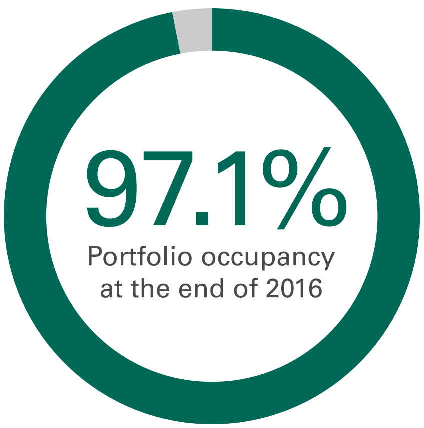
SETTING THE STANDARD

SETTING THE STANDARD

Prologis Torrance Distribution Center, Torrance, California.

Prologis is the global leader in logistics real estate.

We own, manage and develop high-quality properties in the world's most vibrant centers of commerce. 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 competitive advantage.



SIMPLIFYING THE BUSINESS

Prologis team members, San Francisco, California.

The process of streamlining our business since our transformative merger six years ago is now complete.

After combining ProLogis and AMB in 2011, we embarked on a multi-year plan to lay the foundation of the new company. We realigned the portfolio to concentrate on fewer, but more strategic, locations. We improved our asset utilization and captured the significant recovery in rents that began when the Great Recession ended. We reduced the size of our land bank, as well as the number of funds we manage through our Strategic Capital business. We achieved a more efficient organization by leveraging our scale to drive earnings and we strengthened our financial position. We now have one of the premier balance sheets in the REIT industry.

Ratings upgrade

A3
Moody's
Baa1

A-
S&P
BBB+

BUILDING WHERE THE ACTION IS

Prologis Park Osaka 5, Osaka, Japan.

Land in strategic locations + Build-to-last development = Superior value creation.

In the recent recovery phase of the U.S. market, rising tides have lifted all boats. In the next phase, location and quality will matter much more. Thanks to our purposeful location and development strategies, our portfolio has a meaningful performance advantage in many global and regional markets. The markets in which we operate are where the action is today and we are building where it's going tomorrow. We continuously assess markets, locations and facilities to ensure that we are in the best position to enable the movement of the world's goods to the world's consumers.

LEADING THE WAY FORWARD

Solar panel installation at Prologis Rialto I-210 Distribution Center, Rialto, California.

Through innovation that is relevant to all stakeholders, we are leading our industry.

We constantly search out new ways to create value for our customers and investors. Yesterday's results aren't good enough for tomorrow. Through innovation that is relevant to stakeholders, we are leading the way forward. Our next "first" is around the corner. We gather ideas and take inspiration from a wide range of sources, including customers, other industries and each other to uncover new innovations. In 2016, we announced the construction of the first U.S. multi-story distribution centers, in Seattle and San Francisco. We are looking at ways to provide analytics to make smarter decisions and help our customers move faster. We will continue to deliver valuable innovations to our industry.

53 **Multi-Story Facilities in China and Japan with more soon in Seattle and San Francisco**

SHAREHOLDERS LETTER

Dear Fellow Shareholders,

At Prologis, 2016 was an extraordinary year by virtually every metric we track. A combination of factors worked in our favor. The markets in which we operate were healthy, our business strategy continued to succeed and our teams executed to their objectives. As a result, our operations posted records across the board. Core FFO grew 15 percent from 2015, and the healthy environment helped push our portfolio occupancy above 97 percent at the end of the year and supported global rent change on rollover of 17 percent.

We worked hard last year to position our portfolio for success. This success can be ascribed in large part to the confluence of consumption and the favorable underlying dynamics of supply and demand. Rapidly growing e-commerce is just one of the many factors driving consumption-related logistics. In addition, industries linked to the U.S. housing market, like construction and home goods, continued to recover in 2016 and we expect more growth in 2017.

Financial and Operational Achievements

Our total shareholder return in 2016 was 27.3 percent, including dividends, far outpacing the returns of the sector as measured by the REIT index (RMZ), at 8.6 percent. In 2016, demand for logistics real estate—and more specifically demand for our best-in-class properties in high-barrier markets—remained high while supply was tight. Of note:

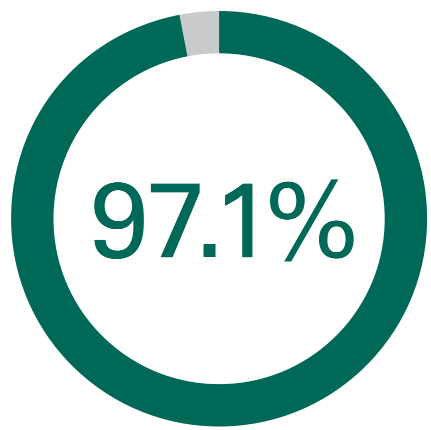
- For the full year, we leased more than 180 million square feet.
- Prologis closed 2016 with its highest-ever occupancy of 97.1 percent, up slightly from the 2015 year-end level of 96.9 percent.
- Our primary financial performance metric, core FFO, was $2.57 per share for the year—an increase of 15.0 percent over 2015 and consistent with our three-year CAGR of 15.9 percent.
- With virtually all of our space spoken for, we have focused on rent growth as the primary way to increase earnings. In 2016, global rent change on rollover was 13.8 percent. In the Americas, which accounts for 73 percent of our net operating income, the increase was 21.5 percent—an all-time high.
- Growth in same store net operating income was 5.6 percent for the full year.

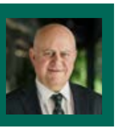
Prologis Park Basildon, Essex, UK.

> "The right space in the right location is the key to helping our customers simplify the complex task of managing the flow of goods around the world.

These metrics speak to a healthy, well-designed business able to withstand changes in the market and geopolitical surprises in our world. We have worked hard to build a responsive business that operates effectively at scale, and have found new ways to work with our customers in a deeper, more strategic way. We know that having the right space in the right location is the key to helping our customers meet the demands of growing consumption across the globe.

Portfolio occupancy
at the end of 2016





Balance Sheet

We ended 2016 with our balance sheet in the best shape in our company's history and achieved our objective of building one of the strongest in the REIT sector. When Moody's and Standard & Poor's upgraded our debt ratings to A3 and A-, respectively, they acknowledged our prudent financial management and strong balance sheet. These upgrades, which make us one of the few REITs with an A-level credit rating, are much more than a symbolic accomplishment. They allow us to access capital at a lower cost than our competitors.

In 2016, our key balance sheet accomplishments included:

- In the first quarter, we fully retired the short-term borrowings we took on to finance the 2015 acquisition, through our joint venture with Norges, of the $5.9 billion KTR Capital Partners portfolio.
- At the end of the year, Prologis enjoyed its highest-ever level of liquidity—$4.0 billion. This liquidity gives us options to fund future growth. We are well-positioned to self-fund our future capital deployment activities.
- Leverage fell from 38.4 percent at the end of 2015 to under 34.6 percent at the end of 2016. The ratio of debt-to-EBITDA is at a highly manageable 4.7, down from 5.6 last year.

In 2016, we raised new funds for our Strategic Capital business, where we manage targeted real estate investments for our private and public investors. Reflecting strong investor support for our eleven funds, we raised more than $1.6 billion in our Strategic Capital business.

Our ventures are outperforming, well-capitalized and built for the long term. More than 95 percent of the assets under management in our Strategic Capital business reside in long-life vehicles aligned along the common goals we share with our partners for achieving strong risk-adjusted returns. In 2016, we generated nearly $80 million in net promotes—another record.

> "Moody's and Standard & Poor's upgraded our debt ratings to A3 and A-.

Capital Deployment

In 2016, we developed new logistics real estate in our target markets and disposed of assets that no longer align with our long-term location strategy. Through thoughtful capital deployment, we're deepening our presence in key global markets with large populations and high—and growing—consumption.

Overall, development volume remained steady in 2016. We stabilized projects valued at $2.2 billion with an estimated value creation of $571 million. Of these, 85 percent were in global markets and more than 41 percent were build-to-suits. Three-quarters of the build-to-suit projects were constructed for repeat customers like Amazon, BMW and Kimberly-Clark. Their desire for multiple engagements with us is a testament to our ability to respond to customers' business-critical priorities around the world.

Prologis Park Pharr Bridge, Reynosa, Mexico.

Sustainability

We are accountable—to our customers, shareholders, employees and all other stakeholders. At Prologis, we are held accountable for operating efficiently and demonstrating responsible citizenship toward the environment and the communities in which we live and work.

Efficient buildings cost less to operate, saving money for customers and generating value for investors. We are in this business for the long term, so building performance matters to us. For the ninth straight year, we were named to the Global 100 Most Sustainable Corporations in the World.

In 2016, we launched an LED standard and continued our years-long effort to install energy-efficient lighting in our buildings, which can now be found in 78 percent of our global operating portfolio. We continued to place solar panels on the roofs of our buildings, pushing the total generating capacity of our operating portfolio above 165 megawatts. Among non-solar companies in the U.S., only Walmart and Target have more solar-generating capacity on their rooftops.

Looking Ahead

We're proud of our 2016 results—they speak to our diligence and focus on operations and to the simplification of our balance sheet. Still, it's natural for investors to ask what we will do for an encore in 2017 and beyond. To answer this, I'd like to first provide some recent historical context.

It has been almost six years since we closed the merger between ProLogis and AMB. Our initial focus was to integrate the two companies and deliver on our promised synergies. Shortly thereafter, we announced a 10-quarter plan to realign our portfolio, monetize our land bank, rationalize our strategic capital business, strengthen our balance sheet and invest in technology to make our teams more productive. We met or exceeded that plan's objectives almost a year ahead of schedule.

> "We are at the cusp of yet another important market transition.

> “Growth in rents will be more sustainable in the current cycle than in past cycles.

In December 2013, we announced Vision 2016, our strategic plan to capitalize on what we saw as a significant recovery in rental rates following the sharp decline during the Global Financial Crisis. The fourth quarter represented the culmination of Vision 2016, and we exceeded most of the goals outlined in that plan.

Looking ahead to the rest of 2017 and beyond, I believe we are at the cusp of yet another important market transition—to a phase for which Prologis is ideally positioned.

In the next phase of the U.S. market, location and quality will matter even more, and there will be meaningful performance differentiation within the U.S. logistics markets.

In continental Europe, the macroeconomic recovery began about three years after it began in the U.S. Market rent growth is only now gaining momentum in Europe. We believe Europe will further extend the growth cycle for our company as its recovery picks up steam. What has been a headwind for us will become a tailwind for several more years.

There is a significant embedded rental upside in most industrial portfolios because in-place leases carry rents below current market rates. In our portfolio, the average lease is under the market rate by about 12 percent overall, and by 15 percent in the Americas. We acknowledge, however, that the easy part of the cycle is behind us. Market rental growth going forward will moderate, starting this year. Because of the embedded rental upside in our portfolio, however, our same store growth will remain predictably strong into the foreseeable future—probably well beyond 2019—and especially in large markets with high barriers to entry.

The development of new supply remains disciplined. As a result, growth in rents will be more sustainable in the current cycle than in past cycles. In this environment, it will be more important than ever to be closer to key customers and to offer them the smartest real estate solutions.

Our heightened focus on customer experience, technology designed to streamline operations and advanced data analytics application will help to further simplify our business, get us even closer to our customers and make us faster, smarter and better. We're already seeing tangible results. I will elaborate more in next year's shareholder letter.

Conclusion

Last year was a landmark year for the industry and Prologis, but there is more work to be done to extend our competitive advantage. In addition, we acknowledge there is a new geopolitical landscape with which to contend. I'm looking forward to 2017 and the coming years with optimism.
As I conclude this letter, I want to mention our employees. If not for the diligence and commitment they show every day, and across many time zones, our success would not be possible. Together with you, our shareholders, all of us at Prologis look forward to several years of profitable growth.

Hamid R. Moghadam
Chairman and CEO

LEADERSHIP

Senior Officers

Standing in order of appearance from left to right:

Michael S. Curless
Chief Investment Officer
Click to read bio

Edward S. Nekritz
Chief Legal Officer and General Counsel
Click to read bio

Diana L. Scott
Chief Human Resources Officer
Click to read bio

Thomas S. Olinger
Chief Financial Officer
Click to read bio

Seated in order of appearance from left to right:

Gary E. Anderson
Chief Executive Officer, Europe and Asia
Click to read bio

Hamid R. Moghadam
Chairman of the Board of Directors and Chief Executive Officer
Click to read bio

Eugene F. Reilly
Chief Executive Officer, The Americas
Click to read bio

FINANCIAL HIGHLIGHTS

Prologis LAX Cargo Center, Los Angeles, California.

	Assets Under Management (in billions)	Revenue Summary (in millions)	Value Creation (in millions)
'16	$66.0	$2,533	$365
'15	$59.5	$2,197	$699
'14	$52.8	$1,761	$273

	Adjusted EBITDA (in millions)	Core FFO (per diluted share)	Dividends per Common Share (unit)
'16	$2,223	$2.57	$1.68
'15	$1,936	$2.23	$1.52
'14	$1,630	$1.88	$1.32

	Loan-to-Value[1]	Debt-to-EBITDA	Fixed Charge Coverage[2]
'16	34.6%	4.72x	5.75x
'15	38.4%	6.01x	4.43x
'14	36.5%	6.13x	3.49x

At a Glance

Financial and operating results in 2016 exceeded expectations and reflected outstanding execution by the team and favorable market conditions. Core FFO grew 15% year-over-year, occupancy reached a record 97.1% and rent change on lease rollover was 17%. We enter 2017 with a simplified business, record occupancy levels and an "A-" rated balance sheet. We are positioned better than ever to navigate a broad spectrum of economic scenarios.

Please see Prologis' Annual Report on Form 10-K for the year ended December 31, 2016, and our 4Q16 earnings supplemental for additional detail regarding the financial information presented in this annual report and definitions and reconciliations of non-GAAP measurements, such as Core FFO, GAAP same store NOI and adjusted EBITDA. Regarding securities ratings presented, such ratings are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by the rating organizations.

1 LTV is defined as the mortgage value of a property divided by the appraised value of the property.

2 This figure essentially represents how many times our interest payments (Fixed Charges) could be paid (or "covered") from our cash flow. Fixed Charge Coverage is defined as Adjusted EBITDA divided by total fixed charges. Fixed charges consist of net interest expense adjusted for amortization of finance costs and debt discount (premium), capitalized interest and preferred stock dividends.