July 24, 2013

Prologis Announces Second Quarter 2013 Earnings Results

- Rents on rollover increased 4.0 percent -

- Leased 36.3 million square feet -

- Increasing deployment guidance by $1.7 billion -

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

Core funds from operations (Core FFO) per fully diluted share was $0.41 for the second quarter compared to $0.43 for the same period in 2012. Net loss per fully diluted share was less than $0.01 for the second quarter compared to a net loss per share of $0.02 for the same period in 2012. The net loss in the quarter was principally due to costs associated with the early extinguishment of debt, as well as from depreciation on real estate.

Operating Portfolio Metrics
The company leased 36.3 million square feet (3.4 million square meters) in its combined operating and development portfolios in the second quarter. Prologis ended the quarter with 93.7 percent occupancy in its operating portfolio, consistent with the prior quarter. Tenant retention in the second quarter was 84.6 percent. GAAP rental rates on leases signed in the quarter increased 4.0 percent from prior rents compared to a decrease of 3.8 percent in the same period in 2012.

During the second quarter, same-store net operating income (NOI) increased 0.7 percent and decreased 0.4 percent on an adjusted cash basis.

"With our accomplishments in the quarter we are closing out our 10 quarter plan ahead of schedule," said Hamid R. Moghadam, chairman and CEO, Prologis. "Our efforts have simplified the company and built a strong foundation for sustainable growth."

Capital Deployment
Invested capital during the second quarter totaled $922.2 million, of which $796.7 million was Prologis' share, including:

- Development starts of $385.3 million with a weighted average estimated yield of 7.1% and an estimated development margin of 13.9 percent. Prologis' share was $301.4 million and the company's estimated share of value creation upon stabilization is expected to be $42.7 million;
- Acquisitions of $127.2 million of buildings and land, of which $85.6 million was

Prologis' share. The stabilized capitalization rate on building acquisitions was 7.2 percent; and
- $409.7 million of investments in our co-investment ventures, including Prologis Targeted Europe Logistics Fund, Prologis European Properties Fund II, and Prologis Institutional Alliance Fund II, with a stabilized capitalization rate of 6.4 percent.

Subsequent to quarter end, Prologis European Logistics Partners Sarl, the company's joint venture with Norges Bank Investment Management, acquired a portfolio in the United Kingdom for $380 million, of which $190 million was Prologis' share.

At quarter end, Prologis' global development pipeline comprised 26.6 million square feet (2.5 million square meters), with a total expected investment of $2.3 billion, of which Prologis' share was $1.8 billion. The company's share of estimated value creation at stabilization is expected to be $363.9 million, with a weighted average estimated stabilized yield expected to be 7.7 percent and a margin of approximately 21.3 percent.

Dispositions and Contributions
Prologis completed $567.2 million in contributions and dispositions in the second quarter, of which $347.7 million was the company's share, with a stabilized capitalization rate of 5.6 percent, including:

- $282.0 million in contributions to Nippon Prologis REIT and Prologis Mexico Fondo Logistico, of which $237.3 million was the company's share; and
- $285.2 million of third-party building and land dispositions, of which$110.4 million was the company's share.

Investment Management
During the second quarter, the company further streamlined its co-investment ventures by rationalizing two funds:

- Prologis Japan Fund 1, the assets of which were acquired by Nippon Prologis REIT and Prologis; and
- Prologis Institutional Alliance Fund II, in which the company acquired its outside partners' interests and the assets are now wholly-owned by Prologis.

At quarter end, Prologis had $22.8 billion in combined assets under management in 15 funds.

Capital Markets
During the second quarter, Prologis completed approximately $4.3 billion in capital markets transactions, including:

- $1.5 billion from its follow-on equity offering, including the over-allotment;
- $2.3 billion in debt financings, re-financings, and pay-downs; and
- $482.5 million in preferred stock redemptions.

The company also established an at-the-market equity offering program to sell up to$750 million of its common stock.

Subsequent to quarter end, Prologis recast and upsized its global line of credit by$350 million to $2.0 billion, extended the initial term to 2017, and achieved a 40 basis point reduction in interest rate.

"Our capital markets activity in the quarter provides us with enhanced financial flexibility," said Thomas S. Olinger, chief financial officer, Prologis. "We have a strong balance sheet and the proven ability to access multiple sources of capital to fund our growth opportunities."

Guidance for 2013

Prologis narrowed its full-year 2013 Core FFO guidance range to $1.63 to $1.67 per diluted share. The company also expects to recognize net earnings, for GAAP purposes, of $0.58 to $0.62 per share.

In addition, the company increased its full-year deployment guidance range by $1.7 billion, to $3.5 billion to $4.1 billion.

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, July 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 97107173.

A telephonic replay will be available from July 24 through August 23 at +1 855-859-2056 (from the U.S. and Canada) or +1 404-537-3406 (from all other countries), with conference code 97107173. 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, 2013, Prologis owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects expected to total approximately 563 million square feet (52.3 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.

(dollars in thousands, except per share data)	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Revenues	$ 419,474	$ 501,181	$ 908,684	$ 979,049
Net earnings (loss) attributable to common stockholders	(1,517)	(8,120)	263,899	194,293
FFO, as defined by Prologis	202,238	172,671	560,038	434,743
Core FFO	203,337	201,320	391,274	386,085
AFFO	143,302	148,569	283,979	282,392
Adjusted EBITDA	334,004	382,688	675,582	757,309
Per common share - diluted:				
Net earnings (loss) attributable to common stockholders	$ 0.00	$ (0.02)	$ 0.55	$ 0.42
FFO, as defined by Prologis	0.41	0.37	1.16	0.93
Core FFO	0.41	0.43	0.82	0.83

	June 30, 2013	March 31, 2013	December 31, 2012
Assets:			
Investments in real estate assets:			
Operating properties	$ 17,755,655	$ 17,521,075	$ 22,608,248
Development portfolio	939,794	884,352	951,643
Land	1,710,583	1,754,053	1,794,364
Other real estate investments	492,833	436,328	454,868
	20,898,865	20,595,808	25,809,123
Less accumulated depreciation	2,422,909	2,292,946	2,480,660
Net investments in properties	18,475,956	18,302,862	23,328,463
Investments in and advances to unconsolidated entities	3,884,766	3,635,214	2,195,782
Notes receivable backed by real estate	189,636	188,000	188,000

Assets held for sale	25,330	25,391	26,027
Net investments in real estate	22,575,688	22,151,467	25,738,272
Cash and cash equivalents	385,424	785,359	100,810
Restricted cash	26,642	48,605	176,926
Accounts receivable	124,980	139,691	171,084
Other assets	924,834	950,177	1,123,053
Total assets	**$ 24,037,568**	**$ 24,075,299**	**$ 27,310,145**
Liabilities and Equity:			
Liabilities:			
Debt	$ 8,417,310	$ 9,074,123	$ 11,790,794
Preferred stock at redemption value	-	482,500	-
Accounts payable, accrued expenses, and other liabilities	1,297,756	1,308,143	1,746,015
Total liabilities	9,715,066	10,864,766	13,536,809
Equity:			
Stockholders' equity:			
Preferred stock	100,000	100,000	582,200
Common stock	4,986	4,624	4,618
Additional paid-in capital	17,939,829	16,461,486	16,411,855
Accumulated other comprehensive loss	(541,355)	(503,786)	(233,563)
Distributions in excess of net earnings	(3,704,034)	(3,561,429)	(3,696,093)
Total stockholders' equity	13,799,426	12,500,895	13,069,017
Noncontrolling interests	470,995	658,871	653,125
Noncontrolling interests - limited partnership unitholders	52,081	50,767	51,194
Total equity	14,322,502	13,210,533	13,773,336
Total liabilities and equity	**$ 24,037,568**	**$ 24,075,299**	**$ 27,310,145**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Rental income	$ 372,737	$ 468,459	$ 826,120	$ 910,857
Investment management income	43,608	30,993	77,243	63,350
Development management and other income	3,129	1,729	5,321	4,842
Total revenues	419,474	501,181	908,684	979,049
Expenses:				
Rental expenses	112,581	125,918	245,907	244,151
Investment management expenses	25,006	15,075	44,915	31,956
General and administrative expenses	54,909	51,415	111,106	111,574
Depreciation and amortization	158,965	178,756	335,454	358,315
Other expenses	6,771	7,227	11,124	11,562
Merger, acquisition and other integration expenses	-	21,186	-	31,914
Impairment of real estate properties	-	-	-	3,185
Total expenses	358,232	399,577	748,506	792,657
Operating income	61,242	101,604	160,178	186,392
Other income (expense):				
Earnings from unconsolidated entities, net	8,421	3,889	33,189	17,884
Interest income	4,577	5,366	8,790	10,793
Interest expense	(92,508)	(127,582)	(207,498)	(260,551)

Gains on acquisitions and dispositions of investments in real estate, net	61,035	520	399,880	268,291
Foreign currency and derivative gains (losses) and other income (expenses), net	(7,829)	13,299	469	(13,802)
Gains (losses) on early extinguishment of debt, net	(32,608)	(500)	(49,959)	4,919
Impairment of other assets	-	-	-	(16,135)
Total other income (expense)	(58,912)	(105,008)	184,871	11,399
Earnings (loss) before income taxes	2,330	(3,404)	345,049	197,791
Income tax expense - current and deferred	20,488	8,075	72,354	20,199
Earnings (loss) from continuing operations	(18,158)	(11,479)	272,695	177,592
Discontinued operations:				
Income (loss) attributable to disposed properties and assets held for sale	(294)	6,273	(49)	19,051
Net gains on dispositions	13,467	9,874	19,301	21,123
Total discontinued operations	13,173	16,147	19,252	40,174
Consolidated net earnings (loss)	(4,985)	4,668	291,947	217,766
Net loss (earnings) attributable to noncontrolling interests	7,284	(2,739)	(4,819)	(2,857)
Net earnings attributable to controlling interests	2,299	1,929	287,128	214,909
Preferred stock dividends	(3,816)	(10,049)	(14,121)	(20,616)
Loss on preferred stock redemption	-	-	(9,108)	-
Net earnings (loss) attributable to common stockholders	**$ (1,517)**	**$ (8,120)**	**$ 263,899**	**$ 194,293**
Weighted average common shares outstanding - Diluted	486,032	459,878	478,116	464,696
Net earnings (loss) per share attributable to common stockholders - Diluted	**$ 0.00**	**$ (0.02)**	**$ 0.55**	**$ 0.42**

	Three Months Ended	Six Months Ended
	June 30,	June 30,

	2013	2012	2013	2012
Reconciliation of net earnings (loss) to FFO				
Net earnings (loss) attributable to common stockholders	$ (1,517)	$ (8,120)	$ 263,899	$ 194,293
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	153,229	174,516	323,469	349,965
Net gains on non-FFO dispositions and acquisitions	(8,010)	(2,210)	(109,690)	(164,234)
Reconciling items related to noncontrolling interests	(719)	(3,950)	(3,660)	(16,004)
Our share of reconciling items included in earnings from unconsolidated entities	37,931	34,444	63,414	68,982
Subtotal-NAREIT defined FFO	180,914	194,680	537,432	433,002
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	8,133	(14,519)	7,495	9,717
Deferred income tax benefit	(4,350)	(5,809)	(2,216)	(4,758)
Our share of reconciling items included in earnings from unconsolidated entities	17,541	(1,681)	17,327	(3,218)
FFO, as defined by Prologis	**202,238**	**172,671**	**560,038**	**434,743**
Adjustments to arrive at Core FFO, including our share of unconsolidated entities:				
Net losses (gains) on acquisitions and dispositions of investments in real estate, net of related income taxes	(33,806)	838	(226,222)	(103,893)
Losses (gains) on early extinguishment of debt and redemption of preferred stock, net	32,608	500	59,067	(4,919)
Our share of reconciling items included in earnings from unconsolidated entities	2,297	6,125	(1,609)	8,920
Impairment charges	-	-	-	19,320
Merger, acquisition and other integration expenses	-	21,186	-	31,914
Adjustments to arrive at Core FFO	1,099	28,649	(168,764)	(48,658)
Core FFO	**$ 203,337**	**$ 201,320**	**$ 391,274**	**$ 386,085**

Adjustments to arrive at Adjusted FFO ("AFFO"), including our share of unconsolidated entities:				
Straight-lined rents and amortization of lease intangibles	(4,906)	(6,646)	(12,790)	(17,993)
Property improvements	(19,318)	(14,755)	(33,606)	(28,169)
Tenant improvements	(27,353)	(22,150)	(47,741)	(46,137)
Leasing commissions	(19,224)	(12,784)	(32,624)	(23,117)
Amortization of management contracts	1,393	1,792	3,008	3,008
Amortization of debt discounts/(premiums) and financing costs, net of capitalization	(3,839)	(6,063)	(10,841)	(7,452)
Stock compensation expense	13,212	7,855	27,299	16,167
AFFO	**$ 143,302**	**$ 148,569**	**$ 283,979**	**$ 282,392**
Common stock dividends	$ 141,083	$ 131,513	$ 271,836	$ 261,593

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net earnings (loss)				
Net earnings (loss)	$ (1,517)	$ (8,120)	$ 263,899	$ 194,293
Noncontrolling interest attributable to exchangeable partnership units	-	-	542	1,069
Adjusted net earnings - Diluted	**$ (1,517)**	**$ (8,120)**	**$ 264,441**	**$ 195,362**
Weighted average common shares outstanding - Basic	486,032	459,878	473,892	459,549
Incremental weighted average effect on exchange of limited partnership units	-	-	1,146	3,299
Incremental weighted average effect of stock awards	-	-	3,078	1,848
Weighted average common shares outstanding - Diluted	**486,032**	**459,878**	**478,116**	**464,696**
Net earnings per share - Basic	**$ 0.00**	**$ (0.02)**	**$ 0.56**	**$ 0.42**

Net earnings per share - Diluted	**$ 0.00**	**$ (0.02)**	**$ 0.55**	**$ 0.42**
FFO, as defined by Prologis				
FFO, as defined by Prologis	$ 202,238	$ 172,671	$ 560,038	$ 434,743
Noncontrolling interest attributable to exchangeable limited partnership units	(19)	66	1,599	1,069
Interest expense on exchangeable debt assumed exchanged	4,235	4,057	8,470	8,273
FFO, as defined by Prologis - Diluted	**$ 206,454**	**$ 176,794**	**$ 570,107**	**$ 444,085**
Weighted average common shares outstanding - Basic	486,032	459,878	473,892	459,549
Incremental weighted average effect on exchange of limited partnership units	2,093	3,250	3,093	3,299
Incremental weighted average effect of stock awards	3,339	1,838	3,078	1,848
Incremental weighted average effect on exchange of certain exchangeable debt	11,879	11,879	11,879	11,879
Weighted average common shares outstanding - Diluted	**503,343**	**476,845**	**491,888**	**476,575**
FFO, as defined by Prologis per share - Diluted	**$ 0.41**	**$ 0.37**	**$ 1.16**	**$ 0.93**
Core FFO				
Core FFO	$ 203,337	$ 201,320	$ 391,274	$ 386,085
Noncontrolling interest attributable to exchangeable limited partnership units	(19)	66	1,599	1,069
Interest expense on exchange debt assumed converted	4,235	4,057	8,470	8,273
Core FFO - Diluted	**$ 207,553**	**$ 205,443**	**$ 401,343**	**$ 395,427**
Weighted average common shares outstanding - Basic	486,032	459,878	473,892	459,549
Incremental weighted average effect on exchange of limited partnership units	2,093	3,250	3,039	3,299
Incremental weighted average effect of stock awards	3,339	1,838	3,078	1,848
Incremental weighted average effect on exchange of certain exchangeable debt	11,879	11,879	11,879	11,879
Weighted average common shares outstanding - Diluted	**503,343**	**476,845**	**491,888**	**476,575**
Core FFO per share - Diluted	**$ 0.41**	**$ 0.43**	**$ 0.82**	**$ 0.83**

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 with AMB Property Corporation and the acquisition of our co-investment venture Prologis European Properties 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 investment management business, net of operating, administrative and financing expenses. This income stream is not directly impacted by fluctuations in the market value of our investments in real estate or debt securities. As a result, although these items have had a material impact on our operations and are reflected in our financial statements, the removal of the effects of these items allows us to better understand the core operating performance of our properties over the long-term.

We use *Core FFO*, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison to expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources;

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

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, 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 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.