	May 28, 2021			
	2,000	0.5%	May 31, 2019			
	4,000	0.3%	September 28, 2018			
2,000	0.5%	November 30, 2021				
Sumitomo Mitsui Trust Bank, Limited	3,500	1.0%	August 14, 2017			
	2,000	0.4%	September 30, 2020			
NIPPON LIFE INSURANCE COMPANY	2,000	1.3%	February 28, 2017			
	1,000	1.5%	February 28, 2018			
	2,000	0.9%	November 30, 2022			
	3,000	1.0%	May 31, 2024			
	1,000	0.5%	November 30, 2021			
Development Bank of Japan Inc.	5,000	1.2%	October 18, 2017			
	2,000	1.0%	December 21, 2018			
	3,000	1.0%	April 11, 2019			
	3,000	1.1%	April 11, 2023			
	2,500	1.3%	February 6, 2024			
	2,500	1.4%	August 6, 2024			
The Hachijuni Bank, Ltd.	2,500	1.2%	April 1, 2025			
	1,000	0.5%	September 14, 2017			
	1,500	0.8%	May 31, 2019			
Mizuho Bank, Ltd.	1,000	0.6%	April 9, 2021			
	1,000	1.5%	April 19, 2018			
	2,000	0.8%	October 12, 2016			
	3,000	0.9%	October 31, 2017			
	2,000	0.7%	June 15, 2020			
The Chugoku Bank, Limited	2,000	0.8%	November 30, 2021			
Shinsei Bank, Limited	2,000	0.6%	July 31, 2023			
	1,000	1.2%	January 19, 2023			
	1,000	0.7%	May 28, 2021			
Shinkin Central Bank	1,000	1.0%	May 28, 2024			
	3,000	0.6%	October 12, 2018			
	2,000	0.9%	February 20, 2017			
The Bank of Fukuoka, Ltd.	2,000	0.6%	April 27, 2018			
	1,000	0.8%	January 8, 2020			
	2,500	0.6%	April 28, 2020			
	3,000	1.2%	April 25, 2017			
	2,000	0.7%	March 16, 2020			
Mitsubishi UFJ Trust and Banking Corporation	4,000	0.7%	September 15, 2020			
	1,000	1.0%	August 23, 2021			
	3,000	0.8%	March 7, 2022			
	3,000	0.9%	September 7, 2022			
	3,000	0.8%	May 31, 2022			
	2,000	0.5%	October 1, 2021			
	3,000	0.6%	October 3, 2022			
	3,000	0.7%	November 30, 2020			
	2,000	0.4%	December 30, 2021			
Resona Bank, Limited	2,000	1.2%	April 3, 2017			
	3,000	0.6%	December 16, 2019			

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
Mizuho Trust & Banking Co., Ltd.	¥ 1,000	1.0%	June 14, 2021	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
	1,000	1.2%	June 14, 2022			
	1,000	1.0%	February 23, 2022			
	1,000	1.1%	August 23, 2022			
The Yamaguchi Bank, Ltd.	1,000	1.3%	June 14, 2023			
	1,000	1.3%	July 19, 2023			
	1,000	1.0%	May 31, 2024			
The Daishi Bank, Ltd.	2,000	0.6%	April 28, 2020			
	1,000	0.4%	June 30, 2021			
MITSUI LIFE INSURANCE COMPANY LIMITED	1,000	1.0%	March 28, 2024			
The Ashikaga Bank, Ltd.	2,000	0.3%	June 30, 2019			
DAIDO LIFE INSURANCE COMPANY	1,000	0.6%	June 30, 2021			
TAIYO LIFE INSURANCE COMPANY	2,000	0.6%	December 30, 2024			
Total long-term loans	¥135,500					
Total loans	¥140,500					

- Notes: 1. "Interest rate" is presented by loan from each lending institution and is rounded to the nearest tenth. The weighted average interest rate is presented for the outstanding balance of short-term loans if the institution has provided more than one short-term loan.
 2. The earliest maturity of short-term loans is presented if the institution has provided more than one short-term loan.
 3. Use of the proceeds of debt financing included purchase of property or real estate trust beneficiary interests, refinancing of other loans, and operating expenses.
 4. The loan agreements between NAF and each financial institution stipulate that the above loans from all financial institutions rank pari passu to each other.
 5. The expected annual maturities of long-term loans within five years (excluding maturities within one year) of the balance sheet date are as follows.

(Yen in millions)				
	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Amount	¥18,500	¥17,000	¥18,000	¥17,500

Bonds

Issue	Issue date	Balance as of February 29, 2016 (Yen in millions)	Coupon	Maturity date	Redemption	Use of proceeds	Notes
No. 2 unsecured bonds	July 30, 2010	¥7,000	1.2%	July 29, 2016	Bullet payment	(Note 1)	(Note 2)
Total		¥7,000					

- Notes: 1. Use of proceeds includes repayment of borrowings.
 2. This bond is only issued to rank pari passu with other bonds issued.

Capital Expenditures

1. Planned

NAF 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 planning of expenditures for construction, repair and renovation of facilities, a plan 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.

Name of property	Objective	Estimated duration	Estimated amounts		
			Total amounts	Payment for the current period (September 1, 2015 to February 29, 2016)	Cumulative amount paid
			(Yen in millions)		
Okawabata Apartment Communities, Other Properties	Renewal of common use area equipment, etc.	From March 2016 to August 2016	¥163	¥—	¥—
Park Cube Nishigahara Stage, Other Properties	Renovation of common use areas, etc.	From March 2016 to August 2016	62	—	—

2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NAF posted ¥240 million in capital expenditures together with ¥418 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
Okawabata Apartment Communities	Renovation of rentable areas, etc.	From September 2015 to February 2016	¥ 91
Park Cube Nishigahara Stage, Other Properties	Renovation of common use areas, etc.	From September 2015 to February 2016	21
Okawabata Apartment Communities, Other Properties	Renewal of common use area equipment, etc., other construction	From September 2015 to February 2016	127
Total			¥240

3. Cash Reserve for Capital Improvements

NAF accumulates a cash reserve from cash flows to prepare for large-scale mid-term to long-term capital improvements and repairs and maintenance that will be conducted based on NAF's business plan for each property.

	Yen in millions		
	As of February 29, 2016	As of August 31, 2015	As of February 28, 2015
Reserve balance at the beginning of the period	¥1,979	¥1,845	¥1,613
Amount accumulated in the current period	425	314	391
Withdrawal from reserves in the current period	265	180	159
Amount carried forward	¥2,139	¥1,979	¥1,845

Expenses regarding Entrustment, etc.

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

	Yen in millions		
	20th Period September 1, 2015 to February 29, 2016	19th Period March 1, 2015 to August 31, 2015	18th Period September 1, 2014 to February 28, 2015
Asset management fees	¥ 754	¥ 745	¥ 727
Asset custody fees	14	14	13
Agent fees (stock transfer, accounting and administrative)	30	36	30
Directors' remuneration	7	7	7
Auditor's fees	12	12	12
Other expenses	298	292	282
Total	¥1,117	¥1,108	¥1,074

Related Party Transactions

1. Transactions

None applicable

2. Fees Paid for the Period from September 1, 2015 to February 29, 2016

Category	Total fees paid (A) (Yen in millions)	Description of transactions with related parties (Note 1)		B/A (Note 2)
		Paid to	Amount of payment (B) (Yen in millions)	
Property management fees	¥684	Mitsui Fudosan Housing Lease Co., Ltd.	¥684	100.0%
Building management fees	378	Mitsui Fudosan Housing Lease Co., Ltd.	373	98.8%
		Mitsui Fudosan Realty Co., Ltd.	4	1.2%
Operation management fees	4	Mitsui Fudosan Investment Advisors, Inc.	4	100.0%
Leasing related service fees	163	RESIDENT FIRST CO., LTD.	15	9.5%
		Mitsui Fudosan Realty Co., Ltd.	2	1.4%
		Mitsui Home Estate Co., Ltd.	1	1.1%
		Mitsui Fudosan Realty Sapporo Co., Ltd.	0	0.2%
		Mitsui Fudosan Realty Tohoku Co., Ltd.	0	0.1%
		Mitsui Fudosan Realty Kyushu Co., Ltd.	0	0.1%

3. Other Payments to Related Parties (Note 1)

Paid to	Amount of payment (Yen in millions)	Item
Mitsui Fudosan Reform Co., Ltd.	¥26	Repair and maintenance costs
Accommodation First Co., Ltd.	13	Repair and maintenance costs
Mitsui Fudosan Facilities Co., Ltd.	6	Repair and maintenance costs
MITSUI Designtec Co., Ltd.	1	Repair and maintenance costs

Notes: 1. "Related parties" means parties defined in the government ordinance regarding the Investment Trust and Investment Corporation Act of Japan, principally, parties related to an asset management company.

2. Figures indicate percentages of total price.

Financial Statements

Balance Sheets

Nippon Accommodations Fund Inc.
As of February 29, 2016 and August 31, 2015

	Yen in millions		U.S. dollars in thousands (Note 1)
	20th Period As of February 29, 2016	19th Period As of August 31, 2015	20th Period As of February 29, 2016
Assets			
Current assets:			
Cash and cash equivalents (Note 11)	¥ 7,364	¥ 7,666	\$ 64,812
Rent receivables	1,400	1,340	12,321
Consumption tax receivables and other current assets	68	66	598
Total current assets	8,833	9,074	77,741
Investment properties (Note 3):			
Land including trust accounts	177,883	177,869	1,565,595
Depreciable property and improvements including trust accounts	132,395	132,042	1,165,243
Accumulated depreciation	(27,135)	(25,062)	(238,822)
Total investment properties	283,143	284,849	2,492,017
Other assets	1,706	1,721	15,014
Total Assets	¥293,684	¥295,644	\$2,584,791
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Short-term loans (Notes 4,11)	¥ 5,000	¥ 5,000	\$ 44,006
Bonds due within one year (Notes 4,11)	7,000	7,000	61,608
Long-term loans due within one year (Notes 4,11)	6,000	2,000	52,807
Accounts payable	1,037	1,188	9,126
Rent received in advance	1,704	1,680	14,997
Accrued expenses and other liabilities	314	304	2,763
Total current liabilities	21,055	17,173	185,310
Long-term liabilities:			
Long-term loans (Notes 4,11)	129,500	135,500	1,139,764
Tenant security deposits (Note 11)	3,561	3,572	31,341
Total long-term liabilities	133,061	139,072	1,171,105
Total Liabilities	¥154,117	¥156,245	\$1,356,424
Net Assets			
Unitholders' capital (Note 5)	¥135,603	¥135,603	\$1,193,478
Retained earnings	3,963	3,795	34,879
Total Net Assets	¥139,567	¥139,398	\$1,228,366
Total Liabilities and Net Assets	¥293,684	¥295,644	\$2,584,791

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

Statements of Income

Nippon Accommodations Fund Inc.

September 1, 2015 to February 29, 2016, March 1, 2015 to August 31, 2015 and September 1, 2014 to February 28, 2015

	Yen in millions			U.S. dollars in thousands (Note 1)
	20th Period September 1, 2015 to February 29, 2016	19th Period March 1, 2015 to August 31, 2015	18th Period September 1, 2014 to February 28, 2015	20th Period September 1, 2015 to February 29, 2016
Revenues (Note 6):				
Rental	¥10,052	¥ 9,959	¥ 9,778	\$88,470
Other revenues related to property leasing	380	475	350	3,344
Total revenues	10,433	10,435	10,129	91,823
Operating Expenses (Note 6):				
Property management fees	1,102	1,125	1,097	9,698
Real estate taxes and insurance	587	587	517	5,166
Repairs and maintenance	418	462	358	3,678
Other rental expenses	602	694	632	5,298
Depreciation and amortization	2,073	2,083	2,075	18,245
Asset management fees	754	745	727	6,636
Other expenses	363	363	347	3,194
Total operating expenses	5,901	6,062	5,754	51,936
Operating Income	4,531	4,372	4,374	39,878
Interest and other income	5	9	15	44
Interest expense	(628)	(642)	(690)	(5,527)
Other expenses	(15)	(13)	(14)	(132)
Income before Income Taxes	3,894	3,725	3,685	34,272
Current and deferred income taxes (Note 8)	0	0	1	0
Net Income	¥ 3,893	¥ 3,725	¥ 3,684	\$34,263

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

Statements of Changes in Net Assets

Nippon Accommodations Fund Inc.
For the period from September 1, 2014 to February 29, 2016

	Number of Units (Note 5)	Yen in millions		
		Unitholders' Capital	Retained Earnings	Total
Balance as of September 1, 2014	461,422	¥125,686	¥ 3,610	¥129,296
Cash distribution	—	—	(3,540)	(3,540)
Net income	—	—	3,684	3,684
Balance as of February 28, 2015	461,422	125,686	3,754	129,441
Cash distribution	—	—	(3,683)	(3,683)
Issuance of new units through public offering as of March 2, 2015	22,000	9,444	—	9,444
Issuance of new units through allocation to a third party as of March 24, 2015	1,100	472	—	472
Net income	—	—	3,725	3,725
Balance as of August 31, 2015	484,522	135,603	3,795	139,398
Cash distribution	—	—	(3,725)	(3,725)
Net income	—	—	3,893	3,893
Balance as of February 29, 2016	484,522	¥135,603	¥ 3,963	¥139,567

	Number of Units (Note 5)	U.S. dollars in thousands (Note 1)		
		Unitholders' Capital	Retained Earnings	Total
Balance as of August 31, 2015	484,522	\$1,193,478	\$ 33,400	\$1,226,879
Cash distribution	—	—	(32,784)	(32,784)
Net income	—	—	34,263	34,263
Balance as of February 29, 2016	484,522	\$1,193,478	\$ 34,879	\$1,228,366

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

Statements of Cash Flows

Nippon Accommodations Fund Inc.

September 1, 2015 to February 29, 2016, March 1, 2015 to August 31, 2015 and September 1, 2014 to February 28, 2015

	Yen in millions			U.S. dollars in thousands (Note 1)
	20th Period September 1, 2015 to February 29, 2016	19th Period March 1, 2015 to August 31, 2015	18th Period September 1, 2014 to February 28, 2015	20th Period September 1, 2015 to February 29, 2016
Cash Flows from Operating Activities:				
Income before income taxes	¥ 3,894	¥ 3,725	¥ 3,685	\$ 34,272
Depreciation and amortization	2,073	2,083	2,075	18,245
Amortization of investment unit issuance expenses	4	4	—	35
Amortization of bond issue costs	3	3	4	26
Interest expense	628	642	690	5,527
(Increase) Decrease in rent receivables	(60)	(31)	(73)	(528)
Increase (Decrease) in accounts payable	(215)	137	(73)	(1,892)
Increase (Decrease) in rents received in advance	23	45	40	202
Cash payments of interest expense	(640)	(671)	(724)	(5,632)
Other, net	28	(15)	34	246
Net Cash Provided by Operating Activities	5,739	5,922	5,659	50,510
Cash Flows from Investing Activities:				
Payments for purchases of investment properties	(304)	(7,168)	(250)	(2,675)
Purchase of intangible assets	(0)	(615)	—	(0)
Proceeds from security deposits paid to lessors	—	28	—	—
Payments for security deposits paid to lessors	—	(29)	—	—
Proceeds from tenant security deposits	322	492	344	2,834
Payments for tenant security deposits	(334)	(383)	(310)	(2,939)
Other, net	(3)	(6)	(3)	(26)
Net Cash Used in Investing Activities	(319)	(7,683)	(219)	(2,807)
Cash Flows from Financing Activities:				
Proceeds from short-term loans	30,000	51,000	43,000	264,038
Repayment of short-term loans	(30,000)	(50,000)	(43,000)	(264,038)
Proceeds from long-term loans	—	2,000	19,000	—
Repayment of long-term loans	(2,000)	(8,000)	(11,000)	(17,602)
Proceeds from issuance of investment units	—	9,892	—	—
Redemption of bonds	—	—	(10,000)	—
Payment of distribution	(3,722)	(3,684)	(3,539)	(32,758)
Net Cash Provided by (Used in) Financing Activities	(5,722)	1,208	(5,539)	(50,360)
Net Change in Cash and Cash Equivalents	(301)	(552)	(99)	(2,649)
Cash and Cash Equivalents at the Beginning of the Period	7,666	8,219	8,318	67,470
Cash and Cash Equivalents at the End of the Period	¥ 7,364	¥ 7,666	¥ 8,219	\$ 64,812

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

Notes to Financial Statements

Nippon Accommodations Fund Inc.

September 1, 2015 to February 29, 2016, March 1, 2015 to August 31, 2015 and September 1, 2014 to February 28, 2015

Note 1 Organization and Basis of Presentation

Organization

Nippon Accommodations Fund Inc. (hereinafter "NAF") was established on October 12, 2005 as an investment corporation under the Investment Trust and Investment Corporation Act of Japan with Mitsui Fudosan Accommodations Fund Management Co., Ltd. (hereinafter "MFAFM") acting as a sponsor. Registration with the Kanto Local Finance Bureau of the Ministry of Finance was completed on November 11, 2005 and NAF started acquisition of properties on November 30, 2005.

NAF is an externally managed real estate fund, formed as an investment corporation. MFAFM, as NAF's asset management company, is engaged in the acquisition, management, and renovation of accommodation assets. MFAFM is a 100% subsidiary of Mitsui Fudosan Co., Ltd.

On August 3, 2006, NAF had raised approximately ¥40,000 million through an initial public offering of investment units. Those investment units are listed on the J-REIT section of the Tokyo Stock Exchange.

As of February 29, 2016, NAF had ownership and beneficiary interests in 116 properties containing approximately 476,444 square meters of rentable space. As of February 29, 2016, NAF had leased approximately 461,951 square meters to tenants. The occupancy rate for the properties was approximately 97.0%.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust and Investment Corporation Act of Japan and the Financial Instruments and Exchange Law of Japan and its 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 NAF 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. NAF does not prepare consolidated financial statements, as NAF has no subsidiaries.

Amounts less than 1 million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the approximate exchange rate on February 29, 2016, which was ¥113.62 to U.S.\$1.00. The convenience translation should not be construed as representation that the Japanese yen amounts have been, or could in future be, converted into U.S. dollars at this or any other rate of exchange.

Note 2 Summary of Significant Accounting Policies

Cash and Cash Equivalents

NAF 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 purchase price and related costs and expenses for acquisition of the properties and the beneficiary interests of properties in trust. Property and equipment balances are depreciated using the straightline method over the estimated useful lives. The estimated useful lives of the principal investment properties (including assets held in trust) are as follows:

Buildings and improvements	2-63 years
Structures	3-60 years
Machinery and equipment	2-45 years
Tools, furniture and fixtures	2-15 years

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

Deferred Assets

Investment unit issuance expenses are amortized over the period of three years under the straight-line method.

Bond issue costs are amortized over the period of the bonds under the straight-line method.

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

Properties are subject to taxes including property tax, city planning tax and depreciable asset tax. Taxes for each fiscal period are charged to income on an accrual basis.

The owner of properties is registered in a record maintained by the local government in each jurisdiction, and the taxes are imposed on the owner registered in the record, as of January 1, based on the assessment made by the local government.

Even when a property is purchased on a date other than January 1 of any given calendar year, these taxes for that year are imposed on the seller. The buyer pays the seller the corresponding tax amounts for the period from the property's transfer date to December 31 of that year as part of the purchase prices of each property, and capitalizes these amounts as the cost of the property. Capitalized property tax for the period ended August 31, 2015 amounted to ¥13 million. No property tax was capitalized for the period ended February 29, 2016.

Accounting Treatment of Beneficiary Interests in Trust Assets including Real Estate

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

Note 3 Schedule of Investment Properties

Investment properties as of February 29, 2016 and August 31, 2015 consisted of the following:

	Yen in millions					
	As of February 29, 2016			As of August 31, 2015		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥120,069	¥ —	¥120,069	¥120,055	¥ —	¥120,055
Land in trust	57,813	—	57,813	57,813	—	57,813
Land including trust total	177,883	—	177,883	177,869	—	177,869
Buildings and improvements	89,855	(15,990)	73,865	89,703	(14,666)	75,036
Buildings and improvements in trust	35,896	(7,607)	28,289	35,784	(7,099)	28,685
Buildings and improvements including those in trust total	125,751	(23,597)	102,154	125,488	(21,766)	103,722
Structures	1,613	(654)	959	1,612	(605)	1,006
Machinery and equipment	1,880	(1,005)	875	1,806	(919)	887
Tools, furniture and fixtures	1,070	(884)	186	1,065	(839)	226
Construction in process	0	—	0	—	—	—
Structures in trust	1,121	(317)	803	1,120	(297)	823
Machinery and equipment in trust	556	(364)	191	553	(332)	221
Tools, furniture and fixtures in trust	393	(311)	82	386	(301)	84
Construction in process in trust	7	—	7	7	—	7
Other investment properties total	6,643	(3,537)	3,106	6,554	(3,296)	3,257
Total	¥310,279	¥(27,135)	¥283,143	¥309,912	¥(25,062)	¥284,849

Note 4 Short-Term Loans and Long-Term Debt

The annual interest rate on short-term loans as of February 29, 2016 was 0.1% and the rate as of August 31, 2015 was 0.2%. Long-term debt consists of the following:

	Yen in millions	
	As of February 29, 2016	As of August 31, 2015
Unsecured loans due 2016 to 2025 principally from banks and insurance companies with interest rates mainly ranging from 0.3% to 1.5%	¥135,500	¥137,500
1.2% unsecured bonds due 2016	7,000	7,000
	¥142,500	¥144,500

The annual maturities of long-term debt as of February 29, 2016 were as follows:

	Yen in millions
Due after one to two years	¥18,500
Due after two to three years	17,000
Due after three to four years	18,000
Due after four to five years	17,500
Due after five years	58,500

NAF currently has commitment line contracts of ¥10,000 million with two financial institutions. The unused amount of such commitment line was ¥10,000 million as of February 29, 2016.

Note 5 Unitholders' Capital

	As of February 29, 2016	As of August 31, 2015	As of February 28, 2015
Total number of common units authorized	4,000,000	4,000,000	4,000,000
Total number of common units issued and outstanding	484,522	484,522	461,422

NAF shall maintain minimum net assets of at least ¥50 million as required by the Investment Trust and Investment Corporation Act of Japan.

Note 6 Rental Revenues and Expenses

Rental revenues and expenses for the periods ended February 29, 2016, August 31, 2015 and February 28, 2015 were as follows:

	Yen in millions		
	20th Period September 1, 2015 to February 29, 2016	19th Period March 1, 2015 to August 31, 2015	18th Period September 1, 2014 to February 28, 2015
Revenues from Property Leasing:			
Rental:			
Rental revenues	¥ 9,581	¥ 9,488	¥ 9,313
Facility charge	471	470	465
Subtotal	10,052	9,959	9,778
Other revenues related to property leasing:			
Income from leasing rights, etc.	254	340	239
Miscellaneous income	126	135	111
Subtotal	380	475	350
Total revenues from property leasing	10,433	10,435	10,129
Rental Expenses:			
Property management fees	1,102	1,125	1,097
Repairs and maintenance	418	462	358
Real estate taxes	574	574	503
Trust fees	11	11	11
Utilities	134	139	147
Insurance	13	13	13
Depreciation and amortization	2,073	2,083	2,075
Leasing-related service fees, etc.	163	213	182
Other rental expenses	293	330	291
Total rental expenses	4,784	4,954	4,680
Operating income from property leasing activities	¥ 5,649	¥ 5,481	¥ 5,449

Note 7 Leases

NAF leases some of its investment properties to outside parties under non-cancelable operating leases. As of February 29, 2016 and August 31, 2015, future minimum rental revenues under the non-cancelable operating leases were as follows:

	Yen in millions	
	As of February 29, 2016	As of August 31, 2015
Due within one year	¥ 774	¥ 774
Due after one year	2,526	2,841
Total	¥3,300	¥3,616

Note 8 Income Taxes

NAF is subject to income taxes in Japan. The effective tax rates on NAF's income based on applicable Japanese tax law were 0.02%, 0.02% and 0.03% for the periods ended February 29, 2016, August 31, 2015 and February 28, 2015, respectively. The following table summarizes the significant differences between the statutory tax rates and NAF's effective tax rates for financial statement purposes.

	20th Period September 1, 2015 to February 29, 2016	19th Period March 1, 2015 to August 31, 2015	18th Period September 1, 2014 to February 28, 2015
Statutory effective tax rate	32.31%	34.15%	34.16%
Deductible distributions paid	(32.31)	(34.14)	(34.15)
Others	0.02	0.01	0.02
Effective tax rate	0.02%	0.02%	0.03%

The tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of February 29, 2016, August 31, 2015 and February 28, 2015 were as follows:

	Yen in thousands		
	As of February 29, 2016	As of August 31, 2015	As of February 28, 2015
Deferred tax assets:			
Enterprise taxes	¥9	¥14	¥19
Total deferred tax assets	9	14	19
Net deferred tax assets	¥9	¥14	¥19

The Act on Partial Revision of the Income Tax Act (Act No. 15 of 2016) was promulgated on March 31, 2016, resulting in a reduction of corporate tax rates for fiscal periods beginning on or after April 1, 2016. Accordingly, the effective statutory tax rate used to measure deferred tax assets and liabilities will be changed from 32.31% to 31.74% for temporary differences expected to be reversed in fiscal periods on or after September 1, 2016. The effect of this change in the tax rate was immaterial.

NAF was established as an investment corporation under the Investment Trust and Investment Corporation Act 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 the total amount of distributions paid in calculating its taxable income under Japanese tax regulations.

Note 9 Per Unit Information

Information about earnings per unit for the periods ended February 29, 2016, August 31, 2015 and February 28, 2015 and net assets per unit as of February 29, 2016, August 31, 2015 and February 28, 2015 were as follows.

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

	Yen		
	20th Period September 1, 2015 to February 29, 2016	19th Period March 1, 2015 to August 31, 2015	18th Period September 1, 2014 to February 28, 2015
Earnings per Unit:			
Net income	¥8,035	¥7,692	¥7,984
Weighted average number of common units outstanding	484,522	484,264	461,422
	As of February 29, 2016	As of August 31, 2015	As of February 28, 2015
Net Assets per Unit	¥288,051	¥287,703	¥280,526

Note 10 Transactions with Related Parties

(September 1, 2015 – February 29, 2016)

- (1) Parent Company and Major Corporate Unitholders: None applicable
(2) Affiliates: None applicable
(3) Sister Companies: None applicable
(4) Directors and Major Individual Unitholders

Classification	Name	Principal business or occupation	Nature of transaction	Amount of transaction (Yen in millions)	Account	Balance at the end of the period (Yen in millions)
Director and/or close relative	Tateyuki Ikura	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fee to MFAFM (Note 1)	¥754 (Note 2)	Accounts payable	¥814
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 3)	¥0	—	¥—

Notes: 1. Tateyuki Ikura entered into this transaction as a representative of MFAFM, and this amount is subject to the conditions set forth in the by-laws of NAF.

2. No fees for management related to acquisition of properties included in the book value of each investment property, etc. were required to be disclosed as asset management fees.
3. Tateyuki Ikura entered into this transaction as a representative of MFAFM, and this amount is set forth in the "General Administration Agreement relating to Organizational Management" concluded between NAF and MFAFM.
4. "Amount of transaction" does not include consumption taxes.
"Balance at the end of the period" includes consumption taxes.

(March 1, 2015 – August 31, 2015)

- (1) Parent Company and Major Corporate Unitholders: None applicable
(2) Affiliates: None applicable
(3) Sister Companies: None applicable
(4) Directors and Major Individual Unitholders

Classification	Name	Principal business or occupation	Nature of transaction	Amount of transaction (Yen in millions)	Account	Balance at the end of the period (Yen in millions)
Director and/or close relative	Kosei Murakami (Note 1)	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fee to MFAFM (Note 2)	¥7 (Note 3)	—	¥—
Director and/or close relative	Tateyuki Ikura (Note 1)	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fee to MFAFM (Note 2)	¥745 (Note 4)	Accounts payable	¥804
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 5)	¥0	—	¥—

Notes: 1. Kosei Murakami retired from his positions as Executive Director of NAF and President and CEO of MFAFM on March 31, 2015. In addition, Tateyuki Ikura assumed these positions on May 21, 2015 and April 1, 2015, respectively.

2. Kosei Murakami and Tateyuki Ikura entered into these transactions as representatives of MFAFM, and these amounts are subject to the conditions set forth in the by-laws of NAF.
3. The amount of asset management fees includes management fees related to the acquisition of Medical Home Granda Sangen Jaya (Land with leasehold interest; acquired March 31, 2015) included in its book value.
4. No fees for management related to acquisition of properties included in the book value of each investment property, etc. were required to be disclosed as asset management fees.
5. Tateyuki Ikura entered into this transaction as a representative of MFAFM, and this amount is set forth in the "General Administration Agreement relating to Organizational Management" concluded between NAF and MFAFM.
6. The "Amount of transaction" included in the above amounts are for transactions before Kosei Murakami retired from his positions as Executive Director of NAF and after Tateyuki Ikura became Executive Director of NAF.
"Amount of transaction" does not include consumption taxes.
"Balance at the end of the period" includes consumption taxes.

(September 1, 2014 – February 28, 2015)

- (1) Parent Company and Major Corporate Unitholders: None applicable
 (2) Affiliates: None applicable
 (3) Sister Companies: None applicable
 (4) Directors and Major Individual Unitholders

Classification	Name	Principal business or occupation	Nature of transaction	Amount of transaction (Yen in millions)	Account	Balance at the end of the period (Yen in millions)
Director and/or close relative	Kosei Murakami	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fee to MFAFM (Note 1)	¥727 (Note 2)	Accounts payable	¥785
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 3)	¥1	Accounts payable	¥0

- Notes: 1. Kosei Murakami entered into this transaction as a representative of MFAFM, and this amount is subject to the conditions set forth in the by-laws of NAF.
 2. No fees for management related to acquisition of properties included in the book value of each investment property, etc. were required to be disclosed as asset management fees.
 3. Kosei Murakami entered into this transaction as a representative of MFAFM, and this amount is set forth in the "General Administration Agreement relating to Organizational Management" concluded between NAF and MFAFM.
 4. "Amount of transaction" does not include consumption taxes.
 "Balance at the end of the period" includes consumption taxes.

Note 11 Financial Instruments

(September 1, 2015 – February 29, 2016)

1. Status of Financial Instruments

(1) Policy for Financial Instruments

NAF procures funds for acquisition of assets and other uses through bank loans, issuance of bonds and investment units.

NAF may enter into derivative transactions solely for the purpose of hedging interest rate risk. Currently, NAF is not engaged in any derivative transactions. NAF strives for efficiency in its funding plans and has an operating policy of minimizing surplus funds.

(2) Financial Instruments, Their Risks and Risk Management System

Funds from loans and bonds are primarily used for acquiring assets and to repay interest-bearing debt. NAF manages associated liquidity and interest rate fluctuation risk in ways such as diversifying its credit sources and maturities, and by mainly using fixed-rate loans.

(3) 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.

2. Estimated Fair Value of Financial Instruments

Book value, fair value and the difference between the two as of February 29, 2016 were 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	¥ 7,364	¥ 7,364	¥ —
Total	¥ 7,364	¥ 7,364	¥ —
Liabilities			
(1) Short-term loans	¥ 5,000	¥ 5,000	¥ —
(2) Bonds due within one year	7,000	7,030	30
(3) Long-term loans due within one year	6,000	6,048	48
(4) Long-term loans	129,500	133,512	4,012
Total	¥147,500	¥151,591	¥4,091

Notes: 1. Methods to estimate fair value of financial instruments

Assets:

(1) Cash and cash equivalents

Book values of these 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 these 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) Bonds due within one year

Fair values of these bonds are based on observable market value.

(3) Long-term loans due within one year and (4) Long-term loans

Fair values of these instruments 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
	Book value
Tenant security deposits	¥3,561

Security deposits from tenants are not subject to fair value disclosure because they are not marketable, and the 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, making a reasonable estimate of future cash flows difficult.

3. Redemption schedule for monetary claims with maturity dates after February 29, 2016

	Yen in millions
	Due within one year
Cash and cash equivalents	¥7,364

4. Repayment schedule for loans and bonds due after February 29, 2016

	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	¥ 5,000	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	7,000	—	—	—	—	—
Long-term loans	6,000	18,500	17,000	18,000	17,500	58,500
Total	¥18,000	¥18,500	¥17,000	¥18,000	¥17,500	¥58,500

(March 1, 2015 – August 31, 2015)

1. Status of Financial Instruments

Same as above.

2. Estimated Fair Value of Financial Instruments

Book value, fair value and the difference between the two as of August 31, 2015 were 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	¥ 7,666	¥ 7,666	¥ —
Total	¥ 7,666	¥ 7,666	¥ —
Liabilities			
(1) Short-term loans	¥ 5,000	¥ 5,000	¥ —
(2) Bonds due within one year	7,000	7,059	59
(3) Long-term loans due within one year	2,000	2,017	17
(4) Long-term loans	135,500	138,264	2,764
Total	¥149,500	¥152,341	¥2,841

Notes: 1. Methods to estimate fair value of financial instruments

Assets:

(1) Cash and cash equivalents

Book values of these 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 these 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) Bonds due within one year

Fair values of these bonds are based on observable market value.

(3) Long-term loans due within one year and (4) Long-term loans

Fair values of these instruments 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	
	Book value
Tenant security deposits	¥3,572

Security deposits from tenants are not subject to fair value disclosure because they are not marketable, and the 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, making a reasonable estimate of future cash flows difficult.

3. Redemption schedule for monetary claims with maturity dates after August 31, 2015

Yen in millions	
	Due within one year
Cash and cash equivalents	¥7,666

4. Repayment schedule for loans and bonds due after August 31, 2015

	Yen in millions					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans	¥ 5,000	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	7,000	—	—	—	—	—
Long-term loans	2,000	14,500	18,000	17,500	18,000	67,500
Total	¥14,000	¥14,500	¥18,000	¥17,500	¥18,000	¥67,500

Note 12 Investment and Rental Properties

(September 1, 2015 – February 29, 2016)

NAF owns rental properties including land located in Tokyo and other areas. The book value, net changes in the book value and the fair value of the investment and rental properties were as follows.

Yen in millions			
Book value			Fair value
As of September 1, 2015	Change during the 20th Period	As of February 29, 2016	As of February 29, 2016
¥285,457	¥(1,705)	¥283,751	¥323,142

Notes: 1. "Book value" is the acquisition cost inclusive of acquisition expenses less accumulated depreciation and excluding expenses for construction in process.

2. In "Change during the 20th Period," the main factor for the decrease in book value was depreciation.

3. "Fair value as of February 29, 2016" is based on appraisals provided by independent real estate appraisers.

Information about profit and loss from investment and rental properties for the period ended February 29, 2016 is disclosed in Note 6, Rental Revenues and Expenses.

(March 1, 2015 – August 31, 2015)

NAF owns rental properties including land located in Tokyo and other areas. The book value, net changes in the book value and the fair value of the investment and rental properties were as follows.

Yen in millions			
Book value			Fair value
As of March 1, 2015	Change during the 19th Period	As of August 31, 2015	As of August 31, 2015
¥279,758	¥5,698	¥285,457	¥319,808

Notes: 1. "Book value" is the acquisition cost inclusive of acquisition expenses less accumulated depreciation and excluding expenses for construction in process.

2. In "Change during the 19th Period," the main factor for the increase in book value was the acquisition of properties for ¥7,438 million. The main factor for the decrease in book value was depreciation.

3. "Fair value as of August 31, 2015" is based on appraisals provided by independent real estate appraisers.

Information about profit and loss from investment and rental properties for the period ended August 31, 2015 is disclosed in Note 6, Rental Revenues and Expenses.

Note 13 Segment Information

(September 1, 2015 – February 29, 2016)

1. Segment Information

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

2. Related Information**(1) Information by Products and Services**

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

Tenant	Operating revenues (Yen in millions)	Related segment
Mitsui Fudosan Housing Lease Co., Ltd.	¥9,992	Real estate leasing business

(March 1, 2015 – August 31, 2015)

1. Segment Information

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

2. Related Information

(1) Information by Products and Services

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

Tenant	Operating revenues (Yen in millions)	Related segment
Mitsui Fudosan Housing Lease Co., Ltd.	¥10,011	Real estate leasing business

(September 1, 2014 – February 28, 2015)

1. Segment Information

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

2. Related Information

(1) Information by Products and Services

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

Tenant	Operating revenues (Yen in millions)	Related segment
Mitsui Fudosan Housing Lease Co., Ltd.	¥9,724	Real estate leasing business

Note 14 Significant Subsequent Events

None applicable

Independent Auditor's Report



Independent Auditor's Report

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

We have audited the accompanying financial statements of Nippon Accommodations Fund Inc. (a Japanese Real Estate Investment Trust), which comprise the balance sheets as at February 29, 2016 and August 31, 2015, and the statements of income, statements of changes in net assets and statements of cash flows for each of the six months ended February 29, 2016, August 31, 2015 and February 28, 2015, 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 Accommodations Fund Inc. as at February 29, 2016 and August 31, 2015, and its financial performance and cash flows for each of the six months ended February 29, 2016, August 31, 2015 and February 28, 2015 in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the period ended February 29, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the financial statements.

June 1, 2016
Tokyo, Japan

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

Contents

Rental Apartment Investment Characteristics	1
Corporate Structure and Governance.....	3
Primary Related Corporations	6
Portfolio Policy	8
Corporate Data	12
Status of Unitholders	13

Rental Apartment Investment Characteristics

Rental apartments have a lower earnings fluctuation risk than real estate leased for other uses. By concentrating investment in the 23 wards of Tokyo where demand for rental housing is high and developing a portfolio with high market competitiveness and asset value, NAF will stably increase earnings.

Residential Rental Market Trends in the 23 Wards of Tokyo

Population and Number of Households

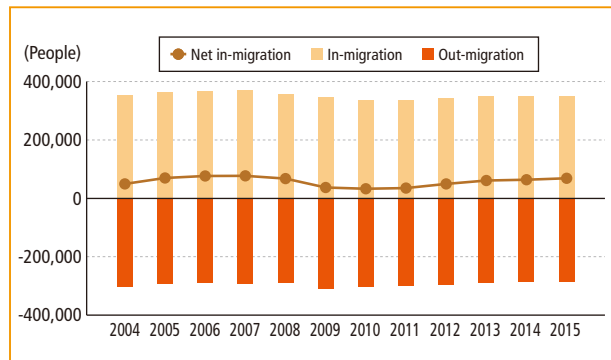
In the 23 wards of Tokyo, where most of NAF's assets under management are located, the population influx is continuing, reflecting an increasing desire to live closer to work and the progressive concentration of economic activities in Tokyo. Graph 1 shows migration trends in the 23 wards of Tokyo as well as net in-migration. In-migration has continued to exceed out-migration indicating stable demand for residential rental housing in highly convenient areas.

NAF projects solid demand from the growing number of single and two-person households for single and compact (rentable area under 60m² with two or fewer bedrooms) apartments, which comprise the majority of NAF's portfolio.

Rental Housing Stock

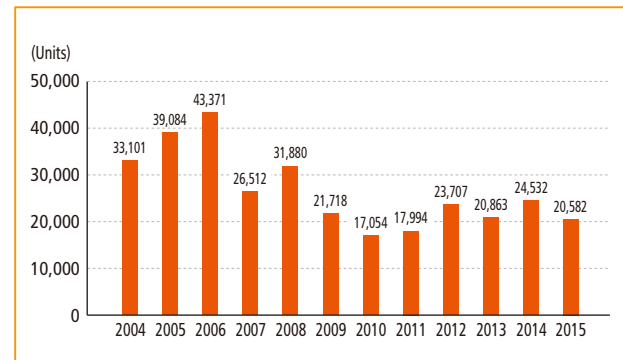
Graph 2 shows the number of rental apartment construction starts in the 23 wards of Tokyo. Construction starts increased more or less steadily until 2006, but decreased significantly following changes in the building authorization procedure resulting from revisions in 2007 to the Building Standards Law (Law No. 201 of 1950 as amended). The number of construction starts has been at a low level since 2007.

1. Net Migration into Tokyo (23 Wards of Tokyo)



Source: Tokyo Metropolitan Government, Ministry of Internal Affairs and Communications

2. Rental Apartment Construction Starts (23 Wards of Tokyo)



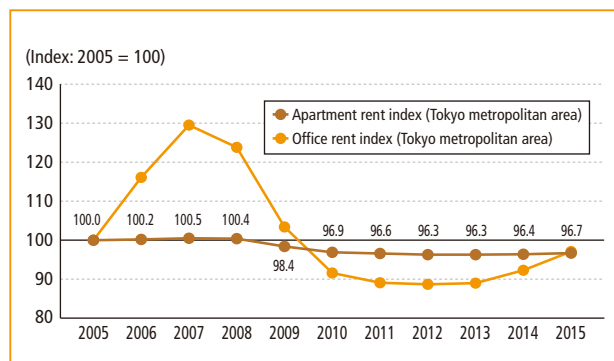
Source: Ministry of Land, Infrastructure, Transport and Tourism (SRC and RC)

Stability of Apartment Rent

Graph 3 shows relative rents for apartments and offices in Tokyo metropolitan area, with 2005 levels set as 100. Apartment rent has remained relatively stable in comparison to office rent. Rental housing is a necessary expense in the same way as clothing and food. Therefore, apartment rent is considered stable because it is generally unaffected by fluctuations in economic conditions and asset value, with relatively low risk of change.

In addition, rental housing enables a more diversified portfolio in terms of number of properties and tenants due to its relatively small scale in comparison to office buildings and other properties. Investment in rental housing of this nature is perfectly matched with NAF's core strategy of securing stable revenues. Furthermore, new properties are scarce, comprising a limited share of rental housing stock. Such properties, which make up the majority of NAF's investment portfolio, ensure market competitiveness and asset value.

3. Rent Fluctuation: Apartments / Offices



Source: Japan Real Estate Institute

Common Practices in Japan's Rental Apartment Market

Contract Validity Period

Leases in Japan are generally two-year contracts, which can be renewed by paying an extension fee (usually one month's rent).

Security Deposit

The tenant must pay a security deposit in advance to the landlord to insure against future unpaid rent and/or damages. Generally, it is equal to two months' rent and is typically refunded when moving out (a cleaning and/or repair fee may be deducted prior to refund).

Key Money

The tenant pays key money to the landlord prior to signing a lease contract. Generally, it is equivalent to two months' rent and is not refunded.

Commission Fee

A commission fee is paid to the leasing agent; by regulation, it cannot exceed one month's rent.

Guarantor/Joint Surety

A guarantor is required when signing a lease contract. The guarantor must have an income sufficient to cover the rent if the tenant cannot pay and/or the cost of repairs to the apartment if the tenant causes any damage.

Corporate Structure and Governance

Nippon Accommodations Fund Inc. has structured systems for compliance and risk management and operates fairly and transparently with the aim of increasing investor value.

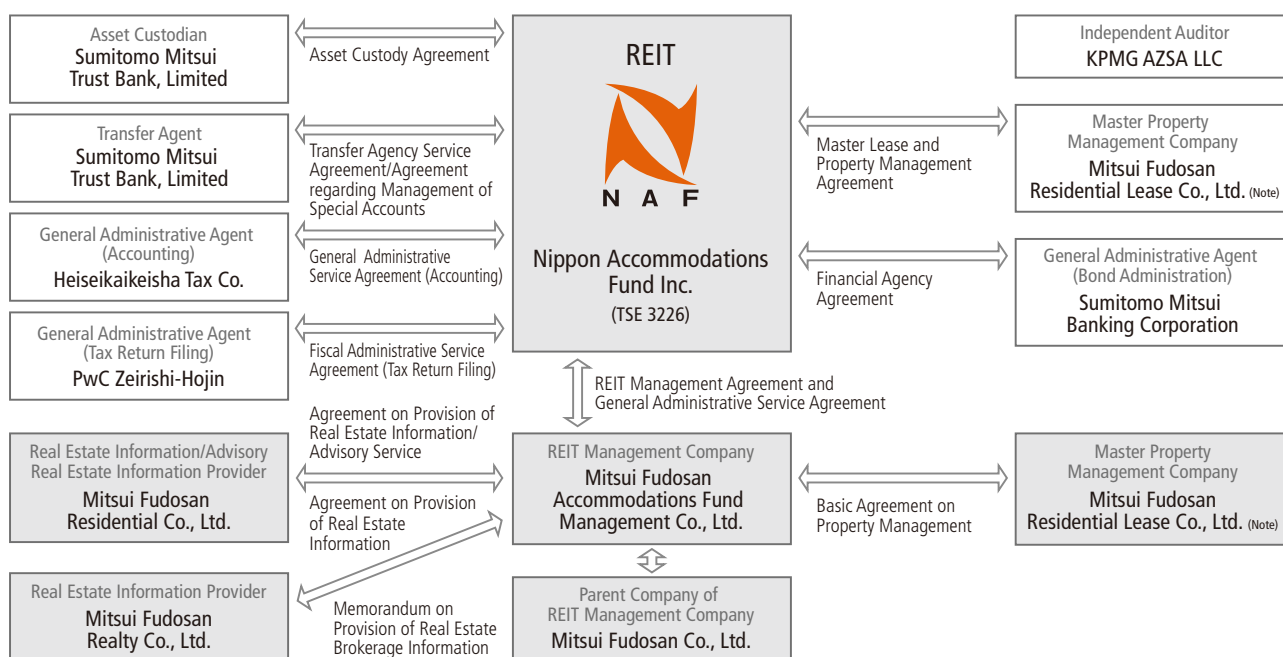
Real Estate Investment Trust (“REIT”) Structure

Nippon Accommodations Fund Inc. (“NAF”) is an investment corporation established with the objective of investing in assets, primarily Designated Assets as defined under the Investment Trust and Investment Corporation Act of Japan. NAF was established on October 12, 2005, with Mitsui Fudosan Accommodations Fund Management Co., Ltd. (the “REIT Management Company” or “MFAFM”) as its asset management company.

NAF has entrusted management of all of its assets to the REIT Management Company, which is the asset management company required under the Investment Trust and Investment Corporation Act of Japan. Operating in accordance with the REIT Management Agreement concluded on October 13, 2005 (as amended), the REIT Management Company manages NAF’s assets according to NAF’s asset management and administration policies and the asset management guidelines embodied in the internal regulations of the REIT Management Company. The asset management guidelines take current investment conditions into account and follow NAF’s basic operating principle of taking a medium-to-long-term perspective in managing assets to secure stable earnings and steadily increase assets under management.

These guidelines may change in the future in response to changes in the external investment environment and the status of NAF’s assets under management.

In addition, the REIT Management Company is a 100 percent subsidiary of Mitsui Fudosan Co., Ltd., and has concluded contracts with other companies in the Mitsui Fudosan Group to promote smooth, effective management of NAF’s assets. An Agreement on Provision of Real Estate Information/Advisory Service and an Agreement on Provision of Real Estate Information with Mitsui Fudosan Residential Co., Ltd. provide information regarding real estate owned or developed by Mitsui Fudosan Residential’s Rental Apartment Development Department, and other management advisory information. A Memorandum on Provision of Real Estate Brokerage Information with Mitsui Fudosan Realty Co., Ltd. provides access to certain real estate property information. A Basic Agreement on Property Management with Mitsui Fudosan Residential Lease Co., Ltd., the master property management company to which NAF has entrusted property management services of all its rental apartments, is fundamental to NAF’s policy of outsourcing such property management services required in managing real estate.



Note: Mitsui Fudosan Housing Lease Co., Ltd. changed its name to Mitsui Fudosan Residential Lease Co., Ltd. on April 1, 2016.

Corporate Structure

General Meeting of Unitholders

In accordance with the Investment Trust and Investment Corporation Act of Japan and NAF's Articles of Incorporation, NAF convenes a General Meeting of Unitholders within the 23 wards of Tokyo, generally once every two years. The General Meeting of Unitholders adopts or vetoes ordinary resolutions on the basis of a simple majority of the voting rights of unitholders in attendance. Decisions on substantive resolutions such as changes in the Articles of Incorporation require the attendance of unitholders holding at least a simple majority of total units issued and outstanding, and a vote of two-thirds majority of the voting rights of such unitholders. The asset management policies and standards are stipulated by NAF's Articles of Incorporation.

Executive Directors, Supervisory Directors, Independent Auditor and the Board of Directors

NAF's Articles of Incorporation stipulate that NAF must have one or more executive directors, and two or more supervisory directors (but always equal to the number of executive directors plus at least one additional supervisory director). NAF's independent auditor is KPMG AZSA LLC.

NAF's executive directors are responsible for business execution. In addition, they have authority for all judicial and extrajudicial proceedings related to the operations of NAF.

Supervisory directors are responsible for supervising business execution by the executive directors.

The Board of Directors acts in accordance with the Investment Trust and Investment Corporation Act of Japan and NAF's Articles of Incorporation and other internal rules in exercising their responsibility to supervise the performance of the executive directors. In accordance with the current Articles of Incorporation, the Board of Directors passes or vetoes resolutions on the basis of a simple majority of executive and supervisory directors on the Board who are in attendance and are able to vote. Executive and supervisory directors having special interest in a resolution are prohibited from participating in related decisions.

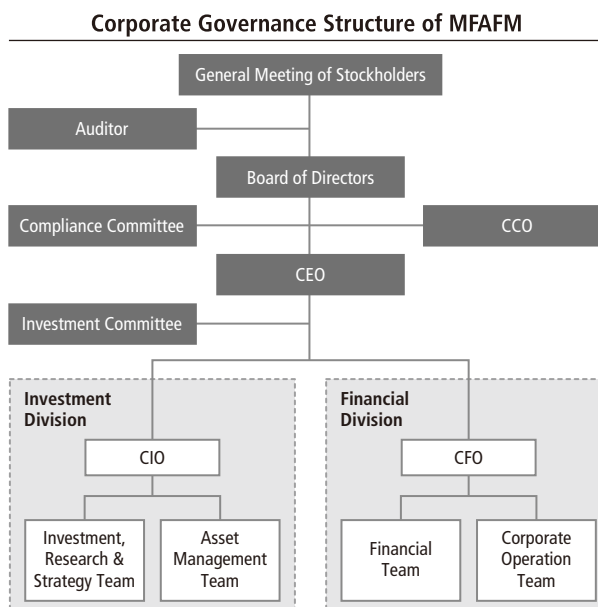
Independent auditors are elected at the General Meeting of Unitholders. They audit financial and accounting documents including NAF's financial statements. In addition, they are charged with reporting to supervisory directors any unlawful acts or material violations of laws, regulations or NAF's Articles of Incorporation that executive directors may commit in the course of their duties. Independent auditors also perform other duties as required by laws and regulations.

Compliance Initiatives

The REIT Management Company, MFAFM, assumes full responsibility for compliance in order to structure an appropriate asset management system for NAF. A Chief Compliance Officer (CCO) of MFAFM has been appointed to supervise compliance with laws, regulations and internal rules on the part of the REIT Management Company.

The CCO is responsible for internal audits at the REIT Management Company. The Chief Executive Officer (CEO) may also appoint other employees of MFAFM to participate as needed in internal audits, based on the recommendations of the CCO.

MFAFM's entire organization and all personnel within it are subject to internal audits. As a rule, internal audits are conducted on a regular basis in accordance with the compliance program, but the CEO may initiate extraordinary audits.



Investment Risk Management System

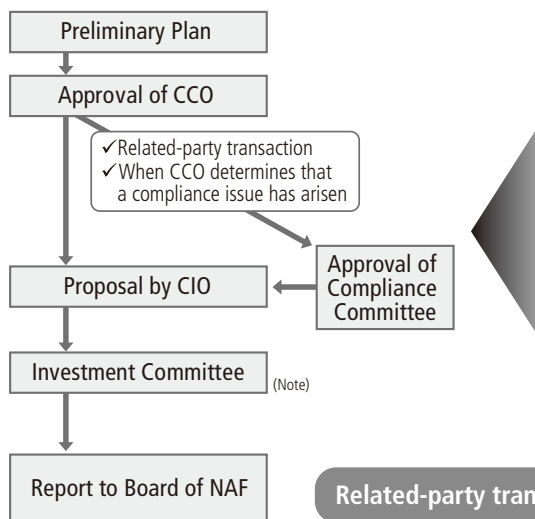
NAF itself is responsible for complying with the Investment Trust and Investment Corporation Act of Japan and related laws and regulations in managing risks. In addition, the REIT Management Company has established appropriate internal rules. In conjunction with appropriate organizational systems, NAF is providing education and implementing other measures to enhance the culture of compliance among officers and employees of MFAFM.

NAF’s Board of Directors convenes as needed at least once every three months, and resolves important matters and reports on the status of business execution in accordance with laws, regulations and internal rules for such Board of Directors. Independent supervisory directors supervise business execution.

Moreover, supervisory directors can obtain as needed reports on operations and financial condition from the REIT Management Company and from NAF’s asset custodian, Sumitomo Mitsui Trust Bank, Limited. Independent supervisory directors can also conduct required investigations.

The REIT Management Company formulates and revises an annual management plan that is the blueprint for management and administration policies that comply with the asset management guidelines. This annual plan and compliance with the asset management guidelines serve to eliminate or minimize risk. In addition, the REIT Management Company has established internal risk management regulations and a department that focuses on managing each type of risk appropriately.

Investment Policy & Acquisition/Sale Decision Process



Note: When NAF acquires or disposes of assets in transactions with related parties as defined by the Investment Trust and Investment Corporation Act of Japan, the REIT Management Company must obtain consent from NAF based on the approval of NAF’s Board of Directors prior to the deliberations of the Investment Committee. However, such consent is not required for property or other real estate acquisitions stipulated by Article 245-2-1 of the Investment Trust and Investment Corporation Act as having immaterial impact on NAF’s assets because the acquisition cost represents less than 10 percent of the book value of NAF’s investment properties.

Compliance Checking System

<p>Confirmation by the Chief Compliance Officer (CCO)</p> <p>The following require approval of Compliance Committee</p> <ul style="list-style-type: none"> ■ Related-party transaction* ■ When CCO determines that a compliance issue has arisen <p><small>*Property acquisition price from sponsor-related parties is below appraisal value</small></p>
<p>Compliance Committee</p> <p>Requires approval by independent external professionals</p> <p>Members: CCO (Chairman), CEO, 2 external professionals (Currently 1 lawyer and 1 CPA)</p> <p>External professionals: Appointed professionals independent from Mitsui Fudosan</p> <p>Resolutions: Require the votes of 2/3 or more members and at least 1 of the 2 independent external professionals</p>
<p>Functions as a Check on the Investment Committee</p> <p>CCO can suspend discussion when he sees any problem in the discussion process</p>

Related-party transactions require approval by independent external professionals

Restrictions on Related-Party Transactions

Laws and regulations prohibit the REIT Management Company from conducting specified transactions with related parties. In the case of a transaction with a potential conflict of interest between an entity specified under the Investment Trust and Investment Corporation Act of Japan and its ordinances and its asset management company, in principle the REIT Management Company must prepare a brief describing the transaction and deliver it to NAF and other entities specified by

the Investment Trust and Investment Corporation Act of Japan and its ordinances.

With the objective of enhancing returns for NAF’s unitholders, the REIT Management Company’s internal regulations specify rules for handling related-party transactions. The REIT Management Company has established standards and procedures for related-party transactions and executes appropriate asset management for NAF by eliminating conflicts of interest.

Primary Related Corporations

Overview of the Roles of Primary Related Corporations

The following outlines the contractual relationship between NAF and its REIT management company, and the contractual relationship between NAF's REIT management company and primary related corporations.

Role	Name	Overview of Relevant Operations
REIT management company and general administrative agent	Mitsui Fudosan Accommodations Fund Management Co., Ltd. (MFAFM)	MFAFM serves as the company entrusted with asset management as a Financial Instruments Business Operator prescribed in Article 28 Paragraph 4 of the Financial Instruments and Exchange Law and under a REIT Management Agreement entered into between MFAFM and NAF on October 13, 2005 (as amended). Under this agreement, MFAFM undertakes asset management of NAF in accordance with the asset management guidelines of MFAFM and the Articles of Incorporation of NAF. Under the above agreement, MFAFM is entrusted with (1) management of assets owned by NAF; (2) fund procurement to be conducted by NAF; (3) reporting on the condition of assets owned by NAF; (4) formulating management plans for assets of NAF; and (5) any other matters related to the above items listed in (1) through (4) that NAF may require. In addition, pursuant to Article 117 of the Investment Trust and Investment Corporation Act of Japan, MFAFM undertakes management of (1) the Board of Directors; (2) the General Meeting of Unitholders; and (3) any other matters related to the above items listed in (1) and (2) that NAF may require, as General Administrative Agent based on a General Administrative Service Agreement dated March 1, 2006. The matters entrusted to the Transfer Agent pursuant to the Agreement between NAF and the Transfer Agent are not included in the above matters set forth in (1) and (2).
Real estate information/ advisory service provider (Note)	Mitsui Fudosan Residential Co., Ltd.	Mitsui Fudosan Residential provides real estate sales information, real estate management information, and other services to MFAFM under an Agreement on Provision of Real Estate Information/Advisory Service that MFAFM entered into with Mitsui Fudosan Residential on February 23, 2006.
Real estate information provider		Mitsui Fudosan Residential provides real estate sales information to MFAFM under an Agreement on Provision of Real Estate Information that MFAFM entered into with Mitsui Fudosan Residential on September 26, 2007.
Property information provider	Mitsui Fudosan Realty Co., Ltd.	Mitsui Fudosan Realty provides real estate brokerage information and other services to MFAFM under a Memorandum on Provision of Real Estate Brokerage Information that MFAFM entered into with Mitsui Fudosan Realty on March 31, 2006.
Master property management company	Mitsui Fudosan Residential Lease Co., Ltd.	In principle, MFAFM will entrust to Mitsui Fudosan Residential Lease as master property management company, all property management services required for real estate of NAF, under a Basic Agreement on Property Management between MFAFM and Mitsui Fudosan Residential Lease dated March 31, 2006.

Note: On February 23, 2006, NAF and Mitsui Fudosan Co., Ltd. concluded an Agreement on Provision of Real Estate Information/Advisory Service. Mitsui Fudosan Residential Co., Ltd. assumed Mitsui Fudosan's rights and responsibilities in the residential leasing business by way of a company split on October 1, 2015. In conjunction with the assumption of these rights, the rights and responsibilities under this agreement and subsequent amendments thereto transferred to Mitsui Fudosan Residential as of October 1, 2015.

Mitsui Fudosan Accommodations Fund Management Co., Ltd. REIT Management Company and General Administrative Agent

MFAFM, as a REIT management company provided for in the Investment Trust and Investment Corporation Act of Japan, performs management of NAF's assets and undertakes management of the general affairs of NAF.

MFAFM has no capital relationship with NAF.

Operation

- Undertakes asset management of NAF pursuant to a REIT Management Agreement based on an entrustment from NAF in accordance with the Articles of Incorporation of NAF and the Investment Objectives and Policies set forth therein.
- Undertakes management of the general affairs of the general meeting of unitholders and the Board of Directors of NAF as General Administrative Agent based on an entrustment from NAF and a General Administrative Service Agreement.

Fees for the Asset Management Operation

NAF pays asset management fees to MFAFM, in accordance with the REIT Management Agreement concluded with MFAFM. These fees comprise items 1 to 4 below, with the method of calculation and payment dates as follows.

Management Fees 1

The amount equivalent to 5 percent of the amount of the revenue arising from Real Estate, etc., as calculated on each closing date (excluding revenues from the sale of Real Estate, etc., and other Managed Assets) will be payable. Management Fees 1 are paid without delay after definite settlement of accounts.

Management Fees 2

The amount equivalent to 5 percent of income before income tax prior to deduction of Management Fees 1 and 2 as calculated on each closing date will be payable. Management Fees 2 are paid without delay after definite settlement of accounts.

Management Fees 3

In the event that Real Estate, etc., is newly acquired, compensation equivalent to 1 percent (0.5 percent if it is acquired from Related Parties) of the total amount of the acquisition price of said Real Estate, etc., (excluding consumption tax, local consumption tax, and acquisition costs) will be payable. Management Fees 3 are paid at or before the end of the next month after the month of the acquisition date.

Management Fees 4

In the event that Real Estate, etc., is sold, compensation equivalent to 1 percent (0.5 percent if it is sold to Related Parties) of the total amount of the sales price of said Real Estate, etc., (excluding consumption tax, local consumption tax) will be payable. Management Fees 4 are paid at or before the end of the next month after the month of the sales date.

Mitsui Fudosan Residential Co., Ltd. Real Estate Information and Advisory Service Provider

Pursuant to an Agreement on Provision of Real Estate Information/Advisory Service, Mitsui Fudosan Residential provides to MFAFM a diverse array of support services that employ the information and expertise of Mitsui Fudosan Residential in the area of real estate management and administration.

In order to receive such services, MFAFM provides Mitsui Fudosan Residential with acquisition guidelines included in asset management guidelines.

Provision of Information on Real Estate and Other Assets Owned or Developed by Mitsui Fudosan Residential

In the case Mitsui Fudosan Residential decides to provide any third party with information on real estate or real estate-related assets that it owns or is planning to develop and sell under its Rental Apartment Development Department or otherwise solicits the third party to purchase such real estate or assets, and such real estate or assets are consistent with MFAFM's asset management guidelines, Mitsui Fudosan Residential provides such information to MFAFM before or at the same time as it provides information to and/or solicits the third party, unless prevented from doing so due to lack of consent of third parties or for any other unavoidable reason.

When MFAFM receives such information and provides written notification that it will consider the purchase of such real estate or assets, Mitsui Fudosan Residential deals with NAF as a prospective purchaser on a pari passu basis with any third party interested in purchasing such real estate or other assets.

Provision of Third-Party Real Estate Sales Information

Regardless of whether Mitsui Fudosan Residential has originated or is brokering the sale, Mitsui Fudosan Residential's Rental Apartment Development Department in principle provides MFAFM with information concerning available real estate or real estate-related assets owned by third parties, when such real estate or assets are consistent with MFAFM's asset management guidelines, unless prevented from doing so due to lack of consent of third parties or for any other unavoidable reason, or because Mitsui Fudosan Residential itself intends to acquire such real estate or assets with the objective of development or ownership.

Provision of Real Estate Management Information

At least once per calendar year, Mitsui Fudosan Residential will provide in writing, upon request by MFAFM, real estate management information (see note below) that its Rental Apartment Development Department supervises if MFAFM requests such information and Mitsui Fudosan Residential agrees to such provision.

Note: "Real estate management information" means the following information.

- (a) Mitsui Fudosan Residential's qualitative view of medium-to-long-term trends relevant to the operating environment of the real estate leasing market (including but not limited to economic trends in Japan, population dynamics and trends in housing stock)
- (b) Mitsui Fudosan Residential's qualitative view of short-term trends relevant to the operating environment of the real estate leasing market, including but not limited to trends in new supply of residential properties for lease (including property summaries, level of rent and initial leasing conditions), lease contracts entered into for specific residential properties, area marketing surveys, financial data for other real estate investment corporations, income and expense data for specific real estate or real estate-related assets, and real estate leasing market trends (including vacancy rate and rent trends)
- (c) Mitsui Fudosan Residential's quantitative data regarding real estate leasing market conditions up to the present (including but not limited to rent rolls of residential properties for lease owned by Mitsui Fudosan Residential or NAF and supplementary data such as records of lease contracts entered into and cancelled, and related expenses)
- (d) Other information related to items (a), (b) or (c) above that MFAFM requests, as needed

Provision of Advisory Services

Mitsui Fudosan Residential provides technical advice to MFAFM regarding the buildings and facilities of the real estate and real estate-related assets that NAF has purchased or is considering purchasing (but in no case does it provide MFAFM with investment advice). This technical advice includes the following.

- (a) Advice and investigational support for the preparation and implementation of daily and long-term maintenance plans for said buildings and facilities
- (b) Advice and investigational support for the preparation and implementation of plans for small repairs, renovations, periodic inspections and response to facility and equipment recalls
- (c) Advice, investigational support and other assistance for the preparation and implementation of large-scale renovations

Operation Fees

MFAFM will provide compensation as separately discussed and agreed with Mitsui Fudosan Residential under this agreement.

Portfolio Policy

Portfolio Structure Policies

Set forth below are the portfolio structure policies and investment standards for individual properties for the REIT Management Company and its internal regulations that serve as asset management guidelines.

1. Proportion of Investment Assets by Category

NAF invests mainly in rental apartments, and currently limits investment in other accommodation assets to a maximum of 10 percent of total portfolio value on an acquisition price basis.

2. Investment Areas

NAF emphasizes Greater Tokyo and other major cities in Japan in

investing in accommodation assets. By region, at least 80 percent of NAF's assets are located in the 23 wards of Tokyo.

When considering individual investments, NAF studies regional characteristics and tenant needs. NAF then deploys this information to invest in properties with suitable residential plans and characteristics.

3. Investment Standards

The REIT Management Company identifies potential investments and decides whether or not to invest in assets on the basis of the asset management guidelines summarized in the table below.

Item	Standard
Investment amount	In principle, the value of each property must exceed ¥1 billion. However, NAF may invest in properties at or below ¥1 billion after taking into account property characteristics and earnings potential and certain relevant matters.
Ownership interests	In principle, NAF shall hold ownership interests of whole properties. However, NAF may invest in co-ownership; compartmentalized ownership; leaseholds, including fixed-term leaseholds; and limited proprietary rights of the land upon consideration of specific properties.
Building structure	In principle, building structures shall be reinforced concrete (RC) or steel reinforced concrete (SRC). Earthquake resistance shall conform to or substantially satisfy the New Earthquake Resistance Standards (in compliance with the 1981 revision to the Building Standards Law (Law No. 201 of 1950), as amended, the "Building Standards Law").
Properties under development	In principle, NAF shall acquire properties that are already producing stable rental income at the time of acquisition, and shall not invest in land with a view to NAF's own construction of the building thereon. However, NAF may consider contracts to acquire uncompleted buildings that, although incomplete, are expected to carry minimum risk in respect to completion, delivery and subsequent leasing.

4. Due Diligence Standards

NAF selects assets to invest in only after due diligence covering economic feasibility, physical condition and legal status in accordance with the asset management guidelines. Due diligence includes various written assessments and reports from third-party specialists. Based on the results

of such due diligence, the REIT Management Company in principle undertakes investigation of the items listed below in order to make investment decisions as a result of comprehensive review.

Item	Issues Investigated	
Economic feasibility studies	Market survey	<ol style="list-style-type: none"> 1. Current residential environment in the relevant region 2. Demand and supply for rental housing in the relevant region 3. Rental housing competition trends in the relevant region 4. Markets rents in the relevant region 5. Discount rate and rate of return
	Tenant survey	<ol style="list-style-type: none"> 1. Tenant creditworthiness and rent income amount 2. Purpose of use and confirmation that tenants are not members of anti-social forces
	Survey of earnings and related issues	<ol style="list-style-type: none"> 1. Current property management costs 2. Development of medium-to-long-term plan for repair and renovation expenses 3. Development of cash flow projections 4. Verification that property is consistent with portfolio strategy
Physical condition studies	Location	<ol style="list-style-type: none"> 1. Street conditions, access to major transportation 2. Convenience and access to public facilities 3. Primarily visual confirmation of status of borders between adjacent tracts and cross-border issues 4. Living conditions including view, light, ambient noise and airflow 5. Presence of unpleasant facilities 6. Future development plans in the surrounding area
	Construction, equipment and specifications	<ol style="list-style-type: none"> 1. Building structure, age and construction company of property and other related matters 2. Layout, ceiling height, interior specifications (including ceiling, walls and floors), materials used for the interior and exterior, maintenance of facilities including sanitary facilities, ventilation facilities, electrical facilities, elevators and parking 3. Need for immediate repairs
	Building management	<ol style="list-style-type: none"> 1. Status of compliance with related regulations such as the Building Standards Law, the City Planning Law, asbestos-related laws and regulations, the Law concerning the Promotion of Expansion of Public Lands and the National Land Use Planning Law 2. Actual management status 3. Quality of the property management company and contract terms

	Antiseismic resistance and probable maximum loss (PML)	<ol style="list-style-type: none"> 1. Antiseismic resistance that meets the New Earthquake Resistance Standards (the new earthquake resistance standards for buildings, etc., based on the 1981 revision to the Building Standards Law) or equivalent resistance 2. Checks by the construction company, architectural firm, construction engineering company and construction confirmation and inspection body; confirmation of authenticity of the structural calculation sheets 3. In principle, earthquake PML shall be below 15 percent. In deciding whether or not to purchase a building for which PML is at or above 20 percent, consideration of additional antiseismic reinforcing work, additional earthquake insurance and other relevant matters must be considered.
	Environmental, soil and other issues	<ol style="list-style-type: none"> 1. Investigation of whether the building contains hazardous materials 2. Investigation of land use records and soil contamination
Legal investigation	Rights and related issues	<p>Investigation shall be conducted as to whether the previous owner had obtained the enforceable real right.</p> <ol style="list-style-type: none"> 1. Issues regarding ownership interests and mortgage 2. Lease contract terms (including confirmation of area of rental units) 3. Any documentation related to confirmation of border or agreement regarding cross-border issues 4. Permission for occupancy of roads under the Traffic Law 5. Compliance with laws and regulations related to environmental preservation, such as the Nature Conservation Law and the Urban Green Space Conservation Law 6. Existence of factors impeding the enforceability of the previous owner's rights <p>In case of complicated relation of rights, the following matters, among others, shall be investigated (the complicated relation of rights includes relationships between NAF and others in cases such as co-ownership; compartmentalized ownership; leaseholds, including fixed-term leaseholds; and limited proprietary rights of the land).</p> <ol style="list-style-type: none"> 1. (If the concerned right is leasehold) the perfection of such leasehold and the absence of any right which supersedes such leasehold 2. The registration status of the relevant right of site; the limitation on separate transfer of such right of site from the building thereon and the registration status of such limitation; share of such right 3. Measures to be taken to ensure the maintenance of deposits; reserve rules or measures based on long-term renovation plan 4. Existence of agreement on prohibition of division of co-ownership property and registration status of such agreement; appropriate treatments in case of request for division of co-ownership property or sales of co-ownership share; (possible) claims against or from other co-owners 5. Status of compartment of compartmentalized ownership 6. Security arrangements established prior to involvement of NAF and assumption of any encumbrances or obligations in connection thereto 7. Terms of special agreement with the lessor, the land lease right holder, other compartmentalized ownership holders, other co-owners and any other relevant parties 8. Characteristics of the lessor, the land lease right holder, compartmentalized ownership holders, co-owners or other relevant parties (for example, corporations or individuals) 9. Terms of trust agreement in case the relevant rights are beneficial interests in real estate trust

Policies for Portfolio Management and Operation

1. Basic Management Policies

The REIT Management Company prepares a yearly management plan for NAF's assets under its management for each fiscal period. This management plan covers issues such as handling of the assets and projected capital expenditures for properties, including plans for large-scale renovation, and is subject to Investment Committee approval.

The REIT Management Company acts in accordance with this yearly management plan in undertaking management and operation of the assets in cooperation with the property management company. The REIT Management Company is also responsible for implementing appropriate changes and revisions to the yearly management plan if necessitated by significant changes in the operating environment.

2. Selection and Monitoring of the Property Management Company

The property management company is responsible for proposal and implementation of various measures for day-to-day, on-site management of tenants and properties. Such functions of the property management company are particularly important to the management of accommodation assets in general and rental housing in particular. Naturally, the property management company should have specialized expertise in the business of

property management, and its operations must be organized and efficient so that it can provide consistent, high-quality services across a wide array of properties and tenants.

For "Rental Apartments" in NAF's portfolio, NAF has selected Mitsui Fudosan Residential Lease Co., Ltd. to provide these services as its master property management company. In principle, NAF intends to entrust property management for assets to be owned by NAF in the future to Mitsui Fudosan Residential Lease, on the condition that it meets the following requirements.

1. An organizational structure that can execute property management operations according to the management and operation specifications of the REIT Management Company
2. The capability to accomplish smooth new tenant recruitment
3. A reasonable compensation level for property management operations compared to the market level

In addition, the REIT Management Company will periodically monitor whether the selected property management company is maintaining its capabilities at the level dictated by the standards for selection. As a result of monitoring, the REIT Management Company may require improvements or may change the property management company.

3. Policies for Property and Casualty Insurance Coverage

NAF maintains property and casualty insurance coverage, to the extent that is deemed appropriate, to address damage to property due to disasters such as fires and accidents or claims for compensatory damages from third parties. Asset characteristics determine such coverage.

NAF comprehensively determines earthquake insurance coverage according to cost effectiveness and the projected impact of an earthquake on each building and on the portfolio as a whole. When earthquake PML for specific buildings is projected above 20 percent or when the acquisition of such property causes portfolio PML to rise above 15 percent, NAF comprehensively considers the impact from an earthquake, insurance premiums and any other relevant issues to determine whether or not to purchase earthquake insurance.

4. Basic Policies for Renovation Plans and Capital Expenditures

The renovation plans are strategic and require renovation and capital expenditures in addition to routine expenses incurred by small repairs in order to maintain and improve the market competitiveness of properties and tenant satisfaction over the medium-to-long term.

NAF determines and revises, for each property, an annual renovation plan in yearly management plans that are based on the established 12-year medium-term renovation plans.

NAF funds a reserve for renovation according to considerations of depreciation expenses and renovation plans based on medium-to-long-term portfolio management. In principle, NAF keeps capital expenditures within the scope of the overall portfolio renovation plan.

Divestiture Policy

In principle, NAF aims to secure stable operating revenue from assets under management through ownership over the medium-to-long term, and does not engage in short-term divestiture.

However, NAF decides to sell specific assets after consideration of the overall portfolio impact based on evaluation of trends affecting the future

rental market in a given area, actual or projected increases or decreases in asset values, risk of asset impairment, obsolescence and associated costs, and other relevant factors.

Financial Policies

1. Issuance of New Units

NAF may flexibly issue additional units through an offering with the objective of financing acquisition of assets, renovation and other capital requirements for operation, or to repay debt, including lease deposits, security deposits, loans and bonds that NAF may have issued.

2. Debt Financing

NAF may issue bonds or take on loans, including call market funding, with the objective of financing acquisition of assets; renovation expenses; dividend payments; working capital; or debt repayment, including lease deposits, security deposits, loans and bonds that NAF may have issued. NAF only borrows capital from qualified institutional investors as defined under the relevant laws and regulations in Japan. In addition, NAF may not take on loans or issue bonds that exceed ¥1 trillion, respectively, nor may the total of loans and bonds exceed ¥1 trillion. According to NAF's current Articles of Incorporation, NAF may use its assets under management as collateral for loans and bonds.

3. Loan-to-Value Ratio

The ratio of interest-bearing debt to NAF's total assets is known as the loan-to-value (LTV) ratio. The REIT Management Company determines the upper limit of NAF's LTV ratio. NAF's policy is to keep the LTV ratio below 60 percent, although issues including the acquisition of assets may cause the LTV ratio to temporarily exceed 60 percent.

4. Derivatives

According to NAF's current Articles of Incorporation, NAF limits transactions involving financial derivatives to those with the objective of hedging risks including the risk of change in the interest rates associated with debts.

Information Disclosure Policy

NAF defines itself as an open, transparent investment corporation, and has a disclosure policy for public awareness. Moreover, NAF works to maintain an environment that encourages timely and accurate disclosure of unbiased information to all investors. In keeping with its name, NAF's fundamental policy is to accommodate investors in disclosing information.

NAF discloses information in accordance with the Investment Trust and Investment Corporation Act of Japan, the Financial Instruments and Exchange Law of Japan, and the rules of the Tokyo Stock Exchange and the Investment Trusts Association, Japan. Moreover, NAF energetically discloses of its own accord information that it believes is relevant to investment decisions.

Sustainability Policy

MFAFM, as the asset management company for NAF, in recognition of the importance of initiatives for sustainability including environmental considerations, etc. for carrying out asset management activities, strives to achieve asset management activities giving consideration to reduction

of environmental load, enhancement of safety, security and comfort, as well as diversified affiliations and collaborations with various entities, in line with the "Group Environmental Policy" established by the Mitsui Fudosan Group.

Corporate Data

Corporate office	4-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-0027, Japan +81-3-3246-3677 http://www.naf-r.jp/english/
Date of incorporation	October 12, 2005
Fiscal period	Six months ending February 28 (February 29 in leap years) and August 31
Unit listing	Tokyo Stock Exchange (Securities Code: 3226)
Transfer agent	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan
Business office of the transfer agent	Stock Transfer Agency Department of Sumitomo Mitsui Trust Bank, Limited 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan
Independent auditor	KPMG AZSA LLC AZSA Center Building 1-2, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8551, Japan
Investor relations	For further information, please contact the REIT Management Company: Mitsui Fudosan Accommodations Fund Management Co., Ltd. 4-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-0027, Japan +81-3-3246-3677

Status of Unitholders

Major Unitholders

(As of February 29, 2016)

Name	Number of units held	Percentage of total*
Japan Trustee Services Bank, Ltd. (Trust Account)	116,565	24.05%
The Master Trust Bank of Japan, Ltd. (Trust Account)	45,114	9.31%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	36,587	7.55%
The Nomura Trust and Banking Co., Ltd. (Investment Account)	18,964	3.91%
Mitsui Fudosan Co., Ltd.	15,600	3.21%
The Chugoku Bank, Limited	9,576	1.97%
JP Morgan Chase Bank 380055	6,922	1.42%
Trust & Custody Services Bank, Ltd. (Money Trust Tax Account)	6,656	1.37%
MetLife Insurance	5,916	1.22%
The Hachijuni Bank, Ltd.	5,818	1.20%
Total	267,718	55.25%

*Number of units held as a percentage of total units issued and outstanding, rounded down to the nearest hundredth.

Composition and Distribution of Unitholders

(As of February 29, 2016)

	Individuals and others	Financial institutions	Other domestic corporations	Overseas corporations and individuals	Securities companies	Total
Number of units held	29,815 (6.15%)	356,324 (73.54%)	23,852 (4.92%)	64,335 (13.28%)	10,196 (2.11%)	484,522 (100.00%)
Number of unitholders	6,460 (92.46%)	153 (2.19%)	151 (2.16%)	203 (2.90%)	20 (0.29%)	6,987 (100.00%)

Disclaimer

This document was prepared solely for the convenience of and reference by overseas investors and does not correspond to the original Japanese documents. The information provided in this document does not constitute the disclosure or asset management reports required under the Financial Instruments and Exchange Act or laws relevant to investment trusts or investment corporations.

This English document contains selected information including a partial translation of the Securities Report (*Yuka shoken hokokusho*) filed on May 27, 2016 pursuant to the Financial Instruments and Exchange Law of Japan, and the Financial Statements and Performance Information Report for the period from September 1, 2015 to February 29, 2016, of Nippon Accommodations Fund Inc. prepared pursuant to the Investment Trust and Investment Corporation Act of Japan. This document should not be deemed a summary of the above mentioned Securities Report and the Financial Statements and Performance Information Report. Nippon Accommodations Fund Inc. has exercised due care in providing the information in this document, but does not guarantee its accuracy or completeness.

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