News Release Archive

Prologis Announces Third Quarter 2013 Earnings Results

- Rents on rollover increased 6.1 percent -
- Stabilized $500 million of development projects; $190 million in estimated value creation -
- Raised record $672 million for open ended funds -

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SAN FRANCISCO, Oct. 23, 2013 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the leading global owner, operator and developer of industrial real estate, today reported results for the third quarter 2013.

Core funds from operations (Core FFO) per fully diluted share was $0.41 for the third quarter compared to $0.49 for the same period in 2012 which included a tax benefit of $0.06 per share. Net loss per fully diluted share was $0.02 for the third quarter compared to a net loss per share of $0.10 for the same period in 2012. The net loss in the quarter was principally due to costs associated with the company's previously announced debt tender.

Operating Portfolio Metrics
The company leased 36.1 million square feet (3.4 million square meters) in its combined operating and development portfolios in the third quarter, which included a record 5.3 million square feet (0.5 million square meters) in development leasing. Prologis ended the quarter with 93.9 percent occupancy in its operating portfolio, up 20 basis points over the prior quarter.

Tenant retention in the third quarter was 80.8 percent. GAAP and cash rental rates on leases signed in the quarter increased 6.1 percent and 0.4 percent respectively from in-place rents, an increase of 210 basis points and 380 basis points over the prior quarter.

In the third quarter, GAAP same-store net operating income (NOI) increased 1.4 percent, or 1.8 percent on an adjusted cash basis, as compared to the same period in 2012.

"Market conditions are improving faster than expected with rent growth across our markets in the U.S. and broadening in Europe," said Hamid R. Moghadam, chairman and CEO, Prologis. "Utilization in our facilities is running at an all-time high. The demand we're seeing is, by and large, just to keep up with current needs and not for future expansion."

Capital Deployment
New investments during the third quarter totaled $1.9 billion, of which $1.5 billion was Prologis' share, including:

- $756.3 million of investments in its co-investment ventures, with a stabilized capitalization rate of 6.5 percent, including: Prologis Targeted Europe Logistics Fund (PTELF), Prologis Targeted U.S. Logistics Fund (USLF), Prologis European Properties Fund II (PEPF II), as well as the acquisition of properties from Prologis North American Industrial Fund III (NA III);
- $612.8 million of acquisitions in buildings and land, of which $270.1 million was Prologis' share. The stabilized capitalization rate on building acquisitions was 6.0 percent; and
- $493.7 million of development starts with an estimated weighted average yield at stabilization of 7.3 percent and an estimated development margin of 19.0 percent. Two-thirds were build-to-suits. Prologis' share of starts was $462.6 million.

In the first three quarters, the company stabilized $887.0 million in development projects, with an estimated development margin of 31.9 percent and $282.8 million in estimated value creation. During the third quarter, the company stabilized $500.2 million in development projects with an estimated margin of 38.0 percent and $190.2 million in estimated value creation, of which $164.9 million was Prologis' share.

At quarter end, Prologis' global development pipeline totaled 28.3 million square feet (2.6 million square meters), with a total expected investment of $2.3 billion, of which Prologis' share was $2.0 billion. The company's share of estimated value creation at stabilization was $395.4 million, with a weighted average estimated stabilized yield of 7.6 percent and a margin of approximately 19.5 percent.

Dispositions and Contributions
In the third quarter, Prologis completed contributions and dispositions totaling $791.8 million, of which $361.1 million was the company's share, with a stabilized capitalization rate of 7.1 percent, including:

- Third-party building and land dispositions of $611.6 million, of which $252.4 million was the company's share; and

- Contributions in Europe and Brazil totaling $180.2 million, of which $108.7 million was the company's share.

Investment Management
During the third quarter, Prologis raised a record $671.6 million of third-party equity for its open ended funds, including:

- $398.4 million for PEPF II;
- $180.0 million for USLF; and
- $93.2 million for Prologis European Logistics Partners Sàrl (PELP).

Subsequent to quarter end, the company raised an additional $187.2 million for PTELF and USLF.

"This was the largest quarter of fundraising in our history for open ended funds," said Moghadam. "Institutions beyond the sovereign fund sector are committing new capital at levels not seen since before the global financial crisis. They are under-allocated to industrial real estate and are seeking general partners with deep operating and logistics expertise. We clearly line up well with these requirements."

During the third quarter, the company also concluded Prologis North American Industrial Fund III.

At quarter end, Prologis had $23.4 billion in combined assets under management in 14 funds.

Capital Markets
During the third quarter, Prologis completed approximately $6.3 billion of debt financings, refinancings, and principal paydowns, including:

- The upsizing of the company's global line of credit by $350.0 million to $2.0 billion with a maturity date of July 2017, and an option to extend an additional year. Pricing is at LIBOR plus 130 basis points, a 40 basis point reduction in interest rate;
- The upsizing of the company's Japan revolver by JPY 8.5 billion ($86 million) to JPY 45 billion ($458 million) with a maturity date of May 2018. Pricing is at LIBOR plus 130 basis points, a 40 basis point reduction in interest rate; and
- The issuance of senior notes totaling $1.25 billion with a weighted average interest rate of 3.8 percent and term of 8.6 years, as well as the tender of $611.4 million of notes.

Subsequent to quarter end, the company raised EUR 300 million in a public Eurobond issuance for PEPF II. The five-year bond has a coupon rate of 2.75 percent.

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

Guidance for 2013
Prologis narrowed its full-year 2013 Core FFO guidance range to $1.64 to $1.66 per diluted share from $1.63 to $1.67 per diluted share. The company also expects to recognize net earnings, for GAAP purposes, of $0.53 to $0.55 per diluted share.

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

The difference between the company's Core FFO and net earnings guidance for 2013 predominantly relates to real estate depreciation and recognized gains or losses on real estate transactions and early extinguishment of debt.

Webcast and Conference Call Information
The company will host a webcast /conference call to discuss quarterly results, current market conditions and future outlook today, October 23, 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 48749904.

A telephonic replay will be available from October 23 through November 22 at +1 855-859-2056 (from the U.S.

and Canada) or +1 404-537-3406 (from all other countries), with conference code 48749904. 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 Sept. 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 562 million square feet (52.2 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 September 30,		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
Revenues	$ 430,185	$ 499,462	$1,333,740	$1,473,630
Net earnings (loss) attributable to common stockholders	(7,534)	(46,526)	256,365	147,767
FFO, as defined by Prologis	82,536	205,891	642,574	640,634
Core FFO	206,895	231,962	598,169	618,047
Core AFFO	145,000	170,002	433,290	452,394
Adjusted EBITDA	354,641	385,117	1,028,025	1,151,902
Value creation from development stabilization - Prologis share	164,888	19,903	247,194	137,560
Per common share - diluted:				
Net earnings (loss) attributable to common stockholders	$ (0.02)	$ (0.10)	$ 0.53	$ 0.32
FFO, as defined by Prologis	0.16	0.44	1.31	1.37
Core FFO	0.41	0.49	1.22	1.32

	September 30, 2013	June 30, 2013	December 31, 2012
Assets:			
Investments in real estate assets:			
Operating properties	$ 18,404,897	$17,755,655	$ 22,608,248
Development portfolio	1,084,959	939,794	951,643
Land	1,643,055	1,710,583	1,794,364
Other real estate investments	466,997	492,833	454,868
	21,599,908	20,898,865	25,809,123
Less accumulated depreciation	2,540,370	2,422,909	2,480,660
Net investments in properties	19,059,538	18,475,956	23,328,463
Investments in and advances to unconsolidated entities	4,210,305	3,884,766	2,195,782
Notes receivable backed by real estate	189,663	189,636	188,000
Assets held for sale	3,958	25,330	26,027
Net investments in real estate	23,463,464	22,575,688	25,738,272
Cash and cash equivalents	121,693	385,424	100,810
Restricted cash	42,488	26,642	176,926
Accounts receivable	137,879	124,980	171,084
Other assets	1,024,019	924,834	1,123,053
Total assets	**$ 24,789,543**	**$24,037,568**	**$ 27,310,145**
Liabilities and Equity:			
Liabilities:			
Debt	$ 9,119,317	$8,417,310	$ 11,790,794
Accounts payable, accrued expenses, and other liabilities	1,406,704	1,297,756	1,746,015
Total liabilities	10,526,021	9,715,066	13,536,809
Equity:			
Stockholders' equity:			
Preferred stock	100,000	100,000	582,200
Common stock	4,986	4,986	4,618
Additional paid-in capital	17,952,611	17,939,829	16,411,855
Accumulated other comprehensive loss	(451,658)	(541,355)	(233,563)
Distributions in excess of net earnings	(3,852,846)	(3,704,034)	(3,696,093)
Total stockholders' equity	13,753,093	13,799,426	13,069,017
Noncontrolling interests	459,897	470,995	653,125
Noncontrolling interests - limited partnership unitholders	50,532	52,081	51,194
Total equity	14,263,522	14,322,502	13,773,336
Total liabilities and equity	**$ 24,789,543**	**$24,037,568**	**$ 27,310,145**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenues:				
Rental income	$379,312	$466,731	$1,200,303	$1,372,707
Investment management income	48,322	31,714	125,565	95,064
Development management and other income	2,551	1,017	7,872	5,859
Total revenues	430,185	499,462	1,333,740	1,473,630
Expenses:				
Rental expenses	108,912	126,431	353,272	369,284
Investment management expenses	22,023	15,730	66,938	47,686
General and administrative expenses	55,034	55,886	166,140	167,460
Depreciation and amortization	158,889	190,148	492,690	547,036
Other expenses	6,370	5,580	17,494	17,142
Merger, acquisition and other integration expenses	-	20,659	-	52,573

Impairment of real estate properties	-	9,778	-	12,963
Total expenses	351,228	424,212	1,096,534	1,214,144
Operating income	78,957	75,250	237,206	259,486
Other income (expense):				
Earnings from unconsolidated co-investment ventures, net	25,769	2,378	57,816	15,289
Earnings from other unconsolidated joint ventures, net	596	185	1,738	5,158
Interest income	4,612	6,399	13,402	17,192
Interest expense	(84,885)	(122,817)	(292,383)	(383,369)
Gains on acquisitions and dispositions of investments in real estate, net	46,074	12,677	445,954	280,968
Foreign currency and derivative gains (losses) and other income (expenses), net	7,916	(3,549)	8,385	(17,351)
Gains (losses) on early extinguishment of debt, net	(114,196)	-	(164,155)	4,919
Impairment of other assets	-	-	-	(16,135)
Total other income (expense)	(114,114)	(104,727)	70,757	(93,329)
Earnings (loss) before income taxes	(35,157)	(29,477)	307,963	166,157
Income tax expense (benefit) - current and deferred	12,180	(19,983)	84,534	216
Earnings (loss) from continuing operations	(47,337)	(9,494)	223,429	165,941
Discontinued operations:				
Income (loss) attributable to disposed properties and assets held for sale	(127)	8,054	1,753	29,262
Net gains (losses) on dispositions, including related impairment charges and taxes	40,297	(31,458)	59,598	(10,335)
Total discontinued operations	40,170	(23,404)	61,351	18,927
Consolidated net earnings (loss)	(7,167)	(32,898)	284,780	184,868
Net loss (earnings) attributable to noncontrolling interests	1,768	(3,323)	(3,051)	(6,180)
Net earnings (loss) attributable to controlling interests	(5,399)	(36,221)	281,729	178,688
Preferred stock dividends	(2,135)	(10,305)	(16,256)	(30,921)
Loss on preferred stock redemption	-	-	(9,108)	-
Net earnings (loss) attributable to common stockholders	**$(7,534)**	**$(46,526)**	**$256,365**	**$147,767**
Weighted average common shares outstanding - Diluted (A)	499,848	461,979	488,409	464,938
Net earnings (loss) per share attributable to common stockholders - Diluted	**$(0.02)**	**$(0.10)**	**$0.53**	**$0.32**

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2013	**2012**	**2013**	**2012**
Reconciliation of net earnings (loss) to FFO				
Net earnings (loss) attributable to common stockholders	$ (7,534)	$ (46,526)	$ 256,365	$ 147,767
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	152,743	185,589	474,559	534,127
Impairment charges on certain real estate properties	-	21,660	-	21,660
Net losses (gains) on non-FFO acquisitions and dispositions	(96,002)	11,096	(204,039)	(151,711)
Reconciling items related to noncontrolling interests	(4,023)	(6,084)	(7,683)	(22,088)
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	51,155	32,686	111,603	95,050
Our share of reconciling items included in earnings from other unconsolidated joint ventures	1,378	2,623	4,344	9,241
Subtotal-NAREIT defined FFO	97,717	201,044	635,149	634,046
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	(8,082)	5,841	(587)	15,558
Deferred income tax expense (benefit)	1,168	(1,884)	(1,048)	(6,642)
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	(8,267)	890	9,060	(2,328)
FFO, as defined by Prologis	**82,536**	**205,891**	**642,574**	**640,634**

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 expenses	7,294	(11,575)	(218,928)	(115,468)
Losses (gains) on early extinguishment of debt and redemption of preferred stock, net	114,196	-	173,263	(4,919)
Our share of reconciling items included in earnings from unconsolidated entities	2,869	1,460	1,260	10,380
Impairment charges	-	15,527	-	34,847
Merger, acquisition and other integration expenses	-	20,659	-	52,573
Adjustments to arrive at Core FFO	124,359	26,071	(44,405)	(22,587)
Core FFO	**$ 206,895**	**$ 231,962**	**$ 598,169**	**$ 618,047**
Adjustments to arrive at Core Adjusted FFO ("Core AFFO"), including our share of unconsolidated entities:				
Straight-lined rents and amortization of lease intangibles	(5,167)	(4,217)	(17,957)	(22,210)
Property improvements	(28,790)	(25,938)	(62,396)	(54,107)
Tenant improvements	(26,321)	(22,459)	(74,062)	(68,596)
Leasing commissions	(12,838)	(14,031)	(45,462)	(37,148)
Amortization of management contracts	1,386	1,606	4,394	4,614
Amortization of debt discounts (premiums) and financing costs, net of capitalization	(4,018)	(5,359)	(14,859)	(12,811)
Cash received on net investment hedges	1,733	-	6,044	-
Stock compensation expense	12,120	8,438	39,419	24,605
Core AFFO	**$ 145,000**	**$ 170,002**	**$ 433,290**	**$ 452,394**
Common stock dividends	$ 141,279	$ 129,769	$ 413,115	$ 391,362

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

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
	2013	**2012**	**2013**	**2012**
Net earnings (loss)				
Net earnings (loss)	$ (7,534)	$ (46,526)	$ 256,365	$ 147,767
Noncontrolling interest attributable to exchangeable partnership units	(47)	(152)	1,446	935
Adjusted net earnings - Diluted	**$ (7,581)**	**$ (46,678)**	**$ 257,811**	**$ 148,702**
Weighted average common shares outstanding - Basic	497,989	460,079	482,007	459,720
Incremental weighted average effect on exchange of limited partnership units	1,859	1,900	3,099	3,260
Incremental weighted average effect of stock awards	-	-	3,303	1,958
Weighted average common shares outstanding - Diluted	**499,848**	**461,979**	**488,409**	**464,938**
Net earnings per share - Basic	**$ (0.02)**	**$ (0.10)**	**$ 0.53**	**$ 0.32**
Net earnings per share - Diluted	**$ (0.02)**	**$ (0.10)**	**$ 0.53**	**$ 0.32**
FFO, as defined by Prologis				
FFO, as defined by Prologis	$ 82,536	$ 205,891	$ 642,574	$ 640,634
Noncontrolling interest attributable to exchangeable limited partnership units	(47)	(134)	1,598	935
Interest expense on exchangeable debt assumed exchanged	-	4,229	12,705	12,661
FFO, as defined by Prologis - Diluted	**$ 82,489**	**$ 209,986**	**$ 656,877**	**$ 654,230**
Weighted average common shares outstanding - Basic	497,989	460,079	482,007	459,720
Incremental weighted average effect on exchange of limited	3,610	3,185	3,299	3,260

partnership units				
Incremental weighted average effect of stock awards	3,285	1,882	3,303	1,958
Incremental weighted average effect on exchange of certain exchangeable debt	-	11,879	11,879	11,879
Weighted average common shares outstanding - Diluted	**504,884**	**477,025**	**500,488**	**476,817**
FFO, as defined by Prologis per share - Diluted	**$ 0.16**	**$ 0.44**	**$ 1.31**	**$ 1.37**
Core FFO				
Core FFO	$ 206,895	$ 231,962	$ 598,169	$ 618,047
Noncontrolling interest attributable to exchangeable limited partnership units	-	(134)	1,598	935
Interest expense on exchange debt assumed converted	4,235	4,229	12,705	12,661
Core FFO - Diluted	**$ 211,130**	**$ 236,057**	**$ 612,472**	**$ 631,643**
Weighted average common shares outstanding - Basic	497,989	460,079	482,007	459,720
Incremental weighted average effect on exchange of limited partnership units	3,809	3,185	3,299	3,260
Incremental weighted average effect of stock awards	3,285	1,882	3,303	1,958
Incremental weighted average effect on exchange of certain exchangeable debt	11,879	11,879	11,879	11,879
Weighted average common shares outstanding - Diluted	**516,962**	**477,025**	**500,488**	**476,817**
Core FFO per share - Diluted	**$ 0.41**	**$ 0.49**	**$ 1.22**	**$ 1.32**

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 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 and third-party acquisition costs related to the acquisition of 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 ProLogis and the acquisition of our co-investment venture Prologis European Properties and the integration of our systems and processes.

We analyze our operating performance primarily by the rental income of our real estate and the revenue driven by our strategic capital business, net of operating, administrative and financing expenses. This income stream is not directly impacted by fluctuations in the market value of our investments in real estate or debt securities. 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; (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 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. 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.
