January 23, 2018

Prologis Reports Fourth Quarter and Full Year 2017 Earnings Results

SAN FRANCISCO, Jan. 23, 2018 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in logistics real estate, today reported results for the fourth quarter and full year 2017.

Net earnings per diluted share was $0.55 for the quarter and $3.06 for the year compared with $0.82 and $2.27 for the same periods in 2016. The year-over-year increase is principally due to higher gains on real estate transactions, stronger operating results and higher net promote income.

Core funds from operations* per diluted share was $0.67 for the quarter and $2.81 for the year compared with $0.63 and $2.57 for the same periods in 2016. The year-over-year increase is due primarily to stronger operating results and higher net promote income.

"Our results are a testament to our high-quality portfolio, proven strategy and strong execution by our global team," said Hamid R. Moghadam, chairman and CEO, Prologis. "We are starting 2018 with even more embedded rental upside than we had last year. Looking forward, it's all about using our scale and expertise to drive organic growth, put our global land bank to work and deliver further value from our customer relationships."

OPERATING RESULTS REMAIN EXCELLENT

Owned & Managed	**4Q17**	**4Q16**	**Notes**
Period End Occupancy	97.2%	97.1%	*Record and led by the U.S. at 98.0%*
Leases Signed	42MSF	39MSF	

Prologis Share	**4Q17**	**4Q16**	**Notes**
Net Effective Rent Change	19.0%	16.0%	*Led by the U.S. at 29.8%*
Cash Rent Change	8.8%	7.0%	
Net Effective Same Store NOI*	4.1%	3.2%	*Led by the U.S. at 5.4%*
Cash Same Store NOI*	5.5%	4.4%	*Led by the U.S. at 6.8%*

STRONG CUSTOMER RELATIONSHIPS DRIVE RECORD BUILD-TO-SUIT ACTIVITY

Prologis Share	4Q17	FY2017
Building Acquisitions	$79M	$185M
Weighted avg stabilized cap rate	5.6%	5.6%
Development Stabilizations	$525M	$2,037M
Estimated weighted avg yield	6.9%	6.6%
Estimated weighted avg margin	29.0%	28.6%
Estimated value creation	$152M	$583M
% Build-to-suit	46.4%	34.9%
Development Starts	$692M	$2,332M
Estimated weighted avg margin	19.5%	19.1%
Estimated value creation	$135M	$446M
% Build-to-suit	43.3%	47.1%
Dispositions and Contributions	$839M	$2,528M
Weighted avg stabilized cap rate *(excluding land and other real estate)*	6.0%	5.5%

BEST-IN-CLASS BALANCE SHEET PRIMED FOR GROWTH

During the fourth quarter, Prologis and its co-investment ventures completed $1.9 billion of refinancings and redeemed $788 million of near-term bonds. For the full year, on a look-through basis, the company reduced its leverage by 340 basis points to 23.7 percent on a market capitalization basis and improved its debt-to-adjusted EBITDA* by approximately 0.2x to 4.6x.

COMPANY ESTABLISHES 2018 EARNINGS GUIDANCE RANGES

The company established a guidance range for net earnings per diluted share of $2.10 to $2.25 and a range for Core FFO* per diluted share of $2.85 to $2.95.

"Strong operating fundamentals will translate to robust earnings growth in 2018," said Thomas S. Olinger, chief financial officer, Prologis. "Fueled by same store NOI growth, Core FFO, excluding promotes, is expected to increase 7 percent at the midpoint. This represents very strong growth, given that we anticipate further delevering of our already conservative balance sheet."

2018 GUIDANCE

Earnings (per diluted share)	
Net Earnings	$2.10 to $2.25
Core FFO*	$2.85 to $2.95

Operations	
Year-end occupancy	96.0% to 97.0%
Net Effective Same Store NOI – Prologis share*	4.0% to 5.0%

Other Assumptions (in millions)	
Strategic capital revenue, excl. promote revenue	$260 to $270
Net promote income	$30 to $40
General & administrative expenses	$227 to $237
Realized development gains	$300 to $400

Capital Deployment (Prologis Share, in millions)	Prologis Share	Owned and Managed
Development stabilizations	$1,800 to $2,000	$2,100 to $2,300
Development starts	$2,000 to $2,300	$2,500 to $2,900
Building acquisitions	$300 to $500	$500 to $800
Building and land dispositions	$950 to $1,200	$1,600 to $2,000
Building contributions	$1,350 to $1,650	$1,800 to $2,200

The earnings guidance described above includes potential future gains 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 2018 relates predominantly to these items. Please refer to our fourth 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 outlook. Here are the event details:

- Tuesday, January 23, 2018, at 12 p.m. U.S. Eastern Time.
- Live webcast at http://ir.prologis.com by clicking Investors>Investor Events and Presentations.
- Dial in: +1 888-771-4371 or +1 847-585-4405 and enter Passcode 46214331.

A telephonic replay will be available January 23-30 at +1 888-843-7419 (from the United States and Canada) or +1 630-652-3042 (from all other countries) using conference code 46214331. 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 December 31, 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 5,000 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 December 31,**		**Twelve Months ended December 31,**	
	2017	**2016**	**2017**	**2016**
Rental and other revenues	$ 552	$ 564	$ 2,244	$ 2,230
Strategic capital revenues	68	56	374	303
Total revenues	620	620	2,618	2,533
Net earnings attributable to common stockholders	296	441	1,642	1,203
Core FFO*	373	345	1,551	1,400
AFFO*	385	431	1,597	1,405
Adjusted EBITDA*	584	641	2,398	2,223
Estimated value creation from development starts - Prologis share	135	167	446	365
Common stock dividends and common limited partnership unit distributions	243	231	973	923
Per common share - diluted:				
Net earnings attributable to common stockholders	$0.55	$0.82	$ 3.06	$2.27
Core FFO*	0.67	0.63	2.81	2.57
Business line reporting:				
Real estate operations*	0.61	0.57	2.40	2.22
Strategic capital*	0.06	0.06	0.41	0.35
*Core FFO**	*0.67*	*0.63*	*2.81*	*2.57*
Realized development gains, net of taxes	0.15	0.30	0.56	0.57
Dividends and distributions per common share/unit	0.44	0.42	1.76	1.68

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

in thousands	December 31, 2017	September 30, 2017	December 31, 2016
Assets:			
Investments in real estate properties:			
Operating properties	$ 22,585,327	$ 22,656,273	$ 23,943,457
Development portfolio	1,593,489	1,500,999	1,432,082
Land	1,154,383	1,313,268	1,218,904
Other real estate investments	505,445	506,617	524,887
	25,838,644	25,977,157	27,119,330
Less accumulated depreciation	4,059,348	3,977,667	3,758,372
Net investments in real estate properties	21,779,296	21,999,490	23,360,958
Investments in and advances to unconsolidated entities	5,496,450	5,371,758	4,230,429
Assets held for sale	342,060	321,905	322,139
Notes receivable backed by real estate	34,260	-	32,100
Net investments in real estate	27,652,066	27,693,153	27,945,626
Cash and cash equivalents	447,046	568,726	807,316
Other assets	1,381,963	1,392,271	1,496,990
Total assets	**$ 29,481,075**	**$ 29,654,150**	**$ 30,249,932**
Liabilities and Equity:			
Liabilities:			
Debt	$ 9,412,631	$ 9,721,065	$ 10,608,294
Accounts payable, accrued expenses and other liabilities	1,362,703	1,373,829	1,183,498
Total liabilities	10,775,334	11,094,894	11,791,792
Equity:			
Stockholders' equity	15,631,158	15,543,751	14,991,081
Noncontrolling interests	2,660,242	2,591,544	3,072,469
Noncontrolling interests - limited partnership unitholders	414,341	423,961	394,590
Total equity	18,705,741	18,559,256	18,458,140
Total liabilities and equity	**$ 29,481,075**	**$ 29,654,150**	**$ 30,249,932**

in thousands, except per share amounts	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Revenues:				
	$	$	$	$
Rental	550,649	559,885	2,225,141	2,220,409
Strategic capital	68,148	56,443	373,889	303,562
Development management and other	1,125	3,787	19,104	9,164
Total revenues	619,922	620,115	2,618,134	2,533,135
Expenses:				
Rental	140,338	141,050	569,523	568,870
Strategic capital	35,360	30,723	155,141	128,506
General and administrative	59,709	56,433	231,059	222,067
Depreciation and amortization	222,501	225,736	879,140	930,985
Other	3,597	1,965	12,205	14,329
Total expenses	461,505	455,907	1,847,068	1,864,757
Operating income	**158,417**	**164,208**	**771,066**	**668,378**
Other income (expense):				
Earnings from unconsolidated co-investment ventures, net	73,768	59,204	234,168	191,877
Earnings from other unconsolidated ventures, net	2,532	1,481	14,399	14,430
Interest expense	(62,030)	(70,569)	(274,486)	(303,146)
Gains on dispositions of development properties and land, net	91,794	174,368	327,528	334,369
Gains on dispositions of real estate, net (excluding development properties and land)	131,787	121,067	855,437	423,029
Foreign currency and derivative (losses) and interest and other income, net	(7,331)	34,909	(44,165)	15,683
Gains (losses) on early extinguishment of debt, net	(37,783)	-	(68,379)	2,484
Total other income	192,737	320,460	1,044,502	678,726
Earnings before income taxes	351,154	484,668	1,815,568	1,347,104
Current income tax expense	(17,089)	(21,754)	(59,614)	(60,089)
Deferred income tax benefit	4,808	3,788	5,005	5,525
Consolidated net earnings	338,873	466,702	1,760,959	1,292,540
Net earnings attributable to noncontrolling interests	(30,086)	(12,442)	(63,620)	(48,307)
Net earnings attributable to noncontrolling interests - limited partnership units	(7,901)	(12,063)	(45,014)	(34,301)
Net earnings attributable to controlling interests	300,886	442,197	1,652,325	1,209,932
Preferred stock dividends	(1,476)	(1,658)	(6,499)	(6,714)
Loss on preferred stock repurchase	(3,895)	-	(3,895)	-
Net earnings attributable to common stockholders	**$ 295,515**	**$ 440,539**	**$ 1,641,931**	**$ 1,203,218**
Weighted average common shares outstanding - Diluted	554,401	550,885	552,300	546,666
Net earnings per share attributable to common stockholders - Diluted	**$ 0.55**	**$ 0.82**	**$ 3.06**	**$ 2.27**

in thousands	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Net earnings attributable to common stockholders	$ 295,515	$ 440,539	$ 1,641,931	$ 1,203,218
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	214,292	217,955	847,516	899,821
Gains on dispositions of real estate, net (excluding development properties and land)	(131,787)	(121,067)	(855,437)	(423,029)
Reconciling items related to noncontrolling interests	1,661	(17,514)	(38,972)	(104,832)
Our share of reconciling items related to unconsolidated co-investment ventures	38,076	43,135	140,712	159,956
Our share of reconciling items related to other unconsolidated ventures	1,728	1,718	6,759	2,154
Subtotal-NAREIT defined FFO*	**$ 419,485**	**$ 564,766**	**$ 1,742,509**	**$ 1,737,288**
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	13,563	(29,369)	69,363	(7,505)
Deferred income tax benefit	(4,808)	(3,788)	(5,005)	(5,525)
Current income tax expense on dispositions related to acquired tax assets	2,241	-	2,331	-
Reconciling items related to noncontrolling interests	1	643	(8)	682
Our share of reconciling items related to unconsolidated co-investment ventures	(12,236)	(24,010)	(14,677)	(22,840)
FFO, as modified by Prologis*	**$ 418,246**	**$ 508,242**	**$ 1,794,513**	**$ 1,702,100**
Adjustments to arrive at Core FFO:				
Gains on dispositions of development properties and land, net	(91,794)	(174,368)	(327,528)	(334,369)
Current income tax expense on dispositions	6,529	9,332	19,102	24,152
Acquisition expenses	-	2,075	-	4,607
Losses (gains) on early extinguishment of debt and preferred stock repurchase, net	41,678	-	72,274	(2,484)
Reconciling items related to noncontrolling interests	297	1	(390)	4,299
Our share of reconciling items related to unconsolidated co-investment ventures	(33)	929	(224)	5,612
Our share of reconciling items related to other unconsolidated ventures	(1,656)	(1,424)	(6,594)	(3,419)
Core FFO*	**$ 373,267**	**$ 344,787**	**$ 1,551,153**	**$ 1,400,498**
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	91,794	174,368	327,528	334,369
Current income tax expense on dispositions	(6,529)	(9,332)	(19,102)	(24,152)
Straight-lined rents and amortization of lease intangibles	(14,788)	(18,944)	(81,021)	(104,886)
Property improvements	(33,992)	(28,451)	(84,022)	(78,745)
Turnover costs	(37,813)	(40,891)	(153,255)	(165,992)
Amortization of debt discount (premium), financing costs and management contracts, net	2,853	(1,172)	3,845	(11,420)
Stock compensation expense	18,549	16,683	76,640	60,341
Reconciling items related to noncontrolling interests	9,563	13,108	35,820	56,917
Our share of reconciling items related to unconsolidated ventures	(17,662)	(19,591)	(60,594)	(61,923)
AFFO*	**$ 385,242**	**$ 430,565**	**$ 1,596,992**	**$ 1,405,007**

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

in thousands	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Net earnings attributable to common stockholders	$ 295,515	$ 440,539	$ 1,641,931	$ 1,203,218
Gains on dispositions of real estate, net (excluding development properties and land)	(131,787)	(121,067)	(855,437)	(423,029)
Depreciation and amortization expenses	222,501	225,736	879,140	930,985
Interest expense	62,030	70,569	274,486	303,146
Losses (gains) on early extinguishment of debt, net	37,783	-	68,379	(2,484)
Current and deferred income tax expense, net	12,281	17,966	54,609	54,564
Net earnings attributable to noncontrolling interests - limited partnership unitholders	7,901	12,063	45,014	34,301
Pro forma adjustments	(2,777)	(1,382)	11,828	(10,248)
Preferred stock dividends and repurchase	5,371	1,658	10,394	6,714
Unrealized foreign currency and derivative losses (gains), net	13,563	(29,369)	69,363	(7,505)
Stock compensation expense	18,549	16,683	76,640	60,341
Acquisition expenses	-	2,075	-	4,607
Adjusted EBITDA, consolidated*	**$ 540,930**	**$ 635,471**	**$ 2,276,347**	**$ 2,154,610**
Reconciling items related to noncontrolling interests	(6,785)	(34,140)	(90,893)	(152,082)
Our share of reconciling items related to unconsolidated ventures	49,658	39,590	212,190	219,975
Adjusted EBITDA*	**$ 583,803**	**$ 640,921**	**$ 2,397,644**	**$ 2,222,503**

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

Adjusted EBITDA. We use Adjusted EBITDA, a non-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 to remove NOI on properties we dispose of during the quarter, assuming 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 third party share of asset management and transactional fees that 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 Dec. 31,		Twelve Months Ended Dec. 31,	
	2017	2016	2017	2016
Net earnings				
Net earnings	$ 295,515	$ 440,539	$ 1,641,931	$ 1,203,218
Noncontrolling interest attributable to exchangeable limited partnership units	8,153	12,600	46,280	37,079
Adjusted net earnings - Diluted	**$ 303,668**	**$ 453,139**	**$ 1,688,211**	**$ 1,240,297**
Weighted average common shares outstanding - Basic	531,478	528,012	530,400	526,103
Incremental weighted average effect on exchange of limited partnership units	15,336	15,869	15,945	16,833
Incremental weighted average effect of equity awards	7,587	7,004	5,955	3,730
Weighted average common shares outstanding - Diluted	**554,401**	**550,885**	**552,300**	**546,666**
Net earnings per share - Basic	**$ 0.56**	**$ 0.83**	**$ 3.10**	**$ 2.29**
Net earnings per share - Diluted	**$ 0.55**	**$ 0.82**	**$ 3.06**	**$ 2.27**
Core FFO				
Core FFO	$ 373,267	$ 344,787	$ 1,551,153	$ 1,400,498
Noncontrolling interest attributable to exchangeable limited partnership units	415	991	2,903	4,273
Core FFO - Diluted	**$ 373,682**	**$ 345,778**	**$ 1,554,056**	**$ 1,404,771**
Weighted average common shares outstanding - Basic	531,478	528,012	530,400	526,103
Incremental weighted average effect on exchange of limited partnership units	15,336	15,869	15,945	16,833
Incremental weighted average effect of equity awards	7,587	7,004	5,955	3,730
Weighted average common shares outstanding - Diluted	**554,401**	**550,885**	**552,300**	**546,666**
Core FFO per share - Diluted	**$ 0.67**	**$ 0.63**	**$ 2.81**	**$ 2.57**

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, if any, on properties expected to be sold or contributed, divided by TEI.

Estimated Weighted Average Stabilized Yield is calculated on development properties as Stabilized NOI 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 the sales of previously depreciated properties. We exclude similar adjustments from our unconsolidated entities and the third parties' share of our consolidated co-investment 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 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 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 annual guided Net Earnings per share to our guided Core FFO per share:

	Low	High
Net Earnings	$ 2.10	$ 2.25
Our share of:		
Depreciation and amortization	1.69	1.74
Net gains on real estate transactions, net of taxes	(0.94)	(1.04)
Unrealized foreign currency losses and other, net	0.00	0.00
Core FFO	$ 2.85	$ 2.95

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 December 31, 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 have 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 Dec. 31,		
	2017	2016	Change (%)
Rental revenues:			
Rental revenues	$ 433,568	$ 435,722	
Rental recoveries	117,081	124,163	
Per the Consolidated Statements of Operations	550,649	559,885	
Properties not included and other adjustments (a)	(82,049)	(65,536)	
Unconsolidated co-investment ventures	525,164	463,858	
Same Store - rental revenues	**$ 993,764**	**$ 958,207**	**3.7 %**
Rental expenses:			
Per the Consolidated Statements of Operations	$ 140,338	$ 141,050	
Properties not included and other adjustments (b)	(13,986)	(8,314)	
Unconsolidated co-investment ventures	123,928	104,962	
Same Store - rental expenses	**$ 250,280**	**$ 237,698**	**5.3 %**
NOI:			
Consolidated NOI	$ 410,311	$ 418,835	
Properties not included and other adjustments	(68,063)	(57,222)	
Unconsolidated Co-Investment Ventures	401,236	358,896	
Same Store - NOI	**$ 743,484**	**$ 720,509**	**3.2 %**
Same Store - NOI - Prologis Share (c)	**$ 426,803**	**$ 409,982**	**4.1 %**
NOI- Cash:			
Same store- NOI	$ 743,484	$ 720,509	
Straight-line rent adjustments (d)	(9,591)	(13,635)	
Fair value lease adjustments (d)	532	(1,089)	
Same Store - NOI- Cash	**$ 734,425**	**$ 705,785**	**4.1 %**
Same Store - NOI- Prologis Share (c)	**$ 423,606**	**$ 401,530**	**5.5 %**

(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 December 31, 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.

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