January 27, 2015

Prologis Announces Fourth Quarter and Full Year 2014 Earnings Results

- Core Funds From Operations Per Share Increased 14 Percent Year-Over-Year -

- Global Occupancy Increased to 96.1 Percent at Year-End -

- Increased GAAP Same Store Net Operating Income 3.7 Percent for the Full Year 2014 -

- Annual Value Creation of $301.6 Million -

SAN FRANCISCO, Jan. 27, 2015 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in industrial real estate, today reported results for the fourth quarter and full year 2014.

Core funds from operations (Core FFO) per diluted share was $0.48 for the fourth quarter compared with $0.43 for the same period in 2013. For the full year 2014, Core FFO per diluted share was $1.88, an increase of 14 percent over 2013.

OPERATIONS OUTPERFORM EXPECTATIONS
"As we closed out the year, our global occupancies continued to climb and development leasing reached its highest level in seven years," said Hamid R. Moghadam, chairman and CEO, Prologis. "The outperformance is a direct result of our long-term strategy of operating in infill markets where global trade and consumption intersect."

Prologis ended the quarter with 96.1 percent occupancy in its operating portfolio, an increase of 100 basis points over the same period in 2013 and 110 basis points over the prior quarter. The quarterly increase was principally driven by a 160 basis point increase in spaces under 100,000 square feet and a 140 basis point increase in the company's European portfolio.

In the fourth quarter, the company leased 41.7 million square feet (3.9 million square meters) in its combined operating and development portfolios, which includes 8.9 million square feet (0.8 million square meters) of properties under development. Tenant retention was 85.5 percent.

Rent change on rollovers was positive for the eighth consecutive quarter, with GAAP rental rates on signed leases increasing 6.2 percent. In the Americas, GAAP rental rates on signed leases increased 11.5 percent.

During the fourth quarter, same store NOI for the owned and managed portfolio increased

4.1 percent on a GAAP basis, resulting in full year 2014 same store NOI growth of 3.7 percent. On a Prologis' share basis, same store NOI (GAAP) increased 4.9 percent during the fourth quarter.

CAPITAL DEPLOYMENT BENEFITS FROM GLOBAL REACH

In 2014, Prologis invested $4.3 billion ($3.1 billion Prologis' share) as the company deployed capital at attractive yields of 6.8 percent (Prologis' share).

"The global nature of our platform allows us to deploy capital where we see the highest risk-adjusted returns," adds Moghadam. "In the U.S., where market conditions are very strong and values are high, we were a net seller of non-strategic holdings. In Europe, the focus has been on net deployment where we acquired quality assets in target markets at a discount to replacement costs."

Value Creation and Development Starts

In 2014, Prologis generated an estimated $301.6 million ($272.6 million Prologis' share) of value creation from development stabilizations and through its value-added conversion program.

Development Stabilizations

In the fourth quarter, the company generated $55.4 million ($46.1 million Prologis' share) of estimated value creation from $247.4 million ($201.7 million Prologis' share) of development stabilizations at an estimated development margin of 22.4 percent. For the full year 2014, the company stabilized $1.1 billion ($955.2 million Prologis' share) of development projects with an estimated development margin of 23.0 percent, generating $254.5 million ($235.8 million Prologis' share) of estimated value creation.

Development Starts

During the quarter, Prologis started $725.2 million ($625.8 million Prologis' share) of new developments with an estimated weighted average yield upon stabilization of 7.3 percent and an estimated development margin of 21.0 percent. For the full year 2014, the company started $2.0 billion ($1.8 billion Prologis' share) of new developments with an estimated weighted average yield upon stabilization of 7.2 percent and an estimated development margin of 20.0 percent. Build-to-suits represented 49.6 percent of development starts in the fourth quarter and 32.6 percent for the full year 2014.

At year end, the book value of the company's land bank totaled $1.8 billion with an estimated build-out potential of $10.7 billion.

Acquisitions

In the fourth quarter, Prologis acquired $151.4 million ($48.2 million Prologis' share) of buildings through its co-investment ventures with a stabilized capitalization rate on Prologis' share of 6.5 percent. For the full year 2014, the company acquired $1.5 billion ($659.4 million Prologis' share) of buildings at a stabilized capitalization rate on Prologis' share of 6.4 percent. More than three-quarters of these buildings were in Europe, where the company purchased assets at a discount to replacement costs.

Equity Invested in Co-Investment Ventures

During the year, the company invested $679.0 million in the Prologis North American Industrial Fund, through a series of investments, at a weighted average stabilized capitalization rate of 6.1 percent. As a result, the company increased its ownership to 66.1 percent and consolidated the venture.

Contributions and Dispositions
During the fourth quarter, Prologis completed $213.2 million ($104.3 million Prologis' share) of contributions to its co-investment ventures and third-party building dispositions of non-strategic assets of $500.3 million ($406.8 million Prologis' share). Prologis' share of contributions and dispositions had a stabilized capitalization rate of 5.9 percent.

During the full year, the company completed $1.7 billion ($948.7 million Prologis' share) of contributions at a weighted average stabilized capitalization rate (Prologis' share) of 5.8 percent, and $1.5 billion ($1.3 billion Prologis' share) of building dispositions at a weighted average stabilized capitalization rate (Prologis' share) of 6.4 percent.

FINANCIAL STRENGTH A TOP PRIORITY
Prologis completed more than $1.7 billion of capital markets activity in the quarter, including the previously announced issuance of a €600 million euro bond, as well as $356 million of equity issuance from the exercise of warrants related to the formation of its Prologis European Logistics Partners venture and through its At-the-Market equity program. In the full year, the company completed $7.0 billion of capital markets activity.

"We have effectively converted the currency composition of our balance sheet to U.S. dollars," said Tom Olinger, chief financial officer, Prologis. "At year end, our U.S. dollar net equity exposure was 89 percent—this allows us to operate globally with our earnings and net asset value insulated from movements in foreign currencies. We are also taking advantage of the low interest environment to enhance our debt stack, and maintaining significant liquidity to keep us nimble as opportunities arise."

In the strategic capital business, the company maintained a healthy investment queue and raised $2.5 billion through both private and public capital during the year.

NET EARNINGS
Net earnings per diluted share was $0.81 for the fourth quarter compared with $0.12 for the same period in 2013. For the full year 2014, net earnings per diluted share was $1.24 compared with $0.64 for the full year 2013.

GUIDANCE ESTABLISHED FOR 2015
Prologis established a full year 2015 Core FFO guidance range of $2.04 to $2.12 per diluted share, representing 11 percent growth at the midpoint compared with full year 2014. The company expects to recognize net earnings, for GAAP purposes, of $0.40 to $0.48 per share. This assumes (on an owned and managed basis):

- Year-end occupancy between 95.5 and 96.5 percent
- GAAP same store NOI growth between 3.5 and 4.5 percent
- Development stabilizations between $1.7 and $1.9 billion
- Development starts between $2.3 and $2.6 billion
- Building acquisitions between $1.0 and $1.5 billion
- Contributions to co-investment ventures between $1.3 and $1.8 billion
- Third-party dispositions between $1.5 and $2.0 billion
- Strategic capital revenue between $210 and $220 million

- Net G&A between $238 and $248 million

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 expenses, 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 2015 predominantly relates to real estate depreciation.

WEBCAST & CONFERENCE CALL INFORMATION
Prologis will host a live webcast/conference call to discuss quarterly results, current market conditions and future outlook today, Jan. 27, at 12 p.m. U.S. Eastern time. Interested parties are encouraged to access the 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 (toll-free from the U.S. and Canada) or +1 973 409 9692 (from all other countries) and entering conference code 48765486.

A telephonic replay will be available Jan. 27-Feb. 27 at +1 855 859 2056 (from the U.S. and Canada) or +1 404 537 3406 (from all other countries); please use conference code 48765486. 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 global leader in industrial real estate. As of December 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 590 million square feet (55 million square meters) in 21 countries. The company leases modern distribution facilities to more than 4,700 customers, including third-party logistics providers, transportation companies, retailers and manufacturers.

FORWARD-LOOKING STATEMENTS

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 December 31,		**Year ended December 31,**	
(dollars in thousands, except per share data)	**2014**	**2013**	**2014**	**2013**
Revenues	$ 450,865	$ 436,764	$ 1,760,787	$ 1,750,486
Net earnings attributable to common stockholders	408,609	59,057	622,235	315,422
Core FFO	246,421	215,055	953,147	813,224
Core AFFO	189,985	147,554	753,475	580,844
Adjusted EBITDA	367,240	366,664	1,463,383	1,384,274
Value creation - Prologis share	46,138	125,184	235,784	372,378
Common stock dividends paid	168,261	141,127	668,286	554,242
Per common share - diluted:				
Net earnings attributable to common stockholders	$ 0.81	$ 0.12	$ 1.24	$ 0.64
Core FFO	0.48	0.43	1.88	1.65
Dividends per share	0.33	0.28	1.32	1.12

(in thousands)	December 31, 2014	September 30, 2014	December 31, 2013
Assets:			
Investments in real estate properties:			
Operating properties	$ 18,635,452	$ 16,155,668	$ 17,801,064
Development portfolio	1,473,980	1,316,470	1,021,017
Land	1,577,786	1,533,590	1,516,166
Other real estate investments	502,927	458,290	486,230
	22,190,145	19,464,018	20,824,477
Less accumulated depreciation	2,790,781	2,695,745	2,568,998
Net investments in real estate properties	19,399,364	16,768,273	18,255,479
Investments in and advances to unconsolidated entities	4,824,724	5,814,056	4,430,239
Assets held for sale and notes receivable backed by real estate	43,934	2,564	192,042
Net investments in real estate	24,268,022	22,584,893	22,877,760
Cash and cash equivalents	350,692	311,879	491,129
Accounts receivable	103,445	132,464	107,955
Other assets	1,096,064	1,042,867	1,095,463
Total assets	**$ 25,818,223**	**$ 24,072,103**	**$ 24,572,307**
Liabilities and Equity:			
Liabilities:			
Debt	$ 9,380,199	$ 8,822,952	$ 9,011,216
Accounts payable, accrued expenses, and other liabilities	1,254,425	1,112,402	1,384,638
Total liabilities	10,634,624	9,935,354	10,395,854
Equity:			
Stockholders' equity:			
Preferred stock	78,235	78,235	100,000
Common stock	5,095	5,000	4,988
Additional paid-in capital	18,467,009	18,081,751	17,974,509
Accumulated other comprehensive loss	(600,337)	(510,661)	(435,675)
Distributions in excess of net earnings	(3,974,493)	(4,214,224)	(3,932,664)
Total stockholders' equity	13,975,509	13,440,101	13,711,158
Noncontrolling interests	1,159,901	646,404	417,086
Noncontrolling interests - limited partnership unitholders	48,189	50,244	48,209
Total equity	15,183,599	14,136,749	14,176,453
Total liabilities and equity	**$ 25,818,223**	**$ 24,072,103**	**$ 24,572,307**

(in thousands, except per share amounts)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Revenues:				
Rental income	$ 402,014	$ 379,208	$ 1,527,349	$ 1,559,493
Strategic capital income	44,157	53,907	219,871	179,472
Development management and other income	4,694	3,649	13,567	11,521
Total revenues	450,865	436,764	1,760,787	1,750,486
Expenses:				
Rental expenses	108,370	104,936	430,787	451,938
Strategic capital expenses	22,054	22,341	96,496	89,279
General and administrative expenses	65,987	63,067	247,768	229,207
Depreciation and amortization	171,402	165,453	642,461	648,668
Other expenses	8,096	9,488	23,467	26,982
Total expenses	375,909	365,285	1,440,979	1,446,074
Operating income	74,956	71,479	319,808	304,412
Other income (expense):				
Earnings from unconsolidated entities, net	54,877	37,666	134,288	97,220
Interest expense	(74,092)	(87,832)	(308,885)	(379,327)
Gains on dispositions of investments in real estate and revaluation of equity investments upon acquisition of a controlling interest, net	388,095	151,702	725,790	597,656
Foreign currency and derivative gains (losses), related amortization and interest and other income (expense), net	(14,527)	(28,472)	7,927	(6,685)
Losses on early extinguishment of debt, net	(1,939)	(112,859)	(165,300)	(277,014)
Total other income (expense)	352,414	(39,795)	393,820	31,850
Earnings before income taxes	427,370	31,684	713,628	336,262
Income tax benefit (expense) - current and deferred	354	(22,199)	25,656	(106,733)
Earnings from continuing operations	427,724	9,485	739,284	229,529
Discontinued operations:				
Income attributable to disposed properties and assets held for sale	-	1,832	-	6,970
Net gains on dispositions, including taxes	-	56,952	-	116,550
Total discontinued operations	-	58,784	-	123,520
Consolidated net earnings	427,724	68,269	739,284	353,049
Net earnings attributable to noncontrolling interests	(17,437)	(7,077)	(103,101)	(10,128)
Net earnings attributable to controlling interests	410,287	61,192	636,183	342,921
Preferred stock dividends	(1,678)	(2,135)	(7,431)	(18,391)
Loss on preferred stock redemption	-	-	(6,517)	(9,108)
Net earnings attributable to common stockholders	**$ 408,609**	**$ 59,057**	**$ 622,235**	**$ 315,422**
Weighted average common shares outstanding - Diluted	507,896	503,760	506,391	491,546
Net earnings per share attributable to common stockholders - Diluted	**$ 0.81**	**$ 0.12**	**$ 1.24**	**$ 0.64**

(in thousands)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	**2013**	**2014**	**2013**
Reconciliation of net earnings to FFO				
Net earnings attributable to common stockholders	$ 408,609	$ 59,057	$ 622,235	$ 315,422
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	164,107	159,489	617,814	624,573
Gains on dispositions of non-development properties and revaluation of equity investments upon acquisition of a controlling interest, net	(341,924)	(76,751)	(553,298)	(271,315)
Reconciling items related to noncontrolling interests	(984)	(1,310)	47,939	(8,993)
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	30,719	42,107	179,302	153,710
Our share of reconciling items included in earnings from other unconsolidated ventures	2,702	1,738	7,238	6,082
Subtotal-NAREIT defined FFO	263,229	184,330	921,230	819,479
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains) and related amortization, net	19,887	33,457	18,984	32,870
Deferred income tax expense (benefit)	(2,647)	1,704	(56,720)	656
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	3,728	(6,892)	4,015	2,168
FFO, as defined by Prologis	**284,197**	**212,599**	**887,509**	**855,173**
Adjustments to arrive at Core FFO:				
Gains on dispositions of development properties and land, net	(43,906)	(117,887)	(152,798)	(336,815)
Losses on early extinguishment of debt and redemption of preferred stock, net	1,939	112,859	171,817	286,122
Our share of reconciling items from unconsolidated entities less third party share of consolidated entities	4,191	7,484	46,619	8,744
Core FFO	**$ 246,421**	**$ 215,055**	**$ 953,147**	**$ 813,224**
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	(5,681)	(5,011)	(26,278)	(22,968)
Property improvements	(35,557)	(31,445)	(96,729)	(93,841)
Tenant improvements	(22,961)	(28,076)	(86,490)	(102,138)
Leasing commissions	(19,084)	(18,632)	(62,604)	(64,094)
Amortization of management contracts	1,101	1,332	4,943	5,726
Amortization of debt premiums and financing costs, net	(1,933)	(4,528)	(3,102)	(19,387)
Cash received on net investment hedges	13,243	1,804	13,110	7,848
Stock compensation expense	14,436	17,055	57,478	56,474
Core AFFO	**$ 189,985**	**$ 147,554**	**$ 753,475**	**$ 580,844**
Common stock dividends	$ 168,261	$ 141,127	$ 668,286	$ 554,242

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Net earnings				
Net earnings	$ 408,609	$ 59,057	$ 622,235	$ 315,422
Noncontrolling interest attributable to exchangeable partnership units	1,768	144	3,636	1,305
Adjusted net earnings - Diluted	**$ 410,377**	**$ 59,201**	**$ 625,871**	**$ 316,727**
Weighted average common shares outstanding - Basic	501,178	498,104	499,583	486,076
Incremental weighted average effect on exchange of limited partnership units	3,457	1,996	3,501	2,060
Incremental weighted average effect of stock awards	3,261	3,660	3,307	3,410
Weighted average common shares outstanding - Diluted	**507,896**	**503,760**	**506,391**	**491,546**
Net earnings per share - Basic	**$ 0.82**	**$ 0.12**	**$ 1.25**	**$ 0.65**
Net earnings per share - Diluted	**$ 0.81**	**$ 0.12**	**$ 1.24**	**$ 0.64**
Core FFO				
Core FFO	$ 246,421	$ 215,055	$ 953,147	$ 813,224
Noncontrolling interest attributable to exchangeable limited partnership units	60	144	209	2,828
Interest expense on exchangeable debt assumed exchanged	4,246	4,235	16,984	16,940
Core FFO - Diluted	**$ 250,727**	**$ 219,434**	**$ 970,340**	**$ 832,992**
Weighted average common shares outstanding - Basic	501,178	498,104	499,583	486,076
Incremental weighted average effect on exchange of limited partnership units	1,964	1,996	1,964	3,411
Incremental weighted average effect of stock awards	3,261	3,660	3,307	3,410
Incremental weighted average effect on exchangeable debt assumed exchanged	11,879	11,879	11,879	11,879
Weighted average common shares outstanding - Diluted	**518,282**	**515,639**	**516,733**	**504,776**
Core FFO per share - Diluted	**$ 0.48**	**$ 0.43**	**$ 1.88**	**$ 1.65**

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) unhedged 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 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. Although the adjustments we make to arrive at Core FFO 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 and financing costs, 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 December 31,		
	2014	**2013**	**Change (%)**
Rental Income:			
Per the Consolidated Statements of Operations	$ 402,014	$ 379,208	
Properties not included and other adjustments (a)	(45,275)	(46,029)	
Unconsolidated Co-Investment Ventures	412,873	402,185	
Same Store - Rental Income	**$ 769,612**	**$ 735,364**	**4.7%**
Rental Expense:			
Per the Consolidated Statements of Operations	$ 108,370	$ 104,936	
Properties not included and other adjustments (b)	(3,560)	(9,166)	
Unconsolidated Co-Investment Ventures	96,060	93,380	
Same Store - Rental Expense	**$ 200,870**	**$ 189,150**	**6.2%**
NOI-GAAP:			
Per the Consolidated Statements of Operations	$ 293,644	$ 274,272	
Properties not included and other adjustments	(41,715)	(36,863)	
Unconsolidated Co-Investment Ventures	316,813	308,805	
Same Store - NOI - GAAP	**$ 568,742**	**$ 546,214**	**4.1%**
NOI-Adjusted Cash:			
Same store- NOI - GAAP	$ 568,742	$ 546,214	
Adjustments (c)	(3,805)	(5,025)	
Same Store - NOI- Adjusted Cash	**$ 564,937**	**$ 541,189**	**4.4%**

(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.

Value Creation represents the value that we will create through our development and leasing activities. We calculate value creation by estimating the NOI that the property will generate at Stabilization and applying an estimated stabilized capitalization rate applicable to that property. The value creation is calculated as the amount by which the estimated value exceeds our total expected investment and does not include any fees or promotes we may earn. This can also include realized economic gains from value-added conversion properties.

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