

January 30, 2014



# Prologis Announces Fourth Quarter and Full Year 2013 Earnings Results

- Leased record 43.7 million square feet in Q4 and 152 million square feet in 2013 -
- Occupancy increased to 95.1 percent at year end -
- \$426 million in estimated value creation with estimated margin of 30.4 percent from 2013 stabilizations -
- Raised record \$4.1 billion of third-party equity in 2013 -

SAN FRANCISCO, Jan. 30, 2014 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the leading global owner, operator and developer of industrial real estate, today reported results for the fourth quarter and full year 2013.

Core funds from operations (Core FFO) per fully diluted share was \$0.43 for the fourth quarter 2013 compared to \$0.42 for the same period in 2012. Core FFO per fully diluted share in 2013 was \$1.65 compared to \$1.74 for 2012.

Net earnings per fully diluted share was \$0.12 for the fourth quarter 2013 compared to a net loss of \$0.50 for the same period in 2012. Net earnings per share was \$0.64 for 2013 compared to a net loss of \$0.18 in 2012. The year-over-year increase was primarily due to gains on the disposition of assets.

"Our financial and operating results for the fourth quarter and full year reflect the strong market fundamentals that continued throughout 2013," said Hamid R. Moghadam, chairman and CEO, Prologis. "We significantly increased occupancy with solid rent growth, exceeded our value creation objectives with above-average development margins, and substantially grew our Investment Management business."

"As we look forward, the combination of rental growth, the profitable build-out of our land bank, and improvements in efficiencies resulting from our global scale sets us up well for an extended period of robust earnings growth," Moghadam added.

## OPERATING PORTFOLIO METRICS

The company leased a record 43.7 million square feet (4.1 million square meters) in its combined operating and development portfolios in the fourth quarter, and 152 million square feet (14.1 million square meters) in 2013. Prologis ended the quarter with 95.1 percent occupancy in its operating portfolio, up 120 basis points over the prior quarter.

Tenant retention in the quarter was 86.8 percent, with tenant renewals totaling 27.4 million

square feet (2.5 million square meters). GAAP rental rates on leases signed in the quarter increased 5.9 percent from prior rents compared to a decrease of 2.1 percent in the same period in 2012.

In the fourth quarter, GAAP same-store net operating income (NOI) increased 2.7 percent, and 3.0 percent on an adjusted cash basis.

## **INVESTMENT MANAGEMENT**

During the fourth quarter, Prologis raised \$1.8 billion in third-party equity, leading to a record \$4.1 billion in 2013. With the closing of Prologis U.S. Logistics Venture (USLV), the company has \$26.4 billion in assets under management in 15 ventures.

## **CAPITAL DEPLOYMENT**

The company increased its total assets owned and under management to \$48.2 billion, up from \$44.8 billion at December 31, 2012, an increase of 7.8 percent.

### ***Acquisitions & Equity Investments in Co-investment Ventures***

During the fourth quarter, the company invested \$539 million (\$351 million Prologis' share) in building acquisitions and equity in Prologis SGP Mexico. The stabilized capitalization rate on building acquisitions was 6.7 percent. In 2013, the company invested \$2.4 billion (\$1.8 billion Prologis' share) in building acquisitions and equity in six of its co-investments. The stabilized capitalization rate on building acquisitions was 6.5 percent.

### ***Development Starts and Pipeline***

During the quarter, the company started \$578 million (\$491 million Prologis' share) of new development projects, 29 percent of which were build-to-suits. In 2013, the company initiated \$1.8 billion (\$1.5 billion Prologis' share) of new development projects, 42 percent of which were build-to-suits. The starts had an estimated weighted average yield at stabilization of 7.6 percent and an estimated development margin of 19.1 percent. With these projects, the company monetized \$450 million of land, and its estimated share of value creation on these starts was \$277 million.

The company stabilized \$514 million (\$429 million Prologis' share) in development projects during the fourth quarter, with an estimated margin of 27.9 percent and \$143 million (\$125 million Prologis' share) in estimated value creation. For 2013, the company stabilized \$1.4 billion (\$1.2 billion Prologis' share) in development projects, with an estimated development margin of 30.4 percent and \$426 million (\$372 million Prologis' share) in estimated value creation.

At year end, Prologis' global development pipeline comprised 30.4 million square feet (2.8 million square meters), with a total expected investment of \$2.4 billion (\$2.0 billion Prologis' share). The company's share of estimated value creation at stabilization is expected to be \$377 million, with an estimated weighted average stabilized yield of 7.4 percent and an estimated development margin of approximately 17.9 percent.

### ***Dispositions and Contributions***

During the fourth quarter, Prologis completed \$1.8 billion (\$1.4 billion Prologis' share) in contributions and dispositions of buildings and land. The stabilized capitalization rate on contributions and building dispositions was 6.0 percent. For 2013, contributions and dispositions totaled \$8.4 billion (\$5.4 billion Prologis' share) with a stabilized capitalization

rate of 6.4 percent.

Subsequent to quarter end, the company contributed \$1.0 billion of assets from its operating portfolio to USLV, the newly-formed joint venture with Norges Bank Investment Management.

## **CAPITAL MARKETS**

Prologis completed approximately \$3.9 billion of capital markets activity in the fourth quarter and \$17.5 billion in 2013, including debt financings, re-financings and pay-downs.

Notable activity in the fourth quarter included:

- The issuance of \$1.5 billion of senior notes with a blended interest rate of 3.1 percent and term of 7.8 years; and
- The redemption of \$562 million of ProLogis European Properties bonds and the repurchase of \$513 million of senior notes.

"We had a very successful year on the financing front," said Thomas S. Olinger, chief financial officer, Prologis. "We took the opportunity to lock in favorable interest rates and to further enhance our debt maturity profile."

## **GUIDANCE FOR 2014**

Prologis established a 2014 Core FFO guidance range of \$1.74 to \$1.82 per diluted share. On a GAAP basis, the company expects net income to range between \$0.02 to \$0.10 per share.

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

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

The principal drivers supporting Prologis' 2014 guidance include the following:

- Year-end occupancy in its operating portfolio between 95 to 96 percent (consistent with historical seasonal trends, the company expects occupancy to decrease in the first quarter and trend higher through the remainder of the year);
- Same-store NOI growth of 3 to 4 percent;
- Development starts of \$1.8 to \$2.2 billion (80 percent Prologis' share);
- Building acquisitions of \$500 million to \$1 billion (40 percent Prologis' share);
- Building and land dispositions of \$500 to \$750 million (80 percent Prologis' share);
- Contributions of \$2.0 to \$2.25 billion (50 percent Prologis' share); and
- A euro exchange rate of \$1.35 and a yen exchange rate of JPY 105 per U.S. dollar.

## **WEBCAST AND CONFERENCE CALL INFORMATION**

The company will host a webcast /conference call to discuss quarterly results, current

market conditions and future outlook today, Jan. 30, 2014, 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 (toll-free from the U.S. and Canada) or +1 973-409-9692 (from all other countries) and enter conference code 48765445.

A telephonic replay will be available from January 30 through February 28 at +1 855-859-2056 (from the U.S. and Canada) or +1 404-537-3406 (from all other countries), with conference code 48765445. 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 December 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 569 million square feet (52.9 million square meters) in 21 countries. These properties are leased to more than 4,500 customers, including third-party logistics providers, transportation companies, retailers, manufacturers, 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 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 release.

	Three months ended December 31,		Year ended December 31,	
<i>(dollars in thousands, except per share data)</i>	2013	2012	2013	2012
			\$	\$
Revenues	\$ 436,764	\$ 506,108	1,750,486	1,960,518
Net earnings (loss) attributable to common stockholders	59,057	(228,713)	315,422	(80,946)
FFO, as defined by Prologis	212,599	(88,199)	855,173	552,435
Core FFO	215,055	195,816	813,224	813,863
Core AFFO	147,554	110,786	580,844	563,180
Adjusted EBITDA	366,664	369,271	1,384,274	1,485,080
Value creation from development stabilization - Prologis share	125,184	13,243	372,378	150,803
Per common share - diluted:				
Net earnings (loss) attributable to common stockholders	\$ 0.12	\$ (0.50)	\$ 0.64	\$ (0.18)
FFO, as defined by Prologis	0.42	(0.19)	1.73	1.19
Core FFO	0.43	0.42	1.65	1.74

<i>(in thousands)</i>	<b>December 31, 2013</b>	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>Assets:</b>			
Investments in real estate assets:			
Operating properties	\$ 17,801,064	\$ 18,404,897	\$ 22,608,248
Development portfolio	1,021,017	1,084,959	951,643
Land	1,516,166	1,643,055	1,794,364
Other real estate investments	486,230	466,997	454,868
	<u>20,824,477</u>	<u>21,599,908</u>	<u>25,809,123</u>
Less accumulated depreciation	<u>2,568,998</u>	<u>2,540,370</u>	<u>2,480,660</u>
Net investments in properties	18,255,479	19,059,538	23,328,463
Investments in and advances to unconsolidated entities	4,430,239	4,210,305	2,195,782
Notes receivable backed by real estate	188,000	189,663	188,000
Assets held for sale	4,042	3,958	26,027
Net investments in real estate	<u>22,877,760</u>	<u>23,463,464</u>	<u>25,738,272</u>
Cash and cash equivalents	491,129	121,693	100,810
Restricted cash	14,210	42,488	176,926
Accounts receivable	128,196	137,879	171,084
Other assets	1,061,012	1,024,019	1,123,053
<b>Total assets</b>	<b><u>\$ 24,572,307</u></b>	<b><u>\$ 24,789,543</u></b>	<b><u>\$ 27,310,145</u></b>
<b>Liabilities and Equity:</b>			
Liabilities:			
Debt	\$ 9,011,216	\$ 9,119,317	\$ 11,790,794
Accounts payable, accrued expenses, and other liabilities	1,384,638	1,406,704	1,746,015
Total liabilities	<u>10,395,854</u>	<u>10,526,021</u>	<u>13,536,809</u>
Equity:			
Stockholders' equity:			
Preferred stock	100,000	100,000	582,200
Common stock	4,988	4,986	4,618
Additional paid-in capital	17,974,452	17,952,611	16,411,855
Accumulated other comprehensive loss	(435,675)	(451,658)	(233,563)
Distributions in excess of net earnings	<u>(3,932,664)</u>	<u>(3,852,846)</u>	<u>(3,696,093)</u>
Total stockholders' equity	13,711,101	13,753,093	13,069,017
Noncontrolling interests	417,086	459,897	653,125
Noncontrolling interests - limited partnership unitholders	48,266	50,532	51,194
Total equity	<u>14,176,453</u>	<u>14,263,522</u>	<u>13,773,336</u>
<b>Total liabilities and equity</b>	<b><u>\$ 24,572,307</u></b>	<b><u>\$ 24,789,543</u></b>	<b><u>\$ 27,310,145</u></b>

(in thousands, except per share amounts)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2013	2012	2013	2012
<b>Revenues:</b>				
	\$	\$	\$	\$
Rental income	379,208	470,294	1,559,493	1,823,781
Investment management income	53,907	31,715	179,472	126,779
Development management and other income	3,649	4,099	11,521	9,958
Total revenues	436,764	506,108	1,750,486	1,960,518
<b>Expenses:</b>				
Rental expenses	104,936	127,916	451,938	491,239
Investment management expenses	22,341	16,134	89,279	63,820
General and administrative expenses	63,067	60,608	229,207	228,068
Depreciation and amortization	165,453	183,338	648,668	724,262
Other expenses	9,488	9,414	26,982	26,556
Merger, acquisition and other integration expenses	-	28,103	-	80,676
Impairment of real estate properties	-	243,138	-	252,914
Total expenses	365,285	668,651	1,446,074	1,867,535
<b>Operating income (loss)</b>	71,479	(162,543)	304,412	92,983
<b>Other income (expense):</b>				
Earnings from unconsolidated entities, net	37,666	11,229	97,220	31,676
Interest income	4,147	5,107	17,549	22,299
Interest expense	(87,832)	(123,074)	(379,327)	(505,215)
Gains on acquisitions and dispositions of investments in real estate, net	151,702	24,639	597,656	305,607
Foreign currency and derivative gains (losses) and other income (expenses), net	(32,619)	(2,567)	(24,234)	(19,918)
Losses on early extinguishment of debt, net	(112,859)	(19,033)	(277,014)	(14,114)
Impairment of other assets	-	-	-	(16,135)
Total other income (expense)	(39,795)	(103,699)	31,850	(195,800)
<b>Earnings (loss) before income taxes</b>	31,684	(266,242)	336,262	(102,817)
Income tax expense - current and deferred	22,199	3,364	106,733	3,580
<b>Earnings (loss) from continuing operations</b>	9,485	(269,606)	229,529	(106,397)
<b>Discontinued operations:</b>				
Income attributable to disposed properties and assets held for sale	1,832	5,646	6,970	40,827
Net gains on dispositions, including related impairment charges and taxes	56,952	48,620	116,550	35,098
Total discontinued operations	58,784	54,266	123,520	75,925
<b>Consolidated net earnings (loss)</b>	68,269	(215,340)	353,049	(30,472)
Net earnings attributable to noncontrolling interests	(7,077)	(3,068)	(10,128)	(9,248)
<b>Net earnings (loss) attributable to controlling interests</b>	61,192	(218,408)	342,921	(39,720)
Preferred stock dividends	(2,135)	(10,305)	(18,391)	(41,226)
Loss on preferred stock redemption	-	-	(9,108)	-
	\$	\$	\$	\$
<b>Net earnings (loss) attributable to common stockholders</b>	59,057	(228,713)	315,422	(80,946)
Weighted average common shares outstanding - Diluted (A)	503,760	462,346	491,546	461,848
<b>Net earnings (loss) per share attributable to common stockholders - Diluted</b>	0.12	(0.50)	0.64	(0.18)

(in thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2013	2012	2013	2012
<b>Reconciliation of net earnings (loss) to FFO</b>				
Net earnings (loss) attributable to common stockholders	\$ 59,057	\$ (228,713)	\$ 315,422	\$ (80,946)
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	159,489	177,702	624,573	705,717
Impairment charges on certain real estate properties	-	13,141	-	34,801
Net gains on non-FFO acquisitions and dispositions	(76,751)	(61,434)	(271,315)	(207,033)
Reconciling items related to noncontrolling interests	(1,310)	(5,592)	(8,993)	(27,680)
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	42,107	20,740	153,710	115,790
Our share of reconciling items included in earnings from other unconsolidated joint ventures	1,738	2,292	6,082	11,533
<b>Subtotal-NAREIT defined FFO</b>	<b>184,330</b>	<b>(81,864)</b>	<b>819,479</b>	<b>552,182</b>
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains) and related amortization, net	33,457	(666)	32,870	14,892
Deferred income tax expense (benefit)	1,704	(2,162)	656	(8,804)
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	(6,892)	(3,507)	2,168	(5,835)
<b>FFO, as defined by Prologis</b>	<b>212,599</b>	<b>(88,199)</b>	<b>855,173</b>	<b>552,435</b>
Adjustments to arrive at Core FFO, including our share of unconsolidated entities:				
Net gains on acquisitions and dispositions of investments in real estate, net of expenses	(117,887)	(5,835)	(336,815)	(121,303)
Losses on early extinguishment of debt and redemption of preferred stock, net	112,859	19,033	286,122	14,114
Our share of reconciling items included in earnings from unconsolidated entities	7,484	12,717	8,744	23,097
Impairment charges	-	229,997	-	264,844
Merger, acquisition and other integration expenses	-	28,103	-	80,676
Adjustments to arrive at Core FFO	2,456	284,015	(41,949)	261,428
<b>Core FFO</b>	<b>215,055</b>	<b>195,816</b>	<b>813,224</b>	<b>813,863</b>
Adjustments to arrive at Core Adjusted FFO ("Core AFFO"), including our share of unconsolidated entities:				
Straight-lined rents and amortization of lease intangibles	(5,011)	(5,543)	(22,968)	(27,753)
Property improvements	(31,445)	(36,037)	(93,841)	(90,144)
Tenant improvements	(28,076)	(26,970)	(102,138)	(95,566)
Leasing commissions	(18,632)	(19,481)	(64,094)	(56,629)
Amortization of management contracts	1,332	1,805	5,726	6,419
Amortization of debt discounts (premiums) and financing costs, net of capitalization	(4,528)	(6,877)	(19,387)	(19,688)
Cash received on net investment hedges	1,804	-	7,848	-
Stock compensation expense	17,055	8,073	56,474	32,678
<b>Core AFFO</b>	<b>147,554</b>	<b>110,786</b>	<b>580,844</b>	<b>563,180</b>
<b>Common stock dividends</b>	<b>141,127</b>	<b>131,624</b>	<b>554,242</b>	<b>522,986</b>

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



	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2013	2012	2013	2012
<b>Net earnings (loss)</b>				
Net earnings (loss)	\$ 59,057	\$ (228,713)	\$ 315,422	\$ (80,946)
Noncontrolling interest attributable to exchangeable partnership units	144	(859)	1,305	(110)
<b>Adjusted net earnings - Diluted</b>	<b>\$ 59,201</b>	<b>\$ (229,572)</b>	<b>\$ 316,727</b>	<b>\$ (81,056)</b>
Weighted average common shares outstanding - Basic	498,104	460,447	486,076	459,895
Incremental weighted average effect on exchange of limited partnership units	1,996	1,899	2,060	1,953
Incremental weighted average effect of stock awards	3,660	-	3,410	-
<b>Weighted average common shares outstanding - Diluted</b>	<b>503,760</b>	<b>462,346</b>	<b>491,546</b>	<b>461,848</b>
<b>Net earnings per share - Basic</b>	<b>\$ 0.12</b>	<b>\$ (0.50)</b>	<b>\$ 0.65</b>	<b>\$ (0.18)</b>
<b>Net earnings per share - Diluted</b>	<b>\$ 0.12</b>	<b>\$ (0.50)</b>	<b>\$ 0.64</b>	<b>\$ (0.18)</b>
<b>FFO, as defined by Prologis</b>				
	\$			
FFO, as defined by Prologis	212,599	\$ (88,199)	\$ 855,173	\$ 552,435
Noncontrolling interest attributable to exchangeable limited partnership units	144	(859)	2,828	227
Interest expense on exchangeable debt assumed exchanged	4,235	-	16,940	-
	\$			
<b>FFO, as defined by Prologis - Diluted</b>	<b>216,978</b>	<b>\$ (89,058)</b>	<b>\$ 874,941</b>	<b>\$ 552,662</b>
Weighted average common shares outstanding - Basic	498,104	460,447	486,076	459,895
Incremental weighted average effect on exchange of limited partnership units	1,996	1,899	3,411	3,238
Incremental weighted average effect of stock awards	3,660	-	3,410	2,173
Incremental weighted average effect on exchange of certain exchangeable debt	11,879	-	11,879	-
<b>Weighted average common shares outstanding - Diluted</b>	<b>515,639</b>	<b>462,346</b>	<b>504,776</b>	<b>465,306</b>
<b>FFO, as defined by Prologis per share - Diluted</b>	<b>\$ 0.42</b>	<b>\$ (0.19)</b>	<b>\$ 1.73</b>	<b>\$ 1.19</b>
<b>Core FFO</b>				
	\$			
Core FFO	215,055	\$ 195,816	\$ 813,224	\$ 813,863
Noncontrolling interest attributable to exchangeable limited partnership units	144	(708)	2,828	227
Interest expense on exchange debt assumed converted	4,235	4,235	16,940	16,896
	\$			
<b>Core FFO - Diluted</b>	<b>219,434</b>	<b>\$ 199,343</b>	<b>\$ 832,992</b>	<b>\$ 830,986</b>
Weighted average common shares outstanding - Basic	498,104	460,447	486,076	459,895
Incremental weighted average effect on exchange of limited partnership units	1,996	3,171	3,411	3,238
Incremental weighted average effect of stock awards	3,660	2,195	3,410	2,173
Incremental weighted average effect on exchange of certain exchangeable debt	11,879	11,879	11,879	11,879
<b>Weighted average common shares outstanding - Diluted</b>	<b>515,639</b>	<b>477,692</b>	<b>504,776</b>	<b>477,185</b>
<b>Core FFO per share - Diluted</b>	<b>\$ 0.43</b>	<b>\$ 0.42</b>	<b>\$ 1.65</b>	<b>\$ 1.74</b>

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

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor do we intend it to present, a complete picture of our financial condition and

operating performance. We believe net earnings computed under GAAP remains the primary measure of performance and that FFO is only meaningful when it is used in conjunction with net earnings computed under GAAP. Further, we believe our consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of our financial condition and our operating performance.

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

- (i) historical cost accounting for real estate assets in accordance with GAAP assumes, through depreciation charges, that the value of real estate assets diminishes predictably over time. NAREIT stated in its White Paper on FFO "since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves." Consequently, NAREIT's definition of FFO reflects the fact that real estate, as an asset class, generally appreciates over time and depreciation charges required by GAAP do not reflect the underlying economic realities.
- (ii) REITs were created as a legal form of organization in order to encourage public ownership of real estate as an asset class through investment in firms that were in the business of long-term ownership and management of real estate. The exclusion, in NAREIT's definition of FFO, of gains and losses from the sales, along with impairment charges, of previously depreciated operating real estate assets allows investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assists in comparing those operating results between periods. We include the gains and losses (including impairment charges) from dispositions of land and development properties, as well as our proportionate share of the gains and losses (including impairment charges) from dispositions of development properties recognized by our unconsolidated entities, in our definition of FFO.

### *Our FFO Measures*

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

We use these FFO measures, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison to expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources; (iv) assess our performance as compared to similar real estate companies and the industry in general; and (v) evaluate how a specific potential investment

will impact our future results. Because we make decisions with regard to our performance with a long-term outlook, we believe it is appropriate to remove the effects of short-term items that we do not expect to affect the underlying long-term performance of the properties. The long-term performance of our properties is principally driven by rental income. While not infrequent or unusual, these additional items we exclude in calculating *FFO, as defined by Prologis*, are subject to significant fluctuations from period to period that cause both positive and negative short-term effects on our results of operations in inconsistent and unpredictable directions that are not relevant to our long-term outlook.

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

#### *FFO, as defined by Prologis*

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

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

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

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

#### *Core FFO*

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

- (i) gains or losses from acquisition, contribution or sale of land or development properties;
- (ii) income tax expense related to the sale of investments in real estate and third-party acquisition costs related to the acquisition of real estate;
- (iii) impairment charges recognized related to our investments in real estate generally as a

result of our change in intent to contribute or sell these properties;

- (iv) gains or losses from the early extinguishment of debt;
- (v) merger, acquisition and other integration expenses; and
- (vi) expenses related to natural disasters.

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

We have also adjusted for some non-recurring items. The merger, acquisition and other integration expenses included costs we incurred in 2011 and 2012 associated with the merger with AMB Property Corporation and ProLogis and the acquisition of our co-investment venture Prologis European Properties and the integration of our systems and processes. In addition, we and our co-investment ventures make acquisitions of real estate and we believe the costs associated with these transactions are transaction based and not part of our core operations.

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

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

to them allows them to align their analysis and evaluation of our operating results along the same lines that our management uses in planning and executing our business strategy.

### *Core AFFO*

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

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

### *Limitations on Use of our FFO Measures*

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

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

We compensate for these limitations by using our FFO measures only in conjunction with net earnings computed under GAAP when making our decisions. This information should be

read with our complete consolidated financial statements prepared under GAAP. To assist investors in compensating for these limitations, we reconcile our defined FFO measures to our net earnings computed under GAAP.

SOURCE Prologis, Inc.