

April 24, 2013



Prologis Announces First Quarter 2013 Earnings Results

- **Positive rent change on rollover for the first time in 17 quarters -**
- **Completes J-REIT IPO and European joint venture -**
- **Significantly improves financial position -**

SAN FRANCISCO, April 24, 2013 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the leading global owner, operator and developer of industrial real estate, today reported results for the first quarter 2013.

Core funds from operations (Core FFO) per fully diluted share was \$0.40 for the first quarter compared to \$0.40 for the same period in 2012.

Net earnings per fully diluted share was \$0.57 for the first quarter compared to net earnings of \$0.44 for the same period in 2012. In both periods, net earnings for the quarter were principally due to gains on real estate transactions.

Operating Portfolio Metrics

The company leased 35.8 million square feet (3.3 million square meters) in its combined operating and development portfolios in the first quarter. Prologis' operating portfolio was 93.7 percent occupied on March 31, 2013. Tenant retention in the quarter was 78.0 percent. GAAP rental rates on leases signed in the first quarter increased by 2.0 percent from in-place rents. During the first quarter, same-store net operating income (NOI) increased 0.3 percent, and on an adjusted cash basis 1.8 percent.

"We concluded several priorities in the first quarter and are beginning to capitalize on growth opportunities," said Hamid R. Moghadam, chairman and CEO, Prologis. "Real estate fundamentals are solid and demand for our product is leading to rental growth. For the first time in 17 quarters, rent change on rollovers is positive."

Dispositions and Contributions

Prologis completed \$5.3 billion in contributions and dispositions in the first quarter, of which \$3.3 billion was Prologis' share. Notable transactions include approximately:

- \$3.1 billion in contributions related to the formation of Prologis European Logistics Partners Sàrl (PELP), of which 50 percent was the company's share; and
- \$1.9 billion in contributions to Nippon Prologis REIT, of which \$1.6 billion was the company's share; and
- \$203 million of third-party building and land dispositions, of which \$99 million was the company's share.

Prologis realized value creation of \$247 million associated with contribution and disposition activity in the quarter.

Development Starts and Building Acquisitions

Committed capital during the first quarter totaled approximately \$436 million, of which \$314 million was Prologis' share, including:

- Development starts of \$313 million with an estimated development margin of 21.8 percent. Prologis' share was \$218 million and the company's estimated share of value creation upon stabilization was \$39 million.
- Acquisitions of \$123 million, including \$109 in land and land infrastructure, as well as \$14 million in buildings. Prologis' share included \$96 million.

At quarter end, Prologis' global development pipeline comprised 23.7 million square feet (2.2 million square meters), with a total expected investment of \$2.0 billion, of which Prologis' share was \$1.8 billion. The company's share of estimated value creation at stabilization is expected to be \$371 million, with a weighted average estimated stabilized yield of 7.8 percent and a margin of approximately 21.6 percent.

Capital Markets

During the first quarter, Prologis completed approximately \$3.0 billion of capital markets activity including debt financings, re-financings, and pay-downs.

As a result, and in combination with the significant disposition and contribution activity, the company:

- Lowered its share of total debt by \$2.4 billion;
- Improved the company's debt as a percent of gross real estate assets to 37.5 percent and debt to adjusted EBITDA to 7.52 times; and
- Increased its USD net equity to 66 percent.

"During the quarter, we made considerable progress strengthening our financial position and reducing our foreign net equity exposure," said Thomas Olinger, chief financial officer, Prologis. "With a strong balance sheet in place, we are well positioned to grow our company strategically."

Subsequent to quarter end, the company redeemed \$482 million of its outstanding preferred stock.

Guidance for 2013

Prologis maintains its full-year 2013 Core FFO guidance range of \$1.60 to \$1.70 per diluted share. The company also expects to recognize net earnings, for GAAP purposes, of \$0.55 to \$0.65 per 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 2013 predominantly relates to real estate depreciation and recognized gains on real estate transactions.

Webcast and Conference Call Information

The company will host a webcast /conference call to discuss quarterly results, current market conditions and future outlook today, April 24, 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 enter conference code 26751768.

A telephonic replay will be available from April 24 through May 24 at +1 855-859-2056 (from the U.S. and Canada) or +1 404-537-3406 (from all other countries), with conference code 26751768. The webcast replay will be posted when available in the "Financial Information" 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, 2013, Prologis owned or had investments in, on a consolidated basis or through unconsolidated joint ventures, properties and development projects expected to total approximately 559 million square feet (51.9 million square meters) in 21 countries. The company leases modern distribution facilities to more than 4,500 customers, including manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises.

The statements in this release 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 developed properties, disposition activity, general conditions in the geographic areas where we operate, synergies to be realized from our recent merger transaction, our debt and financial position, our ability to form new property funds and the availability of capital in existing or new property funds — 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 release

	Three months ended March 31,	
<i>(dollars in thousands, except per share data)</i>	2013	2012
Revenues	\$ 490,616	\$ 479,430
Net earnings attributable to common stockholders	265,416	202,412
FFO, as defined by Prologis	357,800	262,072
Core FFO	187,937	184,765
AFFO	135,977	133,823
Adjusted EBITDA	337,668	377,063
Per common share - diluted:		
Net earnings attributable to common stockholders	\$ 0.57	\$ 0.44
FFO, as defined by Prologis	0.76	0.56
Core FFO	0.40	0.40

	March 31, 2013	December 31, 2012
Assets:		
Investments in real estate assets:		
Operating properties	\$ 17,521,075	\$ 22,608,248
Development portfolio	884,352	951,643
Land	1,754,053	1,794,364
Other real estate investments	436,328	454,868
	<u>20,595,808</u>	<u>25,809,123</u>
Less accumulated depreciation	2,292,946	2,480,660
Net investments in properties	18,302,862	23,328,463
Investments in and advances to unconsolidated entities	3,635,214	2,195,782
Notes receivable backed by real estate	188,000	188,000
Assets held for sale	25,391	26,027
Net investments in real estate	<u>22,151,467</u>	<u>25,738,272</u>
Cash and cash equivalents	785,359	100,810
Restricted cash	48,605	176,926
Accounts receivable	139,691	171,084
Other assets	950,177	1,123,053
Total assets	<u>\$ 24,075,299</u>	<u>\$ 27,310,145</u>
Liabilities and Equity:		
Liabilities:		
Debt	\$ 9,074,123	\$ 11,790,794
Preferred stock at redemption value	482,500	-
Accounts payable, accrued expenses, and other liabilities	1,308,143	1,746,015
Total liabilities	<u>10,864,766</u>	<u>13,536,809</u>
Equity:		
Stockholders' equity:		
Preferred stock	100,000	582,200
Common stock	4,624	4,618
Additional paid-in capital	16,461,486	16,411,855
Accumulated other comprehensive loss	(503,786)	(233,563)
Distributions in excess of net earnings	(3,561,429)	(3,696,093)
Total stockholders' equity	<u>12,500,895</u>	<u>13,069,017</u>
Noncontrolling interests	658,871	653,125
Noncontrolling interests - limited partnership unitholders	50,767	51,194
Total equity	<u>13,210,533</u>	<u>13,773,336</u>
Total liabilities and equity	<u>\$ 24,075,299</u>	<u>\$ 27,310,145</u>

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Rental income	\$ 454,789	\$ 443,960
Private capital revenue	33,635	32,357
Development management and other income	2,192	3,113
Total revenues	490,616	479,430
Expenses:		
Rental expenses	133,919	118,731
Private capital expenses	19,909	16,881
General and administrative expenses	56,197	60,159
Depreciation and amortization	177,266	180,280
Other expenses	4,353	4,335
Merger, acquisition and other integration expenses	-	10,728
Impairment of real estate properties	-	3,185
Total expenses	391,644	394,299
Operating income	98,972	85,131
Other income (expense):		
Earnings from unconsolidated co-investment ventures, net	24,768	13,995
Interest income	4,213	5,427
Interest expense	(115,028)	(133,056)
Gain on acquisitions and dispositions of investments in real estate, net	338,845	267,771
Foreign currency and derivative gains (losses) and other income (expenses), net	8,298	(27,101)
Gain (loss) on early extinguishment of debt, net	(17,351)	5,419
Impairment of other assets	-	(16,135)
Total other income (expense)	243,745	116,320
Earnings before income taxes	342,717	201,451
Income tax expense - current and deferred	51,866	12,124
Earnings from continuing operations	290,851	189,327
Discontinued operations:		
Income attributable to disposed properties and assets held for sale	247	12,521
Net gain on dispositions	5,834	11,249
Total discontinued operations	6,081	23,770
Consolidated net earnings	296,932	213,097
Net earnings attributable to noncontrolling interests	(12,103)	(118)
Net earnings attributable to controlling interests	284,829	212,979
Preferred stock dividends	(10,305)	(10,567)
Loss on preferred stock redemption	(9,108)	-
Net earnings attributable to common stockholders	\$ 265,416	\$ 202,412
Weighted average common shares outstanding - Diluted (A)	477,059	476,107
Net earnings per share attributable to common stockholders - Diluted	\$ 0.57	\$ 0.44

	Three Months Ended March 31,	
	2013	2012
Reconciliation of net earnings to FFO		
Net earnings attributable to common stockholders	\$ 265,416	\$ 202,412
Add (deduct) NAREIT defined adjustments:		
Real estate related depreciation and amortization	171,017	176,171
Net gain on non-FFO dispositions and acquisitions	(102,457)	(162,745)
Reconciling items related to noncontrolling interests	(2,941)	(12,054)
Our share of reconciling items included in earnings from unconsolidated entities	25,483	34,538
Subtotal-NAREIT defined FFO	356,518	238,322
Add (deduct) our defined adjustments:		
Unrealized foreign currency and derivative losses (gains), net	(638)	24,236
Deferred income tax benefit	2,134	1,051
Our share of reconciling items included in earnings from unconsolidated entities	(214)	(1,537)
FFO, as defined by Prologis	357,800	262,072
Adjustments to arrive at Core FFO, including our share of unconsolidated entities:		
Net gain on acquisitions and dispositions of investments in real estate, net of income taxes	(192,416)	(104,731)
Loss (gain) on early extinguishment of debt and redemption of preferred stock, net	26,459	(5,419)
Our share of reconciling items included in earnings from unconsolidated entities	(3,906)	2,795
Impairment charges	-	19,320
Merger, acquisition and other integration expenses	-	10,728
Adjustments to arrive at Core FFO	(169,863)	(77,307)
Core FFO	\$ 187,937	\$ 184,765
Adjustments to arrive at Adjusted FFO ("AFFO"), including our share of unconsolidated entities:		
Straight-lined rents and amortization of lease intangibles	(7,884)	(11,347)
Property improvements	(14,288)	(13,414)
Tenant improvements	(20,388)	(23,987)
Leasing commissions	(13,400)	(10,333)
Amortization of management contracts	1,615	1,216
Amortization of debt discounts/(premiums) and financing costs, net of capitalization	(7,002)	(1,389)
Stock compensation expense	9,387	8,312
AFFO	\$ 135,977	\$ 133,823
Common stock dividends	\$ 130,753	\$ 130,080

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

	Three Months Ended March 31,	
	2013	2012
Net earnings		
Net earnings	\$ 265,416	\$ 202,412
Noncontrolling interest attributable to exchangeable partnership units	50	1,003
Interest expense on exchangeable debt assumed exchanged	4,235	4,216
Adjusted net earnings - Diluted	\$ 269,701	\$ 207,631
Weighted average common shares outstanding - Basic	461,468	459,203
Incremental weighted average effect on exchange of limited partnership units	1,146	3,347
Incremental weighted average effect of stock awards	2,566	1,678
Incremental weighted average effect on exchange of certain exchangeable debt	11,879	11,879
Weighted average common shares outstanding - Diluted	477,059	476,107
Net earnings per share - Basic	\$ 0.58	\$ 0.44
Net earnings per share - Diluted	\$ 0.57	\$ 0.44
FFO, as defined by Prologis		
FFO, as defined by Prologis	\$ 357,800	\$ 262,072
Noncontrolling interest attributable to exchangeable limited partnership units	1,254	1,003
Interest expense on exchangeable debt assumed exchanged	4,235	4,216
FFO, as defined by Prologis - Diluted	\$ 363,289	\$ 267,291
Weighted average common shares outstanding - Basic	461,468	459,203
Incremental weighted average effect on exchange of limited partnership units	3,067	3,347
Incremental weighted average effect of stock awards	2,566	1,678
Incremental weighted average effect on exchange of certain exchangeable debt	11,879	11,879
Weighted average common shares outstanding - Diluted	478,980	476,107
FFO, as defined by Prologis per share - Diluted	\$ 0.76	\$ 0.56
Core FFO		
Core FFO	\$ 187,937	\$ 184,765
Noncontrolling interest attributable to exchangeable limited partnership units	489	1,003
Interest expense on exchange debt assumed converted	4,235	4,216
Core FFO - Diluted	\$ 192,661	\$ 189,984
Weighted average common shares outstanding - Basic	461,468	459,203
Incremental weighted average effect on exchange of limited partnership units	3,039	3,347
Incremental weighted average effect of stock awards	2,566	1,678
Incremental weighted average effect on exchange of certain exchangeable debt	11,879	11,879
Weighted average common shares outstanding - Diluted	478,952	476,107
Core FFO per share - Diluted	\$ 0.40	\$ 0.40

FFO, as defined by Prologis; Core FFO; 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 from dispositions and impairment charges of land and development properties, as well as our proportionate share of the gains and losses from dispositions and impairment charges 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 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 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;
- (iii) impairment charges recognized related to our investments in real estate (either directly or through our investments in unconsolidated entities) generally as a result of our change in intent to contribute or sell these properties;
- (iv) impairment charges of goodwill and other assets;
- (v) gains or losses from the early extinguishment of debt;
- (vi) merger, acquisition and other integration expenses; and
- (vii) 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 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. We currently have and have had over the past several years a stated priority to strengthen our financial position. We expect to accomplish this by reducing our debt, our investment in certain low yielding assets, such as land that we decide not to develop and our exposure to foreign currency exchange fluctuations. As a result, we have sold to third parties or contributed to unconsolidated entities real estate properties that, depending on market conditions, might result in a gain or loss. The impairment charges related to goodwill and other assets that we have recognized were similarly caused by the decline in the real estate markets. Also in connection with our stated priority to reduce debt and extend debt maturities, we have purchased portions of our debt securities. As a result, we recognized net gains or losses on the early extinguishment of certain debt due to the financial market conditions at that time.

We have also adjusted for some non-recurring items. The merger, acquisition and other integration expenses include costs we incurred in 2012 associated with the Merger and PEPR Acquisition and the integration of our systems and processes. We have not adjusted for the acquisition costs that we have incurred as a result of routine acquisitions but only the costs associated with significant business combinations that we would expect to be infrequent in nature.

We analyze our operating performance primarily by the rental income of our real estate and the revenue driven by our private 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.

AFFO

To arrive at *AFFO*, we adjust *Core FFO* to further exclude; (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 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, they are two of many measures we use when analyzing our business. Some of these limitations are:

- The current income tax expenses that are excluded from our defined FFO measures represent the taxes 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 the 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 impairment charges of goodwill and other assets that we exclude from Core FFO, have been or may be realized as a loss in the future upon the ultimate disposition of the related investments or other assets through the form of lower cash proceeds.
- 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. To assist investors in compensating for these limitations, we reconcile our defined FFO measures to our net earnings computed under GAAP. This information should be read with our complete financial statements prepared under GAAP.

SOURCE Prologis, Inc.