

July 22, 2014



# Prologis Announces Second Quarter 2014 Earnings Results

- GAAP Same-Store Net Operating Income Increased 3.8 percent -
- Stabilized \$371.3 Million of Development, Estimated Margin of 22.5 Percent -
- Recognized \$25 Million Promote for Prologis Targeted U.S. Logistics Fund -
- Raising Earnings and Capital Deployment Guidance -

SAN FRANCISCO, July 22, 2014 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in industrial real estate, today reported results for the second quarter 2014.

Core funds from operations (Core FFO) per fully diluted share was \$0.48 for the second quarter compared to \$0.41 for the same period in 2013.

"We're pleased to report a very strong quarter of financial and operating performance," said Hamid R. Moghadam, chairman and CEO, Prologis. "Our results reflect high occupancy levels with strong growth in rental rates, above average development margins, and increased earnings from our Strategic Capital business."

## **STRONG OPERATING PERFORMANCE**

Prologis ended the quarter with 94.6 percent occupancy in the operating portfolio, up 90 basis points over the same period in 2013. The company leased 29.0 million square feet (2.7 million square meters) in its combined operating and development portfolios in the second quarter.

Tenant retention in the quarter was 84.8 percent. GAAP rental rates on leases signed in the quarter increased 6.6 percent from prior rents compared to an increase of 4.0 percent in the same period in 2013.

During the second quarter, GAAP same-store net operating income (NOI) increased 3.8 percent, and 5.3 percent on an adjusted cash basis, compared to 0.7 percent and (0.4) percent, respectively, in the same period in 2013. The increase was principally driven by higher average occupancy and increasing rental rates.

## **CAPITAL DEPLOYMENT ACTIVITY ACCELERATES**

New investments during the second quarter totaled \$850.4 million (\$765.2 million Prologis' share).

### ***Development Starts & Pipeline***

During the quarter, Prologis started \$438.7 million (\$409.8 million Prologis' share) of new development projects, with an estimated weighted average yield upon stabilization of 7.1 percent and an estimated development margin of 18.8 percent.

The company stabilized \$371.3 million (\$320.9 million Prologis' share) in development projects, with an estimated development margin of 22.5 percent and \$83.4 million (\$82.2 million Prologis' share) of estimated value creation.

At quarter end, Prologis' global development pipeline had a total expected investment of \$2.4 billion (\$2.1 billion Prologis' share). The pipeline had an estimated weighted average yield at stabilization of 7.2 percent, a development margin of 21.2 percent, and an estimated \$452.8 million of Prologis' share of value creation upon stabilization.

### ***Acquisitions***

The company acquired \$137.0 million (\$80.7 million Prologis' share) of buildings, principally in Europe and the United States. The weighted average stabilized capitalization rate on building acquisitions was 6.3 percent.

Prologis invested \$274.7 million in its North American Industrial Fund, increasing its ownership in the venture to 42 percent from 23 percent.

### ***Dispositions & Contributions***

Prologis completed \$603.7 million (\$499.6 million Prologis' share) of contributions, third-party building, land and other non-strategic real estate dispositions. The contributions and building dispositions had a weighted average stabilized capitalization rate of 6.6 percent.

## **STREAMLINED STRATEGIC CAPITAL BUSINESS SUPPORTS GROWTH**

As previously announced the company successfully completed its initial public offering of FIBRA Prologis and listing on the Mexican Stock Exchange. FIBRA Prologis' \$1.6 billion portfolio is comprised of properties previously owned by former Prologis MX Fund LP, the majority of Prologis Mexico Fondo Logistico, and Prologis.

During the second quarter, Prologis raised \$777.6 million of third-party equity for its ventures, including: \$618.9 million for FIBRA Prologis; \$133.5 million for Prologis Targeted U.S. Logistics Fund; and \$25.2 million for Prologis Targeted Europe Logistics Fund. Subsequent to quarter end, the company secured a \$500 million increase in committed third-party equity to its Prologis China Logistics Venture. The company recognized a promote of \$25.1 million for Prologis Targeted U.S. Logistics Fund.

At quarter end, Prologis had \$28.7 billion (\$9.4 billion Prologis' share) in combined assets under management in 11 major co-investment ventures.

## **CAPITAL MARKETS ACTIVITY IMPROVES LIQUIDITY**

During the second quarter, Prologis completed \$3.6 billion of capital markets activity. Notable new financing for Prologis and the co-investment ventures included:

- \$1.1 billion in Eurobond issuances with a blended interest rate of 3.0 percent and weighted average term of 10 years;
- \$1.1 billion across two term facilities denominated in euro and yen; and a

- \$500 million increase in the company's global credit lines, expanding the total capacity to \$3.0 billion.

"Favorable credit conditions in this low interest rate environment are providing numerous opportunities for us to lock in lower, long-term rates," said Thomas S. Olinger, chief financial officer, Prologis. "We significantly improved liquidity and further increased our U.S. net equity exposure to 85 percent."

## **NET EARNINGS**

Net earnings per fully diluted share was \$0.13 for the second quarter compared to a net loss per share of less than \$0.01 for the same period in 2013.

## **EARNINGS GUIDANCE INCREASED FOR 2014**

Prologis increased the midpoint and narrowed its full-year 2014 Core FFO guidance range to \$1.82 to \$1.86 per diluted share from \$1.76 to \$1.82 per diluted share. The company also expects to recognize net earnings, for GAAP purposes, of \$0.20 to \$0.24 per share.

"Given faster than expected rental growth and deployment, as well as lower interest costs from our refinancing activity, we are raising our full-year Core FFO range," said Olinger.

The Core FFO and earnings guidance reflected above excludes any potential future gains (losses) recognized from real estate transactions or early extinguishment of debt. 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, July 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 48765449.

A telephonic replay will be available from July 23 through August 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 48765449. 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 June 30, 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 571 million square feet (53 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 June 30,		Six months ended June 30,	
<i>(dollars in thousands, except per share data)</i>	2014	2013	2014	2013
Revenues	\$ 460,089	\$ 410,693	\$ 894,771	\$ 890,664
Net earnings (loss) attributable to common stockholders	72,715	(1,517)	77,381	263,899
Core FFO	244,275	203,337	461,830	391,274
Core AFFO	199,662	142,229	371,015	288,290
Adjusted EBITDA	374,039	336,352	728,132	680,981
Value creation from development stabilization - Prologis share	82,218	14,895	132,725	82,307
Common stock dividends paid	166,639	141,083	333,328	271,836
Per common share - diluted:				
Net earnings attributable to common stockholders	\$ 0.13	\$ 0.00	\$ 0.15	\$ 0.55
Core FFO	0.48	0.41	0.91	0.82
Dividends per share	0.33	0.28	0.66	0.56

<i>(in thousands)</i>	June 30, 2014	March 31, 2014	December 31, 2013
<b>Assets:</b>			
Investments in real estate assets:			
Operating properties	\$ 16,629,000	\$ 17,948,473	\$ 17,801,064
Development portfolio	1,119,075	1,051,716	1,021,017
Land	1,579,737	1,544,242	1,516,166
Other real estate investments	454,111	494,359	486,230
	19,781,923	21,038,790	20,824,477
Less accumulated depreciation	2,648,866	2,698,043	2,568,998
Net investments in properties	17,133,057	18,340,747	18,255,479
Investments in and advances to unconsolidated entities	5,575,423	4,687,922	4,430,239
Notes receivable backed by real estate and other assets	-	191,703	192,042
Net investments in real estate	22,708,480	23,220,372	22,877,760
Cash and cash equivalents	267,427	188,886	491,129
Accounts receivable	123,961	114,880	128,196
Other assets	1,031,694	1,131,010	1,075,222
<b>Total assets</b>	<b>\$ 24,131,562</b>	<b>\$ 24,655,148</b>	<b>\$ 24,572,307</b>
<b>Liabilities and Equity:</b>			
Liabilities:			
Debt	\$ 8,529,453	\$ 8,870,635	\$ 9,011,216
Accounts payable, accrued expenses, and other liabilities	1,325,259	1,291,270	1,384,638
Total liabilities	9,854,712	10,161,905	10,395,854
Equity:			
Stockholders' equity:			
Preferred stock	78,235	100,000	100,000
Common stock	4,998	4,997	4,988
Additional paid-in capital	18,062,370	18,005,321	17,974,452
Accumulated other comprehensive loss	(385,248)	(444,594)	(435,675)
Distributions in excess of net earnings	(4,188,611)	(4,094,689)	(3,932,664)
Total stockholders' equity	13,571,744	13,571,035	13,711,101
Noncontrolling interests	657,411	874,576	417,086
Noncontrolling interests - limited partnership unitholders	47,695	47,632	48,266
Total equity	14,276,850	14,493,243	14,176,453
<b>Total liabilities and equity</b>	<b>\$ 24,131,562</b>	<b>\$ 24,655,148</b>	<b>\$ 24,572,307</b>

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
	\$	\$	\$	\$
Rental income	381,273	363,956	769,513	808,100
Strategic capital income	76,334	43,608	121,644	77,243
Development management and other income	2,482	3,129	3,614	5,321
Total revenues	460,089	410,693	894,771	890,664
<b>Expenses:</b>				
Rental expenses	109,576	109,837	220,093	240,191
Strategic capital expenses	27,837	25,006	52,000	44,915
General and administrative expenses	60,375	54,909	123,578	111,106
Depreciation and amortization	161,577	155,656	321,857	327,776
Other expenses	5,450	6,771	10,503	11,124
Total expenses	364,815	352,179	728,031	735,112
<b>Operating income</b>	95,274	58,514	166,740	155,552
<b>Other income (expense):</b>				
Earnings from unconsolidated entities, net	21,151	8,421	50,897	33,189
Interest expense	(80,184)	(92,214)	(165,707)	(206,854)
Gains on acquisitions and dispositions of investments in real estate, net	169,583	61,035	186,638	399,880
Foreign currency and derivative gains (losses), related amortization and interest and other income (expenses), net	15,246	(3,252)	1,112	9,259
Losses on early extinguishment of debt, net	(77,558)	(32,608)	(77,285)	(49,959)
Total other income (expense)	48,238	(58,618)	(4,345)	185,515
<b>Earnings (loss) before income taxes</b>	143,512	(104)	162,395	341,067
Income tax expense (benefit) - current and deferred	(8,918)	20,488	(2,038)	72,354
<b>Earnings (loss) from continuing operations</b>	152,430	(20,592)	164,433	268,713
<b>Discontinued operations:</b>				
Income attributable to disposed properties and assets held for sale	-	2,140	-	3,933
Net gains on dispositions, including taxes	-	13,467	-	19,301
Total discontinued operations	-	15,607	-	23,234
<b>Consolidated net earnings (loss)</b>	152,430	(4,985)	164,433	291,947
Net loss (earnings) attributable to noncontrolling interests	(71,250)	7,284	(76,452)	(4,819)
<b>Net earnings attributable to controlling interests</b>	81,180	2,299	87,981	287,128
Preferred stock dividends	(1,948)	(3,816)	(4,083)	(14,121)
Loss on preferred stock redemption	(6,517)	-	(6,517)	(9,108)
	\$	\$	\$	\$
<b>Net earnings (loss) attributable to common stockholders</b>	72,715	(1,517)	77,381	263,899
Weighted average common shares outstanding - Diluted	516,619	487,925	504,560	480,009
	\$	\$	\$	\$
<b>Net earnings per share attributable to common stockholders - Diluted</b>	0.13	0.00	0.15	0.55

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Reconciliation of net earnings (loss) to FFO</b>				
	\$	\$	\$	\$
Net earnings (loss) attributable to common stockholders	72,715	(1,517)	77,381	263,899
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	155,842	149,920	310,337	315,791
Net gains on non-FFO acquisitions and dispositions	(140,042)	(4,701)	(149,587)	(102,012)
Reconciling items related to noncontrolling interests	59,945	(719)	53,744	(3,660)
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	49,737	37,250	91,453	51,881
Our share of reconciling items included in earnings from other unconsolidated ventures	1,734	681	3,084	11,533
<b>Subtotal-NAREIT defined FFO</b>	<b>199,931</b>	<b>180,914</b>	<b>386,412</b>	<b>537,432</b>
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains) and related amortization, net	(10,035)	8,133	18,075	7,495
Deferred income tax benefit	(21,446)	(4,350)	(20,415)	(2,216)
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	(4,089)	17,541	(3,860)	17,327
<b>FFO, as defined by Prologis</b>	<b>164,361</b>	<b>202,238</b>	<b>380,212</b>	<b>560,038</b>
Adjustments to arrive at Core FFO:				
Net gains on acquisitions and dispositions of investments in real estate, net of expenses	(23,245)	(33,806)	(28,903)	(226,222)
Losses on early extinguishment of debt and redemption of preferred stock, net	84,075	32,608	83,802	59,067
Our share of reconciling items from unconsolidated entities less third party share of consolidated entities	19,084	2,297	26,719	(1,609)
	\$	\$	\$	\$
<b>Core FFO</b>	<b>244,275</b>	<b>203,337</b>	<b>461,830</b>	<b>391,274</b>
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	(6,483)	(4,906)	(15,059)	(12,790)
Property improvements	(15,899)	(19,318)	(27,041)	(33,606)
Tenant improvements	(20,707)	(27,353)	(40,779)	(47,741)
Leasing commissions	(12,376)	(19,224)	(27,936)	(32,624)
Amortization of management contracts	1,092	1,393	2,397	3,008
Amortization of debt premiums, net, and financing costs	(1,259)	(3,839)	(3,528)	(10,841)
Cash received (paid) on net investment hedges	(2,729)	(1,073)	(7,855)	4,311
Stock compensation expense	13,748	13,212	28,986	27,299
	\$	\$	\$	\$
<b>Core AFFO</b>	<b>199,662</b>	<b>142,229</b>	<b>371,015</b>	<b>288,290</b>
	\$	\$	\$	\$
<b>Common stock dividends</b>	<b>166,639</b>	<b>141,083</b>	<b>333,328</b>	<b>271,836</b>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Net earnings (loss)</b>				
Net earnings (loss)	\$ 72,715	\$ (1,517)	\$ 77,381	\$ 263,899
Noncontrolling interest attributable to exchangeable partnership units	264	(75)	302	1,599
Gain net of expenses associated with exchangeable debt assumed converted	(7,498)	-	-	-
<b>Adjusted net earnings (loss) - Diluted</b>	<b>\$ 65,481</b>	<b>\$ (1,592)</b>	<b>\$ 77,683</b>	<b>\$ 265,498</b>
Weighted average common shares outstanding - Basic	499,112	486,032	498,919	473,892
Incremental weighted average effect on exchange of limited partnership units	1,964	1,893	1,964	3,039
Incremental weighted average effect of stock awards	3,664	-	3,677	3,078
Incremental weighted average effect on exchangeable debt assumed converted	11,879	-	-	-
<b>Weighted average common shares outstanding - Diluted</b>	<b>516,619</b>	<b>487,925</b>	<b>504,560</b>	<b>480,009</b>
<b>Net earnings per share - Basic</b>	<b>\$ 0.15</b>	<b>\$ 0.00</b>	<b>\$ 0.16</b>	<b>\$ 0.56</b>
<b>Net earnings per share - Diluted</b>	<b>\$ 0.13</b>	<b>\$ 0.00</b>	<b>\$ 0.15</b>	<b>\$ 0.55</b>
<b>Core FFO</b>				
Core FFO	\$ 244,275	\$ 203,337	\$ 461,830	\$ 391,274
Noncontrolling interest attributable to exchangeable limited partnership units	35	(19)	57	1,599
Interest expense on exchangeable debt assumed converted	4,246	4,235	8,492	8,470
<b>Core FFO - Diluted</b>	<b>\$ 248,556</b>	<b>\$ 207,553</b>	<b>\$ 470,379</b>	<b>\$ 401,343</b>
Weighted average common shares outstanding - Basic	499,112	486,032	498,919	473,892
Incremental weighted average effect on exchange of limited partnership units	1,964	2,093	1,964	3,039
Incremental weighted average effect of stock awards	3,664	3,339	3,677	3,078
Incremental weighted average effect on exchangeable debt assumed converted	11,879	11,879	11,879	11,879
<b>Weighted average common shares outstanding - Diluted</b>	<b>516,619</b>	<b>503,343</b>	<b>516,439</b>	<b>491,888</b>
<b>Core FFO per share - Diluted</b>	<b>\$ 0.48</b>	<b>\$ 0.41</b>	<b>\$ 0.91</b>	<b>\$ 0.82</b>

**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 strategic capital 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 June 30,		Change (%)
	2014	2013	
Rental Income:			
Per the Consolidated Statements of Operations	\$ 381,273	\$ 363,956	
Properties not included and other adjustments (a)	(43,630)	(25,636)	
Unconsolidated Co-Investment Ventures	459,293	434,360	
<b>Same Store - Rental Income</b>	<b>\$ 796,936</b>	<b>\$ 772,680</b>	<b>3.1%</b>
Rental Expense:			
Per the Consolidated Statements of Operations	\$ 109,576	\$ 109,837	
Properties not included and other adjustments (b)	(8,114)	(7,499)	
Unconsolidated Co-Investment Ventures	111,052	107,443	
<b>Same Store - Rental Expense</b>	<b>\$ 212,514</b>	<b>\$ 209,781</b>	<b>1.3%</b>
NOI-GAAP:			
Per the Consolidated Statements of Operations	\$ 271,697	\$ 254,119	
Properties not included and other adjustments	(35,516)	(18,137)	
Unconsolidated Co-Investment Ventures	348,241	326,917	
<b>Same Store - NOI - GAAP</b>	<b>\$ 584,422</b>	<b>\$ 562,899</b>	<b>3.8%</b>
NOI-Adjusted Cash:			
Same store- NOI - GAAP	\$ 584,422	\$ 562,899	
Adjustments (c)	(1,830)	(9,539)	
<b>Same Store - NOI- Adjusted Cash</b>	<b>\$ 582,592</b>	<b>\$ 553,360</b>	<b>5.3%</b>

- (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.