LINCOLN ELECTRIC HOLDINGS INC
Form DEF 14A
March 20, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
Filed by the Registrant x Filed by a Party other than the Registrant ¨
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-12
LINCOLN ELECTRIC HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)
Payment of Filing Fee (Check the appropriate box):
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(2) Form, Schedule or Registration Statement No.:
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DEAR SHAREHOLDER:
You are cordially invited to attend the Annual Meeting of Shareholders of Lincoln Electric Holdings, Inc., which will be held at 11:00 ET on Thursday, April 20, 2017 at the Marriott Cleveland East, 26300 Harvard Road, Warrensville Heights, Ohio. A map is printed on the outside back cover of this proxy statement.

At the meeting, you will be asked to:

- Elect eleven Director nominees named in the proxy statement for a one-year term;

- Ratify our independent auditors for the year ending December 31, 2017;

- Approve, on an advisory basis, the compensation of our named executive officers;

- Recommend, on an advisory basis, the frequency of the shareholder vote on the compensation of our named executive officers;

- Re-approve the material terms for qualified performance-based compensation under our 2007 Management Incentive Compensation Plan;

- Approve an amendment to our 2015 Stock Plan for Non-Employee Directors ; and

- Address any other business that properly comes before the meeting.

Shareholders of record on the close of business on March 1, 2017, the record date, are entitled to vote at the Annual Meeting. Your vote is very important! Please vote your shares promptly in one of the four ways noted on page 5. We appreciate your continued confidence in Lincoln Electric and we look forward to seeing you at the Annual Meeting!

Sincerely,

Christopher L. Mapes
Chairman, President and Chief Executive Officer

Frederick G. Stueber
Executive Vice President, General Counsel and Secretary

WE WILL BEGIN MAILING THIS PROXY STATEMENT ON OR ABOUT MARCH 20, 2017.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 20, 2017: This proxy statement and the related form of proxy, along with our 2016 Annual Report and Form 10-K, are available free of charge at www.lincolnelectric.com/proxymaterials.

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BUSINESS OVERVIEW

BUSINESS OVERVIEW //

Lincoln Electric is the world leader in the design, development and manufacture of arc welding products, robotic arc welding systems, plasma and oxyfuel cutting equipment and has a leading global position in the brazing and soldering alloys market. Headquartered in Cleveland, Ohio, U.S., we operate 47 manufacturing locations in 19 countries and distribute to over 160 countries. In 2016, we generated $2.3 billion in sales.

As an innovation leader with the broadest portfolio of solutions and the industry's largest team of technical sales representatives and application experts, we are known as the Welding Experts®. Our portfolio of welding and cutting solutions are designed to help customers achieve greater productivity and quality in their manufacturing and fabrication processes. We leverage our global presence and broad distribution network to serve an array of customers across various end markets including: general metal fabrication, power generation and process industries, structural steel construction (buildings and bridges), heavy equipment fabrication (agricultural, mining, construction and rail), shipbuilding, automotive, pipe mills and pipelines, and oil and gas.

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For over 120 years, we have achieved success through a balanced approach and our focus in providing:

- Customers with a market leading product offering and superior technical application capability,
- Employees with an incentive and results driven culture, and
- Shareholders with above market returns.

In 2010, we mobilized the organization around a ten year "2020 Vision and Strategy" that focuses on expanding Lincoln Electric's position as a valued, technical solutions-provider in our industry by accelerating innovation, operational excellence, and achieving best-in-class financial results through an economic cycle. The strategy is founded on Lincoln Electric's values and organizes commercial and operational initiatives around six core capabilities and competitive advantages to drive growth and improved margin and return performance: welding process expertise, commercial excellence, product development, global network and reach, operational excellence and financial discipline.

In executing our "2020 Vision and Strategy," we have pursued an aggressive acquisition strategy, accelerated our investments in R&D to enhance the value proposition and positioning of our solutions, and have emphasized engineered solutions for mission-critical applications. Additionally, we have focused on reach to expand our brand's footprint geographically, across our extensive distribution channels and in attractive adjacencies such as automation. Our efforts have been successful, as contributions from acquisitions, a strong vitality index of new products and an expanded market presence have contributed to improved margin performance and returns. We have also focused on making structural improvements to the business through continuous improvement initiatives focused on quality, efficiency, and safety which will have improved margins, cash flow generation and returns, but have also improved the long-term operating performance of the business through the economic cycle.

In 2016, the organization continued to advance performance and sustained or improved results in three of the four key 2020 financial metrics:

Key Financial Metrics	2020 Goal	2009–2016 Achievement[1]	Key Initiatives and Focus
Sales Growth CAGR	10% CAGR through the cycle	4% Reported Sales CAGR 6% CAGR (Excludes FX and Venezuela results)	• Increased investment in R&D, increasing our new product vitality index • Active acquisition program
Operating Income Margin	15% Average through the cycle	10.7% Average Reported 12.4% Average Adjusted (Achieved a peak 15.1% margin in 2014)	• Targeted growth opportunities • Richening the portfolio mix through differentiated technologies and applications • Operational excellence
Return on Invested Capital (ROIC)	15% Average through the cycle	16.7% Average	• Disciplined acquisition program with stringent ROIC and IRR goals • Margin expansion • Cash management
Average Operating Working Capital Ratio	15% at 2020	15.6% at 2016 (760 basis point improvement)	• Effective cash cycle management • Inventory management

(1) See Appendix A for definitions and/or reconciliations of theses metrics to results reported in accordance with generally accepted accounting principles.

As we navigate through the 2020 strategy, we continue to review our progress and remain confident in our program, our ability to execute to plan and achieve our goals.

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BUSINESS OVERVIEW

ANNUAL MEETING INFORMATION

NOTICE OF ANNUAL MEETING / /
ANNUAL MEETING OF SHAREHOLDERS

DATE & TIME	LOCATION	RECORD DATE
Thursday, April 20, 2017 11:00 ET	Marriott Cleveland East 26300 Harvard Road Warrensville Heights, Ohio	March 1, 2017

HOW TO CAST YOUR VOTE //

Your vote is important! Please vote your shares promptly in one of the following ways:

BY INTERNET	BY PHONE	BY MAIL	IN PERSON
Visit www.proxyvote.com until April 19, 2017	Please call 1-800-690-6903 by April 19, 2017	Sign, date and return your proxy card or voting instruction form, must be received by April 19, 2017	You can vote in person at the meeting in Warrensville Heights, Ohio on April 20, 2017

MEETING AGENDA VOTING MATTERS //

Proposal	Recommendation	Page
PROPOSAL 1 To elect eleven Director nominees named in this Proxy Statement to hold office until the 2018 Annual Meeting	FOR each nominee	PAGE 12
PROPOSAL 2 To ratify the appointment of Ernst & Young LLP as independent auditor for the 2017 fiscal year	FOR	PAGE 74
PROPOSAL 3 To approve, on an advisory basis, the compensation of our named executive officers (NEOs)	FOR	PAGE 76
PROPOSAL 4 To recommend, on an advisory basis, the frequency of the shareholder vote on the compensation of our NEOs	FOR one year	PAGE 79
PROPOSAL 5 To re-approve the material terms for qualified performance-based compensation under our 2007 Management Incentive Compensation Plan	FOR	PAGE 79
PROPOSAL 6 To approve an amendment to our 2015 Stock Plan for Non-Employee Directors	FOR	PAGE 83

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PROXY SUMMARY

PROXY SUMMARY //

This section provides an overview of important items related to this proxy statement and the Annual Meeting. We encourage you to read the entire proxy statement for more information before voting.

2016 PERFORMANCE HIGHLIGHTS //

We achieved solid performance in 2016 despite weakness in industrial end markets. While sales declined 10% to $2.3 billion, we continued to focus on improving mix, cost management and operational excellence. Successful execution of a number of commercial and operational initiatives resulted in strong margin, cash flow and return performance, as well as record-level working capital efficiency. These results demonstrate the structural improvements achieved in the business through our "2020 Vision and Strategy" and how the organization continues to advance towards best-in-class results.

*See Appendix A for definitions and/or reconciliation of these metrics to results reported in accordance with generally accepted accounting principles. Performance measures used in the design of the executive compensation program are presented within the Compensation Discussion and Analysis section.

In addition, we continued to generate value for shareholders in 2016 by returning $429 million of cash - comprised of $342 million in share repurchases and a 10% increase in the dividend payout rate. In the last five years, we have repurchased an aggregate amount of $1.3 billion in shares and have increased the dividend payout rate by 88%.

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CORPORATE GOVERNANCE HIGHLIGHTS //

Lincoln Electric has a solid track record of integrity and corporate governance practices that promote thoughtful management by its officers and Board of Directors facilitating profitable growth while strategically balancing risk to maximize shareholder value. Below is a summary of certain Board of Director and governance information:

Board & Governance Information

Size of Board	11	Number of fully independent Board committees	4
Number of independent Directors	10	Independent Directors meet without management	Yes
Average age of Directors	65	Director attendance at Board & committee meetings	100%
Percent female or ethnically diverse	27%	Mandatory retirement age (75)	Yes
Board meetings held in 2016	5	Stock ownership requirements for Directors	Yes
New Directors in the last 5 years	2	Annual Board and committee self-assessments	Yes
Annual election of Directors	Yes	Code of Ethics for Directors, officers & employees	Yes
Majority voting policy for Directors	Yes	Succession planning and implementation process	Yes
Lead Independent Director	Yes	Environmental & risk management review	Yes

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PROXY SUMMARY

DIRECTOR NOMINEES AND BOARD SUMMARY //

You are being asked to vote on the election of these eleven Director nominees. Summary biographical information and the committee membership and leadership of each Director, including Director nominees, is listed below. Additional information can be found in the Director biographies under Proposal 1.

Director Nominees

Name	Age	Director Since	Independent	Audit	Compensation & Executive Development	Nominating & Corporate Governance	Finance	Other Public Company Boards
Curtis E. Espeland Executive Vice President and CFO, Eastman Chemical Company	52	2012	ü	n			l	—
David H. Gunning (Lead Director) Retired Vice Chairman, Cliffs Natural Resources, Inc.	74	1987	ü		l	l		1[1]
Stephen G. Hanks Retired President and CEO, Washington Group International	66	2006	ü		l		n	2
Michael F. Hilton President and CEO, Nordson Corporation	62	2015	ü	l		l		2
G. Russell Lincoln President, N.A.S.T. Inc. (personal investment firm)	70	1989	ü	l			l	—
Kathryn Jo Lincoln Chair and CIO, Lincoln Institute of Land Policy	62	1995	ü		l	n		—
William E. MacDonald, III Retired Vice Chairman, National City Corporation	70	2007	ü		n		l	—
Christopher L. Mapes (Chairman) President and CEO, Lincoln Electric	55	2010						1
Phillip J. Mason Retired President, EMEA Sector of Ecolab, Inc.	66	2013	ü	l			l	1
Hellene S. Runtagh Retired President and CEO, Berwind Group	68	2001	ü		l	l		2

George H. Walls, Jr.
Retired Chief Deputy Auditor, 74 2003 ü l l —
State of North Carolina
n Chair l Member
(1) Mr. Gunning is a member of the Board of Directors of MFS Funds, an investment company under the Investment Company Act of 1940.

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EXECUTIVE COMPENSATION PROGRAM HIGHLIGHTS //

Our “2020 Vision and Strategy” is focused on key actions and initiatives that generate long-term profitable growth within our targeted markets through value-added solutions and operational excellence. We have established targets in our programs to achieve a long-term 10% compounded annual growth rate (CAGR) in sales, a 15% average Adjusted Operating Income margin and Return on Invested Capital (ROIC) through an economic cycle, as well as a 15% Average Operating Working Capital to Net sales ratio by 2020. We believe this framework engages our business team in creating a value proposition for shareholders that generates above-market returns through economic cycles and maintains a short-term focus on aggressive profit and working capital targets that incentivizes management to improve profitability and operating excellence. Our executive compensation designs are structured to align our incentives with the “2020 Vision and Strategy.”

We have a long history of driving an incentive management culture, emphasizing pay for performance and seeking to align compensation with the achievement of enterprise, segment and individual goals. The executive compensation program is designed to achieve the following objectives:

- Incentivize our executives to deliver above-market financial results;
- Align management’s interests with the long-term interests of our shareholders;
- Define performance drivers that support key financial and strategic business objectives;
- Address specific business challenges; and
- Maintain good governance practices in the design and operation of our executive compensation programs, including consideration of compensation risk in the execution of business strategies.

We believe our compensation program and practices provide an appropriate balance between profitability, cash flow and returns, on the one hand, and suitable levels of risk-taking, on the other. This balance, in turn, aligns compensation strategies with shareholder interests, as reflected by the consistent high level of shareholder approval of the compensation of our named executive officers (NEOs).

ACTIONS TO FURTHER ALIGN EXECUTIVE COMPENSATION WITH SHAREHOLDER INTERESTS

The Compensation and Executive Development Committee of the Board reviews the framework of our executive compensation program and has taken the following actions over the past year to better align our executive compensation with shareholder interests:

- Replaced the cash portion of long-term incentives with performance shares, beginning with 2016 grants associated with the 2016 to 2018 performance cycle.
- Adjusted the 2016 peer group to exclude companies with sales greater than 2.5 times that of the Company, with the exception of Illinois Tool Works (ITW), as ITW is a global competitor of Lincoln Electric, with its largest presence in the U.S.
- Froze benefits under the Retirement Annuity Program (RAP) as of December 31, 2016.
- Froze and vested benefits under the Supplemental Executive Retirement Program (SERP) as of November 30, 2016.
- Created a Restoration Plan to allow NEOs (except Hallmann) to participate in a standard retirement design subject to IRS limitations.

In addition, the Committee took actions to respond to challenging business conditions, including:

- Supported a 5% temporary reduction in 2016 base salary for all officers and other key management, including the NEOs, in support of Lincoln Electric’s cost-cutting measures (reinstated December 1, 2016).
- Held NEO base salaries flat for 2016 in light of continued cost-cutting measures.

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PROXY SUMMARY

2016 Executive Compensation Practices

What We Do		What We Don't Do	
We have long-term, compensation programs focused on profitability, net income growth, ROIC and total shareholder returns	ü	We do not allow hedging or pledging of our shares	û
We use targeted performance metrics to align pay with performance	ü	We do not reprice stock options and do not issue discounted stock options	û
We maintain stock ownership requirements (5x base salary for CEO; 3x base salary for other NEOs)	ü		
We have shareholder-approved incentive plans	ü	We do not provide excessive perquisites	û
We have a broad clawback policy	ü	We do not have multi-year guarantees for compensation increases	û
We have a double-trigger change of control policy	ü		

COMPENSATION FRAMEWORK & PHILOSOPHY

Our compensation program is designed to attract and retain exceptional employees. As indicated below, we design our compensation system to reflect current best practices, including setting base pay at or below the competitive market for each position, targeting incentive-based compensation at or above competitive market rates and promoting quality corporate governance in compensation decisions. We believe these practices result in sustained, long-term shareholder value and reflect our philosophy that the best performers should receive the greatest rewards.

Our executive compensation program is structured as follows:

- Base salary is targeted to be the smallest component of total direct compensation
- Short-term incentive compensation is based on annual consolidated and, if applicable, segment performance
- Long-term incentive compensation is based on our financial performance over a three-year cycle
- Variable, "at risk," pay is a significant percentage of total compensation

AVERAGE MIX OF KEY COMPENSATION COMPONENTS AND KEY COMPENSATION METRICS

The following charts present the mix of 2016 target direct compensation for our Chief Executive Officer and all NEOs, as well as the key financial and performance metrics used to make compensation decisions. As shown below, 83% of our CEO's compensation value and, on average, 76% of our NEOs' compensation value was "at risk," with the actual amounts realized based on annual and long-term performance as well as our stock price.

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We use the following six key financial performance measures to evaluate results across short- and long-term periods. These metrics are also closely tied to our “2020 Vision and Strategy” program.

Key Performance Metrics Tied to Executive Compensation

Metric	Annual Compensation	Long-Term Incentive Programs (3-yr Performance Cycle)
EBITB[1,2] (Earnings before interest, taxes and bonus)	ü	
Average Operating Working Capital to Sales[2] ratio	ü	
Consolidated, segment and individual performance	ü	
Adjusted Net Income[2] growth		ü
Return on Invested Capital (ROIC)[2]		ü
Total Shareholder Return (TSR)[2]		ü

(1) EBITB is an internal measure which tracks our adjusted operating income.
(2) Performance measures used in the design of the executive compensation program and are defined in Appendix A.

2016 Executive Compensation Summary

The table below presents a summary of the information included in the Summary Compensation Table for 2016. The full table and additional related information can be found in the “Executive Compensation” section. As noted above, beginning with the 2016 to 2018 performance cycle, the Performance Share LTIP replaced the Cash LTIP. Compensation associated with the Cash LTIP is disclosed in the Summary Compensation Table when realized (at the end of the cycle under the "Non-Equity Incentive Plan Compensation" column) and compensation associated with the Performance Share LTIP is disclosed when granted (at the beginning of the cycle under the "Stock Awards" column). Compensation associated with the 2014 to 2016 Cash LTIP and the 2016 to 2018 Performance Share LTIP are disclosed in the 2016 Summary Compensation Table.

Name	Salary ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Combined Total ($)
Christopher L. Mapes	$865,429	$2,315,716	$1,117,327	$2,320,266	$32,704	$45,167	$6,696,609
Vincent K. Petrella	$453,229	$569,772	$274,971	$1,053,730	$848,537	$30,664	$3,230,903
George D. Blankenship	$477,083	$459,306	$221,696	$749,942	$1,359,141	$27,735	$3,294,903
Frederick G. Stueber	$391,208	$373,259	$180,030	$560,251	$331,371	$15,821	$1,851,940
Mathias Hallmann	$289,556	$283,142	$136,670	$395,583	—	$29,009	$1,133,960

AUDITOR //

We ask our shareholders to approve the selection of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2017. Below is summary information about fees paid to Ernst & Young LLP for services provided during fiscal 2016 and 2015.

	2016	2015
Audit Fees	$3,079,000	$3,143,000

Audit-Related Fees	10,000	85,000
Tax Fees	178,000	117,000
All Other Fees	0	0
Total Fees	$3,267,000	$3,345,000

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PROPOSAL 1—ELECTION OF DIRECTORS

PROPOSAL 1—ELECTION OF DIRECTORS //
ELECTION OF ELEVEN DIRECTORS TO SERVE UNTIL 2018

Our shareholders are being asked to elect eleven Directors to serve for a one-year term until the 2018 Annual Meeting and until their successors are duly elected and qualified. Unless otherwise directed, shares represented by proxy will be voted FOR the following nominees:

Curtis E. Espeland	G. Russell Lincoln	Phillip J. Mason
David H. Gunning	Kathryn Jo Lincoln	Hellene S. Runtagh
Stephen G. Hanks	William E. MacDonald, III	General George H. Walls, Jr.
Michael F. Hilton	Christopher L. Mapes	

All of the nominees have been previously elected by our shareholders.
Each of the nominees has agreed to stand for election. The biographies of all of our Director nominees can be found later in this section.
If any of the nominees is unable to stand for election, the Board may provide for a lesser number of nominees or designate a substitute. In the latter event, shares represented by proxies solicited by the Directors may be voted for the substitute. We have no reason to believe that any of the nominees will be unable to stand for election.

MAJORITY VOTING POLICY

The Director nominees receiving the greatest number of votes will be elected (plurality standard). However, our majority voting policy that states that any Director who fails to receive a majority of the votes cast in his/her favor is required to submit his/her resignation to the Board. The Nominating and Corporate Governance Committee of the Board would then consider each resignation and determine whether to accept or reject it. Abstentions and broker non-votes will have no effect on the election of a Director and are not counted under our majority voting policy. Holders of common stock do not have cumulative voting rights with respect to the election of a Director.

OUR BOARD RECOMMENDS A VOTE FOR EACH DIRECTOR NOMINEE LISTED ABOVE

ANNUAL MEETING ATTENDANCE; NO SPECIAL ARRANGEMENTS

Directors are expected to attend each annual meeting. The Director nominees, as well as the continuing Directors, plan to attend this year's Annual Meeting. At the 2016 Annual Meeting, all of our Directors were in attendance.
Neither the Director nominees nor any continuing Director has any special arrangement or understanding with any other person pursuant to which the Director nominees or continuing Director was or is to be selected as a Director or nominee. There are no family relationships, as defined by SEC rules, among any of our Directors or executive officers. SEC rules define the term "family relationship" to mean any relationship by blood, marriage or adoption, not more remote than first cousin.

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PROPOSAL 1—ELECTION OF DIRECTORS

DIRECTOR NOMINEES

Recent Business Experience:

Mr. Espeland has been Executive Vice President and Chief Financial Officer of Eastman Chemical Company (a chemical, fiber and plastic manufacturer) since January 2014. Prior to his service as Executive Vice President and Chief Financial Officer, Mr. Espeland was Senior Vice President and Chief Financial Officer from 2008 to January 2014 and Vice President, Finance and Chief Accounting Officer of Eastman Chemical from 2005 to 2008.

Qualifications:

Mr. Espeland has extensive experience in corporate finance and accounting, having served in various finance and accounting roles, and ultimately as the Chief Financial Officer, at a large publicly traded company (Eastman Chemical) for the past several years. Mr. Espeland also has significant experience in the areas of mergers and acquisitions, taxation and enterprise risk management. Mr. Espeland also served as an independent auditor at Arthur Andersen LLP having worked in both the United States and abroad (Europe and Australia). Mr. Espeland's extensive accounting and finance experience, the Board has determined, qualifies him as an "audit committee financial expert." This expertise makes Mr. Espeland an important member of the Audit Committee (where he is Chair) and the Finance Committee. In addition, Mr. Espeland's international business experience is a valued asset for our global operations.

Recent Business Experience:

Mr. Gunning is the former Vice Chairman of Cliffs Natural Resources, Inc. (an iron ore and coal mining company formerly known as Cleveland-Cliffs Inc), a position he held from 2001 until his retirement in 2007. Prior to that, Mr. Gunning served as Chairman, President and Chief Executive Officer of Capital American Financial Corp. Mr. Gunning is also a lawyer and practiced law for many years as a corporate partner with Jones Day.

Directorships:

Mr. Gunning is a member of the Board of MFS Funds (since 2004), and is the Chair of the Board of the Funds. Mr. Gunning served on the Board of Cliffs Natural Resources, Inc. (2001 to 2007), Portman Mining Ltd. (2005 to 2008), Southwest Gas Corporation (2000 to 2004) and Development Alternatives, Inc. (pre-1993 to May 2013).

Qualifications:

Mr. Gunning brings to the Board chief executive officer and senior management experience (with public companies), public company board experience and corporate legal skills. Additionally, Mr. Gunning's relatively long tenure as a Director provides the Board with a valuable perspective on Lincoln Electric's challenges within its industry.

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PROPOSAL 1—ELECTION OF DIRECTORS

DIRECTOR NOMINEES

Recent Business Experience:

Mr. Hanks spent 30 years with global engineering and construction company Morrison Knudsen Corporation and its successor Washington Group International, Inc., serving the last eight years as President, CEO and a member of its Board of Directors and retiring in January 2008.

Directorships:

Mr. Hanks is a member of the Board of McDermott International, Inc. (NYSE: MDR), a position he has held since 2009, and Babcock & Wilcox Enterprises, Inc. (NYSE: BWC), a position he has held since July 2010. Mr. Hanks is also a member of the Board of The Washington Companies, which is privately-owned.

Qualifications:

Mr. Hanks' executive leadership of a U.S. publicly-held company with international reach has provided him with extensive experience dealing with the issues that these companies confront. His diverse professional skill set, including finance (having served as CFO of Morrison Knudsen) and legal competencies (such as enterprise risk management, corporate compliance and legal strategy), make him a valuable member of the Board, the Finance Committee (where he is Chair) and the Compensation and Executive Development Committee. Mr. Hanks' experience as a Chief Executive Officer and Chief Financial Officer of a publicly-held company qualifies him as an "audit committee financial expert."

Recent Business Experience:

Mr. Hilton is President and Chief Executive Officer of Nordson Corporation (a company that engineers, manufactures and markets differentiated products and systems used for the precision dispensing of adhesives, coatings, sealants, biomaterials, polymers, plastics and other materials, fluid management, test and inspection, UV curing and plasma surface treatment), a position he has held since 2010. Prior to joining Nordson, Mr. Hilton was the Senior Vice President and General Manager for Air Products and Chemicals, Inc. (a company that provides a unique portfolio of atmospheric gases, process and specialty gases, performance materials, and equipment and services) with specific responsibility for leading its $2B global Electronics and Performance Materials segment. Air Products serves customers in industrial, energy, technology and healthcare markets globally.

Directorships:

Mr. Hilton has served on the Board of Ryder System, Inc. (NYSE: R) since 2012 and Nordson Corporation (Nasdaq: NDSN) since 2010.

Qualifications:

With over 30 years of global manufacturing experience, Mr. Hilton brings to the Lincoln Electric Board an intimate understanding of management leadership, strategy development and day-to-day operations of a multi-national company, including product line management, new product technology, talent development, manufacturing, distribution and other sales channels, business processes, international operations and global markets expertise.

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DIRECTOR NOMINEES

Recent Business Experience:

Mr. Lincoln is President of N.A.S.T. Inc. (a personal investment firm), a position he has held since 1996. Prior to joining N.A.S.T. Inc., Mr. Lincoln served as the Chairman and Chief Executive Officer of Algan, Inc.

Qualifications:

As an entrepreneurial businessman with experience, including 25 years running a $50 million business, Mr. Lincoln understands business risk and the importance of hands-on management. As the grandson of James F. Lincoln and as a long-term trustee, Mr. Lincoln provides the Board with his historic perspective on the Company's unique culture and especially its incentive management system. His leadership role and his investment experience serve Lincoln Electric well as a member of the Audit and Finance Committees of the Board.

Recent Business Experience:

Ms. Lincoln is Chair and Chief Investment Officer of the Lincoln Institute of Land Policy—a leading educational institution teaching land economics and taxation. She has held this position since 1996, and in her role as CIO currently manages and directs all aspects of the Institute's $550 million endowment. In her role as Chair, she is responsible for all Board development and governance and takes a leadership position in strategic planning. From 1999 through 2006, Ms. Lincoln previously served as President of the Lincoln Foundation, the non-profit foundation that supported the Lincoln Institute until the two entities merged in 2006.

Directorships:

Ms. Lincoln is an Advisory Board Member of the Johnson Bank, Arizona Region, a position she has held since 2006, before which she was a Board member of the Johnson Bank, Arizona, N.A., beginning in 2001.

Qualifications:

Ms. Lincoln's leadership experience with the Lincoln Institute, where she plays a crucial role in strategic planning and asset allocation, as well as her extensive experience with the Chautauqua Institution in New York, a major Arizona health care provider, and an international non-profit organization related to land use and policy, make Ms. Lincoln a valuable contributor to a well-rounded Board. Ms. Lincoln serves as a member of the Compensation and Executive Development Committee and Chairs the Nominating and Corporate Governance Committee. In addition, as a Lincoln family member and long-standing Director of Lincoln Electric, Ms. Lincoln has a keen sense of knowledge about Lincoln Electric, its culture and the founding principles.

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PROPOSAL 1—ELECTION OF DIRECTORS

DIRECTOR NOMINEES

Recent Business Experience:

Mr. MacDonald is the former Vice Chairman of National City Corporation (a diversified financial holding company), a position he held from 2001 until his retirement in 2006, where he was responsible for its seven-state regional and national corporate banking businesses, the Risk Management and Credit Administration unit, Capital Markets and the Private Client Group. Mr. MacDonald joined National City in 1968 and, during his tenure, held a number of key management positions, including Senior Executive Vice President of National City Corporation and President and Chief Executive Officer of National City's Ohio bank.

Directorships:

Mr. MacDonald was a member of the Board of American Greetings Corporation from 2007 until September 2013 when the company was privatized. In addition, Mr. MacDonald served on the Board of MTC Technologies, Inc. from 2002 to 2008 and The Lamson & Sessions Co. from 2006 to 2007 when, in each case, the boards were dismantled as a result of divestitures.

Qualifications:

Mr. MacDonald brings experience in leading a large corporate organization with over 35,000 employees and structuring complex financing solutions for large and middle-market businesses to the Board and its Compensation and Executive Development Committee (where he is Chair) and Finance Committee. In addition to his expertise in economic issues, Mr. MacDonald appreciates the human resources and development challenges facing a global, publicly-traded company.

Recent Business Experience:

Mr. Mapes is Chairman, President and Chief Executive Officer of Lincoln Electric. Mr. Mapes has served as President and Chief Executive since December 31, 2012. On December 21, 2013, Mr. Mapes was appointed as Chairman of the Board in addition to his other responsibilities. From September 2011 to December 31, 2012, Mr. Mapes served as the Chief Operating Officer of Lincoln Electric. From 2004 to August 2011, Mr. Mapes served as an Executive Vice President of A.O. Smith Corporation (a global manufacturer with a water heating and water treatment technologies business, which has residential, commercial, industrial and consumer applications) and the President of its former Electrical Products unit. Prior to joining A.O. Smith, he was the President, Motor Sales and Marketing of Regal Beloit Corporation (a manufacturer of electrical and mechanical motion control products).

Directorships:

Mr. Mapes is a member of the Board of The Timken Company (NYSE: TKR), a position held since 2014.

Qualifications:

As an experienced executive officer of Lincoln Electric as well as other large, global public companies engaged in manufacturing operations for over thirty years, Mr. Mapes understands the manufacturing industry and the challenges of global growth. He is also familiar with the welding industry generally, given his service to Lincoln Electric as Chief Executive Officer and Chief Operating Officer. In addition to his business management experience, Mr. Mapes has an MBA and a law degree.

DIRECTOR NOMINEES

Recent Business Experience:

Mr. Mason is the former President of the Europe, Middle East & Africa Sector (EMEA Sector) of Ecolab, Inc. (a leading provider of food safety, public health and infection prevention products and services), a position he held from 2010 until his retirement in 2012. Mr. Mason brings 35 years of international business experience to the Board and its Audit and Finance Committees, including starting, developing and growing businesses abroad in both mature and emerging markets. Prior to leading Ecolab's EMEA Sector, Mr. Mason had responsibility for Ecolab's Asia Pacific and Latin America businesses as President of Ecolab's International Sector from 2005 to 2010 and as Senior Vice President, Strategic Planning in 2004.

Directorships:

Mr. Mason is a member of the Board of GCP Applied Technologies (NYSE: GCP). GCP Applied Technologies was spun off from W.R. Grace & Co. as of February 3, 2016.

Qualifications:

Mr. Mason has over 35 years of international business experience with experience in establishing businesses in China, South Korea, Southeast Asia, Brazil, India, Russia, Africa and the Middle East. Mr. Mason's executive leadership of an international business sector for a U.S. publicly-held company provides him with extensive international business expertise in a business-to-business environment, including industrial sectors. Additionally, he brings a strong finance and strategic planning background, including merger and acquisition experience, along with significant experience working with and advising boards on diverse issues confronting companies with international operations.

Recent Business Experience:

Ms. Runtagh is the former President and Chief Executive Officer of the Berwind Group (a diversified pharmaceutical services, industrial manufacturing and real estate company), a position she held in 2001. From 1997 through 2001, Ms. Runtagh was Executive Vice President of Universal Studios (a media and entertainment company). Prior to joining Universal Studios, Ms. Runtagh spent 27 years at General Electric Company (a diversified industrial company) in a variety of leadership positions.

Directorships:

Ms. Runtagh has served on the Board of Harman International Industries, Inc. (NYSE: HAR) since 2008 and NeuStar, Inc. (NYSE: NSR) since 2006. In addition, Ms. Runtagh is a former member of the Board of IKON Office Solutions Inc., Avaya Inc. and Covad Communications Group.

Qualifications:

Ms. Runtagh has over 30 years of experience in management positions with global companies. Ms. Runtagh's responsibilities in management have ranged from marketing and sales to finance, as well as engineering and manufacturing. Ms. Runtagh's diverse management experience, including growing those businesses while maintaining high corporate governance standards, and her extensive experience as a director of public companies, make her well-positioned for her role as a Director, member of the Compensation and Executive Development Committee and member of the Nominating and Corporate Governance Committee.

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PROPOSAL 1—ELECTION OF DIRECTORS

DIRECTOR NOMINEES

Recent Business Experience:

General Walls is the former Chief Deputy Auditor of the State of North Carolina, a position he held from 2001 through 2004. General Walls retired from the U.S. Marine Corps in 1993 with the rank of Brigadier General, after nearly 29 years of distinguished service.

Directorships:

General Walls served on the Board of The PNC Financial Services Group, Inc. from 2006 to 2015 and Thomas Industries, Inc. from 2003 to 2005 when the board was dismantled as a result of a divestiture.

Qualifications:

General Walls brings to the Board substantial financial acumen and experience supervising the audits of various government entities, including the Office of the Governor of North Carolina, all state agencies of North Carolina, all Clerks of Superior Court for North Carolina and all not-for-profit agencies that received state or federal funds during his tenure as Chief Deputy Auditor of the State of North Carolina, which serves him well as a member of the Audit Committee of the Board. General Walls also has significant experience in the leadership, management and ethics of large, complex organizations, aiding him in his services on the Nominating and Corporate Governance Committee of the Board. General Walls is also a National Association of Corporate Directors (NACD) Board Leadership Fellow. In addition, General Walls understands the welding industry and at one point in time had oversight responsibility for the Marine Corps welding school and development program.

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CORPORATE GOVERNANCE

Governance Framework

At Lincoln Electric, we are committed to effective corporate governance and high ethical standards. We adhere to our ethical commitments in every aspect of our business, including our commitments to each other, in the marketplace and in the global, governmental and political arenas. These commitments are spelled out in our Code of Corporate Conduct and Ethics, which applies to all of our employees (including our principal executive and senior financial officers) and Board of Directors.

We encourage you to visit our website where you can find detailed information about our corporate governance programs/policies including:

- Code of Corporate Conduct and Ethics
- Guidelines on Significant Corporate Governance Issues
- Charters for our Board Committees
- Director Independence Standards

Corporate Governance Highlights

Board of Directors

- Our Board held five meetings in 2016.
- During 2016, each of our Directors attended at least 75% of the total full Board meetings and meetings of committees on which he or she served during the time he or she served as a Director.
- Size of Board—11
- Plurality vote with director resignation policy for failures to receive a majority vote in uncontested director elections
- Combined Chairman and CEO
- Lead Independent Director
- All directors are expected to attend the Annual Meeting

Board Composition

- Number of independent directors—10
- Diverse Board including different backgrounds, experiences and expertise, as well as balanced mix of ages and tenure of service
- Several current and former CEOs
- Audit Committee has multiple financial experts

Board Alignment with Shareholders

- Annual equity grants align interests of directors and officers with shareholders
- Annual advisory approval of executive compensation
- No poison pill
- Stock ownership requirements for officers and directors

Compensation

- No employment agreements
- Executive compensation is tied to performance— 83% of CEO target pay and 76% of all NEO target pay is performance-based (at risk)
- Anti-hedging and anti-pledging policies for directors and officers
- Recoupment/claw-back policy

Integrity and Compliance

- Code of Conduct for employees, officers and directors
- Environmental, health and safety guidelines & goals, including long-term sustainability goals

- Annual training on ethical behavior

Board Processes

- Independent directors meet without management present
- Annual Board and Committee self-assessments
- Board orientation/evaluation program
- Governance Guidelines approved by Board
- Board plays active role in risk oversight
- Full Board review of succession planning

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PROPOSAL 1—ELECTION OF DIRECTORS

Our Board of Directors

Our Board oversees management in the long-term interest of Lincoln Electric and our shareholders. The Board's major responsibilities include:

- Overseeing the conduct of our business
- Reviewing and approving key financial objectives, strategic and operating plans and other significant actions
- Evaluating CEO and senior management performance and determining executive compensation
- Planning for CEO succession and monitoring management's succession planning for other key executives
- Establishing an appropriate governance structure, including appropriate board composition and succession planning

How We Select Director Nominees

In evaluating Director candidates, including persons nominated by shareholders, the Nominating and Corporate Governance Committee expects that any candidate must have these minimum qualifications:

- Demonstrated character, integrity and judgment
- High-level managerial experience or experience dealing with complex problems
- Ability to work effectively with others
- Sufficient time to devote to the affairs of Lincoln Electric and these specific qualifications
- Specialized experience and background that will add to the depth and breadth of the Board
- Independence as defined by the Nasdaq listing standards
- Financial literacy

In evaluating candidates to recommend to the Board, including continuing director candidates, the Committee also considers whether the candidate enhances the diversity of the Board. Such diversity includes professional background and capabilities, knowledge of specific industries and geographic experience, as well as race, gender and national origin.

Lincoln Electric is also committed to having director candidates that can provide perspective on the industry challenges that Lincoln Electric faces and Lincoln Electric's long-term commitment to a pay for performance culture.

The Committee's process for identifying and evaluating nominees for Director includes annually preparing and discussing prospective Director specifications, which serve as the baseline to evaluate candidates. From time to time, we have retained an outside firm to help identify candidates.

Shareholders may nominate one or more persons for election as Director of Lincoln Electric. The process for doing so is set forth in the FAQ section of this proxy statement.

Director Independence

Each of our non-employee Directors meets the independence standards set forth in the Nasdaq listing standards, which are reflected in our Director Independence Standards. To be considered independent, the Board must affirmatively determine that the director has no material relationship with Lincoln Electric.

During 2016, the independent Directors met in regularly scheduled Executive Sessions in conjunction with each of the Board meetings. The Lead Director presided over these sessions.

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Board Leadership

Our Chairman, President and Chief Executive Officer is responsible for planning, formulating and coordinating the development and execution of our corporate strategy, policies, goals and objectives. He is accountable for Lincoln Electric's performance and:

- reports directly to our Board;
- works closely with our management to develop our strategic plan;
- works with our management on transactional matters by networking with strategic relationships;
- promotes and monitors the Board's fulfillment of its oversight and governance responsibilities;
- encourages the Board to set and implement our goals and strategies;
- establishes procedures to govern our Board's work;
- oversees the execution of the financial and other decisions of our Board;
- makes available to all members of our Board opportunities to acquire sufficient knowledge and understanding of our business to enable them to make informed judgments;
- presides over meetings of our shareholders; and
- sets the agenda for, and presides over, Board meetings

Mr. Mapes, our President and Chief Executive Officer, serves as Chairman in addition to his other responsibilities. Our Board believes having one individual serve as Chairman and Chief Executive Officer is beneficial to us because the dual role enhances Mr. Mapes' ability to provide direction and insight on strategic initiatives impacting us and our shareholders. The Board also believes the dual role is consistent with good corporate governance practices because it is complemented by a Lead Director.

Lead Director

Our Lead Director is appointed each year by the independent Directors. The Lead Director serves as a liaison between the Chairman of the Board and the independent Directors, presides as Chairman of the Board for all meetings at which the Chairman is not present and presides over executive sessions attended only by independent Directors. The Lead Director consults with the Chairman on the format and adequacy of information the Directors receive and the effectiveness of the Board meeting process and has independent authority to review and approve Board meeting agendas and schedules, as well as the authority to request from our officers any company information deemed desirable by the independent Directors. The Lead Director may call meetings of the independent Directors should he or she see fit—during 2016, the independent Directors met in conjunction with each of the board meetings. The Lead Director may also speak on behalf of Lincoln Electric, from time to time, as the Board may decide.

David H. Gunning currently serves as our Lead Director, a position he has held since 2013.

Board Role in Risk Oversight & Assessment

In the ordinary course of business, we face various strategic, operating, compliance and financial risks. Our risk management processes seek to identify and address significant risks. Our Board oversees this enterprise-wide approach, and the Lead Director promotes our Board's engagement in enterprise risk management. Additionally, the Audit Committee reviews major financial risk exposure and the steps management has taken to monitor and control risk. Our Board has integrated its enterprise risk management process with its strategic planning process, refining the distinction between strategic risks and operational risks. Our Board reviews both regularly.

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PROPOSAL 1—ELECTION OF DIRECTORS

Compensation-Related Risk

We regularly assess risks related to our compensation and benefit programs, including our executive programs, and our Compensation and Executive Development Committee is actively involved in those assessments. In addition, Willis Towers Watson, a compensation consultant engaged by management, has provided a risk assessment of our executive programs in the past. Although we have a long history of pay for performance and incentive-based compensation, we believe our compensation programs contain many mitigating factors to ensure that our employees are not encouraged to take unnecessary risks.

As a result of all these efforts, we do not believe the risks arising from our executive compensation policies and practices are reasonably likely to have a material adverse effect on Lincoln Electric.

RELATED PARTY TRANSACTIONS

Any related party transactions concerning Lincoln Electric and any of its directors, officers or other employees (or any of their immediate family members) are to be disclosed to and approved by the Chief Compliance Officer and the Audit Committee of the Board. We define “related party transactions” generally as transactions in which the self-interest of the employee, officer or Director may be at odds or conflict with the interests of Lincoln Electric, such as doing business with entities that are or may be controlled or significantly influenced by such persons or their immediate family members. Our related party transaction policies can be found in our Code of Corporate Conduct and Ethics, as well as the Audit Committee Charter, both of which are available on our website at www.lincolnelectric.com.

In February 2017, the Audit Committee considered and approved a related party transaction involving P&R Specialty, Inc., a supplier to Lincoln Electric. Greg D. Blankenship, the brother of George D. Blankenship, is the sole stockholder and President of P&R Specialty, Inc. During 2016, we purchased approximately $2.0 million worth of products from P&R Specialty in ordinary course of business transactions. George D. Blankenship has no ownership interest in or any involvement with P&R Specialty. We believe that the transactions with P&R Specialty were, and are, on terms no less favorable to us than those that could have been obtained from unaffiliated parties.

OUR BOARD COMMITTEES

We have separately designated standing Audit, Compensation and Executive Development and Nominating and Corporate Governance Committees established in accordance with applicable provisions of the Securities Exchange Act of 1934 and Securities and Exchange Commission and Nasdaq rules. The Board also has designated a standing Finance Committee. The number of meetings held by each committee during 2016 is set forth below.

	Audit	Compensation & Executive Development	Nominating & Corporate Governance	Finance
Number of Committee Meetings	6	6	4	5

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The following summaries set forth the principal responsibilities of each of the Board's separately designated standing committees, as well as other information regarding their makeup and operations. A copy of each committee's charter may be found on our website at www.lincolnelectric.com.

Audit Committee

Members

Messrs. Espeland (Chair),
Hilton, Lincoln, Mason and Walls

- Appoints and determines whether to retain or terminate the independent auditors
- Approves all audit engagement fees, terms and services
- Approves any non-audit engagements
- Reviews and discusses the independent auditors' quality control
- Reviews and discusses the independence of the auditors, the audit plan, the conduct of the audit and the results of the audit
- Reviews and discusses with management Lincoln Electric's financial statements and disclosures, its interim financial reports and its earnings press releases
- Reviews with Lincoln Electric's General Counsel legal matters that might have a significant impact on our financial statements
- Oversees compliance with our Code of Corporate Conduct and Ethics, including annual reports from compliance officers
- Reviews with management the appointment, replacement, reassignment or dismissal of the Senior Vice President, Internal Audit, the internal audit charter, internal audit plans and reports
- Reviews with management the adequacy of internal control over financial reporting

Each of the members of our Audit Committee meets the independence standards set forth in the Nasdaq listing standards and have likewise been determined by the Board to have the financial competency required by the listing standards. In addition, because of the professional training and past employment experience of Messrs. Espeland and Hilton, the Board has determined that they are financially sophisticated Audit Committee Members under the Nasdaq listing standards and qualify as "audit committee financial experts" in accordance with Securities and Exchange Commission rules. Shareholders should understand that the designation of Messrs. Espeland and Hilton as "audit committee financial experts" is a disclosure requirement and that it does not impose upon them any duties, obligations or liabilities that are greater than those generally imposed on them as members of the Audit Committee and the Board.

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PROPOSAL 1—ELECTION OF DIRECTORS

Compensation and Executive Development Committee

Members

Messrs. MacDonald, III (Chair),
Gunning, Hanks, Ms. Lincoln and Ms. Runtagh

- Reviews and establishes total compensation of our Chief Executive Officer and other executive officers

- Annually assesses the performance of our Chief Executive Officer and other executive officers

- Monitors our key management resources, structure, succession planning, development and selection processes and the performance of key executives

- Reviews and recommends to the Board, in conjunction with the Nominating and Corporate Governance Committee, the appointment and removal of our elected officers

- Has oversight for our employee stock and incentive plans and reviews and makes recommendations to the Board concerning all employee benefit plans

- Reviews and recommends to the Board new or amended executive compensation plans

Each of the members of our Compensation and Executive Development Committee meets the independence standards set forth in the Nasdaq listing standards and each of whom is deemed to be (1) an outside Director within the meaning of Section 162(m) of the U.S. Internal Revenue Code ("Section 162(m)"), and (2) a “non-employee director” within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934. As part of the independence evaluation, the Board must consider all factors relevant to whether the Director has a relationship to the Company that is material to his or her ability to be independent, including the Director’s source of compensation and whether the Director is affiliated with the Company. None of the members of the Committee were determined to have an affiliation or source of income that was material to his or her ability to be independent.

The Committee does not generally delegate any of its authority to other persons, although it has the power to delegate authority. Two exceptions to the foregoing are that the authority to delegate is not permitted with respect to awards under our equity compensation plans to any executive officers or any person subject to Section 162(m) and the authority to delegate is limited by Section 162(m) under our 2007 Management Incentive Compensation Plan, a plan that relates to awards subject to Section 162(m).

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Nominating and Corporate Governance Committee

Members

Ms. Lincoln (Chair),

Messrs. Hilton, Walls, Gunning and Ms. Runtagh

- Reviews external developments in corporate governance matters and develops and recommends to the Board corporate governance principles for Lincoln Electric
- Identifies and evaluates Board member candidates and is responsible for director succession planning
- Reviews director compensation, benefits and expense reimbursement programs
- Reviews periodically the quality, sufficiency and currency of governance information furnished to the Board by management
- Reviews and advises on shareholder proposals and engagement
- Leads our Board and Committees in annual reviews of their performance

Each of the members of our Nominating and Corporate Governance Committee meet the independence standards set forth in the Nasdaq listing standards.

Finance Committee

Members

Messrs. Hanks (Chair),

Espeland, Lincoln, MacDonald, III and Mason

- Reviews financial performance, including comparing our financial performance to budgets and goals
- Reviews capital structure issues, including dividend and share repurchasing policies
- Reviews our financial operations
- Reviews our capital expenditures
- Oversees strategic planning and financial policy matters, including merger and acquisition activity
- Reviews pension plan funding and plan investment management performance

Each of the members of our Finance Committee meet the independence standards set forth in the Nasdaq listing standards. All of our Directors typically attend the Finance Committee meetings, a practice that has been in place for the past several years.

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PROPOSAL 1—ELECTION OF DIRECTORS

DIRECTOR COMPENSATION //

OUR BOARD COMPENSATION PROGRAM

Based upon the recommendations of the Nominating and Corporate Governance Committee, the Board determines our non-employee Director compensation. The Committee periodically reviews the status of Board compensation in relation to other comparable companies, trends in Board compensation and other factors it deems appropriate. The objectives of our non-employee Director compensation programs are to attract highly qualified and diverse individuals to serve on our Board and to align their interests with those of our shareholders. An employee of Lincoln Electric who also serves as a Director does not receive any additional compensation for serving as a Director, or as a member or chair of a Board committee.

All non-employee Directors receive cash retainers and an annual stock-based award for serving on our Board. Stock-based compensation is provided under our 2015 Stock Plan for Non-Employee Directors. Below is a summary of our director compensation program:

	Board Level	Lead Director	Committee Chairs
Retainer	$80,000	Additional $25,000	Additional $16,000 for Audit $13,000 for Compensation and Executive Development $10,000 for Finance and Nominating and Corporate Governance
Meeting Fees [1]	—	—	—
Annual Restricted Stock Award "approx. value" [2]	$107,000	—	—
Initial Restricted Stock Award "approx. value" [3]	$107,000	—	—

(1) We do not have separate meeting fees, except if there are more than 8 full Board or Committee meetings in any given year, Directors will receive $1,500 for each full Board meeting in excess of 8 meetings and Committee members will receive $1,000 for each Committee meeting in excess of 8 meetings.

(2) The restricted stock agreements contain pro-rata vesting of the award upon retirement. Accordingly, if a Director retires before the restricted stock award vests in full (3 years from the date of the grant), the Director will receive unrestricted shares equal to a portion of the original award calculated based on the Director’s length of service during the 3-year term.

(3) The initial award will be pro-rated based on the Director’s length of service during the twelve-month period preceding the next regularly scheduled annual equity grant (which normally occurs in the fourth quarter of each year).

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Director Compensation Table

Director	Fees Earned or Paid in Cash	Stock Awards [1]	All Other Compensation	Total
Curtis E. Espeland	$ 96,000 [2]	$106,992	—	$202,992
David H. Gunning	105,000	106,992	—	211,992
Stephen G. Hanks	90,000	106,992	—	196,992
Michael Hilton	80,000	106,992	—	186,992
G. Russell Lincoln	80,000	106,992	—	186,992
Kathryn Jo Lincoln	90,000	106,992	—	196,992
William E. MacDonald, III	93,000	106,992	—	199,992
Phillip J. Mason	80,000	106,992	—	186,992
Hellene S. Runtagh	80,000	106,992	—	186,992
George H. Walls, Jr.	80,000 [2]	106,992	—	186,992

(1) On December 12, 2016, 1,347 shares of restricted stock were granted to each non-employee Director under our 2015 Stock Plan for Non-Employee Directors. The Stock Awards column represents the grant date fair value under Accounting Standards Codification (ASC) Topic No. 718 based on a closing price of $79.43 per share on December 12, 2016. Assumptions used in the calculation of these amounts are included in footnote (9) to our audited financial statements for the fiscal year ended December 31, 2016 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2017. As of December 31, 2016, the aggregate number of shares of restricted stock held by each non-employee Director was 4,693 shares, except for Mr. Hilton, who joined our Board during 2015, who holds 3,922 shares.

(2) All of Messrs. Espeland's and Walls' board fees were deferred under our Non-Employee Director's Deferred Compensation Plan.

Other Arrangements

We reimburse Directors for reasonable out-of-pocket expenses incurred in connection with attendance at Board meetings, or when traveling in connection with the performance of their services for Lincoln Electric.

Continuing Education

Directors are reimbursed ($5,000 is used as a guideline) for continuing education expenses (inclusive of travel expenses) for programs each Director may elect.

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PROPOSAL 1—ELECTION OF DIRECTORS

Stock Ownership Guidelines

In keeping with the philosophy that Directors' interests should be aligned with the shareholders' and as part of the Board's continued focus on corporate governance, all of our non-employee Directors must adhere to our stock ownership guidelines. Restricted stock awards count toward the stock ownership guidelines; common shares underlying stock options and shares held in another person's name (including a relative) do not. The stock ownership guidelines can be met by satisfying one of the two thresholds noted in the chart below. As of December 31, 2016, all of our non-employee Directors had satisfied the stock ownership guidelines, except for Mr. Hilton who joined the Board in July 2015. Mr. Hilton has five years from the date of his election to the board to satisfy the stock ownership guidelines. The Nominating and Corporate Governance Committee reviews the guidelines at least every two and a half years to ensure that the components and values are appropriate—a review was conducted during 2016, with the assistance of Korn Ferry as an independent advisor, and it was determined that no changes were necessary other than the share floor amount being reset to a December 2016 level. The next review is anticipated for 2019.

Retainer Multiple		Number of Shares
Shares valued at 4 x annual retainer ($320,000)	OR	4,173*

*Represents shares equal to $320,000 based on the closing price of LECO stock as of December 30, 2016 (the last trading day of the calendar year) of $76.67.

Equity Awards

The 2015 Stock Plan for Non-Employee Directors is the vehicle for the annual and initial grants of stock-based awards.

Under the terms of the awards, shares of restricted stock vest in full three years after the date of grant with accelerated vesting upon a change in control of Lincoln Electric or upon the death or disability of the Director, as well as accelerated vesting of a pro-rata portion of the award upon retirement based on the Director's length of service during the 3-year term. During the period in which the shares remain forfeitable, dividends are paid to the Directors in cash.

Deferred Compensation Plan

Adopted in 1995, this plan allows the non-employee Directors to defer payment of all or a portion of their annual cash compensation. This plan allows each participating non-employee Director to elect to begin payment of the deferred amounts as of the earlier of termination of services as a Director, death or a date not less than one full calendar year after the year the fees are initially deferred.

The investment elections available under the plan are the same as those available to executives under our Top Hat Plan, which is discussed below in the narrative of the Nonqualified Deferred Compensation Table.

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EXECUTIVE COMPENSATION

Our "2020 Vision and Strategy" is focused on key actions and initiatives that generate long-term profitable growth within our targeted markets through value-added solutions and operational excellence. We have established targets in our programs to achieve a long-term 10% compounded annual growth rate (CAGR) in sales, a 15% average Adjusted Operating Income Margin and Return on Invested Capital (ROIC) through an economic cycle, as well as a 15% Average Operating Working Capital to Net Sales (AOWC/Sales) ratio by 2020. We believe this framework engages our business team in creating a value proposition for shareholders that generates above-market returns through an economic cycle while maintaining a short-term focus on improving profitability and driving operating excellence. Our executive compensation designs are structured to align our incentives with this "2020 Vision and Strategy." More information on our business and "2020 Vision and Strategy" can be found in the "Business Overview" section at the beginning of this proxy statement.

The Compensation Discussion and Analysis (CD&A) describes our executive compensation programs and how they apply to our named executive officers (NEOs).

2016 Named Executive Officers (NEOs)

Name	Title
Christopher L. Mapes	Chairman, President and Chief Executive Officer
Vincent K. Petrella	Executive Vice President, Chief Financial Officer and Treasurer
George D. Blankenship	Executive Vice President, President, Americas Welding
Frederick G. Stueber	Executive Vice President, General Counsel and Secretary
Mathias Hallmann	Senior Vice President, President, International Welding

The CD&A contains statements regarding future performance targets and goals. These targets and goals are disclosed in the context of our compensation programs and should not be understood to be statements of management's expectations or estimates of results or other guidance. We caution investors not to apply these statements in other contexts.

Executive Compensation Table of Contents

Compensation Discussion & Analysis		Executive Compensation Tables	
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Our Compensation Philosophy	p. 36	Summary Compensation Table	p. 54
Elements of Executive Compensation	p. 41	2016 Grants of Plan-Based Awards	p. 56
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		Termination and Change in Control Arrangements	p. 65

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EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION //

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Our approach to executive compensation is generally the same as our approach to employee-wide compensation, with a strong belief in pay for performance and a long-standing commitment to incentive-based compensation.
While maintaining our performance-driven culture, our executive compensation program is designed to achieve the following objectives:

- Incentivize our executives to deliver above-market financial results;
- Align management interests with the long-term interests of our shareholders;
- Define performance drivers which support key financial and strategic business objectives;
- Address specific business challenges; and
- Maintain good governance practices in the design and operation of our executive compensation programs, including consideration of the risks associated with those practices.

OVERVIEW

- We maintain a performance-driven culture, with pay for performance compensation programs
- 83% of CEO target pay was “at risk” and, on average, 76% of all NEO target pay was “at risk”
- 93% of the shareholders who voted on “say-on-pay” at last year’s Annual Meeting approved the compensation of our NEOs
- Mindful of our shareholders' strong support, we have retained our general approach and emphasis on incentive compensation

Key Financial Performance

We have a strong track record of delivering increased value to our shareholders and we have typically delivered above-market performance across various financial metrics over many economic cycles. Our long-term “2020 Vision and Strategy” seeks to achieve profitable sales growth both organically and through acquisitions by emphasizing value-added solutions and differentiated technologies to our mix. We anticipate this strategy will yield improved profit margins and returns, and will generate best-in-class financial performance measured against our peer group.
In 2016, sales declined approximately 10% to $2.3 billion on challenged industrial end markets, notably in the oil and gas and heavy fabrication sectors. Despite these headwinds, our strategic emphasis on improved mix, cost management and operational excellence resulted in solid margin, cash flow and return performance and record-level working capital efficiency. Highlights include:

- Reported operating income margin was 12.7%, primarily reflecting the loss on the deconsolidation of our Venezuelan subsidiary (primarily a non-cash charge). Adjusted operating income margin was 14.2%, a modest 50 basis point decline versus prior year;
- Cash flow from operations was $303 million, representing 113% free cash flow conversion of adjusted net income;
- Record Average operating working capital to net sales ratio at 15.6%;
- ROIC of 16.6%; and
- Cash returned to shareholders of $429 million - through a 10% increase in the dividend payout rate and $342 million in share repurchases.

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2016 diluted earnings per common share (EPS) was $2.91, which included the unfavorable impact of $0.38 per diluted share related to a loss on the deconsolidation of our Venezuelan subsidiary, partially offset by a discrete income tax item. On an adjusted basis, 2016 EPS was $3.29, as compared with $3.48 in 2015, primarily due to lower volumes. We continued to pursue our "2020 Vision and Strategy" through the development of innovative solutions and acquisitions. In 2016, we continued to invest approximately 2% of revenue in R&D and launched over 85 new products worldwide. Our investments in innovation maintained a sales vitality index from new products launched in the last five years of 34%, and we achieved a 39% vitality index in equipment systems. Additionally, acquisitions contributed 2.1% to sales performance.

Financial Measures Used For Compensation Purposes

We consider various types of widely reported financial metrics, each of which is related to our executive compensation programs in some way. Some of these financial metrics directly impact our executive compensation programs, while others are the closest approximation to the metrics that we use in our programs. We believe that all of these financial metrics are critical to the short- and long-term growth and performance of our organization.

Short-term financial metrics used to evaluate operational performance and used in our annual bonus design are:

- Adjusted earnings before interest, taxes and bonus (EBITB), and
- Average operating working capital to net sales ratio (AOWC/Sales) for compensation purposes

The following charts illustrate our performance in these comparable metrics.

[1] Excluding special items where applicable. Definitions and a reconciliation of non-GAAP results to our most closely comparable GAAP results are included in Appendix A.

[2] See Appendix A for definitions of AOWC/Sales for Compensation Purposes.

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EXECUTIVE COMPENSATION

Financial metrics considered in long-term compensation programs include:

- Adjusted net income for compensation purposes growth (over a three-year cycle),
- Three-year average ROIC for compensation purposes indexed to peer performance, and
- Share price appreciation, including dividends, (TSR) versus various indices over a three-year period.

The following tables illustrate Lincoln Electric's Adjusted Net Income for Compensation Purposes, ROIC for Compensation Purposes and TSR performance. ROIC for Compensation Purposes and TSR results are compared to our peer group, S&P 400 Midcap Index (in which we participate), S&P 400 Midcap Manufacturing Index and the S&P 500 Index. The ROIC for Compensation Purposes and TSR percentile rankings show the position of Lincoln Electric's financial results compared to the particular group, with a 50th percentile ranking indicating median (or market) performance. Percentiles below 50 indicate below-market performance, while percentiles above 50 indicate above-market performance. Information is based on the most recently available public information (as accumulated by an independent third party), as of January 2017 when the analysis was performed.

3 Year (2014–2016) Average ROIC[2] Performance
Percentile Rank to Peers and Select Indices

Peers	S&P Midcap 400	S&P Midcap 400 Mfg
81st	89th	88th

[1] Excludes certain items as approved by the Committee where applicable. See discussion and definitions on page 46 in the "Long-Term Incentive Plan (LTIP)" section in Performance Measures and in Appendix A.

[2] As of September 30, 2016.

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3- and 5-Year Total Shareholder Return

The following charts compare the change in the cumulative total shareholder return on our common stock against the cumulative total shareholder return of the S&P Composite 500 Stock Index (S&P 500) and the S&P 400 Midcap Index (S&P 400) for the three-year and five-year periods ending December 31, 2016. The charts assume that $100 was invested at the beginning of each period in each of Lincoln Electric common stock, the S&P 500 and the S&P 400.

Pay for Performance, Objectives and Process

In designing our executive compensation programs, a core philosophy is that our executives should be rewarded when they deliver financial results that provide value to our shareholders. Therefore, we have established a program that ties executive compensation to superior financial performance.

To assess pay for performance, we evaluate the relationship between "total direct realizable pay" for the NEOs and our financial performance. "Total direct realizable pay" is calculated based on the actual value of targeted compensation realized by the executive, as further described below. This allows us to understand the degree of alignment between total compensation delivered for the prior three fiscal years and our financial performance, both relative to peers. Because we believe that trend information is an important component of our analysis, we have relied both on current and historical comparisons to assess pay for performance for 2016. This analysis is performed by management's compensation consultant, Willis Towers Watson, which is reviewed by the Compensation and Executive Development Committee (the "Committee") and by its independent consultant, Korn Ferry.

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“Financial performance” is a composite of reported adjusted EBIT growth, net income growth, ROIC and TSR (the “composite”), where each metric is equally weighted. “Total direct realizable pay” is the sum of the following components (using comparable components from the peer group):

- Base pay for the applicable three-year period;
- Actual annual bonus paid during the three-year period;
- The value of any in-the-money stock options granted over the relevant three-year period (for Lincoln Electric, this is based on the closing price of Lincoln Electric common stock as of the prior fiscal year-end);
- The value of restricted stock units (“RSUs”) granted over the three-year period (for Lincoln Electric, this is based on the closing price of Lincoln Electric common stock as of the prior fiscal year-end); and
- The value of long-term performance units/shares over the relevant three-year period (for Lincoln Electric, for the cycles shown below, this includes payments under our cash long-term incentive program ("Cash LTIP") during the three-year cycle and pro-rata amounts, at target, for awards that are mid-cycle).

As the charts below demonstrate, our financial performance results were slightly below peer group results between the 2013 to 2015 compensation cycle, the most recent period available, with our overall composite financial performance at the 41st percentile and our TSR at the 40th percentile. For the same period, total direct realizable compensation was at the 47th percentile for the NEOs. Pay and performance were below the market median of the peer group but in alignment. In the prior two compensation cycles, pay and performance were misaligned as relative pay was lower than composite financial and TSR performance. Information for the charts below is based on the most recent available data as of July 2016 when the analysis was performed.

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2016 Executive Compensation Actions

During 2016, the Committee reviewed the design of executive compensation programs, and, in consultation with its independent adviser, instituted certain actions to better align executive compensation to value drivers in line with our financial performance and shareholder interests. Key actions approved by the Committee include:

•Replaced the cash portion of long-term incentives with performance shares, beginning with 2016 grants associated with the 2016 to 2018 performance cycle.

•Froze benefits under the Retirement Annuity Program (RAP) as of December 31, 2016.

•Froze and vested benefits under the Supplemental Executive Retirement Program (SERP) as of November 30, 2016.

•Created a Restoration Plan effective January 1, 2017 to allow all NEOs, except for Mr. Hallmann, who are subject to IRS limitations on covered compensation in the 401(k) plan to participate in a standard retirement plan design.

•Adjusted the 2016 peer group to exclude companies with sales greater than 2.5 times that of the Company, with the exception of Illinois Tool Works (ITW), as ITW is a global competitor of Lincoln Electric, with its largest presence in the U.S.

In addition, the Committee took actions to respond to challenging business conditions, including:

•Supported a 5% temporary reduction in 2016 base salary for all officers and other key management, including the NEOs, in support of Lincoln Electric's cost-cutting measures (reinstated December 1, 2016).

• Held NEO base salaries flat for 2016 in light of continued cost-cutting measures.

Good Governance Practices

In addition to our emphasis on above-market financial performance and pay for performance, we design our executive compensation programs to be current with best practices and good corporate governance. We also consider the risks associated with any particular program, design or compensation decision. We believe these assessments result in sustained, long-term shareholder value. Some of those governance practices are described in the Compensation-Related Risk portion of the Corporate Governance section above. Other such practices include:

What We Do		What We Don't Do	
Pay for Performance Focus We heavily weight our compensation programs toward variable, "at risk", compensation in addition to performing annual reviews of market competitiveness and the relationship of compensation to financial performance.	ü	No Guaranteed Pay We do not provide multi-year guarantees for compensation increases, including base pay, and no guaranteed bonuses.	û
Balanced Compensation We structure compensation opportunities that are linked to both short- and long-term periods of time, while aligning compensation with several financial performance metrics that are critical to achievement of sustained growth and shareholder value creation.	ü	No Repricing or Replacement of Underwater Stock Options We do not reprice or replace underwater stock options without prior shareholder approval.	û
Double Trigger Provisions for Change in Control We have change in control arrangements that do not provide for tax gross-ups, do not provide for additional retirement service in the SERP, are limited to three times base pay and bonus (for the Chairman, President and CEO, but only two or	ü	No Payment of Dividends on Unvested Equity We do not pay dividend or dividend equivalents while	û

one times base pay and bonus for other executives) and mainly provide for payments only upon a double (not single) trigger.

executive RSUs are unvested.

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EXECUTIVE COMPENSATION

What We Do		What We Don't Do	
Stock Ownership Policy We maintain stock ownership requirements for our officers and directors, with a mid-cycle review to ensure they remain appropriate.	ü	No Excessive Perks We do not pay excessive perks; our perks are modest, consisting of financial planning (for which imputed income is charged), an annual physical examination and reimbursement of club dues (for which, if not used exclusively for business purposes, imputed income is charged).	û
Clawback Policy We maintain a broad clawback policy that applies to all recent incentive awards for officers.	ü	No Excise Tax Gross-Ups or Tax Reimbursements We do not provide tax gross-up payments or tax reimbursements on compensation and benefits, other than tax equalization benefits that are available to all employees who are on international assignment and modest gross-up payments on employee relocation benefits (and which are a standard component of a U.S. company's relocation benefits).	û
Independent Compensation Committee and Consultants We utilize independent directors with significant experience and knowledge of the drivers of our long-term performance, coupled with independent compensation consultants and legal advisors, retained directly by the Committee, to provide input and recommendations on our executive compensation programs.	ü	No Hedging or Pledging We do not permit hedging activities, such as cashless collars, forward sales, equity swaps and other similar arrangements. In addition, our insider trading policy prohibits the pledging of Lincoln Electric stock on a going-forward basis.	û

Our Compensation Philosophy

Core Principles

Our executive compensation programs consist of four main components: (1) base pay, (2) annual bonus (EMIP), (3) long-term incentives and (4) benefits/perquisites, all of which are discussed in more detail below. Base pay is targeted at the 45th percentile of the competitive market (below market), while target total cash compensation (which includes an annual bonus that incorporates financial targets) is set at the 65th percentile of the market (above market). Long-term incentive compensation is set at the 50th percentile (at market), and is divided equally among three programs: (1) stock options, (2) restricted stock units (RSUs), and (3) a Performance Share LTIP. Although not targeted to a specific competitive level, we believe our benefits, taken as a whole, are at the market median and our executive perquisites are below the market median.

We place the greatest emphasis on programs that reward financial and individual performance while striking a balance between different programs that reward both short-term and long-term financial performance. We believe that this structure is the most effective way to attract, motivate and retain exceptional employees. We use a variety of financial metrics in the operation of our programs (namely Earnings before Interest, Taxes and Bonus (EBITB), Adjusted Net Income for Compensation Purposes growth, Average Operating Working Capital to Sales (AOWC/Sales) for Compensation Purposes, Return on Invested Capital (ROIC) for Compensation Purposes and share price appreciation) and we use a mixture of consolidated and business-specific financial goals, with no one factor receiving an excessive

weighting.*

*Please refer to Appendix A for definitions of certain financial metrics.

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We use base pay and benefits to deliver a level of fixed compensation since our compensation programs are heavily weighted toward variable compensation. Therefore, fixed components, such as base pay, are generally set at or below the competitive market for each position, while incentive-based compensation, such as annual bonuses, are set at or above the competitive market and require above market financial performance. However, because annual bonuses (EMIP) reward short-term operating performance and are paid in cash, our long-term incentive compensation programs are weighted more heavily toward rewards for share price appreciation and long-term profitability. To further align our realizable compensation with share price appreciation or depreciation, beginning in 2016, the cash portion of the long-term incentive plan has been replaced with performance shares (PSUs). Individual performance also plays a key role in determining the amount of compensation delivered to an individual in many of our programs, with our philosophy being that the best performers should receive the greatest rewards. In addition, for 2016, as the charts below demonstrate, 83% of the CEO's compensation mix was "at risk" and 76% of the NEOs compensation mix was "at risk."

The following is a summary of our 2016 executive compensation and how each component fits within our core principles:

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EXECUTIVE COMPENSATION

The Roles of the Committee, External Advisors and Management

The Committee, which consists solely of non-employee Directors, has primary responsibility for reviewing, establishing and monitoring all elements of our executive compensation programs. The Committee is advised by independent executive compensation consultants, Korn Ferry, and independent legal counsel. Management provides recommendations and analysis to the Committee, and is supported in those efforts by its own executive compensation consultant.

Role of the Committee

Compensation-Related Tasks	Organizational Tasks
Reviews, approves and administers all of our executive compensation plans, including our equity plans	Evaluates the performance of the CEO, with input from all non-employee directors
Establishes performance objectives under our short- and long-term incentive compensation plans	Reviews the performance capabilities of the other executive officers based on input from the CEO
Determines the attainment of those performance objectives and the awards to be made to our executive officers under our short- and long-term incentive compensation plans	Reviews succession planning for officer positions, including the position of the CEO
Determines the compensation for our executive officers, including salary and short- and long-term incentive opportunities	Reviews proposed organization or responsibility changes at the officer level
Reviews compensation practices relating to key employees to confirm that these practices remain equitable and competitive	Reviews our practices for the recruitment and development of a diverse talent pool
Reviews new employee benefit plans or significant changes in such plans or changes with a disproportionate effect on our officers or primarily benefiting key employees	

Role of External Advisors

The Committee receives assistance and advice from its independent executive compensation consultants at Korn Ferry, which has been retained by the Committee for several years. Korn Ferry advises on matters including competitive compensation analysis, executive compensation trends and plan design, peer group company configuration, competitive financial performance and financial target setting. The Committee, however, is not bound by the input, advice or recommendations of its consultant. While some of the analysis and data collection may be prepared initially by management (or its consultant), all work is reviewed by Korn Ferry, who discusses their findings directly with the Committee.

Korn Ferry reports directly to the Chairperson of the Committee and meets with the Committee in executive session without the participation of management. Considering all relevant factors, as required by the compensation consultant independence standards set forth in applicable SEC rules and Nasdaq listing standards, we are not aware of any conflict of interest that has been raised by the work performed by Korn Ferry. In addition, from time to time the Committee has retained the services of independent legal counsel to provide input on various matters. We are not aware of any conflict of interest related to the work performed by independent legal counsel, considering all factors required by Nasdaq listing standards.

Willis Towers Watson provides executive compensation and other services directly to management. For executive compensation, Willis Towers Watson performs the data analysis on competitive compensation, competitive financial performance and financial target setting. That analysis is provided to the Committee’s consultant in advance to allow

them to comment upon the findings and any recommendations being made by management.

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Role of CEO and Management

Our management (particularly the Chief Executive Officer, the Chief Financial Officer and the Chief Human Resources Officer) provides recommendations to the Committee relative to the philosophies underlying our compensation programs, components of these programs and levels of compensation. Specifically, the Chief Executive Officer recommends the compensation for the other executive management positions and provides the Committee with assessments of their individual performance, both of which are subject to Committee review. Relative to compensation setting, the Committee reviews the Chief Executive Officer’s recommendations and discusses them with their independent, executive compensation consultant to ensure the compensation recommendations are in line with our program’s stated philosophies and are reasonable when compared to our competitive market. Relative to individual performance assessments, which are based on achievement of various financial and leadership objectives set by the Chief Executive Officer, the Committee reviews specific performance components and makes suggestions for modifications where warranted.

Our Methodologies

Selection of Compensation Elements

As part of its annual review, the Committee evaluates whether changes in the philosophy or structure are warranted in light of emerging trends, business needs and/or financial performance. The Committee then uses competitive market data, performance assessments and management recommendations to set the pay components along the targets described above (for example, 45th percentile for base pay). Actual pay for executive management will generally fall within a range of these targets (plus or minus 20%). Absent significant increases due to promotion, increases for break-through individual performance or significant changes in the competitive market data, pay increases are generally in line with national trends.

Market Comparison Data

We collect competitive market compensation data from multiple nationally published surveys, from proxy data for a peer group of companies and from proxy data for companies in the S&P Midcap 400 Index. Nationally published survey market compensation data is statistically determined (through regression analysis) to approximate our revenue size and aged to approximate more current data. Even though still used for survey data, regression analysis is no longer used to approximate our revenue size for peer group compensation data, as the peer group was modified in 2016 to remove all companies with sales greater than 2.5 times that of Lincoln Electric, with the exception of Illinois Tool Works (ITW), as detailed below.

EXECUTIVE COMPENSATION

Peer Group

We use a peer group of publicly traded industrial companies that are headquartered in the U.S., as well as non-U.S. headquartered companies that are listed on a U.S. exchange, that serve a number of different market segments and that have significant foreign operations. These are companies for which Lincoln Electric competes for talent and shareholder investment. In addition, we only select companies with solid historical financial results (removing companies from the peer group when their financial performance has consistently fallen below an acceptable level) and companies with sales that are within 2.5 times that of Lincoln Electric, with the exception of ITW, as ITW is a global competitor with its largest presence in the U.S. The Committee conducts an annual review of our peer group. For 2016, our peer group consisted of the following 19 publicly traded industrial corporations:

Ametek Inc	Donaldson Co	ITT Corp	Roper Industries
Carlisle Companies Inc	Flowserve Corporation	Kennametal Inc	SPX Corp
CLARCOR Inc	Graco Inc	Nordson Corporation	The Toro Company
Colfax Corporation	IDEX Corp	Regal Beloit Corporation	The Timken Company
Crane Company	ITW	Rockwell Automation	

Executive Compensation Structure

Business Needs. The Committee’s independent compensation consultant (Korn Ferry) assists in presenting information about emerging trends in executive compensation, along with Committee members’ own reading and study. These trends are considered in light of our compensation philosophies and various business needs. Business needs that are evaluated can include: talent attraction or retention strategies, growth expectations, strategic programs, cost-containment initiatives, management development needs and our company culture. No single factor guides whether changes will be made. Instead, the Committee uses a holistic approach, considering a variety of factors.

Individual Performance. Individual performance is a significant factor in determining annual changes (up or down) to pay components. In addition, the annual bonus includes an individual performance component in determining the percentage of target to be paid (described below and as noted in the annual bonus (EMIP) matrix). Individual performance is measured against how well an executive achieves objectives established for him or her at the beginning of the year. For the past three years, individual performance ratings for the annual bonus for officers have ranged from 110 to 130.

Pay for Performance Review. In determining whether changes will be made to the existing philosophy or structure and before setting compensation levels for the upcoming year, the Committee conducts its annual assessment of Lincoln Electric’s financial performance and pay for performance (both of which are described above). These reviews are used to evaluate whether executive compensation is properly aligned with our financial performance.

In setting 2016 compensation (which was done in the first quarter of 2016), the Committee reviewed the composite financial performance for Lincoln Electric (which included Adjusted EBIT growth, net income growth, ROIC and 3-year TSR) versus those same metrics for the peer group companies, and it compared the level of total direct realizable pay for our NEOs versus similar individuals in the peer group companies. As the pay for performance review was done in July 2015, the most recent period used for the analysis was the 2012 to 2014 compensation cycle. For the 2012 to 2014 compensation cycle and the two cycles prior, financial performance results were above peer group results; however, total direct realizable compensation was below. Therefore, we had generally paid below our compensation targets for above market financial performance, indicating ongoing misalignment between our executive compensation programs and Lincoln Electric's financial performance. Accordingly, the Committee had taken actions to improve the alignment of executive compensation with shareholder interests, including modifying the

annual bonus (EMIP) matrix in 2015, modifying the vesting period on RSUs to three years from five years beginning with grants awarded after October 2015, and replacing the cash portion of long-term incentives with performance shares beginning with 2016 grants associated with the 2016 to 2018 performance cycle.

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Timing of Compensation Determination and Payouts

Base pay, annual bonus targets and long-term incentive awards are set at a regularly scheduled Committee meeting held in the first quarter of the year. This change was made during 2014, as compensation used to be determined at the regularly scheduled Committee meeting held in the last quarter of the year (normally in December). Due to this change in timing, there were no stock option and RSU awards for 2014, as shown in the Summary Compensation Table. Payout amounts for the annual EMIP (bonus) and the Cash LTIP are determined after year-end, at the first available Committee meeting of the following year (normally in February) or a subsequent special meeting (normally in March), once final financial results are available. As mentioned above, beginning with the 2016 to 2018 performance cycle, the Performance Share LTIP replaced the Cash LTIP. Compensation associated with the Cash LTIP is disclosed in the Summary Compensation Table when realized (at the end of the cycle) and compensation associated with the Performance Share LTIP is disclosed when granted (at the beginning of the cycle). Therefore, compensation associated with the 2014 to 2016 Cash LTIP and the 2016 to 2018 Performance Share LTIP are both disclosed in the 2016 Summary Compensation Table.

Elements of Executive Compensation

Each compensation component for our NEOs is described below, with specific actions that were taken during 2016 noted. For 2016 compensation amounts, please refer to the Summary Compensation Table and other accompanying tables below.

Base Pay

Base compensation is provided to our executives to compensate them for their time and proficiency in their positions, as well as the value of their job relative to other positions at Lincoln Electric. Base salaries are set based on the executive's experience, expertise, level of responsibility, leadership qualities, individual accomplishments and other factors. That being said, we aim to set base salaries at approximately the 45th percentile of the market (slightly below market) in keeping with our philosophy that greater emphasis should be placed on variable compensation.

2016 and 2017 Base Pay

During 2016, officers, including all NEOs, were on a temporary 5% base salary reduction in connection with Lincoln Electric's cost-cutting measures that was not reinstated until December 1, 2016. As the temporary base salary reduction was in effect at the time of increase evaluations, the Committee did not approve any increases to the NEOs' 2016 base salaries.

NEO	Increase %	2016 Base Salary[1]
C. L. Mapes	0%	$907,000
V. K. Petrella	0%	$475,000
G. D. Blankenship	0%	$500,000
F. G. Stueber	0%	$410,000
M. Hallmann[2]	0%	€275,000

[1] Does not reflect the temporary 5% base salary reduction that was in effect through December 1, 2016.
[2] Mr. Hallmann's base salary is approved and paid in Euros. This amount is converted for reporting purposes within the Summary Compensation Table using the annual average FX Rate.

For 2017, the average base salary increase for the NEOs was 3.2%.

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EXECUTIVE COMPENSATION

Annual Bonus (EMIP) and Total Cash Compensation

The Executive Management Incentive Plan (EMIP) provides executive officers, including the NEOs, with an opportunity to receive an annual cash bonus. We believe that, given base pay is below market, annual cash bonus opportunities should be above average to balance some of the risk associated with greater variable compensation. However, we also believe that above-market pay should only be available for superior individual and financial performance. Therefore, we target total cash compensation (base and bonus target) at the 65th percentile of the market, but use a structure that provides payments of above-average bonuses only where the individual's performance, that of the consolidated company and that of his or her particular segment or business unit warrant it.

ANNUAL BONUS (EMIP) MATRIX

The percentage of target bonus actually paid is based upon a matrix that takes into account financial performance and an executive's individual performance. If either of these factors is not met, the percentage of target bonus paid is reduced, with the potential that no bonus will be paid. If either of these factors exceeds expectations, the percentage paid can be above the target amount.

As mentioned above, the EMIP matrix was modified in 2015, such that performance hurdles were adjusted on the high and low end of the matrix to increase or reduce payouts for higher or lower levels of performance, including increasing the potential maximum payout from 160% to 180%. The 2016 EMIP matrix used is consistent with the prior year matrix.

2016 EMIP Matrix

Financial Performance								
Individual	50%	60%	70%	80%	90%	100%	110%	120%
Performance Rating	Percentage Payout							
130	0	50%	80%	100%	130%	150%	160%	180%
120	0	40%	70%	90%	120%	135%	150%	160%
110	0	30%	60%	80%	110%	120%	140%	150%
100	0	20%	50%	60%	90%	100%	135%	145%
95	0	0	20%	50%	80%	90%	115%	125%
90	0	0	0	20%	50%	80%	100%	110%
85	0	0	0	0	20%	50%	60%	70%
80	0	0	0	0	0	20%	30%	50%
75	0	0	0	0	0	0	0	0

The Committee has discretion to approve EMIP payments outside of the strict application of this matrix. For the 2016 EMIP payments, the Committee made an adjustment to Mr. Petrella's payout in recognition of his leadership in executing the Company's capital allocation strategy. EMIP payout determinations for the 2016 performance period were made in the first quarter of 2017.

Annual Bonus (EMIP) Financial Metric

A portion of the EMIP financial component is based upon achievement of company consolidated financial performance against budget and another portion may be attributable to segment financial performance against budget, depending upon the individual's span of responsibility. By varying the financial metrics used based upon areas of responsibility, it is possible that certain participants will receive a higher percentage of target bonus while others will receive a lower percentage of target where the segment performance for one participant is better than the segment

performance for the other. This is a key component of our pay for performance and incentive-based philosophies. For 2016, consolidated and most segment results were nearly at or below budgets.

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2016 EMIP payouts for all officers ranged from 2% below target to 90% above target, with an average payout of 29% above the target amounts.
The following is a summary of the financial components used for 2016 for the NEOs:

2016 Annual Bonus (EMIP)–Financial Metrics Used

NEOs	Consolidated Results	Segment Results
Christopher L. Mapes–Chairman, President & CEO	100%	—
Vincent K. Petrella–EVP, CFO & Treasurer	100%	—
George D. Blankenship–EVP; President, Americas Welding	50%	50% Americas Welding
Frederick G. Stueber–EVP, General Counsel & Secretary	100%	—
Mathias Hallmann–SVP; President, International Welding	25%	75% International Welding

EBITB. One of the EMIP financial metrics is the achievement of earnings before interest, taxes and the bonus referred to above (EBITB) as compared to budget. Since 2011, this metric accounts for 75% of the EMIP financial component. EBITB to budget has been used as the financial metric for the annual bonus since its inception in 1997 because it is an important indicator of profitability. Budgets are set aggressively (based on the local and global economic climate), at the beginning of the year, are reviewed by the Finance Committee of the Board and are approved by the full Board. The following is a summary of historical consolidated results:

Historical EBITB to Budget
(Consolidated Results since 1997)

	Consolidated Results
Average	101%
Highest Level	141%[1]
Lowest Level	67%

(1) Capped, at the time (2004), at 120%.

When performance goals are set, we believe that there is an equal probability of achieving EBITB to budget in any year, although the cyclical nature of our business may increase the probability in some years and decrease it in others. For 2016, the consolidated EBITB budget was set at $444.1 million and actual performance for 2016, as adjusted, measured at budgeted exchange rates, was $410.7 million. The Americas Welding Segment EBITB budget was set at $371.4 million and actual performance for 2016, as adjusted, measured at budgeted exchange rates, was $342.0 million, or an achievement of 92.1% of budget. The International Welding Segment EBITB budget was set at $95.0 million and actual performance for 2016, as adjusted, measured at budgeted exchange rates, was $65.3 million, or an achievement of 68.7% of budget .
AOWC/Sales for Compensation Purposes. Since 2007, a second EMIP financial metric, namely the achievement of budget for average operating working capital (AOWC) as compared to sales (AOWC/Sales), has been used as a reflection of our commitment to improving cash flow. Since 2011, AOWC/Sales for Compensation Purposes has accounted for 25% of the EMIP financial component. The following is a summary of historical consolidated results:

Historical AOWC/Sales to Budget
(Consolidated Results since 2007)

	Consolidated Results

Average	101%
Highest Level	111%
Lowest Level	88%

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EXECUTIVE COMPENSATION

Like EBITB, we believe that there is an equal probability of achieving AOWC/Sales for Compensation Purposes to budget in any given year, although the cyclical nature of our business may increase the probability in some years and decrease it in others. For 2016, the consolidated AOWC/Sales for Compensation Purposes budget was set at 20.4% (2015 performance was 21.9%) and actual performance for 2016, excluding businesses acquired during the year, was 21.2% demonstrating improvement over 2015. The Americas Welding Segment AOWC/Sales for Compensation Purposes budget was set at 17.9% and actual performance for 2016, excluding businesses acquired during the year, was 17.5%, or an achievement of 102.3% of budget; and the International Welding Segment AOWC/Sales for Compensation Purposes budget was set at 29.5% and actual performance for 2016 was 31.1%, or an achievement of 94.5% of budget.

2016 Annual Bonus (EMIP) and Total Cash Compensation

The 2016 EMIP annual bonus targets for the NEOs were established according to the principles discussed above. For 2016, target bonuses remained the same for all NEOs except Mr. Hallmann which was increased by 9.1% reflecting his additional responsibilities for our International Welding Segment as well as to align his total targeted cash compensation closer to the 65th percentile. The 2016 EMIP targets for the NEOs placed their total targeted cash compensation (base and bonus targets), on average, at the 65th percentile of market.

In approving the 2016 EMIP payments, the Committee assessed our EBITB performance and AOWC/Sales for Compensation Purposes performance against budget for consolidated and segments, as applicable. On average, 2016 EMIP payments for the NEOs were 11% higher than the 2015 payments and 36% above their 2016 target amounts, as shown below. In addition, the Committee has discretion to approve EMIP payments outside of the strict application of this matrix. The Committee made an adjustment to Mr. Petrella's payout in recognition of his leadership in executing the Company's capital allocation strategy. These bonus payments resulted in total cash compensation (base and actual EMIP (annual bonus)) for the group that was, on average, above the 65th percentile of the market.

NEO	Target Award Opportunity $	Target Award Opportunity as a % of Base Salary	Maximum Award Opportunity Based on Matrix	Actual Award	Actual Award as a % of Target
C. L. Mapes	$1,252,000	138%	$2,253,600	$1,667,038	133%
V. K. Petrella	$450,000	95%	$810,000	$854,440 [1]	190%
G. D. Blankenship	$450,000	90%	$810,000	$593,235	132%
F. G. Stueber	$330,000	80%	$594,000	$423,984	128%
M. Hallmann	€300,000	109%	€540,000	€294,420	98%

[1] The Committee made an adjustment to Mr. Petrella's payout in recognition of his leadership in executing the Company's capital allocation strategy.

2017 Annual Bonus (EMIP) and Total Cash Compensation

The 2017 EMIP targets for the NEOs, approved in the first quarter of 2017, were established by the Committee in consultation with Korn Ferry, based on our compensation philosophies as well as competitive market data as discussed above. The 2017 bonus targets for the NEOs are consistent with the 2016 target amounts.

Long-Term Incentives

We believe that long-term incentive opportunities should be provided to focus rewards on factors that deliver long-term sustainability and should be established at the median (or 50th percentile) of the market. We have targeted the median of the market, in keeping with our pay for performance philosophy, because we believe that superior long-term financial growth itself should be the main driver of above-market long-term incentive compensation. We

also believe that different financial metrics help drive long-term performance. Therefore, we have established a structure for long-term incentives that combines several different long-term metrics, with the greatest emphasis placed on share appreciation and non-cash awards.

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For 2016, our long-term incentive program is made up of three components: (1) stock options, (2) RSUs and (3) a Performance Share LTIP. The value of each is weighted equally. This provides an even balance with respect to the different attributes and timing associated with each type of award. Annual awards of all three components are made to EMIP participants, including the NEOs. As noted above, the 2016 long-term incentive program was modified slightly from prior years, as beginning with the 2016 to 2018 performance cycle, the cash portion of the LTIP was replaced with performance shares.

Long-term incentive awards are set at regularly-scheduled Committee meetings held in the first quarter of the year. This change was made during 2014, as compensation used to be determined at the regularly scheduled Committee meeting held in the last quarter of the year (normally in December). Due to this change in timing, there were no stock option or RSU awards for 2014, as shown in the Summary Compensation Table. Payout amounts for the Cash or Performance Share LTIP are determined after year-end at the first available Committee meeting of the following year (normally in February) or a subsequent special meeting (normally in March), once final financial results are available. Compensation associated with the Cash LTIP is disclosed in the Summary Compensation Table when realized (at the end of the cycle) and compensation associated with the Performance Share LTIP is disclosed when granted (at the beginning of the cycle). Compensation associated with the 2014 to 2016 Cash LTIP and the 2016 to 2018 Performance Share LTIP are both disclosed in the 2016 Summary Compensation Table and discussed in more detail below.

Stock Options

All EMIP participants (including the NEOs) and other senior leaders receive an annual stock option award. A total of 24 employees received stock options in February 2016. Stock options vest ratably over a three-year period.

Restricted Stock Units

All EMIP participants (including the NEOs) receive an annual RSU award. Recognizing that equity awards are a valuable compensation tool, we also extend RSUs to senior leaders, managers and significant contributors, regardless of their position within Lincoln Electric. A total of 290 employees (including our NEOs) received RSUs in February 2016. Beginning with grants awarded after October 2015, RSUs vest in full after three years of continuous service.

Long-Term Incentive Plan (LTIP)

A cash long-term incentive plan, or Cash LTIP, has been in place for officers (EMIP participants) since 1997. As previously discussed, during 2015, the Committee modified the executive compensation program to replace the cash incentive with performance shares, or the Performance Share LTIP, to be effective with the 2016 annual equity grants and the 2016 to 2018 performance cycle. The terms of the awards mirror the performance objectives tied to the Cash LTIP but payouts will be in shares of Lincoln Electric common stock.

The Performance Share LTIP is designed to offer reward opportunities aligned with the long-term performance of Lincoln Electric. Target share amounts for the plan are set each year at the beginning of a three-year performance cycle based on a 7-day historical average of the stock price, up to and including the grant date, as mentioned above. Because awards are made each year and because each award relates to a three-year performance cycle, three different cycles will be running at any point in time. The percentage of the target shares actually paid at the end of the applicable three-year cycle will be based upon achievement of three-year company performance against pre-established performance thresholds. Each plan has six to seven performance thresholds with percentage payouts attributable to those thresholds ranging from 0% to 200% of target. The Committee retains discretion to modify payments to any participant, to modify targets and/or to modify the performance thresholds (up or down).

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Performance Measures. Since its inception, the LTIP has used a performance measure of growth in adjusted net income for Compensation Purposes over the three-year cycle. Beginning in 2009, the Committee added a second metric of ROIC for Compensation Purposes and gave these two financial metrics a 50/50 weighting. The adjusted net income metric is an absolute metric. For the 2014 to 2016 performance cycle, the growth in adjusted net income over the three-year cycle is based on growth above $282,481,000 (which was the adjusted net income for 2013 when the 2014 to 2016 performance cycle was set). As the 2014 to 2016 Cash LTIP table below demonstrates, to pay 100% of target, adjusted net income growth over the three-year cycle must be at or above 40% of $282,481,000 (or $395,473,000).

From time to time, the Committee has considered and approved certain limited adjustments to reported net income (both positive and negative) in determining Adjusted Net Income for Compensation Purposes to evaluate achievement of performance against the thresholds. Each adjustment is reviewed in detail before it is made. The types of adjustments the Committee has considered include: rationalization charges, certain asset impairment charges, the gains and losses on certain transactions including the disposal of certain assets and other special items. To the extent an adjustment relates to restructuring or rationalization charges that are intended to improve organizational efficiency, a corresponding charge (equal to the adjustment) is amortized against future years' adjusted net income until that adjustment is fully offset against the intended savings (generally this amortization occurs over a three-year period).

The ROIC for Compensation Purposes metric for the 2014 to 2016 performance cycle is a relative value that is derived based on our performance as compared to our proxy peer group (as opposed to an absolute value). In this 2014 to 2016 performance cycle, certain adjustments have been approved by the Committee in comparably measuring performance. In 2015, pension settlement charges primarily related to the purchase of a group annuity contract were excluded. In 2016, the ROIC for Compensation Purposes calculation was adjusted to exclude the incremental balance in cash and marketable securities as of December 31, 2016 compared with the December 31, 2013 balance, as well as interest expense, associated with the long-term notes drawn as a result of the execution of our capital allocation strategy.

Performance Thresholds. In setting the performance thresholds for a new three-year period, the Committee considers various factors, including historical performance against established thresholds. We believe there is a 50% probability of achieving the adjusted net income for Compensation Purposes growth thresholds for a 100% payout when initially determining the target growth for any cycle. For the 2014 to 2016 Plan, the Committee did not make any modifications to the three-year adjusted net income growth performance thresholds or the three-year average ROIC relative to peer thresholds.

Timing for Setting Performance Measure and Performance Thresholds. Performance targets are set at the beginning of the first fiscal year in the cycle. This timing allows the Committee to see our final financial results for the prior year and allows for more current macro-economic projections to be used.

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2014 to 2016 Cash LTIP. The following is a summary of the performance metric ranges of all seventeen completed plan cycles, including the most recently completed cycle (2014 to 2016):

Ranges of All Prior 3-Year LTIP Cycles

	Payout Amount	3-Year Adjusted Net Income for Compensation Purposes Growth	3-Year Average ROIC for Compensation Purposes
Performance	% of Target	LTIP Metric since 1997	LTIP Metric since 2009
Threshold	25%	0% to 15%	40th %ile to 40th %ile
	50%	3% to 25%	50th %ile to 50th %ile
Target	100%	6% to 40%	60th %ile to 65th %ile
	150%	9% to 60%	75th %ile to 75th %ile
Maximum	200%	15% to 80%	90th %ile to 90th %ile
Actual Payout Range		0.0% to 200.0%	87.6% to 176.3%

For the 2014 to 2016 cycle, because the net income performance threshold was not met but the ROIC for Compensation Purposes performance threshold was exceeded, payouts were made at 85.2% of target. Payments under the plan have been made in twelve out of the seventeen completed three-year cycles. The following is the most recently completed cycle (2014 to 2016):

2014 to 2016 Cash LTIP

	Payout Amount	3-Year Adjusted Net Income for Compensation Purposes Growth			3-Year Average ROIC for Compensation Purposes		
Performance	% of Target	Absolute	LECO Net Income ('000s)		Relative to LECO Peer Group		
Threshold	25%	10 %		$310,729	40th %ile		9.8 %
	50%	25 %		$353,101	50th %ile		11.5 %
Target	100%	40 %		$395,473	65th %ile		15.9 %
	150%	60 %		$451,970	75th %ile		16.8 %
Maximum	200%	80 %		$508,466	90th %ile		18.7 %
Actual Payout	85.2%	0%	@ 50% Weighting	0%	170.3%	@ 50% Weighting	85.2%

As shown above, the current plan cycle contains two metrics, each with a 50% weighting. Lincoln Electric's Adjusted Net Income for Compensation Purposes growth over the three-year period declined 22.8%, which did not result in a payout as the threshold of 10% net income growth was not met. Lincoln Electric's three-year average return on invested capital (ROIC) for Compensation Purposes, as compared to its peer group, was at the 81st percentile, which generated a 170.3% of target payout for this metric. Combining the payouts for both metrics, the resulting final payout for the 2014 to 2016 Cash LTIP was 85.2% of the target amounts. Excluding the aforementioned 2016 ROIC adjustment, the 2014 to 2016 cycle would have generated a payout equal to 58.5% of target. A payout at 58.5% would have resulted in the CEO's award being lower by $204,533 and the remaining NEOs' aggregate awards being lower by $176,267.

NEO	Target Award Opportunity $	Maximum Award Opportunity Based on Thresholds	Actual LTIP %	Actual Award

C. L. Mapes	$767,000	$1,534,000	85.2%	$653,228
V. K. Petrella	$234,000	$468,000	85.2%	$199,290
G. D. Blankenship	$184,000	$368,000	85.2%	$156,707
F. G. Stueber	$160,000	$320,000	85.2%	$136,267
M. Hallmann	$83,000	$166,000	85.2%	$70,688

EXECUTIVE COMPENSATION

2016 Long-Term Incentives

In evaluating 2016 long-term incentive compensation (at the beginning of 2016), the Committee reviewed 2014 and 2015 compensation versus the competitive benchmarks. The Committee concluded that overall the long-term incentives for the NEOs were at our 50th percentile target when compared to both survey and proxy data. With the exception of Mr. Stueber, all of the NEOs received the same targeted value of their 2016 long-term incentive awards as their 2015 level (no increase). As Mr. Stueber was below market, he received an 8% increase in his 2016 long-term incentive award target, still placing his award slightly below the 50th percentile of market. All of these awards are subject to our Recovery of Funds Policy, which is discussed below.

2017 Long-Term Incentives

In evaluating 2017 long-term incentive compensation (at the beginning of 2017), the Committee reviewed 2015 and 2016 compensation versus the competitive benchmarks. The Committee adjusted 2017 long-term incentives for the NEOs on average 3.7%, which excludes both a special RSU award to Mr. Petrella of $500,000 and Mr. Stueber, who did not receive an award due to his pending retirement.

Valuation of Equity Awards. Beginning with the 2016 annual grant, for shares under our 2015 Equity and Incentive Compensation Plan, the Committee established set valuation methods in order to convert the approved long-term incentive compensation values to shares upon the grant date. These methods consider a 7-day historical average of the stock price, up to and including the grant date, for RSUs and performance shares and the grant date Black-Scholes for stock options.

Normal Cycle and Out-of-Cycle Equity Awards. The Committee has discretion in awarding grants to EMIP participants and does not delegate its authority to management, nor does management select or influence the award dates. Occasionally, the Committee may approve limited, out-of-cycle special awards for specific business purposes or in connection with executive promotions or the hiring of new executive employees. However, the date used for awards to all EMIP participants, including the NEOs, is the date of a regularly scheduled Committee meeting, which is fixed well in advance and generally occurs at the same time each year.

At the July 2015 meeting, the Committee approved delegated authority to the CEO to designate awards through 2016 to certain employees under the 2015 Equity and Incentive Compensation Plan, subject to specific limits established. The CEO can only grant option and RSU awards and cannot grant awards to any executive officers, Section 16 officers or greater-than-10% beneficial owners of the Company, and must be granted per the agreements and vesting terms already approved by the Committee.

Other Arrangements, Policies and Practices

Overview of Benefits

We intend to provide a competitive group of benefits for all of our employees targeted at the 50th percentile of the market. Some aspects of our benefit programs are considered non-traditional due to their relationship with our pay for performance and incentive-based philosophies. For example, the premiums for Lincoln Electric-provided medical coverage are 100% paid by employees, including the NEOs, on a pre-tax basis. Premiums for dental coverage, which is a voluntary benefit, are also 100% paid by employees. Life insurance coverage paid fully by Lincoln Electric is set at $10,000 per employee, including the NEOs, although employees may purchase additional insurance at their own cost. The NEOs participate in this same cost-

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sharing approach. We attempt to balance our various non-traditional programs (such as those with a significant portion of the cost borne by the employee) with more traditional programs. Mr. Hallmann, a non-U.S. NEO, participates in the standard benefit programs per his work location.

We also provide accidental death and dismemberment benefits to officers, due to the significant amount of travel required in their jobs. Under this program, the premiums of which are paid by Lincoln Electric, a participant's beneficiary would receive a payment of five times annual total cash compensation up to a maximum of $3,000,000 for executive officers and $2,000,000 for other officers upon an officer's accidental death. The policy also provides dismemberment benefits of up to 100% of the death benefit in the event an officer is permanently and totally disabled as a result of an accident, and it provides for medical evacuation coverage as a result of an accident.

Retirement Programs

Retirement benefits are provided to our NEOs through the following programs:

- The Lincoln Electric Company Retirement Annuity Program (RAP) had been in effect for eligible employees hired before 2006. Effective January 1, 2006, new employees are no longer eligible to participate in the RAP but became eligible for Financial Security Plan Plus (FSP Plus) benefits under The Lincoln Electric Company Employee Savings Plan described below. Effective July 1, 2012, the RAP was amended to add a lump-sum distribution option where participants can elect to receive a lump-sum distribution paid out either in full upon retirement or paid out over five years. Mr. Mapes is not a participant in the RAP but became a participant in the FSP Plus benefits in September 2012 upon meeting the eligibility requirements. Similarly, Mr. Hallmann is not a participant in the RAP or the FSP Plus, as he is on a local retirement program in Germany. Effective as of December 31, 2016, the RAP was amended to cease all future benefit accruals for all participants, so that the participants will not earn any additional benefits under the RAP after December 31, 2016. The estimated retirement benefits under the RAP for the NEOs that are shown in the Pension Benefits Table below are based on the NEOs frozen benefit under the RAP as of December 31, 2016.

- The Supplemental Executive Retirement Plan (SERP) has been in effect since 1994 but has been closed to new participants since 2005. The purpose of the SERP is, in part, to make up for limitations imposed by the U.S. Internal Revenue Code on payments under tax-qualified retirement plans, and, primarily, to provide an aggregate competitive retirement benefit for SERP participants in line with our overall 50th percentile objective. Participation in the SERP is limited to individuals approved by the Committee. Compensation covered by the SERP is the same as shown in the salary and bonus columns of the Summary Compensation Table below. Certain terms of the SERP may be modified as to individual participants, upon action by the Committee. Except with respect to the award of additional prior service to Mr. Stueber (in 1995), as described below, there have been no other modifications to the terms of the SERP for the NEOs. Mr. Mapes and Mr. Hallmann do not participate in the SERP as they were hired after 2005. Effective as of November 30, 2016, the SERP was amended to cease all future benefit accruals and to fully vest the accrued benefit as of November 30, 2016 of each of the active SERP participants who had a benefit under the SERP. As of November 30, 2016, there were four active participants who had a benefit under the SERP. Effective as of December 1, 2016, pursuant to the amendment to the SERP, the value of the frozen accrued vested benefit of each such SERP participant was converted to a notional account balance. The account balance was determined by projecting to December 31, 2016 the participant's SERP benefit and calculating the present value of that projected benefit. Participants' account balances will be credited with earnings, gains and losses in accordance with each participant's investment elections which will be made in a manner similar to that undertaken by participants in the amended and restated 2005 Deferred Compensation Plan for Executives.

- A qualified 401(k) savings plan, formally known as The Lincoln Electric Company Employee Savings Plan (401(k) Plan), has been in effect since 1994. For 2016, all of the NEOs deferred amounts under the 401(k) plan. Historically,

we have matched participant contributions (other than catch-up contributions) at 35% up to the first 6% of pay (base and bonus) contributed. During 2015, the 401(k) match was temporarily suspended as part of our cost-cutting measures. We also provide additional 401(k) plan contributions under a program we refer to as the Financial Security Plan (FSP) for those participants, including the NEOs, who made an election to adopt this program in 1997 (in which case they receive

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an annual FSP contribution of 2% of base pay) or who made an election to adopt a revised program in 2006, which we refer to as the FSP Plus program, in which case they receive an annual FSP Plus contribution as follows:

After service of...	Lincoln Electric will contribute...
1 year	4% of base pay
5 years	5% of base pay
10 years	6% of base pay
15 years	7% of base pay
20 years	8% of base pay
25 years	10% of base pay

In exchange for the FSP or FSP Plus benefits, participants who were eligible to participate in the RAP elected to forfeit certain future benefits under the RAP. The 401(k) Plan was amended to cease all FSP and FSP Plus contributions for all years after 2016.

- The 401(k) Plan was amended and restated effective January 1, 2017 and will provide that eligible employees of The Lincoln Electric Company and certain affiliated companies will be eligible to receive up to 6% of employees' annual compensation in company contributions through:

(1) matching employer contributions equal to 100% of the employees' before-tax (401(k)) contributions made to the Savings Plan, but not in excess of 3% of annual compensation; and
(2) automatic employer contributions equal to 3% of annual compensation.
These matching and automatic employer contributions will be 100% vested when made. In addition, certain employees affected by the RAP freeze will also be eligible to receive employer contributions equal to 6% of annual compensation for a minimum period of five years, up to the end of the year in which they complete 30 years of service.

- A Restoration Plan was created effective January 1, 2017 for the purpose of providing certain employees the ability to fully participate in standard employee retirement offerings, which are limited by IRS regulations on covered compensation in the 401(k) Plan. All NEOs with the exception of Mr. Hallmann will participate in the Restoration Plan in 2017.
- A deferred compensation plan, or Top Hat Plan, is designed to allow participants to defer their current income on a pre-tax basis and to receive a tax-deferred return on those deferrals. There are no company contributions or match. Participation in the Top Hat Plan is limited to individuals approved by the Committee. As of December 31, 2016, there were 15 active employee participants in the Top Hat Plan.

More information on these programs can be found below in the 2016 pension benefits section.

Perquisites

We offer limited perquisites. Occasionally, we will provide perquisites to officers or EMIP participants to meet specific business needs. For example, because we believe in the importance of maintaining the health of all of our employees, including the NEOs, we pay for an annual physical for EMIP participants who are age 45 or above and for certain participants below that age on an ad hoc basis. We grandfathered certain non-EMIP participants in the executive physical program. We also make available financial planning services to certain officers. However, the cost of these financial planning services is included in the income of the participants. The physical and financial planning programs are optional programs.

To assist us in conducting business meetings and/or entertainment, we pay the cost of certain club dues for some officers. Although these officers may derive some personal benefit from their use, club memberships are used extensively for business purposes, all personal expenses are borne entirely by the executive and the club dues are

included in the income of the participants. Initiation fees for club memberships are paid by the executive. Different perquisites are provided from time to time to non-U.S. based executives; however, they are customary and reasonable in nature and amount (for example, a car lease).

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Change in Control Arrangements

We have entered into change in control agreements with all of our NEOs. The agreements are designed generally to assure continued management in the event of a change in control of Lincoln Electric.

The change in control arrangements are operative only if a change in control occurs and payments are only made if the officer’s employment is terminated (or if the officer terminates employment due to certain adverse employment changes). The agreements provide our NEOs with the potential for continued employment following a change in control, which help retain these executives and provide for management continuity in the event of an actual or threatened change in control of Lincoln Electric. They also help ensure that our executives’ interests remain aligned with shareholders’ interests during a time when their continued employment may be in jeopardy. For a more detailed discussion of our change in control agreements, see Termination and Change in Control Arrangements below. Outside of these change in control agreements, we do not maintain written employment or other severance agreements for U.S.-based employees.

Recovery of Funds Policy

We have adopted a Recovery of Funds Policy (clawback policy) consistent with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). Our policy is more extensive than what Dodd-Frank requires and is applicable to all of our officers (currently, 17 individuals), including our NEOs. The policy will apply in the event that there is an accounting restatement involving our financial statements due to material non-compliance with the financial reporting requirements under the U.S. federal securities laws. The policy applies to both current and former officers and covers incentive compensation received by the officers in the 3-year period prior to the restatement. Awards of incentive compensation would include annual bonus payments, stock option awards, restricted stock awards, RSUs, performance shares (new in 2016) and Cash LTIP awards beginning in 2011, unless Dodd-Frank regulations provide otherwise. Under the policy, in the event of an accounting restatement of our financial statements, the Committee would review all incentive compensation received during the 3-year covered period and would seek recovery of the amount of incentive compensation paid in excess of what would have been paid if the accounts had been properly stated. We believe that this policy is in the best interests of Lincoln Electric and its shareholders.

Anti-Hedging/Pledging Policy

Consistent with our philosophy to encourage long-term investment in our common stock, our directors and executive officers are prohibited from engaging in any speculative or hedging transactions involving our common stock, including buying or selling puts or calls, short sales or margin purchases. In addition, our insider trading policy prohibits future pledging of Lincoln Electric securities by our executive officers and directors. There are no pledges of Lincoln Electric common stock in place for any of our directors or executive officers.

Share Ownership

As with the Directors, in keeping with our philosophy that officers should maintain an equity interest in Lincoln Electric and based on our view that such ownership is a component of good corporate governance, we initially adopted stock ownership guidelines for officers in 2006 and increased the guidelines in 2012. The revised guidelines were proposed based on a review of our peer group and corporate governance best practices. Under the current guidelines, officers of Lincoln Electric are required to own and hold a certain number of our common shares, currently at the levels set forth in the table below:

Executive Group	Ownership Guideline
Chief Executive Officer[1]	5 times base salary

Management Committee Members[2]	3 times base salary
Other Officers[3]	2 times base salary

(1) Mr. Mapes.
(2) Includes Messrs. Petrella, Blankenship, Stueber and Hallmann, as well as six other officers at 12/31/16.
(3) Includes other EMIP participants.

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Officers have five years to satisfy the stock ownership guidelines, which can be satisfied either by holding (1) shares aggregating the dollar amount specified above (valued at the then current stock price), or (2) that number of shares needed to satisfy the ownership guidelines tied to the base salaries in effect on January 1, 2012 divided by the closing price of a common share on December 31, 2011 ($39.12). RSU awards count towards the stock ownership guidelines; common shares underlying stock options and shares held in another person's name (including a relative) do not. As of December 31, 2016, all of our NEOs met the stock ownership guidelines, with the exception of Mr. Hallmann as he is mid-cycle after becoming a Management Committee member in 2013.

The Committee reviewed the stock ownership guidelines in December 2016 at the end of the five years and concluded that they were at appropriate levels when compared to the peer group and market. The guidelines were reset January 1, 2017 and established in the same manner as above. Officers have five years to satisfy the guidelines either by holding (1) shares aggregating the dollar amount specified above (valued at the then current stock price), or (2) that number of shares needed to satisfy the ownership guidelines tied to the base salaries in effect on January 1, 2017 divided by the closing price of a common share on December 30, 2016 ($76.67).

Deductibility of Compensation

Our general philosophy is to qualify future compensation for tax deductibility under Section 162(m), wherever appropriate, recognizing that, under certain circumstances, the limitations may be exceeded. Qualification is sought to the extent practicable and only to the extent that it is consistent with our overall compensation objectives. Moreover, even if we intend to grant compensation that qualifies as qualified performance-based compensation for purposes of 162(m), we cannot guarantee that such compensation will so qualify or ultimately will be deductible by us.

Our 2007 Management Incentive Compensation Plan, as amended, contains performance measures that were last approved by our shareholders in 2012 and provides us with flexibility to potentially grant performance-based awards under the plan that may be deductible under Section 162(m).

In addition, our current equity compensation plan for employees, the 2015 plan, contains performance measures that were approved by our shareholders in 2015, which provides us with flexibility to potentially grant performance-based equity awards under the plan that may be deductible under Section 162(m).

All of the compensation paid to the NEOs during 2016 was tax deductible by Lincoln Electric for federal income tax purposes.

COMPENSATION COMMITTEE REPORT //

The Compensation and Executive Development Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with Lincoln Electric's management and, based on this review and discussion, recommends that it be included in Lincoln Electric's Annual Report on Form 10-K for the year ended December 31, 2016 and this proxy statement.

By the Compensation & Executive Development Committee:

William E. MacDonald, III, Chair
David H. Gunning
Stephen G. Hanks
Kathryn Jo Lincoln
Hellene S. Runtagh

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EXECUTIVE COMPENSATION TABLES

Summary of 2016 Compensation Elements

	Purpose	Competitive Target	Financial Metrics Used [4]	When the 2016 Amount Was Set	The Period to Which the Amount Relates	Where Reported in the SCT[1]
Base Pay	Rewards responsibility, experience and individual performance	Below Market	—	Beginning of 2016	2016	Salary column
Annual Bonus (EMIP)	Rewards strong annual financial results and individual performance	Above Market [base plus bonus]	EBITB and AOWC/Sales[4]	Beginning of 2016	2016 Performance	Non-Equity Incentive Plan Compensation column
Stock Options	Rewards the creation of shareholder value	At Market	Share Price Appreciation	Beginning of 2016	2016 Based Award	Option Awards column
RSUs	Rewards the creation of shareholder value and strong long-term financial results	At Market	Share Price Appreciation [RSUs granted prior to 2016 include Adjusted Net Income[4] Growth and ROIC[4] for accelerated vesting]	Beginning of 2016	2016 Based Award	Stock Awards column
Cash-LTIP[2]	Rewards the creation of long-term growth and the efficient use of capital	At Market	Adjusted Net Income[4] Growth and ROIC[4]	End of 2013	2014 through 2016 Performance	Non-Equity Incentive Plan Compensation column
Performance Share LTIP[2] (PSUs)				Beginning of 2016	2016 through 2018 Performance	Stock Awards column
Benefits other than Pension	Includes 401[k] match, FSP contributions, insurance and standard expatriate benefits	Below Market	—	Various	2016	All Other Compensation column
Pension Benefits[3]	Includes RAP, SERP and	Above Market	—	Various	For RAP/SERP, shows changes	Change in Pension Value

	above-market earnings in the Top Hat				from 2015 For Earnings, shows 2016 amounts	column
Perks	Meets specific business needs–includes financial planning, annual physical and certain club dues	Below Market	—	Various	2016	All Other Compensation column

1 Summary Compensation Table
2 In 2016, the Performance Share LTIP replaced the Cash LTIP. Compensation associated with the Cash LTIP is disclosed in the Summary Compensation Table at the end of the cycle (when realized) and compensation associated with the Performance Share LTIP is disclosed at the beginning of the cycle (upon grant). As such, compensation associated with both the 2014 to 2016 Cash LTIP and the 2016 to 2018 Performance Share LTIP are both disclosed within the 2016 Summary Compensation Table.
3 The SERP, effective November 30, 2016, and the RAP, effective December 31, 2016, were amended to cease all future benefit accruals.
4 Financial metrics used for compensation purposes are defined in Appendix A.

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EXECUTIVE COMPENSATION

2016 Summary Compensation Table

This table details total compensation paid to our NEOs for the past three years. In 2014, the Committee moved the annual grant of plan-based awards (stock and option awards) to the first quarter of 2015. Accordingly, there are no amounts of stock awards or option awards presented in the table for 2014. In 2016, beginning with the 2016 to 2018 performance cycle, the Performance Share LTIP replaced the Cash LTIP. Compensation associated with the Cash LTIP is disclosed in the Summary Compensation Table when realized (at the end of the cycle under the "Non-Equity Incentive Plan Compensation" column) and compensation associated with the Performance Share LTIP is disclosed when granted (at the beginning of the cycle under the "Stock Awards" column). Compensation associated with the 2014 to 2016 Cash LTIP and the 2016 to 2018 Performance Share LTIP are both disclosed in the 2016 Summary Compensation Table.

Name and Principal Position	Year	Salary ($)[1]	Stock Awards ($)[2]	Option Awards ($)[2]	Non-Equity Incentive Plan Compensation ($)[3]	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)[4]	All Other Compensation ($)[5]	Total ($)
Christopher L. Mapes	2016	865,429[6]	2,315,716	1,117,327	2,320,266[6]	32,704	45,167	6,696,609
Chairman, President and Chief Executive Officer	2015	903,221	**Item 10.Directors, Executive Officers and Corporate Governance.**					

The information required by Item 10 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2017 and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by Item 11 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2017 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2017 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2017 and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 will be contained in a definitive proxy statement for our Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2017 and is incorporated herein by reference.

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Part IV

Item 15. Exhibits and Financial Statement Schedules.

(a)1. and 2. *Financial Statements and Schedules*

The following consolidated financial information is included as a separate section of this Annual Report on Form 10-K beginning on page F-1 as follows:

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2017 and 2016	F-2
Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015	F-3
Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015	F-4
Consolidated Statements of Equity for the years ended December 31, 2017, 2016 and 2015	F-5
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Schedule III Real Estate Investments and Accumulated Depreciation	S-1

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted, or the required information is included in the consolidated financial statements and notes thereto.

3. *Exhibits*

The exhibits required to be filed by Item 601 of Regulation S-K are listed in the Exhibit Index at the end of this Annual Report on Form 10-K immediately preceding the signature page, which is incorporated by reference herein.

Item 16. Form 10-K Summary.

None.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Terreno Realty Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Terreno Realty Corporation (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and the financial statement schedule listed in the Index at Item 15 (collectively referred to as the financial statements). In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted and applied the revised definition of a business which changed the treatment of acquisition costs as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2017-01 Business Combinations (Topic 805): Clarifying the Definition of Business, effective January 1, 2017.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 7, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

/s/ Ernst & Young LLP

We have served as the Company s auditor since 2012.

San Francisco, California

February 7, 2018

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Terreno Realty Corporation

Consolidated Balance Sheets

(in thousands except share and per share data)

	December 31, 2017	December 31, 2016
ASSETS		
Investments in real estate		
Land	$ 759,659	$ 570,181
Buildings and improvements	801,242	710,277
Intangible assets	76,029	62,580
Total investments in properties	1,636,930	1,343,038
Accumulated depreciation and amortization	(139,814)	(109,357)
Net investments in real estate	1,497,116	1,233,681
Cash and cash equivalents	35,710	14,208
Restricted cash	7,090	4,270
Other assets, net	27,955	26,822
Total assets	$ 1,567,871	$ 1,278,981
LIABILITIES AND EQUITY		
Liabilities		
Credit facility	$	$ 51,500
Term loans payable, net	148,897	148,616
Senior unsecured notes, net	247,955	148,594
Mortgage loans payable, net	64,831	66,617
Security deposits	11,058	9,922
Intangible liabilities, net	22,361	3,485
Dividends payable	12,181	9,483
Performance share awards payable	11,824	10,739
Accounts payable and other liabilities	21,270	18,220
Total liabilities	540,377	467,176
Commitments and contingencies (Note 13)		
Equity		
Stockholders equity		
Preferred stock: $0.01 par value, 100,000,000 shares authorized, and 0 and 1,840,000 shares (liquidation preference of $25.00 per share) issued and outstanding, respectively		46,000
Common stock: $0.01 par value, 400,000,000 shares authorized, and 55,368,737 and 47,414,365 shares issued and outstanding,	553	474

respectively				
Additional paid-in capital		1,023,184		766,229
Retained earnings		4,803		
Accumulated other comprehensive loss		(1,046)		(898)
Total stockholders equity		1,027,494		811,805
Total liabilities and equity	$	1,567,871	$	1,278,981

The accompanying notes are an integral part of these consolidated financial statements.

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Terreno Realty Corporation

Consolidated Statements of Operations

(in thousands except share and per share data)

	For the Year Ended December 31,		
	2017	**2016**	**2015**
REVENUES			
Rental revenues	$ 103,329	$ 85,018	$ 75,899
Tenant expense reimbursements	29,155	23,400	19,996
Total revenues	132,484	108,418	95,895
COSTS AND EXPENSES			
Property operating expenses	35,874	30,325	26,655
Depreciation and amortization	37,870	34,399	36,026
General and administrative	19,681	19,319	14,846
Acquisition costs	10	3,129	4,713
Total costs and expenses	93,435	87,172	82,240
OTHER INCOME (EXPENSE)			
Interest and other income	169	24	18
Interest expense, including amortization	(16,777)	(13,053)	(9,639)
Loss on extinguishment of debt		(239)	
Gain on sales of real estate investments	30,654	7,140	10,567
Total other income and expenses	14,046	(6,128)	946
Net income	53,095	15,118	14,601
Redemption of preferred stock	(1,767)		
Preferred stock dividends	(1,961)	(3,565)	(3,565)
Net income, net of redemption of preferred stock and preferred stock dividends	49,367	11,553	11,036
Allocation to participating securities	(352)	(95)	(78)
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	$ 49,015	$ 11,458	$ 10,958
EARNINGS PER COMMON SHARE BASIC AND DILUTED:			

Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	$	0.95	$	0.26	$	0.26
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		51,357,719		44,725,936		42,861,276

The accompanying notes are an integral part of these consolidated financial statements.

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Terreno Realty Corporation

Consolidated Statements of Comprehensive Income

(in thousands)

	For the Year Ended December 31,		
	2017	**2016**	**2015**
Net income	$ 53,095	$ 15,118	$ 14,601
Other comprehensive income (loss): cash flow hedge adjustment	(148)	(102)	(649)
Comprehensive income	$ 52,947	$ 15,016	$ 13,952

The accompanying notes are an integral part of these consolidated financial statements.

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Terreno Realty Corporation

Consolidated Statements of Equity

(in thousands except share data)

	Preferred Stock	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as of December 31, 2014	$ 46,000	42,869,463	$ 428	$ 700,755	$	$ (147)	$ 747,036
Net income					14,601		14,601
Issuance of common stock, net of issuance costs of $69		153,044	2	3,051			3,053
Repurchase of common stock		(20,322)		(512)			(512)
Issuance of restricted stock		308,087					
Stock-based compensation				1,600			1,600
Common stock dividends				(17,446)	(11,036)		(28,482)
Preferred stock dividends					(3,565)		(3,565)
Other comprehensive loss						(649)	(649)
Balance as of December 31, 2015	46,000	43,310,272	430	687,448		(796)	733,082
Net income					15,118		15,118
Issuance of common stock, net of issuance costs of $2,813		4,139,224	44	101,417			101,461
Repurchase of common stock		(67,928)		(1,551)			(1,551)
Issuance of restricted stock		32,797					
Stock-based compensation				2,231			2,231
Common stock dividends				(23,316)	(11,553)		(34,869)
Preferred stock dividends					(3,565)		(3,565)
Other comprehensive loss						(102)	(102)

Balance as of December 31, 2016	46,000	47,414,365	474	766,229	$	$ (898)	811,805
Net income					53,095		53,095
Issuance of common stock, net of issuance costs of $4,202		8,066,150	79	256,645			256,724
Repurchase of common stock		(144,025)		(3,436)			(3,436)
Redemption of preferred stock	(46,000)			1,729	(1,767)		(46,038)
Issuance of restricted stock		32,247					
Stock-based compensation				2,017			2,017
Common stock dividends					(44,564)		(44,564)
Preferred stock dividends					(1,961)		(1,961)
Other comprehensive loss						(148)	(148)
Balance as of December 31, 2017	$	55,368,737	$ 553	$ 1,023,184	$ 4,803	$ (1,046)	$ 1,027,494

The accompanying notes are an integral part of these consolidated financial statements.

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Terreno Realty Corporation

Consolidated Statements of Cash Flows

(in thousands)

	For the Year Ended December 31,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 53,095	$ 15,118	$ 14,601
Adjustments to reconcile net income to net cash provided by operating activities			
Straight-line rents	(3,657)	(4,740)	(3,889)
Amortization of lease intangibles	(2,161)	(1,338)	(1,925)
Depreciation and amortization	37,870	34,399	36,026
Loss on extinguishment of debt		239	
Gain on sales of real estate investments	(30,654)	(7,140)	(10,567)
Deferred financing cost and mortgage premium amortization	1,193	766	393
Stock-based compensation	8,732	9,444	6,081
Changes in assets and liabilities			
Other assets	584	(3,174)	(1,252)
Accounts payable and other liabilities	4,496	5,667	2,600
Net cash provided by operating activities	69,498	49,241	42,068
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash paid for property acquisitions	(297,109)	(128,495)	(262,979)
Proceeds from sales of real estate investments, net	75,396	21,379	23,671
Additions to construction in progress		(15,577)	(1,510)
Additions to buildings, improvements and leasing costs	(27,405)	(26,936)	(18,846)
Net cash used in investing activities	(249,118)	(149,629)	(259,664)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock	255,295	101,432	3,122
Issuance costs on issuance of common stock	(3,764)	(1,506)	(46)
Repurchase of common stock	(3,436)	(1,551)	(512)
Repurchase of preferred stock	(46,000)		
Purchase of derivative instrument			(343)
Borrowings on credit facility	93,000	95,500	
Payments on credit facility	(144,500)	(44,000)	
Payments on term loans payable		(50,000)	
Borrowings on senior unsecured notes	100,000	50,000	100,000
Payments on mortgage loans payable	(1,916)	(16,871)	(24,844)
Payment of deferred financing costs	(872)	(2,499)	(1,127)
Dividends paid to common stockholders	(41,866)	(33,182)	(27,545)

Dividends paid to preferred stockholders	(1,999)	(3,565)	(3,565)
Net cash provided by financing activities	203,942	93,758	45,140
Net increase (decrease) in cash and cash equivalents and restricted cash	24,322	(6,630)	(172,456)
Cash and cash equivalents and restricted cash at beginning of year	18,478	25,108	197,564
Cash and cash equivalents and restricted cash at end of year	$ 42,800	$ 18,478	$ 25,108
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for interest, net of capitalized interest	$ 13,839	$ 11,888	$ 8,382
Supplemental disclosures of non-cash transactions			
Accounts payable related to capital improvements	$ 6,996	$ 7,955	$ 5,195
Redemption of preferred stock	1,729		
Reconciliation of cash paid for property acquisitions			
Acquisition of properties	$ 319,666	$ 130,944	$ 271,293
Assumption of mortgage loans payable			(4,796)
Mortgage premiums			(60)
Assumption of other assets and liabilities	(22,557)	(2,449)	(3,458)
Net cash paid for property acquisitions	$ 297,109	$ 128,495	$ 262,979

The accompanying notes are an integral part of these consolidated financial statements.

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Terreno Realty Corporation

Notes to Consolidated Financial Statements

Note 1. Organization

Terreno Realty Corporation (Terreno , and together with its subsidiaries, the Company) acquires, owns and operates industrial real estate in six major coastal U.S. markets: Los Angeles, Northern New Jersey/New York City, San Francisco Bay Area, Seattle, Miami, and Washington, D.C. All square feet, acres, occupancy and number of properties and improved land parcels disclosed in these notes to the consolidated financial statements are unaudited. As of December 31, 2017, the Company owned 196 buildings aggregating approximately 13.0 million square feet and ten improved land parcels consisting of approximately 47.9 acres.

The Company is an internally managed Maryland corporation and elected to be taxed as a real estate investment trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code), commencing with its taxable year ended December 31, 2010.

Note 2. Significant Accounting Policies

Basis of Presentation. The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The accompanying consolidated financial statements include all of the Company s accounts and its subsidiaries and all intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Capitalization of Costs. The Company capitalizes costs directly related to the redevelopment, renovation and expansion of its investment in real estate. Costs associated with such projects are capitalized as incurred. If the project is abandoned, these costs are expensed during the period in which the redevelopment or expansion project is abandoned. Costs considered for capitalization include, but are not limited to, construction costs, interest, real estate taxes and insurance, if appropriate. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress. In the event that the activities to ready the asset for its intended use are suspended, the capitalization period will cease until such activities are resumed. Costs incurred for maintaining and repairing properties, which do not extend their useful lives, are expensed as incurred.

Interest is capitalized based on actual capital expenditures from the period when redevelopment, renovation or expansion commences until the asset is ready for its intended use, at the weighted average borrowing rate during the period.

Investments in Real Estate. Investments in real estate, including tenant improvements, leasehold improvements and leasing costs, are stated at cost, less accumulated depreciation, unless circumstances indicate that the cost cannot be recovered, in which case, an adjustment to the carrying value of the property is made to reduce it to its estimated fair value. The Company also reviews the impact of above and below-market leases, in-place leases and lease origination

costs for acquisitions and records an intangible asset or liability accordingly.

Impairment. Carrying values for financial reporting purposes are reviewed for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of a property may not be fully recoverable. Examples of such events or changes in circumstances may include classifying an asset to be held for sale, changing the intended hold period or when an asset remains vacant

significantly longer than expected. The intended use of an asset either held for sale or held for use can significantly impact how impairment is measured. If an asset is intended to be held for the long-term, the recoverability is based on the undiscounted future cash flows. If the asset carrying value is not supported on an undiscounted future cash flow basis, then the asset carrying value is measured against the lower of cost or the present value of expected cash flows over the expected hold period. An impairment charge to earnings is recognized for the excess of the asset s carrying value over the lower of cost or the present values of expected cash flows over the expected hold period. If an asset is intended to be sold, impairment is determined using the estimated fair value less costs to sell. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions, among other things, regarding current and future economic and market conditions and the availability of capital. The Company determines the estimated fair values based on its assumptions regarding rental rates, lease-up and holding periods, as well as sales prices. When available, current market information is used to determine capitalization and rental growth rates. If available, current comparative sales values may also be used to establish fair value. When market information is not readily available, the inputs are based on the Company s understanding of market conditions and the experience of the Company s management team. Actual results could differ significantly from the Company s estimates. The discount rates used in the fair value estimates represent a rate commensurate with the indicated holding period with a premium layered on for risk. There were no impairment charges recorded during the years ended December 31, 2017, 2016 or 2015.

Property Acquisitions Effective January 1, 2017, the Company adopted Accounting Standards Update (ASU) 2017-1, *Business Combinations* (Topic 805): *Clarifying the Definition of a Business* which requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the integrated set of assets and activities is not considered a business. To be a business, the set of acquired activities and assets must include inputs and one or more substantive processes that together contribute to the ability to create outputs. The Company has determined that its real estate property acquisitions will generally be accounted for as asset acquisitions under the clarified definition. Prior to January 1, 2017 the Company generally accounted for property acquisitions as business combinations, in accordance with Accounting Standards Codification (ASC) 805, *Business Combinations*. Upon acquisition of a property the Company estimates the fair value of acquired tangible assets (consisting generally of land, buildings and improvements) and intangible assets and liabilities (consisting generally of the above and below-market leases and the origination value of all in-place leases). The Company determines fair values using Level 3 inputs such as replacement cost, estimated cash flow projections and other valuation techniques and applying appropriate discount and capitalization rates based on available market information. Mortgage loans assumed in connection with acquisitions are recorded at their fair value using current market interest rates for similar debt at the date of acquisition. Acquisition-related costs associated with asset acquisitions are capitalized to individual tangible and intangible assets and liabilities assumed on a relative fair value basis and acquisition-related costs associated with business combinations are expensed as incurred. As a result of the adoption of this standard, the Company capitalized $5.5 million in acquisition costs in 2017.

The fair value of the tangible assets is determined by valuing the property as if it were vacant. Land values are derived from current comparative sales values, when available, or management s estimates of the fair value based on market conditions and the experience of the Company s management team. Building and improvement values are calculated as replacement cost less depreciation, or management s estimates of the fair value of these assets using discounted cash flow analyses or similar methods. The fair value of the above and below-market leases is based on the present value of the difference between the contractual amounts to be received pursuant to the acquired leases (using a discount rate that reflects the risks associated with the acquired leases) and the Company s estimate of the market lease rates measured over a period equal to the remaining term of the leases plus the term of any below-market fixed rate renewal options. The above and below-market lease values are amortized to rental revenues over the remaining initial term

plus the term of any below-market fixed rate renewal options that are considered bargain renewal options of the respective leases. The total net impact to rental revenues due to the amortization of above and below-market leases was a net increase of approximately $2.2 million, $1.3 million and $1.9 million, respectively, for the years ended 2017, 2016 and 2015. The origination value of in-place leases is based on costs to execute similar leases including commissions and other

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related costs. The origination value of in-place leases also includes real estate taxes, insurance and an estimate of lost rental revenue at market rates during the estimated time required to lease up the property from vacant to the occupancy level at the date of acquisition. The remaining weighted average lease term related to these intangible assets and liabilities as of December 31, 2017 is 9.3 years. As of December 31, 2017 and 2016, the Company s intangible assets and liabilities, including properties held for sale (if any), consisted of the following (dollars in thousands):

	December 31, 2017			December 31, 2016		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
In-place leases	$ 71,502	$ (45,885)	$ 25,617	$ 58,112	$ (37,664)	$ 20,448
Above-market leases	4,527	(3,695)	832	4,468	(3,319)	1,149
Below-market leases	(30,386)	8,025	(22,361)	(9,133)	5,648	(3,485)
Total	$ 45,643	$ (41,555)	$ 4,088	$ 53,447	$ (35,335)	$ 18,112

Projected net amortization of the intangible assets and liabilities for the next five years and thereafter as of December 31, 2017 is as follows (dollars in thousands):

2018	$ 5,218
2019	3,399
2020	2,129
2021	1,446
2022	733
Thereafter	(8,837)
Total	$ 4,088

Depreciation and Useful Lives of Real Estate and Intangible Assets. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets or liabilities. The following table reflects the standard depreciable lives typically used to compute depreciation and amortization. However, such depreciable lives may be different based on the estimated useful life of such assets or liabilities.

Description	Standard Depreciable Life
Land	Not depreciated
Building	40 years
Building Improvements	5-40 years
Tenant Improvements	Shorter of lease term or useful life
Leasing Costs	Lease term
In-place leases	Lease term

Above/Below-Market Leases	Lease term

Discontinued Operations. The Company considers a property to be classified as discontinued operations when it meets the criteria established under ASU 2014-08, *Presentation of Financial Statements* (Topic 205) and *Property, Plant and Equipment* (Topic 360), *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. Disposals that represent a strategic shift that should have or will have a major effect on the Company s operations and financial results qualify as discontinued operations.

Held for Sale Assets. The Company considers a property to be held for sale when it meets the criteria established under ASC 360, *Property, Plant, and Equipment* (Note 5). Properties held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale.

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Cash and Cash Equivalents. Cash and cash equivalents consists of cash held in a major banking institution and other highly liquid short-term investments with original maturities of three months or less. Cash equivalents are generally invested in U.S. government securities, government agency securities or money market accounts.

Restricted Cash. Restricted cash includes cash held in escrow in connection with property acquisitions and reserves for certain capital improvements, leasing, interest and real estate tax and insurance payments as required by certain mortgage loan obligations.

The following summarizes the reconciliation of cash and cash equivalents and restricted cash as presented in the accompanying consolidated statements of cash flows:

	For the Year Ended December 31,		
	2017	**2016**	**2015**
Beginning			
Cash and cash equivalents at beginning of year	$ 14,208	$ 22,450	190,601
Restricted cash	4,270	2,658	6,963
Cash and cash equivalents and restricted cash	18,478	25,108	197,564
Ending			
Cash and cash equivalents at end of year	35,710	14,208	22,450
Restricted cash	7,090	4,270	2,658
Cash and cash equivalents and restricted cash	42,800	18,478	25,108
Net increase (decrease) in cash and cash equivalents and restricted cash	$ 24,322	$ (6,630)	(172,456)

Revenue Recognition. The Company records rental revenue from operating leases on a straight-line basis over the term of the leases and maintains an allowance for estimated losses that may result from the inability of its tenants to make required payments. If tenants fail to make contractual lease payments that are greater than the Company s allowance for doubtful accounts, security deposits and letters of credit, then the Company may have to recognize additional doubtful account charges in future periods. The Company monitors the liquidity and creditworthiness of its tenants on an on-going basis by reviewing their financial condition periodically as appropriate. Each period the Company reviews its outstanding accounts receivable, including straight-line rents, for doubtful accounts and provides allowances as needed. The Company also records lease termination fees when a tenant has executed a definitive termination agreement with the Company and the payment of the termination fee is not subject to any conditions that must be met or waived before the fee is due to the Company. If a tenant remains in the leased space following the execution of a definitive termination agreement, the applicable termination will be deferred and recognized over the term of such tenant s occupancy.

Tenant expense reimbursement income includes payments and amounts due from tenants pursuant to their leases for real estate taxes, insurance and other recoverable property operating expenses and is recognized as revenues during the same period the related expenses are incurred.

As of December 31, 2017 and 2016, approximately $23.0 million and $21.6 million, respectively, of straight-line rent and accounts receivable, net of allowances of approximately $0.1 million and $0.4 million as of December 31, 2017 and 2016, respectively, were included as a component of other assets in the accompanying consolidated balance sheets.

Deferred Financing Costs. Costs incurred in connection with financings are capitalized and amortized to interest expense using the effective interest method over the term of the related loan. Deferred financing costs associated with the revolving credit facility are classified as an asset and deferred financing costs associated with debt liabilities are reported as a direct deduction from the carrying amount of the debt liability in the

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accompanying consolidated balance sheets. Deferred financing costs related to the revolving credit facility and debt liabilities are shown at cost, net of accumulated amortization in the aggregate of approximately $5.7 million and $4.5 million as of December 31, 2017 and 2016, respectively.

Mortgage Premiums. Mortgage premiums represent the excess of the fair value of debt assumed over the principal value of debt assumed in connection with property acquisitions. The mortgage premiums are being amortized to interest expense over the term of the related debt instrument using the effective interest method. As of December 31, 2017 and 2016, the mortgage premiums were fully amortized.

Income Taxes. The Company elected to be taxed as a REIT under the Code and operates as such beginning with its taxable year ended December 31, 2010. To qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income to its stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent it distributes qualifying dividends to its stockholders. If it fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the IRS grants it relief under certain statutory provisions. Such an event could materially adversely affect the Company s net income and net cash available for distribution to stockholders. However, the Company believes it is organized and operates in such a manner as to qualify for treatment as a REIT.

ASC 740-10, *Income Taxes,* provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740-10 requires the evaluation of tax positions taken in the course of preparing the Company s tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold are recorded as a tax expense in the current year. As of December 31, 2017 and 2016, the Company did not have any unrecognized tax benefits and does not believe that there will be any material changes in unrecognized tax positions over the next 12 months. The Company s tax returns are subject to examination by federal, state and local tax jurisdictions beginning with the 2010 calendar year.

On December 22, 2017, President Trump signed into law H.R. 1, informally titled the Tax Cuts and Jobs Act (the TCJA). The TCJA makes major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. Among the changes made by the TCJA are permanently reducing the generally applicable corporate tax rate, generally reducing the tax rate applicable to individuals and other non-corporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2026, eliminating or modifying certain previously allowed deductions (including substantially limiting interest deductibility and, for individuals, the deduction for non-business state and local taxes), and, for taxable years beginning after December 31, 2017 and before January 1, 2026, providing for preferential rates of taxation through a deduction of up to 20% (subject to certain limitations) on most ordinary REIT dividends and certain trade or business income of non-corporate taxpayers. The TCJA also imposes new limitations on the deduction of net operating losses, which may result in the Company having to make additional taxable distributions to our stockholders in order to comply with REIT distribution requirements or avoid taxes on retained income and gains. The effect of the significant changes made by the TCJA is highly uncertain, and administrative guidance will be required in order to fully evaluate the effect of many provisions. As of December 31, 2017, the Company has not completed its accounting for the tax effects of enactment of the TCJA and continues to account for those items based on its existing accounting under ASC 740. The

Company is currently assessing the impact of these changes on its consolidated financial statements and notes to its consolidated financial statements.

Stock-Based Compensation and Other Long-Term Incentive Compensation. The Company follows the provisions of ASC 718, *Compensation-Stock Compensation,* to account for its stock-based compensation plan, which requires that the compensation cost relating to stock-based payment transactions be recognized in the

financial statements and that the cost be measured on the fair value of the equity or liability instruments issued. The Company has adopted the Amended and Restated 2010 Equity Incentive Plan, which provides for the grant of restricted stock awards, performance share awards, unrestricted shares or any combination of the foregoing. Stock-based compensation is recognized as a general and administrative expense in the accompanying consolidated statements of operations and measured at the fair value of the award on the date of grant. The Company estimates the forfeiture rate based on historical experience as well as expected behavior. The amount of the expense may be subject to adjustment in future periods depending on the specific characteristics of the stock-based award.

In addition, the Company has awarded long-term incentive target awards (the Performance Share awards) to its executives that may be payable in shares of the Company s common stock after the conclusion of each pre-established performance measurement period, which is generally three years. The amount that may be earned under the Performance Share awards is variable depending on the relative total shareholder return of the Company s common stock as compared to the total shareholder return of the MSCI U.S. REIT Index (RMS) and the FTSE NAREIT Equity Industrial Index over the pre-established performance measurement period. The Company estimates the fair value of the Performance Share awards using a Monte Carlo simulation model on the date of grant and at each reporting period. The Performance Share awards are recognized as compensation expense over the requisite performance period based on the fair value of the Performance Share awards at the balance sheet date and vary quarter to quarter based on the Company s relative share price performance.

Use of Derivative Financial Instruments. ASC 815, *Derivatives and Hedging* (Note 8), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why the Company uses derivative instruments, (b) how the Company accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect the Company s financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments.

The Company records all derivatives on the accompanying consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

As of December 31, 2017, the Company had three interest rate caps to hedge the variable cash flows associated with its existing $150.0 million of variable-rate term loans. The caps have a notional value of $150.0 million and will effectively cap the annual interest rate at 4.0% plus 1.30% to 1.85%, depending on leverage, with respect to $50.0 million for the period from December 1, 2014 (effective date) to May 1, 2021, $50.0 million for the period from September 1, 2015 (effective date) to April 1, 2019, and $50.0 million for the period from September 1, 2015 (effective date) to February 3, 2020. The Company records all derivative instruments on a gross basis in other assets

on the accompanying consolidated balance sheets, and accordingly, there are no offsetting amounts that net assets against liabilities. As of December 31, 2017 and 2016, the fair value of the interest rate caps was approximately $30,000 and $0.3 million, respectively.

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Fair Value of Financial Instruments. ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also provides guidance for using fair value to measure financial assets and liabilities. ASC 820 requires disclosure of the level within the fair value hierarchy in which the fair value measurements fall, including measurements using quoted prices in active markets for identical assets or liabilities (Level 1), quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active (Level 2), and significant valuation assumptions that are not readily observable in the market (Level 3).

New Accounting Standards. In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, which created ASC Topic 606, *Revenue from Contracts with Customers,* which is their final standard on revenue from contracts with customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. The effective date of ASU 2014-09 was deferred by the issuance of ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606): *Deferral of the Effective Date,* by one year to make the guidance of ASU 2014-09 effective for annual reporting periods beginning after December 15, 2017, including interim periods therein. Early adoption is permitted but not prior to the original effective date, which was for annual reporting periods beginning after December 15, 2016. The Company will adopt the guidance effective January 1, 2018. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers* (Topic 606): *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies how to apply the implementation guidance on principal versus agent considerations related to the sale of goods or services to a customer as updated by ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers* (Topic 606): *Identifying Performance Obligations and Licensing*, which clarifies two aspects of Topic 606: (1) identifying performance obligations and (2) the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements in ASU 2015-14. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers* (Topic 606): *Narrow-Scope Improvements and Practical Expedients*, which makes narrow scope amendments to Topic 606 including implementation issues on collectability, non-cash consideration and completed contracts at transition. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which make additional narrow scope amendments to Topic 606 including loan guarantee fees, impairment testing of contract costs, provisions for losses on construction-type and production-type contracts. The FASB allows two adoption methods under ASU 2014-09. Under one method, a company will apply the rules to contracts in all reporting periods presented, subject to certain allowable exceptions. Under the other method, a company will apply the rules to all contracts existing as of January 1, 2018, recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and providing additional disclosures comparing results to previous rules (modified retrospective method). The Company will adopt these updates beginning with the first quarter of its fiscal year 2018 and anticipates doing so using the modified retrospective method. The Company has completed the process to evaluate the impact of the adoption of ASU 2014-09 on historical contracts and other arrangements, including identifying potential differences that will result from applying the requirements of the new guidance. As a result of the review of revenue arrangements, the Company does not anticipate that the adoption will have a material impact on its financial position or results of operations, particularly as it relates to the amount and timing of historical real estate sales contracts and associated gain recognitions. The Company has also drafted revised accounting policies affected by the standard, assessed the redesign of internal controls, as well as evaluated the expanded disclosure requirements. The Company is also continuing to assess the potential effects that this new standard is expected to have on its consolidated financial statements as it relates to its leasing arrangements with its tenants and in concert with its assessment and anticipated adoption of the new leasing guidance under ASU 2016-02, *Leases* (see below). The Company does not expect that this

change will have a material effect on its financial position or results of operations. The Company continues to evaluate other areas of the standard and is currently assessing the impact on its consolidated financial statements and notes to its consolidated financial statements and cannot reasonably estimate quantitative information related to the impact of the new standard on its consolidated financial statements at this time.

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In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU increases transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard requires that non-lease components, such as tenant expense reimbursement revenues, be accounted for in accordance with ASU 2014-09, *Revenue from Contracts with Customers* (see above), which could change the classification and timing of its non-lease components. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those years, which for the Company would be the first quarter of 2019, and early adoption is permitted. The Company is currently assessing the potential changes to its accounting and whether such changes will have a material impact on its consolidated financial statements and notes to its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230): *Classification of Certain Cash Receipts and Cash Payments,* which provides clarified guidance on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company is currently assessing the impact of adopting ASU 2016-15 on its consolidated financial statements and notes to its consolidated financial statements, but does not expect the adoption of ASU 2016-15 to have a material impact.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The Company elected to early adopt the provisions of ASU 2016-18 as of March 31, 2017, and has revised its consolidated statements of cash flows for the years ended December 31, 2016 and 2015 to reflect amounts described as restricted cash and restricted cash equivalents included with cash and cash equivalents in the reconciliation of beginning of year and end of year total amounts shown on the consolidated statements of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. A reconciliation of cash and cash equivalents and restricted cash as presented on the consolidated balance sheets to the consolidated statements of cash flows is included in the significant accounting policies above.

Segment Disclosure. ASC 280, *Segment Reporting*, establishes standards for reporting financial and descriptive information about an enterprise s reportable segments. The Company has determined that it has one reportable segment, with activities related to investing in real estate. The Company s investments in real estate are geographically diversified and the chief operating decision makers evaluate operating performance on an individual asset level. As each of the Company s assets has similar economic characteristics, the assets have been aggregated into one reportable segment.

Note 3. Concentration of Credit Risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. The Company may maintain deposits in federally insured financial institutions in excess of federally insured limits. However, the Company s management believes the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

As of December 31, 2017, the Company owned 55 buildings aggregating approximately 3.1 million square feet and four improved land parcels consisting of approximately 23.3 acres located in Northern New Jersey/New York City, which accounted for a combined percentage of approximately 25.6% of its annualized base rent, and 35 buildings aggregating approximately 2.6 million square feet and three land parcels consisting of

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approximately 8.0 acres located in Los Angeles, which accounted for a combined percentage of approximately 18.5% of its annualized base rent. Such annualized base rent percentages are based on contractual base rent from leases in effect as of December 31, 2017, excluding any partial or full rent abatements.

Other real estate companies compete with the Company in its real estate markets. This results in competition for tenants to occupy space. The existence of competing properties could have a material impact on the Company s ability to lease space and on the level of rent that can be achieved. The Company had no tenants that accounted for greater than 10% of its rental revenues for the years ended December 31, 2017, 2016 and 2015.

Note 4. Investments in Real Estate

During the year ended December 31, 2017, the Company acquired 35 industrial buildings containing approximately 1.7 million square feet and five improved land parcels containing approximately 25.2 acres. The total aggregate initial investment, including acquisition costs, was approximately $319.7 million, of which $211.2 million was recorded to land, $92.6 million to buildings and improvements, $15.9 million to intangible assets and $21.5 million to intangible liabilities.

The following table sets forth the wholly-owned industrial properties the Company acquired during the year ended December 31, 2017:

Property Name	Location	Acquisition Date	Number of Buildings	Square Feet	Purchase Price (in thousands) [1]
Acacia	Compton, CA	January 25, 2017	1	45,776	$ 7,103
637 S. Lucile	Seattle, WA	February 3, 2017	1	45,320	7,750
Lynwood [2]	Lynwood, CA	April 20, 2017	3	477,153	31,378
West Side Ave	North Bergen, NJ	April 20, 2017	1	126,491	14,000
Hanford	Seattle, WA	April 21, 2017	1	34,983	5,940
2920 V Street	Washington, D.C.	May 10, 2017	1	21,666	3,727
Avenue A	Carlstadt, NJ	May 10, 2017	4	32,676	12,000
South Main III	Gardena, CA	June 2, 2017	1	114,061	24,700
Frelinghuysen [3]	Newark, NJ	June 29, 2017			16,250
Stockton [4]	Newark, NJ	June 30, 2017			13,200
Telegraph	Santa Fe Springs, CA	July 6, 2017	2	86,814	14,930
Dawson	Seattle, WA	July 7, 2017	1	13,176	4,000
Walnut	Compton, CA	July 21, 2017	1	57,520	9,352
NW 70th IV	Miami, FL	August 4, 2017	1	15,965	2,515
Kero Road [5]	Carlstadt, NJ	September 1, 2017	2	43,407	13,500
Hotchkiss	Fremont, CA	September 28, 2017	1	40,830	7,275
104th St	Los Angeles, CA	October 19, 2017	1	20,055	4,750
NW 94th Ave	Doral, FL	October 23, 2017	1	38,430	6,759
NW 70th V [6]	Miami, FL	October 30, 2017	1	59,400	8,400
2315 E Dominguez [7]	Los Angeles, CA	November 30, 2017			12,860

1855 W 139th St	Carson, CA	December 15, 2017	2	230,891		37,550
Hawthorne	Hawthorne, CA	December 19, 2017	8	152,025		27,600
New Dutch	Fairfield, NJ	December 20, 2017	1	50,400		7,200
Total			35	1,707,039	$	292,739

[1] Excludes intangible liabilities and assumed mortgage premiums, if any. The total aggregate investment was approximately $319.7 million, including $5.5 million in closing costs and acquisition costs.

[2] Includes approximately one million square feet of land, which is 100% ground leased on a long-term basis to two tenants, and contains two industrial distribution buildings and one rail transshipment facility.

[3] Represents an improved land parcel containing approximately 10.6 acres.

[4] Represents an improved land parcel containing approximately 7.2 acres.

[5] Also includes an improved land parcel containing approximately 1.1 acres.

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[6] Also includes an improved land parcel containing approximately 0.9 acres.
[7] Represents an improved land parcel containing approximately 5.4 acres.

The Company recorded revenues and net income for the year ended December 31, 2017 of approximately $7.3 million and $3.0 million, respectively, related to the 2017 acquisitions.

During year ended December 31, 2016, the Company acquired 19 industrial buildings containing approximately 853,000 square feet and two improved land parcels containing approximately 17.9 acres. The total aggregate initial investment was approximately $130.9 million, of which $65.9 million was recorded to land, $55.6 million to buildings and improvements, $9.4 million to intangible assets and $1.6 million to intangible liabilities.

The following table sets forth the wholly-owned industrial properties the Company acquired during the year ended December 31, 2016:

Property Name	Location	Acquisition Date	Number of Buildings	Square Feet	Purchase Price (in thousands) [1]
4930 3rd Avenue South	Seattle, WA	January 25, 2016	1	35,480	$ 6,500
221 Michele	South San Francisco, CA	March 4, 2016	1	30,000	5,250
12950 SW South River	Medley, FL	March 11, 2016	1	60,000	6,000
901 North [2]	Elizabeth, NJ	March 24, 2016			9,283
Lund	Auburn, WA	April 21, 2016	1	66,942	7,350
NW 70th II	Miami, FL	May 4, 2016	1	53,558	6,355
Denver	Seattle, WA	May 6, 2016	1	24,917	4,741
Wilson	Newark, NJ	June 10, 2016	1	16,600	2,500
New Ridge [3]	Hanover, MD	July 12, 2016			8,200
Hampton Overlook	Capitol Heights, MD	August 4, 2016	3	134,919	14,104
Schoolhouse	Somerset, NJ	September 1, 2016	1	86,400	9,072
709 Hindry	Inglewood, CA	September 19, 2016	1	22,190	5,150
West 140th	San Leandro, CA	October 20, 2016	2	100,494	15,875
74th North Bergen	North Bergen, NJ	November 1, 2016	1	25,041	4,750
NW 70th III	Miami, FL	November 2, 2016	1	55,000	6,100
Paterson Plank	Carlstadt, NJ	November 16, 2016	1	31,415	5,000
NW 74th	Miami, FL	December 16, 2016	1	64,575	6,288
Business Parkway	Lanham, MD	December 21, 2016	1	45,000	6,700
Total			19	852,531	$ 129,218

[1] Excludes intangible liabilities and assumed mortgage premiums, if any. The total aggregate investment was approximately $130.9 million.
[2] Represents an improved land parcel containing approximately 4.5 acres.
[3] Represents an improved land parcel containing approximately 13.4 acres.

The Company recorded revenues and net income for the year ended December 31, 2016 of approximately $4.2 million and $1.1 million, respectively, related to the 2016 acquisitions.

The above assets and liabilities were recorded at fair value, which uses Level 3 inputs. The properties were acquired from unrelated third parties using existing cash on hand, proceeds from property sales, issuance of common stock and borrowings on the revolving credit facility. Effective January 1, 2017, the Company adopted ASU 2017-1, *Business Combinations* (Topic 805): *Clarifying the Definition of a Business* under which property acquisitions are generally accounted for as asset acquisitions resulting in the capitalization of acquisition costs as part of the purchase price of the acquisition, instead of being expensed as incurred. Prior to January 1, 2017 the Company accounted for property acquisitions as business combinations, in accordance with ASC 805, *Business Combinations,* resulting in the expense of acquisition costs as incurred.

During 2016, the Company completed redevelopment of its South Main property in Carson, California. The Company demolished three buildings totaling approximately 186,000 square feet and constructed a new front-

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load industrial distribution building containing approximately 210,000 square feet and renovated an existing approximately 34,000 square foot office building. The Company capitalized interest associated with redevelopment and expansion activities of approximately $0, $0.6 million and $0.3 million, respectively, during the years ended December 31, 2017, 2016 and 2015. The redevelopment cost was approximately $17.8 million for a total investment of approximately $39.3 million, excluding approximately $2.3 million of intangible liabilities.

Pro Forma Financial Information:

The following supplementary pro forma financial information presents the results of operations of the Company for the years ended December 31, 2017 and 2016 as if all of the Company s acquisitions during the year ended December 31, 2017 occurred on January 1, 2016. The following pro forma results for the years ended December 31, 2017 and 2016 have been presented for comparative purposes only and are not necessarily indicative of the results of operations that would have actually occurred had all transactions taken place on January 1, 2016, or of future results of operations (dollars in thousands, except per share data).

	For the Year Ended December 31,	
	2017	2016
	(Unaudited)	
Total revenues	$ 142,495	$ 125,705
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	52,962	18,416
Basic and diluted net income available to common stockholders per share, net of redemption of preferred stock and preferred stock dividends	$ 1.03	$ 0.41

Note 5. Held for Sale/Disposed Assets

The Company considers a property to be held for sale when it meets the criteria established under ASC 360, *Property, Plant, and Equipment*. Properties held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale. As of December 31, 2017, the Company did not have any properties held for sale.

During the year ended December 31, 2017 the Company sold one property located in the Los Angeles market for a sales price of approximately $25.3 million, resulting in a gain of approximately $10.1 million, and three properties in the Washington, D.C. market for an aggregate sales price of approximately $52.0 million, resulting in an aggregate gain of approximately $20.5 million. During the year ended December 31, 2016 the Company sold one property located in the San Francisco Bay Area market for a sales price of approximately $8.2 million, resulting in a gain of approximately $2.7 million, one property in the Washington, D.C. market for a sales price of approximately $8.2 million, resulting in a gain of approximately $2.5 million and one property located in the Miami market for a sales price of approximately $6.1 million, resulting in a gain of approximately $1.9 million.

Note 6. Debt

On July 14, 2017, the Company issued in a private placement $100.0 million of senior unsecured notes with a seven-year term that bear interest at a fixed annual interest rate of 3.75% and mature in July 2024 (the July 2024

Senior Unsecured Notes). Net proceeds from the issuance were used to redeem all 1,840,000 outstanding shares of 7.75% Series A Cumulative Redeemable Preferred Stock (the Series A Preferred Stock), to repay the outstanding borrowings on the Company s revolving credit facility, and for property acquisitions. As of December 31, 2017, the Company also had $50.0 million of senior unsecured notes that mature in September 2022, $50.0 million of senior unsecured notes that mature in July 2026, $50.0 million of senior unsecured notes that mature in October 2027 (collectively, with the July 2024 Senior Unsecured Notes, the Senior Unsecured Notes), and a credit facility (the Facility), which consists of a $200.0 million unsecured revolving credit

facility that matures to August 2020, a $50.0 million term loan that matures in August 2021 and a $100.0 million term loan that matures in January 2022. As of December 31, 2017 and 2016, there was $0 and $51.5 million, respectively, of borrowings outstanding on the revolving credit facility and $150.0 million and $150.0 million, respectively, of borrowings outstanding on the term loans. As of both December 31, 2017 and 2016, the Company had three interest rate caps to hedge the variable cash flows associated with its existing $150.0 million of variable-rate term loans. See Note 8-Derivative Financial Instruments for more information regarding the Company s interest rate caps.

The aggregate amount of the Facility may be increased to a total of up to $600.0 million, subject to the approval of the administrative agent and the identification of lenders willing to make available additional amounts. Outstanding borrowings under the Facility are limited to the lesser of (i) the sum of the $150.0 million of term loans and the $200.0 million revolving credit facility, or (ii) 60.0% of the value of the unencumbered properties. Interest on the Facility, including the term loans, is generally to be paid based upon, at the Company s option, either (i) LIBOR plus the applicable LIBOR margin or (ii) the applicable base rate which is the greatest of the administrative agent s prime rate, 0.50% above the federal funds effective rate, or thirty-day LIBOR plus the applicable LIBOR margin for LIBOR rate loans under the Facility plus 1.25%. The applicable LIBOR margin will range from 1.35% to 1.90% (1.35% at December 31, 2017) for the revolving credit facility and 1.30% to 1.85% (1.30% at December 31, 2017) for the $50.0 million term loan that matures in August 2021 and the $100.0 million term loan that matures in January 2022, depending on the ratio of the Company s outstanding consolidated indebtedness to the value of the Company s consolidated gross asset value. The Facility requires quarterly payments of an annual unused facility fee in an amount equal to 0.20% or 0.25% depending on the unused portion of the Facility.

The Facility and the Senior Unsecured Notes are guaranteed by the Company and by substantially all of the current and to-be-formed subsidiaries of the borrower that own an unencumbered property. The Facility and the Senior Unsecured Notes are unsecured by the Company s properties or by interests in the subsidiaries that hold such properties. The Facility and the Senior Unsecured Notes include a series of financial and other covenants with which the Company must comply. The Company was in compliance with the covenants under the Facility and the Senior Unsecured Notes as of December 31, 2017 and 2016.

The Company has mortgage loans payable which are collateralized by certain of the properties and require monthly interest and principal payments until maturity and are generally non-recourse. The mortgage loans mature between 2019 and 2021. As of December 31, 2017, the Company had three mortgage loans payable, net of deferred financing costs, totaling approximately $64.8 million, which bear interest at a weighted average fixed annual rate of 4.0%. As of December 31, 2016, the Company had four mortgage loans payable, net of deferred financing costs, totaling approximately $66.6 million, which bore interest at a weighted average fixed annual interest rate of 4.0%. As of December 31, 2017 and 2016, the total gross book value of the properties securing the debt was approximately $153.7 million and $163.1 million, respectively.

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The scheduled principal payments of the Company s debt as of December 31, 2017 were as follows (dollars in thousands):

	Credit Facility	Term Loans	Senior Unsecured Notes	Mortgage Loans Payable	Total Debt
2018	$	$	$	$ 1,910	$ 1,910
2019				18,805	18,805
2020				33,077	33,077
2021		50,000		11,271	61,271
2022		100,000	50,000		150,000
Thereafter			200,000		200,000
Subtotal		150,000	250,000	65,063	465,063
Unamortized net premiums					
Total Debt		150,000	250,000	65,063	465,063
Deferred financing costs, net		(1,103)	(2,045)	(232)	(3,380)
Total Debt, net	$	$ 148,897	$ 247,955	$ 64,831	$ 461,683
Weighted Average Interest Rate	n/a	2.5%	4.1%	4.0%	3.6%

Note 7. Leasing

The following is a schedule of minimum future cash rentals on tenant operating leases in effect as of December 31, 2017. The schedule does not reflect future rental revenues from the renewal or replacement of existing leases and excludes property operating expense reimbursements (dollars in thousands):

2018	$ 103,924
2019	91,512
2020	79,283
2021	65,128
2022	49,378
Thereafter	130,454
Total	$ 519,679

Note 8. Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company s derivative financial instruments are used to manage differences in the amount, timing, and duration of its known or expected cash payments principally related to its borrowings.

Derivative Instruments

The Company s objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest

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rate caps as part of its interest rate risk management strategy. Interest rate caps involve the receipt of variable amounts from a counterparty at the end of each period in which the interest rate exceeds the agreed fixed price. The Company does not use derivatives for trading or speculative purposes. The Company requires that hedging derivative instruments be highly effective in reducing the risk exposure that they are designated to hedge. As a result, there is no significant ineffectiveness from any of its derivative activities.

The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. For a derivative that is designated and that qualifies as a cash flow hedge, the effective portion of the change in fair value of the derivative is initially recorded in accumulated other comprehensive income (loss) (AOCI). Amounts recorded in AOCI are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of a derivative s change in fair value is immediately recognized in earnings.

As of December 31, 2017 and 2016, the Company had three interest rate caps to hedge the variable cash flows associated with its existing $150.0 million of variable-rate term loans. The caps have a notional value of $150.0 million and will effectively cap the annual interest rate payable at 4.0% plus 1.30% to 1.85%, depending on leverage, with respect to $50.0 million for the period from December 1, 2014 (effective date) to May 1, 2021, $50.0 million for the period from September 1, 2015 (effective date) to April 1, 2019 and $50.0 million for the period from September 1, 2015 (effective date) to February 3, 2020. The Company is required to make certain monthly variable rate payments on the term loans, while the applicable counterparty is obligated to make certain monthly floating rate payments based on LIBOR to the Company in the event LIBOR is greater than 4.0%, referencing the same notional amount.

The Company records all derivative instruments on a gross basis in other assets on the accompanying consolidated balance sheets, and accordingly, there are no offsetting amounts that net assets against liabilities. The following table presents a summary of the Company s derivative instruments designated as hedging instruments (dollars in thousands):

			Interest	Fair Value		Notional Amount	
	Effective Date	Maturity Date	Rate Strike	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Derivative Instrument							
Assets:							
Interest Rate Cap	12/1/2014	5/1/2021	4.0%	$ 26	$ 204	$ 50,000	$ 50,000
Interest Rate Cap	9/1/2015	4/1/2019	4.0%	1	14	50,000	50,000
Interest Rate Cap	9/1/2015	2/3/2020	4.0%	3	63	50,000	50,000
Total				$ 30	$ 281	$ 150,000	$ 150,000

The effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges is recorded in AOCI and will be reclassified to interest expense in the period that the hedged forecasted transaction affects earnings on the Company s variable rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings into interest expense.

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The following table presents the effect of the Company s derivative financial instruments on its accompanying consolidated statements of operations for years ended December 31, 2017 and 2016 (in thousands):

	For the Year Ended December 31,		
	2017	2016	2015
Interest rate caps in cash flow hedging relationships:			
Amount of gain recognized in AOCI on derivatives (effective portion)	$ 103	$	$
Amount of gain reclassified from AOCI into interest expense (effective portion)	$ 103	$	$

The Company estimates that approximately $0.3 million will be reclassified from AOCI as an increase to interest expense over the next twelve months.

Note 9. Fair Value Measurements

ASC 820 requires disclosure of the level within the fair value hierarchy in which the fair value measurements fall, including measurements using quoted prices in active markets for identical assets or liabilities (Level 1), quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active (Level 2), and significant valuation assumptions that are not readily observable in the market (Level 3).

Recurring Measurements Interest Rate Contracts

Fair Value of Interest Rate Caps

Currently, the Company uses interest rate cap agreements to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. As of December 31, 2017 and 2016, the Company applied the provisions of this standard to the valuation of its interest rate caps.

The following sets forth the Company s financial instruments that are accounted for at fair value on a recurring basis as of December 31, 2017 and 2016 (dollars in thousands):

		Fair Value Measurement Using		
	Total Fair Value	Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Interest rate caps at:				
December 31, 2017	$ 30	$	$ 30	$
December 31, 2016	$ 281	$	$ 281	$

Financial Instruments Disclosed at Fair Value

As of December 31, 2017 and 2016, the fair values of cash and cash equivalents, accounts receivable, and accounts payable approximated their carrying values because of the short-term nature of these investments or liabilities based on Level 1 inputs. The fair values of the Company s derivative instruments were evaluated based on Level 2 inputs. The fair values of the Company s mortgage loans payable and Senior Unsecured Notes were estimated by calculating the present value of principal and interest payments, based on borrowing rates available to the Company, which are Level 2 inputs, adjusted with a credit spread, as applicable, and assuming the loans are outstanding through maturity. The fair value of the Company s Facility approximated its carrying value because the variable interest rates approximate market borrowing rates available to the Company, which are Level 2 inputs.

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The following table sets forth the carrying value and the estimated fair value of the Company s debt as of December 31, 2017 and 2016 (dollars in thousands):

		Fair Value Measurement Using			
	Total Fair Value	Quoted Price in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value
Liabilities					
Debt at:					
December 31, 2017	$ 459,048	$	$ 459,048	$	$ 461,683
December 31, 2016	$ 417,219	$	$ 417,219	$	$ 415,327

Note 10. Stockholders Equity

The Company s authorized capital stock consists of 400,000,000 shares of common stock, $0.01 par value per share, and 100,000,000 shares of preferred stock, $0.01 par value per share. The Company has an at-the-market equity offering program (the $200 Million ATM Program) pursuant to which the Company may issue and sell shares of its common stock having an aggregate offering price of up to $200.0 million in amounts and at times to be determined by the Company from time to time. Prior to the implementation of the $200 Million ATM Program, the Company had a $150.0 million ATM program (the $150 Million ATM Program), which was fully utilized as of June 30, 2017, and a $100.0 million ATM program (the $100 Million ATM Program), which was fully utilized as of December 31, 2016. Actual sales under the $200 Million ATM Program, if any, will depend on a variety of factors to be determined by the Company from time to time, including, among others, market conditions, the trading price of the Company s common stock, determinations by the Company of the appropriate sources of funding for the Company and potential uses of funding available to the Company. The Company intends to use the net proceeds from the offering of the shares under the $200 Million ATM Program, if any, for general corporate purposes, which may include future acquisitions and repayment of indebtedness, including borrowings under the Facility. During the year ended December 31, 2017, the Company issued an aggregate of 7,859,929 shares of common stock at a weighted average offering price of $32.48 per share under the $200 Million ATM Program and the $150 Million ATM Program, resulting in net proceeds of approximately $251.6 million and paying total compensation to the applicable sales agents of approximately $3.7 million. During the year ended December 31, 2016, the Company issued an aggregate of 3,991,830 shares of common stock at a weighted average offering price of $25.39 per share under the $100 Million ATM Program, resulting in net proceeds of approximately $99.9 million and paying total compensation to the applicable sales agents of approximately $1.5 million. As of December 31, 2017 and 2016, the Company had shares of common stock having an aggregate offering price of up to $90.1 million available for issuance under the $200 Million ATM Program and $145.5 million available for issuance under the $150 Million ATM Program, respectively.

The Company has a share repurchase program authorizing the Company to repurchase up to 2,000,000 shares of its outstanding common stock from time to time through December 31, 2018. Purchases made pursuant to the program will be made in either the open market or in privately negotiated transactions as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal

requirements and other factors. The program may be suspended or discontinued at any time. As of December 31, 2017 the Company has not repurchased any shares of stock pursuant to its share repurchase authorization.

In connection with the annual meeting of stockholders on May 2, 2017, the Company granted a total of 10,988 shares of unrestricted common stock to its independent directors under the Company s Amended and Restated 2010 Equity Incentive Plan with a grant date fair value per share of $30.95. The grant date fair value of the

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unrestricted common stock was determined using the closing price of the Company s common stock on the date of the grant. The Company recognized approximately $0.3 million in compensation costs for the year ended December 31, 2017 related to this issuance.

As of December 31, 2017 and 2016, respectively, 0 and 1,840,000 shares of Series A Preferred Stock were issued and outstanding.

On July 19, 2017, the Company redeemed all 1,840,000 outstanding shares of the Series A Preferred Stock for cash at a redemption price of $25.00 per share, plus an amount per share of $0.096875 representing all accrued and unpaid dividends per share from July 1, 2017 to, but excluding, July 19, 2017. The Company recognized a charge of approximately $1.8 million during the year ended December 31, 2017 representing the write-off of original issuance costs related to the redemption of the Series A Preferred Stock.

As of December 31, 2017, there were 1,705,000 shares of common stock authorized for issuance as restricted stock grants, unrestricted stock awards or Performance Share awards under the Company s Amended and Restated 2010 Equity Incentive Plan (the Plan), of which 595,024 were remaining and available for issuance. The grant date fair value per share of restricted stock awards issued during the period from February 16, 2010 (commencement of operations) to December 31, 2017 ranged from $14.20 to $26.52. The fair value of the restricted stock that was granted during the year ended December 31, 2017 was approximately $0.9 million and the vesting period for the restricted stock is five years. As of December 31, 2017, the Company had approximately $4.7 million of total unrecognized compensation costs related to restricted stock issuances, which is expected to be recognized over a remaining weighted average period of approximately 2.8 years. The Company recognized compensation costs of approximately $1.7 million, $1.9 million and $1.3 million, respectively, for the years ended December 31, 2017, 2016 and 2015 related to the restricted stock issuances.

The following is a summary of the total restricted shares granted to the Company s executive officers and employees with the related weighted average grant date fair value share prices for the years ended December 31, 2017, 2016 and 2015.

Restricted Stock Activity:

	Shares	Weighted Average Grant Date Fair Value
Non-vested shares outstanding as of December 31, 2014	156,488	$ 17.45
Granted	308,087	20.97
Forfeited	(20,322)	17.33
Vested	(40,785)	18.13
Non-vested shares outstanding as of December 31, 2015	403,468	20.08
Granted	32,797	21.50
Forfeited	(16,489)	17.53

Vested	(24,495)		17.26
Non-vested shares outstanding as of December 31, 2016	395,281		20.48
Granted	32,247		26.52
Forfeited	(50,008)		21.60
Vested	(20,337)		18.06
Non-vested shares outstanding as of December 31, 2017	357,183	$	21.01

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The following is a vesting schedule of the total non-vested shares of restricted stock outstanding as of December 31, 2016:

Non-vested Shares Vesting Schedule	Number of Shares
2018	27,168
2019	18,966
2020	298,028
2021	8,350
2022	4,671
Thereafter	
Total Non-vested Shares	357,183

Long-Term Incentive Plan:

As of December 31, 2017, there are three open performance measurement periods for the Performance Share awards: January 1, 2015 to December 31, 2017, January 1, 2016 to December 31, 2018 and January 1, 2017 to December 31, 2019. During the year ended December 31, 2017, the Company issued 195,233 shares of common stock at a price of $28.84 per share related to the Performance Share awards for the performance period from January 1, 2014 to December 31, 2016. The Company recorded compensation expense of approximately $6.7 million, $7.3 million and $4.5 million, respectively, for the years ended December 31, 2017, 2016 and 2015, related to the Performance Share awards. As of December 31, 2017, 2016 and 2015 approximately $11.8 million, $10.7 million, and $6.4 million respectively, of compensation costs related to the Performance Share awards were accrued.

The following table summarizes certain information with respect to the Performance Share awards (dollars in thousands):

Performance Share Period		Fair Value December 31, 2017	Accrual December 31, 2017	Expense For the Year Ended December 31, 2017	2016	2015
January 1, 2017	December 31, 2019	$ 4,596	$ 1,532	$ 1,532	$	$
January 1, 2016	December 31, 2018	5,175	3,452	2,189	1,262	
January 1, 2015	December 31, 2017	6,840	6,840	2,994	2,589	1,257
January 1, 2014	December 31, 2016				3,471	1,463
January 1, 2013	December 31, 2015					1,761
Total		$ 16,611	$ 11,824	$ 6,715	$ 7,322	$ 4,481

[1] Subsequent to December 31, 2017, the compensation committee determined that approximately $6.8 million was earned under the Long-Term Incentive Plan with respect to the performance period that ended on December 31, 2017 and a total of 195,963 shares of common stock were issued to the executives.

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Dividends:

The following table sets forth the cash dividends paid or payable per share during the years ended December 31, 2017 and 2016:

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2017	Common stock	$ 0.200000	February 7, 2017	March 28, 2017	April 12, 2017
March 31, 2017	Preferred stock	$ 0.484375	February 7, 2017	March 10, 2017	March 31, 2017
June 30, 2017	Common stock	$ 0.200000	May 2, 2017	July 7, 2017	July 21, 2017
June 30, 2017	Preferred stock	$ 0.484375	May 2, 2017	June 9, 2017	June 30, 2017
September 30, 2017	Common stock	$ 0.220000	August 1, 2017	October 6, 2017	October 21, 2017
December 31, 2017	Common stock	$ 0.220000	October 31, 2017	December 29, 2017	January 12, 2018

For the Three Months Ended	Security	Dividend per Share	Declaration Date	Record Date	Date Paid
March 31, 2016	Common stock	$ 0.180000	February 9, 2016	March 28, 2016	April 12, 2016
March 31, 2016	Preferred stock	$ 0.484375	February 9, 2016	March 10, 2016	March 31, 2016
June 30, 2016	Common stock	$ 0.180000	May 3, 2016	July 7, 2016	July 21, 2016
June 30, 2016	Preferred stock	$ 0.484375	May 3, 2016	June 10, 2016	June 30, 2016
September 30, 2016	Common stock	$ 0.200000	July 26, 2016	October 7, 2016	October 21, 2016
September 30, 2016	Preferred stock	$ 0.484375	July 26, 2016	September 9, 2016	September 30, 2016
December 31, 2016	Common stock	$ 0.200000	November 1, 2016	December 30, 2016	January 13, 2017
December 31, 2016	Preferred stock	$ 0.484375	November 1, 2016	December 9, 2016	December 30, 2016

On July 19, 2017, the Company redeemed all 1,840,000 outstanding shares of the Series A Preferred Stock for cash at a redemption price of $25.00 per share, plus an amount per share of $0.096875 representing all accrued and unpaid dividends per share from July 1, 2017 to, but excluding, July 19, 2017.

Note 11. Net Income (Loss) Per Share

Pursuant to ASC 260-10-45, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method of computing earnings per share allocates earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. The Company s non-vested shares of restricted stock are considered participating securities since these share-based awards contain non-forfeitable rights to dividends irrespective of whether the awards ultimately vest or expire. The Company had no dilutive restricted stock awards outstanding for the years ended December 31, 2017, 2016 and 2015.

In accordance with the Company s policies of determining whether instruments granted in share-based payment transactions are participating securities and accounting for earnings per share, the net income (loss) per common share is adjusted for earnings distributed through declared dividends (if any) and allocated to all participating securities (weighted average common shares outstanding and unvested restricted shares outstanding) under the two-class method. Under this method, allocations were made to 357,183, 398,475 and 242,402 of weighted average unvested restricted shares outstanding for the years ended December 31, 2017, 2016 and 2015, respectively.

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Note 12. Quarterly Results of Operations Unaudited

The following tables summarize the Company s quarterly financial information.

	2017 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except share and per share data)			
Total revenues	$ 31,441	$ 32,778	$ 33,640	$ 34,625
Total costs and expenses	(21,911)	(23,568)	(23,659)	(24,297)
Total other income and (expenses)	(3,731)	6,317	10,952	508
Net income	5,799	15,527	20,933	10,836
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	$ 4,874	$ 14,529	$ 18,852	$ 10,761
Earnings per Common Share Basic and Diluted:				
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends [1]	$ 0.10	$ 0.29	$ 0.36	$ 0.20
Basic and Diluted Weighted Average Common Shares Outstanding	47,645,321	50,325,668	52,804,611	54,563,353

	2016 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except share and per share data)			
Total revenues	$ 25,657	$ 25,817	$ 27,104	$ 29,840
Total costs and expenses	(20,415)	(19,964)	(22,422)	(24,371)
Total other income and (expenses)	2,191	(3,070)	(1,612)	(3,637)
Net income	7,433	2,783	3,070	1,832
Net income available to common stockholders, net of redemption of preferred stock and preferred stock dividends	$ 6,484	$ 1,877	$ 2,161	$ 936
Earnings per Common Share Basic and Diluted:				
Net income available to common stockholders, net of redemption of	$ 0.15	$ 0.04	$ 0.05	$ 0.02

preferred stock and preferred stock dividends [1]				
Basic and Diluted Weighted Average Common Shares Outstanding	42,995,106	43,839,910	45,762,761	46,277,521

[1] The above quarterly income per share calculations are based on the weighted average number of common shares outstanding during each quarter. The income per share calculation for the years ended December 31, 2017 and 2016 in the consolidated statements of operations is based on the weighted average number of common shares outstanding for the years ended December 31, 2017 and 2016. The sum of the quarterly financial data may vary from the years ended December 31, 2017 and 2016 data due to rounding.

Note 13. Commitments and Contingencies

Litigation. The Company is not involved in any material litigation nor, to its knowledge, is any material litigation threatened against it. In the normal course of business, from time to time, the Company may be involved in legal actions relating to the ownership and operations of its properties. Management does not expect that the liabilities, if any, that may ultimately result from such legal actions will have a material effect on the consolidated financial position, results of operations or cash flows of the Company.

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Environmental Matters. The industrial properties that the Company owns and will acquire are subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require the Company, as owner of a contaminated property, to clean up the property, even if it did not know of or was not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated, and therefore it is possible the Company could incur these costs even after the Company sells some of the properties it acquires. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner s ability to borrow using the property as collateral or to sell the property. Under applicable environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos at one of the Company s properties may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities. An example would be laws that require a business using chemicals to manage them carefully and to notify local officials that the chemicals are being used.

The Company could be responsible for any of the costs discussed above. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect the funds available for distribution to its stockholders. The Company generally obtains Phase I environmental site assessments , or ESAs, on each property prior to acquiring it. However, these ESAs may not reveal all environmental costs that might have a material adverse effect on the Company s business, assets, results of operations or liquidity and may not identify all potential environmental liabilities.

The Company utilizes local third-party property managers for day-to-day property management and will rely on these third parties to operate its industrial properties in compliance with applicable federal, state and local environmental laws in their daily operation of the respective properties and to promptly notify the Company of any environmental contaminations or similar issues.

As a result, the Company may become subject to material environmental liabilities of which it is unaware. The Company can make no assurances that (1) future laws or regulations will not impose material environmental liabilities on it, or (2) the environmental condition of the Company s industrial properties will not be affected by the condition of the properties in the vicinity of its industrial properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to the Company. The Company was not aware of any significant or material exposures as of December 31, 2017 or 2016.

General Uninsured Losses. The Company carries property and rental loss, liability and terrorism insurance. The Company believes that the policy terms, conditions, limits and deductibles are adequate and appropriate under the circumstances, given the relative risk of loss, the cost of such coverage and current industry practice. In addition, the Company s properties are located, or may in the future be located, in areas that are subject to earthquake and flood activity. As a result, the Company has obtained, as applicable, limited earthquake and flood insurance on those properties. There are, however, certain types of extraordinary losses, such as those due to acts of war that may be either uninsurable or not economically insurable. Although the Company has obtained coverage for certain acts of terrorism, with policy specifications and insured limits that it believes are commercially reasonable, there can be no assurance that the Company will be able to collect under such policies. Should an uninsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, a property. The Company was not aware of

any significant or material exposures as of December 31, 2017 and 2016.

Contractual Commitments. As of February 7, 2018, the Company had three outstanding contracts with third-party sellers to acquire three industrial properties consisting of approximately 526,000 square feet. There is no assurance that the Company will acquire the properties under contract because the proposed acquisitions are

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subject to the completion of satisfactory due diligence and various closing conditions. The following table summarizes certain information with respect to the properties the Company has under contract:

Market	Number of Buildings	Square Feet	Purchase Price (in thousands)	Assumed Debt (in thousands)
Los Angeles				$
Northern New Jersey/New York City	1	83,294	25,170	
San Francisco Bay Area				
Seattle	2	442,720	67,410	
Miami				
Washington, D.C.				
Total	3	526,014	$ 92,580	$

As of February 7, 2018, the Company has two outstanding contracts with third-party purchasers to sell two properties consisting of three buildings for an aggregate sales price of approximately $39.3 million (aggregate net book value of approximately $29.4 million). There is no assurance the Company will sell the properties under contract because the proposed dispositions are subject to the purchaser s completion of satisfactory due diligence and various closing conditions.

Note 14. Subsequent Events

On January 31, 2018, the Company acquired one industrial building located in Torrance, CA containing approximately 100,000 square feet for a total purchase price of approximately $17.5 million. The property was acquired from an unrelated third-party using existing cash on hand.

On February 6, 2018, the Company s board of directors declared a cash dividend in the amount of $0.22 per share of its common stock payable on April 12, 2018 to the stockholders of record as of the close of business on March 28, 2018.

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Terreno Realty Corporation

Schedule III

Real Estate Investments and Accumulated Depreciation

As of December 31, 2017

(in thousands)

				Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount Carried at December 31, 2017					
y Name	No. of Bldgs.	Location	Encumbrances	Land	Buildings & Improvements		Land	Buildings & Improvements	Total	Accumulated Depreciation	Year Acquired	Y Cons
geles												
reet	1	Los Angeles, CA	$	$ 3,701	$ 976	$	$ 3,701	$ 976	$ 4,677	$ 5	2017	
reet	2	Carson, CA		21,236	15,783		21,236	15,783	37,019	17	2017	196
sgow	1	Inglewood, CA	2,165	2,245	1,855	385	2,245	2,240	4,485	501	2011	
sgow	1	Inglewood, CA		1,759	1,555	205	1,759	1,760	3,519	216	2014	
alnut	1	Compton, CA		6,130	2,522	10	6,130	2,532	8,662	32	2017	196
Iiller	1	Fontana, CA		8,695	12,945	8	8,695	12,953	21,648	1,042	2014	
ay	1	Gardena, CA		4,757	1,243	974	4,757	2,217	6,974	597	2013	
Iamilton	1	Torrance, CA		7,409	4,072	671	7,409	4,743	12,152	734	2011	
dry	1	Inglewood, CA		2,105	2,972	32	2,105	3,004	5,109	104	2016	
	1	Compton, CA		5,143	1,985	625	5,143	2,610	7,753	120	2017	
ia	1	Corona, CA		3,225	4,416	464	3,225	4,880	8,105	474	2014	
uez		Los Angeles, CA		11,370	1,535		11,370	1,535	12,905	8	2017	
	5	Commerce, CA	22,723	27,539	22,694	3,347	27,539	26,041	53,580	5,127	2012	
rne	8	Hawthorne, CA		17,226	10,069		17,226	10,069	27,295	11	2017	195
manas	1	Compton, CA		3,330	751	208	3,330	959	4,289	148	2014	
d	3	Lynwood, CA		43,885			43,885		43,885		2017	
an	1	Redondo Beach, CA		7,874	5,641	340	7,874	5,981	13,855	906	2012	196
Iain	2	Carson, CA		16,371	7,045	17,028	16,371	24,073	40,444	4,932	2012/2014	
Iain III	1	Gardena, CA		11,521	12,467		11,521	12,467	23,988	181	2017	
oh	2	Santa Fe Springs, CA		7,063	7,236	62	7,063	7,298	14,361	87	2017	
n New rk City												
Drive	1	West Caldwell, NJ		3,819	2,982	1,439	3,819	4,421	8,240	901	2013	

son	1	Fairfield, NJ	974	1,647	468	974	2,115	3,089	370	2013
ki	1	Bayonne, NJ	4,003	4,946	1,134	4,003	6,080	10,083	742	2014
son	1	Fairfield, NJ	1,365	1,607	104	1,365	1,711	3,076	112	2015
	2	Carlstadt, NJ	10,343	3,876	141	10,343	4,017	14,360	43	2017
rth										
	1	North Bergen, NJ	2,933	1,817	353	2,933	2,170	5,103	71	2016
hele	1	Carlstadt, NJ	2,372	4,798	485	2,372	5,283	7,655	628	2013
uysen		Newark, NJ	16,728		629	16,728	629	17,357		2017
adow	1	Carlstadt, NJ	713	1,618	229	713	1,847	2,560	223	2013

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				Initial Cost to Company		Costs Capitalized Subsequent to	Gross Amount Carried at December 31, 2017					
y Name	No. of Bldgs.	Location	Encumbrances	Land	Buildings & Improvements	Acquisition	Land	Buildings & Improvements	Total	Accumulated Depreciation	Year Acquired	Y Cons
ancy	1	Newark, NJ		9,230	4,855	1,053	9,230	5,908	15,138	656	2013	
ision	1	Elizabeth, NJ	5,910	6,491	3,568	2,995	6,491	6,563	13,054	1,983	2011	
est Side	1	North Bergen, NJ		4,525	8,856		4,525	8,856	13,381	161	2017	
t	1	Piscataway, NJ		3,202	3,866	887	3,202	4,753	7,955	620	2014	
th		Elizabeth, NJ		8,035	913	822	8,035	1,735	9,770	145	2016	
A	4	Carlstadt, NJ		7,516	4,660	262	7,516	4,922	12,438	102	2017	195
le	1	Kearny, NJ	12,570	12,845	18,041	1,323	12,845	19,364	32,209	3,174	2011	
	1	Carlstadt, NJ		6,641	771	170	6,641	941	7,582	150	2011	
	2	Piscataway, NJ		2,748	3,801	1,217	2,748	5,018	7,766	743	2013	198
e	2	South Brunswick, NJ		13,686	12,135	10,286	13,686	22,421	36,107	3,796	2010/2013	199
gate	4	Queens, NY		18,282	32,933	3,893	18,282	36,826	55,108	4,383	2013	198
	1	East Rutherford, NJ		4,076	5,262	1,685	4,076	6,947	11,023	411	2015	
Lane	3	East Hanover, NJ		5,931	13,178	1,894	5,931	15,072	21,003	2,059	2013	198
rook	18	Bound Brook, NJ		16,442	10,241	10,254	16,442	20,495	36,937	5,696	2010	195
tch	1	Fairfield, NJ		4,773	2,004		4,773	2,004	6,777	3	2017	
Plank	1	Carlstadt, NJ		4,127	455	118	4,127	573	4,700	21	2016	
ouse	1	Somerset, NJ		2,375	5,705		2,375	5,705	8,080	195	2016	
h		Newark, NJ		12,327	1,282	222	12,327	1,504	13,831	45	2017	
l Way	2	Avenel, NJ		3,537	3,598	38	3,537	3,636	7,173	294	2014	195
	1	Newark, NJ		2,016	484	776	2,016	1,260	3,276	84	2016	
ncisco ea												
ce	2	South San Francisco, CA		6,674	2,655	1,111	6,674	3,766	10,440	1,014	2010	
lefield	1	South San Francisco, CA		5,107	3,293	2,852	5,107	6,145	11,252	661	2013	
vrence	1	South San Francisco, CA		1,352	1,198	416	1,352	1,614	2,966	477	2010	
nnan	1	San Jose, CA		1,932	2,245	503	1,932	2,748	4,680	535	2012	
	2	Union City, CA	3,124	3,246	2,749	665	3,246	3,414	6,660	854	2010	
I	1	Union City, CA		2,467	4,527	201	2,467	4,728	7,195	388	2015	
hs	3	San Leandro, CA		5,400	7,092	659	5,400	7,751	13,151	770	2014	
an	3	Sunnyvale, CA		17,483	14,493	1,721	17,483	16,214	33,697	2,634	2012	198
Court	1	South San Francisco, CA		2,036	1,475	162	2,036	1,637	3,673	296	2012	
r	1	Hayward, CA	4,308	5,964	1,159	23	5,964	1,182	7,146	178	2011	
ss	1	Fremont, CA		4,163	3,152	419	4,163	3,571	7,734	25	2017	
chele	1	South San Francisco, CA		2,710	2,540	132	2,710	2,672	5,382	148	2016	
0th	2	San Leandro, CA		9,578	6,297	3,617	9,578	9,914	19,492	269	2016	
Pacific s Park I	3	Union City, CA		8,468	14,165	678	8,468	14,843	23,311	1,297	2014	
Pacific s Park II	4	Union City, CA		13,642	23,658	5,132	13,642	28,790	42,432	2,001	2015	

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				Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount Carried at December 31, 2017					
Property Name	No. of Bldgs.	Location	Encumbrances	Land	Buildings & Improvements		Land	Buildings & Improvements	Total	Accumulated Depreciation	Year Acquired	Year Constructed
Seattle												
79 Ave South	1	Kent, WA		1,267	1,503	380	1,267	1,883	3,150	277	2014	2000
3401 Lind	1	Renton, WA		2,999	6,707	383	2,999	7,090	10,089	568	2014	1984/2012
4225 2nd Avenue	1	Seattle, WA		4,236	4,049	2,009	4,236	6,058	10,294	359	2015	1957
4930 3rd Avenue South	1	Seattle, WA		3,984	2,424	12	3,984	2,436	6,420	121	2016	1964
17600 West Valley Highway	1	Tukwila, WA		3,361	5,260	960	3,361	6,220	9,581	1,121	2012	1986
Auburn 1307	1	Auburn, WA		4,253	5,034	181	4,253	5,215	9,468	507	2014	2002
Dawson	1	Seattle, WA		3,902	278		3,902	278	4,180	4	2017	1964
Denver	1	Seattle, WA		3,203	1,345	480	3,203	1,825	5,028	71	2016	1953
Hanford	1	Seattle, WA		3,821	2,250	215	3,821	2,465	6,286	43	2017	1952
Kent 188	1	Kent, WA	4,757	3,251	4,719	1,248	3,251	5,967	9,218	1,337	2010	1979
Kent 190	1	Kent, WA		4,560	5,561	271	4,560	5,832	10,392	426	2015	1992/1999
Kent 202	1	Kent, WA		5,761	9,114	2,806	5,761	11,920	17,681	644	2015	1981
Kent 216	1	Kent, WA		3,672	5,408	299	3,672	5,707	9,379	693	2014	1996
Kent Corporate Park	4	Kent, WA		5,032	6,916	1,164	5,032	8,080	13,112	644	2015	1980/1981
Lucile	1	Seattle, WA		4,498	3,504	1,334	4,498	4,838	9,336	126	2017	1976
Lund	1	Auburn, WA		2,573	4,399	56	2,573	4,455	7,028	214	2016	1999
Olympic	1	Tukwila, WA		1,499	1,431	491	1,499	1,922	3,421	189	2015	1978
SeaTac 8th Avenue	1	Burien, WA		2,501	4,020	491	2,501	4,511	7,012	751	2013	1988
SW 34th	1	Renton, WA		2,912	3,289	478	2,912	3,767	6,679	360	2014	1996/2010
Valley Corporate	2	Kent, WA	7,713	5,264	9,096	1,279	5,264	10,375	15,639	1,745	2011	1987
Miami												
10th Avenue	1	Hialeah, FL		6,376	2,624	2,884	6,376	5,508	11,884	1,648	2010	1957/2005
25th Street	1	Doral, FL		4,454	4,889	68	4,454	4,957	9,411	395	2015	1974
26th Street	2	Miami, FL		4,569	6,183	46	4,569	6,229	10,798	876	2012	1973
48th Avenue	2	Miami Gardens, FL		4,322	2,187	372	4,322	2,559	6,881	395	2011	1987
60th Avenue	1	Miami Lakes, FL		6,203	1,567	6,582	6,203	8,149	14,352	2,292	2010	1971/2011
70th Avenue	1	Miami, FL		1,434	2,333	198	1,434	2,531	3,965	440	2011	1999
70th Avenue II	1	Miami, FL		2,152	3,418	33	2,152	3,451	5,603	142	2016	1969
70th Avenue III	1	Miami, FL		2,543	3,167		2,543	3,167	5,710	91	2016	1974
70th Avenue IV	1	Miami, FL		1,119	1,456		1,119	1,456	2,575	14	2017	1969
70th Avenue V	1	Miami, FL		5,036	3,419	10	5,036	3,429	8,465	19	2017	1974
74th Avenue	1	Miami, FL		2,327	3,538	293	2,327	3,831	6,158	99	2016	1986
78th Avenue	1	Doral, FL		2,445	1,755	1,913	2,445	3,668	6,113	755	2012	1977
81st Street	2	Medley, FL		2,938	5,242	776	2,938	6,018	8,956	569	2015	1996/2003

94th Avenue	1	Doral, FL		3,000	3,580	40	3,000	3,620	6,620	19	2017	1989
107th Avenue	1	Medley, FL	1,793	2,787	2,036	491	2,787	2,527	5,314	392	2013	2001
101st Road	1	Medley, FL		2,647	3,258	161	2,647	3,419	6,066	467	2013	2012

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				Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount Carried at December 31, 2017				
ne	No. of Bldgs.	Location	Encumbrances	Land	Buildings & Improvements		Land	Buildings & Improvements	Total	Accumulated Depreciation	Year Acquire
	1	Medley, FL		2,903	5,729	430	2,903	6,159	9,062	568	2014
	1	Medley, FL		1,971	4,029	400	1,971	4,429	6,400	219	2016
	6	Doral, FL		11,152	11,721	2,174	11,152	13,895	25,047	2,044	2013
	4	Medley, FL		5,063	10,958	654	5,063	11,612	16,675	799	2015
	5	Landover, MD		10,658	18,615	2,931	10,658	21,546	32,204	1,944	2014
	1	Washington, D.C.		2,248	1,670	987	2,248	2,657	4,905	28	2017
	1	Landover, MD		2,331	4,375	499	2,331	4,874	7,205	582	2013
	1	Lanham, MD		1,736	2,395	372	1,736	2,767	4,503	287	2013
	1	Jessup, MD		2,263	3,200	765	2,263	3,965	6,228	407	2013
	1	Annapolis Junction, MD		3,538	6,670	2,638	3,538	9,308	12,846	1,004	2015
	1	Lanham, MD		3,038	3,007		3,038	3,007	6,045	90	2016
	1	Capitol Heights, MD		5,095	11,672	830	5,095	12,502	17,597	1,198	2014
	3	Capitol Heights, MD		4,602	7,521	328	4,602	7,849	12,451	334	2016
	1	Annapolis Junction, MD		2,526	10,419	236	2,526	10,655	13,181	873	2014
		Hanover, MD		5,689	1,567		5,689	1,567	7,256	74	2016
	1	Hanover, MD		4,543	12,094	193	4,543	12,287	16,830	1,299	2014
	1	Elkridge, MD		1,409	5,033	60	1,409	5,093	6,502	812	2012
	6	Washington, D.C.		67,132	41,299	6,522	67,132	47,821	114,953	4,259	2015
	196		65,063	759,659	667,292	133,950	759,659	801,242	1,560,901	90,234	
et											
et											
s			(232)								
ts									76,029	49,580	
	196		$ 64,831	$ 759,659	$ 667,292	$ 133,950	$ 759,659	$ 801,242	$ 1,636,930	$ 139,814	

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Terreno Realty Corporation

Schedule III

Real Estate Investments and Accumulated Depreciation (Continued)

As of December 31, 2017

(in thousands)

A summary of activity for real estate and accumulated depreciation for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Investment in Properties		
Balance at beginning of year	$ 1,343,038	$ 1,179,920
Acquisition of properties	319,666	130,944
Disposition of properties	(49,471)	(10,520)
Construction in progress		22,475
Properties held for sale		
Improvements, net of write-offs	23,697	20,219
Balance at end of year	$ 1,636,930	$ 1,343,038

	2017	2016
Accumulated Depreciation		
Balance at beginning of year	$ 109,357	$ 77,641
Amortization of lease intangible assets	8,597	9,388
Depreciation expense	27,241	23,053
Accumulated depreciation on properties held for sale		
Disposition of properties and write-offs	(5,381)	(725)
Balance at end of year	$ 139,814	$ 109,357

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Exhibit Index

Exhibit Number	Exhibit Description
3.1	Articles of Amendment and Restatement of Registrant, as amended (previously filed as Exhibit 3.1 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
3.2	Articles Supplementary for Registrant s 7.75% Series A Cumulative Redeemable Preferred Stock (previously filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K on July 19, 2012 and incorporated herein by reference).
3.3	Articles Supplementary (previously filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K on February 9, 2017 and incorporated herein by reference).
3.4	Amended and Restated Bylaws of Registrant (previously filed as Exhibit 3.2 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
3.5	First Amendment to Amended and Restated Bylaws of Registrant (previously filed as Exhibit 3.2 to the Registrant s Current Report on Form 8-K on February 9, 2017 and incorporated herein by reference).
4.1	Specimen Common Stock Certificate of Registrant (previously filed as Exhibit 4.1 to Amendment No. 3 to the Registrant s Registration Statement on Form S-11 on January 15, 2010 and incorporated herein by reference).
10.1+	Amended and Restated Severance Agreement between Registrant and W. Blake Baird, dated as of February 18, 2014 (previously filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K on February 19, 2014 and incorporated herein by reference).
10.2+	Amended and Restated Severance Agreement between Registrant and Michael A. Coke dated as of February 18, 2014 (previously filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K on February 19, 2014 and incorporated herein by reference).
10.3+	Severance Agreement between Registrant and Jaime J. Cannon dated as of February 18, 2014 (previously filed as Exhibit 10.3 to the Registrant s Current Report on Form 8-K on February 19, 2014 and incorporated herein by reference).
10.4+	Amended and Restated 2010 Equity Incentive Plan of Registrant (previously filed as Appendix A to the Registrant s Definitive Proxy Statement on Schedule 14A on March 19, 2014 and incorporated herein by reference).
10.5+	Form of Restricted Stock Award Agreement for Executive Officers and Employees (previously filed as Exhibit 10.4 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
10.6+	Form of Restricted Stock Award Agreement for Non-Employee Directors (previously filed as Exhibit 10.5 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010

and incorporated herein by reference).

10.7+	Form of Indemnification Agreement between Registrant and its Directors and Executive Officers (previously filed as Exhibit 10.6 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).
10.8+	Amended and Restated Long-Term Incentive Plan of Registrant (previously filed as Exhibit 10.4 to the Registrant s Current Report on Form 8-K on February 19, 2014 and incorporated by reference herein).
10.9+	Form of Award Notice under the Long-Term Incentive Plan of Registrant (previously filed as Exhibit 10.8 to Amendment No. 2 to the Registrant s Registration Statement on Form S-11 on January 6, 2010 and incorporated herein by reference).

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10.10	Fourth Amended and Restated Senior Credit Agreement, dated as of August 1, 2016, among Terreno Realty LLC, KeyBank National Association, both individually as a Lender and as Administrative Agent , MUFG Union Bank, N.A., PNC Capital Markets LLC and Regions Capital Markets as joint lead arrangers and the several banks, financial institutions and other entities which may from time to time become parties as additional Lenders (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on August 2, 2016 and incorporated herein by reference).
10.11	Note Purchase Agreement, dated as of June 7, 2017, among Terreno Realty LLC and the institutions named in Schedule B thereto as purchasers (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on June 12, 2017 and incorporated herein by reference).
10.12	Note Purchase Agreement, dated as of June 2, 2016, among Terreno Realty LLC and the institutions named in Schedule B thereto as purchasers (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on June 7, 2016 and incorporated herein by reference).
10.13	Note Purchase Agreement, dated as of September 1, 2015, among Terreno Realty LLC and the institutions named in Schedule B thereto as purchasers (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on September 8, 2015 and incorporated herein by reference).
10.14+	Severance Agreement between the Company and Andrew T. Burke, dated as of February 18, 2014 (previously filed as Exhibit 10.13 to the Company s Annual Report on Form 10-K on February 8, 2017 and incorporated herein by reference).
10.15+	Severance Agreement between the Company and John T. Meyer, dated as of February 18, 2014 (previously filed as Exhibit 10.14 to the Company s Annual Report on Form 10-K on February 8, 2017 and incorporated herein by reference).
12.1*	Statement of Computation of Ratios.
21*	Subsidiaries of Registrant.
23*	Consent of Independent Registered Public Accounting Firm.
24.1*	Power of Attorney (included on the signature page to this Annual Report on Form 10-K).
31.1*	Certification of Chief Executive Officer, pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer, pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3*	Certification of President, pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3**	Certification of President, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	

The following materials from Terreno Realty Corporation s Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to Consolidated Financial Statements and (vii) Schedule III-Real Estate Investments and Accumulated Depreciation.

* Filed herewith.
** Furnished herewith.
\+ Exhibit is a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Francisco, State of California, on February 7, 2018.

Terreno Realty Corporation

By: /s/ W. Blake Baird
W. Blake Baird
Chairman and Chief Executive Officer

Power of Attorney

We, the undersigned directors of Terreno Realty Corporation hereby severally constitute and appoint W. Blake Baird and Michael A. Coke, and each of them singly, our true and lawful attorneys, with full power to them and each of them singly, to sign for us in our names in the capacities indicated below, all amendments to this report, and generally to do all things in our names and on our behalf in such capacities to enable Terreno Realty Corporation to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ W. Blake Baird W. Blake Baird	Chairman, Chief Executive Officer and Director (principal executive officer)	February 7, 2018
/s/ Michael A. Coke Michael A. Coke	President and Director	February 7, 2018
/s/ Jaime J. Cannon Jaime J. Cannon	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	February 7, 2018

/s/ LeRoy E. Carlson	Director	February 7, 2018
LeRoy E. Carlson		
/s/ Peter J. Merlone	Director	February 7, 2018
Peter J. Merlone		
/s/ Douglas M. Pasquale	Director	February 7, 2018
Douglas M. Pasquale		
/s/ Dennis Polk	Director	February 7, 2018
Dennis Polk		