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Prologis Reports First Quarter 2018 Earnings Results

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

Net earnings per diluted share was $0.68 compared with $0.38 for the same period in 2017. Core funds from operations* per diluted share was $0.80 compared with $0.63 for the same period in 2017. The company's first quarter 2018 results included net promote income of $0.09 per diluted share.

"Earlier this year, we established sector-leading 2018 guidance, and our quarterly results reflect the first step in delivering on that plan," said Hamid R. Moghadam, chairman and CEO, Prologis. "Market conditions remain extremely healthy and our strategy is set. Going forward, it's all about execution."

PORTFOLIO LOCATION CONTINUES TO DRIVE OUTPERFORMANCE

Owned & Managed	**1Q18**	**1Q17**	**Notes**
Period End Occupancy	96.8%	96.6%	
Leases Commenced	33MSF	46MSF	*Above-average lease roll led to higher volume in Q1 2017*

Prologis Share	**1Q18**	**1Q17**	**Notes**
Net Effective Rent Change	21.9%	18.5%	*Led by the U.S. at 32.2%*
Cash Rent Change	9.2%	7.7%	
Cash Same Store NOI*	7.9%	6.3%	*Led by the U.S. at 9.1%*

DEPLOYMENT ACTIVITY

Prologis Share	**1Q18**
Building Acquisitions	$3M
Weighted avg stabilized cap rate	6.1%
Development Stabilizations	$440M
Estimated weighted avg yield	5.9%
Estimated weighted avg margin	29.6%
Estimated value creation	$130M
Development Starts	$409M
Estimated weighted avg margin	18.0%
Estimated value creation	$74M
% Build-to-suit	63.4%
Total Dispositions and Contributions	$642M
Weighted avg stabilized cap rate *(excluding land and other real estate)*	5.2%

UNMATCHED ACCESS TO GLOBAL CAPITAL
The company ended the quarter with leverage of 24.1 percent on a market capitalization basis, debt-to-adjusted EBITDA* of 4.2x and more than $3.6 billion of liquidity.

"We continue to lower our weighted average cost of debt, which is now 2.8%," said Thomas S. Olinger, chief financial officer, Prologis. "During the quarter, we issued a two-year €400 million note at an all-in effective rate of negative 10 basis points, demonstrating our ability to opportunistically source capital globally."

GUIDANCE INCREASED FOR 2018
At the midpoint, guidance for net earnings per diluted share increased $0.38 and Core FFO* per diluted share increased $0.08.

"Our first quarter results exceeded our expectations," added Olinger. "The combination of strong operations and higher net promote income has led us to raise the midpoint of our full-year guidance ranges for both earnings and same store NOI."

2018 GUIDANCE (UPDATES TO PRIOR GUIDANCE ONLY)

Earnings (per diluted share)	Previous	Revised
Net Earnings	$2.10 to $2.25	$2.50 to $2.60
Core FFO*	$2.85 to $2.95	$2.95 to $3.01

Operations	Previous	Revised
Year-end occupancy	96.0% to 97.0%	96.25% to 97.25%
Cash Same Store NOI* - Prologis share	5.0% to 6.0%	5.5% to 6.5%

Other Assumptions (in millions)	Previous	Revised
Strategic capital revenue, excl promote revenue	$260 to $270	$270 to $280
Net promote income	$30 to $40	$60 to $72
Realized development gains	$300 to $400	$350 to $400

Prologis Share Capital Deployment (in millions)	Previous	Revised
Development starts	$2,000 to $2,300	$2,200 to $2,500
Building acquisitions	$300 to $500	$300 to $500
Building and land dispositions	$950 to $1,200	$1,400 to $1,700
Building contributions	$1,350 to $1,650	$1,350 to $1,650
Net Proceeds / (Uses)	($50) to $0	$250 to $350

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 first 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, April 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 5768955.

A telephonic replay will be available April 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 5768955. 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 March 31, 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 683 million square feet (63 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 March 31, 2018**	**2017**
Rental and other revenues	$ 561	$ 572
Strategic capital revenues	133	57
Total revenues	694	629
Net earnings attributable to common stockholders	366	203
Core FFO attributable to common stockholders/unitholders*	443	347
AFFO attributable to common stockholders/unitholders*	564	320
Estimated value creation from development stabilizations - Prologis share	130	89
Common stock dividends and common limited partnership unit distributions	267	243
Per common share - diluted:		
Net earnings attributable to common stockholders	$ 0.68	$0.38
Core FFO attributable to common stockholders/unitholders*	0.80	0.63
Business line reporting:		
Real estate operations*	0.64	0.57
Strategic capital*	0.16	0.06
*Core FFO attributable to common stockholders/unitholders**	*0.80*	*0.63*
Realized development gains, net of taxes	0.28	0.06
Dividends and distributions per common share/unit	0.48	0.44

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

in thousands	**March 31, 2018**	**December 31, 2017**
Assets:		
Investments in real estate properties:		
Operating properties	$ 22,421,633	$ 22,585,327
Development portfolio	1,697,487	1,593,489
Land	1,231,759	1,154,383
Other real estate investments	525,123	505,445

	25,876,002	25,838,644
Less accumulated depreciation	4,199,159	4,059,348
Net investments in real estate properties	21,676,843	21,779,296
Investments in and advances to unconsolidated entities	5,675,999	5,496,450
Assets held for sale or contribution	473,154	342,060
Notes receivable backed by real estate	-	34,260
Net investments in real estate	27,825,996	27,652,066
Cash and cash equivalents	458,099	447,046
Other assets	1,387,390	1,381,963
Total assets	**$ 29,671,485**	**$ 29,481,075**
Liabilities and Equity:		
Liabilities:		
Debt	$ 9,460,177	$ 9,412,631
Accounts payable, accrued expenses and other liabilities	1,423,188	1,362,703
Total liabilities	10,883,365	10,775,334
Equity:		
Stockholders' equity	15,680,075	15,631,158
Noncontrolling interests	2,643,034	2,660,242
Noncontrolling interests - limited partnership unitholders	465,011	414,341
Total equity	18,788,120	18,705,741
Total liabilities and equity	**$ 29,671,485**	**$ 29,481,075**

in thousands, except per share amounts	**Three Months Ended March 31,**	
	2018	**2017**
Revenues:		
Rental	$ 555,943	$ 566,933
Strategic capital	132,961	57,045
Development management and other	4,752	5,177
Total revenues	693,656	629,155
Expenses:		
Rental	142,941	152,656
Strategic capital	43,860	31,799
General and administrative	62,428	53,617
Depreciation and amortization	204,081	226,591
Other	3,239	2,606
Total expenses	456,549	467,269
Operating income	**237,107**	**161,886**
Other income (expense):		
Earnings from unconsolidated co-investment ventures, net	55,295	45,450
Earnings from other unconsolidated ventures, net	7,361	3,155
Interest expense	(47,245)	(72,912)
Gains on dispositions of development properties and land, net	157,568	29,800
Gains on dispositions of real estate, net (excluding development properties and land)	37,543	67,525
Foreign currency and derivative gains (losses) and interest and other income, net	(39,118)	(4,615)
Total other income	171,404	68,403
Earnings before income taxes	408,511	230,289
Current income tax expense	(18,616)	(7,161)
Deferred income tax benefit (expense)	2,064	(2,439)
Consolidated net earnings	391,959	220,689
Net earnings attributable to noncontrolling interests	(14,058)	(10,137)
Net earnings attributable to noncontrolling interests - limited partnership units	(10,523)	(5,623)

Net earnings attributable to controlling interests	367,378	204,929
Preferred stock dividends	(1,476)	(1,674)
Net earnings attributable to common stockholders	**$ 365,902**	**$ 203,255**
Weighted average common shares outstanding - Diluted	554,123	550,010
Net earnings per share attributable to common stockholders - Diluted	**$ 0.68**	**$ 0.38**

in thousands	**Three Months Ended March 31,**	
	2018	**2017**
Net earnings attributable to common stockholders	$ 365,902	$ 203,255
Add (deduct) NAREIT defined adjustments:		
Real estate related depreciation and amortization	195,903	219,071
Gains on dispositions of real estate, net (excluding development properties and land)	(37,543)	(67,525)
Reconciling items related to noncontrolling interests	(10,471)	(25,063)
Our share of reconciling items related to unconsolidated co-investment ventures	51,485	32,059
Our share of reconciling items related to other unconsolidated ventures	1,760	1,614
Subtotal-NAREIT defined FFO attributable to common stockholders/unitholders*	**$ 567,036**	**$ 363,411**
Add (deduct) our defined adjustments:		
Unrealized foreign currency and derivative losses (gains), net	33,964	12,203
Deferred income tax expense (benefit)	(2,064)	2,439
Current income tax expense (benefit) on dispositions related to acquired tax assets	878	(1,270)
Reconciling items related to noncontrolling interests	100	(94)
Our share of reconciling items related to unconsolidated co-investment ventures	(1,908)	1,063
FFO, as modified by Prologis, attributable to common stockholders/unitholders*	**$ 598,006**	**$ 377,752**
Adjustments to arrive at Core FFO attributable to common stockholders/unitholders*:		
Gains on dispositions of development properties and land, net	(157,568)	(29,800)
Current income tax expense (benefit) on dispositions	6,611	(1,086)
Loss on early extinguishment of debt, net	984	-
Reconciling items related to noncontrolling interests	(600)	(1,167)
Our share of reconciling items related to unconsolidated co-investment ventures	2,101	974
Our share of reconciling items related to other unconsolidated ventures	(6,414)	79
Core FFO attributable to common stockholders/unitholders*	**$ 443,120**	**$ 346,752**
Adjustments to arrive at Adjusted FFO ("AFFO")* attributable to common stockholders/unitholders		
Gains on dispositions of development properties and land, net	157,568	29,800
Current income tax expense (benefit) on dispositions	(6,611)	1,086
Straight-lined rents and amortization of lease intangibles	(15,060)	(25,497)
Property improvements	(8,998)	(7,395)
Turnover costs	(28,027)	(40,278)
Amortization of debt discount (premium), financing costs and management contracts, net	3,530	(2,065)
Stock compensation expense	19,996	18,380
Reconciling items related to noncontrolling interests	7,443	13,378
Our share of reconciling items related to unconsolidated ventures	(9,025)	(14,404)
AFFO attributable to common stockholders/unitholders*	**$ 563,936**	**$ 319,757**

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

in thousands	**Three Months Ended March 31,**	
	2018	**2017**

Net earnings attributable to common stockholders	$ 365,902	$ 203,255
Gains on dispositions of real estate, net (excluding development properties and land)	(37,543)	(67,525)
Depreciation and amortization expenses	204,081	226,591
Interest expense	47,245	72,912
Current and deferred income tax expense, net	16,552	9,600
Net earnings attributable to noncontrolling interests - limited partnership unitholders	10,523	5,623
Pro forma adjustments	(967)	10,379
Preferred stock dividends	1,476	1,674
Unrealized foreign currency and derivative losses (gains), net	33,964	12,203
Stock compensation expense	19,996	18,380
Adjusted EBITDA, consolidated*	**$ 661,229**	**$ 493,092**
Reconciling items related to noncontrolling interests	(21,792)	(34,496)
Our share of reconciling items related to unconsolidated ventures	75,382	53,070
Adjusted EBITDA attributable to common stockholders*	**$ 714,819**	**$ 511,666**

** 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 Mar. 31, 2018**	**Three Months Ended Mar. 31, 2017**
Net earnings		
Net earnings attributable to common stockholders	$ 365,902	$ 203,255
Noncontrolling interest attributable to exchangeable limited partnership units	10,693	5,967
Adjusted net earnings attributable to common stockholders - Diluted	**$ 376,595**	**$ 209,222**
Weighted average common shares outstanding - Basic	532,185	528,721
Incremental weighted average effect on exchange of limited partnership units	16,270	16,455
Incremental weighted average effect of equity awards	5,668	4,834
Weighted average common shares outstanding - Diluted	**554,123**	**550,010**
Net earnings per share - Basic	**$ 0.69**	**$ 0.38**
Net earnings per share - Diluted	**$ 0.68**	**$ 0.38**
Core FFO		
Core FFO attributable to common stockholders/unitholders	$ 443,120	$ 346,752
Noncontrolling interest attributable to exchangeable limited partnership units	370	941
Core FFO attributable to common stockholders/unitholders - Diluted	**$ 443,490**	**$ 347,693**
Weighted average common shares outstanding - Basic	532,185	528,721
Incremental weighted average effect on exchange of limited partnership units	16,270	16,455
Incremental weighted average effect of equity awards	5,668	4,834
Weighted average common shares outstanding - Diluted	**554,123**	**550,010**
Core FFO per share - Diluted	**$ 0.80**	**$ 0.63**

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; (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;

(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	$ 2.50	$ 2.60
Our share of:		
Depreciation and amortization	1.70	1.74
Net gains on real estate transactions, net of taxes	(1.31)	(1.39)
Unrealized foreign currency losses and other, net	0.06	0.06
Core FFO	$ 2.95	$ 3.01

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 March 31, 2018 as our owned and managed properties that were in the Operating Portfolio at January 1, 2017 and 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 and properties acquired or disposed of to third parties during the period. 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 non-cash 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 NOI – Net Effective and Same Store 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 Operations, to the respective amounts in our same store portfolio analysis*:*

dollars in thousands	**Three Months Ended Mar. 31,**			
	2018	**2017**	**Change**	**(%)**
Rental revenues:				
Rental revenues	$ 427,901	$ 439,884		
Rental recoveries	128,042	127,049		
Per the Consolidated Statements of Operations	555,943	566,933		
Properties not included and other adjustments (a)	(48,533)	(48,260)		
Unconsolidated co-investment ventures	567,236	508,992		
Same Store - rental revenues - net effective	**$ 1,074,646**	**$ 1,027,665**		**4.6 %**
Straight-line rent adjustments	(17,616)	(29,849)		

Fair value lease adjustments	138	(1,597)		
Same Store - rental revenues - cash	**$ 1,057,168**	**$ 996,219**	**6.1**	**%**
Rental expenses:				
Per the Consolidated Statements of Operations	$ 142,941	$ 152,656		
Properties not included and other adjustments (b)	(3,516)	(5,161)		
Unconsolidated co-investment ventures	129,905	108,685		
Same Store - rental expenses - net effective and cash	**$ 269,330**	**$ 256,180**	**5.1**	**%**
Same Store - NOI - Net Effective	**$ 805,316**	**$ 771,485**	**4.4**	**%**
Same Store - NOI - Net Effective - Prologis Share (c)	**$ 459,054**	**$ 435,973**	**5.3**	**%**
Same Store - NOI - Cash	**$ 787,838**	**$ 740,039**	**6.5**	**%**
Same Store - NOI - Cash - Prologis Share (c)	**$ 451,920**	**$ 418,968**	**7.9**	**%**

(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) 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 March 31, 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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