

October 20, 2016



# Prologis Reports Third Quarter 2016 Earnings Results

SAN FRANCISCO, Oct. 20, 2016 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in logistics real estate, today reported results for the third quarter of 2016.

Net earnings per share was \$0.52 compared with \$0.49 for the same period in 2015. The year-over-year increase is due primarily to improved operating performance and higher net promote income offset by lower gains from the disposition of real estate. Core funds from operations per diluted share\* was \$0.73 compared with \$0.58 for the same period in 2015. The 26% year-over-year increase reflects improved operating performance and higher net promote income.

"This was another excellent quarter for Prologis, resulting from our well-located portfolio, favorable secular trends and the laser focus of the team," said Hamid R. Moghadam, chairman and CEO, Prologis. "Our portfolio and financial position have never been stronger and we are very confident in our prospects for earnings growth going forward."

Moghadam added: "Customers continue to invest in their supply chains to improve efficiencies. Their requirements for logistics facilities are matching up very well with our properties' locations and functional characteristics. In the third quarter, we saw broad-based demand across customer segments, led by e-commerce, automotive, consumer products and construction supplies."

## OPERATING RESULTS STRONG ACROSS THE BOARD

Owned & Managed	3Q16	3Q15	Notes
Period End Occupancy	96.6%	96.0%	Europe reached 96.1% occupancy
Leases Signed	46MSF	42MSF	Record operating leasing volume

Prologis Share	3Q16	3Q15	Notes
Net Effective Rent Change	15.0%	12.0%	Led by the U.S. at 23.3% and the U.K. at 20.5%
Cash Rent Change	5.7%	3.6%	
Net Effective Same Store NOI*	5.6%	6.2%	Led by the U.S. at 6.9%
Cash Same Store NOI*	6.6%	4.5%	Led by the U.S. at 8.6%

## DEVELOPMENT STABILIZATION AND CAPITAL RECYCLING ACTIVITY ON TRACK FOR RECORD PERFORMANCE

<b>Prologis Share</b>	<b>3Q16</b>
Building Acquisitions	\$17M
Weighted avg stabilized cap rate	5.4%
Development Stabilizations	\$392M
Estimated weighted avg yield	7.2%
Estimated weighted avg margin	31.8%
Estimated value creation	\$125M
Development Starts	\$434M
Estimated weighted avg margin	17.6%
Estimated value creation	\$76M
% Build-to-suit	45.5%
Total Dispositions and Contributions	\$517M
Weighted avg stabilized cap rate <i>(excluding land and other real estate)</i>	6.2%

## **CAPITAL MARKETS ACTIVITY BENEFITS FROM ACCESS TO GLOBAL CAPITAL**

Prologis ended the quarter with liquidity of \$3.8 billion. During the third quarter, the company and its co-investment ventures completed \$1.3 billion of financings, including a ¥120 billion loan.

"The \$1.2 billion yen transaction we completed in the quarter to refinance three older loans is a great example of our ability to source capital globally at attractive rates," said Thomas S. Olinger, chief financial officer, Prologis. "This new facility has a current interest rate of 65 basis points and a term of approximately seven years."

## **GUIDANCE INCREASED FOR 2016**

Net earnings guidance increased \$0.13 at the midpoint, primarily a result of improved operations and higher gains from the disposition of real estate.

"Market fundamentals continued to exceed our expectations in the third quarter," Olinger said. "As a result of outperformance from operations we are increasing the midpoint of our full-year guidance ranges for earnings and net effective same store NOI\*. The earnings increase reflects net earnings growth of 17 percent and Core FFO\* growth of 15 percent including promotes and 11 percent excluding promotes. During this same period, we have further strengthened our balance sheet and increased liquidity."

## **KEY CHANGES TO GUIDANCE**

<b>Earnings (per diluted share)</b>	<b>Previous</b>	<b>Revised</b>
GAAP Net Earnings	\$1.70 to \$1.90	\$1.90 to \$1.95
Core FFO*	\$2.52 to \$2.58	\$2.56 to \$2.57

<b>Operations</b>	<b>Previous</b>	<b>Revised</b>
Net Effective Same Store NOI – Prologis share*	4.75% to 5.25%	5.50% to 5.80%

Other Assumptions (in millions)	Previous	Revised
Strategic capital revenue	\$190 to \$200	\$195 to \$200
Net promote income	\$75 to \$85	\$79 to \$82
Realized development gains	\$200 to \$250	\$275 to \$300
General & administrative expenses	\$218 to \$228	\$222 to \$226

Capital Deployment (in millions)	Previous	Revised
Development stabilizations (85% Prologis share)	\$2,200 to \$2,400	\$2,400 to \$2,600
Development starts (85% Prologis share)	\$2,000 to \$2,300	\$2,100 to \$2,300
Building and land dispositions (75% Prologis share)	\$2,000 to \$2,300	\$2,000 to \$2,200
Building contributions (80% Prologis share, net of retained ownership)	\$1,100 to \$1,400	\$1,200 to \$1,500

The earnings guidance described above includes potential future gains (losses) recognized from real estate transactions but excludes any future foreign currency or derivative gains or losses as these items are difficult to predict. 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 2016 relates predominantly to these items. Please refer to our third quarter Supplemental Information, which is available on our Investor Relations website at [www.ir.prologis.com](http://www.ir.prologis.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov) for a definition of Core FFO\* and other non-GAAP measures used by Prologis, along with reconciliations of these items to the closest GAAP measure for our results and guidance.

## WEBCAST & CONFERENCE CALL INFORMATION

Prologis will host a live webcast and conference call to discuss quarterly results, current market conditions and future outlook. Here are the event details:

- Thursday, October 20, 2016, at 12 p.m. U.S. Eastern Time.
- Live webcast at <http://ir.prologis.com> by clicking Investors>Investor Events and Presentations.
- Dial in: +1 877-256-7020 or +1 973-409-9692 and enter Passcode 81585906.

A telephonic replay will be available October 20-27 at +1 (855) 859-2056 (from the United States and Canada) or +1 (404) 537-3406 (from all other countries) using conference code 81585906. The webcast replay will be posted when available in the Investor Relations "Events & Presentations" section.

## ABOUT PROLOGIS

Prologis, Inc. is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. As of September 30, 2016, the company owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects expected to total approximately 665 million square feet (62 million square meters) in 20 countries. Prologis leases modern distribution facilities to a diverse base of approximately 5,200 customers across two major categories: business-to-business and retail/online fulfillment.

## FORWARD-LOOKING STATEMENTS

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 we operate as well as management's beliefs and assumptions. Such statements involve uncertainties that could significantly impact our financial results. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and 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, capital structure 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 status, tax structuring and income tax rates (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, 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 us under the heading "Risk Factors." We undertake no duty to update any forward-looking statements appearing in this document.

\*This is a non-GAAP financial measure. See the Notes and Definitions in our supplemental information for further explanation and a reconciliation to the most directly comparable GAAP measure.

dollars in millions, except per share/unit data	Three Months ended September 30,		Nine Months ended September 30,	
	2016	2015	2016	2015
Revenues	\$ 705	\$ 581	\$ 1,913	\$ 1,554
Net earnings attributable to common stockholders	279	259	763	744
Core FFO*	402	307	1,056	836
AFFO*	368	356	974	859
Adjusted EBITDA*	573	567	1,582	1,422
Estimated value creation from development starts - Prologis share	76	63	198	265
Common stock dividends and common limited partnership unit distributions	231	210	692	588
Per common share - diluted:				
Net earnings attributable to common stockholders	\$0.52	\$0.49	\$ 1.44	\$ 1.41
Core FFO*	0.73	0.58	1.94	1.59
Business line reporting:				
Real estate operations*	0.55	0.54	1.65	1.47
Strategic capital*	0.18	0.04	0.29	0.12
Core FFO*	0.73	0.58	1.94	1.59
Realized development gains, net of taxes	0.09	0.24	0.27	0.39
Dividends and distributions per common share/unit	0.42	0.40	1.26	1.12

\* This is a non-GAAP financial measure, please see below for further explanation.

in thousands	September 30, 2016	June 30, 2016	December 31, 2015
<b>Assets:</b>			
Investments in real estate properties:			
Operating properties	\$ 23,876,290	\$ 23,913,335	\$ 23,735,745
Development portfolio	1,809,002	1,770,771	1,872,903
Land	1,352,600	1,322,214	1,359,794
Other real estate investments	532,812	550,090	552,926
	27,570,704	27,556,410	27,521,368
Less accumulated depreciation	3,638,688	3,521,198	3,274,284
Net investments in real estate properties	23,932,016	24,035,212	24,247,084
Investments in and advances to unconsolidated entities	4,580,584	4,483,804	4,755,620
Assets held for sale	450,349	393,434	378,423
Notes receivable backed by real estate	33,800	33,800	235,050
Net investments in real estate	28,996,749	28,946,250	29,616,177
Cash and cash equivalents	375,120	332,221	264,080
Other assets	1,516,340	1,467,463	1,514,510
<b>Total assets</b>	<b>\$ 30,888,209</b>	<b>\$ 30,745,934</b>	<b>\$ 31,394,767</b>
<b>Liabilities and Equity:</b>			
Liabilities:			
Debt	\$ 11,256,997	\$ 11,139,415	\$ 11,626,831
Accounts payable, accrued expenses and other liabilities	1,347,942	1,323,485	1,347,100
Total liabilities	12,604,939	12,462,900	12,973,931
Equity:			
Stockholders' equity:			
Preferred stock	78,235	78,235	78,235
Common stock	5,286	5,265	5,245
Additional paid-in capital	19,433,001	19,361,787	19,302,367
Accumulated other comprehensive loss	(889,223)	(848,079)	(791,429)
Distributions in excess of net earnings	(3,828,132)	(3,885,017)	(3,926,483)
Total stockholders' equity	14,799,167	14,712,191	14,667,935
Noncontrolling interests	3,092,988	3,154,205	3,320,227
Noncontrolling interests - limited partnership unitholders	391,115	416,638	432,674
Total equity	18,283,270	18,283,034	18,420,836
<b>Total liabilities and equity</b>	<b>\$ 30,888,209</b>	<b>\$ 30,745,934</b>	<b>\$ 31,394,767</b>

in thousands, except per share amounts

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Revenues:</b>				
	\$	\$	\$	\$
Rental	560,277	532,755	1,660,524	1,413,001
Strategic capital	140,577	44,176	241,565	133,247
Development management and other	3,711	3,691	10,931	7,625
Total revenues	704,565	580,622	1,913,020	1,553,873
<b>Expenses:</b>				
Rental	140,514	140,284	427,820	393,199
Strategic capital	44,624	26,532	97,783	76,661
General and administrative	58,157	54,178	165,634	157,458
Depreciation and amortization	224,867	247,471	705,249	607,467
Other	3,779	8,765	12,364	44,467
Total expenses	471,941	477,230	1,408,850	1,279,252
<b>Operating income</b>	<b>232,624</b>	<b>103,392</b>	<b>504,170</b>	<b>274,621</b>
<b>Other income (expense):</b>				
Earnings from unconsolidated co-investment ventures, net	44,547	32,617	132,673	103,704
Earnings from other unconsolidated ventures, net	1,310	940	12,949	2,679
Interest expense	(75,310)	(81,035)	(232,577)	(218,698)
Gains on dispositions of development properties and land, net	53,717	135,043	160,001	210,110
Gains on dispositions of real estate, net (excluding development properties and land)	63,579	133,748	301,962	445,178
Foreign currency and derivative gains (losses) and interest and other income (expense), net	1,202	(3,191)	(19,226)	18,759
Gains (losses) on early extinguishment of debt, net	1,492	-	2,484	(16,525)
Total other income	90,537	218,122	358,266	545,207
<b>Earnings before income taxes</b>	<b>323,161</b>	<b>321,514</b>	<b>862,436</b>	<b>819,828</b>
Current income tax expense	(13,054)	(17,283)	(38,335)	(22,828)
Deferred income tax benefit (expense)	(2,865)	2,955	1,737	1,758
<b>Consolidated net earnings</b>	<b>307,242</b>	<b>307,186</b>	<b>825,838</b>	<b>798,758</b>
Net earnings attributable to noncontrolling interests	(18,629)	(43,360)	(35,865)	(43,558)
Net earnings attributable to noncontrolling interests - limited partnership units	(7,687)	(3,176)	(22,238)	(5,756)
<b>Net earnings attributable to controlling interests</b>	<b>280,926</b>	<b>260,650</b>	<b>767,735</b>	<b>749,444</b>
Preferred stock dividends	(1,671)	(1,671)	(5,056)	(5,019)
	\$	\$	\$	\$
<b>Net earnings attributable to common stockholders</b>	<b>279,255</b>	<b>258,979</b>	<b>762,679</b>	<b>744,425</b>
Weighted average common shares outstanding - Diluted	547,200	532,073	545,230	531,121
	\$	\$	\$	\$
<b>Net earnings per share attributable to common stockholders - Diluted</b>	<b>0.52</b>	<b>0.49</b>	<b>1.44</b>	<b>1.41</b>

in thousands, except per share amounts

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Net earnings attributable to common stockholders	279,255	258,979	762,679	744,425
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	217,041	239,896	681,866	587,384
Gains on dispositions of real estate, net (excluding development properties and land)	(63,579)	(133,748)	(301,962)	(445,178)
Reconciling items related to noncontrolling interests	(23,028)	(1,080)	(87,318)	(33,373)
Our share of reconciling items related to unconsolidated co-investment ventures	36,794	49,349	116,821	144,299
Our share of reconciling items related to other unconsolidated ventures	1,420	1,650	436	4,948
	\$	\$	\$	\$
<b>Subtotal-NAREIT defined FFO*</b>	<b>447,903</b>	<b>415,046</b>	<b>1,172,522</b>	<b>1,002,505</b>
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	(1,915)	12,362	21,864	8,856
Deferred income tax expense (benefit)	2,865	(2,955)	(1,737)	(1,758)
Current income tax expense related to acquired tax liabilities	-	3,497	-	3,497
Reconciling items related to noncontrolling interests	(1,247)	(375)	39	(1,167)
Our share of reconciling items related to unconsolidated co-investment ventures	830	2,116	1,170	(11,771)
	\$	\$	\$	\$
<b>FFO, as modified by Prologis*</b>	<b>448,436</b>	<b>429,691</b>	<b>1,193,858</b>	<b>1,000,162</b>
Adjustments to arrive at Core FFO:				
Gains on dispositions of development properties and land, net	(53,717)	(135,043)	(160,001)	(210,110)
Current income tax expense on dispositions	4,701	9,403	14,820	4,930
Acquisition expenses	304	2,115	2,532	29,549
Losses (gains) on early extinguishment of debt, net	(1,492)	-	(2,484)	16,525
Reconciling items related to noncontrolling interests	3,242	(180)	4,298	(12,407)
Our share of reconciling items related to unconsolidated co-investment ventures	1,364	1,282	4,683	6,883
Our share of reconciling items related to other unconsolidated ventures	(685)	-	(1,995)	-
	\$	\$	\$	\$
<b>Core FFO*</b>	<b>402,153</b>	<b>307,268</b>	<b>1,055,711</b>	<b>835,532</b>
Adjustments to arrive at Adjusted FFO ("AFFO"), including our share of unconsolidated co-investment ventures less noncontrolling interests:				
Gains on dispositions of development properties and land, net	53,717	135,043	160,001	210,110
Current income tax expense on dispositions	(4,701)	(9,403)	(14,820)	(4,930)
Straight-lined rents and amortization of lease intangibles	(31,551)	(22,178)	(85,942)	(37,537)
Property improvements	(22,337)	(19,583)	(50,294)	(45,540)
Tenant improvements	(18,659)	(22,812)	(65,540)	(59,536)
Leasing commissions	(17,723)	(20,473)	(59,561)	(49,086)
Amortization of management contracts	945	1,088	2,799	3,383
Amortization of debt premiums and financing costs, net	(3,431)	(7,161)	(13,047)	(21,547)
Stock compensation expense	14,446	13,406	43,658	40,124
Reconciling items related to noncontrolling interests	11,781	13,334	43,809	31,109
Our share of reconciling items related to unconsolidated co-investment ventures	(16,142)	(12,895)	(42,332)	(43,344)
	\$	\$	\$	\$
<b>AFFO*</b>	<b>368,498</b>	<b>355,634</b>	<b>974,442</b>	<b>858,738</b>

\* This is a non-GAAP financial measure, please see below for further explanation.

in thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Net earnings attributable to common stockholders	279,255	258,979	762,679	744,425
Gains on dispositions of real estate, net (excluding development properties and land)	(63,579)	(133,748)	(301,962)	(445,178)
Depreciation and amortization expenses	224,867	247,471	705,249	607,467
Interest expense	75,310	81,035	232,577	218,698
Losses (gains) on early extinguishment of debt, net	(1,492)	-	(2,484)	16,525
Current and deferred income tax expense, net	15,919	14,328	36,598	21,070
Net earnings attributable to noncontrolling interests - limited partnership unitholders	7,687	3,176	22,238	5,756
Pro forma adjustments	(1,862)	(664)	(8,866)	28,751
Preferred stock dividends	1,671	1,671	5,056	5,019
Unrealized foreign currency and derivative losses (gains), net	(1,915)	12,362	21,864	8,856
Stock compensation expense	14,446	13,406	43,658	40,124
Acquisition expenses	304	2,115	2,532	29,549
	\$	\$	\$	\$
<b>Adjusted EBITDA, consolidated*</b>	<b>550,611</b>	<b>500,131</b>	<b>1,519,139</b>	<b>1,281,062</b>
Reconciling items related to noncontrolling interests	(37,410)	(8,982)	(117,942)	(64,217)
Our share of reconciling items related to unconsolidated co-investment ventures	59,799	75,466	180,385	204,801
	\$	\$	\$	\$
<b>Adjusted EBITDA*</b>	<b>573,000</b>	<b>566,615</b>	<b>1,581,582</b>	<b>1,421,646</b>

\* This is a non-GAAP financial measure, please see below for further explanation.

**Adjusted EBITDA.** We use Adjusted EBITDA, a non-Generally Accepted Accounting Principles ("GAAP") financial measure, as a measure of our operating performance. We calculate Adjusted EBITDA beginning with consolidated net earnings (loss) attributable to common stockholders and removing the effect of interest, income taxes, depreciation and amortization, impairment charges, third party acquisition expenses related to the acquisition of real estate, gains or losses from the acquisition or disposition of investments in real estate (other than from land and development properties), gains from the revaluation of equity investments upon acquisition of a controlling interest, gains or losses on early extinguishment of debt and derivative contracts (including cash charges), similar adjustments we make to our FFO measures (see definition below), and other items, such as stock based compensation and unrealized gains or losses on foreign currency and derivative activity. We make adjustments to reflect our economic ownership in each entity in which we invest, whether consolidated or unconsolidated.

We consider Adjusted EBITDA to provide investors relevant and useful information because it permits investors to view our operating performance on an unleveraged basis before the effects of income tax, non-cash depreciation and amortization expense, gains and losses on the disposition of non-development properties and other items (outlined above), that affect comparability. We also include a pro forma adjustment in Adjusted EBITDA to reflect a full period of NOI on the operating properties we acquire and stabilize and to remove NOI on properties we dispose of during the quarter assuming the transaction occurred at the beginning of the quarter. By excluding interest expense, Adjusted EBITDA allows investors to measure our operating performance independent of our capital structure and indebtedness and, therefore, allows for a more meaningful comparison of our operating performance to that of other companies, both in the real estate industry and in other

industries. Gains and losses on the early extinguishment of debt generally include the costs of repurchasing debt securities. While not infrequent or unusual in nature, these items result from market fluctuations that can have inconsistent effects on our results of operations. The economics underlying these items reflect market and financing conditions in the short-term but can obscure our performance and the value of our long-term investment decisions and strategies.

We believe that Adjusted EBITDA helps investors to analyze our ability to meet interest payment obligations and to make quarterly preferred share dividends. We believe that investors should consider Adjusted EBITDA in conjunction with net earnings and the other GAAP measures of our performance to improve their understanding of our operating results, and to make more meaningful comparisons of our performance against other companies. By using Adjusted EBITDA, an investor is assessing the earnings generated by our operations but not taking into account the eliminated expenses or gains incurred in connection with such operations. As a result, Adjusted EBITDA has limitations as an analytical tool and should be used in conjunction with our GAAP presentations. Adjusted EBITDA does not reflect our historical cash expenditures or future cash requirements for working capital, capital expenditures, distribution requirements, contractual commitments or interest and principal payments on our outstanding debt.

While EBITDA is a relevant and widely used measure of operating performance, it does not represent net income as defined by GAAP and it should not be considered as an alternative to those indicators in evaluating operating performance or liquidity. Further, our computation of Adjusted EBITDA may not be comparable to EBITDA reported by other companies. We compensate for the limitations of Adjusted EBITDA by providing investors with financial statements prepared according to GAAP, along with this detailed discussion of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to consolidated net earnings (loss), a GAAP measurement.

**Business Line Reporting** is a non-GAAP financial measure. 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

in thousands, except per share amount	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Net earnings</b>				
Net earnings	\$ 279,255	\$ 258,979	\$ 762,679	\$ 744,425
Noncontrolling interest attributable to exchangeable limited partnership units	7,713	3,203	24,479	7,331
Gains, net of expenses, associated with exchangeable debt assumed exchanged	-	-	-	(1,614)
<b>Adjusted net earnings -Diluted</b>	<b>\$ 286,968</b>	<b>\$ 262,182</b>	<b>\$ 787,158</b>	<b>\$ 750,142</b>
Weighted average common shares outstanding - Basic	527,288	523,528	525,462	520,388
Incremental weighted average effect on exchange of limited partnership units	14,568	6,685	17,156	5,875
Incremental weighted average effect of stock awards	5,344	1,860	2,610	1,953
Incremental weighted average effect on exchangeable debt assumed exchanged (a)	-	-	-	2,905
<b>Weighted average common shares outstanding - Diluted</b>	<b>547,200</b>	<b>532,073</b>	<b>545,228</b>	<b>531,121</b>
<b>Net earnings per share - Basic</b>	<b>\$ 0.53</b>	<b>\$ 0.49</b>	<b>\$ 1.45</b>	<b>\$ 1.43</b>
<b>Net earnings per share - Diluted</b>	<b>\$ 0.52</b>	<b>\$ 0.49</b>	<b>\$ 1.44</b>	<b>\$ 1.41</b>
<b>Core FFO</b>				
Core FFO	\$ 402,153	\$ 307,268	\$ 1,055,711	\$ 835,532
Noncontrolling interest attributable to exchangeable limited partnership units	1,088	48	3,282	160
Interest expense on exchangeable debt assumed exchanged	-	-	-	3,506
<b>Core FFO - Diluted</b>	<b>\$ 403,241</b>	<b>\$ 307,316</b>	<b>\$ 1,058,993</b>	<b>\$ 839,198</b>
Weighted average common shares outstanding - Basic	527,288	523,528	525,462	520,388
Incremental weighted average effect on exchange of limited partnership units	16,233	6,685	17,156	4,201
Incremental weighted average effect of stock awards	5,344	1,860	2,610	1,953
Incremental weighted average effect on exchangeable debt assumed exchanged (a)	-	-	-	2,905
<b>Weighted average common shares outstanding -Diluted</b>	<b>548,865</b>	<b>532,073</b>	<b>545,228</b>	<b>529,447</b>
<b>Core FFO per share - Diluted</b>	<b>\$ 0.73</b>	<b>\$ 0.58</b>	<b>\$ 1.94</b>	<b>\$ 1.59</b>

(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 modified by Prologis attributable to common stockholders/unitholders ("FFO, as modified by Prologis"); Core FFO attributable to common stockholders/unitholders ("Core FFO"); AFFO (collectively referred to as "FFO").** FFO is a non-GAAP financial 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 that FFO is only meaningful when it is used in conjunction with net earnings computed under GAAP. Furthermore, we believe the consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of our financial condition.

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 modified 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 noncontrolling interests 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 with 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 with 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 revenue. While not infrequent or unusual, these additional items we exclude in calculating *FFO, as modified*

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 modified by Prologis*

To arrive at *FFO, as modified 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 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 modified by Prologis*, we also use Core FFO. To arrive at *Core FFO*, we adjust *FFO, as modified by Prologis*, to exclude the following recurring and nonrecurring items that we recognized directly in *FFO, as modified 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; and
- (v) expenses related to natural disasters.

### *AFFO*

To arrive at *AFFO*, we adjust *Core FFO* to include realized gains from the disposition of land and development properties and our share of recurring capital expenditures and exclude our share of the impact of; (i) straight-line rents; (ii) amortization of above- and below-market lease intangibles; (iii) amortization of management contracts; (iv) amortization of debt premiums and discounts and financing costs, net of amounts capitalized, and; (v) stock compensation expense.

We believe it is appropriate to further adjust our *FFO, as modified 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 revenue 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* and *AFFO*, 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 revenue. 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.

#### *Limitations on the use of our FFO measures*

While we believe our modified 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 modified 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. Furthermore, 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 modified 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 modified 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 modified 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 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 modified FFO measures to our net earnings computed under GAAP.

**Guidance.** The following is a reconciliation of our guided Net Earnings per share to our guided Core FFO per share:

	Low	High
Net Earnings	\$ 1.90	\$ 1.95
Our share of:		
Depreciation and amortization	1.71	1.72
Net gains of real estate transactions, net of taxes	(1.10)	(1.15)
Unrealized foreign currency and other	0.05	0.05
Core FFO	\$ 2.56	\$ 2.57

**Prologis Share** represents our proportionate economic ownership of each entity included in our total owned and managed portfolio whether consolidated or unconsolidated.

**Rent Change (Cash)** represents the change in rental rates per the lease agreement on new and renewed leases signed during the periods as compared with the previous rental rates in

that same space. This measure excludes any free rent periods and teaser rates defined as 50% or less of the stabilized rate.

**Rent Change (Net Effective)** represents the change in net effective rental rates (average rate over the lease term) on new and renewed leases signed during the period as compared with the previous effective rental rates in that same space.

**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 (including development properties that have been completed and available for lease) at January 1, 2015 and throughout the full periods in both 2015 and 2016. 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 financial 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 and one Same Store NOI - Cash. As these are non-GAAP financial 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 and then to Same Store NOI - 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  
September 30,

	2016	2015	Change (%)
Rental Revenue:			
Rental Revenue	\$ 435,868	\$ 418,116	
Rental Recoveries	124,409	114,639	
Per the Consolidated Statements of Operations	560,277	532,755	
Properties not included and other adjustments (a)	(165,655)	(152,033)	
Unconsolidated Co-Investment Ventures	438,860	429,360	
<b>Same Store - Rental Income</b>	<b>\$ 833,482</b>	<b>\$ 810,082</b>	<b>2.9 %</b>
Rental Expense:			
Per the Consolidated Statements of Operations	\$ 140,514	\$ 140,284	
Properties not included and other adjustments (b)	(29,701)	(30,685)	
Unconsolidated Co-Investment Ventures	90,710	94,937	
<b>Same Store - Rental Expense</b>	<b>\$ 201,523</b>	<b>\$ 204,536</b>	<b>-1.5 %</b>
NOI:			
Consolidated NOI	\$ 419,763	\$ 392,471	
Properties not included and other adjustments	(135,954)	(121,348)	
Unconsolidated Co-Investment Ventures	348,150	334,423	
<b>Same Store - NOI</b>	<b>\$ 631,959</b>	<b>\$ 605,546</b>	<b>4.4 %</b>
<b>Same Store - NOI - Prologis Share (c)</b>	<b>\$ 363,536</b>	<b>\$ 344,112</b>	<b>5.6 %</b>
NOI- Cash:			
Same store- NOI	\$ 631,959	\$ 605,546	
Straight-line rent adjustments (d)	\$ (11,716)	\$ (14,701)	
Fair value lease adjustments (d)	(1,218)	(312)	
<b>Same Store - NOI- Cash</b>	<b>\$ 619,025</b>	<b>\$ 590,533</b>	<b>4.8 %</b>
<b>Same Store - NOI- Prologis Share (c)</b>	<b>\$ 356,807</b>	<b>\$ 334,674</b>	<b>6.6 %</b>

- (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 and NOI - Cash calculations and applying our ownership percentage as of September 30, 2016 to the NOI of each building for both periods.
- (d) In order to derive Same Store- NOI - Cash, we adjust Same Store- NOI to exclude non-cash items included in our rental income in our financial statements, including straight line rent adjustments and adjustments related to purchase accounting 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 stabilized NOI that the property will generate and applying a stabilized capitalization rate applicable to that property. The value creation is calculated as the amount by which the value exceeds our total expected investment and does not include any fees or promotes we may earn. Value Creation for our value-added conversion properties includes the realized economic gain.



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