



# SEMIANNUAL REPORT

Fiscal Period Ended May 31, 2014





Dear Fellow Unit Holders,

We are pleased to present our Semiannual Report of Nippon Prologis REIT, Inc. (NPR). As a result of strong fundamentals of both the Japanese macroeconomic environment and the logistics real estate market, we have once again achieved excellent financial results in the third fiscal period. We are truly confident about, and proud of, our consistent unchanged growth story.

**Financial Results of Third Fiscal Period**—The third fiscal period ended May 31, 2014, and was another successful moment for NPR, with revenues and profit exceeding forecasts. Operating revenues were 12.7 billion yen, outperforming the forecast by 20 basis points due to a higher-than-expected average occupancy for the period. Net income was 5.1 billion yen, exceeding the forecast by 3.8%, and the distribution per unit, including surplus cash distributions, was an attractive 3,793 yen, which exceeded the forecast by 3.2%. These results were primarily due to higher net operating income and SG&A. In terms of our balance sheet, while capitalization cap rates of Japanese logistics real estate assets continued to compress, we have recorded an unrealized real estate capital gain of 17.3 billion yen as a result of appreciation of our portfolio appraisal value.

**Current Real Estate Portfolio**—In the third fiscal period, we acquired four additional properties with proceeds from our second follow-on offering. Consequently, we now manage and operate 24 properties with a total acquisition value of 360 billion yen. These 24 assets are modern Class-A logistics facilities, all developed by the Prologis Group, NPR's sponsor. Among the portfolio assets, multi-tenant facilities account for 88% in terms of acquisition value, and the balance is build-to-suit properties. At the fiscal period end, our portfolio was leased to a diverse tenant base, including third-party logistics companies, retailers and e-tailers. The floor space share of our top 20 tenants accounted for 63% of the total portfolio, by far the lowest among logistics J-REITs, and accordingly, our tenant profile and lease expirations are appropriately diversified. Our portfolio continues to be the youngest among all J-REITs, with an

average age of 5.4 years and 90%, of our assets are located in our global markets of Tokyo and Osaka metropolitan areas where we believe we will have significant economic upside. As a result of our efforts to build this portfolio in a short time period, our portfolio has been built up prior to the fast cap rate compression in the Japanese logistics real estate market and, therefore, its current NOI yield is an attractive 5.5%.

**Japanese Logistics Real Estate Market Environment**—Overall, the Japanese macroeconomic environment is improving as a result of collective efforts by the government and corporate community. Although the consumption tax rate hike in April 2014 appeared to impact consumer behavior, this impact is expected to last a relatively short time. A number of economists expect a strong recovery of the economy toward the latter half of the year. In fact, the financial results of some of our major tenants have improved.

As for the logistics real estate market, we have observed strong demand from various tenants for high-quality space. Of note, e-commerce companies and large-scale retailers, as well as national brand convenience stores. As a result, the majority of new Class-A space in 2013 (approximately 1.4 million square meters in the Tokyo metropolitan area), have already been fully absorbed, and the similar tight supply-demand balance is expected to continue in 2014. In accordance with this strong demand, vacancy rates have been constantly low in Tokyo and Osaka, and market rents have begun to rise. Because the current stock of modern logistics facilities is scarce in Japan, accounting for only 2% of the nation's entire warehouse space, we believe the outlook for the logistics real estate continues to be bright over the long term.

**Operational Status and Internal Growth**—Due to the competitive high quality of our Class-A portfolio and the improving Japanese macroeconomy, our operational status in the third fiscal period was significantly strong. The fiscal period’s average occupancy was high at 98.6%, exceeding our original forecast by 20 bps and reflecting persistent demand from our tenants and Prologis Group’s significant leasing capabilities. During this time, lease contracts for approximately 14% of our total leasable area expired, and we have successfully renewed or re-tenanted those spaces. For the same spaces, reflecting the uptrend of the market, we have achieved rent growth of about 2% on a nominal weighted average basis. Capturing this momentum, we intend to strive to accomplish at least 2% rent growth for leases expiring over the next three years.

**External Growth Opportunities**—NPR continues to receive strong sponsor support from the Prologis Group. Therefore, we have an affluent pipeline of new property acquisitions that comes from the Prologis Group’s significant development activities. At the end of the third fiscal period, we had exclusive negotiation rights for five properties with an estimated value of approximately 45 billion yen. In July 2014, those assets stabilized in terms of occupancy, and we are planning to acquire them at the appropriate time. In addition, the Prologis Group announced three new development projects, increasing the total of our future acquisition pipeline assets (other than exclusive negotiation right assets) to 17 with an estimated value of approximately 150 billion yen. As these development assets are completed, leased and stabilized, they will be added to NPR’s exclusive negotiation rights list. With this strong external growth opportunities, we believe we will be able to maximize our unit holder value.

**Financial Strategy**—We continue to maintain our financial strategy which focuses on long-term stability and efficiency. At the end of the third fiscal period, our loan-to-value ratio was 42.3%, and we intend to maintain this conservative level of leverage to secure NPR’s strong balance sheet. We believe we can maximize our unit holder value by taking advantage of our additional borrowing capacity, which would allow us to conduct significantly accretive acquisitions in the future. More than 99% of our debt is long-term loans with fixed interest rates with a 5.3 year average duration. In this way, we are able to mitigate future interest rate volatility risks and minimize our future refinancing risks. In addition, we have filed the shelf registration of J-REIT bonds and plan to issue bonds to further reduce our debt cost, taking advantage of current favorable debt capital market conditions. We are pleased to have the strength of our balance sheet and commitment to a sound capital structure to be recognized by JCR. Accordingly, they revised the outlook upward to “AA- (positive)” in February 2014.

**Governance Structure**—We continue to align the interests of NPR and the Prologis Group to maximize our unit holder value through various measures. The Prologis Group continues to own 15% of NPR’s outstanding investment units and is committed to maintaining this ownership percentage in the long term. Also, asset management fees of Prologis REIT Management K.K., NPR’s external asset manager, are 100% linked to the economic performances of NPR (such as NOI and net income). Regarding related party transactions between NPR and the Prologis Group, external committee members are monitoring and reserving rights to consent. In total, we believe NPR is being operated with the highest standard of governance in the industry.

**Corporate Responsibility**—As the global leader in industrial real estate, the Prologis Group is focused on building the most sustainable logistics and distribution platform and is committed to corporate responsibility through various programs. Dedicated to being a leading global citizen, our approach to corporate responsibility comprises three dimensions; for the planet (environmental stewardship), for people (social responsibility) and for the pursuit of excellence in business (ethics and governance). Prologis is especially committed to leading the industry in sustainable development, renewable energy and energy efficiency. For example, solar panel systems are currently being installed on the rooftops of nine assets of the NPR portfolio, and we expect Prologis to install solar panels on four additional properties in the near term. Upon installation, total renewable energy output will amount to some 15 megawatts, equivalent to the annual electricity usage of 4,500 Japanese households. Also, Prologis focuses on maximizing energy efficiency of our operations and is committed to minimizing environmental impact from our facilities through the introduction of various sustainable features and initiatives.



At Prologis, social responsibility is a commitment to our colleagues, local communities and suppliers. Prologis supports hundreds of community activities and social causes, building relationships in the cities we operate, and Prologis employees actively volunteer in their communities.

We are truly pleased with our accomplishments during the 15 months since our IPO in February 2013. We have more than doubled the size of our portfolio and have tripled the size of our market capitalization while significantly increasing the economics of our investment units, such as distribution per unit and net asset value per unit. Now, our operational expertise is being proven by continued strong financial results. Going forward, we will further endeavor to maximize our unit holder value by growing both externally and internally, and will build solid track records of portfolio management. We sincerely appreciate your continuous support of NPR and the Prologis Group.

**Masahiro Sakashita**

Executive Director, Nippon Prologis REIT, Inc.  
President & CEO, Prologis REIT Management K.K.



Distribution Per Unit  
(total JPY)

3,793

Operating Revenues  
(JPY millions)

12,693

Net Income  
(JPY millions)

5,185

Total Assets  
(JPY millions)

374,176

Loan-To-Value Ratio

42.3%

Period End Occupancy Rate

97.9%

Credit Rating

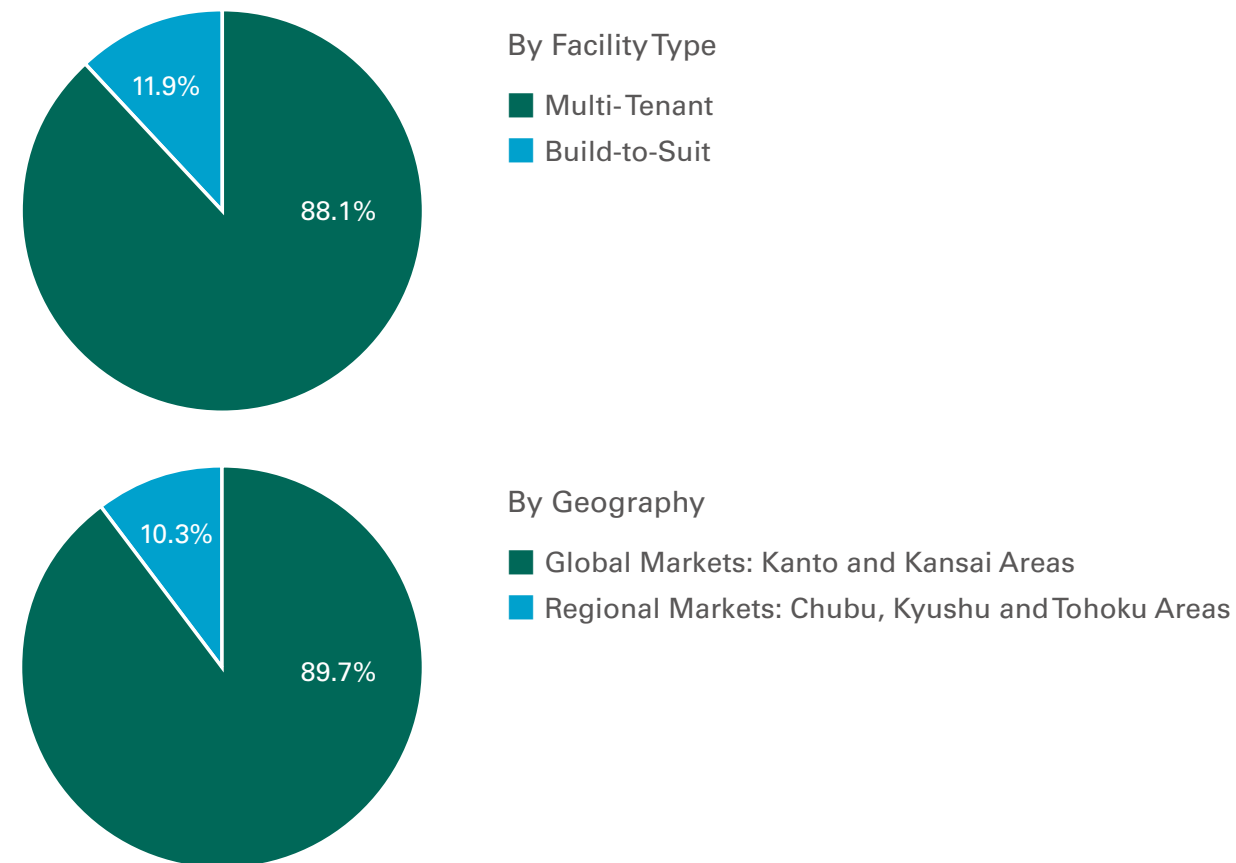
JCR AA-  
(Positive)

Portfolio Size  
(JPY millions)

359,520

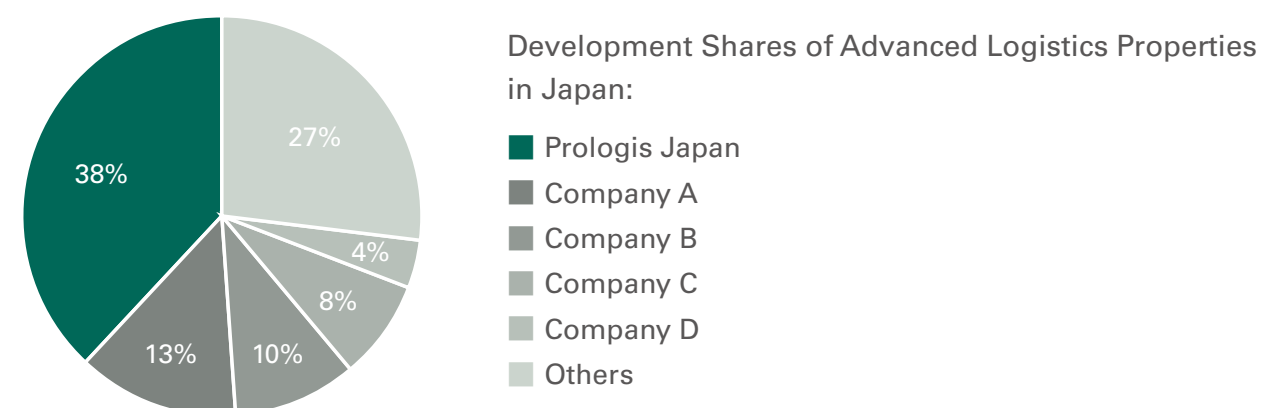


## Earnings Stability from a Diversified Portfolio of Class-A Facilities\*



## Full Sponsor Support from the Prologis Group

Prologis Group is the leading developer of Class-A Logistics Facilities in Japan



\*As of May 31, 2014

## Focus on High-Quality Class-A Logistics Facilities

Class-A Logistics Facilities Developed by Prologis Group

100%

## Financial Strategy Focused on Long-Term Stability and Efficiency

Focus on Long-Term Stability of Borrowings

Efficient Cash Management

Period End LTV  
42.3%

## Governance Structure Promoting Growth in Unit Holder Value

Prologis Investment

15%



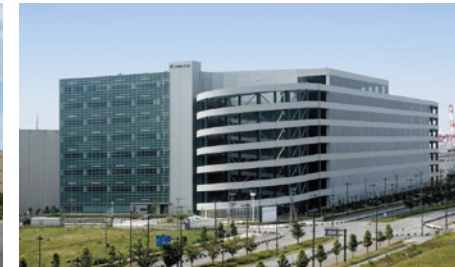
**M-01**  
Prologis Park Ichikawa 1  
JPY 33,900 mm



**M-02**  
Prologis Park Zama 1  
JPY 27,900 mm



**M-03**  
Prologis Park Kawajima  
JPY 25,600 mm



**M-04**  
Prologis Park Osaka 2  
JPY 25,000 mm



**M-05**  
Prologis Park Maishima 3  
JPY 13,500 mm



**M-06**  
Prologis Park Kasugai  
JPY 12,500 mm



**M-07**  
Prologis Park Kitanagoya  
JPY 6,500 mm



**M-08**  
Prologis Park Tagajo  
JPY 5,370 mm



**M-09**  
Prologis Park Tokyo-Ohta  
JPY 29,500 mm



**M-10**  
Prologis Park Zama 2  
JPY 21,900 mm



**M-11**  
Prologis Park Funabashi 5  
JPY 11,000 mm



**M-12**  
Prologis Park Narita 1-A&B  
JPY 8,420 mm



**M-13**  
Prologis Park Narita 1-C  
JPY 4,810 mm



**M-14**  
Prologis Park Amagasaki 1  
JPY 17,600 mm



**M-15**  
Prologis Park Amagasaki 2  
JPY 19,200 mm



**M-16**  
Prologis Park Tokyo-Shinkiba  
JPY 13,600 mm



**M-17**  
Prologis Park Yokohama-Tsurumi  
JPY 13,800 mm



**M-18**  
Prologis Park Osaka 4  
JPY 21,000 mm



**M-19**  
Prologis Park Iwanuma 1  
JPY 5,670 mm



**B-01**  
Prologis Park Maishima 4  
JPY 11,500 mm



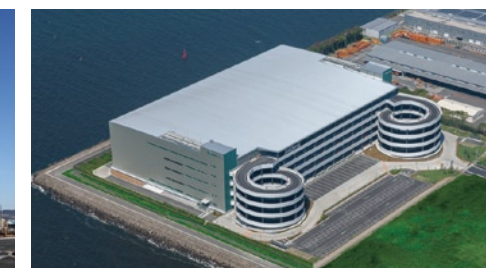
**B-02**  
Prologis Park Takatsuki  
JPY 4,410 mm



**B-03**  
Prologis Park Tosu 2  
JPY 3,030 mm



**B-04**  
Prologis Park Tosu 4  
JPY 3,810 mm



**B-05**  
Prologis Park Narashino 4  
JPY 20,000 mm

Note: As of May 31, 2014. Property values are based on acquisition prices.

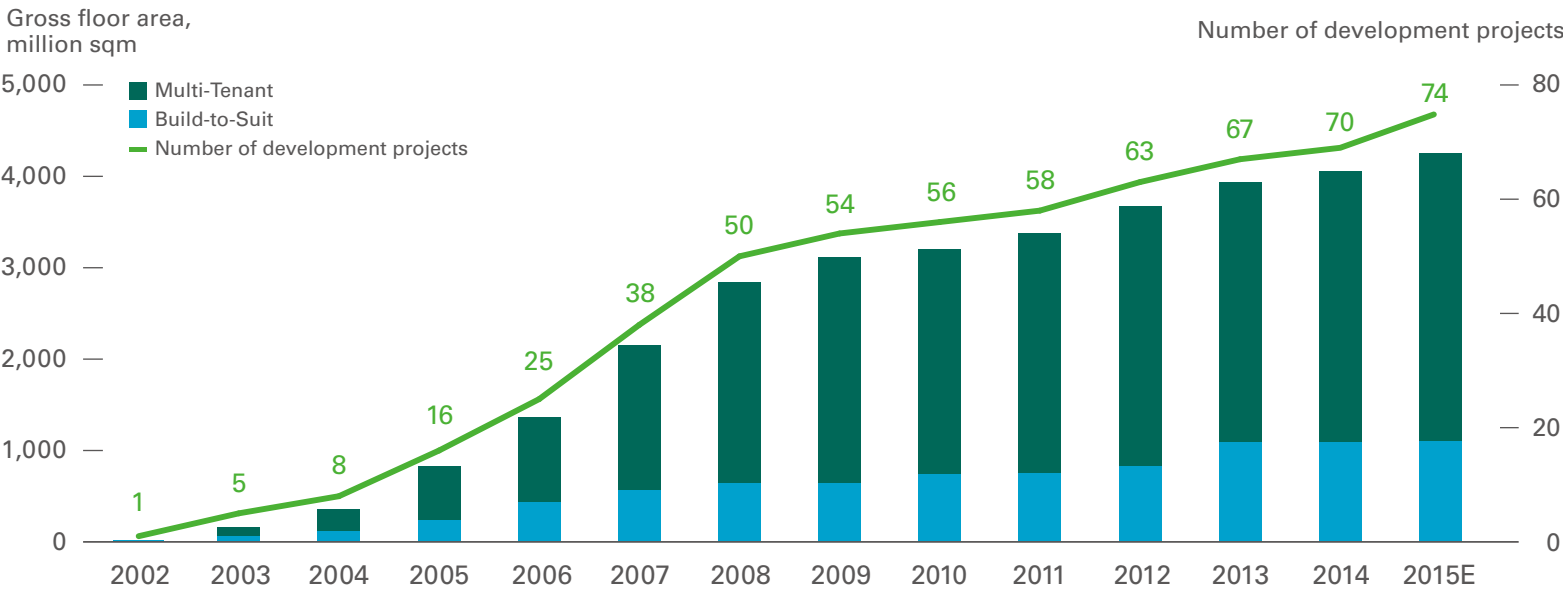


Future Pipeline

Status	Region / Area	Property Name	Pipeline	Expected Completion Year	Property Type	GFA (sqm)
Operating/ Development Assets	Kanto	Prologis Park Kawajima 2	Added Nov. 2013	2014	Multi-Tenant	43,245
		Prologis Park Ebina	Added Nov. 2013	2010	Build-to-Suit	32,487
Exclusive Negotiation Rights granted by the Prologis Group	Kansai	Prologis Park Kawanishi	Initial Pipeline	2013	Build-to-Suit	75,026
		Prologis Park Amagasaki 3	Initial Pipeline	2013	Build-to-Suit	39,386
		Prologis Park Kobe	Initial Pipeline	2013	Build-to-Suit	32,043
Planned Assets  ( Under Development / Future Development )	Kanto	Prologis Park Kitamoto	—	2014	Multi-Tenant	70,291
		Prologis Park Joso	—	2014	Multi-Tenant	38,726
		Prologis Park Narita 1-D	—	2015	Multi-Tenant	28,506
		Prologis Park Yoshimi *	—	2015	Multi-Tenant	110,967
		Prologis Park Ichikawa 3	—	2015	Multi-Tenant	59,987
		Prologis Park Chiba New Town *	—	2016	Multi-Tenant	127,522
		Prologis Park Narashino 5 *	—	2016	Multi-Tenant	64,533
		Prologis Park Koga 1	—	TBD	TBD	62,068
		Prologis Park Koga 2	—	TBD	TBD	55,470
	Kansai	Prologis Park Osaka 5	—	2015	Multi-Tenant	95,129
		Prologis Park Ibaraki	—	2016	Multi-Tenant	188,528
	Kyushu	Prologis Park Hisayama	—	2015	Multi-Tenant	26,667
Total						1,150,581

Note: Prologis expects to start JPY 40-60 billion in new development projects each year.  
NPR does not have definite contracts to acquire the above properties. This property list should not be deemed a commitment or guarantee of NPR's future acquisitions.  
\* Represents new pipeline assets.

Proven Development Track Record Since 2002





## High-Spec Features

- A gross floor area of approximately 16,500 square meters or more;
- Proximity to population clusters, transportation hubs such as expressway interchanges or major airports or seaports;
- A large floor area exceeding approximately 5,000 square meters per floor, with a floor weight capacity of at least 1.5 tons / square meters, an effective ceiling height of at least 5.5 meters and a span between columns of at least approximately 10 meters;
- Spiral ramps or slopes that allow trucks direct access to upper-floor distribution space or sufficiently capable vertical conveyers; and
- Structural and facility safety features such as seismic isolation and earthquake-proofing.

## Spiral Rampways



## Large Loading Zones



## Wide-Column Spacing



## Renewable Energy



## Restaurant



## Convenience Store



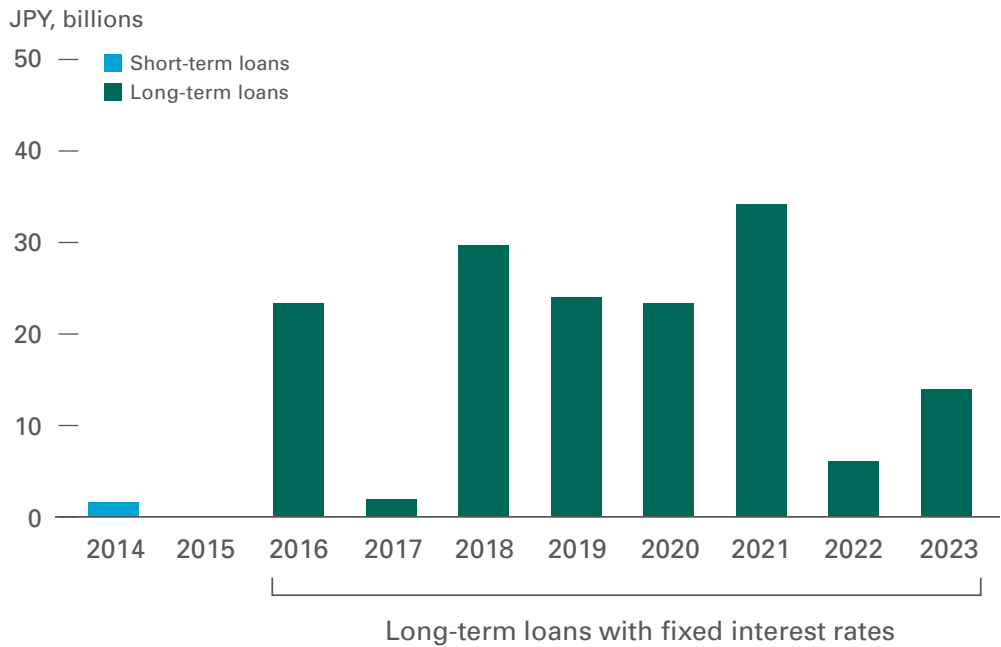
## 24-Hour Security



## Seismic Isolators

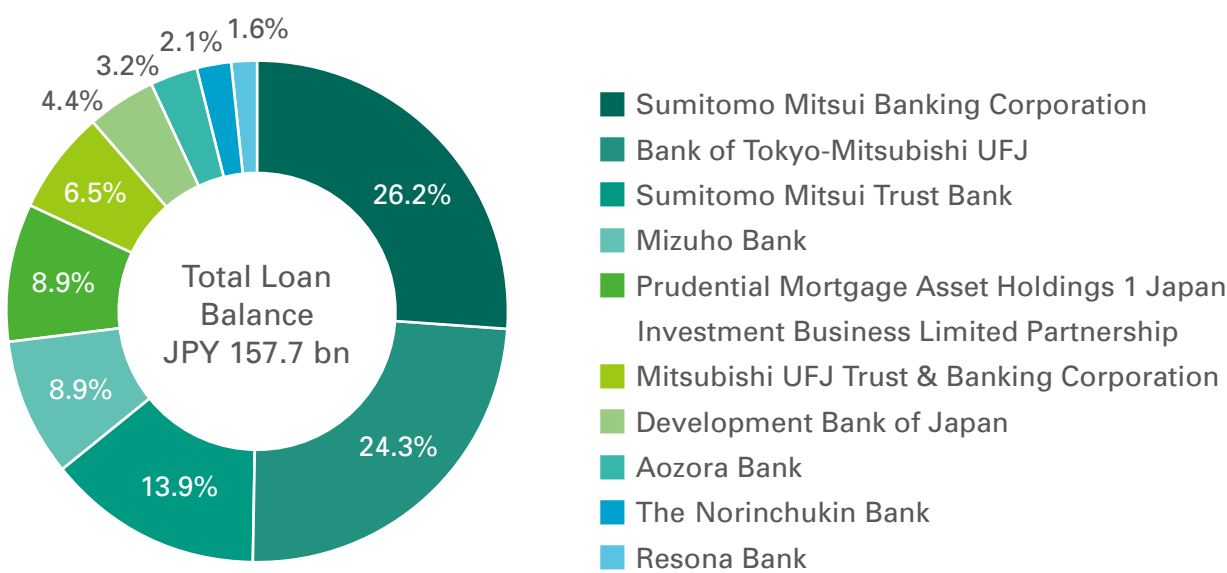


Debt Maturity Schedule\*



\*As of May 31, 2014, calculation based on remaining loan balances.

Our Lenders\*



Corporate Governance Investor-Aligned Fee Structure

Fee Type		Calculation	Payment Frequency
Asset Management Fee	1: NOI-based	NOI × 7.5%	Paid each fiscal period
	2: Net Income-based	Net income* × 6.0% <small>*Before deduction of net income based asset management fee</small>	
Acquisition Fee		1.00% of acquisition price (0.50% for related-party transactions)	Paid each transaction
Disposition Fee		0.50% of disposition price (0.25% for related-party transactions)	

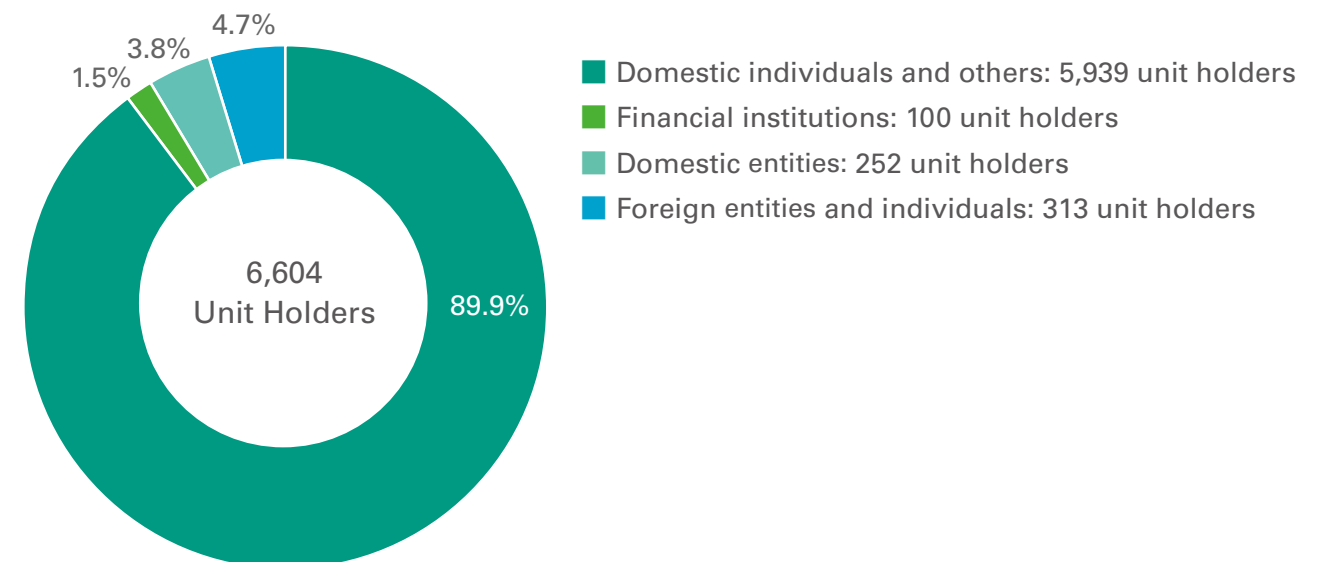
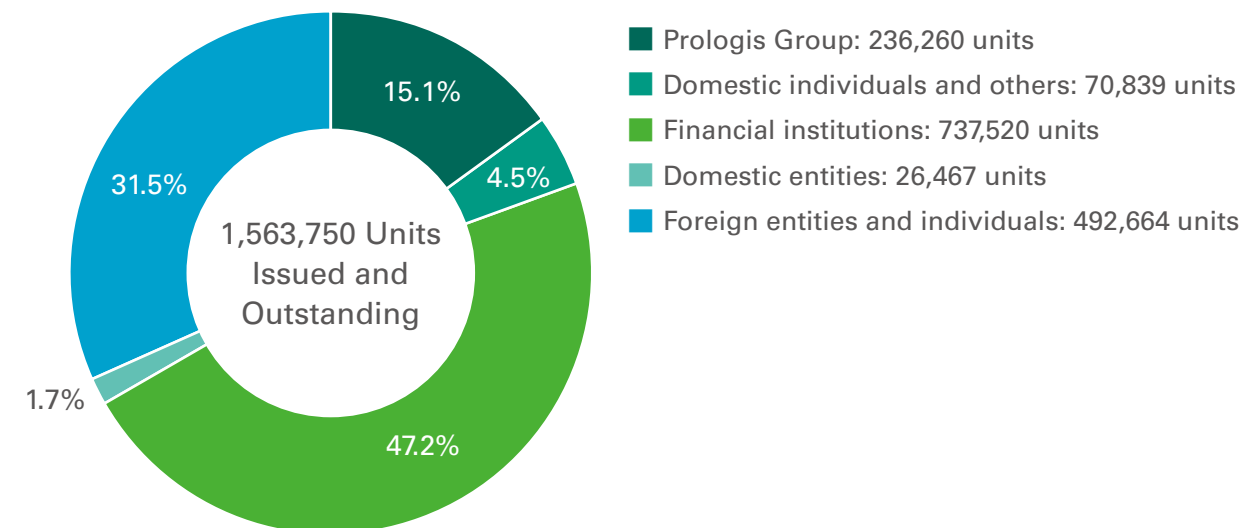
100% performance-linked asset management fee structure



## Major Unit Holders

	Name	Units Owned	% of Units Issued
1	Japan Trustee Services Bank, Ltd. (Trust Acct.)	241,406	15.43%
2	Prologis Property Japan SPC	234,260	14.98%
3	Trust and Custody Services Bank, Ltd. (Securities Investment Trust Acct.)	151,125	9.66%
4	The Master Trust Bank of Japan, Ltd. (Trust Acct.)	124,991	7.99%
5	The Nomura Trust and Banking Company, Ltd. (Trust Acct.)	77,696	4.96%
6	NOMURA BANK (LUXEMBURG) S. A.	24,875	1.59%
7	THE BANK OF NEW YORK MELLON SA/NV 10	21,867	1.39%
8	STATE STREET BANK WEST CLIENT-TREATY	18,663	1.19%
9	STATE STREET BANK-WEST PENSION FUND CLIENTS-EXEMPT	18,353	1.17%
10	STATE STREET BANK AND TRUST COMPANY 505225	16,685	1.06%
	<b>Total</b>	<b>929,921</b>	<b>59.46%</b>

## Unit Holder Composition





## Environmental Stewardship

### Solar panels installed on the rooftops of 13 NPR Properties

Prologis is dedicated to leading the industry in sustainable development, renewable energy and energy efficiency. For example, solar panel systems are currently being installed on the rooftops of nine assets of the NPR portfolio, and we expect Prologis to install solar panels on four additional assets in the new term. Upon completion, total renewable energy output will be approximately 15 megawatts, equivalent to the annual electricity consumption of 4,500 Japanese households.

Prologis is focused on maximizing the energy efficiency of our properties and is committed to minimizing environmental impact through various sustainable features and initiatives such as energy conservation plans, and substantial green plans. Prologis aims to develop sustainable buildings in the long term and conduct regular maintenance in order to deliver CASBEE certified facilities.



Prologis Park Ichikawa 1



Prologis Park Osaka 4



Prologis Park Kawajima



Prologis Park Kasugai



## Social Responsibility

### Enhancing the local community

#### Partnership with local communities' educational programs

At Prologis, social responsibility means a commitment to our colleagues, local communities and suppliers. Prologis supports hundreds of community activities and social causes, building relationships in the cities we operate. In Japan, for example, since 2011 we have hosted field trips for elementary school students to our high-quality facilities, providing young people with the opportunity to learn about the logistics industry.



#### Active participation in local volunteer activities

Prologis employees actively volunteer in their communities. In Kitamoto City, where NPR has a pipeline property, all Prologis Japan employees, in collaboration with local nonprofit organizations, have been participating in a program to enhance the environment and community.



## Balance Sheets

	Thousands of yen	
	As of May 31, 2014	As of November 30, 2013
<b>ASSETS</b>		
Current assets:		
Cash and deposits (Notes 4 and 5)	¥ 10,675,183	¥ 11,342,639
Cash and deposits in trust (Notes 3, 4 and 5)	4,125,965	2,470,176
Operating accounts receivable	122,684	70,365
Prepaid expenses	307,133	273,385
Deferred tax assets (Note 12)	18	17
Consumption taxes receivable	900,387	3,090,720
Other current assets	164	2,042
Total current assets	16,131,536	17,249,346
Property and equipment (Note 7):		
Buildings	7,535,483	7,535,483
Structures	249,739	249,739
Tools, furniture and fixtures	5,434	5,434
Land	3,834,204	3,834,204
Buildings in trust (Note 3)	197,804,685	169,453,497
Structures in trust (Note 3)	3,576,930	2,944,035
Tools, furniture and fixtures in trust (Note 3)	388,132	319,925
Other tangible assets in trust	35	35
Land in trust (Note 3)	149,135,600	123,657,601
Less: accumulated depreciation	(5,651,276)	(3,032,020)
Total property and equipment	356,878,970	304,967,936
Intangible assets:		
Other intangible assets in trust (Note 3)	3,013	870
Total intangible assets	3,013	870
Investments and other assets:		
Long-term prepaid expenses	1,097,200	1,196,036
Security deposit	10,000	10,000
Organization expenses	55,657	63,802
Other (Note 3)	400	-
Total investments and other assets	1,163,258	1,269,839
<b>Total Assets</b>	¥ 374,176,778	¥ 323,487,992

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

## Balance Sheets, continued

	Thousands of yen	
	As of May 31, 2014	As of November 30, 2013
<b>LIABILITIES</b>		
Current liabilities:		
Operating accounts payable	¥ 710,561	¥ 214,221
Short-term loans payable (Notes 5 and 11)	1,450,000	3,400,000
Accounts payable (Note 5)	21,088	20,279
Accrued expenses	1,217,329	1,033,617
Income taxes payable	749	797
Advances received	2,106,431	1,774,004
Other current liabilities	743,165	1,019,994
Total current liabilities	6,249,325	7,462,913
Non-current liabilities:		
Long-term loans payable (Notes 5, 6 and 11)	142,200,000	135,800,000
Long-term loans payable in trust (Notes 3,5 and 11)	14,465,972	-
Tenant leasehold and security deposits (Note 5)	247,191	247,191
Tenant leasehold and security deposits in trust (Note 5)	8,552,196	7,390,184
Other non-current liabilities	2,297	3,752
Total non-current liabilities	165,467,658	143,441,128
<b>Total Liabilities</b>	171,716,984	150,904,042
<b>NET ASSETS</b> (Note 10)		
Unit holders' equity		
Unit holders' capital	197,274,196	167,941,285
Units authorized:		
10,000,000 units as of May 31, 2014 and 2,000,000 units as of November 30, 2013		
Units issued and outstanding:		
1,563,750 units as of May 31, 2014 and 278,950 units as of November 30, 2013		
Surplus		
Retained earnings	5,185,598	4,642,664
Total unit holders' equity	202,459,794	172,583,950
<b>Total Net Assets</b>	202,459,794	172,583,950
<b>Total Liabilities and Net Assets</b>	¥ 374,176,778	¥ 323,487,992

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



## Statements of Income

	Thousands of yen	
	For the period ended May 31, 2014	For the period ended November 30, 2013
<b>Operating Revenues</b> (Note 8):		
Operating rental revenues	¥ 11,774,310	¥ 9,333,616
Other rental revenues	919,123	779,653
Total operating revenues	12,693,433	10,113,269
<b>Operating Expenses</b> (Notes 7 and 8):		
Expenses related to property rental business	5,188,020	3,464,898
Asset management fee	1,090,418	954,234
Asset custody fee	32,475	26,352
Directors' compensation	4,800	4,600
Audit fee	15,000	13,000
Other operating expenses	40,107	27,446
Total operating expenses	6,370,821	4,490,531
Operating income	6,322,611	5,622,737
<b>Non-operating Income:</b>		
Interest income	1,244	787
Gain on real estate tax settlement	104	2,473
Interest on refund of consumption taxes	1,126	5,847
Others	0	27
Total non-operating income	2,476	9,135
<b>Non-operating Expenses:</b>		
Interest expense	865,391	630,450
Amortization of organization expenses	8,145	8,145
Borrowing related expenses	166,929	154,712
Investment unit issuance expenses	47,979	93,263
Offering costs associated with the issuance of investment units	50,119	101,737
Others	22	26
Total non-operating expenses	1,138,588	988,335
Ordinary income	5,186,499	4,643,537
Income before income taxes	5,186,499	4,643,537
Incomes taxes – current (Note 12)	1,002	957
Incomes taxes – deferred (Note 12)	(1)	3
Total income taxes	1,000	960
Net income	5,185,498	4,642,577
Retained earnings brought forward	99	87
Retained earnings at end of period	¥ 5,185,598	¥ 4,642,664

	Yen	
	For the period ended May 31, 2014	For the period ended November 30, 2013
Net income per unit (Note 13)	¥ 3,320	¥ 3,386

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

## Statements of Changes in Net Assets

For the periods ended May 31, 2014 and November 30, 2013

	Number of units	Thousands of yen		
		Unit holders' capital	Retained earnings	Total net assets
Balance as of May 31, 2013 (Note 10)	182,750	¥ 97,082,555	¥ 1,333,248	¥ 98,415,803
Issuance of new units on June 13, 2013	96,200	71,117,870		71,117,870
Distributions in excess of retained earnings	-	(259,139)		(259,139)
Distributions of retained earnings	-		(1,333,161)	(1,333,161)
Net income	-		4,642,577	4,642,577
Balance as of November 30, 2013 (Note 10)	278,950	¥ 167,941,285	¥ 4,642,664	¥ 172,583,950
Issuance of new units on December 2, 2013 and December 25, 2013	33,800	29,937,674		29,937,674
Investment unit split on March 1, 2014	1,251,000			
Distributions in excess of retained earnings	-	(604,763)		(604,763)
Distributions of retained earnings	-		(4,642,564)	(4,642,564)
Net income	-		5,185,498	5,185,498
Balance as of May 31, 2014 (Note 10)	1,563,750	¥ 197,274,196	¥ 5,185,598	¥ 202,459,794

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

## Statements of Cash Flows

	Thousands of yen	
	For the period ended May 31, 2014	For the period ended November 30, 2013
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 5,186,499	¥ 4,643,537
Depreciation (Note 7)	2,619,439	2,122,782
Amortization of organization expenses	8,145	8,145
Investment unit issuance expenses	47,979	93,263
Interest income	(1,244)	(787)
Interest expense	865,391	630,450
Increase in operating accounts receivable	(52,318)	(15,623)
Decrease in consumption taxes receivables	2,190,332	2,424,137
Increase in prepaid expenses	(33,747)	(72,382)
Decrease (increase) in long-term prepaid expenses	98,835	(508,746)
Increase in operating accounts payable	495,761	100,611
Increase in accounts payable	4,622	3,991
Increase in accrued expenses	181,918	673,402
Increase in advances received	332,426	773,542
Others, net	(56,959)	248,316
Subtotal	11,887,082	11,124,642
Interest received	1,244	787
Interest paid	(891,024)	(622,455)
Income taxes paid	(1,049)	(1,160)
Net cash provided by operating activities	10,996,252	10,501,813
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	-	(171,080)
Purchases of property and equipment in trust	(54,966,668)	(133,988,996)
Purchases of intangible assets in trust	(2,326)	(900)
Payments of security deposit in trust	(400)	-
Proceeds from tenant leasehold and security deposits	-	8,400
Proceeds of tenant leasehold and security deposits in trust	2,000,963	3,785,276
Repayments from tenant leasehold and security deposits in trust	(626,841)	(114,266)
Net cash used in investing activities	(53,595,272)	(130,481,568)
<b>Cash Flows from Financing Activities:</b>		
Increase in short-term loans payable	1,450,000	3,400,000
Decrease in short-term loans payable	(3,400,000)	(5,000,000)
Proceeds from long-term loans payable	6,400,000	59,900,000
Proceeds from long-term loans payable in trust	14,493,399	-
Proceeds from issuance of new investment units	29,889,694	71,024,606
Payment of distributions of retained earnings	(4,641,060)	(1,328,634)
Payment of distributions in excess of retained earnings	(604,680)	(258,259)
Net cash provided by financing activities	43,587,352	127,737,712
Net increase in cash and cash equivalents	988,332	7,757,957
Cash and cash equivalents at the beginning of period	13,812,815	6,054,858
Cash and cash equivalents at the end of period (Note 4)	¥ 14,801,148	¥ 13,812,815

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

## Notes to Financial Statements

### For the periods ended May 31, 2014 and November 30, 2013

#### 1. Organization and Basis of Presentation

##### a) Organization

Nippon Prologis REIT, Inc. ("NPR") was established on November 7, 2012 under the "Act on Investment Trust and Investment Corporation" (hereinafter the "Investment Trust Law"), and was listed on the REIT Securities Market of the Tokyo Stock Exchange on February 14, 2013, with the Prologis Group (\*), the leading global owner, operator and developer of logistics facilities, acting as a sponsor. NPR primarily focuses on investing in logistics facilities, especially in high quality Class-A logistics facilities (logistics properties that meet the demands of tenant logistics companies and their customer facility users with respect to operational efficiency, and fulfill certain criteria with respect to size, location, state-of-the-art equipment, convenience and safety), and attempts to maximize its unit holder value through achieving stability in rental revenues, steady growth in the size of its portfolio and optimization of the value of its portfolio. NPR is externally managed by a licensed asset management company, Prologis REIT Management K.K. (hereinafter the "Asset Manager").

On February 13, 2013, NPR issued 182,350 new units through a public offering and raised approximately 96,882 million yen. Those units are listed on the J-REIT section of the Tokyo Stock Exchange.

NPR acquired 12 properties (aggregate acquisition price: 173,020 million yen) on February 15, 2013, following its listing, and acquired 8 properties (aggregate acquisition price: 132,430 million yen) during the subsequent fiscal period. In addition, NPR acquired 4 properties (aggregate acquisition price: 54,070 million yen) on December 3, 2013 during the reporting fiscal period. As of May 31, 2014, NPR had ownership of (or held in the form of beneficiary rights in trust) 24 properties (aggregate acquisition price: 359,520 million yen), which were all developed by the Prologis Group. The portfolio's total leasable area was 1,725,633.37 square-meters and the occupancy rate remained at a high level of 97.9% as of the end of the reporting fiscal period.

(\*) The Prologis Group is defined as a group of Prologis, Inc., the world headquarters, and its group affiliates, which include ProLogis K.K., a Japanese subsidiary, and various special purpose vehicles of joint ventures where the ownership of the Prologis Group may be less than majority. The global parent company Prologis, Inc. is a real estate investment trust headquartered in the United States of America and listed on the New York Stock Exchange.

##### b) Basis of Presentation

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

The accompanying financial statements have been reformatted and translated into English from the financial statements of NPR 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 Act. In preparing these financial statements, certain reclassifications and modifications have been made to the financial statements issued domestically in order to



present them in a format which is more familiar to readers outside Japan.

As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one thousand yen have been omitted. As a result, the totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

The fiscal period of NPR represents two six-month accounting periods: each period is from June 1 to November 30 or, from December 1 to May 31 of the following year.

## 2. Summary of Significant Accounting Policies

### a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and cash in trust, floating deposits, deposits in trust and short-term investments that are very liquid and realizable with a maturity of three months or less when purchased, and that are subject to insignificant risks of changes in value.

### b) Property and Equipment

Property and equipment are stated at cost, which includes the original purchase price and related acquisition costs and expenses. Depreciation of property and equipment, including property and equipment in trust, is calculated by the straight-line method over the estimated useful lives as follows.

Buildings	3-60 years
Structures	2-60 years
Tools, furniture and fixtures	2-18 years

### c) Taxes on Property and Equipment

With respect to property taxes, city planning taxes and depreciable asset taxes, of the tax amount assessed and determined, the amount corresponding to the relevant fiscal period is accounted for as rental expenses.

Of the amounts paid for the acquisitions of real estate properties or beneficiary rights in trust of real estate, the amount equivalent to property taxes is capitalized as part of the acquisition cost of the relevant property instead of being charged as expenses. Capitalized property taxes amounted to 28,704 thousand yen and 346,688 thousand yen for the periods ended May 31, 2014 and November 30, 2013, respectively.

### d) Investment Unit Issuance Expenses

The full amount of investment unit issuance expenses is recorded as expenses at the time of expenditure.

### e) Hedge Accounting

NPR enters into derivative transactions in order to hedge against risks defined in its Articles of Incorporation and in compliance with their general risk management policy, NPR uses interest rate swaps for the purpose of hedging its risk exposure associated with interests on variable rate loans payable. Where deferral accounting is generally adopted for hedge transactions, NPR applies the special accounting treatment to interest rate swaps which qualify for hedge accounting and meet the specific matching criteria. Under the special accounting treatment, interest rate swaps are not

measured at fair value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income, respectively.

Assessment of the hedge effectiveness has been omitted since all interest rate swaps meet the specific matching criteria under the special accounting treatment.

### f) Organization Expenses

All organization expenses are amortized over five years using the straight-line method.

### g) Beneficiary Rights in Trust

As to beneficiary rights in trust, all accounts of assets and liabilities for assets in trust as well as the related income generated and expenses incurred are recorded in the relevant balance sheet and statement of income accounts.

### h) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Net payable to, or receivable from tax authorities is recognized as consumption taxes payable or receivable on the balance sheet, and net movement is treated as operating cash flows in the statement of cash flows.

## 3. Assets Pledged as Collateral and Liabilities Secured by Pledged Assets

The assets pledged as collateral amounts are as follows:

	Thousands of yen	
	As of May 31, 2014	As of November 30, 2013
Cash and deposits in trust	¥ 1,381,004	¥ -
Buildings in trust	11,602,705	-
Structures in trust	183,677	-
Tools, furniture and fixtures in trust	5,424	-
Land in trust	15,655,791	-
Other intangible assets in trust	1,144	-
Other	400	-
Total	¥ 28,830,148	¥ -

The liabilities secured by pledged assets are as follows:

	Thousands of yen	
	As of May 31, 2014	As of November 30, 2013
Long-term loans payable in trust	¥ 14,050,000	¥ -
Total	¥ 14,050,000	¥ -

(Note) Long-term loans payable in trust are represented by borrowings based on the loan agreements executed as at the acquisition of Prologis Park Tokyo-Shinkiba and Prologis Park Yokohama-Tsurumi (the "Properties with Borrowings Held in Trust"). As such long-term loans payable in trust are posted as present value calculated based on the general borrowing terms available as of September 30, 2013, the record date for acquisition of the Properties with Borrowings Held in Trust,

and such present value is different from the borrowing amounts stated in the loan agreements, the value calculated based on the amortized cost method (straight-line method) is recorded in the balance sheet.

#### 4. Cash and Cash Equivalents

The relationship between cash and cash equivalents in statements of cash flows and accounts and amounts in the accompanying balance sheets is as follows:

	Thousands of yen	
	As of May 31, 2014	As of November 30, 2013
Cash and deposits	¥ 10,675,183	¥ 11,342,639
Cash and deposits in trust	4,125,965	2,470,176
Cash and cash equivalents	¥ 14,801,148	¥ 13,812,815

#### 5. Financial Instruments

##### a) Detailed Information on Financial Instruments

###### (i) Policy for Financial Instruments

NPR procures funds for acquisition of assets through issuance of new investment units, bank loans and issuance of investment corporation bonds.

NPR generally invests surplus funds in bank deposits, considering the safety and liquidity of the investment and also reflecting the market environment and cash positions of NPR itself.

NPR enters into derivative transactions solely for the purposes of reducing risks of rising interest rates related to financings and other types of risks. NPR does not use derivative transactions for speculative purposes.

###### (ii) Financial Instruments, their Risks and Risk Management System

Bank deposits are used for investment of surplus funds. These deposits are exposed to credit risks, such as bankruptcy of depository financial institutions, but such credit risks are limited and carefully controlled by using only short-term deposits in financial institutions with high credit ratings, fully considering the market environment and NPR's cash flow status.

Bank loans are mainly made to procure funds for acquisition of properties. Although NPR is exposed to liquidity risks upon repayment and redemption of loans, by diversifying the maturities and lending institutions, setting up commitment line agreements, securing liquidity of cash in hand and managing such liquidity risks by preparing and monitoring cash flows projection, such risks are maintained under control.

In addition, some loans bear floating interest rates and are exposed to potential risks of rising interest rates. NPR attempts to mitigate such risks on its operations by maintaining a conservative loan to value ratio and increasing the ratio of long-term fixed interest rate loans.

###### (iii) 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.

##### b) Estimated Fair Value of Financial Instruments

Book value, fair value and differences between the values as of May 31, 2014 and November 30, 2013 are as follows. Financial instruments for which the fair value is difficult to estimate are excluded from the following table (see Note 2 below).

	Thousands of yen		
	As of May 31, 2014		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 10,675,183	¥ 10,675,183	¥ -
(2) Cash and deposits in trust	4,125,965	4,125,965	-
Total assets	¥ 14,801,148	¥ 14,801,148	¥ -
(3) Short-term loans payable	1,450,000	1,450,000	-
(4) Long-term loans payable	142,200,000	145,286,000	3,086,000
(5) Long-term loans payable in trust	14,465,972	14,831,852	365,880
Total liabilities	¥ 158,115,972	¥ 161,567,853	¥ 3,451,880
(6) Derivative transactions	¥ -	¥ -	¥ -

	Thousands of yen		
	As of November 30, 2013		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 11,342,639	¥ 11,342,639	¥ -
(2) Cash and deposits in trust	2,470,176	2,470,176	-
Total assets	¥ 13,812,815	¥ 13,812,815	¥ -
(3) Short-term loans payable	3,400,000	3,400,000	-
(4) Long-term loans payable	135,800,000	138,983,691	3,183,691
Total liabilities	¥ 139,200,000	¥ 142,383,691	¥ 3,183,691
(6) Derivative transactions	¥ -	¥ (3,108)	¥ (3,108)

##### (Note 1) Methods to estimate fair values of financial instruments

###### (1) Cash and deposits and (2) Cash and deposits in trust

Due to the short maturities, the book value of these instruments is deemed a reasonable approximation of the fair value, and therefore, the book value is used as the fair value.

###### (3) Short-term loans payable

Due to the short maturities, the book value of these instruments is deemed a reasonable approximation of the fair value, and therefore, the book value is used as the fair value.

###### (4) Long-term loans payable

Long-term loans payable qualify for hedge accounting and meet the special criteria, and therefore, the fair value of the hedged long-term loans is determined based on the present value of contractual cash flows in conjunction with the interest rate swaps, discounted at current market interest rates which would be applicable to new loans payable under the same conditions and terms.

###### (5) Long-term loans payable in trust

The fair value of long-term loans payable in trust is determined based on the present value of



contractual cash flows which would be applicable to new loans payable in trust under the same conditions and terms.

(6) Derivative transactions

Please refer to Note 6, “Derivative Transactions”.

(Note 2) Financial instruments for which fair value is extremely difficult to estimate

As tenant leasehold and security deposits and tenant leasehold and security deposits in trust have no observable and available market price, and it is impracticable to reasonably estimate their future cash flows, their fair value is not disclosed.

	Thousands of yen	
	As of May 31, 2014	As of November 30, 2013
Tenant leasehold and security deposits	¥ 247,191	¥ 247,191
Tenant leasehold and security deposits in trust	8,552,196	7,390,184

(Note 3) Redemption schedule for monetary claims after May 31, 2014

	Thousands of yen					
	As of May 31, 2014					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Cash and deposits	¥10,675,183	¥-	¥-	¥-	¥-	¥-
Cash and deposits in trust	4,125,965	-	-	-	-	-
Total	¥14,801,148	¥-	¥-	¥-	¥-	¥-

Redemption schedule for monetary claims after November 30, 2013

	Thousands of yen					
	As of November 30, 2013					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Cash and deposits	¥11,342,639	¥-	¥-	¥-	¥-	¥-
Cash and deposits in trust	2,470,176	-	-	-	-	-
Total	¥13,812,815	¥-	¥-	¥-	¥-	¥-

(Note 4) Repayment schedule for long-term loan payable and other interest-bearing debt after May 31, 2014

	Thousands of yen					
	As of May 31, 2014					
	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
Long-term loans payable	¥- ¥23,300,000		¥- ¥25,300,000	¥6,400,000	¥87,200,000	
Long-term loans payable in trust	-	-	157,000	314,000	314,000	13,265,000
Total	¥- ¥23,300,000		¥157,000	¥25,614,000	¥6,714,000	¥100,465,000

Note: Redemption schedule of long-term loans payable in trust is represented by amount repaid based on the loan agreements executed as at the acquisition of the Properties with Borrowings Held in Trust. As such long-term loans payable are posted as present value calculated based on the general borrowing terms available as of September 30, 2013, the record date for acquisition of the Properties with Borrowings Held in Trust, and such present value is different from the borrowing amounts stated in the loan agreements, the value calculated based on the amortized cost method (straight-line method) is recorded in the balance sheet.

Repayment schedule for long-term loan payable after November 30, 2013

	Thousands of yen					
	As of November 30, 2013					
	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
Long-term loans payable	¥-	¥- ¥23,300,000	¥2,000,000	¥23,300,000	¥87,200,000	
Total	¥-	¥- ¥23,300,000	¥2,000,000	¥23,300,000	¥87,200,000	

6. Derivative Transactions

For the periods ended May 31, 2014 and November 30, 2013, NPR only utilized interest rate swaps which qualified for hedge accounting and met the special matching criteria, as described below.

Hedge accounting method	Type of derivative transaction	Primary hedged item	Thousands of yen			
			As of May 31, 2014			
			Contract amount			
			Total	Due after one year	Fair value	Fair value measurement
Special treatment for interest rate swaps	Interest rate swaps Receive floating / Pay fix	Long-term loans payable	¥142,200,000	¥142,200,000	(Note)	(Note)

(Note) Interest rate swaps under the special accounting treatment are accounted for as the integral part of long-term loans designated as hedged items. Therefore, their fair value is included in long-term loans disclosed in the aforementioned Note 5, “Financial Instruments, b) Estimated Fair Value of Financial Instruments, (4) Long-term loans payable”.

Hedge accounting method	Type of derivative transaction	Primary hedged item	Thousands of yen			
			As of November 30, 2013			
			Contract amount		Fair value	Fair value measurement
			Total	Due after one year		
Special treatment for interest rate swaps	Interest rate swaps Receive floating / Pay fix	Long-term loans payable	¥142,200,000 (Note 1)	¥142,200,000 (Note 1)	(3,108) (Note 2)	- (Note 2)

(Note 1) This amount includes the interest swap agreement executed on November 29, 2013 with a borrowing date of December 3, 2013.

(Note 2) Interest rate swaps under the special accounting treatment are accounted for as the integral part of long-term loans designated as hedged items. Therefore, their fair value is included in long-term loans disclosed in the aforementioned Note 5, "Financial Instruments, b) Estimated Fair Value of Financial Instruments, (4) Long-term loans payable".

## 7. Investment and Rental Properties

NPR owns logistics facilities for leasing for the purpose of earning rental income. The book value, changes during the reporting fiscal period and fair value of the properties are as follows:

	Thousands of yen	
	For the period ended May 31, 2014	For the period ended November 30, 2013
Book value		
Balance at the beginning of the period	¥ 304,967,936	¥ 173,271,505
Changes during the period(Note 2)	51,914,047	131,696,431
Balance at the end of the period	¥ 356,881,984	¥ 304,967,936
Fair value at the end of the period	¥ 374,260,000	¥ 315,110,000

(Note 1) Book value is calculated by deducting accumulated depreciation from acquisition cost.

(Note 2) The increase for the fiscal period ended May 31, 2014, was a result of acquiring 4 properties during the period (Prologis Park Tokyo-Shinkiba, Prologis Park Yokohama-Tsurumi, Prologis Park Osaka 4 and Prologis Park Iwanuma 1) for a total of 54,439,489 thousand yen, offset slightly by depreciation of 2,619,439 thousand yen.

In addition, the increase for the fiscal period ended November 30, 2013, was a result of acquiring 8 properties during the period (Prologis Park Tokyo-Ohta, Prologis Park Zama 2, Prologis Park Funabashi 5, Prologis Park Narita 1-A&B, Prologis Park Narita 1-C, Prologis Park Amagasaki 1, Prologis Park Amagasaki 2 and Prologis Park Narashino 4) for a total of 133,628,885 thousand yen, offset slightly by depreciation of 2,122,752 thousand yen.

(Note 3) The fair value as of the end of the reporting period is determined based on appraised value provided by independent real estate appraisers.

## 8. Property-related Revenues and Expenses

The following table summarizes the revenues and expenses generated from property leasing activities for the periods ended May 31, 2014 and November 30, 2013.

	Thousands of yen	
	For the period ended May 31, 2014	For the period ended November 30, 2013
(1) Property-related revenues		
Rental revenues		
Rental revenues	¥ 11,025,492	¥ 8,748,359
Common area charges	748,817	585,257
Total	¥ 11,774,310	¥ 9,333,616
Other rental revenues		
Received utilities cost	¥ 750,507	¥ 614,554
Others	168,616	165,098
Total	¥ 919,123	¥ 779,653
Total property-related revenues	¥ 12,693,433	¥ 10,113,269
(2) Property-related expenses		
Rental expenses		
Subcontract expenses	¥ 701,108	¥ 516,001
Utilities cost	821,196	675,777
Taxes and public dues	920,957	254
Non-life insurance premium	22,716	19,303
Repair and maintenance	88,053	119,726
Depreciation	2,619,439	2,122,782
Custodian fee	11,978	8,917
Other expenses	2,569	2,134
Total rental expenses	¥ 5,188,020	¥ 3,464,898
(3) Operating income from property leasing ( (1)-(2) )	¥ 7,505,413	¥ 6,648,370

## 9. Leases

The future minimum rental revenues from tenants subsequent to each fiscal period end under non-cancelable operating leases of properties are as follows:

	Thousands of yen	
	As of May 31, 2014	As of November 30, 2013
Due within one year	¥ 21,449,405	¥ 14,987,059
Due after one year	¥ 56,241,198	¥ 51,157,613
Total	¥ 77,690,604	¥ 66,144,672



**10. Net Assets****a) Stated Capital**

NPR issues only non-par value units in accordance with the Act on Investment Trusts and Investment Corporations of Japan, and all issue amounts of new units are designated as stated capital. NPR maintains at least 50,000 thousand yen as the minimum net assets required by Article 67, Paragraph 4 of the Act on Investment Trusts and Investment Corporations.

**b) Unit holders' capital**

Unit holders' capital as of May 31, 2014 and November 30, 2013 consists of the following items:

	Thousands of yen	
	As of May 31, 2014	As of November 30, 2013
Unit holders' capital, gross	¥ 198,138,099	¥ 168,200,425
Deduction from unit holders' capital; Accumulated distribution in excess of retained earnings	(863,903)	(259,139)
Unit holders' capital	¥ 197,274,196	¥ 167,941,285

**c) Distributions**

With regards to the distributions for this fiscal period, in an effort to include NPR's profit distributions as tax deductible expenses in accordance with Section 1 of Article 67-15 of the Act on Special Taxation Measures Law, the distribution amount represents the entire unappropriated retained earnings for the reporting period, excluding fractional amounts less than one yen.

	Thousands of yen			
	For the period ended May 31, 2014		For the period ended November 30, 2013	
	Total	Per unit	Total	Per unit
I Unappropriated retained earnings	¥ 5,185,598,287		¥ 4,642,664,677	
II Distributions in excess of retained earnings				
Deduction from unit holders' capital	745,908,750		604,763,600	
III Distributions				
Distributions of retained earnings	5,185,395,000	¥3,316	4,642,564,850	¥16,643
Distributions in excess of retained earnings	745,908,750	477	604,763,600	2,168
Total distributions	5,931,303,750	¥3,793	5,247,328,450	¥18,811
IV Retained earnings carried forward	¥ 203,287		¥ 99,827	

Pursuant to the "Policy on the Distribution of Funds" as defined in Article 39, Paragraph 1 of Article 2 of incorporation of NPR, the amount of distributions shall be the amount which does not exceed the amount of profits but exceeds 90% of the distributable profit as defined in Article 67-15 of the Special

**Taxation Measures Act.**

Based on the policy, NPR declared distribution amounts of 5,185,395,000 yen and 4,642,564,850 yen for the periods ended May 31, 2014 and November 30, 2013, respectively. These amounts were equivalent to the maximum integral multiples of number of investment units issued and outstanding as of the end of each fiscal period.

Based on the distribution policy as defined in Article 39, Paragraph 2 of incorporation, NPR shall make Surplus Cash Distributions (SCD), defined as distributions in excess of retained earnings, as a return of unit holders' capital, each fiscal period on a continuous basis.

Accordingly, NPR declared SCD of 745,908,750 yen and 604,763,600 yen, as a return of unit holders' capital, which was the amount equivalent to approximately 28.5% of depreciation expense of 2,619,439,711 yen and 2,122,782,312 yen for the periods ended May 31, 2014 and November 30, 2013, respectively.

**11. Short-term Loans Payable, Long-term Loans Payable and Long-term Loans Payable in Trust**

Short-term loan payable, long-term loans payable and long-term loans payable in trust consisted of bank borrowings under loan agreements. The following table summarizes the short-term loans payable, long-term loans payable and long-term loans payable in trust as of May 31, 2014 and November 30, 2013.

	Thousands of yen	
	As of May 31, 2014	As of November 30, 2013
0.47091% unsecured short-term loans	¥ -	¥ 3,400,000
0.46408% unsecured short-term loans	1,450,000	-
Total short-term loans payable	¥ 1,450,000	¥ 3,400,000
0.55634% unsecured long-term loans due 2016 <sup>(*)</sup>	¥ 23,300,000	¥ 23,300,000
0.73760% unsecured long-term loans due 2018 <sup>(*)</sup>	23,300,000	23,300,000
1.01950% unsecured long-term loans due 2020 <sup>(*)</sup>	23,300,000	23,300,000
1.32075% unsecured long-term loans due 2022 <sup>(*)</sup>	6,000,000	6,000,000
0.84350% unsecured long-term loans due 2017 <sup>(*)</sup>	2,000,000	2,000,000
1.18135% unsecured long-term loans due 2019 <sup>(*)</sup>	24,000,000	24,000,000
1.83625% unsecured long-term loans due 2023 <sup>(*)</sup>	13,900,000	13,900,000
1.34550% unsecured long-term loans due 2021 <sup>(*)</sup>	20,000,000	20,000,000
0.81010% unsecured long-term loans due 2018 <sup>(*)</sup>	6,400,000	-
Total long-term loans payable	¥ 142,200,000	¥ 135,800,000
2.00000% secured long-term loans due 2021	¥ 7,105,407	-
2.00000% secured long-term loans due 2021	7,360,564	-
Total long-term loans payable in trust	¥ 14,465,972	¥ -

The stated interest rate is the weighted average interest rate during the period ended May 31, 2014. For certain loans (\*) for which NPR uses interest rate swaps to hedge their interest rate risk exposure, the effective interest rate which includes the effect of the interest rate swap is stated.

The redemption schedules for long-term loans subsequent to May 31, 2014 and November 30, 2013 are

disclosed in Note 5, “Financial Instruments.”

## 12. Income Taxes

NPR is subject to Japanese corporate income taxes on its taxable income. The tax effect of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities as of May 31, 2014 and November 30, 2013 were as follows:

	Thousands of yen			
	As of May 31, 2014		As of November 30, 2013	
Enterprise tax payable	¥	18	¥	17
Total deferred tax assets		18		17
Net deferred tax assets	¥	18	¥	17

Reconciliation of major items that caused differences between the statutory tax rate and effective tax rate with respect to pre-tax income reflected in the accompanying statement of income for the periods ended May 31, 2014 and November 30, 2013 are as follows:

	For the period ended May 31, 2014	For the period ended November 30, 2013
Statutory tax rate	36.59%	36.59%
Adjustments:		
Deductible cash distributions	(36.58%)	(36.58%)
Other	0.01%	0.01%
Actual effective income tax rate	0.02%	0.02%

NPR has a policy of making cash distributions of earnings in excess of 90% of distributable income as defined in the Special Taxation Measures Act for the fiscal period to qualify for conditions, as set forth in the Special Taxation Measures Act, to achieve a deduction of cash distributions for income tax purposes. Based on this policy, NPR treated the cash distributions of earnings as a tax deductible distribution as defined in the Special Taxation Measures Act.

In line with the promulgation on March 31, 2014 of the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 10, 2014), the additional tax as Special Corporate Tax for Reconstruction will not be imposed effective from the fiscal period beginning on or after April 1, 2014. In this connection, for temporary differences reversing on or after June 1, 2014, statutory effective tax rate to calculate deferred tax assets or liabilities will be changed from 36.59% to 34.16%. There is no material impact from this change.

## 13. Per Unit Information

The following table summarizes per unit information for the periods ended May 31, 2014 and November 30, 2013.

	Yen	
	For the period ended May 31, 2014	For the period ended November 30, 2013
Net income per unit		
Basic net income per unit	¥ 3,320	¥ 3,386
Weighted average number of units outstanding	1,561,804	1,371,090

	Yen	
	As of May 31, 2014	As of November 30, 2013
Net assets per unit	¥ 129,470	¥ 123,738

(Note 1) Basic net income per unit is based on the weighted average number of units issued and outstanding during the period. Diluted earnings per unit and related information are not disclosed as no dilutive securities were outstanding.

(Note 2) NPR implemented a 5 for 1 split of the investment units with March 1, 2014 as an effective date. Net income per unit and net assets per unit were calculated based on an assumption that such split was implemented at the beginning of the second fiscal period ended in November 2013.



14. Transactions with Related Parties

a) Transactions and Account Balances with the Parent Company and Major Unit Holders

(For the period ended May 31, 2014)

None

(For the period ended November 30, 2013)

None

b) Transactions and Account Balances with Affiliates

(For the period ended May 31, 2014)

None

(For the period ended November 30, 2013)

None

c) Transactions and Account Balances with Companies under Common Control

(For the period ended May 31, 2014)

Classification	Name of the company	Address	Stated capital (Thousands of yen)	Type of business	Percentage of voting rights owned	Relation		Type of transaction	Transaction amount (Thousands of yen)	Account	Ending balance (Thousands of yen)
						Common board member	Business relationship				
Subsidiary of an affiliate	Tokyo Shinkiba Special Purpose Company	Chiyoda-ku, Tokyo	¥290,100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	¥13,600,000	-	-
Subsidiary of an affiliate	Yokohama Tsurumi Special Purpose Company	Chiyoda-ku, Tokyo	350,100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	13,800,000	-	-
Subsidiary of an affiliate	Osaka 4 Special Purpose Company	Chiyoda-ku, Tokyo	100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	21,000,000	-	-
Subsidiary of an affiliate	Iwanuma 1 Special Purpose Company	Chiyoda-ku, Tokyo	600	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	5,670,000	-	-
Subsidiary of an affiliate	Prologis REIT Management K.K.	Chiyoda-ku, Tokyo	100,000	Investment management business	-	Executive Director of NPR and President & CEO of the Asset Manager	Asset Manager	Payment of asset management fee	1,360,768	Accrued expenses	1,177,652

(Note 1) The transaction amounts do not include the consumption tax whereas the tax is included in the ending balance.

(Note 2) The terms and conditions of these transactions were executed based on market practices.

(For the period ended November 30, 2013)

Classification	Name of the company	Address	Stated capital (Thousands of yen)	Type of business	Percentage of voting rights owned	Relation		Type of transaction	Transaction amount (Thousands of yen)	Account	Ending balance (Thousands of yen)
						Common board member	Business relationship				
Subsidiary of an affiliate	Tokyo Ohta Special Purpose Company	Chiyoda-ku, Tokyo	¥784,600	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	¥29,500,000	-	-
Subsidiary of an affiliate	Zama 2 Special Purpose Company	Chiyoda-ku, Tokyo	40,100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	21,900,000	-	-
Subsidiary of an affiliate	Funabashi 5 Special Purpose Company	Chiyoda-ku, Tokyo	63,100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	9,500,000	-	-
Subsidiary of an affiliate	Funabashi Tokorozawa Special Purpose Company	Chiyoda-ku, Tokyo	1,000,000	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	1,500,000	-	-
Subsidiary of an affiliate	Narita 1-1 Special Purpose Company	Chiyoda-ku, Tokyo	75,100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	8,420,000	-	-
Subsidiary of an affiliate	Narita 1-2 Special Purpose Company	Chiyoda-ku, Tokyo	318,100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	4,810,000	-	-
Subsidiary of an affiliate	Amagasaki 1 Special Purpose Company	Chiyoda-ku, Tokyo	750,100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	17,600,000	-	-
Subsidiary of an affiliate	Amagasaki 2 Special Purpose Company	Chiyoda-ku, Tokyo	258,100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	19,200,000	-	-
Subsidiary of an affiliate	Narashino 4 Special Purpose Company	Chiyoda-ku, Tokyo	100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	20,000,000	-	-
Subsidiary of an affiliate	Prologis REIT Management K.K.	Chiyoda-ku, Tokyo	100,000	Investment management business	-	Executive Director of NPR and President & CEO of the Asset Manager	Asset Manager	Payment of asset management fee	1,616,384	Accrued expenses	1,001,945

(Note 1) The transaction amounts do not include the consumption tax whereas the tax is included in the ending balance.

(Note 2) The terms and conditions of these transactions were executed based on market practices.

d) Transactions and Account Balances with Board of Directors and Individual Unit Holders

(For the period ended May 31, 2014)

None

(For the period ended November 30, 2013)

None

## 15. Segment Information

### a) Overview of operating and reportable segments

Operating segments are a component of NPR for which separate financial information is available and whose operating results are regularly evaluated by the chief operating decision maker to make decisions about how resources are allocated and assess their performance. Consequently, each of NPR's 24 properties is considered an operating segment. However, when properties share similar economic characteristic and meet other specific conditions, they may be aggregated for purposes of reporting segment information. Therefore, NPR has two reportable segments ("global market" and "regional market") (\*) which are based on the investing region.

(\*) NPR mainly invests in real estate whose main usage is logistics facilities and makes investments by focusing on the area where the facility is located and their features. As for the investing regions, NPR seeks to build a portfolio which is not concentrated in a specific region and invests in areas of Japan vital to trade and logistics. By dividing Japan into two areas of "global market" and "regional market" and through investment into those two different markets, NPR aims to build a portfolio which would minimize fluctuations in cash flows due to regional economic shifts or localized impacts from natural disasters.

As for investment strategies in the "global market", as such areas are vital for international trade and logistics, NPR aims to invest in locations with the largest consuming areas which can also serve as important hubs within the domestic logistics network. The "global market" is defined as the Kanto area, which refers to Tokyo, Kanagawa, Chiba, Saitama, Ibaraki, Tochigi and Gunma prefectures, and the Kansai area, which refers to Osaka, Hyogo, Kyoto, Nara, Wakayama, Shiga and Mie prefectures, respectively.

As of May 31, 2014, NPR's properties classified into the global market were as follows:

Prologis Park Ichikawa 1, Prologis Park Zama 1, Prologis Park Kawajima, Prologis Park Osaka 2, Prologis Park Maishima 3, Prologis Park Maishima 4, Prologis Park Takatsuki, Prologis Park Tokyo-Ohta, Prologis Park Zama 2, Prologis Park Funabashi 5, Prologis Park Narita 1-A&B, Prologis Park Narita 1-C, Prologis Park Amagasaki 1, Prologis Park Amagasaki 2, Prologis Park Narashino 4, Prologis Park Tokyo-Shinkiba, Prologis Park Yokohama-Tsurumi and Prologis Park Osaka 4.

As for investment strategies in the "regional market", as such areas are critical to Japan's domestic trades, NPR aims to invest in locations with the second largest consuming areas in Japan to the "global market", which can play a crucial role in a widespread regional logistics network. The "regional market" is defined as the Chubu, Tohoku and Kyushu areas which refer to Aichi, Shizuoka, Niigata, Toyama, Ishikawa, Fukui, Yamanashi, Nagano and Gifu prefectures; Aomori, Iwate, Miyagi, Akita, Yamagata and Fukushima prefectures and Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki and Kagoshima prefectures, respectively.

As of May 31, 2014, NPR's properties classified into the regional market were as follows:

Prologis Park Kasugai, Prologis Park Kitanagoya, Prologis Park Tagajo, Prologis Park Tosu 2, Prologis Park Tosu 4 and Prologis Park Iwanuma 1.

In addition, NPR is able to invest in areas besides the global market and the regional market to the extent that such areas are adjacent to consuming or manufacturing areas, or such areas are suitable and appropriate for logistics centers.

### b) Basis of Measurement for the Amounts of Income, Assets and Other Items of each Reportable Segment

The accounting policies of each reportable segment are consistent with policies disclosed in Note 2, "Summary of Significant Accounting Policies." Reported segment income is measured on the basis of operating profit, excluding certain corporate expenses (see reconciling items below). Segment assets are measured on the basis of total assets, excluding certain assets (see reconciling items below).

### c) Information about Segment Results, Assets and Other Items

	Thousands of yen			
	As of and for the period ended May 31, 2014			
	Global market	Regional market	Reconciling adjustments	Amount on financial statements
Operating revenues (Note 1)	¥ 11,189,476	¥ 1,503,956	¥ -	¥ 12,693,433
Segment income (Note 2)	6,032,948	712,495	(422,832)	6,322,611
Segment assets (Note 2)	324,315,682	36,935,448	12,925,647	374,176,778
Other items				
Depreciation	2,251,885	367,553	-	2,619,439
Increase in property, plant and equipment and intangible assets	48,823,919	5,708,697	-	54,532,617

(Note 1) Operating revenues of NPR are exclusively earned from external parties.

(Note 2) Reconciling adjustments to segment income represent general corporate expenses that consist mainly of asset management fee of 331,054 thousand yen, asset custody fee of 32,475 thousand yen and directors' compensation of 4,800 thousand yen. Reconciling adjustments to segment assets consist mainly of cash and cash deposits of 10,588,140 thousand yen, consumption taxes receivable of 900,387 thousand yen, long-term prepaid expenses and security deposit of 1,106,936 thousand yen, and organization expenses of 55,657 thousand yen.

	Thousands of yen			
	As of and for the period ended November 30, 2013			
	Global market	Regional market	Reconciling adjustments	Amount on financial statements
Operating revenues (Note 1)	¥ 8,853,595	¥ 1,259,674	¥ -	¥ 10,113,269
Segment income (Note 2)	5,273,950	716,158	(367,370)	5,622,737
Segment assets (Note 2)	276,064,678	31,519,735	15,903,578	323,487,992
Other items				
Depreciation	1,821,314	301,468	-	2,122,782
Increase in property, plant and equipment and intangible assets	133,703,808	116,275	-	133,820,084

(Note 1) Operating revenues of NPR are exclusively earned from external parties.

(Note 2) Reconciling adjustments to segment income represent general corporate expenses that consist mainly of asset management fee of 296,397 thousand yen, asset custody fee of 26,352 thousand yen and directors' compensation of 4,600 thousand yen. Reconciling adjustments to segment assets consist mainly of cash and cash deposits of 11,276,883 thousand yen, consumption taxes



receivable of 3,090,720 thousand yen, long-term prepaid expenses and security deposit of 1,206,036 thousand yen, and organization expenses of 63,802 thousand yen.

#### **Related Information**

*(For the period ended May 31, 2014)*

- a) Information by Geographic Region
  - (i) Operating Revenues  
Substantially all of NPR's operating revenue is generated in Japan.
  - (ii) Property and Equipment  
Substantially all of NPR's property and equipment is located in Japan.
- b) Information by Major Tenants  
No single external customer accounts for more than 10% of NPR's total operating revenues on the statement of income.

*(For the period ended November 30, 2013)*

- a) Information by Geographic Region
  - (i) Operating Revenues  
Substantially all of NPR's operating revenue is generated in Japan.
  - (ii) Property and Equipment  
Substantially all of NPR's property and equipment is located in Japan.
- b) Information by Major Tenants  
No single external customer accounts for more than 10% of NPR's total operating revenues on the statement of income.

#### **16. Subsequent Events**

None



#### **Independent Auditor's Report**

To the Board of Directors of  
Nippon Prologis REIT, Inc.:

We have audited the accompanying financial statements of Nippon Prologis REIT, Inc. (a Japanese Real Estate Investment Trust), which comprise the balance sheets as at May 31, 2014 and November 30, 2013, and the statements of income, statements of changes in net assets and statements of cash flows for the six-month periods ended May 31, 2014 and November 30, 2013, and a summary of significant accounting policies and other explanatory information.

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

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

#### **Auditor's Responsibility**

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

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

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

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nippon Prologis REIT, Inc. as at May 31, 2014 and November 30, 2013, and their financial performance and cash flows for the six-month periods ended May 31, 2014 and November 30, 2013 in accordance with accounting principles generally accepted in Japan.

**KPMG AZSA LLC**

August 25, 2014  
Tokyo, Japan

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