October 23, 2012

Prologis Announces Third Quarter 2012 Results

- Record 39 million square feet of leasing -
- Same Store NOI increases 2.7% over the third quarter 2011 -
- Occupancy increases to 93.1 percent, 210 basis points over the third quarter 2011-

SAN FRANCISCO, Oct. 23, 2012 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the leading global owner, operator and developer of industrial real estate, today reported results for the third quarter 2012, the first period of year-over-year comparable results for the combined company.

Core funds from operations (Core FFO) per fully diluted share was $0.49 for the third quarter 2012 compared to $0.44 for the same period in 2011. The results included a tax benefit of $0.06 per share in 2012 and $0.03 per share in 2011.

Net loss per fully diluted share was $0.10 per share for the third quarter 2012 compared to net income of $0.12 per share for the same period in 2011. The year-over-year change was primarily due to an unrealized gain on exchangeable debt that was included in the 2011 results.

"We delivered strong quarterly results highlighted by record leasing, as well as increases in occupancy and effective rents," said Hamid R. Moghadam, chairman and co-chief executive officer, Prologis. "A dearth of new construction, supply chain reconfiguration, and growth in consumption are driving demand for our properties around the world, even in the face of a slowing global economy. Prologis has the highest-quality facilities located in the strongest global markets, and we are well-positioned to capitalize on these market drivers moving forward."

Operating Portfolio Metrics
During the quarter, the company leased a record 39.0 million square feet (3.6 million square meters) in its combined operating and development portfolios. Prologis ended the quarter above its forecast with 93.1 percent occupancy in its operating portfolio, up 70 basis points over the prior quarter. Tenant retention in the quarter was 87.5 percent, with renewals totaling 25.6 million square feet (2.4 million square meters).

Same-store net operating income (NOI) increased 2.7 percent over the third quarter 2011, compared to an increase of 0.4 percent in the second quarter of 2012. Rental rates on leases signed in the third quarter same-store pool decreased by 1.8 percent from in-place rents, as compared to a decrease of 3.9 percent in the second quarter 2012.

"One of the main storylines coming out of operations this quarter is the improvement in rent change on rollover," said Moghadam. "Following three years of rent roll downs, we appear to be at a positive inflection point. The trend line is very clear and we expect rent change on rollovers to be positive for 2013."

Dispositions and Contributions
During the quarter, the company completed approximately $174 million in dispositions and contributions, of which $141 million was Prologis' share. The building sales and contributions reflect a weighted average stabilized capitalization rate of 7.0 percent.

Development Starts and Building Acquisitions
Committed capital during the third quarter 2012 totaled approximately $620 million, of which $483 million was Prologis' share, including:

- Development starts of $386 million, of which $332 million was Prologis' share. These starts totaled 4.4 million square feet (408,000 square meters), and monetized $91 million of land. Of the total expected investment, 66 percent was in build-to-suit projects. The company's estimated share of value creation on development starts in the third quarter is $72 million.
- Acquisitions of $234 million, including $112 million in buildings with a stabilized capitalization rate of 7.0 percent and an investment of $122 million in land and land infrastructure. Of the total acquisitions, $152 million was Prologis' share.

At quarter end, Prologis' global development pipeline comprised 16.3 million square feet (1.5 million square meters), with a total expected investment of $1.5 billion, of which Prologis' share is $1.4 billion. The company's share of estimated value creation at stabilization is expected to be $259 million, with a stabilized yield of 7.7 percent and a margin of approximately 18.5 percent.

"A lack of supply and increasing demand for large, Class-A facilities is driving stronger build-to-suit activity," said Walter C. Rakowich, co-chief executive officer, Prologis. "Two-thirds of our development starts this quarter were for build-to-suits in Japan, the United Kingdom and Mexico. Our global platform and strategic land holdings uniquely position us to fulfill our customers' logistics needs on a real-time basis."

Private Capital Activity
Year-to-date through September 30, Prologis raised or received commitments for $330 million in new third-party equity in its private capital business. In addition, during the quarter, Prologis assumed all of ProLogis European Properties' (PEPR) assets and liabilities and is actively working toward recapitalizing its European platform.

Capital Markets
During the quarter, Prologis completed $378 million of debt financings, re-financings and pay-downs on behalf of its property funds.

Guidance for 2012
Prologis is increasing its full-year 2012 Core FFO guidance range to $1.72 to $1.74 per diluted share, from $1.64 to $1.70 per diluted share. The company also expects to recognize net earnings, for GAAP purposes, of $0.23 to $0.25 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 merger and integration 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, October 23, 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 +1 877-447-8218 (from the U.S. and Canada toll free) or +1 973-409-9692 (from all other countries) and enter reservation code 34781721.

A telephonic replay will be available from October 23 through November 23, at +1 855-859-2056 (from the U.S. and Canada) or +1 404-537-3406 (from all other countries), with reservation code 34781721. The webcast and podcast replay will be posted when available in the "Financial Information" section of Investor Relations on the Prologis website.

About Prologis
Prologis, Inc., is the leading owner, operator and developer of industrial real estate, focused on global and regional markets across the Americas, Europe and Asia. As of September 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 565 million square feet (52.5 million square meters) in 21 countries. The company leases modern distribution facilities to more than 4,500 customers, including manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises.

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

	Three months ended September 30,		**Nine months ended September 30,**	
(dollars in thousands, except per share data)	**2012**	**2011**	**2012**	**2011 (A)**
Revenues	$ 512,105	$ 469,137	$ 1,511,045	$ 1,008,382
Net earnings (loss) available for common stockholders	(46,526)	55,436	147,767	(142,651)
FFO, as defined by Prologis	205,891	207,730	640,634	278,071
Core FFO	231,962	206,433	618,047	390,502
AFFO	170,002	147,548	452,394	284,046
Core EBITDA	393,371	386,321	1,175,922	1,122,800
Per common share - diluted:				
Net earnings (loss) available for common stockholders	$ (0.10)	$ 0.12	$ 0.32	$ (0.42)
FFO, as defined by Prologis	0.44	0.45	1.37	0.81
Core FFO (B)	0.49	0.44	1.32	1.13

(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.

(B)Included in the results for the three months ended September 30, 2012 and 2011 is a benefit in current income tax expense of $0.06 per share and $0.03 per share, respectively.

	September 30, 2012	**June 30, 2012**	**December 31, 2011**
Assets:			
Investments in real estate assets:			
Operating properties	$ 23,304,246	$ 23,442,394	$ 21,552,548
Development portfolio	774,821	656,561	860,531
Land	1,924,626	1,881,062	1,984,233
Other real estate investments	457,373	442,280	390,225
	26,461,066	26,422,297	24,787,537
Less accumulated depreciation	2,389,214	2,256,101	2,157,907
Net investments in properties	24,071,852	24,166,196	22,629,630
Investments in and advances to unconsolidated entities	2,242,075	2,220,172	2,857,755
Notes receivable backed by real estate	243,979	245,654	322,834
Assets held for sale	376,642	50,672	444,850
Net investments in real estate	26,934,548	26,682,694	26,255,069
Cash and cash equivalents	158,188	293,631	176,072
Restricted cash	172,515	151,184	71,992
Accounts receivable	181,855	168,008	147,999
Other assets	1,129,316	1,120,046	1,072,780
Total assets	**$ 28,576,422**	**$ 28,415,563**	**$ 27,723,912**
Liabilities and Equity:			
Liabilities:			
Debt	$ 12,578,060	$ 12,433,585	$ 11,382,408
Accounts payable, accrued expenses, and other liabilities	1,823,841	1,812,411	1,886,030
Total liabilities	14,401,901	14,245,996	13,268,438
Equity:			

Stockholders' equity:			
Preferred stock	582,200	582,200	582,200
Common stock	4,609	4,606	4,594
Additional paid-in capital	16,395,797	16,373,438	16,349,328
Accumulated other comprehensive loss	(165,100)	(333,811)	(182,321)
Distributions in excess of net earnings	(3,335,757)	(3,159,462)	(3,092,162)
Total stockholders' equity	13,481,749	13,466,971	13,661,639
Noncontrolling interests	639,631	649,389	735,222
Noncontrolling interests - limited partnership unitholders	53,141	53,207	58,613
Total equity	14,174,521	14,169,567	14,455,474
Total liabilities and equity	**$ 28,576,422**	**$ 28,415,563**	**$ 27,723,912**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011 (A)**
Revenues:				
Rental income	$ 479,374	$ 430,283	$ 1,410,122	$ 893,478
Private capital revenue	31,714	34,578	95,064	97,389
Development management and other income	1,017	4,276	5,859	17,515
Total revenues	512,105	469,137	1,511,045	1,008,382
Expenses:				
Rental expenses	130,820	119,949	382,679	254,078
Private capital expenses	15,730	17,080	47,686	39,228
General and administrative expenses	55,886	53,341	167,460	144,364
Merger, acquisition and other integration expenses	20,659	12,683	52,573	121,723
Impairment of real estate properties	9,778	-	12,963	-
Depreciation and amortization	194,622	182,774	560,563	377,193
Other expenses	5,580	3,971	17,142	14,242
Total expenses	433,075	389,798	1,241,066	950,828
Operating income	79,030	79,339	269,979	57,554
Other income (expense):				
Earnings from unconsolidated co-investment ventures, net	2,378	27,855	15,289	48,422
Earnings from other unconsolidated entities, net	185	3,120	5,158	7,593
Interest income	6,399	4,960	17,192	14,063
Interest expense	(123,161)	(135,863)	(384,489)	(339,306)
Impairment of other assets	-	-	(16,135)	(103,823)
Gain on acquisitions and dispositions of investments in real estate, net	12,677	8,396	280,968	114,650
Foreign currency and derivative gains (losses) and other income (expenses), net	(3,549)	52,208	(17,351)	36,921
Gain (loss) on early extinguishment of debt, net	-	(298)	4,919	(298)
Total other income (expense)	(105,071)	(39,622)	(94,449)	(221,778)
Earnings (loss) before income taxes	(26,041)	39,717	175,530	(164,224)
Income tax expense (benefit) - current and deferred	(19,983)	(2,838)	216	9,960
Earnings (loss) from continuing operations	(6,058)	42,555	175,314	(174,184)
Discontinued operations:				
Income attributable to disposed properties and assets held for sale	4,618	11,903	19,889	34,716
Net gain (loss) on dispositions, including related impairment charges and taxes	(31,458)	11,410	(10,335)	21,545
Total discontinued operations	(26,840)	23,313	9,554	56,261
Consolidated net earnings (loss)	(32,898)	65,868	184,868	(117,923)
Net earnings attributable to noncontrolling interests	(3,323)	(23)	(6,180)	(308)
Net earnings (loss) attributable to controlling interests	(36,221)	65,845	178,688	(118,231)
Less preferred stock dividends	10,305	10,409	30,921	24,420
Net earnings (loss) available for common stockholders	**$ (46,526)**	**$ 55,436**	**$ 147,767**	**$ (142,651)**
Weighted average common shares outstanding - Diluted (B)	460,079	462,408	464,938	340,923
Net earnings (loss) per share available for common stockholders - Diluted	**$ (0.10)**	**$ 0.12**	**$ 0.32**	**$ (0.42)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011 (A)
Reconciliation of net earnings (loss) to FFO				
Net earnings (loss) available for common stockholders	$ (46,526)	$ 55,436	$ 147,767	$ (142,651)
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	190,063	176,719	547,654	363,072
Impairment charges on certain real estate properties	21,660	-	21,660	-
Net loss (gain) on non-FFO dispositions and acquisitions	6,622	6,468	(165,238)	7,954
Reconciling items related to noncontrolling interests	(6,084)	(8,756)	(22,088)	(11,160)
Our share of reconciling items included in earnings from unconsolidated entities	35,309	31,393	104,291	103,730
Subtotal-NAREIT defined FFO	201,044	261,260	634,046	320,945
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	5,841	(53,688)	15,558	(45,036)
Deferred income tax expense (benefit)	(1,884)	1,773	(6,642)	2,755
Our share of reconciling items included in earnings from unconsolidated entities	890	(1,615)	(2,328)	(593)
FFO, as defined by Prologis	**205,891**	**207,730**	**640,634**	**278,071**
Adjustments to arrive at Core FFO, including our share of unconsolidated entities:				
Impairment charges	15,527	-	34,847	106,482
Japan disaster expenses	-	(400)	-	5,210
Merger, acquisition and other integration expenses	20,659	12,683	52,573	121,723
Gain on acquisitions and dispositions of investments in real estate, net	(11,575)	(11,018)	(115,468)	(120,338)
Loss (gain) on early extinguishment of debt, net	-	298	(4,919)	298
Income tax expense on dispositions	-	-	-	1,916
Our share of reconciling items included in earnings from unconsolidated entities	1,460	(2,860)	10,380	(2,860)
Adjustments to arrive at Core FFO	26,071	(1,297)	(22,587)	112,431
Core FFO	**$ 231,962**	**$ 206,433**	**$ 618,047**	**$ 390,502**
Adjustments to arrive at Adjusted FFO ("AFFO"), including our share of unconsolidated entities:				
Straight-lined rents and amortization of lease intangibles	(4,217)	(10,540)	(22,210)	(33,609)
Property improvements	(25,938)	(24,939)	(54,107)	(43,445)
Tenant improvements	(22,459)	(18,569)	(68,596)	(41,417)
Leasing commissions	(14,031)	(12,500)	(37,148)	(29,166)
Amortization of management contracts	1,606	3,496	4,614	4,824
Amortization of debt discounts/(premiums) and financing costs, net of capitalization	(5,359)	(4,841)	(12,811)	14,731
Stock compensation expense	8,438	9,008	24,605	21,626
AFFO	**$ 170,002**	**$ 147,548**	**$ 452,394**	**$ 284,046**
Common stock dividends	$ 129,769	$ 128,731	$ 391,362	$ 257,760

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012(a)	2011	2012	2011(a)
Net earnings (loss)				
Net earnings (loss)	$ (46,526)	$ 55,436	$ 147,767	$ (142,651)
Noncontrolling interest attributable to exchangeable limited partnership units	-	(485)	935	-
Adjusted net earnings (loss) — Diluted	**$ (46,526)**	**$ 54,951**	**$ 148,702**	**$ (142,651)**
Weighted average common shares outstanding - Basic	460,079	458,256	459,720	340,923
Incremental weighted average effect on exchange of limited partnership units	-	3,362	3,260	-
Incremental weighted average effect of stock awards	-	790	1,958	-
Weighted average common shares outstanding - Diluted	**460,079**	**462,408**	**464,938**	**340,923**

Net earnings (loss) per share — Basic	**$ (0.10)**	**$ 0.12**	**$ 0.32**	**$ (0.42)**
Net earnings (loss) per share - Diluted	**$ (0.10)**	**$ 0.12**	**$ 0.32**	**$ (0.42)**
FFO, as defined by Prologis				
FFO, as defined by Prologis	$ 205,891	$ 207,730	$ 640,634	$ 278,071
Noncontrolling interest attributable to exchangeable limited partnership units	(134)	(485)	935	(349)
Interest expense on exchangeable debt assumed converted	4,229	4,114	12,661	-
FFO - Diluted, as defined by Prologis	**$ 209,986**	**$ 211,359**	**$ 654,230**	**$ 277,722**
Weighted average common shares outstanding - Basic	460,079	458,256	459,720	340,923
Incremental weighted average effect of exchange of limited partnership units	3,185	3,362	3,260	1,668
Incremental weighted average effect of stock awards	1,882	790	1,958	1,070
Incremental weighted average effect of exchange of certain exchangeable debt	11,879	11,879	11,879	-
Weighted average common shares outstanding - Diluted	**477,025**	**474,287**	**476,817**	**343,661**
FFO per share - Diluted, as defined by Prologis	**$ 0.44**	**$ 0.45**	**$ 1.37**	**$ 0.81**
Core FFO				
Core FFO	$ 231,962	$ 206,433	$ 618,047	$ 390,502
Noncontrolling interest attributable to exchangeable limited partnership units	(134)	(485)	935	(349)
Interest expense on exchangeable debt assumed converted	4,229	4,114	12,661	12,659
Core FFO - Diluted	**$ 236,057**	**$ 210,062**	**$ 631,643**	**$ 402,812**
Weighted average common shares outstanding - Basic	460,079	458,256	459,720	340,923
Incremental weighted average effect of exchange of limited partnership units	3,185	3,362	3,260	1,668
Incremental weighted average effect of stock awards	1,882	790	1,958	1,070
Incremental weighted average effect of exchange of certain exchangeable debt	11,879	11,879	11,879	11,879
Weighted average common shares outstanding - Diluted	**477,025**	**474,287**	**476,817**	**355,540**
Core FFO per share - Diluted	**$ 0.49**	**$ 0.44**	**$ 1.32**	**$ 1.13**

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

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

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor do we intend it to present, a complete picture of our financial condition and operating performance. We believe net earnings computed under GAAP remains the primary measure of performance and that FFO is only meaningful when it is used in conjunction with net earnings computed under GAAP. Further, we believe our consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of our financial condition and our operating performance.

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

(i) historical cost accounting for real estate assets in accordance with GAAP assumes, through depreciation charges, that the value of real estate assets diminishes predictably over time. NAREIT stated in its White Paper on FFO "since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves." Consequently, NAREIT's definition of FFO reflects the fact that real estate, as an asset class, generally appreciates over time and depreciation charges required by GAAP do not reflect the underlying economic realities.

(ii) REITs were created as a legal form of organization in order to encourage public ownership of real estate as an asset class through investment in firms that were in the business of long-term ownership and management of real estate. The exclusion, in NAREIT's definition of FFO, of gains and losses from the sales, along with impairment charges, of previously depreciated operating real estate assets allows investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assists in comparing those operating results between periods. We include the gains and losses from dispositions and impairment charges of land and development properties, as well as our proportionate share of the gains and losses from dispositions and impairment charges recognized by our unconsolidated entities, in our definition of FFO.

Our FFO Measures

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

We use these FFO measures, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison to expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources; (iv) assess our performance as compared to similar real estate companies and the industry in general; and (v) evaluate how a specific potential investment will impact our future results. Because we make decisions with regard to our performance with a long-term outlook, we believe it is appropriate to remove the effects of short-term items that we do not expect to affect the underlying long-term performance of the properties. The long-term performance of our properties is principally driven by rental income. While not infrequent or unusual, these additional items we exclude in calculating *FFO, as defined by Prologis*, are subject to significant fluctuations from period to period that cause both positive and negative short-term effects on our results of operations in inconsistent and unpredictable directions that are not relevant to our long-term outlook.

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

FFO, as defined by Prologis

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

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

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

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

Core FFO

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

(i) gains or losses from acquisition, contribution or sale of land or development properties;
(ii) income tax expense related to the sale of investments in real estate;
(iii) impairment charges recognized related to our investments in real estate (either directly or through our investments in unconsolidated entities) generally as a result of our change in intent to contribute or sell these properties;
(iv) impairment charges of goodwill and other assets;
(v) gains or losses from the early extinguishment of debt;
(vi) merger, acquisition and other integration expenses; and
(vii) expenses related to natural disasters

We believe it is appropriate to further adjust our *FFO, as defined by Prologis* for certain recurring items as they were driven by transactional activity and factors relating to the financial and real estate markets, rather than factors specific to the on-going operating performance of our properties or investments. The impairment charges we recognized were primarily based on valuations of real estate, which had declined due to market conditions, that we no longer expected to hold for long-term investment. We currently have and have had over the past several years a stated priority to strengthen our financial position. We expect to accomplish this by reducing our debt, our investment in certain low yielding assets, such as land that we decide not to develop and our exposure to foreign currency exchange fluctuations. As a result, we have sold to third parties or contributed to unconsolidated entities real estate properties that, depending on market conditions, might result in a gain or loss. The impairment charges related to goodwill and other assets that we have recognized were similarly caused by the decline in the real estate markets. Also in connection with our stated priority to reduce debt and extend debt maturities, we have purchased portions of our debt securities. As a result, we recognized net gains or losses on the early extinguishment of certain debt due to the financial market conditions at that time.

We have also adjusted for some non-recurring items. The merger, acquisition and other integration expenses include costs we incurred in 2011 and 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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