

July 21, 2015



Prologis Reports Second Quarter 2015 Earnings Results and Announces 11 Percent Increase in Quarterly Common Stock Dividend

- Rent Change on Rollovers Increased a Record 14.4 Percent -**
- Acquired \$5.9 Billion of Real Estate Assets from KTR Capital Partners and its Affiliates -**
- Estimated Value Creation of \$179.1 Million from Stabilizations, Reflecting a 31.0 Percent Margin -**
- Raised Midpoint of 2015 Core FFO Guidance, Representing Year-Over-Year Growth of 17 Percent -**

SAN FRANCISCO, July 21, 2015 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in industrial real estate, today reported results for the second quarter of 2015 and announced that its Board of Directors has approved a quarterly dividend increase, raising the company's annualized dividend level by 11 percent to \$1.60 per share of common stock.

Core funds from operations (Core FFO) per diluted share was \$0.52 for the second quarter compared with \$0.48 for the same period in 2014, an increase of 8 percent.

"The team delivered ahead of plan and our results reflect strong underlying performance across all three lines of our business," said Hamid R. Moghadam, chairman and CEO, Prologis. "We see significant earnings potential from harvesting the gap between our in-place and market rents, the profitable build-out of our land bank and the efficient scaling of our global platform."

OPERATING FUNDAMENTALS GAIN MOMENTUM

Prologis ended the quarter with 95.4 percent occupancy in its operating portfolio, an increase of 80 basis points over the same period in 2014. Excluding the KTR assets, the company ended the quarter with 95.6 percent occupancy in its operating portfolio. Prologis leased a record 44.6 million square feet (4.1 million square meters) in its combined operating and development portfolios. Tenant retention was 79.0 percent.

GAAP rental rates on signed leases during the quarter increased a record 14.4 percent from prior rents. The Americas region led the quarterly increase at 20.6 percent (U.S. at 21.9 percent), followed by Europe at 4.4 percent and Asia at 2.0 percent. Prologis' share of same

store NOI increased 5.9 percent on a GAAP basis and 5.2 percent on an adjusted cash basis.

CAPITAL DEPLOYMENT ACTIVITY ACCELERATES

New investments in buildings during the second quarter totaled \$6.9 billion (\$4.0 billion Prologis' share).

Development Stabilizations & Starts

In the second quarter, on a Prologis share basis the company created \$179.1 million of estimated value from its \$578.2 million of development stabilizations at an estimated development margin of 31.0 percent.

The company started \$798.7 million of new developments on a Prologis share basis with an estimated weighted average yield upon stabilization of 7.3 percent and an estimated development margin of 19.6 percent. Build-to-suit activity remains robust, comprising 44 percent of starts volume in the quarter and including multi-market customers such as BMW and Kimberly-Clark.

At quarter end, the book value of the company's land bank was \$1.8 billion, with an estimated build-out potential of \$11.1 billion.

Acquisitions

As previously announced, Prologis completed the acquisition of the real estate assets and operating platform of KTR Capital Partners and its affiliates for \$5.9 billion (\$3.2 billion Prologis' share) in the Prologis U.S. Logistics Venture. Also during the quarter, the company acquired \$139.3 million of buildings on a Prologis share basis. The stabilized capitalization rate on total acquisitions in the quarter was 5.5 percent.

Contributions & Dispositions

The company completed \$453.6 million of contributions and third-party dispositions on a Prologis share basis with a stabilized capitalization rate of 5.9 percent.

CAPITAL MARKETS ACTIVITY BENEFITS FROM GLOBAL ACCESS

During the quarter, Prologis completed \$3.1 billion of financings at a weighted average interest rate of 1.6 percent and a weighted average term of 5 years.

"We have access to foreign-denominated debt markets, which has allowed us to take advantage of attractive pricing to further strengthen our financial position and mitigate the impact of foreign currency movements," said Tom Olinger, chief financial officer, Prologis. "As a result of our efforts, we currently have \$2.4 billion in liquidity and we've addressed our unsecured debt maturities until 2017. We have the ability to complete the long-term funding of KTR and have the capital to support future growth through asset recycling."

NET EARNINGS

Net earnings per diluted share was \$0.27 for the second quarter compared with \$0.13 for the same period in 2014.

GROWS ANNUALIZED DIVIDEND BY 11 PERCENT AND INCREASES 2015 CORE FFO GUIDANCE MIDPOINT

Dividend

The Prologis Board of Directors declared a regular cash dividend for the quarter ending September 30, 2015, on the following securities:

- A dividend of \$0.40 per share of the company's common stock, representing an increase of 11 percent over the June 2015 quarterly common stock dividend, payable September 30, 2015, to common stockholders of record at the close of business on September 18, 2015; and
- A dividend of \$1.0675 per share of the company's 8.54 percent Series Q Cumulative Redeemable Preferred Stock, payable September 30, 2015, to Series Q stockholders of record at the close of business on September 18, 2015.

"This increase in our common stock dividend is the second this year, and the combined impact results in a 21 percent increase over the 2014 dividend level on a run rate basis," said Olinger. "The growth in our dividend was driven by the cash flow accretion from the KTR transaction and a stronger operations outlook."

Guidance

Prologis increased the midpoint of its full-year 2015 Core FFO guidance and narrowed the range to \$2.18 to \$2.22 per diluted share from \$2.16 to \$2.22 per diluted share, representing expected year-over-year growth of 17 percent. The company expects to recognize net earnings, for GAAP purposes, of \$1.12 to \$1.16 per share.

The Core FFO and earnings guidance described above excludes any potential future gains (losses) recognized from real estate transactions. In reconciling from net earnings to Core FFO, Prologis makes certain adjustments, including but not limited to real estate depreciation and amortization expense, gains (losses) recognized from real estate transactions and early extinguishment of debt, acquisition costs, impairment charges, deferred taxes and unrealized gains or losses on foreign currency or derivative activity. The difference between the company's Core FFO and net earnings guidance for 2015 relates predominantly to these items.

WEBCAST & CONFERENCE CALL INFORMATION

Prologis will host a live webcast/conference call to discuss quarterly results, current market conditions and future outlook today, July 21, at 11 a.m. U.S. Eastern Time. Interested parties are encouraged to access the webcast by clicking on the Investor Events and Presentations section of the Prologis Investor Relations website (<http://ir.prologis.com>). Interested parties also can participate via conference call by dialing +1 877-256-7020 (toll-free from the U.S. and Canada) or +1 973-409-9692 (from all other countries) and entering conference code 48765490.

A telephonic replay will be available July 21-Aug. 21 at +1 855-859-2056 (from the U.S. and Canada) or +1 404-537-3406 (from all other countries); please use conference code 48765490. The webcast replay will be posted when available in the "Events & Presentations" section of Investor Relations on the Prologis website.

ABOUT PROLOGIS

Prologis, Inc. is the global leader in industrial real estate. As of June 30, 2015, Prologis owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects expected to total approximately 670 million square feet (62 million square meters) in 21 countries. The company leases modern distribution facilities

to more than 5,200 customers, including third-party logistics providers, transportation companies, retailers and manufacturers.

The statements in this document 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 properties, disposition activity, general conditions in the geographic areas where we operate, our debt and financial position, our ability to form new co-investment ventures and the availability of capital in existing or new co-investment ventures — 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 document.

	Three Months ended June 30,		Six Months ended June 30,	
	2015	2014	2015	2014
<i>(dollars in thousands, except per share data)</i>				
Revenues	\$ 510,404	\$ 460,089	\$ 973,251	\$ 894,771
Net earnings attributable to common stockholders	140,240	72,715	485,446	77,381
Core FFO	273,885	244,275	528,264	461,830
AFFO	411,847	224,690	624,628	402,155
Adjusted EBITDA	489,035	403,507	855,031	764,699
Value creation from development stabilizations - Prologis share	179,098	82,218	301,384	132,725
Common stock dividends paid	188,926	166,639	377,841	333,328
Per common share - diluted:				
Net earnings attributable to common stockholders	\$ 0.27	\$ 0.13	\$ 0.92	\$ 0.15
Core FFO	0.52	0.48	1.01	0.91
Business line reporting:				
Real estate operations	0.48	0.41	0.93	0.81
Strategic capital	0.04	0.07	0.08	0.10
Core FFO	0.52	0.48	1.01	0.91
Development gains	0.14	0.05	0.15	0.06
Dividends per share	0.36	0.33	0.72	0.66

<i>(in thousands)</i>	June 30, 2015 (A)	March 31, 2015	December 31, 2014
Assets:			
Investments in real estate properties:			
Operating properties	\$ 23,685,534	\$ 18,291,593	\$ 18,635,452
Development portfolio	1,547,395	1,452,266	1,473,980
Land	1,597,802	1,535,622	1,577,786
Other real estate investments	632,318	521,018	502,927
	<u>27,463,049</u>	<u>21,800,499</u>	<u>22,190,145</u>
Less accumulated depreciation	3,075,438	2,877,478	2,790,781
Net investments in real estate properties	24,387,611	18,923,021	19,399,364
Investments in and advances to unconsolidated entities	4,911,505	4,559,721	4,824,724
Assets held for sale	514,752	337,229	43,934
Note receivable backed by real estate	197,500	197,500	-
Net investments in real estate	<u>30,011,368</u>	<u>24,017,471</u>	<u>24,268,022</u>
Cash and cash equivalents	351,025	192,013	350,692
Other assets	1,240,004	1,251,337	1,199,509
Total assets	\$ 31,602,397	\$ 25,460,821	\$ 25,818,223
Liabilities and Equity:			
Liabilities:			
Debt	\$ 12,121,305	\$ 8,641,421	\$ 9,380,199
Accounts payable, accrued expenses, and other liabilities	1,127,068	1,026,593	1,254,425
Total liabilities	<u>13,248,373</u>	<u>9,668,014</u>	<u>10,634,624</u>
Equity:			
Stockholders' equity:			
Preferred stock	78,235	78,235	78,235
Common stock	5,241	5,240	5,095
Additional paid-in capital	19,129,348	19,052,562	18,467,009
Accumulated other comprehensive loss	(631,265)	(701,713)	(600,337)
Distributions in excess of net earnings	(3,870,808)	(3,819,351)	(3,974,493)
Total stockholders' equity	<u>14,710,751</u>	<u>14,614,973</u>	<u>13,975,509</u>
Noncontrolling interests	3,461,450	1,122,001	1,159,901
Noncontrolling interests - limited partnership unitholders	181,823	55,833	48,189
Total equity	<u>18,354,024</u>	<u>15,792,807</u>	<u>15,183,599</u>
Total liabilities and equity	\$ 31,602,397	\$ 25,460,821	\$ 25,818,223

<i>(in thousands, except per share amounts)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015 (A)	2014	2015	2014
Revenues:				
	\$	\$	\$	\$
Rental income	461,444	381,273	880,246	769,513
Strategic capital income	47,046	76,334	89,071	121,644
Development management and other income	1,914	2,482	3,934	3,614
Total revenues	<u>510,404</u>	<u>460,089</u>	<u>973,251</u>	<u>894,771</u>
Expenses:				
Rental expenses	125,599	109,576	252,533	220,093
Strategic capital expenses	20,115	27,837	40,476	52,000
General and administrative expenses	57,027	60,375	113,315	123,578
Depreciation and amortization	190,188	161,577	359,996	321,857
Other expenses	30,127	5,450	35,702	10,503
Total expenses	<u>423,056</u>	<u>364,815</u>	<u>802,022</u>	<u>728,031</u>
Operating income	87,348	95,274	171,229	166,740
Other income (expense):				
Earnings from unconsolidated entities, net	41,784	21,151	72,826	50,897
Interest expense	(68,902)	(80,184)	(137,663)	(165,707)
Gains on dispositions of development properties and land, net	74,236	29,541	75,067	37,051
Gains on dispositions of other investments in real estate properties, net	34,546	140,042	311,430	149,587
Foreign currency and derivative gains (losses), related amortization and interest and other income (expense), net	(23,665)	15,246	21,950	1,112
Losses on early extinguishment of debt, net	(236)	(77,558)	(16,525)	(77,285)
Total other income (expense)	<u>57,763</u>	<u>48,238</u>	<u>327,085</u>	<u>(4,345)</u>
Earnings before income taxes	145,111	143,512	498,314	162,395
Income tax expense (benefit) - current and deferred	4,851	(8,918)	6,742	(2,038)
Consolidated net earnings	<u>140,260</u>	<u>152,430</u>	<u>491,572</u>	<u>164,433</u>
Net loss (earnings) loss attributable to noncontrolling interests	1,658	(71,250)	(2,778)	(76,452)
Net earnings attributable to controlling interests	141,918	81,180	488,794	87,981
Preferred stock dividends	(1,678)	(1,948)	(3,348)	(4,083)
Loss on preferred stock repurchase	-	(6,517)	-	(6,517)
	\$	\$	\$	\$
Net earnings attributable to common stockholders	<u>140,240</u>	<u>72,715</u>	<u>485,446</u>	<u>77,381</u>
Weighted average common shares outstanding - Diluted	530,640	516,619	529,827	504,560
	\$	\$	\$	\$
Net earnings per share attributable to common stockholders - Diluted	<u>0.27</u>	<u>0.13</u>	<u>0.92</u>	<u>0.15</u>

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Reconciliation of net earnings to FFO				
	\$	\$	\$	\$
Net earnings attributable to common stockholders	140,240	72,715	485,446	77,381
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	183,237	155,842	347,488	310,337
Gains on dispositions of other investments in real estate properties, net	(34,546)	(140,042)	(311,430)	(149,587)
Reconciling items related to noncontrolling interests	(20,781)	59,945	(32,293)	53,744
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	47,578	49,737	94,950	91,453
Our share of reconciling items included in earnings from other unconsolidated ventures	1,577	1,734	3,298	3,084
Subtotal-NAREIT defined FFO	317,305	199,931	587,459	386,412
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains) and related amortization, net	29,354	(10,035)	(3,506)	18,075
Deferred income tax expense (benefit)	145	(21,446)	1,197	(20,415)
Reconciling items related to noncontrolling interests	776	-	(792)	-
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	(15,836)	(4,089)	(13,887)	(3,860)
FFO, as defined by Prologis	331,744	164,361	570,471	380,212
Adjustments to arrive at Core FFO:				
Gains on dispositions of development properties and land, net of taxes	(76,306)	(24,948)	(79,540)	(31,106)
Acquisition expenses	26,130	1,703	27,434	2,203
Losses on early extinguishment of debt and repurchase of preferred stock, net	236	84,075	16,525	83,802
Reconciling items related to noncontrolling interests	(10,198)	-	(12,227)	-
Our share of reconciling related to unconsolidated co-investment ventures	2,279	19,084	5,601	26,719
Core FFO	273,885	244,275	528,264	461,830
Adjustments to arrive at Adjusted FFO ("AFFO"), including our share of unconsolidated ventures less third party share of consolidated entities:				
Gains on dispositions of development properties and land, net of taxes	76,358	25,028	80,607	31,140
Straight-lined rents and amortization of lease intangibles	(12,568)	(6,483)	(20,453)	(15,059)
Property improvements	(18,409)	(15,899)	(33,339)	(27,041)
Tenant improvements	(20,419)	(20,707)	(40,812)	(40,779)
Leasing commissions	(17,398)	(12,376)	(31,733)	(27,936)
Amortization of management contracts	1,351	1,092	2,295	2,397
Amortization of debt premiums and financing costs, net	(4,504)	(1,259)	(8,443)	(3,528)
Cash received (paid) on net investment hedges	120,067	(2,729)	121,524	(7,855)
Stock compensation expense	13,484	13,748	26,718	28,986
AFFO	411,847	224,690	624,628	402,155
Common stock dividends	188,926	166,639	377,841	333,328

Business Line Reporting. Core FFO and development gains are generated by our three lines of business: (i) real estate operations; (ii) strategic capital; and (iii) development. Real estate operations represents total Prologis Core FFO, less the amount allocated to the Strategic Capital line of business. The amount of Core FFO allocated to the Strategic Capital line of business represents the third party share of the asset management related fees we earn from our co-investment ventures (both consolidated and unconsolidated) less costs directly associated to our strategic capital group, plus development management income. Development gains include our share of gains on dispositions of development

properties and land, net of taxes. To calculate the per share amount, the amount generated by each line of business is divided by the weighted average diluted common shares outstanding used in our Core FFO calculation of per share amounts. Management believes evaluating our results by line of business is a useful supplemental measure of our operating performance because it helps the investing public compare the operating performance of Prologis' respective businesses to other companies' comparable businesses. Prologis' computation of FFO by line of business may not be comparable to that reported by other real estate investment trusts as they may use different methodologies in computing such measures.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net earnings				
			\$	\$
Net earnings	140,240	\$ 72,715	485,446	\$ 77,381
Noncontrolling interest attributable to exchangeable limited partnership units	1,623	264	3,273	302
Gains, net of expenses, associated with exchangeable debt assumed exchanged	-	(7,498)	(1,614)	-
			\$	\$
Adjusted net earnings - Diluted	141,863	\$ 65,481	487,105	\$ 77,683
Weighted average common shares outstanding - Basic	523,476	499,112	518,791	498,919
Incremental weighted average effect on exchange of limited partnership units	5,431	1,964	4,617	1,964
Incremental weighted average effect of stock awards	1,733	3,664	2,037	3,677
Incremental weighted average effect on exchangeable debt assumed exchanged (a)	-	11,879	4,382	-
Weighted average common shares outstanding - Diluted	530,640	516,619	529,827	504,560
Net earnings per share - Basic	\$ 0.27	\$ 0.15	\$ 0.94	\$ 0.16
Net earnings per share - Diluted	\$ 0.27	\$ 0.13	\$ 0.92	\$ 0.15
Core FFO				
			\$	\$
Core FFO	273,885	244,275	528,264	461,830
Noncontrolling interest attributable to exchangeable limited partnership units	902	35	1,782	57
Interest expense on exchangeable debt assumed exchanged	-	4,246	3,506	8,492
			\$	\$
Core FFO - Diluted	274,787	248,556	533,552	470,379
Weighted average common shares outstanding - Basic	523,476	499,112	518,791	498,919
Incremental weighted average effect on exchange of limited partnership units	5,431	1,964	4,617	1,964
Incremental weighted average effect of stock awards	1,733	3,664	2,037	3,677
Incremental weighted average effect on exchangeable debt assumed exchanged (a)	-	11,879	4,382	11,879
Weighted average common shares outstanding - Diluted	530,640	516,619	529,827	516,439
Core FFO per share - Diluted	\$ 0.52	\$ 0.48	\$ 1.01	\$ 0.91

(a) In March 2015, the exchangeable debt was settled primarily through the issuance of common stock. The adjustment in 2015 assumes the exchange occurred on January 1, 2015.

FFO, as defined by Prologis attributable to common stockholders/unitholders ("FFO, as defined by Prologis"); Core FFO attributable to common stockholders/unitholders ("Core FFO"); AFFO (collectively referred to as "FFO"). FFO is a financial measure that is not determined in accordance with GAAP, but is a 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. We exclude depreciation from our unconsolidated entities and the third parties' share of our consolidated ventures.
- (ii) REITs were created 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 (including impairment charges) from dispositions of land and development properties, as well as our proportionate share of the gains and losses (including impairment charges) from dispositions of development properties recognized by our unconsolidated and consolidated entities, in our definition of FFO. We exclude the gain on revaluation of equity investments upon acquisition of a controlling interest from 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 calculate our FFO measures, as defined below, based on our proportionate ownership share of both our unconsolidated and consolidated ventures. We reflect our share of our FFO measures for unconsolidated ventures by applying our average ownership percentage for the period to the applicable reconciling items on an entity by entity basis. We reflect our share for consolidated ventures in which we do not own 100% of the equity by adjusting our FFO measures to remove the third party ownership share of the applicable reconciling items based on average ownership percentage for the applicable periods.

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*, defined below, 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) unhedged 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 and related amortization of debt discounts associated with derivative financial instruments.

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 in *FFO, as defined by Prologis*:

- (i) gains or losses from contribution or sale of land or development properties;
- (ii) income tax expense related to the sale of investments in real estate and third-party acquisition costs related to the acquisition of real estate;
- (iii) impairment charges recognized related to our investments in real estate generally as a result of our change in intent to contribute or sell these properties;
- (iv) gains or losses from the early extinguishment of debt and redemption and repurchase of preferred stock;
- (v) merger, acquisition and other integration expenses; and
- (vi) 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 have 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. Over the last few years, we made it a priority to strengthen our financial position by reducing our debt, our investment in certain low yielding assets and our exposure to foreign currency exchange fluctuations. As a result, we changed our intent to sell or contribute certain of our real estate properties and recorded impairment charges when we did not expect to recover the costs of our investment. Also, we purchased portions of our debt securities when we believed it was advantageous to do so, which was based on market conditions, and in an effort to lower our borrowing costs and extend our debt maturities. As a result, we have recognized net gains or losses on the early extinguishment of certain debt due to the financial market conditions at that time.

We analyze our operating performance primarily by the rental income of our real estate and the revenue driven by our strategic capital business, net of operating, administrative and financing expenses. This income stream is not directly impacted by fluctuations in the market value of our investments in real estate or debt securities. Although these items discussed above 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 include realized gains from the disposition of land and development properties and to exclude our share of the impact of; (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 and financing costs, 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, these are only a few of the many measures we use when analyzing our business. Some of these limitations are:

- The current income tax expenses and acquisition costs that are excluded from our defined FFO measures represent the taxes and transaction costs 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 non-development property acquisitions and dispositions or impairment charges related to expected dispositions represent changes in 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 gains and losses on extinguishment of debt that we exclude from our Core FFO, may provide a benefit or cost to us as we may be settling our debt at less or more than our future obligation.
- The merger, acquisition and other integration expenses and the natural disaster expenses that we exclude from Core FFO are costs that we have incurred.

We compensate for these limitations by using our FFO measures only in conjunction with net earnings computed under GAAP when making our decisions. This information should be read with our complete consolidated financial statements prepared under GAAP. To assist investors in compensating for these limitations, we reconcile our defined FFO measures to our net earnings computed under GAAP.

Same Store. We evaluate the operating performance of the operating properties we own and manage using a "Same Store" analysis because the population of properties in this analysis is consistent from period to period, thereby eliminating the effects of changes in the composition of the portfolio on performance measures. We include the properties included in our owned and managed portfolio that were in operation at January 1, 2014 and throughout the full periods in both 2014 and 2015. We have removed all properties that were disposed of to a third party from the population for both periods. We believe the factors that impact

rental income, rental expenses and NOI in the Same Store portfolio are generally the same as for the total operating portfolio. In order to derive an appropriate measure of period-to-period operating performance, we remove the effects of foreign currency exchange rate movements by using the current exchange rate to translate from local currency into U.S. dollars, for both periods.

Our same store measures are non-GAAP measures that are commonly used in the real estate industry and are calculated beginning with rental income and rental expenses from the financial statements prepared in accordance with GAAP. It is also common in the real estate industry and expected from the analyst and investor community that these numbers be further adjusted to remove certain non-cash items included in the financial statements prepared in accordance with GAAP to reflect a cash same store number. In order to clearly label these metrics, we call one Same Store NOI- GAAP and one Same Store NOI-Adjusted Cash. As these are non-GAAP measures they have certain limitations as an analytical tool and may vary among real estate companies. As a result, we provide a reconciliation from our financial statements prepared in accordance with GAAP to Same Store NOI-GAAP and then to Same Store NOI-Adjusted Cash with explanations of how these metrics are calculated and adjusted.

The following is a reconciliation of our consolidated rental income, rental expenses and NOI, as included in the Consolidated Statements of Operations, to the respective amounts in our Same Store portfolio analysis (*dollars in thousands*):

	Three Months Ended		
	June 30,		Change (%)
	2015	2014	
Rental Income:			
Per the Consolidated Statements of Operations	\$ 461,444	\$ 381,273	
Properties not included and other adjustments (a)	(76,633)	(50,548)	
Unconsolidated Co-Investment Ventures	406,189	428,155	
Same Store - Rental Income	\$ 791,000	\$ 758,880	4.2%
Rental Expense:			
Per the Consolidated Statements of Operations	\$ 125,599	\$ 109,576	
Properties not included and other adjustments (b)	(12,343)	(12,098)	
Unconsolidated Co-Investment Ventures	92,909	101,955	
Same Store - Rental Expense	\$ 206,165	\$ 199,433	3.4%
NOI-GAAP:			
Per the Consolidated Statements of Operations	\$ 335,845	\$ 271,697	
Properties not included and other adjustments	(64,290)	(38,450)	
Unconsolidated Co-Investment Ventures	313,280	326,200	
Same Store - NOI - GAAP	\$ 584,835	\$ 559,447	4.5%
Same Store - NOI - GAAP - Prologis Share (c)	\$ 349,401	\$ 329,981	5.9%
NOI-Adjusted Cash:			
Same store- NOI - GAAP	\$ 584,835	\$ 559,447	
Adjustments (d)	(7,186)	(4,656)	
Same Store - NOI- Adjusted Cash	\$ 577,649	\$ 554,791	4.1%
Same Store - NOI- Adjusted Cash - Prologis Share (c)	\$ 345,507	\$ 328,574	5.2%

- (a) *To calculate Same Store rental income, we exclude the net termination and renegotiation fees to allow us to evaluate the growth or decline in each property's rental income without regard to items that are not indicative of the property's recurring operating performance.*
- (b) *To calculate Same Store rental expense, we include an allocation of the property management expenses for our consolidated properties based on the property management fee that is provided for in the individual management agreements under which our wholly owned management companies provide property management services (generally the fee is based on a percentage of revenue). On consolidation, the management fee income and expenses are eliminated and the actual cost of providing property management services is recognized.*
- (c) *Prologis share of Same Store is calculated using the underlying building information from the Same Store NOI GAAP and Adjusted Cash calculations and applying our ownership percentage as of June 30, 2015 to the NOI of each building for both periods.*
- (d) *In order to derive Same Store- NOI - Adjusted Cash, we adjust Same Store- NOI- GAAP to exclude non-cash items included in our rental income in our GAAP financial statements, including straight line rent adjustments and adjustments related to purchase accounts to reflect leases at fair value at the time of acquisition.*

Value Creation represents the value that we will create through our development and leasing activities. We calculate value creation by estimating the NOI that the property will generate at Stabilization and applying an estimated stabilized capitalization rate applicable to that property. The value creation is calculated as the amount by which the estimated value exceeds our total expected investment and does not include any fees or promotes we may earn. This can also include realized economic gains from value-added conversion properties.



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