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Prologis Announces Fourth Quarter and Full Year 2012 Earnings Results

- Record 40.5 million square feet of leasing in Q4; 145 million in 2012 -
- Occupancy increases to 94.0 percent at year end -
- $1.3 billion in contributions and dispositions in Q4; $2.7 billion in 2012 -
- Ahead of schedule on 10 Quarter Strategic Plan -

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SAN FRANCISCO, Feb. 6, 2013 /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 2012.

Core funds from operations (Core FFO) per fully diluted share was $0.42 for the fourth quarter 2012 compared to $0.44 for the same period in 2011. Core FFO per fully diluted share for full year 2012 was $1.74 compared to $1.58 for full year 2011.

Net loss per fully diluted share was $0.50 for the fourth quarter 2012 compared to a net loss of $0.10 for the same period in 2011. Net loss per share was $0.18 for the full year 2012 compared to a net loss of $0.51 for the same period in 2011. The net loss for the quarter and year was principally due to impairment charges and losses on the early extinguishment of debt which were partially offset by gains on acquisitions and dispositions of real estate.

"This marks the first full year as a combined company and Prologis delivered very strong results," said Hamid Moghadam, chairman and CEO, Prologis. "We are ahead of schedule on our 10 Quarter Plan and we've built a solid foundation upon which we will continue to grow the company."

Operating Portfolio Metrics
The company leased a record 40.5 million square feet (3.8 million square meters) in its combined operating and development portfolios in the fourth quarter, and 145.3 million square feet (13.5 million square meters) in the full year 2012. Prologis ended the quarter with 94.0 percent occupancy in its operating portfolio, up 90 basis points over the prior quarter and 180 basis points over year end 2011. Tenant retention in the quarter was 87.3 percent, with tenant renewals totaling 25.1 million square feet (2.3 million square meters).

"Our team did an exceptional job setting another quarterly record for leasing around the globe," said Moghadam. "Increasing demand and lack of supply remain the theme in most markets, and we expect our overall rent change on rollover to turn positive this year. In the United States, in particular, occupancy in our small spaces increased 280 basis points year over year, and we expect this trend will continue given improvements in the housing market."

Same-store net operating income (NOI) increased 0.1 percent in the fourth quarter and 1.3 percent in the full year 2012. Rental rates on leases signed in the fourth quarter same-store pool decreased by 2.4 percent from in-place rents.

Dispositions and Contributions
Prologis completed $1.3 billion in contributions and dispositions in the fourth quarter, of which more than $1.0 billion was Prologis' share. This includes approximately:

- $878 million of third-party building and land dispositions primarily in the United States and Europe, of which $700 million was the company's share; and
- $401 million of contributions to Prologis European Properties Fund II, Prologis Europe Logistics Venture, Prologis Targeted Europe Logistics Fund, and joint ventures in Brazil, of which $325 million was the company's share.

In the full year 2012, contributions and dispositions totaled $2.7 billion, of which more than $2.1 billion was the company's share.

Additionally, the company has approximately $5 billion of operating portfolio assets in Japan and Europe scheduled for contribution in the first quarter of 2013, in connection with Nippon Prologis REIT (NPR) and Prologis European Logistics Partners Sàrl (PELP), subject to the listing of NPR and customary closing conditions. The combination of these transactions, in conjunction with fourth quarter activity, positions the company ahead of its 10 Quarter Plan.

"We continue to make excellent progress executing on our priority to realign our portfolio," said Thomas

Olinger, chief financial officer, Prologis. "These dispositions and contributions reflect the diversity of our activities as well as the market's demand for high quality industrial real estate."

Development Starts and Building Acquisitions
Committed capital during the fourth quarter 2012 totaled approximately $1.2 billion, of which $909 million was Prologis' share, including:

- Development starts of $727 million, of which $613 million was Prologis' share. These starts totaled 7.3 million square feet (675,000 square meters), and monetized $190 million of land. The company's estimated share of value creation on development starts in the fourth quarter was $71 million.
- Acquisitions of $458 million, including $276 million in buildings with a stabilized capitalization rate of 7.4 percent and an investment of $182 million in land and land infrastructure. Of the total acquisitions, $295 million was Prologis' share.

Capital committed during the year totaled approximately $2.5 billion, of which $2.0 billion was the company's share. This included development starts of $1.6 billion, of which 57 percent were build-to-suits, and acquisitions of $983 million, including $544 million in buildings with a stabilized capitalization rate of 7.3 percent and an investment of $439 million in land and land infrastructure.

At quarter end, Prologis' global development pipeline comprised 22.5 million square feet (2.1 million square meters), with a total expected investment of $2.1 billion, of which Prologis' share was $1.9 billion. The company's share of estimated value creation at stabilization is expected to be $354 million, with a weighted average stabilized yield of 7.8 percent and a margin of approximately 19 percent.

Private Capital Activity
In 2012, Prologis raised or received commitments for $1.9 billion in new, third-party equity. This was primarily due to PELP, and also included Prologis Targeted U.S. Logistics Fund and Prologis Targeted Europe Logistics Fund.

The company continued streamlining its co-investment ventures into fewer, more profitable and differentiated investment vehicles, rationalizing six funds in 2012.

In the fourth quarter, Prologis concluded the Prologis North American Fund I. Two of the fund's assets were sold to third parties with the remaining portfolio divided up between the partners, of which Prologis' share was $117 million.

Capital Markets
Prologis completed approximately $1.1 billion of capital markets activity in the fourth quarter and $4.8 billion for the full year 2012. This includes debt financings, re-financings, and pay-downs.

Subsequent to quarter end, the company paid off $141 million of its 1.875 percent convertible notes and repaid $319 million of secured debt.

Guidance for 2013
Prologis established a full-year 2013 Core FFO guidance range of $1.60 to $1.70 per diluted share. On a GAAP basis, the company expects to recognize a range of a net loss of ($0.07) per share to net earnings of $0.03 per share. From a fourth quarter run rate perspective, this slight decline from 2012 is primarily due to near-term dilution from disposition and contribution activities, which are expected to significantly deleverage the company by the end of the first quarter.

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, impairment charges, deferred taxes, 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 2013 predominantly relates to real estate depreciation and recognized gains on real estate transactions.

The principal drivers supporting Prologis' 2013 guidance include the following:

- Year end occupancy in its operating portfolio between 94 to 95 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 1.5 to 2.5 percent, excluding the impact of foreign exchange movements;
- Development starts of $1.5 to $1.8 billion, of which approximately 75 percent is expected to be the company's share;

- Building acquisitions of $400 to $600 million, of which approximately 35 percent is expected to be the company's share;
- Building and land dispositions and contributions of $7.5 to $10.0 billion, of which approximately 60 percent is expected to be the company's share; and
- A euro exchange rate of $1.35; and a yen exchange rate of JPY 92 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, Feb. 6, 2013, 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 86463676

A telephonic replay will be available from Feb. 6 through March 6 at +1 855-859-2056 (from the U.S. and Canada) or +1 404-537-3406 (from all other countries), with conference code 86463676. The webcast and podcast 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 Dec. 31, 2012, Prologis owned or had investments in, on a consolidated basis or through unconsolidated joint ventures, properties and development projects expected to total approximately 554 million square feet (51.5 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 December 31,		Year ended December 31,	
(dollars in thousands, except per share data)	**2012**	**2011**	**2012**	**2011 (A)**
Revenues	$ 517,557	$ 456,777	$ 2,005,961	$ 1,451,327
Net loss available for common stockholders	(228,713)	(45,459)	(80,946)	(188,110)
FFO, as defined by Prologis	(88,199)	134,147	552,435	411,688
Core FFO	195,816	203,945	813,863	593,917
AFFO	110,786	147,934	563,180	431,450
Adjusted EBITDA	376,940	386,965	1,516,263	1,514,150

Per common share - diluted:				
Net loss available for common stockholders	$ (0.50)	$ (0.10)	$ (0.18)	$ (0.51)
FFO, as defined by Prologis	(0.19)	0.29	1.19	1.10
Core FFO	0.42	0.44	1.74	1.58

(A)AMB and Prologis completed a merger (the "Merger") in June 2011. The financial results presented throughout this supplemental include Prologis for the full period and AMB results from the date of the Merger going forward.

	December 31, 2012	September 30, 2012	December 31, 2011
Assets:			
Investments in real estate assets:			
Operating properties	$ 22,608,248	$ 23,304,246	$ 21,552,548
Development portfolio	951,643	774,821	860,531
Land	1,794,364	1,924,626	1,984,233
Other real estate investments	454,868	457,373	390,225
	25,809,123	26,461,066	24,787,537
Less accumulated depreciation	2,480,660	2,389,214	2,157,907
Net investments in properties	23,328,463	24,071,852	22,629,630
Investments in and advances to unconsolidated entities	2,195,782	2,242,075	2,857,755
Notes receivable backed by real estate	188,000	243,979	322,834
Assets held for sale	26,027	376,642	444,850
Net investments in real estate	25,738,272	26,934,548	26,255,069
Cash and cash equivalents	100,810	158,188	176,072
Restricted cash	176,926	172,515	71,992
Accounts receivable	171,084	181,855	147,999
Other assets	1,123,053	1,129,316	1,072,780
Total assets	**$ 27,310,145**	**$ 28,576,422**	**$ 27,723,912**
Liabilities and Equity:			
Liabilities:			
Debt	$ 11,790,794	$ 12,578,060	$ 11,382,408
Accounts payable, accrued expenses, and other liabilities	1,746,015	1,823,841	1,886,030
Total liabilities	13,536,809	14,401,901	13,268,438
Equity:			
Stockholders' equity:			
Preferred stock	582,200	582,200	582,200
Common stock	4,618	4,609	4,594
Additional paid-in capital	16,411,855	16,395,797	16,349,328
Accumulated other comprehensive loss	(233,563)	(165,100)	(182,321)
Distributions in excess of net earnings	(3,696,093)	(3,335,757)	(3,092,162)
Total stockholders' equity	13,069,017	13,481,749	13,661,639
Noncontrolling interests	653,125	639,631	735,222
Noncontrolling interests - limited partnership unitholders	51,194	53,141	58,613
Total equity	13,773,336	14,174,521	14,455,474
Total liabilities and equity	**$ 27,310,145**	**$ 28,576,422**	**$ 27,723,912**

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	**2011**	**2012**	**2011 (A)**
Revenues:				
Rental income	$ 481,743	$ 415,226	$ 1,869,224	$ 1,294,872
Private capital revenue	31,715	40,230	126,779	137,619
Development management and other income	4,099	1,321	9,958	18,836
Total revenues	517,557	456,777	2,005,961	1,451,327

Expenses:				
Rental expenses	131,696	110,169	505,499	358,559
Private capital expenses	16,134	15,734	63,820	54,962
General and administrative expenses	60,608	50,797	228,068	195,161
Merger, acquisition and other integration expenses	28,103	18,772	80,676	140,495
Impairment of real estate properties	243,138	21,237	252,914	21,237
Depreciation and amortization	187,770	180,628	739,981	552,849
Other expenses	9,414	9,789	26,556	24,031
Total expenses	676,863	407,126	1,897,514	1,347,294
Operating income (loss)	(159,306)	49,651	108,447	104,033
Other income (expense):				
Earnings from unconsolidated co-investment ventures, net	10,414	904	25,703	49,326
Earnings from other unconsolidated joint ventures, net	815	3,016	5,973	10,609
Interest income	5,107	5,780	22,299	19,843
Interest expense	(123,623)	(129,055)	(507,484)	(468,072)
Impairment of other assets	-	(22,609)	(16,135)	(126,432)
Gain (loss) on acquisitions and dispositions of investments in real estate, net	24,639	(2,966)	305,607	111,684
Foreign currency and derivative gains (losses) and other income (expenses), net	(2,567)	(3,584)	(19,918)	33,337
Gain (loss) on early extinguishment of debt, net	(19,033)	556	(14,114)	258
Total other income (expense)	(104,248)	(147,958)	(198,069)	(369,447)
Loss before income taxes	(263,554)	(98,307)	(89,622)	(265,414)
Income tax expense (benefit) - current and deferred	3,364	(8,184)	3,580	1,776
Loss from continuing operations	(266,918)	(90,123)	(93,202)	(267,190)
Discontinued operations:				
Income attributable to disposed properties and assets held for sale	2,958	13,039	27,632	50,638
Net gain on dispositions, including related impairment charges and taxes	48,620	37,069	35,098	58,614
Total discontinued operations	51,578	50,108	62,730	109,252
Consolidated net loss	(215,340)	(40,015)	(30,472)	(157,938)
Net loss (earnings) attributable to noncontrolling interests	(3,068)	4,832	(9,248)	4,524
Net loss attributable to controlling interests	(218,408)	(35,183)	(39,720)	(153,414)
Less preferred stock dividends	10,305	10,276	41,226	34,696
Net loss available for common stockholders	**$ (228,713)**	**$ (45,459)**	**$ (80,946)**	**$ (188,110)**
Weighted average common shares outstanding - Diluted (B)	460,447	458,383	459,895	370,534
Net loss per share available for common stockholders - Diluted	**$ (0.50)**	**$ (0.10)**	**$ (0.18)**	**$ (0.51)**

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	**2011**	**2012**	**2011 (A)**
Reconciliation of net loss to FFO				
Net loss available for common stockholders	$ (228,713)	$ (45,459)	$ (80,946)	$ (188,110)
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	182,134	175,754	721,436	533,854
Impairment charges on certain real estate properties	13,141	5,300	34,801	5,300
Net gain on non-FFO dispositions and acquisitions	(65,866)	(20,265)	(222,752)	(7,338)
Reconciling items related to noncontrolling interests	(5,592)	(8,199)	(27,680)	(19,889)
Our share of reconciling items included in earnings from unconsolidated entities	23,032	43,879	127,323	147,608
Subtotal-NAREIT defined FFO	(81,864)	151,010	552,182	471,425
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	(666)	6,002	14,892	(39,034)
Deferred income tax benefit	(2,162)	(22,558)	(8,804)	(19,803)
Our share of reconciling items included in earnings from unconsolidated entities	(3,507)	(307)	(5,835)	(900)
FFO, as defined by Prologis	**(88,199)**	**134,147**	**552,435**	**411,688**
Adjustments to arrive at Core FFO, including our share of unconsolidated entities:				
Impairment charges	229,997	38,546	264,844	145,028
Japan disaster expenses	-	-	-	5,210

Merger, acquisition and other integration expenses	28,103	18,772	80,676	140,495
Loss (gain) on acquisitions and dispositions of investments in real estate, net	(5,835)	2,538	(121,303)	(117,800)
Loss (gain) on early extinguishment of debt, net	19,033	(556)	14,114	(258)
Income tax expense on dispositions	-	5,415	-	7,331
Our share of reconciling items included in earnings from unconsolidated entities	12,717	5,083	23,097	2,223
Adjustments to arrive at Core FFO	284,015	69,798	261,428	182,229
Core FFO	**$ 195,816**	**$ 203,945**	**$ 813,863**	**$ 593,917**
Adjustments to arrive at Adjusted FFO ("AFFO"), including our share of unconsolidated entities:				
Straight-lined rents and amortization of lease intangibles	(5,543)	(8,678)	(27,753)	(42,287)
Property improvements	(36,037)	(21,473)	(90,144)	(64,918)
Tenant improvements	(26,970)	(19,558)	(95,566)	(60,975)
Leasing commissions	(19,481)	(15,739)	(56,629)	(44,905)
Amortization of management contracts	1,805	1,925	6,419	6,749
Amortization of debt discounts/(premiums) and financing costs, net of capitalization	(6,877)	(2,344)	(19,688)	12,387
Stock compensation expense	8,073	9,856	32,678	31,482
AFFO	**$ 110,786**	**$ 147,934**	**$ 563,180**	**$ 431,450**
Common stock dividends	$ 131,624	$ 130,573	$ 522,986	$ 388,333

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	**2011**	**2012**	**2011**
Net loss				
Net loss	**$ (228,713)**	**$ (45,459)**	**$ (80,946)**	**$ (188,110)**
Weighted average common shares outstanding - Basic and Diluted (a)	**460,447**	**458,383**	**459,895**	**370,534**
Net loss per share - Basic and Diluted	**$ (0.50)**	**$ (0.10)**	**$ (0.18)**	**$ (0.51)**
FFO, as defined by Prologis				
FFO, as defined by Prologis	$ (88,199)	$ 134,147	$ 552,435	$ 411,688
Noncontrolling interest attributable to exchangeable limited partnership units	-	108	227	289
FFO - Diluted, as defined by Prologis	**$ (88,199)**	**$ 134,255**	**$ 552,662**	**$ 411,977**
Weighted average common shares outstanding - Basic (a)	460,447	458,383	459,895	370,534
Incremental weighted average effect of exchange of limited partnership units	-	3,361	3,238	2,095
Incremental weighted average effect of stock awards	-	1,258	2,173	1,452
Weighted average common shares outstanding - Diluted (a)	**460,447**	**463,002**	**465,306**	**374,081**
FFO per share - Diluted, as defined by Prologis	**$ (0.19)**	**$ 0.29**	**$ 1.19**	**$ 1.10**
Core FFO				
Core FFO	$ 195,816	$ 203,945	$ 813,863	$ 593,917
Noncontrolling interest attributable to exchangeable limited partnership units	(708)	108	227	289
Interest expense on convertible debt assumed converted	4,235	4,165	16,896	16,824
Core FFO - Diluted	**$ 199,343**	**$ 208,218**	**$ 830,986**	**$ 611,030**
Weighted average common shares outstanding - Basic	460,447	458,383	459,895	370,534
Incremental weighted average effect of exchange of limited partnership units	3,171	3,361	3,238	2,095
Incremental weighted average effect of stock awards	2,195	1,258	2,173	1,452
Incremental weighted average effect of exchange of certain exchangeable debt	11,879	11,879	11,879	11,879
Weighted average common shares outstanding - Diluted	**477,692**	**474,881**	**477,185**	**385,960**

Core FFO per share - Diluted	**$ 0.42**	**$ 0.44**	**$ 1.74**	**$ 1.58**

(a) In periods with a net loss, the inclusion of any incremental shares is anti-dilutive, and therefore, both basic and diluted shares are the same.

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 2011 and 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. Similarly, the expenses related to the natural disaster in Japan that we recognized in 2011 are a rare occurrence but we may incur similar expenses again in the future.

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.
