

# SEMIANNUAL REPORT

Fiscal Period Ended May 31, 2018





## Message from the Executive Director



Dear Fellow Unit Holders,

We are pleased to present our Semiannual Report for the fiscal period ended May 31, 2018. Once again, our focused investment strategy and proprietary access to Class-A properties, specifically through our sponsor's robust development pipeline, has delivered excellent operational and financial results. We remain confident in, and proud of, our positive and consistent growth.

**Seventh Follow-On Offering and Acquisitions** — NPR continues to receive strong sponsor support from the Prologis Group. In March 2018, we completed our seventh follow-on offering, successfully raising 29.0 billion yen of capital. With the proceeds, we acquired three new Class-A properties—Prologis Park Yoshimi, Prologis Park Ichikawa 3 and Prologis Park Narita 1-D. In addition, we signed purchase and sale agreements for Prologis Park Koga 3 and Prologis Park Tsukuba 1-A; those closing dates are scheduled for the second half of this year. These state-of-the-art properties in prime locations feature the highest industry specs; as such, they have attracted leading brand-name customers.

**Accretion and Portfolio Growth** — We continued to deliver attractive accretion of our distribution per unit (DPU) and our net asset value (NAV) per unit, which in turn has increased our unit holder value. The seventh follow-on offering and acquisitions grew our DPU by 3.0 percent and our NAV per unit by 0.4 percent. Through the acquisition of the properties that closed in March, our portfolio grew significantly. It now has a value of 560.3 billion yen (in terms of asset acquisition price), which positions us solidly as one of the largest logistics J-REITs—and certainly the one with the highest-quality portfolio.

**Operational and Financial Highlights** — Our operating performance in the fiscal period remained strong due to the quality of our Class-A portfolio. We maintained a high average occupancy rate of 98.3 percent and our rents continued to grow. For the leases that were either renewed or re-tenanted in the period, we achieved weighted average rent growth of 0.6 percent on a nominal weighted average basis, marking our eleventh period of consecutive growth since NPR's inception. We continue to closely monitor the expected supply of advanced logistics properties, especially in Osaka, where our priority is occupancy over rent growth. Moreover, we have been initiating early lease negotiations with both existing and new customers. Admittedly, this shift in our approach acts as a headwind to the pace of our rent growth, but nonetheless in the near term we will strive for positive rent change on leases set to expire over the next few years.

Our financial performance remained healthy, driven primarily by the continued solid operational performance of our existing portfolio and the March acquisitions. For this period, our DPU was 4,373 yen, exceeding our previous forecast by 1.7 percent. To more accurately reflect the level of consistent DPU accretion since our IPO, we view the stabilized DPU excluding one-time effects from actual results a more useful measurement of our performance. Compared to the previous forecast, our stabilized DPU has grown by 3.7 percent, reflecting our robust external growth from property acquisitions and steady rent growth as well as our rigorous efforts to cut costs wherever possible.

**The Japanese Logistics Real Estate Market** — The overall market environment, especially in the Class-A segment, is healthy. Due to Japan's scarcity of modern logistics stock, which accounts for only 3.9 percent of the country's entire distribution space, we believe the long-term outlook for logistics real estate remains bright. Customer demand is fueled by the rapidly growing e-tailing sector and by conventional retailers and manufacturers that are outsourcing a greater portion of their logistics functions to third-party logistics companies (3PLs) to reduce costs. Notably, the growth of demand from e-tailing customers has been remarkable. For example, a customer scheduled to occupy 70,000 square meters at Prologis Park Tsukuba 1-A is a successful apparel e-tailor. Their business is rapidly growing, and they recently signed another 70,000 square meter lease contract for Prologis Park Tsukuba 1-B, one of our pipeline properties to be developed by our sponsor. While Japan's e-commerce penetration ratio still lags that of the U.S. and Europe, the pace is accelerating. We believe that such growth, as well as the steady growth of the 3PL industry, will act as primary drivers of customer demand for our logistics buildings in the long term.

**Strong Sponsor Support and Future Acquisitions** — We continue to have proprietary access to a robust acquisition pipeline from our sponsor, one that will fuel our growth for many years to come. Following the March 2018 acquisitions and the scheduled two acquisitions later this year, we have a future pipeline list of 12 properties with a total estimated value of 170 billion yen. These properties are currently in planning/under construction or in the lease-up process. We will likely acquire these assets over the next couple of years.

## Message from the Executive Director

**Financial Strategies** — Our focus on long-term stability and efficiency has resulted in one of the strongest balance sheets in the J-REIT industry. At the end of the fiscal period, our loan-to-value ratio (LTV) was 36.4 percent on a book value basis and 30.0 percent on an appraisal basis. We intend to maintain this conservative level of leverage to secure NPR's strong balance sheet, which will allow us to grow irrespective of future capital market conditions. Assuming a "gear up" of our balance sheet up to 50 percent LTV (in terms of book value), we now have an additional borrowing capacity of approximately 140 billion yen. Our term loans are provided by Japan's leading lenders, and over 96 percent of our maturities have long-term fixed interest rates. As a result of the work we have done to date, we will not have significant refinancing until 2021. Our all-in debt cost now stands at a low of 0.6 percent. Also, we have been recognized by JCR for the strength of our balance sheet and our commitment to a sound capital structure. Accordingly, JCR has assigned us a high credit rating of AA (stable).

**Our ESG Commitment** — The Prologis Group operates its business with a stringent focus on the three pillars of sustainability; environmental stewardship, social responsibility and governance (ESG). The group strives to minimize its environmental impacts while maximizing beneficial outcomes for all stakeholders. As a part of the Prologis Group's ESG initiatives, we have been engaged in investing in and managing high-quality, energy-efficient modern logistics facilities and continue to proactively pursue green building certifications where possible. We are proud that our ESG efforts have been recognized by several third-party assessment providers. For example, in 2017 and for the third consecutive year, the Global Real Estate Sustainability Benchmark (GRESB) survey awarded us the highest "5-star" rating and the prestigious "Green Star" rating. The same survey selected us as the "Asia Sector Leader" in the global logistics real estate category. Also, we have been included in the "MSCI Japan ESG Select Leaders Index," which measures the sustainability performance of various public entities, and we received an "A" rating, the highest rating for a J-REIT. Recently, we issued 6 billion yen of green bonds, the proceeds of which was allocated to refinance borrowings for the acquisition of green projects from our sponsor.

We believe our ESG efforts are a multifaceted story of success: Not only will they contribute to the sustainability of our society, they will constitute our core unit holder value over time and provide our investors with significant upside in the future.

**Looking Forward** — We are proud of our accomplishments in this fiscal period. We will work to further maximize our unit holder value by growing externally and internally and will continue to build a solid track record of excellence in portfolio management. We sincerely appreciate your ongoing support of NPR and the Prologis Group.

Best regards,



**Masahiro Sakashita**

Executive Director  
Nippon Prologis REIT, Inc.



## Financial Highlights for the Fiscal Period Ended May 31, 2018

Distribution Per Unit  
(total JPY)

4,373

Portfolio Size  
(JPY billions)

560.3

Operating Revenues  
(JPY millions)

18,435

Net Income  
(JPY millions)

8,075

Period Average Occupancy

98.3%

Appraisal NAV Per Unit  
(total JPY)

207,289

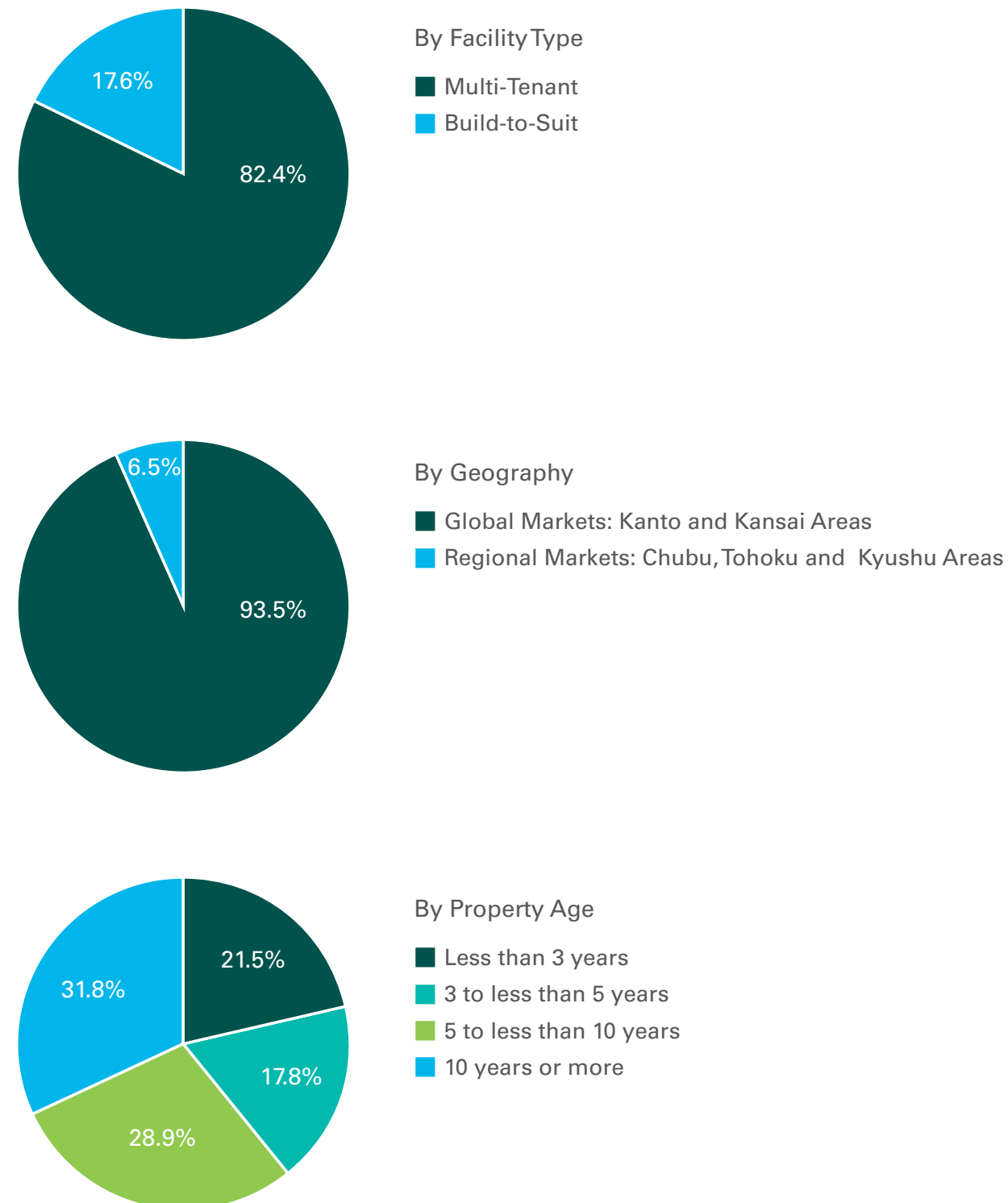
Loan-to-Value Ratio

36.4%

Credit Rating

JCR AA  
(Stable)

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



Note: Figures are not including Prologis Park Koga 3 and Prologis Park Tsukuba 1-A.

## 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

Long-Term Debt Ratio

**96.9%**

Average Cost of Debt

**0.6%**

Loan-to-Value Ratio

**36.4%**

## Governance Structure Promotes Growth in Unit Holder Value

Prologis Investment

**15%**





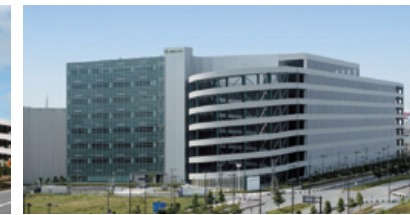
**M-01** Prologis Park Ichikawa 1  
JPY 33,900 million



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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



**M-20** Prologis Park Kawajima 2  
JPY 8,180 million



**M-21** Prologis Park Kitamoto  
JPY 12,600 million



**M-22** Prologis Park Josu  
JPY 7,120 million



**M-23** Prologis Park Osaka 5  
JPY 17,600 million



**M-24** Prologis Park Narita 3  
JPY 9,240 million



**M-25** Prologis Park Narashino 5  
JPY 13,600 million



**M-26** Prologis Park Ibaraki  
JPY 38,300 million



**M-27** Prologis Park Ichikawa 3  
JPY 17,000 million



**M-28** Prologis Park Narita 1-D  
JPY 5,260 million



**M-29** Prologis Park Yoshimi  
JPY 21,300 million



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



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



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



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



**B-06** Prologis Park Ebina  
JPY 8,250 million



**B-07** Prologis Park Kawanishi  
JPY 13,600 million



**B-08** Prologis Park Amagasaki 3  
JPY 9,090 million



**B-09** Prologis Park Kobe  
JPY 6,410 million



**B-10** Prologis Park Sendai Izumi  
JPY 4,820 million



**B-11** Prologis Park Koga 1  
JPY 7,680 million



**B-12** Prologis Park Kobe 2  
JPY 13,700 million

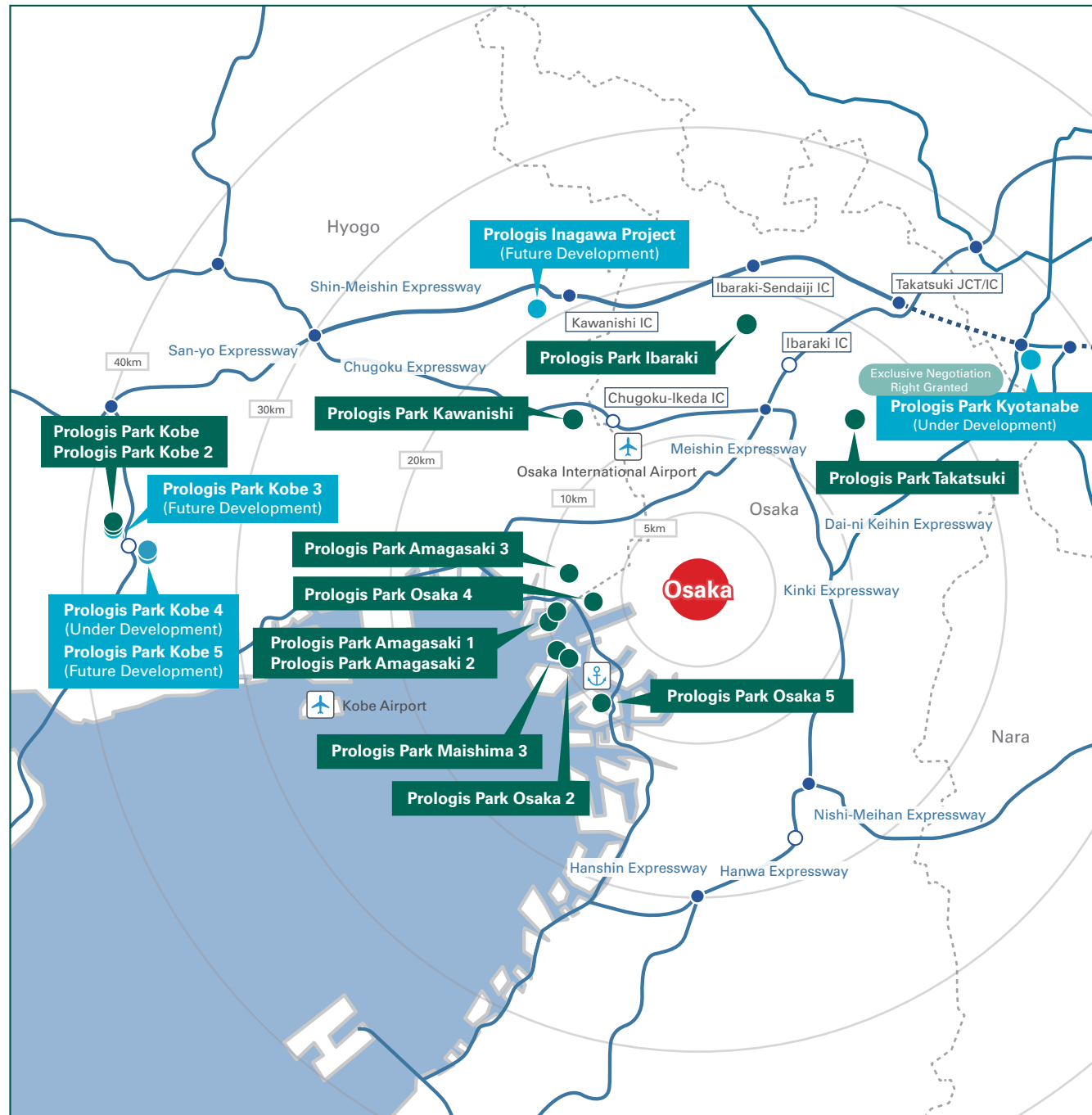


**B-13** Prologis Park Koga 2  
JPY 3,930 million

Note: Property values are based on acquisition price.



## Osaka Metropolitan Area



## Tokyo Metropolitan Area



- Current assets
- Pipeline assets

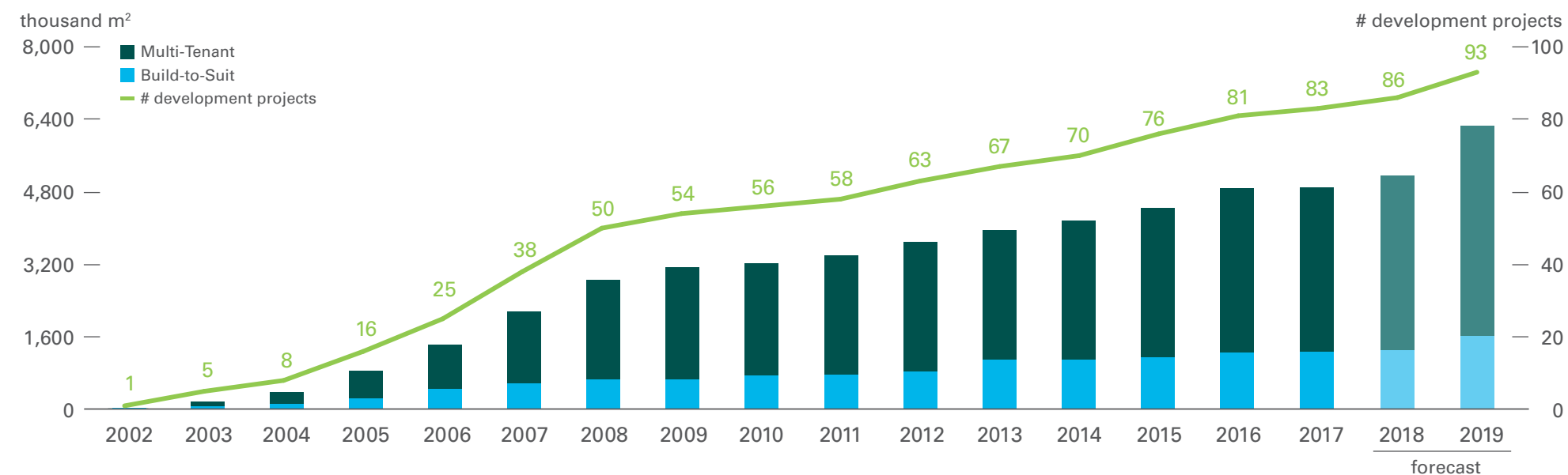
## Sponsor Support from the Prologis Group

### Potential Acquisition Pipeline

Status	Region / Area	Property Name	(Expected) Year Built	Property Type	(Expected) GFA (sqm)
Exclusive Negotiation Rights Granted	Kanto	Prologis Park Chiba New Town	May 2016	Multi-Tenant	109,981
		Prologis Park Higashimatsuyama	Feb. 2018	Multi-Tenant	61,885
		Prologis Park MFLP Kawagoe	Oct. 2018	Multi-Tenant	131,298
	Kansai	Prologis Park Kyotanabe	Oct. 2018	Multi-Tenant	161,057
	Tohoku	Prologis Park Sendai Izumi 2	Sep. 2018	BTS	40,083
Under Development	Kanto	Prologis Park Tsukuba 1-B	Sep. 2019	BTS	71,595
		Prologis Park Chiba 1	Sep. 2019	Multi-Tenant	146,805
	Kansai	Prologis Park Kobe 4	Jun. 2019	BTS	24,700
Future Development	Kanto	Prologis Park Ebina 2	TBD	TBD	38,000
		Prologis Park Chiba 2	TBD	TBD	66,000
	Kansai	Prologis Park Kobe 3	TBD	TBD	38,700
		Prologis Park Kobe 5	TBD	TBD	44,470
Future Project	Kansai	Prologis Inagawa Project	TBD	TBD	258,000

Note: As of July. 17, 2018. We have no definite contracts to acquire the above properties. This property list should not be deemed a commitment or guarantee of our future acquisitions.  
The sale of the properties by the Prologis Group is subject to its internal approval.

### Prologis Groups Proven Development Track Record in Japan Since 2002





## Focus on Class-A Logistics Facilities

### Features:

- Gross floor area of approximately 16,500 square meters (177,605 square feet) or more
- Proximity to population clusters and transportation hubs such as expressway interchanges and major airports or seaports
- Large floor area exceeding approximately 5,000 square meters (53,820 square feet) per level with a floor weight capacity of at least 1.5 tons/square meters, an effective ceiling height of at least 5.5 meters (18 feet) and column spacing of at least 10 meters (33 feet)
- Spiral ramps or slopes that allow trucks direct access to upper-floor distribution space
- Safety features such as seismic isolation and earthquake-proofing

Spiral Rampways/Slopes



Large Loading Zones



Wide-Column Spacing



Renewable Energy



Restaurant



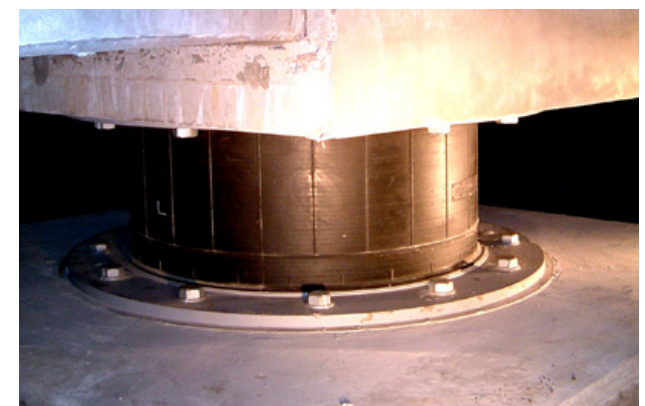
Convenience Store



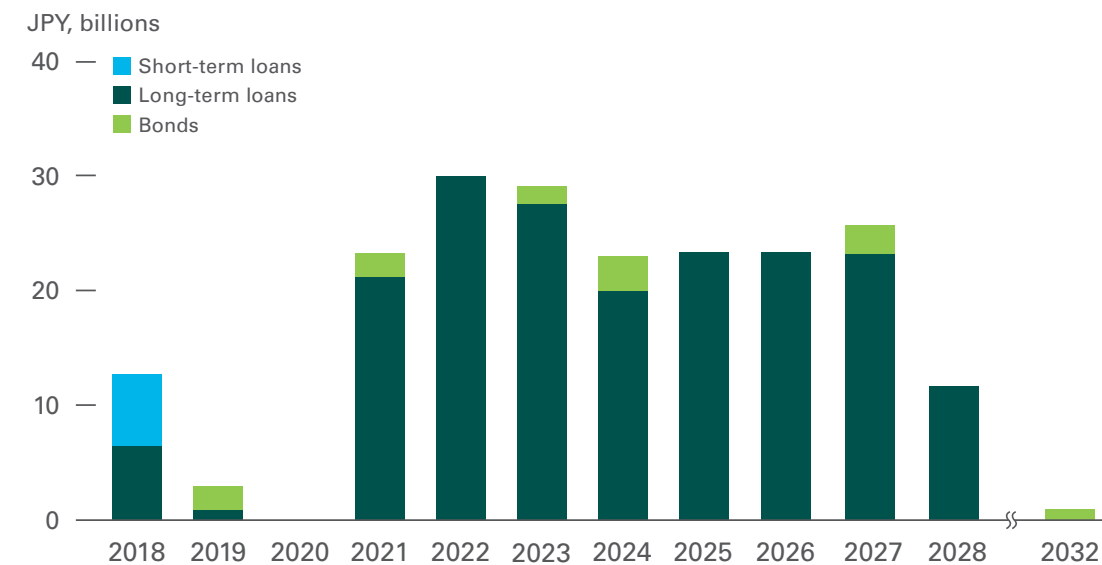
24-Hour Security



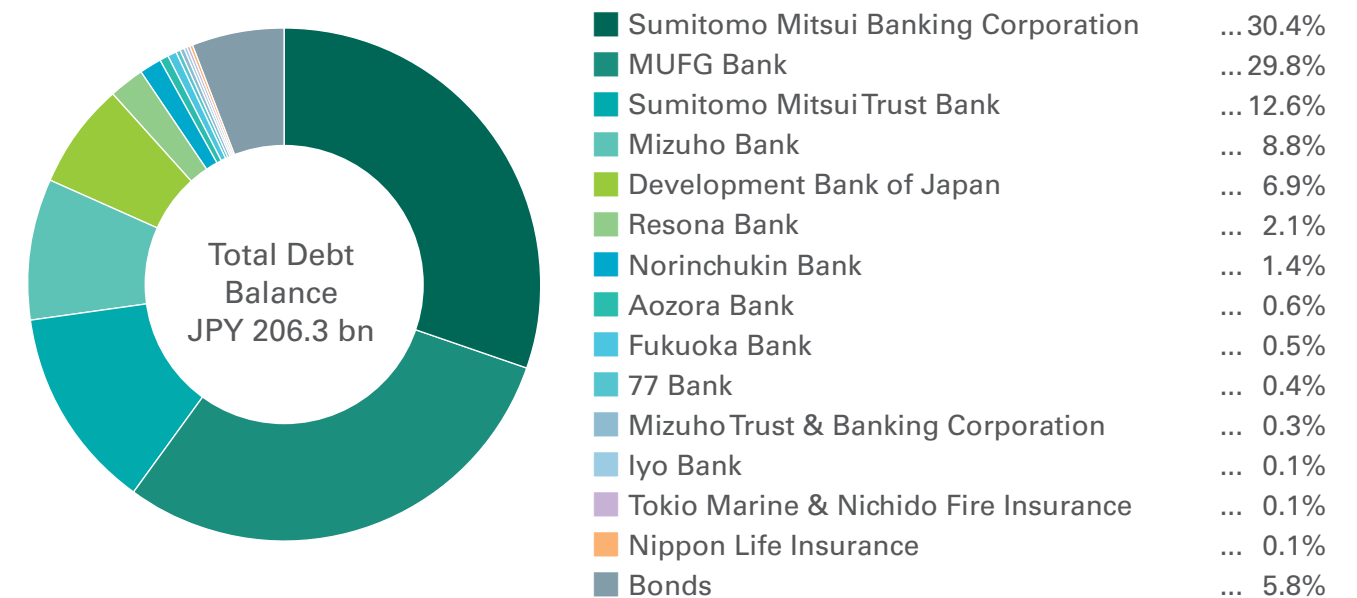
Seismic Isolators



## Debt Maturity Schedule



## Debt Providers



## Corporate Governance Investor-Aligned Fee Structure

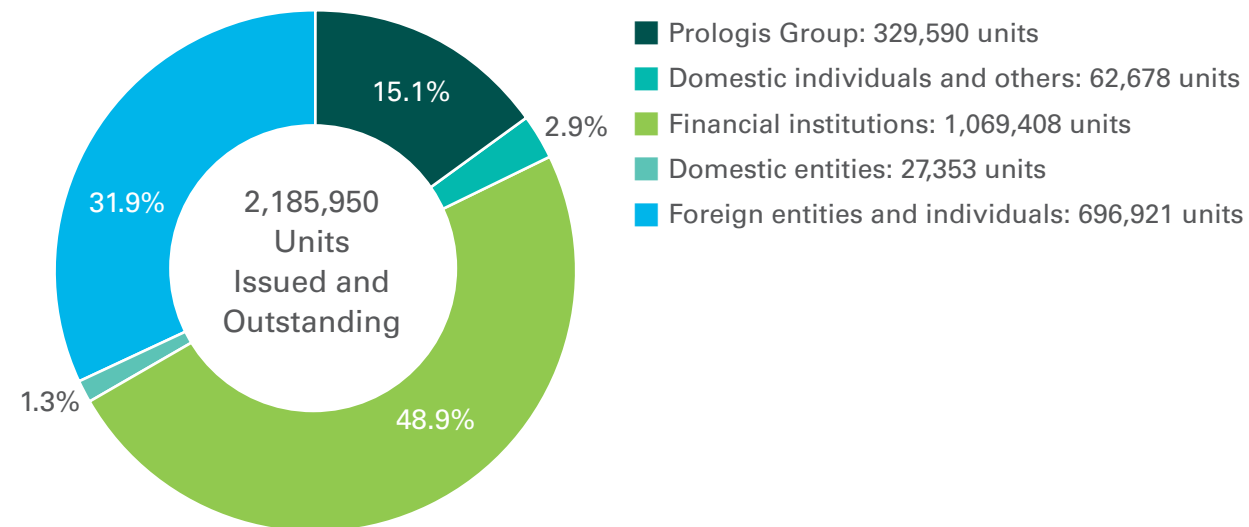
100% performance-linked asset management fee structure

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% *Before deduction of net income-based asset management fee	
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)	

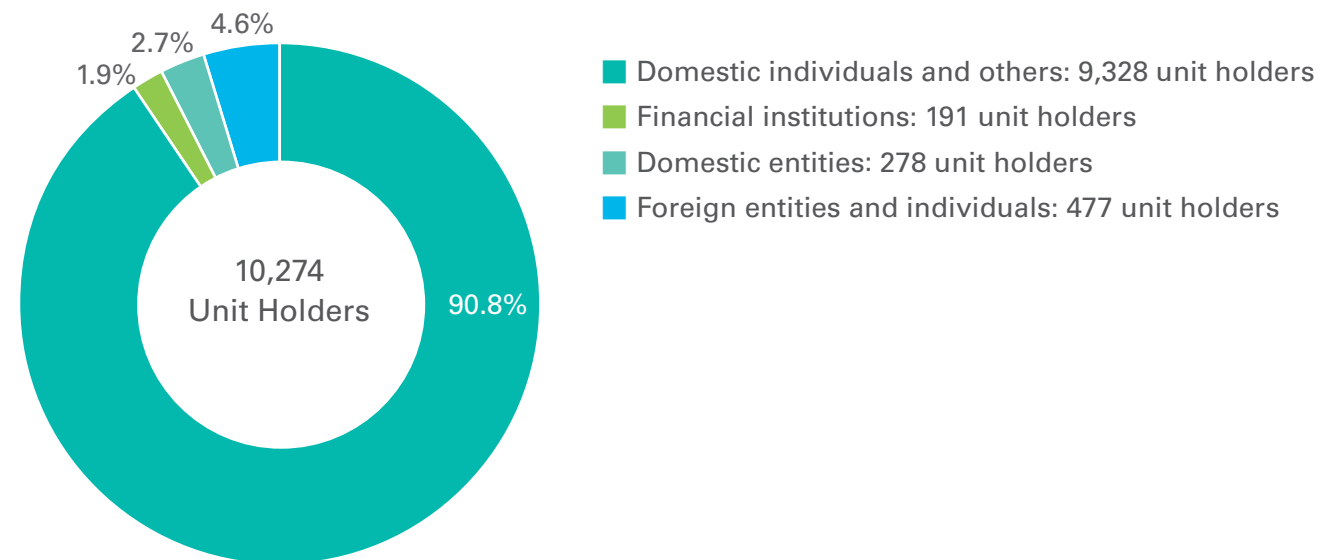


## Unit Holder Information (As of May 31, 2018)

### Breakdown by Units



### Breakdown by Unit Holders



### Major Unit Holders

	Name	Units Owned	% of Units Issued
1	Prologis Property Japan SPC	327,590	14.98%
2	Japan Trustee Services Bank, Ltd. (Trust Acct.)	327,047	14.96%
3	The Master Trust Bank of Japan, Ltd. (Trust Acct.)	295,209	13.50%
4	The Nomura Trust and Banking Company, Ltd.(Trust Acct.)	82,916	3.79%
5	Trust and Custody Services Bank, Ltd. (Securities Investment Trust Acct.)	71,945	3.29%
6	STATE STREET BANK WEST CLIENTS-TREATY 505234	66,739	3.05%
7	Nomura Bank (Luxembourg) S.A.	35,507	1.62%
8	STATE STREET BANK AND TRUST COMPANY 505223	35,188	1.60%
9	JP MORGAN CHASE BANK 385628	32,420	1.48%
10	THE BANK OF NEW YORK 133970	22,997	1.05%
Total		1,297,558	59.35%

# NPR's Environmental Stewardship, Social Responsibility and Governance (ESG) Focus/Recognition



The principles of environmental stewardship, social responsibility and governance (ESG) are a natural fit in our business strategy. ESG is good business. It aligns with our longstanding commitment to be a valued partner for our customers and an exemplary citizen, minimizing our environmental impacts and maximizing returns for our stakeholders.

## Environmental Stewardship

### Included in the MSCI Japan ESG Select Leaders Index\*

The index targets companies in the MSCI Japan IMI Top 500 Index with high environmental, social and governance ("ESG") performance relative to their sector peers. The Government Pension Investment Fund (GPIF) of Japan announced on July 3, 2017, that it has selected the index as one of its ESG indices for its passive investment strategy.



### Ranked First in Asia by GRESB

NPR was recognized as the Global Sector Leader, ranking second out of 58 companies globally and first in Asia. According to the GRESB Survey, NPR earned the recognition for outstanding performance in environmental stewardship, social responsibility and governance (ESG). GRESB is known for its rigorous assessment of the sustainability performance of real estate companies and funds worldwide.



### Received High Marks from 2017 Dow Jones Sustainability Indices (DJSI)

The DJSI, launched in 1999 as the first global sustainability benchmark, also recognizes companies for their elite ESG efforts and successes. NPR was named to the 2017 DJSI for Asia Pacific. NPR has twice been named to the DJSI-Asia Pacific.



\* THE INCLUSION OF [Nippon Prologis REIT, Inc] IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF [Nippon Prologis REIT, Inc] BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

## Comprehensive Assessment System for Built Environment Efficiency (CASBEE)

CASBEE is a method for evaluating and rating the environmental performance of buildings and the built environment. CASBEE was developed by a research committee established in 2001 through the collaboration of academia, industry and national and local governments, which established the Japan Sustainable Building Consortium (JSBC) under the auspice of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). NPR received high ratings for its multiple properties.



Prologis Park Ichikawa 1  
**CASBEE:** Completion Class S



Prologis Park Osaka 5  
**CASBEE:** Completion Class A



Prologis Park Zama 1  
**CASBEE:** Completion Class S

Prologis Park Zama 2  
**CASBEE:** Completion Class S

## Received DBJ Green Building Certification

DBJ Green Building Certification is certified for real estate properties that meet various stakeholders' social requirements, such as high-quality environmental design, security systems and disaster prevention functions, on the scoring model originally developed by DBJ. This certification promotes the expansion of green buildings, which are essential to today's real estate market.

NPR received the Five Stars DBJ Green Building Certification, which is the highest of five ranks, for four of its properties, Prologis Park Ichikawa 1, Prologis Park Ichikawa 3, Prologis Park Zama 1, Prologis Park Zama 2 and Prologis Park Amagasaki 2, and Four Stars for two of its properties, Prologis Park Narita 3 and Prologis Park Amagasaki 1.



## Building Energy-Efficiency Labeling System (BELS)

BELS is a system promoted by Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT) to assess the energy conservation performance of buildings. NPR has obtained high ratings for 14 buildings in its portfolio, including the highest five-star rating "★★★★★."





## Social Responsibility

### Corporate Social Responsibility (CSR) Activities

Employee volunteerism is an important part of our culture. Impact Day, the company's global day of service, gives employees the opportunity to give back to the communities we serve.



Impact Day 2018



Volunteers at the Museum of Logistics

### Support for the Logistics Industry

Since 2008, Prologis has been supporting the logistics museum. All Japanese employees have been doing handicraft works for the museum twice a year.

### Support for Local Communities / Internship Programs for Junior High-School Students, College Students, etc.

Since 2006, Prologis has been sponsoring Waseda University Graduate School of Commerce's "Logistics / SCM Course."



Field trip for Elementary School students at Prologis Park Narita 3



Logistics / SCM Course at Waseda University

### Host Family Events for Customers and Neighborhoods

Prologis hosts events to help our customers enhance workforce culture and employee satisfaction, and to build strong relationship with local communities.



Summer Festival 2017 for Prologis Park Ichikawa 1

## Balance Sheets

	Thousands of yen	
	As of	
	May 31, 2018	November 30, 2017
<b>ASSETS</b>		
Current assets:		
Cash and deposits (Notes 3 and 4)	¥ 19,994,172	¥ 21,091,230
Cash and deposits in trust (Notes 3 and 4)	4,057,793	4,119,378
Operating accounts receivable	1,537,088	1,178,794
Prepaid expenses	378,745	333,265
Deferred tax assets (Note 12)	27	1
Consumption taxes receivable	1,319,143	1,540,068
Other current assets	4,025	28
Total current assets	27,290,997	28,262,768
Property and equipment (Note 6):		
Buildings	7,555,149	7,552,840
Structures	249,739	249,739
Tools, furniture and fixtures	5,434	5,434
Land	3,834,204	3,834,204
Buildings in trust	332,280,817	302,769,605
Structures in trust	7,299,125	6,603,247
Machinery and equipment in trust	11,267	11,267
Tools, furniture and fixtures in trust	735,174	663,106
Other tangible assets in trust	35	35
Land in trust	217,022,982	202,635,652
Construction in progress in trust	16,974	71,138
Less: accumulated depreciation	(30,885,423)	(26,797,831)
Total property and equipment	538,125,481	497,598,439
Intangible assets (Note 6):		
Other intangible assets in trust	11,820	12,526
Total intangible assets	11,820	12,526
Investments and other assets:		
Long-term prepaid expenses	1,662,057	1,682,701
Security deposit	10,000	10,000
Investment corporation bond issuance costs	52,333	57,272
Other	400	400
Total investments and other assets	1,724,790	1,750,373
<b>Total Assets</b>	<b>¥ 567,153,089</b>	<b>¥ 527,624,107</b>

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

## Balance Sheets, continued

	Thousands of yen	
	As of	
	May 31, 2018	November 30, 2017
<b>LIABILITIES</b>		
Current liabilities:		
Operating accounts payable	¥ 1,088,428	¥ 1,434,686
Short-term loans payable (Notes 4 and 10)	6,300,000	6,300,000
Current portion of long-term loans payable (Notes 4, 5 and 10)	6,400,000	-
Accounts payable	197,281	296,133
Accrued expenses	1,796,019	1,677,895
Income taxes payable	1,166	616
Advances received	3,610,862	2,961,566
Other current liabilities	66,493	399,534
Total current liabilities	19,460,250	13,070,433
Non-current liabilities:		
Investment corporation bonds payable (Notes 4 and 11)	12,000,000	12,000,000
Long-term loans payable (Notes 4, 5 and 10)	181,600,000	176,200,000
Tenant leasehold and security deposits (Note 4)	247,773	247,773
Tenant leasehold and security deposits in trust (Note 4)	13,766,843	12,551,061
Other non-current liabilities	328	1,377
Total non-current liabilities	207,614,944	201,000,212
<b>Total Liabilities</b>	<b>227,075,195</b>	<b>214,070,645</b>
<b>NET ASSETS</b> (Note 9)		
Unit holders' equity		
Unit holders' capital	332,001,635	303,950,843
Units authorized:		
10,000,000 units as of May 31, 2018 and November 30, 2017		
Units issued and outstanding:		
2,185,950 units as of May 31, 2018 and 2,056,950 units as of November 30, 2017		
Surplus		
Retained earnings	8,076,258	9,602,618
Total unit holders' equity	340,077,894	313,553,462
<b>Total Net Assets</b>	<b>340,077,894</b>	<b>313,553,462</b>
<b>Total Liabilities and Net Assets</b>	<b>¥ 567,153,089</b>	<b>¥ 527,624,107</b>

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



## Statements of Income

	Thousands of yen			
	For the six-month periods ended			
	May 31, 2018		November 30, 2017	
<b>Operating Revenues</b> (Note 7):				
Operating rental revenues	¥	17,173,631	¥	15,944,794
Other rental revenues		1,261,650		1,272,775
Gain on sales of real estate properties		-		2,069,771
Total operating revenues		18,435,281		19,287,342
<b>Operating Expenses</b> (Notes 6 and 7):				
Expenses related to property rental business		7,910,462		7,348,224
Asset management fee		1,611,517		1,503,755
Asset custody fee		41,954		40,156
Directors' compensation		4,800		4,800
Audit fee		15,000		15,000
Other operating expenses		47,639		41,882
Total operating expenses		9,631,374		8,953,818
Operating income		8,803,907		10,333,523
<b>Non-operating Income:</b>				
Interest income		110		140
Reversal of distributions payable		895		1,210
Gain on real estate tax settlement		279		-
Interest on refund of consumption taxes		607		4,876
Total non-operating income		1,892		6,227
<b>Non-operating Expenses:</b>				
Interest expense on loans payable		411,521		395,072
Interest expense on investment corporation bonds		31,795		30,536
Amortization of organization expenses		-		6,787
Amortization of investment corporation bond issuance costs		4,939		4,732
Borrowing related expenses		183,848		177,955
Investment unit issuance expenses		24,691		25,041
Offering costs associated with the issuance of investment units		72,342		78,659
Others		22		18,982
Total non-operating expenses		729,161		737,767
Ordinary income		8,076,639		9,601,983
Income before income taxes		8,076,639		9,601,983
Incomes taxes - current (Note 12)		1,183		638
Incomes taxes - deferred (Note 12)		(26)		10
Total income taxes		1,156		649
Net income		8,075,482		9,601,334
Retained earnings brought forward		776		1,284
Retained earnings at end of period	¥	8,076,258	¥	9,602,618

	Yen	
	For the six-month periods ended	
	May 31, 2018	November 30, 2017
Net income per unit (Note 13)	¥ 3,821	¥ 4,799

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

## Statements of Changes in Net Assets

For the six-month periods ended May 31, 2018 and November 30, 2017

	Thousands of yen			
	Number of units	Unit holders' capital	Retained earnings	Total net assets
Balance as of May 31, 2017 (Note 9)	1,906,350	¥270,760,711	¥8,823,872	¥279,584,584
Issuance of new units on August 7, 2017 and September 6, 2017	150,600	33,190,131	-	33,190,131
Distributions of retained earnings	-	-	(8,822,587)	(8,822,587)
Net income	-	-	9,601,334	9,601,334
Balance as of November 30, 2017 (Note 9)	2,056,950	¥303,950,843	¥9,602,618	¥313,553,462
Issuance of new units on March 12, 2018 and April 11, 2018	129,000	28,050,792	-	28,050,792
Distributions of retained earnings	-	-	(9,601,842)	(9,601,842)
Net income	-	-	8,075,482	8,075,482
Balance as of May 31, 2018 (Note 9)	2,185,950	¥332,001,635	¥8,076,258	¥340,077,894

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

## Statements of Cash Flows

	Thousands of yen	
	For the six-month periods ended	
	May 31, 2018	November 30, 2017
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 8,076,639	¥ 9,601,983
Depreciation (Note 6)	4,088,323	3,765,984
Amortization of organization expenses	-	6,787
Amortization of investment corporation bond issuance costs	4,939	4,732
Investment unit issuance expenses	24,691	25,041
Interest income	(110)	(140)
Interest expense	443,317	425,609
Decrease (increase) in operating accounts receivable	(358,293)	(389,906)
Decrease (increase) in consumption taxes receivable	220,925	(368,658)
Decrease (increase) in prepaid expenses	(45,479)	25,633
Decrease (increase) in long-term prepaid expenses	20,643	160,006
Increase (decrease) in operating accounts payable	(345,995)	393,123
Increase (decrease) in accounts payable	(4,641)	(25,504)
Increase (decrease) in accrued expenses	117,905	295,585
Increase (decrease) in advances received	649,295	257,009
Decrease in property and equipment due to sales	-	4,991,936
Others, net	(11,826)	(1,726)
Subtotal	12,880,334	19,167,497
Interest received	110	140
Interest paid	(443,099)	(412,450)
Income taxes paid	(633)	(864)
Net cash provided by operating activities	12,436,711	18,754,322
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(5,111)	(240)
Purchases of property and equipment in trust	(44,698,754)	(57,096,532)
Purchases of intangible assets in trust	(25)	(9,049)
Proceeds from tenant leasehold and security deposits in trust	1,220,649	1,466,536
Repayments of tenant leasehold and security deposits in trust	(337,203)	(638,142)
Net cash provided by (used in) investing activities	(43,820,446)	(56,277,428)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from short-term loans payable	-	6,300,000
Repayments of short-term loans payable	-	(7,000,000)
Proceeds from long-term loans payable	44,000,000	39,500,000
Repayments of long-term loans payable	(32,200,000)	(41,500,000)
Proceeds from issuance of investment corporation bonds	-	6,956,052
Proceeds from issuance of new investment units	28,026,100	33,165,090
Payment of distributions of retained earnings	(9,600,941)	(8,821,771)
Payment of distributions in excess of retained earnings	(67)	(203)
Net cash provided by (used in) financing activities	30,225,091	28,599,167
Net increase (decrease) in cash and cash equivalents	(1,158,642)	(8,923,938)
Cash and cash equivalents at the beginning of period	25,210,609	34,134,547
Cash and cash equivalents at the end of period (Note 3)	¥ 24,051,966	¥ 25,210,609

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

## Notes to Financial Statements

For the six-month periods ended May 31, 2018 and November 30, 2017

### 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 <sup>(\*)1</sup>, 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 Feb. 15, 2013, following its listing, and acquired an additional 27 properties in total (aggregate acquisition price: 360,620 million yen) through the tenth fiscal period and disposed two properties (aggregate acquisition price: 16,870 million yen). NPR acquired three additional properties (aggregate acquisition price: 43,560 million yen), and also executed sale and purchase agreements for two properties, of which payment for transfer will take place more than a month after the date of the respective sale and purchase agreements <sup>(\*)2</sup>, during the reporting fiscal period. As a result, NPR owned 40 properties (aggregate acquisition price: 560,330 million yen), all of which are Class-A facilities developed by the Prologis Group, as of the end of the reporting fiscal period <sup>(\*)3</sup>.

(\*)1 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.

(\*)2 These properties are under construction as of the end of the reporting fiscal period and since the closing of sale and purchase will take place more than a month after the date of execution of the respective sale and purchase agreements, such agreements are categorized as the "forward commitment contracts." Please refer to "Additional Information" for further details.

(\*)3 Annex to Prologis Park Funabashi 5 was not developed by the Prologis Group and does not qualify as a Class-A logistics facility.



## b) Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Law, 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, floating deposits in trust and short-term investments that are 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	3-67 years
Structures	2-60 years
Machinery and equipment	17 years
Tools, furniture and fixtures	2-18 years

## c) Intangible assets

Intangible assets are stated at cost, which includes the original purchase price and related acquisition costs and expenses. Amortization of intangible assets, including intangible assets in trust, is calculated by the straight-line method over the estimated useful lives.

## d) 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 120,698 thousand yen and 139,685 thousand yen for the fiscal periods ended May 31, 2018 and November 30, 2017, respectively.

## e) Investment Unit Issuance Expenses

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

## f) Organization Expenses

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

## g) Investment corporation bond issuance costs

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

h) 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.

i) 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.

j) 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 statements of cash flows. Nondeductible consumption taxes on property and equipment are included in the acquisition cost of the respective assets.

3. Cash and Cash Equivalents

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

	Thousands of yen			
	As of			
	May 31, 2018		November 30, 2017	
Cash and deposits	¥	19,994,172	¥	21,091,230
Cash and deposits in trust		4,057,793		4,119,378
Cash and cash equivalents	¥	24,051,966	¥	25,210,609



#### 4. 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 and investment corporation bonds are mainly made to procure funds for acquisition of properties, repayment of bank loans and redemption of investment corporation bonds. Although NPR is exposed to liquidity risks upon repayment and redemption, 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

The book value, fair value and differences between the values as of May 31, 2018 and November 30, 2017 are as follows. Financial instruments for which the fair value is extremely difficult to estimate are excluded from the following table (see Note 2 below).

Thousands of yen			
As of May 31, 2018			
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 19,994,172	¥ 19,994,172	¥ -
(2) Cash and deposits in trust	4,057,793	4,057,793	-
Total assets	¥ 24,051,966	¥ 24,051,966	¥ -
(3) Short-term loans payable	6,300,000	6,300,000	-
(4) Current portion of long-term loans payable	6,400,000	6,401,516	1,516
(5) Investment corporation bonds payable	12,000,000	12,074,900	74,900
(6) Long-term loans payable	181,600,000	182,988,973	1,388,973
Total liabilities	¥ 206,300,000	¥ 207,765,389	¥ 1,465,389
(7) Derivative transactions	¥ -	¥ -	¥ -

Thousands of yen			
As of November 30, 2017			
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 21,091,230	¥ 21,091,230	¥ -
(2) Cash and deposits in trust	4,119,378	4,119,378	-
Total assets	¥ 25,210,609	¥ 25,210,609	¥ -
(3) Short-term loans payable	6,300,000	6,300,000	-
(5) Investment corporation bonds payable	12,000,000	12,129,500	129,500
(6) Long-term loans payable	176,200,000	177,453,182	1,253,182
Total liabilities	¥ 194,500,000	¥ 195,882,682	¥ 1,382,682
(7) Derivative transactions	¥ -	¥ -	¥ -

##### (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) Current portion of long-term loans payable and (6) Long-term loans payable

The fair value of long-term loans payable is determined based on the present value of contractual cash flows which would be applicable to new loans payable under the same terms

and conditions.

(5) Investment corporation bonds payable

The reference statistical prices disclosed by the Japan Securities Dealers Association are used as the fair value.

(7) Derivative transactions

Please refer to Note 5, "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, 2018	November 30, 2017
Tenant leasehold and security deposits	¥ 247,773	¥ 247,773
Tenant leasehold and security deposits in trust	13,766,843	12,551,061

(Note 3) Redemption schedule for monetary claims after May 31, 2018

	Thousands of yen					
	As of May 31, 2018					
	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	¥19,994,172	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	4,057,793	-	-	-	-	-
Total	¥24,051,966	¥ -	¥ -	¥ -	¥ -	¥ -

Redemption schedule for monetary claims after November 30, 2017

	Thousands of yen					
	As of November 30, 2017					
	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	¥21,091,230	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	4,119,378	-	-	-	-	-
Total	¥25,210,609	¥ -	¥ -	¥ -	¥ -	¥ -

(Note 4) Repayment schedule for long-term loans payable and other interest-bearing debt after May 31, 2018

	Thousands of yen					
	As of May 31, 2018					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Investment corporation bonds payable	¥ -	¥2,000,000	¥ -	¥2,000,000	¥ -	¥8,000,000
Long-term loans payable	6,400,000	1,000,000	21,300,000	30,000,000	27,600,000	101,700,000
Total	¥ 6,400,000	¥3,000,000	¥21,300,000	¥32,000,000	¥27,600,000	¥109,700,000

Repayment schedule for long-term loans payable and other interest-bearing debt after November 30, 2017

	Thousands of yen					
	As of November 30, 2017					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Investment corporation bonds payable	¥ -	¥2,000,000	¥ -	¥2,000,000	¥ -	¥8,000,000
Long-term loans payable	-	7,400,000	-	21,300,000	30,000,000	117,500,000
Total	¥ -	¥9,400,000	¥ -	¥23,300,000	¥30,000,000	¥125,500,000



## 5. Derivative Transactions

For the six-month periods ended May 31, 2018 and November 30, 2017, NPR only utilized interest rate swaps which qualified for hedge accounting and met the special matching criteria, as described below.

Thousands of yen						
As of May 31, 2018						
Hedge accounting method	Type of derivative transaction	Primary hedged item	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	¥187,000,000	¥180,600,000	(Note)	-

(Note) Interest rate swaps under the special accounting treatment are accounted for as the integral part of long-term loans payable designated as hedged items. Therefore, their fair value is included in long-term loans payable disclosed in the aforementioned Note 4, “Financial Instruments, b) Estimated Fair Value of Financial Instruments, (4) Current portion of long-term loans payable and (6) Long-term loans payable.”

Thousands of yen						
As of November 30, 2017						
Hedge accounting method	Type of derivative transaction	Primary hedged item	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	¥175,200,000	¥175,200,000	(Note)	-

(Note) Interest rate swaps under the special accounting treatment are accounted for as the integral part of long-term loans payable designated as hedged items. Therefore, their fair value is included in long-term loans payable disclosed in the aforementioned Note 4, “Financial Instruments, b) Estimated Fair Value of Financial Instruments, (6) Long-term loans payable.”

## 6. 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 six-month periods ended			
	May 31, 2018	November 30, 2017	
Book value			
Balance at the beginning of the period	¥ 497,610,965	¥	449,407,618
Changes during the period (Note 2)	40,526,335		48,203,347
Balance at the end of the period	¥ 538,137,301	¥	497,610,965
Fair value at the end of the period	¥ 659,260,000	¥	610,150,000

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

(Note 2) The increase for the fiscal period ended May 31, 2018 was primarily a result of acquiring three properties, Prologis Park Ichikawa 3, Prologis Park Narita 1-D and Prologis Park Yoshimi, during the period for a total of 43,962,900 thousand yen. The decrease for the fiscal period ended May 31, 2018 was primarily a result of the recognition of depreciation, which amounted to 4,088,323 thousand yen.

The increase for the fiscal period ended November 30, 2017 was primarily a result of acquiring three properties, Prologis Park Narashino 5, Prologis Park Ibaraki and Prologis Park Koga 2, during the period for a total of 56,342,299 thousand yen. The decrease for the fiscal period ended November 30, 2017 was primarily a result of the disposition of Prologis Park Tagajo and the recognition of depreciation, which amounted to 4,991,936 thousand yen and 3,765,984 thousand yen, respectively.

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

Income and loss in connection with investment and rental properties are disclosed in “7. Property-related Revenues and Expenses.”

## 7. Property-related Revenues and Expenses

The following table summarizes the revenues and expenses generated from property leasing activities for the six-month periods ended May 31, 2018 and November 30, 2017.

	Thousands of yen	
	For the six-month periods ended	
	May 31, 2018	November 30, 2017
(1) Property-related revenues		
Rental revenues		
Rental revenues	¥ 15,996,435	¥ 14,895,492
Common area charges	1,177,196	1,049,302
Total	¥ 17,173,631	¥ 15,944,794
Other rental revenues		
Received utilities cost	¥ 1,008,089	¥ 1,059,098
Others	253,561	213,677
Total	¥ 1,261,650	¥ 1,272,775
Total property-related revenues	¥ 18,435,281	¥ 17,217,570
(2) Property-related expenses		
Rental expenses		
Subcontract expenses	¥ 998,077	¥ 908,116
Utilities cost	977,897	1,012,001
Taxes and public dues	1,563,454	1,430,718
Non-life insurance premium	27,296	24,870
Repair and maintenance	235,160	187,413
Depreciation	4,088,323	3,765,984
Custodian fee	17,680	16,549
Other expenses	2,572	2,569
Total rental expenses	¥ 7,910,462	¥ 7,348,224
(3) Operating income from property leasing ( (1)-(2) )	¥ 10,524,819	¥ 9,869,345

The following table summarizes the gain on sales of real estate properties for the six-month periods ended May 31, 2018 and November 30, 2017.

	Thousands of yen	
	For the six-month periods ended	
	May 31, 2018	November 30, 2017
Sales proceed	¥ -	¥ 7,155,000
Book value of properties sold	-	(4,991,936)
Other sales expenses	-	(93,291)
Gain on sales of real estate properties	¥ -	¥ 2,069,771

(Note 1) Gain on sales of real estate properties represent the gain from the disposition of Prologis Park Tagajo, for the six-month period ended November 30, 2017.

## 8. 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, 2018	November 30, 2017
Due within one year	¥ 33,177,955	¥ 24,737,154
Due after one year	104,000,734	104,147,726
Total	¥ 137,178,689	¥ 128,884,881



## 9. Net Assets

### a) Stated Capital

NPR issues only non-par value units in accordance with the Investment Trust Law 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 Investment Trust Law of Japan.

### b) Unit holders' capital

Unit holders' capital as of May 31, 2018 and November 30, 2017 consists of the following items:

	Thousands of yen	
	As of	
	May 31, 2018	November 30, 2017
Unit holders' capital, gross	¥ 338,516,767	¥ 310,465,975
Deduction from unit holders' capital;		
Accumulated distribution in excess of retained earnings	(6,515,132)	(6,515,132)
Unit holders' capital	¥ 332,001,635	¥ 303,950,843

### c) Distributions

Distributions related to each period but declared and paid after the balance sheet date are summarized as follows:

	Yen			
	For the six-month periods ended			
	May 31, 2018		November 30, 2017	
	Total	Per unit	Total	Per unit
I Unappropriated retained earnings	¥ 8,076,258,887		¥ 9,602,618,972	
II Distributions in excess of retained earnings				
Deduction from unit holders' capital	1,484,260,050		-	
III Distributions				
Distributions of retained earnings	8,074,899,300	¥3,694	9,601,842,600	¥4,668
Distributions in excess of retained earnings	1,484,260,050	679	-	-
Total distributions	9,559,159,350	¥4,373	9,601,842,600	¥4,668
IV Retained earnings carried forward	¥ 1,359,587		¥ 776,372	

Pursuant to the "Policy on the Distribution of Funds" as defined in Article 39, Paragraph 1, Item 2 of the Articles of Incorporation, 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 8,074,899,300 yen and 9,601,842,600 yen

for the six-month periods ended May 31, 2018 and November 30, 2017, 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 the Articles 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. Furthermore, NPR is permitted to distribute One-time Surplus Cash Distributions for the purpose of maintaining stable distributions per unit in the event that its distributions per unit is expected to temporarily dilute by a certain degree as a result of financing actions.

Accordingly, NPR declared SCD of 1,165,111,350 yen, as a return of unit holders' capital, which was the amount equivalent to approximately 28.5% of depreciation expense of 4,088,323,800 yen for the period ended May 31, 2018.

In addition, NPR made a One-time Surplus Cash Distributions of 319,148,700 yen based on an assessment of temporary earnings dilution of 146 yen per unit as a result of certain financing activities for the period ended May 31, 2018.

Considering the amount of profits including the gain on sales of real estate properties, NPR decided to suspend to declare SCD for the period ended November 30, 2017.

**10. Short-term and Long-term Loans Payable**

Short-term and long-term loans payable consisted of bank borrowings under loan agreements. The following table summarizes the short-term and long-term loans payable as of May 31, 2018 and November 30, 2017.

	Thousands of yen			
	As of			
	May 31, 2018		November 30, 2017	
0.22147% unsecured short-term loans	¥	4,410,000	¥	4,410,000
0.22147% unsecured short-term loans		1,890,000		1,890,000
Total short-term loans payable	¥	6,300,000	¥	6,300,000
0.81010% unsecured long-term loans due 2018 <sup>(*)</sup>	¥	6,400,000	¥	6,400,000
0.30820% unsecured long-term loans due 2019		1,000,000		1,000,000
0.57490% unsecured long-term loans due 2022 <sup>(*)</sup>		10,000,000		10,000,000
0.57490% unsecured long-term loans due 2022 <sup>(*)</sup>		4,000,000		4,000,000
0.07570% unsecured long-term loans due 2021 <sup>(*)</sup>		7,300,000		7,300,000
0.17260% unsecured long-term loans due 2022 <sup>(*)</sup>		6,000,000		6,000,000
0.39000% unsecured long-term loans due 2024 <sup>(*)</sup>		10,000,000		10,000,000
0.41290% unsecured long-term loans due 2023 <sup>(*)</sup>		7,600,000		7,600,000
0.52800% unsecured long-term loans due 2024 <sup>(*)</sup>		4,000,000		4,000,000
0.71670% unsecured long-term loans due 2026 <sup>(*)</sup>		9,400,000		9,400,000
0.22360% unsecured long-term loans due 2021 <sup>(*)</sup>		14,000,000		14,000,000
0.26200% unsecured long-term loans due 2022 <sup>(*)</sup>		10,000,000		10,000,000
0.31250% unsecured long-term loans due 2023 <sup>(*)</sup>		20,000,000		20,000,000
0.37250% unsecured long-term loans due 2024 <sup>(*)</sup>		3,000,000		3,000,000
0.37250% unsecured long-term loans due 2024 <sup>(*)</sup>		3,000,000		3,000,000
0.43690% unsecured long-term loans due 2025 <sup>(*)</sup>		23,300,000		23,300,000
0.52400% unsecured long-term loans due 2026 <sup>(*)</sup>		6,100,000		6,100,000
0.52400% unsecured long-term loans due 2026 <sup>(*)</sup>		5,200,000		5,200,000
0.52400% unsecured long-term loans due 2026 <sup>(*)</sup>		2,600,000		2,600,000
0.63270% unsecured long-term loans due 2027 <sup>(*)</sup>		23,300,000		23,300,000
0.21815% unsecured long-term loans due 2020 <sup>(**)</sup>		-		-
0.21815% unsecured long-term loans due 2020 <sup>(**)</sup>		-		-
0.61980% unsecured long-term loans due 2028 <sup>(*)</sup>		11,800,000		-
Less: current portion		(6,400,000)		-
Total long-term loans payable, less current portion	¥	181,600,000	¥	176,200,000

The stated interest rate is the weighted average interest rate during the period ended May 31, 2018. 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 loans (\*\*) from Sumitomo Mitsui Banking Corporation and The Bank of Mitsubishi UFJ, Ltd., with

the principal amount of 22,540,000 thousand yen and 9,660,000 thousand yen, respectively, were prepaid on March 13, 2018, before the maturity date.

The redemption schedules for long-term loans subsequent to May 31, 2018 and November 30, 2017 are disclosed in Note 4, "Financial Instruments."

NPR amended the condition of its commitment line agreement to extend the term and expand the commitment providers during the period ended May 31, 2018.

	Thousands of yen			
	As of			
	May 31, 2018		November 30, 2017	
Total amount of committed line of credit	¥	20,000,000	¥	20,000,000
Borrowings drawn down		-		-
Balance of unused committed line of credit	¥	20,000,000	¥	20,000,000



### 11. Investment Corporation Bonds Payable

The investment corporation bonds payable would be redeemed on a lump-sum basis at their contractual maturity dates. The following table summarizes the investment corporation bonds payable as of May 31, 2018 and November 30, 2017.

	Issued date	Maturity date	Interest rate	Thousands of yen	
				As of	
				May 31, 2018	November 30, 2017
1st unsecured bond	November 27, 2014	November 27, 2019	0.338%	¥ 2,000,000	¥ 2,000,000
2nd unsecured bond	November 27, 2014	November 27, 2024	0.930%	3,000,000	3,000,000
3rd unsecured bond	June 15, 2017	June 15, 2021	0.180%	2,000,000	2,000,000
4th unsecured bond	June 15, 2017	June 15, 2023	0.280%	1,500,000	1,500,000
5th unsecured bond	June 15, 2017	June 15, 2027	0.500%	2,500,000	2,500,000
6th unsecured bond	June 15, 2017	June 15, 2032	0.860%	1,000,000	1,000,000
Total				¥ 12,000,000	¥ 12,000,000

### 12. Income Taxes

NPR is subject to Japanese corporate income taxes on its taxable income. The tax effects of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities as of May 31, 2018 and November 30, 2017 are as follows:

	Thousands of yen	
	As of	
	May 31, 2018	November 30, 2017
Enterprise tax payable	¥ 27	¥ 1
Total deferred tax assets	27	1
Net deferred tax assets	¥ 27	¥ 1

Reconciliations 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 statements of income for the six-month periods ended May 31, 2018 and November 30, 2017 are as follows:

	For the six-month periods ended	
	May 31, 2018	November 30, 2017
Statutory tax rate	31.74%	31.74%
Adjustments:		
Deductible cash distributions	(31.73%)	(31.74%)
Other	0.00%	0.01%
Actual effective income tax rate	0.01%	0.01%

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.

**13. Per Unit Information**

The following table summarizes per unit information for the six-month periods ended May 31, 2018 and November 30, 2017.

	Yen	
	For the six-month periods ended	
	May 31, 2018	November 30, 2017
Net income per unit		
Basic net income per unit	¥ 3,821	¥ 4,799
Weighted average number of units outstanding	2,113,350	2,000,636
	Yen	
	As of	
	May 31, 2018	November 30, 2017
Net assets per unit	¥ 155,574	¥ 152,436

(Note) 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 units were outstanding.

**14. Transactions with Related Parties**

a) Transactions and Account Balances with the Parent Company and Major Unit Holders  
There were no transactions and account balances for all periods presented.

b) Transactions and Account Balances with Affiliates  
There were no transactions and account balances for all periods presented.

c) Transactions and Account Balances with Companies under Common Control  
(For the six-month period ended May 31, 2018)

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	Prologis REIT Master Lease GK (Note 3)	Chiyoda-ku, Tokyo	¥ 2,100	Real estate business, other	-	-	Lessee	Lease of properties in trust	¥ 17,168,998	Operating accounts receivable	¥ 892,006
								Proceeds of tenant leasehold and security deposits in trust	1,220,649	Tenant leasehold and security deposits in trust	12,935,998
								Repayments of tenant leasehold and security deposits in trust	337,203		
Subsidiary of an affiliate	Ichikawa 3 Special Purpose Company	Chiyoda-ku, Tokyo	10,000	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	17,000,000	-	-
Subsidiary of an affiliate	Prologis Narita 1 Y.K.	Chiyoda-ku, Tokyo	99,000	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	5,260,000	-	-
Subsidiary of an affiliate	Hotaka Special Purpose Company	Chiyoda-ku, Tokyo	100,000	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	21,300,000	-	-
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 (Note 4)	1,829,317	Accrued expenses	1,740,438

(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.

(Note 3) With respect to 34 properties out of 40 properties held by NPR, NPR leases space to Prologis REIT Master Lease GK based on a pass-through type of master lease agreement, and Prologis REIT Master Lease GK subleases the space to actual tenants.

(Note 4) The Asset management fee above includes management fees for property acquisition of 217,800 thousand yen.

(For the six-month period ended November 30, 2017)

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	Prologis REIT Master Lease GK (Note 3)	Chiyoda-ku, Tokyo	¥ 2,100	Real estate business, other	-	-	Lessee	Lease of properties in trust	¥ 15,975,178	Operating accounts receivable	¥ 587,232
								Proceeds of tenant leasehold and security deposits in trust	1,466,536	Tenant leasehold and security deposits in trust	12,052,552
								Repayments of tenant leasehold and security deposits in trust	638,142		
Subsidiary of an affiliate	Hakuba Special Purpose Company	Chiyoda-ku, Tokyo	100,000	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	13,600,000	-	-
Subsidiary of an affiliate	Ibaraki Special Purpose Company (Note 4)	Chiyoda-ku, Tokyo	131,100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	38,300,000	-	-
Subsidiary of an affiliate	Gassan Special Purpose Company	Chiyoda-ku, Tokyo	100,000	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	3,930,000	-	-
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 (Note 5)	1,818,680	Accrued expenses	1,624,055

(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.

(Note 3) With respect to 31 properties out of 37 properties held by NPR, NPR leases space to Prologis REIT Master Lease GK based on a pass-through type of master lease agreement, and Prologis REIT Master Lease GK subleases the space to actual tenants.

(Note 4) Ibaraki Special Purpose Company changed its trade name to Jinba Special Purpose Company on November 20, 2017.

(Note 5) The Asset management fee above includes management fees for property disposition and acquisition of 35,775 thousand yen and 279,150, respectively.

- d) Transactions and Account Balances with Board of Directors and Individual Unit Holders  
There were no transactions and account balances for all periods presented.

## 15. Segment and Related 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 properties is considered an operating segment. However, when properties share similar economic characteristics 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.

NPR's properties classified into the global market are as follows:

Prologis Park Ichikawa 1, Prologis Park Zama 1, Prologis Park Kawajima, Prologis Park Osaka 2, Prologis Park Maishima 3, 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, Prologis Park Osaka 4, Prologis Park Kawajima 2, Prologis Park Kitamoto, Prologis Park Joso, Prologis Park Osaka 5, Prologis Park Ebina, Prologis Park Kawanishi, Prologis Park Amagasaki 3, Prologis Park Kobe, Prologis Park Narita 3, Prologis Park Koga 1, Prologis Park Kobe 2, Prologis Park Narashino 5, Prologis Park Ibaraki, Prologis Park Koga2, Prologis Park Ichikawa 3, Prologis Park Narita1-D and Prologis Park Yoshimi.

As for investment strategies in the "regional market," as such areas are critical to domestic trades in Japan, 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.

NPR's properties classified into the regional market are as follows:

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



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 income, 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 six-month period ended May 31, 2018			
	Global market	Regional market	Reconciling adjustments	Amount on financial statements
Operating revenues (Note 1)	¥ 16,935,580	¥ 1,499,701	¥ -	¥ 18,435,281
Segment income (Note 2)	8,747,112	681,270	(624,474)	8,803,907
Segment assets (Note 2)	509,781,789	34,066,246	23,305,052	567,153,089
Other items				
Depreciation	3,711,484	376,839	-	4,088,323
Increase in property and equipment and intangible assets	44,598,651	16,008	-	44,614,659

(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 515,531 thousand yen, asset custody fee of 41,954 thousand yen and directors' compensation of 4,800 thousand yen. Reconciling adjustments to segment assets consist mainly of cash and cash deposits of 19,925,661 thousand yen, long-term prepaid expenses and security deposit of 1,671,907 thousand yen and Investment corporation bond issuance costs of 52,333 thousand yen.

	Thousands of yen			
	As of and for the six-month period ended November 30, 2017			
	Global market	Regional market	Reconciling adjustments	Amount on financial statements
Operating revenues (Note 1)	¥ 15,708,101	¥ 3,579,241	¥ -	¥ 19,287,342
Segment income (Note 2)	8,295,713	2,620,234	(582,423)	10,333,523
Segment assets (Note 2)	468,564,436	34,426,000	24,633,670	527,624,107
Other items				
Depreciation	3,381,860	384,123	-	3,765,984
Increase in property and equipment and intangible assets	56,842,562	81,389	-	56,923,951

(Note 1) Operating revenues of NPR are exclusively earned from external parties. Operating revenues in Regional markets includes 2,069,771 thousand yen of gain on sales of real estate properties.

(Note 2) Reconciling adjustments to segment income represent general corporate expenses that consist mainly of asset management fee of 481,105 thousand yen, asset custody fee of 40,156 thousand yen and directors' compensation of 4,800 thousand yen. Reconciling adjustments to segment assets consist mainly of cash and cash deposits of 21,022,737 thousand yen, long-term prepaid expenses and security deposit of 1,692,613 thousand yen and Investment corporation bond issuance costs of 57,272 thousand yen.

**Related Information**

(For the six-month period ended May 31, 2018)

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

Tenant	Operating revenue	Related segment
Prologis REIT Master Lease GK	17,168,998 thousand yen	Global market and Regional market

(Note 1) With respect to 34 properties out of 40 properties held by NPR, NPR leases space to Prologis REIT Master Lease GK based on a pass-through type of master lease agreement, and Prologis REIT Master Lease GK subleases the space to actual tenants.

(For the six-month period ended November 30, 2017)

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

Tenant	Operating revenue	Related segment
Prologis REIT Master Lease GK	15,975,178 thousand yen	Global market and Regional market

(Note 1) With respect to 31 properties out of 37 properties held by NPR, NPR leases space to Prologis REIT Master Lease GK based on a pass-through type of master lease agreement, and Prologis REIT Master Lease GK subleases the space to actual tenants.

## 16. Subsequent Events

### Issuance of Investment Corporation Bonds (“Green Bonds”)

Based on the blanket resolution approved by the board of directors’ meeting on June 26, 2018, NPR issued investment corporation bonds on August 17, 2018, for the purpose of repayment of the short-term borrowings before maturity and also expanding the investor base for NPR’s investment corporation bonds by stimulating demand of bond investors that have a strong interest in ESG investing.

	Amount of Issuance	Interest Rate	Redemption Date	Collateral
Nippon Prologis REIT 7th Unsecured Investment Corporation Bonds (with pari passu conditions among specified investment corporation bonds)	6,000 million yen	0.660% (Fixed rate)	August 17, 2028	Neither collateral nor guarantee is provided for the bonds, and no asset is secured for the bonds.

(Note 1) Each bond is issued and redeemed at 100 yen per value of 100 yen.

(Note 2) The total amount of each bond will be redeemed on those specified redemption dates as shown above and redemption by purchase is permitted any time on and after the following day of the date of payment except for the case separately determined by the depository.

## 17. Additional Information

### Acquisition of assets

NPR plans to acquire the following assets based on the Sale and Purchase Agreement of Trust Beneficiary Interests (the “Sale and Purchase Agreement”) as of February 26, 2018.

Property Name	Location	Anticipated Acquisition Date (Note 1)	Seller	Anticipated Acquisition Price (yen in thousands) (Note 2)	Appraisal Value (yen in thousands) (Note 3)
Prologis Park Koga 3 (Note 4)	Koga, Ibaraki	October 1, 2018 (scheduled)	Gassan Special Purpose Company	5,440,000	5,440,000
Prologis Park Tsukuba 1-A (Note 4)	Tsukuba, Ibaraki	December 3, 2018 (scheduled)	Tsukuba Special Purpose Company	12,900,000	12,900,000

(Note 1) “Anticipated acquisition date” indicates the anticipated acquisition date stated in the relevant Sale and Purchase Agreement that was executed with the current owners of the relevant properties.

(Note 2) “Anticipated acquisition price” indicates the transfer price of the two new properties stated in the relevant Sale and Purchase Agreement, rounded down to the nearest thousand yen and does not include consumption taxes and local consumption taxes or expenses associated with the acquisition.

(Note 3) “Appraisal Value” indicates the appraisal values for Prologis Park Koga 3 and Prologis Park Tsukuba 1-A based on appraisal reports with the appraisal date of May 31, 2018 has been obtained from the Japan Real Estate Institute and Jones Lang LaSalle K.K.

(Note 4) As of May 31, 2018, Prologis Park Koga 3 and Prologis Park Tsukuba 1-A are still under development. Since payment for transfer of these properties will take place more than a month after the execution of their respective Sale and Purchase Agreements, such Sale and Purchase Agreements are considered forward commitment contracts. According to

the Sale and Purchase Agreement for each property, if either the seller or buyer breaches the Sale and Purchase Agreement in material respects and the purpose of the Sale and Purchase Agreement cannot be achieved because of such breach, the other party can terminate the Sale and Purchase Agreement by giving notice to the breaching party, excluding the case set forth in the Sale and Purchase Agreement separately. In such case, the breaching party shall pay the other party a penalty in an amount equivalent to 20% of the sale price after deduction of consumption taxes and local consumption taxes, and neither party shall seek damages for more than this penalty, even if actual damages exceed the penalty amount, or seek to reduce the size of the penalty, even if actual damages are less than the penalty amount. Under the Sale and Purchase Agreement, payment of the sale price is subject to completion of NPR’s financing for the acquisition, and if this condition is not met, NPR can terminate the Sale and Purchase Agreement by notification to the seller and NPR is not obliged to pay the penalty to the seller.

As a result, even if the financing is not completed as scheduled and NPR cannot pay the sale price, this would likely not directly or materially harm NPR’s financial condition or its ability to pay dividends, since NPR can terminate the Sale and Purchase Agreement in such a situation without paying any penalties.

Sellers are expected to transfer the asset to the trustees and NPR is expected to acquire the beneficiary interest on those properties after completion of properties and no later than the time of anticipated acquisition date.

(Note 5) The Sale and Purchase Agreements pertaining to the anticipated acquisitions stipulate that acquisition prices of these properties increase or decrease under certain circumstances, for the purpose of achieving the Asset Manager’s expected yield at the time of Sale and Purchase Agreement for each property, regardless of any change in net cash flow (“NCF”) of these properties by the time when such properties are acquired (the “Price Adjustment Clause”).

Under the Price Adjustment Clause, it is stipulated that, in the event of any change in NCF of these properties by the time such property is acquired for any prescribed reason (the “Reasons for Price Adjustment”), the anticipated acquisition price of the relevant property will be increased by an amount calculated according to the Price Adjustment Clause when NCF of the relevant property is increased because of any Reasons for Price Adjustment, while that will be decreased by an amount calculated according to the Price Adjustment Clause when NCF of the relevant property is decreased because of any Reasons for Price Adjustment. Therefore, anticipated acquisition prices stated in this document may differ from the actual acquisition prices of these properties.



## **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, 2018 and November 30, 2017, and the statements of income, statements of changes in net assets and statements of cash flows for the six-month periods ended May 31, 2018 and November 30, 2017, 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 misstatement, 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 judgment, 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, 2018 and November 30, 2017, and their financial performance and cash flows for the six-month periods ended May 31, 2018 and November 30, 2017, in accordance with accounting principles generally accepted in Japan.

### **Emphasis of Matter**

We draw attention to Note 16 to the financial statements, which states that subsequent to May 31, 2018, Nippon Prologis REIT, Inc. issued investment corporation bonds. Our opinion is not modified in respect of this matter.

**KPMG AZSA LLC**

August 30, 2018  
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.