

Prologis Reports Fourth Quarter and Full Year 2015 Earnings Results

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SAN FRANCISCO, Jan. 26, 2016 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in industrial real estate, today reported results for the fourth quarter and full year 2015.

HIGHLIGHTS

- Core funds from operations per diluted share was \$2.23, up 19 percent year-over-year
- Prologis' share of GAAP same store NOI increased 5.6 percent for the full year
- Prologis' share of estimated value creation was \$699 million, \$533 million from development stabilizations, reflecting a 32.5 percent margin and \$166 from value-added conversions
- Short-term financing associated with the acquisition of the KTR real estate portfolio was reduced to \$400 million, ahead of plan

"Financial and operating results in 2015 exceeded expectations and reflected outstanding execution by the team and favorable market conditions," said Hamid Moghadam, chairman and CEO, Prologis. "We enter 2016 with record occupancy levels, substantial requirements from our customers to further optimize their supply chains, and strong institutional interest in our co-investment ventures."

"In spite of macroeconomic uncertainty, vacancy rates are at all-time lows. Discussions with our global customers support our view that the power of domestic consumption and the growth of e-commerce will continue to drive demand for well-located distribution space, particularly in major gateway markets," Moghadam added. "Given our expectations that supply and demand will reach equilibrium by the end of 2016 in the U.S., we anticipate an extended period of low vacancy that will support favorable operating conditions."

STRONG OPERATING PERFORMANCE CONTINUES			
Owned & Managed	4Q15	4Q14	Notes
Period End Occupancy	96.9%	96.1%	<i>Ended 2015 with record global occupancy</i>
Leases Signed	40MSF	42MSF	<i>More than 166MSF leased in 2015</i>
Customer Retention	85.9%	85.5%	
Prologis Share	4Q15	4Q14	Notes
Rent Change (GAAP)	12.4%	8.4%	<i>Led by the U.S. at 18.0%</i>
Rent Change (Cash)	2.9%	0.7%	
Same store NOI (GAAP)	6.6%	4.9%	<i>Led by the U.S. at 8.7%</i>
Same store NOI (Cash)	4.5%	5.2%	

CAPITAL DEPLOYMENT PRICING AND MARGINS REMAIN STRONG			
Prologis Share (Millions of \$)	4Q15	2015	Notes
Building Acquisitions	\$554	\$4,069	
Weighted avg stabilized cap rate	5.2%	5.5%	
Development Stabilizations	\$290	\$1,640	
Estimated weighted avg margin	25.5%	32.5%	
Estimated value creation	\$74	\$533	<i>Estimated weighted average yield of 7.3% in 2015</i>
Value Creation from Value-Added Conversions	\$0	\$166	
Development Starts	\$569	\$1,815	
Estimated weighted avg margin	20.2%	20.9%	
% Build-to-suit	56.1%	43.6%	<i>Projects include Amazon, Hitachi, Siemens and Subaru</i>

Total Dispositions (Buildings and Land) and Contributions	\$819	\$2,524	<i>Excludes the sale of the Morris retail portfolio in December 2015 to affiliates of Blackstone Real Estate Advisors L.P.</i>
Weighted avg stabilized cap rate	6.4%	5.3%	<i>Excludes land and other real estate</i>

"We completed more than 35 dispositions and contributions in the fourth quarter at strong pricing, demonstrating that buyer demand for high-quality industrial real estate remains strong and diverse," said Michael Curless, chief investment officer, Prologis. "We continue to deploy capital profitably to meet our customers' needs, and are very pleased with the \$1.8 billion of developments that we stabilized this year at margins in excess of 30 percent."

FINANCING ACTIVITY STRENGTHENS BALANCE SHEET

During the fourth quarter, Prologis completed \$1.8 billion of refinancings and reduced the short-term financing associated with the acquisition of the KTR real estate portfolio to \$400 million.

"Our key credit metrics improved as our book leverage was reduced to 38.4 percent and our debt-to-EBITDA ratio declined to 6.9 times or 6.0 times, including realized development gains. We continue to maintain considerable liquidity with over \$2.8 billion at year end and we have no bond maturities until 2018," said Thomas S. Olinger, chief financial officer, Prologis. "With the capital recycling activity currently underway, we are on track to pay down the remaining short-term financing during the first half of the year as well as fund our 2016 deployment needs."

GAAP NET EARNINGS

Net earnings per diluted share was \$0.23 for the fourth quarter compared with \$0.81 for the same period in 2014. For the full year 2015, net earnings per diluted share was \$1.64 compared with \$1.24 for the full year 2014.

GUIDANCE ESTABLISHED FOR 2016 - CORE FFO EXPECTED TO GROW 14% YEAR-OVER-YEAR

Per diluted share	
Core FFO	\$2.50 to \$2.60
GAAP Net Earnings	\$0.28 to \$0.36
Operations	
Year-end occupancy	96.0% to 97.0%
GAAP Same store NOI - Prologis share	3.5% to 4.5%
Other Assumptions (in millions)	
Strategic capital revenue	\$180 to \$190
Net promote income	\$90 to \$100
General & administrative expense	\$235 to \$245
Realized development gains	\$150 to \$200
Annualized fourth quarter 2015 dividend	\$1.60
Capital Deployment (in millions)	
Development stabilizations (80% Prologis share)	\$2,000 to \$2,200
Development starts (80% Prologis share)	\$1,800 to \$2,300
Building acquisitions (40% Prologis share)	\$400 to \$700
Building and land dispositions (75% Prologis share)	\$1,700 to \$2,200
Building contributions (75% Prologis share, net of retained ownership)	\$900 to \$1,200

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 2016 relates predominantly to these items.

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:

- Tuesday, January 26, 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 19377453.

A telephonic replay will be available January 26-February 2 at +1 (855) 859-2056 (from the United States and Canada) or +1 (404) 537-3406 (from all other countries) using conference code 19377453. The webcast replay will be posted when available in the Investor Relations "Events & Presentations" section.

ABOUT PROLOGIS

Prologis, Inc. is the global leader in industrial real estate. As of December 31, 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 669 million square feet (62 million square meters) in 20 countries. The company leases modern distribution facilities to more than 5,200 customers, including third-party logistics providers, transportation companies, retailers and manufacturers.

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 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 December 31,		Twelve Months ended December 31,	
	2015	2014	2015	2014
<i>(dollars in thousands, except per share data)</i>				
Revenues	\$ 643,201	\$ 450,865	\$ 2,197,074	\$ 1,760,787
Net earnings attributable to common stockholders	118,363	408,609	862,788	622,235
Core FFO	345,758	246,421	1,181,290	953,147
AFFO	307,607	234,954	1,287,869	903,253
Adjusted EBITDA	514,705	414,311	1,936,351	1,629,614
Value creation from development stabilizations - Prologis share	73,923	46,138	533,213	235,784
Common stock dividends and common limited partnership units paid	219,170	168,261	806,946	668,286

Per common share - diluted:

Net earnings attributable to common stockholders \$	0.23	\$ 0.81	\$ 1.64	\$ 1.24
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Core FFO	0.64	0.48	2.23	1.88
Business line reporting:				
Real estate operations	0.55	0.44	2.02	1.68
Strategic capital	0.09	0.04	0.21	0.20
<i>Core FFO</i>	<i>0.64</i>	<i>0.48</i>	<i>2.23</i>	<i>1.88</i>
Realized development gains	0.10	0.09	0.49	0.29
Dividends and distributions per common share/unit	0.40	0.33	1.52	1.32

<i>(in thousands)</i>	December 31, 2015	September 30, 2015	December 31, 2014
Assets:			
Investments in real estate properties:			
Operating properties	\$ 23,735,745	\$ 23,499,186	\$ 18,635,452
Development portfolio	1,872,903	1,575,389	1,473,980
Land	1,359,794	1,569,416	1,577,786
Other real estate investments	552,926	625,367	502,927
	27,521,368	27,269,358	22,190,145
Less accumulated depreciation	3,274,284	3,156,445	2,790,781
Net investments in real estate properties	24,247,084	24,112,913	19,399,364
Investments in and advances to unconsolidated entities	4,755,620	4,841,225	4,824,724
Assets held for sale	378,423	369,382	43,934
Notes receivable backed by real estate	235,050	197,500	-
Net investments in real estate	29,616,177	29,521,020	24,268,022
Cash and cash equivalents	264,080	310,433	350,692
Other assets	1,514,510	1,544,579	1,156,287
Total assets	\$ 31,394,767	\$ 31,376,032	\$ 25,775,001
Liabilities and Equity:			
Liabilities:			
Debt	\$ 11,626,831	\$ 11,891,033	\$ 9,336,977
Accounts payable, accrued expenses and other liabilities	1,347,100	1,300,028	1,254,425
Total liabilities	12,973,931	13,191,061	10,591,402
Equity:			
Stockholders' equity:			
Preferred stock	78,235	78,235	78,235
Common stock	5,245	5,242	5,095
Additional paid-in capital	19,302,367	19,150,336	18,467,009
Accumulated other comprehensive loss	(791,429)	(776,570)	(600,337)
Distributions in excess of net earnings	(3,926,483)	(3,825,673)	(3,974,493)
Total stockholders' equity	14,667,935	14,631,570	13,975,509
Noncontrolling interests	3,320,227	3,371,425	1,159,901
Noncontrolling interests - limited partnership unitholders	432,674	181,976	48,189
Total equity	18,420,836	18,184,971	15,183,599
Total liabilities and equity	\$ 31,394,767	\$ 31,376,032	\$ 25,775,001

<i>(in thousands, except per share amounts)</i>	Three Months Ended		Twelve Months Ended	
	December 31, 2015	2014	December 31, 2015	2014
Revenues:				
Rental	\$ 560,186	\$ 402,014	\$ 1,973,187	\$ 1,527,349
Strategic capital	77,115	44,157	210,362	219,871

Development management and other	5,900	4,694	13,525	13,567
Total revenues	643,201	450,865	2,197,074	1,760,787
Expenses:				
Rental	150,776	108,370	543,214	430,787
Strategic capital	26,228	22,054	88,418	96,496
General and administrative	65,509	65,987	238,199	247,768
Depreciation and amortization	272,906	171,402	880,373	642,461
Other (A)	22,231	8,096	66,698	23,467
Total expenses	537,650	375,909	1,816,902	1,440,979
Operating income	105,551	74,956	380,172	319,808
Other income (expense):				
Earnings from unconsolidated entities, net	52,879	54,877	159,262	134,288
Interest expense	(82,665)	(74,092)	(301,363)	(308,885)
Gains on dispositions of development properties and land, net	47,978	46,171	258,088	172,492
Gains on dispositions of real estate, net (excluding development properties and land)	55,621	341,924	500,799	553,298
Foreign currency and derivative gains (losses) and interest and other income (expense), net	19,191	(14,527)	37,950	7,927
Losses on early extinguishment of debt, net	(69,778)	(1,939)	(86,303)	(165,300)
Total other income	23,226	352,414	568,433	393,820
Earnings before income taxes	128,777	427,370	948,605	713,628
Current income tax expense	(5,319)	(2,293)	(28,147)	(61,585)
Deferred income tax benefit	3,299	2,647	5,057	87,241
Consolidated net earnings	126,757	427,724	925,515	739,284
Net earnings attributable to noncontrolling interests	(6,762)	(17,437)	(56,076)	(103,101)
Net earnings attributable to controlling interests	119,995	410,287	869,439	636,183
Preferred stock dividends	(1,632)	(1,678)	(6,651)	(7,431)
Loss on preferred stock repurchase	-	-	-	(6,517)
Net earnings attributable to common stockholders	\$ 118,363	\$ 408,609	\$ 862,788	\$ 622,235
Weighted average common shares outstanding - Diluted	542,435	507,896	533,944	506,391
Net earnings per share attributable to common stockholders - Diluted	\$ 0.23	\$ 0.81	\$ 1.64	\$ 1.24

(in thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
Reconciliation of net earnings to FFO				
Net earnings attributable to common stockholders	\$ 118,363	\$ 408,609	\$ 862,788	\$ 622,235
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	267,087	164,107	854,471	617,814
Gains on dispositions of real estate, net (excluding development properties and land)	(55,621)	(341,924)	(500,799)	(553,298)
Reconciling items related to noncontrolling interests	(44,733)	(984)	(78,106)	47,939
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	34,732	30,719	179,031	179,302
Our share of reconciling items included in earnings from other unconsolidated ventures	1,637	2,702	6,585	7,238
Subtotal-NAREIT defined FFO	321,465	263,229	1,323,970	921,230
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	(7,830)	19,887	1,026	18,984
Deferred income tax benefit	(3,299)	(2,647)	(5,057)	(87,241)
Current income tax expense related to acquired tax liabilities	-	-	3,497	30,521
Reconciling items related to noncontrolling interests	(163)	-	(1,330)	-

Our share of reconciling items included in earnings from unconsolidated co-investment ventures	(1,793)	3,728	(13,564)	4,015
FFO, as defined by Prologis	308,380	284,197	1,308,542	887,509
Adjustments to arrive at Core FFO:				
Net gain on dispositions of development properties and land, net of taxes	(53,108)	(45,484)	(258,288)	(156,992)
Acquisition expenses	17,485	1,578	47,034	4,194
Losses on early extinguishment of debt and repurchase of preferred stock, net	69,778	1,939	86,303	171,817
Reconciling items related to noncontrolling interests	1,286	-	(11,121)	-
Our share of reconciling items related to unconsolidated co-investment ventures	1,937	4,191	8,820	46,619
Core FFO	\$ 345,758	\$ 246,421	\$ 1,181,290	\$ 953,147

Adjustments to arrive at Adjusted FFO ("AFFO"), including our share of unconsolidated ventures less third party share of consolidated entities:

Net gains on dispositions of development properties and land, net of taxes	53,537	44,969	259,784	149,778
Straight-lined rents and amortization of lease intangibles	(22,451)	(5,681)	(63,581)	(26,278)
Property improvements	(36,066)	(35,557)	(91,541)	(96,729)
Tenant improvements	(27,055)	(22,961)	(92,015)	(86,490)
Leasing commissions	(21,463)	(19,084)	(73,787)	(62,604)
Amortization of management contracts	920	1,101	4,303	4,943
Amortization of debt premiums and financing costs, net	(5,758)	(1,933)	(18,417)	(3,102)
Cash received on net investment hedges	6,644	13,243	128,168	13,110
Stock compensation expense	13,541	14,436	53,665	57,478
AFFO	\$ 307,607	\$ 234,954	\$ 1,287,869	\$ 903,253

Common stock dividends and common limited partnership unit distributions \$ 219,170 \$ 168,261 \$ 806,946 \$ 668,286

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 December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
Net earnings				
Net earnings	\$118,363	\$408,609	\$862,788	\$622,235
Noncontrolling interest attributable to exchangeable limited partnership units	5,745	1,768	13,120	3,636
Gains, net of expenses, associated with exchangeable debt assumed exchanged	-	-	(1,614)	-
Adjusted net earnings - Diluted	\$124,108	\$410,377	\$874,294	\$625,871
Weighted average common shares outstanding - Basic	523,770	501,178	521,241	499,583
Incremental weighted average effect on exchange of limited	16,202	2,457	8,560	2,501

partnership units	-	-	10,393	3,437	0,309	3,301
Incremental weighted average effect of stock awards			2,272	3,261	1,961	3,307
Incremental weighted average effect on exchangeable debt assumed exchanged (a)			-	-	2,173	-
Weighted average common shares outstanding - Diluted			542,435	507,896	533,944	506,391
Net earnings per share - Basic			\$0.23	\$0.82	\$1.66	\$1.25
Net earnings per share - Diluted			\$0.23	\$0.81	\$1.64	\$1.24
Core FFO						
Core FFO			\$345,758	\$246,421	\$1,181,290	\$953,147
Noncontrolling interest attributable to exchangeable limited partnership units			53	60	213	209
Interest expense on exchangeable debt assumed exchanged			-	4,246	3,506	16,984
Core FFO - Diluted			\$345,811	\$250,727	\$1,185,009	\$970,340
Weighted average common shares outstanding - Basic			523,770	501,178	521,241	499,583
Incremental weighted average effect on exchange of limited partnership units			14,897	1,964	6,897	1,964
Incremental weighted average effect of stock awards			2,272	3,261	1,961	3,307
Incremental weighted average effect on exchangeable debt assumed exchanged (a)			-	11,879	2,173	11,879
Weighted average common shares outstanding - Diluted			540,939	518,282	532,272	516,733
Core FFO per share - Diluted			\$0.64	\$0.48	\$2.23	\$1.88

(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 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:
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(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.

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 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 (including development properties that have been completed and available for lease) 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			
	December 31,			
	2015	2014	Change	(%)
Rental Revenue:				
Per the Consolidated Statements of Operations	\$560,186	\$402,014		
Properties not included and other adjustments (a)	(178,482)	(53,884)		
Unconsolidated Co-Investment Ventures	404,886	408,344		
Same Store - Rental Income	\$786,590	\$756,474	4.0%	
Rental Expense:				
Per the Consolidated Statements of Operations	\$150,776	\$108,370		
Properties not included and other adjustments (b)	(43,805)	(7,415)		
Unconsolidated Co-Investment Ventures	92,416	93,807		
Same Store - Rental Expense	\$199,387	\$194,762	2.4%	

NOI-GAAP:			
Per the Consolidated Statements of Operations	\$409,410	\$293,644	
Properties not included and other adjustments	(134,677)	(46,469)	
Unconsolidated Co-Investment Ventures	312,470	314,537	
Same Store - NOI - GAAP	\$587,203	\$561,712	4.5%
Same Store - NOI - GAAP - Prologis Share (c)	\$351,450	\$329,825	6.6%

NOI-Adjusted Cash:			
Same store- NOI - GAAP	\$587,203	\$561,712	
Adjustments (d)	(13,089)	(6,913)	
Same Store - NOI- Adjusted Cash	\$574,114	\$554,799	3.5%
Same Store - NOI- Adjusted Cash - Prologis Share (c)	\$342,518	\$327,638	4.5%

(a)	<i>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.</i>
(b)	<i>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.</i>
(c)	<i>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 September 30, 2015 to the NOI of each building for both periods.</i>
(d)	<i>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 accounting to reflect leases at fair value at the time of acquisition.</i>

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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<http://prologis.mediaroom.com/2016-01-26-Prologis-Reports-Fourth-Quarter-and-Full-Year-2015-Earnings-Results>