

May 1, 2012



Prologis Announces First Quarter 2012 Results

- Core FFO Exceeds Internal Expectations -
- Same Store Net Operating Income Ahead of Plan -
- Progress on Fund Rationalization -

SAN FRANCISCO, May 1, 2012 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the leading global owner, operator and developer of industrial real estate, today reported results for the first quarter of 2012.

Core funds from operations (Core FFO) per fully diluted share was \$0.40 for the first quarter 2012 compared to \$0.29 for the same period in 2011. Funds from operations (FFO) as defined by Prologis per fully diluted share was \$0.56 for the first quarter 2012 compared to \$0.24 for the same period in 2011. The difference between Core FFO and FFO in the first quarter 2012 primarily relates to gains on real estate transactions. Net earnings per share were \$0.44 for the first quarter 2012 compared to a net loss of \$(0.18) for the same period in 2011. The first quarter 2011 comparative results represent solely legacy ProLogis and therefore are not directly comparable to the 2012 reported results.

"We started the year with a strong quarter, demonstrating solid execution from the team, bolstered by the strength of global trade, domestic consumption and the rebuilding of customer inventories," said Hamid R. Moghadam, chairman and co-chief executive officer, Prologis. "We continue to make excellent progress on our key priorities, completing nearly \$1 billion in dispositions and contributions, rationalizing two of our funds, and increasing occupancy in our operating portfolio."

Operating Portfolio Metrics

During the first quarter, the company leased a total of 30.9 million square feet (2.9 million square meters) in its combined operating and development portfolios. Prologis ended the quarter with 92.3 percent occupancy in its operating portfolio, which was up 10 basis points over the prior quarter. The quarter-end occupancy was ahead of plan, driven by a 78.3 percent tenant retention rate for the quarter with existing customers who signed renewals totaling 19.8 million square feet (1.8 million square meters), and the continued recovery of global logistics markets.

Same-store net operating income (NOI) in the first quarter of 2012 increased 1.7 percent over the first quarter 2011, compared to an increase of 0.4 percent in the fourth quarter of 2011. Rental rates on leases signed in the first quarter same-store pool decreased by 1.1 percent from in-place rents, as compared to a decrease of 4.5 percent in the fourth quarter

2011.

"The teams delivered strong leasing volume in what is typically the year's slowest quarter," said Walter C. Rakowich, co-chief executive officer, Prologis. "Space utilization remains very high and the strongest demand continues to be for large Class-A facilities, of which there is very little available supply. Consequently, our build-to-suit development pipeline is increasing."

Dispositions and Contributions

During the first quarter 2012, the company completed approximately \$994 million in building and land dispositions and contributions. Prologis' share of the proceeds was \$762 million, reflecting a weighted average stabilized capitalization rate of 7.2 percent on building sales and contributions.

Development Starts & Acquisitions

Capital deployed or committed during the first quarter 2012 totaled approximately \$322 million, of which \$244 million was Prologis' share, including the following:

- Development starts of \$211 million totaling 1.5 million square feet (143,257 square meters) in three projects, which monetized \$51 million of land. Of the total expected investment of \$211 million, \$197 million was in build-to-suit projects. Prologis' share of the total expected investment is \$186 million and the company's share of estimated value creation on development starts in the first quarter is \$49.5 million; and
- Acquisitions of \$111 million, including \$71 million in 10 logistics facilities totaling approximately 1.0 million square feet (91,231 square meters) with a stabilized capitalization rate of 6.6 percent and an investment of \$40 million in land and land infrastructure. Of the total acquisitions, \$58 million was Prologis' share.

At quarter end, Prologis' global development portfolio totaled 12.0 million square feet (128,131 square meters), with a total expected investment of \$1.4 billion. Prologis' share of the estimated total investment is \$1.2 billion, with an estimated value creation at stabilization of \$248 million.

Private Capital Activity

During the first quarter 2012, Prologis raised \$128 million in new third-party equity for the Prologis Targeted U.S. Logistics Fund.

The company continued the rationalization of its co-investment ventures into fewer, more profitable and differentiated investment vehicles. As previously announced, during the first quarter the company:

- Purchased its partner's interest in Prologis North American Fund II and brought the entire \$1.6 billion portfolio directly onto its balance sheet;
- Concluded the Prologis California Fund, as it had reached the end of the venture's term. The portfolio was equally divided with its partner, and Prologis' 50 percent share of the fund's \$1.0 billion of real estate was brought directly onto its balance sheet; and
- Disposed of 11 of the 12 assets held in Prologis North American Fund XI.

Capital Markets

During the first quarter 2012, Prologis completed more than \$1.3 billion of debt financings and refinancings, with approximately \$1.0 billion related to the REIT and \$296 million on behalf of our property funds.

Significant financing activity during the first quarter included the following:

- A \$642 million (euro 487.5 million) multi-currency senior term loan agreement at an all-in drawn margin of 150 basis points over LIBOR, extendable at the company's option through 2017; and
- \$372 million (30.5 billion yen) in three TMK bond financings with a weighted average term of five years and weighted average rate of 1.05 percent.

Subsequent to quarter end the company paid off \$449 million of its 2.25 percent convertible notes and repaid \$59 million of senior unsecured notes at maturity.

"During the first quarter, we made excellent progress toward our stated goal of streamlining our private capital business by rationalizing two funds," said William E. Sullivan, chief financial officer, Prologis. "While this activity modestly increased our total debt in the interim, it enhanced the simplification of the balance sheet and brought a substantial amount of high-quality assets directly into the REIT. We remain highly focused on de-levering the balance sheet and expect to make progress on improving our debt metrics throughout the course of 2012 and 2013."

Guidance for 2012

Prologis re-affirmed its full-year 2012 Core FFO guidance range of \$1.60 to \$1.70 per diluted share. The company also expects to recognize net earnings, for GAAP purposes, of \$0.05 to \$0.15 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, 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, May 1, 2012, at 12:00 p.m. Eastern Time. Interested parties are encouraged to access the live webcast by clicking the microphone icon located near the top of the opening page at: <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 67489991.

A telephonic replay will be available from May 2, 2012, through June 2, 2012, at 855-859-2056 (from the United States and Canada) or (+1) 404-537-3406 (from all other countries),

with the reservation code 67489991. 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 March 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 584 million square feet (54.2 million square meters) in 22 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.

Company Profile

	Three months ended March 31,	
<i>(dollars in thousands, except per share data)</i>	2012	2011 (A)
Revenues	\$ 500,064	\$ 229,867
Net earnings (loss) attributable to common stockholders	202,412	(46,616)
FFO, as defined by Prologis	262,072	62,146
Core FFO	184,765	74,407
AFFO	133,823	51,131
Core EBITDA	388,869	211,667
Per common share - diluted:		
Net earnings (loss) attributable to common stockholders	\$ 0.44	\$ (0.18)
FFO, as defined by Prologis	0.56	0.24
Core FFO	0.40	0.29
AFFO	0.28	0.20

- (A) AMB and Prologis completed a merger (the "Merger") on June 3, 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. As such, results for the three months ended March 31, 2011 are not impacted by the Merger.

Balance Sheets

	March 31, 2012	December 31, 2011
Assets:		
Investments in real estate assets:		
Operating properties	\$ 23,438,703	\$ 21,552,548
Development portfolio	787,029	860,531
Land	1,933,321	1,984,233
Other real estate investments	419,432	390,225
	<u>26,578,485</u>	<u>24,787,537</u>
Less accumulated depreciation	2,256,901	2,157,907
Net investments in properties	<u>24,321,584</u>	<u>22,629,630</u>
Investments in and advances to unconsolidated investees	2,452,939	2,857,755
Notes receivable backed by real estate	247,241	322,834
Assets held for sale	102,183	444,850
Net investments in real estate	<u>27,123,947</u>	<u>26,255,069</u>
Cash and cash equivalents	343,736	176,072
Restricted cash	91,957	71,992
Accounts receivable	163,679	147,999
Other assets	1,144,634	1,072,780
Total assets	<u>\$ 28,867,953</u>	<u>\$ 27,723,912</u>
Liabilities and Equity:		
Liabilities:		
Debt	\$ 12,380,921	\$ 11,382,408
Accounts payable, accrued expenses, and other liabilities	1,936,372	1,886,030
Total liabilities	<u>14,317,293</u>	<u>13,268,438</u>
Equity:		
Stockholders' equity:		
Preferred stock	582,200	582,200
Common stock	4,604	4,594
Additional paid-in capital	16,370,254	16,349,328
Accumulated other comprehensive loss	(219,574)	(182,321)
Distributions in excess of net earnings	(3,019,829)	(3,092,162)
Total stockholders' equity	<u>13,717,655</u>	<u>13,661,639</u>
Noncontrolling interests	774,950	735,222
Noncontrolling interests - limited partnership unitholders	58,055	58,613
Total equity	<u>14,550,660</u>	<u>14,455,474</u>
Total liabilities and equity	<u>\$ 28,867,953</u>	<u>\$ 27,723,912</u>

Consolidated Statements of Operations

	Three Months Ended March 31,	
	2012	2011 (A)
Revenues:		
Rental income	\$ 464,594	\$ 195,714
Private capital revenue	32,357	29,834
Development management and other income	3,113	4,319
Total revenues	500,064	229,867
Expenses:		
Rental expenses	125,096	60,624
Private capital expenses	16,881	10,552
General and administrative expenses	60,159	39,183
Merger, acquisition and other integration expenses	10,728	5,988
Impairment of real estate properties	3,185	-
Depreciation, amortization and other expenses	193,136	84,733
Total expenses	409,185	201,080
Operating income	90,879	28,787
Other income (expense):		
Earnings from unconsolidated co-investment ventures, net	11,758	11,921
Earnings from other unconsolidated investees, net	2,237	1,720
Interest income	5,427	4,436
Interest expense	(133,447)	(90,527)
Impairment of other assets	(16,135)	-
Gains on acquisitions and dispositions of investments in real estate, net	267,771	3,725
Foreign currency and derivative gains (losses) and other income (expenses), net	(27,101)	(5,641)
Gain on early extinguishment of debt, net	5,419	-
Total other income (expense)	115,929	(74,366)
Earnings (loss) before income taxes	206,808	(45,579)
Income tax expense - current and deferred	12,124	6,369
Earnings (loss) from continuing operations	194,684	(51,948)
Discontinued operations:		
Income attributable to disposed properties and assets held for sale	7,164	9,824
Net gains on dispositions, net of related impairment charges and taxes	11,249	1,960
Total discontinued operations	18,413	11,784
Consolidated net earnings (loss)	213,097	(40,164)
Net earnings attributable to noncontrolling interests	(118)	(83)
Net earnings (loss) attributable to controlling interests	212,979	(40,247)
Less preferred stock dividends	10,567	6,369
Net earnings (loss) available for common stockholders	\$ 202,412	\$ (46,616)
Weighted average common shares outstanding - Diluted (B)	476,107	254,698
Net earnings (loss) per share available for common stockholders - Diluted	\$ 0.44	\$ (0.18)

(A) The financial results include Prologis for the full period and no impact from the AMB results.

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

Consolidated Statements of Funds from Operations (FFO)

	Three Months Ended March 31,	
	2012	2011 (A)
Revenues:		
Rental income	\$ 477,501	\$ 215,372
Private capital revenue	32,357	29,834
Development management and other income	3,113	4,319
Total revenues	<u>512,971</u>	<u>249,525</u>
Expenses:		
Rental expenses	127,815	66,687
Private capital expenses	16,881	10,552
General and administrative expenses	60,159	39,183
Merger, acquisition and other integration expenses	10,728	5,988
Depreciation and amortization of non-real estate assets and other expenses	8,445	8,957
Total operating expenses	<u>224,028</u>	<u>131,367</u>
Operating FFO	288,943	118,158
Other income (expense):		
FFO from unconsolidated co-investment ventures, net	40,691	45,425
FFO from other unconsolidated investees, net	6,305	3,270
Interest income	5,427	4,436
Interest expense	(133,447)	(90,562)
Impairment of real estate properties and other assets	(19,320)	-
Gains on acquisitions and dispositions of investments in real estate, net	104,731	2,568
Foreign currency exchange gains (losses) and other income (expenses), net	(2,865)	(7,276)
Gain on early extinguishment of debt, net	5,419	-
Current income tax benefit (expense)	(11,073)	(7,421)
Total other income (expense)	<u>(4,132)</u>	<u>(49,560)</u>
Less preferred share dividends	10,567	6,369
Less FFO attributable to noncontrolling interests	12,172	83
FFO, as defined by Prologis (B)	262,072	62,146
Impairment charges	19,320	-
Japan disaster expenses	-	6,925
Merger, acquisition and other integration expenses	10,728	5,988
Our share of gains on acquisitions and dispositions of investments in real estate, net	(102,918)	(2,568)
Our share of gains on early extinguishment of debt, net	(4,437)	-
Income tax expense on dispositions	-	1,916
Total of adjustments	<u>(77,307)</u>	<u>12,261</u>
Core FFO	\$ 184,765	\$ 74,407
Weighted average common shares outstanding - Diluted (C)	476,107	256,200
Core FFO per share - Diluted	\$ 0.40	\$ 0.29

(A) The financial results include Prologis for the full period and no impact from the AMB results.

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

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

Reconciliations of Net Earnings (Loss) to FFO

	Three Months Ended March 31,	
	2012	2011 (A)
Reconciliation of net earnings (loss) to FFO		
Net earnings (loss) attributable to common shares	\$ 202,412	\$ (46,616)
Add (deduct) NAREIT defined adjustments:		
Real estate related depreciation and amortization	184,691	75,776
Net gains on non-FFO dispositions	(171,265)	(1,297)
Reconciling items related to noncontrolling interests	(12,054)	-
Our share of reconciling items from unconsolidated investees	34,538	35,677
Subtotal-NAREIT defined FFO	238,322	63,540
Add (deduct) our defined adjustments:		
Unrealized foreign currency and derivative losses (gains), net	24,236	(1,635)
Deferred income tax expense (benefit)	1,051	864
Our share of reconciling items from unconsolidated investees	(1,537)	(623)
FFO, as defined by Prologis	262,072	62,146
Adjustments to arrive at Core FFO	(77,307)	12,261
Core FFO	\$ 184,765	\$ 74,407
Adjustments to arrive at Adjusted FFO ("AFFO"), including our share of unconsolidated investees:		
Straight-lined rents and amortization of lease intangibles	(11,347)	(14,685)
Property improvements	(13,414)	(6,930)
Tenant improvements	(23,987)	(9,042)
Leasing commissions	(10,333)	(7,299)
Amortization of management contracts	1,216	665
Amortization of debt discounts/(premiums) and financing costs, net of capitalization	(1,389)	9,403
Stock compensation expense	8,312	4,612
AFFO	\$ 133,823	\$ 51,131
Common stock dividends	\$ 130,080	\$ 64,042

(A) The financial results include Prologis for the full period and no impact from the AMB results.

Notes and Definitions

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

	Three Months Ended March 31,	
	2012	2011 (a)
Net earnings (loss)		
Net earnings (loss)	\$ 202,412	\$ (46,616)
Noncontrolling interest attributable to exchangeable limited partnership units	1,003	-
Interest expense on exchangeable debt assumed exchanged	4,216	-
Adjusted net earnings (loss) - Diluted	\$ 207,631	\$ (46,616)
Weighted average common shares outstanding - Basic (b)	459,203	254,698
Incremental weighted average effect on exchange of limited partnership units	3,347	-
Incremental weighted average effect of stock awards	1,678	-
Incremental weighted average effect on exchange of certain exchangeable debt	11,879	-
Weighted average common shares outstanding - Diluted (b)	476,107	254,698
Net earnings (loss) per share - Basic	\$ 0.44	\$ (0.18)
Net earnings (loss) per share - Diluted	\$ 0.44	\$ (0.18)
FFO, as defined by Prologis		
FFO, as defined by Prologis	\$ 262,072	\$ 62,146
Noncontrolling interest attributable to exchangeable limited partnership units	1,003	67
Interest expense on exchangeable debt assumed exchanged	4,216	-
FFO - Diluted, as defined by Prologis	\$ 267,291	\$ 62,213
Weighted average common shares outstanding - Basic (b)	459,203	254,698
Incremental weighted average effect of exchange of limited partnership units	3,347	339
Incremental weighted average effect of stock awards	1,678	1,163
Incremental weighted average effect of exchange of certain exchangeable debt	11,879	-
Weighted average common shares outstanding - Diluted (b)	476,107	256,200
FFO per share - Diluted, as defined by Prologis	\$ 0.56	\$ 0.24
Core FFO		
Core FFO	\$ 184,765	\$ 74,407
Noncontrolling interest attributable to exchangeable limited partnership units	1,003	67
Interest expense on exchangeable debt assumed exchanged	4,216	-
Core FFO - Diluted	\$ 189,984	\$ 74,474
Weighted average common shares outstanding - Basic (b)	459,203	254,698
Incremental weighted average effect of exchange of limited partnership units	3,347	339
Incremental weighted average effect of stock awards	1,678	1,163
Incremental weighted average effect of exchange of certain exchangeable debt	11,879	-
Weighted average common shares outstanding - Diluted (b)	476,107	256,200
Core FFO per share - Diluted	\$ 0.40	\$ 0.29

- (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.
- (b) The historical Prologis shares outstanding have been adjusted by the Merger exchange ratio of 0.4464.

FFO; 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 and impairment charges of previously depreciated properties. We agree that these two NAREIT adjustments are useful to investors for the following reasons:

- 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

(i) and depreciation charges required by GAAP do not reflect the underlying economic realities.
- 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 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 of land and development properties, as well as our proportionate share of the gains and losses from dispositions recognized by our unconsolidated investees, in our definition of FFO.

(ii)

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 investees;
- (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 investees; and
- (v) mark-to-market adjustments associated with derivative financial instruments.

We calculate *FFO, as defined by Prologis* for our unconsolidated investees 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 investees 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 investees) 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 investees 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.

SOURCE Prologis, Inc.