

Prologis Reports Second Quarter 2017 Earnings Results

SAN FRANCISCO, July 18, 2017 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in logistics real estate, today reported results for the second quarter of 2017.

Net earnings per diluted share was \$0.50 compared with \$0.52 for the same period in 2016. Core funds from operations* per diluted share was \$0.84 compared with \$0.60 for the same period in 2016. The impact from net promote income for the quarter was \$0.18 per share.

"Our second quarter results were excellent and reflect record rent increases and higher earnings from our strategic capital business," said Hamid R. Moghadam, chairman and CEO, Prologis. "Market conditions continue to be healthy. On the margin, we are now even more positive as we see increased activity from our customers and a greater willingness to compete and pay for quality locations. Market rent growth surprised us to the upside, and the mark-to-market of our portfolio increased to 13 percent globally, which positions us for strong operating performance for the next several years."

PORTFOLIO LOCATION DRIVES OUTPERFORMANCE

Owned & Managed	2Q17	2Q16	Notes
Period End Occupancy	96.2%	96.1%	The U.S. increased 70 bps year-over-year
Leases Signed	47MSF	49MSF	

Prologis Share	2Q17	2Q16	Notes
Net Effective Rent Change	24.0%	17.8%	Led by the U.S. at 29.0%
Cash Rent Change	11.2%	7.9%	
Net Effective Same Store NOI*	4.6%	6.1%	Led by the U.S. at 5.2%
Cash Same Store NOI*	7.2%	5.3%	Led by the U.S. at 8.0%

GLOBAL INVESTMENT STRATEGY DELIVERS PROFITABLE DEPLOYMENT ACTIVITY

Prologis Share	2Q17
Building Acquisitions	\$37M
Weighted avg stabilized cap rate	5.9%
Development Stabilizations	\$560M
Estimated weighted avg yield	6.6%
Estimated weighted avg margin	23.1%
Estimated value creation	\$130M
Development Starts	\$897M
Estimated weighted avg margin	20.8%
Estimated value creation	\$187M
% Build-to-suit	34.6%
Total Dispositions and Contributions	\$410M
Weighted avg stabilized cap rate (excluding land and other real estate)	6.1%

STRATEGIC CAPITAL BUSINESS FURTHER STREAMLINED

As previously announced, Prologis entered into an agreement to acquire its partner's interest in its Brazil platform for approximately R\$1.2 billion (US\$362) million. The transaction is expected to close this year, at which point Prologis will own 100 percent of the Brazil platform.

Subsequent to quarter-end, Prologis contributed \$2.8 billion of the assets formerly owned by the North American Industrial Fund (NAIF) to its Prologis Targeted U.S. Logistics Fund (USLF) at a 5.4 percent stabilized capitalization rate. The NAIF portfolio, primarily developed by Prologis, is highly complementary to USLF. Prologis received cash proceeds of \$720 million and additional units, which increased its interest in USLF to 27 percent. USLF raised over \$950 million from 14 new and existing investors to facilitate this transaction. With this activity, the company now has 9 co-investment ventures.

FINANCING ACTIVITY HIGHLIGHTS ADVANTAGED ACCESS TO GLOBAL CAPITAL

During the second quarter, the company and its co-investment ventures completed \$2.9 billion of financings, principally denominated in sterling and yen. In aggregate, this activity reduced Prologis' weighted average cost of debt by 10 basis points to 3 percent and extended maturities by 6 months to 5.3 years. The company ended the quarter with 95 percent USD net equity exposure and liquidity of \$3.7 billion.

GUIDANCE RANGES INCREASED AND NARROWED FOR 2017

At the midpoint, guidance for net earnings per diluted share increased \$1.05 and Core FFO* per diluted share increased \$0.05.

"The promote we earned this quarter was above our forecast, driven by rising property values in our USLF portfolio from higher-than-expected rents and slight cap rate compression," said Thomas S. Olinger, chief financial officer, Prologis. "The combination of this promote income and higher operational performance led us to raise the midpoint of our full-year earnings guidance ranges."

2017 GUIDANCE

Earnings (per diluted share)	Previous	Revised
Net Earnings	\$1.70 to \$1.80	\$2.76 to \$2.84
Core FFO*	\$2.72 to \$2.78	\$2.78 to \$2.82

Operations	Previous	Revised
Year-end occupancy	96.0% to 97.0%	96.5% to 97.0%
Net Effective Same Store NOI* - Prologis share	4.50% to 5.25%	4.75% to 5.25%

Other Assumptions (in millions)	Previous	Revised
Strategic capital revenue, excl. promote revenue	\$210 to \$220	\$225 to \$235
Net promote income	\$65 to \$75	\$90
General & administrative expenses	\$215 to \$225	\$222 to \$228
Realized development gains	\$250 to \$300	\$250 to \$300

Capital Deployment (in millions)	Prologis Share	Owned and Managed
Development stabilizations	\$1,600 to \$2,000	\$1,900 to \$2,300

Development starts	\$1,800 to \$2,100	\$2,300 to \$2,600
Building acquisitions	\$100 to \$150	\$400 to \$600
Building and land dispositions	\$1,000 to \$1,250	\$1,800 to \$2,100
Building contributions	\$950 to \$1,200	\$1,100 to \$1,400

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, 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 2017 relates predominantly to these items. Please refer to our second quarter Supplemental Information, which is available on our Investor Relations website at www.ir.prologis.com and on the SEC's website at 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:

- Tuesday, July 18, 2017, at 12 p.m. U.S. Eastern Time.
- Live webcast at <http://ir.prologis.com> by clicking Investors>Investor Events and Presentations.
- Dial in: +1 800-708-4540 or +1 847-619-6397 and enter Passcode 45189496.

A telephonic replay will be available July 18-25 at +1 888-843-7419 (from the United States and Canada) or +1 630-652-3042 (from all other countries) using conference code 45189496. 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 June 30, 2017, 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 684 million square feet (64 million square meters) in 19 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 June 30,		Six Months ended June 30,	
	2017	2016	2017	2016
Revenues	\$ 766	\$ 602	\$ 1,395	\$ 1,208
Net earnings attributable to common stockholders	267	275	470	483
Core FFO*	461	324	808	654
AFFO*	432	260	751	606
Adjusted EBITDA*	637	459	1,149	1,009
Estimated value creation from development starts - Prologis share	187	82	246	121
Common stock dividends and common limited partnership unit distributions	243	231	486	461
Per common share - diluted:				
Net earnings attributable to common stockholders	\$0.50	\$0.52	\$ 0.88	\$0.92
Core FFO*	0.84	0.60	1.47	1.20
Business line reporting:				
Real estate operations*	0.60	0.54	1.17	1.10
Strategic capital*	0.24	0.06	0.30	0.10
Core FFO*	0.84	0.60	1.47	1.20
Realized development gains, net of taxes	0.07	0.02	0.13	0.18
Dividends and distributions per common share/unit	0.44	0.42	0.88	0.84

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

in thousands	June 30, 2017	March 31, 2017	December 31, 2016
Assets:			
Investments in real estate properties:			
Operating properties	\$ 24,412,416	\$ 23,950,202	\$ 23,943,457
Development portfolio	1,489,293	1,487,458	1,432,082

Other real estate investments	1,981,698	1,562,422	1,228,987
	27,501,284	27,131,229	27,119,330
Less accumulated depreciation	4,026,369	3,914,817	3,758,372
Net investments in real estate properties	23,474,915	23,216,412	23,360,958
Investments in and advances to unconsolidated entities	4,617,724	4,305,881	4,230,429
Assets held for sale	350,987	439,743	322,139
Notes receivable backed by real estate	19,536	17,006	32,100
Net investments in real estate	28,463,162	27,979,042	27,945,626
Cash and cash equivalents	271,354	395,829	807,316
Other assets	1,415,879	1,440,087	1,496,990
Total assets	\$ 30,150,395	\$ 29,814,958	\$ 30,249,932

Liabilities and Equity:

Liabilities:			
Debt	\$ 11,081,922	\$ 10,966,932	\$ 10,608,294
Accounts payable, accrued expenses and other liabilities	1,208,235	1,179,605	1,183,498
Total liabilities	12,290,157	12,146,537	11,791,792
Equity:			
Stockholders' equity	14,847,296	14,746,867	14,991,081
Noncontrolling interests	2,607,352	2,516,015	3,072,469
Noncontrolling interests - limited partnership unitholders	405,590	405,539	394,590
Total equity	17,860,238	17,668,421	18,458,140
Total liabilities and equity	\$ 30,150,395	\$ 29,814,958	\$ 30,249,932

in thousands, except per share amounts

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Rental	\$ 576,377	\$ 546,131	\$ 1,143,310	\$ 1,100,247
Strategic capital	180,654	53,535	237,699	104,538
Development management and other	9,152	2,489	14,329	3,670
Total revenues	766,183	602,155	1,395,338	1,208,455
Expenses:				
Rental	147,794	140,725	300,450	287,306
Strategic capital	51,986	27,866	83,785	53,159
General and administrative	60,077	56,934	113,694	107,477
Depreciation and amortization	228,145	230,382	454,736	480,382
Other	2,909	3,900	5,515	8,585
Total expenses	490,911	459,807	958,180	936,909
Operating income	275,272	142,348	437,158	271,546
Other income (expense):				
Earnings from unconsolidated co-investment ventures, net	61,175	40,932	106,625	88,124
Earnings from other unconsolidated ventures, net	7,421	522	10,576	11,641
Interest expense	(75,354)	(76,455)	(148,266)	(157,267)
Gains on dispositions of development properties and land, net	37,720	12,299	67,520	106,284
Gains on dispositions of real estate, net (excluding development properties and land)	45,286	188,051	112,811	238,383
Foreign currency and derivative (losses) and interest and other income, net	(18,163)	(8,808)	(22,778)	(20,428)
Gains (losses) on early extinguishment of debt, net	(30,596)	2,044	(30,596)	992
Total other income	27,489	158,585	95,892	267,729
Earnings before income taxes	302,761	300,933	533,050	539,275
Current income tax expense	(14,952)	(9,125)	(22,113)	(25,281)
Deferred income tax benefit (expense)	171	3,983	(2,268)	4,602
Consolidated net earnings	287,980	295,791	508,669	518,596
Net earnings attributable to noncontrolling interests	(11,986)	(10,396)	(22,123)	(17,237)
Net earnings attributable to noncontrolling interests - limited partnership units	(7,377)	(8,316)	(13,000)	(14,550)
Net earnings attributable to controlling interests	268,617	277,079	473,546	486,809
Preferred stock dividends	(1,674)	(1,696)	(3,348)	(3,385)
Net earnings attributable to common stockholders	\$ 266,943	\$ 275,383	\$ 470,198	\$ 483,424
Weighted average common shares outstanding - Diluted	552,114	545,388	550,512	544,293
Net earnings per share attributable to common stockholders - Diluted	\$ 0.50	\$ 0.52	\$ 0.88	\$ 0.92

in thousands

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net earnings attributable to common stockholders	\$ 266,943	\$ 275,383	\$ 470,198	\$ 483,424
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	220,130	221,233	439,201	464,825
Gains on dispositions of real estate, net (excluding development properties and land)	(45,286)	(188,051)	(112,811)	(238,383)
Reconciling items related to noncontrolling interests	(16,644)	(24,015)	(41,707)	(64,290)
Our share of reconciling items related to unconsolidated co-investment ventures	23,989	40,027	56,048	80,027
Our share of reconciling items related to other unconsolidated ventures	1,686	1,522	3,300	(984)
Subtotal-NAREIT defined FFO*	\$ 450,818	\$ 326,099	\$ 814,229	\$ 724,619

Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses, net	23,303	8,451	35,506	23,779
Deferred income tax expense (benefit)	(171)	(3,983)	2,268	(4,602)
Current income tax expense (benefit) on dispositions related to acquired tax assets	603	-	(667)	-
Reconciling items related to noncontrolling interests	107	803	13	1,286
Our share of reconciling items related to unconsolidated co-investment ventures	(2,892)	2,314	(1,829)	340
FFO, as modified by Prologis*	\$ 471,768	\$ 333,684	\$ 849,520	\$ 745,422
Gains on dispositions of development properties and land, net	(37,720)	(12,299)	(67,520)	(106,284)
Current income tax expense on dispositions	1,997	1,796	911	10,119
Acquisition expenses	-	967	-	2,228
Losses (gains) on early extinguishment of debt, net	30,596	(2,044)	30,596	(992)
Reconciling items related to noncontrolling interests	488	966	(679)	1,056
Our share of reconciling items related to unconsolidated co-investment ventures	(779)	855	195	3,319
Our share of reconciling items related to other unconsolidated ventures	(4,946)	-	(4,867)	(1,310)
Core FFO*	\$ 461,404	\$ 323,925	\$ 808,156	\$ 653,558
Adjustments to arrive at Adjusted FFO ("AFFO")*, including our share of unconsolidated ventures less noncontrolling interests:				
Gains on dispositions of development properties and land, net	37,720	12,299	67,520	106,284
Current income tax benefit (expense) on dispositions	(1,997)	(1,796)	(911)	(10,119)
Straight-lined rents and amortization of lease intangibles	(23,422)	(22,830)	(48,919)	(54,391)
Property improvements	(20,270)	(20,700)	(27,665)	(27,957)
Turnover costs	(38,064)	(47,150)	(78,342)	(88,719)
Amortization of debt premiums, financing costs and management contracts, net	(683)	(3,287)	(2,748)	(7,762)
Stock compensation expense	19,224	16,747	37,604	29,212
Reconciling items related to noncontrolling interests	7,194	14,587	20,572	32,028
Our share of reconciling items related to unconsolidated ventures	(9,578)	(11,526)	(23,982)	(26,190)
AFFO*	\$ 431,528	\$ 260,269	\$ 751,285	\$ 605,944

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

in thousands

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net earnings attributable to common stockholders	\$ 266,943	\$ 275,383	\$ 470,198	\$ 483,424
Gains on dispositions of real estate, net (excluding development properties and land)	(45,286)	(188,051)	(112,811)	(238,383)
Depreciation and amortization	228,145	230,382	454,736	480,382
Interest expense	75,354	76,455	148,266	157,267
Losses (gains) on early extinguishment of debt, net	30,596	(2,044)	30,596	(992)
Current and deferred income tax expense, net	14,781	5,142	24,381	20,679
Net earnings attributable to noncontrolling interests - limited partnership unitholders	7,377	8,316	13,000	14,550
Pro forma adjustments	707	(1,069)	11,086	(7,004)
Preferred stock dividends	1,674	1,696	3,348	3,385
Unrealized foreign currency and derivative losses, net	23,303	8,451	35,506	23,779
Stock compensation expense	19,224	16,747	37,604	29,212
Acquisition expenses	-	967	-	2,228
Adjusted EBITDA, consolidated*	\$ 622,818	\$ 432,375	\$ 1,115,910	\$ 968,527
Reconciling items related to noncontrolling interests	(25,192)	(35,772)	(59,688)	(87,747)
Our share of reconciling items related to unconsolidated co-investment ventures	39,772	62,755	92,842	127,802
Adjusted EBITDA*	\$ 637,398	\$ 459,358	\$ 1,149,064	\$ 1,008,582

* 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. The most directly comparable GAAP measure to Adjusted EBITDA is net earnings.

We calculate Adjusted EBITDA beginning with consolidated net earnings attributable to common stockholders and removing the effect of: interest expense, income taxes, depreciation and amortization, impairment charges, third party acquisition expenses related to the acquisition of real estate, gains or losses from the disposition of investments in real estate (excluding development properties and land), 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 derivatives. We also include a pro forma adjustment to reflect a full period of NOI on the operating properties we acquire or stabilize during the quarter and remove NOI on properties we dispose of during the quarter, to assume all transactions occurred at the beginning of the quarter. The pro forma adjustment also includes economic ownership changes in our ventures to reflect the full quarter at the new ownership percentage.

We believe Adjusted EBITDA provides investors relevant and useful information because it permits investors to view our operating performance, analyze our ability to meet interest payment obligations and make quarterly preferred stock dividends 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. While all items are not infrequent or unusual in nature, these items may 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.

While we believe Adjusted EBITDA is an important measure, it should not be used alone because it excludes significant components of net earnings, such as 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 and is therefore limited as an analytical tool.

Our computation of Adjusted EBITDA may not be comparable to EBITDA reported by other companies in both the real estate industry and other industries. 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 to Adjusted EBITDA from consolidated net earnings attributable to common stockholders.

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. The real estate operations line of business 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 Asset Management Fees we earn from our consolidated and unconsolidated Co-Investment Ventures less costs directly associated to our strategic capital group, plus development management income. Realized 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 per share calculation. 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 Jun. 30,		Six Months Ended Jun. 30,	
	2017	2016	2017	2016
Net earnings				
Net earnings	\$ 266,943	\$ 275,383	\$ 470,198	\$ 483,424
Noncontrolling interest attributable to exchangeable limited partnership units	7,798	9,085	13,765	15,694
Adjusted net earnings - Diluted	\$ 274,741	\$ 284,468	\$ 483,963	\$ 499,118
Weighted average common shares outstanding - Basic	530,040	524,842	529,400	524,540
Incremental weighted average effect on exchange of limited partnership units	16,364	17,703	16,409	17,623
Incremental weighted average effect of equity awards	5,710	2,843	4,703	2,130
Weighted average common shares outstanding - Diluted	552,114	545,388	550,512	544,293
Net earnings per share - Basic	\$ 0.50	\$ 0.52	\$ 0.89	\$ 0.92
Net earnings per share - Diluted	\$ 0.50	\$ 0.52	\$ 0.88	\$ 0.92
Core FFO				
Core FFO	\$ 461,404	\$ 323,925	\$ 808,156	\$ 653,558
Noncontrolling interest attributable to exchangeable limited partnership units	974	47	1,916	93
Core FFO - Diluted	\$ 462,378	\$ 323,972	\$ 810,072	\$ 653,651
Weighted average common shares outstanding - Basic	530,040	524,842	529,400	524,540
Incremental weighted average effect on exchange of limited partnership units	16,364	16,037	16,409	15,957
Incremental weighted average effect of equity awards	5,710	2,843	4,703	2,130
Weighted average common shares outstanding - Diluted	552,114	543,722	550,512	542,627
Core FFO per share - Diluted	\$ 0.84	\$ 0.60	\$ 1.47	\$ 1.20

Estimated Value Creation represents the value that we expect to 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. Estimated 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. Estimated Value Creation for our Value-Added Properties that are sold includes the realized economic gain.

Estimated Weighted Average Margin is calculated on development properties as Estimated Value Creation, less estimated closing costs and taxes on properties expected to be sold or contributed, divided by TEI.

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.

The National Association of Real Estate Investment Trusts ("NAREIT") defines FFO as 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 also exclude the gains on revaluation of equity investments upon acquisition of a controlling interest and the gain recognized from a partial sale of our investment, as these are similar to gains from sales of previously depreciated properties. We exclude similar adjustments from our unconsolidated entities and the third parties' share of our consolidated ventures.

Our FFO Measures

Our FFO measures begin with NAREIT's definition and we make certain adjustments to reflect our business and the way that management plans and executes our business strategy. While not infrequent or unusual, the additional items we adjust for in calculating *FFO, as modified by Prologis, Core FFO* and *AFFO*, as defined below, are subject to significant fluctuations from period to period. Although these items may have 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. These items have 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 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 our average ownership percentage for the applicable periods.

These FFO measures are used by management as supplemental financial measures of operating performance and we believe that it is important that stockholders, potential investors and financial analysts understand the measures management uses. 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.

We analyze our operating performance primarily by the rental revenues of our real estate and the revenues from 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.

FFO, as modified by Prologis

To arrive at *FFO, as modified by Prologis*, we adjust the NAREIT defined FFO measure to exclude the impact of foreign currency related items and deferred tax, specifically:

- (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 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 and unconsolidated subsidiaries and from foreign debt issued by the US parent;
- (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 and unconsolidated entities; and
- (v) mark-to-market adjustments associated with derivative financial instruments.

We use FFO, as modified by Prologis, so that management, analysts and investors are able to evaluate our performance against other REITs that do not have similar operations or operations in jurisdictions outside the U.S.

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 the disposition of land and development properties that were developed with the intent to contribute or sell;
- (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 use Core FFO, including by segment and region, to: (i) assess our operating performance as compared to other real estate companies, (ii) evaluate our performance and the performance of our properties in comparison with expected results and results of previous periods; (iii) evaluate the performance of our management; (iv) budget and forecast future results to assist in the allocation of resources; (v) provide guidance to the financial markets to understand our expected operating performance; and (v) evaluate how a specific potential investment will impact our future results.

AFFO

To arrive at AFFO, we adjust Core FFO to include realized gains from the disposition of land and development properties and recurring capital expenditures and exclude the following items that we recognize directly in Core FFO:

- (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 use AFFO to (i) assess our operating performance as compared to other real estate companies, (ii) evaluate our performance and the performance of our properties in comparison with expected results and results of previous periods, (iii) evaluate the performance of our management, (iv) budget and forecast future results to assist in the allocation of resources, and (v) evaluate how a specific potential investment will impact our future results.

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 the 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 logistics facilities are not reflected in FFO.
- Gains or losses from non-development property 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 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	\$ 2.76	\$ 2.84
Our share of:		
Depreciation and amortization	1.68	1.70
Net gains on real estate transactions, net of taxes (a)	(1.78)	(1.84)
Unrealized foreign currency losses and other, net	0.12	0.12
Core FFO	\$ 2.78	\$ 2.82

(a) This amount includes \$0.87 related to the NAIF sale to USLF (non-FFO).

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 starting rental rates per the lease agreement, on new and renewed leases, signed during the periods as compared with the previous ending 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, which eliminates the effects of changes in the composition of the portfolio. We have defined the same store portfolio, for the three months ended June 30, 2017, as those owned and managed properties that were in operation at January 1, 2016 and have been in operation throughout the same three-month periods in both 2016 and 2017 (including development properties that have been completed and available for lease). We removed all properties that were disposed of to a third party or were classified as held for sale to a third party from the population for both periods. We believe the factors that affect rental revenues, rental expenses and NOI in the same store portfolio are generally the same as for the total operating portfolio. To derive an appropriate measure of period-to-period operating performance, we remove the effects of foreign currency exchange rate movements by using the recent period end exchange rate to translate from local currency into the U.S. dollar, for both periods.

Same store is a commonly used measure in the real estate industry. Our same store measures are non-GAAP financial measures that are calculated beginning with rental revenues, rental recoveries 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 our same store measures are non-GAAP financial measures, they have certain limitations as analytical tools 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 property NOI with explanations of how these metrics are calculated.

The following is a reconciliation of our consolidated rental revenues, rental recoveries, rental expenses and property 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			
	2017	2016	Change	(%)
Rental Revenue:				
Rental Revenue	\$ 447,960	\$ 426,150		
Rental Recoveries	128,417	119,981		
Per the Consolidated Statements of Operations	576,377	546,131		
Properties not included and other adjustments (a)	(60,960)	(51,844)		
Unconsolidated Co-Investment Ventures	461,802	449,226		
Same Store - Rental Revenue	\$ 977,219	\$ 943,513		3.6 %
Rental Expense:				
Per the Consolidated Statements of Operations	\$ 147,794	\$ 140,725		
Properties not included and other adjustments (b)	(5,038)	(5,307)		
Unconsolidated Co-Investment Ventures	99,194	100,747		
Same Store - Rental Expense	\$ 241,950	\$ 236,165		2.4 %
NOI:				
Consolidated NOI	\$ 428,583	\$ 405,406		
Properties not included and other adjustments	(55,922)	(46,537)		
Unconsolidated Co-Investment Ventures	362,608	348,479		
Same Store - NOI	\$ 735,269	\$ 707,348		3.9 %
Same Store - NOI - Prologis Share (c)	\$ 421,628	\$ 403,113		4.6 %
NOI- Cash:				
Same store- NOI	\$ 735,269	\$ 707,348		
Straight-line rent adjustments (d)	(10,413)	(23,016)		
Fair value lease adjustments (d)	(280)	(343)		
Same Store - NOI - Cash	\$ 724,576	\$ 683,989		5.9 %
Same Store - NOI- Prologis Share (c)	\$ 415,136	\$ 387,357		7.2 %

- (a) To calculate Same Store rental income, we exclude net termination and renegotiation fees to allow us to evaluate the growth or decline in each property's rental income without regard to one-time 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 June 30, 2017 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.

Weighted Average Stabilized Capitalization ("Cap") Rate is calculated as Stabilized NOI divided by the Acquisition Cost.



SOURCE Prologis, Inc.

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