News Release Archive

Prologis Announces Third Quarter 2014 Earnings Results

- Core Funds From Operations Increased 18 Percent Year-over-Year -
- Rent Change on Rollovers Increased 9.7 Percent -

PR Newswire
SAN FRANCISCO

SAN FRANCISCO, Oct. 23, 2014 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in industrial real estate, today reported results for third quarter 2014. Core funds from operations (Core FFO) per fully diluted share was $0.48 for the third quarter compared with $0.41 for the same period in 2013, a year-over-year increase of 18 percent.

"I am very pleased with our quarterly performance," said Hamid R. Moghadam, chairman and CEO, Prologis. "Our results were led by operations, with global occupancy ending at 95 percent and rent change reaching the highest level in many years. We are raising the midpoint for our full-year 2014 Core FFO guidance due to our performance to date and expectations for continued growth."

OPERATING RESULTS STRENGTHEN ACROSS THE GLOBE
Prologis ended the quarter with 95.0 percent occupancy in its operating portfolio, an increase of 110 basis points over the same period in 2013 and 40 basis points over the prior quarter. The quarterly increase was driven by a 110 basis point increase in spaces under 100,000 square feet and a 90 basis point increase in the company's European portfolio.

In the third quarter, the company leased 40.8 million square feet (3.8 million square meters) in its combined operating and development portfolios. Tenant retention was 83.9 percent.

GAAP rental rates on signed leases during the quarter increased 9.7 percent from prior rents, led by the U.S. at 15.5 percent and followed by Asia at 10.2 percent and Europe at 0.2 percent.

During the third quarter, same store NOI increased 3.7 percent on a GAAP basis and 4.0 percent on an adjusted cash basis.

CAPITAL DEPLOYMENT ACTIVITY CAPTURES DEMAND FOR CLASS-A PRODUCT
New investments totaled $1.9 billion ($1.3 billion Prologis' share) in the third quarter, as the company continued to deploy capital at attractive yields.

Development Starts & Stabilizations
During the quarter, Prologis started $697.5 million ($615.6 million Prologis' share) of new developments, with an estimated weighted average yield upon stabilization of 7.1 percent and an estimated development margin of 19.1 percent.

The company stabilized $222.7 million ($219.4 million Prologis' share) in development projects, principally in the U.S. and Mexico, with an estimated development margin of 25.7 percent, generating $56.9 million (Prologis' share) of estimated value creation.

"Margins remain above average and we are poised to create value for years to come," said Mike Curless, chief investment officer, Prologis. "Our land bank is well-positioned for the next generation of development activity. Approximately 90 percent is located in major metropolitan areas, where we see accelerating demand."

At quarter end, the book value of the company's land bank totaled $1.8 billion with an estimated build-out potential of $10.8 billion.

Acquisitions
Prologis acquired $883.8 million ($367.4 million Prologis' share) of buildings, principally in Europe through its co-investment ventures. The stabilized capitalization rate on Prologis' share of building acquisitions was 6.1 percent.

The company invested $357.5 million in its North American Industrial Fund, increasing Prologis' ownership interest to 63.3 percent.

Contributions & Dispositions
Prologis completed $442.6 million ($376.2 million Prologis' share) of contributions to Nippon Prologis REIT and third-party dispositions of non-strategic assets of $398.0 million ($390.3 million Prologis' share). Prologis' share of contributions and building dispositions had a stabilized capitalization rate of 6.0 percent.

STRONG FINANCIAL POSITION
Prologis completed $478 million of capital markets activity and increased its U.S. dollar net equity exposure to 89 percent.

As previously announced and subsequent to quarter end, the company completed a €600 million bond offering at an annual coupon rate of 1.375 percent with a 2020 maturity. Prologis has limited debt maturities until 2017.

"We continue to seek opportunities to secure long-term capital at today's cost to enhance the composition of our debt portfolio and liquidity," said Tom Olinger, chief financial officer, Prologis. "We are very pleased with our progress toward significantly minimizing the impact of foreign currency movements on our earnings and net asset value."

NET EARNINGS
Net earnings per fully diluted share was $0.23 for the third quarter compared with a net loss per share of $0.02 for the same period in 2013.

GUIDANCE MIDPOINT INCREASED FOR 2014
Prologis increased the midpoint of its full-year 2014 Core FFO guidance, narrowing the range to $1.85 to $1.86 per diluted share from $1.82 to $1.86 per diluted share. The company expects to recognize net earnings, for GAAP purposes, of $0.49 to $0.50 per share.

The Core FFO and earnings guidance reflected above excludes any potential future gains (losses) recognized from real estate transactions. In reconciling from net earnings to Core FFO, Prologis makes certain adjustments, including but not limited to real estate depreciation and amortization expense, gains (losses) recognized from real estate transactions and early extinguishment of debt or redemption of preferred stock, 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 2014 predominantly relates to real estate depreciation and recognized gains or losses on real estate transactions and early extinguishment of debt.

WEBCAST & CONFERENCE CALL INFORMATION
Prologis will host a live webcast/conference call to discuss quarterly results, current market conditions and future outlook today, Oct. 23, at 12 p.m. U.S. Eastern Time. Interested parties are encouraged to access the webcast by clicking the microphone icon located near the top of the opening page of the Prologis Investor Relations website (http://ir.prologis.com). Interested parties also can participate via conference call by dialing +1 877-256-7020 (toll-free from the U.S. and Canada) or +1 973-409-9692 (from all other countries) and entering conference code 48765485.

A telephonic replay will be available Oct. 23-Nov. 23 at +1 855-859-2056 (from the U.S. and Canada) or +1 404-537-3406 (from all other countries); please use conference code 48765485. The webcast replay will be posted when available in the "Events & Presentations" section of Investor Relations on the Prologis website.

ABOUT PROLOGIS
Prologis, Inc., is the global leader in industrial real estate. As of September 30, 2014, Prologis owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects expected to total approximately 585 million square feet (54 million square meters) in 21 countries. The company leases modern distribution facilities to more than 4,700 customers, including manufacturers, retailers, transportation companies, and third-party logistics providers.

The statements in this document that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates and projections about the industry and markets in which Prologis operates, management's beliefs and assumptions made by management. Such statements involve uncertainties that could significantly impact Prologis' financial results. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to rent and occupancy growth, development activity and changes in sales or contribution volume of properties, disposition activity, general conditions in the geographic areas where we operate, our debt and financial position, our ability to form new co-investment ventures and the availability of capital in existing or new co-investment ventures — are forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained and therefore, actual outcomes and results may differ materially from what is

expressed or forecasted in such forward-looking statements. Some of the factors that may affect outcomes and results include, but are not limited to: (i) national, international, regional and local economic climates, (ii) changes in financial markets, interest rates and foreign currency exchange rates, (iii) increased or unanticipated competition for our properties, (iv) risks associated with acquisitions, dispositions and development of properties, (v) maintenance of real estate investment trust ("REIT") status and tax structuring, (vi) availability of financing and capital, the levels of debt that we maintain and our credit ratings, (vii) risks related to our investments in our co-investment ventures and funds, including our ability to establish new co-investment ventures and funds, (viii) risks of doing business internationally, including currency risks, (ix) environmental uncertainties, including risks of natural disasters, and (x) those additional factors discussed in reports filed with the Securities and Exchange Commission by Prologis under the heading "Risk Factors." Prologis undertakes no duty to update any forward-looking statements appearing in this document.

(dollars in thousands, except per share data)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Revenues	$ 415,151	$ 423,058	$ 1,309,922	$ 1,313,722
Net earnings (loss) attributable to common stockholders	136,245	(7,534)	213,626	256,365
Core FFO	244,896	206,895	706,726	598,169
Core AFFO	192,475	145,000	563,490	433,290
Adjusted EBITDA	368,011	356,072	1,096,143	1,038,398
Value creation - Prologis share	56,921	164,888	189,646	247,194
Common stock dividends paid	166,697	141,279	500,025	413,115
Per common share - diluted:				
Net earnings (loss) attributable to common stockholders	$ 0.23	$ (0.02)	$ 0.43	$ 0.53
Core FFO	0.48	0.41	1.39	1.22
Dividends per share	0.33	0.28	0.99	0.84

(in thousands)	**September 30, 2014**	**June 30, 2014**	**December 31, 2013**
Assets:			
Investments in real estate assets:			
Operating properties	$ 16,155,668	$ 16,629,000	$ 17,801,064
Development portfolio	1,316,470	1,119,075	1,021,017
Land	1,533,590	1,579,737	1,516,166
Other real estate investments	460,854	454,111	486,230
	19,466,582	19,781,923	20,824,477
Less accumulated depreciation	2,695,745	2,648,866	2,568,998
Net investments in properties	16,770,837	17,133,057	18,255,479
Investments in and advances to unconsolidated entities	5,814,056	5,575,423	4,430,239
Notes receivable backed by real estate and other assets	-	-	192,042
Net investments in real estate	22,584,893	22,708,480	22,877,760
Cash and cash equivalents	311,879	267,427	491,129
Accounts receivable	132,464	123,961	128,196
Other assets	1,042,867	1,031,694	1,075,222
Total assets	**$ 24,072,103**	**$ 24,131,562**	**$ 24,572,307**
Liabilities and Equity:			
Liabilities:			
Debt	$ 8,822,952	$ 8,529,453	$ 9,011,216
Accounts payable, accrued expenses, and other liabilities	1,112,402	1,325,259	1,384,638

Total liabilities	9,935,354	9,854,712	10,395,854
Equity:			
Stockholders' equity:			
Preferred stock	78,235	78,235	100,000
Common stock	4,999	4,998	4,988
Additional paid-in capital	18,081,752	18,062,370	17,974,509
Accumulated other comprehensive loss	(510,661)	(385,248)	(435,675)
Distributions in excess of net earnings	(4,214,224)	(4,188,611)	(3,932,664)
Total stockholders' equity	13,440,101	13,571,744	13,711,158
Noncontrolling interests	646,404	657,411	417,086
Noncontrolling interests - limited partnership unitholders	50,244	47,695	48,209
Total equity	14,136,749	14,276,850	14,176,453
Total liabilities and equity	**$ 24,072,103**	**$ 24,131,562**	**$ 24,572,307**

(in thousands, except per share amounts)	**Three Months Ended September 30, 2014**	**2013**	**Nine Months Ended September 30, 2014**	**2013**
Revenues:				
Rental income	$ 355,822	$ 372,185	$ 1,125,335	$ 1,180,285
Strategic capital income	54,070	48,322	175,714	125,565
Development management and other income	5,259	2,551	8,873	7,872
Total revenues	415,151	423,058	1,309,922	1,313,722
Expenses:				
Rental expenses	102,324	106,811	322,417	347,002
Strategic capital expenses	22,442	22,023	74,442	66,938
General and administrative expenses	58,203	55,034	181,781	166,140
Depreciation and amortization	149,202	155,439	471,059	483,215
Other expenses	4,868	6,370	15,371	17,494
Total expenses	337,039	345,677	1,065,070	1,080,789
Operating income	78,112	77,381	244,852	232,933
Other income (expense):				
Earnings from unconsolidated entities, net	28,514	26,365	79,411	59,554
Interest expense	(69,086)	(84,642)	(234,793)	(291,496)
Gains on acquisitions and dispositions of investments in real estate, net	151,057	46,074	337,695	445,954
Foreign currency and derivative gains (losses), related amortization and interest and other	21,342	12,528	22,454	21,787

income (expense), net				
Losses on early extinguishment of debt, net	(86,076)	(114,196)	(163,361)	(164,155)
Total other income (expense)	45,751	(113,871)	41,406	71,644
Earnings (loss) before income taxes	123,863	(36,490)	286,258	304,577
Income tax expense (benefit) - current and deferred	(23,264)	12,180	(25,302)	84,534
Earnings (loss) from continuing operations	147,127	(48,670)	311,560	220,043
Discontinued operations:				
Income attributable to disposed properties and assets held for sale	-	1,206	-	5,139
Net gains on dispositions, including taxes	-	40,297	-	59,598
Total discontinued operations	-	41,503	-	64,737
Consolidated net earnings (loss)	147,127	(7,167)	311,560	284,780
Net loss (earnings) attributable to noncontrolling interests	(9,212)	1,768	(85,664)	(3,051)
Net earnings (loss) attributable to controlling interests	137,915	(5,399)	225,896	281,729
Preferred stock dividends	(1,670)	(2,135)	(5,753)	(16,256)
Loss on preferred stock redemption	-	-	(6,517)	(9,108)
Net earnings (loss) attributable to common stockholders	**$ 136,245**	**$ (7,534)**	**$ 213,626**	**$ 256,365**
Weighted average common shares outstanding - Diluted	516,088	499,848	504,211	488,409
Net earnings (loss) per share attributable to common stockholders - Diluted	**$ 0.23**	**$ (0.02)**	**$ 0.43**	**$ 0.53**

(in thousands)	**Three Months Ended September 30, 2014**	**2013**	**Nine Months Ended September 30, 2014**	**2013**
Reconciliation of net earnings (loss) to FFO				
Net earnings (loss)				

attributable to common stockholders	$ 136,245	$ (7,534)	$ 213,626	$ 256,365
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	143,370	149,293	453,707	465,084
Net gains on non-FFO acquisitions and dispositions	(61,787)	(92,552)	(211,374)	(194,564)
Reconciling items related to noncontrolling interests	(4,821)	(4,023)	48,923	(7,683)
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	57,130	51,155	148,583	111,603
Our share of reconciling items included in earnings from other unconsolidated ventures	1,452	1,378	4,536	4,344
Subtotal-NAREIT defined FFO	271,589	97,717	658,001	635,149
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains) and related amortization, net	(18,978)	(8,082)	(903)	(587)
Deferred income tax expense (benefit)	(33,658)	1,168	(54,073)	(1,048)
Our share of reconciling items included in earnings from unconsolidated co-investment ventures	4,147	(8,267)	287	9,060
FFO, as defined by Prologis	**223,100**	**82,536**	**603,312**	**642,574**
Adjustments to arrive at Core FFO:				
Net losses (gains) on acquisitions and dispositions of investments in real estate, net of expenses	(79,989)	7,294	(108,892)	(218,928)
Losses on early extinguishment of debt and redemption of preferred stock, net	86,076	114,196	169,878	173,263
Our share of reconciling items from unconsolidated entities less third party share of consolidated entities	15,709	2,869	42,428	1,260
Core FFO	**$ 244,896**	**$ 206,895**	**$ 706,726**	**$ 598,169**
Adjustments to arrive at Core Adjusted FFO ("Core AFFO"), including our share of unconsolidated entities less third party				

share of consolidated entities:				
Straight-lined rents and amortization of lease intangibles	(5,538)	(5,167)	(20,597)	(17,957)
Property improvements	(34,131)	(28,790)	(61,172)	(62,396)
Tenant improvements	(22,750)	(26,321)	(63,529)	(74,062)
Leasing commissions	(15,584)	(12,838)	(43,520)	(45,462)
Amortization of management contracts	1,445	1,386	3,842	4,394
Amortization of debt discounts (premiums) and financing costs	2,359	(4,018)	(1,169)	(14,859)
Cash received (paid) on net investment hedges	7,722	1,733	(133)	6,044
Stock compensation expense	14,056	12,120	43,042	39,419
Core AFFO	**$ 192,475**	**$ 145,000**	**$ 563,490**	**$ 433,290**
Common stock dividends	$ 166,697	$ 141,279	$ 500,025	$ 413,115

Calculation of Per Share Amounts is as follows *(in thousands, except per share amounts)*:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014	**2013**	**2014**	**2013**
Net earnings (loss)				
Net earnings (loss)	$ 136,245	$ (7,534)	$ 213,626	$ 256,365
Noncontrolling interest attributable to exchangeable partnership units	493	(47)	767	1,446
Gains, net of expenses, associated with exchangeable debt assumed exchanged	(18,658)	-	-	-
Adjusted net earnings (loss) - Diluted	**$ 118,080**	**$ (7,581)**	**$ 214,393**	**$ 257,811**
Weighted average common shares outstanding - Basic	499,292	497,989	499,045	482,007
Incremental weighted average effect on exchange of limited partnership units	1,843	1,859	1,792	3,099
Incremental weighted average effect of stock awards	3,074	-	3,374	3,303
Incremental weighted average effect on exchangeable debt assumed exchanged	11,879	-	-	-
Weighted average common shares outstanding - Diluted	**516,088**	**499,848**	**504,211**	**488,409**
Net earnings (loss) per share - Basic	**$ 0.27**	**($0.02)**	**$ 0.43**	**$ 0.53**
Net earnings (loss) per share - Diluted	**$ 0.23**	**($0.02)**	**$ 0.43**	**$ 0.53**
Core FFO				
Core FFO	$ 244,896	$ 206,895	$ 706,726	$ 598,169
Noncontrolling interest attributable to exchangeable limited partnership units	92	-	149	1,598
Interest expense on exchangeable debt assumed exchanged	4,246	4,235	12,738	12,705
Core FFO - Diluted	**$ 249,234**	**$ 211,130**	**$ 719,613**	**$ 612,472**
Weighted average common shares outstanding - Basic	499,292	497,989	499,045	482,007
Incremental weighted average effect on exchange of limited partnership units	2,040	3,809	1,990	3,299
Incremental weighted average effect of stock awards	3,074	3,285	3,374	3,303
Incremental weighted average effect on exchangeable debt assumed exchanged	11,879	11,879	11,879	11,879
Weighted average common shares outstanding - Diluted	**516,285**	**516,962**	**516,288**	**500,488**
Core FFO per share - Diluted	**$ 0.48**	**$ 0.41**	**$ 1.39**	**$ 1.22**

FFO, as defined by Prologis; Core FFO; Core AFFO (collectively referred to as "FFO"). FFO is a non-GAAP measure that is commonly used in the real estate industry. The most directly comparable GAAP measure to FFO is net earnings. Although the National Association of Real Estate Investment Trusts ("NAREIT") has published a definition of FFO, modifications to the NAREIT calculation of FFO are common among REITs, as companies seek to provide financial measures that meaningfully reflect their business.

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor do we intend it to present, a complete picture of our financial condition and operating performance. We believe net earnings computed under GAAP remains the primary measure of performance and that FFO is only meaningful when it is used in conjunction with net earnings computed under GAAP. Further, we believe our consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of our financial condition and our operating performance.

NAREIT's FFO measure adjusts net earnings computed under GAAP to exclude historical cost depreciation and gains and losses from the sales, along with impairment charges, of previously depreciated properties. We agree that these NAREIT adjustments are useful to investors for the following reasons:

(i)	historical cost accounting for real estate assets in accordance with GAAP assumes, through depreciation charges, that the value of real estate assets diminishes predictably over time. NAREIT stated in its White Paper on FFO "since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves." Consequently, NAREIT's definition of FFO reflects the fact that real estate, as an asset class, generally appreciates over time and depreciation charges required by GAAP do not reflect the underlying economic realities.
(ii)	REITs were created as a legal form of organization in order to encourage public ownership of real estate as an asset class through investment in firms that were in the business of long-term ownership and management of real estate. The exclusion, in NAREIT's definition of FFO, of gains and losses from the sales, along with impairment charges, of previously depreciated operating real estate assets allows investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assists in comparing those operating results between periods. We include the gains and losses (including impairment charges) from dispositions of land and development properties, as well as our proportionate share of the gains and losses (including impairment charges) from dispositions of development properties recognized by our unconsolidated entities, in our definition of FFO.

Our FFO Measures

At the same time that NAREIT created and defined its FFO measure for the REIT industry, it also recognized that "management of each of its member companies has the responsibility and authority to publish financial information that it regards as useful to the financial community." We believe stockholders, potential investors and financial analysts who review our operating results are best served by a defined FFO measure that includes other adjustments to net earnings computed under GAAP in addition to those included in the NAREIT defined measure of FFO. Our FFO measures are used by management in analyzing our business and the performance of our properties and we believe that it is important that stockholders, potential investors and financial analysts understand the measures management uses.

We use these FFO measures, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison to expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources; (iv) assess our performance as compared to similar real estate companies and the industry in general; and (v) evaluate how a specific potential investment will impact our future results. Because we make decisions with regard to our performance with a long-term outlook, we believe it is appropriate to remove the effects of short-term items that we do not expect to affect the underlying long-term performance of the properties. The long-term performance of our properties is principally driven by rental income. While not infrequent or unusual, these additional items we exclude in calculating *FFO, as defined by Prologis*, are subject to significant fluctuations from period to period that cause both positive and negative short-term effects on our results of operations in inconsistent and unpredictable directions that are not relevant to our long-term outlook.

We use our FFO measures as supplemental financial measures of operating performance. We do not use our FFO measures as, nor should they be considered to be, alternatives to net earnings computed under GAAP, as indicators of our operating performance, as alternatives to cash from operating activities computed under GAAP or as indicators of our ability to fund our cash needs.

FFO, as defined by Prologis

To arrive at *FFO, as defined by Prologis*, we adjust the NAREIT defined FFO measure to exclude:

(i)	deferred income tax benefits and deferred income tax expenses recognized by our subsidiaries;
(ii)	current income tax expense related to acquired tax liabilities that were recorded as deferred tax liabilities in an acquisition, to the extent the expense is offset with a deferred income tax benefit in GAAP earnings that is excluded from our defined FFO measure;
(iii)	foreign currency exchange gains and losses resulting from debt transactions between us and our foreign consolidated subsidiaries and our foreign unconsolidated entities;
(iv)	foreign currency exchange gains and losses from the remeasurement (based on current foreign currency exchange rates) of certain third party debt of our foreign consolidated subsidiaries and our foreign unconsolidated entities; and
(v)	mark-to-market adjustments and related amortization of debt discounts associated with derivative financial instruments.

We calculate *FFO, as defined by Prologis* for our unconsolidated entities on the same basis as we calculate our *FFO, as defined by Prologis*.

We believe investors are best served if the information that is made available to them allows them to align their analysis and evaluation of our operating results along the same lines that our management uses in planning and executing our business strategy.

Core FFO

In addition to *FFO, as defined by Prologis,* we also use Core FFO. To arrive at *Core FFO,* we adjust *FFO, as defined by Prologis*, to exclude the following recurring and non-recurring items that we recognized directly or our share of these items recognized by our unconsolidated entities to the extent they are included in *FFO, as defined by Prologis*:

(i)	gains or losses from acquisition, contribution or sale of land or development properties;
(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;
(v)	merger, acquisition and other integration expenses; and
(vi)	expenses related to natural disasters.

We believe it is appropriate to further adjust our *FFO, as defined by Prologis* for certain recurring items as they were driven by transactional activity and factors relating to the financial and real estate markets, rather than factors specific to the on-going operating performance of our properties or investments. The impairment charges we have recognized were primarily based on valuations of real estate, which had declined due to market conditions, that we no longer expected to hold for long-term investment. Over the last few years, we made it a priority to strengthen our financial position by reducing our debt, our investment in certain low yielding assets and our exposure to foreign currency exchange fluctuations. As a result, we changed our intent to sell or contribute certain of our real estate properties and recorded impairment charges when we did not expect to recover the costs of our investment. Also, we have purchased portions of our debt securities when we believed it was advantageous to do so, which was based on market conditions, and in an effort to lower our borrowing costs and extend our debt maturities. As a result, we have recognized net gains or losses on the early extinguishment of certain debt due to the financial market conditions at that time. In addition, we and our co-investment ventures make acquisitions of real estate and we believe the costs associated with these transactions are transaction based and not part of our core operations.

We analyze our operating performance primarily by the rental income of our real estate and the revenue driven by our strategic capital business, net of operating, administrative and financing expenses. This income stream is not directly impacted by fluctuations in the market value of our investments in real estate or debt securities. As a result, although these items have had a material impact on our operations and are reflected in our financial statements, the removal of the effects of these items allows us to better understand the core operating performance of our properties over the long-term.

We use *Core FFO*, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison to expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources; (iv) provide guidance to the financial markets to understand our expected operating performance; (v) assess our operating performance as compared to similar real estate companies and the

industry in general; and (vi) evaluate how a specific potential investment will impact our future results. Because we make decisions with regard to our performance with a long-term outlook, we believe it is appropriate to remove the effects of items that we do not expect to affect the underlying long-term performance of the properties we own. As noted above, we believe the long-term performance of our properties is principally driven by rental income. We believe investors are best served if the information that is made available to them allows them to align their analysis and evaluation of our operating results along the same lines that our management uses in planning and executing our business strategy.

Core AFFO

To arrive at Core AFFO, we adjust Core FFO to further exclude our share of; (i) straight-line rents; (ii) amortization of above- and below-market lease intangibles; (iii) recurring capital expenditures; (iv) amortization of management contracts; (v) amortization of debt premiums and discounts, net of amounts capitalized, and; (vi) stock compensation expense.

We believe Core AFFO provides a meaningful indicator of our ability to fund cash needs, including cash distributions to our stockholders.

Limitations on Use of our FFO Measures

While we believe our defined FFO measures are important supplemental measures, neither NAREIT's nor our measures of FFO should be used alone because they exclude significant economic components of net earnings computed under GAAP and are, therefore, limited as an analytical tool. Accordingly, these are only a few of the many measures we use when analyzing our business. Some of these limitations are:

- The current income tax expenses and acquisition costs that are excluded from our defined FFO measures represent the taxes and transaction costs that are payable.
- Depreciation and amortization of real estate assets are economic costs that are excluded from FFO. FFO is limited, as it does not reflect the cash requirements that may be necessary for future replacements of the real estate assets. Further, the amortization of capital expenditures and leasing costs necessary to maintain the operating performance of industrial properties are not reflected in FFO.
- Gains or losses from property acquisitions and dispositions or impairment charges related to expected dispositions represent changes in value of the properties. By excluding these gains and losses, FFO does not capture realized changes in the value of acquired or disposed properties arising from changes in market conditions.
- The deferred income tax benefits and expenses that are excluded from our defined FFO measures result from the creation of a deferred income tax asset or liability that may have to be settled at some future point. Our defined FFO measures do not currently reflect any income or expense that may result from such settlement.
- The foreign currency exchange gains and losses that are excluded from our defined FFO measures are generally recognized based on movements in foreign currency exchange rates through a specific point in time. The ultimate settlement of our foreign currency-denominated net assets is indefinite as to timing and amount. Our FFO measures are limited in that they do not reflect the current period changes in these net assets that result from periodic foreign currency exchange rate movements.
- The gains and losses on extinguishment of debt that we exclude from our Core FFO, may provide a benefit or cost to us as we may be settling our debt at less or more than our future obligation.
- The merger, acquisition and other integration expenses and the natural disaster expenses that we exclude from Core FFO are costs that we have incurred.

We compensate for these limitations by using our FFO measures only in conjunction with net earnings computed under GAAP when making our decisions. This information should be read with our complete consolidated financial statements prepared under GAAP. To assist investors in compensating for these limitations, we reconcile our defined FFO measures to our net earnings computed under GAAP.

Same Store. We evaluate the operating performance of the operating properties we own and manage using a "Same Store" analysis because the population of properties in this analysis is consistent from period to period, thereby eliminating the effects of changes in the composition of the portfolio on performance measures. We include the properties included in our owned and managed portfolio that were in operation at January 1, 2013 and throughout the full periods in both 2013 and 2014. We have removed all properties that were disposed of to a third party from the population for both periods. We believe the factors that impact rental income, rental expenses and NOI in the Same Store portfolio are generally the same as for the total operating portfolio. In order to derive an appropriate measure of period-to-period operating performance, we remove the effects of foreign currency exchange rate movements by using the current exchange rate to translate from local currency into U.S. dollars, for both periods.

Our same store measures are non-GAAP measures that are commonly used in the real estate industry and are calculated beginning with rental income and rental expenses from the financial statements prepared in accordance with GAAP. It is also common in the real estate industry and expected from the analyst and investor community that these numbers be further adjusted to remove certain non-cash items included in the financial statements prepared in accordance with GAAP to reflect a cash same store number. In order to clearly label these metrics, we call one Same Store NOI- GAAP and one Same Store NOI-Adjusted Cash. As these are non-GAAP measures they have certain limitations as an analytical tool and may vary among real estate companies. As a result, we provide a reconciliation from our financial statements prepared in accordance with GAAP to Same Store NOI-GAAP and then to Same Store NOI-Adjusted Cash with explanations of how these metrics are calculated and adjusted.

The following is a reconciliation of our consolidated rental income, rental expenses and NOI, as included in the Consolidated Statements of Operations, to the respective amounts in our Same Store portfolio analysis *(dollars in thousands):*

	Three Months Ended September 30,		
	2014	**2013**	**Change (%)**
Rental Income:			
Per the Consolidated Statements of Operations	$ 355,822	$ 372,185	
Properties not included and other adjustments (a)	(42,485)	(34,474)	
Unconsolidated Co-Investment Ventures	471,618	424,793	
Same Store - Rental Income	**$ 784,955**	**$ 762,504**	**2.9%**
Rental Expense:			
Per the Consolidated Statements of Operations	$ 102,324	$ 106,811	
Properties not included and other adjustments (b)	(7,865)	(5,534)	
Unconsolidated Co-Investment Ventures	108,584	99,957	
Same Store - Rental Expense	**$ 203,043**	**$ 201,234**	**0.9%**
NOI-GAAP:			
Per the Consolidated Statements of Operations	$ 253,498	$ 265,374	
Properties not included and other adjustments	(34,620)	(28,940)	
Unconsolidated Co-Investment Ventures	363,034	324,836	
Same Store - NOI - GAAP	**$ 581,912**	**$ 561,270**	**3.7%**
NOI-Adjusted Cash:			
Same store- NOI - GAAP	$ 581,912	$ 561,270	
Adjustments (c)	(3,799)	(5,543)	
Same Store - NOI- Adjusted Cash	**$ 578,113**	**$ 555,727**	**4.0%**

(a)	*To calculate Same Store rental income, we exclude the net termination and renegotiation fees to allow us to evaluate the growth or decline in each property's rental income without regard to items that are not indicative of the property's recurring operating performance.*
(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)	*In order to derive Same Store- NOI - Adjusted Cash, we adjust Same Store- NOI- GAAP to exclude non-cash items included in our rental income in our GAAP financial statements, including straight line rent adjustments and adjustments related to purchase accounts to reflect leases at fair value at the time of acquisition.*

http://prologis.mediaroom.com/2014-10-23-Prologis-Announces-Third-Quarter-2014-Earnings-Results