REDEVELOPMENT OPPORTUNITY

Solicitation RFP-4585-18-PB

Prologis
450 E. Las Olas Blvd
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Contact – Denver Glazier (dglazier@prologis.com)

PROLOGIS®

May 14, 2018

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Paul Bassar
City of Hollywood
2600 Hollywood Blvd.
Room 221
Hollywood, FL 33022

Re: Solicitation RFP-4585-18-PB – Redevelopment Opportunity

Dear Mr. Bassar,

Prologis appreciates the opportunity to present this response to the above referenced solicitation. As the largest owner, operator and developer of industrial facilities in the world, Prologis has an experienced development team with a strong local presence and a global development platform. Our goal is to work closely with the City of Hollywood ("City"), where Prologis already owns over 1 million square feet of logistics assets (Port 95), to develop the approximate 30.58-acre subject property into a distribution and logistics complex enhancing the significant investments currently underway with the City.

Ability

Prologis is focused on global and regional markets across the Americas, Europe and Asia. With current market capitalization of over $34 billion, the company's portfolio is comprised of approximately 684 million square feet across 19 countries. Prologis leases its modern distribution facilities to more than 5,000 customers, including retailers, transportation companies, third-party logistics providers and other enterprises. By developing and managing high-quality logistics and distribution facilities, Prologis serves its customers and investors as an integral part of the global supply chain.

Prologis's local development team has a proven track record in executing and delivering logistics related and complex development projects in South Florida. Prologis's South Florida presence consists of thirty (30) personnel based in Ft. Lauderdale and Doral offices. Prologis combines the reach, relationships and extensive expertise of a global firm, with proven on the ground development execution capabilities and local knowledge.

Furthermore, Prologis has an experienced team of senior executives in our Global Customer Solutions group dedicated to marketing our properties to logistic customers. The majority of these executives were handpicked from major shipping and logistics organizations where they held key executive positions to form an unparalleled logistics marketing team in the real estate industry. With our global marketing platform and our local presence of over fifteen (15) million square feet in the South Florida, we are uniquely positioned to market this development opportunity to our customers locally and around the globe. We have a long track record as a trusted partner with our global customers to deliver best in class facilities, efficient and standardized transaction practices, and synergies unique to linking multiple facilities across the global supply chain.

Capital for this transaction is immediately available from our corporate balance sheet and will be funded on an all-cash basis. No outside fund raising or financing is needed in order to fully fund the proposed project.

Experience

Prologis is a global leader in sustainable property development, with more than 112 million square feet of certified sustainable industrial space developed globally since 2006. We use our global best practice standards to ensure that all projects incorporate sustainable design and construction techniques, while promoting human and environmental health to deliver measurable benefits to our shareholders, our customers, and the communities in which we work. Our proposal capitalizes on our global experience and our local green development expertise to bring modern and sustainable buildings to market.

As mentioned previously, Prologis owns over 1 million square feet of logistics assets in Hollywood. Additionally, Prologis owns approximately 1 million square feet immediately south of the subject property in Pembroke Park further exemplifying the investment interest in the area.

Complimentary Development

Prologis is committed to delivering a complimentary development not only enhancing the area but creating both near term and long-term employment opportunities while significantly boosting capital investment and tax revenue within the City. Through the world-class knowledge and expertise of our team and customer base, Prologis will implement a development program with long term ownership and logistics success in mind. We intend to leverage our global team and customer base to both attract new customers to the City as well as help existing users take advantage of the growth opportunities our property will provide.

Our team is excited about the opportunity to be part of enhancing the site and City. We look forward to bearing the full depth and breadth of resources to deliver a long term successful development.

If you should have any questions regarding information contained herein please don't hesitate to contact me directly.

Prologis, L.P.

Denver L. Glazier II
Vice President, Investment Officer
Date: 05/14/2018

May 14, 2018

Paul Bassar
City of Hollywood
2600 Hollywood Blvd.
Room 221
Hollywood, FL 33022

Re: Solicitation RFP-4585-18-PB – Redevelopment Opportunity

Dear Mr. Bassar:

This summary outlines the basic terms and conditions upon which a wholly owned designated affiliate of Prologis, L.P. ("Purchaser") would be willing to enter into a purchase agreement with the City to purchase approximately 30.58 acres referenced in Exhibit A ("Property").

Entity Description: Prologis, L.P., (NYSE: PLD).

Source of Capital: Prologis, L.P. corporate balance sheet, all capital is discretionary (please see financials in Section VIII – Exhibits of this response).

Property: The Property consists of approximately 30.58 developable acres.

Development Concept: Purchaser plans to develop a flexible program built to serve multiple users in two state-of-the-art facilities totaling +/-335,000 square feet.

Purchase Price: $4,500,000 dollars

Public Works Scope: Prologis has identified approximately 4.6 acres within the site whereby Prologis will develop a new build to suite Public Works facility. The development program, site plan, and conceptual design shall be completed during the Inspection Period stated below.

Public Works Scope Funding And Leaseback Economics: Prologis will fund up to $6,000,000 toward the Public Works facility development. The City and Prologis will enter into an absolute net lease agreement whereby the City, upon taking occupancy, will lease the Public Works facility for 20 years ("Lease Term") from Prologis per the following economics:

Year 1 – 7.75% of the funded amount, fully amortized over the Lease Term.
Year 2 through 20 – rent shall escalate 3% annually following Year 1.

Furthermore, the City shall be responsible to maintain, repair, operate, and pay any applicable taxes associated with the Public Works facility (absolute net lease).

Example – City decides to utilize the entire $6,000,000 then the annual rent (payable monthly) shall be:

Year 1 - $591,083
Year 2 – $608,815
Year 3 - $627,080
Year 4 through 20 – continuing 3% annual rent bumps.

Plus any insurance, tax, maintenance, repair, and management expenses the City incurs as part of occupancy within the facility (absolute net lease).

Inspection Period: Purchaser shall have a period of ninety (90) days ("Inspection Period") after execution of a contract to purchase with the City to determine if the Property is suitable for Purchaser's proposed use. If, in Purchaser's sole discretion, Purchaser is not satisfied with the condition of the Property for the use proposed by Purchaser for the Property, or with the results of Purchaser's research and inspections concerning the Property and its proposed use, then Purchaser shall have the right to terminate the contract. Upon any termination of the contract by Purchaser pursuant to this paragraph, the Deposit stated above shall be returned to Purchaser within five (5) calendar days.

Purchaser and its agents and representatives may, during the Inspection Period, make soil environmental and engineering tests, inspect and audit the Property and all of Seller's records with respect thereto for such purposes as Purchaser may require. At Purchaser's request, Seller shall furnish Purchaser or make available for Purchaser's review and copying Seller's records, documents and instruments with respect to the Property, and provide Purchaser and its representative's full and complete access to the Property. Purchaser hereby agrees to indemnify, defend and hold Seller harmless from and against all liability and cost for damage or injury proximately caused by Purchaser and its agents and representatives in performing said inspection; provided that Purchaser will not indemnify Seller for the mere discovery of a pre-existing condition.

Deposit: A $25,000 fully refundable deposit is included with this proposal. If Purchaser is not selected the deposit shall be returned immediately. If Purchaser is selected, then the deposit shall be considered a refundable deposit through expiration of the Inspection Period.

The Deposit shall be fully refundable in the event Purchaser (at its option) terminates pursuit on or before expiration of the Inspection Period or as otherwise expressly provided in the Agreement.

This letter is intended to convey summary terms in which Purchaser is willing to enter into negotiations for purchase of the Property. Only a Purchase and Sale Agreement executed by both Purchaser and Seller will bind the parties as to any matter that is the subject of this letter.

Thank you again for including us in this process. The terms of this letter of intent shall be valid until **July 14, 2018**.

Best Regards,

Prologis, L.P.

Denver L. Glazier II
Vice President, Investment Officer
Date: May 14, 2018

Prologis, a global owner/developer, is the leading global provider of logistics real estate, offering customers approximately 684 million square feet of distribution space (64 million square meters) in markets across the Americas, Europe and Asia. The company leases approximately 3,000 industrial facilities in 19 countries to more than 5,000 customers, including third-party logistics providers, transportation companies, and retailers. As a long-term owner, Prologis is focused on enhancing the customer (tenant) experience ultimately leading to multiple interactions across the global platform.

Prologis owns and operates 15 million square feet within the South Florida market including approximately one million square feet in Hollywood and an additional one million square feet just south of the subject property in Pembroke Park. This commitment, which will be expanded by acquisition and development of the subject property, signifies our belief in both the City of Hollywood as well as the local area.

Prologis has developed, within the East Region alone (Toronto to Miami), an average of $300 million annually over the last five years for a total of $1.5 billion. Of this, the team listed herein has directly developed over $450 million consisting of 20 buildings and infrastructure for customers such as; Siemens, Home Depot, Amazon, Bollore, NBCU, Geodis, and BMW in that time. These development projects were funded by Prologis and managed from concept to occupancy (through the entitlement, zoning, design, construction, lease up, and asset/property management) by Prologis personnel.

Most notably, the local team of architects, engineers, and consultants (further detailed in Section II herein) has been actively developing Prologis Beacon Lakes in Miami, FL ("Beacon Lakes"). Beacon Lakes is a 500-acre master planned park with three million square feet of logistics facilities and an additional one million square feet of logistics facilities to be developed (see site plan below).

Beacon Lakes – Master Plan

Beacon Lakes – Building 26

Beacon Lakes – Building 27

Furthermore, Prologis has incorporated the following non-owned uses into Beacon Lakes:

1. NBCUniversal/Telemundo global headquarters – located on 22 acres, Prologis utilized its creative planning and origination to secure this opportunity enhancing the park's capabilities, exposure within the community, and attractiveness to amenities. This facility will be Telemundo's global headquarters and studio whereby +/-1,500 employees will reside upon full occupancy.

2. UPS South Florida Logistics Facility – located on 31 acres, Prologis utilized its strong global relationship with UPS to secure this opportunity effectively incorporating a cutting-edge logistics facility into the park.

3. TopGolf Doral – located on 12.5 acres (entertainment use) Prologis utilized its master planning and entitlement capabilities to secure TopGolf's second South Florida establishment.

4. Retail Power Center – located on 36 acres, Prologis utilized its financial, development, and entitlement capabilities to transform this area (significant portion was a construction debris land fill similar to the subject property) into what will be a vibrant amenity base for the park measuring +/-430,000 square feet.

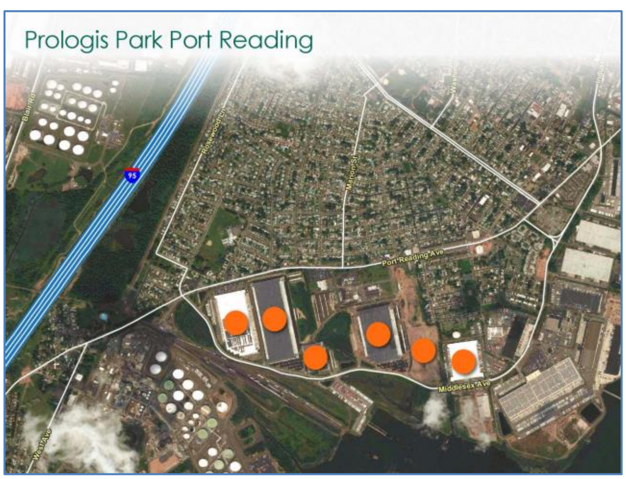
To expand, the retail power center is located on 27 acres that was formerly a construction debris land fill. Prologis purchased the property with the construction debris in-place and subsequently transformed the property into an active development via working closely with the various authorities having jurisdiction. This transformation will bring millions of dollars in both capital investment and tax revenue to the area.

Beacon Lakes Retail – Before

Beacon Lakes Retail – After

The full breadth and depth of this team's experience at Beacon Lakes and within South Florida will be applied to the development of the subject property.

A second noteworthy development exemplifies Prologis's ability to develop environmentally challenged sites is our Port Reading Development in New Jersey (adjacent to Port of New Jersey). Port Reading is a +/-2.3 million square foot development occurring on an environmentally sensitive +/-290 acres which Prologis acquired as a federally identified brownfield site in 2005. This is the perfect example of an extremely complicated project (unsuitable soils, environmental issues, extreme scale, etc.) whereby Prologis brought resources and patience to bear creating a development that truly impacted the local township, port, and community. The park contains six (6) buildings and is home to customers such as NFI (www.nfiindustries.com), Bed Bath & Beyond (www.bedbathandbeyond.com), and Cal Cartage (www.calcartage.com). This project has been an extreme success for the Township of Woodbridge, Prologis, and its customers. An aerial and park photo are below.



Lastly, in addition to the development capabilities stated herein Prologis's marketing capabilities are a key differentiator. In addition to utilizing local and national brokerage companies, Prologis will utilize its global platform of customers (tenants) and its integrated Global Customer Group to internally market to the population of 3PL, freight forwarders, and international carriers currently occupying space within Prologis's global portfolio. The Global Customer Group is solely focused on Prologis's key customers who lease space in several markets and geographies. These repeat global customers occupy 35% of Prologis's global platform and choose to renew their leases more than 85% of the time. This exemplifies the quality real estate owned, personnel employed, and systems/processes utilized to be the leading industrial owner/operator/developer globally. A short list of the global repeat customers is;

Amazon, Expeditors, Panalpina, FedEx, DHL, CEVA, Nippon Express, Kuehne+Nagel, Kraft Foods, UPS, Caterpillar, Anixter, Hitachi Transport, NYK Line, and DB Schenker.

These two projects highlight Prologis's diverse capabilities and commitment to excellence on large scale complicated development projects.

Development Team will consist of the following:

- Prologis – Owner/Developer (www.prologis.com)
- Architect – RLC Architects (www.rlcarchitects.com)
- Structural Engineer – DDA Engineers (www.ddaeng.com)
- MEP Engineer – Puga and Associates (www.puga.com)
- Environmental Engineer – SCS Engineers (www.scsengineers.com)
- Civil Engineer – Langan (www.langan.com)
- Landscape Designer – Witkin Hults Design Group (www.witkindesign.com)

Prologis will have full financial responsibility for the project and the wholly owned entity (to be created) will be the only entity with ownership in the project.

The contracting entity will be a limited liability company formed in the State of Florida specifically for this development. This entity will be wholly owned by Prologis.

Bios for key personnel are listed below:

PROLOGIS

Denver L. Glazier II – Vice President, Investment Officer

Denver Glazier is responsible for acquisitions, development, and strategy for the Florida markets. As investment officer, Mr. Glazier has executed over $350 million of direct investment creating approximately 2.25 million square feet of development. Prior to his role as Investment Officer, Mr. Glazier held roles as development manager for Panattoni Development Company throughout Florida, responsible for execution of acquisitions and development, and operations manager for the Prologis North and South Carolina portfolio.

Denver holds a Bachelors of Science in Mechanical Engineering from the University of Mississippi and a Masters in Business Administration from the Owen Graduate School of Management at Vanderbilt University. He is an active member of National Association of Industrial and Office Properties (NAIOP).

Greg E. Bradley, LEED A.P. – Vice President and Regional Development Manager

Greg has regional responsibility from Toronto to Miami and direct development responsibilities for the Baltimore, DC, Orlando, and Miami markets. In this capacity, Mr. Bradley has developed projects for Amazon.com, FedEx, Home Depot, Williams-Sonoma and M&M Mars among numerous other companies. He has managed over 12 million square feet of new development since joining Prologis in October 2000. Prior to joining Prologis, Mr. Bradley was a Project Manager with Greenfield Builders for five years with overall construction responsibilities for major projects throughout the Midwest and central New Jersey area. Mr. Bradley received his B.S. degree in Business Administration from the University of Evansville.

Travis T. Harvey, P.E. – Vice President and Development Manager

Travis has overall management responsibilities for property development throughout South Florida. Travis has more than 15 years of experience in the management of mixed-use, retail and industrial developments during which time he managed projects ranging from $10 million to $250 million in value.

Prior to joining Prologis, Travis was Vice President, Land Development with Flagler Global Logistics in the South Florida Region, where he was responsible for the development and monetization of strategic land assets by coupling his extensive construction management and real estate development experience. Previous to Flagler, he led the Construction Material Testing/ Inspection Division for ATC Associates. Prior to this, he was a Threshold Inspector with DeSimone Consulting Engineers, overseeing landmark construction projects in South Florida, which included the Four Season Millennium (tallest building in Miami at 74-story), the Westin Diplomat Hotel and the Continuum on South Beach (a 42-story condominium). Travis' passion for building monumental projects grew from his time as a Rigging Technician with Universal Builders Supply in Washington D.C. with exposure to historic restoration projects including the Washington Monument, RFK Stadium, Dulles Airport and Disney's Wilderness Lodge and Epic Theatre.

Mr. Harvey received a BS Civil Engineering from Florida International University where he graduated Cum Laude and is a licensed professional engineer in the State of Florida. He also participated in the Executive Education program at the MIT Center for Real Estate. He has also participated as a Volunteer Leader with Hand on Miami and has worked with Engineers Without Borders on multiple clean drinking water projects in Haiti where he was born.

Scott Gregory – Vice President, Market Officer for South Florida

Scott grew up in New Hampshire helping redevelop hotel and multifamily projects through college and was then commissioned into the US Army (Captain), stationed in Hawaii and deployed around the world on peacekeeping and wartime missions. Scott later moved to Central Florida where he managed large tract land acquisitions for KB Home; then responsible for the leasing and management of an industrial portfolio for RREEF; and then the VP of Leasing for Lincoln Property Company in Orlando.

Scott holds a Bachelors Degree in Business from the University of New Hampshire and an MBA from Hawaii Pacific University. He is active in the local real estate community, a NAIOP board member, a CCIM and licensed FL Broker. Scott is an avid traveler, pilot, enjoys playing golf, soccer, tennis and ice hockey and volunteers with the First Tee.

Ian M. Slagle – Senior Property Manager

Ian is a Florida licensed commercial real estate management professional with nearly 18 years of real estate management experience across a variety of asset types, including class-A office high-rise, retail and industrial properties, with proven success in capital construction management, operations management, financial performance and talent growth, management and leadership.

At Prologis, Ian is responsible for the overall operation and financial management of approximately 4 mil SF of industrial and distribution warehouse facilities throughout Broward County and Palm Beach County, Florida as part of the South Florida market team. Out of the Prologis Fort Lauderdale-based office, Ian and the team manage their global, institutional and local Customers across a portfolio of diverse assets in several sub-markets of Broward County and Palm Beach County.

Prior to joining Prologis in July of 2011, Ian spent three years with CBRE as Real Estate Manager for Digital Realty Trust with management oversight of their Los Angeles datacenter and telecommunication assets, and relocated with CBRE to South Florida in December of 2008 as Senior Real Estate Manager overseeing multiple commercial and retail assets for Urban America, LP and Cabot Investments.

Ian is a graduate of Indiana University, Bloomington (IN) with a B.S in Public Affairs.

RLC ARCHITECTS

Bruce W. Retzsch, AIA
Managing Principal

As RLC's founder and Managing Principal, Mr. Retzsch's responsibilities include strategic leadership, financial management and marketing/business development direction, as well as directing the firm's master planning and urban design projects. As Principal-in-Charge of many of RLC's projects, his diverse project experience includes education, corporate office, industrial, residential and mixed used projects.

Education	Bachelor of Science, Architectural Studies, University of Illinois, 1973 Unite Pedegogique 3, Versailles, France, 1973 Master of Architecture in Urban Design, University of Illinois, 1976
Affiliations and Organizations	American Institute of Architects Florida Educational Facilities Planners Association International Council of Shopping Centers National Association of Industrial and Office Properties Urban Land Institute Palm Beach County Business Development Board
Major Projects	Lynn Financial Center | Boca Raton, Florida Office Depot Headquarters | Boca Raton, Florida Fairway Corporate Center | Boca Ration, Florida Forkas Alumni Center at Florida Atlantic University | Boca Raton, Florida Florida Atlantic University Alumni Plaza and Courtyard | Boca Raton, Florida Florida Atlantic University Continuing Services Contract | Boca Raton, Florida Airside Historic Hangar | Opa Locka, Florida Flagler Logistics Hub | Miami, Florida Atlantech Mixed-Use | Fort Lauderdale, Florida Beacon Centre | Miami, Florida Beacon Pointe | Weston, Florida Palmetto Park | Boca Raton, Florida 1800/1850 Military Trail | Boca Raton, Florida
Awards	Ultimate CEO, South Florida Business Journal
Community Involvement	Downtown Advisory Committee Boca Raton National Multiple Sclerosis Society Boca Raton Community Church

Carlo Mendoza, LEED® AP
Project Manager

Carlo Mendoza began his career at RLC in 2000, shortly after his graduation from the University of Miami. His professional development proceeded rapidly, and he was named an Associate in 2011 based upon his consistently excellent client service and attention to detail. His projects experience includes office, industrial, interiors, renovation and residential. He is also a LEED AP.

Education	Bachelor of Architecture, University of Miami 1999
Affiliations and Organizations	LEED® Accredited Professional
Previous Experience	Dorsky Hodgson, Fort Lauderdale, Florida
Major Projects	LAGASSE, Distribution Facility | Miami, Florida 1800 Military Trail | Boca Raton, Florida Boca Colonnade II | Boca Raton, Florida Boca Village Corporate Center | Boca Raton, Florida The Ellington | Fort Lauderdale, Florida Aqua Vista Residential | Fort Lauderdale, Florida Oak Hammock Residential | Fort Lauderdale, Florida Banyan Air Service | Opa Locka, Florida Oakland Part Station | Oakland, Florida Liberty Property Trust H.Q. | Boca Raton, Florida Progressive Insurance Tenant Improvement | Miami, Florida Gainsco Insurance Tenant Improvement | Miami, Florida Crowley Tenant Improvement | Miami, Florida Office Depot Call Center | Boca Raton, Florida Royal Palm Plaza Mizner Monument | Boca Raton, Florida Beacon Lakes Industrial Park | Miami, Florida Flagler Station | Miami, Florida Pompano Commerce Center | Pompano Beach, Florida Quiet Waters Business Park | Deerfield Beach, Florida AVE Aviation & Commerce Center | Miami, Florida

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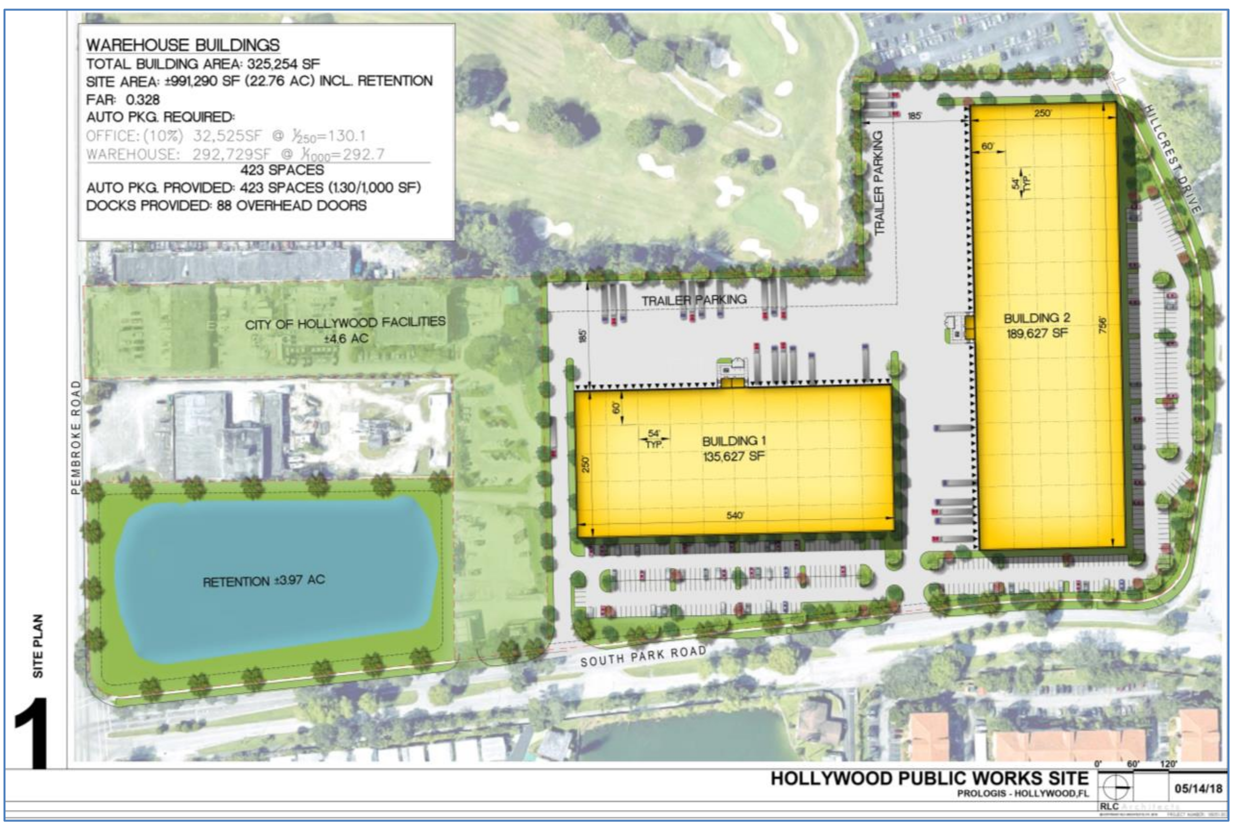
Our proposal includes the entire 30.58 acres of City owned real estate including the City's current Public Works Compound. Inclusion of the City's Public Work's compound is required to address the storm water requirements associated with the undeveloped construction debris parcel.

The proposed uses for the project are logistics and distribution similar to the one million square feet of property owned in Hollywood (Port 95) and the one million square feet owned in Pembroke (south side of Pembroke Park Road). Program characteristics will be two Class A logistics buildings and the redevelopment of the City's Public Work's compound. The target market will be our extensive customer base as well as users already located in South Florida as well as users seeking entry in this market.

The proposed square footages are below and noted on the site plan shown in this section as well as the exhibits section:

1. City of Hollywood Public Work's compound – to be determined based on final design. This will be determined via a series of design charette's whereby the City's program and needs are incorporated in the project. This portion of the project is currently anticipated to occupy +/-4.6 acres of the development.
2. Logistics Facilities – total of 325,254 square feet within two buildings per the below breakdown:
    a. Building 1 – 135,627 square feet (note: final size will be dependent on final permitted design)
    b. Building 2 – 189,627 square feet (note: final size will be dependent on final permitted design)



The project will be developed in two phases which are; (1) Redevelopment of City's Public Works Compound then (2) vertical development of Buildings 1 and 2 simultaneously.

Our design approach focuses on three primary areas of concern; (1) complimentary to the adjacent uses, (2) development of the environmentally challenged portion and (3) replacement of the current City of Hollywood operations.

Complimentary Development

The envisioned logistics development will produce Class A, sustainably designed and architectural pleasing assets (see below) that will be aesthetically complimentary to the class of surrounding development. Additionally, Prologis will utilize its extensive experience in LEED Certified design in efforts to attain accreditation. Prologis views sustainable design as a core value and as such led an initiative to create a LEED volume program with USGBC. This program, built in tandem with USGBC, includes standard design criteria and certification processing affording Prologis the ability to incorporate LEED design standards into building/site design greatly enhancing the efficiency and outcome of the accreditation process. The loading areas will utilize screening where justified to mitigate any noise or site concerns. Project traffic will utilize Hillcrest Drive and South Park Road for ingress/egress.

Environmentally Challenged Area

The environmentally challenged area will require (1) removal and disposal of excess above grade construction debris material, (2) capping of this area, (3) installation of structurally sound foundations on piles (+/- 40' in depth), (4) methane gas collection, monitoring systems, and (5) floating slab design allowing the natural decomposition of the construction debris material to not impact the structural soundness of the development. Our experience at Beacon Lakes (processing a construction debris project) and Port Reading (utilizing piles on an environmentally sensitive site) provide our team the knowhow to manage this most challenging portion of the project.

The storm water storage requirements require we utilize a portion of the non-contaminated area for onsite storage. Therefore, the City of Hollywood's Public Works area will require redevelopment.

City of Hollywood Public Works Area

As noted, +/-4.6 acres are reserved for the City use as shown on the site plan herein and attached in the Exhibits section. Based on review of the program provided, it is our recommendation to design the facility in conjunction with the City via a build-to-suit charette process. Prologis is qualified to effectuate this process due to the significant amount of build-to-suit development executed with our customers on a global basis. As stated herein, this design charette process will take place during the Inspection Period (90) days following contract.

Sustainability

Sustainability is in Prologis's DNA whereby we strive for excellence in environmental stewardship, social responsibility, ethics and governance. From this we have Five Sustainability Objectives:

1. Provide industry-leading, energy-efficient logistics real estate facilities that reduce operating costs for our customers while delivering sustainability benefits for our communities
2. Meet or exceed recognized standards for sustainable development to deliver projects that enable our customers to operate more efficiently and our communities to prosper more sustainably
3. Engage employees in every office to reduce energy, water and waste, thereby reducing operating costs and environmental impacts
4. Partner with community organizations to support environmental, educational and social initiatives
5. Engage suppliers to uphold our Supplier Code of Conduct

These five objectives have created the following facts as of 2017:

1. Three hundred and four (304) sustainable building certifications totaling 112 million square feet in 17 countries.
2. Eighty-two percent (82%) of operating portfolio has efficient lighting
3. Forty percent (40%) of total operating portfolio has cool roofs
4. Two million ($2,000,000) in grants and donations to support local causes and nonprofits
5. Eighty-four (84) months of rent-free space to 19 non-profits
6. One hundred seventy-five (175) megawatts of solar energy installations
7. Eleven thousand two hundred (11,200) volunteer hours to local communities

Employment Opportunities – The project will create immediate construction jobs as part of the development but will also foster jobs on an ongoing basis (excluding any City of Hollywood jobs affiliated with the Public Works facility). The 335,000 square feet of logistics space can produce anywhere from 100 to 300 ongoing jobs.

Traffic Analysis – Prologis will undergo a full traffic study if awarded the project to determine potential impacts and necessary improvements. Prologis is very accustomed to working with local authorities in efforts to maximize the sites accessibility while also minimizing the impact to local infrastructure.

Schedule

Based on our current knowledge of the property, we anticipate the project to take approximately three years from close to stabilization (>90% leased). To accomplish this the following key schedule milestones are expected to occur:

1. Selection
2. Contract Negotiation and Execution – Date zero.
3. Due Diligence – 90 days following Contract execution
4. Closing – 15 days following Due Diligence expiration
5. City of Hollywood Public Works Facility Design/Permitting – approximately six (6) months following close
6. Zoning/Entitlements (Building 1 and 2) – Approximately twelve (12) months following close
7. Environmental and Building Permitting (Building 1 and 2) – Simultaneous with Zoning/Entitlements
8. City of Hollywood Public Works Construction – Approximately 12 months following item 5 above.
9. Relocation into City of Hollywood Public Works Facility – Approximately 18 months following Close.
10. Building 1 and 2 Construction – Approximately 12 months following Item 6 above.
11. Building 1 and 2 Completion – Approximately 24 months following Close.
12. Building 1 and 2 Stabilization (>90% occupied) – Approximately 36 months following Close.

Prologis (NYSE: PLD), as of Q1 2018, has an enterprise value of $46.2 billion ($34.7 billion equity), $3.6 billion in liquidity including $458 in cash and cash equivalents, and is rated A rated by both Moody's and S&P (A3 and A- respectively). This project will be funded via all cash. Audited 2017 financial statements are attached hereto in the Exhibits section.

This development does not require a formal commitment from an end user nor is Prologis committed to deliver any specific structure. Prologis will develop and own these logistics facilities long term as part of the South Florida portfolio strategy.

Furthermore, Prologis is proposing to purchase the site fee simple ultimately undertaking all of the project risk and therefore does not disclose development budgets nor investment metrics. With that said, Prologis does forecast a total capital investment equal to +/-$45,000,000 (not including the Public Works funding).

The City of Hollywood's direct return is highlighted in Section VII – Purchase Price and Tax Revenue.

Prologis employs 30 full time professionals in South Florida and will function as the developer, owner, and manager of the property. Management of the existing 15 million square foot portfolio is performed locally by Prologis personnel who have extensive experience in maintenance, capital repair, and leasing logistics properties in South Florida. Prologis will also utilize a third-party brokerage company to assist in the leasing and marketing efforts once development commences. Prologis has extensive experience with maintaining properties owned locally comprised of approximately 500 customers covering a wide variety of industries.

Proposed tenants and leasing strategy will rely heavily on Prologis's extensive global customer base. As mentioned previously, in addition to utilizing local and national brokerage companies, Prologis will utilize its global platform of customers (tenants) and its integrated Global Customer Group to internally market to the population of 3PL, freight forwarders, and international carriers currently occupying space within Prologis's global portfolio. The Global Customer Group is solely focused on Prologis's key customers who lease space in several markets and geographies. These repeat global customers occupy 35% of Prologis's global platform and choose to renew their leases more than 85% of the time. This exemplifies the quality real estate owned, personnel employed, and systems/processes utilized to be the leading industrial owner/operator/developer globally. A short list of the global repeat customers is;

Amazon, Expeditors, Panalpina, FedEx, DHL, CEVA, Nippon Express, Kuehne+Nagel, Kraft Foods, UPS, Caterpillar, Anixter, Hitachi Transport, NYK Line, and DB Schenker.

Absorption is expected to occur over the twelve months following construction completion

VI. DEVELOPMENT TIMEFRAME

Based on our current knowledge of the property, the anticipated development timeframe is as follows:

1. Selection
2. Contract Negotiation and Execution
3. Due Diligence – 90 days following Contract execution
4. Closing – 15 days following Due Diligence expiration
5. City of Hollywood Public Works Facility Design/Permitting – approximately six (6) months following close
6. Zoning/Entitlements (Building 1 and 2) – Approximately twelve (12) months following close
7. Environmental and Building Permitting (Building 1 and 2) – Simultaneous with Zoning/Entitlements
8. City of Hollywood Public Works Construction – Approximately 12 months following item 5 above.
9. Relocation into City of Hollywood Public Works Facility – Approximately 18 months following Close.
10. Building 1 and 2 Construction – Approximately 12 months following Item 6 above.
11. Building 1 and 2 Completion – Approximately 24 months following Close.
12. Building 1 and 2 Stabilization (>90% occupied) – Approximately 36 months following Close.

Full project financing will be available upon close.

VII. PURCHASE PRICE AND TAX REVENUE

Purchase Price – $4,500,000

Anticipated Tax Revenue – Approximately $650,000 in annual real property taxes.

VIII. EXHIBITS

SITE PLAN

1

HOLLYWOOD PUBLIC WORKS SITE

PROLOGIS - HOLLYWOOD,FL

05/14/18

RLC Architects

 PROJECT NUMBER: 18051.00

2

3D RENDERING

HOLLYWOOD PUBLIC WORKS SITE

PROLOGIS - HOLLYWOOD,FL

05/14/18

RLC Architects

PROJECT NUMBER: 18051.00

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE III

REP ORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Prologis, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Prologis, Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule III (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 15, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Adoption of a New Accounting Pronouncement

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for evaluating whether a transaction qualifies as an acquisition of an asset or a business in 2017 due to the adoption of Accounting Standards Update No. 2017-01.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Denver, Colorado
February 15, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners
Prologis, L.P.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Prologis, L.P. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, capital, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes to the consolidated financial statements and financial statement schedule III (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Adoption of a New Accounting Pronouncement

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for evaluating whether a transaction qualifies as an acquisition of an asset or a business in 2017 due to the adoption of Accounting Standards Update No. 2017-01.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Denver, Colorado
February 15, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Prologis, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Prologis, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule III (collectively, the consolidated financial statements), and our report dated February 15, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Denver, Colorado
February 15, 2018

PROLOGIS, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31, 2017	December 31, 2016
ASSETS		
Investments in real estate properties	$ 25,838,644	$ 27,119,330
Less accumulated depreciation	4,059,348	3,758,372
Net investments in real estate properties	21,779,296	23,360,958
Investments in and advances to unconsolidated entities	5,496,450	4,230,429
Assets held for sale or contribution	342,060	322,139
Notes receivable backed by real estate	34,260	32,100
Net investments in real estate	27,652,066	27,945,626
Cash and cash equivalents	447,046	807,316
Other assets	1,381,963	1,496,990
Total assets	**$ 29,481,075**	**$ 30,249,932**
LIABILITIES AND EQUITY		
Liabilities:		
Debt	$ 9,412,631	$ 10,608,294
Accounts payable and accrued expenses	702,804	556,179
Other liabilities	659,899	627,319
Total liabilities	10,775,334	11,791,792
Equity:		
Prologis, Inc. stockholders' equity:		
Series Q preferred stock at stated liquidation preference of $50 per share; $0.01 par value; 1,379 and 1,565 shares issued and outstanding and 100,000 preferred shares authorized at December 31, 2017, and 2016, respectively	68,948	78,235
Common stock; $0.01 par value; 532,186 shares and 528,671 shares issued and outstanding at December 31, 2017, and 2016, respectively	5,322	5,287
Additional paid-in capital	19,363,007	19,455,039
Accumulated other comprehensive loss	(901,658)	(937,473)
Distributions in excess of net earnings	(2,904,461)	(3,610,007)
Total Prologis, Inc. stockholders' equity	15,631,158	14,991,081
Noncontrolling interests	3,074,583	3,467,059
Total equity	18,705,741	18,458,140
Total liabilities and equity	**$ 29,481,075**	**$ 30,249,932**

The accompanying notes are an integral part of these Consolidated Financial Statements.

PROLOGIS, INC.

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Year Ended December 31, 2017	2016	2015
Revenues:			
Rental	$ 1,737,839	$ 1,734,844	$ 1,536,117
Rental recoveries	487,302	485,565	437,070
Strategic capital	373,889	303,562	217,829
Development management and other	19,104	9,164	6,058
Total revenues	2,618,134	2,533,135	2,197,074
Expenses:			
Rental	569,523	568,870	544,182
Strategic capital	155,141	128,506	108,422
General and administrative	231,059	222,067	217,227
Depreciation and amortization	879,140	930,985	880,373
Other	12,205	14,329	66,698
Total expenses	1,847,068	1,864,757	1,816,902
Operating income	771,066	668,378	380,172
Other income (expense):			
Earnings from unconsolidated entities, net	248,567	206,307	159,262
Interest expense	(274,486)	(303,146)	(301,363)
Interest and other income, net	13,731	8,101	25,484
Gains on dispositions of investments in real estate and revaluation of equity investments upon acquisition of a controlling interest, net	1,182,965	757,398	758,887
Foreign currency and derivative gains (losses), net	(57,896)	7,582	12,466
Gains (losses) on early extinguishment of debt, net	(68,379)	2,484	(86,303)
Total other income	1,044,502	678,726	568,433
Earnings before income taxes	1,815,568	1,347,104	948,605
Total income tax expense	54,609	54,564	23,090
Consolidated net earnings	1,760,959	1,292,540	925,515
Less net earnings attributable to noncontrolling interests	108,634	82,608	56,076
Net earnings attributable to controlling interests	1,652,325	1,209,932	869,439
Less preferred stock dividends	6,499	6,714	6,651
Loss on preferred stock repurchase	3,895	-	-
Net earnings attributable to common stockholders	**$ 1,641,931**	**$ 1,203,218**	**$ 862,788**
Weighted average common shares outstanding – Basic	530,400	526,103	521,241
Weighted average common shares outstanding – Diluted	552,300	546,666	533,944
Net earnings per share attributable to common stockholders – Basic	**$ 3.10**	**$ 2.29**	**$ 1.66**
Net earnings per share attributable to common stockholders – Diluted	**$ 3.06**	**$ 2.27**	**$ 1.64**
Dividends per common share	**$ 1.76**	**$ 1.68**	**$ 1.52**

The accompanying notes are an integral part of these Consolidated Financial Statements.

PROLOGIS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,		
	2017	2016	2015
Consolidated net earnings	$ 1,760,959	$ 1,292,540	$ 925,515
Other comprehensive income (loss):			
Foreign currency translation gains (losses), net	63,455	(135,958)	(208,901)
Unrealized gains (losses) on derivative contracts, net	22,591	(1,349)	(17,457)
Comprehensive income	1,847,005	1,155,233	699,157
Net earnings attributable to noncontrolling interests	(108,634)	(82,608)	(56,076)
Other comprehensive loss (gain) attributable to noncontrolling interests	(50,231)	(8,737)	35,266
Comprehensive income attributable to common stockholders	**$ 1,688,140**	**$ 1,063,888**	**$ 678,347**

The accompanying notes are an integral part of these Consolidated Financial Statements.

PROLOGIS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)

	Preferred Stock	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Earnings	Non-controlling Interests	Total Equity
Balance at January 1, 2015	$ 78,235	509,498	$ 5,095	$ 18,467,009	$ (600,337)	$ (3,974,493)	$ 1,208,090	$ 15,183,599
Consolidated net earnings	-	-	-	-	-	869,439	56,076	925,515
Effect of equity compensation plans	-	1,475	15	57,454	-	-	26,234	83,703
Issuance of stock in at-the-market program, net of issuance costs	-	1,662	16	71,532	-	-	-	71,548
Issuance of stock upon conversion of exchangeable debt	-	11,872	119	502,613	-	-	-	502,732
Issuance of units related to KTR transaction	-	-	-	-	-	-	181,170	181,170
Issuance of units related to other acquisitions	-	-	-	-	-	-	371,570	371,570
Capital contributions	-	-	-	-	-	-	2,355,596	2,355,596
Foreign currency translation losses, net	-	-	-	-	(173,852)	-	(35,049)	(208,901)
Unrealized losses on derivative contracts, net	-	-	-	-	(17,240)	-	(217)	(17,457)
Reallocation of equity	-	-	-	202,812	-	(15,894)	(186,918)	-
Distributions and other	-	5	-	947	-	(805,535)	(223,651)	(1,028,239)
Balance at December 31, 2015	**$ 78,235**	**524,512**	**$ 5,245**	**$ 19,302,367**	**$ (791,429)**	**$ (3,926,483)**	**$ 3,752,901**	**$ 18,420,836**
Consolidated net earnings	-	-	-	-	-	1,209,932	82,608	1,292,540
Effect of equity compensation plans	-	2,282	23	91,191	-	-	26,483	117,697
Issuance of units related to acquisitions	-	-	-	-	-	-	3,162	3,162
Conversion of noncontrolling interests	-	1,877	19	52,237	-	-	(52,256)	-
Foreign currency translation gains (losses), net	-	-	-	-	(144,730)	-	8,772	(135,958)
Unrealized losses on derivative contracts, net	-	-	-	-	(1,314)	-	(35)	(1,349)
Reallocation of equity	-	-	-	8,657	-	-	(8,657)	-
Distributions and other	-	-	-	587	-	(893,456)	(345,919)	(1,238,788)
Balance at December 31, 2016	**$ 78,235**	**528,671**	**$ 5,287**	**$ 19,455,039**	**$ (937,473)**	**$ (3,610,007)**	**$ 3,467,059**	**$ 18,458,140**
Consolidated net earnings	-	-	-	-	-	1,652,325	108,634	1,760,959
Effect of equity compensation plans	-	2,000	20	74,506	-	-	41,446	115,972
Capital contributions	-	-	-	-	-	-	254,214	254,214
Repurchase of preferred stock	(9,287)	-	-	-	-	(3,895)	-	(13,182)
Purchase of noncontrolling interests	-	-	-	(202,040)	-	-	(611,807)	(813,847)
Conversion of noncontrolling interests	-	1,515	15	47,711	-	-	(47,726)	-
Foreign currency translation gains, net	-	-	-	-	13,810	-	49,645	63,455
Unrealized gains on derivative contracts, net	-	-	-	-	22,005	-	586	22,591
Reallocation of equity	-	-	-	(12,143)	-	-	12,143	-
Distributions and other	-	-	-	(66)	-	(942,884)	(199,611)	(1,142,561)
Balance at December 31, 2017	**$ 68,948**	**532,186**	**$ 5,322**	**$ 19,363,007**	**$ (901,658)**	**$ (2,904,461)**	**$ 3,074,583**	**$ 18,705,741**

The accompanying notes are an integral part of these Consolidated Financial Statements.

PROLOGIS, INC.

CONSOLI DATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2017	2016	2015
Operating activities:			
Consolidated net earnings	$ 1,760,959	$ 1,292,540	$ 925,515
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Straight-lined rents and amortization of above and below market leases	(81,021)	(93,608)	(59,619)
Equity-based compensation awards	76,640	60,341	53,665
Depreciation and amortization	879,140	930,985	880,373
Earnings from unconsolidated entities, net	(248,567)	(206,307)	(159,262)
Distributions from unconsolidated entities	307,220	286,651	284,664
Decrease (increase) in operating receivables from unconsolidated entities	(30,893)	14,823	(38,185)
Amortization of debt discounts (premiums), net of debt issuance costs	751	(15,137)	(31,841)
Gains on dispositions of investments in real estate and revaluation of equity investments upon acquisition of a controlling interest, net	(1,182,965)	(757,398)	(758,887)
Unrealized foreign currency and derivative losses (gains), net	68,956	(8,052)	(1,019)
Losses (gains) on early extinguishment of debt, net	68,379	(2,484)	86,303
Deferred income tax benefit	(5,005)	(5,525)	(5,057)
Decrease (increase) in accounts receivable and other assets	37,278	(106,337)	(64,749)
Increase in accounts payable and accrued expenses and other liabilities	36,374	26,513	4,426
Net cash provided by operating activities	1,687,246	1,417,005	1,116,327
Investing activities:			
Real estate development	(1,606,133)	(1,641,560)	(1,339,904)
Real estate acquisitions	(442,696)	(458,516)	(890,183)
KTR transaction, net of cash received	-	-	(4,809,499)
Tenant improvements and lease commissions on previously leased space	(153,255)	(165,933)	(154,564)
Nondevelopment capital expenditures	(110,635)	(101,677)	(83,351)
Proceeds from dispositions and contributions of real estate properties	3,236,603	2,826,408	2,795,249
Investments in and advances to unconsolidated entities	(249,735)	(265,951)	(474,420)
Acquisition of a controlling interest in an unconsolidated venture, net of cash received	(374,605)	-	-
Return of investment from unconsolidated entities	209,151	776,550	29,406
Proceeds from repayment of notes receivable backed by real estate	32,100	202,950	9,866
Proceeds from the settlement of net investment hedges	7,541	79,767	129,149
Payments on the settlement of net investment hedges	(5,058)	-	(981)
Net cash provided by (used in) investing activities	543,278	1,252,038	(4,789,232)
Financing activities:			
Proceeds from issuance of common stock	32,858	39,470	90,258
Dividends paid on common and preferred stock	(942,884)	(893,455)	(804,697)
Repurchase of preferred stock	(13,182)	-	-
Noncontrolling interests contributions	240,925	2,168	2,355,367
Noncontrolling interests distributions	(207,788)	(343,550)	(215,740)
Purchase of noncontrolling interests	(813,847)	(3,083)	(2,560)
Tax paid for shares withheld	(19,775)	(8,570)	(12,298)
Debt and equity issuance costs paid	(7,054)	(20,123)	(32,012)
Net proceeds from (payments on) credit facilities	283,255	33,435	(7,970)
Repurchase and payments of debt	(3,578,889)	(2,301,647)	(3,156,294)
Proceeds from issuance of debt	2,419,797	1,369,890	5,381,862
Net cash provided by (used in) financing activities	(2,606,584)	(2,125,465)	3,595,916
Effect of foreign currency exchange rate changes on cash	15,790	(342)	(9,623)
Net increase (decrease) in cash and cash equivalents	(360,270)	543,236	(86,612)
Cash and cash equivalents, beginning of year	807,316	264,080	350,692
Cash and cash equivalents, end of year	**$ 447,046**	**$ 807,316**	**$ 264,080**

See Note 19 for information on noncash investing and financing activities and other information.

The accompanying notes are an integral part of these Consolidated Financial Statements.

PROLOGIS, L.P.

CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31, 2017	December 31, 2016
ASSETS		
Investments in real estate properties	$ 25,838,644	$ 27,119,330
Less accumulated depreciation	4,059,348	3,758,372
Net investments in real estate properties	21,779,296	23,360,958
Investments in and advances to unconsolidated entities	5,496,450	4,230,429
Assets held for sale or contribution	342,060	322,139
Notes receivable backed by real estate	34,260	32,100
Net investments in real estate	27,652,066	27,945,626
Cash and cash equivalents	447,046	807,316
Other assets	1,381,963	1,496,990
Total assets	**$ 29,481,075**	**$ 30,249,932**
LIABILITIES AND CAPITAL		
Liabilities:		
Debt	$ 9,412,631	$ 10,608,294
Accounts payable and accrued expenses	702,804	556,179
Other liabilities	659,899	627,319
Total liabilities	10,775,334	11,791,792
Capital:		
Partners' capital:		
General partner – preferred	68,948	78,235
General partner – common	15,562,210	14,912,846
Limited partners – common	165,401	150,173
Limited partners – Class A common	248,940	244,417
Total partners' capital	16,045,499	15,385,671
Noncontrolling interests	2,660,242	3,072,469
Total capital	18,705,741	18,458,140
Total liabilities and capital	**$ 29,481,075**	**$ 30,249,932**

The accompanying notes are an integral part of these Consolidated Financial Statements.

PROLOGIS, L.P.

CONSOL IDATED STATEMENTS OF INCOME
(In thousands, except per unit amounts)

	Year Ended December 31, 2017	2016	2015
Revenues:			
Rental	$ 1,737,839	$ 1,734,844	$ 1,536,117
Rental recoveries	487,302	485,565	437,070
Strategic capital	373,889	303,562	217,829
Development management and other	19,104	9,164	6,058
Total revenues	2,618,134	2,533,135	2,197,074
Expenses:			
Rental	569,523	568,870	544,182
Strategic capital	155,141	128,506	108,422
General and administrative	231,059	222,067	217,227
Depreciation and amortization	879,140	930,985	880,373
Other	12,205	14,329	66,698
Total expenses	1,847,068	1,864,757	1,816,902
Operating income	771,066	668,378	380,172
Other income (expense):			
Earnings from unconsolidated entities, net	248,567	206,307	159,262
Interest expense	(274,486)	(303,146)	(301,363)
Interest and other income, net	13,731	8,101	25,484
Gains on dispositions of investments in real estate and revaluation of equity investments upon acquisition of a controlling interest, net	1,182,965	757,398	758,887
Foreign currency and derivative gains (losses), net	(57,896)	7,582	12,466
Gains (losses) on early extinguishment of debt, net	(68,379)	2,484	(86,303)
Total other income	1,044,502	678,726	568,433
Earnings before income taxes	1,815,568	1,347,104	948,605
Total income tax expense	54,609	54,564	23,090
Consolidated net earnings	1,760,959	1,292,540	925,515
Less net earnings attributable to noncontrolling interests	63,620	48,307	44,950
Net earnings attributable to controlling interests	1,697,339	1,244,233	880,565
Less preferred unit distributions	6,499	6,714	6,651
Loss on preferred unit repurchase	3,895	-	-
Net earnings attributable to common unitholders	**$ 1,686,945**	**$ 1,237,519**	**$ 873,914**
Weighted average common units outstanding – Basic	536,335	532,326	525,912
Weighted average common units outstanding – Diluted	552,300	546,666	533,944
Net earnings per unit attributable to common unitholders – Basic	**$ 3.10**	**$ 2.29**	**$ 1.66**
Net earnings per unit attributable to common unitholders – Diluted	**$ 3.06**	**$ 2.27**	**$ 1.64**
Distributions per common unit	**$ 1.76**	**$ 1.68**	**$ 1.52**

The accompanying notes are an integral part of these Consolidated Financial Statements.

PROLOGIS, L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended December 31,		
	2017	2016	2015
Consolidated net earnings	$ 1,760,959	$ 1,292,540	$ 925,515
Other comprehensive income (loss):			
Foreign currency translation gains (losses), net	63,455	(135,958)	(208,901)
Unrealized gains (losses) on derivative contracts, net	22,591	(1,349)	(17,457)
Comprehensive income	1,847,005	1,155,233	699,157
Net earnings attributable to noncontrolling interests	(63,620)	(48,307)	(44,950)
Other comprehensive loss (gain) attributable to noncontrolling interests	(49,278)	(12,601)	32,862
Comprehensive income attributable to common unitholders	**$ 1,734,107**	**$ 1,094,325**	**$ 687,069**

The accompanying notes are an integral part of these Consolidated Financial Statements.

PROLOGIS, L.P.

CONSOLIDATED STATEMENTS OF CAPITAL
(In thousands)

	General Partner				Limited Partners				Non-controlling	
	Preferred		Common		Common		Class A Common			
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Interests	Total
Balance at January 1, 2015	1,565	$ 78,235	509,498	$ 13,897,274	1,767	$ 48,189	-	$ -	$ 1,159,901	$ 15,183,599
Consolidated net earnings	-	-	-	869,439	-	7,733	-	3,393	44,950	925,515
Effect of equity compensation plans	-	-	1,475	57,469	303	26,234	-	-	-	83,703
Issuance of units in exchange for contribution of at-the-market offering proceeds	-	-	1,662	71,548	-	-	-	-	-	71,548
Issuance of units upon conversion of exchangeable debt	-	-	11,872	502,732	-	-	-	-	-	502,732
Issuance of units related to KTR transaction	-	-	-	-	4,500	181,170	-	-	-	181,170
Issuance of units related to other acquisitions	-	-	-	-	157	6,534	8,894	365,036	-	371,570
Capital contributions	-	-	-	-	-	-	-	-	2,355,596	2,355,596
Foreign currency translation losses, net	-	-	-	(173,852)	-	(1,520)	-	(667)	(32,862)	(208,901)
Unrealized losses on derivative contracts, net	-	-	-	(17,240)	-	(151)	-	(66)	-	(17,457)
Reallocation of capital	-	-	-	186,918	-	(70,965)	-	(115,953)	-	-
Distributions and other	-	-	5	(804,588)	(16)	(10,541)	-	(5,752)	(207,358)	(1,028,239)
Balance at December 31, 2015	**1,565**	**$ 78,235**	**524,512**	**$ 14,589,700**	**6,711**	**$ 186,683**	**8,894**	**$ 245,991**	**$ 3,320,227**	**$ 18,420,836**
Consolidated net earnings	-	-	-	1,209,932	-	14,232	-	20,069	48,307	1,292,540
Effect of equity compensation plans	-	-	2,282	91,214	440	26,483	-	-	-	117,697
Issuance of units related to acquisitions	-	-	-	-	71	3,162	-	-	-	3,162
Conversion of limited partners units	-	-	1,877	52,256	(1,877)	(52,256)	-	-	-	-
Foreign currency translation gains (losses), net	-	-	-	(144,730)	-	(1,457)	-	(2,372)	12,601	(135,958)
Unrealized losses on derivative contracts, net	-	-	-	(1,314)	-	(13)	-	(22)	-	(1,349)
Reallocation of capital	-	-	-	8,657	-	(12,414)	-	3,757	-	-
Distributions and other	-	-	-	(892,869)	(22)	(14,247)	-	(23,006)	(308,666)	(1,238,788)
Balance at December 31, 2016	**1,565**	**$ 78,235**	**528,671**	**$ 14,912,846**	**5,323**	**$ 150,173**	**8,894**	**$ 244,417**	**$ 3,072,469**	**$ 18,458,140**
Consolidated net earnings	-	-	-	1,652,325	-	18,372	-	26,642	63,620	1,760,959
Effect of equity compensation plans	-	-	2,000	74,526	1,386	41,446	-	-	-	115,972
Capital contributions	-	-	-	-	-	-	-	-	254,214	254,214
Repurchase of preferred units	(186)	(9,287)	-	(3,895)	-	-	-	-	-	(13,182)
Purchase of noncontrolling interests	-	-	-	(202,040)	-	-	-	-	(587,976)	(790,016)
Redemption of limited partnership units	-	-	-	-	(369)	(23,831)	-	-	-	(23,831)
Conversion of limited partners units	-	-	1,515	47,726	(684)	(18,753)	-	-	(28,973)	-
Foreign currency translation gains, net	-	-	-	13,810	-	146	-	221	49,278	63,455
Unrealized gains on derivative contracts, net	-	-	-	22,005	-	234	-	352	-	22,591
Reallocation of capital	-	-	-	(12,143)	-	11,829	-	314	-	-
Distributions and other	-	-	-	(942,950)	-	(14,215)	-	(23,006)	(162,390)	(1,142,561)
Balance at December 31, 2017	**1,379**	**$ 68,948**	**532,186**	**$ 15,562,210**	**5,656**	**$ 165,401**	**8,894**	**$ 248,940**	**$ 2,660,242**	**$ 18,705,741**

The accompanying notes are an integral part of these Consolidated Financial Statements.

PROLOGIS, L.P

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2017	2016	2015
Operating activities:			
Consolidated net earnings	$ 1,760,959	$ 1,292,540	$ 925,515
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Straight-lined rents and amortization of above and below market leases	(81,021)	(93,608)	(59,619)
Equity-based compensation awards	76,640	60,341	53,665
Depreciation and amortization	879,140	930,985	880,373
Earnings from unconsolidated entities, net	(248,567)	(206,307)	(159,262)
Distributions from unconsolidated entities	307,220	286,651	284,664
Decrease (increase) in operating receivables from unconsolidated entities	(30,893)	14,823	(38,185)
Amortization of debt discounts (premiums), net of debt issuance costs	751	(15,137)	(31,841)
Gains on dispositions of investments in real estate and revaluation of equity investments upon acquisition of a controlling interest, net	(1,182,965)	(757,398)	(758,887)
Unrealized foreign currency and derivative losses (gains), net	68,956	(8,052)	(1,019)
Losses (gains) on early extinguishment of debt, net	68,379	(2,484)	86,303
Deferred income tax benefit	(5,005)	(5,525)	(5,057)
Decrease (increase) in accounts receivable and other assets	37,278	(106,337)	(64,749)
Increase in accounts payable and accrued expenses and other liabilities	36,374	26,513	4,426
Net cash provided by operating activities	1,687,246	1,417,005	1,116,327
Investing activities:			
Real estate development	(1,606,133)	(1,641,560)	(1,339,904)
Real estate acquisitions	(442,696)	(458,516)	(890,183)
KTR transaction, net of cash received	-	-	(4,809,499)
Tenant improvements and lease commissions on previously leased space	(153,255)	(165,933)	(154,564)
Nondevelopment capital expenditures	(110,635)	(101,677)	(83,351)
Proceeds from dispositions and contributions of real estate properties	3,236,603	2,826,408	2,795,249
Investments in and advances to unconsolidated entities	(249,735)	(265,951)	(474,420)
Acquisition of a controlling interest in an unconsolidated venture, net of cash received	(374,605)	-	-
Return of investment from unconsolidated entities	209,151	776,550	29,406
Proceeds from repayment of notes receivable backed by real estate	32,100	202,950	9,866
Proceeds from the settlement of net investment hedges	7,541	79,767	129,149
Payments on the settlement of net investment hedges	(5,058)	-	(981)
Net cash provided by (used in) investing activities	543,278	1,252,038	(4,789,232)
Financing activities:			
Proceeds from issuance of common partnership units in exchange for contributions from Prologis, Inc.	32,858	39,470	90,258
Distributions paid on common and preferred units	(980,105)	(931,559)	(820,989)
Repurchase of preferred units	(13,182)	-	-
Noncontrolling interests contributions	240,925	2,168	2,355,367
Noncontrolling interests distributions	(170,567)	(306,297)	(199,845)
Purchase of noncontrolling interests	(790,016)	(2,232)	(2,163)
Redemption of common limited partnership units	(23,831)	-	-
Tax paid for shares of the Parent withheld	(19,775)	(8,570)	(12,298)
Debt and capital issuance costs paid	(7,054)	(20,123)	(32,012)
Net proceeds from (payments on) credit facilities	283,255	33,435	(7,970)
Repurchase and payments of debt	(3,578,889)	(2,301,647)	(3,156,294)
Proceeds from issuance of debt	2,419,797	1,369,890	5,381,862
Net cash provided by (used in) financing activities	(2,606,584)	(2,125,465)	3,595,916
Effect of foreign currency exchange rate changes on cash	15,790	(342)	(9,623)
Net increase (decrease) in cash and cash equivalents	(360,270)	543,236	(86,612)
Cash and cash equivalents, beginning of year	807,316	264,080	350,692
Cash and cash equivalents, end of year	$ 447,046	$ 807,316	$ 264,080

See Note 19 for information on noncash investing and financing activities and other information.

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTE 1. DESCRIPTION OF THE BUSINESS

Prologis, Inc. (or the "Parent") commenced operations as a fully integrated real estate company in 1997, elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), and believes the current organization and method of operation will enable it to maintain its status as a REIT. The Parent is the general partner of Prologis, L.P. (or the "Operating Partnership" or "OP"). Through the OP, we are engaged in the ownership, acquisition, development and management of logistics properties in the world's primary population centers and in those supported by extensive transportation infrastructure. We invest in real estate through wholly owned subsidiaries and other entities through which we co-invest with partners and investors. We maintain a significant level of ownership in these co-investment ventures, which may be consolidated or unconsolidated based on our level of control of the entity. Our current business strategy consists of two operating business segments: Real Estate Operations and Strategic Capital. Our Real Estate Operations segment represents the ownership and development of logistics properties. Our Strategic Capital segment represents the management of co-investment ventures and other unconsolidated entities. See Note 18 for further discussion of our business segments. Unless otherwise indicated, the Notes to the Consolidated Financial Statements apply to both the Parent and the OP. The terms "the Company," "Prologis," "we," "our" or "us" means the Parent and OP collectively.

For each share of common stock or preferred stock the Parent issues, the OP issues a corresponding common or preferred partnership unit, as applicable, to the Parent in exchange for the contribution of the proceeds from the stock issuance. At December 31, 2017, the Parent owned an approximate 97.41% common general partnership interest in the OP and 100% of the preferred units in the OP. The remaining approximate 2.59% common limited partnership interests, which include 8.9 million Class A common limited partnership units ("Class A Units") in the OP, are owned by unaffiliated investors and certain current and former directors and officers of the Parent. Each partner's percentage interest in the OP is determined based on the number of OP units held, including the number of OP units into which Class A Units are convertible, compared to total OP units outstanding at each period end and is used as the basis for the allocation of net income or loss to each partner. At the end of each reporting period, a capital adjustment is made in the OP to reflect the appropriate ownership interest for each of the common unitholders. These adjustments are reflected in the line items *Reallocation of Equity* in the Consolidated Statement of Equity of the Parent and *Reallocation of Capital* in the Consolidated Statement of Capital of the OP.

As the sole general partner of the OP, the Parent has complete responsibility and discretion in the day-to-day management and control of the OP and we operate the Parent and the OP as one enterprise. The management of the Parent consists of the same members as the management of the OP. These members are officers of the Parent and employees of the OP or one of its subsidiaries. As general partner with control of the OP, the Parent is the primary beneficiary and therefore consolidates the OP. Because the Parent's only significant asset is its investment in the OP, the assets and liabilities of the Parent and the OP are the same on their respective financial statements.

Information with respect to the square footage, number of buildings and acres of land is unaudited.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation. The accompanying Consolidated Financial Statements are prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") and are presented in our reporting currency, the U.S. dollar. All material intercompany transactions with consolidated entities have been eliminated.

We consolidate all entities that are wholly owned and those in which we own less than 100% of the equity but control, as well as any variable interest entities ("VIEs") in which we are the primary beneficiary. We evaluate our ability to control an entity and whether the entity is a VIE and we are the primary beneficiary through consideration of substantive terms of the arrangement to identify which enterprise has the power to direct the activities of the entity that most significantly impacts the entity's economic performance and the obligation to absorb losses and the right to receive benefits from the entity.

For entities that are not defined as VIEs, we first consider whether we are the general partner or the limited partner (or the equivalent in such investments that are not structured as partnerships). We consolidate entities in which we are the general partner and the limited partners in such entities do not have rights that would preclude control. For entities in which we are the general partner but do not control the entity as the other partners hold substantive participating or kick-out rights, we apply the equity method of accounting since, as the general partner, we have the ability to influence the venture. For ventures for which we are a limited partner or our investment is in an entity that is not structured similar to a partnership, we consider factors such as ownership interest, voting control, authority to make decisions, and contractual and substantive participating rights of the partners. In instances where the factors indicate that we have a controlling financial interest in the venture, we consolidate the entity.

Reclassifications. Certain amounts included in the Consolidated Financial Statements for 2016 and 2015 have been reclassified to conform to the 2017 financial statement presentation.

Use of Estimates. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Although we believe the assumptions and estimates we made are reasonable and appropriate, as discussed in the applicable sections throughout the Consolidated Financial Statements, different assumptions and es timates could materially impact our reported results.

Foreign Operations. The U.S. dollar is the functional currency for our consolidated subsidiaries and unconsolidated entities operating in the U.S. and Mexico and certain of our consolidated subsidiaries that operate as holding companies for foreign investments. The functional currency for our consolidated subsidiaries and unconsolidated entities operating in other countries is the principal currency in which the entity's assets, liabilities, income and expenses are denominated, which may be different from the local currency of the country of incorporation or where the entity conducts its operations. The functional currencies of entities outside of the U.S. and Mexico generally include the Brazilian real, British pound sterling, Canadian dollar, Chinese yuan, euro, Japanese yen and Singapore dollar. We take part in business transactions denominated in these and other local currencies where we operate.

For our consolidated subsidiaries whose functional currency is not the U.S. dollar, we translate their financial statements into the U.S. dollar at the time we consolidate those subsidiaries' financial statements. Generally, assets and liabilities are translated at the exchange rate in effect at the balance sheet date. The resulting translation adjustments are included in *Accumulated Other Comprehensive Income (Loss)* (" *AOCI/L* ") in the Consolidated Balance Sheets. Certain balance sheet items, primarily equity and capital-related accounts, are reflected at the historical exchange rate. Income statement accounts are translated using the average exchange rate for the period and income statement accounts that represent significant nonrecurring transactions are translated at the rate in effect at the date of the transaction. We translate our share of the net operating income or losses of our unconsolidated entities at the average exchange rate for the period and significant nonrecurring transactions of the unconsolidated entities are translated at the rate in effect at the date of the transaction.

We and certain of our consolidated subsidiaries have intercompany and third-party debt that is not denominated in the entity's functional currency. When the debt is remeasured against the functional currency of the entity, a gain or loss can result. The resulting adjustment is reflected in *Foreign Currency and Derivative Gains (Losses), Net* in the Consolidated Statements of Income, unless it is intercompany debt that is deemed to be long-term in nature and then the adjustment is reflected as a cumulative translation adjustment in *AOCI/L* .

Acquisitions. Based on new accounting guidance, beginning January 1, 2017, we apply a screen test to evaluate if substantially all the fair value of the acquired property is concentrated in a single identifiable asset or group of similar identifiable assets to determine whether a transaction is accounted for as an asset acquisition or business combination. As most of our real estate acquisitions are concentrated in either a single or a group of similar identifiable assets, our real estate transactions are generally accounted for as asset acquisitions , which permits the capitalization of transaction costs to the basis of the acquired property. For transactions that qualify as a business combination in 2017 and for all acquisitions in 2016 and 2015, transaction costs are expensed as incurred. Whether a transaction is determined to be an acquisition of a business or asset, we allocate the purchase price to the various components of the acquisition based on the fair value of the acquired assets and assumed liabilities, including an allocation to the individual buildings acquired. The initial allocation of the purchase price is based on management's preliminary assessment, which may differ when final information becomes available. The transaction costs related to the acquisition of land and the formation of equity method investments are capitalized.

When we obtain control of an unconsolidated entity and the acquisition qualifies as a business, we account for the acquisition in accordance with the guidance for a business combination achieved in stages. We remeasure our previously held interest in the unconsolidated entity at its acquisition-date fair value and recognize the resulting gain or loss, if any, in earnings at the acquisition date.

We allocate the purchase price using primarily Level 2 and Level 3 inputs (further defined in Fair Value Measurements below) as follows:

Investments in Real Estate Properties. We value operating properties as if vacant. We estimate fair value generally by applying an income approach methodology using a discounted cash flow analysis. Key assumptions in the discounted cash flow analysis include market rents, growth rates and discount and capitalization rates. We determine discount and capitalization rates by market based on recent transactions and other market data. The fair value of land is generally based on relevant market data, such as a comparison of the subject site to similar parcels that have recently been sold or are currently being offered on the market for sale.

Lease Intangibles . We determine the portion of the purchase price related to intangible assets and liabilities as follows:

- *Above and Below Market Leases* . We recognize an asset or liability for acquired in-place leases with favorable or unfavorable rents based on our estimate of current market rents of the applicable markets. The value is recorded in either *Other Assets* or *Other Liabilities* , as appropriate, and is amortized over the term of the respective leases, including any bargain renewal options, to rental revenues.

- *Foregone Rent* . We calculate the value of the revenue and recovery of costs foregone during a reasonable lease-up period, as if the space was vacant, in each of the applicable markets. The values are recorded in *Other Assets* and amortized over the remaining life of the respective leases to amortization expense.

- *Leasing Commissions.* We recognize an asset for leasing commissions upon the acquisition of in-place leases based on our estimate of the cost to lease space in the applicable markets. The value is recorded in *Other Assets* and amortized over the remaining life of the respective leases to amortization expense.

Debt . We estimate the fair value of debt based on contractual future cash flows discounted using borrowing spreads and market interest rates that would be available to us for the issuance of debt with similar terms and remaining maturities. In the case of publicly traded debt, we estimate the fair value based on available market data. Any discount or premium to the principal amount is included in the carrying value and amortized to interest expense over the remaining term of the related debt using the effective interest method.

Noncontrolling Interests . We estimate the portion of the fair value of the net assets owned by third parties based on the fair value of the consolidated net assets, principally real estate properties and debt.

Working Capital . We estimate the fair value of other acquired assets and assumed liabilities on the best information available.

Fair Value Measurements. The objective of fair value is to determine the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). We estimate fair value using available market information and valuation methodologies we believe to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that we would realize on disposition. The fair value hierarchy consists of three broad levels:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 — Unobservable inputs for the asset or liability.

Fair Value Measurements on a Recurring Basis. We estimate the fair value of our financial instruments using available market information and valuation methodologies we believe to be appropriate for these purposes.

We determine the fair value of our derivative financial instruments using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. We determine the fair values of our interest rate swaps using the market standard methodology of netting the discounted future fixed cash receipts or payments and the discounted expected variable cash payments. We base the variable cash payments on an expectation of future interest rates, or forward curves, derived from observable market interest rate curves. We base the fair values of our net investment hedges on the change in the spot rate at the end of the period as compared with the strike price at inception.

We incorporate credit valuation adjustments to appropriately reflect nonperformance risk for us and the respective counterparty in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we consider the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

We have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy. Although the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties, we assess the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives.

Fair Value Measurements on a Nonrecurring Basis. Assets measured at fair value on a nonrecurring basis generally consist of real estate assets and investments in unconsolidated entities that were subject to impairment charges related to our change of intent to sell the investments and through our recoverability analysis discussed below. We estimate fair value based on expected sales prices in the market (Level 2) or by applying the income approach methodology using a discounted cash flow analysis (Level 3).

Fair Value of Financial Instruments. We estimate the fair value of our senior notes for disclosure purposes based on quoted market prices for the same (Level 1) or similar (Level 2) issues when current quoted market prices are available. We estimate the fair value of our credit facilities, term loans, secured mortgage debt and assessment bonds by discounting the future cash flows using rates and borrowing spreads currently available to us (Level 3).

Real Estate Assets. Real estate assets are carried at depreciated cost. We capitalize costs incurred in developing, renovating, rehabilitating and improving real estate assets as part of the investment basis. We expense costs for repairs and maintenance as incurred.

During the land development and construction periods of qualifying projects, we capitalize interest costs, insurance, real estate taxes and general and administrative costs of the personnel performing the development, renovation, and rehabilitation; if such costs are incremental and identifiable to a specific activity to ready the asset for its intended use. We capitalize transaction costs related to the acquisition of land for future development and operating properties that qualify as asset acquisitions. We capitalize costs incurred to successfully originate a lease that result directly from and are essential to acquire that lease, including internal costs that are incremental and identifiable as leasing activities. Leasing costs that meet the requirements for capitalization are presented as a component of *Other Assets* .

We charge the depreciable portions of real estate assets to depreciation expense on a straight-line basis over the respective estimated useful lives. Depreciation commences when the asset is ready for its intended use, which we define as the earlier of stabilization (90% occupied) or one year after completion of construction. We generally use the following useful lives: 5 to 7 years for capital improvements, 10 years for standard tenant improvements, 25 years for depreciable land improvements, 30 years for operating properties acquired and 40 years for operating properties we develop. We depreciate building improvements on land parcels subject to ground leases over the shorter of the estimated building improvement life or the contractual term of the underlying ground lease. Capitalized leasing costs are amortized over the estimated remaining lease term. Our weighted average lease term on leases signed during 2017, based on square feet for all leases, was 54 months.

We assess the carrying values of our respective real estate assets, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. We measure the recoverability of the asset by comparing the carrying amount of the asset to the estimated future undiscounted cash flows. If our analysis indicates that the carrying value of the real estate property is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the current estimated fair value of the real estate property.

We estimate the future undiscounted cash flows and fair value based on our intent as follows:

- for real estate properties that we intend to hold long-term; including land held for development, properties currently under development and operating properties; recoverability is assessed based on the estimated undiscounted future net rental income from operating the property and the terminal value, including anticipated costs to develop;

- for real estate properties we intend to sell, including properties currently under development and operating properties; recoverability is assessed based on proceeds from disposition that are estimated based on future net rental income of the property, expected market capitalization rates and anticipated costs to develop;

- for land parcels we intend to sell, recoverability is assessed based on estimated proceeds from disposition; and

- for costs incurred related to the potential acquisition of land, operating properties or development of a real estate property, recoverability is assessed based on the probability that the acquisition or development is likely to occur at the measurement date.

Assets Held for Sale or Contribution. We classify a property as held for sale or contribution when certain criteria are met in accordance with GAAP. Assets classified as held for sale are expected to be sold to a third party and assets classified as held for contribution are newly developed assets we intend to contribute to an unconsolidated co-investment venture or to a third party within twelve months. At such time, the respective assets and liabilities are presented separately in the Consolidated Balance Sheets and depreciation is no longer recognized. Assets held for sale or contribution are reported at the lower of their carrying amount or their estimated fair value less the costs to sell.

Investments in Unconsolidated Entities. We present our investments in certain entities under the equity method. We use the equity method when we have the ability to exercise significant influence over operating and financial policies of the venture but do not have control of the entity. Under the equity method, we initially recognize these investments (including advances) in the balance sheet at our cost, including formation costs and net of deferred gains from the contribution of properties, if applicable. We subsequently adjust the accounts to reflect our proportionate share of net earnings or losses recognized and accumulated other comprehensive income or loss, distributions received, contributions made and certain other adjustments, as appropriate. When circumstances indicate there may have been a reduction in the value of an equity investment, we evaluate whether the loss in value is other than temporary. If we conclude it is other than temporary, we recognize an impairment charge to reflect the equity investment at fair value.

With regard to distributions from unconsolidated entities, we have elected the nature of distribution approach as the information is available to us to determine the nature of the underlying activity that generated the distributions. In accordance with the nature of distribution approach, cash flows generated from the operations of an unconsolidated entity are classified as a return on investment (cash inflow from operating activities) and cash flows that are generated from property sales, debt refinancing or sales of our investments are classified as a return of investment (cash inflow from investing activities).

Cash and Cash Equivalents. We consider all cash on hand, demand deposits with financial institutions and short-term highly liquid investments with original maturities of three months or less to be cash equivalents. Our cash and cash equivalents are financial instruments that are exposed to concentrations of credit risk. We invest our cash with high-credit quality institutions. Cash balances may be invested in money market accounts that are not insured. We have not realized any losses in such cash investments or accounts and believe that we are not exposed to any significant credit risk.

Derivative Financial Instruments. We primarily hedge our foreign currency risk by borrowing in the currencies in which we invest. Generally, we borrow in the functional currency of our consolidated subsidiaries but we also borrow in currencies other than the U.S. dollar in the OP. We may use derivative financial instruments, such as foreign currency forward and option contracts to manage foreign currency exchange rate risk related to both our foreign investments and the related earnings. In addition, we occasionally use interest rate swap and forward contracts to manage interest rate risk and limit the impact of future interest rate changes on earnings and cash flows, primarily with variable-rate debt.

We do not use derivative financial instruments for trading or speculative purposes. Each derivative transaction is customized and not exchange-traded. We recognize all derivatives at fair value within the line items *Other Assets* or *Other Liabilities* . We do not net our derivative position by counterparty for purposes of balance sheet presentation and disclosure. Management reviews our derivative positions, overall risk management strategy and hedging program, on a regular basis. We only enter into transactions that we believe will be highly effective at offsetting the underlying risk. Our use of derivatives involves the risk that counterparties may default on a derivative contract; therefore we: (i) establish exposure limits for each counterparty to minimize this risk and provide counterparty diversification; (ii) contract with counterparties that have long-term credit ratings of single-A or better; (iii) enter into master agreements that generally allow for netting of certain exposures; thereby significantly reducing the actual loss that would be incurred should a counterparty fail to perform its contractual obligations; and (iv) set minimum credit standards that become more stringent as the duration of the derivative financial instrument increases. Based on these factors, we consider the risk of counterparty default to be minimal.

Designated Derivatives. We may choose to designate our derivative financial instruments, generally foreign currency forwards as net investment hedges in foreign operations or interest rate swaps or forwards as cash flow hedges. At inception of the transaction, we formally designate and document the derivative financial instrument as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. We formally assess both at inception and at least quarterly thereafter, the effectiveness of our hedging transactions. Due to the high degree of effectiveness between the hedging instruments and the underlying exposures hedged, fluctuations in the value of the derivative financial instruments will generally be offset by changes in the cash flows or fair values of the underlying exposures being hedged.

Changes in the fair value of derivatives that are designated and qualify as net investment hedges in foreign operations and cash flow hedges are recorded in *AOCI/L* . For net investment hedges, these amounts offset the translation adjustments on the underlying net assets of our foreign investments, which we also record in *AOCI/L* . The ineffective portion of a derivative financial instrument's change in fair value, if any, is immediately recognized in earnings within the line item *Foreign Currency and Derivative Gains (Losses), Net* in the Consolidated Statements of Income. For cash flow hedges, we report the effective portion of the gain or loss as a component of *AOCI/* L and reclassify it to the applicable line item in the Consolidated Statements of Income, generally *Interest Expense* , over the corresponding period of the underlying hedged item. The ineffective portion of a derivative financial instrument's change in fair value is recognized in earnings, generally *Interest Expense* , at the time the ineffectiveness occurred. To the extent the hedged debt related to our interest rate swaps and forwards is paid off early, we write off the remaining balance in *AOCI/L* and recognize the amount in *Interest Expense* in the Consolidated Statements of Income.

In addition to the net investment hedges described above, we may issue debt in the OP in a currency that is not the same functional currency of the borrowing entity to hedge our international investments. We designate the debt as a nonderivative financial instrument to offset the translation and economic exposures related to our net investment in international subsidiaries.

Undesignated Derivatives. We also use derivatives, such as foreign currency forwards and option contracts, that are not designated as hedges to manage foreign currency exchange rate risk related to our results of operations. The changes in fair values of these derivatives that were not designated or did not qualify as hedging instruments are immediately recognized in earnings within the line item *Foreign Currency and Derivative Gains (Losses), Net* in the Consolidated Statements of Income. These gains or losses are generally offset by lower or higher earnings as a result in exchange rates that were different than our expectations.

In addition, we may choose to not designate our interest rate swap and forward contracts. If a swap or forward contract is not designated as a hedge, the changes in fair value of these instruments is immediately recognized in earnings within the line item *Interest Expense* in the Consolidated Statements of Income .

Costs of Raising Capital. We treat costs incurred in connection with the issuance of common and preferred stock as a reduction to additional paid-in capital. We capitalize costs incurred in connection with the issuance of debt. Costs related to our credit facilities are included in *Other Assets* and costs related to all our other debt are recorded as a direct reduction of the liability.

AOCI/L. For the Parent, we include *AOCI/L* as a separate component of stockholders' equity in the Consolidated Balance Sheets. For the OP, *AOCI/L* is included in partners' capital in the Consolidated Balance Sheets. Any reference to *AOCI/L* in this document is referring to the component of stockholders' equity for the Parent and partners' capital for the OP.

Noncontrolling Interests. Noncontrolling interests represent the share of consolidated entities owned by third parties. We recognize each noncontrolling holder's respective share of the estimated fair value of the net assets at the date of formation or acquisition. Noncontrolling interests are subsequently adjusted for the noncontrolling holder's share of additional contributions, distributions and their share of the net earnings or losses of each respective consolidated entity. We allocate net income to noncontrolling interests based on the weighted average ownership interest during the period. The net income that is not attributable to us is reflected in the line item *Net Earnings Attributable to Noncontrolling Interests* . We do not recognize a gain or loss on transactions with a consolidated entity in which we do not own 100% of the equity, but we reflect the difference in cash received or paid from the noncontrolling interests carrying amount as additional paid-in-capital.

Certain limited partnership interests are exchangeable into our common stock. Common stock issued upon exchange of a holder's noncontrolling interest is accounted for at the carrying value of the surrendered limited partnership interest and the difference between the carrying value and the fair value of the common stock issued is recorded to additional paid-in-capital.

Revenue Recognition.
Rental Revenues. We lease our operating properties to customers under agreements that are classified as operating leases. We recognize the total minimum lease payments provided for under the leases on a straight-line basis over the lease term. Generally, under the terms of our leases, the majority of our rental expenses are recovered from our customers. We reflect amounts recovered from customers as revenues in the period that the applicable expenses are incurred. We make a provision for possible loss if the collection of a receivable balance is considered doubtful.

Strategic Capital Revenues. Strategic capital revenues include revenues we earn from the management services we provide to unconsolidated entities. These fees are determined in accordance with the terms specific to each arrangement and may include property and asset management fees or transactional fees for leasing, acquisition, development, construction, financing, legal and tax services provided. We may also earn incentive returns (called "promotes") based on third-party investor returns over time, which may be during the duration of the venture or at the time of liquidation. We recognize fees when they are earned, fixed and determinable or on a percentage of completion basis for development fees. We report these fees in *Strategic Capital Revenues* . The fees we earn to develop properties within these ventures are also recorded on a percentage of completion basis.

We also earn fees from ventures that we consolidate. Upon consolidation, these fees are eliminated from our earnings and the third-party share of these fees are recognized as a reduction of *Net Earnings Attributable to Noncontrolling Interests.*

Gains on Dispositions of Investments in Real Estate and Revaluation of Equity Investments Upon Acquisition of a Controlling Interest, Net. We recognize gains on the disposition of real estate when the recognition criteria have been met, generally at the time the risks and rewards and title have transferred and we no longer have substantial continuing involvement with the real estate sold. We recognize losses from the disposition of real estate when known. We recognize gains or losses on the remeasurement of equity investments to fair value upon acquisition of a controlling interest in any of our previously unconsolidated entities and the transaction is considered the acquisition of a business.

When we contribute a property to an unconsolidated entity in which we have an ownership interest, we do not recognize a portion of the gain realized. The amount of gain not recognized, based on our ownership interest in the entity acquiring the property, is deferred by recognizing a reduction to our investment in the applicable unconsolidated entity. We adjust our proportionate share of net earnings or losses recognized in future periods to reflect the entities' recorded depreciation expense as if it were computed on our lower basis in the contributed properties rather than on the entity's basis.

When a property that we originally contributed to an unconsolidated entity is disposed of to a third party, we recognize the amount of the gain we previously deferred, along with our proportionate share of the gain recognized by the unconsolidated entity. If our ownership interest in an unconsolidated entity decreases and the decrease is expected to be permanent, we recognize the amounts relating to previously deferred gains to coincide with our new ownership interest.

Rental Expenses. Rental expenses primarily include the cost of our property management personnel, utilities, repairs and maintenance, property insurance, real estate taxes and the other costs of managing the properties.

Strategic Capital Expenses. Strategic capital expenses generally include the direct expenses associated with the asset management of the unconsolidated co-investment ventures provided by our employees who are assigned to our Strategic Capital segment and the costs of our Prologis Promote Plan based on earned promotes. In addition, in order to achieve efficiencies and economies of scale, all of our property management functions are provided by property management personnel who are assigned to our Real Estate Operations segment. These individuals perform the property-level management of the properties in our owned and managed portfolio, which include properties we consolidate and those we manage that are owned by the unconsolidated co-investment ventures. We allocate the costs of our property management to the properties we consolidate (included in *Rental Expenses*) and the properties owned by the unconsolidated co-investment ventures (included in *Strategic Capital Expenses*) by using the square feet owned by the respective portfolios.

Equity-Based Compensation. We account for equity-based compensation by measuring the cost of employee services received in exchange for an award of an equity instrument based on the fair value of the award on the grant date. We recognize the cost of the award on a straight-line basis over the period during which an employee is required to provide service in exchange for the award, generally the vesting period.

Income Taxes. Under the Internal Revenue Code, REITs are generally not required to pay federal income taxes if they distribute 100% of their taxable income and meet certain income, asset and stockholder tests. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any alternative minimum tax) and may not be able to qualify as a REIT for the four subsequent taxable years. Even as a REIT, we may be subject to certain foreign state and local taxes on our own income and property, and to federal income and excise taxes on our undistributed taxable income.

We have elected taxable REIT subsidiary ("TRS") status for some of our consolidated subsidiaries. This allows us to provide services that would otherwise be considered impermissible for REITs. Many of the foreign countries in which we have operations do not recognize REITs or do not accord REIT status under their respective tax laws to our entities that operate in their jurisdiction. In the U.S., we are taxed in certain states in which we operate. Accordingly, we recognize income tax expense for the federal and state income taxes incurred by our TRSs, taxes incurred in certain states and foreign jurisdictions, and interest and penalties associated with our unrecognized tax benefit liabilities.

We evaluate tax positions taken in the Consolidated Financial St atements under the interpretation for accounting for uncertainty in income taxes. As a result of this evaluation, we may recognize a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on ex amination by taxing authorities.

We recognize deferred income taxes in certain taxable entities. For federal income tax purposes, certain acquisitions have been treated as tax-free transactions resulting in a carry-over basis in assets and liabilities. For financial reporting purposes and in accordance with purchase accounting, we record all of the acquired assets and assumed liabilities at the estimated fair value at the date of acquisition. For our taxable subsidiaries, including certain international jurisdictions, we recognize the deferred income tax liabilities that represent the tax effect of the difference between the tax basis carried over and the fair value of the tangible and intangible assets at the date of acquisition. Any subsequent increases or decreases to the deferred income tax liability recorded in connection with these acquisitions, are reflected in earnings.

If taxable income is generated in these subsidiaries, we recognize a benefit in earnings as a result of the reversal of the deferred income tax liability previously recorded at the acquisition date and we record current income tax expense representing the entire current income tax liability. If the reversal of the deferred income tax liability results from a sale or contribution of assets, the classification of the reversal to the Consolidated Statement of Income is based on the taxability of the transaction. We record the reversal to deferred income tax benefit as a taxable transaction if we dispose of the asset. We record the reversal as *Gains on Dispositions of Investments in Real Estate and Revaluation of Equity Investments Upon Acquisition of a Controlling Interest, Net* as a non-taxable transaction if we dispose of the asset along with the entity that owns the asset.

Deferred income tax expense is generally a function of the period's temporary differences (items that are treated differently for tax purposes than for financial reporting purposes) and the utilization of tax net operating losses ("NOL") generated in prior years that had been previously recognized as deferred income tax assets. We provide for a valuation allowance for deferred income tax assets if we believe all or some portion of the deferred income tax asset may not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances that causes a change in the estimated ability to realize the related deferred income tax asset is included in deferred tax expense.

Environmental Costs. We incur certain environmental remediation costs, including cleanup costs, consulting fees for environmental studies and investigations, monitoring costs, and legal costs relating to cleanup, litigation defense, and the pursuit of responsible third parties. We expense costs incurred in connection with operating properties and properties previously sold. We capitalize costs related to undeveloped land as development costs and include any expected future environmental liabilities at the time of acquisition. We include costs incurred for properties to be disposed in the cost of the properties upon disposition. We maintain a liability for the estimated costs of environmental remediation expected to be incurred in connection with undeveloped land, operating properties and properties previously sold that we adjust as appropriate as information becomes available.

New Accounting Pronouncements.

New Accounting Standards Adopted

In January 2017, the Financial Accounting Standards Board ("FASB") issued an accounting standard update ("ASU") that clarifies the definition of a business. The update added further guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. As discussed above, we adopted this standard on January 1, 2017, on a prospective basis. The adoption did not have a significant impact on the Consolidated Financial Statements.

New Accounting Standards Issued but not yet Adopted

Revenue Recognition . In May 2014, the FASB issued an ASU that requires companies to use a five-step model to determine when to recognize revenue from customer contracts in an effort to increase consistency and comparability throughout global capital markets and across industries. We evaluated each of our revenue streams and their related accounting policies under the standard. Rental revenues and recoveries earned from leasing our operating properties are excluded from this standard and will be assessed with the adoption of the lease ASU discussed below. Our evaluation under the revenue recognition standard includes recurring fees and promotes earned from our co-investment ventures as well as sales to third parties and contributions of properties to unconsolidated co-investment ventures. While we do not expect changes in the recognition of recurring fees earned, we will evaluate promote fees earlier in the incentive period and recognize promote fees to the extent it is probable that a revenue reversal will not occur in a future period.

For dispositions of real estate to third parties, we do not expect the standard to impact the recognition of the sale. In February 2017, the FASB issued an additional ASU that provides the accounting treatment for gains and losses from the derecognition of non-financial assets, including the accounting for partial sales of real estate properties. Upon adoption of this standard, we will recognize, on a prospective basis, the entire gain attributed to contributions of real estate properties to unconsolidated co-investment ventures rather than the third-party share we recognize today. For deferred gains from existing partial sales recorded prior to the adoption of the standard, we will continue to recognize these gains into earnings over the lives of the underlying real estate properties. In addition to the recognition changes discussed above, expanded quantitative and qualitative disclosures regarding revenue recognition will be required for contracts that are subject to these standards. We will adopt the practical expedient to only assess the recognition of revenue for open contracts during the transition period and do not anticipate any material retained earnings adjustments upon adoption. We adopted the revenue recognition and derecognition of non-financial assets standards on January 1, 2018, on a modified retrospective basis.

Leases. In February 2016, the FASB issued an ASU that provides the principles for the recognition, measurement, presentation and disclosure of leases.

- *As a lessor.* The accounting for lessors will remain largely unchanged from current GAAP; however, the standard requires that lessors expense, on an as-incurred basis, certain initial direct costs that are not incremental in negotiating a lease. Under existing standards, these costs are capitalizable and therefore this new standard will result in certain of these costs being expensed as incurred after adoption. During 2017 and 2016, we capitalized $23.8 million and $23.9 million, respectively, of internal costs related to our leasing activities. This standard may also impact the timing, recognition, presentation and disclosures related to our rental recoveries from tenants earned from leasing our operating properties, although we do not expect a significant impact.

- *As a lessee.* Under the standard, lessees apply a dual approach, classifying leases as either operating or finance leases. A lessee is required to record a right-of-use ("ROU") asset and a lease liability for all leases with a term of greater than 12 months, regardless of their lease classification. We are a lessee of ground leases and office space leases. At December 31, 2017, we had approximately 88 ground and office space leases that will require us to measure and record a ROU asset and a lease liability upon adoption of the standard. We continue to evaluate the key drivers in the measurement of the ROU asset and lease liability including the discount rate and lease term. Details of our future minimum rental payments under these ground and office space leases are disclosed in Note 4.

The standard is effective for us on January 1, 2019. We expect to adopt the practical expedients available for implementation under the standard. By adopting these practical expedients, we will not be required to reassess (i) whether an expired or existing contract meets the definition of a lease; (ii) the lease classification at the adoption date for expired or existing leases; and (iii) whether costs previously capitalized as initial direct costs would continue to be amortized. This allows us to continue to account for our ground and office space leases as operating leases, however, any new or renewed ground leases may be classified as financing leases unless they meet certain conditions to be considered a lease involving facilities owned by a government unit or authority. The standard will also require new disclosures within the accompanying notes to the Consolidated Financial Statements. While we are well into our analysis of the adoption, we will continue to assess the impact the adoption will have on the Consolidated Financial Statements based on industry practice and potential updates to the ASU.

Derivatives and Hedging . In August 2017, the FASB issued an ASU that simplifies the application of hedge accounting guidance in current GAAP and improves the reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. Among the simplification updates, the standard eliminates the requirement in current GAAP to separately recognize periodic hedge ineffectiveness. Mismatches between the changes in value of the hedged item and hedging instrument may still occur but they will no longer be separately reported. The standard requires the presentation of the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. The standard is effective for us on January 1, 2019, but early adoption is permitted. We are currently evaluating the impact the adoption of this standard will have on the Consolidated Financial Statements.

NOTE 3. BUSINESS COMBINATIONS

KTR Capital Partners and Its Affiliates

In 2015, we acquired high quality real estate assets and the operating platform of KTR Capital Partners and its affiliates ("KTR") through our consolidated co-investment venture, Prologis U.S. Logistics Venture ("USLV"). The portfolio consisted of 315 operating properties, aggregating 59.0 million square feet, 3.6 million square feet of properties under development and land parcels. The total purchase price was $5.0 billion, net of assumed debt of $735.2 million. The purchase price was funded through cash contributions of $2.6 billion from Prologis and $2.3 billion from our venture partner, and the issuance of 4.5 million common limited partnership units in the OP. We incurred $24.7 million of acquisition costs that are included in *Other Expenses* during 2015.

The following unaudited pro forma financial information presents our results as though the KTR transaction had been completed on January 1, 2015. The pro forma information does not reflect the actual results of operations had the transaction actually been completed on January 1, 2015, and it is not indicative of future operating results. The results for the year ended December 31, 2015, include approximately seven months of actual results for the transaction, the acquisition expenses, and five months of pro forma adjustments. Actual results in 2015 include rental revenues and rental expenses of the properties acquired of $235.7 million and $56.9 million, respectively, representing the period from acquisition through December 31, 2015.

The following amounts are in thousands, except per share amounts:

		2015
Total revenues	$	2,358,643
Net earnings attributable to common stockholders	$	866,753
Net earnings per share attributable to common stockholders – Basic	$	1.66
Net earnings per share attributable to common stockholders – Diluted	$	1.65

These results include certain adjustments, primarily: (i) decreased revenues from the amortization of the net assets from the acquired leases with net favorable rents relative to estimated market rents; (ii) increased depreciation and amortization expense resulting from the adjustment of real estate assets to estimated fair value and recognition of intangible assets related to in-place leases; and (iii) additional inter est expense attributable to the debt issued to finance our cash portion of the acquisition offset by lower interest expense due to the accretion of the fair value adjustment of debt.

NOTE 4. REAL ESTATE

Investments in real estate properties consisted of the following at December 31 (dollars and square feet in thousands):

	Square Feet		Number of Buildings			
	2017	2016	2017	2016	2017	2016
Operating properties:						
Buildings and improvements	294,811	331,210	1,525	1,776	$ 16,849,349	$ 17,905,914
Improved land					5,735,978	6,037,543
Development portfolio, including land costs:						
Prestabilized	7,345	8,256	22	29	546,173	798,233
Properties under development	22,216	19,539	63	60	1,047,316	633,849
Land (1)					1,154,383	1,218,904
Other real estate investments (2)					505,445	524,887
Total investments in real estate properties					25,838,644	27,119,330
Less accumulated depreciation					4,059,348	3,758,372
Net investments in real estate properties					**$ 21,779,296**	**$ 23,360,958**

(1) Included in our investments in real estate at December 31, 2017 and 2016, were 5,191 and 5,892 acres of land, respectively.

(2) Included in other real estate investments were: (i) non-logistics real estate; (ii) land parcels that are ground leased to third parties; (iii) our corporate office buildings; (iv) costs related to future development projects, including purchase options on land; (v) infrastructure costs related to projects we are developing on behalf of others; and (vi) earnest money deposits associated with potential acquisitions.

At December 31, 2017, we owned real estate assets in the U.S. and other Americas (Brazil, Canada and Mexico), Europe (Belgium, the Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Slovakia, Spain, Sweden and the United Kingdom ("U.K.")) and Asia (China, Japan and Singapore).

Acquisitions

The following table summarizes our real estate acquisition activity for the years ended December 31 (dollars and square feet in thousands):

	2017	2016	2015
Number of operating properties	16	9	52
Square feet	6,859	1,823	7,375
Acquisition value of net investments in real estate properties (1) (2)	$ 1,139,410	$ 411,706	$ 1,042,562

(1) Value includes the acquisition of 1,392, 776 and 690 acres of land in 2017, 2016 and 2015, respectively.

(2) In August 2017, we acquired our partner's interest in certain joint ventures in Brazil for an aggregate price of R$1.2 billion ($381.7 million). As a result of this transaction, we began consolidating the real estate properties that included twelve operating properties, two prestabilized properties and 531.4 acres of undeveloped land. We accounted for the transaction as a step-acquisition under the business combination rules and recognized a gain. The results of operations for these real estate properties were not significant in 2017. While the preliminary purchase price allocation is substantially complete, the valuation of the real estate properties is still being finalized.

The table above does not include the properties acquired in the KTR transaction in 2015, as this transaction is explained in Note 3.

Dispositions

The following table summarizes our real estate disposition activity for the years ended December 31 (dollars and square feet in thousands):

	2017	2016	2015
Contributions to unconsolidated co-investment ventures (1)			
Number of properties	222	35	31
Square feet	48,171	11,624	8,355
Net proceeds (2)	$ 3,201,986	$ 1,231,878	$ 835,385
Gains on contributions, net (2)	$ 847,034	$ 267,441	$ 148,987
Dispositions to third parties			
Number of properties	110	172	136
Square feet	17,147	20,360	23,024
Net proceeds (2) (3)	$ 1,281,501	$ 1,760,048	$ 2,352,645
Gains on dispositions, net (2) (3)	$ 274,711	$ 353,668	$ 609,900
Total gains on contributions and dispositions, net	$ 1,121,745	$ 621,109	$ 758,887
Gains on revaluation of equity investments upon acquisition of a controlling interest	61,220	-	-
Gains on redemptions of investments in co-investment ventures (4)	-	136,289	-
Total gains on dispositions of investments in real estate and revaluation of equity investments upon acquisition of a controlling interest, net	**$ 1,182,965**	**$ 757,398**	**$ 758,887**

(1) In July 2017, we contributed 190 operating properties totaling 37.1 million square feet owned by Prologis North American Industrial Fund ("NAIF") to Prologis Targeted U.S. Logistics Fund ("USLF"), our unconsolidated co-investment venture. In exchange for the contribution, we received additional units and USLF assumed $956.0 million of secured debt.

(2) Includes the contribution and disposition of land parcels.

(3) Includes the sale of our investment in Europe Logistics Venture 1 ("ELV") in January 2017. See Note 5 for more information on this transaction.

(4) In 2016, we redeemed a portion of our investment in two co-investment ventures.

Operating Lease Agreements

We lease our operating properties and certain land parcels to customers under agreements that are generally classified as operating leases. Our weighted average lease term remaining, based on square feet for all leases in effect at December 31, 2017, was 48 months.

The following table summarizes our minimum lease payments on leases with lease periods greater than one year for space in our operating properties, pre-stabilized development properties and leases of land subject to ground leases at December 31, 2017 (in thousands):

2018	$ 1,602,708
2019	1,440,452
2020	1,255,182
2021	1,015,212
2022	770,119
Thereafter	2,312,372
Total	**$ 8,396,045**

These amounts do not reflect future rental revenues from the renewal or replacement of existing leases and exclude reimbursements of operating expenses.

Lease Commitments

We have entered into operating ground leases as a lessee on certain land parcels, primarily on-tarmac facilities and office space with remaining lease terms of 1 to 65 years. The following table summarizes our future minimum rental payments under non-cancelable operating leases in effect at December 31, 2017 (in thousands):

2018	$ 34,413
2019	31,819
2020	30,420
2021	25,964
2022	24,399
Thereafter	311,372
Total	**$ 458,387**

NOTE 5. UNCONSOLIDATED ENTITIES

Summary of Investments

We have investments in entities through a variety of ventures. We co-invest in entities that own multiple properties with partners and investors and we provide asset and property management services to these entities, which we refer to as co-investment ventures. These entities may be consolidated or unconsolidated, depending on the structure, our partner's participation and other rights and our level of control of the entity. This note details our investments in unconsolidated co-investment ventures, which are accounted for using the equity method of accounting. See Note 12 for more detail regarding our consolidated investments that are not wholly owned.

We also have other ventures, generally with one partner and that we do not manage, which we account for using the equity method. We refer to our investments in all entities accounted for using the equity method, both unconsolidated co-investment ventures and other ventures, collectively, as unconsolidated entities.

The following table summarizes our investments in and advances to our unconsolidated entities at December 31 (in thousands):

	2017	2016
Unconsolidated co-investment ventures	$ 5,274,702	$ 4,057,524
Other ventures	221,748	172,905
Total	**$ 5,496,450**	**$ 4,230,429**

Unconsolidated Co-Investment Ventures

The following table summarizes our investments in the individual co-investment ventures at December 31 (dollars in thousands):

	Ownership Percentage		Investment in and Advances to	
Co-Investment Venture	**2017**	**2016**	**2017**	**2016**
Prologis Targeted U.S. Logistics Fund, L.P. ("USLF") (1)	28.2%	14.9%	$ 1,383,021	$ 434,818
FIBRA Prologis (2) (3)	46.3%	45.9%	533,941	547,744
Prologis European Logistics Partners Sàrl ("PELP") (4)	50.0%	50.0%	1,766,075	1,623,707
Prologis European Logistics Fund ("PELF") (5)	26.3%	31.2%	1,017,361	344,200
Prologis UK Logistics Venture ("UKLV") (4) (6)	15.0%	N/A	29,382	-
Prologis Targeted Europe Logistics Fund, FCP-FIS ("PTELF") (5)	N/A	23.5%	-	310,118
Europe Logistics Venture 1, FCP-FIS ("ELV") (7)	N/A	15.0%	-	48,289
Nippon Prologis REIT, Inc. ("NPR") (8) (9)	15.1%	15.1%	406,568	348,570
Prologis China Logistics Venture I, LP and II, LP ("Prologis China Logistics Venture") (4)	15.0%	15.0%	116,890	102,778
Brazil joint ventures (10)	10.0%	various	21,464	297,300
Total			**$ 5,274,702**	**$ 4,057,524**

(1) In July 2017, we contributed operating properties to USLF. We received cash proceeds and additional units, which increased our ownership interest and USLF assumed secured debt.

(2) At December 31, 2017, we owned 295.5 million units of FIBRA Prologis that had a closing price of Ps 34.01 ($1.72) per unit on the Mexican Stock Exchange.

(3) We have granted FIBRA Prologis a right of first refusal with respect to stabilized properties that we plan to sell in Mexico.

(4) We have one partner in each of these co-investment ventures.

(5) In October, the assets and related liabilities of PTELF were contributed to Prologis European Properties Fund II ("PEPF II") in exchange for units, and PEPF II was renamed PELF. In connection with the transaction, we exchanged our units in PTELF for new units in PELF resulting in our ownership interest decreasing to 25.6%, however, our economic investment did not substantially change. As the contribution resulted in the exchange of our investment in PTELF for an equity investment in PELF, we carried over our investment in PTELF to PELF at the historical cost and no gain was recognized.

(6) In February 2017, we formed UKLV, an unconsolidated co-investment venture in which we have a 15.0% ownership interest. UKLV will acquire land, develop buildings and operate and hold logistics real estate assets in the U.K. Upon formation, we, along with our venture partner, committed £380.0 million ($477.5 million), of which our share was £57.0 million ($71.6 million).

(7) In January 2017, we sold our investment in ELV to our venture partner for $84.3 million and ELV contributed its properties to PTELF in exchange for equity interests.

(8) At December 31, 2017, we owned 0.3 million units of NPR that had a closing price of ¥238,300 ($2,117) per share on the Tokyo Stock Exchange. At December 31, 2017 and 2016, we had receivables from NPR of $106.2 million and $96.9 million, respectively, related to customer security deposits that originated through a leasing company owned by us that pertain to properties owned by NPR. We have a corresponding payable to NPR's customers in *Other Liabilities* . These amounts are repaid to us as the leases turn over.

(9) For any properties we develop and plan to sell in Japan, we have committed to offer those properties to NPR.

(10) In March 2017, we acquired all our partner's interest in the Prologis Brazil Logistics Partners Fund I, L.P. ("Brazil Fund"). In August 2017, we acquired our partner's interest in certain joint ventures in Brazil. See Note 4 for more information on this acquisition. The remaining investment balance includes nine properties aggregating 2.8 million square feet held with various partners.

The amounts recognized in *Strategic Capital Revenues* and *Earnings from Unconsolidated Entities, Net* depend on the size and operations of the unconsolidated co-investment ventures, the timing of revenues earned through promotes, as well as fluctuations in foreign currency exchange rates and our ownership interest. We recognized *Strategic Capital Expenses* for direct costs associated with the asset management of these ventures and allocated property-level management costs for the properties owned by the ventures.

The following table summarizes the amounts we recognized in the Consolidated Statements of Income related to the unconsolidated co-investment ventures for the years ended December 31 (in thousands):

	2017	2016	2015
Strategic capital revenues from unconsolidated co-investment ventures, net:			
U.S.	$ 174,586	$ 37,911	$ 36,964
Other Americas	28,493	22,799	22,735
Europe	106,768	186,113	112,626
Asia	61,410	54,352	42,750
Total (1)	**$ 371,257**	**$ 301,175**	**$ 215,075**
Earnings from unconsolidated co-investment ventures, net:			
U.S.	$ 32,989	$ 10,441	$ 7,124
Other Americas	26,200	27,155	28,842
Europe	145,792	137,652	106,656
Asia	29,187	16,629	12,780
Total	**$ 234,168**	**$ 191,877**	**$ 155,402**

(1) We earned promote revenue (third-party share) of $127.5 million, $88.5 million and $29.5 million in 2017, 2016 and 2015, respectively. Promote revenue is based on the venture's cumulative returns to investors over a certain time-period, generally three years.

The following table summarizes the financial position and operating information of our unconsolidated co-investment ventures (not our proportionate share), at December 31 and for the years ended December 31 as presented at our adjusted basis derived from the ventures' U.S. GAAP information (dollars and square feet in millions):

	U.S.			Other Americas			Europe			Asia			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Financial Position:															
Ventures	1	1	1	2	2	2	3	4	4	2	2	2	**8**	**9**	**9**
Operating properties	552	369	391	205	213	205	707	700	688	95	85	66	**1,559**	**1,367**	**1,350**
Square feet	88	50	50	37	42	39	166	163	159	41	36	29	**332**	**291**	**277**
Total assets ($)	7,062	4,238	4,408	2,118	2,793	2,482	13,586	10,853	11,343	6,133	5,173	4,320	**28,899**	**23,057**	**22,553**
Third-party debt ($)	2,313	1,414	1,433	756	739	657	2,682	2,446	2,640	2,328	1,947	1,520	**8,079**	**6,546**	**6,250**
Total liabilities ($)	2,520	1,540	1,550	782	814	708	3,655	3,283	3,584	2,685	2,239	1,751	**9,642**	**7,876**	**7,593**
Investment balance ($) (1)	1,383	435	690	555	845	786	2,813	2,327	2,707	524	451	402	**5,275**	**4,058**	**4,585**
Wtd avg ownership (2)	28.2%	14.9%	22.5%	43.4%	43.9%	43.8%	32.8%	35.1%	38.9%	15.1%	15.1%	15.0%	**28.8%**	**27.9%**	**31.6%**
Operating Information:															
Revenues ($)	533	395	382	245	242	228	1,030	964	947	372	342	275	**2,180**	**1,943**	**1,832**
Net earnings ($)	139	57	35	71	71	78	406	333	261	182	101	77	**798**	**562**	**451**

(1) The difference between our ownership interest of a venture's equity and our investment balance at December 31, 2017, 2016 and 2015, results principally from three types of transactions: (i) deferring a portion of the gains we recognize from a contribution of a property to a venture ($667.3 million, $469.9 million and $430.7 million, respectively); (ii) recording additional costs associated with our investment in the venture ($94.2 million, $124.1 million and $122.1 million, respectively); and (iii) advances to a venture ($210.0 million, $166.1 million and $189.7 million, respectively).

(2) Represents our weighted average ownership interest in all co-investment ventures based on each entity's contribution of total assets, before depreciation, net of other liabilities.

Equity Commitments Related to Certain Unconsolidated Co-Investment Ventures

Certain co-investment ventures have equity commitments from us and our venture partners. Our venture partners fulfill their equity commitment with cash. We may fulfill our equity commitment through contributions of properties or cash. The equity contributions are generally used for the acquisition or development of properties, but may be used for the repayment of debt or other general uses. The venture may obtain financing for the acquisition of properties and therefore the acquisition price of additional investments that the venture could make may be more than the equity commitment. Depending on market conditions, the investment objectives of the ventures, our liquidity needs and other factors, we may make additional contributions of properties or additional cash investments in these ventures through the remaining commitment period.

The following table summarizes the remaining equity commitments at December 31, 2017 (in millions):

	Equity Commitments			Expiration Date for Remaining Commitments
	Prologis	Venture Partners	Total	
Prologis Targeted U.S. Logistics Fund	$ -	$ 73	$ 73	2019
Prologis European Logistics Fund (1)	-	1,061	1,061	2018 – 2019
Prologis UK Logistics Venture (2)	27	151	178	2021
Prologis China Logistics Venture	294	1,665	1,959	2020 – 2024
Total	**$ 321**	**$ 2,950**	**$ 3,271**	

(1) During 2017, the remaining equity commitments of PTELF were transferred to PELF when the assets and related liabilities of PTELF were contributed to PEPF II, and PEPF II was renamed PELF. Equity commitments are denominated in euro and reported in U.S. dollars based on an exchange rate of $1.20 U.S. dollars to the euro.

(2) Equity commitments are denominated in British pounds sterling and reported in U.S. dollars based on an exchange rate of $1.35 U.S. dollars to the British pound sterling.

NOTE 6. ASSETS HEL D FOR SALE OR CONTRIBUTION

We had investments in certain real estate properties that met the criteria to be classified as held for sale or contribution at December 31, 2017, and 2016. At the time of classification, these properties were expected to be sold to third parties or were recently developed and expected to be contributed to unconsolidated co-investment ventures within twelve months. The amounts included in *Assets Held for Sale or Contribution* represented real estate investment balances and the related assets and liabilities for each property.

Assets held for sale or contribution consisted of the following (dollars and square feet in thousands):

	2017	2016
Number of operating properties	22	13
Square feet	5,384	4,167
Total assets held for sale or contribution	$ 342,060	$ 322,139
Total liabilities associated with assets held for sale or contribution – included in *Other Liabilities*	$ 9,341	$ 4,984

NOTE 7. NOTES RECEIVABLE BACKED BY REAL ESTATE

The following table summarizes information about our notes receivable backed by real estate (dollars in thousands):

	Balance Outstanding	Interest Rates	Maturity Dates
Balance at January 1, 2016	$ 235,050	2.0% – 10.0%	February 2016 – April 2017
Additions	-		
Repayments	(202,950)		
Balance at December 31, 2016	32,100	5.8% – 10.0%	April 2017 – December 2017
Additions (1)	53,796		
Repayments	(32,100)		
Assumption by USLF (1)	(19,536)		
Balance at December 31, 2017	**$ 34,260**	3.5%	March 2018

(1) In 2017, we received a note receivable backed by real estate through a property disposition. Subsequently, this note was assumed through the contribution of operating properties to USLF.

NOTE 8. OTHER ASSETS AND OTHER LIABILITIES

The following table summarizes our other assets, net of amortization and depreciation, if applicable, at December 31 (in thousands):

	2017	2016
Rent leveling	$ 311,932	$ 285,824
Leasing commissions	306,461	286,821
Acquired lease intangibles	202,087	267,907
Fixed assets	109,823	102,830
Prepaid assets	102,179	120,361
Accounts receivable	85,118	110,918
Value added taxes receivable	84,339	94,713
Other notes receivable	35,406	35,824
Derivative assets	19,139	47,114
Management contracts	17,608	41,993
Deferred income taxes	13,533	14,052
Other	94,338	88,633
Total	**$ 1,381,963**	**$ 1,496,990**

The following table summarizes our other liabilities, net of amortization, if applicable, at December 31 (in thousands):

	2017	2016
Tenant security deposits	$ 209,741	$ 206,301
Unearned rents	71,392	90,233
Income tax liabilities	56,988	68,666
Indemnification liability	39,480	32,843
Derivative liabilities	32,229	1,268
Environmental liabilities	25,728	24,572
Acquired lease intangibles	24,769	31,707
Deferred income	15,754	21,629
Value added taxes payable	10,081	15,888
Other	173,737	134,212
Total	**$ 659,899**	**$ 627,319**

The following table summarizes the expected future amortization of leasing commissions and forgone rent (included in acquired lease intangibles) into amortization expense and above and below market leases (included in acquired lease intangibles) and rent leveling net assets into rental revenues, all based on the balances at December 31, 2017 (in thousands):

	Amortization Expense	Net (Increase) Decrease to Rental Revenues
2018	$ 107,897	$ (13,862)
2019	90,168	25,635
2020	73,790	42,140
2021	56,494	46,332
2022	41,689	41,855
Thereafter	98,233	185,340
Total	**$ 468,271**	**$ 327,440**

NOTE 9. DEBT

All debt is incurred by the OP. The Parent does not have any indebtedness, but guarantees the unsecured debt of the OP.

The following table summarizes our debt at December 31 (dollars in thousands):

	2017		2016	
	Weighted Average Interest Rate (1)	Amount Outstanding (2)	Weighted Average Interest Rate (1)	Amount Outstanding
Credit facilities	1.8%	$ 317,392	1.0%	$ 35,023
Senior notes (3)	3.0%	6,067,277	3.3%	6,417,492
Term loans	1.7%	2,046,945	1.4%	1,484,523
Unsecured other	6.1%	13,546	6.1%	14,478
Secured mortgages (4)	5.7%	808,096	4.9%	979,585
Secured mortgages of consolidated entities (5)	2.9%	159,375	3.0%	1,677,193
Total	**2.9%**	**$ 9,412,631**	**3.2%**	**$ 10,608,294**

(1) The interest rates presented represent the effective interest rates (including amortization of debt issuance costs and the noncash premiums or discounts) at the end of the year for the debt outstanding.

(2) Included in the outstanding balances were borrowings denominated in non-U.S. dollars, principally: euro ($3.8 billion), Japanese yen ($1.3 billion), British pound sterling ($0.7 billion) and Canadian dollars ($0.5 billion).

(3) Notes are due October 2020 to June 2029 with effective interest rates ranging from 1.5% to 4.4% at December 31, 2017.

(4) Debt is due May 2018 to December 2025 with effective interest rates ranging from 2.7% to 7.8% at December 31, 2017. The debt is secured by 144 real estate properties with an aggregate undepreciated cost of $2.2 billion at December 31, 2017.

(5) Debt is due April 2019 to December 2027 with effective interest rates ranging from 2.9% to 3.4% at December 31, 2017. The debt is secured by 18 real estate properties with an aggregate undepreciated cost of $0.3 billion at December 31, 2017.

Credit Facilities

We have a global senior credit facility (the "Global Facility"), under which we may draw in British pounds sterling, Canadian dollars, euro, Japanese yen and U.S. dollars on a revolving basis up to $3.0 billion (subject to currency fluctuations). We have the ability to increase the Global Facility to $3.8 billion, subject to currency fluctuations and obtaining additional lender commitments. Pricing under the Global Facility, including the spread over LIBOR, facility fees and letter of credit fees, varies based on the public debt ratings of the OP. The Global Facility is scheduled to mature in April 2020; however, we may extend the maturity date for six months on two occasions, subject to the satisfaction of certain conditions and payment of extension fees.

We also have a Japanese yen revolver (the "Revolver"). In February 2017, we renewed and amended the Revolver to increase our availability from ¥45.0 billion to ¥50.0 billion ($444.2 million at December 31, 2017). We have the ability to increase the Revolver to ¥65.0 billion ($577.4 million at December 31, 2017), subject to obtaining additional lender commitments. Pricing under the Revolver, including the spread over LIBOR, facility fees and letter of credit fees, varies based on the public debt ratings of the OP. The Revolver is scheduled to mature in February 2021; however, we may extend the maturity date for one year, subject to the satisfaction of certain conditions and payment of extension fees.

We refer to the Global Facility and the Revolver, collectively, as our "Credit Facilities."

The following table summarizes information about our Credit Facilities (dollars in millions):

	2017	2016	2015
For the years ended December 31:			
Weighted average daily interest rate	1.3%	1.4%	1.1%
Weighted average daily borrowings	$ 111	$ 128	$ 261
Maximum borrowings outstanding at any month-end	$ 317	$ 307	$ 942
At December 31:			
Aggregate lender commitments	$ 3,490	$ 3,306	$ 2,662
Less:			
Borrowings outstanding	317	35	-
Outstanding letters of credit	33	36	32
Current availability	**$ 3,140**	**$ 3,235**	**$ 2,630**

Senior Notes

The senior notes are unsecured and our obligations are effectively subordinated in certain respects to any of our debt that is secured by a lien on real property, to the extent of the value of such real property. The senior notes require interest payments be made quarterly, semi-annually or annually. All of the senior notes are redeemable at any time at our option, subject to certain prepayment penalties. Such repurchase and other terms are governed by the provisions of indenture agreements, various note purchase agreements or trust deeds.

In June 2017, we issued £500.0 million ($645.3 million) senior notes bearing a coupon rate of 2.25%, maturing in June 2029, at 99.9% par value for an effective rate of 2.30%. The exchange rate used to calculate into U.S. dollar was the spot rate at the date of the transaction. We did not issue senior notes during 2016.

In January 2018, we issued €400.0 million ($495.3 million) senior notes bearing a floating rate of Euribor plus 0.25%, maturing in January 2020. The exchange rate used to calculate into U.S. dollar was the spot rate at the date of the transaction.

Term Loans

The following table summarizes our outstanding term loans at December 31 (dollars and borrowing currency in thousands):

Term Loan	Borrowing Currency	Initial Borrowing Date	Lender Commitment at 2017		Amount Outstanding at 2017	Amount Outstanding at 2016	Interest Rate	Maturity Date
			Borrowing Currency	USD	USD	USD		
2017 Term Loan (1) (2)	USD, EUR, JPY and GBP	June 2014	$ 500,000	$ 500,000	$ 500,000	$ 193,293	LIBOR plus 0.90%	May 2020
2015 Canadian Term Loan	CAD	December 2015	$ 371,925	$ 296,595	296,595	276,322	CDOR rate plus 1.50%	February 2023
2016 Yen Term Loan	JPY	August 2016	¥ 120,000,000	$ 1,065,965	1,065,965	1,025,057	Yen LIBOR plus 0.65%	August 2022 and 2023
March 2017 Yen Term Loan	JPY	March 2017	¥ 12,000,000	$ 106,597	106,597	-	0.92% and 1.01%	March 2027 and 2028
October 2017 Yen Term Loan	JPY	October 2017	¥ 10,000,000	$ 88,830	88,830	-	0.85%	October 2032
Subtotal					2,057,987	1,494,672		
Debt issuance costs, net					(11,042)	(10,149)		
Total					**$ 2,046,945**	**$ 1,484,523**		

(1) In May 2017, we renewed and amended our existing senior term loan agreement (the "2017 Term Loan"). We may increase the borrowings up to $1.0 billion, subject to obtaining additional lender commitments. We may pay down and reborrow on this term loan. We may extend the maturity date twice, by one year each, subject to the satisfaction of certain conditions and the payment of an extension fee.

(2) We paid down $1.2 billion and $1.2 billion and reborrowed $1.5 billion and $0.8 billion in 2017 and 2016, respectively.

Secured Mortgage Debt

In July 2017, USLF assumed $956.0 million of secured mortgage debt in conjunction with our contribution of the associated real estate properties, as discussed in Note 4.

TMK bonds are a financing vehicle in Japan for special purpose companies known as TMKs. In June 2017, we issued ¥4.5 billion ($40.2 million) of new TMK bonds. We subsequently paid off or transferred all of our outstanding TMK bonds and there were no TMK bonds outstanding at December 31, 2017. During 2016, we issued new TMK bonds totaling ¥25.7 billion ($244.6 million).

Long-Term Debt Maturities

Principal payments due on our debt, for each year through the period ended December 31, 2022, and thereafter were as follows at December 31, 2017 (in thousands):

Maturity	Credit Facilities	Unsecured Senior Notes	Term Loans and Other	Secured Mortgage Debt	Total
2018 (1)	$ -	$ -	$ 934	$ 167,960	$ 168,894
2019	-	-	1,013	446,324	447,337
2020 (2) (3)	264,982	719,580	501,077	12,401	1,498,040
2021 (3)	52,410	839,510	910	14,780	907,610
2022	-	839,510	444,890	10,791	1,295,191
Thereafter	-	3,715,027	1,122,709	314,298	5,152,034
Subtotal	317,392	6,113,627	2,071,533	966,554	9,469,106
Premiums (discounts), net	-	(21,333)	-	4,660	(16,673)
Debt issuance costs, net	-	(25,017)	(11,042)	(3,743)	(39,802)
Total	**$ 317,392**	**$ 6,067,277**	**$ 2,060,491**	**$ 967,471**	**$ 9,412,631**

(1) We expect to repay the amounts maturing in 2018 with cash generated from operations, proceeds from dispositions of real estate properties, or as necessary, with borrowings on our Credit Facilities.

(2) Included in the 2020 maturities was the 2017 Term Loan that can be extended until 2022, as discussed above.

(3) Included in the 2020 and 2021 maturities were the Credit Facilities that can be extended until 2021 and 2022, respectively, as discussed above.

Interest Expense

The following table summarizes the components of interest expense for the years ended December 31 (in thousands):

	2017	2016	2015
Gross interest expense	$ 328,228	$ 383,098	$ 394,012
Amortization of premium, net	(13,728)	(30,596)	(45,253)
Amortization of debt issuance costs	14,479	15,459	13,412
Interest expense before capitalization	$ 328,979	$ 367,961	$ 362,171
Capitalized amounts	(54,493)	(64,815)	(60,808)
Net interest expense	**$ 274,486**	**$ 303,146**	**$ 301,363**
Total cash paid for interest, net of amounts capitalized	**$ 278,313**	**$ 322,442**	**$ 345,916**

Early Extinguishment of Debt

In 2017 and 2015, we repurchased or repaid certain debt before the maturity date in an effort to reduce our borrowing costs and extend our debt maturities. As a result, we recognized gains or losses represented by the difference between the recorded debt (including premiums and discounts and related debt issuance costs) and the consideration we paid to retire the debt, including fees. Fees associated with the restructuring of debt that meets the modification criteria, along with existing unamortized premium or discount and debt issuance costs, are amortized over the term of the new debt.

The following table summarizes the activity related to the repurchase of debt and net loss on early extinguishment of debt for the years ended December 31 (in millions):

	2017	2015
Senior notes:		
Original principal amount	$ 1,495.3	$ 709.7
Cash purchase price	$ 1,566.5	$ 789.0
Term loans:		
Original principal amount	$ -	$ 600.0
Cash repayment price	$ -	$ 600.0
Secured mortgage debt:		
Original principal amount	$ 538.3	$ 571.5
Cash repayment price	$ 538.3	$ 595.5
Total:		
Original principal amount	**$ 2,033.6**	**$ 1,881.2**
Cash purchase / repayment price	**$ 2,104.8**	**$ 1,984.5**
Losses on early extinguishment of debt	**$ 68.4**	**$ 86.3**

During 2016, we repaid certain debt at the earliest available payment date with no prepayment costs. We recorded a gain of $2.5 million that related to unamortized premiums associated with the extinguished debt and were net of unamortized debt issuance costs.

Financial Debt Covenants

We have $6.1 billion of senior notes and $2.0 billion of term loans outstanding at December 31, 2017 under two separate indentures, as supplemented, and were subject to certain financial covenants. We are also subject to financial covenants under our Credit Facilities and certain secured mortgage debt. At December 31, 2017, we were in compliance with all of our financial debt covenants.

NOTE 10. STOCKHOLDERS' EQUITY OF PROLOGIS, INC.

Shares Authorized

At December 31, 2017, 1.1 billion shares were authorized to be issued by the Parent, of which 1.0 billion shares represent common stock. Our board of directors (the "Board") may, without stockholder approval, classify or reclassify any unissued shares of our stock from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of such shares.

Common Stock

We issued 1.7 million shares of common stock under our at-the-market program during 2015, which generated $71.5 million in net proceeds. We have an equity distribution agreement that allows us to sell up to $750.0 million aggregate gross sales proceeds of shares of common stock, of which $535.2 million remains available for sale, through six designated agents, who earn a fee of up to 2% of the gross proceeds, as agreed to on a transaction-by-transaction basis.

Under th e 2012 Long-Term Incentive Plan, certain of our employees and outside directors are able to participate in equity-based compensation plans. We received gross proceeds for the issuance of common stock upon the exercise of stock options of $ 32.9 million, $ 39.5 million and $18.2 million, for the years ended December 31, 2017, 2016 and 2015, respectfully. See Note 13 for additional information on equity -based compensation plans.

Preferred Stock

At December 31, 2017 and 2016 our Series Q preferred stock outstanding had a dividend rate of 8.54%, and will be redeemable at our option on or after November 13, 2026. Holders have, subject to certain conditions, limited voting rights and all holders are entitled to receive cumulative preferential dividends based on liquidation preference. The dividends are payable quarterly in arrears on the last day of each quarter. Dividends are payable when, and if, they have been declared by the Board, out of funds legally available for the payment of dividends.

During 2017, we repurchased 0.2 million shares of Series Q preferred stock and recognized a loss of $3.9 million, which primarily represented the difference between the repurchase price and the carrying value of the preferred stock, net of original issuance costs.

Ownership Restrictions

For us to qualify as a REIT, five or fewer individuals may not own more than 50% of the value of our outstanding stock at any time during the last half of our taxable year. Therefore, our charter restricts beneficial ownership (or ownership generally attributed to a person under the REIT rules), by a person, or persons acting as a group, of issued and outstanding common and preferred stock that would cause that person to own or be deemed to own more than 9.8% (by value or number of shares, whichever is more restrictive) of our issued and outstanding capital stock. Furthermore, subject to certain exceptions, no person shall at any time directly or indirectly acquire ownership of more than 25% of any of the preferred stock. These provisions assist us in protecting and preserving our REIT status and protect the interests of stockholders in takeover transactions by preventing the acquisition of a substantial block of outstanding shares of stock.

Shares of stock owned by a person or group of people in excess of these limits are subject to redemption by us. The provision does not apply where a majority of the Board, in its sole and absolute discretion, waives such limit after determining that our status as a REIT for federal income tax purposes will not be jeopardized.

Dividends

To comply with the REIT requirements of the Internal Revenue Code, we are generally required to make common and preferred stock dividends (other than capital gain distributions) to our stockholders in amounts that together at least equal (i) the sum of (a) 90% of our "REIT taxable income" computed without regard to the dividends paid deduction and net capital gains and (b) 90% of the net income (after tax), if any, from foreclosure property, minus (ii) certain excess non-cash income. Our common stock distribution policy is to distribute a percentage of our cash flow that ensures that we will meet the distribution requirements of the Internal Revenue Code and that allows us to also retain cash to meet other needs, such as capital improvements and other investment activities.

Our tax return for the year ended December 31, 2017 has not been filed. The taxability information presented for our dividends paid in 2017 is based on management's estimate. Our tax returns for open tax years have not been examined by the Internal Revenue Service, other than those discussed in Note 14. Consequently, the taxability of dividends is subject to change.

In 2017, 2016 and 2015, we paid all of our dividends in cash. The following summarizes the taxability of our common and preferred stock dividends for the years ended December 31:

	2017 (1)		2016		2015	
Common Stock:						
Ordinary income	$	1.23	$	0.60	$	0.36
Qualified dividend		0.01		0.15		0.08
Capital gains		0.52		0.93		1.08
Total distribution	$	1.76	$	1.68	$	1.52
Preferred Stock – Series Q:						
Ordinary income	$	2.91	$	2.02	$	0.77
Qualified dividend		0.08		0.29		0.62
Capital gains		1.28		1.96		2.88
Total dividend	$	4.27	$	4.27	$	4.27

(1) Taxability for 2017 is estimated.

Common stock dividends are characterized for federal income tax purposes as ordinary income, qualified dividend, capital gains, non-taxable return of capital or a combination of the four. Common stock dividends that exceed our current and accumulated earnings and profits (calculated for tax purposes) constitute a return of capital rather than a dividend and generally reduce the stockholder's basis in the common stock. To the extent that a dividend exceeds both current and accumulated earnings and profits and the stockholder's basis in the common stock, it will generally be treated as a gain from the sale or exchange of that stockholder's common stock. At the beginning of each year, we notify our stockholders of the taxability of the common stock dividends pa id during the preceding year.

Pursuant to the terms of our preferred stock, we are restricted from declaring or paying any dividend with respect to our common stock unless and until all cumulative dividends with respect to the preferred stock have been paid and sufficient funds have been set aside for dividends that have been declared for the relevant dividend period with respect to the preferred stock.

NOTE 11. PARTNERS' CAPITAL OF PROLOGIS, L.P.

Distributions paid on the common limited partnership units, and the taxability of those distributions, are similar to dividends paid on the Parent's common stock disclosed above.

In connection with the acquisition of a portfolio of properties in October 2015, we issued 0.2 million common limited partnership units and 8.9 million Class A Units in the OP. The number of units issued was based upon an agreed upon price and had a per unit weighted average fair value at the date of issuance of $41.06. The Class A Units generally have the same rights as the existing common limited partnership units of the OP, except that the Class A Units are entitled to a quarterly distribution equal to $0.64665 per unit so long as the common limited partnership units receive a quarterly distribution of at least $0.40 per unit (in the event the common limited partnership units receive a quarterly distribution of less than $0.40 per unit, the Class A Unit distribution would be reduced by a proportionate amount). Class A Units are convertible into common limited partnership units at an initial conversion rate of one-for-one. The conversion rate will be increased or decreased to the extent that, at the time of conversion, the net present value of the distributions paid with respect to the Class A Units are less or more than the distributions paid on common limited partnership units from the time of issuance of the Class A Units until the time of conversion. At December 31, 2017 and 2016, the Class A Units were convertible into 8.5 million and 8.7 million common limited partnership units. The OP may redeem the Class A Units at any time after October 7, 2025, for an amount in cash equal to the then-current number of the common limited partnership units into which the Class A Units are convertible, multiplied by $43.11, subject to the holders' right to convert the Class A Units into common limited partnership units.

In May 2015, we issued 4.5 million common limited partnership units in the OP in connection with the KTR transaction. See Note 3 for more details on the transaction.

NOTE 12. NONCONTROLLING INTERESTS

Prologis, L.P.

We report noncontrolling interests related to several entities we consolidate but of which we do not own 100% of the equity. These entities include two real estate partnerships that have issued limited partnership units to third parties. Depending on the specific partnership agreements, these limited partnership units are redeemable for cash or, at our option into shares of the Parent's common stock, generally at a rate of one share of common stock to one unit. We also consolidate several entities in which we do not own 100% of the equity but the equity of these entities are not exchangeable into our common stock.

As discussed in Note 1, the Parent has complete responsibility, power and discretion in the day-to-day management of the OP. The Parent, through its majority interest, has the right to receive benefits from and incur losses of the OP. In addition, the OP does not have either substantive liquidation rights or substantive kick-out rights without cause or substantive participating rights that could be exercised by a simple majority of noncontrolling interests. The absence of such rights renders the OP as a VIE. Accordingly, the Parent is the primary beneficiary and therefore consolidates the OP.

Prologis, Inc.

The noncontrolling interests of the Parent include the noncontrolling interests presented above for the OP, as well as the limited partnership units in the OP that are not owned by the Parent.

The following table summarizes our ownership percentages and noncontrolling interests and the consolidated entities' total assets and total liabilities at December 31 (dollars in thousands):

	Our Ownership Percentage		Noncontrolling Interests		Total Assets		Total Liabilities	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Prologis U.S. Logistics Venture	55.0%	55.0%	$2,581,629	$2,424,800	$6,030,819	$ 6,201,278	$ 284,162	$ 797,593
Prologis North American Industrial Fund (1)	N/A	66.1%	-	486,648	-	2,479,072	-	1,038,708
Prologis Brazil Logistics Partners Fund I (2)	N/A	50.0%	-	61,836	-	131,581	-	720
Other consolidated entities (3)	various	various	78,613	99,185	806,138	866,821	30,330	34,073
Prologis, L.P.			**2,660,242**	**3,072,469**	**6,836,957**	**9,678,752**	**314,492**	**1,871,094**
Limited partners in Prologis, L.P. (4) (5)			414,341	394,590	-	-	-	-
Prologis, Inc.			**$3,074,583**	**$3,467,059**	**$6,836,957**	**$ 9,678,752**	**$ 314,492**	**$1,871,094**

(1) In March 2017, we acquired all our partner's interest for $710.2 million. The difference between the amount we paid and the noncontrolling interest balance was recorded to *Additional Paid-in Capital* with no gain or loss recognized. In July 2017, we contributed substantially all the assets formerly owned by NAIF to our unconsolidated co-investment venture, USLF.

(2) In March 2017, we acquired all our partner's interest for $79.8 million. The difference between the amount we paid and the noncontrolling interest balance was recorded to *Additional Paid-in Capital* with no gain or loss recognized. At December 31, 2016, the assets of the Prologis Brazil Logistics Partners Fund I were primarily investments in unconsolidated entities of $113.1 million, most of which we gained control of and began consolidating in August 2017. See Note 4 for more information on the acquisition of our partner's interest in certain joint ventures in Brazil.

(3) This line item includes our two partnerships that have issued limited partnership units to third parties, as discussed above, along with various other consolidated entities. The limited partnership units outstanding at December 31, 2017 and 2016 were exchangeable into cash or, at our option, 1.0 million and 1.8 million shares of the Parent's common stock with a fair value of $64.3 million and $96.9 million, respectively, based on the closing stock price of the Parent's common stock. In 2017, limited partnership units were exchanged for 0.8 million shares of the Parent's common stock. All of these outstanding limited partnership units receive quarterly cash distributions equal to the quarterly dividends paid on our common stock pursuant to the terms of the applicable partnership agreements.

(4) We had 8.9 million Class A Units that were convertible into 8.5 million and 8.7 million limited partnership units of the OP at December 31, 2017 and 2016, respectively. See Note 11 for further discussion of our Class A Units.

(5) At December 31, 2017 and 2016, excluding the Class A Units, there were limited partnership units in the OP that were exchangeable into cash or, at our option, 4.1 million and 4.6 million shares of the Parent's common stock with a fair value of $266.1 million and $241.8 million, respectively, based on the closing stock price of the Parent's common stock. In 2017 and 2016 unitholders exchanged 0.7 million and 1.9 million limited partnership units into an equal number of shares of the Parent's common stock.

At December 31, 2017 and 2016, there were 3.4 million and 2.2 million LTIP Units (as defined in Note 13) outstanding, respectively, associated with our long-term compensation plan that were exchangeable into limited partnership units of the OP and redeemable into the Parent's common stock after they vest and other applicable conditions have been met. All of these outstanding limited partnership units receive quarterly cash distributions equal to the quarterly distributions paid on our common stock pursuant to the terms of the partnership agreement.

NOTE 13. LONG-TERM COMPENSATION

The 2012 Long-Term Incentive Plan ("2012 LTIP") provides for grants of awards to officers, directors, employees and consultants of the Parent or its subsidiaries. Awards can be in the form of: full value awards, stock appreciation rights, stock options (non-qualified options and incentive stock options) and cash incentive awards. Full value awards generally consist of: (i) common stock; (ii) restricted stock units ("RSUs"); (iii) OP LTIP units ("LTIP Units") and (iv) Prologis Outperformance Plan ("POP") OP LTIP units ("POP LTIP Units").

The awards under the 2012 LTIP have been issued under the following components of our equity-based compensation plans and programs at December 31, 2017: (i) POP; (ii) Prologis Promote Plan ("PPP"); (iii) annual long-term incentive ("LTI") equity award program ("Annual LTI Award"); and (iv) annual bonus exchange program. Under all of these components, certain employees may elect to receive their equity award payout either in the form of RSUs or other equity of the Parent or LTIP Units of the OP. No participant can be granted more than 1.5 million shares of common stock under the 2012 LTIP in any one calendar year. Awards may be made under the 2012 LTIP until it is terminated by the Board or until the ten-year anniversary of the effective date of the plan.

We have 27.2 million shares reserved for issuance, of which 17.2 million shares of common stock were available for future issuance at December 31, 2017. Each LTIP Unit counts as one share of common stock for purposes of calculating the limit on shares that may be issued.

Equity-Based Compensation Plans and Programs

Prologis Outperformance Plan ("POP")

We allocate participation points to participants under our POP corresponding to three-year performance periods beginning January 1. The fair value of the awards is measured at the grant date and amortized over the period from the grant date to the date at which the awards would become vested. POP awards are earned to the extent our total stockholder return ("TSR") for the performance period exceeds the TSR for the Morgan Stanley Capital International ("MSCI") US REIT Index for the same period plus 100 basis points ("Index"). If this outperformance hurdle is met, the compensation pool is equal to 3.0% of the excess value created, subject to a maximum of the greater of $75.0 million or 0.5% of our equity market capitalization at the start of the performance period ("Capitalizations Cap"). Each participant is eligible to receive a percentage of the total compensation pool based on the number of participation points allocated to the participant. If the performance criteria are met, the participants' points will generally be paid in the form of common stock or POP LTIP Units, as elected by the participant. Annually, a participant may exchange their participation points for POP LTIP Units. If the performance criteria are not met, the participants' points and POP LTIP Units will be forfeited. If we outperform the Index, but the absolute TSR is not positiv e, payment will be delayed until our absolute TSR becomes positive. If after seven years our absolute TSR has not become positive, the awards will be forfeited.

Beginning with 2016 – 2018 performance period, the plan requires an additional performance hurdle. The Index performance must be met or exceeded for an additional three years after the initial three-year performance period ("Initial Award") to earn any amounts above $75.0 million up to the Capitalization Cap ("Excess Award"). One-third of this Excess Award can be earned at the end of each of the three years after the Initial Award is earned, if our performance meets or exceeds the Index in each of such three years. In addition, participants will not be able to sell or transfer any equity they receive as Initial or Excess Awards until three years after the end of the initial performance period.

At December 31, 2017, all awards were equity classified. We use a Monte Carlo valuation model to value the participation points allocated under the POP.

The following table details the assumptions used for each grant based on the year it was granted (dollars in thousands):

	2017	2016	2015
Risk free interest rate	1.49%	0.99%	0.86%
Expected volatility	22.2%	20.5%	28.0%
Aggregate fair value	$ 20,400	$ 26,600	$ 26,500

Total remaining compensation cost related to the POP at December 31, 2017, was $22.9 million, prior to adjustments for capitalized amounts due to our development and leasing activities. The remaining compensation cost will be recognized through 2022, with a weighted average period of 1.1 years.

The performance criteria were met for the 2015 – 2017 and 2014 – 2016 performance periods, which resulted in the pool being awarded in January 2018 and 2017, respectively, in the form of common stock and vested POP LTIP Units. See below for details on these performance periods (dollars and units in thousands):

	2015 – 2017	2014 – 2016
Performance pool	$ 110,230	$ 62,220
Common stock	582	486
Vested POP LTIP Units and LTIP Units	1,170	698
Grant date fair value	$ 62.65	$ 52.53

The POP performance criteria were not met for 2013 – 2015 performance period, therefore, no awards were earned and the participants' points and POP LTIP Units were forfeited. As the POP has market-based performance criteria, there is no adjustment to the expense previously recognized at the completion of the performance period regardless of the outcome.

Other Equity-Based Compensation Plans and Programs

Awards may be issued in the form of RSUs or LTIP Units at the participants' elections under the following equity-based compensation plans and programs. RSUs and LTIP Units are valued based on the market price of the Parent's common stock on the date the award is granted and is charged to compensation expense over the service period, which is generally three years. Dividends and distributions are paid with respect to both RSUs and LTIP Units during the vesting period, and therefore they are considered participating securities. The value of the dividend is charged to retained earnings for RSUs and the distribution is charged to *Net Income Attributable to Noncontrolling Interests* in the OP for LTIP Units.

Prologis Promote Plan ("PPP")

Under the PPP, we establish a compensation pool for certain employees that is equal to 40% of the promotes earned by Prologis from the co-investment ventures representing the third-party portion of the promotes. The awards may be settled in some combination of cash and full value awards, at our election.

Annual LTI Equity Award Program ("Annual LTI Award")

The Annual LTI Award provides for grants to certain employees subject to our performance against benchmark indices that relate to the most recent year's performance.

Annual Bonus Exchange Program

Under our bonus exchange program, generally all our employees may elect to receive all or a portion of their annual cash bonus in equity. Equity awards granted through the bonus exchange are generally valued at a premium to the cash bonus exchanged.

Summary of Award Activity

RSUs

Each RSU represents the right to receive one share of common stock of the Parent. The following table summarizes the activity for RSUs for the year ended December 31, 2017 (units in thousands):

	Unvested RSUs	Weighted Average Grant Date Fair Value
Balance at January 1, 2017	1,492	$ 40.62
Granted	759	50.76
Vested and distributed	(797)	41.34
Forfeited	(80)	44.68
Balance at December 31, 2017	**1,374**	**$ 45.57**

The fair value of stock awards granted and vested was $32.5 million and $33.7 million for 2016 and $30.9 million and $39.3 million for 2015, respectively, based on the weighted average grant date fair value per unit.

Total remaining compensation cost related to RSUs outstanding at December 31, 2017, was $31.6 million, prior to adjustments for capitalized amounts due to our development and leasing activities. The remaining compensation cost will be recognized through 2021, with a weighted average period of 0.9 years.

LTIP Units

An LTIP Unit represents a partnership interest in the OP. After vesting and the satisfaction of certain conditions, an LTIP Unit may be exchangeable for a common limited partnership unit in the OP and then redeemable for a share of common stock (or cash at our option).

The following table summarizes the activity for LTIP Units for the year ended December 31, 2017 (units in thousands):

	Vested LTIP Units	Unvested LTIP Units	Unvested Weighted Average Grant Date Fair Value
Balance at January 1, 2017	743	1,476	$ 40.72
Granted	-	1,041	51.11
Vested LTIP Units	688	(688)	41.13
Vested POP LTIP Units (1)	698	-	N/A
Conversion to common limited partnership units	(597)	-	N/A
Balance at December 31, 2017	**1,532**	**1,829**	**$ 46.48**

(1) Vested units were based on the POP performance criteria being met for the 2014 – 2016 performance period and represented the earned award amount. Vested units are included in POP award table above. Unvested POP LTIP Units for the 2014 – 2016 performance period were forfeited to the extent not earned.

The fair value of stock awards granted and vested was $38.0 million and $18.8 million for 2016 and $27.3 million and $11.7 million for 2015, respectively, based on the weighted average grant date fair value per unit.

Total remaining compensation cost related to LTIP Units at December 31, 2017, was $50.6 million, prior to adjustments for capitalized amounts due to our development and leasing activities. The remaining compensation cost will be recognized through 2020, with a weighted average period of 1.0 year.

Stock Options

We have 0.7 million stock options outstanding and exercisable at December 31, 2017, with a weighted average exercise price of $24.68 and a weighted average life of 2.0 years. The aggregate intrinsic value of exercised options was $28.6 million, $45.6 million, and $13.7 million for the years ended December 31, 2017, 2016 and 2015, respectively. No stock options were granted in the three-year period ended December 31, 2017.

Other Plans

The Prologis 401(k) Plan (the "401(k) Plan") provides for matching employer contributions of $0.50 for every dollar contributed by an employee, up to 6% of the employee's annual compensation (within the statutory compensation limit). In the 401(k) Plan, vesting in the matching employer contributions is based on the employee's years of service, with 100% vesting at the completion of one year of service. Our contributions under the matching provisions were $2.8 million, $2.7 million and $2.5 million for 2017, 2016 and 2015, respectively.

We have a non-qualified savings plan that allows highly compensated employees the opportunity to defer the receipt and income taxation of a certain portion of their compensation in excess of the amount permitted under the 401(k) Plan. There has been no employer matching in the three-year period ended December 31, 2017 .

NOTE 14. INCOME TAXES

Components of Earnings Before Income Taxes

The following table summarizes the components of earnings before income taxes for the years ended December 31 (in thousands):

	2017	2016	2015
Domestic	$ 1,207,503	$ 719,018	$ 511,025
International	608,065	628,086	437,580
Earnings before income taxes	**$ 1,815,568**	**$ 1,347,104**	**$ 948,605**

Summary of Current and Deferred Income Taxes

The following table summarizes the components of the provision for income taxes for the years ended December 31 (in thousands):

	2017	2016	2015
Current income tax expense (benefit):			
U.S. federal	$ 214	$ 7,153	$ (11,633)
International	45,185	38,493	27,494
State and local	14,215	14,443	12,286
Total current income tax expense	59,614	60,089	28,147
Deferred income tax expense (benefit):			
U.S. federal	2,533	(3,306)	(810)
International	(7,538)	(2,219)	(4,247)
Total deferred income tax benefit	(5,005)	(5,525)	(5,057)
Total income tax expense	**$ 54,609**	**$ 54,564**	**$ 23,090**

Current Income Taxes

Current income tax expense recognized during 2017 and 2016 was partially due to tax triggered upon the contribution of assets to our Europe, Mexico and Japan co-investment ventures and third-party sales. Current income tax expense recognized during 2015 was not materially impacted by contributions to our co-investment ventures and was netted against a current benefit as a result of the operating losses generated by our U.S. TRS.

For the years ended December 31, 2016 and 2015, we recognized a net expense of $0.3 million and $3.0 million for uncertain tax positions, respectively. For the year ended December 31, 2017, we did not recognize any expense for uncertain tax positions.

During the years ended December 31, 2017, 2016 and 2015, cash paid for income taxes, net of refunds, was $46.7 million, $29.3 million and $24.1 million, respectively.

Deferred Income Taxes

The deferred income tax benefits recognized in 2017, 2016 and 2015 were principally due to the reversal of deferred tax liabilities from the contribution and dispositions of properties. The deferred tax liabilities were originally recorded at the time of acquisition.

The following table summarizes the deferred income tax assets and liabilities at December 31 (in thousands):

	2017	2016
Gross deferred income tax assets:		
NOL carryforwards	$ 334,358	$ 350,909
Basis difference – real estate properties	53,902	56,827
Basis difference – equity investments and intangibles	4,740	4,666
Section 163(j) interest limitation	26,280	40,766
Capital loss carryforward	10,566	25,145
Other – temporary differences	5,724	5,578
Total gross deferred income tax assets	435,570	483,891
Valuation allowance	(410,896)	(456,699)
Gross deferred income tax assets, net of valuation allowance	24,674	27,192
Gross deferred income tax liabilities:		
Basis difference – real estate properties	63,246	70,914
Basis difference – equity investments and intangibles	1,114	6,864
Other – temporary differences	769	1,028
Total gross deferred income tax liabilities	65,129	78,806
Net deferred income tax liabilities	**$ 40,455**	**$ 51,614**

The Tax Cuts and Jobs Act, enacted on December 22, 2017, reduced the corporate federal tax rate in the U.S. to 21.0%, effective upon enactment. As such, deferred tax assets and liabilities were remeasured using the lower corporate federal tax rate at December 31, 2017. While we do not expect other material impacts, the new rules are complex and lack developed administrative guidance; thus, the impact of certain aspects of these provisions on us is currently unclear.

At December 31, 2017, we had NOL carryforwards as follows (in thousands):

	U.S.	Europe	Mexico	Japan	Other
Gross NOL carryforward	$ 106,594	$ 721,225	$ 334,290	$ 130,679	$ 44,084
Tax-effected NOL carryforward	26,040	168,588	103,671	25,419	10,640
Valuation allowance	(26,040)	(152,911)	(103,671)	(25,419)	(10,640)
Net deferred tax asset – NOL carryforward	$ -	$ 15,677	$ -	$ -	$ -
Expiration periods	2022 – 2037	2018 – indefinite	2018 – 2028	2018 – 2026	2018 – indefinite

The deferred tax asset valuation allowance at December 31, 2017, was adequate to reduce the total deferred tax asset to an amount that we estimate will more likely than not be realized.

Liability for Uncertain Tax Positions

During the years ended December 31, 2017, 2016 and 2015, we believe that we have complied with the REIT requirements of the Internal Revenue Code. The statute of limitations for our tax returns is generally three years. As such, our tax returns that remain subject to examination would be primarily from 2014 and thereafter.

The liability for uncertain tax positions was $3.0 million for the years ended December 31, 2017 and 2016, and $3.3 million for the year ended December 31, 2015, and primarily consisted of estimated income tax liabilities in Mexico and included accrued interest and penalties.

NOTE 15. EARNINGS PER COMMON SHARE OR UNIT

We determine basic earnings per share or unit based on the weighted average number of shares of common stock or units outstanding during the period. We compute diluted earnings per share or unit based on the weighted average number of shares or units outstanding combined with the incremental weighted average effect from all outstanding potentially dilutive instruments.

The computation of our basic and diluted earnings per share and unit for the years ended December 31 (in thousands, excep t per share and unit amounts) was as follows:

Prologis, Inc.	**2017**	**2016**	**2015**
Net earnings attributable to common stockholders – Basic	$ 1,641,931	$ 1,203,218	$ 862,788
Net earnings attributable to exchangeable limited partnership units (1)	46,280	37,079	13,120
Gains, net of expenses, associated with exchangeable debt assumed exchanged (2)	-	-	(1,614)
Adjusted net earnings attributable to common stockholders – Diluted	**$ 1,688,211**	**$ 1,240,297**	**$ 874,294**
Weighted average common shares outstanding – Basic	530,400	526,103	521,241
Incremental weighted average effect on exchange of limited partnership units (1)	15,945	16,833	8,569
Incremental weighted average effect of equity awards	5,955	3,730	1,961
Incremental weighted average effect on exchangeable debt assumed exchanged (2)	-	-	2,173
Weighted average common shares outstanding – Diluted (3)	**552,300**	**546,666**	**533,944**
Net earnings per share attributable to common stockholders:			
Basic	**$ 3.10**	**$ 2.29**	**$ 1.66**
Diluted	**$ 3.06**	**$ 2.27**	**$ 1.64**

Prologis, L.P.	**2017**	**2016**	**2015**
Net earnings attributable to common unitholders	$ 1,686,945	$ 1,237,519	$ 873,914
Net earnings attributable to Class A convertible common unitholders	(26,642)	(20,069)	(3,393)
Net earnings attributable to common unitholders – Basic	1,660,303	1,217,450	870,521
Net earnings attributable to Class A convertible common unitholders	26,642	20,069	3,393
Net earnings attributable to exchangeable limited partnership units	1,266	2,778	1,994
Gain, net of expenses, associated with exchangeable debt assumed exchanged (2)	-	-	(1,614)
Adjusted net earnings attributable to common unitholders – Diluted	**$ 1,688,211**	**$ 1,240,297**	**$ 874,294**
Weighted average common partnership units outstanding – Basic	536,335	532,326	525,912
Incremental weighted average effect on exchange of Class A units	8,607	8,775	2,050
Incremental weighted average effect on exchange of limited partnership units	1,403	1,835	1,848
Incremental weighted average effect of equity awards of Prologis, Inc.	5,955	3,730	1,961
Incremental weighted average effect on exchangeable debt assumed exchanged (2)	-	-	2,173
Weighted average common units outstanding – Diluted (3)	**552,300**	**546,666**	**533,944**
Net earnings per unit attributable to common unitholders:			
Basic	**$ 3.10**	**$ 2.29**	**$ 1.66**
Diluted	**$ 3.06**	**$ 2.27**	**$ 1.64**

(1) Earnings allocated to the exchangeable OP units not held by the Parent have been included in the numerator and exchangeable common units have been included in the denominator for the purpose of computing diluted earnings per share for all periods as the per share and unit amount is the same.

(2) In March 2015, the exchangeable debt was settled primarily through the issuance of common stock. The adjustment in 2015 assumes the exchange occurred on January 1, 2015.

(3) Our total potentially dilutive shares and units outstanding for the years ended December 31 consisted of the following:

	2017	**2016**	**2015**
Total weighted average potentially dilutive limited partnership units	10,010	10,610	3,898
Total potentially dilutive stock awards	9,183	8,444	7,299
Total weighted average potentially dilutive shares and units from exchangeable debt	-	-	2,173
Prologis, L.P.	**19,193**	**19,054**	**13,370**
Limited partners in Prologis, L.P.	5,935	6,223	4,671
Prologis, Inc.	**25,128**	**25,277**	**18,041**

NOTE 16. FINANCIAL INSTRUMENTS AND FAIR VALU E MEASUREMENTS

Derivative Financial Instruments

The following table presents the fair value and classification of our derivative financial instruments at December 31 (in thousands):

	2017		2016	
	Asset	Liability	Asset	Liability
Foreign currency contracts				
Net investment hedges				
British pound sterling	$ -	$ -	$ 7,439	$ -
Canadian dollar	-	7,263	1,245	-
Forwards and options (1)				
British pound sterling	2,440	8,103	16,985	-
Euro	2	14,234	10,933	-
Japanese yen	6,474	931	9,246	1,071
Canadian dollar	-	1,698	831	197
Interest rate swaps				
Cash flow hedges	10,223	-	435	-
Total fair value of derivatives	**$ 19,139**	**$ 32,229**	**$ 47,114**	**$ 1,268**

(1) As discussed in Note 2, these foreign currency contracts are not designated as hedges.

Foreign Currency Contracts

The following tables summarize the activity in our foreign currency contracts for the years ended December 31 (in millions, except for weighted average forward rates and number of active contracts):

2017	Foreign Currency Contracts					
	Net Investment Hedges		Forwards and Options			
Local Currency	CAD	GBP	CAD	EUR	GBP	JPY
Notional amounts at January 1	$ 133	£ 31	$ 50	€ 174	£ 48	¥ 15,500
New contracts	133	100	52	120	117	8,000
Matured, expired or settled contracts	(133)	(131)	(30)	(95)	(63)	(7,300)
Notional amounts at December 31	**$ 133**	**£ -**	**$ 72**	**€ 199**	**£ 102**	**¥ 16,200**

	Foreign Currency Contracts					
U.S. Dollar	Net Investment Hedges		Forwards and Options (1)			
Notional amounts at January 1	$ 100	$ 46	$ 38	$ 197	$ 78	$ 144
New contracts	99	127	41	143	151	75
Matured, expired or settled contracts	(100)	(173)	(23)	(107)	(97)	(66)
Notional amounts at December 31	**$ 99**	**$ -**	**$ 56**	**$ 233**	**$ 132**	**$ 153**
Weighted average forward rate at December 31	**1.34**	**-**	**1.29**	**1.17**	**1.29**	**106.25**
Active contracts at December 31	**2**	**-**	**24**	**29**	**20**	**34**

2016

Local Currency	**Foreign Currency Contracts**						
	Net Investment Hedges			**Forwards and Options**			
	CAD	**GBP**	**JPY**	**EUR**	**GBP**	**JPY**	**Other**
Notional amounts at January 1	$ -	£ 238	¥ -	€ 275	£ 97	¥ 12,840	
New contracts	133	90	11,189	369	-	15,460	
Matured, expired or settled contracts	-	(297)	(11,189)	(470)	(49)	(12,800)	
Notional amounts at December 31	**$ 133**	**£ 31**	**¥ -**	**€ 174**	**£ 48**	**¥ 15,500**	

U.S. Dollar	**Foreign Currency Contracts**						
	Net Investment Hedges			**Forwards and Options (1)**			
Notional amounts at January 1	$ -	$ 386	$ -	$ 310	$ 148	$ 109	$ 50
New contracts	100	131	99	413	-	146	15
Matured, expired or settled contracts	-	(471)	(99)	(526)	(70)	(111)	(27)
Notional amounts at December 31	**$ 100**	**$ 46**	**$ -**	**$ 197**	**$ 78**	**$ 144**	**$ 38**

2015

Local Currency	**Foreign Currency Contracts**							
	Net Investment Hedges				**Forwards and Options**			
	CAD	**EUR**	**GBP**	**JPY**	**EUR**	**GBP**	**JPY**	**Other**
Notional amounts at January 1	$ -	€ 300	£ 238	¥ 24,136	€ 284	£ -	¥ -	
New contracts	394	-	118	43,373	333	199	18,740	
Matured, expired or settled contracts	(394)	(300)	(118)	(67,509)	(342)	(102)	(5,900)	
Notional amounts at December 31	**$ -**	**€ -**	**£ 238**	**¥ -**	**€ 275**	**£ 97**	**¥ 12,840**	

U.S. Dollar	**Foreign Currency Contracts**							
	Net Investment Hedges				**Forwards and Options (1)**			
Notional amounts at January 1	$ -	$ 400	$ 400	$ 250	$ 354	$ -	$ -	$ -
New contracts	298	-	186	353	375	300	159	71
Matured, expired or settled contracts	(298)	(400)	(200)	(603)	(419)	(152)	(50)	(21)
Notional amounts at December 31	**$ -**	**$ -**	**$ 386**	**$ -**	**$ 310**	**$ 148**	**$ 109**	**$ 50**

(1) During 2017, 2016 and 2015, we exercised 44, 49 and 32 option contracts and realized gains of $12.6 million, $3.0 million and $14.6 million, respectively, in *Foreign Currency and Derivative Gains (Losses), Net* .

We recognized an unrealized loss of $50.7 million and unrealized gains of $19.1 million and $22.1 million in *Foreign Currency and Derivative Gains (Losses), Net* from the change in value of our outstanding foreign currency option contracts for the years ended December 31, 2017, 2016 and 2015, respectively.

We had no ineffectiveness on our foreign currency derivative contracts during 2017, 2016 or 2015.

Interest Rate Swaps

There was no activity on our interest rate swaps during 2017. We had three contracts with a notional amount of CAD $371.9 million ($271.2 million) outstanding at December 31, 2017.

The following table summarizes the activity in our interest rate swaps designated as cash flow hedges for the years ended December 31 (in millions):

	2016	**2015**
Notional amounts at January 1	$ 1,196	$ 398
New contracts	-	1,158
Matured, expired or settled contracts	(925)	(360)
Notional amounts at December 31	**$ 271**	**$ 1,196**

In 2016, we entered into the 2016 Yen Term Loan and repaid our 2014, 2015 and 2016 Japanese yen term loans. At that time, we settled the outstanding contracts related to the previously outstanding term loans for $26.3 million. The fair value of the contracts that qualified for hedge accounting at the date of repayment was recorded to *AOCI/L* and will be amortized to *Interest Expense* over the life of the original term loans. We had $10.7 million remaining in *AOCI/L* at December 31, 2017. During the year ended December 31, 2016, we recorded a loss of $9.9 million related to the change in fair value on the unhedged portion of the contracts. See Note 9 for further discussion of the 2016 Yen Term Loan.

During 2015, we entered into two contracts with a notional amount of $526.3 million (¥65.0 billion) to effectively fix the interest rate on the 2015 Japanese Yen term loan (see above for discussion on the settlement of these contracts) and three contracts with a notional amount of CAD $371.9 million ($271.2 million) to effectively fix the interest rate on the Canadian term loan. In the third quarter of 2015, we entered into two contracts with a notional amount of $360.0 million to effectively fix t he interest rate at the three-month LIBOR rate of 2.3% on expected future debt issuances. These contracts were settled in the fourth quarter of 2015 when we entered into $750.0 million of senior notes. We recorded a loss of $11.0 million associated with th ese derivatives that will be amortized to *Interest Expense* , in accordance with our policy.

See Note 9 for more information on our term loans.

Other Comprehensive Income (Loss)

The change in *Other Comprehensive Income (Loss)* in the Consolidated Statements of Comprehensive Income during the periods presented is due to the translation into U.S. dollars on consolidation of the financial statements of our consolidated subsidiaries whose functional currency is not the U.S. dollar. We recorded net gains of $554.0 million for the year ended December 31, 2017, and net losses of $304.0 million and $594.0 million for the years ended December 31, 2016 and 2015, respectively. These gains and losses recognized in *Other Comprehensive Income (Loss)* during the periods were offset by net losses on the translation of our derivative and nonderivative net investment hedges discussed below. This includes the change in fair value for the effective portion of our derivative and nonderivative instruments that have been designated as hedges.

The following table presents the gains and (losses) associated with the change in fair value for the effective portion of our derivative and nonderivative hedging instruments included in *Other Comprehensive Income* for the years ended December 31 (in thousands):

	2017	2016	2015
Derivative net investment hedges (1)	$ (12,762)	$ 55,460	$ 63,934
Interest rate and cash flow hedges (2)	12,726	(551)	(21,714)
Our share of derivatives from unconsolidated co-investment ventures	9,865	(798)	4,257
Total derivative hedging instruments	9,829	54,111	46,477
Nonderivative net investment hedges (3) (4)	(477,755)	112,591	321,148
Total derivative and nonderivative hedging instruments – gains (losses)	**$ (467,926)**	**$ 166,702**	**$ 367,625**

(1) We received $2.5 million, $79.8 million and $128.2 million for the years ended December 31, 2017, 2016 and 2015, respectively, on the settlement of net investment hedges.

(2) The amount reclassified to interest expense was $5.4 million for 2017 and $5.5 million for 2016. The amount for 2015 was not considered significant. For the next 12 months from December 31, 2017, we estimate an additional expense of $3.1 million will be reclassified to *Interest Expense* .

(3) At December 31, 2017, 2016 and 2015, we had €3.1 billion ($3.6 billion), €3.2 billion ($3.4 billion) and €3.2 billion ($3.5 billion) of debt, net of accrued interest, respectively, designated as nonderivative financial instrument hedges of our net investment in international subsidiaries. We recognized unrealized losses of $17.9 million and unrealized gains of $10.0 million in *Foreign Currency and Derivative Gains (Losses), Net* on the undesignated portion of our debt for the years ended December 31, 2017 and 2015, respectively. There were no unrealized gains or losses recognized for the year ended December 31, 2016.

(4) In June 2017, we issued £500.0 million ($645.3 million) of debt, as discussed in Note 9, and £323.7 million ($436.0 million) of the debt was designated as a nonderivative financial instrument hedge of our net investment in international subsidiaries at December 31, 2017. We recognized unrealized losses of $5.4 million in *Foreign Currency and Derivative Gains (Losses), Net* on the undesignated portion of our debt for the year ended December 31, 2017.

Fair Value Measurements

We have estimated the fair value of our financial instruments using available market information and valuation methodologies we believe to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that we would realize on disposition. See Note 2 for more information on our fair value measurements policy.

Fair Value Measurements on a Recurring Basis

At December 31, 2017 and 2016, other than the derivatives discussed previously, we did not have any significant financial assets or financial liabilities that were measured at fair value on a recurring basis in the Consolidated Financial Statements. All of our derivatives held at December 31, 2017 and 2016, were classified as Level 2 of the fair value hierarchy.

Fair Value Measurements on Nonrecurring Basis

Acquired properties and assets we expect to sell or contribute met the criteria to be measured at fair value on a nonrecurring basis at December 31, 2017 and 2016, as discussed in Notes 3, 4 and 6.

Fair Value of Financial Instruments

At December 31, 2017 and 2016, the carrying amounts of certain financial instruments, including cash and cash equivalents, accounts and notes receivable, accounts payable and accrued expenses were representative of their fair values.

The differences in the fair value of our debt from the carrying value in the table below were the result of differences in interest rates or borrowing spreads that were available to us at December 31, 2017 and 2016, as compared with those in effect when the debt was issued or assumed, including reduced borrowing spreads due to our improved credit ratings. The senior notes and many of the issuances of secured mortgage debt contain pre-payment penalties or yield maintenance provisions that could make the cost of refinancing the debt at lower rates exceed the benefit that would be derived from doing so.

The following table reflects the carrying amounts and estimated fair values of our debt at December 31 (in thousands):

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Facilities	$ 317,392	$ 317,496	$ 35,023	$ 35,061
Senior notes	6,067,277	6,537,100	6,417,492	6,935,485
Term loans and unsecured other	2,060,491	2,075,002	1,499,001	1,510,661
Secured mortgages	808,096	867,067	979,585	1,055,020
Secured mortgages of consolidated entities	159,375	159,130	1,677,193	1,683,489
Total debt	**$ 9,412,631**	**$ 9,955,795**	**$ 10,608,294**	**$ 11,219,716**

NOTE 17. COMMITMENTS AND CONTINGENCIES

Environmental Matters

A majority of the properties we acquire, including land, are subjected to environmental reviews either by us or the previous owners. In addition, we may incur environmental remediation costs associated with certain land parcels we acquire in connection with the development of the land. We have acquired certain properties that may have been leased to or previously owned by companies that discharged hazardous materials. We establish a liability at the time of acquisition to cover such costs and adjust the liabilities as appropriate when additional information becomes available. We record our environmental liabilities in *Other Liabilities* . We purchase various environmental insurance policies to mitigate our exposure to environmental liabilities. We are not aware of any environmental liabilities that would have a material adverse effect on our business, financial condition or results of operations.

Indemnification Agreements

We may enter into agreements whereby we indemnify certain co-investment ventures, or our venture partners, outside of the U.S. for taxes that may be assessed with respect to certain properties we contributed to these ventures. Our contributions to these ventures are generally structured as contributions of shares of companies that own the real estate assets. Accordingly, the capital gains associated with the step up in the value of the underlying real estate assets, for tax purposes, are deferred and transferred at contribution. We have generally indemnified these ventures to the extent that the ventures: (i) incur capital gains or withholding tax as a result of a direct sale of the real estate asset, as opposed to a transaction in which the shares of the company owning the real estate asset are transferred or sold or (ii) are required to grant a discount to the buyer of shares under a share transfer transaction as a result of the ventures transferring the embedded capital gain tax liability to the buyer of the shares in the transaction. The agreements limit the amount that is subject to our indemnification with respect to each property to 100% of the actual tax liabilities related to the capital gains that are deferred and transferred by us to the ventures at the time of the initial contribution less any deferred tax assets transferred with the property.

The outcome under these agreements is uncertain as it depends on the method and timing of dissolution of the related venture or disposition of any properties by the venture. We record liabilities related to the indemnification agreements in *Other Liabilities* . We continue to monitor these agreements and the likelihood of the sale of assets that would result in recognition and will adjust the potential liability in the future as facts and circumstances dictate.

Off-Balance Sheet Liabilities

We have issued performance and surety bonds and standby letters of credit in connection with certain development projects. Performance and surety bonds are commonly required by public agencies from real estate developers. Performance and surety bonds are renewable and expire on the completion of the improvements and infrastructure. At December 31, 2017 and 2016, we had approximately $178.4 million and $123.5 million, respectively, outstanding under such arrangements.

We may be required under capital commitments or we may choose to make additional capital contributions to certain of our unconsolidated entities, representing our proportionate ownership interest, should additional capital contributions be necessary to fund development or acquisition costs, repayment of debt or operation shortfalls. See Note 5 for further discussion related to equity commitments to our unconsolidated entities.

Litigation

From time to time, we are party to a variety of legal proceedings arising in the ordinary course of business. We believe that, with respect to any such matters that we are currently a party to, the ultimate disposition of any such matter will not have material adverse effect on our business, financial position or results of operations.

NOTE 18. BUSINESS SEGMENTS

Our current business strategy includes two operating segments: Real Estate Operations and Strategic Capital. We generate revenues, earnings, net operating income and cash flows through our segments, as follows:

- **Real Estate Operations.** This operating segment represents the ownership and development of operating properties and is the largest component of our revenues and earnings. We collect rent from our customers through operating leases, including reimbursements for the majority of our property operating costs. Each operating property is considered to be an individual operating segment with similar economic characteristics; these properties are combined within the reportable business segment based on geographic location. Our Real Estate Operations segment also includes development activities that lead to rental operations, including land held for development and properties currently under development. Within this line of business, we utilize the following: (i) our land bank; (ii) the development expertise of our local teams; and (iii) our customer relationships. Land we own and lease to customers under ground leases is also included in this segment.

- **Strategic Capital.** This operating segment represents the management of unconsolidated co-investment ventures. We generate strategic capital revenues primarily from our unconsolidated co-investment ventures through asset management and property management services and we earn additional revenues by providing leasing, acquisition, construction, development, financing and disposition services. Depending on the structure of the venture and the returns provided to our partners, we also earn revenues through promotes periodically during the life of a venture or upon liquidation. Each unconsolidated co-investment venture we manage is considered to be an individual operating segment with similar economic characteristics; these ventures are combined within the reportable business segment based on geographic location.

Reconciliations are presented below for: (i) each reportable business segment's revenues from external customers to *Total Revenues* ; (ii) each reportable business segment's net operating income from external customers to *Operating Income* and *Earnings Before Income Taxes* ; and (iii) each reportable business segment's assets to *Total Assets* . Our chief operating decision makers rely primarily on net operating income and similar measures to make decisions about allocating resources and assessing segment performance. The applicable components of *Total Revenues, Operating Income, Earnings Before Income Taxes* and *Total Assets* are allocated to each reportable business segment's revenues, net operating income and assets. Items that are not directly assignable to a segment, such as certain corporate income and expenses, are not allocated but reflected as reconciling items. The following reconciliations are presented in thousands:

	Years Ended December 31,		
	2017	2016	2015
Revenues:			
Real estate operations segment:			
U.S.	$ 2,025,184	$ 2,040,308	$ 1,801,858
Other Americas	84,789	58,519	57,316
Europe	73,708	75,602	69,576
Asia	60,564	55,144	50,495
Total real estate operations segment	2,244,245	2,229,573	1,979,245
Strategic capital segment:			
U.S.	176,720	39,360	39,396
Other Americas	28,494	22,799	22,507
Europe	106,862	186,652	112,744
Asia	61,813	54,751	43,182
Total strategic capital segment	373,889	303,562	217,829
Total revenues	**2,618,134**	**2,533,135**	**2,197,074**
Segment net operating income:			
Real estate operations segment:			
U.S. (1)	1,519,164	1,520,571	1,256,188
Other Americas	58,842	38,114	38,061
Europe	51,277	54,406	39,721
Asia	33,234	33,283	34,395
Total real estate operations segment	1,662,517	1,646,374	1,368,365
Strategic capital segment:			
U.S. (1)	106,471	(1,622)	(1,925)
Other Americas	16,811	12,777	13,496
Europe	68,127	144,132	86,215
Asia	27,339	19,769	11,621
Total strategic capital segment	218,748	175,056	109,407
Total segment net operating income	1,881,265	1,821,430	1,477,772
Reconciling items:			
General and administrative expenses	231,059	222,067	217,227
Depreciation and amortization expenses	879,140	930,985	880,373
Operating income	**771,066**	**668,378**	**380,172**
Earnings from unconsolidated entities, net	248,567	206,307	159,262
Interest expense	(274,486)	(303,146)	(301,363)
Interest and other income, net	13,731	8,101	25,484
Gains on dispositions of investments in real estate and revaluation of equity investments upon acquisition of a controlling interest, net	1,182,965	757,398	758,887
Foreign currency and derivative gains (losses), net	(57,896)	7,582	12,466
Gains (losses) on early extinguishment of debt, net	(68,379)	2,484	(86,303)
Earnings before income taxes	**$ 1,815,568**	**$ 1,347,104**	**$ 948,605**

	December 31,	
	2017	2016
Assets:		
Real estate operations segment:		
U.S.	$ 19,058,610	$ 21,286,422
Other Americas	1,767,385	978,476
Europe	1,008,340	1,346,589
Asia	1,083,764	936,462
Total real estate operations segment	22,918,099	24,547,949
Strategic capital segment (2):		
U.S.	16,818	18,090
Europe	25,280	47,635
Asia	544	1,301
Total strategic capital segment	42,642	67,026
Total segment assets	22,960,741	24,614,975
Reconciling items:		
Investments in and advances to unconsolidated entities	5,496,450	4,230,429
Assets held for sale or contribution	342,060	322,139
Notes receivable backed by real estate	34,260	32,100
Cash and cash equivalents	447,046	807,316
Other assets	200,518	242,973
Total reconciling items	6,520,334	5,634,957
Total assets	**$ 29,481,075**	**$ 30,249,932**

(1) This includes compensation and personnel costs for employees who were located in the U.S. but also support other regions.

(2) Represents management contracts and goodwill recorded in connection with business combinations associated with the Strategic Capital segment. Goodwill was $25.3 million at December 31, 2017 and 2016.

NOTE 19. SUPPLEMENTAL CASH FLOW INFORMATION

Our significant noncash investing and financing activities for the years ended December 31, 2017, 2016 and 2015 included the following:

- We contributed operating properties owned by NAIF to USLF in 2017. See Notes 4, 5 and 12 for more information on this transaction. As a result, we received $1.1 billion of units or ownership interest in USLF as a portion of our proceeds from this contribution. In addition, USLF assumed the $19.5 million note receivable backed by real estate we received in 2017 and $956.0 million of secured mortgage debt.
- We received $153.3 million, $135.3 million and $65.3 million of ownership interests in certain unconsolidated co-investment ventures as a portion of our proceeds from the contribution of properties to these entities during 2017, 2016 and 2015, respectively, as disclosed in Note 5.
- We capitalized $28.8 million, $25.8 million and $22.7 million in 2017, 2016 and 2015, respectively, of equity-based compensation expense resulting from our development and leasing activities.
- We issued 1.5 million shares and 1.9 million shares in 2017 and 2016, respectively, of the Parent's common stock upon redemption of an equal number of common limited partnership units in the OP, as disclosed in Note 12.
- We received $53.8 million and $235.1 million of notes receivable backed by real estate in exchange for the disposition of real estate in 2017 and 2015. See Note 7 for more information on our notes receivable backed by real estate.
- During 2015, we assumed $290.7 million of secured mortgage debt in connection with the acquisition of real estate properties. Also, as partial consideration for the disposition of some properties acquired during 2015, the buyer assumed debt of $170.1 million.
- In 2015, exchangeable senior notes of $459.8 million, that were issued by the OP, were exchanged into 11.9 million shares of common stock of the Parent.
- In 2015, common limited partnership units were issued as partial consideration for the acquisition of properties as disclosed in Note 11.

- See Note 3 for information related to the KTR transaction in 2015.

NOTE 20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table details our selected quarterly financial data (in thousands, except per share and unit data):

	Three Months Ended,			
Prologis, Inc.	**March 31,**	**June 30,**	**September 30,**	**December 31,**
2017:				
Rental revenues	$ 439,884	$ 447,960	$ 416,427	$ 433,568
Rental recoveries	$ 127,049	$ 128,417	$ 114,755	$ 117,081
Total revenues	$ 629,155	$ 766,183	$ 602,874	$ 619,922
Rental expenses	$ (152,656)	$ (147,794)	$ (128,735)	$ (140,338)
Operating income	$ 161,886	$ 275,272	$ 175,491	$ 158,417
Consolidated net earnings	$ 220,689	$ 287,980	$ 913,417	$ 338,873
Net earnings attributable to common stockholders	$ 203,255	$ 266,943	$ 876,218	$ 295,515
Net earnings per share attributable to common stockholders – Basic (1)	$ 0.38	$ 0.50	$ 1.65	$ 0.56
Net earnings per share attributable to common stockholders – Diluted (1) (2)	$ 0.38	$ 0.50	$ 1.63	$ 0.55
2016:				
Rental revenues	$ 437,104	$ 426,150	$ 435,868	$ 435,722
Rental recoveries	$ 117,012	$ 119,981	$ 124,409	$ 124,163
Total revenues	$ 606,300	$ 602,155	$ 704,565	$ 620,115
Rental expenses	$ (146,581)	$ (140,725)	$ (140,514)	$ (141,050)
Operating income	$ 129,198	$ 142,348	$ 232,624	$ 164,208
Consolidated net earnings	$ 222,805	$ 295,791	$ 307,242	$ 466,702
Net earnings attributable to common stockholders	$ 208,041	$ 275,383	$ 279,255	$ 440,539
Net earnings per share attributable to common stockholders – Basic (1)	$ 0.40	$ 0.52	$ 0.53	$ 0.83
Net earnings per share attributable to common stockholders – Diluted (1) (2)	$ 0.39	$ 0.52	$ 0.52	$ 0.82
Prologis, L.P.				
2017:				
Rental revenues	$ 439,884	$ 447,960	$ 416,427	$ 433,568
Rental recoveries	$ 127,049	$ 128,417	$ 114,755	$ 117,081
Total revenues	$ 629,155	$ 766,183	$ 602,874	$ 619,922
Rental expenses	$ (152,656)	$ (147,794)	$ (128,735)	$ (140,338)
Operating income	$ 161,886	$ 275,272	$ 175,491	$ 158,417
Consolidated net earnings	$ 220,689	$ 287,980	$ 913,417	$ 338,873
Net earnings attributable to common unitholders	$ 208,878	$ 274,320	$ 900,331	$ 303,416
Net earnings per unit attributable to common unitholders – Basic (1)	$ 0.38	$ 0.50	$ 1.65	$ 0.56
Net earnings per unit attributable to common unitholders – Diluted (1) (2)	$ 0.38	$ 0.50	$ 1.63	$ 0.55
2016:				
Rental revenues	$ 437,104	$ 426,150	$ 435,868	$ 435,722
Rental recoveries	$ 117,012	$ 119,981	$ 124,409	$ 124,163
Total revenues	$ 606,300	$ 602,155	$ 704,565	$ 620,115
Rental expenses	$ (146,581)	$ (140,725)	$ (140,514)	$ (141,050)
Operating income	$ 129,198	$ 142,348	$ 232,624	$ 164,208
Consolidated net earnings	$ 222,805	$ 295,791	$ 307,242	$ 466,702
Net earnings attributable to common unitholders	$ 214,275	$ 283,699	$ 286,943	$ 452,602
Net earnings per unit attributable to common unitholders – Basic (1)	$ 0.40	$ 0.52	$ 0.53	$ 0.83
Net earnings per unit attributable to common unitholders – Diluted (1) (2)	$ 0.39	$ 0.52	$ 0.52	$ 0.82

(1) Quarterly earnings per common share or unit amounts may not total to the annual amounts due to rounding and the changes in the number of weighted average common shares or units outstanding included in the calculation of basic and diluted shares or units.

(2) Income allocated to the exchangeable OP units not held by the Parent has been included in the numerator and exchangeable OP units have been included in the denominator for the purpose of computing dilu ted earnings per share for all periods since the per share and unit is the same.