April 22, 2014

Prologis Announces First Quarter 2014 Earnings Results

- Rents on rollover increased 7.0 percent; positive for the fifth-consecutive quarter -

- Same-store net operating income increased 3.0 percent -

- Stabilized $264.1 million of developments with estimated margin of 22.2 percent -

SAN FRANCISCO, April 22, 2014 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the leading global owner, operator and developer of industrial real estate, today reported results for the first quarter 2014.

Core funds from operations (Core FFO) per fully diluted share was $0.43 for the first quarter compared to $0.40 for the same period in 2013.

"We started the year with excellent momentum as strong market fundamentals drove demand for our product, leading to the fifth-consecutive quarter of rent growth," said Hamid R. Moghadam, chairman and CEO, Prologis. "Growth in global trade, consumption and e-commerce continues to fuel customer requirements for modern, well-located logistics facilities. Investor interest is leading to further capitalization rate compression in most regions across the globe, most notably in Europe."

OPERATING RESULTS EXCEEDED FORECAST

The company leased 33.7 million square feet (3.1 million square meters) in its combined operating and development portfolios in the first quarter. Prologis ended the quarter with 94.5 percent occupancy in its operating portfolio, up 80 basis points over the same period in 2013, and as expected, down 60 basis points from year-end.

Tenant retention in the quarter was 84.6 percent, up 660 basis points from the same period in 2013, with tenant renewals totaling 23.3 million square feet (2.2 million square meters). GAAP rental rates on leases signed in the quarter increased 7.0 percent from prior rents compared to an increase of 2.0 percent in the same period in 2013. All divisions had positive rent change on rollover, led by the Americas at 10.4 percent.

In the first quarter, GAAP same-store net operating income (NOI) increased 3.0 percent, or 4.1 percent on an adjusted cash basis, as compared to the same period in 2013. This increase was driven by higher occupancy and increasing rental rents.

CAPITAL DEPLOYMENT INCREASED ASSETS UNDER MANAGEMENT

New investments during the first quarter, excluding contributions and dispositions, totaled

$542.7 million ($303.6 million Prologis' share).

Acquisitions
The company acquired $370.5 million ($163.1 million Prologis' share) of buildings, principally in Europe. The stabilized capitalization rate on building acquisitions was 7.0 percent.

Development Starts & Pipeline
During the quarter, Prologis started $172.2 million ($140.5 million Prologis' share) of new development projects, with an estimated weighted average yield upon stabilization of 7.7 percent and an estimated development margin of 22.2 percent.

The company stabilized $264.1 million in development projects, with an estimated development margin of 22.2 percent and $58.6 million ($50.5 million Prologis' share) of estimated value creation.

At quarter end, Prologis' global development pipeline had a total expected investment of $2.3 billion ($1.9 billion Prologis' share). The pipeline had an estimated weighted average yield at stabilization of 7.3 percent, an estimated development margin of 20.3 percent, and $408.8 million of estimated value creation upon stabilization.

Contributions and Dispositions
In the first quarter, Prologis completed contributions and dispositions totaling $1.2 billion ($568.3 million Prologis' share), with a stabilized capitalization rate of 6.2 percent. This includes, as previously announced, the contribution of a $1.0 billion ($453.4 million Prologis' share) stabilized portfolio of 66 logistics facilities totaling approximately 12.8 million square feet to Prologis U.S. Logistics Venture.

GROWTH IN INVESTMENT MANAGEMENT
Through April 22, 2014, Prologis raised $582.5 million of third-party equity for its ventures, including: $283.3 million for Prologis European Logistics Partners; $215.6 million for Prologis European Properties Fund II; $58.6 million for Prologis Targeted Europe Logistics Fund; and $25.0 million for Prologis Targeted U.S. Logistics Fund.

At quarter end, Prologis had $27.3 billion ($8.3 billion Prologis' share) in combined assets under management in 15 co-investment ventures.

CAPITAL MARKETS ACTIVITY STRENGTHENS FINANCIAL POSITION
During the first quarter, Prologis took the opportunity to further access the current low interest rate environment to complete approximately $1.2 billion of debt financings and refinancings, including the issuance of €700 million ($965.2 million) of Eurobonds.

Subsequent to quarter end, the company closed on the issuance of €300 million ($413.6 million) of Prologis European Properties Fund II Eurobonds. Additionally, the company redeemed $194.2 million of U.S. senior notes and repaid $239.3 million of secured debt.

"The recent credit ratings upgrade from Standard & Poor's to BBB+ is affirmation of our earnings trajectory, significant liquidity, and our demonstrated commitment to build one of the strongest balance sheets in the REIT sector," said Thomas S. Olinger, chief financial officer, Prologis. "Our euro-related financings in the first quarter enabled us to increase our U.S. dollar net equity position to 82 percent, further minimizing foreign currency exposure."

DIVIDEND INCREASED

As previously announced, the board of directors of Prologis approved a plan during the first quarter to raise the company's annualized dividend level by 18 percent to $1.32 per share of common stock. The dividend is expected to be declared quarterly.

NET EARNINGS

Net earnings per fully diluted share was $0.01 for the first quarter compared to net earnings per share of $0.57 for the same period in 2013. The year-over-year decrease was primarily due to a lower level of gains on the contributions and disposition of operating properties.

GUIDANCE NARROWED FOR 2014

Prologis narrowed its full-year 2014 Core FFO guidance range to $1.76 to $1.82 per diluted share from $1.74 to $1.82 per diluted share. The company also narrowed its guidance for net earnings to a range of $0.06 to $0.12 per diluted share.

The Core FFO and earnings guidance reflected above excludes any potential future gains (losses) recognized from real estate transactions. In reconciling from net earnings to Core FFO, Prologis makes certain adjustments, including but not limited to real estate depreciation and amortization expense, gains (losses) recognized from real estate transactions and early extinguishment of debt or redemption of preferred stock, impairment charges, deferred taxes, and unrealized gains or losses on foreign currency or derivative activity.

The difference between the company's Core FFO and net earnings guidance for 2014 predominantly relates to real estate depreciation and recognized gains or losses on real estate transactions and early extinguishment of debt.

WEBCAST & CONFERENCE CALL INFORMATION

The company will host a webcast/conference call to discuss quarterly results, current market conditions and future outlook today, April 22, at 12:00 p.m. U.S. Eastern Time. Interested parties are encouraged to access the live webcast by clicking the microphone icon located near the top of the opening page of the Prologis Investor Relations website (http://ir.prologis.com). Interested parties also can participate via conference call by dialing +1 877-256-7020 (from the U.S. and Canada toll free) or +1 973-409-9692 (from all other countries) and entering conference code 48765448.

A telephonic replay will be available from April 23 through May 23 at +1 855-859-2056 (from the U.S. and Canada) or +1 404-537-3406 (from all other countries), and entering conference code 48765448. The webcast replay will be posted when available in the "Events & Presentations" section of Investor Relations on the Prologis website.

ABOUT PROLOGIS

Prologis, Inc., is the leading owner, operator and developer of industrial real estate, focused on global and regional markets across the Americas, Europe and Asia. As of March 31, 2014, Prologis owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects expected to total approximately 574 million square feet (53.3 million square meters) in 21 countries. The company leases modern distribution facilities to more than 4,700 customers, including manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises.

The statements in this document that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates and projections about the industry and markets in which Prologis operates, management's beliefs and assumptions made by management. Such statements involve uncertainties that could significantly impact Prologis' financial results. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to rent and occupancy growth, development activity and changes in sales or contribution volume of properties, disposition activity, general conditions in the geographic areas where we operate, our debt and financial position, our ability to form new co-investment ventures and the availability of capital in existing or new co-investment ventures — are forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained and therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Some of the factors that may affect outcomes and results include, but are not limited to: (i) national, international, regional and local economic climates, (ii) changes in financial markets, interest rates and foreign currency exchange rates, (iii) increased or unanticipated competition for our properties, (iv) risks associated with acquisitions, dispositions and development of properties, (v) maintenance of real estate investment trust ("REIT") status and tax structuring, (vi) availability of financing and capital, the levels of debt that we maintain and our credit ratings, (vii) risks related to our investments in our co-investment ventures and funds, including our ability to establish new co-investment ventures and funds, (viii) risks of doing business internationally, including currency risks, (ix) environmental uncertainties, including risks of natural disasters, and (x) those additional factors discussed in reports filed with the Securities and Exchange Commission by Prologis under the heading "Risk Factors." Prologis undertakes no duty to update any forward-looking statements appearing in this document.

	Three months ended March 31,	
(dollars in thousands, except per share data)	**2014**	**2013**
Revenues	$ 434,682	$ 490,616
Net earnings attributable to common stockholders	4,666	265,416
Core FFO	217,555	187,937
Core AFFO	171,353	141,361
Adjusted EBITDA	354,093	337,668
Value creation from development stabilization - Prologis share	50,507	67,412
Common stock dividends paid	166,689	130,753
Per common share - diluted:		
Net earnings attributable to common stockholders	$ 0.01	$ 0.57
Core FFO	0.43	0.40
Dividends per share	0.33	0.28

(in thousands)	March 31, 2014	December 31, 2013
Assets:		
Investments in real estate assets:		
Operating properties	$ 17,948,473	$ 17,801,064
Development portfolio	1,051,716	1,021,017
Land	1,544,242	1,516,166
Other real estate investments	494,359	486,230
	21,038,790	20,824,477
Less accumulated depreciation	2,698,043	2,568,998
Net investments in properties	18,340,747	18,255,479
Investments in and advances to unconsolidated entities	4,687,922	4,430,239
Notes receivable backed by real estate and other assets	191,703	192,042
Net investments in real estate	23,220,372	22,877,760
Cash and cash equivalents	188,886	491,129
Restricted cash	9,750	14,210
Accounts receivable	114,880	128,196
Other assets	1,121,260	1,061,012
Total assets	**$ 24,655,148**	**$ 24,572,307**
Liabilities and Equity:		
Liabilities:		
Debt	$ 8,870,635	$ 9,011,216
Accounts payable, accrued expenses, and other liabilities	1,291,270	1,384,638
Total liabilities	10,161,905	10,395,854
Equity:		
Stockholders' equity:		
Preferred stock	100,000	100,000
Common stock	4,997	4,988
Additional paid-in capital	18,005,321	17,974,452
Accumulated other comprehensive loss	(444,594)	(435,675)
Distributions in excess of net earnings	(4,094,689)	(3,932,664)
Total stockholders' equity	13,571,035	13,711,101
Noncontrolling interests	874,576	417,086
Noncontrolling interests - limited partnership unitholders	47,632	48,266
Total equity	14,493,243	14,176,453
Total liabilities and equity	**$ 24,655,148**	**$ 24,572,307**

(in thousands, except per share amounts)	Three Months Ended March 31, 2014	2013
Revenues:		
Rental income	$ 388,240	$ 454,789
Investment management income	45,310	33,635
Development management and other income	1,132	2,192
Total revenues	434,682	490,616
Expenses:		
Rental expenses	110,517	133,919
Investment management expenses	24,163	19,909
General and administrative expenses	63,203	56,197
Depreciation and amortization	160,280	177,266
Other expenses	5,053	4,353
Total expenses	363,216	391,644
Operating income	71,466	98,972
Other income (expense):		
Earnings from unconsolidated entities, net	29,746	24,768
Interest income	9,184	4,213
Interest expense	(85,523)	(115,028)
Gains on acquisitions and dispositions of investments in real estate, net	17,055	338,845
Foreign currency and derivative gains (losses), related amortization and other income (expenses), net	(23,318)	8,298
Gains (losses) on early extinguishment of debt, net	273	(17,351)
Total other income (expense)	(52,583)	243,745
Earnings before income taxes	18,883	342,717
Income tax expense - current and deferred	6,880	51,866
Earnings from continuing operations	12,003	290,851
Discontinued operations:		
Income attributable to disposed properties and assets held for sale	-	247
Net gains on dispositions, including taxes	-	5,834
Total discontinued operations	-	6,081
Consolidated net earnings	12,003	296,932
Net earnings attributable to noncontrolling interests	(5,202)	(12,103)
Net earnings attributable to controlling interests	6,801	284,829
Preferred stock dividends	(2,135)	(10,305)
Loss on preferred stock redemption	-	(9,108)
Net earnings attributable to common stockholders	**$ 4,666**	**$ 265,416**
Weighted average common shares outstanding - Diluted	504,373	478,952
Net earnings per share attributable to common stockholders - Diluted	**$ 0.01**	**$ 0.57**

(in thousands)	Three Months Ended March 31,	
	2014	**2013**
Reconciliation of net earnings to FFO		
Net earnings attributable to common stockholders	$ 4,666	$ 265,416
Add (deduct) NAREIT defined adjustments:		
Real estate related depreciation and amortization	154,495	171,017
Net gains on non-FFO acquisitions and dispositions	(9,545)	(102,457)
Reconciling items related to noncontrolling interests	(6,201)	(2,941)
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	41,716	24,802
Our share of reconciling items included in earnings from other unconsolidated ventures	1,350	681
Subtotal-NAREIT defined FFO	186,481	356,518
Add (deduct) our defined adjustments:		
Unrealized foreign currency and derivative losses (gains) and related amortization, net	28,110	(638)
Deferred income tax expense	1,031	2,134
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	229	(214)
FFO, as defined by Prologis	**215,851**	**357,800**
Adjustments to arrive at Core FFO:		
Net gains on acquisitions and dispositions of investments in real estate, net of expenses	(5,658)	(192,416)
Losses (gains) on early extinguishment of debt and redemption of preferred stock, net	(273)	26,459
Our share of reconciling items from unconsolidated entities less third party share of consolidated entities	7,635	(3,906)
Core FFO	**217,555**	**187,937**
Adjustments to arrive at Core Adjusted FFO ("Core AFFO"), including our share of unconsolidated entities less third party share of consolidated entities:		
Straight-lined rents and amortization of lease intangibles	(8,576)	(7,884)
Property improvements	(11,142)	(14,288)
Tenant improvements	(20,072)	(20,388)
Leasing commissions	(15,560)	(13,400)
Amortization of management contracts	1,305	1,615
Amortization of debt discounts (premiums) and financing costs, net of capitalization	(2,269)	(7,002)
Cash received (paid) on net investment hedges	(5,126)	5,384
Stock compensation expense	15,238	9,387
Core AFFO	**$ 171,353**	**$ 141,361**
Common stock dividends	$ 166,689	$ 130,753

Calculation of Per Share Amounts is as follows *(in thousands, except per share amounts)*:

	Three Months Ended March 31,	
	2014	2013
Net earnings		
Net earnings	$ 4,666	$ 265,416
Noncontrolling interest attributable to exchangeable partnership units	17	1,182
Interest expense on exchangeable debt assumed converted	-	4,235
Adjusted net earnings - Diluted	**$ 4,683**	**$ 270,833**
Weighted average common shares outstanding - Basic	498,696	461,468
Incremental weighted average effect on exchange of limited partnership units	1,767	3,039
Incremental weighted average effect of stock awards	3,910	2,566
Incremental weighted average effect on exchangeable debt assumed converted	-	11,879
Weighted average common shares outstanding - Diluted	**504,373**	**478,952**
Net earnings per share - Basic	**$ 0.01**	**$ 0.58**
Net earnings per share - Diluted	**$ 0.01**	**$ 0.57**
Core FFO		
Core FFO	$ 217,555	$ 187,937
Noncontrolling interest attributable to exchangeable limited partnership units	207	489
Interest expense on exchangeable debt assumed converted	4,246	4,235
Core FFO - Diluted	**$ 222,008**	**$ 192,661**
Weighted average common shares outstanding - Basic	498,696	461,468
Incremental weighted average effect on exchange of limited partnership units	3,715	3,039
Incremental weighted average effect of stock awards	3,910	2,566
Incremental weighted average effect on exchangeable debt assumed converted	11,879	11,879
Weighted average common shares outstanding - Diluted	**518,200**	**478,952**
Core FFO per share - Diluted	**$ 0.43**	**$ 0.40**

FFO, as defined by Prologis; Core FFO; Core AFFO (collectively referred to as "FFO"). FFO is a non-GAAP measure that is commonly used in the real estate industry. The most directly comparable GAAP measure to FFO is net earnings. Although the National Association of Real Estate Investment Trusts ("NAREIT") has published a definition of FFO, modifications to the NAREIT calculation of FFO are common among REITs, as companies seek to provide financial measures that meaningfully reflect their business.

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor do we intend it to present, a complete picture of our financial condition and operating performance. We believe net earnings computed under GAAP remains the primary measure of performance and that FFO is only meaningful when it is used in conjunction with net earnings computed under GAAP. Further, we believe our consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of our financial condition and our operating performance.

NAREIT's FFO measure adjusts net earnings computed under GAAP to exclude historical cost depreciation and gains and losses from the sales, along with impairment charges, of previously depreciated properties. We agree that these NAREIT adjustments are useful to investors for the following reasons:

(i) historical cost accounting for real estate assets in accordance with GAAP assumes, through depreciation charges, that the value of real estate assets diminishes predictably over time. NAREIT stated in its White Paper on FFO "since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves." Consequently, NAREIT's definition of FFO reflects the fact that real estate, as an asset class, generally appreciates over time and depreciation charges required by GAAP do not reflect the underlying economic realities.

(ii) REITs were created as a legal form of organization in order to encourage public ownership of real estate as an asset class through investment in firms that were in the business of long-term ownership and management of real estate. The exclusion, in NAREIT's definition of FFO, of gains and losses from the sales, along with impairment charges, of previously depreciated operating real estate assets allows investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assists in comparing those operating results between periods. We include the gains and losses (including impairment charges) from dispositions of land and development properties, as well as our proportionate share of the gains and losses (including impairment charges) from dispositions of development properties recognized by our unconsolidated entities, in our definition of FFO.

Our FFO Measures

At the same time that NAREIT created and defined its FFO measure for the REIT industry, it also recognized that "management of each of its member companies has the responsibility and authority to publish financial information that it regards as useful to the financial community." We believe stockholders, potential investors and financial analysts who review our operating results are best served by a defined FFO measure that includes other adjustments to net earnings computed under GAAP in addition to those included in the NAREIT defined measure of FFO. Our FFO measures are used by management in analyzing our business and the performance of our properties and we believe that it is important that stockholders, potential investors and financial analysts understand the measures management uses.

We use these FFO measures, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison to expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources; (iv) assess our performance as compared to similar real estate companies and the industry in general; and (v) evaluate how a specific potential investment will impact our future results. Because we make decisions with regard to our performance with a long-term outlook, we believe it is appropriate to remove the effects of short-term items that we do not expect to affect the underlying long-term performance of the properties. The long-term performance of our properties is principally driven by rental income. While not infrequent or unusual, these additional items we exclude in calculating *FFO, as defined by Prologis*, are subject to significant fluctuations from period to period that cause both positive and negative short-term effects on our results of operations in inconsistent and unpredictable directions that are not relevant to our long-term outlook.

We use our FFO measures as supplemental financial measures of operating performance. We do not use our FFO measures as, nor should they be considered to be, alternatives to net earnings computed under GAAP, as indicators of our operating performance, as alternatives to cash from operating activities computed under GAAP or as indicators of our ability to fund our cash needs.

FFO, as defined by Prologis

To arrive at *FFO, as defined by Prologis*, we adjust the NAREIT defined FFO measure to exclude:

(i) deferred income tax benefits and deferred income tax expenses recognized by our subsidiaries;
(ii) current income tax expense related to acquired tax liabilities that were recorded as deferred tax liabilities in an acquisition, to the extent the expense is offset with a deferred income tax benefit in GAAP earnings that is excluded from our defined FFO measure;
(iii) foreign currency exchange gains and losses resulting from debt transactions between us and our foreign consolidated subsidiaries and our foreign unconsolidated entities;
(iv) foreign currency exchange gains and losses from the remeasurement (based on current foreign currency exchange rates) of certain third party debt of our foreign consolidated subsidiaries and our foreign unconsolidated entities; and
(v) mark-to-market adjustments and related amortization of debt discounts associated with derivative financial instruments.

We calculate *FFO, as defined by Prologis* for our unconsolidated entities on the same basis as we calculate our *FFO, as defined by Prologis*.

We believe investors are best served if the information that is made available to them allows them to align their analysis and evaluation of our operating results along the same lines that our management uses in planning and executing our business strategy.

Core FFO

In addition to *FFO, as defined by Prologis,* we also use Core FFO. To arrive at *Core FFO,* we adjust *FFO, as defined by Prologis*, to exclude the following recurring and non-recurring items that we recognized directly or our share of these items recognized by our unconsolidated entities to the extent they are included in *FFO, as defined by Prologis*:

(i) gains or losses from acquisition, contribution or sale of land or development properties;
(ii) income tax expense related to the sale of investments in real estate and third-party acquisition costs related to the acquisition of real estate;
(iii) impairment charges recognized related to our investments in real estate generally as a result of our change in intent to contribute or sell these properties;
(iv) gains or losses from the early extinguishment of debt;
(v) merger, acquisition and other integration expenses; and
(vi) expenses related to natural disasters.

We believe it is appropriate to further adjust our *FFO, as defined by Prologis* for certain recurring items as they were driven by transactional activity and factors relating to the financial and real estate markets, rather than factors specific to the on-going operating performance of our properties or investments. The impairment charges we have recognized were primarily based on valuations of real estate, which had declined due to market conditions, that we no longer expected to hold for long-term investment. Over the last few years, we made it a priority to strengthen our financial position by reducing our debt, our investment in certain low yielding assets and our exposure to foreign currency exchange fluctuations. As a result, we changed our intent to sell or contribute certain of our real estate properties and recorded impairment charges when we did not expect to recover the costs of our investment. Also, we have purchased portions of our debt securities when we believed it was advantageous to do so, which was based on market conditions, and in an effort to lower our borrowing costs and extend our debt maturities. As a result, we have recognized net gains or losses on the early extinguishment of certain debt due to the financial market conditions at that time. In addition, we and our co-investment ventures make acquisitions of real estate and we believe the costs associated with these transactions are transaction based and not part of our core operations.

We analyze our operating performance primarily by the rental income of our real estate and the revenue driven by our investment management business, net of operating, administrative and financing expenses. This income stream is not directly impacted by fluctuations in the market value of our investments in real estate or debt securities. As a result, although these items have had a material impact on our operations and are reflected in our financial statements, the removal of the effects of these items allows us to better understand the core operating performance of our properties over the long-term.

We use *Core FFO*, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison to expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources; (iv) provide guidance to the financial markets to understand our expected operating performance; (v) assess our operating performance as compared to similar real estate companies and the industry in general; and (vi) evaluate how a specific potential investment will impact our future results. Because we make decisions with regard to our performance with a long-term outlook, we believe it is appropriate to remove the effects of items that we do not expect to affect the underlying long-term performance of the properties we own. As noted above, we believe the long-term performance of our properties is principally driven by rental income. We believe investors are best served if the information that is made available to them allows them to align their analysis and evaluation of our operating results along the same lines that our management uses in planning and executing our business strategy.

Core AFFO

To arrive at Core AFFO, we adjust Core FFO to further exclude our share of; (i) straight-line rents; (ii) amortization of above- and below-market lease intangibles; (iii) recurring capital expenditures; (iv) amortization of management contracts; (v) amortization of debt premiums and discounts, net of amounts capitalized, and; (vi) stock compensation expense.

We believe Core AFFO provides a meaningful indicator of our ability to fund cash needs, including cash distributions to our stockholders.

Limitations on Use of our FFO Measures

While we believe our defined FFO measures are important supplemental measures, neither NAREIT's nor our measures of FFO should be used alone because they exclude significant economic components of net earnings computed under GAAP and are, therefore, limited as an analytical tool. Accordingly, these are only a few of the many measures we use when analyzing our business. Some of these limitations are:

- The current income tax expenses and acquisition costs that are excluded from our defined FFO measures represent the taxes and transaction costs that are payable.
- Depreciation and amortization of real estate assets are economic costs that are excluded from FFO. FFO is limited, as it does not reflect the cash requirements that may be necessary for future replacements of the real estate assets. Further, the

amortization of capital expenditures and leasing costs necessary to maintain the operating performance of industrial properties are not reflected in FFO.

- Gains or losses from property acquisitions and dispositions or impairment charges related to expected dispositions represent changes in value of the properties. By excluding these gains and losses, FFO does not capture realized changes in the value of acquired or disposed properties arising from changes in market conditions.
- The deferred income tax benefits and expenses that are excluded from our defined FFO measures result from the creation of a deferred income tax asset or liability that may have to be settled at some future point. Our defined FFO measures do not currently reflect any income or expense that may result from such settlement.
- The foreign currency exchange gains and losses that are excluded from our defined FFO measures are generally recognized based on movements in foreign currency exchange rates through a specific point in time. The ultimate settlement of our foreign currency-denominated net assets is indefinite as to timing and amount. Our FFO measures are limited in that they do not reflect the current period changes in these net assets that result from periodic foreign currency exchange rate movements.
- The gains and losses on extinguishment of debt that we exclude from our Core FFO, may provide a benefit or cost to us as we may be settling our debt at less or more than our future obligation.
- The merger, acquisition and other integration expenses and the natural disaster expenses that we exclude from Core FFO are costs that we have incurred.

We compensate for these limitations by using our FFO measures only in conjunction with net earnings computed under GAAP when making our decisions. This information should be read with our complete consolidated financial statements prepared under GAAP. To assist investors in compensating for these limitations, we reconcile our defined FFO measures to our net earnings computed under GAAP.

Same Store

We evaluate the operating performance of the operating properties we own and manage using a "Same Store" analysis because the population of properties in this analysis is consistent from period to period, thereby eliminating the effects of changes in the composition of the portfolio on performance measures. We include the properties included in our owned and managed portfolio that were in operation at January 1, 2013 and throughout the full periods in both 2013 and 2014. We have removed all properties that were disposed of to a third party from the population for both periods. We believe the factors that impact rental income, rental expenses and NOI in the Same Store portfolio are generally the same as for the total operating portfolio. In order to derive an appropriate measure of period-to-period operating performance, we remove the effects of foreign currency exchange rate movements by using the current exchange rate to translate from local currency into U.S. dollars, for both periods.

Our same store measures are non-GAAP measures that are commonly used in the real estate industry and are calculated beginning with rental income and rental expenses from the financial statements prepared in accordance with GAAP. It is also common in the real estate industry and expected from the analyst and investor community that these numbers be further adjusted to remove certain non-cash items included in the financial statements prepared in accordance with GAAP to reflect a cash same store number. In order to clearly label these metrics, we call one Same Store NOI- GAAP and one Same Store NOI-Adjusted Cash. As these are non-GAAP measures they have certain limitations as an analytical tool and may vary among real estate companies. As a result, we provide a reconciliation from our financial statements prepared in accordance with GAAP to Same Store NOI-GAAP and then to Same Store NOI-Adjusted Cash with explanations of how these metrics are calculated and adjusted.

The following is a reconciliation of our consolidated rental income, rental expenses and NOI, as included in the Consolidated Statements of Operations, to the respective amounts in our Same Store portfolio analysis *(dollars in thousands):*

	Three Months Ended March 31,		
	2014	**2013**	**Change (%)**
Rental Income:			
Per the Consolidated Statements of Operations	$ 388,240	$ 454,789	
Properties not included and other adjustments (a)	(32,814)	(17,673)	
Unconsolidated Co-Investment Ventures	449,816	355,878	
Same Store - Rental Income	**805,242**	**792,994**	**1.5%**
Rental Expense:			
Per the Consolidated Statements of Operations	110,517	133,919	
Properties not included and other adjustments (b)	(1,073)	(6,113)	
Unconsolidated Co-Investment Ventures	109,219	95,592	
Same Store - Rental Expense	**218,663**	**223,398**	**-2.1%**
NOI-GAAP:			
Per the Consolidated Statements of Operations	277,723	320,870	
Properties not included and other adjustments	(31,741)	(11,560)	
Unconsolidated Co-Investment Ventures	340,597	260,286	
Same Store - NOI - GAAP	**586,579**	**569,596**	**3.0%**
NOI-Adjusted Cash:			
Same store- NOI - GAAP	586,579	569,596	
Adjustments (c)	(5,405)	(11,299)	
Same Store - NOI- Adjusted Cash	**581,174**	**558,297**	**4.1%**

(a) To calculate Same Store rental income, we exclude the net termination and renegotiation fees to allow us to evaluate the growth or decline in each property's rental income without regard to items that are not indicative of the property's recurring operating performance.

(b) To calculate Same Store rental expense, we include an allocation of the property management expenses for our consolidated properties based on the property management fee that is provided for in the individual management agreements under which our wholly owned management companies provide property management services (generally the fee is based on a percentage of revenue). On consolidation, the management fee income and expenses are eliminated and the actual cost of providing property management services is recognized.

(c) In order to derive Same Store- NOI - Adjusted Cash, we adjust Same Store- NOI- GAAP to exclude non-cash items included in our rental income in our GAAP financial statements, including straight line rent adjustments and adjustments related to purchase accounts to reflect leases at fair value at the time of acquisition.

SOURCE Prologis, Inc.