

July 17, 2018



Prologis Reports Second Quarter 2018 Earnings Results

SAN FRANCISCO, July 17, 2018 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in logistics real estate, today reported results for the second quarter of 2018.

Net earnings per diluted share was \$0.62 compared with \$0.50 for the same period in 2017. Core funds from operations* per diluted share was \$0.71 compared with \$0.84 for the same period in 2017. The prior period included net promote income of \$0.18 per diluted share.

"Our momentum going into 2018 continued through the second quarter," said Hamid R. Moghadam, chairman and CEO, Prologis. "Our portfolio and balance sheet are in the best shape ever, and our team continues to deliver excellent results while remaining laser-focused on platform initiatives that will increase our competitive advantages."

Moghadam added, "Trade is dominating the headlines. If today's political rhetoric translates into significant protectionist policies, long-term economic growth will suffer, and this will affect all businesses, including ours. As of now, however, our customers are moving forward with their growth plans and we have not seen a change in sentiment or decision-making."

OUTPERFORMANCE DRIVEN BY SUPERIOR LOCATION AND PROVEN EXECUTION BY THE TEAM

Owned & Managed	2Q18	2Q17	Notes
Period End Occupancy	97.4%	96.2%	
Leases Commenced	39MSF	33MSF	Record development leasing volume totaling 10 MSF

Prologis Share	2Q18	2Q17	Notes
Net Effective Rent Change	20.6%	20.7%	Led by the U.S. at 30.7%
Cash Rent Change	9.7%	9.1%	Led by the U.S. at 16.5%
Cash Same Store NOI*	7.0%	6.4%	Led by the U.S. at 8.2%

GLOBAL INVESTMENT STRATEGY DELIVERS PROFITABLE DEPLOYMENT ACTIVITY

Prologis Share	2Q18
Building Acquisitions	\$101M
Weighted avg stabilized cap rate	4.9%
Development Stabilizations	\$592M
Estimated weighted avg yield	7.1%
Estimated weighted avg margin	40.7%
Estimated value creation	\$241M
Development Starts	\$744M
Estimated weighted avg margin	22.1%
Estimated value creation	\$165M
% Build-to-suit	25.4%
Total Dispositions and Contributions	\$416M
Weighted avg stabilized cap rate <i>(excluding land and other real estate)</i>	5.1%

FINANCING ACTIVITY HIGHLIGHTS ADVANTAGED ACCESS TO CAPITAL

During the second quarter, the company and its co-investment ventures completed over \$850 million of financings, including the previously announced \$400 million 10-year bond at 3.875% and \$300 million 30-year bond at 4.375%. The company ended the quarter with leverage of 22.9 percent on a market capitalization basis, debt-to-adjusted EBITDA* of 4.1x and \$4.0 billion of liquidity.

GUIDANCE RANGE INCREASED AND NARROWED FOR 2018

At the midpoint, guidance for net earnings per diluted share increased \$0.28 and Core FFO* per diluted share increased \$0.02.

"Market fundamentals are the healthiest on record," said Thomas S. Olinger, chief financial officer, Prologis. "Our improved outlook for market rental growth combined with our year-to-date performance leads us to increase and narrow our full-year guidance ranges for earnings and same store NOI."

Olinger added, "The spread between our in-place leases and market rents widened further in the quarter, extending our runway for sector-leading growth."

2018 GUIDANCE (UPDATES TO PRIOR GUIDANCE ONLY)

Earnings (per diluted share)	Previous	Revised
Net Earnings	\$2.50 to \$2.60	\$2.80 to \$2.86
Core FFO*	\$2.95 to \$3.01	\$2.98 to \$3.02

Operations	Previous	Revised
Year-end occupancy	96.25% to 97.25%	97.0% to 97.5%
Cash Same Store NOI* - Prologis share	5.5% to 6.5%	6.25% to 6.75%

Other Assumptions (in millions)	Previous	Revised
Net promote income	\$60 to \$72	\$68 to \$78
Realized development gains	\$350 to \$450	\$450 to \$500

Prologis Share Capital Deployment (in millions)	Previous	Revised
Development starts	\$2,200 to \$2,500	\$2,300 to \$2,600
Building acquisitions	\$300 to \$500	\$300 to \$500
Building and land dispositions	\$1,400 to \$1,700	\$1,400 to \$1,700
Building contributions	\$1,350 to \$1,650	\$1,500 to \$1,800
Net Proceeds / (Uses)	\$250 to \$350	\$300 to \$400

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 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 17, 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 (866)-393-4306 or +1 (734)-385-2616 and enter Passcode 1463339.

A telephonic replay will be available July 17-24 at +1 (855) 859-2056 (from the United States and Canada) or +1 (404) 537-3406 (from all other countries) using conference code 1463339. 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, 2018, 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 685 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 June 30,		Six Months ended June 30,	
	2018	2017	2018	2017
Rental and other revenues	\$ 545	\$ 585	\$ 1,106	\$ 1,157
Strategic capital revenues	76	181	209	238
Total revenues	621	766	1,315	1,395
Net earnings attributable to common stockholders	335	267	701	470
Core FFO attributable to common stockholders/unitholders*	391	461	834	808
AFFO attributable to common stockholders/unitholders*	399	432	962	751
Adjusted EBITDA attributable to common stockholders*	581	637	1,295	1,149
Estimated value creation from development stabilizations - Prologis Share	241	130	371	219
Common stock dividends and common limited partnership unit distributions	267	243	534	486
Per common share - diluted:				
Net earnings attributable to common stockholders	\$0.62	\$0.50	\$ 1.30	\$0.88
Core FFO attributable to common stockholders/unitholders*	0.71	0.84	1.51	1.47
Business line reporting:				
Real estate operations*	0.65	0.60	1.29	1.17
Strategic capital*	0.06	0.24	0.22	0.30
Core FFO attributable to common stockholders/unitholders*	0.71	0.84	1.51	1.47
Realized development gains, net of taxes	0.11	0.07	0.39	0.13
Dividends and distributions per common share/unit	0.48	0.44	0.96	0.88

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

in thousands	June 30, 2018	March 31, 2018	December 31, 2017
Assets:			
Investments in real estate properties:			
Operating properties	\$ 22,267,134	\$ 22,421,633	\$ 22,585,327
Development portfolio	1,655,895	1,697,487	1,593,489
Land	1,111,185	1,231,759	1,154,383
Other real estate investments	521,129	525,123	505,445
	<u>25,555,343</u>	<u>25,876,002</u>	<u>25,838,644</u>
Less accumulated depreciation	4,283,877	4,199,159	4,059,348
Net investments in real estate properties	<u>21,271,466</u>	<u>21,676,843</u>	<u>21,779,296</u>
Investments in and advances to unconsolidated entities	5,414,623	5,675,999	5,496,450
Assets held for sale or contribution	892,546	473,154	342,060
Notes receivable backed by real estate	-	-	34,260
Net investments in real estate	<u>27,578,635</u>	<u>27,825,996</u>	<u>27,652,066</u>
Cash and cash equivalents	527,830	458,099	447,046
Other assets	1,396,417	1,387,390	1,381,963
Total assets	\$ 29,502,882	\$ 29,671,485	\$ 29,481,075
Liabilities and Equity:			
Liabilities:			
Debt	\$ 9,427,124	\$ 9,460,177	\$ 9,412,631
Accounts payable, accrued expenses and other liabilities	1,349,255	1,423,188	1,362,703
Total liabilities	<u>10,776,379</u>	<u>10,883,365</u>	<u>10,775,334</u>
Equity:			
Stockholders' equity	15,638,570	15,680,075	15,631,158
Noncontrolling interests	2,624,175	2,643,034	2,660,242
Noncontrolling interests - limited partnership unitholders	463,758	465,011	414,341
Total equity	<u>18,726,503</u>	<u>18,788,120</u>	<u>18,705,741</u>
Total liabilities and equity	\$ 29,502,882	\$ 29,671,485	\$ 29,481,075

in thousands, except per share amounts	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Rental	\$ 544,679	\$ 576,377	\$ 1,100,622	\$ 1,143,310
Strategic capital	75,697	180,654	208,658	237,699
Development management and other	900	9,152	5,652	14,329
Total revenues	<u>621,276</u>	<u>766,183</u>	<u>1,314,932</u>	<u>1,395,338</u>
Expenses:				
Rental	133,329	147,794	276,270	300,450
Strategic capital	34,850	51,986	78,710	83,785
General and administrative	57,615	60,077	120,043	113,694
Depreciation and amortization	203,673	228,145	407,754	454,736
Other	4,515	2,909	7,754	5,515
Total expenses	<u>433,982</u>	<u>490,911</u>	<u>890,531</u>	<u>958,180</u>
Operating income	187,294	275,272	424,401	437,158

Other income (expense):

Earnings from unconsolidated co-investment ventures, net	53,346	61,175	108,641	106,625
Earnings from other unconsolidated ventures, net	9,203	7,421	16,564	10,576
Interest expense	(56,314)	(75,354)	(102,575)	(148,266)
Gains on dispositions of development properties and land, net	63,669	37,720	221,237	67,520
Gains on dispositions of real estate, net (excluding development properties and land)	30,592	45,286	68,135	112,811
Foreign currency and derivative gains (losses) and interest and other income, net	91,023	(18,163)	51,905	(22,778)
Gains (losses) on early extinguishment of debt, net	282	(30,596)	(702)	(30,596)
Total other income	191,801	27,489	363,205	95,892
Earnings before income taxes	379,095	302,761	787,606	533,050
Current income tax expense	(13,234)	(14,952)	(31,850)	(22,113)
Deferred income tax benefit (expense)	(870)	171	1,194	(2,268)
Consolidated net earnings	364,991	287,980	756,950	508,669
Net earnings attributable to noncontrolling interests	(18,882)	(11,986)	(32,940)	(22,123)
Net earnings attributable to noncontrolling interests - limited partnership units	(10,022)	(7,377)	(20,545)	(13,000)
Net earnings attributable to controlling interests	336,087	268,617	703,465	473,546
Preferred stock dividends	(1,476)	(1,674)	(2,952)	(3,348)
	\$	\$	\$	\$
Net earnings attributable to common stockholders	334,611	266,943	700,513	470,198
Weighted average common shares outstanding - Diluted	554,515	552,114	554,066	550,512
	\$	\$	\$	\$
Net earnings per share attributable to common stockholders - Diluted	0.62	0.50	1.30	0.88

in thousands	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net earnings attributable to common stockholders	\$ 334,611	\$ 266,943	\$ 700,513	\$ 470,198
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	194,426	220,130	390,329	439,201
Gains on dispositions of real estate, net (excluding development properties and land)	(30,592)	(45,286)	(68,135)	(112,811)
Reconciling items related to noncontrolling interests	(12,956)	(16,644)	(23,427)	(41,707)
Our share of reconciling items related to unconsolidated co-investment ventures	50,425	23,989	101,910	56,048

Our share of reconciling items related to other unconsolidated ventures

	1,514	1,686	3,274	3,300
		\$	\$	\$
Subtotal-NAREIT defined FFO attributable to common stockholders/unitholders*	\$ 537,428	450,818	1,104,464	814,229

Add (deduct) our defined adjustments:

Unrealized foreign currency and derivative losses (gains), net	(86,490)	23,303	(52,526)	35,506
Deferred income tax expense (benefit)	870	(171)	(1,194)	2,268
Current income tax expense (benefit) on dispositions related to acquired tax assets	-	603	878	(667)
Reconciling items related to noncontrolling interests	(56)	107	44	13
Our share of reconciling items related to unconsolidated co-investment ventures	3,098	(2,892)	1,190	(1,829)
		\$	\$	\$
FFO, as modified by Prologis attributable to common stockholders/unitholders*	\$ 454,850	471,768	1,052,856	849,520

Adjustments to arrive at Core FFO attributable to common stockholders/unitholders*:

Gains on dispositions of development properties and land, net	(63,669)	(37,720)	(221,237)	(67,520)
Current income tax expense on dispositions	3,808	1,997	10,419	911
Losses (gains) on early extinguishment of debt, net	(282)	30,596	702	30,596
Reconciling items related to noncontrolling interests	6,020	488	5,420	(679)
Our share of reconciling items related to unconsolidated co-investment ventures	(1,373)	(779)	728	195
Our share of reconciling items related to other unconsolidated ventures	(8,130)	(4,946)	(14,544)	(4,867)
		\$	\$	\$
Core FFO attributable to common stockholders/unitholders*	\$ 391,224	461,404	834,344	808,156

Adjustments to arrive at Adjusted FFO ("AFFO")* attributable to common stockholders/unitholders, including our share of unconsolidated ventures less noncontrolling interest:

Gains on dispositions of development properties and land, net	63,669	37,720	221,237	67,520
Current income tax expense on dispositions	(3,808)	(1,997)	(10,419)	(911)
Straight-lined rents and amortization of lease intangibles	(11,309)	(23,422)	(26,369)	(48,919)
Property improvements	(21,976)	(20,270)	(30,974)	(27,665)
Turnover costs	(31,315)	(38,064)	(59,342)	(78,342)
Amortization of debt discount (premium), financing costs and management contracts, net	3,275	(683)	6,805	(2,748)
Stock compensation expense	19,086	19,224	39,082	37,604

Reconciling items related to noncontrolling interests

(311) 7,194 7,132 20,572

Our share of reconciling items related to unconsolidated ventures

(9,975) (9,578) (19,000) (23,982)

\$ \$ \$ \$

AFFO attributable to common stockholders/unitholders*

398,560 431,528 962,496 751,285

* 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,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net earnings attributable to common stockholders	334,611	266,943	700,513	470,198
Gains on dispositions of real estate, net (excluding development properties and land)	(30,592)	(45,286)	(68,135)	(112,811)
Depreciation and amortization expenses	203,673	228,145	407,754	454,736
Interest expense	56,314	75,354	102,575	148,266
Losses (gains) on early extinguishment of debt, net	(282)	30,596	702	30,596
Current and deferred income tax expense, net	14,104	14,781	30,656	24,381
Net earnings attributable to noncontrolling interests - limited partnership unitholders	10,022	7,377	20,545	13,000
Pro forma adjustments	5,110	707	4,143	11,086
Preferred stock dividends	1,476	1,674	2,952	3,348
Unrealized foreign currency and derivative losses (gains), net	(86,490)	23,303	(52,526)	35,506
Stock compensation expense	19,086	19,224	39,082	37,604
	\$	\$	\$	\$
Adjusted EBITDA, consolidated*	527,032	622,818	1,188,261	1,115,910
Reconciling items related to noncontrolling interests	(23,636)	(25,192)	(45,428)	(59,688)
Our share of reconciling items related to unconsolidated ventures	77,244	39,772	152,626	92,842
	\$	\$	\$	\$
Adjusted EBITDA attributable to common stockholders*	580,640	637,398	1,295,459	1,149,064

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

Adjusted EBITDA. We use Adjusted EBITDA attributable to common stockholders/unitholders ("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, 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, 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.

We calculate our Adjusted EBITDA, based on our proportionate ownership share of both our unconsolidated and consolidated ventures. We reflect our share of our Adjusted EBITDA 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 Adjusted EBITDA measures to remove the noncontrolling interests share of the applicable reconciling items based on our average ownership percentage for the applicable periods.

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, Net Promotes 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 Jun. 30,		Six Months Ended Jun. 30,	
	2018	2017	2018	2017
Net earnings				
Net earnings attributable to common stockholders	\$ 334,611	\$ 266,943	\$ 700,513	\$ 470,198
Noncontrolling interest attributable to exchangeable limited partnership units	10,216	7,798	20,909	13,765
Adjusted net earnings attributable to common stockholders - Diluted	\$ 344,827	\$ 274,741	\$ 721,422	\$ 483,963
Weighted average common shares outstanding - Basic	532,639	530,040	532,427	529,400
Incremental weighted average effect on exchange of limited partnership units	16,847	16,364	16,560	16,409
Incremental weighted average effect of equity awards	5,029	5,710	5,079	4,703
Weighted average common shares outstanding - Diluted	554,515	552,114	554,066	550,512
Net earnings per share - Basic	\$ 0.63	\$ 0.50	\$ 1.32	\$ 0.89
Net earnings per share - Diluted	\$ 0.62	\$ 0.50	\$ 1.30	\$ 0.88
Core FFO				
Core FFO attributable to common stockholders/unitholders	\$ 391,224	\$ 461,404	\$ 834,344	\$ 808,156
Noncontrolling interest attributable to exchangeable limited partnership units	412	974	782	1,916
Core FFO attributable to common stockholders/unitholders - Diluted	\$ 391,636	\$ 462,378	\$ 835,126	\$ 810,072
Weighted average common shares outstanding - Basic	532,639	530,040	532,427	529,400
Incremental weighted average effect on exchange of limited partnership units	16,847	16,364	16,560	16,409
Incremental weighted average effect of equity awards	5,029	5,710	5,079	4,703
Weighted average common shares outstanding - Diluted	554,515	552,114	554,066	550,512
Core FFO per share - Diluted	\$ 0.71	\$ 0.84	\$ 1.51	\$ 1.47

Estimated Value Creation represents the value that we expect to create through our development and leasing activities. We calculate Estimated 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 TEI 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 attributable to common stockholders/unitholders ("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 principally 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;
- (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 (vi) 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 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 dispositions and 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 or preferred stock that we exclude from our Core FFO, may provide a benefit or cost to us as we may be settling our obligation 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	\$ 2.80	\$ 2.86
Our share of:		
Depreciation and amortization	1.66	1.70
Net gains on real estate transactions, net of taxes	(1.39)	(1.45)
Unrealized foreign currency losses and other, net	(0.09)	(0.09)
Core FFO	\$ 2.98	\$ 3.02

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 percentage change in starting rental rates per the lease agreement, on new and renewed leases, commenced during the periods compared with the previous ending rental rates in that same space. This measure excludes any short-term leases of less than one-year, holdover payments, free rent periods and introductory (teaser rates) defined as 50% or less of the stabilized rate.

Rent Change (Net Effective) represents the percentage change in net effective rental rates (average rate over the lease term), on new and renewed leases, commenced during the period compared with the previous net effective rental rates in that same space. This measure excludes any short-term leases of less than one year and holdover payments.

Same Store. Our same store metrics are non-GAAP financial measures, which are commonly used in the real estate industry and expected from the financial community, on both a net-effective and cash basis. We evaluate the 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 allows us to analyze our ongoing business operations.

We define our same store population for the three months ended June 30, 2018 as our owned and managed properties that were in the Operating Portfolio at January 1, 2017 and owned throughout the end of the same three month period in both 2018 and 2017. The same store population excludes development properties that were not stabilized at the beginning of the period (January 1, 2017) and properties acquired or disposed of to third parties during the period. Beginning January 1, 2018, we modified our definition of same store to align on consistent methodologies with members of the industrial REIT group. This did not materially change our historical amounts reported. To derive an appropriate measure of period-to-period operating performance, we remove the effects of foreign currency exchange rate movements by using the reported period end exchange rate to translate from local currency into the U.S. dollar, for both periods. We believe the factors that affect rental revenues, rental recoveries, rental expenses and NOI in the same store portfolio are generally the same as for our consolidated portfolio.

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 of rental revenues, rental recoveries and rental expenses from our

Consolidated Financial Statements prepared in accordance with GAAP to same store property NOI with explanations of how these metrics are calculated. In addition, we further remove certain noncash items (straight-line rent adjustments and amortization of lease intangibles) included in the financial statements prepared in accordance with GAAP to reflect a cash same store number. To clearly label these metrics, they are categorized as same store portfolio NOI – net effective and same store portfolio NOI – cash.

The following is a reconciliation of our consolidated rental revenues, rental recoveries, rental expenses and property NOI, as included in the Consolidated Statements of Income, to the respective amounts in our same store portfolio analysis:

dollars in thousands	Three Months Ended Jun. 30,			
	2018	2017	Change	(%)
Rental revenues:				
Rental revenues	\$ 426,549	\$ 447,960		
Rental recoveries	118,130	128,417		
Per the Consolidated Statements of Income (a)	544,679	576,377		
Adjustments to derive same store results:				
Properties not included in same store portfolio and other adjustments (a)(b)	(58,777)	(67,494)		
Unconsolidated co-investment ventures (a)	542,666	478,732		
Same Store - rental revenues - net effective	\$ 1,028,568	\$ 987,615		4.1 %
Straight-line rent adjustments	(8,062)	(17,311)		
Fair value lease adjustments	273	(1,255)		
Same Store - rental revenues - cash	\$ 1,020,779	\$ 969,049		5.3 %
Rental expenses:				
Per the Consolidated Statements of Income (a)	\$ 133,329	\$ 147,794		
Adjustments to derive same store results:				
Properties not included in same store portfolio and other adjustments (a)(c)	(4,585)	(9,439)		
Unconsolidated co-investment ventures (a)	115,901	100,513		
Same Store - rental expenses - net effective and cash	\$ 244,645	\$ 238,868		2.4 %
Same Store - NOI - Net Effective	\$ 783,923	\$ 748,747		4.7 %
Same Store - NOI - Net Effective - Prologis Share (d)	\$ 447,489	\$ 424,561		5.4 %
Same Store - NOI - Cash	\$ 776,134	\$ 730,181		6.3 %
Same Store - NOI - Cash - Prologis Share (d)	\$ 444,043	\$ 415,064		7.0 %

- (a) We include 100% of the same store NOI from the properties in our same store portfolio. During the periods presented, certain properties owned by us were contributed to a co-investment venture and are included in the same store portfolio. Neither our consolidated results nor those of the co-investment ventures, when viewed individually, would be comparable on a same store basis because of the changes in composition of the respective portfolios from period to period (e.g. the results of a contributed property are included in our consolidated results through the contribution date and in the results of the unconsolidated entities subsequent to the contribution date). As a result, only line items labeled "same store portfolio" are comparable period over period.
- (b) We exclude non-industrial real estate properties and properties held for sale, along with development properties that were not stabilized at the beginning of the reporting period or properties acquired or disposed of to third parties during the period. We also exclude net termination and renegotiation fees to allow us to evaluate the growth or decline in each property's rental revenues without regard to one-time items that are not indicative of the property's recurring operating performance. Net termination and renegotiation fees represent the gross fee negotiated to allow a customer to terminate or renegotiate their lease, offset by the write-off of the asset recorded due to the adjustment to straight-line rents over the lease term.
- (c) Rental expenses include the direct operating expenses of the property such as property taxes, insurance and utilities. In addition, we include an allocation of the property management expenses for our consolidated properties based on the property management services provided to each property (generally, based on a percentage of revenues). On consolidation, these amounts are eliminated and the actual costs of providing property management services are recognized as part of our consolidated rental expenses. These expenses fluctuate based on the level of properties included in the same store portfolio and any adjustment is included as "effect of changes in foreign currency exchange rates and other" in this table.
- (d) Same Store- NOI- Prologis Share is calculated using the underlying building information from the Same Store NOI – Net Effective and NOI - Cash calculations and applying our ownership percentage as of June 30, 2018 to the NOI of each building for both periods.

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



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