July 26, 2012

Prologis Announces Second Quarter 2012 Results

- Core FFO of $0.43 per fully diluted share -

- 35 million square feet of leasing in its combined operating and development portfolios -

- Company increases low end of full year guidance -

SAN FRANCISCO, July 26, 2012 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the leading global owner, operator and developer of industrial real estate, today reported results for the second quarter of 2012.

Core funds from operations (Core FFO) per fully diluted share was $0.43 for the second quarter 2012 compared to $0.35 for the same period in 2011. Funds from operations (FFO) as defined by Prologis per fully diluted share was $0.37 for the second quarter 2012 compared to $0.03 for the same period in 2011. The difference between Core FFO and FFO in the second quarter 2012 primarily relates to merger integration expenses. Net loss per share was $(0.02) for the second quarter 2012 compared to a net loss of $(0.49) for the same period in 2011. The second quarter 2011 comparative results reflect two months of stand-alone legacy ProLogis and approximately one month of results for the combined company. Therefore, they are not directly comparable to the 2012 reported results.

"We delivered solid results for the second quarter despite forecasts of slower economic growth," said Hamid R. Moghadam, chairman and co-chief executive officer, Prologis. "We continue to make excellent progress on our priorities, increasing occupancy in our operating and development portfolios. We also received unitholder and regulatory approval to liquidate Prologis European Properties. While we will continue to exercise a patient and deliberate approach to achieving our strategic goals by the end of 2013, Prologis is well positioned to remain opportunistic, flexible and laser-focused on taking advantage of growth opportunities around the world."

Operating Portfolio Metrics
During the quarter, the company leased a total of 35.0 million square feet (3.3 million square meters) in its combined operating and development portfolios. Prologis ended the quarter above plan with 92.4 percent occupancy in its operating portfolio, up 10 basis points over the prior quarter. Tenant retention in the quarter was 82.4 percent, with renewals totaling 20.2 million square feet (1.9 million square meters).

Same-store net operating income (NOI) in the second quarter of 2012 increased 0.4 percent over the second quarter 2011 on a GAAP basis, compared to an increase of 1.7 percent in the first quarter of 2012. Rental rates on leases signed in the second quarter same-store pool decreased by 3.9 percent from in-place rents, as compared to a decrease of 1.1 percent in the first quarter 2012.

"Building on the momentum from last quarter, the team delivered another strong quarter of leasing volume across our global portfolio, and we completed the majority of our lease expirations for the balance of the year," said Walter C. Rakowich, co-chief executive officer, Prologis. "While the strongest demand continues to be for large, Class-A facilities, we saw a notable improvement in our facilities that are less than 100,000 square feet, and occupancy in Europe continues to hold. Customers have new requirements for e-commerce facilities and remain focused on improving supply chain efficiencies. Given continued supply constraints, our customers with targeted requirements are increasingly pursuing build-to-suits, which we are able to readily accommodate with our strategic land portfolio."

Dispositions and Contributions
During the quarter, the company completed approximately $228 million in building and land dispositions and contributions, of which $191 million was Prologis' share. The building sales and contributions reflect a weighted average stabilized capitalization rate of 7.6 percent.

Development Starts & Building Acquisitions
Capital deployed or committed during the second quarter 2012 totaled approximately $313 million, of which $277 million was Prologis' share, including:

- Development starts of $229 million totaling 3.7 million square feet (343,740 square meters) in nine projects, which monetized $52 million of land. Of the total expected investment, 70 percent was in build-to-suit projects. The estimated value creation on development starts in the second quarter is $33 million with a stabilized yield of 7.2 percent and a margin of approximately 14 percent.
- Building acquisitions of $85 million in 13 logistics facilities totaling approximately 1.5 million square feet (139,350 square meters) with a stabilized capitalization rate of 7.2 percent. Of the total acquisitions, $48 million was Prologis' share.

At quarter end, Prologis' global development portfolio comprised 13.5 million square feet (1.3 million square meters), with a total expected investment of $1.3 billion of which Prologis' share is $1 billion. The estimated value creation at stabilization is expected to be $228 million with a stabilized yield of 7.8 percent and a margin of approximately 18 percent.

Private Capital Activity
During the quarter, Prologis raised $163 million in new third-party equity for the Prologis Targeted U.S. Logistics Fund and the Prologis Targeted Europe Logistics Fund. In addition, ProLogis European Properties' (PEPR) unitholders approved the liquidation of the fund during its annual meeting held on June 27, 2012. Prologis currently owns 99.5 percent of the ordinary units and 98.6 percent of the preferred units of PEPR.

"We had a strong quarter of capital raising for our open-end funds from a diverse mix of new and existing investors," said Guy F. Jaquier, chief executive officer, Prologis Private Capital. "This level of activity is demonstrative of the continued demand for high-quality industrial real estate around the globe. In Japan, we continue to move forward with our development fund and to evaluate the optimal structure for our operating assets. In Europe we are pleased to be winding up PEPR ahead of schedule and recapitalizing PEPR's high-quality assets over the next several quarters."

Capital Markets
Prologis completed $1.2 billion of debt financings, re-financings and pay-downs, with approximately $989 million related to the REIT and $176 million on behalf of our property funds during the quarter.

Significant financing activity during the second quarter included the following:

- Repayment of $449 million of its 2.25 percent convertible notes and $59 million of senior unsecured notes at maturity in the second quarter, as previously announced;
- Financings of three TMK bonds of 25.4 billion yen (USD 332 million) with a weighted average term of 6.6 years and weighted average rate of 1.21 percent; and
- Subsequent to quarter end, Prologis closed two transactions for Prologis European Properties Fund II, a 40 million pounds sterling (USD 63 million) secured facility and a 145 million euro (USD 184 million) senior unsecured term loan.

"We continue to have access to capital markets at attractive rates globally, demonstrating the quality of our assets and strength of our global platform," said Thomas S. Olinger, chief financial officer, Prologis. "Excluding the impact of fund rationalization activity, we have reduced our share of debt by $2.3 billion since the merger."

Guidance for 2012
Prologis increased the low end of its full-year 2012 Core FFO guidance range to $1.64 to $1.70 per diluted share, up from $1.60 to $1.70 per diluted share. The company also expects to recognize net earnings, for GAAP purposes, of $0.22 to $0.28 per share. The difference between the company's Core FFO and net earnings guidance for 2012 predominantly relates to real estate depreciation, recognized gains on real estate transactions and merger-related expenses.

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, and unrealized gains or losses on foreign currency or derivative activity, as well as transaction and merger costs.

Webcast and Conference Call Information
The company will host a webcast /conference call to discuss quarterly results, current market conditions and future outlook today, July 26, 2012, 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 877-256-7020 from the United States and Canada or (+1) 973-409-9692 internationally with reservation code 93137132.

A telephonic replay will be available from July 27, 2012, through August 27, 2012, at 855-859-2056 (from the United States and Canada) or (+1) 404-537-3406 (from all other countries), with the reservation code 93137132. The webcast and podcast replay will be posted when available in the "Financial Information" section of the Prologis Investor Relations website.

About Prologis
Prologis, Inc., is the leading owner, operator and developer of industrial real estate, focused on global and regional markets across the Americas, Europe and Asia. As of June 30, 2012, 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. The company leases modern distribution facilities to more than 4,500 customers, including manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises.

The statements in this release that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates and projections about the industry and markets in which Prologis operates, management's beliefs and assumptions made by management. Such statements involve uncertainties that could significantly impact Prologis' financial results. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to rent and occupancy growth, development activity and changes in sales or contribution volume of developed properties, disposition activity, general conditions in the geographic areas where we operate, synergies to be realized from our recent merger transaction, our debt and financial position, our ability to form new property funds and the availability of capital in existing or new property funds — are forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained and therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Some of the factors that may affect outcomes and results include, but are not limited to: (i) national, international, regional and local economic climates, (ii) changes in financial markets, interest rates and foreign currency exchange rates, (iii) increased or unanticipated competition for our properties, (iv) risks associated with acquisitions, dispositions and development of properties, (v) maintenance of real estate investment trust ("REIT") status and tax structuring, (vi) availability of financing and capital, the levels of debt that we maintain and our credit ratings, (vii) risks related to our investments in our co-investment ventures and funds, including our ability to establish new co-investment ventures and funds, (viii) risks of doing business internationally, including currency risks, (ix) environmental uncertainties, including risks of natural disasters, and (x) those additional factors discussed in reports filed with the Securities and Exchange Commission by Prologis under the heading "Risk Factors." Prologis undertakes no duty to update any forward-looking statements appearing in this release.

(dollars in thousands, except per share data)	**Three months ended June 30,** 2012	2011 (A)	**Six months ended June 30,** 2012	2011 (A)
Revenues	$ 520,748	$ 320,912	$ 1,018,712	$ 549,706
Net earnings (loss) available for common stockholders	(8,120)	(151,471)	194,293	(198,087)
FFO, as defined by Prologis	172,671	8,195	434,743	70,341
Core FFO	201,320	109,662	386,085	184,069
AFFO	148,569	85,369	282,392	136,499
Core EBITDA	395,147	267,311	782,569	478,331
Per common share - diluted:				
Net earnings (loss) available for common stockholders	$ (0.02)	$ (0.49)	$ 0.42	$ (0.70)
FFO, as defined by Prologis	0.37	0.03	0.93	0.25
Core FFO	0.43	0.35	0.83	0.65

(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.

Balance Sheet

	June 30, 2012	March 31, 2012	December 31, 2011
Assets:			
Investments in real estate assets:			
Operating properties	$ 23,442,394	$ 23,438,703	$ 21,552,548
Development portfolio	656,561	787,029	860,531
Land	1,881,062	1,933,321	1,984,233
Other real estate investments	442,280	419,432	390,225
	26,422,297	26,578,485	24,787,537
Less accumulated depreciation	2,256,101	2,256,901	2,157,907
Net investments in properties	24,166,196	24,321,584	22,629,630
Investments in and advances to unconsolidated entities	2,220,172	2,452,939	2,857,755
Notes receivable backed by real estate	245,654	247,241	322,834
Assets held for sale	50,672	102,183	444,850
Net investments in real estate	26,682,694	27,123,947	26,255,069
Cash and cash equivalents	293,631	343,736	176,072
Restricted cash	151,184	91,957	71,992
Accounts receivable	168,008	163,679	147,999
Other assets	1,120,046	1,144,634	1,072,780
Total assets	**$ 28,415,563**	**$ 28,867,953**	**$ 27,723,912**
Liabilities and Equity:			
Liabilities:			
Debt	$ 12,433,585	$ 12,380,921	$ 11,382,408
Accounts payable, accrued expenses, and other liabilities	1,812,411	1,936,372	1,886,030
Total liabilities	14,245,996	14,317,293	13,268,438
Equity:			
Stockholders' equity:			
Preferred stock	582,200	582,200	582,200
Common stock	4,606	4,604	4,594
Additional paid-in capital	16,373,438	16,370,254	16,349,328
Accumulated other comprehensive loss	(333,811)	(219,574)	(182,321)
Distributions in excess of net earnings	(3,159,462)	(3,019,829)	(3,092,162)
Total stockholders' equity	13,466,971	13,717,655	13,661,639
Noncontrolling interests	649,389	774,950	735,222
Noncontrolling interests - limited partnership unitholders	53,207	58,055	58,613
Total equity	14,169,567	14,550,660	14,455,474
Total liabilities and equity	**$ 28,415,563**	**$ 28,867,953**	**$ 27,723,912**

Consolidated Statement of Operations

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011 (A)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011 (A)
Revenues:				
Rental income	$ 488,026	$ 279,016	$ 950,520	$ 473,656
Private capital revenue	30,993	32,976	63,350	62,811
Development management and other income	1,729	8,920	4,842	13,239
Total revenues	520,748	320,912	1,018,712	549,706
Expenses:				
Rental expenses	132,031	77,199	256,474	137,397
Private capital expenses	15,075	11,596	31,956	22,148
General and administrative expenses	51,415	51,840	111,574	91,023
Merger, acquisition and other integration expenses	21,186	103,052	31,914	109,040
Impairment of real estate properties	-	-	3,185	-
Depreciation and amortization	186,770	118,606	374,640	198,183
Other expenses	7,227	5,587	11,562	10,271
Total expenses	413,704	367,880	821,305	568,062
Operating income (loss)	107,044	(46,968)	197,407	(18,356)
Other income (expense):				
Earnings from unconsolidated co-investment ventures, net	1,153	8,643	12,911	20,565
Earnings from other unconsolidated entities, net	2,736	2,756	4,973	4,475
Interest income	5,366	4,677	10,793	9,103
Interest expense	(127,946)	(112,916)	(261,328)	(203,443)
Impairment of other assets	-	(103,823)	(16,135)	(103,823)
Gains on acquisitions and dispositions of investments in real estate, net	520	102,529	268,291	106,254
Foreign currency and derivative gains (losses) and other income (expenses), net	13,299	(9,655)	(13,802)	(15,286)
Gain (loss) on early extinguishment of debt, net	(500)	-	4,919	-
Total other income (expense)	(105,372)	(107,789)	10,622	(182,155)
Earnings (loss) before income taxes	1,672	(154,757)	208,029	(200,511)
Income tax expense - current and deferred	8,075	6,429	20,199	12,798
Earnings (loss) from continuing operations	(6,403)	(161,186)	187,830	(213,309)
Discontinued operations:				
Income attributable to disposed properties and assets held for sale	1,197	9,384	8,813	19,383
Net gains on dispositions, net of related impairment charges and taxes	9,874	8,175	21,123	10,135
Total discontinued operations	11,071	17,559	29,936	29,518
Consolidated net earnings (loss)	4,668	(143,627)	217,766	(183,791)
Net earnings attributable to noncontrolling interests	(2,739)	(202)	(2,857)	(285)
Net earnings (loss) attributable to controlling interests	1,929	(143,829)	214,909	(184,076)
Less preferred stock dividends	10,049	7,642	20,616	14,011
Net earnings (loss) available for common stockholders	**$ (8,120)**	**$ (151,471)**	**$ 194,293**	**$ (198,087)**
Weighted average common shares outstanding - Diluted (B)	459,878	307,756	464,696	281,384
Net earnings (loss) per share available for common stockholders - Diluted	**$ (0.02)**	**$ (0.49)**	**$ 0.42**	**$ (0.70)**

(A) The financial results include Prologis for the full period and AMB and PEPR results from approximately June 1, 2011.

(B) See Calculation of Per Share Amounts in the Notes and Definitions.

Reconciliation of Net Earnings (Loss) to Funds From Operations (FFO)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011 (A)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011 (A)
Reconciliation of net earnings (loss) to FFO				
Net earnings (loss) available for common stockholders	$ (8,120)	$ (151,471)	$ 194,293	$ (198,087)
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	182,530	114,814	366,290	190,117
Net gains on non-FFO dispositions and acquisitions	(10,224)	(1,454)	(180,559)	(2,278)
Reconciling items related to noncontrolling interests	(3,950)	(2,404)	(16,004)	(2,404)
Our share of reconciling items included in earnings from unconsolidated entities	34,444	36,660	68,982	72,337
Subtotal-NAREIT defined FFO	194,680	(3,855)	433,002	59,685
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	(14,519)	10,287	9,717	8,652
Deferred income tax expense (benefit)	(5,809)	118	(4,758)	982
Our share of reconciling items included in earnings from unconsolidated entities	(1,681)	1,645	(3,218)	1,022
FFO, as defined by Prologis (B)	**172,671**	**8,195**	**434,743**	**70,341**
Adjustments to arrive at Core FFO, including our share of unconsolidated entities:				
Impairment charges	-	106,482	19,320	106,482
Japan disaster expenses	-	(1,315)	-	5,610
Merger, acquisition and other integration expenses	21,186	103,052	31,914	109,040
Losses (gains) on acquisitions and dispositions of investments in real estate, net	838	(106,752)	(103,893)	(109,320)
Loss (gain) on early extinguishment of debt, net	500	-	(4,919)	-
Income tax expense on dispositions	-	-	-	1,916
Our share of reconciling items included in earnings from unconsolidated entities	6,125	-	8,920	-
Adjustments to arrive at Core FFO	28,649	101,467	(48,658)	113,728
Core FFO	**$ 201,320**	**$ 109,662**	**$ 386,085**	**$ 184,069**
Adjustments to arrive at Adjusted FFO ("AFFO"), including our share of unconsolidated entities:				
Straight-lined rents and amortization of lease intangibles	(6,646)	(8,384)	(17,993)	(23,069)
Property improvements	(14,755)	(17,167)	(28,169)	(24,097)
Tenant improvements	(22,150)	(17,071)	(46,137)	(26,113)
Leasing commissions	(12,784)	(14,961)	(23,117)	(22,260)
Amortization of management contracts	1,792	664	3,008	1,328
Amortization of debt discounts/(premiums) and financing costs, net of capitalization	(6,063)	10,169	(7,452)	19,572
Stock compensation expense	7,855	8,006	16,167	12,618
AFFO	**$ 148,569**	**$ 70,918**	**$ 282,392**	**$ 122,049**
Common stock dividends	$ 131,513	$ 64,987	$ 261,593	$ 129,029

(A) The financial results include Prologis for the full period and AMB and PEPR results from approximately June 1, 2011.

(B) See definition of FFO in the Notes and Definitions.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (a)	2011 (a)	2012	2011 (a)
Net earnings (loss)				
Net earnings (loss)	$ (8,120)	$ (151,471)	$ 194,293	$ (198,087)
Noncontrolling interest attributable to convertible limited partnership units	-	-	1,069	-
Adjusted net earnings (loss) - Diluted	**$ (8,120)**	**$ (151,471)**	**$ 195,362**	**$ (198,087)**
Weighted average common shares outstanding - Basic	459,878	307,756	459,549	281,384
Incremental weighted average effect on conversion of limited partnership units	-	-	3,299	-
Incremental weighted average effect of stock awards	-	-	1,848	-
Weighted average common shares outstanding - Diluted	**459,878**	**307,756**	**464,696**	**281,384**
Net earnings (loss) per share - Basic	**$ (0.02)**	**$ (0.49)**	**$ 0.42**	**$ (0.70)**
Net earnings (loss) per share - Diluted	**$ (0.02)**	**$ (0.49)**	**$ 0.42**	**$ (0.70)**
FFO, as defined by Prologis				
FFO, as defined by Prologis	$ 172,671	$ 8,195	$ 434,743	$ 70,341
Noncontrolling interest attributable to convertible limited partnership units	66	-	1,069	136
Interest expense on exchangeable debt assumed converted	4,057	-	8,273	-
FFO - Diluted, as defined by Prologis	**$ 176,794**	**$ 8,195**	**$ 444,085**	**$ 70,477**
Weighted average common shares outstanding - Basic	459,878	307,756	459,549	281,384
Incremental weighted average effect of conversion of limited partnership units	3,250	-	3,299	807
Incremental weighted average effect of stock awards	1,838	750	1,848	709
Incremental weighted average effect of exchange of certain exchangeable debt	11,879	-	11,879	-
Weighted average common shares outstanding - Diluted	**476,845**	**308,506**	**476,575**	**282,900**
FFO per share - Diluted, as defined by Prologis	**$ 0.37**	**$ 0.03**	**$ 0.93**	**$ 0.25**
Core FFO				
Core FFO	$ 201,320	$ 109,662	$ 386,085	$ 184,069
Noncontrolling interest attributable to convertible limited partnership units	66	68	1,069	136
Interest expense on exchange debt assumed converted	4,057	-	8,273	-
Core FFO - Diluted	**$ 205,443**	**$ 109,730**	**$ 395,427**	**$ 184,205**
Weighted average common shares outstanding - Basic	459,878	307,756	459,549	281,384
Incremental weighted average effect of conversion of limited partnership units	3,250	1,269	3,299	807
Incremental weighted average effect of stock awards	1,838	750	1,848	709
Incremental weighted average effect of exchange of certain exchangeable debt	11,879	-	11,879	-
Weighted average common shares outstanding - Diluted	**476,845**	**309,775**	**476,575**	**282,900**
Core FFO per share - Diluted	**$ 0.43**	**$ 0.35**	**$ 0.83**	**$ 0.65**

(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*:

- gains or losses from acquisition, contribution or sale of land or development properties;
- income tax expense related to the sale of investments in real estate;
- 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;
- impairment charges of goodwill and other assets;
- gains or losses from the early extinguishment of debt;
- merger, acquisition and other integration expenses; and
- 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 that we expect to incur in 2012 associated with the Merger and PEPR Acquisition and the integration of our systems and processes. We have not adjusted for the acquisition costs that we have incurred as a result of routine acquisitions but only the costs associated with significant business combinations that we would expect to be infrequent in nature. 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.

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