UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2017

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____________ to _____________

Commission File Number: 001-13545 (Prologis, Inc.) 001-14245 (Prologis, L.P.)

Prologis, Inc.
Prologis, L.P.
(Exact name of registrant as specified in its charter)

Maryland (Prologis, Inc.) **Delaware (Prologis, L.P.)** **(State or other jurisdiction of incorporation or organization)**	**94-3281941 (Prologis, Inc.)** **94-3285362 (Prologis, L.P.)** **(I.R.S. Employer Identification No.)**
Pier 1, Bay 1, San Francisco, California **(Address or principal executive offices)**	**94111** **(Zip Code)**

(415) 394-9000
(Registrants' telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing for the past 90 days.

Prologis, Inc.	Yes	☒	No	☐
Prologis, L.P.	Yes	☒	No	☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website; if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter periods that the registrant was required to submit and post such files).

Prologis, Inc.	Yes	☒	No	☐
Prologis, L.P.	Yes	☒	No	☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one):

Prologis, Inc.:

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐	Emerging growth company ☐

Prologis, L.P.:

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Prologis, Inc.	Yes	☐	No	☒
Prologis, L.P.	Yes	☐	No	☒

The number of shares of Prologis, Inc.'s common stock outstanding at July 24, 2017, was approximately 531,863,000.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2017, of Prologis, Inc. and Prologis, L.P. Unless stated otherwise or the context otherwise requires, references to “Prologis, Inc.” or the “Parent” mean Prologis, Inc. and its consolidated subsidiaries; and references to “Prologis, L.P.” or the “Operating Partnership” mean Prologis, L.P., and its consolidated subsidiaries. The terms “the Company,” “Prologis,” “we,” “our” or “us” means the Parent and the Operating Partnership collectively.

The Parent is a real estate investment trust (“REIT”) and the general partner of the Operating Partnership. At June 30, 2017, the Parent owned an approximate 97.33% common general partnership interest in the Operating Partnership and 100% of the preferred units in the Operating Partnership. The remaining approximate 2.67% common limited partnership interests are owned by nonaffiliated investors and certain current and former directors and officers of the Parent. As the sole general partner of the Operating Partnership, the Parent has complete responsibility and discretion in the day-to-day management and control of the Operating Partnership.

We operate the Parent and the Operating Partnership as one enterprise. The management of the Parent consists of the same members as the management of the Operating Partnership. These members are officers of the Parent and employees of the Operating Partnership or one of its subsidiaries. As general partner with control of the Operating Partnership, the Parent consolidates the Operating Partnership for financial reporting purposes. Because the only significant asset of the Parent is its investment in the Operating Partnership, the assets and liabilities of the Parent and the Operating Partnership are the same on their respective financial statements.

We believe combining the quarterly reports on Form 10-Q of the Parent and the Operating Partnership into this single report results in the following benefits:

- enhances investors’ understanding of the Parent and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation as a substantial portion of the Company’s disclosure applies to both the Parent and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

It is important to understand the few differences between the Parent and the Operating Partnership in the context of how we operate the Company. The Parent does not conduct business itself, other than acting as the sole general partner of the Operating Partnership and issuing public equity from time to time. The Parent itself does not incur any indebtedness, but it guarantees the unsecured debt of the Operating Partnership. The Operating Partnership holds substantially all the assets of the business, directly or indirectly, and holds the ownership interests in the Company’s investment in certain entities. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Parent, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates capital required by the business through the Operating Partnership’s operations, incurrence of indebtedness and issuance of partnership units to third parties.

The presentation of noncontrolling interests, stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of the Parent and those of the Operating Partnership. The preferred stock, common stock, additional paid-in capital, accumulated other comprehensive loss and distributions in excess of net earnings of the Parent are presented as stockholders’ equity in the Parent’s consolidated financial statements. These items represent the common and preferred general partnership interests held by the Parent in the Operating Partnership and are presented as general partner’s capital within partners’ capital in the Operating Partnership’s consolidated financial statements. The common limited partnership interests held by the limited partners in the Operating Partnership are presented as noncontrolling interest within equity in the Parent’s consolidated financial statements and as limited partners’ capital within partners’ capital in the Operating Partnership’s consolidated financial statements. The differences in the presentations between stockholders’ equity and partners’ capital result from the differences in the equity and capital issuances at the Parent and Operating Partnership levels.

To highlight the differences between the Parent and the Operating Partnership, separate sections in this report, as applicable, individually discuss the Parent and the Operating Partnership, including separate financial statements and separate Exhibit 31 and 32 certifications. In the sections that combine disclosure of the Parent and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of Prologis.

PROLOGIS

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

PROLOGIS, INC.

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

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Investments in real estate properties	$ 27,501,284	$ 27,119,330
Less accumulated depreciation	4,026,369	3,758,372
Net investments in real estate properties	23,474,915	23,360,958
Investments in and advances to unconsolidated entities	4,617,724	4,230,429
Assets held for sale or contribution	350,987	322,139
Notes receivable backed by real estate	19,536	32,100
Net investments in real estate	28,463,162	27,945,626
Cash and cash equivalents	271,354	807,316
Other assets	1,415,879	1,496,990
Total assets	**$ 30,150,395**	**$ 30,249,932**
LIABILITIES AND EQUITY		
Liabilities:		
Debt	$ 11,081,922	$ 10,608,294
Accounts payable and accrued expenses	554,775	556,179
Other liabilities	653,460	627,319
Total liabilities	12,290,157	11,791,792
Equity:		
Prologis, Inc. stockholders' equity:		
Series Q preferred stock at stated liquidation preference of $50 per share: $0.01 par value; 1,565 shares issued and outstanding and 100,000 preferred shares authorized at June 30, 2017, and December 31, 2016	78,235	78,235
Common stock: $0.01 par value; 531,338 shares and 528,671 shares issued and outstanding at June 30, 2017, and December 31, 2016, respectively	5,313	5,287
Additional paid-in capital	19,305,197	19,455,039
Accumulated other comprehensive loss	(934,196)	(937,473)
Distributions in excess of net earnings	(3,607,253)	(3,610,007)
Total Prologis, Inc. stockholders' equity	14,847,296	14,991,081
Noncontrolling interests	3,012,942	3,467,059
Total equity	17,860,238	18,458,140
Total liabilities and equity	**$ 30,150,395**	**$ 30,249,932**

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

PROLOGIS, INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Revenues:				
Rental	$ 447,960	$ 426,150	$ 887,844	$ 863,254
Rental recoveries	128,417	119,981	255,466	236,993
Strategic capital	180,654	53,535	237,699	104,538
Development management and other	9,152	2,489	14,329	3,670
Total revenues	766,183	602,155	1,395,338	1,208,455
Expenses:				
Rental	147,794	140,725	300,450	287,306
Strategic capital	51,986	27,866	83,785	53,159
General and administrative	60,077	56,934	113,694	107,477
Depreciation and amortization	228,145	230,382	454,736	480,382
Other	2,909	3,900	5,515	8,585
Total expenses	490,911	459,807	958,180	936,909
Operating income	275,272	142,348	437,158	271,546
Other income (expense):				
Earnings from unconsolidated entities, net	68,596	41,454	117,201	99,765
Interest expense	(75,354)	(76,455)	(148,266)	(157,267)
Interest and other income, net	1,892	1,527	4,677	4,118
Gains on dispositions of investments in real estate, net	83,006	200,350	180,331	344,667
Foreign currency and derivative losses, net	(20,055)	(10,335)	(27,455)	(24,546)
Gains (losses) on early extinguishment of debt, net	(30,596)	2,044	(30,596)	992
Total other income	27,489	158,585	95,892	267,729
Earnings before income taxes	302,761	300,933	533,050	539,275
Total income tax expense	14,781	5,142	24,381	20,679
Consolidated net earnings	287,980	295,791	508,669	518,596
Less net earnings attributable to noncontrolling interests	19,363	18,712	35,123	31,787
Net earnings attributable to controlling interests	268,617	277,079	473,546	486,809
Less preferred stock dividends	1,674	1,696	3,348	3,385
Net earnings attributable to common stockholders	**$ 266,943**	**$ 275,383**	**$ 470,198**	**$ 483,424**
Weighted average common shares outstanding – Basic	530,040	524,842	529,400	524,540
Weighted average common shares outstanding – Diluted	552,114	545,388	550,512	544,293
Net earnings per share attributable to common stockholders – Basic	**$ 0.50**	**$ 0.52**	**$ 0.89**	**$ 0.92**
Net earnings per share attributable to common stockholders – Diluted	**$ 0.50**	**$ 0.52**	**$ 0.88**	**$ 0.92**
Dividends per common share	**$ 0.44**	**$ 0.42**	**$ 0.88**	**$ 0.84**

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

PROLOGIS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Consolidated net earnings	$ 287,980	$ 295,791	$ 508,669	$ 518,596
Other comprehensive income (loss):				
Foreign currency translation gains (losses), net	3,162	(23,061)	42,829	(21,600)
Unrealized gains (losses) on derivative contracts, net	6,735	(5,926)	9,366	(21,818)
Comprehensive income	297,877	266,804	560,864	475,178
Net earnings attributable to noncontrolling interests	(19,363)	(18,712)	(35,123)	(31,787)
Other comprehensive income attributable to noncontrolling interests	(811)	(5,192)	(48,918)	(13,232)
Comprehensive income attributable to common stockholders	**$ 277,703**	**$ 242,900**	**$ 476,823**	**$ 430,159**

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

PROLOGIS, INC.

CONSOLIDATED STATEMENT OF EQUITY
Six Months Ended June 30, 2017
(Unaudited)
(In thousands)

	Preferred Stock	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Distributions in Excess of Net Earnings	Non-controlling Interests	Total Equity
Balance at January 1, 2017	$ 78,235	528,671	$ 5,287	$ 19,455,039	$ (937,473)	$ (3,610,007)	$ 3,467,059	$ 18,458,140
Consolidated net earnings	-	-	-	-	-	473,546	35,123	508,669
Effect of equity compensation plans	-	1,714	17	39,879	-	-	18,889	58,785
Capital contributions	-	-	-	-	-	-	135,857	135,857
Settlement of noncontrolling interests	-	-	-	(201,620)	-	-	(588,006)	(789,626)
Conversion of noncontrolling interests	-	953	9	28,429	-	-	(28,438)	-
Foreign currency translation gains (losses), net	-	-	-	-	(5,839)	-	48,668	42,829
Unrealized gains on derivative contracts, net	-	-	-	-	9,116	-	250	9,366
Reallocation of equity	-	-	-	(16,501)	-	-	16,501	-
Distributions and other	-	-	-	(29)	-	(470,792)	(92,961)	(563,782)
Balance at June 30, 2017	**$ 78,235**	**531,338**	**$ 5,313**	**$ 19,305,197**	**$ (934,196)**	**$ (3,607,253)**	**$ 3,012,942**	**$ 17,860,238**

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

PROLOGIS, INC.

CONSOLIDATED STA TEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating activities:		
Consolidated net earnings	$ 508,669	$ 518,596
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Straight-lined rents and amortization of above and below market leases	(48,920)	(43,113)
Equity-based compensation awards	37,604	29,212
Depreciation and amortization	454,736	480,382
Earnings from unconsolidated entities, net	(117,201)	(99,765)
Distributions from unconsolidated entities	141,256	147,155
Net changes in operating receivables from unconsolidated entities	(117,675)	22,896
Amortization of debt premiums, net of debt issuance costs	(4,445)	(9,616)
Gains on dispositions of investments in real estate, net	(180,331)	(344,667)
Unrealized foreign currency and derivative losses, net	35,266	23,386
Losses (gains) on early extinguishment of debt, net	30,596	(992)
Deferred income tax expense (benefit)	2,268	(4,602)
Decrease in accounts receivable and other assets	61,452	14,327
Decrease in accounts payable and accrued expenses and other liabilities	(58,115)	(99,539)
Net cash provided by operating activities	745,160	633,660
Investing activities:		
Real estate development	(715,294)	(775,545)
Real estate acquisitions	(202,088)	(136,107)
Tenant improvements and lease commissions on previously leased space	(75,342)	(88,659)
Nondevelopment capital expenditures	(37,253)	(30,096)
Proceeds from dispositions and contributions of real estate properties	836,107	1,284,126
Investments in and advances to unconsolidated entities	(144,894)	(145,287)
Return of investment from unconsolidated entities	133,677	533,333
Proceeds from repayment of notes receivable backed by real estate	32,100	201,250
Proceeds from the settlement of net investment hedges	7,541	16,768
Payments on the settlement of net investment hedges	(5,058)	-
Net cash provided by (used in) investing activities	(170,504)	859,783
Financing activities:		
Proceeds from issuance of common stock	25,374	10,354
Dividends paid on common and preferred stock	(470,792)	(445,343)
Noncontrolling interests contributions	135,857	825
Noncontrolling interests distributions	(99,896)	(214,263)
Purchase of noncontrolling interests	(789,626)	(2,979)
Tax paid for shares withheld	(18,894)	(7,301)
Debt and equity issuance costs paid	(6,151)	(14,865)
Net payments on credit facilities	(33,745)	(3,515)
Repurchase and payments of debt	(2,002,519)	(1,277,311)
Proceeds from issuance of debt	2,134,041	517,045
Net cash used in financing activities	(1,126,351)	(1,437,353)
Effect of foreign currency exchange rate changes on cash	15,733	12,051
Net increase (decrease) in cash and cash equivalents	(535,962)	68,141
Cash and cash equivalents, beginning of period	807,316	264,080
Cash and cash equivalents, end of period	**$ 271,354**	**$ 332,221**

See Note 11 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)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Investments in real estate properties	$ 27,501,284	$ 27,119,330
Less accumulated depreciation	4,026,369	3,758,372
Net investments in real estate properties	23,474,915	23,360,958
Investments in and advances to unconsolidated entities	4,617,724	4,230,429
Assets held for sale or contribution	350,987	322,139
Notes receivable backed by real estate	19,536	32,100
Net investments in real estate	28,463,162	27,945,626
Cash and cash equivalents	271,354	807,316
Other assets	1,415,879	1,496,990
Total assets	**$ 30,150,395**	**$ 30,249,932**
LIABILITIES AND CAPITAL		
Liabilities:		
Debt	$ 11,081,922	$ 10,608,294
Accounts payable and accrued expenses	554,775	556,179
Other liabilities	653,460	627,319
Total liabilities	12,290,157	11,791,792
Capital:		
Partners' capital:		
General partner – preferred	78,235	78,235
General partner – common	14,769,061	14,912,846
Limited partners – common	165,826	150,173
Limited partners – Class A common	239,764	244,417
Total partners' capital	15,252,886	15,385,671
Noncontrolling interests	2,607,352	3,072,469
Total capital	17,860,238	18,458,140
Total liabilities and capital	**$ 30,150,395**	**$ 30,249,932**

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

PROLOGIS, L.P.

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenues:				
Rental	$ 447,960	$ 426,150	$ 887,844	$ 863,254
Rental recoveries	128,417	119,981	255,466	236,993
Strategic capital	180,654	53,535	237,699	104,538
Development management and other	9,152	2,489	14,329	3,670
Total revenues	766,183	602,155	1,395,338	1,208,455
Expenses:				
Rental	147,794	140,725	300,450	287,306
Strategic capital	51,986	27,866	83,785	53,159
General and administrative	60,077	56,934	113,694	107,477
Depreciation and amortization	228,145	230,382	454,736	480,382
Other	2,909	3,900	5,515	8,585
Total expenses	490,911	459,807	958,180	936,909
Operating income	275,272	142,348	437,158	271,546
Other income (expense):				
Earnings from unconsolidated entities, net	68,596	41,454	117,201	99,765
Interest expense	(75,354)	(76,455)	(148,266)	(157,267)
Interest and other income, net	1,892	1,527	4,677	4,118
Gains on dispositions of investments in real estate, net	83,006	200,350	180,331	344,667
Foreign currency and derivative losses, net	(20,055)	(10,335)	(27,455)	(24,546)
Gains (losses) on early extinguishment of debt, net	(30,596)	2,044	(30,596)	992
Total other income	27,489	158,585	95,892	267,729
Earnings before income taxes	302,761	300,933	533,050	539,275
Total income tax expense	14,781	5,142	24,381	20,679
Consolidated net earnings	287,980	295,791	508,669	518,596
Less net earnings attributable to noncontrolling interests	11,986	10,396	22,123	17,237
Net earnings attributable to controlling interests	275,994	285,395	486,546	501,359
Less preferred unit distributions	1,674	1,696	3,348	3,385
Net earnings attributable to common unitholders	**$ 274,320**	**$ 283,699**	**$ 483,198**	**$ 497,974**
Weighted average common units outstanding – Basic	536,060	531,912	535,392	531,507
Weighted average common units outstanding – Diluted	552,114	545,388	550,512	544,293
Net earnings per unit attributable to common unitholders – Basic	**$ 0.50**	**$ 0.52**	**$ 0.89**	**$ 0.92**
Net earnings per unit attributable to common unitholders – Diluted	**$ 0.50**	**$ 0.52**	**$ 0.88**	**$ 0.92**
Distributions per common unit	**$ 0.44**	**$ 0.42**	**$ 0.88**	**$ 0.84**

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

PROLOGIS, L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Consolidated net earnings	$ 287,980	$ 295,791	$ 508,669	$ 518,596
Other comprehensive income (loss):				
Foreign currency translation gains (losses), net	3,162	(23,061)	42,829	(21,600)
Unrealized gains (losses) on derivative contracts, net	6,735	(5,926)	9,366	(21,818)
Comprehensive income	297,877	266,804	560,864	475,178
Net earnings attributable to noncontrolling interests	(11,986)	(10,396)	(22,123)	(17,237)
Other comprehensive income attributable to noncontrolling interests	(561)	(6,118)	(48,828)	(14,844)
Comprehensive income attributable to common unitholders	**$ 285,330**	**$ 250,290**	**$ 489,913**	**$ 443,097**

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

PROLOGIS, L.P.

CONSOLIDATED STATEMENT OF CAPITAL
Six Months Ended June 30, 2017
(Unaudited)
(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, 2017	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	-	-	-	473,546	-	5,322	-	7,678	22,123	508,669
Effect of equity compensation plans	-	-	1,714	39,896	1,320	18,889	-	-	-	58,785
Capital contributions	-	-	-	-	-	-	-	-	135,857	135,857
Settlement of noncontrolling interests	-	-	-	(201,620)	-	-	-	-	(588,006)	(789,626)
Conversion of limited partners units	-	-	953	28,438	(677)	(18,753)	-	-	(9,685)	-
Foreign currency translation gains (losses), net	-	-	-	(5,839)	-	(66)	-	(94)	48,828	42,829
Unrealized gains on derivative contracts, net	-	-	-	9,116	-	102	-	148	-	9,366
Reallocation of capital	-	-	-	(16,501)	-	17,383	-	(882)	-	-
Distributions and other	-	-	-	(470,821)	-	(7,224)	-	(11,503)	(74,234)	(563,782)
Balance at June 30, 2017	**1,565**	**$ 78,235**	**531,338**	**$ 14,769,061**	**5,966**	**$ 165,826**	**8,894**	**$ 239,764**	**$ 2,607,352**	**$ 17,860,238**

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

PROLOGIS, L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating activities:		
Consolidated net earnings	$ 508,669	$ 518,596
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Straight-lined rents and amortization of above and below market leases	(48,920)	(43,113)
Equity-based compensation awards	37,604	29,212
Depreciation and amortization	454,736	480,382
Earnings from unconsolidated entities, net	(117,201)	(99,765)
Distributions from unconsolidated entities	141,256	147,155
Net changes in operating receivables from unconsolidated entities	(117,675)	22,896
Amortization of debt premiums, net of debt issuance costs	(4,445)	(9,616)
Gains on dispositions of investments in real estate, net	(180,331)	(344,667)
Unrealized foreign currency and derivative losses, net	35,266	23,386
Losses (gains) on early extinguishment of debt, net	30,596	(992)
Deferred income tax expense (benefit)	2,268	(4,602)
Decrease in accounts receivable and other assets	61,452	14,327
Decrease in accounts payable and accrued expenses and other liabilities	(58,115)	(99,539)
Net cash provided by operating activities	745,160	633,660
Investing activities:		
Real estate development	(715,294)	(775,545)
Real estate acquisitions	(202,088)	(136,107)
Tenant improvements and lease commissions on previously leased space	(75,342)	(88,659)
Nondevelopment capital expenditures	(37,253)	(30,096)
Proceeds from dispositions and contributions of real estate properties	836,107	1,284,126
Investments in and advances to unconsolidated entities	(144,894)	(145,287)
Return of investment from unconsolidated entities	133,677	533,333
Proceeds from repayment of notes receivable backed by real estate	32,100	201,250
Proceeds from the settlement of net investment hedges	7,541	16,768
Payments on the settlement of net investment hedges	(5,058)	-
Net cash provided by (used in) investing activities	(170,504)	859,783
Financing activities:		
Proceeds from issuance of common partnership units in exchange for contributions from Prologis, Inc.	25,374	10,354
Distributions paid on common and preferred units	(489,519)	(465,071)
Noncontrolling interests contributions	135,857	825
Noncontrolling interests distributions	(81,169)	(195,386)
Purchase of noncontrolling interests	(789,626)	(2,128)
Tax paid for shares withheld	(18,894)	(7,301)
Debt and capital issuance costs paid	(6,151)	(14,865)
Net payments on credit facilities	(33,745)	(3,515)
Repurchase and payments of debt	(2,002,519)	(1,277,311)
Proceeds from issuance of debt	2,134,041	517,045
Net cash used in financing activities	(1,126,351)	(1,437,353)
Effect of foreign currency exchange rate changes on cash	15,733	12,051
Net increase (decrease) in cash and cash equivalents	(535,962)	68,141
Cash and cash equivalents, beginning of period	807,316	264,080
Cash and cash equivalents, end of period	**$ 271,354**	**$ 332,221**

See Note 11 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. GENERAL

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”). Through the Operating Partnership, 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. 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 10 for further discussion of our business segments. Unless otherwise indicated, the Notes to the Consolidated Financial Statements apply to both the Parent and the Operating Partnership. The terms “the Company,” “Prologis,” “we,” “our” or “us” means the Parent and Operating Partnership collectively.

For each share of common stock or preferred stock the Parent issues, the Operating Partnership 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 June 30, 2017, the Parent owned an approximate 97.33% common general partnership interest in the Operating Partnership and 100% of the preferred units in the Operating Partnership. The remaining approximate 2.67% common limited partnership interests, which include 8.9 million Class A common limited partnership units (“Class A Units”) in the Operating Partnership, are owned by unaffiliated investors and certain current and former directors and officers of the Parent. Each partner’s percentage interest in the Operating Partnership is determined based on the number of Operating Partnership units held, including the number of Operating Partnership units into which Class A Units are convertible, compared to total Operating Partnership 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 Operating Partnership 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 and *Reallocation of Capital* in the Consolidated Statement of Capital.

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

Basis of Presentation. 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.

The accompanying unaudited interim financial information has been prepared according to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with such rules and regulations. Our management believes that the disclosures presented in these financial statements are adequate to make the information presented not misleading. In our opinion, all adjustments and eliminations, consisting only of normal recurring adjustments, necessary to present fairly the financial position and results of operations for both the Parent and the Operating Partnership for the reported periods have been included. The results of operations for such interim periods are not necessarily indicative of the results for the full year. The accompanying unaudited interim financial information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the SEC, and other public information.

Certain amounts included in the accompanying Consolidated Financial Statements for 2016 have been reclassified to conform to the 2017 financial statement presentation. This included two reclassifications made in the Consolidated Statements of Cash Flows. The first was a reclassification of distributions from our unconsolidated entities from investing activities to operating activities due to the adoption of the accounting standard update in 2016 that provided guidance for areas in which there was diversity in how certain cash receipts and payments were presented and classified. The second was the reclassification of payments from operating activities to financing activities due to the accounting standard update in 2016 that amended the stock compensation requirements in existing GAAP.

New Accounting Pronouncements.

New Accounting Standards Adopted

In January 2017, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update that clarifies the definition of a business. The update adds further guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect most of our acquisitions of operating properties and portfolios of operating properties to qualify as asset acquisitions under the standard that permits the capitalization of acquisition costs to the basis of the acquired buildings. We adopted this standard on January 1, 2017, on a prospective basis, and 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 accounting standard update 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 are evaluating each of our revenue streams and their related accounting policies under the standard. Rental revenues and recoveries earned from leasing our operating properties will be assessed with the adoption of the lease accounting standard update discussed below. Our evaluation under the revenue recognition standard also includes recurring fees and promotes earned from our co-investment ventures as well as sales to third parties and unconsolidated co-investment ventures. While we do not expect changes in the recognition of recurring fees earned, we are evaluating both the timing and measurement of promotes that may result in recognition when they are probable of being earned. For sales to third parties, primarily dispositions of real estate in exchange for cash with few contingencies, we do not expect the standard to significantly impact the recognition of or accounting treatment. In February 2017, the FASB issued an additional accounting standard update that provides the accounting treatment for gains and losses from the derecognition of non-financial assets, including the accounting for partial sales. Upon adoption of the standard, we will recognize, on a prospective basis, the entire gain attributed to sales 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 assets. Both the revenue recognition and derecognition of non-financial assets standards are effective for us on January 1, 2018. 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 expect to adopt the standards on a modified retrospective basis.

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

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, certain of these costs are capitalizable and therefore this new standard may result in certain of these costs being expensed as incurred after adoption. This standard may also impact the timing, recognition and disclosures related to our rental recoveries from tenants earned from leasing our operating properties.

Under the standard, lessees apply a dual approach, classifying leases as either finance or operating leases. A lessee is required to record a right-of-use 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 on ground leases and office space leases. At December 31, 2016, we had approximately 90 ground and office space leases that will require us to measure and record a right-of-use asset and a lease liability upon adoption of the standard. There have been no significant changes to our ground and office space leases since December 31, 2016.

The standard is effective for us on January 1, 2019. We are assessing the practical expedients available for implementation under the standard. If the practical expedients are elected, we would 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. The standard will also require new disclosures within the notes accompanying the Consolidated Financial Statements. We will continue to assess the method of adoption and the overall impact the adoption will have on the Consolidated Financial Statements.

NOTE 2. REAL ESTATE

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

	Square Feet		Number of Buildings			
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Operating properties						
Buildings and improvements	332,282	331,210	1,752	1,776	$ 18,273,094	$ 17,905,914
Improved land					6,139,322	6,037,543
Development portfolio, including land costs:						
Prestabilized	5,878	8,256	22	29	526,442	798,233
Properties under development	22,325	19,539	55	60	962,851	633,849
Land (1)					1,081,897	1,218,904
Other real estate investments (2)					517,678	524,887
Total investments in real estate properties					27,501,284	27,119,330
Less accumulated depreciation					4,026,369	3,758,372
Net investments in real estate properties					**$ 23,474,915**	**$ 23,360,958**

(1) Included in our investments in real estate at June 30, 2017, and December 31, 2016, were 5,460 and 5,892 acres of land, respectively.

(2) Included in other real estate investments are: (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.

Dispositions

The following table summarizes our real estate disposition activity for the three and six months ended June 30 (dollars and square feet in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Contributions to unconsolidated co-investment ventures				
Number of properties	5	5	10	10
Square feet	875	1,308	3,644	4,019
Net proceeds (1)	$ 115,617	$ 65,805	$ 513,106	$ 463,700
Gains on contributions, net (1)	$ 37,702	$ 10,451	$ 126,068	$ 103,590
Dispositions to third parties				
Number of properties	20	72	38	99
Square feet	3,720	8,321	6,038	10,565
Net proceeds (1) (2)	$ 216,290	$ 609,028	$ 459,679	$ 889,607
Gains on dispositions, net (1) (2)	$ 45,304	$ 103,284	$ 54,263	$ 154,462
Total gains on contributions and dispositions, net	**$ 83,006**	**$ 113,735**	**$ 180,331**	**$ 258,052**
Gains on redemption of investment in co-investment ventures (3)	-	86,615	-	86,615
Total gains on dispositions of investments in real estate, net	**$ 83,006**	**$ 200,350**	**$ 180,331**	**$ 344,667**

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

(2) Includes the sale of our investment in European Logistics Venture 1 (“ELV”) in 2017. See Note 3 for more information on this transaction.

(3) In April 2016, we redeemed a portion of our investment in Prologis Targeted European Logistics Fund (“PTELF”) and Prologis Targeted U.S. Logistics Fund (“USLF”) for €185.0 million ($210.6 million) and $200.0 million, respectively. The amounts received for the redemptions were included in *Return of Investment from Unconsolidated Entities* in the Consolidated Statements of Cash Flows.

NOTE 3. 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 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 6 for more detail regarding our consolidated investments.

We also have other ventures, generally with one partner and that we do not manage, which we account for primarily 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 (in thousands):

	June 30, 2017	December 31, 2016
Unconsolidated co-investment ventures	$ 4,382,825	$ 4,057,524
Other ventures	234,899	172,905
Totals	**$ 4,617,724**	**$ 4,230,429**

Unconsolidated Co-Investment Ventures

The amounts recognized in *Strategic Capital Revenues* and *Earnings from Unconsolidated Entities, Net* depend on the size and operations of the co-investment ventures, the timing of revenues earned through promotes during the life of a venture or upon liquidation, as well as fluctuations in foreign currency exchange rates. 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. Our ownership interest in these ventures also impacts the earnings we recognize.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Strategic capital revenues from unconsolidated co-investment ventures, net:				
U.S. (1)	$ 130,165	$ 9,179	$ 141,223	$ 18,174
Other Americas (1)	9,864	5,693	15,915	11,079
Europe	25,957	25,435	52,127	47,768
Asia	14,064	12,654	26,719	26,255
Total strategic capital revenues from unconsolidated co-investment ventures, net	**$ 180,050**	**$ 52,961**	**$ 235,984**	**$ 103,276**
Earnings from unconsolidated co-investment ventures, net:				
U.S.	$ 1,963	$ 718	$ 6,909	$ 7,377
Other Americas	8,933	7,509	15,503	12,808
Europe	35,859	29,014	65,764	60,593
Asia	14,410	3,693	18,439	7,348
Total earnings from unconsolidated co-investment ventures, net	**$ 61,165**	**$ 40,934**	**$ 106,615**	**$ 88,126**

(1) In June 2017, we earned promotes from USLF based on the venture's cumulative returns to its investors over the last three years and FIBRA Prologis based on the venture's cumulative returns to its investors over the past year. The third parties' share of the promotes that were recognized in *Strategic Capital Revenues* were $123.9 million.

The following tables summarize the operating information and financial position of our unconsolidated co-investment ventures (not our proportionate share), as presented at our adjusted basis derived from the ventures' U.S. GAAP information:

(dollars and square feet in millions)	June 30, 2017	December 31, 2016	June 30, 2016
U.S.:			
Number of ventures	1	1	1
Number of operating properties owned	384	369	379
Square feet	52	50	49
Total assets	$ 4,346	$ 4,238	$ 4,228
Third-party debt	$ 1,400	$ 1,414	$ 1,425
Total liabilities	$ 1,620	$ 1,540	$ 1,504
Our investment balance (1)	$ 545	$ 435	$ 518
Our weighted average ownership (2)	14.2%	14.9%	17.6%
Other Americas:			
Number of ventures	2	2	2
Number of operating properties owned	215	213	209
Square feet	43	42	41
Total assets	$ 2,791	$ 2,793	$ 2,694
Third-party debt	$ 728	$ 739	$ 677
Total liabilities	$ 812	$ 814	$ 772
Our investment balance (1)	$ 836	$ 845	$ 848
Our weighted average ownership (2)	44.0%	43.9%	43.6%
Europe:			
Number of ventures (3) (4)	4	4	4
Number of operating properties owned	702	700	690
Square feet	164	163	160
Total assets	$ 12,178	$ 10,853	$ 11,188
Third-party debt	$ 2,595	$ 2,446	$ 2,566
Total liabilities	$ 3,536	$ 3,283	$ 3,521
Our investment balance (1)	$ 2,505	$ 2,327	$ 2,464
Our weighted average ownership (2)	33.0%	35.1%	36.2%
Asia:			
Number of ventures	2	2	2
Number of operating properties owned	83	85	77
Square feet	36	36	34
Total assets	$ 5,528	$ 5,173	$ 5,346
Third-party debt	$ 2,088	$ 1,947	$ 1,952
Total liabilities	$ 2,376	$ 2,239	$ 2,250
Our investment balance (1)	$ 497	$ 451	$ 498
Our weighted average ownership (2)	15.1%	15.1%	15.0%
Total:			
Number of ventures	**9**	**9**	**9**
Number of operating properties owned	**1,384**	**1,367**	**1,355**
Square feet	**295**	**291**	**284**
Total assets	**$ 24,843**	**$ 23,057**	**$ 23,456**
Third-party debt	**$ 6,811**	**$ 6,546**	**$ 6,620**
Total liabilities	**$ 8,344**	**$ 7,876**	**$ 8,047**
Our investment balance (1)	**$ 4,383**	**$ 4,058**	**$ 4,328**
Our weighted average ownership (2)	**26.9%**	**27.9%**	**28.8%**

(in millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenues:				
U.S.	$ 105	$ 98	$ 209	$ 196
Other Americas	66	59	130	116
Europe	248	248	492	492
Asia	89	86	177	162
Total revenues	**$ 508**	**$ 491**	**$ 1,008**	**$ 966**
Net earnings:				
U.S.	$ 15	$ 6	$ 51	$ 36
Other Americas	22	19	39	33
Europe	93	68	166	141
Asia	93	22	117	44
Total net earnings	**$ 223**	**$ 115**	**$ 373**	**$ 254**

(1) The difference between our ownership interest of a venture's equity and our investment balance at June 30, 2017, and December 31, 2016, 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 ($459.4 million and $469.9 million, respectively); (ii) recording additional costs associated with our investment in a venture ($125.0 million and $124.1 million, respectively); and (iii) advances to a venture ($300.5 million and $166.1 million, respectively), which increased primarily from the gross promotes that were earned during the second quarter of 2017 and expected to be paid in the third quarter of 2017.

(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.

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

(4) In February 2017, we formed the Prologis United Kingdom Logistics Venture ("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 United Kingdom ("U.K."). Upon formation, we, along with our venture partner, committed £380.0 million ($493.2 million at June 30, 2017), of which our share is £57.0 million ($74.0 million at June 30, 2017). During the six months ended June 30, 2017, we contributed 1.4 million square feet of stabilized properties, 0.5 million square feet of properties under development and 144.8 acres of land for £269.5 million ($336.4 million). We expect to continue to contribute properties and land into UKLV.

In July 2017, we contributed 190 operating properties formerly owned by Prologis North American Industrial Fund ("NAIF"), totaling approximately 39 million square feet, for an aggregate purchase price of $2.8 billion, to USLF, our unconsolidated co-investment venture. We received cash proceeds of $720 million and additional units, which increased our ownership interest in USLF to approximately 27% and USLF assumed $956.0 million of secured debt. As a result of this transaction, we expect to record a gain of approximately $480 million, net of a deferral due to our ongoing investment, in the third quarter of 2017.

Equity Commitments Related to Certain Unconsolidated Co-Investment Ventures

The following table summarizes the remaining equity commitments at June 30, 2017 (in millions):

	Equity Commitments			Expiration Date for Remaining Commitments
	Prologis	Venture Partners	Total	
Prologis Targeted Europe Logistics Fund (1)	$ -	$ 346	$ 346	2017 - 2018
Prologis United Kingdom Logistics Venture (2)	35	201	236	2021
Prologis China Logistics Venture	294	1,665	1,959	2017
Totals	**$ 329**	**$ 2,212**	**$ 2,541**	

(1) Equity commitments are denominated in euro and reported in U.S. dollars based on an exchange rate of $1.14 U.S. dollars to the euro.

(2) As discussed above, this co-investment venture was formed in February 2017. Equity commitments are denominated in British pounds sterling and reported in U.S. dollars based on an exchange rate of $1.30 U.S. dollars to the British pound sterling.

NOTE 4. ASSETS HELD FOR SALE OR CONTRIBUTION

We have investments in certain real estate properties that met the criteria to be classified as held for sale or contribution at June 30, 2017, and December 31, 2016. These properties are expected to be sold to third parties or 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):

	June 30, 2017	December 31, 2016
Number of operating properties	22	13
Square feet	4,886	4,167
Total assets held for sale or contribution	$ 350,987	$ 322,139
Total liabilities associated with assets held for sale or contribution – included in *Other Liabilities*	$ 6,281	$ 4,984

NOTE 5. DEBT

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

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

	June 30, 2017		December 31, 2016	
	Weighted Average Interest Rate (1)	Amount Outstanding (2)	Weighted Average Interest Rate (1)	Amount Outstanding
Credit facilities	-	$ -	1.0 %	$ 35,023
Senior notes	3.1 %	6,727,450	3.3 %	6,417,492
Term loans	1.6 %	1,954,091	1.4 %	1,484,523
Unsecured other	6.1 %	14,346	6.1 %	14,478
Secured mortgages (3)	3.9 %	1,983,623	4.9 %	979,585
Secured mortgages of consolidated entities (3)	2.7 %	402,412	3.0 %	1,677,193
Totals	**3.0 %**	**$ 11,081,922**	**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 period for the debt outstanding.

(2) Included in the outstanding balances are borrowings denominated in non-U.S. dollars, principally: euro ($3.6 billion), Japanese yen ($1.5 billion), British pounds sterling ($0.6 billion) and Canadian dollars ($0.4 billion).

(3) As discussed in Note 6, in March 2017 we acquired all of our partner's interest in NAIF, therefore, the related secured mortgage debt of $956.0 million at June 30, 2017 was wholly-owned and reported as secured mortgages. In July 2017, this debt was assumed by USLF in conjunction with our contribution of the associated real estate properties, as discussed in Note 3.

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 Operating Partnership. 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 ($446.7 million at June 30, 2017). We have the ability to increase the Revolver to ¥65.0 billion ($580.6 million at June 30, 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 Operating Partnership. 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 at June 30, 2017 (in millions):

Aggregate lender commitments	$ 3,452
Less:	
Borrowings outstanding	-
Outstanding letters of credit	37
Current availability	**$ 3,415**

Senior Notes

In June 2017, we issued £500.0 million ($645.3 million) of senior notes bearing an interest rate of 2.25%, maturing in 2029, at 99.94% of par value for an all-in-rate of 2.30%. Following the issuance, we paid cash of $652.0 million to redeem $618.3 million of previously issued senior notes before the maturity date in an effort to reduce our borrowing costs and extend our debt maturities. As a result, we recognized a loss in *Gains (Losses) on Early Extinguishment of Debt, Net*of $32.2 million 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.

Term Loans

In March 2017, we entered into an unsecured senior term loan agreement (the "2017 Yen Term Loan") under which we can draw in Japanese yen, of which ¥7.2 billion ($64.3 million at June 30, 2017) matures in March 2027 and bears an interest rate of 0.92% and ¥4.8 billion ($42.9 million at June 30, 2017) matures in March 2028 and bears an interest rate of 1.01%. In the first quarter of 2017, we borrowed ¥12.0 billion ($107.2 million), causing the 2017 Yen Term Loan to be fully drawn at June 30, 2017.

In May 2017, we renewed and amended our existing senior term loan agreement (the "2017 Term Loan," formerly the "Euro Term Loan") under which loans can be obtained in British pounds sterling, euro, Japanese yen and U.S. dollars in an aggregate amount not to exceed $500.0 million. We may increase the borrowings up to $1.0 billion, subject to obtaining additional lender commitments. We may also pay down and reborrow under this term loan. The 2017 Term Loan bears an interest rate of LIBOR plus 0.90% and is scheduled to mature in May 2020; however, 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. In the second quarter of 2017, we borrowed $500.0 million, causing the 2017 Term Loan to be fully drawn at June 30, 2017. In connection with the contribution of properties to USLF in July 2017, we used the net proceeds to pay down the balance outstanding on our 2017 Term Loan.

Long-Term Debt Maturities

Principal payments due on our debt, for the remainder of 2017 and for each of the years in the period ending December 31, 2026, and thereafter were as follows at June 30, 2017 (in thousands):

	Unsecured			
Maturity	**Senior Notes**	**Term Loans and Other**	**Secured Mortgage Debt**	**Total**
2017 (1)	$ -	$ 491	$ -	$ 491
2018	175,000	1,009	118,063	294,072
2019	-	1,091	610,281	611,372
2020 (2)	887,241	501,155	446,318	1,834,714
2021	1,298,840	954	436,544	1,736,338
2022	798,840	447,396	141,673	1,387,909
2023	850,000	913,201	163,284	1,926,485
2024	798,840	882	174,735	974,457
2025	750,000	958	133,420	884,378
2026	570,600	599	139,920	711,119
Thereafter	648,903	112,851	2,384	764,138
Subtotal	6,778,264	1,980,587	2,366,622	11,125,473
Premiums (discounts), net	(22,648)	-	28,391	5,743
Debt issuance costs, net	(28,166)	(12,150)	(8,978)	(49,294)
Totals	**$ 6,727,450**	**$ 1,968,437**	**$ 2,386,035**	**$ 11,081,922**

(1) We expect to repay the amounts maturing in 2017 with cash generated from operations, proceeds from the dispositions of wholly-owned real estate properties or, as necessary, with borrowings on our Credit Facilities.

(2) Included in the 2020 maturities is the 2017 Term Loan that can be extended until 2022.

Debt Covenants

We have approximately $6.7 billion of senior notes and $2.0 billion of term loans outstanding at June 30, 2017, under three separate indentures, as supplemented, which are subject to certain financial covenants. We are also subject to financial covenants under our Credit Facilities and certain secured mortgage debt. At June 30, 2017, we were in compliance with all financial covenants.

NOTE 6. 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, 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 and the units of the entity are not convertible or redeemable.

Prologis, Inc.

The noncontrolling interests of the Parent include the noncontrolling interests presented in the Operating Partnership, as well as the common limited partnership units in the Operating Partnership that are not owned by the Parent.

The following table summarizes our ownership percentages and noncontrolling interests and the consolidated entities' total assets and liabilities at June 30, 2017, and December 31, 2016 (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%	$ 2,522,506	$ 2,424,800	$ 6,105,549	$ 6,201,278	$ 496,086	$ 797,593
Prologis North American Industrial Fund (1)	100.0%	66.1%	-	486,648	-	2,479,072	-	1,038,708
Prologis Brazil Logistics Partners Fund I (2)	100.0%	50.0%	-	61,836	-	131,581	-	720
Other consolidated entities (3)	various	various	84,846	99,185	849,870	866,821	37,488	34,073
Prologis, L.P. noncontrolling interests			**2,607,352**	**3,072,469**	**6,955,419**	**9,678,752**	**533,574**	**1,871,094**
Limited partners in Prologis, L.P. (4) (5)			405,590	394,590	-	-	-	-
Prologis, Inc. noncontrolling interests			**$ 3,012,942**	**$ 3,467,059**	**$ 6,955,419**	**$ 9,678,752**	**$ 533,574**	**$ 1,871,094**

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

(2) In March 2017, we acquired all of our partner's interest for $79.8 million. The difference between the amount we paid and the noncontrolling interest balance was adjusted through *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. For additional information on our unconsolidated investments, see Note 3.

(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. At June 30, 2017, and December 31, 2016, limited partnership units were redeemable for cash or, at our option, 1.6 million shares of the Parent's common stock. During the first six months of 2017, limited partnership units were redeemed for 265 thousand shares of the Parent's common stock.

(4) We had 8.9 million Class A Units that were convertible into 8.6 million and 8.7 million common limited partnership units of the Operating Partnership at June 30, 2017 and December 31, 2016, respectively.

(5) At June 30, 2017, and December 31, 2016, excluding the Class A Units, there were common limited partnership units in the Operating Partnership outstanding that were redeemable for cash or, at our option, 4.1 million shares and 4.6 million shares of the Parent's common stock with a fair value of $242.2 million and $241.8 million, respectively, based on the closing stock price of the Parent's common stock. During the first six months of 2017, unitholders redeemed 0.7 million common limited partnership units for an equal number of shares of the Parent's common stock with a value of $18.8 million. At June 30, 2017, and December 31, 2016, there were 3.7 million and 2.2 million LTIP Units (as defined in Note 7) outstanding, respectively, associated with our long-term compensation plan that are convertible into common units of the Operating Partnership after they vest and other applicable conditions are met.

NOTE 7. LONG-TERM COMPENSATION

Prologis Outperformance Plan ("POP")

Participation points represent a portion of a compensation pool that can be earned if and when certain performance criteria are met under the POP for the applicable performance period. We granted participation points for the 2017 – 2019 performance period in January 2017, with a fair value of $20.4 million using a Monte Carlo valuation model that assumed a risk-free interest rate of 1.49% and an expected volatility of 22.2%.

The POP performance criteria were met for the 2014 – 2016 performance period, which resulted in awards for this performance period being earned. An aggregate performance pool of $62.2 million was awarded in January 2017 in the form of common stock or vested POP LTIP Units.

Prologis Promote Plan ("PPP")

The following table details the equity awards granted under the PPP for the six months ended June 30 (in thousands):

	2017	2016
RSUs granted	88	53
Grant date fair value of RSUs granted	$ 4,800	$ 2,300
LTIP Units granted	203	114
Grant date fair value of LTIP Units granted	$ 11,100	$ 4,900

Prologis Outperformance Plan Operating Partnership Long-Term Incentive Plan Units ("POP LTIP Units")

The following table summarizes the activity for the unvested POP LTIP Units for the six months ended June 30, 2017 (units in thousands):

	Number of Unvested POP LTIP Units
Balance at January 1, 2017	3,490
Granted	38
Vested POP LTIP Units (1)	(698)
Forfeited	(576)
Balance at June 30, 2017	**2,254**

(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 LTIP Units in the table below. Any excess outstanding unvested POP LTIP Units for the 2014 – 2016 performance period were forfeited to the extent not earned.

Operating Partnership Long-Term Incentive Plan Units ("LTIP Units")

The following table summarizes the activity for LTIP Units for the six months ended June 30, 2017 (units in thousands):

	Number of LTIP Units	Weighted Average Grant-Date Fair Value	Number of LTIP Units Vested
Balance at January 1, 2017	2,219	$ 40.81	743
Granted	1,032		
Vested POP LTIP Units	698		
Conversion to common limited partnership units	(227)		
Balance at June 30, 2017	**3,722**	**$ 45.55**	**1,835**

Restricted Stock Units ("RSUs")

The following table summarizes the activity for RSUs for the six months ended June 30, 2017 (units in thousands):

	Number of RSUs	Weighted Average Grant-Date Fair Value	Number of RSUs Vested
Balance at January 1, 2017	1,617	$ 40.58	125
Granted	757		
Vested and distributed	(783)		
Forfeited	(46)		
Balance at June 30, 2017	**1,545**	**$ 45.29**	**106**

Stock Options

We have 1.0 million stock options outstanding and exercisable at June 30, 2017, with a weighted average exercise price of $31.14. The aggregate intrinsic value of exercised options was $19.8 million and $10.0 million for the six months ended June 30, 2017, and 2016, respectively. No stock options were granted in 2017 or 2016.

NOTE 8. 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 (in thousands, except per share and unit amounts) is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Prologis, Inc.	**2017**	**2016**	**2017**	**2016**
Net earnings attributable to common stockholders – Basic	$ 266,943	$ 275,383	$ 470,198	$ 483,424
Net earnings attributable to redeemable limited partnership unitholders (1)	7,798	9,085	13,765	15,694
Adjusted net earnings attributable to common stockholders – Diluted	**$ 274,741**	**$ 284,468**	**$ 483,963**	**$ 499,118**
Weighted average common shares outstanding – Basic	530,040	524,842	529,400	524,540
Incremental weighted average effect on redemption of limited partnership units (1)	16,364	17,703	16,409	17,623
Incremental weighted average effect of equity awards	5,710	2,843	4,703	2,130
Weighted average common shares outstanding – Diluted (2)	**552,114**	**545,388**	**550,512**	**544,293**
Net earnings per share attributable to common stockholders:				
Basic	**$ 0.50**	**$ 0.52**	**$ 0.89**	**$ 0.92**
Diluted	**$ 0.50**	**$ 0.52**	**$ 0.88**	**$ 0.92**

Prologis, L.P.	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net earnings attributable to common unitholders	$ 274,320	$ 283,699	$ 483,198	$ 497,974
Net earnings attributable to Class A common unitholders	(4,347)	(4,619)	(7,678)	(8,129)
Net earnings attributable to common unitholders – Basic	$ 269,973	$ 279,080	$ 475,520	$ 489,845
Net earnings attributable to Class A common unitholders	4,347	4,619	7,678	8,129
Net earnings attributable to limited partnership unitholders	421	768	765	1,143
Adjusted net earnings attributable to common unitholders – Diluted	**$ 274,741**	**$ 284,467**	**$ 483,963**	**$ 499,117**
Weighted average common partnership units outstanding – Basic	536,060	531,912	535,392	531,507
Incremental weighted average effect on conversion of Class A Units	8,626	8,798	8,645	8,821
Incremental weighted average effect on redemption of limited partnership units into common stock of Prologis, Inc.	1,718	1,835	1,772	1,835
Incremental weighted average effect of equity awards of Prologis, Inc.	5,710	2,843	4,703	2,130
Weighted average common partnership units outstanding – Diluted (2)	**552,114**	**545,388**	**550,512**	**544,293**
Net earnings per unit attributable to common unitholders:				
Basic	**$ 0.50**	**$ 0.52**	**$ 0.89**	**$ 0.92**
Diluted	**$ 0.50**	**$ 0.52**	**$ 0.88**	**$ 0.92**

(1) Earnings allocated to the redeemable Operating Partnership units not held by the Parent has been included in the numerator and redeemable Operating Partnership 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) Our total potentially dilutive shares and units outstanding consisted of the following:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Total weighted average potentially dilutive limited partnership units	10,344	10,633	10,417	10,656
Total potentially dilutive stock awards	9,355	7,176	8,583	6,854
Total Prologis, L.P.	**19,699**	**17,809**	**19,000**	**17,510**
Limited partners in Prologis, L.P.	6,020	7,070	5,992	6,967
Total Prologis, Inc.	**25,719**	**24,879**	**24,992**	**24,477**

NOTE 9. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Derivative Financial Instruments

In the normal course of business, our operations are exposed to market risks, including the effect of changes in foreign currency exchange rates and interest rates. To manage these risks, we may enter into derivative contracts, such as foreign currency contracts to manage foreign currency exposure, and interest rate swaps to manage the effect of interest rate fluctuations. We do not use derivative financial instruments for trading or speculative purposes. Our derivative financial instruments are customized transactions and are not exchange-traded. Management reviews our hedging program, derivative positions and overall risk management strategy on a regular basis. We enter into only those transactions we believe will be highly effective at offsetting the underlying risk. There have been no significant changes in our policy or strategy from what was disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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

	June 30, 2017		December 31, 2016	
	Asset	Liability	Asset	Liability
Net investment hedges				
British pound sterling denominated	$ -	$ -	$ 7,439	$ -
Canadian dollar denominated	-	3,904	1,245	-
Forwards and options (1)				
British pound sterling denominated	8,401	4,048	16,985	-
Canadian dollar denominated	31	546	831	197
Euro denominated	538	6,101	10,933	-
Yen denominated	6,919	1,512	9,246	1,071
Interest rate hedges	3,639	-	435	-
Total fair value of derivatives	**$ 19,528**	**$ 16,111**	**$ 47,114**	**$ 1,268**

(1) As discussed below, these foreign currency options are not designated as hedges. We recognized unrealized losses of $18.8 million and $32.5 million for the three and six months ended June 30, 2017, respectively, from the change in value of our outstanding foreign currency options within *Foreign Currency and Derivative Losses, Net* in the Consolidated Statements of Income. We recognized unrealized gains of $3.3 million and losses of $13.5 million for the three and six months ended June 30, 2016, respectively, from the change in value of our outstanding foreign currency options.

Foreign Currency

We primarily manage our foreign currency exposure by borrowing in the currencies in which we invest. We may issue debt in a currency that is not the same functional currency of the borrowing entity to offset the translation and economic exposures related to our net investment in international subsidiaries. To mitigate the impact of the translation from the fluctuations in exchange rates, we may designate this debt as a nonderivative financial instrument hedge. We also hedge our investments in certain international subsidiaries using foreign currency derivative contracts (net investment hedges) to offset the translation and economic exposures related to our investments in these subsidiaries by locking in a forward exchange rate at the inception of the hedge. To the extent we have an effective hedging relationship, we report all changes in fair value of the hedged portion of the nonderivative financial instruments and net investment hedges in equity in the foreign currency translation component of *Accumulated Other Comprehensive Loss (“AOCI”)* in the Consolidated Balance Sheets. These amounts offset the translation adjustments on the underlying net assets of our foreign investments, which we also record in *AOCI*. The changes in fair value of the portion of the nonderivative financial instruments that are not designated as hedges are recorded in *Foreign Currency and Derivative Losses, Net* in the Consolidated Statements of Income. We recognize ineffectiveness, if any, in earnings at the time the ineffectiveness occurred.

We may use foreign currency option contracts, including puts, calls and collars to mitigate foreign currency exchange rate risk associated with the translation of our projected net operating income of our international subsidiaries. These are not designated as hedges as they do not meet hedge accounting requirements. Changes in the fair value of non-hedge designated derivatives are recorded in *Foreign Currency and Derivative Losses, Net*.

The following tables summarize the activity in our foreign currency contracts for the six months ended June 30 (in millions, except for weighted average forward rates and number of active contracts):

2017

	Foreign Currency Contracts					
Local Currency	**Net Investment Hedges**		**Forwards and Options**			
	CAD	**GBP**	**CAD**	**EUR**	**GBP**	**JPY**
Notional amounts at January 1	$ 133	£ 31	$ 50	€ 174	£ 48	¥ 15,500
New contracts	133	100	-	56	107	4,000
Matured, expired or settled contracts	(133)	(131)	(15)	(50)	(31)	(3,500)
Notional amounts at June 30	**$ 133**	**£ -**	**$ 35**	**€ 180**	**£ 124**	**¥ 16,000**

	Foreign Currency Contracts					
U.S. Dollar	**Net Investment Hedges**		**Forwards and Options**			
Notional amounts at January 1	$ 100	$ 46	$ 38	$ 197	$ 78	$ 144
New contracts	99	127	-	63	137	38
Matured, expired or settled contracts	(100)	(173)	(12)	(56)	(46)	(31)
Notional amounts at June 30	**$ 99**	**$ -**	**$ 26**	**$ 204**	**$ 169**	**$ 151**
Weighted average forward rate at June 30	**1.34**	**-**	**1.32**	**1.13**	**1.33**	**106.51**
Active contracts at June 30	**2**	**-**	**12**	**26**	**22**	**32**

2016

	Foreign Currency Contracts						
Local Currency	**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	60	11,189	171	-	11,460	
Matured, expired or settled contracts	-	(60)	(11,189)	(75)	(24)	(3,120)	
Notional amounts at June 30	**$ 133**	**£ 238**	**¥ -**	**€ 371**	**£ 73**	**¥ 21,180**	

	Foreign Currency Contracts						
U.S. Dollar	**Net Investment Hedges**			**Forwards and Options (1)**			
Notional amounts at January 1	$ -	$ 386	$ -	$ 310	$ 148	$ 109	$ 50
New contracts	100	85	99	192	-	108	15
Matured, expired or settled contracts	-	(100)	(99)	(85)	(36)	(27)	(15)
Notional amounts at June 30	**$ 100**	**$ 371**	**$ -**	**$ 417**	**$ 112**	**$ 190**	**$ 50**

(1) During the six months ended June 30, 2017, and 2016, we exercised 22 and 15 option contracts, respectively. We realized gains of $3.6 million and $8.9 million for the three and six months ended June 30, 2017, respectively, and gains of $0.2 million and $1.9 million for the three and six months ended June 30, 2016, respectively, in *Foreign Currency and Derivative Losses, Net.*

Interest Rate

We may enter into interest rate swap agreements that allow us to receive variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of our agreements without the exchange of the underlying notional amount.

We report the effective portion of the gain or loss on the derivative as a component of *AOCI* and reclassify it to *Interest Expense* over the corresponding period of the hedged item. We recognize any hedge ineffectiveness in *Interest Expense* at the time the ineffectiveness occurred. During the six months ended June 30, 2017, and 2016, we did not have losses due to hedge ineffectiveness.

At June 30, 2017, and December 31, 2016, we had three interest rate swaps outstanding with a notional amount of $271.2 million. We did not enter into or settle any interest rate swaps during the six months ended June 30, 2017, or 2016.

Other Comprehensive Income

The change in *Other Comprehensive Income* in the Consolidated Statements of Comprehensive Income during the periods presented is due to the translation of the financial statements into U.S. dollars of our consolidated subsidiaries whose functional currency is not the U.S. dollar. We recorded gains of $225.6 million and $307.5 million for the three and six months ended June 30, 2017, respectively, and losses of $136.0 million and gains of $18.8 million for the three and six months ended June 30, 2016, respectively. It also 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* (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Derivative net investment hedges (1)	$ 7,197	$ 21,512	$ 9,491	$ 29,420
Interest rate and cash flow hedges (2)	4,559	(2,703)	4,988	(13,824)
Our share of derivatives from unconsolidated co-investment ventures	2,176	(3,223)	4,378	(7,994)
Total derivative instruments	13,932	15,586	18,857	7,602
Nonderivative net investment hedges (3) (4)	(229,666)	91,416	(274,192)	(69,773)
Total derivative and nonderivative hedging instruments	**$ (215,734)**	**$ 107,002**	**$ (255,335)**	**$ (62,171)**

(1) We received $0.7 million and $2.5 million for the three and six months ended June 30, 2017, respectively, upon the settlement of net investment hedges. We received $15.9 million and $16.8 million for the three and six months ended June 30, 2016, respectively, upon the settlement of net investment hedges.

(2) The amounts reclassified to interest expense for the three and six months ended June 30, 2017, were $1.5 million and $2.9 million, respectively. The amounts reclassified to interest expense for the three and six months ended June 30, 2016, were $1.1 million and $2.1 million, respectively. For the next 12 months from June 30, 2017, we estimate an additional expense of $4.8 million will be reclassified to *Interest Expense*.

(3) At June 30, 2017, and December 31, 2016, we had €3.1 billion ($3.5 billion) and €3.2 billion ($3.4 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 $7.2 million and $11.3 million in *Foreign Currency and Derivative Losses, Net* on the unhedged portion of our debt for the three and six months ended June 30, 2017. We did not recognize any gains or losses for the three and six months ended June 30, 2016.

(4) In June 2017, we issued £500.0 million ($645.3 million) of debt, as discussed in Note 5, and designated the debt as a nonderivative financial instrument hedge of our net investment in international subsidiaries. We had no gains or losses for the three and six months ended June 30, 2017.

Fair Value Measurements

There have been no significant changes in our policy from what was disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Fair Value Measurements on a Recurring Basis

At June 30, 2017, and December 31, 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 June 30, 2017, and December 31, 2016, were classified as Level 2 of the fair value hierarchy.

Fair Value Measurements on Nonrecurring Basis

No assets met the criteria to be measured at fair value on a nonrecurring basis at June 30, 2017, or December 31, 2016.

Fair Value of Financial Instruments

At June 30, 2017, and December 31, 2016, the carrying amounts of certain financial instruments, including cash and cash equivalents, restricted cash, accounts and notes receivable, accounts payable and accrued expenses were representative of their fair values because of the short-term nature of these instruments.

The differences in the fair value of our debt from the carrying value in the table below are the result of differences in interest rates or borrowing spreads that were available to us at June 30, 2017, and December 31, 2016, as compared with those in effect when the debt was issued or assumed. The senior notes and many of the issues 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 (in thousands):

	June 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Credit Facilities	$ -	$ -	$ 35,023	$ 35,061
Senior notes	6,727,450	7,216,569	6,417,492	6,935,485
Term loans and unsecured other	1,968,437	1,986,654	1,499,001	1,510,661
Secured mortgages	1,983,623	2,063,821	979,585	1,055,020
Secured mortgages of consolidated entities	402,412	402,348	1,677,193	1,683,489
Total debt	**$ 11,081,922**	**$ 11,669,392**	**$ 10,608,294**	**$ 11,219,716**

NOTE 10. BUSINESS SEGMENTS

Our current business strategy consists of 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; (iii) our customer relationships; and (iv) our in-depth knowledge in connection with our development activities. 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 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Real estate operations segment:				
U.S.	$ 529,841	$ 501,707	$ 1,053,988	$ 1,012,864
Other Americas	16,444	15,083	31,533	29,018
Europe	22,076	19,533	40,307	36,008
Asia	17,168	12,297	31,811	26,027
Total real estate operations segment	585,529	548,620	1,157,639	1,103,917
Strategic capital segment:				
U.S.	130,677	9,580	142,585	18,936
Other Americas	9,864	5,693	15,915	11,079
Europe	25,973	25,526	52,235	48,109
Asia	14,140	12,736	26,964	26,414
Total strategic capital segment	180,654	53,535	237,699	104,538
Total revenues	**$ 766,183**	**$ 602,155**	**$ 1,395,338**	**$ 1,208,455**
Segment net operating income:				
Real estate operations segment:				
U.S.	$ 396,274	$ 369,786	$ 780,374	$ 745,503
Other Americas	10,384	10,517	20,366	18,710
Europe	16,401	15,328	29,259	26,633
Asia	11,767	8,364	21,675	17,180
Total real estate operations segment	434,826	403,995	851,674	808,026
Strategic capital segment:				
U.S.	99,668	826	101,607	2,536
Other Americas	7,587	3,052	10,732	6,188
Europe	16,342	18,450	32,732	34,070
Asia	5,071	3,341	8,843	8,585
Total strategic capital segment	128,668	25,669	153,914	51,379
Total segment net operating income	563,494	429,664	1,005,588	859,405
Reconciling items:				
General and administrative expenses	60,077	56,934	113,694	107,477
Depreciation and amortization expenses	228,145	230,382	454,736	480,382
Operating income	275,272	142,348	437,158	271,546
Earnings from unconsolidated entities, net	68,596	41,454	117,201	99,765
Interest expense	(75,354)	(76,455)	(148,266)	(157,267)
Interest and other income, net	1,892	1,527	4,677	4,118
Gains on dispositions of investments in real estate, net	83,006	200,350	180,331	344,667
Foreign currency and derivative losses, net	(20,055)	(10,335)	(27,455)	(24,546)
Gains (losses) on early extinguishment of debt, net	(30,596)	2,044	(30,596)	992
Earnings before income taxes	**$ 302,761**	**$ 300,933**	**$ 533,050**	**$ 539,275**

	June 30, 2017	December 31, 2016
Assets:		
Real estate operations segment:		
U.S.	$ 21,295,808	$ 21,286,422
Other Americas	1,052,052	978,476
Europe	1,139,882	1,346,589
Asia	1,147,246	936,462
Total real estate operations segment	24,634,988	24,547,949
Strategic capital segment:		
U.S.	17,454	18,090
Europe	44,680	47,635
Asia	958	1,301
Total strategic capital segment	63,092	67,026
Total segment assets	24,698,080	24,614,975
Reconciling items:		
Investments in and advances to unconsolidated entities	4,617,724	4,230,429
Assets held for sale or contribution	350,987	322,139
Notes receivable backed by real estate	19,536	32,100
Cash and cash equivalents	271,354	807,316
Other assets	192,714	242,973
Total reconciling items	5,452,315	5,634,957
Total assets	**$ 30,150,395**	**$ 30,249,932**

NOTE 11. SUPPLEMENTAL CASH FLOW INFORMATION

Our significant noncash investing and financing activities for the six months ended June 30, 2017, and 2016 included the following:

- We capitalized $14.0 million and $13.3 million in 2017 and 2016, respectively, of equity-based compensation expense resulting from our development and leasing activities.
- We issued 0.7 million and 0.9 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 Operating Partnership, as disclosed in Note 6.
- We received $22.8 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, as disclosed in Note 3.
- We received a $19.5 million of a note backed by real estate in exchange for the disposition of real estate in 2017.

We paid $188.1 million and $197.9 million for interest, net of amounts capitalized, for the six months ended June 30, 2017, and 2016, respectively.

We paid $23.6 million and $14.4 million for income taxes, net of refunds, for the six months ended June 30, 2017, and 2016, respectively.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Prologis, Inc.:

We have reviewed the accompanying consolidated balance sheet of Prologis, Inc. and subsidiaries (the Company) as of June 30, 2017, the related consolidated statements of income, and consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016, the related consolidated statement of equity for the six-month period ended June 30, 2017, and the related consolidated statements of cash flows for the six-month periods ended June 30, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 of the consolidated financial statements, during 2016 the Company changed its method for classifying distributions received from equity method investees in the consolidated statements of cash flows for all periods presented at June 30, 2017, on a retrospective basis, due to the early adoption of Accounting Standards Update 2016-15.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Prologis, Inc. and subsidiaries as of December 31, 2016, and the related consolidated statements of income, comprehensive income, equity and cash flows for the year then ended (not presented herein); and in our report dated February 14, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Denver, Colorado
July 26, 2017

Report of Independent Registered Public Accounting Firm

The Partners
Prologis, L.P.:

We have reviewed the accompanying consolidated balance sheet of Prologis, L.P. and subsidiaries (the Operating Partnership) as of June 30, 2017, the related consolidated statements of income, and consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016, the related consolidated statement of capital for the six-month period ended June 30, 2017, and the related consolidated statements of cash flows for the six-month periods ended June 30, 2017 and 2016. These consolidated financial statements are the responsibility of the Operating Partnership's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 of the consolidated financial statements, during 2016 the Operating Partnership changed its method for classifying distributions received from equity method investees in the consolidated statements of cash flows for all periods presented at June 30, 2017, on a retrospective basis, due to the early adoption of Accounting Standards Update 2016-15.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Prologis, L.P. and subsidiaries as of December 31, 2016, and the related consolidated statements of income, comprehensive income, capital and cash flows for the year then ended (not presented herein); and in our report dated February 14, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Denver, Colorado
July 26, 2017

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 1 of this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission ("SEC").

The statements in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates and projections about the industry and markets in which we operate as well as management's beliefs and assumptions. Such statements involve uncertainties that could significantly impact our financial results. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks" and "estimates" including variations of such words and similar expressions are intended to identify such forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to rent and occupancy growth, development activity and contribution or disposition activity, general conditions in the geographic areas where we operate, our debt, capital structure and financial position, our ability to form new co-investment ventures and the availability of capital in existing or new co-investment ventures — are forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained, and therefore actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Some of the factors that may affect outcomes and results include, but are not limited to: (i) national, international, regional and local economic and political climates; (ii) changes in global financial markets, interest rates and foreign currency exchange rates; (iii) increased or unanticipated competition for our properties; (iv) risks associated with acquisitions, dispositions and development of properties; (v) maintenance of REIT status, tax structuring and changes in income tax rates; (vi) availability of financing and capital, the levels of debt that we maintain and our credit ratings; (vii) risks related to our investments in our co-investment ventures, including our ability to establish new co-investment ventures; (viii) risks of doing business internationally, including currency risks; (ix) environmental uncertainties, including risks of natural disasters; and (x) those additional factors discussed under Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. We undertake no duty to update any forward-looking statements appearing in this report except as may be required by law.

Prologis, Inc. is a self-administered and self-managed real estate investment trust (a "REIT") and is the sole general partner of Prologis, L.P. We operate Prologis, Inc. and Prologs L.P. as one enterprise and, therefore, our discussion and analysis refers to Prologis, Inc. and its consolidated subsidiaries, including Prologis, L.P., collectively.

MANAGEMENT'S OVERVIEW

Prologis is the global leader in logistics real estate with a focus on high-barrier, high-growth markets.We own, manage and develop high-quality logistics facilities in the world's most active centers of commerce. An investment in Prologis taps into key drivers of economic growth, including consumption, supply chain modernization, e-commerce and urbanization.

Customers turn to us because they know an efficient supply chain will make their businesses run better, and that a strategic relationship with Prologis will create a competitive advantage. We lease modern logistics facilities to a diverse base of approximately 5,200 customers. These facilities assist the efficient distribution of goods for the world's best businesses and brands.

We invest in Class-A logistics facilities in the world's primary population centers with high barriers to entry and supported by extensive transportation infrastructure (major airports, seaports and rail and highway networks). We believe our portfolio is the highest-quality logistics property portfolio in the industry because it is focused in these key markets. Our local teams actively manage the portfolio, which encompasses leasing and property management, capital deployment and an opportunistic disposition program. The majority of our consolidated properties are in the United States ("U.S."); while our properties outside the U.S. are generally held in co-investment ventures, which reduces our exposure to movements in foreign currency. Therefore, we are principally an owner-operator in the U.S. and a manager-developer outside the U.S.

We manage our business on an owned and managed basis, including properties wholly owned by us or owned by one of our co-investment ventures, which allows us to make decisions based on the property operations versus our ownership. We believe the operating fundamentals of our owned and managed portfolio are consistent with those of our consolidated portfolio, and therefore we generally look at operating metrics on an owned and managed basis.

At June 30, 2017, we owned or had investments in, on a wholly-owned basis or through co-investment ventures, properties and development projects expected to total $54.7 billion in gross total investment across 684 million square feet (64 million square meters) in 19 countries spanning four continents. Our investment of $32.7 billion consisted of our wholly-owned properties and our pro rata (or ownership) share of the properties owned by our co-investment ventures.

Our business comprises two operating segments: Real Estate Operations and Strategic Capital. See below for information for the six months ended June 30, 2017:

REAL ESTATE – RENTAL OPERATIONS	REAL ESTATE – DEVELOPMENT	STRATEGIC CAPITAL
Grow revenues, net operating income ("NOI") and cash flows by increasing rents and maintaining high occupancy rates	*Contributes significant earnings growth as projects lease up and generate income*	*Access third-party capital to grow our business and earn recurring fees and promotes through long-term co-investment ventures*
•4.9% increase in consolidated revenues and 5.4% increase in NOI from the same period in 2016 •96.0% average occupancy in our consolidated portfolio	•23.3% estimated weighted average margins on $1.1 billion total estimated investment of stabilized development projects in our owned and managed portfolio •$248 million of value created by development stabilizations (of which $219 million is our share)	•$38.8 billion in third-party assets under management •127.4% increase in consolidated Strategic Capital revenues from the same period in 2016, primarily from promote revenues of $124 million recognized in June 2017

Real Estate Operations

Rental Operations. Rental operations comprise the largest component of our operating segments and generally contribute 85% to 90% of our consolidated revenues, earnings and funds from operations (see below for more information on funds from operations, a non-GAAP measure). We collect rent from our customers through operating leases, including reimbursements for the majority of our property operating costs. We expect to generate long-term internal growth by increasing rents, maintaining high occupancy rates and controlling expenses. We believe our active portfolio management, coupled with the skills of our property, leasing, maintenance, capital, energy and risk management teams, will allow us to maximize rental revenues across our portfolio. In the first six months of 2017, more than 90% of our consolidated revenues and NOI in this segment were generated in the U.S. NOI from this segment is calculated directly from our financial statements as rental revenues, rental recoveries and development management and other revenues less rental expenses and other expenses.

Development. We use (i) our land bank; (ii) the development expertise of our local teams; (iii) our customer relationships; and (iv) our in-depth local knowledge in connection with our value creation activities. Successful development and redevelopment efforts increase both the rental revenues and the net asset value of our Real Estate Operations segment. We measure the value we created based on the increase in estimated fair value of a stabilized development property, as compared to the costs incurred. Generally, we develop properties in the U.S. for long-term hold and outside the U.S. for contribution to our co-investment ventures. Occasionally, we develop for sale to third parties.

Strategic Capital

Real estate is a capital-intensive business that requires growth capital. This segment of our business gives us access to third-party capital, both private and public, allowing us to diversify our sources of capital and providing us with a broader range of options to fund our growth. We co-invest with some of the world's largest institutional partners to grow our business and provide incremental revenues. We also access alternative sources of equity through two publicly traded vehicles: Nippon Prologis REIT, Inc. in Japan and FIBRA Prologis in Mexico. We tailor logistics portfolios to meet our partners' specific needs, with a focus on long-term ventures and open-ended funds. We hold significant ownership interests in these ventures, aligning our interests with those of our partners.

We generate strategic capital revenues primarily from our unconsolidated co-investment ventures principally through asset management and property management services. 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 incentive fees ("promotes") periodically during the life of a venture or upon liquidation. Approximately 40% of promote revenues are paid to our employees as a combination of cash and stock awards pursuant to the terms of the Prologis Promote Plan and expensed through *Strategic Capital Expenses.* This segment generally contributes 10% to 15% of our consolidated revenues, earnings and funds from operations. In June 2017, we earned promotes of $124 million primarily from our U.S. co-investment venture that increased these percentages slightly over 15%. During the first quarter of 2017, we formed a new co-investment venture that will acquire land, develop buildings and own and hold logistics real estate assets in the United Kingdom ("U.K."). We plan to profitably grow this business by increasing our assets under management in our existing ventures. Generally, approximately 80% of the consolidated revenues and NOI in this segment are generated outside the U.S. With the promote we earned from our U.S. co-investment venture in June, this percentage temporarily decreased revenues and NOI generated outside the U.S. to approximately 35%. NOI in this segment is calculated directly from our financial statements as strategic capital revenues less strategic capital expenses and does not include property-related NOI.

Growth Strategies

We believe the quality and scale of our global owned and managed operating portfolio, the expertise of our team and the strength of our balance sheet give us unique competitive advantages. Our plan to grow revenues, earnings, NOI, cash flows and funds from operations is based on the following:

- **Rent Growth**. We expect market rents to continue to grow over the next few years, albeit at a more modest pace, driven by demand for the location and quality of our properties. Because of strong market rent growth in the last several years, even if market rents remain flat, our in-place leases have considerable room to rise back to market levels. We estimate that across our owned and managed portfolio, our leases on an aggregate basis are more than 10% below market; this means that a lease renewal would translate into increased future earnings, NOI and cash flow, both on a consolidated basis and through the amounts we recognize from our unconsolidated co-investment ventures based on our ownership. This is reflected in the positive rent change on rollover (comparing the net effective rent of the new lease to the prior lease for the same space) on our owned and managed portfolio. We have experienced positive rent change on rollover for every quarter since 2013, and we expect this to continue for several more years.

- **Value Creation from Development.** A successful development and redevelopment program involves maintaining control of well-positioned land. On the basis of our current estimates, our owned and managed land bank has the potential to support the development of $8.5 billion of total expected investment ("TEI") of logistics space. We believe the carrying value of our land bank is below its current fair value, and we expect to realize this value going forward—primarily through development. During the first six months of 2017, we stabilized development projects with a TEI of $1.1 billion in our owned and managed portfolio. Post-stabilization, we estimate the value of these buildings to be 23.3% above their book value or the cost to develop (defined as estimated margin and calculated using estimated yield and capitalization rates from our underwriting models). In addition, these properties will generate NOI as they are leased up and become occupied.

- **Economies of Scale from Growth in Assets Under Management.** Over the last several years, we have invested in a variety of technologies that have allowed us to achieve efficiencies and increase our investments in real estate with minimal increases to general and administrative ("G&A") expenses. We have increased our owned and managed real estate assets by 25 million square feet (or approximately 4%) over the last two years primarily through acquisitions, and we have integrated the assets with only minimal increases in overhead related to property management and leasing functions. We will continue to leverage these technologies to further streamline our operations and reduce our costs as a percentage of assets under management, along with advanced data analytics to enhance decision-making.

Summary of 2017

During the six months ended June 30, 2017, operating fundamentals remained strong for our owned and managed portfolio and we ended the period with occupancy of 96.2%. See below for details of the operating and development activity of our Owned and Managed Portfolio. In 2017, we completed the following significant activities as further described in the accompanying notes to the Consolidated Financial Statements:

- During the first six months of 2017, we generated net proceeds of $973 million and recorded net gains of $180 million from the contribution and disposition of real estate assets, primarily from property contributions in Europe and third-party dispositions in the U.S.

- In January, we sold our investment in Europe Logistics Venture 1 ("ELV") to our fund partner for $84 million and ELV contributed its properties to Prologis Targeted Europe Logistics Fund ("PTELF") in exchange for equity interests.

- In February, we formed the Prologis United Kingdom Logistics Venture ("UKLV"), in which we have a 15.0% ownership interest. During the six months of 2017, we contributed 1 million square feet of stabilized properties, 1 million square feet properties under development and 145 acres of land for £270 million ($336 million), included in net proceeds and net gains above. We expect to continue to contribute properties and land into UKLV.

- In February, we amended our Japanese yen revolver and increased the total borrowing capacity to ¥50.0 billion ($447 million at June 30, 2017).

- In March, we acquired our partner's interest in Prologis North American Industrial Fund ("NAIF"), a consolidated co-investment venture, for $710 million. In July, we contributed 190 operating properties formerly owned by NAIF, for an aggregate purchase price of $2.8 billion, to Prologis Targeted U.S. Logistics Fund ("USLF"). We received cash proceeds of $720 million and additional units, which increased our ownership interest in USLF to approximately 27%, and USLF assumed secured debt of $1.0 billion.

- In March, we purchased our venture partner's interest in the Prologis Brazil Logistics Partners Fund I ("Brazil Fund"), a consolidated co-investment venture, for $80 million and now own 100% of the venture. The Brazil Fund continues to hold a 50.0% ownership interest in several joint ventures that we account for on the equity method. In addition, in July, we entered into an agreement to acquire our partners' interest in the Brazil platform, which we expect to close later in 2017.

- In June, we issued £500 million ($645 million) of senior notes with an interest rate of 2.3%, maturing in 2029, at 99.9% of par value. Following the issuance, we used the cash proceeds to redeem $618 million of previously issued senior notes.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30, 2017 AND 2016

We evaluate our business operations based on the NOI of our two operating segments, Real Estate Operations and Strategic Capital. NOI by segment is a non-GAAP financial measure that is calculated using revenues and expenses directly from our financial statements. We consider NOI by segment to be an appropriate supplemental measure of our performance because it helps both management and investors to understand the core operations of our business.

Below is a reconciliation of our NOI by segment to *Operating Income* per the Consolidated Financial Statements for the six months ended June 30 (in millions). Each segment's NOI is reconciled to a line item in the Consolidated Financial Statements in the respective segment discussion below.

	2017	2016
Real Estate Operations segment – NOI	$ 852	$ 808
Strategic Capital segment – NOI	154	51
General and administrative expenses	(114)	(107)
Depreciation and amortization expenses	(455)	(480)
Operating income	**$ 437**	**$ 272**

See Note 10 to the Consolidated Financial Statements for a reconciliation of each reportable business segment's NOI to *Operating Income* and *Earnings Before Income Taxes.*

Real Estate Operations

This operating segment principally includes rental revenues, rental recoveries and rental expenses recognized from our consolidated properties. We allocate the costs of our property management functions to the Real Estate Operations segment through *Rental Expenses* and to the Strategic Capital segment through *Strategic Capital Expenses* based on the size of the relative portfolios as compared to our total owned and managed portfolio. The operating fundamentals in the markets in which we operate continue to improve, which has positively affected both the rental rates and occupancy and also has fueled development activity.

Below are the components of Real Estate Operations revenues, expenses and NOI for the six months ended June 30 (in millions), derived directly from line items in the Consolidated Financial Statements.

	2017	2016
Rental revenues	$ 888	$ 863
Rental recoveries	255	237
Development management and other revenues	14	4
Rental expenses	(300)	(287)
Other expenses	(5)	(9)
Real Estate Operations segment – NOI	**$ 852**	**$ 808**

Real Estate Operations revenues, expenses and NOI are impacted by changes in rental rates, occupancy and capital deployment activities. The following items highlight the key changes in NOI for the six months ended June 30, 2017, from the same period in 2016 (in millions):

Rent rate and occupancy growth (1)	$ 84
Development activity	(2)
Contributions and dispositions	(48)
Other	10
Total change in Real Estate Operations segment – NOI	**$ 44**

(1) Rent rate growth is a combination of the rollover of existing leases and increases in rental rates from contractual rent increases on existing leases. If a lease has a contractual rent increase that is not known at the time the lease is signed, such as the consumer price index or a similar metric, the rent increase is not included in rent leveling and therefore, would impact the rental revenues we recognize. We have experienced positive rent change on rollover for every quarter since 2013 that has resulted in higher average rental rates in our portfolio and increased rental revenues and NOI as those leases commenced.

Below are the key operating metrics of our consolidated operating portfolio:

Strategic Capital

This operating segment includes revenues from asset management and other fees, as well as promotes earned for services performed for our unconsolidated co-investment ventures. Revenues associated with the Strategic Capital segment fluctuate because of the size of co-investment ventures under management, the transactional activity in the ventures and the timing of promotes. These revenues are reduced generally by the direct costs associated with the asset management and property-level management for the properties owned by these ventures. We allocate the costs of our property management functions to the Strategic Capital segment through *Strategic Capital Expenses* and to the Real Estate Operations segment through *Rental Expenses* based on the size of the relative portfolios as compared to our total owned and managed portfolio.

Below are the components of Strategic Capital revenues, expenses and NOI for the six months ended June 30, derived directly from the line items in the Consolidated Financial Statements (in millions):

	2017	2016
Strategic capital revenues	$ 238	$ 104
Strategic capital expenses	(84)	(53)
Strategic Capital segment – NOI	**$ 154**	**$ 51**

Below is additional detail of our Strategic Capital revenues, expenses and NOI for the six months ended June 30 (in millions):

	2017	2016
U.S.:		
Asset management and other fees	$ 18	$ 16
Leasing commissions, acquisition, development and other transaction fees	5	3
Promote (1)	120	-
Strategic capital expenses (2)	(41)	(16)
Subtotal U.S.	**102**	**3**
Other Americas:		
Asset management and other fees	11	10
Leasing commissions, acquisition, development and other transaction fees	1	1
Promote (1)	4	-
Strategic capital expenses	(5)	(5)
Subtotal Other Americas	**11**	**6**
Europe:		
Asset management and other fees	42	42
Leasing commissions, acquisition, development and other transaction fees	7	6
Promote (1)	3	-
Strategic capital expenses	(20)	(14)
Subtotal Europe	**32**	**34**
Asia:		
Asset management and other fees	18	18
Leasing commissions, acquisition, development and other transaction fees	9	8
Strategic capital expenses	(18)	(18)
Subtotal Asia	**9**	**8**
Strategic Capital segment – NOI	**$ 154**	**$ 51**

(1) The promotes in the U.S. and Mexico were earned in the second quarter and the promote in Europe was earned in the first quarter. The promotes represent the third parties' share based on the venture's cumulative returns to the investors over the last three years. Approximately 40% of promote revenues are paid to our employees as a combination of cash and stock awards pursuant to the terms of the Prologis Promote Plan and expensed through *Strategic Capital Expenses*.

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

The following real estate investments were held through our unconsolidated co-investment ventures (dollars and square feet in millions):

	June 30, 2017	December 31, 2016	June 30, 2016
U.S.:			
Number of ventures	1	1	1
Number of operating properties owned	384	369	379
Square feet	52	50	49
Total assets	$ 4,346	$ 4,238	$ 4,228
Other Americas:			
Number of ventures	2	2	2
Number of operating properties owned	215	213	209
Square feet	43	42	41
Total assets	$ 2,791	$ 2,793	$ 2,694
Europe (1):			
Number of ventures	4	4	4
Number of operating properties owned	702	700	690
Square feet	164	163	160
Total assets	$ 12,178	$ 10,853	$ 11,188
Asia:			
Number of ventures	2	2	2
Number of operating properties owned	83	85	77
Square feet	36	36	34
Total assets	$ 5,528	$ 5,173	$ 5,346
Total:			
Number of ventures	**9**	**9**	**9**
Number of operating properties owned	**1,384**	**1,367**	**1,355**
Square feet	**295**	**291**	**284**
Total assets	**$ 24,843**	**$ 23,057**	**$ 23,456**

(1) As discussed above, ELV contributed its properties to PTELF in January 2017 and we formed the co-investment venture UKLV in February 2017.

See Note 3 to the Consolidated Financial Statements for additional information about the contribution of the ELV properties to PTELF and the formation of UKLV, along with our other unconsolidated co-investment ventures.

G&A Expenses

G&A expenses increased $6 million for the six months ended June 30, 2017, compared to the same period in 2016, primarily due to additional compensation expense based on the company's performance.

We capitalize certain costs directly related to our development and leasing activities. Capitalized G&A expenses include salaries and related costs, as well as certain other G&A costs. The following table summarizes capitalized G&A amounts for the six months ended June 30 (dollars in millions):

	2017	2016
Building and land development activities	$ 31	$ 30
Leasing activities	12	12
Operating building improvements and other	8	8
Total capitalized G&A expenses	**$ 51**	**$ 50**
Capitalized salaries and related costs as a percent of total salaries and related costs	25.5 %	26.7 %

Depreciation and Amortization Expenses

The following table highlights the key changes in depreciation and amortization expenses for the six months ended June 30, 2017, from the same period in 2016 (in millions):

Acquisition of properties	$ 10
Development properties placed into service	18
Disposition and contribution of properties	(36)
Other	(18)
Total change in depreciation and amortization expenses	**$ (26)**

Our Owned and Managed Portfolio

We manage our business on an owned and managed basis, which includes properties wholly owned by us or owned by one of our co-investment ventures. We review our operating fundamentals on an owned and managed basis. We believe reviewing these fundamentals this way allows management to understand the entire impact to the financial statements, as it will affect both the Real Estate Operations and Strategic Capital segments, as well as the net earnings we recognize from our unconsolidated co-investment ventures based on our ownership share. We do not control the unconsolidated co-investment ventures for purposes of GAAP and the presentation of the ventures' operating information does not represent a legal claim to such items.

Our owned and managed portfolio includes operating properties and does not include properties under development or held for sale to third parties (square feet in millions):

	June 30, 2017			December 31, 2016			June 30, 2016		
	Number of Properties	Square Feet	Percentage Occupied	Number of Properties	Square Feet	Percentage Occupied	Number of Properties	Square Feet	Percentage Occupied
Consolidated	1,765	335	96.2 %	1,777	332	97.0 %	1,838	338	95.7 %
Unconsolidated	1,378	294	96.1 %	1,359	290	97.2 %	1,339	280	96.6 %
Totals	**3,143**	**629**	**96.2 %**	**3,136**	**622**	**97.1 %**	**3,177**	**618**	**96.1 %**

Our operating portfolio excludes value-added properties, which are defined as properties that are expected to be repurposed or redeveloped to a higher and better use and recently acquired properties that present opportunities to create greater value. We had seven consolidated value-added properties totaling two million square feet and six unconsolidated value-added properties totaling one million square feet at June 30, 2017.

Operating Activity

Below is information summarizing the leasing activity of our owned and managed operating portfolio:

(1) We retained at least 74% of our customers, based on the total square feet of leases signed, for each quarter in 2016 and 2017.

(2) Turnover costs represent the obligations incurred in connection with the signing of a lease, including leasing commissions and tenant improvements.

Capital Expenditures

We capitalize costs incurred in developing, renovating, rehabilitating and improving our properties as part of the investment basis. The following table summarizes our capital expenditures on previously leased buildings within our owned and managed portfolio for the six months ended June 30 (in millions):

	2017	2016
Property improvements	$ 65	$ 59
Turnover costs:		
Tenant improvements	58	63
Leasing commissions	57	56
Total turnover costs	115	119
Total capital expenditures	**$ 180**	**$ 178**
Our proportionate share of capital expenditures based on ownership (1)	$ 115	$ 120

(1) We calculated our proportionate share of capital expenditures by applying our ownership percentage of each co-investment venture on an entity-by-entity basis to the capital expenditures each period.

Development Start Activity

The following table summarizes our development starts for the six months ended June 30 (dollars and square feet in millions):

	2017 (1)	2016
Number of new development projects during the period	37	34
Square feet	15	9
TEI	$ 1,382	$ 720
Our proportionate share of TEI (2)	$ 1,209	$ 658
Percentage of build-to-suits based on TEI	44.9 %	44.9 %

(1) We expect all of our properties under development at June 30, 2017, to be completed before July 2019.

(2) We calculate our proportionate share of TEI by applying our ownership percentage of each co-investment venture on an entity-by-entity basis to the TEI of each co-investment venture for the period.

Development Stabilization Activity

The following table summarizes our development stabilization activity for the six months ended June 30 (dollars and square feet in millions):

	2017	2016
Number of development projects stabilized during the period	44	52
Square feet	14	19
TEI	$ 1,066	$ 1,332
Our proportionate share of TEI (1)	$ 965	$ 1,089
Weighted average expected yield on TEI (2)	6.8 %	7.0 %
Estimated value at completion	$ 1,314	$ 1,671
Our proportionate share of estimated value at completion (1)	$ 1,184	$ 1,374
Estimated weighted average margin	23.3 %	25.5 %

(1) We calculate our proportionate share of TEI and estimated value by applying our ownership percentage of each co-investment venture on an entity-by-entity basis to the TEI of each co-investment venture for the period.

(2) We calculate the weighted average expected yield on TEI as estimated NOI assuming stabilized occupancy divided by TEI.

Same Store Analysis

We evaluate the operating performance of the operating properties we own and manage using a "same store" analysis because the population of properties in this analysis is consistent from period to period, which eliminates the effects of changes in the composition of the portfolio. We have defined the same store portfolio, for the six months ended June 30, 2017, as those owned and managed properties that were in operation at January 1, 2016 and have been in operation throughout the same three-month periods in both 2017 and 2016 (including development properties that have been completed and available for lease). We have removed all properties that were disposed of to a third party or were classified as held for sale to a third party from the population for both periods. We believe the factors that affect rental revenues, rental expenses and NOI in the same store portfolio are generally the same as for the total operating portfolio. To derive an appropriate measure of period-to-period operating performance, we remove the effects of foreign currency exchange rate movements by using the recent period end exchange rate to translate from local currency into the U.S. dollar, for both periods.

Same store is a commonly used measure in the real estate industry. Our same store measures are non-GAAP financial measures that are calculated beginning with rental revenues, rental recoveries and rental expenses from the financial statements prepared in accordance with GAAP. As our same store measures are non-GAAP financial measures, they have certain limitations as analytical tools and may vary among real estate companies. As a result, we provide a reconciliation from our financial statements prepared in accordance with GAAP to same store property NOI with explanations of how these metrics are calculated.

The following is a reconciliation of our consolidated rental revenues, rental recoveries, rental expenses and property NOI, as included in the Consolidated Statements of Operations, to the respective amounts in our same store portfolio analysis for the three months ended June 30 (dollars in millions):

	2017	2016	Percentage Change
Rental Revenues (1) (2)			
Consolidated:			
Rental revenues per the Consolidated Statements of Income	$ 448	$ 426	
Rental recoveries per the Consolidated Statements of Income	128	120	
Consolidated adjustments to derive same store results:			
Rental revenues and recoveries of properties not in the same store portfolio – properties developed, acquired and sold to third parties during the period and land subject to ground leases	(59)	(51)	
Effect of changes in foreign currency exchange rates and other	(2)	(1)	
Unconsolidated co-investment ventures – rental revenues	462	449	
Same store portfolio – rental revenues (2)	**$ 977**	**$ 943**	**3.6 %**
Rental Expenses (1) (3)			
Consolidated:			
Rental expenses per the Consolidated Statements of Income	$ 148	$ 141	
Consolidated adjustments to derive same store results:			
Rental expenses of properties not in the same store portfolio – properties developed, acquired and sold to third parties during the period and land subject to ground leases	(18)	(20)	
Effect of changes in foreign currency exchange rates and other	13	14	
Unconsolidated co-investment ventures – rental expenses	99	101	
Same store portfolio – rental expenses (3)	**$ 242**	**$ 236**	**2.4 %**
NOI (1)			
Consolidated:			
Property NOI (calculated as rental revenues and rental recoveries less rental expenses per the Consolidated Statements of Income)	$ 428	$ 405	
Consolidated adjustments to derive same store results:			
Property NOI of properties not in the same store portfolio – properties developed, acquired and sold to third parties during the period and land subject to ground leases	(41)	(31)	
Effect of changes in foreign currency exchange rates and other	(15)	(15)	
Unconsolidated co-investment ventures – property NOI	363	348	
Same store portfolio – NOI	**$ 735**	**$ 707**	**3.9 %**

(1) We include 100% of the same store NOI from the properties in our same store portfolio. During the periods presented, certain properties owned by us were contributed to a co-investment venture and are included in the same store portfolio. Neither our consolidated results nor those of the co-investment ventures, when viewed individually, would be comparable on a same store basis because of the changes in composition of the respective portfolios from period to period (e.g. the results of a contributed property are included in our consolidated results through the contribution date and in the results of the unconsolidated entities subsequent to the contribution date).

(2) We exclude the net termination and renegotiation fees from our same store rental revenues to allow us to evaluate the growth or decline in each property's rental revenues without regard to one-time items that are not indicative of the property's recurring operating performance. Net termination and renegotiation fees represent the gross fee negotiated to allow a customer to terminate or renegotiate their lease, offset by the write-off of the asset recorded due to the adjustment to straight-line rents over the lease term. The adjustments to remove these items are included in "effect of changes in foreign currency exchange rates and other" in this table.

(3) Rental expenses include the direct operating expenses of the property such as property taxes, insurance and utilities. In addition, we include an allocation of the property management expenses for our direct-owned properties based on the property management services provided to each property (generally, based on a percentage of revenues). On consolidation, these amounts are eliminated and the actual costs of providing property management services are recognized as part of our consolidated rental expenses. These expenses fluctuate based on the level of properties included in the same store portfolio and any adjustment is included as "effect of changes in foreign currency exchange rates and other" in this table.

Other Components of Income (Expense)

Earnings from Unconsolidated Entities, Net

We recognized net earnings from unconsolidated entities, which are accounted for using the equity method of $117 million and $100 million for the six months ended June 30, 2017, and 2016, respectively. The earnings we recognize can be impacted by: (i) variances in revenues and expenses of each venture; (ii) the size and occupancy rate of the portfolio of properties owned by each venture; (iii) gains or losses from the dispositions of properties; (iv) our ownership interest in each venture; and (v) fluctuations in foreign currency exchange rates used to translate our share of net earnings to U.S. dollars.

See the discussion of our co-investment ventures above in the Strategic Capital segment discussion and in Note 3 to the Consolidated Financial Statements for further breakdown of our share of net earnings recognized.

Interest Expense

The following table details our net interest expense for the six months ended June 30 (dollars in millions):

	2017	2016
Gross interest expense	$ 181	$ 197
Amortization of premiums, net and debt issuance costs, net	(5)	(10)
Capitalized amounts	(28)	(30)
Net interest expense	**$ 148**	**$ 157**
Weighted average effective interest rate	3.2 %	3.2 %

Gross interest expense decreased for the six months ended June 30, 2017, compared to the same period in 2016, principally due to pay downs on previously issued senior notes and secured debt and less borrowings on our credit facilities. Our overall debt increased by $474 million from December 31, 2016, to June 30, 2017, primarily from increased borrowings on our term loans related to the buyout of our partner in NAIF. In July, we repaid the term loans with proceeds received from the contribution of the operating properties formerly owned by NAIF to USLF.

See Note 5 to the Consolidated Financial Statements and the Liquidity and Capital Resources section below, for further discussion of our debt and borrowing costs.

Gains on Dispositions of Investments in Real Estate, Net

The following table details our gains on dispositions of investments in real estate, net for the six months ended June 30 (dollars in millions):

	2017	2016
Contributions to unconsolidated co-investment ventures (1)		
Number of properties	10	10
Gains on contributions, net	$ 126	$ 104
Dispositions to third parties (2) (3)		
Number of properties	38	99
Gains on dispositions, net	$ 54	$ 154
Total gains on contributions and dispositions, net	**$ 180**	**$ 258**
Gains on redemption of investment in co-investment ventures	-	87
Total gains on dispositions of investments in real estate, net	**$ 180**	**$ 345**

(1) Contributions to unconsolidated co-investment ventures were primarily in Europe in 2017 and in Japan in 2016.

(2) Dispositions to third parties were primarily in the U.S.

(3) In January 2017, we sold our investment in ELV to our fund partner and ELV contributed its properties to PTELF in exchange for equity interests.

See Notes 2 and 3 to the Consolidated Financial Statements for further information on the gains we recognized and our unconsolidated co-investment ventures.

Foreign Currency and Derivative Losses, Net

The following table details our foreign currency and derivative losses, net for the six months ended June 30 (in millions):

	2017	2016
Realized foreign currency and derivative gains (losses):		
Gains on the settlement of unhedged derivative transactions	$ 9	$ 2
Losses on the settlement of transactions with third parties	(1)	(4)
Total realized foreign currency and derivative gains (losses)	8	(2)
Unrealized foreign currency and derivative gains (losses), net:		
Losses on the change in fair value of unhedged derivative transactions	(44)	(25)
Gains on remeasurement of certain assets and liabilities (1)	9	2
Total unrealized foreign currency and derivative losses, net	(35)	(23)
Total foreign currency and derivative losses, net	**$ (27)**	**$ (25)**

(1) These gains or losses are from the remeasurement of assets and liabilities that are denominated in currencies other than the functional currency of the entity, such as short-term intercompany loans between the U.S. parent and certain consolidated subsidiaries, debt and tax receivables and payables.

See Note 9 to the Consolidated Financial Statements for more information about our derivative transactions.

Gains (Losses) on Early Extinguishment of Debt, Net

During the six months ended June 30, 2017, we redeemed $618 million of senior notes and repaid $302 million of secured mortgage debt prior to maturity, which resulted in a loss of $31 million. During the six months ended June 30, 2016, we repaid $363 million of secured mortgage debt prior to maturity, which resulted in a gain of $1 million.

Income Tax Expense

We recognize current income tax expense for income taxes incurred by our taxable REIT subsidiaries, state and local income taxes and taxes incurred in the foreign jurisdictions in which we operate. Our current income tax expense fluctuates from period to period based predominantly from the dispositions of real estate. Deferred income tax expense (benefit) is generally a function of the period's temporary differences and the utilization of net operating losses generated in prior years that had been previously recognized as deferred income tax assets in taxable subsidiaries operating in the U.S. or in foreign jurisdictions.

The following table summarizes our income tax expense for the six months ended June 30 (in millions):

	2017	2016
Current income tax expense (benefit):		
Income tax expense	$ 22	$ 16
Income tax expense on dispositions	1	10
Income tax benefit related to acquired tax assets	(1)	-
Total current income tax expense	22	26
Deferred income tax expense (benefit):		
Income tax expense (benefit)	1	(5)
Income tax expense related to acquired tax assets	1	-
Total deferred income tax expense (benefit)	2	(5)
Total income tax expense	**$ 24**	**$ 21**

Net Earnings Attributable to Noncontrolling Interests

This amount represents the third-party investors' share of the earnings generated in consolidated entities in which we do not own 100% of the equity, reduced by the third-party share of fees or promotes payable to us and earned during the period.

The following table summarizes net earnings attributable to noncontrolling interests for the six months ended June 30 (in millions):

	2017	2016
Prologis U.S. Logistics Venture	$ 19	$ 2
Prologis North American Industrial Fund (1)	2	11
Other consolidated entities (1)	1	4
Prologis, L.P. net earnings attributable to noncontrolling interests	**22**	**17**
Limited partners in Prologis, L.P.	13	15
Prologis, Inc. net earnings attributable to noncontrolling interests	**$ 35**	**$ 32**

(1) In March 2017, we acquired all of our partner's interest in NAIF and the Brazil Fund and owned 100% of these ventures through June 30, 2017.

See Note 6 to the Consolidated Financial Statements for further information on our consolidated co-investment ventures.

Other Comprehensive Income (Loss)

During the six months ended June 30, 2017, we recorded net gains in the Statements of Comprehensive Income related to foreign currency translations of our foreign subsidiaries into U.S. dollars upon consolidation. These gains were principally due to the strengthening of the British pound sterling, euro and Japanese yen to the U.S. dollar, offset slightly by the weakening of the Brazilian real. During the six months ended June 30, 2016, we recorded net losses, principally due to the weakening of the British pound sterling, offset slightly by the strengthening of the Brazilian real, euro and Japanese yen to the U.S. dollar.

During the six months ended June 30, 2017, we recorded unrealized gains and during the six months ended June 30, 2016, we recorded unrealized losses in the Statements of Comprehensive Income, related to the change in fair value of our cash flow hedges and our share of derivatives in our unconsolidated co-investment ventures.

See Note 9 to the Consolidated Financial Statements for more information about our derivative transactions.

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30, 2017 and 2016

Except as separately discussed above, the changes in comprehensive income attributable to common stockholders and its components for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, are similar to the changes for the six month periods ended on the same dates.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We consider our ability to generate cash from operating activities, distributions from our co-investment ventures, dispositions of properties and from available financing sources to be adequate to meet our anticipated future development, acquisition, operating, debt service, dividend and distribution requirements.

Near-Term Principal Cash Sources and Uses

In addition to dividends to the common and preferred stockholders of Prologis, Inc. and distributions to the holders of limited partnership units of Prologis, L.P. and our partner in our consolidated co-investment venture, we expect our primary cash needs will consist of the following:

- completion of the development and leasing of the properties in our consolidated development portfolio (at June 30, 2017, 77 properties in our development portfolio were 63.5% leased with a current investment of $1.5 billion and a TEI of $2.7 billion when completed and leased, leaving $1.2 billion remaining to be spent);
- development of new properties for long-term investment, including the acquisition of land in certain markets;
- capital expenditures and leasing costs on properties in our operating portfolio;
- repayment of debt and scheduled principal payments of less than $1 million in 2017;
- additional investments in current unconsolidated entities or new investments in future unconsolidated co-investment ventures; including the expected acquisition of our partners' interest in the Brazil platform for R$1.2 billion ($362 million), discussed earlier;

- acquisition of operating properties or portfolios of operating properties (depending on market and other conditions) for direct, long-term investment in our consolidated portfolio (this might include acquisitions from our co-investment ventures); and
- repurchase of our outstanding debt or equity securities (depending on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors) through cash purchases, open-market purchases, privately negotiated transactions, tender offers or otherwise.

We expect to fund our cash needs principally from the following sources (subject to market conditions):

- available unrestricted cash balances ($271 million at June 30, 2017);
- property operations;
- fees earned for services performed on behalf of the co-investment ventures, including promotes;
- distributions received from the co-investment ventures;
- proceeds from the disposition of properties, land parcels or other investments to third parties;
- proceeds from the contributions of properties to current or future co-investment ventures;
- proceeds from the sale of a portion of our investments in co-investment ventures;
- borrowing capacity under our current credit facility arrangements discussed in the following section, other facilities or borrowing arrangements ($3.5 billion at June 30, 2017); and
- proceeds from the issuance of debt.

We may also generate proceeds from the issuance of equity securities, subject to market conditions.

Debt

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

	June 30, 2017	December 31, 2016
Debt outstanding	$ 11,082	$ 10,608
Weighted average interest rate	3.0 %	3.2 %
Weighted average maturity in months	65	60

In February 2017, we renewed and amended our Japanese yen revolver (the “Revolver”) and increased our availability under the Revolver to ¥50.0 billion ($447 million at June 30, 2017).

In March 2017, we entered into an unsecured senior term loan agreement (the “2017 Yen Term Loan”) under which we can draw in Japanese yen, of which ¥7.2 billion ($64 million at June 30, 2017) matures in March 2027 and bears an interest rate of 0.9% and ¥4.8 billion ($43 million at June 30, 2017) matures in March 2028 and bears an interest rate of 1.0%. In the first quarter of 2017, we borrowed ¥12.0 billion ($107 million) on the 2017 Yen Term Loan and it was fully drawn at June 30, 2017.

In May 2017, we renewed and amended our 2017 Term Loan under which loans can be obtained in British pounds sterling, euro, Japanese yen and U.S. dollars in an aggregate amount not to exceed $500 million. We may pay down and reborrow under the 2017 Term Loan. The 2017 Term Loan bears an interest rate of LIBOR plus 0.9% and is scheduled to mature in May 2020; however, 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. In the second quarter of 2017, we borrowed $500 million, causing the 2017 Term Loan to be fully drawn at June 30, 2017.

In June 2017, we issued £500 million ($645 million) of senior notes with an interest rate of 2.3%, maturing in 2029, at 99.9% of par value. We used the net proceeds for redemption of previously issued senior notes, general corporate purposes and to repay other indebtedness.

At June 30, 2017, we had credit facilities with an aggregate borrowing capacity of $3.5 billion, of which $3.4 billion was available for borrowing.

At June 30, 2017, we were in compliance with all of our debt covenants. These covenants include customary financial covenants for total debt, encumbered debt and fixed charge coverage ratios.

As discussed earlier, in July, we contributed operating properties formerly owned by NAIF to USLF and received cash proceeds of $720 million that was used to pay down term loans and other borrowings. Also, USLF assumed $956 million of secured mortgage debt related to the properties.

See Note 5 to the Consolidated Financial Statements for further discussion on our debt.

Equity Commitments Related to Certain 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. For more information on equity commitments for our unconsolidated co-investment ventures, see Note 3 to the Consolidated Financial Statements.

Cash Flow Summary

The following table summarizes our cash flow activity for the six months ended June 30 (in millions):

	2017	2016
Net cash provided by operating activities	$ 745	$ 634
Net cash provided by (used in) investing activities	$ (171)	$ 860
Net cash used in financing activities	$ (1,126)	$ (1,437)

Cash Provided by Operating Activities

Cash provided by operating activities, exclusive of changes in receivables and payables, is impacted by the following significant activity:

- **Real estate operations.** We receive the majority of our operating cash through net revenues of our Real Estate Operations segment. See our Results of Operations section above for further explanation of our Real Estate Operations segment. The revenues from this segment include noncash adjustments for straight-lined rent and amortization of above and below market leases of $49 million and $43 million for 2017 and 2016, respectively.

- **Strategic capital.** We also generate operating cash through our Strategic Capital segment by providing management services to our unconsolidated co-investment ventures, including promotes. See our Strategic Capital Results of Operations section above for the key drivers of our strategic capital revenues and expenses. We earned $124 million of promotes in the second quarter of 2017, which represents the third-parties' share of the promotes earned that were included as strategic capital revenues, but excluded from cash provided by operating activities as the cash will be received in the third quarter of 2017. Included in the cash provided by operating activities for 2016 is $30 million of cash received, which represented the third-parties' share of promotes earned in 2015.

- **G&A expenses.** We incurred $114 million and $107 million of G&A costs in 2017 and 2016, respectively.

- **Distributions from unconsolidated entities.** We recognized $141 million and $147 million of distributions from our unconsolidated entities in 2017 and 2016, respectively. Included in 2016 are distributions of $27 million that represented our share of promotes earned in 2015. In the third quarter of 2016, we adopted an accounting standard update that clarifies the classification methodology within the statement of cash flows for distributions received from equity method investments. As a result, for the six months ended June 30, 2016, we reclassified $48 million of distributions from our unconsolidated entities into operating activities that were previously reported as investing activities.

- **Equity-based compensation awards.** We record equity-based compensation expenses in *Rental Expenses* in the Real Estate Operations segment, *Strategic Capital Expenses* in the Strategic Capital segment and G&A expenses. The total amounts expensed were $38 million and $29 million in 2017 and 2016, respectively.

- **Cash paid for interest and income taxes.** As disclosed in Note 11, we paid combined amounts for interest and income taxes of $212 million in both 2017 and 2016, respectively.

Cash Provided by (Used in) Investing Activities

- **Real estate development.** We invested $715 million and $776 million in 2017 and 2016, respectively, in real estate development and leasing costs for first generation leases. We had 55 properties under development and 22 properties that were completed but not stabilized at June 30, 2017, and we expect to continue to develop new properties as the opportunities arise.

- **Real estate acquisitions.** In 2017, we acquired total real estate of $202 million, which included 524 acres of land and 2 operating properties. In 2016, we acquired total real estate of $136 million, which included 384 acres of land and 6 operating properties.

- **Capital expenditures.** We invested $113 million and $119 million in our operating properties during 2017 and 2016, respectively; which included recurring capital expenditures, tenant improvements and leasing commissions on existing operating properties that were previously leased.

- **Proceeds from contributions and dispositions.** We generated cash from contributions and dispositions of real estate properties of $836 million and $1.3 billion during 2017 and 2016, respectively. See Note 2 to the Consolidated Financial Statements for more detail about our contributions and dispositions.

- **Investments in and advances to.** We invest cash in our unconsolidated co-investment ventures and other ventures, which represents our proportionate share. The ventures primarily use the funds for the acquisition of operating properties, development and repayment of debt. The following table summarizes our investments in our unconsolidated co-investment ventures for the six months ended June 30 (in millions):

	2017	2016
Unconsolidated co-investment ventures:		
Other Americas		
Prologis Brazil Logistics Partners Fund I and related joint ventures	$ 4	$ 21
Europe		
European Logistics Venture 1	19	-
Prologis European Logistics Partners Sàrl	3	61
Prologis United Kingdom Logistics Venture	31	-
Asia		
Nippon Prologis REIT, Inc.	-	33
Remaining unconsolidated co-investment ventures	7	10
Total unconsolidated co-investment ventures	64	125
Other ventures	81	20
Total investments in and advances to unconsolidated entities	**$ 145**	**$ 145**

See Note 3 to the Consolidated Financial Statements for more detail on our unconsolidated co-investment ventures.

- **Return of investment.** We received distributions from unconsolidated co-investment ventures and other ventures as a return of investment of $134 million and $533 million during 2017 and 2016, respectively. Included in this amount for 2017 is $84 million from the disposition of our investment in ELV and $49 million from property dispositions within our unconsolidated co-investment ventures. Included in this amount for 2016 is $411 million from the redemption of a portion of our investments in PTELF and USLF and $79 million from the disposition of our investment in a joint venture, and the remaining amount was from property dispositions within our unconsolidated entities. As discussed above, we adopted an accounting standard update in the third quarter of 2016 that clarifies the classification methodology within the statement of cash flows for distributions received from equity method investments and as a result, we reclassified $48 million of distributions in 2016 from our unconsolidated entities that were previously reported as investing activities into operating activities.

- **Proceeds from repayment of notes receivable backed by real estate.** In 2017 and 2016, we received $32 million and $201 million, respectively, for the payment of notes receivable received in connection with dispositions of real estate to third parties.

Cash Used in Financing Activities

- **Dividends paid on common and preferred stock.** We paid dividends of $471 million and $445 million to our common and preferred stockholders during 2017 and 2016, respectively.

- **Noncontrolling interests contributions.** In 2017, our partner in U.S. Logistics Venture ("USLV") made contributions of $136 million for the pay down of secured mortgage debt.

- **Noncontrolling interests distributions.** In 2017 and 2016, we distributed $100 million and $214 million to various noncontrolling interests, respectively. Distributions in 2017 and 2016 included $28 million and $137 million related to proceeds from dispositions of real estate, primarily to our partner in USLV. Included in these amounts in both 2017 and 2016 were $19 million of distributions to common limited partnership unitholders of Prologis, L.P.

- **Purchase of noncontrolling interests.** In 2017, we paid $710 million to acquire our partner's interest in NAIF and $80 million to acquire our partner's interest in the Brazil Fund.

- **Tax paid for shares withheld.** In the third quarter of 2016, we adopted an accounting standard update that clarifies the classification methodology within the statement of cash flows for taxes paid to a tax authority by us when we withhold shares to cover employee withholding tax payments for certain stock compensation plans. As a result of the adoption, in 2016 we reclassified payments of $7 million from operating activities to financing activities.

- **Repurchase and payments of debt.** During 2017, we made payments of $1.0 billion, primarily on our outstanding term loans. We also repurchased and extinguished senior notes and secured mortgage debt for a combined total of $954 million, which included extinguishment costs. During 2016, we made payments of $750 million on our outstanding term loans and $164 million on regularly scheduled debt principal payments and payments at maturity. We also repurchased and extinguished secured mortgage debt of $363 million, which included extinguishment costs.

- **Proceeds from issuance of debt.** In 2017, we issued $1.3 billion of term loans, £500 million ($645 million) of senior notes and $148 million of secured mortgage debt and used the net proceeds to repurchase and extinguish senior notes and secured mortgage debt and for general corporate purposes. In 2016, we issued $299 million of term loans and $218 million of secured mortgage debt and used the net proceeds for general corporate purposes. See Note 5 to the Consolidated Financial Statements for more detail on debt.

Off-Balance Sheet Arrangements

Unconsolidated Co-Investment Venture Debt

We had investments in and advances to unconsolidated co-investment ventures, at June 30, 2017, of $4.4 billion. These ventures had total third-party debt of $6.8 billion at June 30, 2017.

At June 30, 2017, we did not guarantee any third-party debt of the unconsolidated co-investment ventures. In our role as the manager or sponsor, we work with the ventures to refinance their maturing debt. There can be no assurance that the ventures will be able to refinance any maturing indebtedness on terms as favorable as the maturing debt, or at all. If the ventures are unable to refinance the maturing indebtedness with newly issued debt, they may be able to obtain funds by voluntary capital contributions from us and our partners or by selling assets. Certain of our ventures also have credit facilities, or unencumbered properties, both of which may be used to obtain funds.

Contractual Obligations

Distribution and Dividend Requirements

Our dividend policy on our common stock is to distribute a percentage of our cash flow to ensure that we will meet the dividend requirements of the Internal Revenue Code, relative to maintaining our REIT status, while still allowing us to retain cash to meet other needs such as capital improvements and other investment activities.

We paid a cash dividend of $0.44 per common share in the first two quarters of 2017. Our future common stock dividends, if and as declared, may vary and will be determined by the board of directors (the "Board") upon the circumstances prevailing at the time, including our financial condition, operating results and REIT distribution requirements, and may be adjusted at the discretion of the Board during the year.

At June 30, 2017, we had one series of preferred stock outstanding, the series Q. The annual dividend rate is 8.54% per share and dividends are payable quarterly in arrears.

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.

Other Commitments

On a continuing basis, we are engaged in various stages of negotiations for the acquisition or disposition of individual properties or portfolios of properties.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 1 to the Consolidated Financial Statements.

FUNDS FROM OPERATIONS ATTRIBUTABLE TO COMMON STOCKHOLDERS/UNITHOLDERS ("FFO")

FFO is a non-GAAP financial measure that is commonly used in the real estate industry. The most directly comparable GAAP measure to FFO is net earnings.

The National Association of Real Estate Investment Trusts ("NAREIT") defines FFO as earnings computed under GAAP to exclude historical cost depreciation and gains and losses from the sales, along with impairment charges, of previously depreciated properties. We also exclude the gains on revaluation of equity investments upon acquisition of a controlling interest and the gain recognized from a partial sale of our investment, as these are similar to gains from the sales of previously depreciated properties. We exclude similar adjustments from our unconsolidated entities and the third parties' share of our consolidated co-investment ventures.

Our FFO Measures

Our FFO measures begin with NAREIT's definition and we make certain adjustments to reflect our business and the way that management plans and executes our business strategy. While not infrequent or unusual, the additional items we adjust for in calculating *FFO, as modified by Prologis,* and *Core FFO*, both as defined below, are subject to significant fluctuations from period to period. Although these items may have a material impact on our operations and are reflected in our financial statements, the removal of the effects of these items allows us to better understand the core operating performance of our properties over the long term. These items have both positive and negative short-term effects on our results of operations in inconsistent and unpredictable directions that are not relevant to our long-term outlook.

We calculate our FFO measures, as defined below, based on our proportionate ownership share of both our unconsolidated and consolidated ventures. We reflect our share of our FFO measures for unconsolidated co-investment ventures by applying our average ownership percentage for the period to the applicable reconciling items on an entity by entity basis. We reflect our share for consolidated ventures in which we do not own 100% of the equity by adjusting our FFO measures to remove the noncontrolling interests share of the applicable reconciling items based on our average ownership percentage for the applicable periods.

These FFO measures are used by management as supplemental financial measures of operating performance and we believe that it is important that stockholders, potential investors and financial analysts understand the measures management uses. We do not use our FFO measures as, nor should they be considered to be, alternatives to net earnings computed under GAAP, as indicators of our operating performance, as alternatives to cash from operating activities computed under GAAP or as indicators of our ability to fund our cash needs.

We analyze our operating performance primarily by the rental revenues of our real estate and the revenues from our strategic capital business, net of operating, administrative and financing expenses. This income stream is not directly impacted by fluctuations in the market value of our investments in real estate or debt securities.

FFO, as modified by Prologis attributable to common stockholders and unitholders ("FFO, as modified by Prologis")

To arrive at *FFO, as modified by Prologis*, we adjust the NAREIT defined FFO measure to exclude the impact of foreign currency related items and deferred tax, specifically:

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

We use *FFO, as modified by Prologis*, so that management, analysts and investors are able to evaluate our performance against other REITs that do not have similar operations or operations in jurisdictions outside the U.S.

Core FFO attributable to common stockholders and unitholders ("Core FFO")

In addition to *FFO, as modified by Prologis*, we also use *Core FFO.* To arrive at *Core FFO,* we adjust *FFO, as modified by Prologis*, to exclude the following recurring and nonrecurring items that we recognized directly in *FFO, as modified by Prologis*:

- gains or losses from the disposition of land and development properties that were developed with the intent to contribute or sell;
- income tax expense related to the sale of investments in real estate and third-party acquisition costs related to the acquisition of real estate;
- impairment charges recognized related to our investments in real estate generally as a result of our change in intent to contribute or sell these properties;
- gains or losses from the early extinguishment of debt and redemption and repurchase of preferred stock; and

- expenses related to natural disasters.

We use *Core FFO*, including by segment and region, to: (i) assess our operating performance as compared to other real estate companies; (ii) evaluate our performance and the performance of our properties in comparison with expected results and results of previous periods; (iii) evaluate the performance of our management; (iv) budget and forecast future results to assist in the allocation of resources; (v) provide guidance to the financial markets to understand our expected operating performance; and (v) evaluate how a specific potential investment will impact our future results.

Limitations on the use of our FFO measures

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

- The current income tax expenses and acquisition costs that are excluded from our modified FFO measures represent the taxes and transaction costs that are payable.

- Depreciation and amortization of real estate assets are economic costs that are excluded from FFO. FFO is limited, as it does not reflect the cash requirements that may be necessary for future replacements of the real estate assets. Furthermore, the amortization of capital expenditures and leasing costs necessary to maintain the operating performance of logistics facilities are not reflected in FFO.

- Gains or losses from non-development property and dispositions or impairment charges related to expected dispositions represent changes in value of the properties. By excluding these gains and losses, FFO does not capture realized changes in the value of disposed properties arising from changes in market conditions.

- The deferred income tax benefits and expenses that are excluded from our modified FFO measures result from the creation of a deferred income tax asset or liability that may have to be settled at some future point. Our modified FFO measures do not currently reflect any income or expense that may result from such settlement.

- The foreign currency exchange gains and losses that are excluded from our modified FFO measures are generally recognized based on movements in foreign currency exchange rates through a specific point in time. The ultimate settlement of our foreign currency-denominated net assets is indefinite as to timing and amount. Our FFO measures are limited in that they do not reflect the current period changes in these net assets that result from periodic foreign currency exchange rate movements.

- The gains and losses on extinguishment of debt that we exclude from our Core FFO, may provide a benefit or cost to us as we may be settling our debt at less or more than our future obligation.

- The natural disaster expenses that we exclude from Core FFO are costs that we have incurred.

We compensate for these limitations by using our FFO measures only in conjunction with net earnings computed under GAAP when making our decisions. This information should be read with our complete consolidated financial statements prepared under GAAP. To a ssist investors in compensating for these limitations, we reconcile our modified FFO measures to our net earnings computed under GAAP for six months ended June 30 as follows (in millions).

	2017	2016
FFO		
Reconciliation of net earnings to FFO measures:		
Net earnings attributable to common stockholders	$ 470	$ 483
Add (deduct) NAREIT defined adjustments:		
Real estate related depreciation and amortization	439	465
Gains on dispositions of investments in real estate properties, net	(113)	(238)
Reconciling items related to noncontrolling interests	(42)	(64)
Our share of reconciling items included in earnings from unconsolidated entities	60	79
NAREIT defined FFO	**814**	**725**
Add (deduct) our modified adjustments:		
Unrealized foreign currency and derivative losses, net	36	24
Deferred income tax expense (benefit), net	2	(5)
Current income tax benefit on dispositions related to acquired tax assets	(1)	-
Reconciling items related to noncontrolling interests	-	1
Our share of reconciling items included in earnings from unconsolidated entities	(1)	-
FFO, as modified by Prologis	**850**	**745**
Adjustments to arrive at Core FFO:		
Gains on dispositions of development properties and land, net	(68)	(105)
Current income tax expense on dispositions	1	10
Acquisition expenses	-	2
Losses (gains) on early extinguishment of debt, net	31	(1)
Reconciling items related to noncontrolling interests	(1)	1
Our share of reconciling items included in earnings from unconsolidated entities	(5)	2
Core FFO	**$ 808**	**$ 654**

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to the impact of foreign-exchange related variability and earnings volatility on our foreign investments and interest rate changes. See our risk factors in Item 1A. Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See also Note 9 to the Consolidated Financial Statements in Item 1 for more information about our derivative financial instruments.

We monitor our market risk exposures using a sensitivity analysis. Our sensitivity analysis estimates the exposure to market risk sensitive instruments assuming a hypothetical 10% adverse change in exchange or interest rates at June 30, 2017. The results of the sensitivity analysis are summarized in the following sections. The sensitivity analysis is of limited predictive value. As a result, revenues and expenses, as well as our ultimate realized gains or losses with respect to interest rate and foreign currency exchange rate fluctuations will depend on the exposures that arise during a future period, hedging strategies at the time and the prevailing interest and foreign currency exchange rates.

Foreign Currency Risk

We are exposed to foreign exchange-related variability of investments and earnings from our foreign investments. Foreign currency market risk is the possibility that our financial results or financial position could be better or worse than planned because of changes in foreign currency exchange rates. At June 30, 2017, we had net equity of approximately $984 million, or 4.8% of total net equity, denominated in a currency other than the U.S. dollar, after consideration of our derivative and nonderivative financial instruments. Based on our sensitivity analysis, a 10% adverse change in exchange rates would cause a reduction of $98 million to our net equity.

At June 30, 2017, we had foreign currency forward contracts, which were designated and qualify as net investment hedges, with an aggregate notional amount of $99 million to hedge a portion of our investments in Canada. On the basis of our sensitivity analysis, a weakening of the U.S. dollar against the Canadian dollar by 10% would result in a $10 million negative change in our cash flows on settlement. In addition, we also have British pound sterling, Canadian dollar, euro and Japanese yen forward and option contracts, which were not designated as hedges, and have an aggregate notional amount of $550 million to mitigate risk associated with the translation of the projected financial results of our subsidiaries in Canada, Europe and Japan. A weakening of the U.S. dollar against these currencies by 10% would result in a $55 million negative change in our net income and cash flows on settlement.

Interest Rate Risk

We also are exposed to the impact of interest rate changes on future earnings and cash flows. At June 30, 2017, we had $2.3 billion of variable rate debt outstanding, of which $2.0 billion was outstanding on our term loans and $327 million was outstanding on secured mortgage debt. At June 30, 2017, we had interest rate swap agreements to fix the interest rate on $287 million (CAD $372 million) of our Canadian term loan. During the six months ended June 30, 2017, we had weighted average daily outstanding borrowings of $56 million on our variable rate credit facilities. On the basis of our sensitivity analysis, a 10% adverse change in interest rates based on our average outstanding variable rate debt balances not subject to interest rate swap agreements during the period would result in additional annual interest expense of $2 million, which equates to a change in interest rates of 11 basis points.

ITEM 4. Controls and Procedures

Controls and Procedures (The Parent)

The Parent carried out an evaluation under the supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the disclosure controls and procedures (as defined in Rule 13a-14(c)) under the Securities and Exchange Act of 1934 (the “Exchange Act”) at June 30, 2017. On the basis of this evaluation, the chief executive officer and the chief financial officer have concluded that the disclosure controls and procedures are effective to ensure that the information required to be disclosed in reports that are filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission (“SEC”) rules and forms.

No changes in the internal controls over financial reporting during the most recent fiscal quarter have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Controls and Procedures (The Operating Partnership)

The Operating Partnership carried out an evaluation under the supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the disclosure controls and procedures (as defined in Rule 13a-14(c)) under the Exchange Act at June 30, 2017. On the basis of this evaluation, the chief executive officer and the chief financial officer have concluded that the disclosure controls and procedures are effective to ensure that the information required to be disclosed in reports that are filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

No changes in the internal controls over financial reporting during the most recent fiscal quarter have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Prologis and our unconsolidated investees are party to a variety of legal proceedings arising in the ordinary course of business. With respect to any such matters to which we are currently a party, the ultimate disposition of any such matters will not result in a material adverse effect on our business, financial position or results of operations.

ITEM 1A. Risk Factors

At June 30, 2017, no material changes had occurred in our risk factors as discussed in Item 1A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended June 30, 2017, we issued an aggregate of 0.3 million shares of common stock of the Parent upon redemption of common units of the Operating Partnership. The shares of common stock were issued in reliance on the exemption from registration requirements of the Securities Act of 1933, as amended, afforded by Section 4(a)(2) thereof.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not Applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

The exhibits required by this item are set forth on the Exhibit Index attached hereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

PROLOGIS, INC.

By: /s/ Thomas S. Olinger
Thomas S. Olinger
Chief Financial Officer

By: /s/ Lori A. Palazzolo
Lori A. Palazzolo
Managing Director and Chief Accounting Officer

PROLOGIS, L.P.
By: Prologis, Inc., its general partner

By: /s/ Thomas S. Olinger
Thomas S. Olinger
Chief Financial Officer

By: /s/ Lori A. Palazzolo
Lori A. Palazzolo
Managing Director and Chief Accounting Officer

Date: July 26, 2017

INDEX TO EXHIBITS

Certain of the following documents are filed herewith. Certain other of the following documents that have been previously filed with the Securities and Exchange Commission and, pursuant to Rule 12-b-32, are incorporated herein by reference.

4.1	Form of Eighth Supplemental Indenture among Prologis, Inc., Prologis, L.P., U.S. Bank National Association and Elavon Financial Services DAC, UK Branch (incorporated by reference to Exhibit 4.1 to Prologis' Current Report Form 8-K filed on June 6, 2017).
4.2	Form of Officers' Certificate related to 2.250% Notes due 2029 (incorporated by reference to Exhibit 4.2 to Prologis' Current Report Form 8-K filed on June 6, 2017).
4.3	Form of 2.250% Notes due 2029 (incorporated by reference to Exhibit 4.3 to Prologis' Current Report Form 8-K filed on June 6, 2017).
10.1	Senior Term Loan Agreement dated as of May 4, 2017 among Prologis, Inc., Prologis, L.P., various affiliates of Prologis, L.P., various lenders and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to Prologis' Current Report Form 8-K on May 8, 2017).
10.2	First Amendment, dated as of May 4, 2017, to the Amended and Restated Global Senior Credit Agreement by and among Prologis, Inc., Prologis, L.P., various affiliates of Prologis, L.P., various lenders and Bank of America, N.A., as Global Administrative Agent (incorporated by reference to Exhibit 10.2 to Prologis' Current Report Form 8-K on May 8, 2017).
12.1†	Computation of Ratio of Earnings to Fixed Charges of Prologis, Inc. and Prologis, L.P.
12.2†	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock/Unit Dividends, of Prologis, Inc. and Prologis, L.P.
15.1†	KPMG LLP Awareness Letter of Prologis, Inc.
15.2†	KPMG LLP Awareness Letter of Prologis, L.P.
31.1†	Certification of Chief Executive Officer of Prologis, Inc.
31.2†	Certification of Chief Financial Officer of Prologis, Inc.
31.3†	Certification of Chief Executive Officer for Prologis, L.P.
31.4†	Certification of Chief Financial Officer for Prologis, L.P.
32.1†	Certification of Chief Executive Officer and Chief Financial Officer of Prologis, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification of Chief Executive Officer and Chief Financial Officer for Prologis, L.P., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase
101.DEF†	XBRL Taxonomy Extension Definition Linkbase
101.LAB†	XBRL Taxonomy Extension Label Linkbase
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase
†	*Filed herewith*

Exhibit 12.1

PROLOGIS, INC. AND PROLOGIS, L.P.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollar amounts in thousands)

	Six months ended June 30,	Year Ended December 31,				
	2017	2016	2015	2014	2013	2012
Consolidated net earnings (loss) from continuing operations	$ 508,669	$ 1,292,540	$ 925,515	$ 739,284	$ 229,529	$ (106,397)
Add (Deduct):						
Fixed charges	183,446	382,436	375,094	382,210	458,285	572,108
Capitalized interest	(27,940)	(64,815)	(60,808)	(61,457)	(67,955)	(53,397)
Earnings from unconsolidated entities, net	(117,201)	(206,307)	(159,262)	(134,288)	(97,220)	(31,676)
Distributed income from equity entities	141,256	286,651	284,664	294,890	68,319	34,945
Income tax expense (benefit)	24,381	54,564	23,090	(25,656)	106,733	3,580
Earnings, as adjusted	**$ 712,611**	**$ 1,745,069**	**$ 1,388,293**	**$ 1,194,983**	**$ 697,691**	**$ 419,163**
Fixed charges:						
Interest expense	$ 148,266	$ 303,146	$ 301,363	$ 308,885	$ 379,327	$ 505,215
Capitalized interest	27,940	64,815	60,808	61,457	67,955	53,397
Portion of rents representative of the interest factor	7,240	14,475	12,923	11,868	11,003	13,496
Total fixed charges	**$ 183,446**	**$ 382,436**	**$ 375,094**	**$ 382,210**	**$ 458,285**	**$ 572,108**
Ratio of earnings, as adjusted, to fixed charges	**3.9**	**4.6**	**3.7**	**3.1**	**1.5**	**(a)**

(a) The loss from continuing operations for 2012 included impairment charges of $269 million. Our fixed charges exceed our earnings, as adjusted, by $153 million for the year ended December 31, 2012.

Exhibit 12.2

PROLOGIS, INC. AND PROLOGIS, L.P.
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS AND UNIT DISTRIBUTIONS
(Dollar amounts in thousands)

	Six months ended June 30,	**Year Ended December 31,**				
	2017	**2016**	**2015**	**2014**	**2013**	**2012**
Consolidated net earnings (loss) from continuing operations	$ 508,669	$ 1,292,540	$ 925,515	$ 739,284	$ 229,529	$ (106,397)
Add (Deduct):						
Fixed charges	183,446	382,436	375,094	382,210	458,285	572,108
Capitalized interest	(27,940)	(64,815)	(60,808)	(61,457)	(67,955)	(53,397)
Earnings from unconsolidated entities, net	(117,201)	(206,307)	(159,262)	(134,288)	(97,220)	(31,676)
Distributed income from equity entities	141,256	286,651	284,664	294,860	68,319	34,945
Income tax expense (benefit)	24,381	54,564	23,090	(25,656)	106,733	3,580
Earnings, as adjusted	**$ 712,611**	**$ 1,745,069**	**$ 1,388,293**	**$ 1,194,953**	**$ 697,691**	**$ 419,163**
Combined fixed charges and preferred stock dividends and unit distributions:						
Interest expense	$ 148,266	$ 303,146	$ 301,363	$ 308,885	$ 379,327	$ 505,215
Capitalized interest	27,940	64,815	60,808	61,457	67,955	53,397
Portion of rents representative of the interest factor	7,240	14,475	12,923	11,868	11,003	13,496
Total fixed charges	183,446	382,436	375,094	382,210	458,285	572,108
Preferred stock dividends and unit distributions	3,348	6,714	6,651	7,431	18,391	41,226
Combined fixed charges and preferred stock dividends and unit distributions	**$ 186,794**	**$ 389,150**	**$ 381,745**	**$ 389,641**	**$ 476,676**	**$ 613,334**
Ratio of earnings, as adjusted, to combined fixed charges and preferred stock dividends and unit distributions	**3.8**	**4.5**	**3.6**	**3.1**	**1.5**	**(a)**

(a) The loss from continuing operations for 2012 includes impairment charges of $269 million. Our combined fixed charges and preferred share dividends exceed our earnings, as adjusted, by $194 million for the year ended December 31, 2012.

Exhibit 15.1

The Board of Directors
Prologis, Inc.:

Re: Registration Statement Nos. 333-216491, 333-78699, 333-81475, and 333-75951 on Form S-3; Registration Statement Nos. 333-173891 and 333-172741 on Form S-4; and Registration Statement Nos. 333-42015, 333-78779, 333-90042, 333-100214, 333-144489, 333-177378, 333-178955, and 333-181529 on Form S-8.

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated July 26, 2017, related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

Denver, Colorado
July 26, 2017

Exhibit 15.2

The Partners
Prologis, L.P.:

Re: Registration Statement No. 333-216491 on Form S-3; and Registration Statement No. 333-100214 on Form S-8.

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated July 26, 2017, related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

Denver, Colorado
July 26, 2017

Exhibit 31.1

CERTIFICATION

I, Hamid R. Moghadam, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Prologis, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I, are responsible for establishing and maintaining disclosure controls and procedures, (as defined in Exchange Act Rules 13a –15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I, have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 26, 2017

/s/ Hamid R. Moghadam
Name: Hamid R. Moghadam
Title: Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Thomas S. Olinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Prologis, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, (as defined in Exchange Act Rules 13a –15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 26, 2017

/s/ Thomas S. Olinger

Name: Thomas S. Olinger

Title: Chief Financial Officer

Exhibit 31.3

CERTIFICATION

I, Hamid R. Moghadam, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Prologis, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I, are responsible for establishing and maintaining disclosure controls and procedures, (as defined in Exchange Act Rules 13a –15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I, have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 26, 2017

	/s/ Hamid R. Moghadam
Name:	Hamid R. Moghadam
Title:	Chief Executive Officer

Exhibit 31.4

CERTIFICATION

I, Thomas S. Olinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Prologis, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, (as defined in Exchange Act Rules 13a –15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: July 26, 2017

/s/ Thomas S. Olinger
Name: Thomas S. Olinger
Title: Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Prologis, Inc. (“the Company”), hereby certifies, to such officer’s knowledge, that the Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 (the “Report”), which accompanies these certifications, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 26, 2017		/s/ Hamid R. Moghadam
	Name:	Hamid R. Moghadam
	Title:	Chief Executive Officer
Dated: July 26, 2017		/s/ Thomas S. Olinger
	Name:	Thomas S. Olinger
	Title:	Chief Financial Officer

Exhibit 32.2

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Prologis, L.P. (“the Company”), hereby certifies, to such officer’s knowledge, that the Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 (the “Report”), which accompanies these certifications, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 26, 2017		/s/ Hamid R. Moghadam
	Name:	Hamid R. Moghadam
	Title:	Chief Executive Officer
Dated: July 26, 2017		/s/ Thomas S. Olinger
	Name:	Thomas S. Olinger
	Title:	Chief Financial Officer