

# SEMIANNUAL REPORT

Fiscal Period Ended May 31, 2015





Dear Fellow Unit Holders,

In the 6 months of the 5th Fiscal Period ended May 31, 2015, we have again demonstrated significant achievements in our results. The Japanese Class-A logistics real estate market continued to be strong and the favorable macroeconomic environment contributed to the growth of our revenues, income and distributions per unit (DPU). We continue to own the best-in-class quality portfolio and, with the strong sponsor support from the Prologis Group, we have a robust acquisition pipeline in coming years. With such a resourceful platform, we expect to continue to achieve further growth in the future.

**Operational and Financial Highlights** — With the strong market environment and our significant leasing efforts, our leasing status continued to be strong in the 5th Fiscal Period. We maintained a high average occupancy of 98.4 percent, an 80 basis points increase from the previous period. Our rents continued to grow – for the 132,000 sqm leases which were renewed or re-tenanted in the 5th Fiscal Period, we have delivered weighted average rent growth of 2.0 percent on a nominal monthly basis – this is the fifth fiscal period of consecutive growth since our IPO. Based on the strong demand from our customers for high-quality space as well as fundamental scarcity of Class-A logistics real estate in Japan, we expect further rent growth.

As a result of our operational performance, our 5th Fiscal Period financials continued to be strong – our operating revenue was 14,242 million yen, a 6.0 percent increase from the previous period. Our operating income was 6,958 million yen, ordinary income was 5,946 and net income was 5,788 million yen. Our DPU grew by 4.8 percent to 3,920 yen, including the surplus cash distributions. On the stabilized basis excluding one-time effects from actual results, our DPU has grown by 20 percent during the five fiscal periods since our IPO, reflecting our robust external growth from property acquisitions and steady rent growth as well as our efforts to save various costs.

**Japanese Logistics Real Estate Market** — Japanese logistics real estate market, especially in the Class-A segment, continues to be solid. The stock of Class-A logistics floor space is only 2.4 percent of the entire warehouse space in Japan, which demonstrates fundamental scarcity of high-quality logistics space in the third largest economy in the world. The demand from our customers for such space continues to be sound, backed by the rapidly growing e-tailing business and conventional retailers/manufacturers constantly outsourcing more of their logistics functions to 3PL companies.

Since our IPO in 2013, there have been significant new supply of Class-A logistics properties in the Japanese market, however, net absorption has been also tremendous, which is maintaining the current market vacancy low – 4.0 percent in greater Tokyo metropolitan area and 6.0 percent in greater Osaka area as of the end of the first quarter in 2015. We continue to expect further new supplies in both the cities in late 2015 and 2016, but we expect that our leasing status would not be negatively impacted due to the fundamental scarcity of the space and our well-staggered lease expiration schedule. The new supply is expected to be absorbed within a reasonable period of time, and we believe that Japanese high-quality logistics real estate business will perform well over the long-term.

**Strong Sponsor Support and Future Acquisitions** — In the 5th Fiscal Period, the Prologis Group has announced three new development projects, which increased the number of its development projects to 11. In addition, according to the sponsor support agreement, we are granted exclusive negotiation rights from the Prologis Group for five properties which are expected to be stabilized by the end of 2015. Once those properties are stabilized, we expect to acquire them at appropriate timing. We expect that we will acquire those 16 properties over the next three to four years. Accordingly, we now have a mid-term portfolio growth target of approximately 600 billion yen in terms of acquisition value. Needless to say, we will explore continued accretion of our DPU and net asset value (NAV) per unit through acquisition of these assets.

## Message from the Executive Director



**Financial Strategies** — By focusing on long-term stability and efficiency, we believe we have one of the strongest balance sheets in the J-REIT industry. All of our term loans are provided by reputable Japanese lenders who strongly support us in the long-term. Almost all of our loans are with long-term fixed interest rates, which will insulate us from interest rate volatility risks in the future, and our debt maturities are well staggered to avoid refinancing risks. In the 5th Fiscal Period, we refinanced 14 billion yen mortgage loans with newly provided unsecured bank loans, reducing the interest rate by approximately 100 basis points. As a result of our continued efforts to strengthen our balance sheets since our IPO, JCR upgraded our credit rating to AA from AA-. We currently have relatively conservative leverage of balance sheet – our loan-to-value ratio (LTV) is 38.6 percent on a book value basis. In the meantime, we intend to maintain this level of LTV because of our affluent future acquisition pipeline from the sponsor. Also, in case of potential future real estate market dislocation, we may have opportunities to pursue attractive third-party acquisitions, taking advantage of our significant additional borrowing capacity.

**Looking Forward** — We have significant growth potential from rising rents and new acquisitions, while never compromising on the quality of our portfolio since we truly believe our strategic focus on the quality will make our business sustainable over the long-term. By fully taking advantage of the global platform of the Prologis Group, we will continue to strive for our maximum unit holder value.

We truly appreciate your continued support.

Best regards,

A handwritten signature in black ink, appearing to read "M. Sakashita".

Masahiro Sakashita

Executive Director

Nippon Prologis REIT, Inc.



Distribution Per Unit  
(total JPY)

3,920

Operating Revenues  
(JPY millions)

14,242

Net Income  
(JPY millions)

5,788

Total Assets  
(JPY millions)

420,300

Loan-To-Value Ratio

38.6%

Period Average Occupancy

98.4%

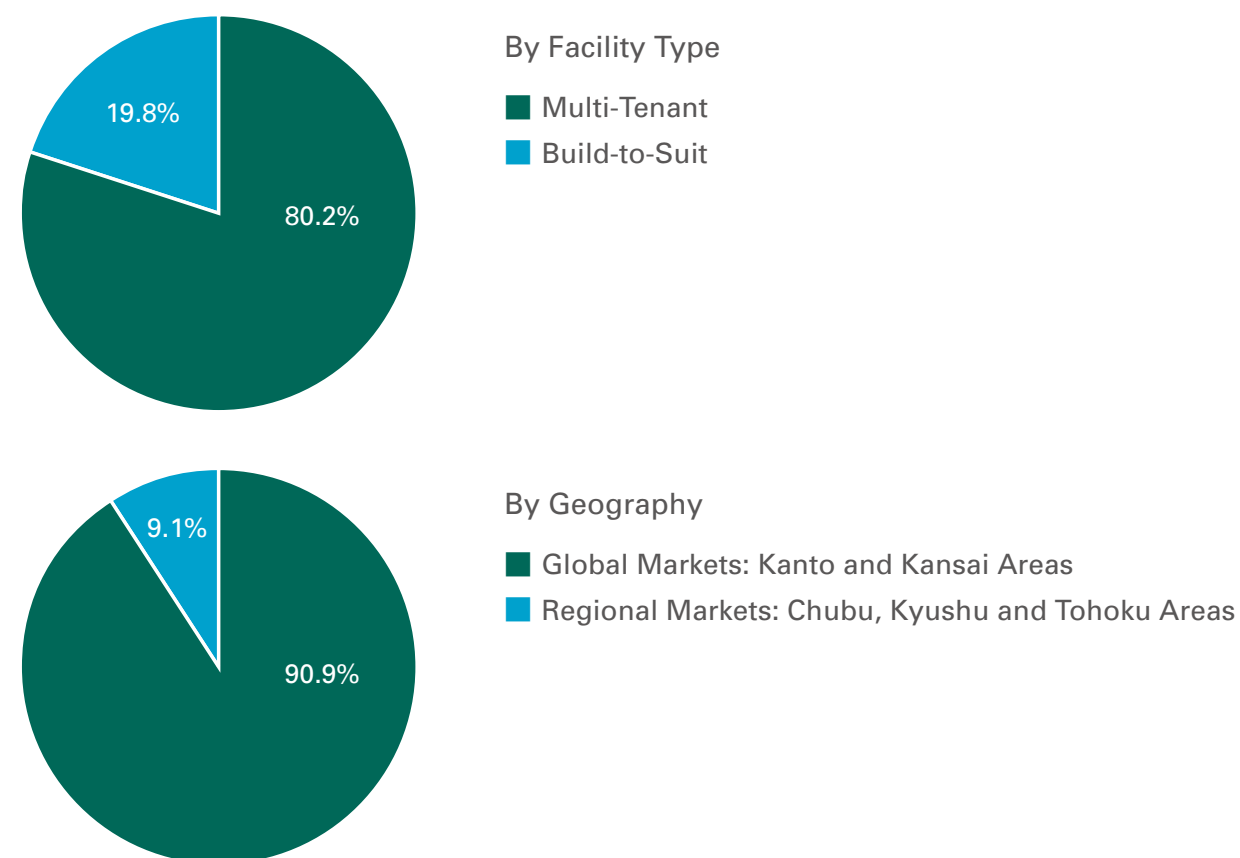
Credit Rating

JCR AA  
(Stable)

Portfolio Size  
(JPY millions)

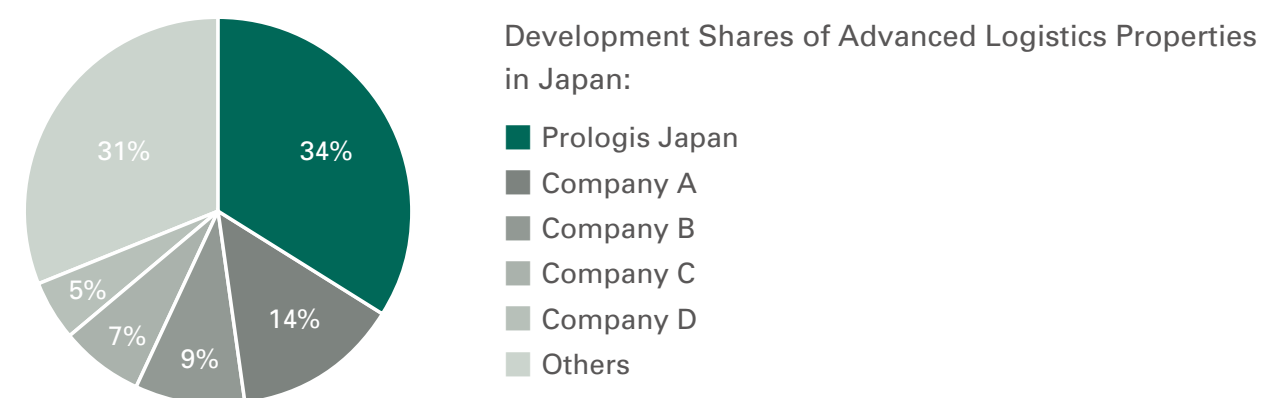
405,050

## 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 December 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  
38.6%

## Governance Structure Promotes 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



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



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



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



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

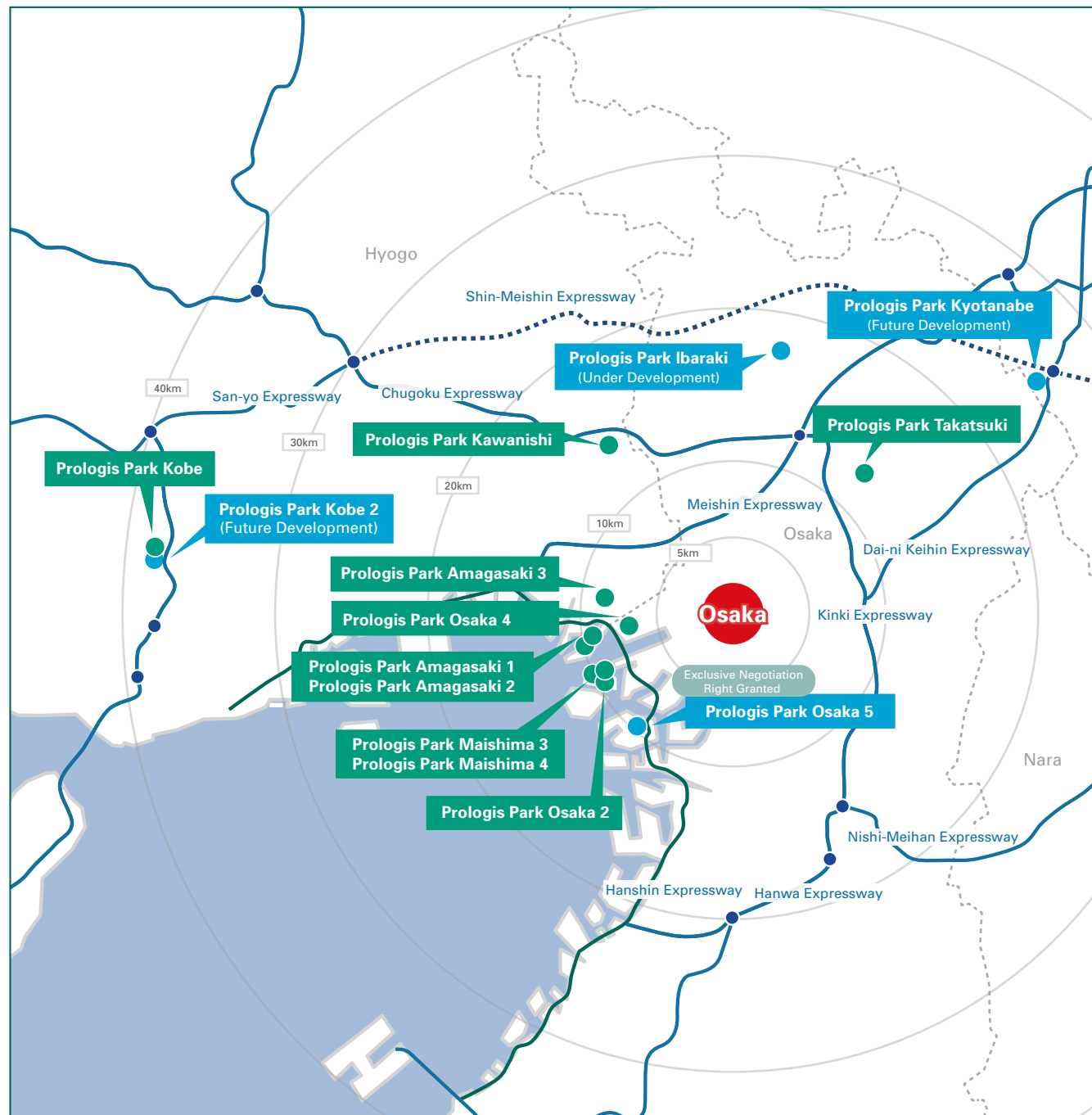


**B-09** Prologis Park Kobe  
JPY 6,410 mm

Note: As of May 31, 2015. Property values are based on acquisition price.



## Kansai area



## Kanto area



- Current assets
- Pipeline assets

# Sponsor Support from the Prologis Group



## Future Pipeline

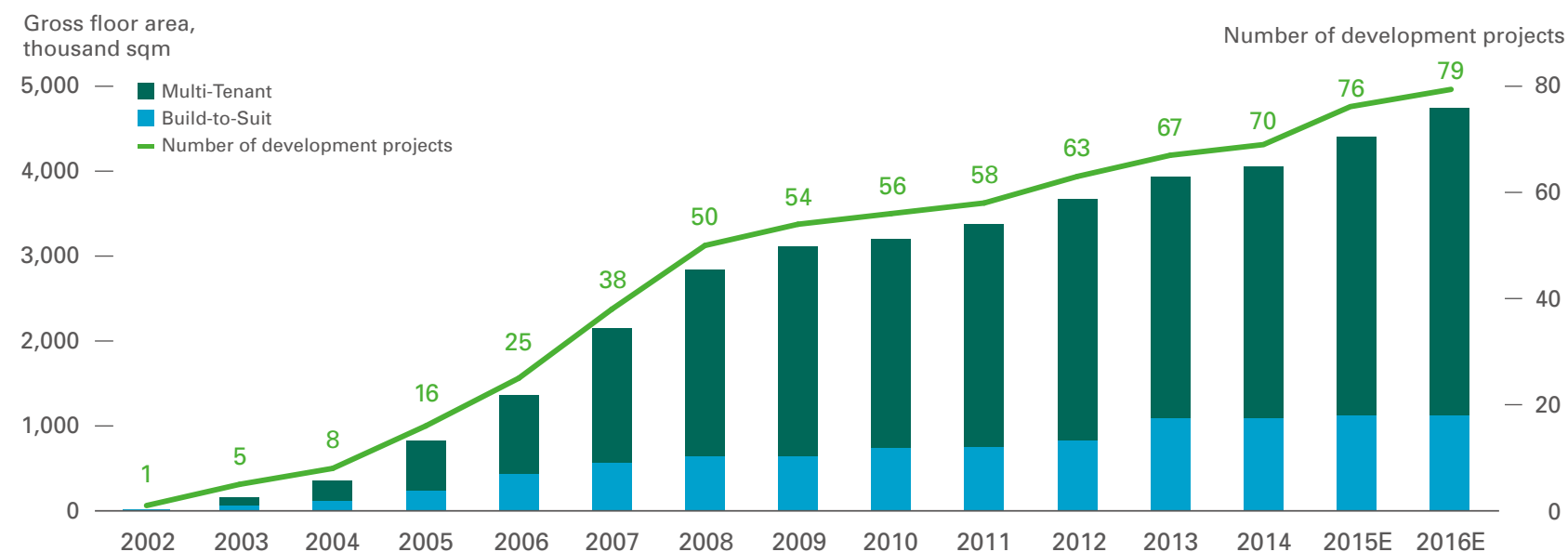
Status	Region / Area	Property Name	Expected Completion Year	Property Type	GFA (sqm)
Operating/ Development Assets  Exclusive Negotiation Rights granted by the Prologis Group	Kanto	Prologis Park Kitamoto	2014	Multi-Tenant	70,291
		Prologis Park Joso	2014	Multi-Tenant	37,381
		Prologis Park Narita 1-D	2015	Multi-Tenant	28,192
	Kansai	Prologis Park Osaka 5	2015	Multi-Tenant	80,594
	Kyushu	Prologis Park Hisayama	2015	Multi-Tenant	24,492
Planned Assets  ( Under Development / Future Development )	Kanto	Prologis Park Yoshimi	2015	Multi-Tenant	110,967
		Prologis Park Ichikawa 3	TBD	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	2017	Build-to-Suit	34,000
		Prologis Park Koga 2-3	TBD	TBD	55,470
		Prologis Park Ebina 2*	2017	Build-to-Suit	38,000
	Kansai	Prologis Park Ibaraki	2016	Multi-Tenant	188,528
		Prologis Park Kobe 2*	2016	Build-to-Suit	68,100
		Prologis Park Kyotanabe*	2018	Multi-Tenant	156,000
	Tohoku	Prologis Park Sendai Izumi	2015	Build-to-Suit	27,943
Total					1,172,000

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.

\* Newly announced planned assets

## Proven Development Track Record in Japan Since 2002





# Focus on Class-A Logistics Facilities

## Features:

- Gross floor area of approximately 16,500 square meters 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 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 and column spacing of at least 10 meters
- 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



### Large Loading Zones



### Wide-Column Spacing



### Renewable Energy



### Restaurant



### Convenience Store



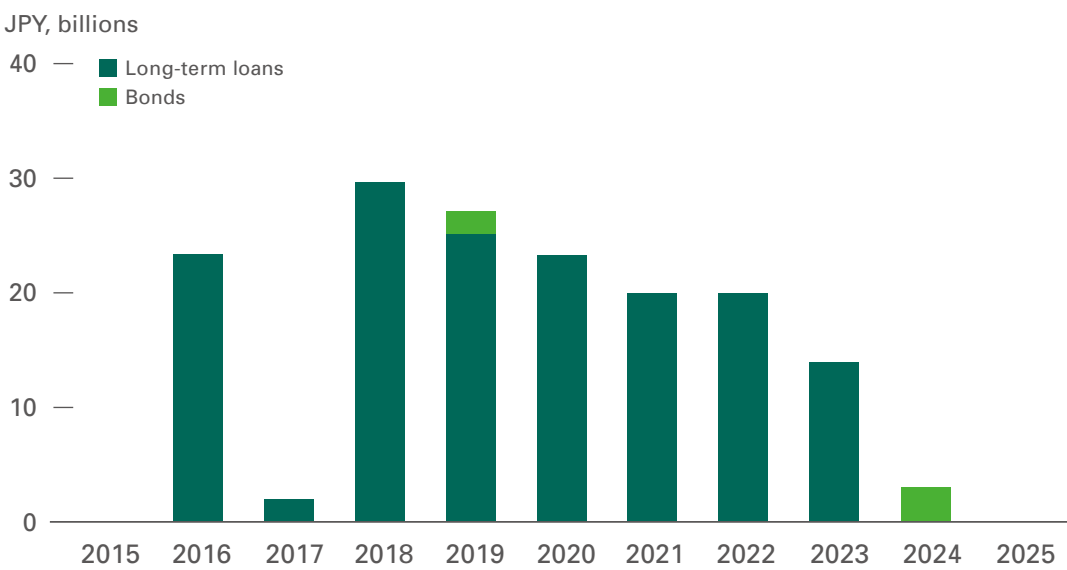
### 24-Hour Security



### Seismic Isolators

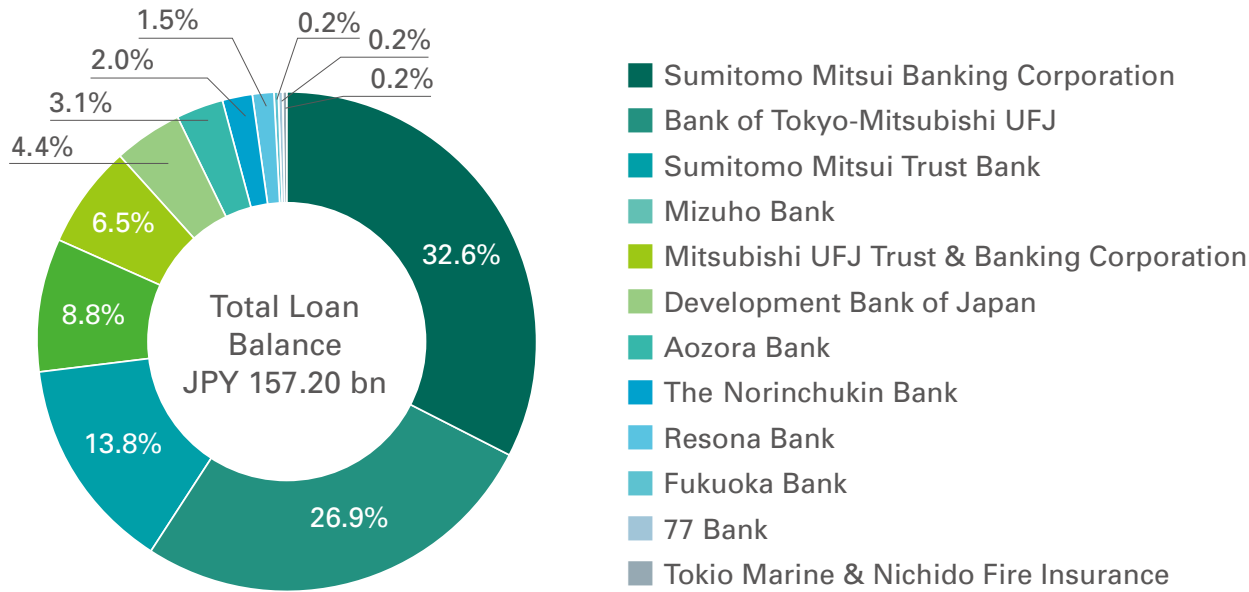


Debt Maturity Schedule\*



\*As of May 31, 2015

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

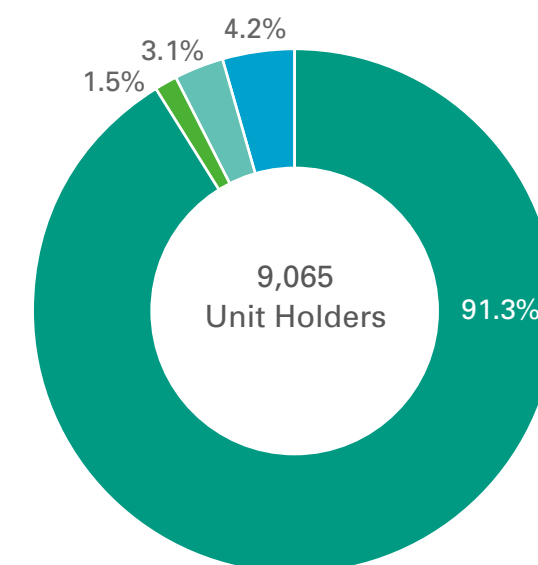
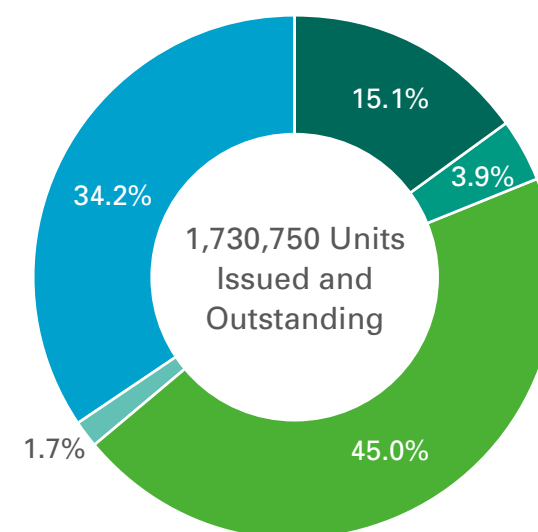


## Unit Holder Information (As of May 31, 2015)

### Major Unit Holders

	Name	Units Owned	% of Units Issued
1	Prologis Property Japan SPC	259,310	14.98%
2	Japan Trustee Services Bank, Ltd. (Trust Acct.)	255,265	14.74%
3	The Master Trust Bank of Japan, Ltd. (Trust Acct.)	160,925	9.29%
4	Trust and Custody Services Bank, Ltd. (Securities Investment Trust Acct.)	131,974	7.62%
5	The Nomura Trust and Banking Company, Ltd. (Trust Acct.)	68,164	3.93%
6	NOMURA BANK (LUXEMBOURG) S. A.	42,115	2.43%
7	STATE STREET BANK AND TRUST COMPANY	37,216	2.15%
8	THE BANK OF NEW YORK MELLON SA/NV 10	34,535	1.99%
9	STATE STREET BANK WEST CLIENT-TREATY 505234	28,521	1.64%
10	UNION BANCAIRE PRIVEE (EUROPE) SA, AIFMD CLIENTS	27,254	1.57%
	<b>Total</b>	<b>1,045,279</b>	<b>60.39%</b>

### Unit Holder Composition



## Environmental Stewardship

### Solar panels installed on the rooftops of 17 assets in the NPR portfolio and on pipeline assets

Prologis is dedicated to leading the industry in sustainable development, renewable energy and energy efficiency. For example, solar panel systems have been installed on the rooftops of 17 assets of the NPR portfolio and on pipeline assets. This solar portfolio is expected to deliver approximately 20 megawatts, equivalent to the annual electricity consumption of 5,900 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. As part of these efforts, Prologis has initiated a project to replace current interior lighting with LEDs to substantially reduce energy usage. Prologis aims to develop sustainable buildings in the long-term and continues to deliver CASBEE-certified facilities.



Prologis Park Ichikawa 1



Before



After



Prologis Park Osaka 4



Prologis Park Kawajima



## Social Responsibility



### CSR activities

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



Impact Day 2015 in Tokyo  
(Cleaning and forest maintenance Oiso, Kanagawa)



Impact Day 2015 in Osaka  
(Collecting and research of gulf coast biology at Osaka Bay)

### 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 Zama



Logistics / SCM Course at Waseda University

### Support for the logistics industry

Support the museum which is the only logistics museum in Japan



Volunteer Activities for the museum of Logistics



## Balance Sheets

	Thousands of yen	
	As of	
	May 31, 2015	November 30, 2014
<b>ASSETS</b>		
Current assets:		
Cash and deposits (Notes 4 and 5)	¥ 18,144,925	¥ 12,857,306
Cash and deposits in trust (Notes 3, 4 and 5)	3,236,363	4,497,910
Operating accounts receivable	261,299	216,462
Prepaid expenses	294,560	283,879
Deferred tax assets (Note 13)	25	27
Consumption taxes receivable	-	1,319,884
Other current assets	118	30
Total current assets	21,937,294	19,175,500
Property and equipment (Note 7):		
Buildings	7,543,229	7,543,229
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)	224,036,333	223,785,350
Structures in trust (Note 3)	4,259,467	4,220,887
Machinery and equipment in trust	11,267	2,670
Tools, furniture and fixtures in trust (Note 3)	423,147	418,025
Other tangible assets in trust	35	35
Land in trust (Note 3)	168,427,926	168,427,926
Less: accumulated depreciation	(11,349,888)	(8,423,321)
Total property and equipment	397,440,896	400,064,180
Intangible assets:		
Other intangible assets in trust (Note 3)	2,646	2,829
Total intangible assets	2,646	2,829
Investments and other assets:		
Long-term prepaid expenses	844,114	968,162
Security deposit	10,000	10,000
Organization expenses	39,367	47,512
Investment corporation bond issuance costs	25,654	27,554
Other (Note 3)	400	400
Total investments and other assets	919,536	1,053,628
<b>Total Assets</b>	<b>¥ 420,300,373</b>	<b>¥ 420,296,140</b>

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

## Balance Sheets, continued

	Thousands of yen	
	As of	
	May 31, 2015	November 30, 2014
<b>LIABILITIES</b>		
Current liabilities:		
Operating accounts payable	¥ 828,208	¥ 998,623
Current portion of long-term loans payable (Notes 5 and 11)	23,300,000	-
Accounts payable (Note 5)	195,853	38,719
Accrued expenses	1,352,190	1,281,605
Accrued consumption taxes	860,904	-
Income taxes payable	834	896
Advances received	2,392,939	2,396,420
Other current liabilities	123,983	254,450
Total current liabilities	29,054,915	4,970,715
Non-current liabilities:		
Investment corporation bonds payable (Notes 5 and 12)	5,000,000	5,000,000
Long-term loans payable (Notes 5, 6 and 11)	133,900,000	143,200,000
Long-term loans payable in trust (Notes 3, 5 and 11)	-	14,438,545
Tenant leasehold and security deposits (Note 5)	247,773	247,773
Tenant leasehold and security deposits in trust (Note 5)	10,393,308	10,045,457
Other non-current liabilities	-	884
Total non-current liabilities	149,541,081	172,932,661
<b>Total Liabilities</b>	<b>178,595,997</b>	<b>177,903,376</b>
<b>NET ASSETS</b> (Note 10)		
Unit holders' equity		
Unit holders' capital	235,915,634	236,917,738
Units authorized:		
10,000,000 units as of May 31, 2015 and November 30, 2014		
Units issued and outstanding:		
1,730,750 units as of May 31, 2015 and November 30, 2014		
Surplus		
Retained earnings	5,788,742	5,475,024
Total unit holders' equity	241,704,376	242,392,763
<b>Total Net Assets</b>	<b>241,704,376</b>	<b>242,392,763</b>
<b>Total Liabilities and Net Assets</b>	<b>¥ 420,300,373</b>	<b>¥ 420,296,140</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, 2015	November 30, 2014
<b>Operating Revenues</b> (Note 8):		
Operating rental revenues	¥ 13,241,425	¥ 12,368,052
Other rental revenues	1,001,574	1,068,501
Total operating revenues	14,242,999	13,436,554
<b>Operating Expenses</b> (Notes 7 and 8):		
Expenses related to property rental business	5,983,828	5,627,070
Asset management fee	1,208,471	1,143,160
Asset custody fee	36,128	34,714
Directors' compensation	4,800	4,800
Audit fee	15,000	15,000
Other operating expenses	36,369	38,365
Total operating expenses	7,284,598	6,863,111
Operating income	6,958,400	6,573,442
<b>Non-operating Income:</b>		
Interest income	1,568	1,327
Interest on refund of consumption taxes	195	1,827
Total non-operating income	1,763	3,155
<b>Non-operating Expenses:</b>		
Interest expense on loans payable	836,767	877,341
Interest expense on investment corporation bonds	17,424	284
Amortization of organization expenses	8,145	8,145
Amortization of investment corporation bond issuance costs	1,899	41
Borrowing related expenses	149,843	151,714
Investment unit issuance expenses	-	41,974
Offering costs associated with the issuance of investment units	-	56,681
Others	26	49
Total non-operating expenses	1,014,106	1,136,232
Ordinary income	5,946,058	5,440,365
<b>Extraordinary income:</b>		
Subsidy income	34,914	35,612
Total extraordinary income	34,914	35,612
<b>Extraordinary losses:</b>		
Loss on prepayment of long-term loans payable in trust	191,738	-
Total extraordinary losses	191,738	-
Income before income taxes	5,789,234	5,475,978
Incomes taxes – current (Note 13)	1,152	1,165
Incomes taxes – deferred (Note 13)	2	(8)
Total income taxes	1,154	1,156
Net income	5,788,079	5,474,821
Retained earnings brought forward	662	203
Retained earnings at end of period	¥ 5,788,742	¥ 5,475,024

	Yen	
	For the six-month periods ended	
	May 31, 2015	November 30, 2014
Net income per unit (Note 14)	¥ 3,344	¥ 3,355

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, 2015 and November 30, 2014

	Thousands of yen			
	Number of units	Unit holders' capital	Retained earnings	Total net assets
Balance as of May 31, 2014 (Note 10)	1,563,750	¥ 197,274,196	¥ 5,185,598	¥ 202,459,794
Issuance of new units on September 16, 2014 and October 16, 2014	167,000	40,389,451		40,389,451
Distributions in excess of retained earnings		(745,908)		(745,908)
Distributions of retained earnings			(5,185,395)	(5,185,395)
Net income			5,474,821	5,474,821
Balance as of November 30, 2014 (Note 10)	1,730,750	¥ 236,917,738	¥ 5,475,024	¥ 242,392,763
Distributions in excess of retained earnings		(1,002,104)		(1,002,104)
Distributions of retained earnings			(5,474,362)	(5,474,362)
Net income			5,788,079	5,788,079
Balance as of May 31, 2015 (Note 10)	1,730,750	¥ 235,915,634	¥ 5,788,742	¥ 241,704,376

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, 2015		November 30, 2014	
<b>Cash Flows from Operating Activities:</b>				
Income before income taxes	¥	5,789,234	¥	5,475,978
Depreciation (Note 7)		2,926,750		2,772,229
Amortization of organization expenses		8,145		8,145
Amortization of investment corporation bond issuance costs		1,899		41
Investment unit issuance expenses		-		41,974
Interest income		(1,568)		(1,327)
Interest expense		854,192		877,626
Loss on prepayment of long-term loans payable in trust		191,738		-
Decrease (increase) in operating accounts receivable		(44,837)		(93,778)
Decrease (increase) in consumption taxes receivables		1,319,884		(419,497)
Decrease (increase) in prepaid expenses		(10,681)		23,254
Decrease (increase) in long-term prepaid expenses		124,047		129,038
Increase (decrease) in operating accounts payable		(176,126)		710,395
Increase (decrease) in accounts payable		17,176		(9,072)
Increase (decrease) in accrued expenses		72,147		(363,372)
Increase (decrease) in accrued consumption taxes		860,904		-
Increase (decrease) in advances received		(3,480)		289,989
Others, net		(13,135)		(313,492)
Subtotal		11,916,290		9,128,131
Interest received		1,568		1,327
Interest paid		(874,038)		(899,917)
Income taxes paid		(1,214)		(1,019)
Net cash provided by operating activities		11,042,605		8,228,522
<b>Cash Flows from Investing Activities:</b>				
Purchases of property and equipment		(289)		(7,456)
Purchases of property and equipment in trust		(134,164)		(45,948,054)
Proceeds from tenant leasehold and security deposits		-		581
Proceeds of tenant leasehold and security deposits in trust		432,817		1,620,124
Repayments from tenant leasehold and security deposits in trust		(203,271)		(303,363)
Net cash provided by (used in) investing activities		95,092		(44,638,168)
<b>Cash Flows from Financing Activities:</b>				
Increase in short-term loans payable		-		6,000,000
Decrease in short-term loans payable		-		(7,450,000)
Proceeds from long-term loans payable		14,000,000		47,700,000
Repayments of long-term loans payable		-		(46,700,000)
Repayments of long-term loans payable in trust		(14,050,000)		-
Payment of settlement fund for prepayment of long-term loans payable in trust		(562,000)		-
Proceeds from issuance of investment corporation bonds		-		4,975,709
Payments for investment corporation bond issuance costs		(3,305)		-
Proceeds from issuance of new investment units		-		40,367,601
Payments for investment unit issuance expenses		(20,124)		-
Payment of distributions of retained earnings		(5,474,220)		(5,183,056)
Payment of distributions in excess of retained earnings		(1,001,976)		(746,538)
Net cash provided by (used in) financing activities		(7,111,626)		38,963,714
Net increase in cash and cash equivalents		4,026,072		2,554,068
Cash and cash equivalents at the beginning of period		17,355,217		14,801,148
Cash and cash equivalents at the end of period (Note 4)	¥	21,381,289	¥	17,355,217

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

## Notes to Financial Statements

For the six-month periods ended May 31, 2015 and November 30, 2014

### 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 17 properties (aggregate acquisition price: 232,030 million yen) during the subsequent fiscal periods. As a result, NPR owned 29 properties (aggregate acquisition price: 405,050 million yen), which were all developed by the Prologis Group. The portfolio's total leasable area was 1,947,474.68 square-meters and the occupancy rate remained at a high level of 98.6% 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                     | 3-66 years |
| Structures                    | 2-60 years |
| Machinery and equipment       | 17 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 80,503 thousand yen for the six-month period ended November 30, 2014, and not applicable for the six-month period ended May 31, 2015.
- d) Investment Unit Issuance Expenses
- The full amount of investment unit issuance expenses is recorded as expenses at the time of expenditure.
- e) Organization Expenses
- All organization expenses are amortized using the straight-line method over five years.
- f) Investment corporation bond issuance costs
- Investment corporation bond issuance costs are amortized using the straight-line method over the respective terms of the bonds.
- g) 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.

h) 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.

i) 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, 2015	November 30, 2014
Cash and deposits in trust	¥ -	¥ 1,453,197
Buildings in trust	-	11,444,660
Structures in trust	-	178,067
Tools, furniture and fixtures in trust	-	6,663
Land in trust	-	15,655,791
Other intangible assets in trust	-	1,104
Other	-	400
Total	¥ -	¥ 28,739,884

The liabilities secured by pledged assets are as follows:

	Thousands of yen	
	As of	
	May 31, 2015	November 30, 2014
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”). The balances in the table show the contractual repayment amounts in the loan agreements. The long-term loans payable in trust were initially recognized at present value calculated based on the market borrowing terms available to NPR as of September 30, 2013, the record date for acquisition of the Properties with Borrowings Held in Trust, and differed from the contractual repayment amounts in the loan agreements. Subsequent to the acquisition date the loan balances are calculated based on the amortized cost method (straight-line method) and recorded in the accompanying balance sheets. The above mentioned long-term loans payable in trust were prepaid in full on March 31, 2015.



4. 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 is as follows:

	Thousands of yen			
	As of			
	May 31, 2015		November 30, 2014	
Cash and deposits	¥	18,144,925	¥	12,857,306
Cash and deposits in trust		3,236,363		4,497,910
Cash and cash equivalents	¥	21,381,289	¥	17,355,217

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 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, 2015 and November 30, 2014 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, 2015		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 18,144,925	¥ 18,144,925	¥ -
(2) Cash and deposits in trust	3,236,363	3,236,363	-
Total assets	¥ 21,381,289	¥ 21,381,289	¥ -
(3) Current portion of long-term loans payable	23,300,000	23,302,197	2,197
(4) Investment corporation bonds payable	5,000,000	5,030,500	30,500
(5) Long-term loans payable	133,900,000	137,007,829	3,107,829
Total liabilities	¥ 162,200,000	¥ 165,340,527	¥ 3,140,527
(7) Derivative transactions	¥ -	¥ -	¥ -

	Thousands of yen		
	As of November 30, 2014		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 12,857,306	¥ 12,857,306	¥ -
(2) Cash and deposits in trust	4,497,910	4,497,910	-
Total assets	¥ 17,355,217	¥ 17,355,217	¥ -
(4) Investment corporation bonds payable	5,000,000	5,025,300	25,300
(5) Long-term loans payable	143,200,000	146,253,389	3,053,389
(6) Long-term loans payable in trust	14,438,545	14,896,968	458,422
Total liabilities	¥ 162,638,545	¥ 166,175,658	¥ 3,537,112
(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) Current portion of long-term loans payable and (5) 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 conditions and terms.

## (4) Investment corporation bonds payable

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

## (6) 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.

## (7) 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, 2015	November 30, 2014
Tenant leasehold and security deposits	¥ 247,773	¥ 247,773
Tenant leasehold and security deposits in trust	10,393,308	10,045,457

## (Note 3) Redemption schedule for monetary claims after May 31, 2015

	Thousands of yen					
	As of May 31, 2015					
	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	¥18,144,925	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	3,236,363	-	-	-	-	-
Total	¥21,381,289	¥ -	¥ -	¥ -	¥ -	¥ -

## Redemption schedule for monetary claims after November 30, 2014

	Thousands of yen					
	As of November 30, 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	¥12,857,306	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	4,497,910	-	-	-	-	-
Total	¥17,355,217	¥ -	¥ -	¥ -	¥ -	¥ -



(Note 4) Repayment schedule for long-term loans payable and other interest-bearing debt after May 31, 2015

Thousands of yen						
As of May 31, 2015						
	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	¥ 3,000,000
Long-term loans payable	23,300,000	-	25,300,000	6,400,000	48,300,000	53,900,000
Total	¥23,300,000	¥ -	¥25,300,000	¥6,400,000	¥50,300,000	¥56,900,000

Repayment schedule for long-term loans payable and other interest-bearing debt after November 30, 2014

Thousands of yen						
As of November 30, 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
Investment corporation bonds payable	¥ -	¥ -	¥ -	¥ -	¥ 2,000,000	¥ 3,000,000
Long-term loans payable	-	23,300,000	2,000,000	23,300,000	31,400,000	63,200,000
Long-term loans payable in trust	-	-	314,000	314,000	314,000	13,108,000
Total	¥ -	¥23,300,000	¥ 2,314,000	¥23,614,000	¥33,714,000	¥79,308,000

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. The balances in the table show the contractual repayment amounts in the loan agreements. The long-term loans payable in trust were initially recognized at present value calculated based on the market borrowing terms available to NPR as of September 30, 2013, the record date for acquisition of the Properties with Borrowings Held in Trust, and differed from the contractual repayment amounts in the loan agreements. Subsequent to the acquisition date the loan balances are calculated based on the amortized cost method (straight-line method) and recorded in the accompanying balance sheets.

## 6. Derivative Transactions

For the six-month periods ended May 31, 2015 and November 30, 2014, 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, 2015						
Contract amount						
Hedge accounting method	Type of derivative transaction	Primary hedged item	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	¥156,200,000	¥132,900,000	(Note)	(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 5, "Financial Instruments, b) Estimated Fair Value of Financial Instruments, (3) Current portion of long-term loans payable and (5) Long-term loans payable".

Thousands of yen						
As of November 30, 2014						
Contract amount						
Hedge accounting method	Type of derivative transaction	Primary hedged item	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 payable designated as hedged items. Therefore, their fair value is included in long-term loans payable disclosed in the aforementioned Note 5, "Financial Instruments, b) Estimated Fair Value of Financial Instruments, (5) 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 six-month periods ended	
	May 31, 2015	November 30, 2014
Book value		
Balance at the beginning of the period	¥ 400,067,010	¥ 356,881,984
Changes during the period (Note 2)	(2,623,467)	43,185,026
Balance at the end of the period	¥ 397,443,542	¥ 400,067,010
Fair value at the end of the period	¥ 439,740,000	¥ 425,990,000

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

(Note 2) The decrease for the fiscal period ended May 31, 2015, was a result of the recognition of depreciation of 2,926,750 thousand yen.

In addition, the increase for the fiscal period ended November 30, 2014, was a result of the acquiring 5 properties during the period (Prologis Park Kawajima 2, Prologis Park Ebina, Prologis Park Kawanishi, Prologis Park Amagasaki 3 and Prologis Park Kobe) for a total of 45,894,678 thousand yen, offset slightly by depreciation of 2,772,229 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 six-month periods ended May 31, 2015 and November 30, 2014.

	Thousands of yen	
	For the six-month periods ended	
	May 31, 2015	November 30, 2014
(1) Property-related revenues		
Rental revenues		
Rental revenues	¥ 12,446,758	¥ 11,609,102
Common area charges	794,667	758,949
Total	¥ 13,241,425	¥ 12,368,052
Other rental revenues		
Received utilities cost	¥ 822,623	¥ 866,512
Others	178,950	201,988
Total	¥ 1,001,574	¥ 1,068,501
Total property-related revenues	¥ 14,242,999	¥ 13,436,554
(2) Property-related expenses		
Rental expenses		
Subcontract expenses	¥ 788,501	¥ 662,381
Utilities cost	904,882	974,395
Taxes and public dues	1,225,111	1,101,942
Non-life insurance premium	24,200	23,388
Repair and maintenance	96,904	77,007
Depreciation	2,926,750	2,772,229
Custodian fee	14,708	13,142
Other expenses	2,769	2,583
Total rental expenses	¥ 5,983,828	¥ 5,627,070
(3) Operating income from property leasing ( (1)-(2) )	¥ 8,259,170	¥ 7,809,483



## 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, 2015		November 30, 2014	
Due within one year	¥	24,269,853	¥	24,023,595
Due after one year	¥	81,353,922	¥	79,030,668
Total	¥	105,623,775	¥	103,054,264

## 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, 2015 and November 30, 2014 consists of the following items:

	Thousands of yen			
	As of			
	May 31, 2015		November 30, 2014	
Unit holders' capital, gross	¥	238,527,550	¥	238,527,550
Deduction from unit holders' capital; Accumulated distribution in excess of retained earnings		(2,611,916)		(1,609,811)
Unit holders' capital	¥	235,915,634	¥	236,917,738

### 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.

	Yen			
	For the six-month periods ended			
	May 31, 2015		November 30, 2014	
	Total	Per unit	Total	Per unit
I Unappropriated retained earnings	¥ 5,788,742,539		¥ 5,475,024,896	
II Distributions in excess of retained earnings				
Deduction from unit holders' capital	996,912,000		1,002,104,250	
III Distributions				
Distributions of retained earnings	5,787,628,000	¥ 3,344	5,474,362,250	¥ 3,163
Distributions in excess of retained earnings	996,912,000	576	1,002,104,250	579
Total distributions	6,784,540,000	¥ 3,920	6,476,466,500	¥ 3,742
IV Retained earnings carried forward	¥ 1,114,539		¥ 662,646	

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 5,787,628,000 yen and 5,474,362,250 yen for the six-month periods ended May 31, 2015 and November 30, 2014, 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 832,490,750 yen and 789,222,000 yen, as a return of unit holders' capital, which was the amount equivalent to approximately 28.5% of depreciation expense of 2,926,750,754 yen and 2,772,229,488 yen for the periods ended May 31, 2015 and November 30, 2014, respectively.

In addition, NPR made a One-time Surplus Cash Distributions of 164,421,250 yen and 212,882,250 yen based on an assessment of temporary earnings dilution of 95 yen and 123 yen per unit as a result of certain financing activities for the period ended May 31, 2015 and November 30, 2014, respectively.

# 11. Long-term Loans Payable and Long-term Loans Payable in Trust

Long-term loans payable and long-term loans payable in trust consisted of bank borrowings under loan agreements. The following table summarizes the long-term loans payable and long-term loans payable in trust as of May 31, 2015 and November 30, 2014.

	Thousands of yen	
	As of	
	May 31, 2015	November 30, 2014
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	6,400,000
0.41685% unsecured long-term loans due 2019 <sup>(*)</sup>	1,000,000	1,000,000
0.57490% unsecured long-term loans due 2022 <sup>(*)</sup>	10,000,000	-
0.57490% unsecured long-term loans due 2022 <sup>(*)</sup>	4,000,000	-
Less: current portion	(23,300,000)	-
Total long-term loans payable, less current portion	¥ 133,900,000	¥ 143,200,000
2.00000% secured long-term loans due 2021 <sup>(**)</sup>	¥ -	¥ 7,091,864
2.00000% secured long-term loans due 2021 <sup>(**)</sup>	-	7,346,681
Total long-term loans payable in trust	¥ -	¥ 14,438,545

The stated interest rate is the weighted average interest rate during the period ended May 31, 2015. For certain loans <sup>(\*)</sup> 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, 2015 and November 30, 2014 are disclosed in Note 5, "Financial Instruments."

Long-term loans payable in trust <sup>(\*\*)</sup> were prepaid in full on March 31, 2015. Accordingly, in the period ended May 31, 2015, it was disclosed as an extraordinary loss that the offset amount between (1) the unwound amount of the difference between the book value of the long-term loans payable in trust as of the date of prepayment, which is calculated based on depreciation of original book value on a straight line method, and the principal amount of the loans stated in the loan agreements, and (2) the amount of settlement money associated with the prepayment.



## 12. 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, 2015 and November 30, 2014.

	Issued date	Maturity date	Interest rate	Thousands of yen	
				As of	
				May 31, 2015	November 30, 2014
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
Total				¥ 5,000,000	¥ 5,000,000

## 13. 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, 2015 and November 30, 2014 were as follows:

	Thousands of yen	
	As of	
	May 31, 2015	November 30, 2014
Enterprise tax payable	¥ 25	¥ 27
Total deferred tax assets	25	27
Net deferred tax assets	¥ 25	¥ 27

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 six-month periods ended May 31, 2015 and November 30, 2014 are as follows:

	For the six-month periods ended	
	May 31, 2015	November 30, 2014
Statutory tax rate	34.15%	34.16%
Adjustments:		
Deductible cash distributions	(34.14%)	(34.15%)
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 accordance with the promulgation on March 31, 2015 of the “Act for Partial Revision of Income tax Act” (Act No.9, 2015), the statutory effective tax rate to calculate deferred tax assets or liabilities was revised to 32.31% for temporary differences which are expected to be settled in the fiscal periods beginning on or after June 1, 2015. There is no material impact from this revision.

14. Per Unit Information

The following table summarizes per unit information for the six-month periods ended May 31, 2015 and November 30, 2014.

	Yen	
	For the six-month periods ended	
	May 31, 2015	November 30, 2014
Net income per unit		
Basic net income per unit	¥ 3,344	¥ 3,355
Weighted average number of units outstanding	1,730,750	1,631,801
	Yen	
	As of	
	May 31, 2015	November 30, 2014
Net assets per unit	¥ 139,652	¥ 140,050

(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 securities were outstanding.

15. Transactions with Related Parties

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

(For the six-month period ended May 31, 2015)

None

(For the six-month period ended November 30, 2014)

None

b) Transactions and Account Balances with Affiliates

(For the six-month period ended May 31, 2015)

None

(For the six-month period ended November 30, 2014)

None

c) Transactions and Account Balances with Companies under Common Control

(For the six-month period ended May 31, 2015)

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	Chiyoda-ku, Tokyo	2,100	Real estate business	-	-	Lessee			Operating accounts receivable	¥ 250,439
								Lease of properties in trust	¥ 11,376,993	Advances received	2,283,581
								Proceeds of tenant leasehold and security deposits in trust	432,817	Tenant leasehold and security deposits in trust	10,301,444
								Repayments of tenant leasehold and security deposits in trust	203,271		
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	1,208,471	Accrued expenses	1,305,149

(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) Effective January 1, 2015, Prologis Park Yokohama Tsurumi GK, one of the master leasing entities in NPR's real estate portfolio, merged with 26 other master leasing entities, and changed its trade name to Prologis REIT Master Lease GK on the same day.

(Note 4) With respect to 25 properties out of 29 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, 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	Kawajima 2 Special Purpose Company	Chiyoda-ku, Tokyo	¥ 100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	¥ 8,180,000	-	-
Subsidiary of an affiliate	Ebina Special Purpose Company	Chiyoda-ku, Tokyo	230,500	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	8,250,000	-	-
Subsidiary of an affiliate	Hyogo-Kawanishi Special Purpose Company	Chiyoda-ku, Tokyo	600	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	13,600,000	-	-
Subsidiary of an affiliate	Amagasaki 3 Special Purpose Company	Chiyoda-ku, Tokyo	100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	9,090,000	-	-
Subsidiary of an affiliate	Kobe Special Purpose Company	Chiyoda-ku, Tokyo	100	Real estate business	-	-	Seller	Acquisition of beneficiary right in trust	6,410,000	-	-
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	1,370,810	Accrued expenses	1,234,613

(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) Payment of asset management fee includes the amount of 227,650 thousand yen included in the each property’s acquisition cost.

(Note 4) Kawajima Two Special Purpose Company has changed its trade name to Iwaki Special Purpose Company as of October 6, 2014.

(Note 5) Hyogo Kawanishi Special Purpose Company has changed its trade name to Hotaka Special Purpose Company as of November 13, 2014.

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

(For the six-month period ended May 31, 2015)

None

(For the six-month period ended November 30, 2014)

None

16. 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 29 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, 2015, 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, Prologis Park Osaka 4, Kawajima 2, Prologis Park Ebina, Prologis Park Kawanishi, Prologis Park Amagasaki 3 and Prologis Park Kobe.

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, 2015, 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 six-month period ended May 31, 2015			
	Global market	Regional market	Reconciling adjustments	Amount on financial statements
Operating revenues (Note 1)	¥ 12,686,877	¥ 1,556,121	¥ -	¥ 14,242,999
Segment income (Note 2)	6,697,142	721,811	(460,552)	6,958,400
Segment assets (Note 2)	364,823,110	36,222,309	19,254,954	420,300,373
Other items				
Depreciation	2,558,644	368,106	-	2,926,750
Increase in property, plant and equipment and intangible assets	259,298	43,984	-	303,282

(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 369,527 thousand yen, asset custody fee of 36,128 thousand yen and directors' compensation of 4,800 thousand yen. Reconciling adjustments to segment assets consist mainly of cash and cash deposits of 18,076,413 thousand yen, long-term prepaid expenses and security deposit of 853,946 thousand yen, organization expenses of 39,367 thousand yen, and Investment corporation bond issuance costs of 25,654 thousand yen.

	Thousands of yen			
	As of and for the six-month period ended November 30, 2014			
	Global market	Regional market	Reconciling adjustments	Amount on financial statements
Operating revenues (Note 1)	¥ 11,888,637	¥ 1,547,916	¥ -	¥ 13,436,554
Segment income (Note 2)	6,296,517	718,686	(441,761)	6,573,442
Segment assets (Note 2)	368,305,083	36,564,429	15,426,627	420,296,140
Other items				
Depreciation	2,404,517	367,712	-	2,772,229
Increase in property, plant and equipment and intangible assets	45,947,508	9,747	-	45,957,255

(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 349,532 thousand yen, asset custody fee of 34,714 thousand yen and directors' compensation of 4,800 thousand yen. Reconciling adjustments to segment assets consist mainly of cash and cash deposits of 12,781,202 thousand yen, consumption taxes

receivable of 1,319,884 thousand yen, long-term prepaid expenses and security deposit of 977,929 thousand yen, organization expenses of 47,512 thousand yen, and Investment corporation bond issuance costs of 27,554 thousand yen.

**Related Information**

(For the six-month period ended May 31, 2015)

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	11,376,993 thousand yen	Global market and Regional market

(Note 1) Effective January 1, 2015, Prologis Park Yokohama Tsurumi GK, one of the master leasing entities in NPR's real estate portfolio, merged with 26 other master leasing entities, and changed its trade name to Prologis REIT Master Lease GK on the same day.

(Note 2) With respect to 25 properties out of 29 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, 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.





## 17. 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, 2015 and November 30, 2014, and the statements of income, statements of changes in net assets and statements of cash flows for the six-month periods ended May 31, 2015 and November 30, 2014, 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, 2015 and November 30, 2014, and their financial performance and cash flows for the six-month periods ended May 31, 2015 and November 30, 2014 in accordance with accounting principles generally accepted in Japan.

**KPMG AZSA LLC**

August 28, 2015  
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.