



## ProLogis European Properties

*(Established in Luxembourg on 10 September 1999 as a closed-ended fonds commun de placement under the provisions of Part II of the Luxembourg law of 20 December 2002 on undertakings for collective investment and subject to the supervision of the CSSF)*

### Offer of up to 49,689,590 Ordinary Units

Up to 49,689,590 ordinary units ("**Ordinary Units**") of ProLogis European Properties, or PEP, are being offered by certain selling unitholders (collectively, the "**Selling Unitholders**") in the offering (the "**Offer**"). The Offer consists of a public offer of Ordinary Units in The Netherlands, an offer of Ordinary Units to certain institutional and other sophisticated investors outside the U.S. and an offer of Ordinary Units in the U.S. to persons reasonably believed to be both "qualified institutional buyers" as defined under Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and "qualified purchasers" as defined under the U.S. Investment Company Act of 1940, as amended (the "**Investment Company Act**"). The Offer is furthermore made in accordance with the selling restrictions set out on pages 28 to 30 of this Prospectus. PEP will not receive any proceeds from the sale of Ordinary Units, all of which will be paid to the Selling Unitholders.

PEP intends to apply for admission of the Ordinary Units to listing and trading on Euronext Amsterdam N.V.'s Eurolist by Euronext ("**Eurolist by Euronext**"), the regulated market of Euronext Amsterdam N.V. ("**Euronext Amsterdam**"), under the symbol "PEPR". It is expected that trading in the Ordinary Units on Eurolist by Euronext will commence on 22 September 2006 (the "**Euronext Listing Date**") on an "as-if-and-when-issued-or-delivered" basis and that closing of the offer and delivery will take place on 27 September 2006 (the "**Settlement Date**"). If closing of the Offer does not take place on the Settlement Date or at all, the Offer will be withdrawn, all orders for the Ordinary Units will be disregarded, any allotments made will be deemed not to have been made, any payments made will be returned without interest or other compensation and all transactions in Ordinary Units on Eurolist by Euronext will be cancelled. All dealings in the Ordinary Units prior to settlement and delivery are at the sole risk of the parties concerned. Euronext Amsterdam does not accept any responsibility or liability for any loss or damage incurred by any person as a result of the listing and trading of the Ordinary Units on an "as-if-and-when-issued-or-delivered" basis as from the Euronext Listing Date until the Settlement Date.

The Ordinary Units will be listed on the Official List of the Luxembourg Stock Exchange.

See "**Certain Risk Factors**" beginning on page 14 for important information on factors that should be considered before buying Ordinary Units.

### Offer Price per Ordinary Unit: between €14.35 and €14.85

The above Offer Price Range is indicative only, and it may change during the course of the Offer. The Offer Price may be set within, above or below such price range. If the Offer Price Range does change during the course of the Offer, it is not expected that there would be an announcement of the change until the determination of the Offer Price, unless required by law.

PEP has not been registered under the Investment Company Act. The Ordinary Units have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the U.S. and may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. Persons except initial offers and sales may be made to institutions that are both qualified purchasers under the Investment Company Act and related rules ("**QPs**") and qualified institutional buyers under Rule 144A ("**QIBs**"), in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, or outside the U.S. in compliance with Regulation S. No resale of Ordinary Units by investors to U.S. Persons will be permitted. For a description of restrictions on offers, sales and transfers of the Ordinary Units and the distribution of this Prospectus in other jurisdictions, see "**Selling Restrictions**" and Part IX—"**ERISA, Transfer Restrictions, Eligible Investors and Certificates**".

The Selling Unitholders have granted to the underwriters specified in the Underwriting Agreement (the "**Underwriters**") an option (the "**Over-allotment Option**") exercisable within 30 calendar days after the Settlement Date pursuant to which the Underwriters may require such Selling Unitholders to sell up to 6,115,398 additional Ordinary Units at the Offer Price.

Delivery of the Ordinary Units is expected to take place on the Settlement Date through the book-entry facilities of Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. ("**Euroclear Netherlands**") in accordance with their normal settlement procedures applicable to equity securities.

The actual number of Ordinary Units offered in the Offer and the Offer Price will be determined after taking into account the factors described under Part VI—"The Offer" and set forth on pages 92 and 93 and published in a pricing statement on 22 September 2006. The pricing statement will be made publicly available by means of a press release and an advertisement in a Dutch daily newspaper of wide circulation and the Euronext Amsterdam Daily Official List (*Officiële Prijscourant*) and will be filed on 21 September 2006 with the Luxembourg Financial Markets Supervisory Authority (*Commission de Surveillance du Secteur Financier*) ("**CSSF**") for it to be made available on the website of the Luxembourg Stock Exchange.

Any acceleration or extension of the timetable for the Offer will be announced in a press release (together with any related revision of the expected dates of pricing, allocation and closing) at least two hours before the proposed expiration of the accelerated timetable for the Offer or, in the event of an extended timetable for the Offer, at least two hours before the expiration of the original timetable for the Offer. Any extension of the timetable for the Offer will be for a minimum of one full Business Day.

This document constitutes a prospectus for the purposes of Article 3 of Directive 2003/71/EC of the European Parliament and of the Council ("**Prospectus Directive**") and has been prepared in accordance with the provisions of Part II of the Luxembourg law of 10 July 2005 on prospectuses for securities ("**Prospectus Law**"). This Prospectus has been filed with and approved by the CSSF in accordance with Article 7 of the Prospectus Law and the approved Prospectus will be notified by the CSSF to The Netherlands Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*) ("**AFM**").

*Joint Global Coordinators and Joint Bookrunners*

**Deutsche Bank**

**Morgan Stanley**

*Co-Lead Managers*

**ABN AMRO Rothschild**

**JPMorgan**

*Co-Manager*

**Kempen & Co.**

*Financial Adviser to ProLogis*

**Macquarie Capital Partners**





*The CSSF accepts no responsibility for the financial soundness of PEP or for the correctness of any of the statements made or opinions expressed with regard thereto.*

*PEP and the Managers whose names appear on page 376 accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of PEP and the Managers (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The Underwriters are acting for the Management Company acting on behalf of PEP and for no one else in connection with Admission and will not be responsible to anyone other than the Management Company acting on behalf of PEP for providing the protections afforded to clients of the Underwriters, nor for giving advice in relation to Admission or any other matter referred to herein.*

## **IMPORTANT INFORMATION**

**In connection with the Offer, Morgan Stanley, as stabilising manager, or any of its agents, may over-allot or effect other transactions with a view to supporting the market price of the Ordinary Units at a higher level than that which might otherwise prevail for a limited period after the Offer Price is announced. However, there is no obligation on Morgan Stanley, or any of its agents, to do this. Such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such stabilising transactions, if commenced, may be discontinued at any time and must be brought to an end within 30 days of Admission.**

The delivery of this Prospectus shall not under any circumstances create any implication that there has been no change in the affairs of PEP since the date hereof.

An investment in PEP should be regarded as a long-term investment. There can be no assurance that PEP's investment objectives will be achieved. Further, any statements contained in this Prospectus with respect to PEP's past performance may not be indicative of its future operating results.

Generally, investment values can decrease as well as increase. Past performance is not indicative of future returns.

**All Ordinary Unitholders are entitled to the benefit of, are bound by, and are deemed to have notice of, the provisions of the Management Regulations which are set out in Part XIV—"Management Regulations of PEP" of this Prospectus, which will apply from the Settlement Date, and with which investors should make themselves familiar.**

Prospective investors must not treat the contents of this Prospectus as advice relating to legal, taxation, investment or any other matters. Prospective investors must inform themselves as to: (i) the legal requirements within their own countries for the purchase, holding, transfer, redemption or other disposal of Ordinary Units; (ii) any foreign exchange restrictions applicable to the purchase, holding, transfer, redemption or other disposal of Ordinary Units which they might encounter; and (iii) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer, redemption or other disposal of Ordinary Units. Prospective investors must rely upon their own representatives, including their own legal advisers, tax consultants and accountants, as to legal, tax, investment or any other related matters concerning PEP and an investment therein.

Investors should note that the Underwriters and/or their affiliates have acted and, in some cases, continue to act, in various capacities in relation to PEP, ProLogis, certain of the ProLogis Related Parties and the issuers of certain securities in which each of ProLogis and certain of the ProLogis Related Parties invests or may invest, including as manager, servicer, security trustee, equity holder and/or secured lender to affiliates. Each of Deutsche Bank and Morgan Stanley is currently a lender under a ProLogis unsecured credit facility. In addition, it is anticipated that Morgan Stanley will act for ProLogis in connection with fund raising for the formation of the ProLogis Private Equity Funds and may be entitled to fees in connection therewith, some of which may be paid by PEP. Each role confers specific rights to and obligations on the Underwriters and/or their affiliates. In carrying out these rights and obligations the interests of the Underwriters and/or their affiliates may not be aligned with the interests of a potential investor in Ordinary Units.

In relation to investments in ProLogis Private Equity Funds, PEP will pay fees, if any, similar to any other outside investor, provided that PEP will not be required to pay any subscription or placement fee with respect to any investment it makes in a ProLogis Private Equity Fund. Furthermore, PEP will not be

required to pay any subscription or placement fee with respect to any investment in a ProLogis Joint Venture.

### **Available Information**

For so long as any of the Ordinary Units are in issue and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, PEP will, during any period in which it is not subject to Section 13 or 15(d) under the Exchange Act, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of an Ordinary Unit, or to any prospective purchaser of an Ordinary Unit designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

### **Service of Process and Enforcement of Civil Liabilities**

PEP is governed by Part II of the 2002 Law and managed by the Management Company. Service of process upon the Managers, the majority of whom reside outside the U.S., may be difficult to obtain within the U.S. Furthermore, since all directly owned assets of PEP are outside the U.S., any judgment obtained in the U.S. against it may not be collectible within the U.S. There is doubt as to the enforceability in The Netherlands and Luxembourg, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated upon U.S. federal securities laws.

### **Presentation of Financial and Other Information**

The consolidated financial information contained in Part X—“Consolidated Audited Financial Information for the Years Ended 31 December 2005, 31 December 2004 and 31 December 2003” of this Prospectus reflects without material adjustment the audited consolidated financial statements of PEP for the years ended 31 December 2005, 2004 and 2003. Similarly, the financial information contained in Part XI—“Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005” of this Prospectus reflects without material adjustment the unaudited results of PEP for the six-month periods ended 30 June 2006 and 30 June 2005. A description of the principal differences between US GAAP and IFRS as they relate to PEP is set out in Part XII—“Summary of Principal Differences between US GAAP and IFRS” of this Prospectus but potential investors should consult their own professional advisers for a full understanding of the differences between US GAAP and IFRS.

The financial information in this Prospectus has been derived from PEP’s consolidated audited financial statements for each of the years ended 31 December 2005, 31 December 2004, and 31 December 2003, its consolidated unaudited interim results for the six-month periods ended 30 June 2006 and 30 June 2005, which are included, respectively, in Part X—“Consolidated Audited Financial Information for the years ended 31 December 2005, 31 December 2004 31 December 2003” and Part XI—“Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005” of this Prospectus, and its management accounts.

Certain financial information in this Prospectus has been rounded and, as a result, the totals of the data presented may vary slightly from the actual arithmetic totals of such information.

Information attributed to or sourced from third parties in this Prospectus has been accurately reproduced, and, as far as the Management Company is aware and is able to ascertain from information published by the stated sources, no facts have been omitted which would render the information inaccurate or misleading.

### **Forward-looking Statements**

This Prospectus includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the intentions, beliefs or current expectations of the Management Company concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects, and distribution policy of the Management Company and the markets in which it or any ProLogis Private Equity Fund or ProLogis Joint Venture may invest and issue securities. By their nature, forward-looking

statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. PEP's actual investment performance, results of operations, financial condition, liquidity, distribution policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this Prospectus. In addition, even if the investment performance, results of operations, financial condition, liquidity and distribution policy of PEP, and the development of its financing strategies, are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to, the risk factors set forth below in the section entitled "Certain Risk Factors" in this Prospectus.

Potential investors are advised to read this Prospectus in its entirety before making any investment in Ordinary Units and, in particular, the sections of this Prospectus entitled "Summary", "Certain Risk Factors", Part I—"PEP and its Business", Part III—"Operating and Financial Review and Prospects", Part IV—"Management of PEP", Part X—"Consolidated Audited Financial Information for the Years Ended 31 December 2005, 31 December 2004 and 31 December 2003", Part XI—"Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005" for a further discussion of the factors that could affect PEP's future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this Prospectus may not occur.

Subject to its legal and regulatory obligations, the Management Company expressly disclaims any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

## Table of Contents

	<u>Page</u>
IMPORTANT INFORMATION .....	i
SUMMARY .....	1
SUMMARY OF TERMS OF THE OFFER .....	8
SUMMARY CONSOLIDATED FINANCIAL DATA .....	12
CERTAIN RISK FACTORS .....	14
EXPECTED TIMETABLE .....	27
SELLING RESTRICTIONS .....	28
PART I      PEP AND ITS BUSINESS .....	31
PART II      REAL ESTATE MARKET OVERVIEW .....	45
PART III      OPERATING AND FINANCIAL REVIEW AND PROSPECTS .....	55
PART IV      MANAGEMENT OF PEP .....	81
PART V      MARKET INFORMATION RELATING TO EURONEXT AMSTERDAM .....	90
PART VI      THE OFFER .....	92
PART VII      ADDITIONAL INFORMATION .....	95
PART VIII      TAX CONSIDERATIONS .....	148
PART IX      ERISA, TRANSFER RESTRICTIONS, ELIGIBLE INVESTORS AND CERTIFICATES .....	165
PART X      CONSOLIDATED AUDITED FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2005, 31 DECEMBER 2004 AND 31 DECEMBER 2003 .....	168
PART XI      CONSOLIDATED UNAUDITED RESULTS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2006 AND 30 JUNE 2005 .....	232
PART XII      SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN US GAAP AND IFRS .....	286
PART XIII      VALUATION REPORTS .....	288
PART XIV      MANAGEMENT REGULATIONS OF PEP .....	336
PART XV      DEFINITIONS .....	367

## SUMMARY

*The following summary must be read as an introduction to this Prospectus and any decision to invest in any Ordinary Units should be based on a consideration of this Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive, in each member state of the European Economic Area, no civil liability will attach to the persons responsible in any such member state in respect of this summary, including any translation of this Prospectus, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a member state of the European Economic Area, the plaintiff may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.*

### Introduction

ProLogis European Properties, or PEP, was established in 1999 and is an externally managed real estate investment fund organised as a Luxembourg closed-ended FCP and regulated in Luxembourg by the CSSF. PEP owns a portfolio of high quality Distribution Facilities located in 25 submarkets within 11 European countries. It is managed by a subsidiary of ProLogis, a U.S. based real estate investment trust that operates a global network of industrial distribution properties and is a leading provider of Distribution Facilities and distribution services in North America, Europe and Asia.

As at 30 June 2006, PEP owned 281 Distribution Facilities comprising 5.4 million square metres of leasable space. Six of these Distribution Facilities located in France were disposed of on 12 July 2006, as further detailed in Part III—“Operating and Financial Review and Prospects—Current Operations” of this Prospectus. PEP’s most significant customers are logistics service providers, which are referred to in this Prospectus as third party logistics companies. PEP also services a broad range of customers in the retail and manufacturing sectors. As at 30 June 2006, the Portfolio had an overall occupancy rate of 97.3 per cent. As set out in the valuation report that is included in Part XIII—“Valuation Reports” in this Prospectus, the Portfolio was valued by JLL and DTZ at approximately €4.2 billion (net of purchaser’s costs) as at 30 June 2006.

### Investment Objective and Policy

PEP’s investment objective is to generate capital appreciation and a high level of distributable current income for its Unitholders through active management of direct investments in Distribution Facilities and by investing in ProLogis Private Equity Funds and ProLogis Joint Ventures (subject to the approval of such investments by the PEP Board if such approval is required under Article 4 of the Management Regulations). PEP may hold its investments in Distribution Facilities either directly or indirectly through companies or entities that are subsidiaries and which may be either wholly or partially owned by PEP and through investments in ProLogis Private Equity Funds or ProLogis Joint Ventures and in other investment funds and investment companies. In implementing its investment objective, PEP may not invest more than 15 per cent. of its net asset value in investment funds and investment companies which are neither ProLogis Private Equity Funds nor ProLogis Joint Ventures and may not hold more than 49 per cent. of the shares or units of such investment funds or investment companies. A more detailed description of PEP’s investment objective is provided in Article 6 of the Management Regulations, which are attached at Part XIV—“Management Regulations of PEP” of this Prospectus.

PEP aims to structure its investments in a tax-efficient manner, whilst using efficient financing to optimise the yield from the Portfolio and to deliver stable returns to Unitholders.

PEP’s rights to invest in the ProLogis Private Equity Funds and ProLogis Joint Ventures are set out in a Private Equity Fund Investment Agreement which, subject to certain limitations, provides PEP with the right to subscribe for up to 30 per cent. of the equity securities and securities convertible into equity securities issued by any ProLogis Private Equity Fund. The Private Equity Fund Investment Agreement also gives PEP a right to invest, subject to certain limitations, in ProLogis Joint Ventures. PEP’s agreement to acquire Distribution Facilities in the Property Portfolio is set out in the Property Contribution Agreement, which requires PLD or PLD Related Parties to contribute to PEP upon stabilisation Distribution Facilities from the Property Portfolio having an aggregate Contribution Value of approximately €200 million.

Pursuant to the terms of the Property Contribution Agreement, any contribution of stabilised Distribution Facilities must be valued by an Independent Appraiser who shall determine the Gross Property Value of

such Distribution Facilities. If shares in a company holding the Distribution Facility are contributed instead, such contribution must be appraised by the independent auditor of PEP, in compliance with Article 26-1 of the Luxembourg law dated 10 August 1915 on commercial companies, as amended.

These investment rights will provide PEP with the opportunity for future external growth and continued access to the ProLogis pipeline of European Distribution Facilities, directly through the Property Portfolio and indirectly through the ProLogis Private Equity Funds and ProLogis Joint Ventures.

## **Investment Highlights**

### ***Stable Cash Flow***

Based on current occupancy rates and leases in place, PEP expects that the Portfolio will continue to generate a consistent level of Distributable Cash Flow for Unitholders. Actual cash distributions made to Unitholders in the year ended 31 December 2005 amounted to €131.1 million (€117.4 million of which was distributed to the Ordinary Unitholders). The key factors supporting PEP's ability to generate stable cash flow are as follows:

- Historically high occupancy rates. Occupancy of the Portfolio has averaged over 96 per cent. since December 2000 and, as at 30 June 2006, was 97.3 per cent.
- Favourable lease terms. As at 30 June 2006, PEP's average lease term to lease expiry across the Portfolio is 7.4 years and its average lease term to next lease break is 5.2 years. PEP aims to use staggered lease maturities to avoid having multiple leases at one site or in a single market become subject to renewal or termination at the same time.
- Portfolio size and geographical diversity. The Management Company believes the Portfolio represents the largest single network of non-end user owned distribution space in Europe. As a result of owning a Portfolio of this scale and scope, a loss of any one customer at a particular property or a vacancy in a particular property would not significantly affect PEP's cash flow.
- Debt financing strategy. PEP has primarily used CMBS transactions to raise debt financing. It has been and going forward will be PEP's policy to hedge its exposure to changes in interest rates by swapping floating rate interest payments under its financing arrangements to fixed-rate payments. The combination of CMBS financing and interest rate swaps has resulted in predictable, fixed financing costs for most of PEP's financing.

### ***High Quality Portfolio***

The Management Company believes that PEP's Distribution Facilities are generally high quality, state-of-the-art facilities. The Management Company believes PEP is well positioned to take advantage of market opportunities offered by current trends in the European distribution logistics market given the scale of the Portfolio. These trends include the re-engineering and optimisation by companies of their supply chains in response to increased integration in the EU, customer demands for flexible space and growth in the emerging economies of Central and Eastern Europe.

### ***Strong and Diversified Customer Base***

PEP's 402 customers (as at 30 June 2006) include some of the largest and most established users of Distribution Facilities in Europe. As at 30 June 2006, 56 per cent. of PEP's customers (by Annualised Rental Income) were third party logistics companies, 14 per cent. were retailers and 13 per cent. were manufacturers. As at 30 June 2006, no one customer accounted for more than 6.9 per cent. of PEP's Annualised Rental Income and no one country accounted for more than 33 per cent. of Annualised Rental Income. As at 30 June 2006, of PEP's top 50 customers, 83 per cent. of those that are credit rated or whose parent companies are credit rated (and 30 per cent. of all top 50 customers) had corporate or parent company credit ratings of "investment grade" by either S&P or Moody's.

### ***Highly Experienced Manager***

ProLogis is a leading provider of Distribution Facilities and distribution services in North America, Europe and Asia, with strengths in property and asset management, investment discipline, global customer relationships, property development and technical and structural innovation. ProLogis entered the European market in 1997, and has established a strong local market presence since that time. As at 30 June 2006, ProLogis had 268 full-time employees in Europe, including a team of 32 market, country and



regional officers operating out of 14 offices in 12 countries across Europe. ProLogis uses its expertise, resources and local knowledge on behalf of PEP to seek the best lease terms available in particular markets and manage costs effectively.

ProLogis has also been at the forefront of developing innovative and effective investment and financing structures for Distribution Facilities. In managing PEP, the Management Company has been innovative in cross collateral multi-jurisdictional CMBS issuances to reduce the cash flow impact of variable interest rates and amortising loans, which have also enabled PEP to manage the cost of its debt financing. This experience will be important in managing PEP's future financing and refinancing activities.

### ***Strong ProLogis Commitment***

At Admission, ProLogis will hold an interest of approximately 24 per cent. in PEP and will not sell any Ordinary Units in the Offer. ProLogis aims to maintain alignment with Unitholders over the longer term through the requirement in the Management Regulations that ProLogis maintains an aggregate ownership at or above 12.5 per cent. of the issued Ordinary Units until 30 June 2008, and not less than 10 per cent. of the issued Ordinary Units thereafter, in each case either directly or indirectly through the ProLogis Related Parties.

The Management Company employs a team of 14 individuals (including the Manager, Peter Cassells) who, together with the other two Managers, are directly responsible for managing PEP. The Management Company will continue to allocate substantial resources to PEP's ongoing operations. In managing PEP, the Management Company has, and will continue to have, the right to use the ProLogis Operating System®, which is a proprietary system designed by ProLogis to assist its team of marketing, property management and development professionals in providing a disciplined and, in its opinion, unique approach to serving existing and prospective customers.

### ***Growth Potential through Investment in the ProLogis Private Equity Funds, ProLogis Joint Ventures and the Property Portfolio***

PEP's agreement to acquire upon stabilisation additional Distribution Facilities from the Property Portfolio (having an aggregate Contribution Value of approximately €200 million) pursuant to the Property Contribution Agreement, and its rights to invest, subject to certain limitations, in the ProLogis Private Equity Funds and ProLogis Joint Ventures under the Private Equity Fund Investment Agreement will provide PEP with the opportunity for future growth through direct and indirect participation in the ProLogis pipeline of European Distribution Facilities. The structure and terms of the ProLogis Private Equity Funds have yet to be finalised. As at 30 June 2006, ProLogis had a pipeline of European Distribution Facilities with a total investment estimated by ProLogis to be approximately US\$1.45 billion at stabilisation.

### ***Attractive Asset Class***

The Management Company believes that Distribution Facilities typically provide stable cash flows, a strong yield performance and distinctive characteristics relative to other real estate classes. Distribution Facilities are one of the primary institutional-quality asset classes. The Management Company believes that the limited ongoing capital expenditure requirements, lower customer turnover through higher lease renewal rates, longer customer leases, limited costs in connection with reconfigurations for new customers and the higher proportion of single customer buildings typically make Distribution Facilities an attractive asset class relative to other institutional asset classes.

### ***Tax-Efficient Structure***

PEP's group structure has proven effective in enabling PEP to reduce its overall effective tax rate in order to maximise cash distributions to Unitholders.

### ***Management of PEP***

PEP is externally managed by the Management Company. The Management Company is responsible for managing the day-to-day activities of PEP in the exclusive interest of Unitholders.

ProLogis, which indirectly owns the Management Company, was formed in 1991 and is headquartered in Denver, Colorado. ProLogis is a real estate investment trust that operates a global network of real estate properties, primarily industrial distribution properties. ProLogis' common shares are listed on the New York Stock Exchange under the symbol "PLD". As at 30 June 2006, ProLogis had an equity market

capitalisation of approximately US\$13.4 billion and total assets owned, managed and/or under development, including PEP's properties, of approximately US\$24.8 billion (based on original acquisition cost). ProLogis and its affiliated entities have achieved a global reach while developing local market expertise through operations in 81 markets in North America, Europe and Asia, with over 1,000 real estate professionals and associates employed worldwide. PEP itself has no employees (other than three employees employed by a property-owning subsidiary in Hungary) and the Management Company accesses property managers and other resources of the ProLogis network through the Investment Management Agreement.

ProLogis has experience in fund management since 1999 and in this period has raised in excess of US\$6 billion from third parties in the form of either joint ventures or funds. As at 30 June 2006, ProLogis had US\$11.5 billion of capital under management on behalf of third parties in either joint ventures or funds. ProLogis currently manages 13 joint ventures and funds in North America, Europe and Asia and will continue to develop its fund management business.

In Europe, ProLogis is a leading developer and, through PEP (and, in the future, through the ProLogis Private Equity Funds), a leading operator of distribution space. ProLogis believes that it would be difficult for competitors in the short to medium term to recreate the portfolio of properties held by PEP because of the significant capital and local market understanding required, and the limited availability of prime locations. ProLogis' European headquarters are located in the Grand Duchy of Luxembourg, with its European customer service headquarters located in Amsterdam, The Netherlands.

### **PEP Board**

The PEP Board is comprised of four Independent Board Members and two ProLogis Board Members. The prior approval of the PEP Board is required for certain matters, including significant acquisitions and disposals and other specified decisions relating to the management, operation and structure of PEP. The PEP Board may only approve matters proposed to it by the Management Company, but may on its own initiative propose and approve any decision to exercise the right of PEP to invest in a ProLogis Private Equity Fund or a ProLogis Joint Venture pursuant to the Private Equity Fund Investment Agreement, to make certain decisions pursuant to the Property Contribution Agreement, to terminate the Investment Management Agreement for cause or to table before a meeting of Ordinary Unitholders a resolution to remove the Management Company without cause in the limited circumstances set out in the Management Regulations. In addition, approval from the PEP Board will be required for certain fees payable to ProLogis Related Parties, as proposed by the Management Company, and relating to legal fees and tax compliance fees.

### **Distributions and Distribution Policy**

The Management Regulations provide that PEP will distribute substantially all of its Distributable Cash Flow on a quarterly basis, or more frequently if determined by the Management Company. PEP has historically made distributions quarterly.

Distributable Cash Flow earned by Unitholders during the period from 1 July 2006 to the Settlement Date will not be distributed to investors who acquire Ordinary Units in the Offer, but will be distributed after the Settlement Date to existing Unitholders in accordance with the management regulations in effect as at the date of this Prospectus.

### **Risk Factors**

An investment in Ordinary Units is subject to a number of risks, certain of which are highlighted below. For a full description of certain risks relating to an investment in Ordinary Units, see "Certain Risk Factors" below. Key risks include the following:

#### ***Risks Relating to the Business***

- Changes in general economic conditions and other events or circumstances that affect the markets in which PEP's properties are located or that are served by customers leasing PEP's facilities may negatively impact financial results.
- Real estate investments are subject to risks including oversupply, competition and regulatory changes that could adversely affect PEP's business.

- Following the Offer, PEP will no longer have direct access to the ProLogis pipeline of European Distribution Facilities (except with respect to the acquisition of stabilised Distribution Facilities pursuant to the Property Contribution Agreement) and PEP will rely principally on external growth through investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures.
- The structure and terms of the ProLogis Private Equity Funds have yet to be finalised, and there can be no assurance that the ProLogis Private Equity Funds will ultimately be established to provide PEP with external growth opportunities.
- PEP's investments are concentrated in the industrial logistics sector and therefore its business would be adversely affected by an economic downturn in that sector.
- PEP's operating results and Distributable Cash Flow will depend on the continued generation of lease revenues from customers, and PEP's business may be adversely affected if it is unable to renew leases or re-lease space on favourable terms as leases expire or vacancies arise.

#### ***Risks Relating to PEP***

- Changes in PEP's tax structure or applicable tax laws, regulations or interpretations by tax authorities could have a material adverse effect on PEP. Certain circumstances could cause PEP to be treated as a corporation for U.S. income tax purposes.
- PEP may be subject to the French 3 per cent. real estate holding tax. PEP is in the process of seeking a tax ruling to determine whether it can rely on an exemption from the French 3 per cent. real estate holding tax which applies to legal entities whose securities are listed on a regulated market. If either the French tax authorities determine that PEP is not able to rely on such an exemption, or if no ruling is granted by the French tax authorities, failure of Non-Exempt Unitholders to pay the French 3 per cent. real estate holding tax if applicable and/or failure of Unitholders seeking certain exemptions to comply with their filing obligations (as set out in Part VIII—"Tax Considerations" of this Prospectus) may result in the joint liability of PEP and PEP subsidiaries to pay the tax. Further details are set out in Part VIII—"Tax Considerations" of this Prospectus.
- Accumulation of beneficial ownership by any Person (other than ProLogis or a ProLogis Related Party) above 9.9 per cent. of outstanding Ordinary Units and the accumulation of beneficial ownership by any five or fewer Persons above 50 per cent. of outstanding Ordinary Units is restricted as set out in the Management Regulations (except for existing Unitholders who hold more than 9.9 per cent. of outstanding Ordinary Units immediately prior to the Offer who, with the exception of ProLogis and ProLogis Related Parties, will be subject to an ownership limitation of 20 per cent. of the outstanding Ordinary Units). These provisions, as well as the significant ownership of Ordinary Units by ProLogis and ProLogis Related Parties, could have an anti-takeover effect and deter transactions in which Ordinary Unitholders might otherwise receive a cash premium for their Ordinary Units from a person or company seeking to acquire control of, or a significant interest in, PEP.
- Unitholders' rights may be limited in several important ways compared to rights that typically attach to ordinary shares, including the following:
  - the Management Company has the exclusive right to manage PEP in the exclusive interests of Unitholders and has the sole power to table resolutions to the PEP Board on all but a limited number of decisions, including the sale of Distribution Facilities;
  - the Management Regulations limit when the Management Company can be replaced, other than for cause;
  - Ordinary Unitholders (including ProLogis and ProLogis Related Parties) have the right to elect the four Independent Board Members (other than the initial Independent Board Members) upon proposal by a nomination committee, and the Management Company has the right to appoint the two ProLogis Board Members; and
  - although the Independent Board Members will represent a majority of the Board, they will have limited rights with respect to the management and governance of PEP.
- In order to make distributions to Unitholders, PEP (i) depends on intercompany loan repayments, distributions and payments from its property-owning subsidiaries that hold Distribution Facilities, as PEP holds no Distribution Facilities directly and (ii) will depend on distributions from any ProLogis Private Equity Funds and ProLogis Joint Ventures in which it invests. The amount and timing of

distributions will be determined by the Management Company in accordance with the terms of the Management Regulations and may be restricted by applicable law and regulations.

#### ***Financing Risks***

- PEP expects to increase its leverage significantly in the three year period following the Settlement Date, as it will be required to borrow funds to make any future investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures, to acquire Distribution Facilities from the Property Portfolio under the Property Contribution Agreement, to redeem 15,320,000 Class C Units which the holder thereof has not elected to convert into Class A(1) Units (which will be reclassified as Ordinary Units) effective as at Admission, to refinance the current portion of outstanding debt and to pay costs relating to the Offer, including the Underwriters' commissions. PEP's increased leverage will result in higher financing costs and will increase financing and refinancing risks.
- Changes in available terms for debt financing or refinancing (including increases in interest rates) could have a material adverse effect on PEP.
- PEP expects that it will rely on debt financing to fund its investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures. PEP faces constraints on its ability to rely on third party debt financing to fund such investments and to acquire stabilised Distribution Facilities from the Property Portfolio. PEP's current leverage, the covenants under its existing debt facilities and the indebtedness limitations contained in the Management Regulations may limit PEP'S ability to make such investments.
- PEP's ability to carry out future CMBS securitisations will depend upon a number of factors, including general and local market conditions.
- Covenants in PEP's credit and securitisation agreements could limit its flexibility and adversely affect its financial condition and results of operations.
- PEP is exposed to currency exchange rate fluctuations, particularly between the Euro and Sterling as a significant percentage of the Portfolio is comprised of Distribution Facilities in the UK.

#### ***Risks Relating to PEP's Relationship with ProLogis***

- ProLogis and other funds managed by ProLogis may have investment objectives and policies comparable to those of PEP and may compete with PEP. In particular, PEP's Distribution Facilities may face competition from other Distribution Facilities developed or redeveloped by ProLogis, whether currently existing or developed in the future, on properties adjacent to PEP's Distribution Facilities. Competition with ProLogis-developed Distribution Facilities not owned by PEP could have a material adverse effect on the rental income of PEP in relation to any affected Distribution Facility.
- The individuals acting for the Management Company who manage PEP may also be involved in managing one or more of the ProLogis Private Equity Funds and ProLogis Joint Ventures. Whilst it is expected that the Managers will continue to allocate substantial resources to PEP's ongoing operations, their involvement in the management of the ProLogis Private Equity Funds and ProLogis Joint Ventures may lead to conflicts of interest in the allocation of time, services or functions in relation to PEP, which may result in PEP's results of operations being less favourable than they would have been had the Managers devoted all of their time to PEP.
- PEP depends significantly on the efforts and abilities of the Managers, the officers and employees of the Management Company and the Investment Managers, and the loss of these persons' services could have a material adverse effect on PEP.
- In the absence of cause, the Management Company cannot be removed before 15 September 2016.

#### ***Risks Relating to the Offer***

- There are no precedents for the listing of an FCP on Eurolist by Euronext and there has been no public market for the Ordinary Units. The Management Company does not know the extent to which investor interest will lead to a development of a trading market or how liquid that market might be or, if a trading market does develop, whether it will be sustained. It also does not know the extent to which the market in the Ordinary Units may be affected by the fact that the Ordinary Units represent interests in an FCP rather than shares in a company. If an active and liquid trading market does not develop or is not sustained, investors may have difficulty selling their Ordinary Units.



- One Unitholder has elected to exercise its right to convert 2,500,000 Class C(1) and 2,500,000 Class C(2) Units into Class A(1) Units (which will then be reclassified as Ordinary Units), effective as at Admission. The remaining Class C(1) and Class C(2) Units will be redeemed on or prior to the Settlement Date. When the Class C Units are converted into Class A(1) Units and subsequently reclassified as Ordinary Units at Admission, Ordinary Unitholders will experience dilution in their respective percentages of Ordinary Units held.

## SUMMARY OF TERMS OF THE OFFER

<b>The Fund</b>	PEP is organised as a closed-ended <i>fonds commun de placement</i> governed by Part II of the 2002 Law. A <i>fonds commun de placement</i> is an unincorporated co-proprietorship of securities and other assets which is established by the adoption of a set of management regulations between its management company and custodian.
<b>The Offer</b>	The Offer consists of a public offer of Ordinary Units in The Netherlands, an offer of Ordinary Units to certain institutional and other sophisticated investors outside the U.S. and an offer of Ordinary Units in the U.S. to persons reasonably believed to be QIBs that are also QPs in reliance on Rule 144A under the Securities Act. All offers and sales outside the U.S. will be made in reliance on Regulation S under the Securities Act.
<b>The Selling Unitholders</b>	Each of the Selling Unitholders set out in Part VII—“Additional Information” of this Prospectus. The Selling Unitholders have granted the Underwriters the Over-allotment Option, as discussed below.
<b>The Ordinary Units</b>	The Selling Unitholders are offering up to 49,689,590 Ordinary Units in the aggregate (excluding the exercise of the Over-allotment Option).
<b>Capital Structure</b>	As at the date of this Prospectus, PEP has in issue Class A(1), Class A(2), Class A(3), Class B1, Class B2, Class C(1) and Class C(2) Units. On Admission (assuming conversion and reclassification of the Class A(1), Class A(2), Class A(3), Class B1 and Class B2 Units), PEP will have in issue 185.2 million Ordinary Units, all of which will be denominated in Euro and be fully paid. In accordance with the management regulations in place as at the date of this Prospectus, upon Admission the Class C Units will either be redeemed in full, or, if the holders thereof have so elected, will be converted into Class A(1) Units at a ratio of 0.6896 Class A(1) Units for each Class C Unit. One holder of Class C Units has elected to exercise its right to convert 2,500,000 Class C(1) and 2,500,000 Class C(2) Units into 3,448,000 Class A(1) Units, effective on Admission. Such Class A(1) Units will subsequently be reclassified as Ordinary Units, and application will be made for such additional Ordinary Units to be admitted to listing on the Luxembourg Stock Exchange, to listing and trading on Eurolist by Euronext and to trading on Euronext Amsterdam’s regulated market. Following such conversion and reclassification, the total number of Ordinary Units in issue on a fully diluted basis will be 188.7 million. The other holder of Class C Units did not elect for its Class C Units to be converted into Class A(1) Units, and its 15,320,000 Class C Units will therefore be redeemed in full for approximately €153.2 million upon Admission. No additional Ordinary Units will be issued in the Offer.
<b>Ownership of Ordinary Units</b>	Immediately after the closing of the Offer, assuming that 49,689,590 Ordinary Units are sold in the Offer and no exercise of the Over-allotment Option, 35.0 per cent. of the outstanding Ordinary Units will be owned by the Selling Unitholders.
<b>Offer Price</b>	The Offer Price will be determined by reference to the factors set forth on pages 92 and 93 and published in a pricing statement on 22 September 2006. The pricing statement will be made publicly available by means of a press release and an advertisement in a Dutch daily newspaper of wide circulation and the Euronext Amsterdam Daily Official List ( <i>Officiële Prijscourant</i> ) and will be filed on 21 September 2006 with the CSSF for it to be made available on the website of the Luxembourg Stock Exchange. The Offer Price is expected to be in the range of €14.35 to €14.85 per Ordinary Unit. This Offer Price Range is indicative only, and it may change during the course of the Offer. The Offer Price may be set within, above or below such price range. If the Offer Price Range does change during the course of

	the Offer, it is not expected that there would be an announcement of the change until the determination of the Offer Price, unless required by law.
<b>Pricing Date</b>	Expected to be on 21 September 2006, subject to acceleration or extension of the timetable for the Offer.
<b>Allotment Date</b>	Allotment is expected to take place before the start of trading on Eurolist by Euronext on 22 September 2006, subject to acceleration or extension of the timetable for the Offer.
<b>Settlement Date</b>	Expected to be on 27 September 2006, the third Business Day following the date on which trading is expected to commence on Eurolist by Euronext, subject to acceleration or extension of the timetable for the Offer.
<b>Joint Global Coordinators and Joint Bookrunners</b>	Deutsche Bank AG and Morgan Stanley & Co. International Limited are acting as Joint Global Coordinators and Joint Bookrunners in connection with the Offer.
<b>Over-allotment Option</b>	The Selling Unitholders have granted to the Underwriters an option exercisable within 30 calendar days after the Settlement Date, pursuant to which the Underwriters may require such Selling Unitholders to sell up to 6,115,398 additional Ordinary Units at the Offer Price. The Underwriters may exercise this option at their discretion for any purpose in accordance with applicable law, including to cover short positions created in the initial allotment of Ordinary Units or in subsequent transactions. Morgan Stanley is acting as stabilising manager in connection with the Offer.
<b>Use of Proceeds</b>	PEP will not receive any proceeds from the sale of the Ordinary Units in the Offer, all of which will be paid to the Selling Unitholders. Except as set forth in the Underwriting Agreement, the costs and expenses of the Offer (including underwriting discounts and commissions) will be borne by PEP and are expected to be between €30 million and €35 million.
<b>Lock-up Arrangements</b>	All Selling Unitholders and certain non-selling Unitholders (including PLD) have agreed that they will not, during the period commencing on the date of execution of the Underwriting Agreement and ending 180 days from the Settlement Date, (A) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Units or any securities convertible into or exercisable or exchangeable for Units, or (B) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Units, whether any such transaction described in clause (A) or (B) above is to be settled by delivery of Units or such other securities, in cash or otherwise, except in each case with the prior written consent of the Underwriters. The above restrictions will not apply to (i) the sale of Ordinary Units to the Underwriters pursuant to the Underwriting Agreement, (ii) transactions relating to Ordinary Units or other securities acquired in open market transactions after the completion of the Offer, (iii) the conversion and/or reclassification of existing Units into Ordinary Units and Preferred Units on the Settlement Date as contemplated in this Prospectus, (iv) the conversion of Preferred Units into Ordinary Units in accordance with the terms thereof, (v) transfers or sales of Ordinary Units to an entity that is controlled by, controls, or under common control with the relevant Unitholder, with “control” being defined as ownership of more than 50% of the voting securities of the relevant entity, or (vi) the sale by a Unitholder (acting individually) after the Settlement Date, through a single privately negotiated off market transaction not involving an exchange, broker or other intermediary or entered into for hedging or similar purposes with a single purchaser, of Ordinary Units representing 4.25 per cent. or more of the total number of issued Ordinary Units at the time of the relevant transaction, <i>provided</i> that in the case of a transfer or sale pursuant to

clauses (v) or (vi), prior to such transfer or sale the transferee or purchaser has entered into a written agreement with Deutsche Bank and Morgan Stanley accepting the above restrictions. ProLogis or one of its affiliates is also permitted to transfer Ordinary Units with a value equivalent to €1 million to Robert J. Watson as part of his compensation and incentive package as described in Part IV—“Management of PEP” of this Prospectus.

In addition and subject to certain restrictions, each Selling Unitholder has consented to the entry of stop transfer instructions with PEP’s transfer agent and registrar against the transfer of any Units held by such Selling Unitholder except in compliance with the foregoing restrictions.

5.5 per cent. of Units will not be subject to any lock-up arrangements after the Settlement Date. Of such Units, a number equal to 3.7 per cent. of all Units will be subject to an orderly marketing agreement.

Details on the lock-up arrangements are also set forth in Part VI—“The Offer” of this Prospectus.

#### **Transfer Restrictions**

The Ordinary Units are subject to certain ownership limitations and transfer restrictions as described under Part IX—“ERISA, Transfer Restrictions, Eligible Investors and Certificates” of this Prospectus.

#### **Listing and Trading**

PEP’s existing Class A Units are currently listed on the Luxembourg Stock Exchange under the following ISIN codes:

Class A(1) Units: LU0100194785

Class A(2) Units: LU0155446197

Class A(3) Units: LU0168542040

It is intended that the listing on the Luxembourg Stock Exchange will be maintained following reclassification of these Units into Ordinary Units and Admission as described below. The Class B Units will be listed on the Luxembourg Stock Exchange if and when they are converted to Class A Units and reclassified as Ordinary Units.

In order to seek to increase the liquidity of PEP’s Ordinary Units, PEP intends to apply for the admission of the Ordinary Units to listing and trading on Eurolist by Euronext under the symbol “PEPR”.

PEP expects that listing and trading in the Ordinary Units on Eurolist by Euronext will commence on 22 September 2006 on an “as-if-and-when-issued-or-delivered” basis and that the Offer will close and delivery will take place on 27 September 2006.

If closing of the Offer does not take place on the Settlement Date or at all, the Offer will be withdrawn, all orders for the Ordinary Units will be disregarded, any allotments made will be deemed not to have been made, any payments made will be returned without interest or other compensation and all transactions in the Ordinary Units on Eurolist by Euronext will be cancelled. All dealings in the Ordinary Units on Eurolist by Euronext prior to settlement and delivery are at the sole risk of the parties concerned.

Euronext Amsterdam does not accept any responsibility or liability for any loss or damage incurred by any person as a result of the listing and trading of the Ordinary Units on an “as-if-and-when-issued-or-delivered” basis as from the Euronext Listing Date until the Settlement Date.

If the Offer is withdrawn, and at the time of withdrawal any Ordinary Units in the Offer have been sold short on Eurolist by Euronext, such sales will not be unwound on Eurolist by Euronext and any person so selling Ordinary Units from the Offer on Eurolist by Euronext will bear the risk of being unable to settle such sale by delivering Ordinary Units from the Offer.



**Payment, Delivery,  
Clearing and Settlement**

Payment for the Ordinary Units and payment for any Ordinary Units subject to the Over-allotment Option (provided this option has been exercised prior to the Settlement Date) will take place on the Settlement Date.

Delivery of the Ordinary Units is expected to take place on the Settlement Date through the book-entry facilities of Euroclear Netherlands in accordance with its normal settlement procedures applicable to equity securities and against payment for the Ordinary Units in immediately available funds.

Settlement of trades on Eurolist by Euronext is expected to take place on 27 September 2006. Deutsche Bank is acting as settlement agent in connection with the Offer.

**Trading Information**

ISIN: LU0100194785

Common Code: 010019478

Euronext Amsterdam Security Code (*fondscore*): 29067

Eurolist by Euronext Symbol: PEPR

**Listing Agents,  
Paying Agents and  
Transfer Agents**

Morgan Stanley will act as listing agent in relation to Euronext Amsterdam.

Kempen & Co. N.V. will act as paying agent in relation to Euronext Amsterdam.

RBC Dexia Investor Services Bank S.A. will act as listing agent, paying agent and transfer agent in relation to the Luxembourg Stock Exchange.

**Currency**

The currency of the Ordinary Units is the Euro.

**Governing Law of the  
Ordinary Units**

The governing law of the Ordinary Units is Luxembourg law.

**Independent Auditor**

The external auditor (*réviseur d'entreprises*) of PEP is Ernst & Young S.A., which is a member of the Luxembourg Institute of Independent Auditors (*Institut des réviseurs d'entreprises*). The audited accounts of PEP included in this Prospectus are audited in accordance with IFRS and in accordance with International Auditing Standards.

**Contact Information**

PEP's contact details are as follows:

ProLogis European Properties  
18, boulevard Royal  
L-2449, Luxembourg  
Grand Duchy of Luxembourg  
Attention: Peter Cassells  
Tel: + 352 2620 5740  
Fax: + 352 2620 5744

## SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data set forth below is that of PEP and its subsidiaries. The summary consolidated financial data should be read in conjunction with Part III—“Operating and Financial Review and Prospects”, Part X—“Consolidated Audited Financial Information for the Years Ended 31 December 2005, 31 December 2004 and 31 December 2003”, and Part XI—“Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005”. The year-end consolidated financial data is extracted from the consolidated financial statements of PEP that have been reviewed by Ernst & Young S.A., independent auditors. The six-month consolidated financial data is based upon PEP’s unaudited interim consolidated financial accounts for the six-month periods ended 30 June 2005 and 30 June 2006 that have been reviewed by Ernst & Young S.A.. The results for the six-month period ended 30 June 2006 are not necessarily indicative of results for the full year. The financial statements and accounts from which the summary consolidated financial data set forth below have been derived were prepared in accordance with IFRS. The summary consolidated financial data set forth may not contain all of the information that is important to you.

	Six Months Ended		Year Ended	
	30 June 2006	31 December 2005	31 December 2004	31 December 2003
	Unaudited €'000	Audited €'000	Audited €'000	Audited €'000
<b>Profit and Loss Data</b>				
Rental income . . . . .	142,442	259,079	219,840	207,229
Other property income . . . . .	2,187	1,805	923	957
<b>Total revenue . . . . .</b>	<b>144,629</b>	<b>260,884</b>	<b>220,763</b>	<b>208,186</b>
Ground rents paid . . . . .	(1,069)	(2,009)	(1,975)	(1,781)
Property management fees . . . . .	(8,789)	(15,739)	(13,988)	(13,853)
Other property rental expenses . . . . .	(4,220)	(6,851)	(5,861)	(5,134)
<b>Cost of rental activities . . . . .</b>	<b>(14,078)</b>	<b>(24,599)</b>	<b>(21,824)</b>	<b>(20,768)</b>
<b>Gross profit . . . . .</b>	<b>130,551</b>	<b>236,285</b>	<b>198,939</b>	<b>187,418</b>
Fund expenses . . . . .	(12,226) <sup>(1)</sup>	(9,145)	(8,876)	(8,776)
Profit on disposal of investment property . . . . .	1,193	686	2,741	10,820
Gross valuation gains/losses on property, net of disposals . . . . .	438,956	184,124	116,232	22,934
Purchasers costs, net of disposals . . . . .	(28,977)	(31,486)	(21,151)	6,201
Impairment of goodwill . . . . .	—	(1,736)	—	—
<b>Property fair value movements . . . . .</b>	<b>409,979</b>	<b>150,902</b>	<b>95,081</b>	<b>29,135</b>
<b>Profit from activities of the Fund, prior to financing activities . . . . .</b>	<b>529,497</b>	<b>378,728</b>	<b>287,885</b>	<b>218,597</b>
Net Finance expense . . . . .	(38,785)	(89,000)	(72,558)	(107,707)
<b>Profit before taxation . . . . .</b>	<b>490,712</b>	<b>289,728</b>	<b>215,327</b>	<b>110,891</b>
Charges for taxation . . . . .	(116,834)	(53,827)	(36,292)	(5,759)
<b>Net profit for the period . . . . .</b>	<b>373,878</b>	<b>235,901</b>	<b>179,035</b>	<b>105,132</b>
	€	€	€	€
<b>Earnings per share</b>				
Class A and B Units . . . . .	2.20	1.52	1.32	0.82
Class C Units . . . . .	0.3375	0.675	0.675	0.675
<b>Diluted earnings per share</b>				
Diluted earnings per share for Class A and B Units . . . . .	1.94	1.18	0.89	0.50

(1) Includes accrued Offer costs of €7.0 million.

	As at 30 June 2006	As at 31 December 2005	As at 31 December 2004	As at 31 December 2003
	Unaudited €'000	Audited €'000	Audited €'000	Audited €'000
<b>Balance Sheet Data</b>				
Total non-current assets . . . . .	4,266,525	3,514,000	2,964,835	2,376,702
Total current assets . . . . .	253,703	205,518	173,210	155,150
<b>Total assets . . . . .</b>	<b>4,520,228</b>	<b>3,719,518</b>	<b>3,138,045</b>	<b>2,531,852</b>
Total equity . . . . .	2,384,227	1,825,703	1,509,088	1,207,906
Total non-current liabilities . . . . .	1,650,324	1,554,185	1,095,316	988,074
Total current liabilities . . . . .	485,677	339,630	533,641	335,872
Total liabilities . . . . .	2,136,001	1,893,815	1,628,957	1,323,946
<b>Total equity and liabilities . . . . .</b>	<b>4,520,228</b>	<b>3,719,518</b>	<b>3,138,045</b>	<b>2,531,852</b>

	Six Months Ended	Year Ended		
	30 June 2006	31 December 2005	31 December 2004	31 December 2003
	Unaudited €'000	Audited €'000	Audited €'000	Audited €'000
<b>Cash Flow Data</b>				
Net cash flow from operating activities . . . . .	78,096	147,867	122,900	109,634
Net cash used in investing activities . . . . .	(312,838)	(324,265)	(443,870)	(87,348)
Net cash provided from financing activities . . . . .	253,273	204,822	322,616	(50,829)
Effects of exchange rate changes . . . . .	(3,154)	(401)	160	(4,633)
Net increase/(decrease) in cash and cash equivalents . . . . .	15,377	28,023	1,806	(33,176)
Cash and cash equivalents at the beginning of the period . . . . .	96,785	68,762	66,956	100,132
<b>Cash and cash equivalents at the end of the period</b>	<b>112,162</b>	<b>96,785</b>	<b>68,762</b>	<b>66,956</b>

## CERTAIN RISK FACTORS

### General

An investment in the Ordinary Units is suitable only for investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear a loss of their entire investment. There can be no assurance that PEP's investment objectives will be achieved, or that PEP will continue to achieve comparable operating results, as there may be an oversupply of Distribution Facilities or reduction in demand from customers in the future. Prospective investors should carefully review and evaluate the risks and the other information contained in this Prospectus before making a decision to invest in the Ordinary Units. Investors should immediately seek their own personal financial advice from their independent professional financial adviser or other advisers such as legal advisers, tax consultants and accountants.

**Prospective investors should be aware that the value of the Ordinary Units and the income from those units may decrease and that they may not realise their initial investment. In addition, the market price of Ordinary Units may, in the future, be less than the NAV of the Ordinary Units.**

The risks set out below are the risks which the Management Company currently considers to be material but are not the only risks relating to PEP or an investment in the Ordinary Units. There may be additional material risks that the Management Company does not currently consider to be material or of which it is not aware.

### Risks Relating to the Business

*Changes in general economic conditions and other events or circumstances that affect the markets in which PEP's properties are located or that are served by customers leasing PEP's facilities may negatively impact financial results*

PEP is exposed to the general economic conditions and to the local, regional, national and international economic conditions and other events and occurrences that affect the markets in which it owns properties, in particular the markets where it has concentrations of properties. As at 30 June 2006, approximately 39 per cent. of PEP's properties by number (and approximately 39 per cent. by leasable area) were located in France, approximately 16 per cent. of its properties by number (and 14 per cent. by leasable area) were located in the UK and approximately 8 per cent. of its properties by number (and 9 per cent. by leasable area) were located in The Netherlands. In addition, PEP has significant investments in markets in Central and Eastern Europe, including Poland, the Czech Republic and Hungary. An economic slowdown, downturn or recession in Europe would be likely to have a significant adverse effect on PEP's business, particularly a downturn or recession in France, the UK, The Netherlands or other key markets in which PEP holds properties. Such a slowdown, downturn or recession could result in an oversupply of distribution space, which may adversely affect operating results. ProLogis and its competitors currently have a significant pipeline of development properties in Europe. Most of these properties are generally developed based on expectation of market demand and without pre-arranged leases or customers. As a result, there is a risk that development of new properties could result in oversupply if expected demand does not materialise. Any material oversupply of distribution space or material reduction in demand for distribution space could adversely affect PEP's results of operations, Distributable Cash Flow and the NAV of the Ordinary Units.

*Real estate investments are subject to risks that could adversely affect PEP's business*

Real estate investments are subject to a number of risks that are outside the control of PEP, including risks relating to:

- changes in the general economic climate;
- local conditions, such as an oversupply of distribution space or a reduction in demand for distribution space in an area;
- the relative attractiveness of PEP's Distribution Facilities to potential customers;
- competition from other available Distribution Facilities, including those owned by, and under management of, affiliates of the Management Company and ProLogis and ProLogis Related Parties;
- PEP's ability to provide adequate maintenance of, and insurance on, the Distribution Facilities;



- PEP's ability to achieve optimal rental growth and control operating costs, including energy costs;
- governmental regulations, including zoning, usage and tax laws, and costs or operational limitations resulting from changes in these laws; and
- potential liability under, and changes in, environmental, zoning and other laws.

Adverse changes in any of the above factors could have a material adverse effect on PEP's results of operations, Distributable Cash Flow and the NAV of the Ordinary Units.

***PEP faces significant competition in each of its markets***

PEP has a number of competitors in Europe. Its competitors include local companies owning Distribution Facilities and other companies that own, or seek to own, Distribution Facilities across a number of countries in Europe. Competitors may own or operate Distribution Facilities that are more conveniently located, have more suitable space, or are otherwise more attractive to potential customers. Some of these competitors also have significant resources. Competition may result in a reduction of rental income or PEP incurring increased costs to refurbish or build Distribution Facilities that are more attractive to current or potential customers. In an economic downturn, competition may increase as companies seek to attract or retain customers. The impact of competition may adversely affect PEP's results of operations, Distributable Cash Flow and the NAV of the Ordinary Units.

***Real estate investments are not as liquid as other types of assets, which may affect PEP's ability to react promptly to certain changes***

Real estate investments are not as liquid as other types of investments, and this lack of liquidity may limit PEP's ability to react promptly to changes in economic or other conditions. For example, PEP may not be able to sell properties at prices that reflect their current NAV or at all in the event of a downturn in the market. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are relatively fixed, despite circumstances causing a reduction in income from such investments. Certain costs are also incurred in the sale of real estate properties, which can significantly reduce the proceeds received by PEP from any such sales of properties.

PEP is subject to leverage restrictions under the Management Regulations, as described more fully in Part III—"Operating and Financial Review and Prospects—Principal Factors Affecting Results of Operations—Potential Investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures" of this Prospectus. If PEP is required to sell assets to repay debt in order to comply with these leverage restrictions, the lack of liquidity of property investments may adversely affect its ability to do so, or its ability to achieve market prices in such a sale.

***Following the Offer, PEP will rely principally on external growth through investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures***

PEP's principal strategy for future external growth will be to invest in the ProLogis Private Equity Funds and ProLogis Joint Ventures. Following the Offer, except for PEP's agreement under the Property Contribution Agreement to acquire from PLD or PLD Related Parties upon stabilisation Distribution Facilities from the Property Portfolio having an aggregate Contribution Value of approximately €200 million, PEP will no longer have direct access to the ProLogis pipeline of European Distribution Facilities, which are expected to be made available to the ProLogis Private Equity Funds or contributed to the ProLogis Joint Ventures. In addition, PEP does not currently expect to acquire any new properties from third parties. There can be no assurance that ProLogis will be able to continue to develop new Distribution Facilities on attractive terms for the ProLogis Private Equity Funds or will be able to conclude any ProLogis Joint Ventures. The structure and terms of the ProLogis Private Equity Funds have yet to be finalised, and there can be no assurance that the ProLogis Private Equity Funds will ultimately be established to provide PEP with external growth opportunities.

Although PEP has rights, subject to limitations, to subscribe up to 30 per cent. of the equity securities and securities convertible into equity securities issued by any ProLogis Private Equity Fund and a right to participate in ProLogis Joint Ventures under the Private Equity Fund Investment Agreement, there can be no assurance that PEP will have the necessary capital resources or debt financing available to make such investments. Due to the limitations that apply to PEP's rights to invest, PEP may lose its rights to invest in the ProLogis Private Equity Funds or the ProLogis Joint Ventures. Further details of the Private Equity Fund Investment Agreement are set out in paragraph 9.1 "Private Equity Fund Investment Agreement" in Part VII—"Additional Information" of this Prospectus. In addition, there can be no assurance that any new Distribution Facilities acquired by the ProLogis Private Equity Funds or the ProLogis Joint Ventures will achieve the same or similar results as the Distribution Facilities currently held in the Portfolio.

In addition, PEP will have only very limited rights with respect to the control, disposition or management of the ProLogis Private Equity Funds, and, despite the fact that these investments may become a significant part of the Portfolio, investors in PEP will have little or no control over the management or operations of the ProLogis Private Equity Funds.

PEP's investments in a ProLogis Private Equity Fund or ProLogis Joint Venture may involve risks not present in investments made directly by PEP in Distribution Facilities, including the possibility that:

- PEP and the ProLogis Private Equity Fund (or in relation to the ProLogis Joint Ventures, a joint venture partner) may reach an impasse on a major decision that requires the approval of both parties;
- PEP may at any time have economic or business interests or goals that are inconsistent with those of the ProLogis Private Equity Fund or ProLogis Joint Venture;
- PEP or another investor in the ProLogis Private Equity Fund (or in relation to the ProLogis Joint Ventures, a joint venture partner) may encounter liquidity or insolvency issues or the ProLogis Private Equity Fund or ProLogis Joint Venture may become insolvent or bankrupt;
- the ProLogis Private Equity Fund or the ProLogis Joint Venture may acquire properties from ProLogis on less favourable terms than PEP has enjoyed in the past;
- PEP may be subject to higher fees or other costs through investment in the ProLogis Private Equity Fund than it has historically paid or than it pays in respect of direct investments;
- the ProLogis Private Equity Fund may take actions contrary to PEP's investment objectives which could potentially result in the Management Company being required to dispose of PEP's investment in such ProLogis Private Equity Fund; and
- the ProLogis Private Equity Fund or ProLogis Joint Venture may take actions that subject its properties to liabilities in excess of or other than those contemplated by PEP.

***PEP's investments are concentrated in the industrial logistics sector and therefore its business would be adversely affected by an economic downturn in that sector***

PEP's real estate investments are concentrated in the industrial logistics sector. As at 30 June 2006, 56 per cent. of PEP's customers (by Annualised Rental Income) were third party logistics companies, 14 per cent. were retailers and 13 per cent. were manufacturers. This concentration may expose PEP to the risk of economic downturns in this sector to a greater extent than if its business activities were more diversified.

***PEP's operating results and Distributable Cash Flow will depend on the continued generation of lease revenues from customers***

As at 30 June 2006, PEP's 10 largest customers represented 33 per cent. of its Annualised Rental Income. PEP's operating results and Distributable Cash Flow would be adversely affected if a significant number of customers, or one or more of its largest customers, were unable to meet their lease obligations. PEP has several significant customers that are third party logistics companies, which as at 30 June 2006 together represented 56 per cent. of PEP's rental income. PEP could be adversely affected by a credit event or downturn in these customers' businesses, or by these customers seeking the protection of bankruptcy, insolvency or similar laws, causing the loss of the customer, a failure by the customer to make rental payments when due or a restructuring that might reduce cash flow to PEP from the lease. In addition, if one or more significant customers received lease terms significantly less favourable to PEP, renewal terms with other customers or terms with new customers could be affected, reducing PEP's rental income. In the event of default by a significant number of customers, or one or more of its largest customers, PEP may experience delays and incur substantial costs in enforcing its rights as lessor.

***PEP's business may be adversely affected if it is unable to renew leases or re-lease space on favourable terms as leases expire***

PEP's results of operations, Distributable Cash Flow and the NAV of the Ordinary Units would be adversely affected if PEP is unable to lease, on economically favourable terms, a significant amount of space in the Portfolio. The number of Distribution Facilities available in a market or submarket could adversely affect both PEP's ability to re-lease the space and the rental rates that could be obtained in new leases. If the supply of properties exceeds demand, or demand for properties falls, the resulting oversupply could adversely affect PEP's results of operations, Distributable Cash Flow and the NAV of the Ordinary

Units. Upon the expiration of leases for space located in the Portfolio, leases may not be renewed by existing customers, the space may not be re-leased to new customers or the terms of renewal or re-leasing (including the cost of required renovations or concessions to customers) may be less favourable to PEP than current lease terms.

***Increased maintenance and redevelopment costs could negatively affect PEP's results of operations***

The average age of the properties in the Portfolio is likely to increase over time, which may result in PEP's maintenance, refurbishment and redevelopment costs relating to the Portfolio increasing from their historic levels. These additional costs could in turn adversely affect PEP's results of operations and Distributable Cash Flow. If PEP does not carry out maintenance, refurbishment and redevelopment, its Distribution Facilities may become less attractive to customers and rental yields may fall. Additionally, PEP may need to expend additional funds to keep these ageing properties in adequate repair.

***Property valuation is inherently subjective and uncertain***

The valuation of real estate is inherently subjective due to the individual nature of each property and characteristics of local, regional and national real estate markets, which change over time and may be adversely affected by a number of factors, including the risk factors described in this section. As a result, valuations are subject to uncertainty. The valuation reports in Part XIII—"Valuation Reports" of this Prospectus were made on the basis of assumptions which may not prove to reflect the true position. Potential investors should read these assumptions, which are outlined in the valuation reports, carefully. There is no assurance that the valuations of the Portfolio contained in this Prospectus and in PEP's future reports to Unitholders will reflect actual sales prices even if any such sales were to occur shortly after the relevant valuation date.

Potential investors should also be aware that the valuations of the Portfolio as at 30 June 2006 were made by the Independent Appraisers without conducting a physical inspection of any of the Distribution Facilities comprising the Portfolio on or about such date. The valuations of the Portfolio as at 30 June 2006 contained in this Prospectus and the net asset value of PEP as at 30 June 2006 (which relies on such valuations) could differ had full appraisals of PEP's Distribution Facilities been performed as at such date. Furthermore, the number of Ordinary Units into which the Class B1 and Class B2 units owned by PLD will be converted upon Admission and the price at which the Ordinary Units will be sold in the Offer and thereafter in the market, as well as the incentive fee payable to the Management Company, are based on the net asset value of PEP as at 30 June 2006 and, accordingly, could have differed or may differ significantly if full appraisals were performed in connection with the Portfolio valuations as at 30 June 2006.

In addition, future changes in tax legislation (including amendments to Italian tax legislation effective from 1 October 2006 which will introduce a registration tax of either 2 per cent. or 4 per cent. of the purchase price on non-residential property and an annual lease registration tax of 1 per cent. of annual rents) may have a negative impact on the value of the Portfolio.

***PEP's insurance coverage does not include all potential losses***

PEP currently has the benefit of insurance coverage, including property, liability, fire, flood, earthquake, environmental, terrorism, extended coverage and rental loss as the Management Company considers appropriate for the markets where each of PEP's Distribution Facilities and business operations are located. The insurance coverage contains policy specifications and insured limits that the Management Company believes are customarily carried for similar properties, business activities and markets. While the Management Company believes that PEP's Distribution Facilities are adequately insured, there are certain losses, including losses from acts of war or riots, that are not generally insured against, partially or in full, because it is not deemed economically feasible or prudent to do so. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of PEP's Distribution Facilities, PEP could experience a significant loss of capital invested and potential revenues in these Distribution Facilities and could potentially remain obligated under any recourse debt associated with such Distribution Facility.

***PEP is exposed to various environmental risks that may result in unanticipated losses that could affect its operating results and financial condition***

Under various laws and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under, in

or emanating from its property. The costs of removal or remediation of such substances could be substantial. A current or previous owner could also be liable in respect of damages to persons who are exposed to hazardous or toxic substances at, on, under, in or emanating from its property, and a current or previous owner of property from which hazardous or toxic substances have migrated or are migrating may be liable in respect of damages to owners of properties to which such substances have migrated or are migrating. Such damages could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. If PEP were found to be liable for any such removal or remediation costs or damages, PEP's results of operations and Distributable Cash Flow could be adversely affected.

PEP purchases various limited environmental insurance policies to mitigate its exposure to environmental liabilities, but there may be risks that are not covered by such insurance or which exceed the policy limits of such insurance. While environmental investigations indicate that there are hazardous or toxic substances at, on, under, in or emanating from some of its properties, the Management Company is not aware of any environmental liability that it believes would have a material adverse effect on its business, financial condition or results of operations. However, the Management Company cannot give any assurance that such conditions do not exist or may not arise in the future. The presence of such hazardous substances or other conditions in the Portfolio could adversely affect PEP's ability to sell its real estate investments or to borrow using such investments as collateral, and clean up or regulatory costs may also have an adverse effect on PEP's Distributable Cash Flow.

Moreover, PEP is subject to the risk that environmental laws and regulations may become more onerous over time, which could in turn create additional costs and limit PEP's future activities.

***PEP is subject to governmental regulations and actions that could, in the future, materially affect its operating results and financial condition***

As the owner of the Distribution Facilities in 11 countries in Europe, PEP is subject to a wide range of European Community, national and local laws and regulations. These include zoning, health and safety, environmental, tax, planning, foreign ownership limitations and other laws and regulations. Changes in these laws and governmental regulations, or their interpretation by agencies or the courts, could occur. Such regulatory changes and other economic and political factors, including civil unrest, governmental changes and restrictions on the ability to transfer capital in the foreign countries in which PEP has invested, could have a material adverse effect on PEP's investors, operating results and financial condition and the NAV of the Ordinary Units.

***Risks associated with development activities may negatively affect PEP***

PEP owns certain properties that contain a portion of undeveloped land which could, at the option of the customer, be used to expand existing Distribution Facilities on such land. PEP may engage affiliates of the Management Company or ProLogis to develop such land on behalf of PEP. In addition, as discussed in more detail in Part III—"Operating and Financial Review and Prospects" of this Prospectus, PEP is currently negotiating the acquisition of an area of undeveloped land in Blois, France, and has engaged a third-party construction partner to develop a Distribution Facility on the land once it has been acquired. PEP will therefore be subject to risks associated with development activities including, but not limited to, the risk that construction costs may exceed the original estimates or that construction may not be completed on schedule, which could make the project less profitable than originally estimated. Increased construction costs may result from the possibility of contract default on the part of the developer or subcontractors, the effects of local weather conditions, the possibility of local or national strikes and the possibility of shortages in materials, building supplies or fuel for equipment.

***Annualised Rental Income may not reflect actual results***

Annualised Rental Income figures and annualised average rents per square metre figures provided in this Prospectus are presented for illustration only and may not reflect PEP's actual results, which could differ significantly. Among other factors, the termination of leases, PEP's inability to renew leases or replace existing customers on comparable terms, changes in economic conditions and other factors described in this section of this Prospectus may affect PEP's actual results and may cause actual results to differ from annualised amounts, possibly significantly.



## **Risks Relating to PEP**

### ***Changes in PEP's tax structure could have a material adverse effect on PEP***

PEP holds the Portfolio through a number of subsidiaries and other investment vehicles and has structured its investments in a manner that is designed to be tax-efficient, in particular with respect to the distribution of funds to PEP by its subsidiaries and by PEP to Unitholders. Maintaining a tax-efficient structure is an important factor affecting Distributable Cash Flow. Tax charges and withholding taxes in various jurisdictions in which PEP may invest will affect the level of intercompany loan payments, distributions or other payments made to it and accordingly to Unitholders. Changes in tax laws, regulations or interpretations by tax authorities could increase tax liabilities and require changes in PEP's structure, which could negatively affect its Distributable Cash Flow. No assurance can be given as to the level of taxation incurred by PEP or its investments.

### ***PEP may be subject to the French 3 per cent. real estate holding tax***

According to Article 990D of the French Tax Code, certain legal entities which directly or indirectly own one or more real estate assets or rights over real estate assets located in France are liable for an annual tax of 3 per cent. of the market value of the real property or rights over such property. There is an exemption from the French 3 per cent. real estate holding tax that applies to legal entities whose securities are listed on a regulated market. Due to the fact that PEP is an FCP (and therefore does not have separate legal personality), the exemption may not apply to PEP. PEP is in the process of seeking a tax ruling from the French tax authorities to determine whether it is eligible for the exemption. PEP currently expects that the ruling would be received this year, but there can be no assurance that a ruling will be granted or, if and when it is, that it will be positive.

If the tax ruling which PEP has sought is not obtained, the applicability of the French 3 per cent. real estate holding tax will be determined at the level of each Unitholder, and any Unitholder will be primarily responsible for the payment of such tax attributable to it. However, failure of Non-Exempt Unitholders to pay the French 3 per cent. real estate holding tax if applicable and/or failure of Unitholders seeking certain exemptions to comply with their filing obligations (as set out in Part VIII—"Tax Considerations" of this Prospectus) may result in the joint liability of PEP and PEP subsidiaries to pay the tax. The amount of any annual French 3 per cent. real estate holding tax charge which would be payable by PEP would depend on the amount of French real estate held by PEP and the percentage interest of those Non-Exempt Unitholders who have failed to pay the French 3 per cent. real estate holding tax for which they are responsible. Such liability could be material to PEP. For example, if the Ordinary Units had been listed on Euronext Amsterdam prior to 31 December 2005 and on 1 January 2006, 25 per cent. of the Ordinary Units were held by Non-Exempt Unitholders, PEP would have a potential liability to pay a tax charge for the year ended 31 December 2005 of approximately €8.65 million. As the percentage of Ordinary Units publicly held by Unitholders who may be Non-Exempt Unitholders increases, PEP's potential liability would likewise increase.

### ***PEP may be treated as a corporation for U.S. Federal income tax purposes if less than 90 per cent. of its gross income consists of qualifying income***

PEP will be treated as a corporation for U.S. Federal income tax purposes for any year in which it is a publicly traded partnership, unless 90 per cent. or more of its gross income for such taxable year and all prior taxable years that it is a publicly traded partnership consists of certain types of "qualifying income." PEP's income from the rental of its real estate properties should generally constitute qualifying income, unless such income is received from a tenant in which PEP is deemed to have a 10 per cent. or greater direct or indirect ownership interest (taking into account certain attribution rules which treat PEP as owning any direct or indirect ownership interest in a tenant that is held by a 5 per cent. or greater Unitholder). However, if any Unitholder owns 5 per cent. or more of PEP, it is possible that ownership could result in attribution from such 5 per cent. or greater Unitholders that would cause PEP to be deemed to own 10 per cent. or more of a tenant. Because the Management Regulations do not restrict ownership for this purpose, PEP will not be able to control whether it has any such 5 per cent. or greater Unitholders. Therefore, it is possible that a portion of PEP's gross rental income would not be "qualifying income," which could cause PEP to be treated as a corporation for U.S. Federal income tax purposes.

***A U.S. Unitholder's U.S. federal income tax liability could exceed cash distributions received from PEP***

Each U.S. Unitholder will be required to report separately on its U.S. Federal income tax return its allocable share of PEP's items of income, gains, loss, deduction or credit for the taxable year of PEP ending within or with the taxable year of the U.S. Unitholder, regardless of whether such U.S. Unitholder has received or will receive corresponding distributions from PEP. Therefore, the amount of PEP's taxable income allocated to a U.S. Unitholder, and possibly the U.S. Federal income tax payable by the U.S. Unitholder with respect to such income, may exceed the cash, if any, actually distributed to such U.S. Unitholder.

***PEP has made significant provisions for deferred tax liabilities which may be recognised on the sale of assets***

As at 30 June 2006, PEP had made, in accordance with International Accounting Standard No. 12, a provision in respect of deferred tax liabilities in the amount of €197.1 million. Such deferred tax liabilities were calculated according to the liability method based on temporary timing differences and arose mainly as a result of fair value adjustments to assets within the Portfolio. Depending on the terms of sale, an income tax liability may be triggered on a sale of assets within the Portfolio and may differ from the deferred tax liability currently provided for by PEP. In the event the income tax liability is greater than the deferred tax liability provided for, this temporary difference may negatively affect the extent to which amounts received on a sale of assets will be available either for distribution to PEP's Unitholders or for investment in the ProLogis Private Equity Funds or the ProLogis Joint Ventures.

***Ownership limitations and other provisions of the Management Regulations may impact the availability of a takeover or control premium to Ordinary Unitholders***

Accumulation of beneficial ownership by any Person (other than ProLogis or a ProLogis Related Party) above 9.9 per cent. of outstanding Ordinary Units and the accumulation of beneficial ownership by any five or fewer Persons above 50 per cent. of outstanding Ordinary Units is restricted as set out in the Management Regulations (except for existing Unitholders who hold more than 9.9 per cent. of outstanding Ordinary Units immediately prior to the Offer who, with the exception of ProLogis and ProLogis Related Parties, will be subject to an ownership limitation of 20 per cent. of the outstanding Ordinary Units). These provisions, as well as the significant ownership of Ordinary Units by ProLogis and ProLogis Related Parties, could have an anti-takeover effect and deter transactions in which Unitholders might otherwise receive a cash premium for their Ordinary Units from a person or company seeking to acquire control of, or a significant interest in, PEP. Furthermore, other provisions of the Management Regulations may have the effect of restricting the ownership or management of PEP, including that the PEP Board is divided into three classes and in each year the term of only one such class will expire, requiring the nomination and election of new members to the PEP Board.

***Unitholders' rights may be limited in several important ways compared to rights that typically attach to ordinary shares***

The nature and extent of the rights of Unitholders are set out in the Management Regulations (which are set out in full in Part XIV—"Management Regulations of PEP" of this Prospectus). The governance rights attached to the Ordinary Units are different from rights that typically attach to ordinary shares in a company. The governance rights in PEP are limited in several important ways, including the following:

- the Management Company has the exclusive right to manage PEP in the exclusive interests of Unitholders and has the sole power to table resolutions to the PEP Board on all but a limited number of decisions, including the sale of Distribution Facilities;
- the Management Regulations limit when the Management Company can be replaced, other than for cause;
- Ordinary Unitholders (including ProLogis and ProLogis Related Parties) have the right to elect the four Independent Board Members (other than the initial Independent Board Members) upon proposal by a nomination committee, and the Management Company has the right to appoint the two ProLogis Board Members; and
- although the Independent Board Members will represent a majority of the PEP Board, they will have limited rights with respect to the management and governance of PEP.

Accordingly, no investment should be made in PEP unless the investor is willing to entrust substantially all aspects of the administration and management of PEP to the Management Company. See Part IV—“Management of PEP” of this Prospectus for information on PEP’s management and governance.

***PEP’s distributions will depend on payments made to it by its subsidiaries and the ProLogis Private Equity Funds and ProLogis Joint Ventures***

In order to make distributions to Unitholders, PEP (i) depends on intercompany loan payments, distributions and other payments from its subsidiaries that hold Distribution Facilities, as PEP holds no Distribution Facilities directly; and (ii) will depend on distributions from the ProLogis Private Equity Funds and the ProLogis Joint Ventures in which it invests, if any such investment is made by PEP. The amount and timing of distributions to Unitholders will be determined by the Management Company in accordance with the terms of the Management Regulations and may be restricted by applicable law and regulations. The ability of PEP’s subsidiaries to make distributions of cash held by them to PEP may be limited by applicable law, the terms of CMBS or other financings, or for other reasons. In addition, PEP will not control the timing or amount of distributions made by any ProLogis Private Equity Funds, other funds or ProLogis Joint Ventures in which it invests. These factors may negatively affect the amounts that are available for distribution to PEP’s Unitholders.

***Future issuances of Units could dilute the interests of existing Unitholders***

PEP may in the future issue additional Units in public offerings or private placements, as well as pursuant to the subscription agreement described in paragraph 10.15 of Part VII—“Additional Information” of this Prospectus, and, in each fiscal year, Units with an aggregate issue price of up to 10 per cent. of the total economic value of issued Units at the start of such fiscal year may be issued without offering such Units to existing Unitholders on a pre-emptive basis. It may not be possible for Unitholders to participate in these issuances, which may dilute their interest in PEP.

Furthermore, in accordance with the management regulations in place as at the date of this Prospectus, upon Admission the Class C Units will either be redeemed in full, or, if the holders thereof have so elected, will be converted into Class A(1) Units. One holder of Class C Units has elected to exercise its right to convert 2,500,000 Class C(1) and 2,500,000 Class C(2) Units into Class A(1) Units (which will then be reclassified as Ordinary Units), effective as at Admission. Such conversion into Class A(1) Units will dilute the existing Ordinary Unitholders’ percentage of Ordinary Units held, and in addition, as the conversion ratio at which the Class C Units may be converted into Class A(1) Units is fixed, could have a negative impact on the NAV of the existing Ordinary Units.

***PEP is subject to litigation in the course of its business***

In the ordinary course of its business, PEP may be subject to litigation from time to time. The outcome of such proceedings may materially adversely affect the value of PEP and may continue without resolution for long periods of time. Any litigation may also consume substantial amounts of the Management Company’s time and attention, and that time and the devotion of these resources to such litigation may, at times, be disproportionate to the amounts at stake in the litigation.

**Financing Risks**

***PEP expects to increase its leverage in the future; changes in available terms for debt financing or refinancing (including increases in interest rates) could have a material adverse effect on PEP***

PEP has significant amounts of indebtedness outstanding, with approximately €1.8 billion in debt outstanding at 30 June 2006, and expects that it will significantly increase the amount of its borrowings following the Offer. Additional borrowing may be required, among other things, to make future investments in ProLogis Private Equity Funds and ProLogis Joint Ventures, to acquire Distribution Facilities from the Property Portfolio under the Property Contribution Agreement for an amount of approximately €200 million, to redeem for an amount of approximately €153.2 million 15,320,000 Class C Units which the holder thereof has not elected to convert into Class A(1) Units (which will be reclassified as Ordinary Units) effective as at Admission, to refinance the current portion of outstanding debt and to pay costs relating to the Offer, including the Underwriters’ commissions. As a result, PEP expects that its total indebtedness as a percentage of total assets and gross profit and its financing costs will increase significantly, which will result in higher financing costs and will increase financing and refinancing risks.

Due to its existing debt and expected additional borrowings, PEP is subject to the risks associated with debt financing, including the risks that available funds will be insufficient to meet required payments and the risk that existing indebtedness will not be refinanced or additional debt obtained or that the terms of such refinancing or additional debt will not be as favourable as the terms of existing indebtedness. In particular, PEP will require additional CMBS and bank facilities to finance its expected investments. These facilities may not be available in the amounts or on terms that are as favourable as PEP's current facilities.

The debt of PEP and its subsidiaries is generally secured by real estate owned by such subsidiaries or related collateral. As is the case in secured debt financings, to the extent PEP's subsidiaries are unable to meet required payments, pledged assets (which may be PEP's assets generally and may not be limited to any particular asset, such as the real estate giving rise to the liability) could be transferred to the lender with a consequent loss of such assets.

The extent of PEP's borrowings depends on PEP's ability to obtain credit facilities and lenders' estimates of the amounts and stability of PEP's cash flow. PEP's return on investments, NAV and Distributable Cash Flow may be reduced to the extent that changes in market conditions cause the cost of its borrowings to increase relative to the value of the income that can be derived from the Portfolio or if the financing costs for additional debt exceed the income received by PEP from the investments funded with the additional debt. Due to its significant borrowings and reliance on income from the Portfolio to service these borrowings, PEP may not be able to meet its debt service obligations, and, to the extent that it cannot, it risks the loss of some or all of its assets to foreclosure or sale to satisfy its debt obligations.

***PEP faces constraints on its ability to rely on third party debt financing to fund its investments in the ProLogis Private Equity Funds, ProLogis Joint Ventures and the Property Portfolio***

PEP expects that it will rely on debt to finance its investments in the ProLogis Private Equity Funds and the ProLogis Joint Ventures and to acquire stabilised Distribution Facilities from the Property Portfolio under the Property Contribution Agreement. PEP's current leverage, the covenants under PEP's existing debt facilities and the indebtedness limitations contained in the Management Regulations may limit PEP's ability to make such investments. With regards to its existing bank facility, PEP had €184.9 million in undrawn capacity as at 31 August 2006 (of which approximately €169.9 million was available for borrowing based on the covenants under such facility). The Management Company expects to rely on borrowings available under this facility and cash in the near term to pay costs relating to the Offer of between €30 and €35 million and to redeem at Admission 15,320,000 Class C Units at a cost of approximately €153.2 million. However, the borrowings currently available under this facility will be insufficient to finance PEP's acquisition of stabilised Distribution Facilities from the Property Portfolio, which is expected to take place in 2007 for an amount of approximately €200 million, and its planned investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures, which are also expected to take place in 2007. PEP is therefore currently seeking to increase the total capacity of its bank facility from €500 million to €800 million and has entered into a non-binding term sheet to this effect, though no assurance can be given that any such increase will be achieved and, if achieved, that a significant portion of such additional funds will not be used to fund other purposes. PEP may, in addition, rely on funds from other financing sources. PEP currently holds assets not part of a CMBS pool that the Management Company believes are sufficient to undertake an additional CMBS transaction in the next 12 months, though there can be no assurance that PEP will, or will be able to, undertake such a transaction.

There can be no assurance that PEP will be able to obtain financing for its future investments, or that the terms of the additional debt will be as favourable as those of its existing facilities. Among other things, changes in credit markets, lenders' or investors' perception of risk in the property market, or interest rates could affect the availability and terms of additional financing. To the extent that additional financing is limited or not available at the time required to make an investment, PEP's business and growth prospects could be adversely affected.

As provided in Article 7 of the Management Regulations which are set out in Part XIV—"Management Regulations of PEP" of this Prospectus, PEP and its consolidated subsidiaries may not incur additional indebtedness which would cause the total indebtedness of PEP and its consolidated subsidiaries, which as at 30 June 2006 was 40.9 per cent., to exceed 60 per cent. of the aggregate of (i) the Gross Property Value of the Distribution Facilities or other properties and property rights owned directly or indirectly by PEP and its consolidated subsidiaries and (ii) the value of debt and equity interests of PEP in real estate companies or other real estate investment vehicles which are not consolidated in the accounts of PEP, including unconsolidated ProLogis Private Equity Funds and unconsolidated ProLogis Joint Ventures. For



the purposes of effective cash management, PEP may exceed this indebtedness limit for temporary or short term purposes for a period not to exceed six months, provided that such total indebtedness does not exceed 65 per cent. of such aggregate value at any time. If PEP's leverage exceeds these levels, it may be required to sell properties and repay debt. These Management Regulation provisions will limit PEP's ability to lever its assets to make additional investments.

Under the Private Equity Fund Investment Agreement, as described more fully in paragraph 9.1 in Part VII—"Additional Information" of this Prospectus, PEP's rights to invest in the ProLogis Private Equity Funds and ProLogis Joint Ventures may be terminated by PLD (subject to certain exceptions) if PEP declines three successive investment opportunities to invest in ProLogis Private Equity Funds, including investments declined due to unavailability of financing. Also, its right to invest in ProLogis Joint Ventures pursuant to the Private Equity Fund Investment Agreement lapses (subject to certain exceptions) if it declines three successive opportunities to invest in certain ProLogis Joint Ventures. Apart from PEP's acquisition of Distribution Facilities under the Property Contribution Agreement, if PEP's rights under the Private Equity Fund Investment Agreement lapsed, it would lose its right to access the ProLogis pipeline of European Distribution Facilities, which may adversely affect its business and growth prospects.

***PEP's ability to carry out future CMBS securitisations will depend upon a number of factors, including general and local market conditions***

Subsidiaries of PEP have, to date, borrowed over €1,293 million from special purpose entities issuing CMBS secured by real estate indirectly owned by such subsidiaries and related collateral. PEP's ability to execute future securitisations will depend upon a number of factors, including market conditions generally. In addition, some assets may be located in jurisdictions that do not necessarily lend themselves to securitisation (for example, as a result of the market being too immature or mortgage registration costs being too high). If PEP is unable to execute the CMBS or other financings in the future on attractive terms, its costs of financing may increase and Distributable Cash Flow may fall.

***Covenants in PEP's credit and securitisation agreements limit its flexibility and could adversely affect its financial condition and results of operations***

The terms of PEP's various credit agreements and other indebtedness require PEP to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage. These covenants limit PEP's flexibility in its operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if PEP has satisfied its payment obligations. A default or acceleration of amounts due as a result of a default could have a material adverse effect on PEP's business.

The securitisation arrangements entered into by certain of PEP's subsidiaries also limit PEP's ability to immediately re-invest cash received upon the sale of a property in the securitisation pool. Such cash must be retained by PEP as collateral for the respective securitisation and may not be re-invested until a formal property substitution can be made by PEP as provided by the agreement governing such securitisation. As at 30 June 2006, approximately €42 million is being retained by PEP as collateral under the securitisation arrangements. The requirements to hold this cash may reduce returns to Ordinary Unitholders to the extent cash is not immediately reinvested in higher yielding assets.

***PEP is exposed to currency exchange rate fluctuations***

PEP will be subject to fluctuations in currency exchange rates as a consequence of the revenues of its property-owning subsidiaries being denominated in currencies other than the Euro. In particular, PEP has a material interest in Distribution Facilities in the UK resulting in Sterling exposure. The Management Company presently does not contemplate using derivative transactions for hedging purposes to mitigate risks resulting from fluctuations in currency exchange rates, if any, between the Euro and any other national currency of the countries where PEP's Distribution Facilities are located. As a result, PEP's results of operations, balance sheet and Distributable Cash Flow could be adversely affected by such fluctuations if PEP is required to exchange one currency for another (for financial reporting purposes or on a cash basis), in particular from Sterling to Euro, at a time when exchange rates are not favourable.

***Fluctuations and changes in interest rates may cause losses***

Changes in interest rates could have an adverse effect on PEP's ability to obtain loans and other financings on favourable terms. In addition, changes in interest rates could materially affect the value of the Ordinary



Units. Although debt markets have generally been favourable for borrowers over the past several years and interest rates have remained low, there can be no assurance that favourable conditions will continue or that interest rates will not increase.

PEP historically has incurred significant third party debt to leverage the Portfolio with the aim of increasing returns for Unitholders. It has relied on its ability to generate rental yields in excess of financing costs to make leveraged acquisitions profitable. Increases in interest rates would be likely to have a material adverse effect on the Portfolio. As interest rates are low in many of PEP's markets, there is a significant risk that rates may rise. Increases in rates could make investing directly in new properties, or borrowing to invest in ProLogis Private Equity Funds or ProLogis Joint Ventures, more expensive. Additionally, increases in interest rates could have an adverse effect on PEP's results of operations, Distributable Cash Flow and the NAV of the Ordinary Units.

### **Risks Relating to PEP's Relationship with ProLogis**

#### ***The interests of ProLogis may not always be aligned with the interests of Ordinary Unitholders***

ProLogis owns, and will continue to own, a substantial percentage of the Ordinary Units. As a result, the Management Company believes that ProLogis' interests are aligned with those of other Unitholders, but notwithstanding this alignment of interests, employees, directors, officers and agents of ProLogis and ProLogis Related Parties will occupy key positions in respect of the operations of PEP, including the Managers and Investment Managers. PEP itself has no employees (other than three employees employed by a property-owning subsidiary in Hungary), and relies entirely on the Management Company's access to property managers and other resources of the ProLogis network through the Investment Management Agreement. As these employees are not exclusively working for PEP, conflicts of interest may exist or arise over which ProLogis has influence, and although these conflicts of interest are required to be resolved in accordance with ProLogis' obligations under the Investment Management Agreement, they may not necessarily be resolved in favour of PEP.

#### ***PEP may face competition from ProLogis or its affiliates***

ProLogis and other funds managed by ProLogis may have investment objectives and policies comparable to those of PEP and may be in competition with PEP. In particular, PEP's Distribution Facilities may face competition from other Distribution Facilities developed or redeveloped by ProLogis, whether currently existing or developed in the future, on properties adjacent to PEP's Distribution Facilities. Competition with ProLogis-developed Distribution Facilities not owned by PEP could have a material adverse effect on the rental income of PEP in relation to any affected Distribution Facility.

#### ***The individuals who manage PEP may also be involved in managing the ProLogis Private Equity Funds and ProLogis Joint Ventures***

ProLogis and its affiliates also invest in and manage other investment properties for their own accounts and for other funds, and provide real estate management and related services for other funds similar to those performed by the Management Company for PEP. Whilst the Managers must have sufficient time to carry on the business of PEP in a diligent manner, they may devote a significant amount of time to the establishment of the ProLogis Private Equity Funds and other ProLogis activities in Europe (including the formation of ProLogis Joint Ventures). Furthermore, some of the Managers may in the future also be responsible for managing one or more of the ProLogis Private Equity Funds and may be compensated based on targets in relation to the performance of ProLogis and the ProLogis Private Equity Funds, in addition to targets in relation to the performance of PEP. Whilst it is expected that they will continue to allocate substantial resources to PEP's ongoing operations, their involvement in the management of the ProLogis Private Equity Funds and ProLogis Joint Ventures may lead to conflicts of interest in the allocation of time, services or functions in relation to PEP, which may result in PEP's results of operations being less favourable than they would have been had the Managers devoted all of their time to PEP.

#### ***The Managers will have conflicts of interest in relation to any claims and rights PEP may have against ProLogis***

The Management Company, the Managers and the employees of the Management Company may have conflicts of interest in deciding whether and how to exercise and pursue rights and claims PEP may have under contractual arrangements with ProLogis and ProLogis Related Parties, including the Property Contribution Agreement, Investment Management Agreement and the Private Equity Fund Investment

Agreement and the Stabilised Property Contribution Agreement, which will be terminated on the Settlement Date, as set out in paragraph 9.2 of Part VII—“Additional Information” of this Prospectus.

Except with respect to specific decisions identified in the Management Regulations, such as whether to exercise the rights of PEP to invest under the Private Equity Fund Investment Agreement, the PEP Board and the Independent Board Members have limited ability to affect decisions made by the Management Company, the Managers and the officers and employees of the Management Company, including where conflicts of interest may be present. See Part IV—“Management of PEP—The PEP Board” of this Prospectus for more information.

In contributing properties to PEP, ProLogis has made limited representations and warranties and provided limited indemnification. Although ProLogis has provided limited indemnification in connection with liabilities associated with all of the assets it contributed to PEP, the Managers will have a conflict of interest both in determining whether to make any claims against ProLogis under the terms relating to the acquisition of the assets and in determining how to resolve any such claims.

#### ***PEP relies on the Management Company and the Investment Managers***

PEP depends significantly on the efforts and abilities of the Managers, the officers and employees of the Management Company and the Investment Managers. The loss of these persons’ services could have a material adverse effect on PEP. Furthermore, such a loss could be perceived negatively in the capital markets. Consistent with past practice, there are no service agreements in place between the Managers and PEP, and as a result any of the Managers could be replaced or moved to another position within ProLogis without the consent of PEP or the PEP Board.

#### ***It may be difficult for Unitholders to replace the Management Company***

The Management Company can only be removed or replaced (i) without cause, by a vote of 67 per cent. of Ordinary Units on 15 September 2016 and every fifth year thereafter (the meeting of Ordinary Unitholders to vote on the removal or replacement of the Management Company may only be convened at the initiative of a simple majority of the Independent Board Members following a simple majority of Independent Board Members having voted to terminate the Management Company’s appointment), or (ii) by a simple majority of Ordinary Units at any time in the event of (a) gross negligence, wilful misconduct or fraud by the Management Company or (b) failure by ProLogis or a ProLogis Related Party to observe the ownership requirements and restrictions on transfer of Units set out in the Management Regulations. As a result, PEP and the Unitholders may not be able to replace the Management Company and the Investment Managers because of poor performance, disagreements over investment decisions and strategic decisions or other factors until 15 September 2016 and subject to a simple majority of the Independent Board Members voting to terminate the Management Company’s appointment. The inability to replace the Management Company and the Investment Managers may adversely affect the NAV or market price of the Ordinary Units.

#### **Risks Relating to the Offer**

##### ***ERISA considerations***

Unless an exception applies, if 25 per cent. or more of the Ordinary Units (calculated in accordance with ERISA) or any other class of equity interest in PEP is owned, directly or indirectly, by pension plans or other “benefit plan investors” that are subject to ERISA or Section 4975 of the Code, assets of PEP could be deemed to be “plan assets” subject to the constraints of ERISA. Accordingly, no “benefit plan investor” that is subject to Title I of ERISA or Section 4975 of the Code will be permitted to acquire the Ordinary Units. Prospective investors should refer to “Certain ERISA Considerations” and “Transfer Restrictions” under Part IX—“ERISA, Transfer Restrictions, Eligible Investors and Certificates” of this Prospectus.

##### ***Investment Company Act status***

PEP intends to conduct its activities such that PEP will not be required to register under the Investment Company Act. In particular, PEP intends to limit transfers of its Ordinary Units to ensure that only U.S. Persons who are reasonably believed to be QIBs that are also QPs for purposes of the Investment Company Act at the time of acquisition are able to acquire Ordinary Units in order to meet the criteria for an exemption from Investment Company Act registration requirements provided by Section 3(c)(7) thereof. However, if PEP were to become subject to the Investment Company Act as a result of a failure to

meet the requirements for exemption from registration under the Investment Company Act, a change in law or otherwise, the various registration requirements and other restrictions imposed by the Investment Company Act and the substantial costs and burdens of compliance therewith could adversely affect the operating results and financial performance of PEP and the value of its Units. Moreover, parties to a contract with an entity that has improperly failed to register as an investment company under the Investment Company Act may be entitled to cancel or otherwise void their contracts with the unregistered entity.

***The Ordinary Units are subject to restrictions on transfers***

The Ordinary Units have not been registered in the U.S. under the Securities Act or under any other applicable Federal or U.S. state securities law and are subject to restrictions on transfer contained in such laws and in order to ensure compliance with ERISA.

In addition, in order to preserve its exemption from registration as an investment company under the Investment Company Act, no resale of Ordinary Units by investors will be permitted to any U.S. Person. There are additional restrictions on the resale of Ordinary Units by Ordinary Unitholders who are located in the U.S. or who are U.S. Persons and on the resale of Ordinary Units by any Ordinary Unitholders. Prospective investors should refer to paragraph 2, “Transfer Restrictions” in Part IX “ERISA, Transfer Restrictions, Eligible Investors and Certificates” of this Prospectus. Each of these restrictions could adversely affect the market price of the Ordinary Units.

***There are no precedents for the listing of an FCP on Eurolist by Euronext and there has been no public market for the Ordinary Units***

PEP will be the first FCP to be admitted to listing and trading on Eurolist by Euronext and, prior to the Offer, there has been no public market for the Ordinary Units. The Management Company does not know the extent to which investor interest will lead to a development of a trading market or how liquid that market might be or, if a trading market does develop, whether it will be sustained. It also does not know the extent to which the market, and the trading prices of the Ordinary Units, may be affected by the fact that the Ordinary Units represent interests in an FCP as opposed to shares in a company. If an active and liquid trading market does not develop or is not sustained, investors may have difficulty selling their Ordinary Units. In addition, costs or limitations not currently foreseen may arise in the future as a result of PEP’s status as an FCP. There can be no assurance that the prices at which the Ordinary Units will trade will not decline below the Offer Price. In addition, the tax consequences of investing in Ordinary Units of PEP, as a *fonds commun de placement*, may differ significantly from other types of equity investments. Prospective investors should consult their professional advisors on the potential tax consequences of subscribing for, purchasing, holding, converting or selling Ordinary Units.

**The foregoing factors are not exhaustive and do not purport to be a complete listing or explanation of all the risks and significant considerations involved in investing in the Ordinary Units.**

## EXPECTED TIMETABLE

Latest time and date for receipt of indications of interest in the Offer .....	5 p.m. on 21 September 2006
Announcement of the Offer Price and allocation of Ordinary Units .	22 September 2006
Trading in the Ordinary Units on an “as-if-and-when-issued-or-delivered” basis (Euronext Listing Date) .....	22 September 2006
Formal Admission to listing of the Ordinary Units on Eurolist by Euronext (Admission) .....	27 September 2006
Euroclear Netherlands accounts credited in respect of Ordinary Units in uncertificated form (Settlement Date) .....	27 September 2006

*Each of the dates in the above timetable is subject to change. Any acceleration or extension of the timetable of the Offer will be announced in a press release (together with any related revision of the expected dates of pricing, allocation and closing) at least two hours before the proposed expiration of the accelerated timetable for the Offer or, in the event of an extended timetable for the Offer, at least two hours before the expiration of the original timetable for the Offer. Any extension of the timetable for the Offer will be for a minimum of one full Business Day. References to times are to Central European Time unless otherwise stated.*

## SELLING RESTRICTIONS

Neither the Ordinary Units nor an investment in PEP has been approved or disapproved by any governmental or regulatory authority of any country or jurisdiction, nor has any such governmental or regulatory authority passed upon or endorsed the merits of PEP or an investment in its Ordinary Units.

This Prospectus does not constitute, and may not be used for the purposes of, an offer or an invitation to purchase any Ordinary Units by any person in any jurisdiction: (i) in which such offer or invitation is not authorised; (ii) in which the person making such offer or invitation is not qualified to do so; or (iii) to any person to whom it is unlawful to make such offer or invitation. The distribution of this Prospectus and the Offer in certain jurisdictions may be restricted. Accordingly, persons into whose possession this Prospectus comes are required by the Management Company and the Underwriters to inform themselves about and to observe any restrictions as to the offer or sale of Ordinary Units and the distribution of this Prospectus under the laws and regulations of any territory in connection with any applications for Ordinary Units in PEP, including obtaining any requisite governmental or other consent and observing any other formality prescribed in such territory. No action has been taken or will be taken in any jurisdiction (except in The Netherlands) by the Management Company, acting on behalf of PEP, the Underwriters or the Managers that would permit a public offering of Ordinary Units in any jurisdiction where action for that purpose is required, nor has any such action been taken with respect to the possession or distribution of this Prospectus other than in any jurisdiction where action for that purpose is required.

### U.S. Selling Restrictions

**THE ORDINARY UNITS HAVE NOT BEEN APPROVED OR RECOMMENDED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY U.S. STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY NOR HAVE SUCH AUTHORITIES CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE U.S.**

PEP has not been registered under the Investment Company Act. The Ordinary Units have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the U.S. and may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. Persons except initial offers and sales may be made to institutions that are both QPs and QIBs, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, or outside the U.S. in compliance with Regulation S. The offer or sale of Ordinary Units has not been registered under the securities laws of any other jurisdiction and may not be reoffered, resold, pledged or otherwise transferred except as permitted by the Management Regulations and as provided in this Prospectus. For a description of restrictions on offers, sales and transfers on the Ordinary Units and the distribution of this Prospectus in other jurisdictions, see Part IX – “ERISA, Transfer Restrictions, Eligible Investors and Certificates” of this Prospectus.

Further, no purchase, sale or transfer of Ordinary Units may be made unless such purchase, sale or transfer will not result in the assets of PEP constituting “plan assets” within the meaning of ERISA. Accordingly, investors using assets of retirement plans or benefit plans that are subject to ERISA or Section 4975 of the Code (including, as applicable, assets of an insurance company general account) will not be permitted to acquire any Ordinary Units, and each investor will be required to represent or will, by its acquisition of an Ordinary Unit, be deemed to have represented that it is not a “benefit plan investor” within the meaning of ERISA and the Plan Asset Regulations that is using assets of a plan that is subject to ERISA or Section 4975 of the Code. Any purported purchase or transfer of an Ordinary Unit to such an investor is subject to restrictions as provided in the Management Regulations and this Prospectus.

The Ordinary Units are transferable subject to the restrictions described in this Prospectus. Each transferor of Ordinary Units agrees to provide notice of the transfer restrictions set forth in this Prospectus to the transferee.

Purchasers of Ordinary Units may be required to execute investor representation letters, pursuant to which they will make representations and agree to comply with the selling restrictions described herein and the transfer restrictions described in Part IX—“ERISA, Transfer Restrictions, Eligible Investors and Certificates” of this Prospectus.



### **Notice to New Hampshire Residents Only**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

### **Selling Restrictions Relating to Relevant Member States of the European Economic Area (with the Exception of The Netherlands)**

In relation to each Relevant Member State (with the exception of The Netherlands), with effect from and including the Relevant Implementation Date, no offer of Ordinary Units to the public in that Relevant Member State shall be made at any time except:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of: (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual turnover of more than €50,000,000 as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the consent of each of Deutsche Bank and Morgan Stanley; or
- (d) in any other circumstances which do not require the publication by PEP of a prospectus pursuant to Articles 3 and 4 of the Prospectus Directive, provided, however, that the application of the Prospectus Directive to PEP and the consequential implications in offering Ordinary Units may vary in different Member States and investors should therefore also note any additional country specific restrictions.

### **France**

The Ordinary Units may only be offered or sold, directly or indirectly in the Republic of France, to qualified investors investing for their own account and/or to investment services providers authorised to engage in portfolio management services on a discretionary basis on behalf of third parties, all in accordance with Articles L.411-2-11-(4°) and D.411-1 of the French *Code Monétaire et Financier* (Monetary and Financial Code); neither this Prospectus, nor any information contained herein or any offering material relating to the Ordinary Units, may be distributed or caused to be distributed to the public in France.

This Prospectus has not been submitted to the clearance procedure of the *Autorité des marchés financiers*. In the event that the Ordinary Units, thus purchased or subscribed to by such investors listed above, are offered or resold, directly or indirectly, to the public in France, the conditions relating to public offerings set forth in Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the Monetary and Financial Code shall be complied with.

### **Germany**

The Ordinary Units which are the subject of this Prospectus are neither registered for public distribution with the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* (“**BaFin**”)) according to the German Investment Act (*Investmentgesetz*) nor listed on a German exchange. No sales prospectus pursuant to the German Securities Prospectus Act (*Wertpapierprospektgesetz*) has been filed with the BaFin. Consequently, the Ordinary Units must not be distributed within Germany by way of a public offer, public advertisement or in any similar manner, and this Prospectus and any other document relating to the Ordinary Units, as well as information or statements contained therein, may not be supplied

to the public in Germany or used in connection with any offer for subscription of the Ordinary Units to the public in Germany or any other means of public marketing.

Any resale of the Ordinary Units in the Federal Republic of Germany may only be made in accordance with the German Securities Prospectus Act, the German Investment Act and any other laws applicable in the Federal Republic of Germany governing the sale and offering of shares. No view on taxation is expressed. Prospective investors in Germany are urged to consult their own tax advisers as to the tax consequences that may arise from an investment in the Ordinary Units.

### **Italy**

The Offer has not been authorised by the relevant Italian authorities pursuant to Article 42 of legislative Decree no. 58, dated 24 February 1998, as amended, and, accordingly, no Ordinary Units may be offered or marketed to investors of any kind in the Republic of Italy, nor may copies of this Prospectus or of any document relating to the Ordinary Units be distributed in the Republic of Italy.

### **Luxembourg**

PEP is an FCP governed by Part II of the 2002 Law concerning undertakings for collective investment. Ordinary Units of PEP may only be offered or sold to the public in Luxembourg in accordance with the terms of the Prospectus Law. The Ordinary Units which are the subject of this Prospectus have not been registered with the CSSF for public distribution in Luxembourg. Consequently, except in the circumstances mentioned above, the Ordinary Units may not be distributed in the Grand Duchy of Luxembourg by way of an offer to the public, a public advertisement or any other similar manner provided for in the Prospectus Law.

### **Spain**

PEP has not been registered with the *Comision Nacional del Mercado de Valores*. Accordingly, Ordinary Units may only be offered or sold in Spain to investors that will each acquire Ordinary Units of an amount equal to or exceeding €50,000 in compliance and in accordance with the requirements set out in Law 35/2003, as amended, Law 24/1988, as amended, and any regulations issued thereunder.

### **The Netherlands**

Prior to the registration of PEP with the AFM pursuant to article 17c of the ASCIS, the Ordinary Units will not be, directly or indirectly, offered, sold or delivered in or from The Netherlands as part of their initial distribution or any time thereafter, other than:

- (i) to individuals or legal entities who trade or invest in investment objects in the course of their ordinary course of business or profession;
- (ii) to less than 100 individuals or legal entities other than the individuals or legal entities referred to under (i); or
- (iii) under any of the other exemptions as referred to in the Regulation of 9 October 1990 in implementation of article 14 of the Netherlands Act on the Supervision of Collective Investment Schemes (*Vrijstellingsregeling Wet toezicht beleggingsinstellingen*), as amended.

### **United Kingdom**

PEP is categorised as an unregulated collective investment scheme, the promotion of which in the UK is restricted by Sections 238 and 240 of FSMA. Accordingly, this Prospectus may only be communicated by persons authorised under FSMA to (a) persons outside the UK, (b) persons having professional experience of participating in unregulated schemes who fall within Article 14(3) of the CIS Order, and (c) other persons to whom it may otherwise be lawfully communicated who fall within Article 22(3) of the CIS Order (all such persons being referred to together as “**relevant persons**”). The investments and investment services to which this Prospectus relates are only available to relevant persons and other persons should not act or rely on this Prospectus or any of its contents.

## PART I

### PEP AND ITS BUSINESS

*The financial information in this Part I has been derived from PEP's consolidated audited financial statements for each of the years ended 31 December 2005, 31 December 2004, and 31 December 2003, its consolidated unaudited interim results for the six-month periods ended 30 June 2006 and 30 June 2005, which are included, respectively, in Part X—"Consolidated Audited Financial Information for the years ended 31 December 2005, 31 December 2004 31 December 2003" and Part XI—"Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005" of this Prospectus, and its management accounts.*

#### **Introduction**

ProLogis European Properties, or PEP, was established in 1999 and is an externally managed real estate investment fund organised as a Luxembourg closed-ended FCP and regulated in Luxembourg by the CSSF. PEP owns a portfolio of high quality Distribution Facilities located in 25 submarkets within 11 European countries. In the future, PEP intends to increase the Portfolio by investing in the ProLogis Private Equity Funds and ProLogis Joint Ventures and acquiring upon stabilisation Distribution Facilities from the Property Portfolio having an aggregate Contribution Value of approximately €200 million.

PEP is externally managed by ProLogis Management S.à r.l., a Luxembourg incorporated subsidiary of ProLogis. ProLogis is a U.S. based real estate investment trust that operates a global network of industrial distribution properties and is a leading provider of Distribution Facilities and distribution services in North America, Europe and Asia. At Admission, ProLogis will hold an interest of approximately 24 per cent. in PEP and will not sell any Ordinary Units in the Offer. Under the Management Regulations, ProLogis is required to maintain an interest of not less than 12.5 per cent. of the issued Ordinary Units until 30 June 2008 and not less than 10 per cent. of the issued Ordinary Units thereafter either directly or indirectly through ProLogis Related Parties.

As at 30 June 2006, PEP owned 281 Distribution Facilities comprising 5.4 million square metres of leasable space. Six of these Distribution Facilities located in France were disposed of on 12 July 2006, as further detailed in Part III—"Operating and Financial Review and Prospects—Current Operations" of this Prospectus. PEP's most significant customers are logistics service providers, which are referred to in this Prospectus as third party logistics companies. As at 30 June 2006, these customers represented 56 per cent. of PEP's rental income (calculated on an annualised basis based on leases in place as at 30 June 2006). Third party logistics companies offer a wide range of services, including managing supply chains for a variety of customers across several industries. PEP also services a broad range of customers in the retail and manufacturing sectors. As at 30 June 2006, the Portfolio had an overall occupancy rate of 97.3 per cent., and an occupancy rate of between 99.7 and 100 per cent. in six of the 11 countries in which the Portfolio's Distribution Facilities are located. As set out in the valuation report that is included in Part XIII—"Valuation Reports" of this Prospectus, the Portfolio was valued by JLL and DTZ at approximately €4.2 billion (net of purchaser's costs) as at 30 June 2006.

#### **Investment Objective and Policy**

PEP's investment objective is to generate capital appreciation and a high level of distributable current income for its Unitholders through active management of direct investments in Distribution Facilities and by investing in ProLogis Private Equity Funds and ProLogis Joint Ventures (subject to the approval of such investments by the PEP Board if such approval is required under Article 4 of the Management Regulations). PEP may hold its investments in Distribution Facilities either directly or indirectly through companies or entities that are subsidiaries and which may be either wholly or partially owned by PEP and through investments in ProLogis Private Equity Funds or ProLogis Joint Ventures and in other investment funds and investment companies. In implementing its investment objective, PEP may not invest more than 15 per cent. of its net asset value in investment funds and investment companies which are neither ProLogis Private Equity Funds nor ProLogis Joint Ventures and may not hold more than 49 per cent. of the shares or units of such investment funds or investment companies. A more detailed description of PEP's investment objective is provided in Article 6 of the Management Regulations, which are attached at Part XIV—"Management Regulations of PEP" of this Prospectus.

PEP aims to structure its investments in a tax-efficient manner while using efficient financing to optimise the yield from the Portfolio and to deliver stable returns to Unitholders.

PEP's rights to invest in the ProLogis Private Equity Funds and ProLogis Joint Ventures are set out in a Private Equity Fund Investment Agreement which, subject to certain limitations, provides PEP with the right to subscribe for up to 30 per cent. of the equity securities and securities convertible into equity securities issued by any ProLogis Private Equity Fund. The Private Equity Fund Investment Agreement also gives PEP a right to invest, subject to certain limitations, in ProLogis Joint Ventures. PEP's agreement to acquire Distribution Facilities from the Property Portfolio is set out in the Property Contribution Agreement, which requires PLD or PLD Related Parties to contribute to PEP upon stabilisation Distribution Facilities from the Property Portfolio having an aggregate Contribution Value of approximately €200 million.

Pursuant to the terms of the Property Contribution Agreement, any contribution of stabilised Distribution Facilities must be valued by an Independent Appraiser who shall determine the Gross Property Value of such Distribution Facilities. If shares in a company holding a Distribution Facility are contributed instead of such Distribution Facility being contributed directly, such contribution must be appraised by an independent auditor, in compliance with Article 26-1 of the Luxembourg law dated 10 August 1915 on commercial companies, as amended.

These investment rights will provide PEP with the opportunity for future external growth and continued access (albeit limited in the case of the Property Portfolio) to the ProLogis pipeline of European Distribution Facilities, directly through the Property Portfolio and indirectly through the ProLogis Private Equity Funds and ProLogis Joint Ventures.

## **Investment Highlights**

### ***Stable Cash Flow***

Based on current occupancy rates and leases in place, PEP expects that the Portfolio will continue to generate a consistent level of Distributable Cash Flow for Unitholders. Actual cash distributions made to Unitholders in the year ended 31 December 2005 amounted to €131.1 million (€117.4 million of which was distributed to the Ordinary Unitholders). The key factors supporting PEP's ability to generate stable cash flow are as follows:

- Historically high occupancy rates. Occupancy of the Portfolio has averaged over 96 per cent. since December 2000 and, at 30 June 2006, was 97.3 per cent.
- Favourable lease terms. As at 30 June 2006, PEP's average lease term to lease expiry across the Portfolio is 7.4 years and its average lease term to next lease break is 5.2 years. PEP aims to use staggered lease maturities to avoid having multiple leases at one site or in a single market become subject to renewal or termination at the same time. As at 30 June 2006, there were 620 leases in place in the Portfolio.
- Portfolio size and geographical diversity. The Management Company believes the Portfolio represents the largest single network of non-end user owned distribution space in Europe. As at 30 June 2006, the Portfolio contained 281 properties totalling approximately 5.4 million square metres located in 25 submarkets in 11 countries throughout Europe. As a result of owning a Portfolio of this scale and scope, a loss of any one customer at a particular property or a vacancy in a particular property would not significantly affect PEP's cash flow.
- Debt financing strategy. PEP has primarily used CMBS transactions to raise debt financing. The Management Company believes that CMBS transactions are the most efficient way to raise debt capital against PEP's assets. PEP's existing CMBS transactions are non-amortising, non-recourse to PEP (except with respect to the assets over which security is granted) with initial maturities of between eight and 10 years but which may be redeemed earlier. By using non-amortising debt, PEP is able to increase Distributable Cash Flow in the years prior to the final maturity. It has been and, going forward, will be PEP's policy to hedge its exposure to changes in interest rates by swapping floating-rate interest payments under its financing arrangements to fixed-rate payments. As at 30 June 2006, 71.9 per cent. of PEP's debt obligations were at fixed rates under its CMBS transactions, and PEP's weighted average cost of debt was 4.6 per cent.

### ***High Quality Portfolio***

The Management Company believes that PEP's Distribution Facilities are generally high quality, state-of-the-art facilities. Properties developed by ProLogis represent over 60 per cent. of the number of properties

in the Portfolio (approximately 72 per cent. by Gross Property Value) and are among the most modern in their respective markets, with an average age of four years (compared to an average age of 6.9 years for the Portfolio as a whole). Properties contributed by ProLogis are also relatively large, with an average size of 21,111 square metres, compared to an average size of 19,269 square metres for the Portfolio as a whole.

PEP's Distribution Facilities are typically characterised by high clear heights, a large number of docking bays and ample room for manoeuvring lorries. ProLogis has generally avoided special purpose construction so that many ProLogis-developed Distribution Facilities are able to meet the requirements for a range of potential customers. Properties typically incorporate efficient configurations, advanced technical standards and high quality building materials and fixtures.

Proximity to key transportation corridors has been one of PEP's key considerations in selecting Distribution Facility locations. The Management Company believes PEP is well positioned to take advantage of market opportunities offered by current trends in the European distribution logistics market given the scale of the Portfolio. These trends include the re-engineering and optimisation by companies of their supply chains in response to increased integration in the EU, customer demands for flexible space and growth in the emerging economies of Central and Eastern Europe.

### ***Strong and Diversified Customer Base***

ProLogis' established worldwide relationships with a number of large users of Distribution Facilities enhance PEP's ability to maintain a strong and diverse customer base. PEP's 402 customers (as at 30 June 2006) include some of the largest and most established users of Distribution Facilities in Europe. A number of these customers also lease facilities from ProLogis or ProLogis Related Parties in other parts of the world.

As at 30 June 2006, 56 per cent. of PEP's customers (by Annualised Rental Income) were third party logistics companies, 14 per cent. were retailers and 13 per cent. were manufacturers. Third party logistics companies serve clients in a variety of industries and provide additional diversity to PEP's customer base. As at 30 June 2006, PEP's 10 largest customers (by Annualised Rental Income) accounted for 33 per cent. of PEP's rental income and included eight third party logistics companies. No one customer accounted for more than 6.9 per cent. of PEP's Annualised Rental Income. Additionally, as at 30 June 2006, no one country accounted for more than 33 per cent. of PEP's Annualised Rental Income. As a result of this diversification, the Management Company believes that PEP is not dependent on any one customer or industry.

As at 30 June 2006, of PEP's top 50 customers, 83 per cent. of those that are credit rated or whose parent companies have credit ratings (and 30 per cent. of all top 50 customers) had corporate or parent company credit ratings of "investment grade" by either S&P or Moody's.

### ***Highly Experienced Manager***

ProLogis is a leading provider of Distribution Facilities and distribution services in North America, Europe and Asia, with strengths in property and asset management, investment discipline, global customer relationships, property development and technical and structural innovation. ProLogis entered the European market in 1997, and has established a strong local market presence since that time. As at 30 June 2006, ProLogis had 268 full-time employees in Europe, including a team of 32 market, country and regional officers operating out of 14 offices in 12 countries across Europe. ProLogis uses its expertise, resources and local knowledge on behalf of PEP to seek the best lease terms available in particular markets and manage costs effectively.

ProLogis has had experience in fund management since 1999, and has raised in excess of US\$6 billion from third parties in the form of either joint ventures or funds. As at 30 June 2006, ProLogis had US\$11.5 billion of capital under management on behalf of third parties in either joint ventures or funds. ProLogis currently manages 13 joint ventures and funds in North America, Europe and Asia and will continue to develop its fund management business.

ProLogis targets what it believes to be the 500 largest users of distribution space in the world, and as at 30 June 2006, ProLogis serviced 324 of these 500 largest users. ProLogis aims to provide large customers with a single point of contact for multiple market space requirements, standardisation of terms and documentation, enhanced lease flexibility and consistency of build-out and other specifications across multiple facilities. This allows ProLogis to offer a one-stop solution to its customers in multiple markets.



ProLogis has been at the forefront of developing innovative and effective investment and financing structures for Distribution Facilities. In managing PEP, the Management Company has been innovative in cross collateral multi-jurisdictional CMBS issuances to reduce the cash flow impact of variable interest rates and amortising loans, which have also enabled PEP to manage the cost of its debt financing. This experience will be important in managing PEP's future financing and refinancing activities.

#### ***Strong ProLogis Commitment***

At Admission, ProLogis will hold an interest of approximately 24 per cent. in PEP and will not sell any Ordinary Units in the Offer. This investment represents ProLogis' largest single investment among the 13 joint ventures or funds it currently manages around the world. ProLogis aims to maintain alignment with Unitholders over the longer term through the requirement in the Management Regulations that ProLogis maintains an aggregate ownership at or above 12.5 per cent. of the issued Ordinary Units until 30 June 2008, and not less than 10 per cent. of the issued Ordinary Units thereafter, in each case either directly or indirectly through the ProLogis Related Parties.

The Management Company employs a team of 14 individuals (including the Manager, Peter Cassells) who, together with the other two Managers, are directly responsible for managing PEP. These individuals will also be responsible for managing the ProLogis Private Equity Funds in which PEP may invest. The Management Company will continue to allocate substantial resources to PEP's ongoing operations. In managing PEP, the Management Company has, and will continue to have, the right to use the ProLogis Operating System<sup>®</sup>, which is a proprietary system designed by ProLogis to assist its team of marketing, property management and development professionals in providing a disciplined and, in its opinion, unique approach to serving existing and prospective customers (see "ProLogis as Manager—The ProLogis Operating System<sup>®</sup>" below).

#### ***Growth Potential through Investment in ProLogis Private Equity Funds, ProLogis Joint Ventures and the Property Portfolio***

PEP's agreement to acquire upon stabilisation additional Distribution Facilities from the Property Portfolio (having an aggregate Contribution Value of approximately €200 million) pursuant to the Property Contribution Agreement, and its rights to invest, subject to certain limitations, in the ProLogis Private Equity Funds and ProLogis Joint Ventures under the Private Equity Fund Investment Agreement will provide PEP with the opportunity for future growth through direct and indirect participation in the ProLogis pipeline of European Distribution Facilities. It is expected that, in the foreseeable future, any investments by PEP in ProLogis Private Equity Funds, ProLogis Joint Ventures or the Property Portfolio will be funded using debt and possibly with any proceeds from future disposals of Distribution Facilities. However, PEP will continue to monitor its debt levels to operate within the limits required by the Management Regulations and existing bank covenants.

The structure and terms of the ProLogis Private Equity Funds have yet to be finalised. It is currently envisaged that two ProLogis Private Equity Funds will be launched in the future, one to invest in Distribution Facilities in the UK and one to invest in Distribution Facilities in Continental Europe. Distribution Facilities within ProLogis' European development pipeline may be contributed to the respective funds upon stabilisation. These Distribution Facilities may be located in the 11 countries in which PEP already holds Distribution Facilities and in other European countries. As at 30 June 2006, the ProLogis pipeline of European Distribution Facilities had a total investment estimated by ProLogis to be approximately US\$1.45 billion at stabilisation.

As at the date of this Prospectus, no ProLogis Joint Ventures are planned.

#### ***Attractive Asset Class***

The Management Company believes that Distribution Facilities typically provide stable cash flows, a strong yield performance and distinctive characteristics relative to other real estate asset classes. Distribution Facilities are one of the primary institutional-quality asset classes. The Management Company believes that the following attributes typically make Distribution Facilities an attractive asset class relative to other institutional asset classes:

- limited ongoing capital expenditure requirements;
- lower customer turnover through higher lease renewal rates;

- longer customer leases;
- limited costs in connection with reconfigurations for new customers; and
- higher proportion of single customer buildings.

### ***Tax-Efficient Structure***

PEP aims to structure its investments to maximise after-tax Distributable Cash Flow in each of the countries in which it operates. PEP, as a Luxembourg FCP, acts as an indirect parent to a number of subsidiaries owning Distribution Facilities. This structure has proven effective in enabling PEP to reduce its overall effective tax rate in order to maximise cash distributions to Unitholders.

### **ProLogis as Manager**

#### ***ProLogis***

ProLogis, which indirectly owns the Management Company, was formed in 1991 and is headquartered in Denver, Colorado. ProLogis is a real estate investment trust that operates a global network of real estate properties, primarily industrial distribution properties. ProLogis' common shares are listed on the New York Stock Exchange under the symbol "PLD". As at 30 June 2006, ProLogis had an equity market capitalisation of approximately US\$13.4 billion and total assets owned, managed and/or under development, including PEP's properties, of approximately US\$24.8 billion (based on original acquisition cost).

As at 30 June 2006, ProLogis' total portfolio of properties owned, managed and under development, including directly owned properties and properties owned by property funds and other joint ventures, consisted of 2,401 properties aggregating 37.6 million square metres and serving approximately 4,680 customers in 81 markets in North America, Europe and Asia. ProLogis' growth has been driven by its commitment to a targeted operating strategy focused on Distribution Facilities and the pursuit of select opportunities in growth markets. ProLogis and its affiliated entities have achieved a global reach while developing local market expertise through operations in these markets, with over 1,000 real estate professionals and associates employed worldwide.

In Europe, ProLogis is a leading developer and, through PEP (and, in the future, through the ProLogis Private Equity Funds), a leading operator of distribution space. The table below shows the undeveloped land bank of ProLogis as at 30 June 2006<sup>(1)</sup>:

	<b>Land owned Hectares</b>	<b>Land under option Hectares</b>	<b>Total</b>
Benelux . . . . .	12	9	<b>21</b>
Central Europe . . . . .	129	125	<b>254</b>
France . . . . .	72	463	<b>535</b>
Germany . . . . .	27	7	<b>34</b>
Italy . . . . .	33	8	<b>41</b>
Spain . . . . .	13	3	<b>16</b>
Sweden . . . . .	—	3	<b>3</b>
UK . . . . .	97	162	<b>259</b>
<b>Total . . . . .</b>	<b>383</b>	<b>780</b>	<b>1,163</b>

(1) Certain joint ventures and land sites with long processes for obtaining permits (more than three years) have been omitted.

It is expected that the properties within ProLogis' undeveloped land bank will be a portion of the pool of properties from which stabilised Distribution Facilities are developed and contributed in the future to PEP (pursuant to the Property Contribution Agreement) or to the ProLogis Private Equity Funds or ProLogis Joint Ventures. However, there can be no assurance that such undeveloped land will be used by ProLogis to develop Distribution Facilities that are later contributed to PEP or to the ProLogis Private Equity Funds or ProLogis Joint Ventures or that any such development will occur at all or on economically favourable terms. The development of properties by ProLogis is subject to risks similar to those described above under "Certain Risk Factors—Risks Relating to the Business—Risks associated with development activities".

ProLogis believes that it would be difficult for competitors to recreate in the short to medium term the portfolio of properties held by PEP because of the significant capital and local market understanding required, and the limited availability of prime locations. ProLogis' European headquarters are located in the Grand Duchy of Luxembourg, with its European customer service headquarters located in Amsterdam, The Netherlands.

ProLogis manages its business by utilising the ProLogis Operating System<sup>®</sup>, an organisational structure and service delivery system built around its customers. Combined with its international network of distribution properties, the ProLogis Operating System<sup>®</sup> enables ProLogis to meet its customers' distribution space needs on a global basis. By integrating international scope and expertise with a strong local presence, ProLogis believes it has become an attractive choice for its targeted customer base, which is comprised of global users of distribution space.

One of the keys to ProLogis' strategy and success is its customer base, which includes a number of leading multinational companies. ProLogis targets what it believes to be the 500 largest users of distribution space in the world. As at 30 June 2006, ProLogis serviced 324 of these 500 largest users, leasing over 17.1 million square metres to them in aggregate.

The past performance of ProLogis and its property funds, including PEP, is not indicative of the results of an investment in PEP's Ordinary Units. The ultimate returns realised by PEP's Unitholders will depend on numerous factors, which are subject to uncertainty. See "Certain Risk Factors—Risks Relating to PEP's Relationship with ProLogis".

### *The ProLogis Operating System<sup>®</sup>*

The Management Company manages PEP using the ProLogis Operating System<sup>®</sup>, the same operating system that ProLogis applies to its properties and funds around the world. ProLogis has utilised this system to achieve a strong track record and provide a high level of returns to investors.

The ProLogis Operating System<sup>®</sup> is focused on capital management, customer service and capital deployment. PEP expects that the capital management and customer service aspects of the ProLogis Operating System<sup>®</sup> will be very important to its future business. As described in more detail in Part IV—"Management of PEP" of this Prospectus, PEP accesses the ProLogis Operating System<sup>®</sup> through the Investment Management Agreement. PEP will benefit from ProLogis' capital deployment teams to the extent they are involved in evaluating acquisition and development opportunities for the ProLogis Private Equity Funds and the ProLogis Joint Ventures.

### *Capital Management*

ProLogis has a team of professionals in its market services group who are responsible for managing and leasing properties. These team members include local market officers who are focused on: (i) creating and maintaining relationships with customers, potential customers and industrial brokers; (ii) managing the capital invested in select markets; (iii) leasing properties; and (iv) identifying potential acquisition and development opportunities in select markets. The market officers and property management and leasing professionals assist in identifying and marketing to customers with multiple market requirements. The market officers' ability to serve customers in the local market is enhanced by their access to ProLogis' national and international resources.

### *Customer Service*

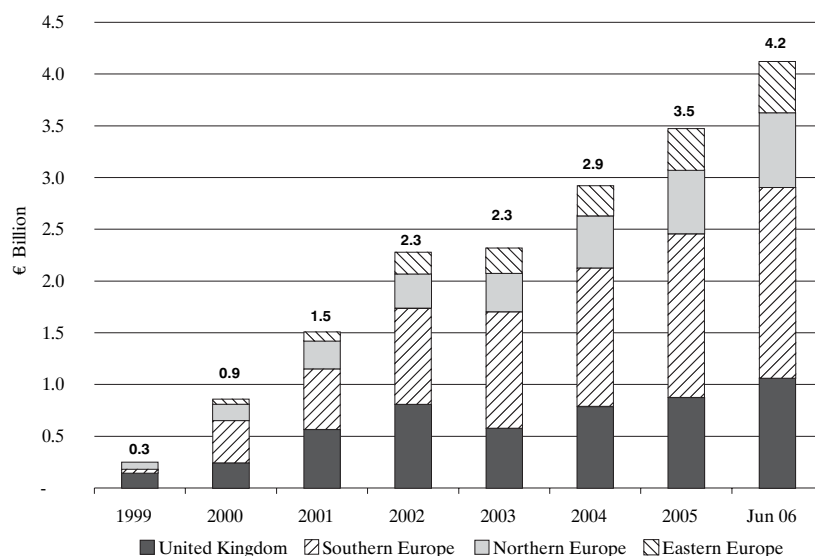
ProLogis' global solutions group provides services to a targeted customer base, principally large users of distribution space. The group's primary focus is to position ProLogis as the preferred provider of distribution space to these targeted customers by building long-term relationships with existing customers and by addressing their distribution and logistics needs. Additionally, the global solutions group provides customers with outsourcing options for network optimisation tools, strategic site selection assistance, business location services, material handling equipment and design consulting services.

### *Capital Deployment*

ProLogis' capital deployment group focuses on ensuring that capital resources are deployed efficiently. The capital deployment professionals evaluate acquisition, disposition and development opportunities, taking into account local market conditions and the relevant property owner's overall goals and objectives.

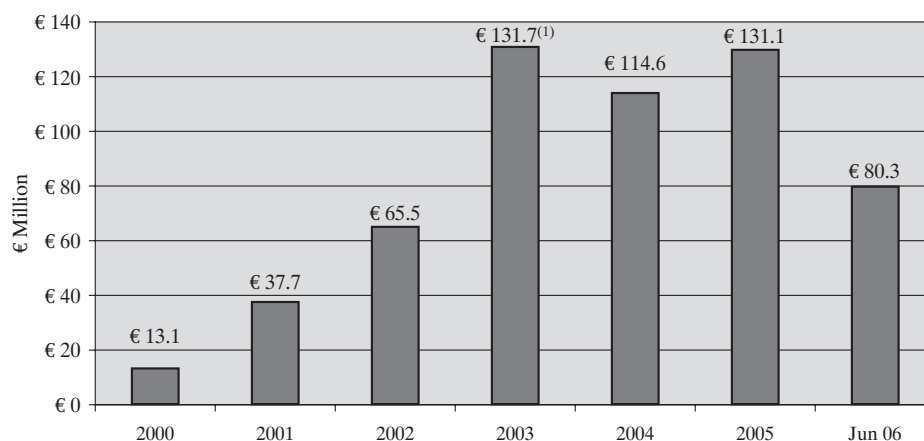
## History

The Portfolio was initially concentrated largely in the UK and Northern Europe. However, since 1999 and as the Portfolio has grown in size, its geographic spread has widened with an increasing focus on Central/Eastern and Southern Europe. Over time the exposure to those markets has increased PEP's income and ultimately its cash available for distribution. The increasing size and geographic spread of the Portfolio is illustrated by the following chart which shows, except in relation to the valuation data at the end of the six month period to June 2006, the year-end valuation data provided by the Independent Appraisers and reported to Unitholders by the Management Company based on the Open Market Value of the properties. The chart has not been adjusted to take into account interest rate fluctuations or inflation over the period.



The relative value of PEP's investments in different regions has been affected both by the amount of investments made in different regions and changes in market values for existing investments, with the principal driver for the increase in Open Market Value of the Portfolio being the acquisition of new properties using debt and equity financing. PEP will not have access to ProLogis' pipeline of development properties following the Settlement Date except with respect to the Property Portfolio and will not be entitled to draw on any committed equity investment, and as a result does not expect the open market value of its Portfolio to increase as it has in the past.

The Portfolio has generated strong cash flows for investors. Cash distributions have grown from €13.1 million in 2000 to €131.1 million in 2005, largely as a result of the addition of new properties to the Portfolio, and amounted to €80.3 million in the first six months of 2006. As new properties will not continue to be added to the Portfolio, except with respect to those from the Property Portfolio pursuant to the Property Contribution Agreement, PEP does not expect cash distributions to continue to grow at the same or similar rates in the future. The chart below illustrates the cash distributions made to investors in each calendar year since 2000, and for the six months to 30 June 2006.



(1) Includes €5.7 million paid as an additional distribution to those Unitholders who redeemed their Units in 2003.

## Current Portfolio

### Portfolio Composition

An overview of the Portfolio as at 30 June 2006 is shown in the following table.

	Number of Distribution Facilities	Open Market Value € million <sup>(1)</sup>	Percentage of total Open Market Value %	Leasable square metres <sup>(2)</sup>	Percentage of total leasable square metres %	Annualised Rental Income € million <sup>(3)</sup>	ERV <sup>(4)</sup> € million	Average age of Distribution Facilities contributed by ProLogis	Average age of Distribution Facilities acquired from third parties	Average age of Distribution Facilities	Occupancy %	Average number of years to next lease break option	Average number of years to lease expiry date	Average Annualised Rent per square metre € <sup>(5)</sup>
France <sup>(6)</sup> . . . . .	109	1,274	30	2,102,289	39	98.3	93.4	3.7	19.2	11.6 <sup>(7)</sup>	95.1	3.4	7.2	47
United Kingdom . . . . .	44	1,087	26	783,488	14	67.4	67.2	4.7	7.0	4.8	100.0	8.2	10.8	86
The Netherlands . . . . .	23	366	9	512,292	9	27.0	27.3	5.4	7.5	5.5	97.2	3.7	4.3	53
Italy . . . . .	18	318	8	473,669	9	22.2	21.4	3.2	12.3	6.1	100.0	7.5	7.5	47
Poland . . . . .	24	277	7	451,377	8	21.8	18.5	3.3	10.9	4.0	97.3	3.3	3.9	48
Spain . . . . .	12	274	7	282,670	5	18.1	19.1	4.0	4.1	3.9	99.7	4.2	6.9	64
Germany . . . . .	22	257	6	322,183	6	19.9	18.5	2.4	4.8	2.4	98.4	5.8	7.2	62
Hungary . . . . .	14	131	3	179,861	3	10.0	9.2	2.4	3.5	2.9	92.3	4.0	4.7	56
Czech Republic . . . . .	9	114	3	148,934	3	10.0	8.0	2.3	6.1	4.2	100.0	2.6	2.8	67
Sweden . . . . .	4	93	2	114,357	2	6.8	6.2	1.0	26.2	14.0	100.0	10.1	12.6	60
Belgium . . . . .	2	21	1	43,528	1	1.8	1.7	4.9	0.0	4.9	100.0	3.3	11.3	42
<b>Total . . . . .</b>	<b>281</b>	<b>4,211</b>	<b>100</b>	<b>5,414,647</b>	<b>100</b>	<b>303.2</b>	<b>290.7</b>	<b>4.0</b>	<b>14.8</b>	<b>6.9</b>	<b>97.3</b>	<b>5.2</b>	<b>7.4</b>	<b>56</b>
Vacant space . . . . .							7.3							
Rent Incentives and re-developments . . . . .							8.9							
<b>Total . . . . .</b>							<b>306.9</b>							

(1) As valued by independent third party appraisers JLL and DTZ. See Part XIII of this Prospectus for the JLL and DTZ valuation reports as at 30 June 2006. As discussed in more detail in the section entitled "Certain Risk Factors — Risks Relating to the Business — Property valuation is inherently subjective and uncertain" in this Prospectus, the valuation of the Portfolio as at 30 June 2006 was performed without conducting full appraisals (including physical inspections) of PEP's Distribution Facilities as was performed as at 30 April 2006, and 31 December 2005, 2004 and 2003.

(2) Leasable area refers to area that is available to be leased and excludes leasable areas relating to the following Distribution Facilities, pending completion of construction: Lodi 4 and Lodi 5 located in Italy; Norrköping DC1 located in Sweden; and Prague East DC 6 located in the Czech Republic.

(3) See section on "Certain Risk Factors—Risks Relating to the Business" for details of risks associated with use of annualised numbers.

(4) ERV refers to the Estimated Gross Annual Rental Value calculated by the Independent Appraisers in accordance with the methodology explained in the valuation reports of JLL and DTZ which are set out in Part XIII of this Prospectus.

(5) Average annualised rent per square metre is the amount of Annualised Rental Income divided by the relevant leasable square metre total for the country in question.

(6) Six Distribution Facilities—Servon 1 & 2, Isle d'Abeau 1, Longjumeau 1, Villejust (Océanie 1) and Epone 1—were disposed by PEP on 12 July 2006. See Part III—"Operating and Financial Review and Prospects—Current Operations" of this Prospectus for details of the disposals.

(7) This includes Garonor, which is 27.8 years old. The average age of PEP's French properties, excluding Garonor, is 7.2 years.



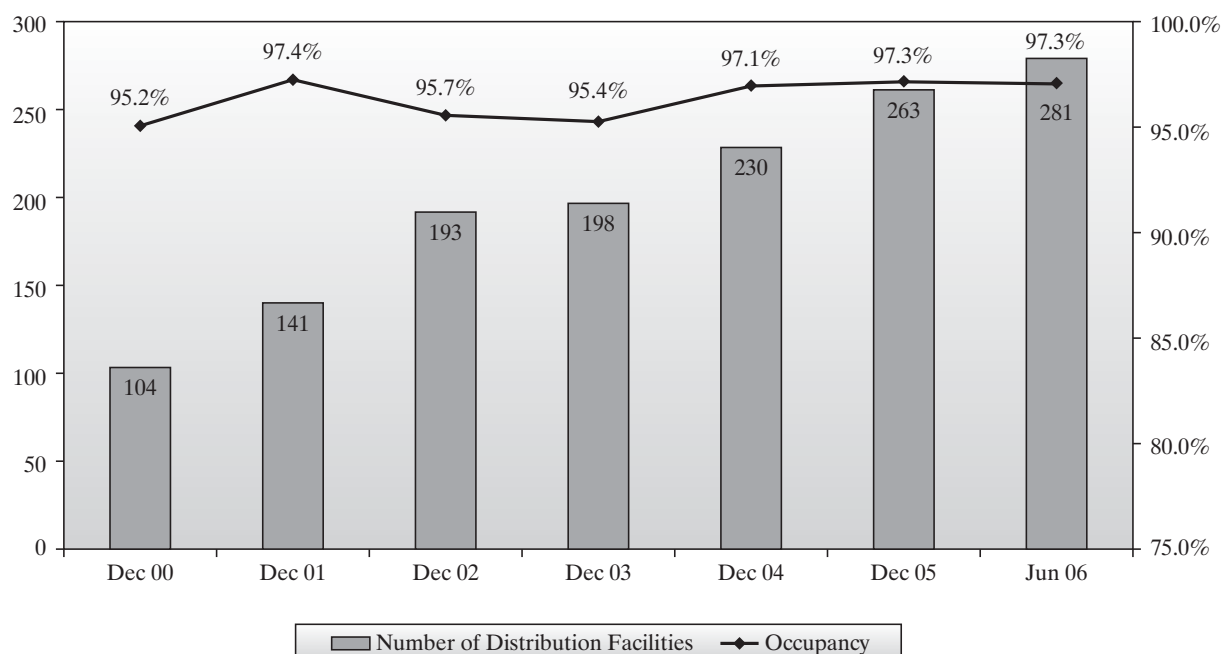
Of the 281 properties in the Portfolio on 30 June 2006, 171 were developed by ProLogis and 110 were acquired from third parties. Except in relation to the Property Portfolio, PEP will no longer have direct access to the ProLogis pipeline of European Distribution Facilities and does not expect to acquire any properties from ProLogis or third parties.

PEP's Distribution Facilities are located throughout Europe. The countries in which PEP is invested are shown on the map on the inside of the cover page of this Prospectus.

PEP has successfully assembled a Portfolio that concentrates on large Distribution Facilities, with an average building size of 19,269 square metres. The table below shows as at 30 June 2006 the distribution of PEP's Distribution Facilities by size. The table also shows the generally larger size of Distribution Facilities developed by ProLogis relative to those Distribution Facilities acquired from third parties.

Size categories for facilities (in square metres)	Contributed by ProLogis			Acquired from third parties			Total		
	Number of buildings	Leasable square metres	% by leasable square metres	Number of Distribution Facilities	Leasable square metres	% by leasable square metres	Number of Distribution Facilities	Leasable square metres	% by leasable square metres
<10,000 . . . . .	16	115,769	3.2	43	254,922	23.8	59	370,690	10.0
10,000–15,000 . . . .	29	361,139	10.0	20	242,143	8.3	49	603,282	9.4
15,000–20,000 . . . .	36	627,776	17.9	10	175,327	8.5	46	803,103	14.8
20,000–25,000 . . . .	41	886,424	24.0	15	324,792	13.3	56	1,211,216	20.4
25,000–30,000 . . . .	23	626,959	17.4	8	219,224	10.3	31	846,183	15.0
>30,000 . . . . .	26	991,933	27.5	14	588,239	35.8	40	1,580,172	30.3
<b>Total . . . . .</b>	<b>171</b>	<b>3,610,001</b>	<b>100.0</b>	<b>110</b>	<b>1,804,646</b>	<b>100.0</b>	<b>281</b>	<b>5,414,647</b>	<b>100.0</b>
Average size . . . . .		21,111			16,406			19,269	

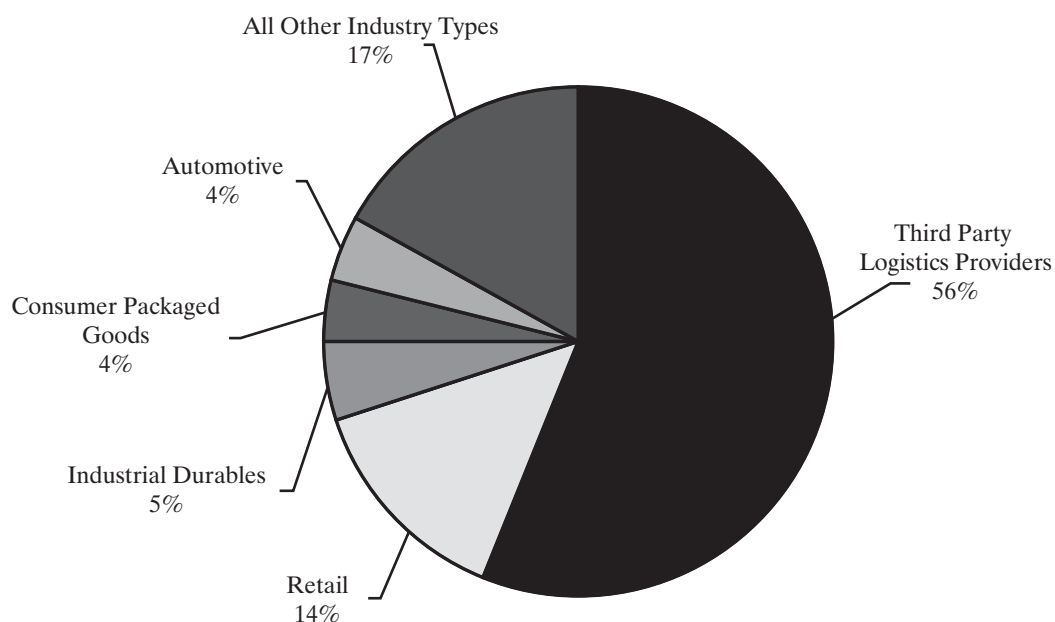
Occupancy in the Portfolio has been consistently high, averaging over 96 per cent. since 2000. As at 30 June 2006, occupancy was 97.3 per cent. and between 99.7 and 100 per cent. in six of the 11 countries where PEP owns properties. The chart below details the number of Distribution Facilities in the Portfolio and occupancy levels as at 31 December of each year shown and as at 30 June 2006.



### ***Customer Base***

PEP's customer base is highly diversified and, taken together, financially stable. As at 30 June 2006, PEP's customer base comprised 402 customers and its 10 largest customers (by Annualised Rental Income) accounted for a total of 33 per cent. of PEP's rental income. Single customers occupy 186 of the 281 properties in the Portfolio. Of PEP's top 50 customers, 83 per cent. of those that are credit rated or whose parent companies are credit rated (and 30 per cent. of all top 50 customers) had corporate or parent company credit ratings of "investment grade" by either S&P or Moody's as at 30 June 2006.

The customer base primarily comprises third party logistics companies, manufacturers and retailers. Third party logistics companies are the largest segment of PEP's customer base and as at 30 June 2006 comprised a total of approximately 56 per cent. of the total income of the Portfolio, as illustrated in the pie chart below. The Management Company believes that since third party logistics companies serve clients in a variety of industries, they indirectly provide additional diversity to PEP's customer base. The chart below illustrates the percentage of Annualised Rental Income by customer industry type, as at 30 June 2006.



PEP's 20 largest customers by Annualised Rental Income as at 30 June 2006 are set forth in the table below.

	Customer Name <sup>(1)</sup>	Share of Annualised Rental Income <sup>(2)</sup>	Square metres leased	Annualised Rental Income <sup>(2)</sup> €m	Number of leases
1	TNT (TPG Post Group <sup>(3)</sup> )	6.9%	405,527	21.0	18
2	Deutsche Post AG (DHL)	6.2%	312,282	18.9	27
3	NYK Holdings	4.0%	184,217	12.1	8
4	Geodis	3.6%	240,181	10.8	12
5	ID Logistics France	3.3%	207,140	10.1	10
6	PSA (Peugeot)	2.1%	97,910	6.3	7
7	FM Logistic	2.1%	137,237	6.2	5
8	GoodYear/Dunlop	1.8%	66,948	5.5	2
9	Brandt Appliances	1.7%	103,669	5.1	3
10	Wincanton Logistics	1.6%	83,310	4.8	7
11	Kuehne & Nagel	1.5%	67,975	4.6	6
12	ND Logistics	1.4%	92,114	4.3	4
13	DSV A/S	1.3%	74,303	4.0	7
14	Gillette	1.3%	33,373	4.0	2
15	Ahold	1.3%	55,298	4.0	2
16	Deutsche Bahn	1.2%	112,225	3.8	6
17	Amazon.com Inc	1.1%	46,717	3.5	1
18	Auchan France	1.1%	69,963	3.3	4
19	J Sainsbury	1.0%	34,211	3.2	2
20	Lear Corporation	1.0%	36,964	3.0	2
	Sub-total of top 20	45.7%	2,461,565	138.5	135
	485 other leases with 382 customers	54.3%	2,804,554	164.7	485
	Vacant space	—	148,529	—	—
	<b>Total</b>	<b>100.0%</b>	<b>5,414,647</b>	<b>303.2</b>	<b>620</b>

(1) Customers shown are either actual customers or parent companies of actual customers.

(2) See section on “Certain Risk Factors—Risks Relating to the Business” for details of risks associated with the use of annualised numbers.

(3) TPG Post Group agreed in August 2006 to sell TNT to Apollo Management. The transaction had not completed as at the date of this Prospectus.

### **Lease Terms**

PEP's leases are structured in accordance with market standards in the relevant jurisdictions. PEP aims to structure its leases to provide predictable income streams and allow PEP flexibility to realise increases in market rents. Market practice for lease terms in the UK differs from Continental Europe. Broadly, in the UK, leases are granted for 10 to 15 years, with customers being obliged to pay for building maintenance and/or expenses in respect of the Distribution Facility. In Continental Europe, shorter-term leases are more typical. Leases in Continental Europe can also contain options exercisable by customers to terminate the lease agreement on pre-agreed dates (for example, typically in the third, sixth or ninth year of the lease in France). Customers in Continental Europe are usually responsible for minor maintenance items although capital expenditure and insurance may be recoverable from customers on an annual basis. PEP strives to manage the lease expirations in the Portfolio by staggering lease maturities.

The table below sets out the profile of the lease break and maturity dates for the Distribution Facilities in the Portfolio as at 30 June 2006.

Totals	Number of leases with next break option in year	Leasable square metres subject to next break option <sup>(1)</sup>	Annualised Rental Income of leases subject to first break option		Number of leases with expiry date in year	Leasable square metres subject to lease expiry	Annualised Rental Income of expiring leases <sup>(1)</sup>	
			(€ m)	%			(€ m)	%
2006.....	100	269,195	13.0	4	54	222,056	11.1	4
2007.....	125	509,775	29.4	10	65	212,916	11.1	4
2008.....	114	877,842	44.1	15	62	311,826	16.8	6
2009.....	103	705,209	42.4	14	56	336,313	23.4	8
2010.....	47	694,163	39.5	13	43	382,624	23.2	8
2011.....	22	333,058	16.7	6	38	423,323	21.2	7
2012.....	22	367,911	22.6	7	35	384,969	23.6	8
2013.....	13	201,138	11.8	4	47	447,551	25.2	8
2014.....	25	391,948	23.6	8	49	668,537	35.1	12
2015.....	28	440,356	27.1	9	62	734,093	39.0	13
2016—and beyond .....	21	475,524	33.0	11	109	1,141,911	73.6	24
<b>Total .....</b>	<b>620</b>	<b>5,266,118</b>	<b>303.2</b>	<b>100</b>	<b>620</b>	<b>5,266,118</b>	<b>303.2</b>	<b>100</b>

(1) See section on “Certain Risk Factors—Risks Relating to the Business” for details of risks associated with use of annualised numbers.

### *Management of the Existing Portfolio*

The Portfolio will continue to be actively managed using the ProLogis Operating System®. The Management Company monitors the performance of the Portfolio in the aggregate, as well as elements of the portfolio by country, by submarket and by individual asset. In addition, local market officers are responsible for monitoring capital expenditures. ProLogis has a network of 14 local offices with asset management capabilities through a team of 32 market, country and regional officers. The team has re-leased 781,727 square metres of PEP properties in the last three years.

Disposals of certain assets located in the UK, Spain and France have taken place historically as a result of the ongoing portfolio performance review process and the Portfolio continues to be regularly reviewed to identify further potential disposal opportunities. It is expected that any proceeds from future disposals will be used to repay indebtedness, to fund Unitholder distributions, to fund, in part, the acquisition of stabilised Distribution Facilities from the Property Portfolio pursuant to the Property Contribution Agreement, and to fund investments in ProLogis Private Equity Funds or ProLogis Joint Ventures.

### *Competition*

PEP has a number of competitors in Europe, including local companies owning Distribution Facilities and other companies that own, or seek to own or develop, Distribution Facilities across a number of countries in Europe. PEP competes for customers in local markets on the basis of price, location, quality of facilities, quality of service and other factors. The Management Company believes that PEP does not currently have any competitors in Europe that possess a portfolio with the scale or multi-country presence of the Portfolio, and that it would be difficult in the short to medium term for PEP's competitors to create a portfolio with comparable scale and presence.

### **Opportunity for Future Growth through Investment in the ProLogis Private Equity Funds and ProLogis Joint Ventures**

To generate future growth, it is expected that PEP will rely on its rights to invest in the ProLogis Private Equity Funds and ProLogis Joint Ventures, thereby indirectly participating in the ProLogis pipeline of European Distribution Facilities. Under the Private Equity Fund Investment Agreement, PEP will have the right to subscribe for up to 30 per cent. of the equity securities and securities convertible into equity securities offered for subscription by any ProLogis Private Equity Fund that invests in Distribution Facilities in Europe, provided that PEP's right to subscribe for such securities applies only if (i) the amount of commitments targeted in the relevant offer is in excess of €5 million; (ii) the relevant ProLogis Private

Equity Fund has equity capital and commitments in respect thereof, including target commitments sought in the offer, of more than €50 million; and (iii) the ProLogis Private Equity Fund is not an “excluded venture”. The Private Equity Fund Investment Agreement (including the meaning of “excluded venture”) is described in more detail in paragraph 9.1 of Part VII—“Additional Information” of this Prospectus. The Private Equity Fund Investment Agreement also gives PEP, subject to certain limitations, a right to participate in ProLogis Joint Ventures which have a target gross property value of at least €50 million, other than in relation to (a) the recapitalisation of ProLogis Joint Ventures with respect to which neither PLD nor a PLD Related Party has complete, unrestricted control; and (b) ProLogis Joint Ventures which are “excluded ventures”. Subject to certain exceptions, PEP’s rights to invest in the ProLogis Private Equity Funds and ProLogis Joint Ventures will lapse, however, if PEP declines three successive opportunities to invest in a ProLogis Private Equity Fund, including investments declined due to unavailability of financing. In addition, subject to certain conditions, PEP’s right to invest in further ProLogis Joint Ventures pursuant to the Private Equity Fund Investment Agreement lapses if it declines three successive opportunities to invest in certain ProLogis Joint Ventures.

The structure and terms of the ProLogis Private Equity Funds have yet to be finalised. It is currently envisaged that two ProLogis Private Equity Funds will be launched in the future, one to invest in Distribution Facilities in the UK, and one to invest in Distribution Facilities in Continental Europe. Distribution Facilities within the ProLogis pipeline of European Distribution Facilities may be contributed to the respective funds upon stabilisation. Following the Offer, and except in relation to the acquisition of stabilised Distribution Facilities from the Property Portfolio pursuant to the Property Contribution Agreement, PEP will no longer have direct access to the ProLogis pipeline of European Distribution Facilities and does not expect to acquire additional Distribution Facilities from ProLogis or third parties. The Management Company believes that there remains a significant potential opportunity for the development of new Distribution Facilities in Europe, which once stabilised could be contributed to the ProLogis Private Equity Funds or ProLogis Joint Ventures.

It is expected that some of the individuals who are responsible for managing PEP will also manage the ProLogis Private Equity Funds.

#### **Opportunity for Future Growth through Acquisition of Distribution Facilities from the Property Portfolio**

PEP will be able to generate a limited amount of external growth in the near future through the acquisition of stabilised Distribution Facilities from the Property Portfolio. Under the Property Contribution Agreement, PEP has agreed to acquire from PLD or PLD Related Parties stabilised Distribution Facilities from the Property Portfolio having an aggregate Contribution Value of approximately €200 million. However, if certain events occur which make it, in the reasonable opinion of the Management Company, impracticable or inadvisable to PEP to proceed in whole or part with the acquisition of such Distribution Facilities on the terms and in the manner contemplated in the Property Contribution Agreement, the Management Company may, with the prior approval of the PEP Board, reduce the aggregate Contribution Value of the stabilised Distribution Facilities required to be acquired by PEP thereunder. The Property Contribution Agreement is described in more detail in paragraph 9.4 of Part VII — “Additional Information” of this Prospectus.

#### **Distributions and Distribution Policy**

The Management Regulations provide that PEP will distribute substantially all of its Distributable Cash Flow on a quarterly basis, or more frequently if determined by the Management Company. PEP has historically made distributions quarterly.

#### **Debt Policy**

PEP has implemented, and continues to borrow under, a comprehensive debt financing plan aimed at maximising leveraged equity returns to Unitholders. Under Article 7 of the Management Regulations, which are set out in Part XIV—“Management Regulations of PEP” of this Prospectus, PEP and its consolidated subsidiaries may not incur additional indebtedness which would cause the total indebtedness of PEP and its consolidated subsidiaries to exceed 60 per cent. of the aggregate of (i) the Gross Property Value of the Distribution Facilities or other properties and property rights beneficially owned directly or indirectly by PEP and its consolidated subsidiaries and (ii) the value of debt and equity interests of PEP in real estate companies or in other real estate investment vehicles which are not consolidated in the accounts



of PEP, including unconsolidated ProLogis Private Equity Funds and unconsolidated ProLogis Joint Ventures. For the purposes of effective cash management, PEP may exceed this indebtedness limit for temporary or short term purposes for a period not to exceed six months, provided that such total indebtedness does not exceed 65 per cent. of such aggregate value at any time. Indebtedness of PEP may be secured or unsecured, and PEP may incur indebtedness from a ProLogis Related Party on a short-term basis.

PEP has adopted a long-term financing strategy of using CMBS transactions. PEP has completed four successful pan-European CMBS transactions securing debt with real estate in France, The Netherlands, Germany, Spain, Italy and the UK and has had further success with a CMBS transaction securitised only on French assets. PEP will benefit from the expertise developed from these securitisation transactions and from the structure established to effect the transactions, and expects to carry out further CMBS transactions to fund its planned investments in the ProLogis Private Equity Funds, ProLogis Joint Ventures and the Property Portfolio, as well as to refinance existing debt. As significant financing events, these CMBS transactions have required, and will continue to require, prior approval by the PEP Board. These CMBS transactions are non-amortising and non-recourse to PEP (except with respect to the assets over which security is granted) and non-amortising in nature with a bullet repayment on staggered maturities.

PEP's policy is to significantly hedge its interest rate exposure by swapping floating rate interest payments under its financing arrangements to fixed rate payments.

### **Regulatory and Environmental Matters**

As the owner of Distribution Facilities in 11 countries in Europe, PEP is subject to a wide range of European Community, national and local laws and regulations. These include zoning, tax, planning, environmental, health and safety, foreign ownership limitations and other laws and regulations. These laws and regulations may become more onerous and restrictive over time. In particular, PEP historically has been required to make capital investments in its properties to meet new environmental regulations. The Management Company is not aware of any material regulatory or environmental matters that it expects would be reasonably likely to have a material adverse effect on PEP or the Portfolio, taken as a whole.

### **Financial Information**

Consolidated financial information of PEP for each of the years ended 31 December 2005, 31 December 2004 and 31 December 2003 prepared in accordance with IFRS are set out in Part X—"Consolidated Audited Financial Information for the Years Ended 31 December 2005, 31 December 2004 and 31 December 2003" of this Prospectus. Consolidated unaudited results of PEP for the six-month periods ended 30 June 2005 and 30 June 2006 are set out in Part XI—"Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005" of this Prospectus.

Other than as set out in this Prospectus, there has been no significant change in the financial or trading position of PEP since 30 June 2006, the date to which the consolidated unaudited results set out in Part XI—"Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005" of this Prospectus were prepared.

## PART II

### REAL ESTATE MARKET OVERVIEW

*This overview of the real estate market includes information provided from third party sources annotated in superscript, details of which are provided at the end of this Part II—"Real Estate Market Overview" of this Prospectus.*

#### Introduction

Fundamental legislative, regulatory and structural changes in the EU are having a profound impact on the European logistics sector. PEP expects that the further integration and expansion of the EU and the ongoing implementation of the Euro as a single currency will have significant implications for European businesses and will enhance trade on a pan-European basis. PEP believes the key changes that have created a new business landscape in the EU include:

- (i) the reduction or elimination of national trading borders;
- (ii) the creation of common technical standards in many areas;
- (iii) the increased liberalisation of capital and labour movement;
- (iv) the implementation of a common currency for countries in the Euro Zone;
- (v) the increasingly integrated transportation network; and
- (vi) the admission of new member states into the EU.

In turn these changes in the economic environment have driven changes in the European logistics sector. PEP aims to take advantage of trends driven by users of large Distribution Facilities across Europe, including:

- (i) consolidation into regional distribution markets;
- (ii) users' preference for larger and more functional and flexible Distribution Facilities;
- (iii) an increasing demand by users for a single provider of Distribution Facilities; and
- (iv) continued outsourcing of distribution activities to specialised logistics companies and consequent demands by such companies for modern Distribution Facilities to provide services to their end-customers.

The following paragraphs provide an overview of the European economy and the European market for Distribution Facilities, as well as details of the market characteristics of each of the four principal European markets, 11 countries and 25 submarkets in which PEP currently holds Distribution Facilities.

#### European Economy

The EU had a total population of 459.1 million and had an estimated aggregate gross domestic product ("GDP") of €10.7 trillion in 2005.<sup>(3)</sup> Over the period from 2001 to the end of 2005, the economy grew at an average annual growth rate of 1.6 per cent.<sup>(3)</sup> The EU's main trading partners are the U.S. and China.<sup>(3)</sup>

Germany, with a population of 82.5 million (as at December 2005), remains the largest economy in the EU and the third largest in the world.<sup>(4)(10)</sup> The UK and France, with populations of 59.3 million and 60.1 million, respectively, are the EU's second and third largest economies.<sup>(4)(10)</sup>

In May 2004, the EU grew from 15 members to 25 members. With 10 new members, the population within the EU increased by 19.3 per cent. to approximately 459 million people, whilst its landmass increased by 23 per cent. to 3.89 million square kilometres.<sup>(13)(16)</sup> Because of relatively lower incomes per capita in the new EU member states, the increase in the EU's total GDP was, however, more modest.<sup>(34)</sup> Valued at current prices, the total GDP of the 10 new members added only 4.6 per cent. to the EU's total GDP, in 2004.<sup>(34)</sup> However, incomes per capita of the new member states in general are growing at a higher rate than the rest of the EU.<sup>(14)</sup> In addition to initiatives to harmonise legal and financial systems in the new member states, the EU is making significant investments to upgrade the European transport infrastructure and to integrate the new member states' highway networks into the previously existing EU system.<sup>(31)</sup>

## **Investment Market for Distribution Facilities**

Investment in Distribution Facilities in the EU has increased rapidly over the last five years, in line with increased investment in other real estate sectors such as office and retail.<sup>(2)</sup> Such investment increased from approximately €3.8 billion in 2000 to €10 billion in 2005, though it remained consistently at 6 per cent. of total real estate investment in the EU over that period.<sup>(2)</sup> Investors have shown a preference for high quality, modern buildings at strategic locations with excellent transport infrastructure, or near major European ports such as Rotterdam and Hamburg. The UK has led Europe in terms of investment volume, but Continental Europe has seen an increasing number of transactions, and 2005 witnessed several investment portfolio transactions involving a limited number of Distribution Facilities in several countries.<sup>(2)</sup>

A number of owner-occupiers have negotiated sale lease-back transactions with investors, which allows them to free up capital to invest in other parts of their business. The proportion of owner-occupied space in the EU remains higher than in the U.S., though leasing is becoming more prevalent as global companies continue to rationalise their supply chains and cut costs.<sup>(2)</sup>

Investors in Distribution Facilities have also targeted Central and Eastern Europe, where strong local demand and the growth of consumer spending have led many international companies to establish regional distribution centres. Investors have benefited from the accession of these countries to the EU and the increased spending to bring the region's transport infrastructure in line with EU standards.<sup>(15)</sup>

## **Market Overviews**

The Portfolio is located in four principal European markets: the UK, Southern Europe, Central Europe and Northern Europe.

### **United Kingdom Market**

The UK's island geography means that its distribution networks are focused on regional or national markets, as opposed to broader pan-European markets. Logistics operators generally occupy units of 10-30,000 square metres for regional distribution centres and units of 40-60,000 square metres for national distribution centres.<sup>(2)</sup> Lease lengths are typically 10 to 15 years, though customers may sign longer leases to secure property in strategic locations and to justify higher fit-out costs. The sector is constrained by planning regulations and labour shortages in key locations, which cause relatively higher operating costs. In addition, the UK has among the highest land prices in the EU and its population density means that there is a general lack of large-scale, unconstrained sites.

By Western European standards, the UK's land transport infrastructure is poor. The UK's main motorways are congested, with approximately 83 per cent. of freight transported by road.<sup>(11)</sup> Freight transport by rail accounts for approximately 10 per cent. of all freight transport.<sup>(11)</sup> Heathrow airport is the fourth largest cargo airport in the EU.<sup>(12)</sup> Gatwick and Stansted airports are also major cargo airports.<sup>(12)</sup> Felixstowe is the primary port of entry for the UK.<sup>(19)</sup>

There are three principal submarkets in the UK, as detailed below:

#### *East and West Midlands*

The Midlands region, and particularly areas around Daventry, Northampton, Rugby, Coventry and Leicester, has the largest concentration of Distribution Facilities in the UK and is the favoured location for national distribution centres.<sup>(2)</sup> This region provides access to a significant percentage of the UK population within a day's return drive time.<sup>(17)</sup> Distribution Facilities in this submarket are also concentrated around the Birmingham area.<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, 34 Distribution Facilities covering 633,134 square metres, which represented approximately 81 per cent. of total leasable space held by PEP in the UK.<sup>(1)</sup>

#### *London and the South-East*

The region of London and the south-east represents the second largest concentration of Distribution Facilities in the UK.<sup>(2)</sup> The Distribution Facilities are concentrated around the M25, the North Circular, the radial motorway routes including the M1, M40 and M4.<sup>(2)</sup> The north-west quadrant of the M25 is the prime area, from Heathrow airport to the M1.<sup>(2)</sup> Other concentrations are found east of London, particularly on the motorway routes leading to the Channel ports.<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, six Distribution Facilities covering 86,315 square metres, which represented approximately 11 per cent. of total leasable space held by PEP in the UK.<sup>(1)</sup>

#### *North*

In the North there are two major distribution concentrations, the largest being the North West/Manchester/Warrington region. Within Greater Manchester, development is focused on the M60 and M62 motorways, particularly around the M60/M62 junction in north Manchester/Rochdale.<sup>(2)</sup> Further west, the junction of the M6/M62 (near Warrington) provides a second focal point.<sup>(2)</sup> The second major distribution concentration is in the Yorkshire/Leeds region, which is becoming an increasingly important location for logistics activities in this submarket.<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, four Distribution Facilities covering 64,040 square metres, which represented approximately 8 per cent. of total leasable space held by PEP in the UK.<sup>(1)</sup>

### **Southern European Market**

#### **French Market**

France is Europe's third largest logistics market and is an increasingly favoured location for European distribution centres.<sup>(2)</sup> Growing logistics activity in Southern Europe, in particular Spain, has also created new opportunities within France.

The French government has made substantial investments in the expansion of its national network of motorways. Approximately 78 per cent. of France's freight is transported by road, although rail freight plays a significant role (14 per cent.).<sup>(11)</sup> France's largest seaport is Marseille, followed by Le Havre.<sup>(12)</sup> Paris-Charles de Gaulle and Paris-Orly airports handle the bulk of France's air freight.<sup>(12)</sup>

There are four principal submarkets in France in which PEP holds Distribution Facilities, as detailed below:

#### *Central France—Paris and Orléans*

The Paris market is the focus of national distribution networks which serve a significant regional population. The Francilienne motorway (the ring road around Paris) contains the highest concentration of Distribution Facilities whilst key concentrations are also found around the two main airports (Paris-Charles de Gaulle and Paris-Orly) and in the "New Towns", notably Marne-La-Vallée (east), Sénart (south-east) and Cergy-Pontoise (north-west).<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, 71 Distribution Facilities covering 1,198,129 square metres, which represented approximately 57 per cent. of total leasable space held by PEP in France.<sup>(1)</sup> Five of the six Distribution Facilities disposed of on 12 July 2006, as further detailed in Part III—"Operating and Financial Review and Prospects—Current Operations" of this Prospectus, are located in this submarket.

#### *Southern France—Lyon*

Lyon is an important location for both local and national Distribution Facilities due to its central location and position on the main north/south heavy transit route. Distribution Facilities are concentrated on the motorways to the east of the city, near the town of L'Isle d'Abeau.<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, 14 Distribution Facilities covering 352,567 square metres, which represented approximately 17 per cent. of total leasable space held by PEP in France.<sup>(1)</sup>

#### *Southern France—Marseille*

Marseille is one of the largest ports on the Mediterranean.<sup>(12)</sup> Marseille's Distribution Facilities are spread over a wide geographical area and serve the entire south of France as well as Marseille.<sup>(2)</sup> The main distribution locations are Etang de Berre (Fos and Vitrolle) to the west, the port of Marseille itself and Aix-en-Provence to the north.<sup>(2)</sup> The number of Distribution Facilities is increasing in Grans-Miramas, near Salon-de-Provence and in Saint-Martin-de-Crau near Arles (Camargue).<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, 10 Distribution Facilities covering 215,479 square metres, which represented approximately 10 per cent. of total leasable space held by PEP in France.<sup>(1)</sup> One of the six Distribution Facilities disposed of on 12 July 2006, as further detailed in Part III—"Operating and Financial Review and Prospects—Current Operations" of this Prospectus, is located in this submarket.

### *Northern France—Lille and Le Havre*

Lille has the largest population in the northern part of France and is linked to both Paris and Brussels by the Channel Tunnel Rail Link.<sup>(33)</sup> The main distribution locations include Roncq, Lomme-Sequedin, Dunkirk and Valenciennes-Prouvy.<sup>(35)</sup> Le Havre is the leading French port for container traffic and Distribution Facilities are concentrated in three major parks: the Normandy Bridge Logistics Park, Parc du Hode and Port 2000 Logistics Park.<sup>(2)(19)</sup>

In this submarket PEP had, as at 30 June 2006, eight Distribution Facilities covering 160,998 square metres, which represented approximately eight per cent. of total leasable space held by PEP in France.<sup>(1)</sup>

### **Italian Market**

Distribution Facilities are concentrated in the north of Italy, notably in the Lombardia, Piedmont (Turin), Veneto (Verona, Padua and Venice), Emilia-Romagna (Piacenza, Parma and Bologna) and Liguria (port of Genoa) regions. In central and southern Italy, the market in Distribution Facilities is less developed. Third party logistics companies generally look to occupy large Distribution Facilities of a minimum size of 10,000 square metres.<sup>(2)</sup> Development opportunities are generally limited due to the lack of suitable sites in good locations.

Italy has a poor land transport network as compared to France and Germany. Approximately 88 per cent. of freight is carried by road and approximately 8 per cent. by rail.<sup>(11)</sup> The main air cargo facilities are at Milan- Malpensa and Rome- Fiumicino airports.

The only principal submarket for PEP in Italy in which PEP holds Distribution Facilities is Milan, which is also Italy's prime warehousing location. It is the centre of Italy's largest population concentration (the Lombardia region has nine million inhabitants) whilst the region has good transport connections and is strategically located to serve northern Italy.<sup>(18)</sup> Within Milan, large-user Distribution Facilities are located mainly close to the city's orbital motorway, the Tangenziale.<sup>(2)</sup> This includes Rho-Pero to the north-east, San Giuliano to the south-east and around Linate airport to the east of the city. Malpensa airport has emerged as a new distribution hub for air cargo related businesses.<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, 18 Distribution Facilities covering 473,669 square metres, which represented 100 per cent. of total leasable space held by PEP in Italy.<sup>(1)</sup>

### **Spanish Market**

The market for Distribution Facilities has developed around Spain's major population and industrial centres, the largest being Madrid and Barcelona, which together account for around 50 per cent. of the Spanish logistics market.<sup>(2)</sup> The logistics sector in Spain has been characterised by increased outsourcing of logistics activities as well as increased competition with the arrival of international logistics companies in the 1990s.

Following an intensive road-building programme during the 1980s and early 1990s, Spain's main economic hubs now enjoy relatively good road transport links and 87.6 per cent. of freight is transported by road.<sup>(11)</sup> There has been relatively limited investment in the railway network. Spain's primary seaports are being expanded and modernised, and railway terminals are being established within the ports. Major expansions are planned or being undertaken at both Madrid and Barcelona airports.<sup>(20)(21)</sup>

There are two principal submarkets in Spain in which PEP holds Distribution Facilities, as detailed below:

#### *Madrid*

Madrid has Spain's largest concentration of Distribution Facilities and its central location has made it popular for national distribution centres.<sup>(2)</sup> Development has focused on the city's ring roads, particularly to the east of the city around the Barajas airport and the Azuqueca freight railway terminal. The east of the city also has good access to Barcelona (via Zaragoza) and Valencia. The completion of the M45/M50 has also opened up the southern part of Madrid, including the industrial zone of Getafe.

In this submarket PEP had, as at 30 June 2006, six Distribution Facilities covering 126,325 square metres, which represented approximately 45 per cent. of total leasable space held by PEP in Spain.<sup>(1)</sup>



## *Barcelona*

Barcelona and its surrounding region form the second largest distribution hub in Spain.<sup>(2)</sup> A significant road-building programme over the past couple of decades has enhanced the city's attraction as a location for Distribution Facilities. Distribution Facilities are concentrated around the A7, A17 and A18 triangle north of the city and in the Llobregat area near the airport, where there are several logistics parks. Development opportunities have been very limited due to the lack of development land, reflecting both planning and geographical constraints.

In this submarket PEP had, as at 30 June 2006, six Distribution Facilities covering 156,345 square metres, which represented approximately 55 per cent. of total leasable space held by PEP in Spain.<sup>(1)</sup>

## **Central European Market**

### **Czech Market**

Following its EU accession, the Czech Republic has become an increasingly popular location for new Distribution Facilities used by international logistics companies.<sup>(2)</sup> The Czech government has encouraged development and has made available approximately 155 different industrial zones (predominantly sites which were previously undeveloped) across 14 regions where infrastructure is being provided by local authorities.<sup>(22)</sup> Relatively low labour costs also make it an attractive market.

The quality of the transport infrastructure is good by Central and Eastern European standards, but it is still relatively poor compared to most of Western Europe.<sup>(5)</sup> Most freight is transported by road, although the rail network carries a significant (approximately 24 per cent.) proportion of total freight.<sup>(12)</sup>

The only principal submarket in the Czech Republic in which PEP holds Distribution Facilities is Prague. Most large, modern Distribution Facilities are concentrated around Prague, in particular to the south-east in the Průhonice/Čestlice/Ríčany areas on the D1 motorway, and to the west in the Zličín and Rudná areas on the D5 motorway.<sup>(2)</sup> The area around Prague's international airport is also emerging as a new location for Distribution Facilities, as well as the motorway routes leading to Dresden, Mladá Boleslav and Liberec, as well as to Hradec Králové.<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, nine Distribution Facilities covering 148,934 square metres, which represented 100 per cent. of total leasable space held by PEP in the Czech Republic.<sup>(1)</sup>

### **Hungarian Market**

Within the Central and Eastern European region, the Management Company considers Hungary to be an attractive location for logistics activities. Operating costs are low and the country is strategically located as it shares borders with seven countries (Austria, Slovenia, Croatia, Serbia, Romania, Ukraine and Slovakia), and provides a gateway between Western and Eastern Europe. Approximately 50 per cent. of the existing leasable space and virtually all of the planned leasable space is found in distribution parks.<sup>(2)</sup>

In 2000, the government approved a road-building programme involving the construction of 702 kilometres of roads.<sup>(6)</sup> Preference is being given to routes that form part of European transport corridors. Motorways running south-west and south-east from Budapest are currently under development, as are several bridges over the Danube and Tisza rivers. Road transport has replaced railways as the primary form of freight transport and, as regards goods transported either by domestic or international traffic in 2004, 56.7 per cent. went by road and 24.5 per cent. went by rail.<sup>(7)</sup>

The only principal submarket in Hungary in which PEP holds Distribution Facilities is Budapest. Most modern Distribution Facility development has occurred in the Budapest region, but there has been some development along the main routes going west towards Vienna, and towards Graz in Austria. The ring road around Budapest has been the main focus of activity, with key concentrations in a number of suburban towns—Budaörs, Törökbálint, Páty, Batorbágy and Bicske to the west, Dunaharaszti and Ullő to the south, Vecsés, near Budapest airport, and Dunakeszi to the north-east.

In this submarket PEP had, as at 30 June 2006, 14 Distribution Facilities covering 179,861 square metres, which represented 100 per cent. of total leasable space held by PEP in Hungary.<sup>(1)</sup>

### **Polish Market**

Poland has one of the largest Distribution Facility markets in Central and Eastern Europe<sup>(32)</sup>. 2004 was a strong year in the logistics sector in terms of demand for Distribution Facilities and this trend continued in

2005.<sup>(2)</sup> The high take-up levels, particularly in Warsaw, were triggered by Poland's EU accession in 2004 and boosted by perceived market stability.

The state of Poland's road network is poor. In 2000, the government announced plans to develop 4,800 kilometres of road by 2015, of which 70 per cent. is expected to be financed by the EU.<sup>(23)</sup> Several new motorways are proposed: the A1 (north-south) and A2 (east-west) are the most important projects and work has commenced on both. Warsaw's Okęcie airport is approaching maximum capacity and although the construction of a new terminal is planned, airport authorities believe that Warsaw will need a new airport by 2010-15.<sup>(8)</sup>

There are four principal submarkets in Poland in which PEP holds Distribution Facilities, as detailed below:

#### *Warsaw*

The current concentration of modern Distribution Facilities in Warsaw equates to 80 per cent. of the total modern Distribution Facilities in logistics parks in Poland.<sup>(2)</sup> Development is focused on the south-west quadrant of Warsaw, with a particular emphasis on the Poznań and Katowice motorways.

In this submarket PEP had, as at 30 June 2006, 12 Distribution Facilities covering 215,176 square metres, which represented approximately 48 per cent. of total leasable space held by PEP in Poland.<sup>(1)</sup>

#### *Central Poland—Łódź*

Situated in the centre of Poland, Łódź (to the south-west of Warsaw) is the second largest market after Warsaw (in terms of population) and is the traditional centre of the textile industry. Łódź is also expected to benefit from the extension of the Polish motorway network as it will be at the crossroads of the A1, A2 and A8 motorways.<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, two Distribution Facilities covering 61,023 square metres, which represented approximately 14 per cent. of total leasable space held by PEP in Poland.<sup>(1)</sup>

#### *Western Poland—Poznań and Wrocław*

Poznań and Wrocław are Poland's key gateways to Western Europe. Total leasable space of modern Distribution Facilities in the Poznań and Wrocław areas is approximately 374,500 square metres.<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, seven Distribution Facilities covering 94,171 square metres, which represented approximately 21 per cent. of total leasable space held by PEP in Poland.<sup>(1)</sup>

#### *Southern Poland—Katowice*

Katowice is the main city in the industrial region of Silesia, close to the Czech Republic and Slovakia.

In this submarket PEP had, as at 30 June 2006, three Distribution Facilities covering 81,006 square metres, which represented approximately 18 per cent. of total leasable space held by PEP in Poland.<sup>(1)</sup>

### **Northern European Market**

#### **Belgian Market**

Belgium is an attractive location for logistics activities due to its central geographical position in Western Europe and well-developed transport network. Third party logistics companies account for the majority of Distribution Facility demand and generally occupy units of 10,000-40,000 square metres.<sup>(2)</sup> The Belgian planning system has constrained Distribution Facility development in the Flanders and Brussels regions, but local authorities outside the Brussels-Antwerp-Ghent "Golden Triangle" area are considered to be more supportive of such development. In the Liège and Hainaut provinces, local municipalities and the EU provide relocation subsidies.<sup>(24)</sup>

Road and rail densities in Belgium are high by international standards.<sup>(9)</sup> Over 70 per cent. of freight is transported by road, but both rail (approximately 13 per cent.) and inland waterways (approximately 13 per cent.) play an important role.<sup>(11)</sup> Antwerp and Ghent are two of Europe's major ports.<sup>(12)</sup> Brussels National is the main airport whilst Liège, in eastern Belgium, is one of Europe's fastest growing cargo airports.<sup>(12)(25)</sup>

The only principal submarket in Belgium in which PEP has Distribution Facilities is the area around Limburg and Liège.

High property costs and supply constraints in the Golden Triangle (where PEP does not have Distribution Facilities) have encouraged an eastward shift in logistics activity towards the Dutch and German borders. Development is focused on the A2, A3, A13 and A21 motorways, with notable clusters around Genk, Tongeren, Hasselt and Liège. The development of Distribution Facilities here is expected to benefit from the re-opening of the “Iron Rhine” freight line which will connect the industrial Ruhr region in Germany with the port of Antwerp.

In this submarket PEP had, as at 30 June 2006, two Distribution Facilities covering 43,528 square metres, which represented 100 per cent. of total leasable space held by PEP in Belgium.<sup>(1)</sup>

## **German Market**

Germany is the EU’s largest economy and also has the EU’s largest transport and logistics market, worth approximately €150 billion, based on revenue.<sup>(26)</sup> The largest concentrations of Distribution Facilities are in the Rhine-Main region, the Ruhr region, Hamburg and in Berlin.<sup>(2)</sup> Other concentrations are found around the ports of Bremen/Bremerhaven in Hannover/Braunschweig/Salzgitter (in the north of the country), and in Stuttgart, Nuremberg and Munich (in the south).<sup>(2)</sup> In recent years, there has been strong growth in Distribution Facilities in the Bad Hersfeld and Kassel regions, in the geographical centre of Germany.<sup>(2)</sup> Estimates suggest that in 2005 some 45 per cent. of total Distribution Facility space was taken by the logistics sector, with retail companies representing 32 per cent. of the market and manufacturing companies 16 per cent.<sup>(2)</sup> Hamburg has seen the highest take-up over the last years, particularly for Distribution Facilities of 5,000 square metres or more.<sup>(2)</sup> High land values and restrictive planning systems around major urban areas have constrained Distribution Facility development in Germany. However, land availability across the country has increased in recent years as former industrial sites and military sites have been made available.

The transport network in the eastern states of Germany still lags well behind the western states of Germany, but significant federal spending is gradually closing the gap. Most freight is transported by road (approximately 75 per cent.) but both rail and inland waterways are significant with Duisburg (on the River Rhine) being the EU’s largest inland port.<sup>(2)(27)</sup> Hamburg is the largest seaport in the country.<sup>(19)</sup> Other major ports include Bremen/Bremerhaven, Rostock and Lübeck.<sup>(2)</sup> Europe’s largest cargo airport is at Frankfurt am Main. Other major cargo airports in Germany are Cologne-Bonn and Munich whilst Hahn airport (Rhineland-Palatinate) is one of the EU’s fastest growing airports for air freight.<sup>(29)</sup>

There are three principal submarkets in Germany in which PEP holds Distribution Facilities, as detailed below:

### *Rhine-Main*

Rhine-Main has one of the largest concentrations of Distribution Facilities in Germany, with an estimated leasable space of 2.76 million square metres, taking into account Distribution Facilities above 8,000 square metres.<sup>(2)</sup> The region is a favoured location for third party logistics companies and is strategically positioned to serve a large transnational catchment. Within the Rhine-Main area, the key distribution hubs are Frankfurt, Dietzenbach, Wiesbaden, Grossostheim and Ginsheim.

In this submarket PEP had, as at 30 June 2006, four Distribution Facilities covering 60,872 square metres, which represented approximately 19 per cent. of total leasable space held by PEP in Germany.<sup>(1)</sup>

### *Rhine-Ruhr*

The Rhine-Ruhr region forms another major distribution hub in Germany, with an estimated leasable space of 3.4 million square metres, taking into account Distribution Facilities above 8,000 square metres.<sup>(2)</sup> The region’s main focus is on the cities of Cologne, Dortmund, Duisburg and Düsseldorf.

In this submarket PEP had, as at 30 June 2006, seven Distribution Facilities covering 111,631 square metres, which represented approximately 35 per cent. of total leasable space held by PEP in Germany.<sup>(1)</sup>

### *Southern Germany*

Munich has the largest concentration of Distribution Facilities in Bavaria but it remains small compared to other main northern German distribution hubs.<sup>(2)</sup> New development opportunities are constrained due to

high land values and competition from other commercial uses. Consequently, Munich currently commands the highest rents in Germany.

In this submarket PEP had, as at 30 June 2006, nine Distribution Facilities covering 108,941 square metres, which represented approximately 34 per cent. of total leasable space held by PEP in Germany.<sup>(1)</sup>

### **Dutch Market**

As a result of its central location in the EU, its high quality transport infrastructure and its attractive business environment, The Netherlands continues to be a favoured location in the EU for Distribution Facilities. Logistics operators generally occupy Distribution Facilities of 5,000–10,000 square metres in this market.<sup>(2)</sup> The main disadvantages are a lack of development sites and increased road congestion.

The Netherlands benefits from well developed road, rail and airport facilities. In addition, Rotterdam is the largest seaport in Europe.<sup>(12)</sup> The Netherlands also has a dense network of waterways which account for approximately 43 per cent. of freight transported within the country.<sup>(11)</sup> Schiphol airport in Amsterdam is the third largest cargo airport in the EU.<sup>(12)</sup> The road and rail density per 1,000 inhabitants is, however, low, and road congestion has become a serious problem. Nonetheless, the proportion of freight transported by rail has decreased in recent years as freight has switched to road (only 4 per cent. of freight is carried by rail).<sup>(11)</sup> In an attempt to reverse this trend, the government is constructing a freight line—the Betuwe Line—which will link the port of Rotterdam with the industrial Ruhr region in Germany.

There are three principal submarkets in The Netherlands in which PEP holds Distribution Facilities, as detailed below:

#### *Amsterdam*

Amsterdam is the largest market in The Netherlands. The prime location for Distribution Facilities is around the Schiphol airport/A4 motorway. Demand has been very strong in Amsterdam, particularly from third party logistics companies, for European distribution centres. However, the lack of new high quality supply, as well as strict planning policies, have limited occupier activity in recent years.<sup>(2)</sup>

In this submarket PEP had, as at 30 June 2006, four Distribution Facilities covering 59,162 square metres, which represented approximately 12 per cent. of total leasable space held by PEP in The Netherlands.<sup>(1)</sup>

#### *Rotterdam*

Rotterdam forms the second largest market in The Netherlands and has attracted strong demand from third party logistics companies. However, activity has been limited in recent years due to the shortages of development sites and strict planning policies.

In this submarket PEP had, as at 30 June 2006, 11 Distribution Facilities covering 208,359 square metres, which represented approximately 41 per cent. of total leasable space held by PEP in The Netherlands.<sup>(1)</sup>

#### *Southern Netherlands*

Over the last five years, both Venlo and Maastricht, in the Limburg province in the southern part of The Netherlands, have emerged as new locations for Distribution Facilities. Venlo, in particular, has benefited from its access and proximity to the German border, recently enhanced by the Venlo Trade Port Concept that links Venlo with Germany and Rotterdam via a rail line. Further development opportunities in these hubs have, however, become increasingly limited, and a significant number of third party logistics companies are now focussing on the Noord-Brabant province around Eindhoven, Tilburg, Breda and Den Bosch.

In this submarket PEP had, as at 30 June 2006, eight Distribution Facilities covering 244,771 square metres, which represented approximately 48 per cent. of total leasable space held by PEP in The Netherlands.<sup>(1)</sup>

### **Swedish Market**

There was a significant amount of Distribution Facility development in Sweden in 2005, a considerable proportion of which is located in the south-west part of Sweden.<sup>(2)</sup> There has also been strong growth in demand for Distribution Facilities in recent years, driven by large multinational manufacturers and retailers.

Although most freight in Sweden is moved by road, rail transport also plays a significant role. The Swedish government has allocated significant funds for maintaining and extending existing railway and road networks between 2004 and 2015. Sweden has a number of major seaports, the largest being Gothenburg and Helsingborg.<sup>(19)</sup> Arlanda airport in Stockholm is Sweden's largest cargo airport, followed by Gothenburg's Landvetter airport. The fixed road/rail link between Malmö and Copenhagen has increased southern Sweden's attractiveness for logistics operations. A new rail line connecting Nyland to Umeå, which will run along the east coast of Sweden, is expected to open in 2010.<sup>(30)</sup>

There are two principal submarkets in Sweden in which PEP holds Distribution Facilities, as detailed below:

### *Stockholm*

The majority of Distribution Facilities in Stockholm are located in the area immediately around Arlanda airport. Other concentrations include Västberga/Älvsjö (immediately south of the city), Kungens Kurva and Botkyrka/Tumba, and Ulvsunda/Mariehäll (north-west of the city). Third party logistics companies remain predominantly owner-occupiers due to the low levels of supply, but they have become increasingly interested in selling real estate assets.

In this submarket PEP had, as at 30 June 2006, three Distribution Facilities covering 89,143 square metres, which represented approximately 78 per cent. of total leasable space held by PEP in Sweden.<sup>(1)</sup>

### *Southern Sweden*

Two of the largest concentrations of Distribution Facilities in Sweden, outside Stockholm, are Gothenburg and Malmö/Helsingborg/Hässleholm (Skåne region). More recently, logistics companies have moved to more central locations in Sweden, which provide access to a larger proportion of the Swedish population and where operating costs are lower. Expanding distribution hubs include Jönköping/Nässjö, Varberg, and Borås (between Jönköping and Gothenburg).

In this submarket PEP had, as at 30 June 2006, one Distribution Facility covering 25,214 square metres, which represented approximately 22 per cent. of total leasable space held by PEP in Sweden.<sup>(1)</sup>

### **Sources**

The data included in this Part II—"Real Estate Market Overview" of this Prospectus has been obtained from the sources listed in the following endnotes:

- (1) ProLogis internal information
- (2) Jones Lang LaSalle estimates based on internal statistics
- (3) The Economist Intelligence Unit: EU Country Report, March 2006
- (4) The Economist Intelligence Unit: Country Profile 2006 for Germany
- (5) The Economist Intelligence Unit: Country Profile 2006 for Czech Republic
- (6) The Economist Intelligence Unit: Country Profile 2003 for Hungary
- (7) The Economist Intelligence Unit: Country Profile 2005 for Hungary
- (8) The Economist Intelligence Unit: Country Profile 2003 for Poland
- (9) The Economist Intelligence Unit: Country Profile 2005 for Belgium
- (10) The Economist: Pocket World in Figures, 2006 Edition
- (11) EU Energy and Transport in Figures 2003, European Commission Directorate-General for Energy and Transport
- (12) EU Energy and Transport in Figures 2005, European Commission Directorate-General for Energy and Transport
- (13) Figures obtained from Eurostat/U.S. Census Bureau. See Eurostat website at: <http://epp.eurostat.cec.eu.int/> for total population figures as updated on 11 July 2006



- (14) European Economy, Occasional Papers No. 24, May 2006: “Enlargement, Two Years After: An Economic Evaluation” by the Bureau of European Policy Advisers and the Directorate-General for Economic and Financial Affairs. Document available at <http://ec.europa.eu/>
- (15) See article from BBC News Online, “EU regions battle over spending” dated 17/10/05, available at <http://news.bbc.co.uk/>
- (16) Figures from Eurostat available at EU at a glance, “Size and Population” section of the Europa website: <http://europa.eu/>
- (17) InSite® CACI Limited website: [www.caci.co.uk](http://www.caci.co.uk). Figures sourced to 2001 Census Area Statistics
- (18) ISTAT, 21 October 2001 Census figures
- (19) See World Ranking figures for ports, on Containerisation International website: [www.ci-online.co.uk](http://www.ci-online.co.uk), Container Traffic Link
- (20) Airport Council International (Barcelona), website: <http://www.aci-europe.org/>
- (21) Madrid Barajas Airport press release dated 3 February 2006
- (22) See Centre for Regional Development of the Czech Republic, Regional Information Services website, Industrial Zones of the Czech Republic dated March 2006: <http://www.iriscrr.cz/>
- (23) Polish “Biuro Studiow i Ekspertyze” Report 2002
- (24) See section on Call and Distribution Centres—Logistics, Large Public Incentives at Invest in Wallonia—Regional Development Agency of the following website: <http://www.investinwallonia.be>; website for the province of Liège, “Added Value & Real estate & extensive support to develop business” section at <http://www.Liegeonline.com>; and Europa website, “Regional Policy” section, “On the ground”, “Regional development programmes—Belgium” at <http://ec.europa.eu>
- (25) EU Energy and Transport in Figures 2004, European Commission Directorate-General for Energy and Transport
- (26) Top 100 in European Transport and Logistics Services: Market Sizes, Market Segments and Market Leaders in the European Logistics Industry 2004 Edition, Deutscher Verkehrs-Verlag
- (27) Federal Statistics Office Germany 2005. See figures for Passengers carried/Goods carried in the “Transport” section of the following website: <http://www.destatis.de>
- (28) Duisport website: <http://www.duisport.de/en/>
- (29) See article “Flights ahoy—Successful Air Traffic Results in 2005” dated 11 January 2006 from Hahn airport website: <http://www.hahn-airport.de>
- (30) See “About Botniabanan” section of the Botniabanan AB website: <http://www.botniabanan.se>
- (31) See “Community guidelines for the development of the trans-European transport network” under the “Transport” section of the Europa website: <http://europa.eu/>
- (32) See CBRE Report, Fourth Quarter 2005: M2—“Big Box Poland”, “Budapest Property” and Quarter One 2006: M2—“Big Box CR”
- (33) See “Rank” section of Urban Audit website: [www.urbanaudit.org](http://www.urbanaudit.org)
- (34) Speech by Jean-Claude Trichet, at the conference “Europe’s frontiers: EU enlargement—its implications and consequences”, organised by the Calouste Gulbenkian Foundation, held in Lisbon on 27 October 2004 available at: <http://www.ecb.int/>
- (35) See article “Northern France—A wide offer in logistics facilities” available under the “Business Sectors”, “Innovative Transport”, “Logistics” section of the Invest in Northern France website: <http://www.northernfrance-logistics.com>

## PART III

### OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*The overview of financial results below provides information which the Management Company believes is relevant to an assessment and understanding of PEP's consolidated financial position and results of operations. The financial information in this Part III has been derived from PEP's consolidated audited financial statements for each of the years ended 31 December 2005, 31 December 2004, and 31 December 2003 and its consolidated unaudited interim results for the six-month periods ended 30 June 2006 and 30 June 2005. You should read this overview of financial results in conjunction with these consolidated financial statements and the related notes, which are included in Part X—"Consolidated Audited Financial Information for the years ended 31 December 2005, 31 December 2004 31 December 2003" and Part XI—"Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005" of this Prospectus.*

*The following overview of financial results contains statements reflecting the Management Company's views about PEP's future performance and constitutes "forward-looking statements" as described in the section entitled "Important Information" in this Prospectus. These views may involve risks and uncertainties that are difficult to predict and may cause PEP's actual results to differ materially from the results discussed in such forward-looking statements. Various factors, including changes in general economic conditions, developments in the European real estate markets, interest rate and currency fluctuations, and other factors discussed in the section entitled "Certain Risk Factors" in this Prospectus, may affect PEP's performance. PEP undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, save to the extent it is required to do so under applicable law or regulation.*

*PEP has prepared its consolidated financial statements in accordance with IFRS, which differ in certain respects from accounting principles generally accepted in the U.S. See Part XII of this Prospectus for a summary of principal differences between US GAAP and IFRS as they relate to PEP.*

#### **Overview**

PEP is an externally managed real estate investment vehicle that owns a portfolio of high quality Distribution Facilities in Europe. As at 30 June 2006, it owned 281 Distribution Facilities located in 25 submarkets within 11 European countries, comprising approximately 5.4 million square metres of leasable space. The Portfolio was externally valued at approximately €4.2 billion (net of purchaser's costs) as at 30 June 2006 by JLL and DTZ as Independent Appraisers.

PEP has a strong and diverse customer base comprising over 400 customers. PEP's most significant customers are third party logistics companies who serve clients in a variety of industries and, as a result, provide additional diversity to PEP's customer base. As at 30 June 2006, third party logistics companies accounted for approximately 56 per cent. of the total rental income of the Portfolio calculated on an annualised basis by reference to the leases in place at that date.

PEP is externally managed by its management company, ProLogis Management S.à r.l, a wholly owned subsidiary of ProLogis, a real estate investment trust listed on the New York Stock Exchange. ProLogis is a leading provider of Distribution Facilities and distribution services with operations in 81 markets in North America, Europe and Asia and, as at 30 June 2006, approximately US\$24.8 billion of assets owned, managed and/or under development, including PEP's properties (based on original acquisition cost).

#### **Principal Factors Affecting Results of Operations**

##### ***Growth Through Contributions, Acquisitions and Capital Appreciation***

A key feature of PEP since its establishment has been the growth in the Portfolio which has in turn driven growth in net rental income and cash available for distribution. Growth in the Portfolio has primarily occurred as a result of ProLogis' commitment to contribute its European pipeline of Distribution Facilities to PEP and, as at 30 June 2006, properties contributed by ProLogis amounted to approximately 72 per cent. of the Gross Property Value of the Portfolio. Acquisitions from third parties have also contributed to PEP's growth whilst redevelopments and the completion of extensions to existing Distribution Facilities have also been a factor, particularly in recent years. Acquisitions have been principally financed through equity contributions from Unitholders and debt financing, and not from cash flow from operations.

PEP's long-term strategy is to hold Distribution Facilities, though PEP does dispose of assets from time to time if the Management Company considers it to be an opportune time to do so from a valuation

perspective or the assets no longer fit into PEP's long-term investment plans. Notably, a portfolio of 13 properties in the UK with an aggregate Gross Property Value of €260.5 million was disposed of in December 2003. More recently, a portfolio of six properties in France with an aggregate Gross Property Value of €63.8 million was disposed of in July 2006.

PEP's Portfolio has grown in value over the period from 31 December 2003 to 30 June 2006, as shown in the table below.

	30 June 2006		31 December 2005		31 December 2004		31 December 2003	
	€ m	Total No. of Distribution Facilities	€ m	Total No. of Distribution Facilities	€ m	Total No. of Distribution Facilities	€ m	Total No. of Distribution Facilities
<b>Gross property value opening balance</b>	<b>3,640.5</b>	<b>263</b>	<b>3,059.1</b>	<b>230</b>	<b>2,430.5</b>	<b>197</b>	<b>2,405.0</b>	<b>187</b>
Contributed by ProLogis	361.5	19	297.1	19	498.5	32	273.7	17
Third Party Acquisitions	—	—	115.7	15	—	—	96.9	7
Construction	—	—	8.5	1	28.5	1	—	—
Disposals	(8.6)	(1)	(35.2)	(2)	(0.9)	—	(260.5)	(13)
Currency Gains/(Losses)	(6.3)	—	7.8	—	11.9	—	(89.9)	—
Revaluation <sup>(1)</sup>	419.2	—	187.5	—	90.6	—	5.3	—
<b>Gross property value closing balance</b>	<b>4,406.3</b>	<b>—</b>	<b>3,640.5</b>	<b>—</b>	<b>3,059.1</b>	<b>—</b>	<b>2,430.5</b>	<b>—</b>
Purchasers costs adjustment	(195.7)	—	(166.7)	—	(135.3)	—	(114.1)	—
<b>Open Market Value and number of distribution facilities</b>	<b>4,210.6</b>	<b>281</b>	<b>3,473.8</b>	<b>263</b>	<b>2,923.8</b>	<b>230</b>	<b>2,316.4</b>	<b>198</b>

(1) Properties are revalued on an annual basis by third party independent appraisers. OMV shown reflect valuations conducted by JLL and DTZ. See Part XIII of this Prospectus for the JLL and DTZ valuation reports as at 30 June 2006, which include significant assumptions described therein. Similar assumptions applied also to valuations conducted for prior periods. Values achieved in market transactions may differ from estimated or appraised values. See "Certain Risk Factors—Risks Relating to the Business—Property valuation is inherently subjective and uncertain" in this Prospectus.

Additionally, and particularly in the last two years, the European real estate market has seen a widespread increase in investor demand for Distribution Facilities which was consistent with demand for real estate investments in general and which has resulted in material increases in the value of the Portfolio. The Portfolio was revalued upwards by €187.5 million in 2005 and €90.6 million in 2004, driven primarily by a reduction in the level of yields demanded by investors in Spain, Poland and the UK. More recently, the Portfolio was revalued upwards by €419.2 million (prior to the deduction of purchaser's costs) in the six-month period ended 30 June 2006 primarily as a result of relatively lower yields demanded by investors.

The growth in value of PEP's Distribution Facilities in the most recent periods presented in the table above has been driven by, among other things, increased investor demand for real estate investments, lower interest rates, significant liquidity in the banking and investment market, economic growth in the EU, and the willingness of investors to accept lower returns from real estate investments. There can be no assurance, however, that the value of PEP's Distribution Facilities will continue to increase at the same or similar rates in the future, and the value of PEP's Distribution Facilities could decrease. In particular, the Management Company believes that increases in Euro and Sterling interest rates, or a general economic slowdown in PEP's markets, could have a negative impact on the Portfolio's value. The value of the Portfolio could also decrease when a full appraisal of PEP's Distribution Facilities is next performed, as the Portfolio valuations performed as at 30 June 2006 did not consist of a full appraisal (including physical inspections) as had been performed as at 30 April 2006, and 31 December 2005, 2004 and 2003. See "Certain Risk Factors—Risks Relating to the Business—Property valuation is inherently subjective and uncertain" in this Prospectus.

Following the Settlement Date, PEP will no longer have access to the ProLogis pipeline of European Distribution Facilities, except with respect to its acquisitions under the Property Contribution Agreement of stabilised Distribution Facilities from the Property Portfolio (having an aggregate Contribution Value of approximately €200 million) from PLD or PLD Related Parties and its rights under the Private Equity Fund Investment Agreement to invest, subject to certain limitations, in ProLogis Private Equity Funds (into which the ProLogis pipeline of European Distribution Facilities is expected to be contributed) or ProLogis Joint Ventures. As a result, PEP's net rental income and cash available for distribution are not expected to grow at rates comparable to those of the past.

### ***Trends in Occupancy Levels and Rental Rates***

The Management Company expects that, in the future, internal growth will primarily be generated by the active management of the existing Portfolio (to maintain high occupancy rates and minimise operating costs), as well as through increases in market rents over time and contractual rental increases.

PEP historically has experienced high occupancy rates in the Portfolio, with an occupancy rate at 30 June 2006 of 97.3 per cent. In addition, based on lease expiry dates for current leases, 383 leases or 79.4 per cent. of Annualised Rental Income will still be in place at the beginning of 2010 (although 199 of these leases have earlier break date options). Lease terms regarding rental rates vary based on market, type of customer, competition and other factors. In some markets, PEP benefits from lease terms that provide protection with respect to rental rates or permit increases based on movements in a reference index, generally an inflation-related index. In other markets, in particular in the UK, leases may include an “upward-only” rent review clause, which provides that rental rates will not be reduced during the term of the lease. PEP generally has the opportunity to seek higher rental rates in connection with the renewal of leases or letting a property to a new customer, or if a property is expanded or otherwise enhanced.

In general terms, rental rates per square metre in the Portfolio across Europe have trended downward in the last several years. As a result, PEP’s net rental income generally has not grown at the same rate as the value of the Portfolio. The principal reason for the decline in rental rates is that investors in Distribution Facilities in a number of markets have accepted lower returns on their investments, as property values have been increasing. In addition, the risk premiums associated with investments in the emerging markets in Central and Eastern Europe have reduced as the region has stabilised, resulting in lower asking rents being demanded by property owners. However, the Management Company believes, based on tracking on a same store sales basis, that over the last year the average rental level for the Portfolio has generally stabilised at these lower levels.

### ***Potential Investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures***

The Management Company expects income growth will also be generated through the exercise of PEP’s right under the Private Equity Fund Investment Agreement (which is subject to certain limitations) to subscribe for up to 30 per cent. of any equity securities and securities convertible into equity securities issued by the ProLogis Private Equity Funds. Whereas, in the past, ProLogis’ pipeline of European Distribution Facilities was accessed through contributions of stabilised properties to PEP from ProLogis and certain of its affiliates, the Private Equity Fund Investment Agreement will provide PEP with indirect access to the ProLogis pipeline of European Distribution Facilities to the extent Distribution Facilities in the pipeline are contributed to the ProLogis Private Equity Funds. As a result of this indirect and limited access to the ProLogis pipeline of European Distribution Facilities, the Management Company does not expect growth attributable to the ProLogis pipeline to be at the same levels as were achieved in previous years.

It is also expected that PEP will generate income growth through the exercise of PEP’s right under the Private Equity Fund Investment Agreement to invest in ProLogis Joint Ventures, subject to the ProLogis Joint Venture having a total target gross property value of at least €50 million and certain other limitations. The Private Equity Fund Investment Agreement is described in more detail in Part VII—“Additional Information” of this Prospectus.

PEP will receive income from the ProLogis Private Equity Funds and the ProLogis Joint Ventures only through distributions from those funds and ProLogis Joint Ventures. The final terms of the ProLogis Private Equity Funds, including the distribution policies and plans, have not yet been established. As with any new private equity fund, there may be a considerable time lag between the time of initial investment and when distributions are made. PEP will also recognise income, or record losses, based on changes in the value of its interest in any ProLogis Private Equity Fund, irrespective of whether a cash distribution has been made. The value of any investment by PEP in the ProLogis Private Equity Funds is expected to be accounted for as an equity investment. As is the case with ProLogis Private Equity Funds, the terms of the ProLogis Joint Ventures or the details of the Distribution Facilities to be held by such entities have not been established.

PEP expects to fund any of its investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures by incurring additional debt, and not through operating cash flow or the issuance of new equity. PEP had approximately €1.8 billion in debt outstanding as at 30 June 2006, representing 40.8 per cent. of its Gross Property Value. Under the Management Regulations, PEP and its consolidated subsidiaries may

not incur additional indebtedness which would cause the total indebtedness of PEP and its consolidated subsidiaries to exceed 60 per cent. of the aggregate of (i) the Gross Property Value of the Distribution Facilities or other properties and property rights owned directly or indirectly by PEP and its consolidated subsidiaries and (ii) the value of debt and equity interests of PEP in real estate companies or other real estate investment vehicles which are not consolidated in the accounts of PEP, including unconsolidated ProLogis Private Equity Funds and unconsolidated ProLogis Joint Ventures. For the purposes of effective cash management, PEP may exceed this indebtedness limit for temporary or short term purposes for a period not to exceed six months, provided that such total indebtedness does not exceed 65 per cent. of such aggregate value at any time. As a result, PEP will have limited capacity to make investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures. Based on a Gross Property Value of approximately €4.4 billion and an indebtedness limit of 60 per cent., the Management Company estimates that PEP is permitted under the Management Regulations to incur up to approximately €840 million in additional debt from current levels, but any such increase will be subject to agreement with PEP's debt providers. In addition, a significant portion of this debt may be used for other purposes, such as PEP's acquisition of stabilised Distribution Facilities under the Property Contribution Agreement, as described in Part VII—"Additional Information" of this Prospectus.

PEP's capacity to incur additional debt is also constrained by its existing bank facility under which PEP had €184.9 million in undrawn capacity as at 31 August 2006 (of which approximately €169.9 million was available for borrowing based on the covenants under such facility). The Management Company expects to rely on borrowings available under this facility and cash in the near term to pay costs relating to the Offer of between €30 and €35 million and to redeem at Admission 15,320,000 Class C Units at a cost of approximately €153.2 million. However, the borrowings currently available under this facility will be insufficient to finance PEP's planned investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures, which are expected to take place in 2007. PEP is therefore currently seeking to increase the total capacity of its bank facility from €500 million to €800 million and has entered into a non-binding term sheet to this effect, though no assurance can be given that any such increase will be achieved and, if achieved, that a significant portion of such additional funds will not be used to fund other purposes. PEP may, in addition, rely on funds from other financing sources to finance its planned investments in the ProLogis Private Equity Funds and the ProLogis Joint Ventures. As investments in the ProLogis Private Equity Funds or ProLogis Joint Ventures will primarily be made by incurring additional debt, the Management Company expects that PEP's leverage will increase following Admission as compared to historical levels.

#### ***Potential Investments through the Property Contribution Agreement***

The Management Company expects income growth to be generated through PEP's acquisition under the Property Contribution Agreement of additional stabilised Distribution Facilities (having an aggregate Contribution Value of approximately €200 million) from the Property Portfolio. This agreement is described in more detail in Part VII—"Additional Information" of this Prospectus. PEP's access to the Property Portfolio is limited and the Management Company does not expect growth attributable to acquisitions made under the Property Contribution Agreement to be significant. As investments will primarily be made by incurring additional debt, the Management Company expects that PEP's leverage will increase following Admission as compared to historical levels.

#### ***Changes and Trends in the European Logistics Market***

The integration and expansion of the EU and the ongoing implementation of the Euro as a single currency have had a profound impact in Europe and, in particular, have had significant implications for pan-European businesses. The Management Company believes these political and macroeconomic changes are driving the following trends for users of large Distribution Facilities across Europe:

- consolidation into regional distribution markets;
- users' preference for larger, more functional and flexible Distribution Facilities;
- an increasing demand by users for a single provider of Distribution Facilities; and
- continued outsourcing of distribution activities to specialised logistics companies and consequent demands by such companies for modern Distribution Facilities to use to provide services to their end-customers.



The Management Company believes that PEP continues to benefit from the economic changes and trends in the EU. PEP has diversified the Portfolio by acquiring Distribution Facilities in newer EU accession countries, notably Poland, the Czech Republic and Hungary, and believes the geographic breadth and strategic locations of the Portfolio, coupled with the quality and functionality of its Distribution Facilities, enables it to take advantage of market trends. The Management Company believes these trends will continue to generate strong demand for PEP's Distribution Facilities, which in turn have the potential to drive rent growth. In addition, these trends are expected to result in the development of new Distribution Facilities, in which PEP may be able to invest through its investments in the ProLogis Private Equity Funds or the ProLogis Joint Ventures.

### ***Reliance on CMBS Financing***

PEP has adopted, and intends to continue, a strategy of using CMBS financing transactions. A CMBS transaction involves raising debt on the strength on a specific portfolio of assets over which the lending banks are granted first-priority security interests. CMBS transactions may offer lower costs of financing because the lending banks are over-collateralised and generally have a priority ranking as compared to other creditors. The recourse of the lenders is limited to the properties and other assets over which security is granted, and the lenders do not have recourse generally against PEP or its other assets. To date, PEP has borrowed approximately €1.3 billion pursuant to five such transactions, representing 71.9 per cent. of PEP's total debt position as at 30 June 2006. These transactions are Euro-denominated floating interest rate note issuances. PEP seeks to manage its exposure to changes in interest rates and to offset part of the currency impact of the Sterling-denominated Distribution Facilities by swapping Euro-denominated floating rate interest payment obligations under its CMBS transactions to both Euro and Sterling fixed interest rate payments using both interest rate and cross-currency swaps. As at 30 June 2006, 71.9 per cent. of PEP's debt obligations were at fixed rates under its CMBS transactions, and PEP's weighted average cost of debt was 4.6 per cent. See "Discussion of Market Risk".

Four of the CMBS transactions are multi-jurisdictional (secured by Distribution Facilities located in up to six countries) with the fifth secured by Distribution Facilities located in France. These CMBS transactions are non-amortising and non-recourse to PEP and include a bullet repayment on staggered maturities ranging from eight to 10 years from initial issuance. In addition, PEP has early redemption rights on all CMBS transactions, which may be exercised following initial issuance but are generally subject to pre-payment penalties in the first two years. The non-amortising, limited recourse fixed interest rate nature of these transactions has helped PEP to provide Unitholders with stable distributions and to increase the amount of Distributable Cash Flow relative to debt with amortised principal repayments over time. CMBS lenders have first priority security interest in most of PEP's assets (approximately 63.6 per cent. by Gross Property Value).

The use of CMBS financing transactions has generally helped PEP to manage its financing costs by enabling it to take advantage of attractive rates in the CMBS market and control arrangement costs through repeated use of similar financing structures. PEP's interest expense as a percentage of total revenue income on an annual basis has been maintained at between 26.7 per cent. and 28.2 per cent. since 2003. Further details on the specific terms of the CMBS transactions are included in Part VII—"Additional Information" of this Prospectus.

PEP currently holds assets not part of a CMBS pool that the Management Company believes are sufficient to undertake an additional CMBS transaction in the next 12 months. PEP is reviewing methods of financing in relation to future transactions, including a possible refinancing of existing CMBS issues. It is doing so with the intention of minimising costs and maintaining flexibility, having regard to PEP's long-term financing requirements, in particular with regard to investment in either the ProLogis Private Equity Funds or the ProLogis Joint Ventures, and the acquisition by PEP of Distribution Facilities under the Property Contribution Agreement. PEP signed a non-binding term sheet on 31 August 2006 with ABN AMRO Bank N.V. and Banc of America, N.A. to increase its €500 million revolving credit facility to €800 million.

### ***Management Fees***

Management fees are paid to the Management Company for property and fund management services in accordance with the Management Regulations and Investment Management Agreement. PEP itself has no employees (other than three employees employed by a property-owning subsidiary in Hungary), and relies to a large extent on the Management Company's access to property managers and other resources of the

ProLogis network through the Investment Management Agreement. As an externally managed real estate investment vehicle, a large percentage of PEP's operating expenses are management fees paid to PLD. Historically, PEP's management fees were charged on a sliding scale based on the value of PEP's interest (direct or indirect) in fixed assets and in the net cash proceeds of sales of fixed assets pending reinvestment, as follows:

- 0.75 per cent. on the value of such interests up to €2.0 billion;
- 0.45 per cent. on the value of such interests from €2.0 billion to €3.5 billion; and
- 0.35 per cent. on the excess over €3.5 billion.

The application of this sliding scale and the growth in the Portfolio resulted, in absolute terms, in management fees increasing from €17.7 million in 2003 to €18.1 million in 2004 and to €20.9 million in 2005 but, when measured against total revenue, decreasing from 8.5 per cent. of revenue in 2003 to 8.0 per cent. of revenue in 2005. In addition, PLD is entitled to a promote fee payable in Units equal to 20 per cent. of proceeds in excess of a 12 per cent. look-back internal rate of return, with a subsequent adjustment in cash based on the average closing price of the Ordinary Units during the 30 day period post Admission. The promote fee will be payable by existing Unitholders as at the date of this Prospectus and not by PEP or new Unitholders. Further information on the promote fee is set out in paragraph 10.16 of Part VII — “Additional Information” of this Prospectus.

As from the date of the Offer, PEP will pay the Management Company or its designee a management fee (to cover both property and fund management activities) quarterly in arrears in cash equal to the aggregate of (i) 0.6 per cent. per annum of the Gross Property Value of the Portfolio, excluding the interests of PEP in the ProLogis Private Equity Funds and ProLogis Joint Ventures, which is referred to as the base management fee; and (ii) 0.1 per cent. per annum of the value of PEP's interests in cash deposits, money market instruments or debt securities other than debt securities issued by companies or entities which are wholly or partly owned and controlled by PEP, excluding, for the avoidance of doubt, cash deposits, money market instruments or debt securities held by a ProLogis Private Equity Fund or a ProLogis Joint Venture, or cash balances subject to cash pooling arrangements in the framework of CMBS transactions, which is referred to as the cash management fee.

In addition, except as described in the following paragraph, the Management Company will be entitled to an incentive fee (if any, but which shall not be less than zero) on 31 December 2008 and every year thereafter calculated on a rolling three year basis equal to:

- (a) 20 per cent. of the excess of IFRS net income per Unit (before the deduction of the incentive fee payable in the then-current fiscal year) for the relevant incentive period (equal to the previous three fiscal years or, in the case of the first incentive fee calculation, fractional years since the date of the Offer), above the sum of the product of (i) NAV per Unit at the beginning of each fiscal year during the relevant incentive period (or, in the case of fiscal year 2006, the NAV per Unit on the date of the Offer), and (ii) a hurdle rate of 9 per cent. per annum; multiplied by
- (b) the weighted average number of Units outstanding during the relevant incentive period; less
- (c) an amount equal to the incentive fee payable on the above basis for any period during the relevant incentive period for which the Management Company has already been paid an incentive fee (or the amount that it would have been paid but for the arrangements described in the following paragraph) (excluding the current calculation), provided that such amount is greater than zero.

PEP shall maintain the Fee Credit Account in its records and on each occasion that PEP pays or bears an incentive fee, carried interest or similar performance related fee with respect to PEP's investment in a ProLogis Private Equity Fund or ProLogis Joint Venture, the amount of such fee which is paid or borne by PEP shall be added to the Fee Credit Account. On each occasion that PEP is required to pay an incentive fee in accordance with the Management Regulations (the “**Fee Amount**”), (i) if, as at the date on which the Fee Amount is payable, the amount of the Fee Credit Account is equal to or exceeds the Fee Amount, then no additional incentive fee shall be payable by PEP in that fiscal year and the Fee Credit Account shall be reduced by the Fee Amount; or (ii) if, as at the date on which the Fee Amount is payable, the amount of the Fee Credit Account is less than the Fee Amount, then the Fee Amount payable with respect to the relevant fiscal year shall be reduced by the amount of the Fee Credit Account and, following such reduction, the Fee Credit Account shall be reduced to zero. The Fee Credit Account is notional only and

does not constitute an amount owing to PEP or any Unitholder in any circumstances. The Fee Credit Account shall not bear interest.

As from the Settlement Date, PEP may also pay additional fees to the Management Company and other ProLogis Related Parties which have not been paid in the past, primarily leasing fees, construction management fees, legal fees and tax compliance fees (leasing fees have historically been paid to third party leasing brokers). Due to the incentive fee component of the new management fee structure, the amount of annual fees that PEP may pay in the future as compared to previous periods will depend significantly on the rate of growth in the IFRS net earnings of PEP. If IFRS net earnings exceed, by a significant amount, the 9 per cent. hurdle above the NAV during the relevant incentive period, then PEP may pay management fees that materially exceed the levels of management fees paid in the past.

### ***Exchange Rate Exposure***

At 30 June 2006, approximately 40.6 per cent. by Gross Property Value of the Distribution Facilities held by PEP were located in EU member states which have not, to date, adopted the Euro as a single currency. However, for PEP's Distribution Facilities located in Poland, the Czech Republic and Hungary almost all of the leases are denominated in Euro, and as a result the income generated from the Distribution Facilities located in those countries is primarily Euro denominated. Accordingly, the Distribution Facilities are also valued in Euros.

Income generated from assets in the Portfolio located in the UK (comprising in the aggregate 26.1 per cent. of the Portfolio by Gross Property Value as at 30 June 2006) is subject to fluctuations in the Sterling exchange rate against the Euro. Sterling remains the largest currency exposure of PEP, and the weakening of Sterling in 2003 relative to the Euro accounted for the only significant currency movements recognised in PEP's financial results for the past three years. PEP does not enter into direct foreign exchange contracts to manage its Sterling foreign exchange risk. However, the impact of the Sterling currency exposure is reduced to the extent PEP borrows in Sterling under its credit lines and integrates cross-currency swaps into its CMBS transactions. See "Discussion of Market Risk".

Similarly, income generated from three of the four Distribution Facilities located in Sweden (comprising in the aggregate 1.5 per cent. of the Portfolio by Gross Property Value as at 30 June 2006) is subject to fluctuations in the Swedish Krona exchange rate against the Euro. This currency exposure is not hedged.

### ***Taxation***

PEP's effective tax rate for the financial year 2005 was 18.6 per cent. and had the following components:

- The effective tax rate on the operating activities of PEP's subsidiaries was 10.3 per cent. in financial year 2005. The Management Company expects that the effective tax rate of PEP's subsidiaries will show gradual increases year on year based principally on the rate of net rental income growth as deductible expenses, costs and losses are expected to diminish.
- The effective tax rate used to calculate PEP's total deferred tax liability arising on annual valuation adjustments was 8.3 per cent. in financial year 2005. Since this liability increases in direct proportion to increases in the value of Properties, the Management Company expects over time to see a gradual increase commensurate with expected growth in the value of the Portfolio.

Taxation has historically been low due to a combination of (i) advantageous tax structuring through PEP's FCP tax structure and (ii) tax planning in the jurisdictions in which PEP owns Distribution Facilities. PEP has historically benefited from tax losses carried forward for the two to three year period after the contribution of properties from ProLogis, but it is expected that this figure will diminish over time as new properties are no longer contributed to the Portfolio (except the Distribution Facilities acquired under the Property Contribution Agreement).

### ***Results of Operations***

The following tables set out PEP's consolidated results of operation for the 2005, 2004 and 2003 financial years, the interim results for the six-month periods ended 30 June 2006 and 30 June 2005, and Distributable Cash Flow over the same periods. The audited financial information for the financial years 2005, 2004 and 2003 are set out in Part X—"Consolidated Audited Financial Information for the Years Ended 31 December 2005, 31 December 2004 and 31 December 2003" of this Prospectus. The consolidated unaudited financial information for the six-month periods ended 30 June 2006 and 30 June 2005 are set out in Part XI—"Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005" of this Prospectus.

## Consolidated Results of Operations

	Six-Months Ended		Year Ended		
	30 June 2006	30 June 2005	31 December 2005	31 December 2004	31 December 2003
	Unaudited €m	Unaudited €m	Audited €m	Audited €m	Audited €m
Total revenue . . . . .	144.6	126.7	260.9	220.8	208.2
Property management fees <sup>(1)</sup> . . . . .	(8.8)	(7.6)	(15.7)	(14.0)	(13.9)
Other property expenses <sup>(2)</sup> . . . . .	(5.3)	(4.3)	(8.9)	(7.9)	(6.9)
<b>Gross Profit</b> . . . . .	<b>130.5</b>	<b>114.8</b>	<b>236.3</b>	<b>198.9</b>	<b>187.4</b>
Fund management fees <sup>(1)</sup> . . . . .	(3.1)	(2.3)	(5.2)	(4.1)	(3.8)
Other operating expenses <sup>(3)</sup> . . . . .	(9.1)	(2.0)	(3.9)	(4.7)	(4.9)
Profit on disposal of investment property . . . . .	1.2	1.3	0.7	2.7	10.8
Property fair value movements . . . . .	410.0	30.0	150.9	95.1	29.1
<b>Profit before Finance Activities and Taxation</b> . . . . .	<b>529.5</b>	<b>141.8</b>	<b>378.8</b>	<b>287.9</b>	<b>218.6</b>
Financial costs <sup>(4)</sup> . . . . .	(45.0)	(44.3)	(90.3)	(71.8)	(62.9)
Foreign exchange . . . . .	4.0	2.0	(0.5)	(2.3)	(46.1)
Finance expenses . . . . .	(41.0)	(42.3)	(90.8)	(74.1)	(109.1)
Finance income . . . . .	2.2	0.8	1.7	1.5	1.4
Charges for taxation . . . . .	(116.8)	(15.8)	(53.8)	(36.3)	(5.8)
<b>Net Profit for the Period</b> . . . . .	<b>373.9</b>	<b>84.5</b>	<b>235.9</b>	<b>179.0</b>	<b>105.1</b>

(1) Property management fees and fund management fees comprise the management fees paid to the Management Company for property and fund management services in accordance with the management regulations and investment management agreement in place as at the relevant time.

(2) Other property expenses comprised ground rent paid and other property rental expenses.

(3) Other operating expenses comprised fund custodian fees, other fund expenses and, in respect of 30 June 2006, costs related to the Offer, amounting to approximately €7 million.

(4) Financial costs comprised interest expenses and amortisation expenses.

## Distributable Cash Flow

Distributable Cash Flow is calculated in accordance with the management regulations in place as at the relevant time and is shown in the table below for the 2005, 2004 and 2003 financial years and the six-month periods ended 30 June 2006 and 30 June 2005.

	Six-Months Ended		Year Ended		
	30 June 2006	30 June 2005	31 December 2005	31 December 2004	31 December 2003
	Unaudited €m	Unaudited €m	Audited €m	Audited €m	Audited €m
<b>Net Profit for the Period</b> . . . . .	<b>373.9</b>	<b>84.5</b>	<b>235.9</b>	<b>179.0</b>	<b>105.1</b>
Minority interest . . . . .	0.2	0.2	0.6	0.3	0.1
Adjustments for non-cash and other items					
<i>Rent levelling adjustment</i> . . . . .	3.9	1.1	2.1	2.8	2.6
<i>Amortisation of initial borrowing costs</i> . . . . .	4.9	9.1	17.3	9.5	7.4
<i>Net unrealised currency losses (gains)</i> . . . . .	(2.0)	(0.5)	1.0	3.1	38.0
<i>Net transfers from deferred tax liability</i> . . . . .	110.8	6.8	37.3	22.1	(1.1)
<i>Property fair value movements</i> . . . . .	(410.0)	(30.0)	(150.9)	(95.1)	(29.1)
<i>Costs related to the Offer<sup>(1)</sup></i> . . . . .	7.0	—	—	—	—
Allowance for capital expenditure <sup>(2)</sup> . . . . .	(5.1)	(4.5)	(8.6)	(9.1)	(11.9)
<b>Distributable Cash Flow</b> . . . . .	<b>83.6</b>	<b>66.7</b>	<b>134.6</b>	<b>112.6</b>	<b>111.1</b>
<b>Actual Cash Distributions<sup>(3)</sup></b> . . . . .	<b>80.3</b>	<b>64.7</b>	<b>131.1</b>	<b>114.6</b>	<b>131.7</b>

(1) Costs related to the Offer comprise both accruals made and an estimate of costs incurred in relation to advisors fees as at 30 June 2006 in connection with the Offer. This line item does not include Underwriters' fees and expenses.

(2) The allowance comprises costs incurred in relation, amongst others, to lease commissions, building maintenance and improvements, roof and structural repairs as well as exterior maintenance and landscaping.

(3) Since 30 June 2006, PEP made distributions of €38.9 million to Unitholders of which €35.5 million was paid to Class A and Class B Unitholders.

Actual cash distributions vary from the amount of Distributable Cash Flow because actual cash distributions are made in the month following the quarter in which the distributions are earned. Distributions made during the first quarter of a calendar year therefore relate to fourth quarter Distributable Cash Flow earned. In addition, the Management Regulations give the Management Company discretion to determine the actual amount of distributions, and actual distributions may therefore not amount to the total amount of Distributable Cash Flow available.

Distributable Cash Flow earned by Unitholders during the period from 1 July 2006 to the Settlement Date will not be distributed to investors who acquire Ordinary Units in the Offer, but will be distributed after the Settlement Date to existing Unitholders in accordance with the management regulations in effect as at the date of this Prospectus.

## **Discussion of Principal Income Statement Items**

### ***Total Revenue***

Revenue is comprised primarily of rental income earned under operating leases, and is net of any sales tax. Fluctuations in revenue for the periods presented are primarily a result of growth in the Portfolio over the periods shown. Although Distribution Facilities are expected to be acquired under the Property Contribution Agreement, significant increases in the number of directly owned Distribution Facilities are not expected in the future. Accordingly, future growth in property generated revenue will primarily be a function of organic growth in rental income from the existing Portfolio.

### ***Management Fees—Property and Fund Related***

Management fees compensate the Management Company for property management and fund management services, and the Management Regulations provide for a combined fee. The Management Company on behalf of PEP has entered into an Investment Management Agreement with the Investment Managers to carry out property management functions on behalf of PEP. Any property management fees paid to third party managers are deducted from the base management fee paid by PEP. Typically, third party managers are only involved in the management of PEP's Distribution Facilities in the very early stage of business development in a particular country, until critical mass is established to support staffing by an Investment Manager.

The management fee structure detailed earlier in this section, excluding the incentive fee, resulted in management fees of approximately 0.62 per cent. of the average Gross Property Value of the Portfolio in 2005. The management fee is recognised in two parts; a fund management fee equal to 0.15 per cent. of the value of the Portfolio, with the balance of fees incurred being recorded as property management fees (0.47 per cent. in 2005). The allocation of the management fee between the property management fee and fund management fee in each period is determined by the Management Company. Although the methodology for the calculation of the combined fund and property management fee is expected to change for future periods, the level of fees as a percentage of the value of the Portfolio is not expected to materially change except, as detailed under Part III—"Operating and Financial Review and Prospects—Principal Factors Affecting Results of Operations—Management Fees" of this Prospectus, in the event IFRS net earnings exceed, by a material amount, the 9 per cent. hurdle above NAV during the relevant incentive period.

### ***Other Fund Expenses***

Other operating expenses include professional fees, audit fees, property appraisal costs, custodian fees and banking charges. For the six-month period ended 30 June 2006, €7 million was accrued for costs of the Offer estimated to have been incurred up to 30 June 2006.

### ***Profit on Disposal of the Investment Properties***

Profit on disposal of the investment properties reflects the profits realised on the disposal of assets in the Portfolio.

### ***Property Fair Value Movements***

This represents the change in the valuation of the Portfolio during the period and comprises two elements. Firstly, Distribution Facilities developed by ProLogis are contributed by agreement at 95 per cent. of Gross Property Value and during the period are revalued in PEP's accounts to 100 per cent. of Gross Property



Value. Secondly, pursuant to the Management Regulations, PEP is required to undertake a fair value revaluation of its Portfolio at least once every year, though the Management Company has the discretion to decide when the valuations are carried out within the year. In financial year 2005, Independent Appraisers performed a fair value revaluation of half the Portfolio in June and the remaining half in December and the result of the revaluation exercise was recorded as a valuation adjustment. The Management Company intends to continue to value the Portfolio on this basis following Admission.

Except to the extent required under the Property Contribution Agreement, it is not anticipated that ProLogis will contribute Distribution Facilities to PEP in the future, which will limit the positive fair value adjustment recognised as a result of making acquisitions at 95 per cent. of Gross Property Value. Historically, valuation movements have generally occurred unevenly on a period-to-period basis, as economic, geo-political and other external factors affect valuations, as does demand for Distribution Facilities. It is likely that valuation movements will continue to occur unevenly, period-to-period.

### ***Net Finance Costs***

Net finance costs comprise finance income less finance costs and principally consist of interest expense related to PEP's CMBS transactions, mortgages and bank credit facilities, as well as the amortisation of associated arrangement costs. Increases in net finance expense are a function of PEP's growth in the Portfolio while maintaining a relatively stable loan-to-value ratio, which as at 31 December 2005, 2004 and 2003 has been between 45 to 50 per cent, and a result of the different mix of PEP's outstanding debt. In the past, as CMBS issuances completed, the proceeds were used predominantly to retire outstanding bank credit facilities.

It is expected that PEP will use debt financing over the near term to finance any investments in the ProLogis Private Equity Funds or the ProLogis Joint Ventures, the acquisition of Distribution Facilities under the Property Contribution Agreement, the redemption for an amount of approximately €153.2 million of 15,320,000 Class C Units which the holder thereof has not elected to convert into Class A(1) Units (which will be reclassified as Ordinary Units) effective as at Admission, the refinancing of the current portion of outstanding debt and the payment of costs relating to the Offer, including Underwriter's commissions. As a consequence, it is further expected that PEP will increase its leverage towards the limit provided under the Management Regulations of 60 per cent. of Gross Property Value of the Portfolio, as compared to PEP's historical policy of maintaining leverage at or below the 50 per cent. limit of Gross Property Value of the Portfolio.

### ***Charge to Taxation***

PEP's subsidiaries are subject to tax in the countries in which they operate. Current taxation is provided for on taxable income from real estate operations at the applicable current tax rates. In addition, a deferred tax charge is recognised on the valuation adjustment discussed above.

### ***Distributable Cash Flow***

The manner in which cash is made available to Unitholders by way of distributions is set out in the Management Regulations. Preferred distributions are not a deduction from Distributable Cash Flow. Distributable Cash Flow is derived by:

- (i) adding back to net profit any item included in the income statement which does not directly affect cash, principally amortisation, unrealised currency gains and losses, general reserves movements in valuations, and movements in deferred tax; and
- (ii) deducting an allowance for non-income generating capital expenditure. This is essentially comprised of re-leasing costs, move in and out costs, building exterior maintenance and common area maintenance.

### ***Current Operations***

PEP performed in line with the Management Company's expectations during the six-month period ended 30 June 2006. Significant transactions included the contribution from ProLogis of 19 Distribution Facilities in March 2006 with an aggregate value of €134 million and of 10 Distribution Facilities in April 2006 with an aggregate value of €227 million, the drawdown of the Unitholders' remaining equity commitments in conjunction with these acquisitions, and a revaluation of the entire Portfolio at 30 June 2006, all resulting in a valuation increase of €419.2 million prior to deduction of purchaser's costs. As discussed in more detail

in the section entitled “Certain Risk Factors—Risks Related to the Business—Property valuation is inherently subjective and uncertain” in this Prospectus, the valuation of the Portfolio as at 30 June 2006 was performed without conducting full appraisals (including physical inspections) of PEP’s Distribution Facilities as was performed as at 30 April 2006, and 31 December 2005, 2004 and 2003.

The Management Company believes that PEP’s financial and operating prospects remain favourable. Debt as a percentage of Gross Property Value stood at 40.9 per cent. at 30 June 2006.

The Management Company has recently completed the following transactions on behalf of PEP. As certain of these are ongoing transactions, there is no certainty that these transactions will complete or be concluded on the terms as set out below:

#### *Disposal of Portfolio of Six French Properties*

On 12 July 2006, PEP disposed, pursuant to a share sale and purchase agreement dated 13 June 2006, of a portfolio of the following six French properties—Servon 1, Servon 2, Isle d’Abeau 1, Longjumeau 1, Villejust (Océanie 1) and Epone 1. The transaction was effected through the sale of two of PEP’s French holding companies, ProLogis France XXXII Eurl and ProLogis France I SAS, and the assignment of a lease agreement (*crédit bail immobilier*) in respect of the Servon 2 property from ProLogis France XXXVI Eurl to ProLogis France XXXII Eurl at closing.

The six properties, totalling 109,283 square metres, were valued by JLL at €61.4 million (net of purchaser’s costs) as at 30 June 2006. The net proceeds from the disposal (after giving effect to transfer tax and capital gains adjustments) is €65.8 million. PEP has used approximately €43.0 million of the total proceeds to repay existing debt with the remainder retained by PEP for working capital requirements and to finance expansion projects at two of its Distribution Facilities.

#### *Blois, Orléans Market, France*

On 12 July 2006, a subsidiary of PEP acquired an area of undeveloped land at Blois, France for a purchase price of €2.9 million.

A construction partner in France has been engaged to develop a Distribution Facility on the site and will assume all risks of construction. The Distribution Facility has been pre-let to a customer on a long lease and PEP will pay for the construction costs (which are estimated to be approximately €19.9 million, including interest) when the lease takes effect after completion of the Distribution Facility construction, which is expected to be before the end of 2006.

#### *Harbor Park, Budapest, Hungary*

PEP acquired Harbor Park, Budapest, Hungary in July 2005. Following the acquisition PEP agreed to dispose of three plots of development land to ProLogis for their Open Market Value which is expected to be approximately €4.8 million. The Management Company expects the disposal to be completed before the end of 2006.

#### *Hemel Hempstead, UK*

Two units at a Distribution Facility in Hemel Hempstead were damaged in the Buncefield oil terminal explosion that took place on 14 December 2005 and both units are being reconstructed. It is expected that PEP will be required to spend approximately €1 million in excess of the insurance proceeds received in order to update the facilities and bring them in line with PEP’s other Distribution Facilities.

### **Comparison of the Six-Month Period ended 30 June 2006 to the Six-Month Period ended 30 June 2005**

#### *Overview—Net Profit for the Periods*

Net profit was €373.9 million in the six months ended 30 June 2006, compared to €84.5 million for the same period in 2005. This increase was principally a result of the significant positive valuation adjustments of €410.0 million and a related deferred tax charge of €110.8 million in the six months ended 30 June 2006.

## ***Total Revenue***

### ***Rental Income and Other Property Income***

Total revenue for the six-month period ending 30 June 2006 was €144.6 million compared to €126.7 million for the six-month period ending 30 June 2005, representing an increase of 14.1 per cent. This increase was principally accounted for by the addition of 58 Distribution Facilities to the Portfolio since 30 June 2005.

## ***Expenses***

### ***Management Fees—Property and Fund Related***

Property management fees increased from €7.6 million in the six-month period ending 30 June 2005 to €8.8 million in the six-month period ending 30 June 2006, an increase of 15.8 per cent. Fund management fees increased from €2.3 million in the six-month period ending 30 June 2005 to €3.1 million in the six-month period ending 30 June 2006, an increase of 34.8 per cent.

As discussed above, property management and fund management fees have been contractually set as a sliding scale percentage of the Gross Property Value. Accordingly, the increases in these fees in the six months to 30 June 2006 were due to growth in value of the Portfolio (either through acquisitions or due to valuation adjustments), although fees grew at a lower rate than value growth due to the sliding scale nature of the fee arrangement.

### ***Other Property Expenses***

The increase of €1.0 million between the six-month period ending 30 June 2005 and the six-month period ending 30 June 2006 was caused by the timing of non-recoverable landlord expenses and the increased number of Distribution Facilities in the Portfolio.

### ***Other Operating Expenses***

Other operating expenses are typically general and administrative costs such as auditing, banking, custodian services, administrative services and consulting. The charge of the six-month period to 30 June 2006 includes a charge of €7.0 million specifically in relation to costs of the Offer (excluding underwriting expenses), both accrued and estimated as at 30 June 2006, and does not relate to the ongoing operations of PEP. Excluding this charge for Offer expenses, other operating expenses increased by 5.0 per cent. from the six-month period ending 30 June 2005 to the six-month period ending 30 June 2006.

### ***Profit on Disposal of Investment Property***

PEP disposes of assets from time to time, because it is considered an opportune time to do so from a valuation perspective, or because they no longer fit into its long-term investment plans. One Distribution Facility was disposed of in the six-month period ending 30 June 2006 with gross proceeds of €8.3 million for a net profit of €1.2 million, whilst one asset was disposed of in the six-month period ending 30 June 2005 with gross proceeds of €7.9 million for a net profit of €1.3 million.

### ***Property Fair Value Movements***

On the basis of Open Market Value, the fair value movement of the Portfolio increased from a gain of approximately €30.0 million in the six-month period ending 30 June 2005 to a gain of approximately €410.0 million in the six-month period ending 30 June 2006. The movements were primarily as a result of the revaluation of the Portfolio as at 30 June 2006. As discussed in more detail in the section entitled “Certain Risk Factors—Risks Related to the Business—Property valuation is inherently subjective and uncertain” in this Prospectus, the valuation of the Portfolio as at 30 June 2006 was performed without conducting full appraisals (including physical inspections) of PEP’s Distribution Facilities as was performed as at 31 December 2005, 2004 and 2003.

Despite the net gain for the six-month period ended 30 June 2005 of €30 million, €19.9 million of losses in the six-month period ending 30 June 2005 occurred in this period primarily due to a Distribution Facility in France being fully renovated and a Distribution Facility in the UK being destroyed by fire, offset partially by the acquisition of Distribution Facilities in the first quarter of 2005. The buildings in France and the UK were subsequently rebuilt and fully relet before the end of the year.

### ***Financial Costs***

Financial costs increased from approximately €44.3 million in the six-month period ending 30 June 2005 to €45.0 million in the six-month period ending 30 June 2006, a 1.6 per cent. increase.

Interest expenses rose from €35.2 million in the six-month period ending 30 June 2005 to €40.0 million in the six-month period ending 30 June 2006, an increase of €4.8 million, which was in line with the increase in debt used, in part, to finance acquisitions. PEP's weighted average interest rate for the period to 30 June 2005 was 4.7 per cent. and 4.6 per cent. for the period to 30 June 2006 reflecting a higher proportion of fixed rate debt in the six-month period to 30 June 2006.

The amortisation of financing transaction costs decreased from €9.1 million in the six-month period ending 30 June 2005 to €4.9 million in the six-month period ending 30 June 2006 as a result of the accelerated write-off of transaction costs in 2005 relating to debt facilities terminated as a consequence of the CMBS issuance undertaken.

### ***Foreign Exchange Gains (Losses)***

Foreign exchange gains and losses reflect realised and unrealised gains and losses on monetary assets and liabilities and fair value hedges. PEP's primary exposure in this regard is to Sterling and the gains and losses reflected primarily relate to movements between Sterling and the Euro. In the six-month period ending 30 June 2005, net foreign exchange gains were €2.0 million, compared to €4.0 million in the six-month period ending 30 June 2006.

### ***Charges for Taxation***

Tax charges increased from approximately €15.8 million in the six-month period ending 30 June 2005 to €116.8 million in the six-month period ending 30 June 2006. The majority of the increase in taxation was the result of the deferred tax charge on the valuation adjustment. The effective tax rate on the operating activities of PEP's subsidiaries decreased from 10.2 per cent. in the six-month period ending 30 June 2005 to 5.5 per cent. in the six-month period ending 30 June 2006. This reduction was primarily due to a reversal of a tax provision following the successful resolution of a disputed claim by the tax authorities in The Netherlands against PEP subsidiaries located in The Netherlands.

### ***Distributable Cash Flow***

Primarily as a consequence of the significant revenue and expense changes described above, Distributable Cash Flow increased by 25.3 per cent. from €66.7 million in the six-month period ending 30 June 2005 to €83.6 million in the six-month period ending 30 June 2006.

## **Financial Year 2005 Compared to Financial Year 2004**

### ***Overview—Net Profit for the Periods***

Net profit was €235.9 million in financial year 2005, compared to €179.0 million in financial year 2004, a 31.8 per cent. increase. This increase was principally a result of additional rental income from Distribution Facilities acquired during the period, together with the effect of receiving a full year's rental income from Distribution Facilities acquired in 2004, and the increase in value of Distribution Facilities owned by PEP. These increases were offset in part by higher net finance costs associated with debt incurred to finance the acquisition of new Distribution Facilities and higher tax costs driven by higher income.

### ***Revenue***

#### ***Rental Income and Other Property Income***

Total revenue increased to €260.9 million in financial year 2005, from €220.8 million in financial year 2004, an increase of 18.2 per cent. Of this increase, €12.5 million was accounted for by rental income from Distribution Facilities acquired by PEP during the year, as PEP acquired additional assets in 10 of the 11 countries where it invests. In August 2005 an industrial park referred to as Harbor Park, consisting of 10 Distribution Facilities located in Budapest and Hungary, was acquired. A further €26.2 million of the growth in rental income arose from the recognition of a full year's rent on Distribution Facilities acquired during 2004, whilst the balance of the growth in rental income primarily related to rent growth and changes in occupancy. Rent per square metre for the Portfolio stayed relatively flat for 2005, as most markets showed flat to modest growth, offset by more significant decreases in Poland, where market rates have

been decreasing as developers build new Distribution Facilities and have been willing to accept lower returns as Poland comes to be perceived as a stabilising and less risky market.

### ***Expenses***

#### ***Management Fees—Property and Fund Related***

Property management fees increased to €15.7 million in financial year 2005 from €14.0 million in financial year 2004, an increase of 12 per cent. Fund management fees increased to €5.2 million in financial year 2005 from €4.1 million in financial year 2004, an increase of 27 per cent. Overall, fees paid to the Management Company and the Investment Managers increased by 15.8 per cent. The fee increase was due to the increase in the Gross Property Value of the Portfolio over the period.

As discussed above, property management and fund management fees are contractually set as a sliding scale percentage of the Gross Property Value of the Portfolio. Accordingly, the increase in these fees was due to growth in the Portfolio (either through acquisitions or due to valuation adjustments), but will increase at a lower rate than the growth in the value of the Portfolio due to the sliding scale nature of the fee arrangement.

#### ***Other Property Expenses***

The increase of €1.0 million between 2004 and 2005 was caused by the growth in the Portfolio to 263 Distribution Facilities as at 31 December 2005 from 230 Distribution Facilities as at 31 December 2004.

#### ***Other Operating Expenses***

Other operating expenses are typically general and administrative costs such as auditing, banking, custodian services, administrative services and consulting. Other operating expenses declined by 17 per cent. from 2004 to 2005 primarily due to the Management Company assuming certain custodial functions from a third party service provider.

#### ***Profit on Disposal of Investment Property***

Surplus undeveloped land and office space was disposed of in 2005 with gross proceeds of €34.6 million for a net profit of €0.7 million, whilst assets were disposed of in 2004 with gross proceeds of €3.5 million for a net profit of €2.7 million.

#### ***Property Fair Value Movements***

On the basis of Open Market Value, the positive valuation movement of the Portfolio increased from approximately €95.1 million in financial year 2004 to €150.9 million in financial year 2005. This was due to a larger Portfolio and valuation gains in the Portfolio, as described in more detail below, and due to a lower level of valuation losses in Poland and Germany. The overall increase in value for the Portfolio was 5.1 per cent.

As noted above, valuation movements are generally uneven period to period. Gross Property Value percentage changes per square metre in 2005, for the Portfolio as a whole, were as follows, by country: France (+6.7 per cent.); Italy (+7.9 per cent.); Spain (+1.4 per cent.); Belgium (+3.3 per cent.); Germany (+0.3 per cent.); The Netherlands (+4.7 per cent.); Sweden (+25.1 per cent.); the Czech Republic (+6.5 per cent.); Hungary (+12.89 per cent.); Poland (−1.9 per cent.); and the UK (+8.6 per cent.).

Valuation movement in 2005 was also impacted by a €1.7 million write-off of goodwill recognised on the acquisition by PEP of Distribution Facilities at Harbor Park in Budapest.

#### ***Financial Costs***

Financial costs increased from approximately €71.8 million in financial year 2004 to €90.3 million in financial year 2005, a 25.8 per cent. increase.

Interest expenses rose from €62.3 million in financial year 2004 to €73.0 million in financial year 2005, an increase of €10.7 million, which was in line with the increase in debt used to finance in part 2005 acquisitions. PEP's weighted average interest rate for both years was 4.7 per cent.



The amortisation of financing transaction costs increased from €9.5 million in financial year 2004 to €17.3 million in financial year 2005 as a result of the additional costs associated with the CMBS issuance carried out in March 2005.

### ***Foreign Exchange Gains (Losses)***

Foreign exchange gains and losses reflect realised and unrealised gains and losses on monetary assets and liabilities, and fair value hedges. PEP's primary exposure in this regard is to Sterling and the gains and losses reflected primarily relate to movements between Sterling and the Euro. Net foreign exchange losses were €2.3 million in financial year 2004, compared to €0.5 million in financial year 2005, during which exchange rates remained relatively stable.

### ***Charges for Taxation***

Tax charges increased from approximately €36.3 million in financial year 2004 to €53.8 million in financial year 2005. The majority of the increase in taxation was the result of the deferred tax charge on the sizable positive valuation movement in 2005. PEP's effective tax rate on profit before tax increased from 16.9 per cent. in 2004 to 18.6 per cent. in 2005.

### ***Distributable Cash Flow***

Primarily as a consequence of increases in revenue, as described above, and due to a modest decrease in capital expenditures, Distributable Cash Flow increased by 19.5 per cent to €134.6 million in financial year 2005, from €112.6 million in financial year 2004.

## **Financial Year 2004 compared to Financial Year 2003**

### ***Overview—Net Profit for the Periods***

Net profit was €179.0 million in financial year 2004, compared to €105.1 million in financial year 2003, a 70.3 per cent. increase. This increase was principally as a result of additional rental income from Distribution Facilities acquired during the period, together with the effect of receiving a full year's rental income from Distribution Facilities acquired in 2003 and a decrease in net finance costs as the result of a repayment of a Sterling-denominated debt during the year. These increases were offset in part by higher tax costs driven by higher income.

### ***Revenue***

#### ***Rental Income and Other Property Income***

Total revenue increased to €220.8 million in financial year 2004 from €208.2 million in financial year 2003, an increase of 6.1 per cent. €15.2 million of additional income was accounted for by rental income from Distribution Facilities acquired by PEP during 2004, as PEP acquired additional Distribution Facilities in eight of the 11 countries in which it owns real estate, with the largest portion of the growth coming in the UK, France and Germany. A further €11.5 million arose from the recognition of a full year's rent on Distribution Facilities acquired during 2003, and €1.2 million resulted from internal rent growth or changes in occupancy. Offset against this was the loss of the rental income of €15.1 million in respect of €260.5 million of the UK Distribution Facilities sold in December 2003.

### ***Expenses***

#### ***Management Fees—Property and Fund Related***

Property management fees increased marginally to €14.0 million in financial year 2004 from €13.9 million in financial year 2003. Fund management fees increased by 7.9 per cent. to €4.1 million in financial year 2004, from €3.8 million in financial year 2003. Overall, fees paid to the Management Company and the Investment Managers increased by 2.3 per cent.

The relatively small increase in the fees year on year is due to the sale in December 2003 of a portfolio of 13 properties in the UK with a value of €260.5 million (meaning almost a full year's fee was paid in respect of these Distribution Facilities in 2003 but none in 2004).

### *Other Property Expenses*

Other property expenses are net of recovery of certain of those expenses from customers. The increase between 2003 and 2004 is caused by the growth in the Portfolio from 198 Distribution Facilities as at 31 December 2003 to 230 Distribution Facilities as at 31 December 2004.

### *Other Operating Expenses*

Other operating expenses are typically general and administrative costs such as auditing, banking, custodian services, administrative services and consulting. These costs are generally not significantly impacted by the size of the asset base and remained steady from 2003 to 2004 declining from €4.9 million in financial year 2003 to €4.7 million in financial year 2004.

### *Profit on Disposal of Investment Property*

Two Distribution Facilities were disposed of in 2004 with gross proceeds of €3.5 million and net profit of €2.7 million. This was significantly less than the profit of €10.8 million in December 2003, arising from the disposal of 13 Distribution Facilities for gross proceeds of €260.5 million (€4.1 million of which has been retained by the purchaser, pending the resolution of certain title issues). The motivation for the 2003 sale of 13 properties, all in the UK, was to reduce what the Management Company believed was an over-concentration of investment in Sterling-denominated assets.

### *Property Fair Value Movements*

On the basis of Open Market Value, the positive valuation movement of the Portfolio increased from approximately €29.1 million in the financial year 2003 to €95.1 million in financial year 2004 primarily due to a reduction in yields. The overall increase in the value of the Portfolio was 4.1 per cent.

As noted above, valuations generally move unevenly period to period. Gross Property Value percentage changes per square metre in 2004, for the Portfolio as a whole, were as follows, by country: France (+4.7 per cent.); Italy (+4.0 per cent.); Spain (+5.1 per cent.); Belgium (+1.4 per cent.); Germany (–2.6 per cent.); The Netherlands (+1.7 per cent.); Sweden (+3.0 per cent.); the Czech Republic (+4.2 per cent.); Hungary (+1.8 per cent.); Poland (–5.0 per cent.); and the UK (+9.1 per cent.).

### *Financial Costs*

Financial costs increased from €62.9 million in financial year 2003 to €71.8 million in financial year 2004.

Interest expense rose from €55.6 million in 2003 to €62.3 million in 2004. This increase was caused by the increase in debt used in part to finance acquisitions made in 2004, offset by the reduction in expense caused by the repayment of Sterling-denominated debt in December 2003 in conjunction with the sale of a portfolio of 13 properties located in the UK. PEP's weighted average interest rate decreased from 5.1 per cent. in 2003 to 4.7 per cent. in 2004 as a result of a higher percentage of its total debt being lower cost floating rate bank debt.

### *Foreign Exchange Gains (Losses)*

PEP's primary exposure in this regard is to Sterling and the gains and losses reflected primarily relate to movements between Sterling and the Euro. In financial year 2003, net foreign exchange losses were €46.1 million, compared to a €2.3 million in financial year 2004. This was due to a weakening of Sterling against the Euro during 2003.

### *Charges for Taxation*

Tax charges increased from approximately €5.8 million in financial year 2003 to €36.3 million in financial year 2004. The majority of the increase in taxation was the result of the deferred tax charge on the positive valuation movement in 2004. PEP's effective tax rate on profit before tax increased from 5.2 per cent. in 2003 to 16.9 per cent. in 2004.

### *Distributable Cash Flow*

As noted above, almost a full year's income was earned in 2003 on the 13 Distribution Facilities disposed of in 2003. As a consequence of this disposal increases in revenue and expenses described as above, and due

to a decrease in capital expenditures, Distributable Cash Flow increased to €112.6 million in financial year 2004, from €111.1 million in financial year 2003.

## Liquidity and Capital Resources

### Liquidity Requirements

PEP's liquidity requirements historically have arisen from the need to pay distributions to Unitholders, to acquire new Distribution Facilities, as well as to pay finance costs, management fees and capital expenditures. To date, these requirements have been funded through a combination of equity funding, debt financing and cash flow from operations. PEP has drawn on equity committed by Unitholders in the past to fund a significant amount of its liquidity needs. No other outstanding equity commitments remain, and PEP does not expect to arrange significant equity financing in the future.

In the future, it is not expected that PEP will directly acquire Distribution Facilities, but liquidity will be required to finance investments by PEP in the ProLogis Private Equity Funds and the ProLogis Joint Ventures and in the short term to acquire Distribution Facilities under the Property Contribution Agreement. It is expected that these investments will be funded through debt financing. PEP's ability to obtain such debt financing, and to do so on satisfactory terms, will impact on its ability to exercise its rights under the Private Equity Fund Investment Agreement and the Property Contribution Agreement.

With regards to its existing bank facility, PEP had €184.9 million in undrawn capacity as at 31 August 2006 (of which approximately €169.9 million was available for borrowing based on the covenants under such facility). The Management Company expects to rely on borrowings available under this facility in the near term to pay costs relating to the Offer of between €30 and €35 million and to redeem at Admission 15,320,000 Class C Units at a cost of approximately €153.2 million. However, the borrowings currently available under this facility will be insufficient to finance PEP's acquisition of stabilised Distribution Facilities from the Property Portfolio, which is expected to take place in 2007 for an amount of approximately €200 million, and its planned investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures, which are also expected to take place in 2007. PEP is therefore currently seeking to increase the total capacity of its bank facility from €500 million to €800 million and has entered into a non-binding term sheet to this effect, though no assurance can be given that any such increase will be achieved and, if achieved, that a significant portion of such additional funds will not be used to fund other purposes. PEP may, in addition, rely on funds from other financing sources, to finance its planned investments in the ProLogis Private Equity Funds, the ProLogis Joint Ventures and the Property Portfolio.

### Cash and Cash Equivalents

The following table sets out a summary of PEP's consolidated cash flows for the 2005, 2004 and 2003 financial years, and the six-month periods ended 30 June 2006 and 30 June 2005, including the cash and cash equivalents at the end of each period. Details of PEP's consolidated cashflows for the 2005, 2004 and 2003 financial years as well as for the six-month periods are provided in Part X—"Consolidated Audited Financial Information for the Years Ended 31 December 2005, 31 December 2004 and 31 December 2003" and Part XI—"Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005" of this Prospectus.

	30 June 2006	30 June 2005	31 December 2005	31 December 2004	31 December 2003
	Unaudited €m	Unaudited €m	Audited €m	Audited €m	Audited €m
Net cash flow from operating activities . . . . .	78.1	76.3	147.9	122.9	109.6
Net cash used in investing activities . . . . .	(312.8)	(71.1)	(324.3)	(443.9)	(87.3)
Net cash provided by financing activities . . . . .	253.3	20.2	204.8	322.6	(50.8)
Effects of exchange rate changes . . . . .	(3.2)	11.4	(0.4)	0.2	(4.6)
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>	<b>15.4</b>	<b>36.8</b>	<b>28.0</b>	<b>1.8</b>	<b>(33.1)</b>
Cash and cash equivalents at the beginning of the period . . . . .	96.8	68.8	68.8	67.0	100.1
<b>Cash and cash equivalents at the end of the period . . . . .</b>	<b>112.2</b>	<b>105.5</b>	<b>96.8</b>	<b>68.8</b>	<b>67.0</b>

### *Net cash flow from operating activities*

Net cash inflow from operating activities increased year on year from €109.6 million in financial year 2003 to €122.9 million and €147.9 million in financial years 2004 and 2005 respectively, reflecting the growth in the Portfolio. Net cash inflow from operating activities increased by 2.4 per cent. in the six-month period ended 30 June 2006 compared to the six-month period ended 30 June 2005.

### *Net cash used in investing activities*

Net cash used in investing activities primarily reflects the acquisition costs of new Distribution Facilities. In addition, cash is required for recurring capital expenditure and properties under construction. Offsetting these capital requirements are proceeds from disposals, notably in 2003 with the disposal of a portfolio of 13 properties in the UK for €260.5 million.

### *Net cash inflow provided by financing activities*

Net cash provided by financing activities reflects amounts raised through CMBS issuances, drawdowns under bank loans, and equity contributions, all net of distributions to Unitholders.

### *Restricted and Unrestricted Cash*

A substantial portion of PEP's cash and cash equivalents represent restricted cash. As at 30 June 2006, €75.6 million, or 67.4 per cent. of PEP's cash and cash equivalents, represented restricted cash. Under PEP's CMBS transactions, cash received from rental agreements is subject to certain restrictions during that quarter until interest payments under the CMBS arrangements for that quarter are made. A further €25 million of the restricted cash amount as at 30 June 2006 represents the sale proceeds from a sale in the UK, and was the principal reason for the increase from 2004 to 2005. A further €8 million of proceeds was restricted as at 30 June 2006 following the disposal of a Distribution Facility in the UK. The proceeds will be released once new property collateral has been substituted. In addition, an amount of €8 million was restricted as at 30 June 2006 subject to the performance by PEP of certain obligations under a development agreement in Spain. The Management Company has recently negotiated the removal of some of the restricted cash provisions from the CMBS transactions with Pan European Industrial Properties Series I S.A. and Pan European Industrial Properties Series II S.A., which is expected to reduce the average balance in restricted cash in future periods, although no assurances can be given that PEP will be successful in achieving such reduction.

### *Financing Arrangements and Commitments*

The table below summarises PEP's debt position as at 30 June 2006.

Facility	Size	Usage by currency	Usage	% of outstanding balances	Pricing	Interest Rate Protection
	€ m	m	€ m			
CMBS . . . . .	1,293.3	€885.6 and £257.6	1,293.3	71.9%	Euribor +14bps to 90bps	100%
Loan Financing . . .	651.1	€341.4 and £99.8	486.9	27.1%	Euribor +35bps to 137bps	None
Others . . . . .	18.4	€18.4	18.4	1.0%	Various	None and fixed rates
<b>Total . . . . .</b>	<b>1,962.8</b>		<b>1,798.6</b>			

As noted earlier, PEP's long-term financing strategy has been to use a combination of CMBS financing transactions and bank credit facilities. Once PEP acquires properties with a sufficient value to support a transaction (typically with an aggregate value of at least €500 million), it organises a new CMBS issuance. To date, PEP has carried out five CMBS transactions raising €1,293.3 million, as detailed in the table on the following page and as described in further detail in paragraph 9.17 of Part VII—"Additional Information" of this Prospectus.

The information on the following page is a summary of the principal amounts outstanding, interest rates and expected and final maturity dates for the securities issued as part of the CMBS Financing transactions. The dates by which borrowings have to be repaid by PEP or its subsidiaries are set out in paragraph 9.17 of Part VII—"Additional Information" of this Prospectus and are generally three years prior to the maturity date of the securities issued so that, in a potential default situation, the assets securing the borrowings can be realised and in turn used to repay the principal amount of the securities on or prior to their maturity date. However, PEP expects that the securities will be redeemed shortly after the borrowings have been repaid.

Issuer <sup>(1)</sup>	Amount €	Issue Date	Expected Redemption Date	Maturity Date	Rate
Pan European Industrial Properties Series I S.A. . . . .	213,750,000	10 May 2001	15 April 2008	15 April 2011	Euribor +35bps
Pan European Industrial Properties Series II S.A. . . . .	285,500,000 30,750,000 39,750,000	28 May 2002	5 July 2009	5 July 2012	Euribor +32bps Euribor +48bps Euribor +90bps
Pan European Industrial Properties Series III S.A. . . . .	150,750,000 17,250,000 22,500,000	26 February 2003	5 May 2010	5 May 2013	Euribor +35bps Euribor +48bps Euribor +85bps
Pan European Industrial Properties Series IV S.A. Compartment 1 . . . . .	337,000,000 32,000,000 20,000,000	16 March 2005	5 May 2010	5 May 2013	Euribor +14bps Euribor +18bps Euribor +30bps
France Industrial Properties No. 1 S.A. . . . .	115,000,000 29,000,000	10 April 2002	15 April 2009	15 April 2012	Euribor +38bps Euribor +90bps

(1) The issuers are special purpose vehicles, operated by third parties and are independent from PEP and the Management Company. The issuers are not listed as PEP subsidiaries but are nevertheless treated as fully consolidated entities within PEP. Please refer to Part X—"Consolidated Audited Financial Information for the Years Ended 31 December 2005, 31 December 2004 and 31 December 2003", Notes to the Consolidated Financial Statements, Note 2a, of this Prospectus.

Distribution Facilities which do not qualify for CMBS transactions (primarily due to a lack of critical mass, local legal issues or prohibitive mortgage costs in the market where the Distribution Facility is located) or have been acquired with financing already in place are primarily financed by either third party mortgages or, in France, by "credit bail" style finance leases.

PEP also has the following financing facilities:

- a secured revolving €500 million credit facility provided by Banc of America and ABN AMRO Bank; and
- a partly secured facility of €151.1 million provided by Hypo Real Estate Bank International (HVB).

With regards to its existing bank facility, PEP had €164.2 million in undrawn capacity as at 30 June 2006 (of which €80 million was available for borrowings based on the covenants under such facility). Further details of the agreements relating to this facility are set out at paragraph 9.17 of Part VII—"Additional Information" of this Prospectus.

As at 30 June 2006, the current portion of PEP's existing debt amounted to €336.2 million.

In order to manage its working capital and financing needs following Admission, PEP is currently seeking to increase its existing bank facility from €500 million to €800 million and has entered into a non-binding term sheet to this effect, though no assurance can be given that any such increase will be achieved. In addition, PEP may consider another CMBS issuance within the next 12 months, perhaps in conjunction with a refinancing of existing CMBS issues.

#### ***Debt Financing of Investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures***

PEP expects to finance future investments in the ProLogis Private Equity Funds and the ProLogis Joint Ventures using debt. The Management Company, on behalf of PEP, is currently considering a number of financing alternatives, including the likelihood of another CMBS issuance within the next 12 months, perhaps in conjunction with a refinancing of certain other existing CMBS issues. The size of PEP's current bank financing facilities are expected to increase over the near-term and new facilities may be considered, depending upon the CMBS strategy selected, and depending upon projected future PEP capital requirements and the timing of required contributions to the ProLogis Private Equity Funds or investment in the ProLogis Joint Ventures. PEP's leverage on Admission is expected to be between 40 per cent. and 42 per cent. of the Gross Property Value of the Portfolio. PEP is permitted under the Management Regulations to incur debt up to 60 per cent. of the aggregate of (i) the Gross Property Value of the



Distribution Facilities or other properties and property rights owned directly or indirectly by PEP and its consolidated subsidiaries and (ii) the value of debt and equity interests of PEP in real estate companies or other real estate investment vehicles which are not consolidated in the accounts of PEP, including unconsolidated ProLogis Private Equity Funds and unconsolidated ProLogis Joint Ventures. For the purposes of effective cash management, PEP may exceed this indebtedness limit for temporary or short term purposes for a period not to exceed six months, provided such total indebtedness does not exceed 65 per cent. of such aggregate value at any time. Based on a Gross Property Value of approximately €4.4 billion and an indebtedness limit of 60 per cent., the Management Company estimates that PEP is permitted under the Management Regulations to incur up to approximately €840 million in additional debt from current levels, but any such increase will be subject to agreement with PEP's existing debt providers. In addition, any future borrowing by PEP to finance its planned investments remains subject to changes in credit markets, lenders' or investors' perception of risk in the property market or changes in available interest rates. If PEP is unable to arrange the required financing, it could lose its rights to make investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures under the Private Equity Fund Investment Agreement.

### ***Debt Financing of the Property Contribution Agreement and Preferred Unit Redemption***

In the short term, PEP has agreed to acquire stabilised Distribution Facilities from the Property Portfolio having an aggregate Contribution Value of €200 million under the Property Contribution Agreement. Furthermore, in accordance with the management regulations in place as at the date of this Prospectus, PEP is required to redeem the Class C Units in full upon Admission, unless the holders thereof have elected for their Class C Units to be converted into Class A(1) Units. One holder of Class C Units has elected for its Class C Units to be converted into Class A(1) Units (which will then be reclassified as Ordinary Units), effective as at Admission. The other holder of Class C Units has not so elected, and its Class C Units will therefore be redeemed in full on Admission. The costs of such a redemption of Class C Units will amount to approximately €153.2 million. Under its existing bank facility, PEP had €184.9 million in undrawn capacity as at 31 August 2006 (of which approximately €169.9 million was available for borrowing based on the covenants under such facility). The Management Company expects to rely on borrowings available under this facility and cash to redeem the Class C Units. However, the borrowings currently available under this facility will be insufficient to finance PEP's acquisition of stabilised Distribution Facilities from the Property Portfolio, which is expected to take place in 2007 for an amount of approximately €200 million. PEP is therefore currently seeking to increase the total capacity of its bank facility from €500 million to €800 million and has entered into a non-binding term sheet to this effect, though no assurance can be given that any such increase will be achieved. Such additional debt will increase PEP's leverage.

The Management Regulations also provide for a cap on borrowings at 60 per cent. of the Gross Property Value of the Portfolio (which may be increased to 65 per cent. for the purposes of effective cash management for temporary or short term purposes and for a period not to exceed six months), and to the extent financing is required in connection with the acquisition of Distribution Facilities under the Property Contribution Agreement, this will therefore limit the capacity of PEP to make investments in the ProLogis Private Equity Funds or the ProLogis Joint Ventures. In addition, any future borrowing by PEP to finance its planned investments remains subject to changes in credit markets, lenders' or investors' perception of risk in the property market or changes in available interest rates.

### ***Distributions and Distribution Policy***

The following table sets out the aggregate Unitholder cash distributions earned by Unitholders during each of the last three years and the six-month period ending 30 June 2006.

<u>Class of Unit<sup>(1)</sup></u>	<u>30 June 2006</u>	<u>December 2005</u>	<u>December 2004</u>	<u>December 2003</u>
	<u>Unaudited €'000</u>	<u>Audited €'000</u>	<u>Audited €'000</u>	<u>Audited €'000</u>
Ordinary Units . . . . .	77,002	120,909	103,391	109,116
Class C Units . . . . .	6,858	13,716	10,081	7,475
<b>Totals . . . . .</b>	<b><u>83,860</u></b>	<b><u>134,625</u></b>	<b><u>113,472</u></b>	<b><u>116,591</u></b>

(1) Assuming each of the Class A(2), Class A(3), Class B1 and Class B2 Units had been converted into Class A(1) Units and, together with the existing Class A(1) Units, subsequently reclassified as Ordinary Units.

The Management Regulations provide that PEP will distribute substantially all of its Distributable Cash Flow on a quarterly basis, or more frequently if determined by the Management Company. PEP has historically made cash distributions to Unitholders quarterly and anticipates continuing to do so in the future whilst retaining the discretion to reinvest net proceeds on disposals and/or debt refinancing transactions. Since 30 June 2006, PEP made distributions of €38.9 million to Unitholders of which €35.5 million was paid to Class A and Class B Unitholders. Cumulative distributions to 30 June 2006 since inception total €613 million.

Distributable Cash Flow earned by Unitholders during the period from 1 July 2006 to the Settlement Date will not be distributed to investors who acquire Ordinary Units in the Offer, but will be distributed after the Settlement Date to existing Unitholders in accordance with the management regulations in effect as at the date of this Prospectus.

### **Historical NAV**

PEP's historical NAV per Unit as at 31 December for each of the financial years 2005, 2004 and 2003 as well as for the period ending 30 June 2006 is set out in the table below.

<b>Period</b>	<b>Total IFRS NAV</b>	<b>Class C Unit Equity Value<sup>(1)</sup></b>	<b>Equity Value Attributable to Equivalent Ord Units</b>	<b>Equivalent Number of Ord Units<sup>(2)</sup></b>	<b>NAV per Ord Unit<sup>(3)</sup></b>
	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€</b>
31 December 2003 . . . . .	1,207	107	1,100	124	8.91
31 December 2004 . . . . .	1,506	203	1,303	137	9.50
31 December 2005 . . . . .	1,821	203	1,618	155	10.47
30 June 2006 <sup>(4)</sup> . . . . .	2,379	203	2,176	185	11.74 <sup>(5)(6)</sup>

(1) This is the aggregate of the nominal values of the Class C Units.

(2) The equivalent number of units is the number of units assuming the Class A(2), A(3), B1 and B2 Units had been converted into Class A(1) Units and, together with the existing Class A(1) Units, subsequently reclassified into Ordinary Units in accordance with the Management Regulations.

(3) Historical NAV figures are provided as at the respective year ended and not for the relevant financial year.

(4) Based on the valuation of the Portfolio as at 30 June 2006, which valuation was not based on a full appraisal of PEP's Distribution Facilities as at such date. See "Certain Risk Factors—Risks Related to the Business—Property valuation is inherently subjective and uncertain" in this Prospectus.

(5) The equivalent adjusted EPRA NAV calculated in accordance with guidelines provided by the European Public Real Estate Association (*Best Practices Policy Recommendations*, January 2006) was €2,365 million or €12.77 per equivalent Ordinary Unit as at 30 June 2006.

(6) The equivalent adjusted NAV assuming a conversion as at 30 June 2006 of 2,500,000 Class C(1) Units and 2,500,000 Class C(2) Units into 3,448,000 Class A(1) Units and a redemption as at 30 June 2006 of the remaining Class C(1) and Class C(2) Units for an amount of €153.2 million was €2,226 million or €11.79 per equivalent Ordinary Unit. The equivalent adjusted EPRA NAV (as described in Note 5) assuming such a conversion and redemption was €2,415 million or €12.80 per equivalent Ordinary Unit as at 30 June 2006.

## **Discussion of Market Risk**

### **Geographic Risk**

PEP manages its geographic risk by diversifying the location of its Distribution Facilities across Europe. Although certain locations have been driven by customer specific requests generally, targeted investment markets have been identified as key logistical locations within Europe. Currently, PEP is present in 25 submarkets in 11 countries. PEP's principal geographic concentrations are in France, the UK and The Netherlands.

### **Sector Risk**

PEP seeks to obtain a diverse range of customers by targeting third party logistics companies. Third party logistics companies bring additional diversity to the customer base given that their contracts serve clients in a variety of industries. Third party logistics companies' requirements tend to be similar and the Management Company believes that should a third party logistics company fail, another could step in to provide services from the same location to the same end client, although lease terms may not be the same. Increasingly, the Management Company has seen clients of third party logistics companies enter into the

lease arrangements with PEP and have rights to assume obligations under the lease in the event of default by the third party logistics company.

### ***Customer Credit Risk***

As with managing sector risk, PEP's strategy to manage credit risk is to retain a diverse range of customers. As at 30 June 2006, PEP's top 50 customers accounted for 67 per cent. of Annualised Rental Income, with the balance contracted with 352 customers. The top 10 customers accounted for 33 per cent. of the Annualised Rental Income, but as eight of these customers are third party logistics companies, each serving a number of secondary customers, PEP considers the customer risk to be mitigated. The Management Company also controls individual customer risks. Regular credit checks are made on key customers and PEP will where practicable obtain deposits or guarantees from banks or parent companies where there is a perceived customer credit risk or where this is the prevailing local market practice.

### ***Liquidity Risk***

There is a potential risk that the operating subsidiaries within PEP may not be able to remit sufficient cash flow to enable PEP to distribute substantially all of its Distributable Cash Flow to Unitholders. To address this risk, PEP is structured and internally financed in a manner generally designed to maximise the remittance of cash with a minimal tax leakage. This structure is kept under regular review by the Management Company to assess its efficiency and compliance with changes in local regulations and fiscal rules.

PEP must ensure that it has sufficient resources at its disposal to meet its capital requirements, which will require the use of debt financing. PEP had €184.9 million in undrawn capacity as at 31 August 2006 (of which approximately €169.9 million was available for borrowing based on the covenants under such facility). The Management Company expects to rely on borrowings available under this facility and cash in the near term to pay costs relating to the Offer of between €30 and €35 million and to redeem at Admission 15,320,000 Class C Units at a cost of approximately €153.2 million. However, the borrowings currently available under this facility will be insufficient to finance PEP's acquisition of stabilised Distribution Facilities from the Property Portfolio, which is expected to take place in 2007 for an amount of approximately €200 million, and its planned investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures, which are also expected to take place in 2007. PEP is therefore currently seeking to increase the total capacity of its bank facility from €500 million to €800 million and has entered into a non-binding term sheet to this effect, though no assurance can be given that any such increase will be achieved and, if achieved, that a significant portion of such additional funds will not be used to fund other purposes. PEP may, in addition, rely on funds from other financing sources. PEP also currently holds assets not part of a CMBS pool that the Management Company believes are sufficient to undertake an additional CMBS transaction in the next 12 months, though there can be no assurance that PEP will, or will be able to, undertake such a transaction.

### ***Currency Risk***

The Management Company has, to date, taken the view that as PEP's real estate investments are essentially held for long-term capital growth and not to be treated as trading assets, and that therefore it is not appropriate to hedge net currency exposure by the use of derivatives.

As at 30 June 2006, PEP has approximately 40.6 per cent. of the Portfolio invested in non-Euro denominated assets, 26.1 per cent. in Sterling denominated assets and 1.5 per cent. in Swedish Krone denominated assets. In Poland, Hungary and the Czech Republic, PEP has obtained currency protection for rental cash flows by negotiating leases in Euro, thereby considerably reducing exposure to Central European currencies. With leases denominated in Euro, PEP is permitted to value the Distribution Facility in Euro.

In the case of the CMBS transactions, a number of fair value hedges have been put in place to provide the issuing entity with 100 per cent. protection against Sterling exchange rate movements.

### ***Interest Rate Risk***

Through the CMBS transactions, PEP seeks to ensure that it obtains long-term financing at fixed rates of interest. This is achieved by purchasing cash flow hedges against interest rate movements, which exist for the same term as the notes issued and provide the issuing entity with protection against UK interest rate

movements. At 30 June 2006, 71.9 per cent. of PEP's debt obligations were at fixed rates under its CMBS transactions, and PEP's weighted average cost of debt was 4.6 per cent.

### **Critical Accounting Policies and Estimates and Assumptions**

The consolidated financial statements of PEP and its subsidiaries set out in Part X—"Consolidated Audited Financial Information for the Years Ended 31 December 2005, 31 December 2004 and 31 December 2003" and Part XI—"Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005" of this Prospectus have been prepared in accordance with IFRS. Going forward, PEP will continue to report its results in conformity with IFRS. The principal accounting policies adopted are presented in the notes to the consolidated financial statements of PEP set out in Part X of this Prospectus.

The application of PEP's accounting policies requires PEP to make estimates and assumptions that can affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the accounts and reported amounts of profits and expenses during the relevant reporting period. PEP's critical accounting policies that are subject to significant estimates and assumptions are summarised below:

#### ***Investment Properties***

Investment in property mainly comprises the investment in land and buildings in the form of Distribution Facilities which are not occupied substantially for use by, or in the operations of, PEP, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation by leasing to third parties under long-term operating leases. Investment in property is initially recorded at cost including acquisition costs such as transfer taxes, initial lease commissions and legal fees. Expenditure on renovation and development of investment properties is also initially capitalised at cost. After initial recognition investment properties are revalued to fair value as determined by third party independent appraisers. Additionally, valuations are undertaken on acquisitions, contributions in kind and on disposals, in order to comply with Luxembourg law. The gain or loss arising from a change in the Open Market Value of the investment property is included in the Consolidated Statement of Operations in the period in which it arises. JLL and DTZ have been appointed as Independent Appraisers. Depreciation is not provided on investment properties. Realised gains and losses on the disposal of investment in property are included in the consolidated income statement in the period in which it arises.

The Gross Property Value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction without deduction for any associated selling costs, transfer taxes or sales taxes or other costs normally borne by the purchaser. Transaction costs normally borne by the seller are not deducted on arriving at Gross Property Value in accordance with IAS 40. The Fair Value is calculated by deducting the costs normally borne by the purchaser from the Gross Property Value. Fair Value is not intended to represent the liquidation value of the property, which would be dependent upon the price negotiated at the time of sale less any associated selling costs. The fair value is largely based on estimates using property appraisal techniques and other valuation methods as outlined below. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

The Independent Appraisers derive the fair value by applying the methodology and valuation guidelines as set out by the Royal Institution of Chartered Surveyors in the UK in accordance with IAS 40. This approach is based on discounting the future net income receivable from properties to arrive at the net present value of that future income stream. Future net income comprises the rent secured under existing leases, less any known or expected non-recoverable costs and the current market rent attributable to future vacancy years. The consideration basis for this calculation excludes the effects of any taxes. The discount factors used to calculate fair value are consistent with those used to value similar properties, with comparable leases in each of the respective markets. From June 2005, the property assets within PEP are being revalued on an alternating six monthly basis such that all assets are revalued at least once a year. 50 per cent. of the assets were revalued in June 2005; the other 50 per cent. were revalued in December 2005. 100 per cent. of the Portfolio was revalued on 30 June 2006. At each balance sheet date, the Management Company reviews the latest independent valuations to ensure that it is still applicable.

#### ***Interest Bearing Debt***

Debt, comprising secured notes and bank loans, is carried on the balance sheet at the fair value of the initial proceeds less the unamortised discount and transaction costs incurred to acquire the debt. Discounts

and transaction costs are amortised over the life of the related debt through interest expense using the effective interest rate method. Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

### ***Rental Income***

Rental income is recognised on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset diminish. Also, the aggregate cost of incentives on operating leases such as rent-free periods, up-front cash payments, relocation costs etc., are required to be recognised as a reduction of rental income over the lease term on a straight line basis. Thus non-regular rental income, whether this be annual (i.e. different rental amount for an annual period) or multi period (i.e. rental amount from the first half of the operating lease is different from the second half), should follow a straight line basis over the lease term.

### ***Finance Expenses***

Finance expenses include:

- (i) interest expenses related to secured notes, long term and short term debt, and is recognised on an accruals basis;
- (ii) amortisation of transaction costs applicable to the period;
- (iii) the net effect of the re-measurement of interest bearing loans valued under the effective interest rate method;
- (iv) the effect of the unrealised change in the fair value of mark to market currency hedges relating to the financing activities for the period;
- (v) the effect of the unrealised foreign currency gains and losses on monetary assets and liabilities arising in the period; and
- (vi) the effect of the realised foreign currency gains and losses on cash transactions completed during the period.

### ***Foreign Currency***

The presentation currency of PEP is the Euro. Transactions in currencies other than the functional currency of an entity are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are recognised in the statement of operations under finance expenses. The cumulative effect of exchange differences on cash transactions are classified as realised gains and losses in the Consolidated Income Statement in the period in which they are settled. Exchange differences on transactions not yet settled in cash are classified as unrealised gains and losses under finance expenses. The functional currency of a subsidiary is determined as the principal currency in which the entity's assets, liabilities, income and expenses are denominated. This may be different from the local currency of the country of incorporation or the country where the subsidiary conducts its operations. The assets and liabilities of subsidiaries are determined according to the accounting principles of PEP. Where the functional currency is different from the reporting currency of PEP, those assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. The income statements of such subsidiaries are translated at the average exchange rate for the period. The exchange differences arising on the currency translation of the assets and liabilities are recorded as a separate component of Unitholders' reserves under the heading of "Cumulative foreign currency translation". On the disposal of a subsidiary, accumulated exchange differences are recognised in the statement of operations as a component of the gain or loss on disposal, including any tax effects. Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquired company and are recorded at the exchange rate at the date of the transaction.

### ***Financial Instruments***

PEP uses financial instruments, such as interest rate and cross currency interest rate swaps, to hedge its risks associated with interest rate and foreign currency fluctuations. The effectiveness of the hedge is assessed by comparing the value of the hedged item with the notional value implicit in the contractual terms of the financial instrument being used in the hedge. For the purposes of hedge accounting, hedges



are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability. In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the Consolidated Income Statement with the corresponding receivable or payable recognised in the Balance Sheet assets either under other current assets or other current liabilities. Any corresponding gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Income Statement.

PEP uses cash flow hedges to manage interest rate risks. For such cash flow hedges, which meet the criteria for hedge accounting, PEP records interest on the hedged loan at an interest rate implicit in the swap agreement. Cash flow hedges are valued at Fair Value and included under “Hedging Instruments” on the Balance Sheet. The effective portion of the gain or loss of the effective hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the Consolidated Income Statement. Those financial statements which do not meet the conditions for hedge accounting are accounted for at Fair Value with changes in Fair Value being recognised in the income statement.

### ***Deferred Taxation***

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (i) where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax credits and unused tax losses can be utilised except:

- (i) where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when an asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### ***Income Taxes***

PEP is subject to income and capital gains taxes in numerous jurisdictions. Significant judgement is required in determining the total provision for income and deferred taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. PEP recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which the determination is made.

### ***Business Combinations***

Significant judgement is required when determining the appropriate method of accounting for acquisitions of shares of a company owning property.

ProLogis contributes properties to PEP under the Stabilised Property Contribution Agreement (see Note 19c to the Consolidated Financial Statements 31 December 2005, 2004, and 2003 and the Consolidated Interim Financial Statements 30 June 2006). In the opinion of the Management Company, the special purpose vehicles which themselves own the investment property do not qualify as businesses under the definition of IFRS 3 as they do not represent “an integrated set of activities and assets”. Therefore, the contribution of these properties to PEP does not represent a business combination under the definition of IFRS 3. The cost of the assets and liabilities acquired by way of the stabilised property contribution agreement is allocated based upon their relative Fair Values, and no goodwill is recognised.

In the case of acquisitions of investment property from a third party, PEP will only recognise a business combination where an integrated set of activities is acquired in addition to the investment property.

## PART IV

### MANAGEMENT OF PEP

PEP is a Luxembourg FCP which is managed by the Management Company in accordance with the Management Regulations. The PEP Board has been created pursuant to the Management Regulations and comprises four Independent Board Members and two ProLogis Board Members. The PEP Board is responsible for reviewing certain decisions prior to their implementation by the Management Company. In all other respects, the Management Company manages the day-to-day activities of PEP in the exclusive interest of Unitholders.

#### **The Management Company**

The Management Company was incorporated on 6 July 1999 as a *société à responsabilité limitée* under Luxembourg law and its duration is at present unlimited. It has its registered office at 18, boulevard Royal, L-2449, Luxembourg and is registered with the Luxembourg trade and companies register under number R.C.S. B70940. Its articles of incorporation were published in the Luxembourg official gazette on 31 August 1999. The capital of the Management Company is €125,000 represented by 125 shares of €1,000 par value each of which is fully paid up. ProLogis indirectly owns all of the outstanding share capital of the Management Company.

Pursuant to the Management Regulations, the Management Company or its designees have the exclusive right to manage PEP for the account and in the exclusive interest of the Unitholders. The Management Company has responsibility for managing PEP in accordance with the Management Regulations, Luxembourg law and other relevant legal and regulatory requirements. The Management Regulations also provide that the Management Company shall not administer or manage any other investment fund or company. The Management Company has a limited number of employees and has engaged several ProLogis Related Parties to act as Investment Managers in different countries and with respect to different aspects of the Portfolio. The Investment Managers operate properties, arrange financing and provide other services on behalf of the Management Company.

The Investment Managers also provide services to other ProLogis businesses and may provide services to the ProLogis Private Equity Funds.

The Management Company is responsible for implementing the Investment Objective and Policy subject to the restrictions set out in Articles 6 and 7 of the Management Regulations. The Management Regulations require the Management Company to manage the Portfolio prudently with the same degree of care as would be expected of an absolute owner, having particular regard to the quality and financial standing of the customers and the length of the lease terms. In managing the Portfolio, the Management Company, pursuant to the terms of the Management Regulations, is required to have due regard to the status of ProLogis as a REIT and has no obligation to adopt or implement any management decision which adversely affects the U.S. Federal income tax treatment of ProLogis' direct or indirect investment in PEP. The Management Company is also responsible for selecting the Investment Managers, the Custodian, the Paying and Listing Agent, the Registrar and Transfer Agent and other such agents as are appropriate. The Management Company is liable for the acts or omissions of the Investment Managers, the Managers and any other agents it shall appoint to perform the Management Company's functions under the Management Regulations as if such acts or omissions were those of the Management Company itself.

Any change in the legal form of PEP may only be proposed by the Management Company and requires approval at a general meeting of Unitholders by an affirmative vote of 67 per cent. of all Units present or represented, unless the consent of all Units is required by Luxembourg law or the Luxembourg Supervisory Authority. Furthermore, if there is a change in the tax law or regulations of the U.S. governing the Federal taxation of REITs which adversely affects the U.S. tax treatment of ProLogis' or any ProLogis Related Party's direct or indirect investment in PEP, the Management Company may take steps to change the legal form or legal domicile of PEP, subject to applicable laws, including, without limitation, any required Unitholder consents. The Management Company acts as the Administrative Agent and performs all administrative agency functions for PEP under Luxembourg law, in particular the calculation of NAV.

The Management Company acts as Domiciliary and Service Agent for the wholly-owned subsidiaries of PEP organised in Luxembourg and in such capacity is responsible for all domiciliary and service agency duties required by Luxembourg law.

Meetings of the Management Company are held in Luxembourg. The Management Company has delegated certain of its activities to the Custodian, the Paying and Listing Agent and the Registrar and Transfer Agent as set out in this Prospectus. The Management Company has appointed the Investment Managers to perform certain property and asset management functions, subject to the overall supervision, approval and direction of the Management Company.

The Management Regulations provide that on 15 September 2016 and every fifth year thereafter, the Ordinary Unitholders will have the opportunity to remove the Management Company, without cause, by a 67 per cent. vote of the Ordinary Units. The meeting of Ordinary Unitholders to vote on the termination of the Management Company without cause may only be convened at the initiative of a simple majority of Independent Board Members (following a simple majority of Independent Board Members having voted to terminate the Management Company's appointment) or by the Management Company. In addition, the Management Company may be terminated at any time in the event of (i) gross negligence, wilful misconduct or fraud by the Management Company or (ii) failure by ProLogis or a ProLogis Related Party to observe the ownership requirements and restrictions on transfer of Units set out in Part 2 of Article 11 of the Management Regulations. The decision to terminate the Management Company in each such event is subject to the approval of a simple majority of the Ordinary Units. At the end of the first quarter of 2016 and every fifth year thereafter, in the quarterly report, the Management Company will notify Ordinary Unitholders that, subject to a simple majority of Independent Board Members voting to remove the Management Company without cause and voting to convene a meeting of Ordinary Unitholders, the Ordinary Unitholders will have the right to remove the Management Company later that year in the manner referred to above. Any successor Management Company must be approved by the CSSF prior to its appointment. In circumstances where no successor Management Company can be found within two months of such termination, in accordance with Luxembourg law, PEP will be wound up in accordance with the winding-up provisions in the Management Regulations.

The Management Regulations also provide that the Management Company shall not resign or (unless PEP's net asset value falls below €1,250,000) terminate PEP except with the approval of a resolution adopted by 67 per cent. of all Units present or represented at a general meeting of Unitholders, such proposal having been recommended to the Unitholders by the PEP Board.

Effective as of the date of the Offer, PEP will pay the Management Company or its designee a management fee quarterly in arrears in cash on each calendar quarter-end day immediately following the Settlement Date equal to the aggregate of (i) 0.6 per cent. per annum of the Gross Property Value of the Portfolio, excluding, for the avoidance of doubt, the interest of PEP in the ProLogis Private Equity Funds and ProLogis Joint Ventures, which is referred to as the base management fee; and (ii) 0.1 per cent. per annum of the value of PEP's interests in cash deposits, money market instruments or debt securities other than debt securities issued by companies or entities which are wholly or partly owned and controlled by PEP, excluding, for the avoidance of doubt, cash deposits, money market instruments or debt securities held by a ProLogis Private Equity Fund or a ProLogis Joint Venture, or cash balances subject to cash pooling arrangements in the framework of CMBS transactions, which is referred to as the cash management fee.

In addition, except as described in the following paragraph, PEP will pay the Management Company an incentive fee (if any, but which shall not be less than zero) on 31 December 2008 and every year thereafter calculated on a rolling three year basis, equal to:

- (a) 20 per cent. of the excess of IFRS net income per Unit (before the deduction of the incentive fee payable in the current fiscal year) for the relevant incentive period (equal to the previous three fiscal years, or, in the case of the first incentive fee calculation, fractional years since the date of the Offer) above the sum of the product of (i) NAV per Unit at the beginning of each fiscal year during the relevant incentive period (or, in the case of fiscal year 2006, the NAV per Unit on the date of the Offer) and (ii) a hurdle rate of 9 per cent. per annum; multiplied by
- (b) the weighted average number of Units outstanding during the relevant incentive period; less
- (c) an amount equal to the incentive fee payable on the above basis for any period during the relevant incentive period for which the Management Company has already been paid an incentive fee (or the amount that it would have been paid but for the arrangements described in the following paragraph) (excluding the current calculation), provided that such amount is greater than zero.

PEP shall maintain the Fee Credit Account in its records and on each occasion that PEP pays or bears an incentive fee, carried interest or similar performance related fee with respect to PEP's investment in a ProLogis Private Equity Fund or ProLogis Joint Venture, the amount of such fee which is paid or borne by PEP shall be added to the Fee Credit Account. On each occasion that PEP is required to pay the Fee Amount, (i) if, as at the date on which the Fee Amount is payable, the amount of the Fee Credit Account is equal to or exceeds the Fee Amount, then no additional incentive fee shall be payable by PEP in that fiscal year and the Fee Credit Account shall be reduced by the Fee Amount; or (ii) if, as at the date on which the Fee Amount is payable, the amount of the Fee Credit Account is less than the Fee Amount, then the Fee Amount payable with respect to the relevant fiscal year shall be reduced by the amount of the Fee Credit Account and, following such reduction, the Fee Credit Account shall be reduced to zero. The Fee Credit Account is notional only and does not constitute an amount owing to PEP or any Unitholder in any circumstances. The Fee Credit Account shall not bear interest.

For the avoidance of doubt, the incentive fee payable on 31 December 2008 will (i) reflect that no prior incentive fees would have been paid to the Management Company and (ii) the hurdle rate will be adjusted to reflect that PEP will have been operating for less than three years since the date of the Offer.

Details of the historical management fees and incentive fees payable to the Management Company are set out in "Management Fees" in Part III—"Operating and Financial Review and Prospects" of this Prospectus.

Under the Investment Management Agreement, the Management Company may permit the Investment Managers to invoice any asset-owning subsidiary of PEP directly for all or a portion of the base management fees payable to the Investment Managers, and in such event an amount equal to the base management fee paid by such subsidiary to the Investment Managers will be deducted from the fee payable by PEP to the Management Company in accordance with the terms of the Investment Management Agreement.

Article 13 of the Management Regulations specifies that certain expenses of the Management Company are to be borne by PEP, in addition to the base management fee. These expenses are described more fully in paragraph 8 of Part VII—"Additional Information" of this Prospectus.

In respect of some of PEP's Distribution Facilities, additional services (e.g. security and fire services) are offered to customers by third party service providers. Such additional services are charged to subsidiaries of PEP as landlords, but are generally fully recoverable from the customer.

### **The Managers of the Management Company**

The Management Company has three Managers appointed by PLD, as the sole shareholder of the Management Company. The Managers are appointed for an indefinite term of office.

The Managers have an average of 15.7 years of industry experience and have been with ProLogis for an average of 6.7 years. The Managers, who will have overall responsibility for the management of PEP, are as follows:

- Robert J. Watson, Chief Executive Officer: Joined ProLogis in 1992. Mr. Watson acted as Chief Operating Officer of ProLogis' European division from 1999 until 2003 and as President and Chief Operating Officer of ProLogis' North America division from 2004 to May 2006. Mr. Watson has 33 years of experience in the industry (including finance and administration) and will be based in London. Mr. Watson was appointed as a Manager on 28 August 2006.
- Peter Cassells, Chief Financial Officer: Joined ProLogis Europe in 2000. Mr. Cassells is currently the First Vice President and Fund Manager of ProLogis Europe, responsible for the management of PEP. Mr. Cassells has six years of industry experience (including finance and administration) and is based in Luxembourg. Mr. Cassells was appointed as a Manager in September 2001.
- Ralf Wessel, Head of Asset Management: Joined ProLogis in 2006. Mr. Wessel is responsible for PEP's asset management. Mr. Wessel was previously with Equity Estate. Mr. Wessel has eight years of industry experience and is based in Amsterdam. Mr. Wessel was appointed as a Manager on 28 August 2006.

In their capacity as Managers, the Managers did not receive any separate remuneration for the financial year ended 31 December 2005.



No amounts have been set aside or accrued by PEP to provide pension, retirement or similar benefits for any of the Managers.

None of the Managers or Board Members have any service contracts with PEP or any of its subsidiaries.

As part of his compensation and incentivisation package, Robert J. Watson, the Chief Executive Officer of the Management Company, will receive from ProLogis Ordinary Units with equivalent value of €1 million based on the Offer Price. These Ordinary Units will not be created through the issuance of new Units and will be granted to Mr. Watson in lieu of certain other compensation which he otherwise would be granted under ProLogis' equity compensation programme. The Ordinary Units granted by ProLogis to Mr. Watson will be restricted and will vest at the end of the second year after the closing of the Offer. Whether or not the Ordinary Units are vested, Mr. Watson will be entitled to receive distributions on the Ordinary Units, but will not be entitled to vote or sell the Ordinary Units until vested. All unvested Ordinary Units will be forfeited by Mr. Watson in the event he terminates his employment before vesting, other than by reason of his death or disability.

### **The PEP Board**

Article 4 of the Management Regulations establishes the PEP Board, which is comprised of four Independent Board Members and two ProLogis Board Members.

The Independent Board Members are:

- Horst Albach, who was formerly a member of the supervisory boards of Dresdner Bank AG, AEG AG and Mercedes Automobil Holding AG. Mr. Albach has also served on the Scientific Advisory Board to the German Federal Minister of Economics and the Board of Economic Advisors to the German Parliament.
- Geoffrey Bell, President of Geoffrey Bell and Company, which advises a wide range of corporations and governments on their international reserve asset and liability management programmes.
- Pierre Rodocanachi, formerly, until he retired, the Senior Vice President of and currently the Chairman of Booz Allen & Hamilton, one of the world's largest management consulting firms.
- Sylvia Tòth, who is currently the Vice President of Tóco USA, and Tóco d'Azur and was previously chairwoman of Content Beheer and a supervisory director at Aegon N.V., Endemol Entertainment, Creyf's and Vendex KBB N.V.

The ProLogis Board Members are:

- Jeffrey H. Schwartz, Chief Executive Officer of ProLogis. Prior to becoming Chief Executive Officer of ProLogis, Mr. Schwartz served as President of International Operations, Chairman of the International Investment Committee, President and Chief Operating Officer Asia and Vice Chairman of ProLogis.
- Robert J. Watson, Chief Executive Officer of the Management Company whose details are set out above in "The Managers of the Management Company" in this Part IV—"Management of PEP" of this Prospectus.

The terms of appointment of the Board Members are set out in Article 4 of the Management Regulations. Except for the initial term described below, the term of appointment for an Independent Board Member is three years and until the ratification or appointment of his successor. The ProLogis Board Members are appointed for such time as determined by the Management Company.

The initial Independent Board Members and the ProLogis Board Members have been approved by the Management Company. For the purposes of staggering the dates on which the Independent Board Members are required to be re-elected, the Independent Board Members are divided into three classes with one, two and three year initial terms of office, respectively. Following the expiry of their initial terms, each class of Independent Board Members will be elected for a three year term of office in accordance with the procedure described below.

For the purposes of nominating successor Independent Board Members, the PEP Board will have a nomination committee composed of two Independent Board Members and one ProLogis Board Member. The Independent Board Members of the nomination committee will be appointed by the affirmative vote

of at least three Independent Board Members. The ProLogis Board Member of the nomination committee will be selected by unanimous consent of the ProLogis Board Members. The members of the nomination committee will be appointed on an annual basis for a term expiring on the day of the annual general meeting electing the candidate designated by the nomination committee. Successor Independent Board Members are proposed by the nomination committee and elected by a simple majority of the Units voting or represented at the annual general meeting of Unitholders. The Management Company has the right to designate any ProLogis Board Member or successor thereof and to remove such ProLogis Board Member and substitute another ProLogis Board Member at any time. The identity of the Board Members must be notified to the CSSF.

A Board Member may resign at any time by giving written notice thereof to the Management Company. An Independent Board Member may be removed with or without cause by a vote of 67 per cent. of the Units present or represented at a general meeting of Unitholders.

Any vacancy on the PEP Board caused by the resignation (whether automatic or otherwise), removal or death of any Board Member shall be filled (in the case of an Independent Board Member) by an appointee approved by a majority vote of the remaining Independent Board Members upon proposal by the Management Company or (in the case of a ProLogis Board Member), by direction of the Management Company. The successor Independent Board Member shall hold office until the next annual general meeting of Unitholders. At such meeting, the provisions for the election of successor Independent Board Members shall apply, save that the Independent Board Member elected at an annual general meeting of Unitholders to fill a vacancy shall have the same remaining term as that of his predecessor.

The prior approval of the PEP Board is required in respect of the following proposals, resolutions in respect of which may be tabled before the PEP Board only by the Management Company either on its own initiative or upon due consideration of a suggestion made by any two Independent Board Members:

- any acquisition or disposal of assets or any portfolio of assets of PEP in an aggregate amount in any rolling six-month period of more than 5 per cent. of the gross asset value of PEP as calculated on the most recent Valuation Day prior to the date such asset or portfolio of assets is acquired or sold and any disposal or redemption of interests in any ProLogis Private Equity Fund or ProLogis Joint Venture;
- any amendments to the Management Regulations in the circumstances where the prior approval of the PEP Board is required under Article 16 of the Management Regulations;
- the annual approval of (i) the appointment and the terms and conditions of the appointment of the Independent Appraiser and (ii) the appointment of the external auditors of PEP, in both cases for terms of one year. Neither appointment may be terminated by the Management Company without the prior approval of the PEP Board;
- any issue of Units in accordance with Article 8 of the Management Regulations and the terms of any such issuance (including the currency of denomination of the Units, the appointment of any placement agents or distributors designated in respect of such issuance and the approval of their fees, which must be on an arm's length basis) and any increase in the level of leverage of PEP (within the limits laid down by Article 7 of the Management Regulations);
- any major debt financings or refinancing (defined as debt facilities or financings or refinancings, which if fully drawn, would amount to in excess of 20 per cent. of the total gross asset value of PEP as at the most recent Valuation Day);
- any amendments to the definition of Distributable Cash Flow in respect of the size from time to time of the contingency reserve, or the policy regarding the amortisation of debt;
- the approval of the annual accounts, the incentive fee calculation for the relevant year, the annual operating and capital expenditure budget and funding policy of PEP. If such budget and policy are not approved in whole or in part by the PEP Board, the Management Company will manage PEP on the basis of an annual operating and capital expenditure budget and funding policy corresponding to the most recently approved budget and policy with respect to any items of the proposed budget and funding policy that were not approved, provided that the Management Company may vary the relevant items by a percentage amount of up to 5 per cent.;

- any transactions between PEP and any ProLogis Related Party, including, without limitation, a sale of assets by PEP to ProLogis or to a ProLogis Related Party, but excluding the entry into and (save as prescribed in the Management Regulations) performance of the Management Regulations, the Investment Management Agreement, the Private Equity Fund Investment Agreement and the Property Contribution Agreement. With regard to related party transactions, the Management Company will provide the PEP Board, for approval, on an annual basis, with a schedule detailing both ProLogis rates and prevailing market rates for leasing commissions and construction management fees;
- any decision to waive any material right which would otherwise exist for the benefit of PEP, or any decision not to enforce any material right of PEP under the terms of the Investment Management Agreement, including any decision to waive the obligation of an Investment Manager to assume the obligations under the terminated lease of the vacated space in case of a Tenant Transfer;
- any changes to the method of calculating NAV prescribed in the Management Regulations;
- the approval of legal fees and tax compliance fees payable to any ProLogis Related Party, and the approval in accordance with the first paragraph of Article 5 of the Management Regulations of any fees (other than those referred to in the Investment Management Agreement as at the date of the Management Regulations) which may be paid to the Investment Managers out of the net assets of PEP and not deducted from the Management Company's base management fee;
- any decision to terminate the Investment Management Agreement, other than for cause;
- any decision to extend the term of the Investment Management Agreement; and
- any decision to table before the general meeting of Unitholders a resolution to wind-up PEP, under Article 20.2 of the Management Regulations.

In addition, the prior approval of the PEP Board is required in respect of the following proposals, and in respect of these three items only, either the Management Company or at least two Board Members may table a resolution:

- any decision (i) to exercise the rights of PEP under the Private Equity Fund Investment Agreement to subscribe for up to 30 per cent. of the equity securities and securities convertible into equity securities issued by any ProLogis Private Equity Fund or to exercise the right to participate in a ProLogis Joint Venture or (ii) to exercise the right of PEP under the Property Contribution Agreement to (a) approve the substitution of a property to be contributed thereunder with another property; (b) decide not to accept a property on account of material disclosures made with respect thereto; (c) serve a notice reducing the maximum Euro amount to be allocated to the purchase of properties where, in the reasonable opinion of the Management Company, the occurrence of certain events has made it impracticable or inadvisable for PEP to proceed with the acquisition of properties under the Property Contribution Agreement or subsequently serve a notice increasing such Euro amount to its original level where, in the reasonable opinion of the Management Company, it is no longer impracticable or inadvisable for PEP to proceed with the acquisition of properties under the Property Contribution Agreement and following service of such a notice, to approve the list of properties by which PLD proposes to satisfy the increased Euro amount by contribution in accordance with the Property Contribution Agreement; or (d) agree to an extension of the date after which, in certain circumstances, PLD must propose further properties for contribution to PEP and approve the contribution of such further properties;
- any decision to terminate the Investment Management Agreement for cause; and
- any decision to table before a meeting of Ordinary Unitholders a resolution to remove the Management Company without cause, as provided in Article 17 of the Management Regulations.

The PEP Board shall consider in good faith and with reasonable commercial judgment the proposals in respect of the matters above and any other decisions or determinations it is required to make acting in compliance with Luxembourg law and regulations, the Management Regulations, this Prospectus and in the interests of Unitholders. An affirmative vote of four Board Members is required for the approval of any of the matters set out above or any other determinations or decisions made by the PEP Board pursuant to the Management Regulations except for (i) decisions related to the approval of the incentive fee calculation for the relevant year, which shall require the approval of a simple majority of the

Independent Board Members; (ii) decisions related to the waiver of the obligations of an Investment Manager to assume the obligations under the terminated lease of the vacated space in case of a Tenant Transfer, which shall require the approval of a simple majority of the Independent Board Members; (iii) decisions to table before Unitholders a resolution to remove the Management Company without cause, which shall require the approval of a simple majority of the Independent Board Members to terminate the Management Company and as a consequence table a resolution before a meeting of Ordinary Unitholders to remove the Management Company in accordance with Article 17 of the Management Regulations; (iv) decisions related to the creation of advisory committees (as described below) which require the unanimous consent of all Board Members; and (v) decisions related to the appointment of members of the nomination committee, which are made as described above.

Article 4 of the Management Regulations provides that the PEP Board will meet at least annually in Luxembourg. The PEP Board meets at least quarterly, unless the PEP Board agrees otherwise, to review PEP's performance and may meet by telephone conference in accordance with Article 4 of the Management Regulations. The Management Regulations also provide that the PEP Board may meet upon call by the Management Company or any two Board Members at the place indicated in the notice of meeting. The PEP Board shall also be available for consultation by the Management Company and may make suggestions to, and requests of, the Management Company. However, other than decisions relating to any of the matters set out above, the Management Company is neither bound by such suggestions or requests nor obligated to take direction from the PEP Board.

The Management Company shall forward to the PEP Board all relevant information within a period of time which is reasonably sufficient in the view of the Management Company to permit the PEP Board to make an informed decision on the relevant matter prescribed above.

The PEP Board may designate advisory committees composed of one or more Board Members in order to assist the PEP Board and to make recommendations to the PEP Board in relation to decisions concerning the proposals referred to above. Such advisory committees may not take decisions in lieu of the PEP Board. Decisions of the PEP Board related to the creation of advisory committees require unanimous consent of all Board Members.

### The Investment Managers

The Management Company (on its own behalf and not on behalf of PEP) has entered into the Investment Management Agreement. The Investment Management Agreement governs the terms by which the Investment Managers will provide certain management services in relation to the properties held by PEP. Details of the dates of incorporation and share capital of the Investment Managers are set out in the table below:

<b>Investment Manager</b>	<b>Registration Number</b>	<b>Date of Incorporation</b>	<b>Share Capital</b>
Garonor Services SAS <sup>(1)</sup> . . . . .	331 153 072 R.C.S Bobigny	31 October 1984	€40,000
ProLogis Belgium Management Sprl <sup>(2)</sup> . . . . .	0477.400.841	18 April 2002	€760,000
ProLogis Management BV <sup>(3)</sup> . . . . .	34100538	9 July 2002	€18,000
ProLogis Poland Management II Sp. zoo <sup>(4)</sup> . . . . .	0000149274	29 January 2003	PLN 50,000
ProLogis Spain Management II SL <sup>(5)</sup> . . . . .	B63061246	18 December 2002	€103,500
ProLogis Germany Management II GmbH <sup>(6)</sup> . . . . .	HRB 50715	2 December 2002	€25,000
ProLogis Italy Management II SRL <sup>(7)</sup> . . . . .	03640490961	18 July 2002	€11,000
ProLogis Hungary Management II Kft <sup>(8)</sup> . . . . .	Cg.01-09-712504	12 February 2003	HUF 3,000,000
ProLogis Czech Republic Management II SRO <sup>(9)</sup> . . . . .	27083128	16 September 2003	CSK 200,000

- (1) A company incorporated in and under the laws of France whose registered office is at Batiment G Autoroute A1, BP 780 Garonor, 93614 Aulnay sous Bois Cedex.
- (2) A company incorporated in and under the laws of Belgium, whose registered office is at 1831 Diegem, Regus Pegasus Park, Pegasuslaan 5, Belgium.
- (3) A company incorporated in and under the laws of The Netherlands, whose registered office is at Capronilaan 25-27, 1119 NP Schiphol-Rijk, The Netherlands.
- (4) A company incorporated in and under the laws of Poland, whose registered office is at ul. Szyszkowa 20, 02-285 Warsaw, Poland.
- (5) A company incorporated in and under the laws of Spain, whose registered office is at ProLogis Park Sant Boi—C/Coto No. 6, Sant Boi de Llobregat, 08830 Spain.
- (6) A company incorporated in and under the laws of Germany, whose registered office is at Am Eifeltor 16, D-50997, Cologne, Germany.
- (7) A company incorporated in and under the laws of Italy, whose registered office is at Via Alessandro Volta 16, 20093, Milan, Italy.
- (8) A company incorporated in and under the laws of Hungary, whose registered office is at 1146 Budapest, Hermina Ut 17, Hungary.
- (9) A company incorporated in and under the laws of the Czech Republic, whose registered office is at Belekradska 314/18 PSC, 14000 Praha 4, Czech Republic.

Under the Investment Management Agreement, the Investment Managers, subject to the general supervision, approval and responsibility of the Management Company, and compliance with the Investment Objective and Policy, carry out property management functions in relation to the day-to-day administration of the Portfolio for the Management Company but not, for the avoidance of doubt, in relation to any ProLogis Private Equity Funds or ProLogis Joint Ventures in which PEP may invest.

An Investment Manager has, *inter alia*, the following general functions, subject to the approval and supervision of the Management Company:

- providing information to the Management Company to enable it to give proper instructions to the Custodian;
- carrying out supplementary real estate management services and such other supplementary services as may be agreed between the Investment Manager and the Management Company;
- identifying, evaluating and providing information on possible additional investments in properties, the ProLogis Private Equity Funds and the ProLogis Joint Ventures;
- submitting recommendations to the Management Company for approval in relation to the acquisition, investment, sale, exchange or other disposition of any or all of the properties or any investment in the ProLogis Private Equity Funds or the ProLogis Joint Ventures;
- arranging the property management of each property either directly or by appointing suitable third party property managers of repute with experience of managing properties, and monitoring the activities of such managers;
- arranging for independent valuations in accordance with principles specified by the Investment Manager, to be made by a professional valuer for the purpose of determining the value of properties owned by PEP;
- ensuring timely rent collections from customers and monitoring receipt of rent;
- monitoring, inspecting and maintaining properties and ensuring compliance by the customer with its obligations;
- conducting all appropriate negotiations in relation to surrenders of tenancies, rent reviews, granting of new tenancies, renewals of existing tenancies and any amendment or waiver of any of the terms of the leases;
- preparing and submitting the appropriate tax returns in relation to properties to the relevant tax authorities;
- managing the obligations and requirements of the relevant insurance policies and managing any insurance claims process;
- managing the obtaining of any necessary valuations, planning permissions, etc.;
- preparing financial statements, reports, etc. in compliance with financial covenants with respect to secured financings;
- performing all general, registrar and company administration services and keeping all records as appropriate; and
- arranging for any contracted-out services to be provided as and when appropriate.

The Investment Management Agreement requires that, for the duration of the Investment Management Agreement, ProLogis shall either provide or procure the provision of an individual to act as the chief executive officer of the Management Company.

PEP is required to pay a base management fee to the Management Company, which, in turn, pays the Investment Managers an annual investment management fee. The annual investment management fee is calculated and paid quarterly in arrears in cash. Except to the extent provided in the Investment Management Agreement as at the date of the Management Regulations or as subsequently approved by the PEP Board, any fees paid by the asset companies directly to the Investment Managers out of the net assets of PEP are deducted from the base management fee that would otherwise be payable to the Management Company as prescribed in the Management Regulations; provided, however, that the fee



paid to the Investment Managers may not in aggregate exceed such base management fee. In addition to the annual investment management fee, the Investment Managers are also entitled to charge the Management Company such additional fees in relation to the properties which are owned directly or indirectly by PEP (but excluding any properties held indirectly through the ProLogis Private Equity Funds or the ProLogis Joint Ventures) and any of PEP's investments in the ProLogis Private Equity Funds and the ProLogis Joint Ventures as shall be in line with market standards which may include, but shall not be limited to, leasing fees and commissions, construction management fees, legal fees and tax compliance fees, but which may not include any acquisition fee, disposition fee or debt and refinancing fee, as such fees will not be charged to PEP by the Investment Managers or any other ProLogis Related Party.

The Investment Management Agreement is for an initial term which expires on 15 September 2016 and is renewable at the sole discretion of the Management Company for subsequent five-year periods. The Investment Management Agreement is terminable in respect of any Investment Manager or all of them, by any or all of the Investment Managers and by the Management Company subject in relation to termination by the Management Company to the approval of the PEP Board, at any time (i) upon 60 days' notice to the relevant Investment Managers or all of them (or to the Management Company in the case of termination by one or more of the Investment Managers); (ii) immediately upon notice to the relevant parties if the relevant parties shall commit any material breach of their obligations under the Investment Management Agreement and (if such breach shall be capable of remedy) shall fail within 30 days of receipt of notice served by the terminating parties requiring them so to do, make good such breach; and (iii) if a party or parties have failed to perform their obligations under the Investment Management Agreement to any material extent for a continuous period of six months in *force majeure* circumstances. The Investment Management Agreement will terminate automatically if ProLogis Management S.à r.l. (or another ProLogis Related Party) is no longer the Management Company of PEP or in relation to the appointment of a specific Investment Manager, if such Investment Manager shall carry on business which would cause PEP to pay taxes it would not otherwise be liable to pay.

The Investment Management Agreement requires PEP to be compensated in certain circumstances if a Tenant Transfer occurs and within three months of the cancellation of a lease, the customer leases another property owned by ProLogis or a ProLogis Related Party or a fund managed by ProLogis or a ProLogis Related Party, including the ProLogis Private Equity Funds and the ProLogis Joint Ventures. Compensation is triggered where, in relation to a Tenant Transfer, PEP's interest in the property to which the customer has been transferred is not at least equal to the interest PEP had in the property which was originally leased by the customer. In such circumstances, the Investment Managers are required to assume the obligations under the terminated lease for such period until the lease could have been terminated by the customer under the terms of the lease or until the point at which the property has been re-leased at a rental income at or above the terminated lease for a period which is at least as long as the period until the original lease could be terminated in accordance with its terms. The Investment Management Agreement includes further provisions which ensure that PEP does not receive excessive compensation under these circumstances. These provisions include, where the original leased property is re-leased but on less favourable terms, that the amount payable by the Investment Managers is reduced by the amount of rental income generated by the re-lease and where PEP has either a direct or indirect ownership interest in the property to which the customer has been transferred, that, subject to certain exceptions, any rental income received by PEP in relation thereto shall be offset against the amount payable by the Investment Managers.

The Investment Management Agreement contains an indemnity provision whereby the Management Company has agreed to indemnify the Investment Managers and their respective directors from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgements, suits, costs, expenses or disbursements of any kind (other than those resulting from the negligence, wilful default, bad faith or fraud on the part of the Investment Managers and their directors, or on the part of their servants or agents) which may be imposed on, incurred by or asserted against the Investment Managers in performing their duties.

Article 5 of the Management Regulations provides that no Investment Manager may be appointed if it is organised or carries on business in the U.S.

## PART V

### MARKET INFORMATION RELATING TO EURONEXT AMSTERDAM

#### General

In 2000, the stock exchanges of Amsterdam, Brussels and Paris were combined into Euronext, the first pan-European stock exchange, whose holding company, Euronext N.V., is a public limited liability company incorporated under Dutch law. Subsequently, in 2002, the stock exchange of Lisbon and LIFFE joined Euronext.

Access to Euronext is provided by Euronext Brussels, Euronext Amsterdam, Euronext Lisbon or Euronext Paris and LIFFE with respect to derivative trading, with each market being operated by a subsidiary of Euronext N.V. (which includes Euronext Brussels S.A., Euronext Amsterdam N.V., Euronext Lisbon S.A., Euronext Paris S.A. and LIFFE).

#### Listing and Trading

Application for admission of all of the Ordinary Units to listing and trading on Eurolist by Euronext has been made. Public trading of the Ordinary Units on Eurolist by Euronext can occur only after PEP's application for Admission has been approved, which is expected to occur on 27 September 2006.

#### Settlement and Clearing

Transactions in listed securities are settled through a system of delivery against payment. This system settles transactions through electronic book-entry changes in the accounts of its participants. It thereby ensures that sellers receive cash when delivering securities and that buyers receive corresponding securities when paying and eliminates the need for physical movement of securities. Settlement takes place three Business Days following the transaction (T+3). It is expected that payment for, and delivery of, the Ordinary Units will be made through the book-entry facilities of Euroclear Netherlands in accordance with normal settlement procedures applicable to equity securities. The Ordinary Units will be registered in the name of Euroclear Netherlands for safe-keeping on behalf of and for the benefit of those persons entitled to the Ordinary Units.

#### Market Regulation

The market regulator in The Netherlands, insofar as the supervision of market conduct is concerned, is the AFM. The AFM has supervisory powers with respect to the publication of information by listed companies and the application of the Dutch takeover regulations. It also supervises financial intermediaries (such as credit institutions and investment firms) and investment institutions. The surveillance unit of Euronext Amsterdam and the AFM monitor and supervise all trading operations.

PEP and the Management Company are subject to the ASCIS. Under the ASCIS, the Management Company will be excepted from the requirement to obtain a licence from the AFM to act as the management company of a collective investment scheme for so long as Luxembourg is deemed to have "adequate supervision" of collective investment schemes. By Ministerial Decree of 16 December 2005 in respect of the accreditation of states as referred to in Article 17c of the ASCIS, as amended by further Ministerial Decree on 20 February 2006, Luxembourg was accredited by the Dutch Minister of Finance (*Minister van Financiën*) to have such adequate supervision. Irrespective of the exception set forth above, PEP and the Management Company will remain subject to certain ongoing requirements under the ASCIS relating to the disclosure of certain information to investors, including the publication of the financial statements of PEP.

#### Takeover Regulation

The Dutch takeover rules (as provided for in the Netherlands Act on the Supervision of the Securities Trade 1995 (*Wet toezicht effectenverkeer 1995*), as amended, and the Netherlands Decree on the Supervision of the Securities Trade 1995 (*Besluit toezicht effectenverkeer 1995*), as amended) will apply to PEP once Admission has occurred and for as long as the Ordinary Units are listed on Eurolist by Euronext.

Dutch law currently does not provide for mandatory takeover bids. However, such rules are expected to become effective in the course of 2006 when the Takeovers Directive is implemented. The Takeovers Directive applies to takeover bids for the securities of entities governed by the laws of a member state of the EU where all or some of those securities are admitted to trading on a regulated market in one or more

member states. Pursuant to the Takeovers Directive, member states should ensure protection of minority shareholders by, amongst others, obliging the Person, or Persons acting in concert, that acquire(s) control of a listed entity to make an offer to all the holders of that entity's securities for all their holdings at an equitable price. The laws of the member state in which the entity has its registered office will determine the percentage that is regarded to confer control over the entity.

## PART VI

### THE OFFER

#### **The Offer**

Up to 49,689,590 Ordinary Units, representing 26.3 per cent. of the total number of issued Ordinary Units as at Admission, are being offered for sale by the Selling Unitholders pursuant to the Offer at the Offer Price which is expected to be in the range of between €14.35 and €14.85 per Ordinary Unit. The actual number of Ordinary Units offered in the Offer and the Offer Price will be published in a pricing statement on 22 September 2006. The pricing statement will be made publicly available by means of a press release and an advertisement in a Dutch daily newspaper of wide circulation and the Euronext Amsterdam Official List (*Officiële Prijscourant*) and will be filed on 21 September 2006 with the CSSF for it to be made available on the website of the Luxembourg Stock Exchange.

The Offer is being made by means of a public offer of Ordinary Units in The Netherlands, an offer of Ordinary Units to certain institutional and other sophisticated investors outside the U.S. and an offer of Ordinary Units in the U.S. to persons reasonably believed to be both QIBs and QPs. The Ordinary Units are not being offered to and are not eligible for investment by any plan or other “benefit plan investor” that is subject to Title I of ERISA or Section 4975 of the Code.

In connection with the Offer, the Selling Unitholders have granted the Joint Bookrunners an Over-allotment Option which is exercisable, in whole or in part, upon notice by the Joint Bookrunners, during the period commencing on the date the Offer Price is announced and ending on 27 October 2006 (as described below under “Stabilisation and Over-allotment”). Assuming 49,689,590 Ordinary Units are sold in the Offer and the Over-allotment Option is not exercised and based on the Offer Price Range of between €14.35 and €14.85 per Ordinary Unit, the Offer will raise between €713,045,617 million and €737,890,412 million of proceeds. The Over-allotment Option, if fully exercised, could raise between €87,755,960 million and €90,813,660 million of additional proceeds. PEP will not receive any of the proceeds of the Offer. No existing Unitholder nor any Manager intends to subscribe for Ordinary Units in the Offer, though affiliates or related parties of existing Unitholders may participate in the Offering.

The Joint Bookrunners will determine the categories of institutional or other sophisticated investors that can participate in the Offer, and allocations of Ordinary Units under the Offer will be determined by the Joint Bookrunners after receipt of indications of interest from prospective investors.

Immediately following Settlement, and after consultation with Euronext Amsterdam, it is expected that at least 20 per cent. of PEP’s issued Ordinary Units will be publicly held.

#### **Bookbuilding**

Indications of interest in acquiring Ordinary Units will be solicited by Deutsche Bank and Morgan Stanley from institutional and other sophisticated investors. Based on indications received, Deutsche Bank and Morgan Stanley will conduct a bookbuilding process pursuant to which they will endeavour to establish the price or prices at which there is demand for the Ordinary Units and the number of Ordinary Units which may be sold under the Offer.

The latest time and date for receipt of indications of interest in the Offer is 5.00 p.m. CET on 21 September 2006, but that time may be accelerated or extended at the discretion of Deutsche Bank and Morgan Stanley (with the agreement of the Management Company).

The Offer Price will be determined by Deutsche Bank and Morgan Stanley in consultation with the Management Company, and the number of Ordinary Units to be sold pursuant to the Offer will be agreed between Deutsche Bank and Morgan Stanley having regard to the outcome of the bookbuilding process. It is currently expected that the Offer Price will be within the Offer Price Range, but this range is indicative only and may change during the course of the Offer. The Offer Price may be set within, above or below such price range. If the Offer Price Range does change during the course of the Offer, it is not expected that there would be an announcement of the change until the determination of the Offer Price, unless required by law. The Offer Price and the number of Ordinary Units to be sold under the Offer are expected to be determined on 21 September 2006.

Any acceleration or extension of the timetable for the Offer will be announced in a press release (together with any related revision of the expected dates of pricing, allocation and closing) at least two hours before the proposed expiration of the accelerated timetable for the Offer or, in the event of an extended timetable

for the Offer, at least two hours before the expiration of the original timetable for the Offer. Any extension of the timetable for the Offer will be for a minimum of one full Business Day.

Among the factors which will be considered in determining the Offer Price will be prevailing market conditions, the net asset value of PEP as at 30 June 2006 and the demand for Ordinary Units in the bookbuilding.

Completion of the Offer will be subject, *inter alia*, to the determination of the Offer Price by Deutsche Bank and Morgan Stanley in conjunction with the Management Company and each of their decisions to proceed with the Offer. It will also be subject to the satisfaction of conditions contained in the Underwriting Agreement, including Admission occurring and becoming effective by 11.00 a.m. CET on 27 September 2006 and to the Underwriting Agreement not having been terminated. Certain conditions contained in the Underwriting Agreement are not capable of waiver.

### **Underwriting**

The Offer is underwritten subject to the terms and conditions of the Underwriting Agreement. The Offer will lapse if the Underwriting Agreement is terminated in accordance with its terms prior to Admission, and any funds received in respect of the Offer will be returned to applicants without interest.

Further details of the Underwriting Agreement are set out in paragraph 9.5 of Part VII—“Additional Information” of this Prospectus.

### **Dealings**

The Offer is subject to the satisfaction of the conditions set out in the Underwriting Agreement. These conditions include the absence of any breach of representation or warranty in the Underwriting Agreement and Admission occurring and becoming effective by 11.00 a.m. CET on 27 September 2006.

Application will be made for the Ordinary Units to be admitted to listing and trading on Eurolist by Euronext and the Official List of the Luxembourg Stock Exchange. It is expected that trading in the Ordinary Units on Eurolist by Euronext will commence on 22 September 2006 on an “as-if-and-when-issued-or-delivered” basis. The Settlement Date on which the closing of the Offer and delivery of the Ordinary Units is scheduled to take place, is expected to be on 27 September 2006. In accordance with the management regulations in place as at the date of this Prospectus, upon Admission the Class C Units will either be redeemed in full, or, if the holders thereof have so elected, be converted into Class A(1) Units. One holder of Class C Units has elected to exercise its right to convert 2,500,000 Class C(1) and 2,500,000 Class C(2) Units into 3,448,000 Class A(1) Units (which will then be reclassified as Ordinary Units), effective on Admission. Such Class A(1) Units will subsequently be reclassified as Ordinary Units and application will be made for such Ordinary Units to be admitted to listing on the Official List of the Luxembourg Stock Exchange, and to listing and trading on Eurolist by Euronext.

Investors that wish to enter into transactions in the Ordinary Units prior to the Settlement Date, whether such transactions are effected on Eurolist by Euronext or otherwise, should be aware that the closing of the Offer may not take place on the Settlement Date, or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived. Such conditions include Admission occurring and becoming effective by not later than 11.00 a.m. CET on 27 September 2006. If closing of the Offer does not take place on the Settlement Date or at all, all transactions in the Ordinary Units on Eurolist by Euronext conducted between the commencement of trading and the Settlement Date are subject to cancellation by Euronext Amsterdam. All dealings in the Ordinary Units on Eurolist by Euronext prior to the Settlement Date are at the sole risk of the parties concerned.

Euronext Amsterdam does not accept any responsibility or liability for any loss or damage incurred by any Person as a result of the cancellation of any transactions by Euronext Amsterdam.

### **Stabilisation and Over-allotment**

In connection with the Offer, Morgan Stanley, as stabilising manager, or any of its agents may to the extent permitted by applicable law at its discretion over-allot or effect transactions with a view to supporting the market price of the Ordinary Units at a level higher than that which might otherwise prevail in the open market. Morgan Stanley is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. There can be no assurance that such transactions will be undertaken. If they are undertaken they may be stopped at any



time and may only be undertaken during the period from the Euronext Listing Date up to and including the day that is 30 days following Admission. Except as required by law, Morgan Stanley does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offer.

In connection with the Offer, the Selling Unitholders have granted the Joint Bookrunners an Over-allotment Option, pursuant to which the Joint Bookrunners may require the Selling Unitholders to sell additional Ordinary Units of up to 15 per cent. of the aggregate number of Ordinary Units available in the Offer (before any exercise of the Over-allotment Option), at the Offer Price to cover over-allotments, if any, made in connection with the Offer and to cover short positions resulting from stabilisation transactions. The Over-allotment Option may be exercised, in whole or in part, by the Joint Bookrunners giving written notice to PEP and the Selling Unitholders not later than 30 days after the Settlement Date.

The Over-allotment Units made available pursuant to the Over-allotment Option will rank *pari passu* with the Ordinary Units, including for all dividends and other distributions declared, made or paid on the Ordinary Units after Admission of the Ordinary Units, and will form a single class for all purposes with all the other Ordinary Units.

### **Lock-up Arrangements**

All Selling Unitholders and certain non-selling Unitholders (including PLD) have agreed that they will not, during the period commencing on the date of execution of the Underwriting Agreement and ending 180 days from the Settlement Date, (A) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Units or any securities convertible into or exercisable or exchangeable for Units, (B) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Units, whether any such transaction described in clause (A) or (B) above is to be settled by delivery of Units or such other securities, in cash or otherwise, or except in each case with the prior written consent of the Underwriters. The above restrictions will not apply to (i) the sale of Ordinary Units to the Underwriters pursuant to the Underwriting Agreement, (ii) transactions relating to Ordinary Units or other securities acquired in open market transactions after the completion of the Offer, (iii) the conversion and/or reclassification of existing Units into Ordinary Units and Preferred Units on the Settlement Date as contemplated in this Prospectus, (iv) the conversion of Preferred Units into Ordinary Units in accordance with the terms thereof, (v) transfers or sales of Ordinary Units to an entity that is controlled by, controls, or under common control with the relevant Unitholder, with “control” being defined as ownership of more than 50% of the voting securities of the relevant entity, or (vi) the sale by a Unitholder (acting individually) after the Settlement Date, through a single privately negotiated off market transaction not involving an exchange, broker or other intermediary or entered into for hedging or similar purposes with a single purchaser, of Ordinary Units representing 4.25 per cent. or more of the total number of issued Ordinary Units at the time of the relevant transaction, *provided* that in the case of a transfer or sale pursuant to clauses (v) or (vi), prior to such transfer or sale the transferee or purchaser has entered into a written agreement with Deutsche Bank and Morgan Stanley accepting the above restrictions. ProLogis or one of its affiliates is also permitted to transfer Ordinary Units with a value equivalent to €1 million to Robert J. Watson as part of his compensation and incentive package as described in Part IV—“Management of PEP” of this Prospectus.

In addition and subject to certain restrictions, each Selling Unitholder has consented to the entry of stop transfer instructions with PEP’s transfer agent and registrar against the transfer of any Units held by such Selling Unitholder except in compliance with the foregoing restrictions.

5.5 per cent. of Units will not be subject to any lock-up arrangements after the Settlement Date. Of such Units, a number equal to 3.7 per cent. of all Units will be subject to an orderly marketing agreement.

For details of the lock-up arrangements included in the Underwriting Agreement, see paragraph 9.5 of Part VII—“Additional Information” of this Prospectus.

### **Costs and Expenses of the Offer**

Except as set forth in the Underwriting Agreement, the costs and expenses of the Offer (including underwriting discounts and commissions) will be borne by PEP and are expected to be between €30 million and €35 million.

**PART VII**  
**ADDITIONAL INFORMATION**

**1 Organisation and Units**

PEP was established in Luxembourg on 10 September 1999 as a closed-ended FCP. The Management Company is responsible for managing the assets of PEP for the account and in the exclusive interests of the Unitholders. Except as otherwise set out herein, where the Management Company or the Managers are referred to in this Prospectus as taking any action, it shall be understood as taking such action for and on behalf of PEP. PEP has the ability to issue Units in Classes or Series and Unitholders are bound by the Management Regulations as described in more detail below.

The base currency of PEP is the Euro. The provisions of the Management Regulations which confer preferential subscription rights upon the issue or sale of any Units are detailed below. Save as disclosed in this Prospectus, no Units have been issued nor has it been agreed to issue Units and no Units are proposed to be issued or are under option or agreed conditionally or unconditionally to be put under option. The Units are denominated in Euro and are in registered and definitive form. Units shall not be redeemable at the option of Unitholders. The Management Company has the power to redeem Units under the circumstances described in Article 12 of the Management Regulations.

**2 Changes in Capitalisation of PEP**

Ownership of PEP is split between Class A(1), Class A(2), Class A(3), Class B1, Class B2, Class C(1) and Class C(2) unitholders.

At the inception of PEP, 95.9 million Class A(1) Units were issued, partly paid, with the balance called over the three year period from 15 September 1999 at the direction of the Management Company. Class A(1) Units were issued at an initial price of €10 per Unit. On 31 December 2001, the majority of the Class A(1) Units were reclassified, with the consent of the Unitholders, into Class A(2) Units on a one for one basis. In December 2003, 8 million Class A(2) Units were redeemed. Fifty-two million Class A(3) Units were issued partly paid on 29 August 2003 with the balance called over a period of three years at the direction of the Management Company. The Class A(3) Units were fully paid up as at 30 June 2006. Class A(3) Units were issued at an initial price of €10.27 per Unit.

Thirty million Class B1 Units were subscribed for on 15 September 1999 by ProLogis and were issued partly paid in exchange for certain contributed properties. Class B1 Units were issued at an initial price of €10 per Unit. In December 2003, 17 million Class B1 Units were redeemed. Between December 1999 and June 2006, 26.7 million Class B2 Units were issued to, and subscribed for, by ProLogis.

Class C(1) and C(2) Units are cumulative convertible preferred units, subscribed for on 15 September 1999 and 29 August 2003 respectively, and issued at €10 per unit, fully paid.

In accordance with the management regulations in place as at the date of this Prospectus, upon Admission the Class C Units will either be redeemed in full, or, if the holders thereof have so elected, be converted into Class A(1) Units. One holder of Class C Units has elected to exercise its right to convert 2,500,000 Class C(1) and 2,500,000 Class C(2) Units into 3,448,000 Class A(1) Units (which will then be reclassified as Ordinary Units), effective on Admission. The other holder of Class C Units has not so elected, and the 15,320,000 Class C Units which it holds will therefore be redeemed in full on Admission.

As at 30 June 2006, the ownership of PEP is split between Unitholders as set out in the table below.

Class	Number of Units	Nominal Value (€)	Total Nominal Value (€)	Conversion Rate under the Offer <sup>(1)</sup>	Number of Ordinary Units on Admission
Class A(1) .....	500,000	10.00	5,000,000	1.0000	500,000
Class A(2) .....	87,391,985	10.00	873,919,846	1.0000	87,391,984
Class A(3) .....	52,093,478	10.27	535,000,019	0.9989	52,037,163
Class B1 .....	13,000,000	10.00	130,000,000	1.3455 <sup>(2)</sup>	17,491,136
Class B2 .....	26,664,966	10.86 <sup>(3)</sup>	289,650,749	1.0433	27,819,227
Class C(1) .....	10,160,000	10.00	101,600,000	0.6896	1,724,000 <sup>(4)</sup>
Class C(2) .....	10,160,000	10.00	101,600,000	0.6896	1,724,000 <sup>(4)</sup>

(1) Calculated in accordance with the management regulations, as in effect prior to Admission.

(2) Includes an element representing the promote fee owing to PLD. See paragraph 10.16 of Part VII—“Additional Information” of this Prospectus.

(3) Calculated using the total invested capital in the Class B2 Units divided by the total number of Class B2 Units.

(4) One holder of Class C Units has elected to exercise its right to convert the 2,500,000 Class C(1) and 2,500,000 Class C(2) Units which it holds into 3,448,000 Class A(1) Units (which will then be reclassified as Ordinary Units), effective on Admission. The remaining 7,660,000 Class C(1) and 7,660,000 Class C(2) Units will be redeemed in full on Admission.

### 3 Listing of the Units

The Class A(1), Class A(2), Class A(3), Class C(1) and Class C(2) Units are currently listed on the Official List of the Luxembourg Stock Exchange.

The Class C Units will either be redeemed in full or converted into Class A(1) Units, and the Class A(2), A(3), B1 and B2 Units will be converted into Class A(1) Units, in each case effective as at Admission. On Admission, the Class A(1) Units (including those A(1) Units into which the Class A(2), A(3), B1, B2 and Class C Units were converted) will be reclassified into Ordinary Units, and the Ordinary Units will be listed on the Official List of the Luxembourg Stock Exchange and will be admitted to listing and trading on Euronext.

### 4 The Management Regulations

The rights and obligations of the Unitholders, the Management Company and the Custodian are determined by the Management Regulations, which are governed by Luxembourg law. Unitholders are bound by the terms of the Management Regulations which determine the contractual relationship both among Unitholders and among Unitholders and the Management Company and the Custodian.

The full text of the Management Regulations is set out in Part XIV—“Management Regulations of PEP” of this Prospectus and should be reviewed in full by prospective investors. However, prospective investors’ attention is drawn in particular to the provisions summarised below.

#### Calculation of NAV

The NAV per Unit of each Class (or any Series thereof) is determined as at any Valuation Day by dividing (i) the net assets of PEP attributable to each Class of Units (or any Series thereof), being the value of the portion of assets less the portion of liabilities attributable to such Class (or any Series thereof) on any such Valuation Day, by (ii) the number of Units in the relevant Class (or Series) then outstanding, in accordance with the valuation rules set out in Article 9 of the Management Regulations, provided that the assets attributable to each Class of Units shall be determined in accordance with the rules applicable to the distribution of Residual Value upon a winding-up of PEP as set out in Article 20 of and the Schedule to the Management Regulations.

The value of the assets and liabilities of PEP (including, for the avoidance of doubt, investments made by PEP in any ProLogis Private Equity Fund or any ProLogis Joint Venture) will be determined in accordance with IFRS and Distribution Facilities owned by PEP (directly or indirectly through subsidiaries other than the ProLogis Private Equity Funds and ProLogis Joint Ventures) will be valued by the Independent Appraiser.

## **Issue of New Units and Pre-emption Rights**

Article 8 of the Management Regulations sets out the rights of the Management Company to issue new Units and the terms upon which such Units will be issued. The Management Company may cause PEP to issue new Units subject to the consent of the PEP Board. An issue of new Units also requires prior approval by a vote of at least 50 per cent. of all Unitholders (except Preferred Unitholders) present or represented at the relevant general meeting of Unitholders, except that, in any fiscal year, PEP may issue Units with an aggregate issue price of up to 10 per cent. of the total economic value of issued Units at the start of such fiscal year without the approval of Unitholders. Where new Units are issued, the existing holders of the same Class or Series thereof must be reserved the right to subscribe for new Units or Series of such Class or similar Classes on a preferential and rateable basis in accordance with the provisions contained in the Luxembourg Law of 10 August 1915 on Commercial Companies governing preferential subscription rights for shares issued by public companies, which shall be deemed to apply to PEP, provided that (i) Unitholders may waive such preferential subscription rights in respect of all applicable Units by a vote of the holders of at least 50 per cent. of the Units present or represented at the relevant general meeting of Unitholders; and (ii) if such new Units are to be issued without the need for the approval of Unitholders because they fall within the 10 per cent. allowance for issuances in any fiscal year referred to above, then the Management Company may waive such pre-emption rights.

Even if preferential subscription rights are waived generally in relation to an issue of Ordinary Units, ProLogis and ProLogis Related Parties will have a preferential subscription right to subscribe for such number of Ordinary Units as is required to ensure that they do not breach the minimum ownership requirement described under “ProLogis Unitholding” below.

Where PEP issues Units of an existing Class, the price per Unit at which such Units are issued will be the NAV per Unit of the first Series of the relevant Class as determined in accordance with the Management Regulations as of such Valuation Day as is determined in accordance with such policy as the Management Company may determine from time to time.

The price at which Units are issued may be increased by (i) a market premium (commission) charged for the benefit of PEP based on the difference, if positive, between the economic value of each Unit of the same or similar Class to that being issued, as determined by the Management Company taking into account relevant market and financial factors, minus the NAV per Unit of such same or similar Class; and (ii) a placement fee of up to 5 per cent. charged to investors for the benefit of PEP or placement agents, as determined by the Management Company, provided that if this placement fee is charged for the benefit of PEP, then investors investing at the same time will be treated on an equal basis.

## **Distribution to Unitholders**

Distributions to Unitholders are determined in accordance with Article 15 of the Management Regulations.

Distributions, as well as the amount of such distributions, are decided by the Management Company, provided that in no event shall any distributions be made which would result in the net assets of PEP falling to below the minimum amount required under Luxembourg law, which as at the date of this Prospectus is €1,250,000.

Distributions of Distributable Cash Flow (substantially all of which will be distributed in respect of the Units, subject to any legal restrictions on distributions) will be made quarterly within 30 days following the end of the relevant quarter (or more frequently as the Management Company so determines, including in the case of accrued and unpaid returns on Preferred Units) in the following sequence:

- (i) Preferred Units will receive pro rata payment of amounts of accrued and unpaid preferred returns plus interest on any such accruals at the rate of preferred return specified in Part I of the Schedule to the Management Regulations;
- (ii) Preferred Units will receive pro rata payment of an amount in respect of each Preferred Unit, calculated to provide a return at the rate of preferred return specified in Part I of the Schedule to the Management Regulations on the average paid-up capital per Preferred Unit over the period from the preceding payment date;

- (iii) Preferred Units which are subordinated to Preferred Units in paragraphs (i) and (ii) above (if any) will then receive payment on the same basis as in paragraphs (i) and (ii) in the order of subordination; and
- (iv) all other Units will receive 100 per cent. of all remaining Distributable Cash Flow which the Management Company has decided should be distributed; provided, however, that at the time of issue of a new Class of Units, other than Preferred Units, the formula of distribution of Distributable Cash Flow amongst these Units shall be set out in an amendment to the Management Regulations.

The Management Company may withhold from distributions to any Unitholder amounts equal to any French 3 per cent. real estate holding tax suffered by PEP or a Relevant Entity in the circumstances described in Article 15 of the Management Regulations.

The Management Company has the ability to decide that the proceeds from (i) the sale of any asset in the Portfolio, including, without limitation, Distribution Facilities, or (ii) any refinancing of the Portfolio or any asset in the Portfolio will be either treated as Distributable Cash Flow (and distributed as described above) or held for investment and re-investment.

Allocation of Residual Value upon a winding up of PEP is determined in accordance with Article 20 of the Management Regulations and shall be made in the following sequence:

- (i) Preferred Units with the same ranking will receive pro rata payment of amounts of accrued and unpaid preferred returns plus interest on any such accruals at the appropriate rate specified in Part II of the Schedule to the Management Regulations;
- (ii) Preferred Units with the same ranking will receive payment of a preferred return on the issue price per Unit for the period from the preceding date on which Distributable Cash Flow was distributed at the rate specified in Part II of the Schedule to the Management Regulations;
- (iii) Preferred Units with the same ranking will receive a return of the issue price per Preferred Unit;
- (iv) Preferred Units which are subordinated to Preferred Units in paragraphs (i) to (iii) inclusive, above, will then receive payment on the same basis as in paragraphs (i) to (iii) inclusive above, in the order of subordination; and
- (v) all Units other than Preferred Units will receive a payment of Residual Value to each Unit pro rata to the number of outstanding Units, and Preferred Units shown in Part II of the Schedule to the Management Regulations to be eligible for allocation under this paragraph (v) will receive amounts calculated in accordance with Part II of the Schedule to the Management Regulations.

### **Ownership Limitations**

Article 11 of the Management Regulations details the restrictions on the ownership of Units. Any single Person who owns Ordinary Units in excess of the Ownership Limitation shall be prohibited from exercising voting rights in respect of those Excess Units, and accordingly, any purported votes of such Excess Units shall be disregarded and shall have no effect. The Ownership Limitation means, in relation to a single Person, 9.9 per cent. in number of the outstanding Ordinary Units or 50 per cent. in number of the outstanding Ordinary Units held in aggregate by five or fewer Persons, except that (i) the Ownership Limitation does not apply to ProLogis and ProLogis Related Parties; and (ii) the ownership limit applicable to Unitholders (other than ProLogis and ProLogis Related Parties) which hold more than 9.9 per cent. in number of the outstanding Ordinary Units immediately prior to the Offer, is 20 per cent. in number of the outstanding Ordinary Units. Any Excess Units will be compulsorily transferred to the Excess Units Fiduciary in accordance with the Management Regulations and accordingly the voting rights in respect of such Excess Units shall be transferred to such Excess Units Fiduciary. In the case of Excess Units being held by several Persons, the creation of Excess Units will be determined pro rata among all such Persons.

Written notice must be given to PEP immediately in the event that Excess Units result from any acquisition or transfer of Ordinary Units, and any Person owning Ordinary Units must provide PEP with such information as PEP may reasonably request in order to apply the ownership, voting and transfer restrictions set out in Article 11 of the Management Regulations.

The Management Company has the power to exempt a Person from the Ownership Limitation if the Management Company obtains such representations and undertakings from such Person as the Management Company may deem appropriate.



The Excess Units Fiduciary holds Excess Units for the exclusive benefit of the relevant Unitholder(s) and has the power to determine whether and in what manner to vote or decline to vote the Excess Units without reference to or the direction of the Unitholder. All distributions and proceeds of the redemption of Excess Units will be held for the benefit of the relevant Unitholder(s) and the Excess Units Fiduciary will account to it for such payments. The proceeds of any sale or transfer of the Excess Units will be remitted to the relevant Unitholder(s).

The Ownership Limitations, and general transfer restrictions other than transfer restrictions related to French 3 per cent. real estate holding tax and certain other prohibited Unitholders, as described under the heading “Prohibited Unitholder Transfer Restriction” below, shall not apply if any Person has offered to all holders of all Classes of Ordinary Units the acquisition of their Ordinary Units at a price set out in the offer and Unitholders holding more than 95 per cent. of all such Ordinary Units, excluding Ordinary Units held by ProLogis or any ProLogis Related Party, have accepted such offer.

### **ProLogis Unitholding**

The Management Regulations provide that ProLogis will directly or indirectly, through one or more entities each of which shall be a ProLogis Related Party, maintain an aggregate ownership at or above 12.5 per cent. of the issued Ordinary Units until 30 June 2008 and no less than 10 per cent. of the Ordinary Units in issue thereafter. ProLogis and ProLogis Related Parties may not sell, transfer or dispose of Ordinary Units if as a result it would cause a breach of this ownership requirement. The Management Company will provide quarterly reports to Unitholders describing any transfers of Ordinary Units by ProLogis or any ProLogis Related Party (other than to ProLogis or any ProLogis Related Party) which have occurred during such quarter, and the Management Company will confirm in such reports that ProLogis has complied with the ownership requirements.

Failure to comply with this ownership requirement will result in the base management fee which would otherwise be payable to the Management Company ceasing to accrue or be payable in respect of the period in which the breach of the ownership requirement occurred and in any period it may continue, and Ordinary Unitholders shall have the right to terminate the Management Company with the approval of a vote passed by a simple majority of Ordinary Units at any time during which such a breach continues (unless such failure occurs by reason of any event other than a sale, transfer or disposal by ProLogis or a ProLogis Related Party, in which case Ordinary Unitholders will only have the right to terminate the Management Company but no other remedy or claim for loss will apply).

### **Prohibited Unitholder Transfer Restriction**

PEP shall be entitled not to register the transfer of Units if it reasonably determines that an entity which owns or owned such Units, directly or indirectly, is (i) a Non-Exempt Unitholder, and PEP or any Relevant Entity may be liable to pay any French 3 per cent. real estate holding tax as a result of such ownership and there are no reasonably satisfactory alternative arrangements for the payment of such French 3 per cent. real estate holding tax by the relevant Non-Exempt Unitholder; (ii) an ERISA Investor or (iii) a U.S. Person purchasing Units from another Unitholder (each, a “**Prohibited Unitholder**”).

The Management Company shall adopt such measures as are reasonably practicable in order to avoid the acquisition of Units by Prohibited Unitholders.

The Management Company will take reasonably practicable steps (having regard to the nature of PEP as a publicly traded vehicle) in accordance with its powers under the Management Regulations to (i) monitor whether Units are owned, directly or indirectly, by Prohibited Unitholders, and (ii) prevent such Prohibited Unitholders from owning Units, and to the extent that PEP or a Relevant Entity has suffered French 3 per cent. real estate holding tax as a result of Non-Exempt Unitholders owning Units (directly or indirectly), will use reasonable efforts to recover such tax from the relevant Non-Exempt Unitholders (which may include withholding amounts from distributions with respect to Units owned directly or indirectly by such Non-Exempt Unitholders).

## **Compulsory Transfers and Redemptions**

Units are not redeemable at the option of Unitholders.

PEP may redeem or compulsorily transfer Units in the following circumstances:

- (i) if the continued participation of a Unitholder is likely to cause PEP or the Management Company to violate any material law, regulation, or interpretation or would result in PEP, the Management Company or any Unitholder suffering material taxation, economic or other disadvantages which they would not have suffered had such person not been or ceased to be a Unitholder;
- (ii) if such Unitholder has materially violated any provision of the Management Regulations, (including the Ownership Limitations referred to above or any other restrictions on ownership of Units);
- (iii) if the Units were acquired or are being held, directly or indirectly, by or for the account or benefit of any person in violation of the provisions of the Management Regulations or the transfer restrictions set forth in the relevant prospectus or offering document;
- (iv) if in the opinion of the Management Company (a) such redemption would be appropriate to protect PEP from registration of the Units under the Securities Act, or from registration of PEP under the Investment Company Act; or (b) the holding of such Units would cause material regulatory or tax or other fiscal disadvantage to PEP;
- (v) if the Units were acquired or are being held by or for the account of any employee benefit plan subject to Title I of ERISA or Section 4975 of the Code; and
- (vi) such other circumstances as the Management Company may determine, where continued ownership would be materially prejudicial to the interests of PEP or the Unitholders.

The amount payable on such redemption of Units is the NAV of the Units of the relevant Class (or Series thereof) on the most recent Valuation Day prior to redemption. Such amount is payable without interest as soon as practicable (having regard to the liquidity of the Portfolio and the interest of Unitholders) after the effective date of the redemption and may be paid in cash or, subject to the approval of each relevant individual Unitholder, marketable securities.

Costs associated with redemption or a compulsory transfer may, if the Management Company so decides, be charged to the relevant Unitholder and such costs shall be deducted from the redemption or transfer proceeds payable to the Unitholder where the Management Company has exercised its power to redeem or compulsorily transfer Units pursuant to paragraphs (ii) or (iii), above.

The amount payable on a compulsory transfer will be the lesser of NAV or the best price reasonably obtainable from any other person as determined by the Management Company at its reasonable discretion.

## **Voting Rights**

Each Unitholder present in person or represented by written proxy at a general meeting of Unitholders and having a right to vote under the Management Regulations shall have one vote for each Unit held, subject to the provisions in respect of Excess Units detailed above. Fractional Units shall have no rights to vote. Units are entitled to vote in respect of the approval or removal of the Independent Board Members, the issuance of new Units where the Unitholders' consent is required pursuant to Article 8 of the Management Regulations, the approval of any change to the Management Regulations where such consent is required in accordance with Article 16 of the Management Regulations, the termination of the Management Company in accordance with Article 17 of the Management Regulations, the appointment of the independent auditor, the approval of the previous fiscal year's financial accounts and in respect of a change of legal form and liquidation of PEP.

## **Meetings of Unitholders**

Article 18 of the Management Regulations sets out in detail the provisions regarding meetings of Unitholders. The general meeting of Unitholders shall be convened by the Management Company. Except for a meeting called to consider a change of legal form of PEP (which may only be convened by the Management Company) or a resolution to remove the Management Company without cause (which may only be convened at the initiative of a simple majority of Independent Board Members

following a simple majority of Independent Board Members having voted to terminate the Management Company's appointment or by the Management Company), meetings may also be convened upon the request of (i) Unitholders representing at least one-fifth of the Units in issue, provided that any Units which are not entitled to vote on any point on the agenda for such meeting shall be disregarded or (ii) in relation to Class specific meetings of Unitholders, Unitholders representing at least one-fifth of the Units of the relevant Class. Notice of any meeting of Unitholders will be sent by the Management Company to the Unitholders at their registered address not less than 21 days prior to the date of the meeting. Unitholders may participate in any meeting in person or by written proxy. Except as noted below, a quorum at any general meeting is Unitholders present or represented holding at least 50 per cent. of the Units outstanding on the date of the meeting provided that Classes of Preferred Units, if any, shall be disregarded in order to determine whether the meeting is quorate to the extent such Units are not entitled to vote. For Class specific meetings, the quorum is 50 per cent. of all Units of the relevant Class, unless otherwise stated in the Management Regulations. If a quorum is not present at a general meeting, such meeting will be dissolved and a second general meeting will automatically be held on the day falling 14 days after the date of the inquorate meeting (or, if that day is not a Business Day in Luxembourg, on the first Business Day falling thereafter), and no quorum requirements shall apply to such second meeting. No quorum is required where the meeting has been convened to vote on a resolution related to the change of legal form of PEP, the election of Independent Board Members, the issue of Units, the appointment of independent auditors or to approve PEP's financial accounts for the previous fiscal year.

The Management Company shall be responsible for ensuring that the resolutions adopted at Unitholder meetings are implemented.

#### **Amendments to the Management Regulations**

The Management Company may amend the Management Regulations in the interest of Unitholders with the prior approval of the PEP Board and the consent of the Custodian but, for the avoidance of doubt, without the consent of Unitholders, provided that such amendment:

- (i) relates to the issuance of new Units subject to compliance with the 10 per cent. threshold of the aggregate issue price of Units issued in a fiscal year in accordance with Article 8 of the Management Regulations;
- (ii) relates to the increase of the percentage of the Ownership Limitation; or
- (iii) would be necessary in order to comply with fiscal or other statutory or official requirements affecting PEP, or as otherwise specifically provided for in the Management Regulations, in order to reflect a change of custodian or other service provider to PEP or in order to cure any ambiguity or to correct or supplement any internal inconsistencies in the Management Regulations,

provided that in the case of amendments made under (i) and (ii) the change would not, in the judgement of the Management Company, to any material extent, release any person from any liability or duty to Unitholders, disproportionately alter the interest of a Unitholder in relation to distributions of Distributable Cash Flow or Residual Value or increase the costs and charges payable by PEP.

Where practicable, Unitholders will be given 15 Business Days' notice of all amendments that are adopted without their consent.

In any other circumstances, the prior approval of the PEP Board and an affirmative vote of 67 per cent. of all Units, other than Preferred Units, is required for any amendment to the Management Regulations. No such amendment will become effective without the consent of the Custodian to the change.

#### **Liability of the Management Company, the PEP Board and the Custodian**

Subject to the provisions of Articles 15, 19 and 20 of the 2002 Law, in performing its functions under the Management Regulations, the Management Company shall act with due diligence and in good faith in the best interests of the Unitholders, and the Custodian shall use reasonable care in the exercise of its functions. The Management Company and the Custodian and their respective managers, directors, officers, employees, partners and agents (including any correspondent) and the PEP Board as a body or any Board Member shall not be liable for any error of judgement or mistake of law, for any loss suffered by PEP or for any actions taken or omitted to be taken in connection with

the matters to which the Management Regulations relate, except for, in the case of each considered individually, any loss resulting from (i) in the case of the Management Company or the Custodian, the non-fulfilment or improper fulfilment of the Management Company's or the Custodian's obligations under Luxembourg law; and (ii) in the case of the PEP Board as a body or any Board Member, gross negligence, wilful misconduct or fraud in the exercise of its functions. Certain matters relating to indemnification are set out at Article 21 of the Management Regulations.

Under Article 23 of the Management Regulations, any claim arising between the Unitholders, the Management Company, ProLogis, any ProLogis Related Party and the Custodian shall be settled according to Luxembourg law and subject to the jurisdiction of the District Court of Luxembourg, provided that the Management Company and the Custodian may subject themselves and PEP to the jurisdiction of courts of the countries in which the Units are offered or sold, with respect to claims by investors resident in such countries and, with respect to matters relating to subscriptions, redemptions and conversions by Unitholders resident in such countries, to the laws of such countries.

## 5 Managers' Interests

None of the Managers have any convictions in relation to fraudulent offences. None of the Managers have been the subject of any official public incrimination or sanction by statutory or regulatory authorities (including designated professional bodies), and none of the Managers have ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer.

Within the past five years, none of the Managers have been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of an administrative, management or supervisory body or a senior manager.

With the exception of the Chief Executive Officer of the Management Company, none of the Managers nor any Person connected with the Managers have an interest in any Units. For further details of the compensation and incentivisation which will be provided to the Chief Executive Officer of the Management Company, see Part IV—"Management of PEP" of this Prospectus.

There are no outstanding loans granted by PEP to any Manager, nor are there any guarantees provided by PEP for the benefit of any Manager.

Over the five years preceding the date of this Prospectus, the Managers have held the following directorships, managerial positions (apart from their role as Managers of PEP) and/or partnerships:

Name	Current	Previous
Robert J. Watson	Keystone Cranbury East, LLC Macquarie-ProLogis U.S. Trust Inc. Macquarie-ProLogis Mexico Trust Inc. Keystone Cranbury West, LLC Palmtree Acquisition Corporation ProLogis Canada Development Incorporated ProLogis Canada Incorporated ProLogis Canada Investment 1 through 10 Trusts ProLogis Canada Management Holding Corporation ProLogis Development Services Incorporated ProLogis Houston Holdings Inc. ProLogis IV, Inc. ProLogis Logistics Services Incorporated ProLogis Management Incorporated ProLogis Management Services Incorporated	ProLogis PLD International Inc. ProLogis France Developments Inc. ProLogis Management S.à r.l. ProLogis European Properties Fund ProLogis Poland Management Sp zoo ProLogis Czech I Sro ProLogis Finance BV Garonor Services SAS ProLogis Directorship S.à r.l. (and all subsidiaries) ProLogis Management BV Keystone Realty Services, Inc. ProLogis-Billabong Trust ProLogis Russia Incorporated ProLogis Russia Finance Incorporated

Name	Current	Previous
Robert J. Watson (Cont.)	ProLogis-North Carolina (1) Incorporated ProLogis-North Carolina (2) Incorporated ProLogis-DS Mexico Incorporated ProLogis Mexico Trust ANT, LLC ANT II, LLC Catellus Aberdeen, LLC Catellus Austin Land LP LLC Catellus Austin Retail GP LLC Catellus Austin, LLC Catellus Bergstrom Business Center, LLC Catellus Commercial Development Corporation Catellus Commercial Group, LLC Catellus Construction Corporation Catellus Fiber Optics, LLC Catellus Finance 1, LLC Catellus Internationale Centre South, LLC Catellus Land and Development Corporation Catellus McKinney Falls, LLC Catellus North Avenue Development Company, LLC Catellus Portfolio I, LLC Catellus Prairie Glen, Inc. Catellus REIT, LLC Catellus Residential Communities, Inc. Catellus Residential Construction, Inc. Catellus Residential Group, Inc. Catellus Residential Homes Corp I, Inc. Catellus Residential Marbella, Inc. Catellus Ocean Ridge, Inc. Catellus Residential Ridgemoor Homes, Inc. Catellus Tracy, LLC Catellus Third and King, LLC Harbor Drive New Orleans, LLC Catellus Union Station, Inc. Catellus Urban Development Corporation Catellus Residential Ridgemoor, Inc. Catellus Urban Construction, Inc. Catellus Urban Renewal North Avenue I, LLC Catellus West, LLC CCG Ontario Operations, LLC CCG Ontario, LLC CDC Fort Worth, LLC Harbor Drive Company, LLC Mission Bay S26(a), LLC	



Name	Current	Previous
Robert J. Watson (Cont.)	Harbor Drive San Diego, LLC Mission Bay N2 Parcel I, LLC Mission Bay N3a, Parcel 2, LLC Mission Bay S26(a)/S28, LLC PMIC Operations, LLC Port Reading-Carteret, LLC Port Reading-Woodbridge I, LLC Santa Fe Towers Land Company, LLC SF Pacific Properties, LLC Union Station Venture One Corporation Catellus RVL, LLC	
Peter Cassells	Angeloir S.à r.l. Artoilog S.à r.l. Bre Francilienne 2 S.à r.l. Bre Francilienne Compans S.à r.l. Bre Francilienne S.à r.l. Bre Orbium S.à r.l. CHESNES NORD Crux Immobiliare S.à r.l. Garonor Deutschland GmbH Garonor SAS Garonor Verwaltung GmbH Garonor Verwaltung GmbH & Co. Koln Eifeltor Kommanditgesellschaft PLD International Incorporated ProLogis ProLogis Belgium I BVBA ProLogis Belgium II BVBA ProLogis Belgium III BVBA ProLogis Belgium IV BVBA ProLogis Belgium V BVBA ProLogis Belgium VI BVBA ProLogis Belgium VII BVBA ProLogis Belgium VIII BVBA ProLogis Central European Finance SL ProLogis Czech Republic II Sro ProLogis Czech Republic III Sro ProLogis Czech Republic IV Sro ProLogis Czech Republic IX Sro ProLogis Czech Republic VI Sro ProLogis Czech Republic VII Sro ProLogis Czech Republic VIII Sro ProLogis Czech Republic X Sro ProLogis Czech Republic XI Sro ProLogis Czech Republic XII Sro ProLogis Czech Republic XIII Sro ProLogis Czech Republic XIV Sro ProLogis Czech Republic XV Sro ProLogis Developments Funding SL ProLogis Directorship S.à r.l. ProLogis European Finance VI S.à r.l.	Imlog Srl (demerged) ProLogis Korea Developments S.à r.l. ProLogis Korea Developments BVBA ProLogis France XXXII Eurl

Name	Current	Previous
Peter Cassells (Cont.)	ProLogis European Finance VII	
	S.à r.l.	
	ProLogis European Holdings VI	
	S.à r.l.	
	ProLogis Finance Kft	
	ProLogis France I Eurl	
	ProLogis France II Eurl	
	ProLogis France III Eurl	
	ProLogis France IV Eurl	
	ProLogis France IX Eurl	
	ProLogis France L Eurl	
	ProLogis France LI Eurl	
	ProLogis France LII Eurl	
	ProLogis France LIII Eurl	
	ProLogis France LIV Eurl	
	ProLogis France LIX Eurl	
	ProLogis France LV Eurl	
	ProLogis France LVI Eurl	
	ProLogis France LVII Eurl	
	ProLogis France LVIII Eurl	
	ProLogis France LX Eurl	
	ProLogis France LXI Eurl	
	ProLogis France LXII Eurl	
	ProLogis Directorship S.à r.l.	
	ProLogis France LXIII Eurl	
	ProLogis France LXIV Eurl	
	ProLogis France LXV Eurl	
	ProLogis France LXVI Eurl	
	ProLogis France LXVII Eurl	
	ProLogis France V Eurl	
	ProLogis France VI Eurl	
	ProLogis France VII Eurl	
	ProLogis France VIII Eurl	
	ProLogis France X Eurl	
	ProLogis France XI Eurl	
	ProLogis France XII Eurl	
	ProLogis France XIII Eurl	
	ProLogis France XIV Eurl	
	ProLogis France XIX Eurl	
	ProLogis France XL Eurl	
	ProLogis France XLI Eurl	
	ProLogis France XLII Eurl	
	ProLogis France XLIII Eurl	
	ProLogis France XLIX Eurl	
	ProLogis France XLV Eurl	
	ProLogis France XLVI Eurl	
	ProLogis France XLVII Eurl	
	ProLogis France XLVIII Eurl	
	ProLogis France XV Eurl	
	ProLogis France XVI Eurl	
	ProLogis France XVII Eurl	
	ProLogis France XVIII Eurl	
	ProLogis France XX Eurl	
	ProLogis France XXI Eurl	
	ProLogis France XXII Eurl	
	ProLogis France XXIII Eurl	
	ProLogis France XXIV Eurl	
	ProLogis France XXIX Eurl	

Name	Current	Previous
Peter Cassells (Cont.)	ProLogis France XXV Eurl	
	ProLogis France XXVI Eurl	
	ProLogis France XXVII Eurl	
	ProLogis France XXVIII Eurl	
	ProLogis France XXX Eurl	
	ProLogis France XXXI Eurl	
	ProLogis France XXXIII Eurl	
	ProLogis France XXXIV Eurl	
	ProLogis France XXXIX Eurl	
	ProLogis France XXXVI Eurl	
	ProLogis France XXXVII Eurl	
	ProLogis France XXXVIII Eurl	
	ProLogis Holding AB	
	ProLogis Hungary Kft	
	ProLogis Italy Ia Srl	
	ProLogis Italy Ib Srl	
	ProLogis Italy Ic Srl	
	ProLogis Italy Id Srl	
	ProLogis Italy II Srl	
	ProLogis Italy IX Srl	
	ProLogis Italy IXa Srl	
	ProLogis Italy VI 1 Srl	
	ProLogis Italy VI 2 Srl	
	ProLogis Italy VI 3 Srl	
	ProLogis Italy VI 4 Srl	
	ProLogis Italy VIa Srl	
	ProLogis Italy VII Srl	
	ProLogis Italy VIIb Srl	
	ProLogis Italy VIII Srl	
	ProLogis Italy X Srl	
	ProLogis Italy XI Srl	
	ProLogis Italy XII Srl	
	ProLogis Italy XIII Srl	
	ProLogis Italy XIV Srl	
	ProLogis Italy XV Srl	
	ProLogis Italy XV Srl	
	ProLogis Italy XVI Srl	
	ProLogis Italy XX Srl	
	ProLogis Italy XXI Srl	
	ProLogis Italy XXII Srl	
	ProLogis Italy XXIII Srl	
	ProLogis Italy XXV Srl	
	ProLogis Management S.à r.l	
	ProLogis Management Services Eurl	
	ProLogis Mauritius Limited	
	ProLogis Poland I Sp zoo	
	ProLogis Poland II Sp zoo	
	ProLogis Poland III Sp zoo	
	ProLogis Poland IV Sp zoo	
	ProLogis Poland IX Sp zoo	
	ProLogis Poland L Sp zoo	
	ProLogis Poland LI Sp zoo	
	ProLogis Poland LII Sp zoo	
	ProLogis Poland LIII Sp zoo	
	ProLogis Poland LIV Sp zoo	
	ProLogis Poland LV Sp zoo	
	ProLogis Poland LVI Sp zoo	

Name	Current	Previous
Peter Cassells (Cont.)	ProLogis Poland LVII Sp zoo ProLogis Poland LVIII Sp zoo ProLogis Poland LIX Sp zoo ProLogis Poland LX Sp zoo ProLogis Poland LXI Sp zoo ProLogis Poland LXII Sp zoo ProLogis Poland LXIII Sp zoo ProLogis Poland LXIV Sp zoo ProLogis Poland LXV Sp zoo ProLogis Poland LXVI Sp zoo ProLogis Poland LXVII Sp zoo ProLogis Poland LXVIII Sp zoo ProLogis Poland LXIX Sp zoo ProLogis Poland LXX Sp zoo ProLogis Poland LXXI Sp zoo ProLogis Poland LXXII Sp zoo ProLogis Poland LXXIII Sp zoo ProLogis Poland V Sp zoo ProLogis Poland VI Sp zoo ProLogis Poland VII Sp zoo ProLogis Poland VIII Sp zoo ProLogis Poland X Sp zoo ProLogis Poland XI Sp zoo ProLogis Poland XII Sp zoo ProLogis Poland XIII Sp zoo ProLogis Poland XIV Sp zoo ProLogis Poland XIX Sp zoo ProLogis Poland XL Sp zoo ProLogis Poland XLI Sp zoo ProLogis Poland XLII Sp zoo ProLogis Poland XLIV Sp zoo ProLogis Poland XLIX Sp zoo ProLogis Poland XLV Sp zoo ProLogis Poland XLVI Sp zoo ProLogis Poland XLVII Sp zoo ProLogis Poland XLVIII Sp zoo ProLogis Poland XV Sp zoo ProLogis Poland XVI Sp zoo ProLogis Poland XVII Sp zoo ProLogis Poland XVIII Sp zoo ProLogis Poland XX Sp zoo ProLogis Poland XXI Sp zoo ProLogis Poland XXII Sp zoo ProLogis Poland XXIII Sp zoo ProLogis Poland XXIV Sp zoo ProLogis Poland XXIX Sp zoo ProLogis Poland XXV Sp zoo ProLogis Poland XXVI Sp zoo ProLogis Poland XXVII Sp zoo ProLogis Poland XXVIII Sp zoo ProLogis Poland XXX Sp zoo ProLogis Poland XXXI Sp zoo ProLogis Poland XXXII Sp zoo ProLogis Poland XXXIII Sp zoo ProLogis Poland XXXIV Sp zoo ProLogis Poland XXXIX Sp zoo ProLogis Poland XXXV Sp zoo	

Name	Current	Previous
Peter Cassells (Cont.)	ProLogis Poland XXXVI Sp zoo ProLogis Poland XXXVII Sp zoo ProLogis Poland XXXVIII Sp zoo ProLogis Russia Finance Incorporated ProLogis Russia Incorporated ProLogis Singapore Holding PTE. Ltd ProLogis Singapore Investments Incorporated ProLogis Singapore Management PTE. Ltd ProLogis Singapore I PTE Ltd. ProLogis Slovak Republic I Sro ProLogis Slovak Republic II Sro ProLogis Slovak Republic III Sro ProLogis Spain 1 SL ProLogis Spain II SL ProLogis Spain III SL ProLogis Spain IV SL ProLogis Spain IX SL ProLogis Spain V SL ProLogis Spain VI SL ProLogis Spain VII SL ProLogis Spain VIII SL ProLogis Spain X SL ProLogis Spain XI SL ProLogis Spain XII SL ProLogis Spain XIII SL ProLogis Spain XIV SL ProLogis Spain XV SL ProLogis Spain XVI SL ProLogis Sweden Gothenburg AB ProLogis Sweden I AB ProLogis Sweden Norrkoping AB ProLogis Sweden Orebro AB ProLogis UK Management Sàrl SCI Crepy Paris Nord SCI Croisee des Autoroutes Lorraines SCI du Carrefour de l'Europe SCI Ile de France SCI Le Parc SCI Plessis Pate SNC Aulnay Extension Ouest SNC Garonor Le Havre SNC Melun 7 Société Civile Immobilière Copernic Société Civile Immobilière d'Ormes Société Civile Immobilière Plessis Pate 2 Sofinvest Sàrl TCL Holding AB WIC I Sp zoo WIC III Sp zoo WIC IV Sp zoo	



Name	Current	Previous
Peter Cassells (Cont.)	ProLogis Korea SG Holding BV ProLogis Japan SG Holding BV Cryologic Investments S.à r.l Cryologic Participations S.à r.l ProLogis Developments Holding S.à r.l ProLogis France Developments Incorporated ProLogis Russia Holdings S.à r.l ProLogis UK Developments S.à r.l ProLogis UK Holdings SA TCL Holdings SA TCL S.à r.l.	
Ralf Wessel		G.T. Immoldière S.A.

## 6 Other Service Providers

### 6.1 Independent Appraiser

JLL has been appointed as Independent Appraiser for the purpose of appraising the OMV of the Portfolio, except in relation to Distribution Facilities in Sweden and certain Distribution facilities in France and Italy, where DTZ has been retained. The Independent Appraiser is paid a fee for such services out of the net assets of PEP. All Distribution Facilities are valued by the Independent Appraiser by way of an annual valuation of the Portfolio or, as the Management Company may reasonably require, if there is a change in the general economic situation or in the condition of the properties which requires a new valuation to be conducted. Additionally, the Independent Appraiser values or revalues individual properties in the Portfolio on their acquisition or disposal (including in relation to contributions in kind or redemptions in specie). A new valuation is not necessary if the sale of the property takes place within six months after the last valuation thereof. Each such valuation will be made on the basis of OMV. If a conflict of interest arises for JLL, for instance, when it has been retained by a seller to value properties which PEP is attempting to acquire, DTZ will be engaged as the Independent Appraiser.

### 6.2 The Custodian

RBC Dexia Investor Services Bank S.A. is the Custodian of PEP's and PEP's wholly-owned subsidiaries' title to assets in the Portfolio pursuant to the Custodian Agreement.

The Custodian is a public limited company (*société anonyme*) incorporated under Luxembourg law on 30 March 1994 and registered with number B-47.192. Its registered office is at 5, rue Thomas Edison, L-1445 Strassen, Grand Duchy of Luxembourg. The Custodian's consolidated and regulated funds amounted to approximately €414.42 million as at 30 June 2006, and as at 2 January 2006 its authorised share capital was €500 million.

In accordance with the Custodian Agreement, Article 3 of the Management Regulations and Luxembourg law, the Custodian carries out the usual duties regarding custody, cash and securities deposits and may entrust its correspondents with the safekeeping of certain assets, provided that any cash of wholly-owned subsidiaries of PEP may be held with the prior approval of the Custodian by such banks as indicated by the Management Company. The Custodian's liability in relation to its duties is not affected by entrusting the safekeeping of all or part of the assets in its care to a third party.

Insofar as permitted by Luxembourg law, the Custodian is entitled to, and obligated to, in its own name:

- protect PEP's assets and its wholly-owned subsidiaries against any claims of third parties;
- assert the rights of the Unitholders against the Management Company; and
- take action against enforcement measures of third parties if PEP or its wholly-owned subsidiaries are not liable to such parties.

Subject to Luxembourg law, the Management Company is authorised, and has the obligation to bring in its own name, claims of the Unitholders against the Custodian.

Under the 2002 Law, the Custodian must:

- ensure that any sale, issue, redemption and cancellation of Units effected on behalf of PEP are carried out in accordance with the 2002 Law and the Management Regulations;
- carry out the instructions of the Management Company unless they conflict with the 2002 Law, any other applicable law or the Management Regulations;
- ensure that in transactions involving PEP's assets or its wholly-owned subsidiaries, the consideration is remitted to the Custodian within the usual time limits in respect of the specified assets; and
- ensure that PEP's income and assets and those of its wholly-owned subsidiaries are applied in accordance with the Management Regulations.

The Custodian Agreement is subject to the right of the Management Company or the Custodian to terminate on 90 days' notice in writing subject to certain conditions set out in Article 3 of the Management Regulations. The Custodian Agreement may also be terminated by either party on 10 days' notice in writing: (i) if the other party has committed a material breach of the Custodian Agreement and fails to make good such breach within 30 days of receipt of such notice or such period as may be reasonably required to make good such breach; (ii) if either party shall have become insolvent, or otherwise unable to pay its debts, or have gone into liquidation, whether voluntarily or compulsorily (except a voluntary liquidation on terms previously approved in writing by the other party), or have had a receiver appointed over all or part of its assets or has received notice of any winding-up proceedings; or (iii) upon PEP and/or the Management Company ceasing to be authorised under the Luxembourg laws on collective investment undertakings or ceasing to be authorised to act as such under Luxembourg law. The Custodian receives a fee out of PEP's net assets, payable quarterly in arrears, which fee is determined from time to time by agreement between the Management Company and the Custodian and calculated in accordance with usual banking practice in Luxembourg for the provision of similar services. Transaction fees, disbursements and out-of-pocket expenses properly incurred by the Custodian in carrying out its duties under the Custodian Agreement are also payable to the Custodian. Any entity to which the Custodian entrusts the safekeeping of all or part of PEP's assets (other than affiliates of the Custodian) and such other banks as appointed by the Management Company to hold cash of wholly-owned subsidiaries, of PEP with the prior approval of the Custodian shall be entitled to such fees out of PEP's net assets as shall be determined from time to time with the agreement of the Management Company, provided that fees for the provision of such services by correspondents are comparable with those charged by other banks or trust companies in the jurisdictions in which such entity or other banks operate.

The Custodian Agreement contains indemnity provisions pursuant to which the Custodian has agreed to fully indemnify the Management Company, PEP and PEP's subsidiaries, and their respective subsidiaries and officers for any and all losses, costs, expenses, claims or liabilities relating to or arising from the Custodian Agreement and caused or occasioned by the Custodian's acts or omissions as a result of negligence, bad faith, wilful misconduct or reckless disregard in the execution of the Custodian Agreement or a breach of its duties and obligations under the Custodian Agreement or a breach of a material term of the Custodian Agreement.

### **6.3 Paying Agent in The Netherlands**

Kempen & Co. N.V. acts as the Dutch Paying Agent pursuant to the Dutch Paying Agent Agreement.

Under the Dutch Paying Agent Agreement, the Dutch Paying Agent has agreed to make available all necessary facilities and information to enable Ordinary Unitholders in The Netherlands to exercise their rights and to perform such duties commonly performed by a paying agent or required by the applicable rules and regulations of Euronext Amsterdam.

The Management Company (on behalf of PEP) shall pay to the Dutch Paying Agent a fee of €22,500 per annum (together with a fee of €3,500 per quarterly dividend payment) out of PEP's net assets plus any costs incurred by the Dutch Paying Agent in carrying out its duties to the Management Company.

The Dutch Paying Agent Agreement contains an indemnity whereby PEP has agreed to indemnify and hold harmless, save and exonerate the Dutch Paying Agent from and against any and all claims, demands, expenses (including reasonable counsel fees and expenses) and liabilities of any and every nature which the Dutch Paying Agent may sustain or incur or which may be asserted against the Dutch

Paying Agent as a result of any action taken or omitted by the Dutch Paying Agent, in the absence of bad faith, gross negligence or wilful misconduct.

The Dutch Paying Agent Agreement may be terminated in writing by either party on 90 days' notice in writing to the other party, provided that such termination shall not take effect without a successor paying agent being appointed by PEP.

#### **6.4 Paying and Listing Agent in Luxembourg**

RBC Dexia Investor Services Bank S.A. acts as the Luxembourg Paying and Listing Agent pursuant to the Luxembourg Paying and Listing Agent Agreement.

The Luxembourg Paying and Listing Agent has the following principal functions: (i) as paying agent, to pay dividends, redemption proceeds and other distributions; and (ii) as listing agent, to list the Units on the Luxembourg Stock Exchange or any other stock exchanges as directed by the Management Company.

The fees and expenses of the Luxembourg Paying and Listing Agent are paid out of PEP's net assets, and the Luxembourg Paying and Listing Agent is entitled to receive from PEP on demand reimbursement for its cash disbursements, which are limited to reasonable out-of-pocket expenses in line with Luxembourg market practice. The Luxembourg Paying and Listing Agent Agreement may be terminated by any party thereto on 90 days' notice. The Luxembourg Paying and Listing Agent Agreement may also be terminated by either party on 10 days' notice in writing: (i) if the other party has committed a material breach of the Luxembourg Paying and Listing Agent Agreement and fails to make good such breach within 30 days of receipt of such notice or such a period as may be reasonably required to make good such breach; (ii) if either party shall have become insolvent, or otherwise unable to pay its debts, or have gone into liquidation, whether voluntarily or compulsorily (except a voluntary liquidation on terms previously approved in writing by the other party), or have had a receiver appointed over all or part of its assets or has received notice of any winding-up proceedings; or (iii) upon PEP and/or the Management Company ceasing to be authorised under the Luxembourg laws on collective investment undertakings or ceasing to be authorised to act as such under Luxembourg law. The Luxembourg Paying and Listing Agent Agreement contains an indemnity provision whereby the Management Company has agreed to indemnify and hold harmless the Luxembourg Paying and Listing Agent from any and all costs, liabilities, expenses and losses resulting directly or indirectly from the fact that the Luxembourg Paying and Listing Agent and its employees, officers and directors have acted pursuant to the Luxembourg Paying and Agent Agreement and in accordance with proper instructions if and where required, other than in respect of such costs, liabilities and expenses arising from the negligence or wilful default of the Luxembourg Paying and Listing Agent or of its agents or correspondents.

#### **6.5 Registrar and Transfer Agent**

RBC Dexia Investor Services Bank S.A. acts as the Registrar and Transfer Agent of PEP pursuant to the Registrar and Transfer Agent Agreement. In such capacity, the Registrar and Transfer Agent is responsible for processing issues, redemptions and transfers of the Units.

The fees and expenses of the Registrar and Transfer Agent are paid out of PEP's net assets, and the Registrar and Transfer Agent is entitled to receive from PEP on demand reimbursement for its cash disbursements properly incurred in such capacity in line with Luxembourg market practice. The Registrar and Transfer Agent Agreement continues for the life of PEP, subject to the right of any party thereto to terminate upon three months' written notice. The Registrar and Transfer Agent Agreement contains an indemnity provision whereby the Management Company has agreed to indemnify out of the net assets of PEP and hold harmless the Registrar and Transfer Agent and its officers and directors against all claims, actions, demands, damages, costs, liabilities and expenses resulting directly or indirectly from the fact that the Registrar and Transfer Agent or administrative officers appointed by the Management Company have acted as agents of the Management Company pursuant to the receipt of proper instructions, except in the case of the Registrar and Transfer Agent's gross negligence, wilful misfeasance or reckless disregard for its duties under the Registrar and Transfer Agent Agreement.

## 6.6 Investment Managers

Under the Investment Management Agreement, the Investment Managers, subject to the overall policy, supervision and responsibility of the Managers, carry out property management functions in relation to the day-to-day administration of the Portfolio as more particularly described in the paragraph headed “The Investment Managers” in Part IV—“Management of PEP” of this Prospectus.

## 7 Disclosure of Interests and Details of Selling Unitholders

### 7.1 Disclosure of Interests

With the exception of the Chief Executive Officer of the Management Company, none of the Managers nor any Person connected with the Managers have an interest in any Units. For further details of the compensation and incentivisation which will be provided to the Chief Executive Officer of the Management Company, see Part IV—“Management of PEP” of this Prospectus.

Save as disclosed below, the Managers are not aware of any Person who, as at 8 September 2006 (being the latest practicable date prior to the date of this Prospectus), directly or indirectly is interested in 5 per cent. or more of PEP’s equity. The Classes held by each Person referred to below carry the same voting rights as other Units of the same Class.

	Number of Units					
	A(2)	A(3)	B1	B2	C(1)	C(2)
ABP Stichting Pensioenfonds . .	20,000,000	14,605,648	—	—	—	—
Euro Industrial Properties Pte Ltd . . . . .	15,000,000	14,605,647	—	—	—	—
Teachers Insurance and Annuity Association of America . . . . .	10,000,000	2,921,130	—	—	—	—
PGGM Stichting Pensioenfonds voor de Gezondheid, Geestelijke en Maatschappelijke Belangen . .	10,000,000	—	—	—	—	—
PLD International Incorporated . . . . .	—	—	13,000,000	26,664,967	—	—
EVV Logistik Beteiligungs GmbH. Co. K.G. . . . .	—	—	—	—	7,660,000	7,660,000

With the exception of ProLogis and the Management Company, the Managers are not aware of any Person who, as at the date of this Prospectus, directly or indirectly, jointly or severally, exercises control over PEP and are not aware of any arrangements, the operations of which may at a subsequent date result in a change of control of PEP. The Management Company is governed by the Management Regulations, which sets out its powers and restrictions imposed on it. Further details are set out in Part IV—“Management of PEP” and Part XIV—“Management Regulations of PEP” of this Prospectus.

## 7.2 Details of Selling Unitholders

Details of the Selling Unitholders are set out in the table below:

Name	Business Address	Number of Ordinary Units Held <sup>(1)</sup>	Maximum Number of Ordinary Units being Offered <sup>(2)</sup>	Pre Admission Percentage of Issued Ordinary Units <sup>(1)(3)</sup>
ABP Stichting Pensioenfonds . . . . .	WTC Schiphol Airport Tower G, 8th Floor Schiphol Boulevard 239 1118 BH Schiphol The Netherlands	34,589,859	10,376,958	18.3%
Euro Industrial Properties Pte Ltd . . . . .	250 North Bridge Road #38-00 Raffles City Tower Singapore 179101	29,589,858	15,438,187	15.7%
Teachers Insurance and Annuity Association of America . . . . .	730 Third Avenue New York, NY 10017-3206 United States of America	12,917,972	6,458,986	6.8%
Norwich Union Life & Pensions Limited . . . . .	2 Rougier Street York YO90 1UU United Kingdom	6,000,000	1,500,000	3.2%
Caisse des Dépôts et Consignations . . . . .	56, rue de Lille 75007 Paris France	5,948,000	1,551,652	3.2%
Stichting Pensioenfonds Metaal en Techniek . . . . .	Burgemeester Elsenlaan 329, 2282 MZ Rijswijk The Netherlands	5,000,000	2,400,000	2.6%
IMMOWEST Beteiligungs GmbH . . . . .	Bankgasse 2 A-1010 Vienna Austria	4,863,286	4,863,286	2.6%
Stichting Bedrijfspensioenfonds voor de Bouwnijverheid . . . . .	Basisweg 10 PO BOX 367 1000 EE Amsterdam The Netherlands	4,500,000	1,500,000	2.4%
Stichting TKP Pensioen Real Estate Fonds . . . . .	Stationsplein 9 9726 AE Groningen The Netherlands	3,556,984	3,556,984	1.9%
Westfälische Provinzial Lebensversicherung AG . . . . .	Provinzial-Allee 1 48159 Münster Germany	2,917,972	86,957	1.5%
Metropolitan Life Insurance Company . . . . .	10 Park Ave. Morristown, NJ 07962 United States of America	2,431,642	729,493	1.3%
Kuwait Fund for Arab Economic Development . . . . .	Mubarrak Al Kabeer Street P.O. Box 2921 Safat 13030 Kuwait	1,500,000	326,087	0.8%
Bank of Bahrain & Kuwait . . . . .	43 Government Avenue P.O. Box 597 Manama 305 Bahrain	935,000	281,000	0.5%
Dr. Henry Thompson Nicholas III . . . . .	1999 Avenue of the Stars 24 <sup>th</sup> Floor Los Angeles, CA 90067 United States of America	500,000	500,000	0.3%
Kuwait Financial Centre SAK . . . . .	Mubarrak Al Kabeer Street Al Duaij Building P.O. Box 23444 Safat 13095 Kuwait	400,000	120,000	0.2%
<b>Total . . . . .</b>		<b>115,650,573</b>	<b>49,689,590</b>	<b>61.3%</b>

(1) Assuming conversion of the Class A(2), A(3), B1 and B2 Units into Class A(1) Units and the subsequent reclassification of such Units, together with the existing Class A(1) Units, into Ordinary Units in accordance with the Management Regulations and the conversion and reclassification of 2,500,000 Class C(1) and 2,500,000 Class C(2) Units at Admission.

(2) Assuming there is no exercise of the Over-allotment Option.

(3) Based on a total number of pre-Admission Ordinary Units of 188,687,510.



Except in relation to positions held as members of the Unitholder Advisory Committee and as disclosed in the next paragraph, during the three years preceding the date of this Prospectus, none of the Selling Unitholders has had any position, office or other material relationship with PEP, the Management Company acting on behalf of PEP or any of their predecessors or affiliates.

IMMOWEST Beteiligungs GmbH and certain affiliates of the Government of Singapore Investment Corporation Pte Ltd. (an affiliate of Euro Industrial Properties Pte Ltd.) are investors in certain private equity funds sponsored and managed by ProLogis. In the normal course of their respective businesses, Teachers Insurance and Annuity Association of America and the Metropolitan Life Insurance Company (“MetLife”) are lenders to ProLogis and certain of its affiliates and subsidiaries. MetLife is also a party to a joint venture with a ProLogis affiliate.

## **8 Funding and Operating Costs**

As set out more fully in Article 13 of the Management Regulations and except as set forth in the Underwriting Agreement, PEP is responsible for all fees and expenses relating to the placement and issue of Units (including fees relating to the Offer and underwriting commissions but excluding fees related to other secondary placings of existing Units), and all fees and expenses relating to arrangement of debt facilities of and for PEP, including in each case fees and expenses of a ProLogis Related Party assisting the Management Company, subject to the Management Company having specifically requested such assistance, other than fees of a ProLogis Related Party relating to the arrangement of debt facilities of and for PEP (including, but not limited to placement agent fees and out-of-pocket expenses, legal, accounting, surveyors’, valuation, and other professional fees and expenses), and for its operating costs. Such operating costs include, without limitation, brokerage and other transaction fees and expenses (such as legal, accounting, surveyor’s, valuation, and other professional fees) incurred on transactions with respect to the acquisition or disposal or proposed acquisition or disposal of the Portfolio. Such costs also include costs of accounting, due diligence, lawyers, surveyors, building contractors, estate managers and other service providers in relation to the Portfolio, and all other fees and expenses incurred by the Management Company acting in respect of PEP (including, for the avoidance of doubt, the reimbursement by the Management Company of out-of-pocket expenses incurred by the Investment Managers in respect of the Portfolio) and such fees and expenses will be in line with market standards and may include fees and expenses of a ProLogis Related Party when assisting the Management Company (e.g. leasing fees and commissions, construction management fees, legal fees and tax compliance fees, subject in the case of legal fees and tax compliance fees, to the prior approval of the PEP Board and subject, in the case of leasing fees and commissions and construction and management fees, to such fees or commissions being at or below market rates as shown in the schedule provided annually to the PEP Board in accordance with the Management Regulations), subject to the Management Company having specifically requested such assistance and except for any such fees and expenses of a ProLogis Related Party with respect to services provided in relation to Distribution Facilities owned by a ProLogis Private Equity Fund or a ProLogis Joint Venture and not owned directly by PEP. PEP shall also pay expenses and valuation fees charged by the Independent Appraiser in connection with the acquisition or disposal of Distribution Facilities. Where appropriate, the fees and expenses borne by PEP may be charged to PEP’s subsidiaries.

PEP bears certain other operating expenses including, without limitation, stamp duties, taxes, commissions, governmental and similar charges, foreign exchange costs, bank charges, registration fees relating to investments, insurance and security costs, expenses of the issue, exercise and redemption of Units and fees and expenses of the Management Company and its auditors. PEP is also responsible for the costs of preparing, printing and distributing all valuations, statements, accounts and performance and investment reports, and for the cost of preparing and distributing public notices to the Unitholders and the cost of convening Unitholder meetings. PEP is also responsible for costs incurred to enable PEP to comply with legislation and official requirements, provided that such costs are incurred substantially for the benefit of the Unitholders, and any fees and expenses involved in registering and maintaining the registration of PEP with any governmental agencies or the listing of Units on the Luxembourg Stock Exchange, Euronext Amsterdam or on stock exchanges in any other country, including costs linked to the realisation of the Offer.

PEP also bears all other costs and expenses in connection with the operations or administration of PEP and the Portfolio and the achievement of the Investment Objective and Policy.

Except as set forth in the Underwriting Agreement, the costs and expenses of the Offer (including underwriting discounts and commissions) will be borne by PEP and are expected to be between €30 million and €35 million.

## **9 Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) are contracts which have been entered into by PEP in the two years immediately prior to the date of this Prospectus, and which are or may be material or are contracts entered into by PEP which contain any provisions under which PEP has any obligation or entitlement which are or may be material to PEP at the date of this Prospectus:

### **9.1 Private Equity Fund Investment Agreement**

Under the Private Equity Fund Investment Agreement, PLD has granted to PEP, with effect from the Settlement Date, the right to participate in offers for subscription of equity securities and securities convertible into equity securities by any ProLogis Private Equity Fund, provided that (a) the amount of commitments targeted in the offer is in excess of €5 million; (b) the relevant ProLogis Private Equity Fund has equity capital and commitments in respect thereof, including target commitments sought in the offer, of more than €50 million; and (c) the ProLogis Private Equity Fund is not an “excluded venture”, as described in more detail below.

In respect of the first subscription offer by a ProLogis Private Equity Fund in which PEP has the right to participate under the Private Equity Fund Investment Agreement, PEP has the right to subscribe for a number of securities representing up to 30 per cent. of the total equity capital of the fund and commitments in respect thereof (including target commitments sought in the offer). In respect of subsequent offers by the same ProLogis Private Equity Fund to which PEP’s investment right applies, PEP has the right to subscribe for an amount of securities representing up to 30 per cent. of the target commitments sought in the offer. PEP will not be required to pay any subscription fee or placement fee with respect to any investment in a ProLogis Private Equity Fund made by it pursuant to the Private Equity Fund Investment Agreement.

PLD must notify PEP of a subscription offer by a ProLogis Private Equity Fund in which PEP has the right to participate not less than 45 days prior to the closing date on which the relevant ProLogis Private Equity Fund accepts subscriptions in such subscription offer and PEP may exercise its right to participate by submitting validly completed subscription documents not less than 15 days prior to such closing date, indicating the number of securities for which it wishes to subscribe, subject to the limit referred to in the preceding paragraph and to any minimum investment requirement applicable to the offer. PEP’s subscription may only be rejected if permitted by the terms of the relevant ProLogis Private Equity Fund and either (i) PEP is unable to make customary representations, warranties or covenants required from investors generally; or (ii) in the written opinion of appropriately qualified legal or tax counsel (as appropriate) in the relevant jurisdiction, acceptance of PEP’s subscription would or would be reasonably likely to cause the breach of a material legal, regulatory or tax requirement applicable to the relevant ProLogis Private Equity Fund or to PLD, ProLogis or to the relevant fund manager.

PLD is required to give PEP a notice not less than three Business Days prior to the closing date stating its best estimate as at the date of such notice of the amount of commitments that are expected to be raised in the subscription offer. If this estimate is different from the amount of target commitments which were originally sought in the subscription offer, there are certain provisions in the Private Equity Fund Investment Agreement allowing or requiring PEP to adjust the amount that it invests in the relevant ProLogis Private Equity Fund. In addition, if the equity capital of the relevant ProLogis Private Equity Fund plus the estimated amount of commitments is less than €50 million, PLD may cancel PEP’s subscription right under the Private Equity Fund Investment Agreement in respect of that particular subscription offer.

Under the Private Equity Fund Investment Agreement, PEP also has the right to invest in ProLogis Joint Ventures which have a target gross property value of at least €50 million, except for a ProLogis Joint Venture which is (a) being recapitalised and neither PLD nor a PLD Related Party has complete and unrestricted control with respect thereto; or (b) an “excluded venture”, as described below. If an investment right applies to a ProLogis Joint Venture, PLD is required to give notice to PEP summarising the terms of the proposed ProLogis Joint Venture and to give PEP a reasonable period

to decide whether to exercise the investment right (having regard both to the need to obtain the consent of the PEP Board and also the nature of the investment opportunity and the time available to decide whether to proceed). If PEP does not exercise its right to invest in a ProLogis Joint Venture, PLD may proceed to establish the ProLogis Joint Venture with another person provided that, in the opinion of PLD, the overall final terms are no more beneficial to such person than the terms offered to PEP. PEP will not be required to pay any subscription fee or placement fee with respect to any investment in a ProLogis Joint Venture made by it pursuant to the Private Equity Fund Investment Agreement.

An “excluded venture” means a ProLogis Private Equity Fund or ProLogis Joint Venture (1) which is originated by and presented to PLD by a person who is not a PLD Related Party; or (2) where each of the investors in such ProLogis Private Equity Fund or ProLogis Joint Venture either (a) controls land on which any Distribution Facilities in which such ProLogis Private Equity Fund or ProLogis Joint Venture will invest are sited (or are to be sited); (b) is instrumental in obtaining (i) any necessary governmental approvals with respect to the acquisition or development of the underlying assets of such ProLogis Private Equity Fund or ProLogis Joint Venture; or (ii) a tenant or tenants for greater than 50 per cent. of the leasable area of the Distribution Facilities in which such ProLogis Private Equity Fund or ProLogis Joint Venture will invest; or (c) will provide management or property management services with respect to the ProLogis Private Equity Fund or ProLogis Joint Venture or its underlying assets.

PLD may terminate the Private Equity Fund Investment Agreement with immediate effect by notice in writing to PEP if, in relation to three consecutive subscription offers by ProLogis Private Equity Funds with respect to which PEP had investment rights pursuant thereto, PEP did not exercise its investment right, except that for this purpose (1) PEP will only be deemed not to have exercised its investment right with respect to a ProLogis Private Equity Fund if a relevant subscription offer subsequently closed in circumstances where the ultimate terms applicable to investors committing to invest the same amount as or less than the amount that PEP was permitted to commit are, in the opinion of PLD, not materially more beneficial to such investors than the terms offered to PEP, and PLD provided to the PEP Board and the Management Company a summary of the terms offered to such investors, and (2) PEP will not be deemed to have elected not to exercise its investment right if either (a) the relevant investment would or would be reasonably likely to, in the written opinion of its appropriately qualified legal counsel or tax advisers, as applicable, result in a breach of law or regulation applicable to PEP or the Unitholders, or would otherwise result in a material legal, regulatory or tax disadvantage to PEP or the Unitholders, or (b) if PEP’s subscription to the relevant ProLogis Private Equity Fund was rejected as described above.

In addition, PLD may terminate the Private Equity Fund Investment Agreement with immediate effect by notice in writing to PEP if the management company of PEP ceases to be a PLD Related Party. PLD may also terminate the Private Equity Fund Investment Agreement with immediate effect by notice in writing to PEP if any person has made an offer to all Ordinary Unitholders to acquire their Ordinary Units at a price set out in the offer and Ordinary Unitholders holding more than 95 per cent. of all such Ordinary Units, excluding Ordinary Units held by ProLogis or any ProLogis Related Party, have accepted the transfer of their Ordinary Units to such offeror.

PEP may terminate the agreement upon giving 20 Business Days’ written notice to PLD.

PLD may, by giving notice in writing to PEP, cancel PEP’s entitlement to participate in further ProLogis Joint Ventures pursuant to the Private Equity Fund Investment Agreement if, in relation to three consecutive opportunities to invest in ProLogis Joint Ventures pursuant to the agreement, PEP does not exercise its rights, provided that for these purposes, (1) PEP will only be deemed not to have exercised such rights if a relevant ProLogis Joint Venture is subsequently established with another person on terms which, in the opinion of PLD, are not materially more beneficial to such person than the terms offered to PEP, and PLD provided to the PEP Board and the Management Company a summary of the terms on which such ProLogis Joint Venture was ultimately established with such person; and (2) PEP will not be deemed to have elected not to exercise its investment right if it informs PLD or the relevant PLD Related Party that the reason that it did not invest in the relevant ProLogis Joint Venture is that such investment would or would be reasonably likely to, in the written opinion of its appropriately qualified legal counsel or tax advisers, as applicable, result in a breach of law or regulation applicable to PEP or its unitholders, or would otherwise result in a material legal, regulatory or tax disadvantage to PEP or its unitholders.

## 9.2 Termination of Stabilised Property Contribution Agreement

The Management Company (acting on behalf of PEP) entered into the Stabilised Property Contribution Agreement with ProLogis and certain affiliates of ProLogis on 15 September 1999, which was amended on 29 June 2001. The Stabilised Property Contribution Agreement required the ProLogis affiliates that were party thereto to contribute to PEP, and required the Management Company on behalf of PEP to acquire from such affiliates, any Distribution Facilities which met certain investment and operating criteria and which those ProLogis affiliates developed, improved and/or acquired, directly or indirectly, subject to certain exceptions specified in the agreement. Under a termination agreement (the “**Termination Agreement**”) in respect of the Stabilised Property Contribution Agreement, the parties thereto have agreed to terminate the Stabilised Property Contribution Agreement with effect from the Settlement Date, and such parties have agreed to release each other from their duties and liabilities under the Stabilised Property Contribution Agreement, provided that the parties remain liable on and after the effective date of the Termination Agreement for all acts and omissions in the performance of their duties under the Stabilised Property Contribution Agreement which occurred prior to the effective date of the Termination Agreement.

Following termination of the Stabilised Property Contribution Agreement, PEP has agreed to acquire upon stabilisation Distribution Facilities from the Property Portfolio having an aggregate Contribution Value of approximately €200 million pursuant to the Property Contribution Agreement, as described in paragraph 9.4 below.

## 9.3 Preferential Subscription Rights Agreement

The Preferential Subscription Rights Agreement was entered into on 11 September 2006 (with effect as at the Settlement Date) between PLD and the Selling Unitholders. Pursuant to this agreement, PLD has granted each Selling Unitholder the right to reinvest all or a portion of its sale proceeds from the Offer in any ProLogis Private Equity Fund which holds a first closing within 24 months of the Settlement Date (the “**Relevant Period**”). ProLogis currently intends to sponsor two ProLogis Private Equity Funds during this period, one to invest primarily in Distribution Facilities in the UK and one to invest primarily in Distribution Facilities in Continental Europe (together, the “**New Funds**”). PLD has agreed under the Preferential Subscription Rights Agreement to use commercially reasonable efforts to establish both of the New Funds such that they hold a closing date within the Relevant Period but is otherwise under no obligation to establish any ProLogis Private Equity Fund within any particular timeframe or at all. Each Selling Unitholder has the right to make commitments to certain ProLogis Private Equity Funds on a preferential basis in a maximum aggregate amount of up to (and including) the amount calculated by multiplying the Offer Price by the lesser of (i) the number of Ordinary Units sold by that Selling Unitholder in the Offer; and (ii) 30 per cent. of the Ordinary Units held by that Selling Unitholder immediately prior to the Offer.

PLD will notify Selling Unitholders not less than 45 days prior to the closing date of any ProLogis Private Equity Fund which is to be established during the Relevant Period. PLD is not required to give such notice to a Selling Unitholder (i) which, as of the date of such notice had already committed to ProLogis Private Equity Funds the entire amount which it is permitted to commit pursuant to the Preferential Subscription Rights Agreement or (ii) if both New Funds have closed and such Selling Unitholder did not invest in either New Fund at the first closing or such later time as agreed with PLD or the relevant fund manager. A Selling Unitholder may exercise its subscription right by giving notice to PLD not later than 15 days prior to the closing date of the relevant ProLogis Private Equity Fund specifying the aggregate amount that it wishes to commit for investment to the relevant ProLogis Private Equity Fund (which may not be less than (i) in the case of an investment in a New Fund, the lesser of (a) €5 million (for the New Fund established to invest primarily in Distribution Facilities in Continental Europe) or £5 million (for the New Fund established to invest primarily in Distribution Facilities in the UK) and (b) 50 per cent. of the maximum aggregate amount that such Selling Unitholder is permitted to commit for investment as described in the previous paragraph; or (ii) in the case of an investment in a ProLogis Private Equity Fund which is not a New Fund, any minimum investment requirement applicable to investors in such ProLogis Private Equity Fund) and by submitting validly completed and executed subscription documentation with respect to the relevant ProLogis Private Equity Fund.

To the extent necessary to ensure that PEP is able to exercise its right (if any) to invest in the relevant ProLogis Private Equity Fund pursuant to the Private Equity Fund Investment Agreement in full and



to ensure that ProLogis is (directly or indirectly) able to make an investment in such ProLogis Private Equity Fund representing at least 20 per cent. of the aggregate commitments in such ProLogis Private Equity Fund, the amount for which a Selling Unitholder is entitled to subscribe on a preferential basis pursuant to the Preferential Subscription Rights Agreement may be reduced on a pro rata basis according to the amount each Selling Unitholder elected to commit for investment, but only after commitments made at the relevant closing date (other than those made by PEP or ProLogis as described above and by Selling Unitholders pursuant to the Preferential Subscription Rights Agreement) have been reduced to zero.

PLD may only reject a Selling Unitholder's subscription to a ProLogis Private Equity Fund made pursuant to the Preferential Subscription Rights Agreement if accepting it would, in the opinion of appropriately qualified legal counsel or tax advisers (as applicable) in the relevant jurisdiction, be reasonably likely to cause the breach of a material legal or regulatory requirement applicable to, or cause material legal, regulatory or fiscal disadvantage to, PLD, ProLogis, a PLD Related Party, the fund manager or the relevant ProLogis Private Equity Fund or its investors.

The Preferential Subscription Rights Agreement terminates on the date on which all subscription rights thereunder have been exercised or may no longer be exercised.

#### **9.4 Property Contribution Agreement**

The Property Contribution Agreement was entered into on 11 September 2006 (with effect as at the Settlement Date) between the Management Company (on behalf of PEP) and PLD pursuant to which PLD has agreed that the relevant PLD Related Parties will contribute to PEP, and PEP has agreed to acquire from such PLD Related Parties, stabilised Distribution Facilities from the Property Portfolio with an aggregate Contribution Value of approximately €200 million (subject to reduction in the limited circumstances referred to below).

Individual Distribution Facilities from the Property Portfolio will be contributed to PEP at a value equal to either:

- (i) if the Distribution Facility is acquired directly from PLD or a PLD Related Party: the sum equivalent to 95 per cent. of the Gross Property Value of the relevant Distribution Facility, provided that if such Distribution Facility is to be transferred subject to any financial charges or other indebtedness then (a) the amount of all liabilities secured by such charge or other indebtedness as at the date of transfer shall be deducted from the price payable by PEP; and (b) all such liabilities shall be assigned, novated or otherwise transferred to PEP; or
- (ii) if the Management Company acquires shares in a company which holds the Distribution Facility: the net asset value of the shares in such holding company calculated in accordance with the provisions of the Property Contribution Agreement (including the valuation of the relevant Distribution Facility at 95 per cent. of Gross Property Value).

In accordance with certain provisions set out in the Property Contribution Agreement, the Distribution Facilities contributed to PEP must be "stabilised", as determined by reference to certain criteria set out in the Property Contribution Agreement. Pursuant to the terms of the Property Contribution Agreement, any contribution of stabilised Distribution Facilities must be valued by an Independent Appraiser who shall determine the Gross Property Value of such Distribution Facilities. If shares in a company holding the Distribution Facility are contributed instead, such contribution must be appraised by the independent auditor of PEP, in compliance with Article 26-1 of the Luxembourg law dated 10 August 1915, on commercial companies, as amended.

PLD may substitute Distribution Facilities in the Property Portfolio in limited circumstances specified in the Property Contribution Agreement subject to the prior approval of the Management Company (and pursuant to the Management Regulations, the prior approval of the PEP Board is required in order for the Management Company to give such approval).

PLD may elect to receive some of the consideration for the Distribution Facilities to be contributed in the form of Ordinary Units. The price at which Ordinary Units are to be issued is the greater of NAV or the market value of the Ordinary Units on the day immediately preceding the day of issue. However, the aggregate value of Ordinary Units to be issued to PLD or any PLD Related Party shall not be less than 3 per cent. nor in excess of 15 per cent. of the Contribution Value of all the Distribution Facilities contributed pursuant to the Property Contribution Agreement.



If at any time there has occurred any outbreak or escalation of hostilities, or any change in financial markets, currency exchange rates or controls or any calamity or crisis that, in the reasonable opinion of the Management Company, is material and adverse to PEP and which, singly or together with any other such event, makes it, in the reasonable opinion of the Management Company, impracticable or inadvisable for PEP to proceed in whole or part with the acquisition of the properties under the Property Contribution Agreement, the Management Company may serve a notice in writing on PLD to reduce the aggregate Contribution Value of the stabilised Distribution Facilities to be contributed thereunder. If the Management Company has served such a notice reducing the aggregate Contribution Value, it may, not more than 12 months following the service of such notice, increase the aggregate Contribution Value to €200 million by further notice in writing to PLD if, in its reasonable opinion, it is no longer impracticable or inadvisable for PEP to proceed in whole or part with the acquisition of the stabilised Distribution Facilities under the Property Contribution Agreement. If such a notice has been served increasing the aggregate Contribution Value, the Management Company may not subsequently serve a further notice decreasing the Contribution Value as described above. The Management Regulations provide that the prior approval of the PEP Board is required before the Management Company may serve a notice either increasing or decreasing the aggregate Contribution Value in the manner described in this paragraph.

The Property Contribution Agreement contains an indemnity in relation to latent capital gains in Distribution Facilities contributed under its terms. The indemnity is payable on:

- (a) the disposal of such Distribution Facility in which case the amount payable is the amount of latent capital gains realised in respect of the Distribution Facility as at the date at which the Distribution Facility was contributed to PEP; or
- (b) on the disposal of an entity owning such Distribution Facility, in which case, to the extent that the shares are sold at a discount to the entity's NAV (as determined on the date of sale and without taking any latent capital gains liability into account), the amount payable is the lesser of (i) the amount of latent capital gains in respect of the Distribution Facility as at the date at which the Distribution Facility was contributed to PEP, and (ii) the difference between the entity's NAV and the sale price.

## 9.5 Underwriting Agreement

The Underwriting Agreement was entered into on 11 September 2006 between PEP, the Management Company (on its own behalf and on behalf of PEP), Deutsche Bank and Morgan Stanley (on their own behalf and on behalf of the several Underwriters), and the Selling Unitholders and contains, *inter alia*, the following provisions:

- (i) each of the Selling Unitholders has agreed, subject to certain conditions, to sell to the Underwriters such number of additional Ordinary Units as is set out in Schedule I to the Underwriting Agreement and the Underwriters have the right, on a several basis, to purchase up to such number of additional Ordinary Units at the Offer Price. The Underwriters may exercise such right in whole or from time to time in part by giving written notice not later than 30 days after the Settlement Date. Any exercise notice shall specify the number of additional Ordinary Units to be purchased and the date on which such additional Ordinary Units are to be purchased, provided that each purchase date must be at least one business day after the written notice is given and may not be earlier than the Settlement Date nor later than 10 business days after the date of such notice;
- (ii) PEP will pay to the Underwriters an underwriting, management and selling commission equal to 3 per cent. of the amount equal to the product of (A) the aggregate amount of Ordinary Units purchased by the Underwriters (at the Settlement Date and with respect to any exercise by the Underwriters of the Over-allotment Option) and (B) the Offer Price, together with the amount of any value added tax or similar tax in respect thereof. In addition, an additional incentive fee of 0.5 per cent. of the aggregate gross sales proceeds from the Offer may be paid to the Deutsche Bank and Morgan Stanley by PEP in its sole discretion;
- (iii) whether or not the transactions contemplated in the Underwriting Agreement are consummated or the Underwriting Agreement is terminated, PEP has agreed to pay or cause to be paid all expenses incidental to the performance of the obligations of PEP and the Management Company under the Underwriting Agreement; provided, however, that if the aggregate amount of certain

types of expenses exceeds €2.4 million, the Underwriters have agreed that they shall either bear such expenses or pay to PEP or the Management Company their pro rata share of the amount by which such expenses exceed €2.4 million;

- (iv) the obligations of the Underwriters pursuant to the Underwriting Agreement are subject to certain conditions including, amongst others, that Admission shall have occurred, the representations and warranties of each of the Management Company, PEP and the Selling Unitholders contained in the Underwriting Agreement being true and correct as at the Settlement Date, and each of the Management Company, PEP and the Selling Unitholders having complied with all the agreements and satisfied all the conditions on their part to be performed or satisfied on or before such date. In certain circumstances, the Underwriters may terminate the Underwriting Agreement at any time on or before the Settlement Date. These circumstances include certain changes in political or market conditions (as more fully set out in the Underwriting Agreement);
- (v) the Management Company and PEP have given customary warranties in relation to the business, the accounting records and the legal compliance of the Management Company and PEP in relation to the contents of this Prospectus and have also given a customary indemnity to each of the Underwriters;
- (vi) each of the Selling Unitholders has given customary warranties in relation to its capacity to enter into the Underwriting Agreement, its title to the Ordinary Units and compliance with applicable laws and regulations and has also given a customary indemnity to each of the Underwriters, the Management Company and PEP; and
- (vii) each of the Selling Unitholders and the Management Company (for itself and on behalf of PEP) has agreed that it will not, without the prior written consent of Deutsche Bank and Morgan Stanley, on behalf of the Underwriters, during the period ending 180 days after the Settlement Date, issue (with respect to PEP), offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Ordinary Units or any securities convertible into or exercisable or exchangeable for Ordinary Units, has agreed not to enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Ordinary Units (in each case, whether settled by delivery of Ordinary Units or such other securities, in cash or otherwise) and has agreed not to file any registration statement or prospectus relating to the offering of any Ordinary Units or any securities convertible into or exercisable or exchangeable for Ordinary Units. Such restrictions shall not, however, apply to: (a) the Units sold under the Underwriting Agreement; (b) any transactions by a Selling Unitholder relating to Ordinary Units or other securities acquired in open market transactions after the completion of the Offer; (c) the conversion and/or reclassification of existing Units into Ordinary Units on the Settlement Date, or the conversion of Class C Units into Ordinary Units in accordance with the terms thereof; (d) the issuance by PEP of Ordinary Units to affiliates of the Management Company upon contribution or transfer of properties to PEP in accordance with the Property Contribution Agreement; (e) transfers or sales by a Selling Unitholder to an entity that is controlled by, controls, or under common control with such Selling Unitholder, with “control” being defined as ownership of more than 50 per cent. of the voting securities of the relevant entity; (f) the sale by a Selling Unitholder (acting individually), after the completion of the Offer, through a single privately negotiated off market transaction not involving an exchange, broker or other intermediary or entered into for hedging or similar purposes with a single purchaser, of Ordinary Units representing 4.25 per cent. or more of the total number of issued Ordinary Units at the time of the relevant transaction or (g) the transfer of Units with an equivalent value of €1 million to Robert J. Watson by ProLogis or its affiliates as part of his compensation and incentive package, as described in “Part IV—Management of PEP” of this Prospectus; *provided* that in the case of a transfer or sale pursuant to clauses (e) or (f), prior to such transfer or sale the transferee or purchaser has entered into a written agreement with Deutsche Bank and Morgan Stanley accepting the above restrictions as if it were a Selling Unitholder.

## **9.6 Dutch Listing Agreement**

The Management Company (acting on behalf of PEP) entered into a listing agreement with Euronext Amsterdam dated 11 September 2006. Under this agreement PEP has agreed to:

- (i) comply with Chapter 6 of Euronext Rule Book I, Chapter A—2.7 of Euronext Rule Book II—General Rules for the Euronext Amsterdam Stock Market (*Algemeen Reglement Euronext Amsterdam Stock Market*) and the Rules Governing Handling, Admission and Annual Listing Charges (*Reglement Tarieven Toelating en Notering*) and the notices related thereto, in each case as may be amended from time to time;
- (ii) pay the fees stipulated in Euronext’s “Rules Governing Handling, Admission and Annual Listing Charges”, as soon as such fees become due; and
- (iii) make available to the public its financial statements and annual report within the period as laid down in the law applicable to PEP.

## **9.7 Dutch Listing Agent Agreement**

The Management Company (acting on behalf of PEP) has entered into a listing agent agreement dated 11 September 2006 with Morgan Stanley. Under this agreement Morgan Stanley has agreed to act as listing agent in connection with the application for Admission and provide PEP with guidance and advice regarding aspects of Admission, for a period of six months following Admission.

The agreement contains an indemnity, whereby PEP agrees to indemnify and hold harmless Morgan Stanley and any of its affiliates, directors, officers and employees of each such person and any person who controls Morgan Stanley, from and against any losses, claims, damages and liabilities arising out of circumstances including, without limitation, breach of warranties contained in the agreement; material untrue statements or omissions in this Prospectus; public announcements issued or approved by PEP; failure to comply with Euronext Rules; failure to comply with legal or regulatory requirements; and any actions performed by Morgan Stanley within the scope of its duties in its capacity as listing agent.

## **9.8 Dutch Paying Agent Agreement**

The Management Company (acting on its own behalf and on behalf of PEP) entered into the Dutch Paying Agent Agreement dated 11 September 2006 with Kempen & Co. N.V. Further details of the principal terms of the Dutch Paying Agent Agreement are set out in the section headed “Paying Agent in The Netherlands” in paragraph 6.3 of Part VII—“Additional Information” of this Prospectus.

## **9.9 Investment Management Agreement**

On 15 September 1999, the Management Company (acting on its own behalf) entered into the Investment Management Agreement with ProLogis and the Investment Managers. The Investment Management Agreement was subsequently amended and restated on 22 January 2001 (with effect as at 18 December 2000), 10 May 2001 and 31 March 2004 (with effect as at 15 January 2004) and has been further amended and restated to take effect from the Settlement Date. Further details of the principal terms of the Investment Management Agreement are set out in the section headed “The Investment Managers” in Part IV—“Management of PEP” of this Prospectus.

## **9.10 Custodian Agreement**

On 16 February 2005, the Management Company (acting on its own behalf and on behalf of, and in the interest of, the Unitholders) entered into the Custodian Agreement with Dexia Banque Internationale à Luxembourg (the former custodian) to take effect as at 31 December 2004. The Custodian Agreement was amended by a novation agreement dated 21 April 2006 appointing RBC Dexia Investor Services Bank S.A. as Custodian. Further details of the terms of the Custodian Agreement are set out in the section headed “The Custodian” in Part VII—“Additional Information” of this Prospectus.

## **9.11 Luxembourg Paying and Listing Agent Agreement**

On 16 February 2005, the Management Company (acting on its own behalf and on behalf of PEP) entered into the Luxembourg Paying and Listing Agent Agreement with Dexia Banque Internationale

à Luxembourg (the former paying and listing agent) to take effect as of 31 December 2004. The Luxembourg Paying and Listing Agent Agreement was amended by a novation agreement dated 21 April 2006 appointing RBC Dexia Investor Services Bank S.A. as Luxembourg Paying and Listing Agent. Further details of the Luxembourg Paying and Listing Agent Agreement are set out in the section headed “Paying and Listing Agent in Luxembourg” in Part VII—“Additional Information” of this Prospectus.

#### **9.12 Registrar and Transfer Agent Agreement**

On 15 September 1999, the Management Company (acting on its own behalf and on behalf of PEP) entered into the Registrar and Transfer Agent Agreement with First European Transfer Agent (the former registrar and transfer agent). Further details of the principle terms of the Registrar and Transfer Agent Agreement are set out in the section headed “Registrar and Transfer Agent” in Part VII—“Additional Information” of this Prospectus.

#### **9.13 Domiciliary and Service Agent Agreement**

On 28 June 2001, the Management Company (acting on behalf of PEP) entered into the Domiciliary and Service Agent Agreement with the wholly-owned Luxembourg subsidiaries of PEP to perform domiciliary services and certain other services, including holding all corporate papers relating to PEP’s wholly-owned Luxembourg subsidiaries and the Unitholder Advisory Committee (which will be replaced by the PEP Board in connection with the Offer) and acting as agent for the service of process on behalf of such wholly-owned Luxembourg subsidiaries, to the wholly-owned subsidiaries. The Domiciliary and Service Agent Agreement provides that the Management Company is entitled to receive a fee for its services at such a rate as may be agreed in writing by the parties. The agreement may be terminated by either party at any time on 90 days’ notice in writing. In addition, any of the wholly-owned subsidiaries or the Management Company may terminate the agreement by notice in writing with immediate effect where the other party has committed a material breach of the agreement or where such party has been grossly negligent and has not remedied such breach within 30 days’ notice thereof.

#### **9.14 Administrative Agent Agreement**

On 16 February 2005, the Management Company entered into the Administrative Agent Agreement with certain of the wholly-owned subsidiaries of PEP to take effect as of 31 December 2004, pursuant to which the Management Company agreed to provide certain administrative and accounting services to PEP. The Management Company is not entitled to any additional fee for its services under the Administrative Agent Agreement. However, it is entitled to receive from the relevant wholly-owned subsidiaries of PEP, on demand, reimbursement for its cash disbursements incurred in acting as Administrative Agent, which are limited to reasonable out-of-pocket expenses. The agreement may be terminated by either party on 90 days’ notice in writing or upon replacement of the Management Company pursuant to the Management Regulations.

#### **9.15 Alzette Facility Agreement**

On 12 December 2002, certain subsidiaries of PEP, in their capacity as borrowers (for the purpose of this paragraph 9.15 the “**Borrowers**”), as parents of such Borrowers (for the purpose of this paragraph 9.15, the “**Parents**”) or as guarantor (for the purpose of this paragraph 9.15 the “**Guarantor**”), entered into a €250,000,000 facility agreement with, among others, Banc of America Securities Limited and ABN AMRO Bank N.V., as lead arrangers and lenders thereunder, and Alzette Funding No. 1 S.à r.l. (“**Alzette**”), as the special purpose lender thereunder, for the purpose of financing the acquisition and maintenance of, *inter alia*, properties by such Borrowers or their direct or indirect subsidiaries. The facility agreement has been amended and restated to, among other matters, increase the size of the loan facility to €500,000,000 (such facility agreement, as amended on 6 March 2003, amended and restated on 7 April 2003, further amended on 5 July 2004 and further amended and restated on 15 December 2005, the “**Alzette Facility Agreement**”). As security for the obligations of the Borrower under the Alzette Facility Agreement, the Borrowers have entered into borrower security trust deeds, granting certain security pursuant thereto or to J.P. Morgan Corporate Trustee Services Limited as security trustee and/or pledgee (the “**Alzette Security Trustee**”) and entered into certain cash pooling arrangements.

The facility contains a number of financial covenants including a fund debt to property value ratio, a fund debt service coverage ratio, a minimum fund net worth, an asset loan to eligible property value ratio, an asset debt service coverage ratio, a minimum asset yield on debt percentage and a borrower group loan to eligible property value ratio. The interest rate on each loan drawn under the facility for each interest period is determined according to a formula linked to the weighted average cost of funds of Alzette.

The facility contains a negative pledge provision whereby the Borrowers, the Parents and the Guarantor shall not, and shall cause each of their respective direct or indirect subsidiaries not to, (i) create or permit to subsist any security interest or encumbrance on or over all or any of their assets or revenues other than those permitted under the Alzette Facility Agreement, or (ii) by one or more transactions or series of transactions (whether related or not) dispose of the whole or any part of their revenues, their assets, business or undertakings other than as permitted under the Alzette Facility Agreement.

Events of default under the Alzette Facility Agreement include, *inter alia*, (i) material changes to the investment and operating criteria without the consent of the Alzette Security Trustee, (ii) any breach by an Investment Manager of its duties under the Investment Management Agreement which relates to the management of the assets in the portfolio or to the provisions of corporate services to PEP which would have a Material Adverse Effect (as defined therein), (iii) the termination of the Investment Management Agreement or any amendment to its terms which relates to the Investment Manager's duties in respect of the portfolio or the PEP group which has not been approved by the Alzette Security Trustee, and (iv) any breach of the Management Regulations by any party thereto. There is also a cross default provision which operates if (a) any financial indebtedness (excluding any intercompany debt or financial indebtedness owed to PEP) of PEP or any of its affiliates is not paid when due (subject to applicable grace periods), (b) any financial indebtedness (excluding any intercompany debt or financial indebtedness owed to PEP) of PEP or any of its affiliates is declared to be or otherwise becomes due and payable prior to its specified maturity, or (c) any creditor of any of the Borrowers, the Parents or the Guarantor becomes entitled to declare any financial indebtedness (excluding any intercompany debt or financial indebtedness owed to PEP) of PEP or any of its affiliates due and payable prior to its specified maturity, provided that in all cases of (a) to (c), an event of default will occur only if the aggregate amount of financial indebtedness or commitment for financial indebtedness is greater than €2,500,000 (or its equivalent in any currency or currencies).

In December 2005, the term of the facility was extended to 12 December 2007. PEP is currently seeking to increase the facility from €500 million to €800 million and has entered into a non-binding term sheet to this effect, though no assurance can be given that such increase will be achieved.

#### **9.16 HVB Facility Agreement**

On 16 February 2004, certain subsidiaries of PEP, in their capacity as borrowers (for the purpose of this paragraph 9.16 the "**Borrowers**") entered into five separate loan agreements for varying amounts with Hypo Real Estate Bank International Public Unlimited Company ("**HVB**" and formerly known as Hypo Real Estate Bank International Aktiengesellschaft mit unbeschränkter Haftung Niederlassung Deutschland) in each case as lender thereunder for the purpose of financing the acquisition and maintenance of, *inter alia*, properties in Poland and the Czech Republic, by such Borrowers or their direct or indirect subsidiaries or other group companies. Such loan agreements have been amended and restated to, among other matters, increase the size of one of the loan facilities (such loan agreements, as amended or restated, as the case may be, on 23 February 2005 shall, for the purposes of this paragraph 9.16, together be referred to as the "**Loan Agreements**"). As security for the obligations of the Borrowers under the Loan Agreements, the Borrowers and their direct or indirect subsidiaries or other group companies have granted certain security pursuant thereto or pursuant to other security documents to HVB. The loans are also cross collateralised by payment guarantees from each of the Borrowers.

Each of the Loan Agreements contains a number of financial covenants, including interest service coverage ratios and loan to value ratios. The interest rate on each loan drawn under the facility for each interest period is based on the cost of funds and the interest margin (if the interest rate is fixed) otherwise the sum of Euribor and the margin.



Events of Default under the Loan Agreements include, *inter alia*, a cross default provision which operates if an Event of Default (as defined therein) is continuing under any of the Loan Agreements between HVB and the other Borrowers.

In February 2005, the term of each of the loan facilities was extended to 15 March 2010.

## **9.17 CMBS Transactions**

### **9.17.1 CMBS Issue I**

In May 2001, a €213,750,000 securitisation of properties in France, The Netherlands and the UK was completed with ProLogis European Finance S.à r.l., a wholly-owned subsidiary of PEP. ProLogis European Finance S.à r.l. was advanced a loan by Pan-European Industrial Properties Series I S.A., pursuant to a single issue of asset backed securities rated AAA by S&P and Aaa by Moody's. Pan-European Industrial Properties Series I S.A. entered into hedging arrangements and advanced the gross proceeds to ProLogis European Finance S.à r.l. by way of a loan with Euro and Sterling tranches of €95,500,000 and of £73,610,625 at a blended interest rate of 5.41 per cent. and 6.0325 per cent., respectively. The loan is repayable by ProLogis European Finance S.à r.l. on 31 March 2008. In addition to the securities issued, the principal documents constituting the issue were the issuer/borrower loan agreement dated 10 May 2001 between, *inter alios*, ProLogis European Finance S.à r.l., Pan-European Industrial Properties Series I S.A. and ABN AMRO Trustees Limited, the security trust deed dated 10 May 2001 between, *inter alios*, ProLogis European Finance S.à r.l. and ABN AMRO Trustees Limited and the cash pooling deed dated 10 May 2001 between ProLogis European Finance S.à r.l., ABN AMRO Trustees Limited, ABN AMRO Bank N.V. and certain other wholly-owned subsidiaries of PEP. Under the securitisation arrangements, security was granted by subsidiaries of ProLogis European Finance S.à r.l., in the form of mortgages over real estate, share charges, pledges over relevant intercompany receivables and bank accounts.

### **9.17.2 CMBS Issue II**

In May 2002, a €356,000,000 securitisation of properties in France, Germany, The Netherlands, Spain and the UK was completed with ProLogis European Finance II S.à r.l., a wholly-owned subsidiary of PEP. ProLogis European Finance II S.à r.l. was advanced a loan by Pan-European Industrial Properties Series II S.A. pursuant to three issues of asset backed securities, with the Class A notes rated Aaa by Moody's and AAA by S&P, the Class B notes rated Aa2 by Moody's and AA by S&P and the Class C notes rated A2 by Moody's and A by S&P. On 06 April 2005 S&P increased the rating of the Class B notes to AAA and the Class C notes to AA. Pan-European Industrial Properties Series II S.A. entered into hedging arrangements and advanced gross proceeds to ProLogis European Finance II S.à r.l. by way of loan with Euro and Sterling tranches of €210,818,101 and £89,214,277 at a blended interest rate of 5.5286 per cent. and 6.0016 per cent., respectively. The loan is repayable by ProLogis European Finance II S.à r.l. on 15 June 2009. In addition to the securities issued, the principal documents constituting the issue were the issuer/borrower loan agreement dated 28 May 2002 between, *inter alios*, ProLogis European Finance II S.à r.l., Pan-European Industrial Properties Series II S.A. and ABN AMRO Trustees Limited, the security trust deed dated 28 May 2002 between, *inter alios*, ProLogis European Finance II S.à r.l. and ABN AMRO Trustees Limited and the cash pooling deed dated 28 May 2002 between ProLogis European Finance II S.à r.l., ABN AMRO Trustees Limited, ABN AMRO Bank N.V. and certain other wholly-owned subsidiaries of PEP. Under the securitisation arrangements, security was granted by subsidiaries of ProLogis European Finance II S.à r.l., in the form of mortgages over real estate, share charges, pledges over relevant intercompany receivables and bank accounts.

### **9.17.3 CMBS Issue III**

In February 2003, a €190,500,000 securitisation of properties in France, The Netherlands, Spain and the UK was completed with ProLogis European Finance IV S.à r.l., a wholly owned subsidiary of PEP. ProLogis European Finance IV S.à r.l. was advanced a loan by Pan-European Industrial Properties Series III S.A. pursuant to three issues of asset backed securities, with the Class A notes rated Aaa by Moody's and AA by S&P, the Class B notes rated Aa2 by Moody's and AAA by S&P and the Class C notes rated A2 by Moody's and A by S&P. On 06 April 2005 S&P increased the rating of the Class C notes to AA. Pan-European Industrial Properties Series III S.A. entered into hedging arrangements and advanced gross proceeds to ProLogis European Finance IV S.à r.l. by way of loan with Euro and

Sterling tranches of €108,246,411 and £51,959,592 at a blended interest rate of 4.2988 per cent. and 5.0198 per cent., respectively. The loan is repayable by ProLogis European Finance IV S.à r.l. on 15 April 2010. In addition to the securities issued, the principal documents constituting the issue were the issuer/borrower loan agreement dated 26 February 2003 between, *inter alios*, ProLogis European Finance IV S.à r.l., Pan-European Industrial Properties Series III S.A. and J.P. Morgan Corporate Trustee Services Limited, the security trust deed dated 26 February 2003 between, *inter alios*, ProLogis European Finance IV S.à r.l. and J.P. Morgan Corporate Trustee Services Limited and the cash pooling deed dated 26 February 2003 between ProLogis European Finance IV S.à r.l., J.P. Morgan Corporate Trustee Services Limited, JPMorgan Chase Bank, ABN AMRO Bank N.V. and certain others wholly-owned subsidiaries of PEP. Under the securitisation arrangements, security was granted by subsidiaries of ProLogis European Finance IV S.à r.l., in the form of mortgages over real estate, share charges, pledges over relevant intercompany receivables and bank accounts.

#### **9.17.4 CMBS Issue IV**

In March 2005, a €389,000,000 securitisation of properties in France, The Netherlands, Spain, Germany, Italy and the UK was completed with ProLogis European Finance VII S.à r.l., a wholly owned subsidiary of PEP. ProLogis European Holdings VII S.à r.l. was advanced a loan by Pan-European Industrial Properties Series IV S.A. (Compartment I) pursuant to three issues of asset backed securities, with the Class A notes rated Aaa by Moody's and AAA by S&P, the Class B notes rated Aa2 by Moody's and AA+ by S&P and the Class C notes rated A2 by Moody's and AA by S&P. Pan-European Industrial Properties Series IV S.A. entered into hedging arrangements and advanced gross proceeds to ProLogis European Finance VII S.à r.l. by way of loan with Euro and Sterling tranches of €327,020,000 and £42,840,000 at a blended interest rate of 3.2965 per cent. and 5.1054 per cent., respectively. The loan is repayable by ProLogis European Finance VII S.à r.l. on 15 April 2010. In addition to the securities issued, the principal documents constituting the issue were the issuer/borrower loan agreement dated 16 March 2005 between, *inter alios*, ProLogis European Finance VII S.à r.l., Pan-European Industrial Properties Series IV S.A. (Compartment I) and ABN AMRO Trustees Limited, the security trust deed dated 12 December 2002 (as amended and restated) between, *inter alios*, ProLogis European Finance VII S.à r.l. and ABN AMRO Trustees Limited and the cash pooling deed dated 12 December 2002 (as amended and restated) between ProLogis European Finance VII S.à r.l., ABN AMRO Trustees Limited, ABN AMRO Bank N.V. and certain other wholly-owned subsidiaries of PEP. Under the securitisation arrangements, security was granted by subsidiaries of ProLogis European Finance VII S.à r.l., in the form of mortgages over real estate, share charges, pledges over relevant intercompany receivables and bank accounts.

#### **9.17.5 French CMBS (Garonor)**

In April 2002, a €144,000,000 securitisation of properties in France was completed with ProLogis European Finance V S.à r.l., a wholly owned subsidiary of PEP. ProLogis European Finance V S.à r.l. was advanced a loan by France Industrial Properties No. 1 S.A. pursuant to two issues of asset backed securities, with the Class A notes rated AAA by S&P and the Class B notes rated A by S&P. France Industrial Properties No.1 S.A. entered into hedging arrangements and advanced gross proceeds to ProLogis European Finance V S.à r.l. by way of loan with two Euro tranches totalling €144,000,000 at a weighted average interest rate of 5.6897 per cent. per annum. The loan is repayable by ProLogis European Finance V S.à r.l. on 31 March 2009. In addition the securities issued, the principal documents constituting the issue were the issuer/borrower loan agreement dated 10 April 2002 between, *inter alios*, ProLogis European Finance V S.à r.l., France Industrial Properties No. 1 S.A. and ABN AMRO Trustees Limited, the security trust deed dated 10 April 2002 between, *inter alios*, ProLogis European Finance V S.à r.l. and ABN AMRO Trustees Limited and the cash pooling agreement dated 10 April 2002 between ProLogis European Finance V S.à r.l., ABN AMRO Trustees Limited, ABN AMRO Bank N.V., Société Générale and certain other wholly-owned subsidiaries of PEP. Under the securitisation arrangements, security was granted by subsidiaries of ProLogis European Finance V S.à r.l., in the form of mortgages over real estate, share charges, pledges over relevant intercompany receivables and bank accounts.

### **10 General**

- 10.1 There are no pending governmental, legal or arbitration proceedings, and there are no governmental, legal or arbitration proceedings which are pending or threatened of which PEP is

aware, which have had or would have had in the recent past a significant effect on PEP and/or the financial position or results of operations of PEP.

- 10.2 PEP does not intend to register under or become subject to the Investment Company Act as an investment company. In order to avoid such registration, it will, among other things, seek to comply with Section 3(c)(7) of the Investment Company Act, which provides an exclusion from investment company status for investment funds whose securities are sold only to U.S. residents and U.S. Persons who are QPs (as such term is therein defined) and certain other limited categories of persons.
- 10.3 Details of all of PEP's subsidiaries which are directly or indirectly owned by PEP and consolidated into the annual financial statements of PEP are set out in the schedule to this Part VII. Such subsidiaries generally have an accounting period identical to that of PEP, generally have the same auditors as PEP, and generally are managed by ProLogis Directorship S.à r.l. In some jurisdictions, as an exception to the above, ProLogis Directorship S.à r.l. may not act as manager of certain principal subsidiaries of PEP; in such case the relevant principal subsidiaries are managed by representatives of ProLogis.
- 10.4 Each of JLL and DTZ have given and not withdrawn their consent to the inclusion in this Prospectus of the Valuation Report prepared by them and set out in Part XIII of this Prospectus in the form and context in which it is included, and have authorised the contents of its above mentioned report for the purpose of this Prospectus. Each of DTZ and JLL accepts responsibility for the content of its valuation report and to the best of its knowledge and belief, having taken all reasonable care to ensure that the same is the case, the information contained in its valuation report or reports is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 10.5 Ernst & Young S.A. has given and not withdrawn its consent to the inclusion in this Prospectus of the financial information and its audit reports thereon prepared by it and set out in Parts X and XI of this Prospectus in the form and context in which it is included, and has authorised the contents of its above mentioned report for the purpose of this Prospectus.
- 10.6 The Management Company is or may be a promoter of PEP. Save as disclosed herein, no amount or benefit has been paid or given by PEP to the Management Company, and, other than as expressly disclosed in this Prospectus, none is intended to be given.
- 10.7 Application will be made for the Ordinary Units to be admitted to listing on Eurolist by Euronext Amsterdam and to trading on Euronext Amsterdam's regulated market.
- 10.8 Other than as specifically detailed in this Prospectus, there has been no significant change in the financial or trading position of PEP since 30 June 2006, the date to which the interim results set out in Part XI of this Prospectus were prepared.
- 10.9 The Management Company is of the opinion that PEP has sufficient working capital for its present requirements, that is, 12 months from the date of this Prospectus.
- 10.10 PEP communicates the valuation of its NAV in its quarterly earning announcements. PEP's Distribution Facilities are valued by the Independent Appraiser on an annual basis. Consequently, the Management Company, in preparing quarterly calculations of NAV (other than the annual calculation), bases such calculations on the annual valuation of the Distribution Facilities subject to any adjustments which it considers necessary. The Management Company currently only contemplates the publication of the NAV being suspended in *force majeure* circumstances. If the publication of quarterly results were unduly delayed or cancelled, PEP would make a market announcement.
- 10.11 PEP is not required to comply with any corporate governance regime as no such corporate governance regime exists in Luxembourg.
- 10.12 As at 30 June 2006, the maximum amounts payable, excluding value added taxes, in respect of fees over a 12 month period to each of the Management Company, the Investment Managers, the

Custodian, the Luxembourg Paying and Listing Agent, the Dutch Paying Agent and the Registrar and Transfer Agent are as follows:

Management Company and Investment Managers . . . .	€26.19 million
Custodian and Luxembourg Paying and Listing Agent .	€186,366
Dutch Paying Agent . . . . .	€36,500
Registrar and Transfer Agent . . . . .	€60,000

Except in relation to positions held from time to time by members of the Unitholder Advisory Committee and as disclosed in the next paragraph, during the last three years preceding the date of this Prospectus none of the Selling Unitholders has had any position, office or other material relationship with PEP, the Management Company or any of their predecessors or affiliates.

IMMOWEST Beteiligungs GmbH and certain affiliates of the Government of Singapore Investment Corporation Pte Ltd. (an affiliate of Euro Industrial Properties Pte Ltd.) are investors in certain private equity funds sponsored and managed by ProLogis. In the normal course of their respective businesses, Teachers Insurance and Annuity Association of America and MetLife are lenders to ProLogis and certain of its affiliates and subsidiaries. MetLife is also a party to a joint venture with a ProLogis affiliate.

- 10.13 Pursuant to a series of letters dated 19 August 2003 with certain Unitholders, ProLogis undertook a number of obligations for the benefit of all Unitholders of PEP holding Units prior to the Offer, including an obligation to indemnify such Unitholders for tax on the built-in gain on properties contributed to PEP by ProLogis on or after 31 March 2003. If payable, the indemnity will be calculated based on the 30-day average closing price of the Units following the closing of the Offer. This indemnity was given to Unitholders holding units prior to the Offer and will not benefit any investor which purchases Ordinary Units in the Offer. Following satisfaction of ProLogis' indemnification obligation, all the obligations under these letters will either have been performed, or are no longer applicable having regard to the structure of PEP after the Offer.
- 10.14 Pursuant to the provisions of the Existing Property Contribution Agreement, PLD entered into a Tax Indemnity dated 15 September 1999 under which PLD agreed to indemnify PEP against:
- all losses in respect of taxation payable by the Original Companies and certain of their subsidiaries after the date on which PLD transferred the Shares either:
    - in respect of or arising from any transaction, act, event or omission of whatever nature effected or deemed to have been effected on or before the date on which PLD contributed the Shares of the relevant Original Company; or
    - by reference to any income earned, accrued or received on or before the date when PLD contributed the Shares of the relevant Original Company; and
  - certain losses suffered by PEP as a result of an Original Company or its subsidiaries having been members of a tax group before the date on which PLD contributed the Shares of the relevant Original Company.

The Tax Indemnity provides that any claim under the indemnity given by PLD is required to be made within 60 days of the end of the applicable limitation period in the relevant jurisdiction for a valid assessment (or the commencement of other applicable recovery proceedings) by the relevant taxation authority in respect of the matter to which the claim relates. As limitation periods vary from jurisdiction to jurisdiction, this indemnity may, in relation to certain of the Distribution Facilities originally covered by the Tax Indemnity, have already expired and in any event, this indemnity will expire on the Settlement Date in relation to any claims brought following the Settlement Date.

The Tax Indemnity also contains a counter indemnity under which the Management Company for and on behalf of PEP has agreed to indemnify PLD against certain tax liabilities payable by PLD or any other ProLogis Related Party as a consequence of a failure by any Original Company or any of its subsidiaries to discharge its obligations in relation to taxation. The counter indemnity is a continuing indemnity and will continue in full force and effect following Admission.

- 10.15 On 29 June 2001, the Management Company (acting on behalf of PEP) entered into a subscription agreement for Class B2 Units in PEP with ProLogis. The subscription agreement was subsequently

amended on 13 September 2002. Under the subscription agreement, ProLogis has agreed to subscribe for an aggregate amount of €150 million Class B2 Units in the event the Management Company exercises its right under the subscription agreement to call, on such dates and in such amounts as it may determine in its discretion, all or part of such €150 million subscription commitment. As at the date of this Prospectus, the Management Company has required ProLogis to subscribe for €14.6 million in fully paid Class B2 Units. Following the completion of the Offer, ProLogis, upon a call by the Management Company, will be required to subscribe for Ordinary Units at a price per Ordinary Unit equal to the NAV per Ordinary Unit (as determined in accordance with the Management Regulations) plus a market premium, if any, consistent with Article 8 of the Management Regulations, although the Management Company does not intend to make any further calls under the subscription agreement. The subscription agreement terminates on 15 September 2009 or earlier on the mutual agreement of the parties in writing.

- 10.16 Under the management regulations in effect as at the date of this Prospectus, PLD is entitled to receive from existing Unitholders a promote fee in the event of an initial public offering or a winding up of PEP. The amount of the promote fee is equal to 20 per cent. of the residual value of PEP in excess of a 12 per cent. look-back internal rate of return earned by all Ordinary Unitholders, based on the NAV of PEP as at the most recent valuation day (which, in the case of the Offer, is 30 June 2006) and is payable by existing Unitholders in Ordinary Units with a subsequent adjustment to the calculation to be made in cash based on the average closing price of the Ordinary Units during the 30 day period post Admission.

The Class B1 Units owned by PLD will convert immediately prior to Admission into Ordinary Units with PLD receiving 1.3455 Ordinary Units for each Class B1 Unit. The conversion rate is determined by calculating the NAV of Class B1 Units as at 30 June 2006 relative to the total NAV of PEP as at that date. The conversion rate for Class B1 Units includes the initial promote fee earned by PLD as at 30 June 2006, which is equivalent to 3,935,054 Ordinary Units. In anticipation of the subsequent adjustment to be made 30 days after Admission, an amount will be deducted from the proceeds of the Offer otherwise due to the Selling Unitholders and placed in a retention account with the Custodian pending determination of that adjustment amount. Once the final promote calculation is made based on the 30 day average closing price, the amount of the adjustment will be distributed to PLD from the retention account with the remainder going to the Selling Unitholders. Non-Selling Unitholders will be invoiced for any cash adjustment payable by them.

- 10.17 The Management Company, on behalf of PEP, has appointed KPMG as the tax representative of PEP in Austria. In this capacity KPMG is responsible for, amongst others, submitting tax filings in respect of PEP with the Austrian Ministry of Finance. The Management Company expects to continue having a tax representative in Austria following Admission and, if necessary, to exercise its discretion in appointing alternative representatives from time to time.



## 11 Indebtedness and Capitalisation

The indebtedness and capitalisation of PEP as at 30 June 2006 were as follows:

### PEP Capitalisation and Indebtedness

	€'000
<b>Total Current Debt</b>	
(including current portion of long-term debt) <sup>(1)</sup>	
—Guaranteed and Secured <sup>(2)</sup> . . . . .	338,770
—Unguaranteed/Unsecured . . . . .	—
	<b>338,770</b>
<b>Total Non-Current Debt</b>	
(excluding current portion of long-term debt)	
—Guaranteed . . . . .	—
—Secured <sup>(3)</sup> . . . . .	1,459,800
—Unguaranteed/Unsecured . . . . .	—
	<b>1,459,800</b>
<b>Unitholders' Equity</b>	
Capital (net of costs of raising capital) . . . . .	1,999,049
Other reserves:	
—Cumulative foreign currency translation . . . . .	(26,953)
—Cashflow hedge valuation reserve . . . . .	(9,941)
	<b>1,962,155</b>

(1) As at 30 June 2006, PEP carried debt which is both guaranteed and secured.

(2) The facility provided by Banc of America and ABN AMRO Bank is secured by way of pledges on the shares of certain of PEP's subsidiaries, intercompany receivable and a PEP guarantee.

(3) The CMBS issuances are secured upon the Distribution Facilities which are owned by wholly-owned subsidiaries of PEP. A secured facility provided by Hypo Real Estate Bank International is secured on certain Distribution Facilities located in Central Europe.

### PEP Net Indebtedness<sup>(1)</sup>

	€'000
<b>Liquidity</b>	
—Cash . . . . .	112,162
<b>Current Financial Receivables</b>	
—Amounts due from related party . . . . .	23
—Accounts receivable, net . . . . .	34,237
—VAT recoverable . . . . .	50,012
	<b>84,272</b>
<b>Current Financial Debt</b>	
—Current bank debt . . . . .	335,765
—Current portion of long term debt . . . . .	3,005
Current Financial Debt . . . . .	338,770
<b>Net Current Financial Indebtedness</b> . . . . .	<b>142,336</b>
<b>Non-current bank loans</b> . . . . .	166,550
<b>Bonds issued</b> . . . . .	1,293,250
<b>Non-current financial indebtedness</b> . . . . .	<b>1,459,800</b>
<b>Net Financial indebtedness</b> . . . . .	<b>1,602,136</b>

(1) PEP expects its level of debt will increase following the Offer, as described in Part III—"Operating and Financial Review and Prospects" of this Prospectus.

## **12 Documents Available for Inspection**

Copies of the following documents are available for inspection at the offices of the Management Company during usual business hours (Saturdays, Sundays and public holidays excepted) from the date of publication of this Prospectus for either a period of 14 days or until the Settlement Date, whichever is the longer period:

- 12.1 the Management Regulations;
- 12.2 the audited consolidated accounts of PEP for the years ended 31 December 2005, 31 December 2004 and 31 December 2003 prepared in accordance with IFRS which have been audited by Ernst & Young S.A., which is a member of the Luxembourg Institute of Independent Auditors and independent auditor of PEP;
- 12.3 the consolidated unaudited results of PEP for the six-month period ended 30 June 2005;
- 12.4 the consolidated unaudited results of PEP for the six-month period ended 30 June 2006;
- 12.5 the valuation reports set out in Part XIII of this Prospectus;
- 12.6 the Property Contribution Agreement;
- 12.7 the Investment Management Agreement;
- 12.8 the Private Equity Fund Investment Agreement; and
- 12.9 this Prospectus.

## Schedule—Subsidiaries of PEP

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis Belgium I B.v.b.a.	Real Estate Holding Company	Pegasuslaan 5, B-1831 Diegem, Belgium	Belgium	100
ProLogis Belgium II B.v.b.a.	Real Estate Holding Company	Pegasuslaan 5, B-1831 Diegem, Belgium	Belgium	100
ProLogis Czech Republic II s.r.o.	Real Estate Holding Company	Na Dlouhem 79, Jazlovice-Ricany 251 01, Czech Republic	Czech Republic	100
ProLogis Czech Republic III s.r.o.	Real Estate Holding Company	Na Dlouhem 79, Jazlovice-Ricany 251 01, Czech Republic	Czech Republic	100
ProLogis Czech Republic IV s.r.o.	Real Estate Holding Company	Na Dlouhem 79, Jazlovice-Ricany 251 01, Czech Republic	Czech Republic	100
ProLogis Czech Republic VII s.r.o.	Real Estate Holding Company	Na Dlouhem 79, Jazlovice-Ricany 251 01, Czech Republic	Czech Republic	100
ProLogis Czech Republic XIII s.r.o.	Real Estate Holding Company	Na Dlouhem 79, Jazlovice-Ricany 251 01, Czech Republic	Czech Republic	100
ProLogis Czech Republic XIV s.r.o.	Real Estate Holding Company	Na Dlouhem 79, Jazlovice-Ricany 251 01, Czech Republic	Czech Republic	100
Angeloir S.à r.l.	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
Artoilog S.à r.l.	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay, sous, Bois, France	France	100
Bre Francilienne 2 S.à r.l.	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
Bre Francilienne Compans S.à r.l.	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
Bre Francilienne S.à r.l.	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
Bre Orbium S.à r.l.	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
Chesnes Nord	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
Garonor SAS	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France I Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France I SAS <sup>(1)</sup>	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France II Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100

(1) This subsidiary was sold pursuant to a share purchase agreement dated 13 June 2006, in connection with the disposal of six French properties—Servon 1, Servon 2, Isle d'Abeau 1, Longjumeau 1, Villejust (Océanie 1) and Epone 1. See Part III—“Operating and Financial Review and Prospects” of this Prospectus.

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis France II SAS	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France III Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France III SAS	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France IV Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France VI Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France VII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France VIII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XI Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XIII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XIV Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XV Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XVI Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XVII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XVIII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XX Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXI Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXIII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis France XXIV Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXV Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXVI Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXVII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXX Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXXI Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXXII Eurl <sup>(2)</sup>	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXXIII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXXIV Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXXV Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXXVI Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXXVII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXXVIII (French S.à r.l.)	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XXXIX Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XL Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XLI Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XLIII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100

(2) This subsidiary was sold pursuant to a share purchase agreement dated 13 June 2006, in connection with the disposal of six French properties—Servon 1, Servon 2, Isle d'Abeau 1, Longjumeau 1, Villejust (Océanie 1) and Epone 1. See Part III—“Operating and Financial Review and Prospects” of this Prospectus.



<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis France XLIV Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XLV Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XLVII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XLVIII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France XLIX Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
ProLogis France LVII Eurl	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SCI Copernic	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SCI Crepy Paris Nord	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SCI Croisee des Autoroutes Lorraines	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SCI d'Ormes	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SCI de Magasins Generaux de Vitrolles	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SCI du Carrefour de l'Europe	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SCI Ile de France	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SCI Le Parc	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SCI Plessis Pate	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SCI Plessis Pate 2	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SNC Aulnay Extension Ouest	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
SNC Melun 7	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100
Sofinvest S.à r.l.	Real Estate Holding Company	Autoroute A1, Batiment G, BP 780, 93614 Aulnay sous Bois, France	France	100

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
Garonor Deutschland GmbH	Real Estate Holding Company	Am Eifeltor 16, 50997 Köln, Germany	Germany	100
Garonor Verwaltung GmbH	Real Estate Holding Company	Am Eifeltor 16, 50997 Köln, Germany	Germany	100
Garonor Verwaltung GmbH & Co. Köln Eifeltor KG	Real Estate Holding Company	Am Eifeltor 16, 50997 Köln, Germany	Germany	100
Harbor Park Ingatlanfejlesztő Kft.	Real Estate Holding Company	Hermina ut 17, South Tower 4 em, 1146 Budapest, Hungary	Hungary	100
Harbor Park Ingatlanműködtető Kft.	Real Estate Holding Company	Hermina ut 17, South Tower 4 em, 1146 Budapest, Hungary	Hungary	55.665 <sup>(3)</sup>
Mobil Portfolio Kft.	Real Estate Holding Company	Hermina ut 17, South Tower 4 em, 1146 Budapest, Hungary	Hungary	100
ProLogis Hungary Kft.	Real Estate Holding Company	Hermina ut 17, South Tower 4 em, 1146 Budapest, Hungary	Hungary	100
ProLogis Hungary Two Kft.	Real Estate Holding Company	Hermina ut 17, South Tower 4 em, 1146 Budapest, Hungary	Hungary	100
ProLogis Hungary Three Kft.	Real Estate Holding Company	Hermina ut 17, South Tower 4 em, 1146 Budapest, Hungary	Hungary	100
ProLogis Hungary Ten Kft.	Real Estate Holding Company	Hermina ut 17, South Tower 4 em, 1146 Budapest, Hungary	Hungary	100
Wingprojekt 2 Kft.	Real Estate Holding Company	Hermina ut 17, South Tower 4 em, 1146 Budapest, Hungary	Hungary	100
ProLogis Hungary Finance Kft.	Real Estate Holding Company	Arany Janos u. 23, 9746 Acsad, Hungary	Hungary	100
ProLogis Italian Finance Kft.	Real Estate Holding Company	Arany Janos u. 23, 9746 Acsad, Hungary	Hungary	100
ProLogis Finance Kft.	Real Estate Holding Company	Arany Janos u. 23, 9746 Acsad, Hungary	Hungary	100
ProLogis Italy Ia S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milan, Italy	Italy	100
ProLogis Italy Ib S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy Ic S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy Id S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy II S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy VIa S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy VI 1 S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy VI 2 S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy VII S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy VIIb S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy IX S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100

(3) Although PEP indirectly owns 55.665 per cent. of the registered capital of Harbor Park Ingatlanműködtető Kft., it is entitled to exercise 82 per cent of the votes in the company.

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis Italy IXa S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy X S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
ProLogis Italy XXV S.r.l.	Real Estate Holding Company	Via A. Volta 16, 20093 Cologno Monzese, Milano, Italy	Italy	100
The Bermuda Park Unit Trust	Real Estate Holding Company	Whiteley Chamber Don Street, St Helier, Jersey JE4 9WG	Jersey	100
ProLogis S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Realty I S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Belgium S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Belgium II S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Czech Republic S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Czech Republic II S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Czech Republic III S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Czech Republic IV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Czech Republic VII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Czech Republic XIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Finance S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Finance II S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Finance III S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Finance IV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Finance V S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Finance VI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Finance VII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Finance VIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Finance IX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Holdings S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Holdings II S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Holdings IV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis European Holdings V S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Holdings VI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Holdings VII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Holdings VIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis European Holdings IX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France I S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France II S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France III S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France IV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France V S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France VI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France VII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France IX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France X S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XVI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XVIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XIX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis France XXIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXVI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXVIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXIX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXXI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXXIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXXV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXXVI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXXVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXXVIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XXXIX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XL S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XLI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XLIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XLIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XLV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XLVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XLVIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France XLIX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis France LVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Germany S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Germany III S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Germany IV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100



<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
PLD Germany V S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
PLD Germany VII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Germany XV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Germany XVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Germany XIX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Italy III S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Italy V S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Italy IX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Italy XIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Italy XXV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands I S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands II S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands IIa S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands III S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands IV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands V S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands VI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands VII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands VIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands IX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands X S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis Netherlands XV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XVI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XVIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XIX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XXI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XXII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Netherlands XXXI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland II S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland III S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland IV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland V S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland VI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland VIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland X S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland XI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland XIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland XIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland XV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland XVI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland XVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland XX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland XXII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland XXIX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis Poland XXXIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Poland XLVIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain III S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain IV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain V S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain VI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain VII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain VIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain IX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain X S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain XI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Spain XII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK II S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK III S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK IV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK IX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK X S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XVI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XVIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XXII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XXIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis UK XXVI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XXVIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XXXIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XXXV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XXXVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XL S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XLI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XLIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XLV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XLVI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XLVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XLIX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LVII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LXI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LXII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LXIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LXXI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LXXIV S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LXXIX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LXXX S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LXXXI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LXXXII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK LXXXIII S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK XC S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis UK CC S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis UK CCI S.à r.l.	Real Estate Holding Company	18 Boulevard Royal, L-2449 Luxembourg	Luxembourg	100
ProLogis Germany III B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	100
ProLogis Germany IV B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	100
PLD Germany V B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.75
PLD Germany VII B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.8
ProLogis Germany XII B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.8
ProLogis Germany XV B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.75
ProLogis Germany XVII B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.4
ProLogis Germany XIX B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	100
ProLogis Germany XXI B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Germany XXII B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.4
ProLogis Germany XXIII B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Germany XXV B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Germany XXVI B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Germany XXVII B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Germany XXVIII B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Germany XXXI B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Germany XXXV B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Germany XXXVI B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44



<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis Germany XXXIX B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Germany XLI B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Germany XLIII B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	94.44
ProLogis Finance B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	100
ProLogis Poland Finance B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	100
ProLogis Realty I B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	100
ProLogis Realty II B.V.	Real Estate Holding Company	Schiphol Boulevard 115, Schiphol Airport 1118 BG, The Netherlands	The Netherlands	100
ProLogis Poland I Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland II Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland III Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland IV Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland V Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland VI Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland VIII Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland X Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XI Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XIII Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XIV Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XV Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XVI Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XVII Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XX Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XXII Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis Poland XXIX Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XXXIV Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XXXV Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XXXVI Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XXXVII Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XXXVIII Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XXXIX Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Poland XLVIII Sp. z o.o.	Real Estate Holding Company	Ul. 20 Szyzskowa, 02-285 Warsaw, Poland	Poland	100
ProLogis Central European Finance S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain 1 S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain III S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain IV S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain V S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain VI S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain VII S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain VIII S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain IX S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain X S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain XI S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain XII S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Spain XIII S.L.	Real Estate Holding Company	c/o Coto no. 6, 08830 Sant Boi de Llobregat, Spain	Spain	100
ProLogis Holding AB	Real Estate Holding Company	c/o Matrisen AB, Box 22059104, 22 Stockholm, Sweden	Sweden	100
ProLogis Sweden Gothenburg AB	Real Estate Holding Company	c/o Matrisen AB, Box 22059104, 22 Stockholm, Sweden	Sweden	100
ProLogis Sweden I AB	Real Estate Holding Company	c/o Matrisen AB, Box 22059104, 22 Stockholm, Sweden	Sweden	100
ProLogis Sweden Norrköping AB	Real Estate Holding Company	c/o Matrisen AB, Box 22059104, 22 Stockholm, Sweden	Sweden	100
ProLogis Sweden Örebro AB	Real Estate Holding Company	c/o Matrisen AB, Box 22059104, 22 Stockholm, Sweden	Sweden	100

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
1 & 2 Buncefield Lane (No. 2) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
1 & 2 Buncefield Lane Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
Beddington Lane Unit C (No. 1) Limited <sup>(4)</sup>	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
Beddington Lane Unit C (No. 2) Limited <sup>(4)</sup>	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
Interlink Park Management Company	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis (Plot 1200 Central Park Rugby No. 1) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis (Plot 1200 Central Park Rugby No. 2) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Apex Park DC 3 (No. 1) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Apex Park DC 3 (No. 2) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Corby Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Grange Park Plot 4 Zone A (No. 1) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Grange Park Plot 4 Zone A (No. 2) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Grange Park Plot 6 Zone A (No. 1) limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Grange Park Plot 6 Zone A (No. 2) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Grange Park Plot 6 Zone A (No. 3) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Keresley Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Kettering (No. 1) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Marston Gate Plot 1 (No. 1) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100

(4) This subsidiary is expected to be liquidated in February 2007.

<b>Company name</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Country</b>	<b>Proportion of Capital Held</b>
ProLogis Marston Gate Plot 1 (No. 2) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Marston Gate Plot 3 (No. 1) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Marston Gate Plot 3 (No. 2) Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100
ProLogis Wakefield Limited	Real Estate Holding Company	1 Monkspath Hall Road Solihull, West Midlands B90 4FY, United Kingdom	United Kingdom	100

## PART VIII

### TAX CONSIDERATIONS

#### General

The comments below are of a general and non-exhaustive nature based on the Managers' understanding of the current revenue law and practice in Luxembourg, France, the UK and the U.S., which are subject to change. The following summary does not therefore constitute legal or tax advice and applies only to persons holding Ordinary Units as an investment.

An investment in PEP involves a number of complex tax considerations. Changes in tax legislation in any of the countries in which PEP will have investments or in Luxembourg (or in any other country in which a subsidiary of PEP, through which investments are made, is located), or changes in tax treaties negotiated by those countries, could adversely affect the returns from PEP to investors.

**The following discussion does not address the tax consequences of subscribing for, purchasing, holding, converting or selling Ordinary Units in all jurisdictions. Prospective investors should note that an investment in PEP may not be favorable from a tax perspective in many jurisdictions, including Germany. In addition, the tax consequences of investing in Ordinary Units of PEP, as a *fonds commun de placement*, may differ significantly from other types of equity investments. Prospective investors should consult their professional advisers on the potential tax consequences of subscribing for, purchasing, holding, converting or selling Ordinary Units under the laws of their country and/or state of citizenship, domicile or residence.**

#### Taxation of PEP and Unitholders

This summarises the taxation treatment of the income received by PEP and of the income distributed to Unitholders who are tax resident in certain jurisdictions. The summary is based on laws, regulations and practice in force at the date of this Prospectus, and is presented for guidance only. Depending on individual facts and circumstances, the taxation treatment of specific Unitholders may differ from the guidance below. Investors should obtain advice from their own tax advisers on the tax implications for them of investing, holding and disposing of Units and receiving distributions in respect of Units.

The Management Company reserves the right to disclose the names of the Unitholders on the register of Unitholders to any tax authority where law requires such disclosure or where the Management Company believes such disclosure is in the best interests of PEP. In particular, each Unitholder shall provide from time to time such information to PEP as may be reasonably requested for the purpose of determining to what extent any Units are owned, directly or indirectly, by a "non-exempt legal entity" (see "French 3 per cent. Real Estate Holding Tax on Real Property" section below). PEP shall provide such assistance as any Unitholder may reasonably request in connection with such determination.

Taxpaying investors in jurisdictions where PEP is treated as tax transparent should note that certain detailed information may be required by them in order to ascertain the level of taxable income and gains for the purpose of filing local tax returns, and that the extent of detail required may not necessarily be routinely provided by PEP. The Management Company will comply with all reasonable requests for additional information requested by Unitholders to prepare their tax returns, but may require the reimbursement of any costs incurred in preparing that information.

#### PEP

PEP is a FCP regulated in Luxembourg under Part II of the 2002 Law. As such, the income and gains of PEP will not be subject to income tax in Luxembourg. PEP is subject to an annual subscription tax in Luxembourg of 0.05 per cent. per annum of the net assets attributable to the Ordinary Units and any other Units which may be in issue at the time of the calculation of the subscription tax. Such annual subscription tax is payable by PEP quarterly on the basis of the value of the aggregate net assets of the relevant Class of Units as of the end of the preceding calendar quarter. Distributions to Unitholders will not be subject to withholding tax in Luxembourg, unless they fall under the rules of Directive 2003/48/EC and related bilateral agreements.

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a directive on the taxation of savings income in the form of interest payments (Directive 2003/48/EC); hereinafter the "**EU Savings Directive**". Under the EU Savings Directive, each EU Member State (a "**Member State**") generally must provide the tax authorities of another Member State with details of interest payments or similar income paid by a Paying Agent within its jurisdiction to a Residual Entity or to or for an individual (the "**Beneficial**



**Owner**”) resident in the latter Member State, with certain Member States being entitled to provide for a savings withholding tax system during a transitional period. The transitional period started on 1 July 2005 and will terminate at the end of the first full fiscal year after the EU and certain non-EU states reach an agreement on exchange of information. The EU Savings Directive applies as from 1 July 2005. Based on bilateral agreements, relevant Dependant and Associated Territories and relevant non-EU States apply similar or equivalent measures as from the same date.

According to the Luxembourg Laws of 21 June 2005 transposing the EU Savings Directive and ratifying the bilateral agreements concluded with the Dependent and Associated Territories, during the transitional period, a Luxembourg Paying Agent may be required to withhold savings withholding tax on interest payments to Residual Entities or to Beneficial Owners resident in a EU Member State or a relevant Dependant and Associated Territory at a rate of 15 per cent. (the rate will be increased to 20 per cent. as from 1 July 2008 and to 35 per cent. as from 1 July 2011), unless the Beneficial Owner has opted for an alternative procedure (a Luxembourg Paying Agent should propose at least one of the alternative procedures to savings withholding tax, foreseen in the EU Savings Directive as transposed into Luxembourg legislation through the Law of 21 June 2005: exchange of information and/or the tax certificate procedure).

Should the investors be (i) individuals (qualifying as Beneficial Owners) with permanent address in a EU Member State or in certain Dependent and Associated Territories, (ii) Residual Entities or (iii) entities without legal personality (and not treated as Beneficial owner) outside the EU and outside the Dependent and Associated Territories, there may be EU Savings Directive implications in relation to distributions by PEP and upon redemption or sale of units, i.e. savings withholding tax and/or exchange of information requirements.

On the other hand, as far as payments towards PEP are concerned, it is to be noted that the EU Savings Directive provides for exemptions where the residual entity is a UCITS or a residual entity having opted to be treated as a UCITS for the purposes of the EU Savings Directive. According to the Luxembourg Law of 21 June 2005 transposing the EU Savings Directive, FCPs are automatically treated as UCITS. No savings withholding tax as per the EU Savings Directive (or exchange of information obligations) should thus apply relating to Interest payments made to PEP.

Finally, the operation of the EU Savings Directive will be reviewed after three years. It cannot be excluded that the scope of the Directive and/or other articles of the Directive would be amended at that point in time (or even sooner). Possible (future) EU Savings Directive implications and developments should thus be monitored on a continuing basis.

Note that for the purposes of this section, the terms “Residual Entity” “Paying Agent”, “Interest”, “Transitional Period” and “Beneficial Owner” have the meaning of the Laws of 21 June 2005 and the Circular of the Director of the Tax Authorities RIUE N° 1 of 29 June 2005.

The cash received by PEP will mainly consist of dividend income and interest from subsidiaries of PEP and income derived from the ProLogis Private Equity Funds and the ProLogis Joint Ventures.

As far as PEP owns real estate indirectly through indirect wholly-owned subsidiaries, the subsidiaries are held through a series of Luxembourg holding companies owned by a single Luxembourg holding company owned directly by PEP.

The Management Company seeks to manage PEP in a tax-efficient manner, within the constraints of local fiscal law and practice. Real estate income earned by the asset-owning subsidiaries will be subject to taxation in the jurisdiction in which the real estate is located. Local tax is payable by the asset-owning entities on net rental income after deducting management fees, tax depreciation and interest (both internal and external) on debt finance in that entity. Where the asset-owning entity is financed with debt from PEP or its subsidiaries, cash will be repatriated to PEP in the form of interest payments, through intermediate companies where appropriate. Interest payments will, where possible, not be subject to withholding tax in the jurisdictions in which the assets are located by virtue of local law or relevant double taxation agreements.

The after-tax income, net of interest on debt financing, generated by each asset-owning entity will be distributed to PEP, through intermediate fully taxable holding companies where appropriate. In most jurisdictions in which PEP invests and expects to invest, such dividend payments should not be subject to withholding tax by virtue of the EU Council Directive 90/435 (“On the Common System of Taxation Applicable in the case of Parent Companies and Subsidiaries of Different Member States”) as implemented in the relevant domestic regulations, assuming the conditions set forth therein will be met.

The distribution requirements of PEP are calculated with respect to Distributable Cash Flow, not profit. In some circumstances, for example because of the need to depreciate an asset in the books of the asset-owning entities, cash flows may arise which cannot be distributed from the asset-owning entities and intermediate holding companies by way of a dividend. To repatriate this cash to PEP, the subsidiaries of PEP repay intercompany debt and/or make short-term upstream loans to PEP as necessary.

To the extent dividends are paid to PEP by the Luxembourg holding companies, a 20 per cent. withholding tax will *prima facie* be levied on the payments. It is not currently intended that dividends will be paid to PEP if it is determined that withholding tax would be payable.

Luxembourg non-resident Unitholders could be liable to tax in Luxembourg in the following cases:

- if a vehicle in which PEP has invested or invests in Luxembourg real estate; or
- if Unitholders realise a gain on the disposal of a “substantial holding” in a Luxembourg resident company (possibly held through a transparent investment vehicle), whereby (i) the disposal occurs within six months from acquisition, or (ii) the Unitholder is a person who was a resident of Luxembourg for more than 15 years prior to the disposal and became a non-resident of Luxembourg less than five years before realising the gain. In this respect, “substantial holding” means that the Unitholder (together with spouse and children) has held, directly or indirectly, at any time during the five year period prior to the sale, more than 10 per cent. in a Luxembourg resident company.

The listing of PEP in Euronext Amsterdam does not cause any Dutch tax charge to be levied at the level of PEP.

### **French 3 per cent. Real Estate Holding Tax on Real Property**

According to Article 990D of the French Tax Code, certain legal entities which directly or indirectly own one or more real estate assets or rights over real estate located in France are liable for an annual tax of 3 per cent. of the market value of the real property or rights over such property (the “**French 3 per cent. real estate holding tax**”).

In principle, the tax applies to entities (other than individuals) which have a distinct legal personality under the law of the country in which they are established (such entities being referred to here for the purposes of the French 3 per cent. real estate holding tax as “**Legal Entities**”). Thus the French 3 per cent. real estate holding tax applies in principle to most, if not all, French and non-French companies holding French real estate. However, the French 3 per cent. real estate holding tax is an anti-abuse provision directed principally at investments by tax haven entities and a number of exemptions are available which have the effect of exempting most French or non-French legal entities from the scope of the tax. Legal Entities that do not benefit from these exemptions are referred to here for the purposes of the French 3 per cent. real estate holding tax as “**Non-Exempt Legal Entities**”. In line with the Management Regulations, a Unitholder who does not benefit from an exemption from the French 3 per cent. real estate holding tax is referred to below as a “**Non-Exempt Unitholder**”.

The legal entities described in exemptions 1, 4, 5 and 6 below all benefit from full exemption from the French 3 per cent. real estate holding tax (such entities are referred to here as “**Fully Exempt**”).

PEP is in the process of seeking a tax ruling to determine whether it can rely on an exemption from the French 3 per cent. real estate holding tax which applies to legal entities whose securities are listed on a regulated market. If either the French tax authorities determine that PEP is not able to rely on such an exemption, or if no ruling is granted by the French tax authorities, PEP should remain outside the scope of the French 3 per cent. real estate holding tax as PEP is set up under the form of a Luxembourg FCP with no personality distinct from its members according to Luxembourg law. However, failure of Non-Exempt Unitholders to pay the French 3 per cent. real estate holding tax if applicable and/or failure of Unitholders seeking certain exemptions to comply with their filing obligations may result in the joint liability of PEP and PEP subsidiaries to pay the tax. The applicability of the French 3 per cent. real estate holding tax and the potential exemptions should, therefore, be considered both at the level of each entity below and the Unitholders.

It should be noted that, where a legal entity claims one of exemptions 2 or 3 below, the French tax authorities would not normally pursue that entity for the French 3 per cent. real estate holding tax. However, to the extent that such entity is owned, directly or indirectly, by a Non-Exempt Legal Entity, the entity claiming exemption may nevertheless be jointly and severally liable for the tax.

## **Exemptions from the Scope of the Tax**

### **1. Entities whose French Assets are not Predominantly Real Estate**

Legal entities whose total French assets are not predominantly (that is to say more than 50 per cent.) composed of real estate assets, or real estate rights, located in France are exempt from the French 3 per cent. real estate holding tax.

### **2. Tax Treaty Administrative Assistance Exemption**

Legal entities located in a country which has signed a double taxation agreement with France are exempt from the French 3 per cent. real estate holding tax if the agreement includes an administrative assistance clause. The filing requirements are set out under the heading “Formalities” below. A list of the countries which have signed such treaties is set out below:

Algeria	Indonesia	Nigeria
Argentina	Iran	Norway
Australia	Ireland	Pakistan
Austria	Israel	Philippines
Bangladesh	Italy	Poland
Belgium	Ivory Coast	Portugal
Benin	Japan	Republic of South Africa
Brazil	Jordan	Romania
Bulgaria	Korea (South)	St. Pierre and Miquelon
Burkina Faso	Kuwait	Senegal
Cameroon	Lebanon	Singapore
Canada	Luxembourg	Slovakia
Central African Republic	Madagascar	Spain
China	Malawi	Sri Lanka
Congo	Malaysia	Sweden
Cyprus	Mali	Thailand
Czech Republic	Malta	Togo
Denmark	Mauritania	Trinidad and Tobago
Ecuador	Mauritius	Tunisia
Egypt	Mayotte	Turkey
Finland	Mexico	United Arab Emirates
Gabon	Monaco	United Kingdom
Germany	Morocco	United States of America
Greece	Netherlands	Venezuela
Hungary	New Caledonia	Vietnam
Iceland	New Zealand	Yugoslavia
India	Niger	Zambia
		Zimbabwe

### **3. Non-discrimination Treatment**

Legal entities protected by appropriate non-discrimination clauses in a double taxation agreement (national treatment provisions) concluded between France and their country of domicile are exempt from the French 3 per cent. real estate holding tax.

As detailed in the “Formalities” section below, to obtain the exemption, such entities must either file an annual return or an information agreement.

The following is a list of countries which have concluded treaties with France containing such appropriate non-discrimination clauses:

Argentina	Iceland	Nigeria
Austria	Iran	Poland
Bangladesh	Ireland	Portugal
Brazil	Italy	Romania
Bulgaria	Jordan	Slovakia
China	Korea (South)	Spain
Congo	Lebanon	Sri Lanka
Cyprus	Madagascar	Switzerland
Czech Republic	Malawi	Thailand
Ecuador	Malta	Trinidad and Tobago
Egypt	Mauritius	United Kingdom
Finland	Morocco	Yugoslavia
Germany	Netherlands	Zambia
Greece	Hungary	

The treatment accorded to legal entities entitled to this exemption is also extended to legal entities resident for tax purposes in France.

#### **4. International Organisations, Sovereign States and Public Institutions**

The French 3 per cent. real estate holding tax does not apply to a legal entity which is an international organisation, sovereign state or a public entity. To qualify under this exemption the entity must be owned by the state or otherwise be considered to be a public body.

#### **5. Retirement Funds and Non-Profit Making Associations**

Exemptions are available for retirement funds and non-profit making associations which carry out only activities of a social, educational, cultural or philanthropic nature, provided that the activities carried on justify the ownership of French real property. These exemptions would generally cover charities and pension funds.

#### **6. Listed entities**

Legal entities whose shares or units are quoted on a regulated official stock market are exempt from the French 3 per cent. real estate holding tax. Where the company in question is not quoted on a regulated French stock market, the rules of the foreign stock market must be analogous to the rules applied to the equivalent French market in certain specified respects.

### **Formalities**

Entities considered to be liable to pay the French 3 per cent. real estate holding tax must file an information return on Form 2746 before 16 May of the year in which the tax is due. Failure to file the declaration before this date results in a penalty of 10 per cent. of the tax due for the first month of late payment and late payment interest of 0.40 per cent. a month thereafter.

Entities relying on exemptions 1, 4, 5 or 6 above do not need to make any filings to rely on these exemptions.

Entities relying on exemption 2 above must file an information return on Form 2746 before 16 May of the year in which the tax would otherwise be due. Entities relying on exemption 3 must either file an annual return on Form 2746 before 16 May of the year in which the tax would otherwise be due, or enter into a formal agreement with the French tax authorities to the effect that they will provide on request the information which would be included in such a return.

For the above exemptions, the information returned must specify:

- (i) the description, location and value of the real property that the entity owns, directly or indirectly, in France;
- (ii) the identities and addresses of all of the shareholders or beneficiaries of the entity; and
- (iii) the number of shares or units of interest in the entity owned by each shareholder or beneficiary.

## **Management Regulations**

The Management Regulations provide that, to the extent PEP or any Relevant Entity is liable to pay French 3 per cent. real estate holding tax as a result of the ownership, directly or indirectly, by any Non-Exempt Unitholder of Units and the French 3 per cent. real estate holding tax is not paid by the relevant Non-Exempt Unitholder on its own account, the Non-Exempt Unitholder shall pay the amount of the French 3 per cent. real estate holding tax to PEP or as the Management Company may direct prior to the time it becomes payable by PEP or any such Relevant Entity.

To the extent that the tax is not paid, PEP may, and shall use reasonable efforts to, either (a) deduct and set off the amount of the French 3 per cent. real estate holding tax from distributions to be made on (i) any Units owned, directly or indirectly, by the relevant Non-Exempt Unitholder, and (ii) any Units in relation to which the direct owner of the Units remains the same but the relevant Non-Exempt Unitholder has ceased to be the owner, direct or indirect, of such direct owner; or (b) recover the amount of French 3 per cent. real estate holding tax from the relevant Non-Exempt Unitholder.

PEP shall be entitled not to register the transfer of Units if it reasonably determines that an entity which owns or owned such Units, directly or indirectly, is a Non-Exempt Unitholder and PEP or any Relevant Entity may be liable to pay any French 3 per cent. real estate holding tax as a result of such ownership and there are no reasonably satisfactory alternative arrangements for the payment of such French 3 per cent. real estate holding tax by the relevant Non-Exempt Unitholder. The Management Company shall adopt such measures as are reasonably practicable in order to avoid the acquisition of Units by such Non-Exempt Unitholders. Furthermore, the Management Company shall adopt such steps as are available to it under the Management Regulations and as are reasonably practicable (having regard to the nature of PEP post-Offer as a publicly traded vehicle) to (i) monitor whether Units are owned, directly or indirectly, by such Non-Exempt Unitholders, and (ii) prevent such Non-Exempt Unitholders from owning such Units.

In addition, Unitholders shall be obligated to provide such information as may be reasonably requested by the Management Company for the purposes of determining whether Units are held by Non-Exempt Unitholders.

## **Luxembourg**

PEP will, in principle, be treated as a tax transparent entity for Luxembourg tax purposes. Subsidiary corporate entities will be treated as corporate entities for Luxembourg tax purposes.

However, given that PEP is tax transparent, Luxembourg resident Unitholders should in principle be taxable on the total income of PEP, whether or not it is distributed.

The tax consequences for Luxembourg corporate investors should be as set out below.

Tax-exempt institutions will not be subject to Luxembourg income tax on their share of the income of PEP.

Taxable corporate entities will be subject to income tax, at a rate of 29.63 per cent. including municipal business tax for Luxembourg city in 2006, on their share of income of PEP.

## **United Kingdom**

PEP is expected to be treated as a tax transparent entity for UK tax purposes. Direct and indirect subsidiaries of PEP will be regarded as corporate entities for UK tax purposes.

The following summary does not purport to summarise the tax consequences applicable to all potential categories of investor such as those holding units on revenue account.

Tax exempt institutions will not be subject to UK taxation on the income arising to PEP or on realised capital gains accruing to PEP or arising on disposal of Units to the extent that the basis of their exemption applies to these gains and to the income and gains accruing to PEP.

Taxable institutions and other corporate entities will be subject to UK corporate income tax, currently at a rate of 30 per cent., on their share of income received by PEP, as though the income were received by the investors directly. The investors' share of gains on disposal of assets directly owned by PEP and on the disposal of Units held by the investors will also be subject to tax at the same rate.

In general, where certain conditions are met, credit will be available for any taxes suffered in local jurisdictions on the income and gains accruing directly to PEP.



It is possible the UK authorities may regard PEP as falling within the definition of a unit trust scheme for the purposes of Section 469 of the Income and Corporation Taxes Act 1988 and seek to tax PEP as a unit trust scheme. However, for section 469, to apply the trustees of the scheme must be resident in the UK. The entity which holds title to PEP's assets on behalf of the Unitholders, that is, the Custodian, is not resident in the UK. Accordingly, the provisions of Section 469 will not apply. It is also possible that the UK authorities may seek to tax PEP as a unit trust scheme pursuant to Section 99 of the Taxation of Chargeable Gains Act 1992 in relation to gains realised by PEP. However, PEP is not a unit trust scheme as defined in section 237 of the Financial Services and Markets Act 2000 and accordingly will not be a unit trust scheme for the purposes of Section 99.

### ***Offshore funds tax rules***

The UK has a series of tax rules designed to tax on a current basis investments constituting a relevant holding in "offshore funds" defined in Section 756A(1)(b) of the Income and Corporation Taxes Act 1988. Tax transparent non-UK vehicles, including PEP, may in principle fall within the scope of these rules. It is understood that the UK authorities take the view that a Luxembourg FCP (i.e. PEP) is transparent for income and capital gains purposes and may take the view that the offshore fund rules, if applicable, should not be applied to PEP itself but at the level beneath PEP (i.e. at the level of the direct Luxembourg holding company). For the offshore fund rules to apply, a UK investor must also have a "material interest" in PEP. It is unclear whether the entitlement which UK tax resident Unitholders have in respect of PEP's underlying investments will be regarded as a "material interest" in an offshore fund for the purposes of Section 759 of the Income and Corporation Taxes Act 1988.

One consequence of PEP being treated as an offshore fund is that certain Unitholders may be liable to tax on income (rather than tax on capital gains) on gains arising on a disposal or part disposal of Units unless PEP is certified as a "distributing fund".

The Management Company intends to seek approval from the UK authorities to ensure that PEP is certified for the purposes of Chapter V of Part XVII of the Income and Corporation Taxes Act 1988 as a "distributing fund" in respect of each of PEP's accounting periods. There is no assurance that such certification will be obtained. If such certification is obtained and provided that such certification is maintained, Unitholders who are UK taxpayers (that is resident or ordinarily resident in the UK for tax purposes) will (unless regarded as trading in securities) have any gain realised upon disposal of Units treated as a capital gain which will be subject to UK capital gains tax or corporation tax on chargeable gains. In the absence of such certification, any such gain may be treated as income subject to tax.

Provided that PEP is certified as a distributing fund in each of its accounting periods, the offshore funds provisions referred to above will not apply.

The Management Company will use all reasonable endeavours to ensure, so far as they are able, that PEP is able to be certified as a distributing offshore fund at launch and is certified as such for each relevant accounting period. In particular, PEP will not acquire investments where their acquisition would result in PEP ceasing to be capable of certification as a distributing fund.

### ***United Kingdom tax consequences for a United Kingdom life insurance company holding Units***

A holding of Units by a life insurance company's long-term fund may be regarded as a holding of a relevant interest in an offshore fund for the purposes of Section 212 of the Taxation of Chargeable Gains Act 1992. The consequence of Section 212 applying is that a life company Unitholder would be regarded as disposing of and reacquiring such a relevant interest in an offshore fund at market value at the end of each accounting period so that any increase (or decrease) in value over the period would be taken into account for UK tax purposes. This rule does not apply to assets linked solely to pension business or life reinsurance business or to assets of an overseas life assurance fund. To the extent that chargeable gains or allowable losses which are either (A) referable to basic life assurance or general annuity business; or (B) referable to a capital redemption business then generally any net gain for an accounting period (after amalgamating all gains and losses referable to the same accounting period on assets within Section 212) is spread equally over this and the next six accounting periods, while any net loss for an accounting period may be spread similarly or carried back and set against the gross pre-spreading Section 212 gains of the immediately preceding accounting period and to the extent that such losses are not relieved in that accounting period they may not be set against such gains in the next preceding accounting period. For the purpose of spreading gains and losses over a seven year period gains referable to basic life assurance or general

annuity business and gains referable to a capital redemption business are treated separately. This treatment is applied whether or not PEP obtains certification as a distributing fund.

## **U.S. Taxation Considerations**

### **U.S. INTERNAL REVENUE SERVICE CIRCULAR 230 NOTICE**

ANY DISCUSSION OF THE TAX CONSEQUENCES OF AN INVESTMENT IN PEP CONTAINED HEREIN IS NOT INTENDED OR WRITTEN BY PEP OR ITS COUNSEL TO BE USED, AND CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING TAX PENALTIES THAT MAY BE IMPOSED UNDER U.S. TAX LAWS. THIS DISCUSSION IS PROVIDED TO SUPPORT THE PROMOTION OR MARKETING BY PEP OF THE INTERESTS IN PEP OFFERED HEREBY. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER CONCERNING THE POTENTIAL CONSEQUENCES OF AN INVESTMENT IN PEP.

The following is a summary of certain U.S. Federal income tax considerations relevant to an investment in PEP as a Unitholder. The summary does not purport to be a comprehensive description of all U.S. Federal income tax considerations that may be relevant to a decision to invest in PEP, and does not purport to deal with the tax consequences applicable to individual, non-corporate entities and other categories of investors, some of which may be subject to special rules. The summary deals only with taxpayers that are the beneficial owners of Units that are "U.S. Unitholders", as defined below, that will hold such Units as capital assets for U.S. Federal income tax purposes, and that invest in connection with this offering. The summary does not address the tax treatment of Unitholders under the tax laws of any country other than the U.S. in which U.S. Unitholders may be resident or otherwise subject to taxation. This summary also does not address the tax treatment of any U.S. Unitholder, PEP, or any investment under the laws or regulations of any state or locality of the U.S.. PEP has not obtained an opinion of counsel with respect to any tax issues other than, as discussed below, in respect of the classification of PEP as a partnership for U.S. Federal income tax purposes. This summary does not address the tax treatment of any U.S. Unitholder or PEP on the occurrence of the Offer.

This summary of certain U.S. Federal income tax considerations, relevant to an investment in PEP as a U.S. Unitholder, is based upon the Code, judicial decisions, U.S. Treasury Regulations, and U.S. Internal Revenue Service (the "IRS") rulings in existence on the date hereof, all of which are subject to change, possibly with retroactive effect. This summary does not discuss the impact of various proposals to amend the Code which could change certain of the tax consequences of an investment in PEP.

EACH PROSPECTIVE U.S. UNITHOLDER SHOULD CONSULT ITS OWN TAX ADVISER REGARDING THE SPECIFIC U.S. FEDERAL, STATE, LOCAL AND FOREIGN INCOME TAX CONSEQUENCES OF AN INVESTMENT IN PEP.

### **Classification of PEP**

Based on certain representations made by PEP to counsel as to the organisation and operation of PEP (including that PEP made a timely and properly completed election to be classified as a partnership for U.S. Federal income tax purposes and that PEP satisfied and will satisfy the "qualifying income test" under Code Section 7704 described below), in the opinion of Mayer, Brown, Rowe & Maw LLP, special U.S. tax counsel to PEP, under existing U.S. Federal income tax law, PEP is classified as a partnership for U.S. Federal income tax purposes and not as an association taxable as a corporation. However, PEP has not sought a ruling from the IRS that it was or will be classified for U.S. Federal income tax purposes as a partnership rather than as an association taxable as a corporation.

In December 1996, the IRS issued regulations (commonly known as the "check-the-box" regulations) under Section 7701 of the Code that simplify entity classification for U.S. Federal income tax purposes. The check-the-box regulations provide that an eligible foreign business entity that has two or more members may elect to be classified as a partnership for U.S. Federal income tax purposes. An eligible foreign business entity is one that (i) is respected as a separate "entity" for U.S. Federal income tax purposes, (ii) meets the definition of a "business entity" under U.S. Federal income tax law, and (iii) is not listed as a "per se corporation" under the check-the-box regulations. An FCP is not classified as a per se corporation. Thus, (subject to the discussion below regarding "publicly traded partnerships") PEP has been and will be, assuming a timely and properly completed election was made, classified as a partnership for U.S. Federal income tax purposes.

Section 7704 of the Code provides that a “publicly traded partnership” shall be treated as a corporation for Federal income tax purposes unless such partnership has met and continues to meet certain requirements regarding the types of gross income received by such partnership. Section 7704 defines a “publicly traded partnership” as any partnership where interests in such partnership are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof.

PEP will likely constitute a publicly traded partnership. However, a publicly traded partnership will not be treated as a corporation for any taxable year if 90 per cent. or more of the gross income of such partnership for such taxable year and all prior taxable years consists of certain types of income (the “qualifying income test”), including, among other items, rents from real property. PEP’s income from the rental of its real estate properties should generally constitute qualifying income, unless such income is received from a tenant in which PEP is deemed to have a 10 per cent. or greater direct or indirect ownership interest (taking into account certain attribution rules which treat PEP as owning any direct or indirect ownership interest in a tenant that is held by a 5 per cent. or greater Unitholder). However, if a Unitholder owns a 5 per cent. or greater interest in PEP and also owns, directly or indirectly, a 10 per cent. or greater interest in a tenant of PEP, any gross rental income received from that tenant will not be qualifying income, which could cause PEP to be treated as a corporation for U.S. Federal income tax purposes. Additionally, PEP may not be able to determine whether any such Unitholder owns an interest in a tenant, and therefore may not be able to determine whether PEP should be treated as a partnership or a corporation for U.S. Federal income tax purposes. PEP has represented to counsel that it met and will meet the qualifying income test, and, based on that representation, Mayer, Brown, Rowe & Maw LLP has rendered its opinion that PEP has not and will not be treated as a publicly traded partnership taxable as a corporation.

If PEP were classified as a publicly traded partnership taxable as a corporation for U.S. Federal income tax purposes, distributions to U.S. Unitholders in general would be dividends to the extent of the earnings and profits of PEP, with distributions in excess thereof treated first as a tax-free return of capital and thereafter as capital gain. PEP’s items of income, gain, loss and deduction would not be passed through to U.S. Unitholders, and PEP would be subject to U.S. corporate income tax and branch profits tax with respect to its income, if any, that is effectively connected with a U.S. trade or business. In addition, a change in PEP’s status for U.S. Federal income tax purposes could be treated by the IRS as a taxable event in certain circumstances, in which event U.S. Unitholders could have a tax liability (in the case of tax-exempt entities, to the extent that unrelated business taxable income is realised) under circumstances in which they would not receive a cash distribution from PEP. In addition, if PEP were reclassified as an association taxable as a corporation for U.S. Federal income tax purposes, a U.S. Unitholder’s interest in PEP would constitute an interest in a passive foreign investment company and would be subject to the rules applicable to such interests. See “Tax Treatment of PEP’s Investments—*Passive Foreign Investment Companies*” below. If PEP were taxable as a corporation for U.S. Federal income tax purposes, distributions made to U.S. Unitholders would be treated as either taxable dividend income, which would not be eligible for reduced rates of taxation, to the extent of PEP’s current or accumulated earnings and profits, or in the absence of earnings and profits, a non-taxable return of capital, to the extent of the U.S. Unitholder’s tax basis in the Units, or taxable capital gain, after the U.S. Unitholder’s tax basis is reduced to zero. In addition, any withholding taxes that are imposed on PEP with respect to its investments would not be creditable or refundable to U.S. Unitholders.

The following discussion assumes that PEP will be classified as a partnership for U.S. Federal income tax purposes. It is further assumed that PEP will not be engaged in the conduct of a U.S. trade or business or otherwise receive any U.S. source income.

### **Taxation of U.S. Unitholders**

For the purposes of this discussion, a “**U.S. Unitholder**” is a beneficial owner of Units and is also one of the following: (i) a citizen or individual resident of the U.S., (ii) a corporation or partnership that is either created or organised in or under the laws of the U.S. or any political subdivision thereof or is engaged in the conduct of a U.S. trade or business, (iii) an estate, the income of which is subject to U.S. Federal income tax regardless of source or (iv) a trust if both (A) a U.S. court is able to exercise primary supervision over the administration of the trust and (B) one or more U.S. persons have the authority to control all substantial decisions of the trust.

Each U.S. Unitholder will be required to report separately on its U.S. Federal income tax return its allocable share of PEP’s items of income, gain, loss, deduction or credit for the taxable year of PEP ending within or with the taxable year of the U.S. Unitholder, regardless of whether such U.S. Unitholder has

received or will receive corresponding distributions from PEP. Therefore, the amount of PEP's taxable income allocated to a U.S. Unitholder, and possibly the U.S. Federal income tax payable by the U.S. Unitholder with respect to such income, may exceed the cash, if any, actually distributed to such U.S. Unitholder.

PEP will not be subject to U.S. Federal income tax, nor does PEP itself have any U.S. tax or information return filing requirements because it is expected that PEP will continue to not be engaged in the conduct of a U.S. trade or business, either in its own right or through the use of agents nor is it expected to have any U.S. source income. However, because of the size of one of PEP's U.S. Unitholder's interest in PEP, such Unitholder must file certain U.S. tax information returns as it relates to PEP. Accordingly, PEP will provide U.S. Unitholders with Schedules K-1 prepared on the basis of the allocations set forth in the Management Regulations, setting forth the U.S. Federal income tax information necessary for them to file their respective U.S. tax returns. However, PEP will only be able to provide a Schedule K-1 to those U.S. Unitholders who notify PEP in writing of their status as U.S. Unitholders. Finally, PEP may file U.S. tax information returns and/or U.S. partnership income tax returns to make certain elections.

### **Allocation of Profits and Losses**

For U.S. Federal income tax purposes, PEP will allocate to each U.S. Unitholder its allocable share of PEP's items of income, gain, loss, deduction and credit. For U.S. Federal income tax purposes, a U.S. Unitholder's allocable share of PEP's income, gain, loss, deduction and credit will be governed by the Management Regulations. The U.S. Treasury Regulations provide that allocations of PEP's income, gain, loss, deduction or credit will be respected for U.S. Federal income tax purposes if such allocations have "substantial economic effect" or are determined to be in accordance with the U.S. Unitholder's interest in PEP. As PEP will not maintain capital accounts, the allocations will not have substantial economic effect. However, PEP believes that the allocations set forth in the Management Regulations are in accordance with the U.S. Unitholder's interest in PEP. Nevertheless, it is possible that the IRS could assert that, for U.S. Federal income tax purposes, such allocations should not be given effect and reallocate PEP's items in a different manner. If this were to occur, a particular U.S. Unitholder may receive different allocations of PEP's items than the allocations set forth in the Management Regulations.

### **U.S. Unitholder's Basis**

A U.S. Unitholder's basis in its interest in PEP is relevant for determining, among other things, the taxability of cash distributions made by PEP, the deductibility of the U.S. Unitholder's share of PEP's losses, if any, and for computing the gain or loss that the U.S. Unitholder will recognise upon a taxable transfer of its Units and upon receipt of certain PEP distributions. Generally, the tax basis of a U.S. Unitholder's interest in Units will be equal to its contributions made to PEP in exchange for such interest, its share of PEP's income and its share of any liabilities to which PEP's assets are subject (to the extent that such liabilities do not exceed the fair market value of the properties subject to such liabilities) reduced (but not below zero) by the U.S. Unitholder's share of PEP distributions and losses and its share of any decrease in the amount of PEP's liabilities. Distributions of cash from PEP to a U.S. Unitholder will reduce the adjusted basis of the U.S. Unitholder's interest by the amount of such cash distribution. To the extent distributions exceed the adjusted basis of a U.S. Unitholder's interest, such U.S. Unitholder will be treated as having recognised gain from the sale or exchange of such interest.

### **Alternative Minimum Tax**

Depending on a U.S. Unitholder's own tax situation, an investment in PEP could create or increase such Unitholder's liability under the alternative minimum tax provisions of the Code. Prospective investors are urged to consult their tax advisers in this regard.

### **No Section 754 Election to Adjust Basis upon Transfer**

Because of the complexities of the tax accounting required, PEP has not filed and does not presently intend to file an election under Section 754 of the Code to adjust the basis of PEP property in case of a transfer of an interest in PEP. However, the Management Company may decide to cause PEP to make such an election. The effect of that election would be that, with respect to a transferee of an interest in PEP, the basis of the applicable PEP's property would either be increased or decreased by the difference between the transferee's basis for its interest and its proportionate share of PEP's adjusted basis for all such property. In addition, the basis adjustments associated with a Section 754 election are mandatory in certain



situations. For example, PEP must make such basis adjustments following a transfer of an interest in PEP if PEP has a built-in loss of \$250,000 or more, whether or not a Code Section 754 election is in effect. Any increase or decrease resulting from such adjustment would be allocable among the applicable PEP's assets in accordance with rules established under the Code. After such adjustment has been made, the transferee's share of the adjusted basis of PEP's property would equal the adjusted basis of its interest in PEP.

### **Limits on Deductions for Losses and Expenses**

A U.S. Unitholder's deduction of its share of PEP's losses will be limited to its tax basis in its Units and, if such Unitholder is an individual or a corporate holder that is subject to the "at risk" rules, to the amount for which such Unitholder is considered to be "at risk" with respect to PEP's activities, if that is less than the Unitholder's tax basis in its Units. In general, a Unitholder will be at risk to the extent of its tax basis in Units, reduced by (i) the portion of that basis attributable to its share of PEP's liabilities for which the Unitholder will not be personally liable (other than PEP's liabilities that are treated as qualified non-recourse financing under the Code) and (ii) any amount of such Unitholder borrows to acquire or hold the Units, if the lender of those borrowed funds owns an interest in PEP, is related to such Unitholder, or can look only to the Units for repayment. A Unitholder's at risk amount will generally increase by its allocable share of income and gain and decrease by cash distributions to the Unitholder and its allocable share of losses and deductions. A Unitholder must recapture losses deducted in previous years to the extent that distributions cause such Unitholder's at risk amount to be less than zero at the end of any taxable year. Losses disallowed or recaptured as a result of these limitations will carry forward and will be allowable to the extent that the Unitholder's tax basis or at risk amount, whichever is the limiting factor, subsequently increases. Upon the taxable disposition of a Unit, any gain recognized by the Unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain, previously suspended by the at risk or basis limitations, may no longer be used. Prospective investors should consult their tax advisers as to the effects of the at risk rules.

### **Passive Activity Income**

Section 469 of the Code provides that, in general, in the case of an individual, estate and trust, certain types of personal service corporations, certain types of closely held "C" corporations and regulated investment companies holding an interest in a "qualified publicly traded partnership", for any taxable year the aggregate losses from business activities in which the taxpayer does not materially participate (which, except as provided in regulations, will include an interest in activities engaged in by PEP) (such business activities are referred to herein as "passive activities") are deductible only to the extent of the aggregate income from passive activities. In the case of certain closely held C corporations, the net aggregate loss from passive activities (and the net aggregate credit, in a deduction equivalent sense) may offset net active income, but not portfolio income (as defined below). It is expected that, except for "portfolio income items" described below, income or loss of U.S. Unitholders from the activities of PEP will be treated as income or loss from passive activities.

If PEP holds assets producing gross income from interest, dividends, annuities or royalties not derived in the ordinary course of a trade or business ("**Portfolio Assets**"), the gross income (and gain or loss) from and expenses allocable to such Portfolio Assets ("**Portfolio Income Items**") will be considered to arise from an activity which is separate from any passive activity engaged in by PEP. Also, that portion of any gain from the sale of an interest in PEP will be considered a portfolio income item to the extent attributable to assets of PEP that constitute Portfolio Assets.

The passive loss limitations are applied separately with respect to each publicly traded partnership. Consequently, any passive losses generated by PEP will only be available to offset PEP passive income generated in the future and will not be available to offset income from other passive activities or investments (including other publicly traded partnerships) or salary or active business income. Passive losses which are not deductible because they exceed a U.S. Unitholder's share of PEP's income may be deducted in full when that U.S. Unitholder disposes of its entire investment in PEP in a fully taxable transaction with an unrelated party. In addition, the passive activity loss rules are applied after other applicable limitations on deductions such as the at risk rules and the basis limitation.

A U.S. Unitholder's share of PEP's net income may be offset by any suspended passive losses from PEP, but it may not be offset by any other current or carryover losses from other passive activities, including



those attributable to other publicly traded partnerships. The IRS has announced that Treasury Regulations will be issued which characterise net passive income from a publicly traded partnership as investment income for purposes of the limitations on the deductibility of investment interest.

### **Dual Consolidated Loss**

Section 1503(d) of the Code provides that a dual consolidated loss of a U.S. corporation cannot reduce the taxable income of any other member of the U.S. corporation's affiliated group. The Code defines a dual consolidated loss as a net operating loss of a U.S. corporation that is subject to an income tax of a non-U.S. country on its income without regard to the source of its income, or is subject to tax on a residence basis. Section 1503(d) further states that, to the extent provided in regulations, similar rules apply to any loss of a separate unit of a U.S. corporation as if such unit were a wholly-owned subsidiary of the U.S. corporation.

The current regulations issued under Section 1503(d) include within the definition of a separate unit an interest in an entity that is treated as a partnership for both U.S. and non-U.S. tax purposes, and an interest in a hybrid entity separate unit which is an entity that is not taxable as an association for U.S. income tax purposes, but is subject to income tax in a non-U.S. jurisdiction as a corporation (or otherwise at the entity level) either on its worldwide income or on a residence basis. The current regulations also apply to a separate unit owned indirectly through a partnership. Thus, for example, if a non-U.S. partnership owns a non-U.S. hybrid entity separate unit, a U.S. corporate partner's interest in such non-U.S. partnership, and its indirect interest in a portion of the hybrid entity separately owned through the partnership, each constitute a separate unit.

The current regulations do provide that, in order to elect relief from this general limitation on the use of a dual consolidated loss to offset income of a U.S. affiliate with respect to a dual consolidated loss, the taxpayer must, among other things, certify that no portion of the losses, expenses, or deductions taken into account in computing the dual consolidated loss has been, or will be, used to offset the income of any other person under the income tax laws of a non-U.S. country. If, contrary to this certification, there is such a use, or other recapture event as defined in the regulations, the dual consolidated loss subject to the election generally must be recaptured and reported as gross income.

Because PEP and its subsidiaries may be treated as separate units under the current regulations, Section 1503(d) of the Code may limit the ability of a corporate U.S. Unitholder to deduct any portion of a dual consolidated loss of PEP or its subsidiaries that is properly allocated to such corporate U.S. Unitholder. On 24 May 2005 the IRS issued a notice of proposed rulemaking which provides guidance regarding dual consolidated loss issues, including exceptions to the general prohibition against using a dual consolidated loss to reduce the taxable income of any other member of the U.S. affiliated group. If finalised, these proposed regulations may change the application of Section 1503(d) of the Code to corporate U.S. Unitholders of PEP as compared to the current regulations referred to above.

### **Functional Currency of PEP**

Pursuant to Code Section 985(a), unless otherwise provided in regulations, all determinations under Subtitle A of the Code (Sections 1 - 1563 of the Code relating to income taxes) are to be made in the taxpayer's functional currency. This rule applies to a taxpayer and to each qualified business unit ("QBU") which may have a functional currency separate from its owner. A QBU is defined as a separate and clearly identified unit of a trade or business of the taxpayer that maintains separate books and records. A partnership is a QBU of its partners and the activities of a partnership, including those activities conducted through disregarded entities, may constitute QBUs if such activities constitute a trade or business and a separate set of books and records is maintained with respect to the activities.

The functional currency of a taxpayer or a QBU of a taxpayer is relevant when applying certain foreign currency provisions of the Code (for example, Code Section 987 and Code Section 988). PEP has made a representation to counsel that its functional currency for U.S. tax purposes is the Euro. For U.S. Federal income tax purposes, if a U.S. Unitholder's functional currency is not the Euro, the distributive share of PEP's income or loss generally will be translated from Euros into the U.S. Unitholder's functional currency at the "appropriate exchange rate," which is generally the average exchange rate for PEP's taxable year. In addition, a U.S. Unitholder will generally be required to account for foreign currency gain or loss in connection with cash distributions from PEP. In general, foreign currency gain or loss is treated as ordinary income or loss. The calculation of foreign currency gain or loss in the context of an investment by a U.S. person in a partnership with a functional currency other than the dollar is extremely complicated, and the applicable method of separating gain or loss on invested capital from gain or loss on income previously

taken into account is uncertain. Therefore, potential investors should consult with their tax advisers with respect to the tax treatment of foreign currency gain or loss.

### **Other Possible Tax Consequences to U.S. Unitholders**

In the case of U.S. Unitholders that are individuals or, regarding certain deductions, estates or trusts, the ability to utilise certain specific items of deduction attributable to the investment activities of PEP (as opposed to its activities that represent a trade or business for U.S. Federal income tax purposes) may be limited, among other things, under the investment interest limitation in Code Section 163(d), and the 2 per cent. floor on miscellaneous itemised deductions (including investment expenses) in Code Section 67. The extent to which any of the foregoing provisions of the Code will be applicable will depend upon the nature of PEP's future operations and the tax situations of each of the taxable U.S. Unitholders.

### **Sale or Transfer of Units**

Upon a sale of its Units, a U.S. Unitholder will recognise a gain or loss equal to the difference between (i) the proceeds of such sale plus its share of PEP's liabilities and (ii) its tax basis in such Units. Such gain or loss recognised on a sale of Units by a U.S. Unitholder who does not hold such Units as a "dealer" and who has held such Units for more than one year will generally be a long-term capital gain or loss, as the case may be, except that the portion of the selling U.S. Unitholder's gain allocable to (or amount realised, in excess of basis, attributable to) "inventory items" and "unrealised receivables" of PEP as defined in Section 751 of the Code will be treated as ordinary income and the portion attributable to PEP's unrecaptured Code Section 1250 gain will be subject to U.S. Federal income tax at a maximum 25 per cent. rate. For corporate taxpayers, there are no preferential tax rates to be applied to long-term capital gain. Capital losses of a corporate taxpayer may be offset only against capital gains, but unused capital losses may be carried back three years (subject to certain limitations) and carried forward five years.

### **Allocations Between Transferors and Transferees**

Because of the complexities of allocating PEP's items of income, gain, loss, deduction and credit among U.S. Unitholders where there is a large number of Unit transfers per year, PEP may use certain simplifying conventions for purposes of making such allocations. As a result, if a U.S. Unitholder transfers its Units, such U.S. Unitholder may be allocated income, gain, loss, deduction and credit realised after the date of such transfer, or may not be allocated income, gain, loss, deduction and credit realised prior to the date of such transfer.

### **Termination of PEP**

Under Section 708(b) of the Code, a termination of PEP will be deemed to occur if at any time no part of the business of PEP continues to be carried on by any of its Unitholders, if PEP otherwise ceases to qualify as a partnership for U.S. Federal income tax purposes or if within a 12-month period there is a sale or exchange of 50 per cent. or more of the total interests in PEP's capital and profits. In that case, PEP will be deemed to have transferred all of its assets and liabilities to a new partnership in exchange for an interest in the new partnership. The terminated partnership will be then deemed to have distributed interests in the new partnership to the purchasing partner and the other remaining partners in liquidation of the terminated partnership (which will not result in the termination of the new partnership). Among the U.S. Federal income tax consequences arising from such a termination, the new entity would generally have to depreciate the property of PEP over a newly determined period; income of PEP earned through the date of such sale or exchange would be included in the Unitholders' taxable year within which such sale or exchange occurs, gain or loss may result, and PEP or its assets may become subject to unfavourable statutory or regulatory changes enacted or issued prior to the termination but previously not applicable to PEP or its assets because of protective "transitional" rules.

### **Liquidation of PEP**

Upon liquidation of PEP, any gain or loss on the sale of PEP's assets will be allocated in accordance with the Management Regulations.

In the event of the liquidation of PEP, each taxable U.S. Unitholder will recognise gain to the extent that the cash and marketable securities received in the liquidation exceeds its adjusted basis for its interest. See "Sale or Transfer of Units" above.

Upon liquidation, a loss would be recognised only in the event the U.S. Unitholder receives only cash, unrealised receivables (within the meaning of Section 751(c) of the Code) or inventory items (within the meaning of Section 751(d) of the Code) and then only if (and to the extent that) such Unitholder's adjusted basis for its Units exceeds the sum of money distributed and its share of the adjusted basis for unrealised receivables and inventory items. During the year of liquidation, each U.S. Unitholder may be allocated income from the operations of PEP.

### **Possible Future Election by PEP to be Treated as an Electing Large Partnership**

PEP has not yet elected, but could elect in the future, to be treated as an “electing large partnership” for U.S. Federal income tax purposes. This election is available to partnerships, such as PEP, that have 100 or more partners and meet other requirements set forth in the Code. The election would entitle PEP to use a simplified flow-through reporting system under which the number of tax items that U.S. Unitholders are required to account for separately would be significantly reduced. Special audit procedures would also apply if PEP were to elect to be treated as an electing large partnership. Partners in an electing large partnership have no individual right to notice of the adjustment proceedings, to participate in the proceedings or to file petitions for judicial review of a final administrative adjustment to partnership items. Adjustments to partnership items will flow through to the partners for the year that the adjustment “takes effect” within the meaning of Section 6242 of the Code. Moreover, a partner in an electing large partnership must report all partnership items consistently with their treatment on the partnership's tax return. If an underpayment results from the failure to report an item consistently with the treatment of that item on the partnership return, the amount of the underpayment will be assessed immediately to the partner as if the underpayment were due to a mathematical or clerical error. These consequences would only apply to U.S. Unitholders. Although PEP has not made an election to be treated as an electing large partnership, PEP may determine to make this election for future taxable years.

### **Tax Treatment of PEP's Investments**

#### ***Passive Foreign Investment Companies***

Because of certain restrictions imposed on the investments made by U.S. REITs, including ProLogis, it is unlikely that PEP will invest in any entity that is classified as a corporation for U.S. Federal income tax purposes. However, if PEP were to invest in any foreign corporation and such corporation were treated as a passive foreign investment company (“**PFIC**”) for U.S. Federal income tax purposes, certain adverse consequences to U.S. Unitholders may occur. A foreign corporation is considered a PFIC if (i) 75 per cent. or more of its gross income for the taxable year is “passive” or (ii) the average percentage of assets (by value) held by it during the taxable year which produce passive income, or which are held for the production of passive income, is at least 50 per cent. In general, rental income is treated as passive income as opposed to active income for purposes of determining whether a foreign corporation is a PFIC if the corporation does not actively conduct the leasing or the on-sight operations of the property giving rise to such income. If PEP were to invest in an entity that were classified as a corporation for U.S. Federal income tax purposes, it is uncertain at this time whether such entity would or would not be treated as a PFIC. If the entity were treated as a PFIC, U.S. Unitholders would be subject to income tax on gains or dispositions of such subsidiary stock by PEP or on certain “excess distributions” by such subsidiary to PEP as if the gain or distribution were ordinary income earned ratably and subject to tax at the highest rate applicable to the U.S. Unitholder over the period in which the U.S. Unitholder held its indirect interest in the PFIC, and would also be subject to an interest charge for any deferred tax. Alternatively, a U.S. Unitholder may make an election with respect to each PFIC to have the PFIC treated as a “qualified electing fund” (“**QEF**”). In order for the U.S. Unitholder to make such an election, the PFIC would have to agree to provide certain tax information to PEP on an annual basis. If PEP invests in any entity treated as a PFIC, PEP will generally endeavour to require the PFIC to provide such information. In general, such an election would require each U.S. Unitholder to comply with certain reporting requirements and to include in gross income each year its share of the QEF's ordinary income and net capital gain for the year, even if the QEF does not distribute cash or other property in respect of such income.

### **Non-U.S. Income Taxes**

PEP is subject to non-U.S. income tax with respect to its business and operations. In addition, dividends, interest and other income received by PEP from sources within non-U.S. countries may be subject to withholding taxes or other income taxes imposed by such countries. Tax treaties may reduce or eliminate the amount of such income taxes. PEP has attempted to structure its business and operations in a manner

that minimises the income tax burden with respect to its investment in a particular country, to the extent reasonably practicable.

Any non-U.S. income taxes paid or withheld on a U.S. Unitholder's allocable share of PEP's income may, subject to various conditions and limitations, be eligible for deduction or credit against the U.S. Unitholder's U.S. Federal income tax liability. U.S. Unitholders will be informed by PEP as to their proportionate share of the non-U.S. income taxes paid by PEP. However, PEP will only be able to provide this information to those U.S. Unitholders who notify PEP in writing of their status as U.S. Unitholders. Because of these limitations, U.S. Unitholders may be unable to claim a credit for the full amount of their proportionate share of the non-U.S. income taxes paid by PEP. If a U.S. Unitholder elects to credit non-U.S. income taxes, the amount of credit that may be claimed in any year may not exceed the amount of U.S. Federal income taxes which the U.S. Unitholder would otherwise pay with respect to its taxable income from non-U.S. sources. This limitation is applied separately to certain categories of income (called "baskets"), including, for taxable years beginning on or before 31 December 2006, passive income, high withholding tax interest, financial services income, among others, and the related non-U.S. income taxes that are attributable to the income falling within such income baskets. For taxable years beginning after 31 December 2006, the "baskets" include only the passive category income and the general category income. The characterisation of income into a specific basket depends on the nature of the activities to which such income is attributable and the identity of the U.S. taxpayer. Thus, each U.S. Unitholder should consult its tax adviser with respect to the application of the non-U.S. income tax credit to its allocable share of PEP's income. A U.S. Unitholder that is tax-exempt will not ordinarily benefit from such credit or deduction unless such credit or deduction is generated from income subject to unrelated business income taxation for U.S. Federal income tax purposes.

## **Tax-Exempt U.S. Unitholders**

### ***In General***

U.S. Unitholders that are subject to Section 501(a) of the Code are generally exempt from U.S. Federal income tax (collectively, "**Tax-Exempt Entities**"). Tax-Exempt Entities otherwise exempt from U.S. Federal income taxation may, however, be subject to unrelated business income tax ("**UBIT**") if income is derived from either (a) an "unrelated trade or business" carried on by PEP or (b) "debt-financed" property owned by PEP. (Both of these categories are discussed in more detail below.) For each Tax-Exempt Entity, the UBIT only applies to unrelated business taxable income in excess of US\$1,000 for any taxable year.

If a Tax-Exempt Entity is a partner in a partnership which regularly carries on a trade or business which would be subject to UBIT if carried on directly by the exempt entity, the exempt entity's share of the partnership's gross income from such unrelated trade or business (whether or not distributed) and its share of the partnership deductions directly in connection with such gross income must be included in the computation of unrelated business taxable income by the exempt entity.

In determining the amount of PEP's income, if any, that may be subject to UBIT, deductions would be allowed for expenses, depreciation and similar items which would be deductible normally by a commercial enterprise (subject to certain modifications) and are proximately and primarily related to carrying on the "taxable" activity of PEP. (It should be noted, however, that Code Section 168(h)(6) could require PEP to compute cost recovery deductions under Code Section 168(g), pursuant to which, among other things, non-residential real property is depreciable over a 40-year period rather than a 39 year period.) Net losses from one taxable activity of PEP may be used to offset net income from other taxable activities of such entity.

### ***Unrelated Trade or Business***

The first category of income subject to UBIT is income derived from an unrelated trade or business. To constitute an unrelated trade or business, an activity must be regularly carried on by a tax-exempt organisation (or by a partnership in which such an organisation holds an interest) and not substantially related to the organisation's tax-exempt purposes. Although an activity may be characterised as an "unrelated trade or business" subject to UBIT, income that qualifies under one of several exclusions and that is not attributable to debt-financed property is not subject to UBIT.

Income excludable from UBIT generally includes (a) dividends and interest, (b) rents from real property, (c) rent from personal property leased in connection with real property (provided that the amount of rent attributable to the personal property does not exceed 10 per cent. of the total rent received under the



lease) and (d) gains or losses from the sale, exchange or other disposition of property (except for property that is determined to be inventory or property held primarily for sale to customers in the ordinary course of the trade or business). The exclusion from UBIT for rents from real property is not applicable if (a) more than 50 per cent. of the total rents received or accrued under the lease of space in the property is attributable to personal property, (b) the determination of the amount of rent depends in whole or in part on the income or profits derived by any person from the property leased (other than an amount based on a fixed percentage of receipts or sales) or (c) services are rendered to the occupant primarily for its convenience or are in addition to those customarily rendered in connection with the rental of space for occupancy only.

If PEP were at any time determined to be holding one or more of its assets primarily for sale to customers in the ordinary course of business (“**Dealer Property**”) or if one or more of its assets constituted property of a kind which would properly be includable in inventory if on hand at the end of the year (“**Inventory Property**”), any gain or loss realised upon the sale or exchange of those assets generally would be subject to UBIT to U.S. Unitholders that are Tax-Exempt Entities. Subject to the discussion below, PEP intends to acquire, obtain, hold, own and dispose of investments in a manner such that the investments would not be treated as Dealer Property or Inventory Property. However, whether property is Dealer Property or Inventory Property depends on all of the facts and circumstances related to such property, and there can be no assurance that the IRS will not contend that one or more of PEP’s assets constitutes Dealer Property or Inventory Property. If the IRS were successful in such a contention, any gain from such sale may be subject to UBIT.

### ***Debt-Financed Property***

Notwithstanding these general exclusions from UBIT, unrelated business taxable income generally includes income derived from property to the extent that there is “acquisition indebtedness”. Acquisition indebtedness is the amount of any indebtedness incurred directly or indirectly to acquire or improve the property, including (a) indebtedness incurred in acquiring or improving property, (b) indebtedness incurred before the acquisition or improvement of property if such indebtedness would not have been incurred but for the acquisition or improvement of the property and (c) indebtedness incurred after the acquisition or improvement of property if such indebtedness would not have been incurred but for such acquisition or improvement and such indebtedness was reasonably foreseeable at the time of the acquisition or improvement.

An exception to the rule regarding income derived from property with acquisition indebtedness (the “**Debt-financed Exception**”) exists in the case of certain “qualified organisations” (i.e., U.S. qualified pension trusts and U.S. qualified educational endowments). Under this exception, indebtedness incurred by a qualified organisation (through a “flow through” entity such as PEP) in acquiring or improving real property generally will not be treated as acquisition indebtedness if certain conditions are met, including the requirement that PEP meet the requirements of Code Section 514(c)(9)(E) (the “fractions rule”).

Code Section 514(c)(9)(E) sets forth the so-called “fractions rule” under which (i) the allocation of items to a qualified organisation cannot result in any such partner having a share of the overall partnership income for any taxable year greater than its share of overall partnership loss for the taxable year in which its overall share of partnership loss will be the smallest, and (ii) the allocations have substantial economic effect under Code Section 704(b)(2). As discussed in “Allocations of Profits and Losses” above, PEP’s allocations do not have substantial economic effect under Code Section 704(b)(2) and, accordingly, the allocations do not comply with the fractions rule. As a result, the Debt-financed Exception to the UBIT rules do not apply to PEP.

**TAX-EXEMPT U.S. UNITHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE TAX CONSEQUENCES OF AN INVESTMENT IN PEP.**

### **Non-U.S. Partnership Transactional Reporting Requirements**

Under U.S. Treasury regulations, a U.S. Unitholder will have to file a report with the IRS on Form 8865 if the U.S. Unitholder transfers cash or property to PEP and either holds a 10 per cent. or greater interest in PEP immediately after the transfer or has transferred more than U.S. \$100,000 to PEP in the previous 12 months. Form 8865 will also have to be filed if a U.S. Unitholder acquires or disposes of a 10 per cent. or greater interest in PEP, if a U.S. Unitholder controls PEP, or if the U.S. Unitholder owns a 10 per cent. or greater interest in PEP while PEP is controlled in the aggregate by U.S. Unitholders that own a 10 per cent. or greater interest. PEP intends to provide U.S. Unitholders with the necessary information to



comply with the foregoing filing requirements. However, PEP will only be able to provide this information to those U.S. Unitholders who notify PEP in writing of their status as U.S. Unitholders.

U.S. Unitholders engaging in certain transactions, including certain loss transactions above a threshold, may be required to include tax shelter disclosure information with their annual U.S. Federal income tax returns. It is possible that PEP may engage in transactions that subject a U.S. Unitholder to such disclosure. If a U.S. Unitholder disposes of Units at a taxable loss, it may also be subject to such disclosure. Potential investors should consult their own tax advisers regarding such reporting requirements.

### **Possible Legislative or Other Actions Affecting Tax Aspects**

Prospective investors should recognise that the present U.S. Federal income tax treatment of investment in PEP may be modified by legislative, judicial or administrative action at any time and that any such action may affect investments and commitments previously made. The rules dealing with U.S. Federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in U.S. Federal tax laws and interpretations thereof could adversely affect the tax aspects of investment in PEP.

### **Taxation of Non-U.S. Unitholders**

Based on the expected organisation and operation of PEP, Unitholders who are not U.S. Unitholders and are not otherwise subject to U.S. Federal income tax (“**Non-U.S. Unitholders**”) generally will not be subject to U.S. Federal income tax as a result of an investment in PEP. Although PEP does not currently expect to invest in U.S. real estate, Non-U.S. Unitholders will be subject to U.S. Federal income tax to the same extent as U.S. Unitholders on investments that PEP makes in “U.S. real property interests” for U.S. Federal income tax purposes. Moreover, while the sale of interests in PEP generally will not be subject to U.S. Federal income tax, the sale of an interest in PEP could be subject to U.S. tax to the extent that PEP interests represent an interest in U.S. real property.

### **Administrative Matters**

#### ***Tax Matters Partner***

ProLogis will act as PEP’s “tax matters partner”. As the tax matters partner, ProLogis will have the authority, subject to certain restrictions, to act on PEP’s behalf in connection with any administrative or judicial review of PEP’s items of income, gain, loss, deduction or credit.

#### ***Backup Withholding***

For each calendar year, PEP will report to U.S. Unitholders and to the IRS the amount of distributions that PEP pays, and the amount of tax (if any) that PEP withholds on these distributions. However, PEP will only be able to provide this information to those U.S. Unitholders who notify PEP in writing of their status as U.S. Unitholders. Under the backup withholding rules, U.S. Unitholders may be subject to backup withholding tax (at the applicable rate, currently 28%) with respect to distributions paid unless: (i) a U.S. Unitholder is a corporation or comes within another exempt category and demonstrates this fact when required or (ii) a U.S. Unitholder provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding tax and otherwise complies with the applicable requirements of the backup withholding tax rules. If a U.S. Unitholder is an exempt holder, it should indicate its exempt status on a properly completed IRS Form W-9. A Non-U.S. Unitholder may qualify as an exempt recipient by submitting a properly completed IRS Form W-8BEN. Backup withholding is not an additional tax; the amount of any backup withholding from a payment to a U.S. Unitholder will be allowed as a credit against such U.S. Unitholder’s U.S. Federal income tax liability and may entitle it to a refund.

If a Unitholder does not timely provide PEP with IRS Form W-8 or W-9, as applicable, or such form is not properly completed, PEP may become subject to U.S. backup withholding taxes in excess of what would have been imposed had PEP received certifications from all investors. Such excess U.S. backup withholding taxes may be treated by PEP as an expense that will be borne by all investors on a pro rata basis (since PEP may be unable to allocate any such excess withholding tax cost to the holders that failed to timely provide the proper U.S. tax certifications).

## PART IX

### ERISA, TRANSFER RESTRICTIONS, ELIGIBLE INVESTORS AND CERTIFICATES

#### 1 Certain ERISA Considerations

The fiduciary and prohibited transaction provisions of Sections 404 and 406 of ERISA, and the corresponding provisions of Section 4975 of the Code, could affect the business and operations of PEP and therefore investments in PEP by employee benefit plans subject to the fiduciary provisions of ERISA or Section 4975 of the Code or other “benefit plan investors” holding assets of such plans (each, an “**ERISA Plan**”) will not be permitted.

##### **ERISA Status**

The Management Company will use its reasonable best efforts to operate PEP and conduct PEP’s business and affairs so that the assets of PEP will not constitute plan assets within the meaning of the Regulation (as defined below). If PEP’s assets are not treated as plan assets, the provisions of ERISA regarding delegation of fiduciary duties, fiduciary standards of conduct and the prohibited transaction rules of ERISA and the Code will not apply to the assets of PEP. Accordingly, no Ordinary Units may be purchased by, or transferred to, “benefit plan investors” that are subject to ERISA or Section 4975 of the Code.

##### **ERISA Restrictions if PEP Holds Plan Assets**

If PEP is deemed to hold plan assets of the investors that are ERISA Plans, any transaction PEP enters into would be deemed to be a transaction with each ERISA Plan investor. Such treatment could generally prohibit PEP from entering into transactions (such as acquisitions, sales or financings) with “parties in interest” to any ERISA Plan investor. If PEP were subject to ERISA, certain aspects of the structure and terms of PEP could violate ERISA. Under a regulation (the “**Regulation**”) issued by the U.S. Department of Labor (the “**DOL**”), generally, an ERISA Plan’s assets would be deemed to include an undivided interest in each of the underlying assets of PEP unless investment in PEP by “benefit plan investors” (as defined below) is not “significant”, or if PEP constitutes an “operating company”, including a “real estate operating company” (as described below).

##### **No Investment by Benefit Plan Investors**

For the purpose of this rule, the term “benefit plan investors” currently includes all employee benefit plans subject to ERISA, IRAs, Keogh Plans and other plans subject to Section 4975 of the Code, and entities whose underlying assets are deemed to include plan assets by reason of the investment in that entity by benefit plan investors, such as group trusts, bank collective investment trusts, insurance company separate accounts and certain insurance company general accounts. To avoid the application of ERISA and Section 4975 of the Code to PEP, the Management Company will reject subscriptions from any prospective investor that is a benefit plan investor. Under the Management Regulations, the Management Company will have the right to (i) restrict any transfer of Units in PEP so as to prevent any benefit plan from becoming an investor; and (ii) require that any benefit plan investors withdraw from PEP.

##### **Governmental Plans and Non-U.S. Plans**

Governmental plans, as defined in Section 3(32) of ERISA, are not subject to the fiduciary provisions of ERISA and are also not subject to the prohibited transaction provisions under Section 4975 of the Code. However, state laws or regulations governing the investment and management of the assets of such plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and the Code, as discussed above. In addition, exemptions or exceptions available to such rules for ERISA Plans may not be available for government plans. Accordingly, fiduciaries of governmental plans, in consultation with their advisers, should consider the impact of their respective state pension codes on investments in PEP and the considerations discussed above, to the extent applicable. Similarly, non-U.S. plans are not subject to the fiduciary provisions of ERISA or the prohibited transaction provisions of Section 4975 of the Code. However, foreign laws or regulations governing the investment and management of the assets of such plans may contain similar fiduciary and prohibited transaction requirements. Accordingly, fiduciaries of non-U.S. plans, in consultation with their advisers, should consider the impact of their respective laws on investments in PEP.

## 2 Transfer Restrictions

PEP has not been and will not be registered under the Investment Company Act and the Ordinary Units have not been and will not be registered under the Securities Act or any U.S. state securities or “blue sky” laws or the securities laws of any other jurisdiction and, accordingly, the Ordinary Units may not be reoffered, resold, pledged or otherwise transferred in the U.S. or to or for the benefit of U.S. Persons.

Each purchaser of Ordinary Units will be required to represent and agree in an investor representation letter as follows:

- (a) The purchaser either (A) (i) is a U.S. Person that is a QIB that in each case is also a QP, (ii) is acquiring the Ordinary Units for its own account or for the account of a QIB with respect to which it exercises sole investment discretion that in each case is also a QP and (iii) is aware, and each beneficial owner of the Ordinary Units has been advised; that the sale of the Ordinary Units to it is being made in reliance on Rule 144A under the Securities Act or another exemption from the registration requirements of the Securities Act, or (B) is not a U.S. Person and is purchasing the Ordinary Units in an offshore transaction pursuant to Regulation S.
- (b) The purchaser confirms that each of it and such account, if any, for which it is purchasing the Ordinary Units is a QP and was not formed for the specific purpose of acquiring the Ordinary Units. The purchaser confirms that neither it nor any such account (A) is an investment company within the meaning of the Investment Company Act, or (B) is excepted from the definition of investment company by operation of Section 3(c)(1) or 3(c)(7) of the Investment Company Act. The purchaser confirms that after its purchase of the Ordinary Units, neither it nor any such account will own more than 10% of the outstanding voting securities of PEP, and that it or any such account will be a single beneficial owner for the purposes of Section 3(c)(1) of the Investment Company Act. If either the purchaser or such account is a “dealer” described in Rule 144A(a)(1)(ii) under the Securities Act, the purchaser confirms that it or any such account, if any, owns and invests on a discretionary basis at least \$25 million in securities of issuers that are not affiliated with it or such account, as the case may be. If either the purchaser or any such account is a “plan”, “employee benefit plan” or a “trust fund” that holds the assets of such a plan (each as described in Rule 144A(a)(1) under the Securities Act), the plan beneficiaries do not make investment decisions with respect to the plan.
- (c) The purchaser understands and acknowledges that the Ordinary Units are being offered in a transaction not involving any public offering in the U.S. within the meaning of the Securities Act, that the Ordinary Units have not been and will not be registered under the Securities Act and are being offered and sold to the purchaser in a transaction exempt from the Securities Act. The purchaser further understands and acknowledges that PEP is not and will not be registered as an investment company under the Investment Company Act. The purchaser is purchasing Ordinary Units for investment purposes and not with a view to resale or distribution within the meaning of the U.S. securities laws.
- (d) The purchaser hereby acknowledges and agrees that it will not reoffer, resell, pledge or otherwise transfer any Ordinary Units except in compliance with the Securities Act and other applicable laws and except to a transferee who is not a “U.S. Person” (as such term is defined under Rule 904 in Regulation S) purchasing for its own account or for the account of a buyer that meets such criteria in an offshore transaction pursuant to Regulation S.
- (e) The purchaser has conducted its own investigation with respect to PEP and the Ordinary Units and has received all information that it believes is necessary or appropriate in connection with our purchase of the Ordinary Units. The purchaser has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its prospective investment in the Ordinary Units. The purchaser has the ability to bear the economic risk of its investment in the Ordinary Units, has adequate means of providing for its current and contingent needs, has no need for liquidity with respect to its investment in the Ordinary Units, and is able to sustain a complete loss of its investment in the Ordinary Units.
- (f) The purchaser agrees that if it breaches any covenant contained herein or makes any misrepresentation herein PEP may require the purchaser to sell its Ordinary Units to PEP or a person designated by PEP at the initial Offer Price stated in the pricing statement.
- (g) The purchaser agrees that its Ordinary Units or any interest therein may be transferred or resold only (i) in a single sale in an offshore transaction pursuant to Rule 904 of Regulation S, to or for

the account or benefit of a person not known to be a U.S. person, by pre-arrangement or otherwise, or (ii) to the Joint Bookrunners (or any successors) or their affiliates. The purchaser agrees that the Ordinary Units may not be deposited into any depository bank. Furthermore, the purchaser will make no directed selling efforts in the U.S. with respect to the Ordinary Units. The terms “U.S. person”, “offshore transaction” and “directed selling efforts” have the meanings set forth in Regulation S.

- (h) The purchaser understands that certificated Ordinary Units, if any, will bear a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), ANY STATE SECURITIES LAWS IN THE UNITED STATES OR, EXCEPT AS SET OUT IN THE PROSPECTUS (THE “**PROSPECTUS**”) OF PROLOGIS EUROPEAN PROPERTIES (“**PEP**”), THE SECURITIES LAWS OF ANY OTHER JURISDICTION AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED BY THIS LEGEND. THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS SECURITY, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (X) IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND EXCEPT TO A TRANSFEREE WHO IS NOT A “U.S. PERSON” (AS SUCH TERM IS DEFINED UNDER RULE 904 IN REGULATION S UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A BUYER THAT MEETS SUCH CRITERIA IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATION S AND (Y) (1) UPON DELIVERY OF ALL CERTIFICATIONS, OPINIONS AND OTHER DOCUMENTS THAT PEP MAY REQUIRE AND (2) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. FURTHER, NO PURCHASE, SALE OR TRANSFER OF THIS SECURITY MAY BE MADE UNLESS SUCH PURCHASE, SALE OR TRANSFER WILL NOT RESULT IN (i) THE ASSETS OF PEP CONSTITUTING “PLAN ASSETS” WITHIN THE MEANING OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”), THAT ARE SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “**CODE**”), OR (ii) PEP BEING REQUIRED TO REGISTER AS AN INVESTMENT COMPANY UNDER THE 1940 ACT. EACH PURCHASER OR TRANSFEREE OF THIS SECURITY WILL BE REQUIRED TO REPRESENT, OR WILL BE DEEMED TO HAVE REPRESENTED, THAT (i) IT IS NOT AND IS NOT USING ASSETS OF A PLAN THAT IS SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE AND (ii) IF IT IS A “QUALIFIED INSTITUTIONAL BUYER” THAT IS ALSO A U.S. PERSON, THAT IT IS A “QUALIFIED PURCHASER”, AND WILL BE SUBJECT TO RESTRICTIONS AS PROVIDED IN THE PROSPECTUS AND MANAGEMENT REGULATIONS.

THIS SECURITY IS NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN. EACH TRANSFEROR OF THIS SECURITY AGREES TO PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE PROSPECTUS TO THE TRANSFEREE.

- (i) The purchaser understands that no transfer of an Ordinary Unit will be effective, and PEP will not recognise any such transfer to an ERISA Plan as more fully set forth in “ERISA Considerations” above.

### **3 Eligible Investors**

The Ordinary Units may only be offered (i) in the U.S. to persons reasonably believed to be QIBs that in each case are also QPs and (ii) outside the U.S. to investors that are not U.S. Persons in offshore transactions pursuant to Regulation S. Initial purchasers of the Ordinary Units will be required to make the representations and agreements set forth under “Transfer Restrictions” and “ERISA Considerations” above. An Ordinary Unitholder may only sell, transfer, assign, pledge, or otherwise dispose of its Ordinary Units outside the U.S. to transferees that are not U.S. Persons pursuant to Regulation S. See “Transfer Restrictions” above.

**PART X**  
**CONSOLIDATED AUDITED FINANCIAL INFORMATION FOR THE YEARS ENDED**  
**31 DECEMBER 2005, 31 DECEMBER 2004 AND 31 DECEMBER 2003**

The consolidated financial information contained in this Part X is derived from the audited consolidated financial statements of PEP for the years ended 31 December 2005, 31 December 2004 and 31 December 2003.

**Basis of Financial Information**

The financial information set out below has been prepared in accordance with IFRS.

**Contents**

**Page**

169	Auditors' Report
170	Consolidated Balance Sheet
171	Consolidated Income Statement
172	Statement of Changes in the Number of Units Issued
173	Consolidated Statement of Changes in Equity Attributable to Unitholders
174	Consolidated Statement of Investment in Property
175	Consolidated Statement of Cash Flows
176	Notes to the Consolidated Financial Statements



## **AUDITORS' REPORT**

**To the Unitholders of  
ProLogis European Properties Fund  
Luxembourg**

We have audited the consolidated financial statements, which consist of the consolidated balance sheet, consolidated income statement, statement of changes in number of units issued, consolidated statement of changes in equity attributable to Unitholders, the consolidated statement of investment in property, consolidated statement of cash flows and the notes to the consolidated financial statements of PROLOGIS EUROPEAN PROPERTIES FUND, a Fonds Commun de Placement (the “**Fund**”), as of 31 December 2005, 2004 and 2003 and for the years then ended. These consolidated financial statements are the responsibility of the Board of Directors of the Management Company. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors of the Management Company in preparing the consolidated financial statements, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give, in conformity with International Financial Reporting Standards as adopted by the EU, a true and fair view of the consolidated financial position and statement of investment in property of ProLogis European Properties Fund, a Fonds Commun de Placement, as of 31 December 2005, 2004 and 2003 and the consolidated results of its operations, cash flows, changes in consolidated Unitholders' funds and changes in the number of units issued for the years then ended.

**ERNST & YOUNG**  
Société Anonyme  
Réviseur d'Entreprises  
Michael Hornsby

18 August 2006

**PROLOGIS EUROPEAN PROPERTIES FUND**

**CONSOLIDATED BALANCE SHEET**

**AS AT 31 DECEMBER 2005, 31 DECEMBER 2004 AND 31 DECEMBER 2003**

**(Unless otherwise stated, amounts are expressed in thousands of euros)**

	Notes	31 December 2005	31 December 2004	31 December 2003
<b>Assets</b>				
<i>Non-Current Assets</i>				
Investment in property as stated in Statement of				
investment in properties . . . . .	2c	3,473,808	2,923,807	2,316,415
Property under construction . . . . .	2e, 5	7,052	1,724	12,127
Hedging instruments . . . . .	2o, 25	27,148	35,795	44,792
Deferred tax asset . . . . .	2r, 15	5,992	3,509	3,368
		<u>3,514,000</u>	<u>2,964,835</u>	<u>2,376,702</u>
<i>Current Assets</i>				
Due from related parties . . . . .	2h	—	—	5,644
Accounts receivable, net . . . . .	2i	32,276	32,933	27,474
Other current assets . . . . .	2j, 7	76,457	71,515	55,076
Cash and cash equivalents . . . . .	2k, 8	96,785	68,762	66,956
		<u>205,518</u>	<u>173,210</u>	<u>155,150</u>
<b>Total Assets</b> . . . . .		<u><b>3,719,518</b></u>	<u><b>3,138,045</b></u>	<u><b>2,531,852</b></u>
<b>Equity</b>				
Capital contributions . . . . .	2l, 9	1,792,422	1,589,908	1,354,038
Costs of raising capital . . . . .		(37,721)	(37,721)	(39,124)
Net capital contributed . . . . .		1,754,701	1,552,187	1,314,914
Profit for the period . . . . .		235,325	178,694	105,037
Net Retained earnings . . . . .	2n, 10	(108,530)	(152,599)	(144,164)
Cumulative foreign currency translation . . . . .	2b, 11	(20,846)	(27,499)	(32,031)
Cashflow hedge valuation reserve . . . . .	12	(39,300)	(44,652)	(36,657)
Equity attributable to Unitholders . . . . .		1,821,350	1,506,131	1,207,099
Minority interest in subsidiaries . . . . .		4,353	2,957	807
<b>Total Equity</b> . . . . .		<u><b>1,825,703</b></u>	<u><b>1,509,088</b></u>	<u><b>1,207,906</b></u>
<b>Liabilities</b>				
<i>Non-current liabilities</i>				
Interest bearing Secured notes . . . . .	2p, 13	1,262,461	871,556	865,470
Hedging instruments . . . . .	2o, 25	38,648	47,927	39,905
Interest bearing Long term bank loans, net of				
current portion . . . . .	2p, 14	168,341	133,614	62,673
Deferred taxation . . . . .	2r, 15	84,735	42,219	20,026
		<u>1,554,185</u>	<u>1,095,316</u>	<u>988,074</u>
<i>Current liabilities</i>				
Interest bearing bank loans, current portion . . . . .	2p, 14	201,162	405,381	221,884
Accounts payable . . . . .	2j	5,415	8,377	12,812
Due to related parties . . . . .	2h	7,404	—	—
Income and other taxes payable . . . . .	2q, 15	16,457	13,883	6,567
Accrued expenses and other current liabilities . . . . .	2j, 16	86,084	89,164	81,626
Deferred income . . . . .	2t	23,108	16,836	12,983
		<u>339,630</u>	<u>533,641</u>	<u>335,872</u>
<b>Total Liabilities</b> . . . . .		<u><b>1,893,815</b></u>	<u><b>1,628,957</b></u>	<u><b>1,323,946</b></u>
<b>Total Equity and Liabilities</b> . . . . .		<u><u><b>3,719,518</b></u></u>	<u><u><b>3,138,045</b></u></u>	<u><u><b>2,531,852</b></u></u>

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

**PROLOGIS EUROPEAN PROPERTIES FUND**

**CONSOLIDATED INCOME STATEMENT**

**FOR THE YEARS ENDED 31 DECEMBER 2005, 31 DECEMBER 2004 AND 31 DECEMBER 2003**

(Unless otherwise stated, amounts are expressed in thousands of euros)

	Notes	31 December 2005	31 December 2004	31 December 2003
Rental income . . . . .	<b>2u, 17</b>	259,079	219,840	207,229
Other property income . . . . .	<b>2v</b>	1,805	923	957
<b>Total revenue . . . . .</b>		<b>260,884</b>	<b>220,763</b>	<b>208,186</b>
Ground rents paid . . . . .		(2,009)	(1,975)	(1,781)
Property management fees . . . . .	<b>19b</b>	(15,739)	(13,988)	(13,853)
Other property rental expenses . . . . .	<b>18</b>	(6,851)	(5,861)	(5,134)
<b>Cost of rental activities . . . . .</b>		<b>(24,599)</b>	<b>(21,824)</b>	<b>(20,768)</b>
<b>Gross profit . . . . .</b>		<b>236,285</b>	<b>198,939</b>	<b>187,418</b>
Fund management fees . . . . .	<b>19a</b>	(5,187)	(4,089)	(3,826)
Fund custodian fees . . . . .		(69)	(252)	(252)
Other fund expenses . . . . .		(3,889)	(4,535)	(4,698)
<b>Fund expenses . . . . .</b>		<b>(9,145)</b>	<b>(8,876)</b>	<b>(8,776)</b>
Investment property disposal proceeds . . . . .		34,596	3,474	256,424
Carrying value of investment property disposals . . . . .		(33,910)	(733)	(245,604)
<b>Profit on disposal of investment property . . . . .</b>		<b>686</b>	<b>2,741</b>	<b>10,820</b>
Gross valuation gains on property, net of disposals . . . . .		208,782	200,988	83,489
Gross valuation losses on property, net of disposals . . . . .		(24,658)	(84,756)	(60,555)
Purchasers costs, net of disposals . . . . .		(31,486)	(21,151)	6,201
Impairment of goodwill . . . . .	<b>6</b>	(1,736)	—	—
<b>Property fair value movements . . . . .</b>		<b>150,902</b>	<b>95,081</b>	<b>29,135</b>
<b>Profit from activities of the Fund, prior to financing activities . . . . .</b>		<b>378,728</b>	<b>287,885</b>	<b>218,597</b>
Finance income . . . . .	<b>2y, 20</b>	1,663	1,516	1,373
Finance expense . . . . .	<b>2z, 21</b>	(90,663)	(74,074)	(109,079)
<b>Profit before taxation . . . . .</b>		<b>289,728</b>	<b>215,327</b>	<b>110,891</b>
Charge for taxation . . . . .	<b>2q, 2r, 15</b>	(53,827)	(36,292)	(5,759)
<b>Net profit for the period . . . . .</b>		<b>235,901</b>	<b>179,035</b>	<b>105,132</b>
<b>Attributable to:</b>				
Minority interest . . . . .		576	341	95
Unitholders . . . . .		235,325	178,694	105,037
		<b>235,901</b>	<b>179,035</b>	<b>105,132</b>
		<b>Euro</b>	<b>Euro</b>	<b>Euro</b>
<b>Earnings per share . . . . .</b>	<b>9</b>			
Class A and Class B units . . . . .		1.52	1.32	0.82
Class C Units . . . . .		0.675	0.675	0.675
<b>Diluted earnings per share . . . . .</b>	<b>9</b>			
Diluted Earnings per share for Class A and B units . . . . .		1.18	0.89	0.50
Diluted Earnings per share for Class C Unitholders . . . . .		0.675	0.675	0.675

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

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**STATEMENT OF CHANGES IN THE NUMBER OF UNITS ISSUED**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 31 DECEMBER 2004 AND 31 DECEMBER 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

	<u>Par Value</u>	<u>31 December 2005</u>	<u>31 December 2004</u>	<u>31 December 2003</u>
<i>Number of Units outstanding at the beginning of the period:</i>				
Class A(1) Units . . . . .	10.00	500,000	500,000	500,000
Class A(2) Units . . . . .	10.00	87,391,985	87,391,985	95,371,985
Class A(3) Units . . . . .	10.27	52,093,478	52,093,478	—
Class B1 Units . . . . .	10.00	13,000,000	13,000,000	29,960,999
Class B2 Units . . . . .	10.00-10.96	20,483,038	15,685,966	13,731,511
Class C(1) Units . . . . .	10.00	10,160,000	10,160,000	10,160,000
Class C(2) Units . . . . .	10.00	10,160,000	10,160,000	—
<i>Number of Units issued during the period:</i>				
Class A(1) Units . . . . .		—	—	—
Class A(2) Units . . . . .		—	—	—
Class A(3) Units . . . . .	10.27	—	—	52,093,478
Class B1 Units . . . . .		—	—	—
Class B2 Units . . . . .	10.22-11.43	2,645,915	4,797,072	1,954,455
Class C(1) Units . . . . .		—	—	—
Class C(2) Units . . . . .	10.00	—	—	10,160,000
<i>Number of Units redeemed during the period:</i>				
Class A(1) Units . . . . .		—	—	—
Class A(2) Units . . . . .	10.00	—	—	(7,980,000)
Class A(3) Units . . . . .		—	—	—
Class B1 Units . . . . .	10.00	—	—	(16,960,999)
Class B2 Units . . . . .		—	—	—
Class C(1) Units . . . . .		—	—	—
Class C(2) Units . . . . .		—	—	—
<i>Number of Units outstanding at the end of the period:</i>				
Class A(1) Units . . . . .	10.00	500,000	500,000	500,000
Class A(2) Units . . . . .	10.00	87,391,985	87,391,985	87,391,985
Class A(3) Units . . . . .	10.27	52,093,478	52,093,478	52,093,478
Class B1 Units . . . . .	10.00	13,000,000	13,000,000	13,000,000
Class B2 Units . . . . .	10.00-11.43	23,128,953	20,483,038	15,685,966
Class C(1) Units . . . . .	10.00	10,160,000	10,160,000	10,160,000
Class C(2) Units . . . . .	10.00	10,160,000	10,160,000	10,160,000

The Class A(3) and the Class C(2) Units issued during 2003 were issued on a partially paid basis. The final drawdowns occurred in April 2006 for the Class A(3) Units and in August 2004 for the Class C(2) Units.

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

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 31 DECEMBER 2004 AND 31 DECEMBER 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

	Notes	31 December 2005	31 December 2004	31 December 2003
<b>Changes in equity attributable to Unitholders</b>				
<b>Total Equity attributable to Unitholders</b>				
brought forward . . . . .		<u>1,506,131</u>	<u>1,207,099</u>	<u>1,417,180</u>
Foreign currency translation . . . . .	11	6,653	4,532	(25,537)
Net gains/(losses) on cashflow hedges fair valuation . . .	12	<u>5,352</u>	<u>(7,995)</u>	<u>(22,835)</u>
<b>Total income and expense for the period recognised</b>				
directly in equity . . . . .		<b>12,005</b>	<b>(3,463)</b>	<b>(48,372)</b>
Net profit for the period . . . . .		<u>235,325</u>	<u>178,694</u>	<u>105,037</u>
<b>Total net income and expenses for the period . . . . .</b>		<b><u>247,330</u></b>	<b><u>175,231</u></b>	<b><u>56,665</u></b>
Distributions for the period . . . . .	10	(134,625)	(113,472)	(116,591)
Capital contributions by way of cash payment . . . . .		172,500	186,520	76,830
Capital contributions by way of contribution in kind . . .		30,014	49,350	20,264
Capital redemptions . . . . .		—	—	(249,410)
Cost of raising capital . . . . .		<u>—</u>	<u>1,403</u>	<u>2,161</u>
<b>Net movement on capital for the period . . . . .</b>		<b><u>202,514</u></b>	<b><u>237,273</u></b>	<b><u>(150,155)</u></b>
<b>Changes in Equity . . . . .</b>		<b><u>315,219</u></b>	<b><u>299,032</u></b>	<b><u>(210,081)</u></b>
<b>Total Equity attributable to Unitholders</b>				
carried forward . . . . .		<u><u>1,821,350</u></u>	<u><u>1,506,131</u></u>	<u><u>1,207,099</u></u>

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



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**CONSOLIDATED STATEMENT OF INVESTMENT IN PROPERTY**  
**AS AT 31 DECEMBER 2005, 31 DECEMBER 2004 AND 31 DECEMBER 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

	31 December 2005	31 December 2004	31 December 2003
<b>Historic cost</b>			
Cost at the beginning of the period . . . . .	2,824,575	2,312,264	2,307,568
Asset additions, by way of Stabilised Property Contribution			
Agreement . . . . .	261,479	459,638	245,677
Asset additions by way of corporate acquisitions . . . . .	63,850	—	—
Other asset additions . . . . .	67,532	—	86,412
Capital expenditure . . . . .	21,881	17,538	14,269
Transfer of completed development from property under construction . . . . .	8,202	25,200	—
Disposals, by way of direct disposals . . . . .	(33,910)	(733)	(245,604)
Effect of unrealised currency movements . . . . .	8,329	10,668	(96,058)
Cost at the end of the period . . . . .	<u>3,221,938</u>	<u>2,824,575</u>	<u>2,312,264</u>
<b>Net unrealised gains related to property</b>			
Net unrealised gains/(losses) at the beginning of the period . .	99,232	4,151	(24,984)
Gross valuation gains on investment in real estate during the period, less disposals . . . . .	208,782	200,988	83,489
Gross valuation losses on investment in property during the period, less disposals . . . . .	(24,658)	(84,756)	(60,555)
Deduction for purchasers costs, less disposals . . . . .	(31,486)	(21,151)	6,201
Net unrealised gains at the end of the period . . . . .	<u>251,870</u>	<u>99,232</u>	<u>4,151</u>
<b>Fair value at the end of the period . . . . .</b>	<u><b>3,473,808</b></u>	<u><b>2,923,807</b></u>	<u><b>2,316,415</b></u>
<b>Fair value of investment property</b>			
Appraised Gross Property Value at the end of the period . . .	3,640,542	3,059,055	2,430,512
Purchasers costs . . . . .	(166,734)	(135,248)	(114,097)
<b>Fair value at the end of the period . . . . .</b>	<u><b>3,473,808</b></u>	<u><b>2,923,807</b></u>	<u><b>2,316,415</b></u>
<b>Appraised market value as a percentage of net assets . . . . .</b>	<u><b>190%</b></u>	<u><b>194%</b></u>	<u><b>192%</b></u>
<b>Appraised Gross Property Value subject to security</b>			
Secured Notes . . . . .	2,581,292	1,790,660	1,686,335
Bank Loans . . . . .	678,505	1,061,428	560,315
Finance Leases . . . . .	70,230	109,446	117,507
	<u><b>3,330,027</b></u>	<u><b>2,961,534</b></u>	<u><b>2,364,157</b></u>
<b>Insured value . . . . .</b>	<u><b>1,814,467</b></u>	<u><b>1,474,722</b></u>	<u><b>1,347,182</b></u>

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

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 31 DECEMBER 2004 AND 31 DECEMBER 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

	Notes	31 December 2005	31 December 2004	31 December 2003
<b>Net cash flow from operating activities . . . . .</b>	<b>22</b>	<b><u>147,867</u></b>	<b><u>122,900</u></b>	<b><u>109,634</u></b>
<b>Cash flow from investing activities</b>				
Acquisitions of property . . . . .		(302,037)	(415,009)	(325,482)
Acquisition of a business net of cash . . . . .		(20,986)	—	—
Capital expenditure on investment property . . . . .		(21,881)	(17,538)	(14,269)
Property under construction . . . . .	<b>5</b>	(13,530)	(14,797)	(12,127)
Payments from insurance company in regard of building losses net of rebuilding costs . . . . .		(427)	—	8,106
Proceeds from disposal of investment in property . . . . .		34,596	3,474	256,424
<b>Net cash used in investing activities . . . . .</b>		<b><u>(324,265)</u></b>	<b><u>(443,870)</u></b>	<b><u>(87,348)</u></b>
<b>Cash flow from financing activities</b>				
Proceeds from secured notes:				
— Gross proceeds . . . . .		389,000	—	190,500
— Transaction costs . . . . .	<b>13</b>	(12,734)	(439)	(6,868)
Proceeds from bank loans:				
— Gross (repayments)/proceeds . . . . .		(209,657)	254,599	72,850
— Transaction costs . . . . .	<b>14</b>	(3,194)	(3,465)	(3,022)
Proceeds from capital contributions . . . . .	<b>9</b>	172,500	186,520	76,830
Redemption of capital . . . . .		—	—	(249,410)
Distributions to Unitholders . . . . .	<b>10</b>	(131,093)	(114,599)	(131,709)
<b>Net cash provided from financing activities . . . . .</b>		<b><u>204,822</u></b>	<b><u>322,616</u></b>	<b><u>(50,829)</u></b>
<b>Effects of exchange rate changes . . . . .</b>		<b><u>(401)</u></b>	<b><u>160</u></b>	<b><u>(4,633)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents . . .</b>		<b><u>28,023</u></b>	<b><u>1,806</u></b>	<b><u>(33,176)</u></b>
Cash and cash equivalents at the beginning of the period		68,762	66,956	100,132
<b>Cash and cash equivalents at the end of the period . . . .</b>		<b><u>96,785</u></b>	<b><u>68,762</u></b>	<b><u>66,956</u></b>

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

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**1 ORGANISATION AND REGULATION OF THE FUND**

ProLogis European Properties Fund (the “**Fund**”) a *fonds commun de placement*, was established on 10 September 1999 under the laws of Luxembourg in the form of an unincorporated contractual co-ownership scheme and is now governed by the law on Undertakings for Collective Investments of 20 December 2002 (“**Luxembourg Law**”) and by its specific management regulations dated 10 September 1999 (the “**Management Regulations**”) as amended on 29 June 2001, 13 May 2003, 7 July 2003 and on 17 November 2005. The Fund is managed by ProLogis Management S.à r.l. (the “**Management Company**”), a limited liability company organised under the laws of Luxembourg (registration number B 70 940) having its registered office at 18 Boulevard Royal, L-2449 Luxembourg.

The Fund has been initially set up for a 10-year term from 10 September 1999, with the primary objective to generate a high level of current income and capital appreciation through investment in distribution facilities. The life of the Fund may be extended with the agreement of Unitholders.

The Management Company has the exclusive right to manage the Fund and is vested with broad powers to administer and manage the Fund in the name of and on behalf of the Unitholders subject to rules and regulations set out in the Management Regulations. The Fund is owned by 21 investors and has no parent company or ultimate parent company.

**Subsequent events**

On Tuesday 25 April 2006 an extraordinary general meeting, of the Unitholders of the Fund voted to empower the Management Company to proceed with an Initial Public Offering of the Fund on the Amsterdam Euronext Stock Exchange in accordance with Article 4i) of the Management Regulations, subject to the final approval of the Unitholder Advisory Committee.

To facilitate the Offer there will be a number of changes to the Management Regulations of the Fund:

- i) the Class A and B Units will be reclassified into a single class of Ordinary Units. One Unitholder has elected to exercise its right to convert 2,500,000 Class C(1) and 2,500,000 Class C(2) Units into Class A(1) Units effective as at Admission, and the remaining Class C(1) and Class C(2) Units will be redeemed on or prior to the Settlement Date;
- ii) the Stabilised Property Contribution Agreement will be terminated;
- iii) the Fund will no longer have a limited life; and
- iv) the replacement of the Unitholder Advisory Committee (“**UAC**”) by an independent board with four independent members and two members appointed by ProLogis.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

Unless otherwise stated the consolidated financial statements of the Fund are presented in thousands of euros. The consolidated financial statements are presented on an historical cost basis, except for the measurement of investment properties and certain financial instruments relating to hedging which are stated at fair value.

These consolidated financial statements are presented for the 12 months ended 31 December 2005, with comparative audited figures for the years ended 31 December 2004 and 2003.

**Statement of compliance**

The consolidated financial statements of the Fund and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (“**IFRS**”).

The Fund adopted IFRS from 1 January 2003. All comparative amounts and notes have been restated to comply with the IFRS effective on 31 December 2005, as if such standards had been applicable

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

since the inception of the Fund. Note 28 describes the reconciling items between Luxembourg Generally Accepted Accounting Principles (“LGAAP”) as previously reported by the Fund and IFRS.

The preparation of the consolidated financial statements in accordance with the generally accepted accounting principles as described above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The consolidated financial statements of the Fund have been authorised for issuance on 18 August 2006 by the Management Company.

The significant accounting principles applied by the Fund are regularly re-evaluated by the Management Company to ensure their continued quality and reasonableness. They are as follows:

**2a Principles of consolidation**

The consolidated financial statements include all activities of the Fund and its subsidiaries.

**Subsidiary companies**

Subsidiaries are defined as entities in which the Fund, directly or indirectly, has a controlling interest and are consolidated from the date on which control is transferred to the Fund and cease to be consolidated from the date on which control is transferred out of the Fund. The accounting principles of the Fund may differ from those applied in other countries. Where necessary, the accounts of the underlying entities have been adjusted or reclassified on consolidation in order that their results may be consistent with the accounting principles of the Fund.

Acquired companies have been included in the consolidated financial statements using the purchase method of accounting when, and only when the transaction can be identified as a business combination. When determining if an acquisition qualifies as a business combination or not, management consider if the transaction includes the acquisition of supporting infrastructure, employees, service provider agreements and major input and output processes, as well as active lease agreements. To date the only acquisition where management have determined that these criteria have been met is the Harbor Park transaction (see Note 6).

For business combinations, the Consolidated Income Statement and Consolidated Cash Flow Statement include the results and cash flows of acquired companies for the period from its date of acquisition to the period end. On acquisition, the costs incurred in acquiring subsidiaries are allocated to the separable net assets of the acquired entity with any difference being allocated to goodwill. Subsequent valuation adjustments to goodwill are recorded in the Consolidated Income Statement.

When the transaction has not been identified as being a business combination, the transaction has been accounted for as an acquisition of individual assets and liabilities where the initial purchase consideration is allocated to the separable assets and liabilities acquired.

The cost of investment in a subsidiary is eliminated against the Fund’s share in the net assets at the date of acquisition or contribution. All intercompany receivables, payables, income and expenses are eliminated.

Where the Fund, either directly or indirectly, holds a controlling interest in a subsidiary but does not have complete control of that subsidiary, the value of the interest not held by the Fund is recorded as a minority interest in the Consolidated Balance Sheet.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**Special purpose entities**

Certain wholly owned indirect subsidiaries of the Fund (the “**Finance Subsidiaries**”) have raised debt financing using special purpose entities (“**SPEs**”). These SPEs are orphan entities which are independently operated by third parties to both the Fund and the Management Company. As the sole function of each SPE is to provide debt financing to a Finance Subsidiary and, in substance, the risks and rewards are with the Fund, for the purposes of these financial statements only, each SPE is treated as if it were a fully consolidated entity within the Fund (Note 26). The precise nature of the loan structure between the SPEs and the Finance Subsidiaries is explained in Note 13 to these consolidated financial statements.

**Related parties**

Related parties are defined as parties either directly or indirectly controlled, managed or owned by ProLogis, a real estate investment trust organised under the laws of Maryland, USA, which indirectly, through one or more wholly-owned subsidiaries, owns the Management Company and the Class B1 and Class B2 Units in the Fund (“**ProLogis**”).

**2b Foreign currency translation**

The presentation currency of the Fund is the Euro.

The functional currency of a subsidiary is determined as the principal currency in which the entity’s assets, liabilities, income and expenses are denominated. This may be different to the local currency of the country of incorporation or the country where the subsidiary conducts its operations.

Subsidiaries with operations in all jurisdictions, except for the UK and two subsidiaries in Sweden, have the Euro as their functional currency.

Transactions in currencies other than the functional currency of an entity are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are recognised in the Consolidated Income Statement under “Finance expenses” (see Note 2z).

The cumulative effect of exchange differences on cash transactions are classified as realised gains and losses in the Consolidated Income Statement in the period in which they are settled. Exchange differences on transactions not yet settled in cash are classified as unrealised gains and losses under “Finance expenses” (see Note 21).

The assets and liabilities of subsidiaries are determined according to the accounting principles of the Fund. Where the functional currency is different from the presentation currency of the Fund those assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. The income statements of such subsidiaries are translated at the average exchange rate for the period. The exchange differences arising on the currency translation are recorded as a separate component of Unitholders reserves under the heading of “Cumulative foreign currency translation”. On the disposal of such a subsidiary, accumulated exchange differences are recognised in the Consolidated Income Statement as a component of the gain or loss on disposal, including any tax effects.

Exchange differences arising on monetary items, which in substance form part of the Fund’s net investment in a foreign entity, are recorded as a separate component of Unitholders reserves under the heading of “Cumulative foreign currency translation”.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquired company and are recorded at the exchange rate at the date of the transaction.



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2c Investment in property**

Investment in property mainly comprises the investment in land and buildings in the form of distribution facilities which are not occupied substantially for use by, or in the operations of, the Fund, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation by leasing to third parties under long term operating leases.

Investment in property is initially recorded at cost including acquisition costs such as transfer taxes, initial lease commissions and legal fees. Expenditure on renovation and development of investment properties is also initially capitalised at cost. After initial recognition, investment properties are measured at Fair Value as determined by third party independent appraisers (the “**Appraisers**”). Additionally, valuations are undertaken on acquisitions, contributions in kind and on disposals, in order to comply with Luxembourg Law. The gain or loss arising from a change in the Fair Value of the investment property is included in the Consolidated Income Statement in the period in which it arises. Jones Lang LaSalle (“**JLL**”) and DTZ Zadelhoff (“**DTZ**”) have been appointed as the Appraisers for the Fund. Depreciation is not provided on investment properties.

Realised gains and losses on the disposal of investment in property is included in the Consolidated Income Statement in the period in which it arises.

**2d Leases**

Assets held under finance leases are capitalised and depreciated over the shorter of the life of the lease and the life of the assets, up to a maximum of 15 years. The related liability is included in bank loans and the implied interest charge is allocated to the Consolidated Income Statement over the lease term using the effective interest rate method.

**2e Property under construction**

Property assets under construction are recorded at historic cost incurred as at the balance sheet date. Historic cost is calculated with reference to invoiced costs to date and capitalised finance costs. When the property is fully let and stabilised the cost of the asset is transferred to “Investment in property”.

**2f Leasing commissions**

Initial leasing commissions are included in the cost of acquiring an investment property. Leasing commissions incurred post the acquisition of a property are recognised at cost in the carrying value of investment properties in the period in which they are incurred. Subsequently the Fair value of the underlying leases are considered in the overall determination of the Fair value of the investment property, with any movement being recorded in the Consolidated Income Statement.

**2g Goodwill**

Goodwill acquired in a business combination is initially measured at cost, being the excess cost of the business combination over the Fund’s interest in net fair value of the identifiable assets, liabilities and contingent liabilities. Following recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Fund’s cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Fund are assigned to those units or groups of units.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

**2h Amounts due between related parties**

Amounts due from or to related parties (see Note 2a) are stated at nominal value.

**2i Accounts receivable**

Accounts receivable are stated at nominal value less provisions for doubtful debts, if any. The Management Company assesses specific provisions on a customer by customer basis throughout the year.

**2j Current assets and liabilities**

The fair value of other current financial assets and liabilities due within one year approximate the carrying value disclosed in the consolidated financial statements, due to the short time in which these transactions are settled.

**2k Cash and cash equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

**2l Capital contributions**

Capital contributions represent the amount of capital called and contributed to the Fund by current Unitholders since the inception of the Fund at historical cost.

**2m Cost of raising capital and launching the Fund**

General Fund launch costs are written off through the Consolidated Income Statement in the period in which they are incurred. The cost of raising capital represents direct costs incurred in establishing the capital of the Fund including, amongst others, legal, accounting and investment banker's fees. Such costs are netted off the capital raised and are disclosed as a separate component of equity.

**2n Accumulated distributions**

The Management Regulations create an obligation to pay a quarterly dividend to the extent that Distributable Income is available. Distributions are recognised in the financial statements as a liability in the period to which they are related. Given the fact that such distributions are attached to equity instruments and that there is no obligation to pay them if they do not arise, they are classified in equity.

**2o Financial instruments**

The Fund uses financial instruments, such as interest rate and cross currency interest rate swaps, to hedge risks associated with interest rate and foreign currency fluctuations.

The effectiveness of the hedge is assessed by comparing the value of the hedged item with the notional value implicit in the contractual terms of the financial instrument being used in the hedge (Note 25).

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

where they hedge exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Consolidated Income Statement with the corresponding receivable or payable recognised in the balance sheet. Any corresponding gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Consolidated Income Statement.

In relation to cash flow hedges used to manage interest rate risks which meet the criteria for hedge accounting, the Fund records interest on the hedged loan at an interest rate implicit in the swap agreement (see Note 14 and Note 25). Cash flow hedges are valued at Fair value and included under “Hedging instruments” on the balance sheet. The effective portion of the gain or loss on the effective hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the Consolidated Income Statement.

Those financial instruments which do not meet the conditions for hedge accounting are accounted for at fair value with changes in fair value recognised immediately as a component of net profit.

**2p Interest bearing debt**

Debt, comprising secured notes and bank loans, is carried on the balance sheet at the fair value of the initial proceeds less the unamortised portion of discounts and transaction costs incurred to acquire the debt. Discounts and transaction costs are amortised over the life of the related debt through interest expense using the effective interest rate method (see Note 2z).

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include internal administrative or holding costs.

**2q Taxation**

The companies of the Fund are subject to taxation in the countries in which they operate. Current taxation is provided for at the applicable current rates on the respective taxable profits.

**2r Deferred taxation**

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- i) where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

available against which the deductible temporary differences, carry forward of unused tax credits and unused tax losses can be utilised except:

- i) where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised. Unrecognised deferred income tax assets are re-assessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when an asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**2s Provisions and expense accruals**

A provision is recognised when, and only when the Fund has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

**2t Deferred income**

Deferred income represents rental income which has been billed to customers as at the balance sheet date, but which relates to future periods.

**2u Revenue recognition—rental income**

The Fund leases its buildings to customers under agreements that are classified as operating leases.

Rental income represents rents charged to customers and is recognised on a straight line basis taking account of any rent free periods and other lease incentives, net of any sales taxes, over the lease period to the first break option (“rent levelling”).

**2v Revenue recognition—other property income**

Represents income derived from property from sources other than customers, and is recognised on an accruals basis in the period to which it contractually relates, net of any sales taxes.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2w Expense recognition**

Expenses are accounted for on an accruals basis. Expenses are charged to the Consolidated Income Statement, except for those incurred in the acquisition of an investment which are capitalised as part of the cost of the investment. Expenses arising on the disposal of investments are deducted from the disposal proceeds.

**2x Revenue recognition—Investment property disposals**

Gains on the disposal of investments in property are recorded at the time title is transferred.

**2y Finance income**

This includes interest income received during the period.

**2z Finance expenses**

Finance expenses includes:

- i) interest expenses related to secured notes, long term and short term debt, and is recognised on an accruals basis;
- ii) amortisation of transaction costs applicable to the period, (see Note 2p);
- iii) the effect of the unrealised change in the fair value of mark to market currency hedges related to the financing activities for the period (see Note 2o);
- iv) the effect of the unrealised foreign currency gains and losses on monetary assets and liabilities arising in the period (see Note 2b);
- v) the effect of the realised foreign currency gains and losses on cash transactions completed during the period (see Note 2b).

**2aa Segment information**

The Fund operates using the ProLogis Operating System®, a system that allows customers' needs to be serviced regardless of their location. The majority of the properties owned by the Fund are designed such that they are of similar standard and design, regardless of their location. The design of the buildings is such that they are attractive to similar customers across markets, and many of ProLogis' customers occupy properties across Western Europe. As a consequence of the generic nature of the properties and needs of the customers, the Management Company believes that it is appropriate to classify all operations under one industry segment, namely Logistical property and one region, namely Western Europe.

**2ab Subsequent events**

Post-period-end events that provide additional information about the Fund's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes when significant.

**2ac Contingencies**

Contingencies are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2ad Future standards**

The following IFRS and IFRIC interpretations were issued in 2005 with an effective date for the financial period beginning on or after 1 January 2006. The Fund has chosen not to adopt these standards and interpretations early and the Fund expects that adoption of the pronouncements listed above as they become effective will have no significant impact on the Fund's financial statements:

- i) IFRS 7 Financial investments: Disclosures (effective 1 January 2007);
- ii) IFRIC 4 Determining whether an Arrangement contains a Lease (effective from 1 January 2006);
- iii) Amendment to IAS 1: Presentation of Financial statements—Capital Disclosures (effective from 27 January 2006);
- iv) Amendments to IAS 39 Financial instruments; Recognition and Measurement and IFRS 4 Insurance Contracts—Financial Guarantee Contracts (effective from 27 January 2006);
- v) Amendments to IAS 39 Fair value option (effective 1 January 2006) and amendment to IAS 39: Cash flow Hedge Accounting (effective 1 January 2006); and
- vi) IFRIC Interpretation 9 Reassessment of Embedded Derivatives (effective from 1 June 2006).

**3 FINANCIAL RISK MANAGEMENT**

**3a Risk relating to investment in property**

Investment in property is subject to varying degrees of risk. The main factors which affect the value of the investment in property include:

- i) changes in the general economic climate;
- ii) local conditions in respective markets, such as an oversupply of distribution space or a reduction in demand for distribution space in a specific area;
- iii) competition from other available properties; and
- iv) government regulations, including zoning, usage, environmental and tax laws.

**3b Investment restrictions**

To address the general risks in Note 3a above, the Fund is subject to certain investment restrictions, either according to Luxembourg Law or its own Management Regulations. The main restrictions are:

- i) No more than 20% of the net assets of the Fund may be invested in a single property, such restriction being effective at the date of the acquisition of the relevant property.
- ii) No more than 5% of the rental income of the Fund may be obtained from any one customer, with the exception that the Fund may derive up to 10% of its rental income from certain key customers.
- iii) Up to 10% of investment properties, by value, may be invested outside certain target markets.
- iv) No investment may be made in properties located in the United States of America.
- v) Once fully invested the Fund may not have more than 30% of its investment properties, by square metres of lettable area, in any one target market.
- vi) On acquisition, property must be fully constructed, at least 90% let with an average remaining minimum lease term of three years and provide a minimum net operating yield applicable to that

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**3 FINANCIAL RISK MANAGEMENT (continued)**

target market. The net operating yield is defined as net rental income divided by cost of acquisition of the investment to the Fund.

**3c Credit risk**

The Fund's earnings, distributable cashflow and its net asset value could be adversely affected if a significant number of its customers are unable to meet their lease obligations.

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, the Fund obtains collateral in the form of bank deposits or bank or parent company guarantees.

The extent of the Fund's credit exposure is represented by the aggregate balance of amounts receivable, as reduced by the effects of any netting arrangements with counterparties.

The Fund has no significant concentrations of credit risk. The Fund has a large and diverse range of customers, and thus concentrations of credit risk in any particular geographic location or industry are considered low.

Accounts receivable are stated net of any provisions, and without any set off of deposits or guarantees, the Fund's maximum exposure to credit risk is represented by the balance disclosed in the Consolidated Balance Sheet.

**3d Interest rate risk**

The Fund's interest rate risk arises from issuing secured notes through certain SPEs (the "Issuers"). Borrowings at variable rates expose the Fund to cashflow interest rate risk.

The Fund manages its cashflow interest rate risk by using floating to fixed interest rate swaps ("IRS"). Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rate debt.

The Issuers have loaned the proceeds of the Notes to the finance subsidiaries through fixed rate financing (Note 14). Thus, the Issuers pay floating rate interest and receive fixed rate interest.

To hedge the risk of rising interest rates, the Issuers have entered into IRS agreements with ABN AMRO Bank London Branch, JPMorgan Chase Bank, Bank of America N.A. and Société Générale ("swap counterparties") regulated by the International Swaps and Derivatives Association ("ISDA"). Each one of the IRSs exactly matches the critical terms of a corresponding Euro tranche of the Notes issued: the amount, the currency, the maturity, the interest rate and the interest payment dates.

At the time the Issuer enters into the IRS agreements, these are designated as cash flow hedges. A description of the accounting treatment of the cash flow hedges is given in Note 2o.

Note 25 sets out the carrying amount, by maturity, of the Fund's financial instruments.

**3e Foreign exchange risk**

A part of the net assets of the Fund are exposed to variations in Sterling, Polish Zloty, Czech Kron, Hungarian Forint and Swedish Krone. According to the nature of the asset or liability, this exposure is either recorded against the "Cumulative foreign currency translation" in the Consolidated Balance Sheet or against "Finance expenses" in the Consolidated Income Statement.

The Issuers enter into foreign exchange contracts to manage their foreign exchange risk resulting from financing arrangements denominated in foreign currencies. This mainly comprises the currency risks of the Borrowers due to the fact that the finance subsidiaries borrow Euro denominated debt and lend

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**3 FINANCIAL RISK MANAGEMENT (continued)**

predominantly Sterling denominated debt to other subsidiaries of the Fund to finance property acquisitions.

A portion of the proceeds of the Euro-denominated Notes is converted to Sterling and lent by the Issuers to the Borrowers to provide Sterling denominated fixed rate financing (Note 13). The purpose of the Cross Currency Swaps ("CCSs") is to hedge the risk of fluctuating foreign exchange rates of the Euro against Sterling. The Issuers have entered into CCS agreements with ABN AMRO Bank London Branch, JPMorgan Chase Bank and Bank of America N.A. Each of the CCSs exactly matches the critical terms of a corresponding Sterling tranche of the Notes issued: the amount, the currency, the maturity, the interest rate and the interest payment dates.

At the time the Issuer enters into CCS agreements, these are designated as fair value hedges. A description of the accounting treatment of the fair value hedges is given in Note 2o.

Should a party default on the swap agreements in the performance of any payment obligation, the defaulting party will, on demand, be required to pay interest on the overdue amount to the other party in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the default rate.

A table showing the interest rate swaps, cross currency swaps and the financial instruments to which they relate is included in Note 25.

**3f Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through appropriate and adequate credit lines and the ability of customers to settle obligations within normal terms of credit.

The Fund ensures, through the forecasting and budgeting of cash needs, that adequate committed credit lines are available.

To ensure that customers continue to be able to meet their credit terms, the financial viability of customers is kept under review.

**4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

**4a Significant accounting estimates and judgements**

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**4b Investment in property**

The gross property value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction without deduction for any associated transfer taxes, sales taxes, or other costs normally borne by the purchaser. Transaction costs normally borne by the seller are not deducted in arriving at Gross Property Value, in accordance with IAS40. The Fair value is calculated by deducting the costs normally borne by the purchaser from the Gross Property Value. Fair Value is not intended to represent the liquidation value of the property, which would be dependent upon the price negotiated at the time of sale less any associated selling costs. The

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

Fair value is largely based on estimates using property appraisal techniques and other valuation methods as outlined below. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

The appraisers derive the fair value by applying the methodology and valuation guidelines as set out by the Royal Institution of Chartered Surveyors in the United Kingdom in accordance with IAS 40. This approach is based on discounting the future net income receivable from properties to arrive at the net present value of that future income stream. Future net income comprises the rent secured under existing leases, less any known or expected non-recoverable costs and the current market rent attributable to future vacancy years. The consideration basis for this calculation excludes the effects of any taxes. The discount factors used to calculate fair value are consistent with those used to value similar properties, with comparable leases in each of the respective markets.

From June 2005, the property assets within the Fund are being revalued on an alternating six monthly basis such that all assets are revalued at least once a year by the Independent Appraisers. At each balance sheet date, the Management Company reviews the latest independent valuation to ensure that it is still applicable.

The last valuation exercise by the independent appraisers was performed as at 30 June 2006.

**4c Income and deferred taxes**

The Fund is subject to income and capital gains taxes in numerous jurisdictions. Significant judgement is required in determining the total provision for income and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain during the ordinary course of business. The Fund recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made.

**4d Fair value currency and interest rate swaps**

The Fund estimates fair values of swaps by reference to current market conditions compared to the terms of the swap agreements using the results of an external appraisal process carried out by a third party.

**4e Fair value financial liabilities**

The fair value of borrowings approximates to the carrying value disclosed in the consolidated financial statements due to the variable interest terms attached to those borrowings, except for certain financial leases and mortgages in France and Italy which are carried at amortised cost (see Note 25).

**4f Business combinations**

Significant judgement is required when determining the appropriate method of accounting for acquisitions of shares of a company owning property.

ProLogis contributes properties to the Fund under the Stabilised Property Contribution Agreement (“SPCA”) (see Note 19c). In the opinion of the Management Company, the special purpose vehicles which themselves own the investment property do not qualify as businesses under the definition of IFRS 3 as they do not represent “an integrated set of activities and assets”. Therefore, the contribution of these properties to the Fund does not represent a business combination under the definition of IFRS 3. The cost of the assets and liabilities acquired by way of the SPCA is allocated based upon their relative fair values, and no goodwill is recognised.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

In the case of acquisitions of investment property from a third party, the Fund will only recognise a business combination where an integrated set of activities is acquired in addition to the investment property.

On 27 July 2005 the Fund purchased 100% of the equity of Harbor Park Ingatlanmukodteto Kft (“**Investment Kft**”) which owns 55.665% of the equity of Harbor Park Ingatlanfejlesztő Kft (“**Management Kft**”). Investment Kft owns investment property on a distribution park on the outskirts of Budapest. Management Kft owns part of the physical infrastructure of the park and has a management agreement to manage the park. This acquisition was treated as a business combination (see Note 6).

**5 PROPERTY UNDER CONSTRUCTION**

Property under construction comprises expenditure on real estate under construction.

	December 2005	December 2004	December 2003
Cost at the beginning of the period . . . . .	1,724	12,127	—
Additions during the period . . . . .	13,530	14,797	12,127
Transfers of stabilised property to investment properties . . . . .	(8,202)	(25,200)	—
	<u><b>7,052</b></u>	<u><b>1,724</b></u>	<u><b>12,127</b></u>

**6 GOODWILL**

	December 2005	December 2004	December 2003
<i>Gross</i>			
Balance at the beginning of the period . . . . .	—	—	—
Additions during the period . . . . .	1,736	—	—
Disposals and amounts written off . . . . .	—	—	—
<b>Balance at the end of the period . . . . .</b>	<u><b>1,736</b></u>	<u>—</u>	<u>—</u>
<i>Impairment</i>			
Balance at the beginning of the period . . . . .	—	—	—
Amortisation for the period . . . . .	—	—	—
Amortisation on disposals and write-offs . . . . .	1,736	—	—
<b>Balance at the end of the period . . . . .</b>	<u><b>1,736</b></u>	<u>—</u>	<u>—</u>
<b>Net book value at the end of the period . . . . .</b>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

Goodwill was recognised on the acquisition of Harbor Park in Budapest which was accounted for as a business combination. The amount recognised was equal to the deferred tax on the difference between the tax and the book value of the property at the time of acquisition less a reduction in the sales price attributable to a portion of this deferred tax liability to reflect its fair value. Since the fair value of all future cash flows from the property has been taken into account in the valuation of the investment property itself, there are no future cashflows the Management Company can allocate to the value of the goodwill. The entire amount of goodwill has therefore been impaired.



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**6 GOODWILL (continued)**

The fair value of the identified assets and liabilities acquired in the transaction are shown below:

	<b>December 2005</b>
Investment in property . . . . .	63,850
Investment in subsidiary . . . . .	459
Cash and cash equivalents . . . . .	2,925
Other net assets . . . . .	341
Debt . . . . .	(42,731)
Deferred tax assets . . . . .	465
Deferred tax liabilities . . . . .	(3,134)
	<u>22,175</u>
Goodwill . . . . .	<u>1,736</u>
<b>Total cost of acquisition paid by cash . . . . .</b>	<b><u>23,911</u></b>
Cash acquired by the subsidiary . . . . .	2,925
Cash paid . . . . .	(23,911)
<b>Net cash outflow . . . . .</b>	<b><u>(20,986)</u></b>

From the date of acquisition, Harbor Park has contributed approximately €1.6 million to the net profit of the Fund.

**7 OTHER CURRENT ASSETS**

Other current assets include:

	<b>December 2005</b>	<b>December 2004</b>	<b>December 2003</b>
VAT recoverable . . . . .	45,260	44,483	29,877
Deposits with utility companies . . . . .	2,416	2,707	1,767
Prepaid expenses . . . . .	10,682	7,057	4,554
Result of straight-lined rents . . . . .	17,399	15,655	11,908
Insurance receivable . . . . .	700	1,613	6,970
	<u>76,457</u>	<u>71,515</u>	<u>55,076</u>

**Insurance receivable**

This represents the best estimate of the amount receivable from the insurers regarding insurable losses.

**8 CASH AND CASH EQUIVALENTS**

	<b>December 2005</b>	<b>December 2004</b>	<b>December 2003</b>
Restricted cash . . . . .	85,946	54,084	41,768
Unrestricted cash . . . . .	10,839	14,678	25,188
	<u>96,785</u>	<u>68,762</u>	<u>66,956</u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**8 CASH AND CASH EQUIVALENTS (continued)**

Under the terms of the secured notes, cash received from rental agreements is subject to certain restrictions in any one quarter until interest payments under the notes for that applicable quarter are made.

In addition, £17 million (€25 million) is subject to restrictions, which represents the sale proceeds of an asset sale in the UK. Also, a sum of €8 million is restricted in Spain subject to the performance of certain obligations under a development agreement.

**9 OWNERSHIP OF THE FUND**

The ownership of the Fund is split between Class A(1), Class A(2), Class A(3), Class B1, Class B2, Class C(1) and Class C(2) Unitholders.

The Management Regulations define the formula by which the Management Company is contractually obliged to calculate Distributable Income of the Fund and to distribute such amount, if any, to Unitholders each quarter.

Class A(1), Class A(2), Class A(3), Class B1 and Class B2 Units have voting rights in proportion to their respective paid-up capital (“**Invested Capital**”). The Class C(1) and Class C(2) Units, except under certain circumstances, have no voting rights until the date of conversion to Class A(1) Units or other fully paid securities (“**IPO Shares**”) superseding Class A(1) Units, as further described in the Management Regulations.

Units are not normally redeemable at the option of the Unitholders. Class A(1), Class A(2), Class A(3), Class C(1) and Class C(2) Units can be redeemed in specific circumstances in accordance with criteria set out in Articles 9 and 23 of the Management Regulations. In addition, the Management Company has the power to redeem units under the circumstances described in Article 15 of those regulations.

Class A(1) Units were issued partly paid on 10 December 1999 with the balance called over a three year period from 15 September 1999 at the discretion of the Management Company. Class A(1) Units were issued at an initial price of €10 per unit. On 31 December 2001, the majority of the Class A(1) Units were reclassified, with the consent of the Unitholders, into Class A(2) Units on a one for one basis.

Class A(3) Units were issued partly paid on 29 August 2003 with the balance to be called over a period of three years at the discretion of the Management Company.

Class B1 Units were subscribed for on 15 September 1999 by PLD International Incorporated (“**ProLogis**”) and were issued partly paid in exchange for certain contributed properties. Class B1 Units were issued at an initial price of €10 per unit.

Class B2 Units are issued to and subscribed for by ProLogis in accordance with the Stabilised Property Contribution Agreement dated 15 September 1999 and amended on 29 June 2001, (“**SPCA**”) and the Class B2 Subscription Agreement (see Notes 19c and 19d).

Class C(1) and Class C(2) Units are cumulative convertible preferred units, subscribed for on 15 September 1999 and 29 August 2003 respectively, and issued at €10 per unit, fully paid. The Class C(1) and Class C(2) Unitholders are entitled to receive preferred cash distributions. On an Initial Public Offering the Class C(1) and Class C(2) Units will be mandatorily redeemed in full

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**9 OWNERSHIP OF THE FUND (continued)**

provided that the holders have the right to convert their units into Class A(1) Units (or IPO shares) at a time and fixed conversion rate specified in the Management Regulations.

<u>Number of units in issue</u>	<u>December 2005 No. of Units</u>	<u>December 2004 No. of Units</u>	<u>December 2003 No. of Units</u>
<b>Class of Units</b>			
Class A(1) . . . . .	500,000	500,000	500,000
Class A(2) . . . . .	87,391,985	87,391,985	87,391,985
Class A(3) . . . . .	52,093,478	52,093,478	52,093,478
Class B1 . . . . .	13,000,000	13,000,000	13,000,000
Class B2 . . . . .	23,128,953	20,483,038	15,685,966
Class C(1) . . . . .	10,160,000	10,160,000	10,160,000
Class C(2) . . . . .	10,160,000	10,160,000	10,160,000

<u>Par value in issue</u>	<u>December 2005</u>	<u>December 2004</u>	<u>December 2003</u>
<b>Class of Units</b>			
Class A(1) . . . . .	5,000	5,000	5,000
Class A(2) . . . . .	873,920	873,920	873,920
Class A(3) . . . . .	334,250	161,750	71,750
Class B1 . . . . .	130,000	130,000	130,000
Class B2 . . . . .	246,052	216,038	166,688
Class C(1) . . . . .	101,600	101,600	101,600
Class C(2) . . . . .	101,600	101,600	5,080
	<u>1,792,422</u>	<u>1,589,908</u>	<u>1,354,038</u>

**Earnings per unit**

Basic Earnings per unit amounts are calculated by dividing net profit for the year attributable to Class A, Class B and Class C Units drawdown, divided by the equivalent weighted average number Class A, Class B and Class C units drawdown during the year.

Diluted Earnings per unit are calculated by dividing the net profit attributable to Class A, Class B and Class C Unitholders as if 100% of the units had been drawdown, divided by the total number of Class A, Class B and Class C units as if fully drawdown.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**9 OWNERSHIP OF THE FUND (continued)**

Earnings per Class C unit both diluted and undiluted are the same as this represents the amount of distributions per Unit attributable to the Class C Unitholders according to the Management Regulations.

	<u>Class A and Class B units</u>	<u>Class C units</u>	<u>Total</u>
<b>For the year ended 31 December 2005</b>			
<b>Earnings per year net of minority interest</b>			
Basic . . . . .	221,609	13,716	235,325
Diluted . . . . .	<u>221,609</u>	<u>13,716</u>	<u>235,325</u>
<b>Weighted average number of units issued during the year</b>			
Basic . . . . .	145,388,000	20,320,000	
Diluted . . . . .	<u>187,556,114</u>	<u>20,320,000</u>	
<b>Earnings per Unit (Euros)</b>			
Basic . . . . .	1.52	0.675	
Diluted . . . . .	<u>1.18</u>	<u>0.675</u>	
	<u>Class A and Class B units</u>	<u>Class C units</u>	<u>Total</u>
<b>For the year ended 31 December 2004</b>			
<b>Earnings per year net of minority interest</b>			
Basic . . . . .	168,613	10,081	178,694
Diluted . . . . .	<u>164,978</u>	<u>13,716</u>	<u>178,694</u>
<b>Weighted average number of units issued during the year</b>			
Basic . . . . .	127,388,906	14,934,814	
Diluted . . . . .	<u>184,868,108</u>	<u>20,320,000</u>	
<b>Earnings per Unit (Euros)</b>			
Basic . . . . .	1.32	0.675	
Diluted . . . . .	<u>0.89</u>	<u>0.675</u>	
	<u>Class A and Class B units</u>	<u>Class C units</u>	<u>Total</u>
<b>For the year ended 31 December 2003</b>			
<b>Earnings per year net of minority interest</b>			
Basic . . . . .	97,562	7,475	105,037
Diluted . . . . .	<u>91,321</u>	<u>13,716</u>	<u>105,037</u>
<b>Weighted average number of units issued during the year</b>			
Basic . . . . .	119,682,902	11,074,074	
Diluted . . . . .	<u>183,171,551</u>	<u>20,320,000</u>	
<b>Earnings per Unit (Euros)</b>			
Basic . . . . .	0.82	0.675	
Diluted . . . . .	<u>0.50</u>	<u>0.675</u>	

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**10 NET RETAINED EARNINGS**

The distributions have been calculated in accordance with Article 18 of the Management Regulations and are summarised as follows:

<u>Class of Unit</u>	<u>Total</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>To December 2002</u>
Class A(1) . . . . .	1,650	421	406	385	438
Class A(2) . . . . .	301,502	73,540	71,004	73,347	83,611
Class A(3) . . . . .	26,389	17,969	7,186	1,234	—
Class B1 . . . . .	87,929	10,940	10,562	22,540	43,887
Class B2 . . . . .	56,295	18,039	14,233	11,610	12,413
Class C(1) . . . . .	46,222	7,366	7,366	7,366	24,124
Class C(2) . . . . .	9,174	6,350	2,715	109	—
	<b>529,161</b>	<b>134,625</b>	<b>113,472</b>	<b>116,591</b>	<b>164,473</b>
<b>Cumulative distributions . . . . .</b>		<b>529,161</b>	<b>394,536</b>	<b>281,064</b>	<b>164,473</b>
<b>Accumulated Profits . . . . .</b>		<b>420,631</b>	<b>241,937</b>	<b>136,900</b>	<b>136,980</b>
<b>Net Accumulated Profit carried forward . . . .</b>		<b>(108,530)</b>	<b>(152,599)</b>	<b>(144,164)</b>	<b>(27,493)</b>
Distributions Brought forward . . . . .		31,797	32,924	48,042	
Distributions for the period . . . . .		134,625	113,472	116,591	
Distributions paid . . . . .		(131,093)	(114,599)	(131,709)	
<b>Distributions carried forward . . . . .</b>		<b>35,329</b>	<b>31,797</b>	<b>32,924</b>	
<b>Distributions per unit</b>					
<u>Class of Unit</u>		<u>2005</u>	<u>2004</u>	<u>2003</u>	
		<u>Euros per unit</u>	<u>Euros per unit</u>	<u>Euros per unit</u>	
Class A(1) . . . . .		0.84	0.81	0.77	
Class A(2) . . . . .		0.84	0.81	0.84	
Class A(3) . . . . .		0.34	0.14	0.02	
Class B1 . . . . .		0.84	0.81	1.73	
Class B2 . . . . .		0.78	0.69	0.74	
Class C(1) . . . . .		0.73	0.73	0.73	
Class C(2) . . . . .		0.63	0.27	0.01	



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**11 CUMULATIVE FOREIGN CURRENCY TRANSLATION**

	<u>December 2005</u>	<u>December 2004</u>	<u>December 2003</u>
Balance at the beginning of the period . . . . .	(27,499)	(32,031)	(6,494)
Translation adjustments on disposal of subsidiaries holding real estate . . . . .	—	—	21,685
Other translation adjustments . . . . .	6,653	4,532	(47,222)
<b>Net variation during the period . . . . .</b>	<b>6,653</b>	<b>4,532</b>	<b>(25,537)</b>
<b>Balance at the end of the period . . . . .</b>	<b><u>(20,846)</u></b>	<b><u>(27,499)</u></b>	<b><u>(32,031)</u></b>

**12 CASHFLOW HEDGE VALUATION RESERVE**

	<u>December 2005</u>	<u>December 2004</u>	<u>December 2003</u>
Balance at the beginning of the period . . . . .	(44,652)	(36,657)	(13,822)
Movement in fair value of existing hedges . . . . .	6,152	(7,995)	(21,788)
Fair value of hedges acquired during the year . . . . .	(800)	—	(1,047)
<b>Net variation during the period . . . . .</b>	<b>5,352</b>	<b>(7,995)</b>	<b>(22,835)</b>
<b>Balance at the end of the period . . . . .</b>	<b><u>(39,300)</u></b>	<b><u>(44,652)</u></b>	<b><u>(36,657)</u></b>

**13 INTEREST BEARING SECURED NOTES**

Euro Secured Floating Rate Notes (the “Notes”) have been issued by certain SPEs (the “Issuers”), which although not owned by the Fund are consolidated according to the Fund’s accounting principles (Note 2a). The Issuers have each made an issue of Notes at 100% of their face value and bear interest at a floating rate of three month Euribor plus a weighted average margin of 0.33% per annum (2004 and 2003: 0.40%).

The Notes are stated net of unamortised transaction costs incurred in making the respective issue.

The Notes are secured on the assets of the respective borrower and its direct and indirect subsidiaries. The Notes must be redeemed in full, on or before the repayment date. However, the Notes may be repaid earlier, in full or in part, at the option of certain finance subsidiaries of the Fund (the “Borrowers”), subject to certain conditions.

Repayment of all the Notes is due before May 2010.

**Application of the proceeds**

A total of €407.7 million of the proceeds from these Notes was swapped (Note 2o) into £257.6 million and lent, together with the remaining Euro proceeds of €885.6 million, to the borrowers (2004 and 2003: €345.7 million was swapped into £214.8 million). The proceeds were primarily used to refinance existing debt. Under the terms and conditions of the respective Issuer/Borrower loan agreements, the Sterling loans bear interest at a weighted average fixed rate of 5.66% (2004 and 2003: 6.00%). The

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**13 INTEREST BEARING SECURED NOTES (continued)**

Euro loans bear interest at a weighted average fixed rate of 4.57% (2004 and 2003: 5.33%). Details of the Notes and the application of the proceeds are shown below:

	December 2005	December 2004	December 2003
<b>Cumulative proceeds</b>			
Proceeds from secured floating rate notes:			
Loan notes listed on the London Stock			
Exchange . . . . .	1,149,250	760,250	760,250
Loan notes listed on the Irish Stock Exchange . .	144,000	144,000	144,000
	<u>1,293,250</u>	<u>904,250</u>	<u>904,250</u>
<b>Transaction costs</b>			
<i>Cost</i>			
Balance at the beginning of the period . . . . .	52,353	51,914	45,576
Retirements and amounts written off . . . . .	—	—	(530)
Additions during the period . . . . .	12,734	439	6,868
<b>Balance at the end of the period . . . . .</b>	<u>65,087</u>	<u>52,353</u>	<u>51,914</u>
<i>Amortisation</i>			
Balance at the beginning of the period . . . . .	19,659	13,134	9,248
Retirements and amounts written off . . . . .	—	263	(530)
Amortisation shown in interest expense . . . . .	14,639	6,262	4,416
<b>Balance at the end of the period . . . . .</b>	<u>34,298</u>	<u>19,659</u>	<u>13,134</u>
<b>Net book value of Transaction Costs . . . . .</b>	<u>30,789</u>	<u>32,694</u>	<u>38,780</u>
<b>Net book value of proceeds from Secured notes .</b>	<u><b>1,262,461</b></u>	<u><b>871,556</b></u>	<u><b>865,470</b></u>
<b>Value of pledged assets</b>			
For loan notes listed on the London Stock			
Exchange . . . . .	2,311,095	1,530,790	1,417,885
For loan notes listed on the Irish Stock			
Exchange . . . . .	270,197	259,870	268,450
	<u><b>2,581,292</b></u>	<u><b>1,790,660</b></u>	<u><b>1,686,335</b></u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**13 INTEREST BEARING SECURED NOTES (continued)**

Proceeds from Notes listed on the London Stock Exchange	December 2005	December 2004	December 2003
Pan European Industrial Properties Series I S.A. 2011 .....	213,750	213,750	213,750
Pan European Industrial Properties Series II S.A. Class A—2012 .....	285,500	285,500	285,500
Pan European Industrial Properties Series II S.A. Class B—2012 .....	30,750	30,750	30,750
Pan European Industrial Properties Series II S.A. Class C—2012 .....	39,750	39,750	39,750
Pan European Industrial Properties Series III S.A. Class A—2013 .....	150,750	150,750	150,750
Pan European Industrial Properties Series III S.A. Class B—2013 .....	17,250	17,250	17,250
Pan European Industrial Properties Series III S.A. Class C—2013 .....	22,500	22,500	22,500
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class A—2013 .....	337,000	—	—
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class B—2013 .....	32,000	—	—
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class C—2013 .....	20,000	—	—
	<b>1,149,250</b>	<b>760,250</b>	<b>760,250</b>
<b>Value of pledged assets</b>			
Pan European Industrial Properties Series I S.A.	498,669	478,522	445,904
Pan European Industrial Properties Series II S.A. ....	690,445	672,095	618,476
Pan European Industrial Properties Series III S.A. ....	411,099	380,173	353,505
Pan European Industrial Properties Series IV S.A. ....	710,882	—	—
	<b>2,311,095</b>	<b>1,530,790</b>	<b>1,417,885</b>

**Issuer: Pan European Industrial Properties Series I S.A.**

Borrower .....	ProLogis European Finance S.à r.l.
Issue price .....	100%
Issue date .....	May 2001
Legal Maturity date .....	April 2011
Interest payment .....	Quarterly
Amount .....	€213,750
Interest rate: 3 month Euribor + .....	0.35%
Effective interest rate .....	7.09%

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**13 INTEREST BEARING SECURED NOTES (continued)**

**Application of Proceeds**

Euro tranche . . . . .	€95,500
Fixed interest rate . . . . .	5.410%
Sterling tranche (£'000) . . . . .	£73,610
Fixed interest rate . . . . .	6.033%
Exchange rate . . . . .	0.6225

**Issuer: Pan European Industrial Properties Series II S.A.**

Borrower . . . . .	ProLogis European Finance II S.à r.l.
Issue price . . . . .	100%
Issue date . . . . .	May 2002
Legal Maturity date . . . . .	July 2012
Interest payment . . . . .	Quarterly
Effective interest rate . . . . .	6.39%

	Class A	Class B	Class C
Amount . . . . .	€285,500	€30,750	€39,750
Interest rate: 3 month Euribor + . . . . .	0.32%	0.48%	0.90%

**Application of Proceeds**

Euro tranche . . . . .	€169,069	€18,210	€23,539
Fixed interest rate . . . . .	5.450%	5.610%	6.030%
Sterling tranche (£'000) . . . . .	£71,547	£7,706	£9,961
Fixed interest rate . . . . .	5.915%	6.110%	6.540%
Exchange rate . . . . .	0.6145	0.6145	0.6145

**Issuer: Pan European Industrial Properties Series III S.A.**

Borrower . . . . .	ProLogis European Finance IV S.à r.l.
Issue price . . . . .	100%
Issue date . . . . .	February 2003
Legal Maturity date . . . . .	May 2013
Interest payment . . . . .	Quarterly
Effective interest rate . . . . .	5.57%

	Class A	Class B	Class C
Amount . . . . .	€150,750	€17,250	€22,500
Interest rate: 3 month Euribor + . . . . .	0.35%	0.48%	0.85%

**Application of Proceeds**

Euro tranche . . . . .	€85,660	€9,802	€12,785
Fixed interest rate . . . . .	4.228%	4.358%	4.728%
Sterling tranche (£'000) . . . . .	£41,118	£4,705	£6,136
Fixed interest rate . . . . .	4.950%	5.075%	5.445%
Exchange rate . . . . .	0.6317	0.6317	0.6317

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**13 INTEREST BEARING SECURED NOTES (continued)**

**Issuer: Pan European Industrial Properties**

**Series IV S.A. (Compartment 1)**

Borrower . . . . .	ProLogis European Finance VII S.à r.l.
Issue price . . . . .	100%
Issue date . . . . .	March 2005
Legal Maturity date . . . . .	May 2013
Interest payment . . . . .	Quarterly
Effective interest rate . . . . .	4.44%

	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Amount . . . . .	€337,000	€32,000	€20,000
Interest rate: 3 month Euribor + . . . . .	0.14%	0.18%	0.30%

**Application of Proceeds**

Euro tranche . . . . .	€283,306	€26,901	€16,813
Fixed interest rate . . . . .	3.285%	3.325%	3.445%
Sterling tranche (£'000) . . . . .	£37,113	£3,524	£2,203
Fixed interest rate . . . . .	5.093%	5.133%	5.263%
Exchange rate . . . . .	0.6912	0.6912	0.6912

	<u>December 2005</u>	<u>December 2004</u>	<u>December 2003</u>
--	--------------------------	--------------------------	--------------------------

**Proceeds from Notes listed on the Irish Stock**

**Exchange**

France Industrial Properties No I S.A.			
Class A due 2012 . . . . .	115,000	115,000	115,000
France Industrial Properties No I S.A.			
Class B due 2012 . . . . .	29,000	29,000	29,000
	<u>144,000</u>	<u>144,000</u>	<u>144,000</u>

<b>Value of pledged assets . . . . .</b>	<u><b>270,197</b></u>	<u><b>259,870</b></u>	<u><b>268,450</b></u>
--	-----------------------	-----------------------	-----------------------

**Issuer: France Industrial Properties No I S.A.**

Borrower . . . . .	ProLogis European Finance V S.à r.l.
Issue price . . . . .	100%
Issue date . . . . .	April 2002
Repayment date . . . . .	April 2012
Interest payment . . . . .	Quarterly
Effective interest rate . . . . .	6.37%

	<u>Class A</u>	<u>Class B</u>
Amount . . . . .	€115,000	€29,000
Interest rate: 3 month Euribor + . . . . .	0.38%	0.90%
Fixed interest rate . . . . .	5.585%	6.105%

**Application of Proceeds**

Euro tranche . . . . .	€115,000	€29,000
Fixed interest rate . . . . .	5.585%	6.105%



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**14 INTEREST BEARING LONG TERM BANK LOANS**

**Loan Financing**

The secured Loan Notes require a minimum asset base before being presented to the market. Until such time as there is a critical mass of suitable real estate assets, assets are financed by a secured revolving €500 million credit facility provided by Banc of America Securities Limited and ABN AMRO Bank N.V. The facility is secured by way of pledges on the shares of certain subsidiaries of the Fund, intercompany receivables and a guarantee from the Fund. A second secured facility of €151 million is provided by Hypo Real Estate Bank International and secured on the assets of certain subsidiaries located in Central Europe.

**Mortgage and Lease Financing**

Real estate assets which are either unsuitable for secured loan note transactions, or that have been acquired by the Fund with financing already in place, are primarily financed by either third party mortgages or in France and Italy by “credit bail” style finance leases.

	<u>December 2005</u>	<u>December 2004</u>	<u>December 2003</u>
<b>Proceeds</b>			
Bank loans maturing beyond 5 years . . . . .	4,311	7,200	34,876
Bank loans maturing between 2 to 5 years . . . . .	164,030	126,414	27,797
Bank loans maturing within 1 year . . . . .	203,976	410,190	226,532
<b>Total proceeds from long term bank loans . . . . .</b>	<u>372,317</u>	<u>543,804</u>	<u>289,205</u>
<b>Transaction costs</b>			
<i>Cost</i>			
Balance at the beginning of the period . . . . .	11,672	8,207	5,185
Retirements and amounts written off . . . . .	(3,632)	—	—
Additions during the period . . . . .	3,194	3,465	3,022
<b>Balance at the end of the period . . . . .</b>	<u>11,234</u>	<u>11,672</u>	<u>8,207</u>
<i>Amortisation</i>			
Balance at the beginning of the period . . . . .	6,863	3,559	602
Retirements and amounts written off . . . . .	(2,819)	77	—
Amortisation shown in interest expense . . . . .	4,376	3,227	2,957
<b>Balance at the end of the period . . . . .</b>	<u>8,420</u>	<u>6,863</u>	<u>3,559</u>
<b>Net book value of Transaction Costs . . . . .</b>	<u>2,814</u>	<u>4,809</u>	<u>4,648</u>
<b>Net book value of proceeds from bank loans . . . . .</b>	<u>369,503</u>	<u>538,995</u>	<u>284,557</u>
<b>Less current portion of bank loans . . . . .</b>	<u>(201,162)</u>	<u>(405,381)</u>	<u>(221,884)</u>
<b>Net book value of bank loans net of current portion . . . . .</b>	<u><u>168,341</u></u>	<u><u>133,614</u></u>	<u><u>62,673</u></u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**14 INTEREST BEARING LONG TERM BANK LOANS (continued)**

Used and unused portions of these facilities are analysed as follows:

	<u>December 2005</u>	<u>December 2004</u>	<u>December 2003</u>
<b>Available facilities</b>			
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries . . . . .	651,059	609,700	500,000
Loans secured by first mortgage . . . . .	1,450	1,756	35,994
Finance leases . . . . .	18,549	26,120	34,711
	<u><b>671,058</b></u>	<u><b>637,576</b></u>	<u><b>570,705</b></u>
<b>Amounts drawn</b>			
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries . . . . .	352,318	515,928	218,500
Loans secured by first mortgage . . . . .	1,450	1,756	35,994
Finance leases . . . . .	18,549	26,120	34,711
	<u><b>372,317</b></u>	<u><b>543,804</b></u>	<u><b>289,205</b></u>
<b>Unutilised loan facilities</b>			
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries . . . . .	298,741	93,772	281,500
Loans secured by first mortgage . . . . .	—	—	—
Finance leases . . . . .	—	—	—
	<u><b>298,741</b></u>	<u><b>93,772</b></u>	<u><b>281,500</b></u>
<b>Value of pledged assets</b>			
Real estate—Loans . . . . .	678,505	1,061,428	560,315
Real estate—Finance leases . . . . .	70,320	109,446	117,507
	<u><b>748,825</b></u>	<u><b>1,170,874</b></u>	<u><b>677,822</b></u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**14 INTEREST BEARING LONG TERM BANK LOANS (continued)**

The future minimum payments under existing finance lease arrangements, for the acquisition of certain real estate properties, are as follows:

	December 2005	December 2004	December 2003
Within one year . . . . .	2,717	3,656	4,021
Between one and two years . . . . .	2,861	3,827	4,097
Between two and three years . . . . .	3,013	4,008	4,267
Between three and four years . . . . .	2,912	3,939	4,464
Between four and five years . . . . .	2,735	3,490	4,476
After five years . . . . .	4,311	7,200	13,386
<b>Total . . . . .</b>	<b>18,549</b>	<b>26,120</b>	<b>34,711</b>
Number of loans . . . . .	4	8	8
Weighted average effective interest rate . . . . .	4.14%	3.90%	3.93%

**Summary of facilities**

**Lender: Hypo Real Estate Bank International AG**

Principal Borrower: . . . . .	ProLogis Central European Finance S.L.
First drawdown . . . . .	February 2004
Repayment date . . . . .	March, 2010
Pricing 3 month Euribor . . . . .	+ 137 bps
Interest payment . . . . .	Quarterly
Effective interest rate . . . . .	3.61%

**Lender: Banc of America Securities Limited and ABN AMRO Bank N.V.**

**Revolving credit facility with a maximum capacity of €500 million**

Principal Borrowers: . . . . .	ProLogis European Properties VI S.à r.l. ProLogis European Properties VII S.à r.l. ProLogis European Properties IX S.à r.l.
First drawdown . . . . .	Dec-03
Final date . . . . .	December, 2007
Pricing 3 month Euribor . . . . .	+ 35 to 47.5 bps

**15 TAXATION**

The Fund is an unincorporated contractual co-ownership scheme governed by the law on Undertakings for Collective Investments of 20 December 2002.

According to legislation currently in force, the Fund is not subject to corporate income or capital gains taxes in Luxembourg. It is, however, liable to an annual subscription tax. This tax is 0.01% per annum on the net assets attributable to Class A(2), Class A(3), Class B1, Class B2, Class C(1) and Class C(2) Units. The equivalent rate on the net assets attributable to Class A(1) Units is 0.05%. The tax, payable quarterly, is assessed on the last day of each quarter.

Real estate revenues, or capital gains derived from real estate, may be subject to taxes by assessment, withholding or otherwise in the countries where the real estate is situated.

The Fund's subsidiaries depreciate their historical property cost in accordance with applicable tax regulations. Depreciation is deducted from taxable profits in determining current taxable income.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**15 TAXATION (continued)**

Deferred tax liabilities are calculated according to the full liability method, and mainly arise on timing differences generated by fair value adjustments occurring post acquisition in the case where an acquisition does not qualify as a business combination. In the case of acquisitions which are classified as business combinations deferred tax is recognised on the timing differences between the carrying value of real estate investments in these financial statements and the respective tax basis at the date of acquisition, and is subsequently remeasured in each period. Finally there is a deferred tax effect due to tax losses carried forward and other timing differences.

	December 2005	December 2004	December 2003
<b>Deferred tax liability</b>			
<b>Opening balance</b> . . . . .	<b>42,219</b>	<b>20,026</b>	<b>17,758</b>
Effect of revaluations of properties to fair value post acquisition . .	39,276	22,193	2,268
Deferred tax liabilities acquired as part of business combinations .	3,240	—	—
<b>Movements on deferred tax liability</b> . . . . .	<b>42,516</b>	<b>22,193</b>	<b>2,268</b>
<b>Closing balance</b> . . . . .	<b>84,735</b>	<b>42,219</b>	<b>20,026</b>
<b>Made up of:</b>			
Deferred tax liabilities acquired as part of business combinations related to the difference in the tax base on carrying value of investment properties acquired . . . . .	3,240	—	—
Revaluation of investment properties to fair value . . . . .	81,495	42,219	20,026
<b>Total deferred tax liabilities</b> . . . . .	<b>84,735</b>	<b>42,219</b>	<b>20,026</b>
<b>Long term tax asset (mainly relating to losses carried forward)</b>			
<b>Opening balances</b> . . . . .	<b>3,509</b>	<b>3,368</b>	<b>—</b>
Deferred tax assets acquired as part of business combinations related to the difference in the tax base on carrying value of investment properties acquired . . . . .	466	—	—
Relating to tax losses carried forward . . . . .	2,017	141	3,368
<b>Total deferred tax assets</b> . . . . .	<b>5,992</b>	<b>3,509</b>	<b>3,368</b>
<b>Income and other current taxes payable</b>			
Balance brought forward . . . . .	13,883	6,567	3,224
Tax expense . . . . .	16,567	14,240	6,860
Tax paid . . . . .	(13,993)	(6,924)	(3,517)
<b>Closing balance</b> . . . . .	<b>16,457</b>	<b>13,883</b>	<b>6,567</b>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**15 TAXATION (continued)**

	<u>December 2005</u>	<u>December 2004</u>	<u>December 2003</u>
<b>Tax expense</b>			
Income taxes . . . . .	15,647	12,975	5,755
Other taxes . . . . .	748	1,089	946
Subscription taxes . . . . .	172	176	159
Income taxes expensed . . . . .	<u>16,567</u>	<u>14,240</u>	<u>6,860</u>
<b>Deferred tax expense</b>			
Arising from liabilities . . . . .	39,277	22,193	2,268
Arising from assets . . . . .	<u>(2,017)</u>	<u>(141)</u>	<u>(3,369)</u>
<b>Net transfers from deferred tax liability . . . . .</b>	<b><u>37,260</u></b>	<b><u>22,052</u></b>	<b><u>(1,101)</u></b>
<b>Charge for taxation reported in the consolidated income statement . . . . .</b>	<b><u>53,827</u></b>	<b><u>36,292</u></b>	<b><u>5,759</u></b>
<b>Effective tax rate . . . . .</b>	<b><u>18.58%</u></b>	<b><u>16.85%</u></b>	<b><u>5.19%</u></b>
<b>Made up of:</b>			
Effective tax rate of the operating activities of subsidiaries . . . . .	10.27%	11.74%	4.76%
Effective deferred tax on valuation movements . . . . .	<u>8.31%</u>	<u>5.11%</u>	<u>0.43%</u>
	<b><u>18.58%</u></b>	<b><u>16.85%</u></b>	<b><u>5.19%</u></b>
Weighted average tax rate . . . . .	28.41%	30.46%	31.99%
Effect of temporary differences . . . . .	<u>(9.83%)</u>	<u>(13.61%)</u>	<u>(26.80%)</u>
Effective tax rate . . . . .	<b><u>18.58%</u></b>	<b><u>16.85%</u></b>	<b><u>5.19%</u></b>

**16 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	<u>December 2005</u>	<u>December 2004</u>	<u>December 2003</u>
Accrued construction costs . . . . .	10,124	16,320	8,276
Security deposits . . . . .	11,870	11,064	11,216
Legal fee accruals . . . . .	537	1,180	1,322
Interest payable . . . . .	5,343	8,629	11,075
Other accrued expenses . . . . .	9,998	8,961	10,461
VAT payable . . . . .	12,883	11,213	6,352
Distributions payable . . . . .	<u>35,329</u>	<u>31,797</u>	<u>32,924</u>
<b>Total . . . . .</b>	<b><u>86,084</u></b>	<b><u>89,164</u></b>	<b><u>81,626</u></b>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**17 RENTAL LEASES**

The Fund leases real estate under operating leases. The terms of the leases are in line with normal practices in each market. Leases are reviewed or subject to automatic inflationary adjustments as appropriate. Operating expenses, where applicable, are recharged to customers either by way of direct charge or monthly service charges.

Lease payments receivable from non-cancellable leases is shown below. For the purposes of this schedule it is conservatively assumed that a lease expires on the date of the first break option.

**Year of expiry or first break option**

	<u>Amount receivable</u>	<u>%</u>
Within 1 year . . . . .	266,976	17.2%
between 2 and 5 years . . . . .	789,401	51.0%
5 years and more . . . . .	492,952	31.8%
	<u><b>1,549,329</b></u>	<u><b>100%</b></u>

**18 OTHER PROPERTY RENTAL EXPENSES**

Property operating result comprises operating expenses net of amounts recoverable from customers and is analysed as follows:

	<u>2005 12 months</u>	<u>2004 12 months</u>	<u>2003 12 months</u>
Maintenance & utilities . . . . .	2,471	196	(1,544)
Insurance costs . . . . .	2,126	3,443	3,649
Property management fees (Note 19b) . . . . .	2,254	2,222	3,029
<b>Total . . . . .</b>	<u><b>6,851</b></u>	<u><b>5,861</b></u>	<u><b>5,134</b></u>

The Management Company is obliged to provide management services to the Fund. The Management Company has subcontracted a number of related investment managers to carry out property management functions for the Fund (Note 19b). As a result, the Fund does not have any employees, except for three employees in a partially owned indirect subsidiary incorporated in Hungary.

**19 TRANSACTIONS WITH RELATED PARTIES**

**19a Management fees**

The Management Company is entitled to a base management fee equivalent to a percentage of the value of the Fund's investment (direct or indirect) in real estate. Currently, the rate is 60 basis points per annum on the first €2 billion of the value of real estate. Between €2 billion and €3.5 billion the rate is 30 basis points and 20 basis points is charged on the excess beyond this range.

**19b Property management fees**

The Management Company has entered into investment management agreements with ProLogis Management BV, Garonor Services SAS, ProLogis Poland Management II Spzoo, ProLogis Germany Management II GmbH, ProLogis Italy Management II S.r.l., ProLogis Spain Management II SL, ProLogis Czech Management II Sro and ProLogis Hungary Management II Kft respectively incorporated under the laws of The Netherlands, France, Poland, Germany, Italy, Spain, the Czech Republic and Hungary (the "**Investment Managers**"). Under the terms of these agreements, the



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**19 TRANSACTIONS WITH RELATED PARTIES (continued)**

Investment Managers carry out property management functions on behalf of the Fund. Fees paid to local non related investment managers are deducted from the base management fee received by the Management Company.

**19c The Stabilised Property Contribution Agreement**

In accordance with the provisions of the SPCA, ProLogis is obliged to offer for sale and the Management Company, on behalf of the Fund, is obliged to accept all distribution facilities that meet certain investment and operating criteria. The shares of the company owning eligible properties, or in certain cases the properties themselves, are contributed based on the fair value of their respective underlying assets and liabilities adjusted to reflect 95% of the Gross value of the distribution facility owned. A minimum of 3% of this discounted gross appraised value is paid to ProLogis in the form of additional Class B2 Units. The remainder of the net book value is paid in cash. Net unrealised gains of the fund include the recognition of the discounts. The SPCA will be terminated with effect from the Settlement Date.

**19d Class B2 Subscription Agreement**

Under the agreement dated 29 June 2001 between ProLogis and the Management Company additional series of Class B2 Units may be issued to ProLogis for a maximum amount of €150 million, by the Management Company at any time on or before 15 September 2009. The Management Company does not intend to make any further calls under the agreement.

**19e Leasehold agreements**

The Fund has leased real estate to some of the Investment Managers on an arm's length basis. Rent charged for the year amounted to €1.4 million (2004: €1.8 million, 2003: €2.0 million).

**19f Development fee**

ProLogis has entered into a number of contracts with indirect subsidiaries of the Fund to manage, on behalf of those subsidiaries, significant redevelopment or extension projects. In return ProLogis receives a development fee of 7% of the cost of the project. These fees are included within the cost basis of real estate investments.

**19g Insurance**

The Management Company has, on behalf of the Fund, entered into an insurance contract with a related party under which the first US\$1 million of any claim is settled by that related party. The remainder of any claim is met by a syndicate of insurers who are not related parties.

**20 FINANCE INCOME**

	<u>2005</u> <u>12 months</u>	<u>2004</u> <u>12 months</u>	<u>2003</u> <u>12 months</u>
Interest income . . . . .	1,663	1,516	1,373
<b>Total finance income . . . . .</b>	<b><u>1,663</u></b>	<b><u>1,516</u></b>	<b><u>1,373</u></b>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**21 FINANCE EXPENSES**

	<u>2005</u> <u>12 months</u>	<u>2004</u> <u>12 months</u>	<u>2003</u> <u>12 months</u>
Interest payable brought forward . . . . .	(8,629)	(11,075)	(10,182)
Interest payable carried forward . . . . .	5,343	8,629	11,075
Interest paid . . . . .	76,302	64,717	54,675
Interest expense . . . . .	73,016	62,271	55,568
Amortisation of initial borrowing costs . . . . .	17,283	9,487	7,374
<b>Total interest and amortisation expense . . . . .</b>	<u>90,299</u>	<u>71,758</u>	<u>62,942</u>
Unrealised change in value of fair value hedges . . . . .	4,720	9,024	(30,750)
Other net unrealised foreign currency (gains)/losses on monetary assets and liabilities . . . . .	(3,696)	(5,954)	68,754
Cumulative realised (gains)/losses . . . . .	(660)	(754)	8,133
<b>Net foreign currency losses on monetary assets and liabilities . . .</b>	<u>364</u>	<u>2,316</u>	<u>46,137</u>
<b>Total finance expenses . . . . .</b>	<u>90,663</u>	<u>74,074</u>	<u>109,079</u>

**22 NET CASH FLOW FROM OPERATING ACTIVITIES**

	<u>2005</u> <u>12 months</u>	<u>2004</u> <u>12 months</u>	<u>2003</u> <u>12 months</u>
<b>Profit from operating activities before tax, extraordinary item and minority interest . . . . .</b>	289,728	215,327	110,891
<i>Adjustments for non cash items</i>			
Reversal of rent levelling adjustment . . . . .	2,116	2,783	2,619
Reversal of goodwill impairment . . . . .	1,736	—	—
Amortisation of transaction costs relating to debt . . . . .	17,283	9,487	7,374
Unrealised change in value of fair value hedges . . . . .	4,720	9,024	(30,750)
Other Net Unrealised foreign currency losses . . . . .	(3,696)	(5,954)	68,754
Net Unrealised gain on the investment in real estate . . . . .	(150,902)	(95,081)	(29,135)
Realised (gain)/loss on sale of investments . . . . .	(686)	(2,741)	(10,820)
<i>(Increase)/decrease in operating assets</i>			
(Increase)/decrease in amounts due from related parties . . . . .	—	5,644	(5,644)
Decrease/(increase) in accounts receivable . . . . .	657	(5,459)	4,059
Decrease/(increase) in other assets . . . . .	(3,198)	(12,692)	664
Decrease/(increase) in accounts payable . . . . .	(2,962)	(4,435)	6,111
(Decrease)/increase in amounts due to related parties . . . . .	7,404	—	(776)
Payment of income tax . . . . .	(13,993)	(6,924)	(3,342)
(Decrease)/increase in accrued expenses and other current liabilities . . . . .	(6,612)	10,068	(2,986)
(Decrease)/increase in deferred income . . . . .	6,272	3,853	(7,385)
<b>Net cash generated by operating activities . . . . .</b>	<u>147,867</u>	<u>122,900</u>	<u>109,634</u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**23 CONTINGENCIES AND COMMITMENTS**

**Contingencies:**

The Fund, through its direct and indirect subsidiaries, is contingently liable with respect to lawsuits and other matters that arise in the normal course of business. The Management Company is of the opinion that while it is impossible to accurately ascertain the ultimate legal and financial liability with respect to these contingencies, the ultimate outcome of these contingencies is not anticipated to have a material effect on the Fund's financial position and operations.

On 11 December 2005 a major explosion occurred at an oil storage depot situated in the locality of the two of the Fund's properties at Hemel Hempstead in the UK. As a result of this accident, the buildings sustained damage to both the structure and shell. Although the buildings remain operational, civil engineering consultants have been retained to assess the nature and extent of the damage and to recommend how best to effect repairs. This work has not yet been completed and a final estimate of cost has not yet been prepared. Both buildings are fully insured for losses to both the property and rental income arising from this accident.

**Commitments:**

Commitments under finance leases are disclosed under Note 14, Long term Bank loans

Commitments for capital improvements and construction contracts total €1.5 million.

**24 NON-CASH INVESTING AND FINANCING ACTIVITIES**

Under the SPCA the Fund issued Class B2 Units totalling €30.0 million (2004: €49.3 million, 2003: €20.3 million) as part of the consideration for real estate assets contributed by ProLogis.

**25 FINANCIAL INSTRUMENTS**

**Interest rate and Fair Value**

The following table sets out the carrying amount before deduction of unamortised transaction costs and fair value, by maturity, of the Fund's financial instruments that are exposed to interest rate risk.

Instruments at floating rate, i.e. which have an interest rate fixed at regular intervals of three months or less, have a fair value equivalent to the carrying value. Instruments which are at fixed rate have a fair value calculated as the present value of payments to be made under the loan agreement.

**Year end 31 December 2005**

<u>Fixed rate</u>	<u>&lt;1 year</u>	<u>1-5 years</u>	<u>&gt;5 years</u>	<u>Total</u>
Obligations under finance leases				
Carrying value . . . . .	(2,717)	(11,521)	(4,311)	(18,549)
Fair value . . . . .	(2,811)	(11,920)	(4,460)	(19,191)
<u>Floating rate</u>	<u>&lt;1 year</u>	<u>1-5 years</u>	<u>&gt;5 years</u>	<u>Total</u>
Cash and cash equivalent . . . . .	96,785	—	—	96,785
Secured bank loans . . . . .	(201,259)	(151,059)	—	(352,318)
Mortgages . . . . .	—	(1,450)	—	(1,450)
Loan notes . . . . .	—	(213,750)	(1,079,500)	(1,293,250)
Interest rate swap . . . . .	—	213,750	1,079,500	1,293,250

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**25 FINANCIAL INSTRUMENTS (continued)**

**Year ended 31 December 2004**

<u>Fixed rate</u>	<u>&lt;1 year</u>	<u>1-5 years</u>	<u>&gt;5 years</u>	<u>Total</u>
Obligations under finance leases				
Carrying value . . . . .	(3,656)	(15,264)	(7,200)	(26,120)
Fair value . . . . .	(3,789)	(15,820)	(7,462)	(27,071)
<u>Floating rate</u>	<u>&lt;1 year</u>	<u>1-5 years</u>	<u>&gt;5 years</u>	<u>Total</u>
Cash and cash equivalent . . . . .	68,762	—	—	68,762
Mortgages . . . . .	(284)	(1,472)	—	(1,756)
Secured bank loans . . . . .	(406,250)	(109,678)	—	(515,928)
Loan notes . . . . .	—	—	(904,250)	(904,250)
Interest rate swap . . . . .	—	—	904,250	904,250

**Year end 31 December 2003**

<u>Fixed rate</u>	<u>&lt;1 year</u>	<u>1-5 years</u>	<u>&gt;5 years</u>	<u>Total</u>
Carrying value . . . . .	(4,021)	(17,304)	(13,386)	(34,711)
Fair value . . . . .	(4,020)	(17,301)	(13,384)	(34,705)
<u>Floating rate</u>	<u>&lt;1 year</u>	<u>1-5 years</u>	<u>&gt;5 years</u>	<u>Total</u>
Cash and cash equivalent . . . . .	66,956	—	—	66,956
Mortgages . . . . .	(4,011)	(10,493)	(21,490)	(35,994)
Secured bank loans . . . . .	(218,500)	—	—	(218,500)
Loan notes . . . . .	—	—	(904,250)	(904,250)
Interest rate swap . . . . .	—	—	904,250	904,250

Interest on floating rate financial instruments is reset at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Fund not included in the above tables are non-interest bearing, but given their short term nature are not subject to interest rate risk.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**25 FINANCIAL INSTRUMENTS (continued)**

**Swap Agreements**

<b>Issuer:</b>	<b>Pan-European Industrial Properties Series I S.A.</b>	
Starting date . . . . .		May 2001
Maturity date . . . . .		April 2011
Interest payment . . . . .		Quarterly
<b>Swap counter-party:</b>	<b>ABN AMRO</b>	
Cash flows hedged . . . . .		€95,500
Pays floating interest . . . . .	3-month Euribor + 0.35%	
Receives fixed interest . . . . .		5.410%
<b>Swap counter-party:</b>	<b>JPMorgan Chase</b>	
Fair value hedge (£'000) . . . . .		£73,610
Pays floating interest . . . . .	3-month Euribor + 0.35%	
Receives fixed interest . . . . .		6.033%
Exchange rate . . . . .		0.6225

The total amount of interest paid and interest received is €17.3 million for 2005 (2004: €17.2 million, 2003: €17.8 million).

<b>Issuer:</b>	<b>Pan-European Industrial Properties Series II S.A.</b>			
Starting date . . . . .				May 2002
Maturity date . . . . .				July 2012
Interest payment . . . . .				Quarterly
<b>Swap counter-party:</b>	<b>ABN AMRO</b>	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>
Cash flows hedged . . . . .		€84,534	€9,105	€11,769
Pays floating interest . . . . .	3-month Euribor	—	—	—
Receives fixed interest . . . . .		5.450%	5.610%	6.030%
Fair value hedge (£'000) . . . . .		£35,773	£3,853	—
Pays floating interest . . . . .	3-month Euribor +	0.32%	0.48%	—
Receives fixed interest . . . . .		5.915%	6.110%	—
Exchange rate . . . . .		0.6145	0.6145	0.6145
<b>Swap counter-party:</b>	<b>JPMorgan Chase</b>	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>
Cash flows hedged . . . . .		€84,535	€9,105	€11,770
Pays floating interest . . . . .	3-month Euribor	—	—	—
Receives fixed interest . . . . .		5.450%	5.610%	6.030%
Fair value hedge (£'000) . . . . .		£35,773	£3,853	£9,961
Pays floating interest . . . . .	3-month Euribor +	0.32%	0.48%	0.90%
Receives fixed interest . . . . .		5.915%	6.110%	6.540%
Exchange rate . . . . .		0.6145	0.6145	0.6145

The total amount of interest paid and interest received is €28.9 million for 2005 (2004: €28.0 million, 2003: €29.0 million).

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**25 FINANCIAL INSTRUMENTS (continued)**

<u>Issuer:</u>		<u>Pan-European Industrial Properties Series III S.A.</u>			
Starting date . . . . .				February 2003	
Maturity date . . . . .				May 2013	
Interest payment . . . . .				Quarterly	
<u>Swap counter-party:</u>	<u>ABN AMRO</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	
Cash flows hedged . . . . .		€42,830	€4,901	€6,392	
Pays floating interest . . . . .	3-month Euribor	—	—	—	
Receives fixed interest . . . . .		4.228%	4.358%	4.728%	
Fair value hedge (£'000) . . . . .		£20,559	£2,352	£3,068	
Pays floating interest . . . . .	3-month Euribor +	0.35%	0.48%	0.85%	
Receives fixed interest . . . . .		4.950%	5.075%	5.445%	
Exchange rate . . . . .		0.6317	0.6317	0.6317	
<u>Swap counter-party:</u>	<u>JPMorgan Chase</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	
Cash flows hedged . . . . .		€42,830	€4,901	€6,393	
Pays floating interest . . . . .	3-month Euribor	—	—	—	
Receives fixed interest . . . . .		4.228%	4.358%	4.728%	
Fair value hedge (£'000) . . . . .		£20,559	£2,353	£3,068	
Pays floating interest . . . . .	3-month Euribor +	0.35%	0.48%	0.85%	
Receives fixed interest . . . . .		4.950%	5.075%	5.445%	
Exchange rate . . . . .		0.6317	0.6317	0.6317	

The total amount of interest paid and interest received is €13.6 million for 2005 (2004: €13.0 million, 2003: €11.2 million).



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**25 FINANCIAL INSTRUMENTS (continued)**

<u>Issuer:</u>		<b>Pan-European Industrial Properties Series IV S.A. (Compartment 1)</b>		
Starting date . . . . .			March 2005	
Maturity date . . . . .			May 2013	
Interest payment . . . . .			Quarterly	
<u>Swap counter-party:</u>	<u>ABN AMRO</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Cash flows hedged . . . . .		€141,653	€13,451	€8,407
Pays floating interest . . . . .	3-month Euribor	—	—	—
Receives fixed interest		3.285%	3.325%	3.445%
Fair value hedge (£'000) . . . . .		£18,557	£1,762	£1,101
Pays floating interest . . . . .	3-month Euribor +	0.14%	0.18%	0.30%
Receives fixed interest . . . . .		5.093%	5.133%	5.263%
Exchange rate . . . . .		0.6912	0.6912	0.6912
<u>Swap counter-party:</u>	<u>Bank of America</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Cash flows hedged . . . . .		€141,653	€13,451	€8,407
Pays floating interest . . . . .	3-month Euribor	—	—	—
Receives fixed interest		3.285%	3.325%	3.445%
Fair value hedge (£'000) . . . . .		£18,557	£1,762	£1,101
Pays floating interest . . . . .	3-month Euribor +	0.14%	0.18%	0.30%
Receives fixed interest . . . . .		5.093%	5.133%	5.263%
Exchange rate . . . . .		0.6912	0.6912	0.6912

The total amount of interest paid and interest received is € 15.1 million for 2005.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**25 FINANCIAL INSTRUMENTS (continued)**

<u>Issuer:</u>	<u>France Industrial Properties No.1 S.A.</u>		
Starting date . . . . .			April 2002
Maturity date . . . . .			April 2012
Interest payment . . . . .			Quarterly
<u>Swap counter-party:</u>	<u>Société Générale</u>	<u>Class A</u>	<u>Class B</u>
Cash flows hedged . . . . .		€115,000	€29,000
Pays floating interest . . . . .	3-month Euribor +	0.38%	0.90%
Receives fixed interest . . . . .	5.205% +	0.38%	0.90%

The total amount of interest paid and interest received is €12.1 million for 2005 (2004: €12.1 million, 2003: €12.6 million).

**Fair value of hedging instruments**

	<u>December 2005</u>	<u>December 2004</u>	<u>December 2003</u>
Balance at the beginning of the period . . . . .	(12,132)	4,887	(3,028)
Movement in fair value of existing hedges . . . . .	227	(17,019)	11,730
Fair value of hedges acquired during the year . . . . .	405	—	(3,815)
<b>Net variation during the period . . . . .</b>	<b>632</b>	<b>(17,019)</b>	<b>7,915</b>
<b>Balance at the end of the period . . . . .</b>	<b>(11,500)</b>	<b>(12,132)</b>	<b>4,887</b>
Positive hedge values . . . . .	27,148	35,795	44,792
Negative hedge values . . . . .	(38,648)	(47,927)	(39,905)
	<u>(11,500)</u>	<u>(12,132)</u>	<u>4,887</u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES**

**Companies under the control of the Fund:**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis European Holdings S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings II S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings V S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings VI S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings VII S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings VIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings IX S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance II S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance III S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance V S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance VI S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance VII S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance VIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance IX S.à r.l. . . . .	Luxembourg	100.0
ProLogis Belgium S.à r.l. . . . .	Luxembourg	100.0
ProLogis Belgium II S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic II S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic III S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic VII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France S.à r.l. . . . .	Luxembourg	100.0
ProLogis France I S.à r.l. . . . .	Luxembourg	100.0
ProLogis France II S.à r.l. . . . .	Luxembourg	100.0
ProLogis France III S.à r.l. . . . .	Luxembourg	100.0
ProLogis France IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis France V S.à r.l. . . . .	Luxembourg	100.0
ProLogis France VI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France VII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France IX S.à r.l. . . . .	Luxembourg	100.0
ProLogis France X S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XV S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XVI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XVIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XIX S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XX S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXIV S.à r.l. . . . .	Luxembourg	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis France XXV S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXVI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXVIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXIX S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXX S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXXI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXXIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXXV S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXXVI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXXVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXXVIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXXIX S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XL S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XLI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XLIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XLV S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XLVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France LVII S.à r.l. . . . .	Luxembourg	100.0
PLD Germany V S.à.r.l. . . . .	Luxembourg	100.0
PLD Germany VII S.à.r.l. . . . .	Luxembourg	100.0
ProLogis Germany S.à r.l. . . . .	Luxembourg	100.0
ProLogis Germany III S.à r.l. . . . .	Luxembourg	100.0
ProLogis Germany IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Germany XIX S.à r.l. . . . .	Luxembourg	100.0
ProLogis Germany XV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Germany XVII S.à.r.l. . . . .	Luxembourg	100.0
ProLogis Italy III S.à r.l. . . . .	Luxembourg	100.0
ProLogis Italy V S.à r.l. . . . .	Luxembourg	100.0
ProLogis Italy IX S.à r.l. . . . .	Luxembourg	100.0
ProLogis Italy XXV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands I S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands II S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands IIa S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands III S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands V S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands VI S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands VII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands VIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands IX S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands X S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XI S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XIV S.à r.l. . . . .	Luxembourg	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis Netherlands XV S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands XVI S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands XVII S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands XVIII S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands XIX S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands XX S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands XXI S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands XXII S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands XXXI S.à r.l. ....	Luxembourg	100.0
ProLogis Poland S.à r.l. ....	Luxembourg	100.0
ProLogis Poland II S.à r.l. ....	Luxembourg	100.0
ProLogis Poland III S.à r.l. ....	Luxembourg	100.0
ProLogis Poland IV S.à r.l. ....	Luxembourg	100.0
ProLogis Poland V S.à r.l. ....	Luxembourg	100.0
ProLogis Poland VI S.à r.l. ....	Luxembourg	100.0
ProLogis Poland VIII S.à r.l. ....	Luxembourg	100.0
ProLogis Poland X S.à r.l. ....	Luxembourg	100.0
ProLogis Poland XI S.à r.l. ....	Luxembourg	100.0
ProLogis Poland XVI S.à r.l. ....	Luxembourg	100.0
ProLogis Poland XIII S.à r.l. ....	Luxembourg	100.0
ProLogis Poland XIV S.à r.l. ....	Luxembourg	100.0
ProLogis Poland XV S.à r.l. ....	Luxembourg	100.0
ProLogis Poland XVII S.à r.l. ....	Luxembourg	100.0
ProLogis Poland XX S.à r.l. ....	Luxembourg	100.0
ProLogis Realty I S.à r.l. ....	Luxembourg	100.0
ProLogis S.à r.l. ....	Luxembourg	100.0
ProLogis Spain S.à r.l. ....	Luxembourg	100.0
ProLogis Spain III S.à r.l. ....	Luxembourg	100.0
ProLogis Spain VI S.à r.l. ....	Luxembourg	100.0
ProLogis Spain VII S.à r.l. ....	Luxembourg	100.0
ProLogis Spain VIII S.à r.l. ....	Luxembourg	100.0
ProLogis Spain IX S.à r.l. ....	Luxembourg	100.0
ProLogis Spain X S.à r.l. ....	Luxembourg	100.0
ProLogis Spain XI S.à r.l. ....	Luxembourg	100.0
ProLogis Spain XII S.à r.l. ....	Luxembourg	100.0
ProLogis UK II S.à r.l. ....	Luxembourg	100.0
ProLogis UK III S.à r.l. ....	Luxembourg	100.0
ProLogis UK IV S.à r.l. ....	Luxembourg	100.0
ProLogis UK IX S.à r.l. ....	Luxembourg	100.0
ProLogis UK X S.à r.l. ....	Luxembourg	100.0
ProLogis UK XI S.à r.l. ....	Luxembourg	100.0
ProLogis UK XIV S.à r.l. ....	Luxembourg	100.0
ProLogis UK XV S.à r.l. ....	Luxembourg	100.0
ProLogis UK XVI S.à r.l. ....	Luxembourg	100.0
ProLogis UK XVII S.à r.l. ....	Luxembourg	100.0
ProLogis UK XVIII S.à r.l. ....	Luxembourg	100.0
ProLogis UK XXII S.à r.l. ....	Luxembourg	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis UK XXIV S.à r.l. ....	Luxembourg	100.0
ProLogis UK XXVI S.à r.l. ....	Luxembourg	100.0
ProLogis UK XXVIII S.à r.l. ....	Luxembourg	100.0
ProLogis UK XXXIV S.à r.l. ....	Luxembourg	100.0
ProLogis UK XXXV S.à r.l. ....	Luxembourg	100.0
ProLogis UK XL S.à r.l. ....	Luxembourg	100.0
ProLogis UK XLI S.à r.l. ....	Luxembourg	100.0
ProLogis UK XLIV S.à r.l. ....	Luxembourg	100.0
ProLogis UK XLV S.à r.l. ....	Luxembourg	100.0
ProLogis UK XLVI S.à r.l. ....	Luxembourg	100.0
ProLogis UK XLVII S.à r.l. ....	Luxembourg	100.0
ProLogis UK XLIX S.à r.l. ....	Luxembourg	100.0
ProLogis UK LV S.à r.l. ....	Luxembourg	100.0
ProLogis UK LVII S.à r.l. ....	Luxembourg	100.0
ProLogis UK LXI S.à r.l. ....	Luxembourg	100.0
ProLogis UK LXIV S.à r.l. ....	Luxembourg	100.0
ProLogis UK LXXI S.à r.l. ....	Luxembourg	100.0
ProLogis UK LXXIV S.à r.l. ....	Luxembourg	100.0
ProLogis UK LXXIX S.à r.l. ....	Luxembourg	100.0
ProLogis UK LXXX S.à r.l. ....	Luxembourg	100.0
ProLogis UK LXXXI S.à r.l. ....	Luxembourg	100.0
ProLogis UK LXXXII S.à r.l. ....	Luxembourg	100.0
ProLogis UK XC S.à r.l. ....	Luxembourg	100.0
1&2 Buncefield Lane (No.1) Limited ....	United Kingdom	100.0
1&2 Buncefield Lane (No. 2) Limited ....	United Kingdom	100.0
Beddington Lane Unit C (No.1) Limited ....	United Kingdom	100.0
Beddington Lane Unit C (No.2) Limited ....	United Kingdom	100.0
Interlink Park Management Company ....	United Kingdom	100.0
ProLogis Apex Park DC 3 (No.1) Limited ....	United Kingdom	100.0
ProLogis Apex Park DC 3 (No.2) Limited ....	United Kingdom	100.0
ProLogis (Basingstoke Unit D) Limited ....	United Kingdom	100.0
ProLogis Corby Limited ....	United Kingdom	100.0
ProLogis Grange Park Plot 6 Zone A (No.1) Limited ....	United Kingdom	100.0
ProLogis Grange Park Plot 6 Zone A (No.2) Limited ....	United Kingdom	100.0
ProLogis Grange Park Plot 6 Zone A (No.3) Limited ....	United Kingdom	100.0
ProLogis Grange Park Zone A Unit 4 (1) Limited ....	United Kingdom	100.0
ProLogis Grange Park Zone A Unit 4 (2) Limited ....	United Kingdom	100.0
ProLogis Keresley Limited ....	United Kingdom	100.0
ProLogis Marston Gate Plot 1 (No.1) Limited ....	United Kingdom	100.0
ProLogis Marston Gate Plot 1 (No.2) Limited ....	United Kingdom	100.0
ProLogis Marston Gate Plot 3 (No.1) Limited ....	United Kingdom	100.0
ProLogis Marston Gate Plot 3 (No.2) Limited ....	United Kingdom	100.0
ProLogis (Plot 1200 Central Park Rugby No.1) Limited ....	United Kingdom	100.0
ProLogis (Plot 1200 Central Park Rugby No.2) Limited ....	United Kingdom	100.0
ProLogis Wakefield Limited ....	United Kingdom	100.0
Angeloir S.à r.l. ....	France	100.0
Artoilog S.à r.l. ....	France	100.0



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
Bre Francilienne 2 S.à r.l. . . . .	France	100.0
Bre Francilienne Compans S.à r.l. . . . .	France	100.0
Bre Francilienne S.à r.l. . . . .	France	100.0
Bre Orbium S.à r.l. . . . .	France	100.0
Chesnes Nord . . . . .	France	100.0
Garonor SAS . . . . .	France	100.0
ProLogis France I Eurl . . . . .	France	100.0
ProLogis France II Eurl . . . . .	France	100.0
ProLogis France III Eurl . . . . .	France	100.0
ProLogis France IV Eurl . . . . .	France	100.0
ProLogis France VI Eurl . . . . .	France	100.0
ProLogis France VII Eurl . . . . .	France	100.0
ProLogis France VIII Eurl . . . . .	France	100.0
ProLogis France XI Eurl . . . . .	France	100.0
ProLogis France XII Eurl . . . . .	France	100.0
ProLogis France XIII Eurl . . . . .	France	100.0
ProLogis France XIV Eurl . . . . .	France	100.0
ProLogis France XV Eurl . . . . .	France	100.0
ProLogis France XVI Eurl . . . . .	France	100.0
ProLogis France XVII Eurl . . . . .	France	100.0
ProLogis France XVIII Eurl . . . . .	France	100.0
ProLogis France XX Eurl . . . . .	France	100.0
ProLogis France XXI Eurl . . . . .	France	100.0
ProLogis France XXII Eurl . . . . .	France	100.0
ProLogis France XXIII Eurl . . . . .	France	100.0
ProLogis France XXIV Eurl . . . . .	France	100.0
ProLogis France XXV Eurl . . . . .	France	100.0
ProLogis France XXVI Eurl . . . . .	France	100.0
ProLogis France XXVII Eurl . . . . .	France	100.0
ProLogis France XXX Eurl . . . . .	France	100.0
ProLogis France XXXI Eurl . . . . .	France	100.0
ProLogis France XXXII Eurl . . . . .	France	100.0
ProLogis France XXXIII Eurl . . . . .	France	100.0
ProLogis France XXXIV Eurl . . . . .	France	100.0
ProLogis France XXXV Eurl . . . . .	France	100.0
ProLogis France XXXVI Eurl . . . . .	France	100.0
ProLogis France XXXVII Eurl . . . . .	France	100.0
ProLogis France XXXVIII Eurl . . . . .	France	100.0
ProLogis France XXXIX Eurl . . . . .	France	100.0
ProLogis France XL Eurl . . . . .	France	100.0
ProLogis France XLI Eurl . . . . .	France	100.0
ProLogis France XLIII Eurl . . . . .	France	100.0
ProLogis France XLV Eurl . . . . .	France	100.0
ProLogis France XLVII Eurl . . . . .	France	100.0
ProLogis France LVII Eurl . . . . .	France	100.0
ProLogis France I SAS . . . . .	France	100.0
ProLogis France II SAS . . . . .	France	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis France III SAS . . . . .	France	100.0
SCI Carrefour de l'Europe . . . . .	France	100.0
SCI Copernic . . . . .	France	100.0
SCI Crépy Paris Nord . . . . .	France	100.0
SCI d'Ormes . . . . .	France	100.0
SCI Ile de France . . . . .	France	100.0
SCI Le Parc . . . . .	France	100.0
SCI Plessis Pate . . . . .	France	100.0
SCI Plessis Pate 2 . . . . .	France	100.0
SNC Aulnay Extension Ouest . . . . .	France	100.0
SNC Melun 7 . . . . .	France	100.0
SCI Croisée des Autoroutes Lorraines . . . . .	France	100.0
SCI Magasins Généraux de Vitrolles . . . . .	France	100.0
Sofinvest S.à r.l . . . . .	France	100.0
ProLogis Spain I SL . . . . .	Spain	100.0
ProLogis Spain III SL . . . . .	Spain	100.0
ProLogis Spain VI SL . . . . .	Spain	100.0
ProLogis Spain VII SL . . . . .	Spain	100.0
ProLogis Spain VIII SL . . . . .	Spain	100.0
ProLogis Spain IX SL . . . . .	Spain	100.0
ProLogis Spain X SL . . . . .	Spain	100.0
ProLogis Spain XI SL . . . . .	Spain	100.0
ProLogis Spain XII SL . . . . .	Spain	100.0
ProLogis Spain XIII SL . . . . .	Spain	100.0
ProLogis Central European Finance S.L. . . . .	Spain	100.0
ProLogis Italy Ia Srl . . . . .	Italy	100.0
ProLogis Italy Ib Srl . . . . .	Italy	100.0
ProLogis Italy Ic Srl . . . . .	Italy	100.0
ProLogis Italy Id Srl . . . . .	Italy	100.0
ProLogis Italy II Srl . . . . .	Italy	100.0
ProLogis Italy VIa Srl . . . . .	Italy	100.0
ProLogis Italy VI 2 Srl . . . . .	Italy	100.0
ProLogis Italy VII Srl . . . . .	Italy	100.0
ProLogis Italy VIIb Srl . . . . .	Italy	100.0
ProLogis Italy IX Srl . . . . .	Italy	100.0
ProLogis Italy IX a Srl . . . . .	Italy	100.0
ProLogis Italy X Srl . . . . .	Italy	100.0
ProLogis Italy XXV Srl . . . . .	Italy	100.0
PLD Germany V BV . . . . .	The Netherlands	94.8
PLD Germany VII BV . . . . .	The Netherlands	94.8
ProLogis Finance BV . . . . .	The Netherlands	100.0
ProLogis Germany III BV . . . . .	The Netherlands	100.0
ProLogis Germany IV BV . . . . .	The Netherlands	100.0
ProLogis Germany XII BV . . . . .	The Netherlands	94.8
ProLogis Germany XIX BV . . . . .	The Netherlands	100.0
ProLogis Germany XV BV . . . . .	The Netherlands	94.8
ProLogis Germany XVII BV . . . . .	The Netherlands	94.4

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis Germany XXI BV . . . . .	The Netherlands	94.4
ProLogis Germany XXII BV . . . . .	The Netherlands	94.4
ProLogis Germany XXIII BV . . . . .	The Netherlands	94.4
ProLogis Germany XXV BV . . . . .	The Netherlands	94.4
ProLogis Germany XXVI BV . . . . .	The Netherlands	94.4
ProLogis Germany XXVII BV . . . . .	The Netherlands	94.4
ProLogis Germany XXVIII BV . . . . .	The Netherlands	94.4
ProLogis Germany XXXI BV . . . . .	The Netherlands	94.4
ProLogis Germany XXXVI BV . . . . .	The Netherlands	94.4
ProLogis Germany XLI BV . . . . .	The Netherlands	94.4
ProLogis Poland Finance BV . . . . .	The Netherlands	100.0
ProLogis Realty I BV . . . . .	The Netherlands	100.0
ProLogis Realty II BV . . . . .	The Netherlands	100.0
Garonor Deutschland GmbH . . . . .	Germany	100.0
Garonor Verwaltung GmbH . . . . .	Germany	100.0
Garonor Verwaltung GmbH & Köln Eifeltor KG . . . . .	Germany	100.0
ProLogis Belgium I Sprl . . . . .	Belgium	100.0
ProLogis Belgium II Sprl . . . . .	Belgium	100.0
ProLogis Sweden I AB . . . . .	Sweden	100.0
ProLogis Sweden Gothenburg AB . . . . .	Sweden	100.0
ProLogis Holding AB . . . . .	Sweden	100.0
ProLogis Sweden Norrköping AB . . . . .	Sweden	100.0
ProLogis Sweden Örebro AB . . . . .	Sweden	100.0
ProLogis Poland I Spzoo . . . . .	Poland	100.0
ProLogis Poland II Spzoo . . . . .	Poland	100.0
ProLogis Poland III Spzoo . . . . .	Poland	100.0
ProLogis Poland IV Spzoo . . . . .	Poland	100.0
ProLogis Poland V Spzoo . . . . .	Poland	100.0
ProLogis Poland VI Spzoo . . . . .	Poland	100.0
ProLogis Poland VIII Spzoo . . . . .	Poland	100.0
ProLogis Poland X Spzoo . . . . .	Poland	100.0
ProLogis Poland XI Spzoo . . . . .	Poland	100.0
ProLogis Poland XIII Spzoo . . . . .	Poland	100.0
ProLogis Poland XIV Spzoo . . . . .	Poland	100.0
ProLogis Poland XV Sp zoo . . . . .	Poland	100.0
ProLogis Poland XVI Spzoo . . . . .	Poland	100.0
ProLogis Poland XVII Spzoo . . . . .	Poland	100.0
ProLogis Poland XX Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXV Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXVI Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXVII Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXVIII Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXIX Spzoo . . . . .	Poland	100.0
ProLogis Czech Republic II Sro . . . . .	Czech Republic	100.0
ProLogis Czech Republic III Sro . . . . .	Czech Republic	100.0
ProLogis Czech Republic IV Sro . . . . .	Czech Republic	100.0
ProLogis Czech Republic VII Sro . . . . .	Czech Republic	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis Czech Republic XIV Sro . . . . .	Czech Republic	100.0
ProLogis Hungary Kft . . . . .	Hungary	100.0
Harbor Park Ingatlanmukodteto Kft . . . . .	Hungary	55.665
Harbor Park Ingatlanfejlesztő Kft . . . . .	Hungary	100.0
ProLogis Hungary TWO Epitesi es Beruhazasi Kft . . . . .	Hungary	100.0
Mobilportfolio Kft . . . . .	Hungary	100.0
Wingprojekt 2 Kft . . . . .	Hungary	100.0
ProLogis Hungary THREE Epitesi es Beruhazasi Kft . . . . .	Hungary	100.0
ProLogis Hungary TEN Kft . . . . .	Hungary	100.0
ProLogis Hungary Finance Kft . . . . .	Hungary	100.0
ProLogis Italian Finance Kft . . . . .	Hungary	100.0
ProLogis Finance Kft . . . . .	Hungary	100.0

**Other Special Purpose entities relating to financing:**

**Operated by Equity Trust Company (Luxembourg) S.A.:**

<u>Company name</u>	<u>Country of incorporation</u>
Pan-European Industrial Properties Series I S.A. . . . .	Luxembourg
Pan-European Industrial Properties Series II S.A. . . . .	Luxembourg
Pan-European Industrial Properties Series III S.A. . . . .	Luxembourg
Pan-European Industrial Properties Series IV S.A. (Compartment 1) . . . . .	Luxembourg
France Industrial Properties No. 1 S.A. . . . .	Luxembourg

**REGISTERED OFFICE:**

46A, Avenue J. F. Kennedy  
L-1855 Luxembourg

**Operated by Mercuria Services S.A.:**

<u>Company name</u>	<u>Country of incorporation</u>
Alzette Funding No. 1 S.à r.l. . . . .	Luxembourg

**REGISTERED OFFICE:**

8-10, rue Mathias Hardt  
L-1717 Luxembourg

**27 SUBSEQUENT EVENTS**

On 25 January 2006 the Fund disposed of Croydon Distribution Centre No 3 for a value of £5.8 million which is equal to the Gross valuation as at 31 December 2005.

On 30 January 2006 the Management Company made a distribution to Unitholders totalling €35.3 million of which €24.4 million was distributed to Class A Unitholders.

On 23 March 2006 the Fund acquired, under the SPCA, 9 properties with a total cost of €127.3 million. This acquisition was financed by drawing €60 million of equity from Class

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**27 SUBSEQUENT EVENTS (continued)**

A3 Unitholders on 22 March 2006, Issuing €22 million of B2 Units on 23 March 2006 and drawing a further €31.7 million under the Bank America/ABN AMRO credit line.

On 21 April 2006 the Fund acquired, under the SPCA, 10 properties with a total cost of €216.0 million. This acquisition was financed by drawing €140.7 million of equity from A3 Unitholders on 21 April 2006, Issuing €21.5 million of B2 Units on 21 April 2006 and drawing a further €75.1 million under the Bank America/ABN AMRO credit line.

On Tuesday 25 April 2006 an extraordinary general meeting of the Unitholders of the Fund voted to empower the Management Company to proceed with an Initial Public Offering of the Fund on the Amsterdam Euronext Stock Exchange in accordance with Article 4(i) of the Management Regulations, subject to the final approval of the Unitholder Advisory Committee.

On 28 April 2006 the Management Company made a distribution to Unitholders totalling €44.9 million, of which €31.9 million was distributed to Class A Unitholders.

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS  
RESTATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS AT 31 DECEMBER 2005**

Entities adopting IFRS for the first time are required to produce the following note which reconciles the results and balance sheet of the last reported period and the balance sheet at the date of adoption, between the entities previous Generally Accepted Accounting Principles and IFRS.

More specifically, the Note presents a reconciliation of the Consolidated Statement of Net Assets, Consolidated Statement of Operations, Consolidated Statement of Changes in Unitholders' Funds as previously stated under LGAAP and those same statements restated under IFRS together with an explanation of the reconciling items between LGAAP and IFRS. It also explains material adjustments to the cashflow statement for the latest period.

**28-1 DESCRIPTION OF RECONCILING ITEMS**

**i Investment in property**

Under LGAAP, in determining the Fair Value of investment property, the intended method of the property disposal, i.e. by selling the shares in the asset holding entity, is taken into account. This means that purchasers costs are not deducted in arriving at the fair value as they would, in the opinion of management, be avoided. Under IFRS, the intended of the method of disposal of investment property is not considered, and as a consequence, costs typically borne by the purchases are deducted in arriving at Fair Value.

**ii Goodwill**

Under LGAAP, where an acquisition of the property was by way of an indirect acquisition of a legal entity holding the property, this was treated as a business combination. The purchase price was fully allocated to the fair values of the assets and liabilities acquired at the date of acquisition. No goodwill arose in the acquisition accounting and no deferred tax was recognised as either an asset or a liability (see point vi below).

Under IFRS each indirect acquisition is reviewed to decide whether or not the acquisition represents a business combination under IFRS 3. In the absence of any supporting infrastructure, employees, major input and output processes, and in particular an existing management agreement, the Management company deems that the acquisition is not a business combination and no goodwill is recognised.

Goodwill is recognised on the acquisition of business combinations. Subsequent to recognition Goodwill is subject to an impairment test on an annual basis.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS  
RESTATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS AT 31 DECEMBER 2005 (continued)**

**iii Intangible assets**

Under LGAAP, the costs of raising equity and launching the Fund are capitalised and amortised over 5 years. Under IFRS the costs of raising equity are netted off the amount of capital raised directly in equity, and fund launch costs are expensed as they are incurred.

**iv Revenue recognition—rent leveling**

Under LGAAP, revenue is recognised on a contractual basis in the period to which it relates. Under IFRS, rental income should be recognised on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset diminish. Also, the aggregate cost of incentives on operating leases such as rent-free periods, upfront cash payments, relocation costs etc., are required to be recognised as a reduction of rental income over the lease term on a straight line basis. Thus non-regular rental income, whether this be annual (i.e. different rental amount for an annual period) or multi period (i.e. rental amount from the first half of the operating lease is different from the second half), should follow a straight line basis over the lease term.

**v Accounting for debt**

Under LGAAP debt is carried at amortised cost using the straight line method. Under IFRS debt is carried at amortised cost using the effective interest rate method.

**vi Deferred tax**

In accordance with the Management Regulations of the Fund, deferred taxation on timing differences, undistributed earnings and net operating losses were not provided for. Under IFRS, taxes should be accounted for using the asset liability method under which deferred income taxes are recognised for the tax consequence of “temporary differences” by applying the enacted statutory rates applicable to future years to difference between the financial statement carrying value under IFRS and the tax basis of the assets, liabilities, operating losses and tax credit carry forward. The effect on deferred taxes for a change in tax rates is recognised in income in the period that the change occurred. Management should also provide a valuation allowance against the deferred tax asset for amounts which are not considered “more likely than not” to be realised. In the case of assets not purchased under business combinations deferred tax is only recognised on the result of revaluations to fair value subsequent to acquisition.

**vii Cash flow hedges**

The Fund has entered into interest rate swaps, to be held until the maturity of the debt, under which the Fund effectively receives variable interest and pays fixed interest. These are classified as a cash flow hedges under IFRS. Under both LGAAP and IFRS, the actual variable interest paid and fixed amounts received and paid under the swap agreements are recorded under interest expense, therefore the net charge under interest expense represents the fixed interest payment under the swap agreement.

Under LGAAP, the Fund does not recognise in the Statement of net assets the fair value of the interest rate swaps. Under IFRS the fair value of interest rate swaps should be recorded as an asset or liability in the Statement of net assets with the accumulated gains and losses being recorded in Reserves.



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS  
RESTATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS AT 31 DECEMBER 2005 (continued)**

**viii Accounting for distributions**

Under LGAAP distributions were accounted for in the period they were paid. Under IFRS they are accounted for in the period when the contractual liability to pay them arises.

**ix Reclassifications**

IFRS requires certain items to be classified differently in the financial statements than under LGAAP. These reclassifications have no effect on Net Asset Value attributable to Unitholders or reported earnings for the year and are shown in a separate column in the reconciliation. Such reclassifications mainly reflect the grossing up of assets and liabilities previously netted, the presentation of gains and losses on real estate appearing on the income statement, the separation of financial income from financial expense, and the presentation of expenses recoverable from customers as a separate line item on the face of the consolidated income statement.

**x Cashflow statement**

The material change in the cashflow statement for the latest period previously reported under LGAAP relates to the differences in the presentation of the acquisition of Harbor Park, treated as a business combination under IFRS and correspondingly shown as a separate line item in the cashflow statement.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS  
RESTATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**28-2 RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2005**

	Notes	LGAAP 2005	Adjustments	Reclassifications	IFRS 2005
<b>Assets</b>					
<i>Non Current Assets</i>					
Investment property . . . . .	a	3,640,542	(166,734)	—	3,473,808
Property under construction . . . . .		7,052	—	—	7,052
Hedging instruments . . . . .		27,800	—	(652)	27,148
Deferred tax asset . . . . .	c	—	5,992	—	5,992
Intangible assets . . . . .	d	858	(858)	—	—
		<u>3,676,252</u>	<u>(161,600)</u>	<u>(652)</u>	<u>3,514,000</u>
<i>Current Assets</i>					
Due from related parties . . . . .		—	—	—	—
Accounts receivable, net . . . . .		32,276	—	—	32,276
Other current assets . . . . .	e	59,058	17,399	—	76,457
Cash and cash equivalents . . . . .		96,785	—	—	96,785
		<u>188,119</u>	<u>17,399</u>	<u>—</u>	<u>205,518</u>
Total Assets . . . . .		<u><b>3,864,371</b></u>	<u><b>(144,201)</b></u>	<u><b>(652)</b></u>	<u><b>3,719,518</b></u>
<b>Represented by:</b>					
Capital contributions . . . . .		1,792,422	—	—	1,792,422
Cost of raising capital . . . . .	f	—	(41,432)	3,711	(37,721)
Net capital contributed . . . . .		1,792,422	(41,432)	3,711	1,754,701
Profits for the period . . . . .		308,889	(73,564)	—	235,325
Net retained earnings . . . . .	g	19,521	(124,340)	(3,711)	(108,530)
Cumulative foreign currency translation . . . . .		(20,846)	—	—	(20,846)
Cashflow hedge valuation reserve . . . . .	h	—	(39,300)	—	(39,300)
		<u>2,099,986</u>	<u>(278,636)</u>	<u>—</u>	<u>1,821,350</u>
Minority interest . . . . .		4,353	—	—	4,353
Total Equity . . . . .		<u><b>2,104,339</b></u>	<u><b>(278,636)</b></u>	<u><b>—</b></u>	<u><b>1,825,703</b></u>
<b>Liabilities</b>					
<i>Non-current liabilities</i>					
Interest bearing Secured notes . . . . .	i	1,266,672	(4,211)	—	1,262,461
Hedging instruments . . . . .	j	—	39,300	(652)	38,648
Interest bearing Long term bank loans, net of current portion . . . . .		168,341	—	—	168,341
Deferred taxation . . . . .	k	20,718	64,017	—	84,735
		<u>1,455,731</u>	<u>99,106</u>	<u>(652)</u>	<u>1,554,185</u>
<i>Current liabilities</i>					
Interest bearing bank loans, current portion . . . . .		201,162	—	—	201,162
Accounts payable . . . . .		5,415	—	—	5,415
Due to related parties . . . . .		7,404	—	—	7,404
Income and other taxes payable . . . . .		16,457	—	—	16,457
Accrued expenses and other current liabilities . . . . .	l	50,755	35,329	—	86,084
Deferred income . . . . .		23,108	—	—	23,108
		<u>304,301</u>	<u>35,329</u>	<u>—</u>	<u>339,630</u>
Total Liabilities . . . . .		<u><b>1,760,032</b></u>	<u><b>134,435</b></u>	<u><b>(652)</b></u>	<u><b>1,893,815</b></u>
Total Equities and Liabilities . . . . .		<u><u><b>3,864,371</b></u></u>	<u><u><b>(144,201)</b></u></u>	<u><u><b>(652)</b></u></u>	<u><u><b>3,719,518</b></u></u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**  
**RESTATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**28-3 RECONCILIATION OF THE CONSOLIDATED INCOME STATEMENT FOR THE YEAR**  
**ENDED 31 DECEMBER 2005**

	Notes	LGAAP 2005	Adjustments	Reclassifications	IFRS 2005
Rental income . . . . .	<b>m</b>	261,195	(2,116)	—	259,079
Expenses recoverable from customers . . . . .		32,827	—	(32,827)	—
Other property income . . . . .		1,805	—	—	1,805
<b>Total revenue . . . . .</b>		<b>295,827</b>	<b>(2,116)</b>	<b>(32,827)</b>	<b>260,884</b>
Ground rents paid . . . . .				(2,009)	(2,009)
Property management fees . . . . .		(15,739)	—	—	(15,739)
Other property rental expenses . . . . .		(41,687)	—	34,836	(6,851)
<b>Cost of rental activities . . . . .</b>		<b>(57,426)</b>	<b>—</b>	<b>32,827</b>	<b>(24,599)</b>
<b>Gross profit . . . . .</b>		<b>238,401</b>	<b>(2,116)</b>	<b>—</b>	<b>236,285</b>
Fund management fees . . . . .		(5,187)	—	—	(5,187)
Fund custodian fees . . . . .		(69)	—	—	(69)
Amortisation of intangible assets . . . . .	<b>n</b>	(334)	334	—	—
Other fund expenses . . . . .		(3,889)	—	—	(3,889)
<b>Fund expenses . . . . .</b>		<b>(9,479)</b>	<b>334</b>	<b>—</b>	<b>(9,145)</b>
Investment property disposal proceeds . . . . .		34,596	—	—	34,596
Carrying value of investment property disposals . . . . .		(33,910)	—	—	(33,910)
<b>Profit on disposal of investment property . . . . .</b>		<b>686</b>	<b>—</b>	<b>—</b>	<b>686</b>
Gross valuation gains on property, net of disposals . . . . .	<b>o</b>	204,921	3,861	—	208,782
Gross valuation losses on property, net of disposals . . . . .		(24,231)	—	(427)	(24,658)
Purchasers costs, net of disposals . . . . .	<b>p</b>	—	(31,486)	—	(31,486)
Impairment of goodwill . . . . .	<b>q</b>	—	(1,736)	—	(1,736)
<b>Property fair value movements . . . . .</b>		<b>180,690</b>	<b>(29,361)</b>	<b>(427)</b>	<b>150,902</b>
<b>Profit from operating activities of the Fund, prior to financing activities . . . . .</b>		<b>410,298</b>	<b>(31,143)</b>	<b>(427)</b>	<b>378,728</b>
Finance income . . . . .		—	—	1,663	1,663
Finance expense . . . . .	<b>r</b>	(85,319)	(3,681)	(1,663)	(90,663)
<b>Net profit before tax, extraordinary item and minority interest . . . . .</b>		<b>324,979</b>	<b>(34,824)</b>	<b>(427)</b>	<b>289,728</b>
Charge for taxation . . . . .	<b>s</b>	(15,087)	(38,740)	—	(53,827)
<b>Net profit for the period . . . . .</b>		<b>309,892</b>	<b>(73,564)</b>	<b>(427)</b>	<b>235,901</b>
Extraordinary item . . . . .		(427)	—	427	—
Minority interest . . . . .		(576)	—	—	(576)
<b>Net profit for the period attributable to Unitholders . . . . .</b>		<b>308,889</b>	<b>(73,564)</b>	<b>—</b>	<b>235,325</b>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**  
**RESTATE UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**28-4 RECONCILIATION OF THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**ATTRIBUTABLE TO UNITHOLDERS FOR THE YEAR ENDED 31 DECEMBER 2005**

	LGAAP 2005	Adjustments	Reclassifications	IFRS 2005
<b>Total equity attributable to Unitholders</b>				
brought forward . . . . .	<u>1,713,023</u>	<u>(206,892)</u>	<u>—</u>	<u>1,506,131</u>
Foreign currency translation . . . . .	6,653	—	—	6,653
Net gains/(losses) on cashflow hedges fair valuation . . . . .	<u>—</u>	<u>5,352</u>	<u>—</u>	<u>5,352</u>
<b>Total income and expense for the period</b>				
recognised directly in equity . . . . .	<u>6,653</u>	<u>5,352</u>	<u>—</u>	<u>12,005</u>
Net profit for the period . . . . .	<u>308,889</u>	<u>(73,564)</u>	<u>—</u>	<u>235,325</u>
<b>Total net income and expense for the period . .</b>	<u><b>315,542</b></u>	<u><b>68,212</b></u>	<u><b>—</b></u>	<u><b>247,330</b></u>
Distributions for the period . . . . .	<u>(131,093)</u>	<u>(3,532)</u>	<u>—</u>	<u>(134,625)</u>
Capital contributions by way of cash payment .	172,500	—	—	172,500
Capital contributions by way of contribution in kind . . . . .	<u>30,014</u>	<u>—</u>	<u>—</u>	<u>30,014</u>
<b>Net movement on capital for the period . . . . .</b>	<u><b>202,514</b></u>	<u><b>—</b></u>	<u><b>—</b></u>	<u><b>202,514</b></u>
<b>Changes in equity . . . . .</b>	<u><b>386,963</b></u>	<u><b>(71,744)</b></u>	<u><b>—</b></u>	<u><b>315,219</b></u>
<b>Total Equity attributable to Unitholders</b>				
carried forward . . . . .	<u><u>2,099,986</u></u>	<u><u>(278,636)</u></u>	<u><u>—</u></u>	<u><u>1,821,350</u></u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**  
**RESTATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**28-5 RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2003**

	Notes	LGAAP 2003	Adjustments	Reclassifications	IFRS 2003
<b>Assets</b>					
<i>Non-Current Assets</i>					
Investment property . . . . .	a	2,405,026	(120,298)	—	2,284,728
Property under construction . . . . .		—	—	—	—
Hedging instruments . . . . .		10,794	—	—	10,794
Deferred tax asset . . . . .	c	—	—	—	—
Intangible assets . . . . .	d	21,888	(21,888)	—	—
		<u>2,437,708</u>	<u>(142,186)</u>	<u>—</u>	<u>2,295,522</u>
<i>Current Assets</i>					
Due from related parties . . . . .		—	—	—	—
Accounts receivable, net . . . . .		31,533	—	—	31,533
Other current assets . . . . .	e	43,829	3	—	43,832
Cash and cash equivalents . . . . .		100,132	—	—	100,132
		<u>175,494</u>	<u>3</u>	<u>—</u>	<u>175,497</u>
Total Assets . . . . .		<u><b>2,613,202</b></u>	<u><b>(142,183)</b></u>	<u><b>—</b></u>	<u><b>2,471,019</b></u>
<b>Represented by:</b>					
Capital contributions . . . . .		1,506,354	—	—	1,506,354
Cost of raising capital . . . . .	f	—	(45,259)	3,711	(41,548)
Net capital contributed . . . . .		1,506,354	(45,259)	3,711	1,464,806
Net retained earnings . . . . .	g	111,208	(134,990)	(3,711)	(27,493)
Cumulative foreign currency translation . . . . .		(6,494)	—	—	(6,494)
Cashflow hedge valuation reserve . . . . .	h	—	(13,822)	—	(13,822)
		<u>1,611,068</u>	<u>(194,071)</u>	<u>—</u>	<u>1,416,997</u>
Minority interest . . . . .		183	—	—	183
Total equity . . . . .		<u><b>1,611,251</b></u>	<u><b>(194,071)</b></u>	<u><b>—</b></u>	<u><b>1,417,180</b></u>
<b>Liabilities</b>					
<i>Non-current liabilities</i>					
Interest bearing Secured notes . . . . .	i	681,297	(3,875)	—	677,422
Hedging instruments . . . . .	j	—	13,822	—	13,822
Interest bearing Long term bank loans, net of current portion . . . . .		38,119	—	—	38,119
Deferred taxation . . . . .	k	23,778	(6,099)	—	17,679
		<u>743,194</u>	<u>3,848</u>	<u>—</u>	<u>747,042</u>
<i>Current liabilities</i>					
Interest bearing bank loans, current portion . . . . .		173,653	—	—	173,653
Accounts payable . . . . .		6,701	—	—	6,701
Due to related parties . . . . .		776	—	—	776
Income and other taxes payable . . . . .		3,225	—	—	3,225
Accrued expenses and other current liabilities . . . . .	l	54,034	48,040	—	102,074
Deferred income . . . . .		20,368	—	—	20,368
		<u>258,757</u>	<u>48,040</u>	<u>—</u>	<u>306,797</u>
Total Liabilities . . . . .		<u><b>1,001,951</b></u>	<u><b>51,888</b></u>	<u><b>—</b></u>	<u><b>1,053,839</b></u>
Total Equities and Liabilities . . . . .		<u><u><b>2,613,202</b></u></u>	<u><u><b>(142,183)</b></u></u>	<u><u><b>—</b></u></u>	<u><u><b>2,471,019</b></u></u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**  
**RESTATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

	<u>Notes</u>	<u>31 December 2005</u>	<u>1 January 2003</u>
<b>28-6-a Investment in property</b>			
LGAAP . . . . .		<u>3,640,542</u>	<u>2,405,026</u>
Recognition of purchasers costs . . . . .	<b>i</b>	<u>(166,734)</u>	<u>(120,298)</u>
IFRS . . . . .		<u><u>3,473,808</u></u>	<u><u>2,284,728</u></u>
<b>28-6-b Goodwill</b>			
LGAAP . . . . .		<u>—</u>	<u>—</u>
Goodwill on acquisition . . . . .	<b>ii</b>	<u>1,736</u>	<u>—</u>
Impairment of goodwill . . . . .	<b>ii</b>	<u>(1,736)</u>	<u>—</u>
IFRS . . . . .		<u><u>—</u></u>	<u><u>—</u></u>
<b>28-6-c Deferred tax asset</b>			
LGAAP . . . . .		<u>—</u>	<u>—</u>
Recognition of deferred tax on tax losses carried forward . . . . .	<b>vi</b>	<u>5,526</u>	<u>—</u>
Deferred tax on acquisition . . . . .	<b>vi</b>	<u>466</u>	<u>—</u>
IFRS . . . . .		<u><u>5,992</u></u>	<u><u>—</u></u>
<b>28-6-d Intangible assets</b>			
LGAAP . . . . .		<u>858</u>	<u>21,888</u>
Write back of amortisation of establishment costs . . . . .	<b>iii</b>	<u>40,574</u>	<u>23,371</u>
Write off of cost of raising equity against capital . . . . .	<b>iii</b>	<u>(41,432)</u>	<u>(45,259)</u>
IFRS . . . . .		<u><u>(858)</u></u>	<u><u>(21,888)</u></u>
<b>28-6-e Other current assets</b>			
LGAAP . . . . .		<u>59,058</u>	<u>43,829</u>
Recognition of rent levelling asset . . . . .	<b>iv</b>	<u>17,399</u>	<u>3</u>
IFRS . . . . .		<u><u>76,457</u></u>	<u><u>43,832</u></u>
<b>28-6-f Transaction costs</b>			
LGAAP . . . . .		<u>—</u>	<u>—</u>
Recognition of transaction costs of raising equity against capital . . . . .	<b>iii</b>	<u>(41,432)</u>	<u>(45,259)</u>
Reclassification . . . . .		<u>3,711</u>	<u>3,711</u>
IFRS . . . . .		<u><u>(37,721)</u></u>	<u><u>(41,548)</u></u>



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**  
**RESTATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

	<u>Notes</u>	<u>31 December 2005</u>	<u>1 January 2003</u>
<b>28-6-g Retained earnings</b>			
<b>LGAAP</b> . . . . .		<b>19,521</b>	<b>111,208</b>
Recognition of purchasers costs . . . . .	<b>i</b>	(97,528)	(120,298)
Reversal of amortisation of intangible assets . . . . .	<b>iii</b>	40,240	23,371
Recognition of rent levelling . . . . .	<b>iv</b>	15,654	3
Recognition of transaction costs at effective interest rate method . . . . .	<b>v</b>	7,892	3,875
Recognition of deferred tax . . . . .	<b>vi</b>	(58,778)	6,099
Recognition of deferred tax on tax losses carried forward .	<b>vi</b>	3,509	—
Accrual of distribution . . . . .	<b>viii</b>	(35,329)	(48,040)
		<u>(124,340)</u>	<u>(134,990)</u>
Reclassification . . . . .		(3,711)	(3,711)
<b>IFRS</b> . . . . .		<u>(108,530)</u>	<u>(27,493)</u>
<b>28-6-h Cashflow hedging reserve</b>			
<b>LGAAP</b> . . . . .		—	—
Recognition of cashflow hedges . . . . .	<b>vii</b>	(39,300)	(13,822)
		<u>(39,300)</u>	<u>(13,822)</u>
<b>IFRS</b> . . . . .		<u>(39,300)</u>	<u>(13,822)</u>
<b>28-6-i Interest bearing Loan Notes</b>			
<b>LGAAP</b> . . . . .		<b>1,266,672</b>	<b>681,297</b>
Recognition of transaction costs using effective interest rate method . . . . .	<b>v</b>	(4,211)	(3,875)
		<u>(4,211)</u>	<u>(3,875)</u>
<b>IFRS</b> . . . . .		<u>1,262,461</u>	<u>677,422</u>
<b>28-6-j Hedging instruments payable</b>			
<b>LGAAP</b> . . . . .		—	—
Recognition of cashflow hedges . . . . .	<b>vii</b>	39,300	13,822
		<u>39,300</u>	<u>13,822</u>
Reclassification . . . . .		(652)	—
<b>IFRS</b> . . . . .		<u>38,648</u>	<u>13,822</u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**  
**RESTATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

		<u>Notes</u>	<u>31 December 2005</u>	<u>1 January 2003</u>
<b>28-6-k</b>	<b>Taxation</b>			
	<b>LGAAP</b> . . . . .		<b>20,718</b>	<b>23,778</b>
	Recognition of deferred tax on valuation movement . . . .	<b>vi</b>	61,815	(6,099)
	Deferred tax recognised on acquisition of a business . . . .	<b>vi</b>	2,202	
			<b>64,017</b>	<b>(6,099)</b>
	<b>IFRS</b> . . . . .		<b>84,735</b>	<b>17,679</b>
<b>28-6-l</b>	<b>Accrued expenses and other current liabilities</b>			
	<b>LGAAP</b> . . . . .		<b>50,755</b>	<b>54,034</b>
	Accrual of distribution . . . . .	<b>viii</b>	35,329	48,040
			<b>35,329</b>	<b>48,040</b>
	<b>IFRS</b> . . . . .		<b>86,084</b>	<b>102,074</b>
<b>28-6-m</b>	<b>Rental income</b>			
	<b>LGAAP</b> . . . . .		<b>261,195</b>	
	Effect of rent levelling . . . . .	<b>iv</b>	(2,116)	
	<b>IFRS</b> . . . . .		<b>259,079</b>	
<b>28-6-n</b>	<b>Amortisation of intangible assets</b>			
	<b>LGAAP</b> . . . . .		<b>334</b>	
	Write back of amortisation . . . . .	<b>iii</b>	(334)	
	<b>IFRS</b> . . . . .		<b>—</b>	

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**31 DECEMBER 2005, 2004 AND 2003**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**28 RECONCILIATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**  
**RESTATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

	<u>Notes</u>	<u>31 December 2005</u>
<b>28-6-o Gross valuation gains</b>		
LGAAP . . . . .		<b>204,921</b>
Effect of rent levelling . . . . .	<b>iv</b>	3,861
		3,861
IFRS . . . . .		<b>208,782</b>
<b>28-6-p Purchasers costs</b>		
LGAAP . . . . .		—
Recognition of purchasers costs . . . . .	<b>i</b>	(31,486)
IFRS . . . . .		<b>(31,486)</b>
<b>28-6-q Impairment of goodwill</b>		
LGAAP . . . . .		—
Impairment of goodwill for the year . . . . .	<b>ii</b>	1,736
IFRS . . . . .		<b>1,736</b>
<b>28-6-r Finance costs</b>		
LGAAP . . . . .		<b>85,319</b>
Recognition of transaction costs using effective interest rate method . . . . .	<b>v</b>	3,681
		3,681
Reclassifications . . . . .		1,663
IFRS . . . . .		<b>90,663</b>
<b>28-6-s Taxation</b>		
LGAAP . . . . .		<b>15,087</b>
Deferred tax charge for the year . . . . .	<b>vi</b>	40,757
Recognition of deferred tax asset for the year . . . . .	<b>vi</b>	(2,017)
		<b>38,740</b>
IFRS . . . . .		<b>53,827</b>

**PART XI**  
**CONSOLIDATED UNAUDITED RESULTS FOR THE SIX-MONTH PERIODS ENDED**  
**30 JUNE 2006 AND 30 JUNE 2005**

The interim consolidated financial information contained in this Part XI has been extracted, without material adjustment, from the audited consolidated financial statements of PEP as at 31 December 2005 and from the consolidated unaudited results of PEP for the six-month periods ended 30 June 2006 and 30 June 2005.

**Basis of Financial Information**

The financial information set out below has been prepared in accordance with IFRS.

**Contents**

**Page**

233	Report on Review of Interim Consolidated Financial Statements
234	Consolidated Balance Sheet
235	Consolidated Income Statement
236	Statement of Changes in the Number of Units Issued
237	Consolidated Statement of Changes in Equity Attributable to Unitholders
238	Consolidated Statement of Investment in Property
239	Consolidated Statement of Cash Flows
240	Notes to the Interim Consolidated Financial Statements

## REPORT ON REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**To the Unitholders of  
ProLogis European Properties Fund  
Luxembourg**

We have reviewed the accompanying interim consolidated financial statements, which consist of the consolidated balance sheet and consolidated statement of investment in property of PROLOGIS EUROPEAN PROPERTIES FUND, a *fonds commun de placement* (the “Fund”) as at 30 June 2006 and the related consolidated income statement, statement of changes in the number of units issued, consolidated statement of changes in equity attributable to Unitholders and consolidated statement of cash flows for the six-month periods ended 30 June 2006 and 2005 and the explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standards applicable to interim financial reporting as adopted by European Union (“IAS 34”). Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not give a true and fair view of the financial position of the Fund as at 30 June 2006 and of its financial performance and its cashflow for the six-month periods ended 30 June 2006 and 2005 in accordance with IAS 34.

**ERNST & YOUNG**  
Société Anonyme  
Réviseur d’Entreprises  
Michael Hornsby

18 August 2006

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**CONSOLIDATED BALANCE SHEET**  
**30 JUNE 2006 AND 31 DECEMBER 2005**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

	Notes	30 June 2006 Unaudited	31 December 2005 Audited
<b>Assets</b>			
<i>Non-Current Assets</i>			
Investment in property as stated in Statement of investment in properties .	2c	4,210,614	3,473,808
Property under construction . . . . .	2e, 5	7,106	7,052
Hedging instruments . . . . .	2o, 25	41,222	27,148
Deferred tax asset . . . . .	2r, 15	7,583	5,992
		<u>4,266,525</u>	<u>3,514,000</u>
<i>Current Assets</i>			
Due from related parties . . . . .	2h	23	—
Accounts receivable, net . . . . .	2i	34,237	32,276
Other current assets . . . . .	2j, 7	107,281	76,457
Cash and cash equivalents . . . . .	2k, 8	112,162	96,785
		<u>253,703</u>	<u>205,518</u>
<b>Total Assets . . . . .</b>		<u><b>4,520,228</b></u>	<u><b>3,719,518</b></u>
<b>Equity</b>			
Capital contributions . . . . .	2l, 9	2,036,770	1,792,422
Costs of raising capital . . . . .		(37,721)	(37,721)
Net capital contributed . . . . .		1,999,049	1,754,701
Profit for the period . . . . .		373,631	235,325
Net Retained earnings . . . . .	2n, 10	42,936	(108,530)
Cumulative foreign currency translation . . . . .	2b, 11	(26,953)	(20,846)
Cashflow hedge valuation reserve . . . . .	12	(9,941)	(39,300)
Equity attributable to Unitholders . . . . .		2,378,722	1,821,350
Minority interest in subsidiaries . . . . .		5,505	4,353
<b>Total Equity . . . . .</b>		<u><b>2,384,227</b></u>	<u><b>1,825,703</b></u>
<b>Liabilities</b>			
<i>Non-current liabilities</i>			
Interest bearing Secured notes . . . . .	2p, 13	1,267,338	1,262,461
Hedging instruments . . . . .	2o, 25	19,317	38,648
Interest bearing Long term bank loans, net of current portion . . . . .	2p, 14	166,550	168,341
Deferred taxation . . . . .	2r, 15	197,119	84,735
		<u>1,650,324</u>	<u>1,554,185</u>
<i>Current liabilities</i>			
Interest bearing bank loans, current portion . . . . .	2p, 14	336,220	201,162
Accounts payable . . . . .	2j	8,628	5,415
Due to related parties . . . . .	2h	—	7,404
Income and other taxes payable . . . . .	2q, 15	14,135	16,457
Accrued expenses and other current liabilities . . . . .	2j, 16	104,805	86,084
Deferred income . . . . .	2t	21,889	23,108
		<u>485,677</u>	<u>339,630</u>
<b>Total Liabilities . . . . .</b>		<u><b>2,136,001</b></u>	<u><b>1,893,815</b></u>
<b>Total Equity and Liabilities . . . . .</b>		<u><b>4,520,228</b></u>	<u><b>3,719,518</b></u>

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



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE PERIODS ENDED 30 JUNE 2006 AND 30 JUNE 2005**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

	Notes	30 June 2006	30 June 2005
		Unaudited	Unaudited
Rental income . . . . .	2u, 17	142,442	125,727
Other property income . . . . .	2v	2,187	955
<b>Total revenue . . . . .</b>		<b>144,629</b>	<b>126,682</b>
Ground rents paid . . . . .		(1,069)	(1,006)
Property management fees . . . . .	19b	(8,789)	(7,555)
Other property rental expenses . . . . .	18	(4,220)	(3,303)
<b>Cost of rental activities . . . . .</b>		<b>(14,078)</b>	<b>(11,864)</b>
<b>Gross profit . . . . .</b>		<b>130,551</b>	<b>114,818</b>
Fund management fees . . . . .	19a	(3,071)	(2,295)
Fund custodian fees . . . . .		(97)	(25)
Offering costs . . . . .		(7,030)	—
Other fund expenses . . . . .		(2,028)	(1,994)
<b>Fund expenses . . . . .</b>		<b>(12,226)</b>	<b>(4,314)</b>
Investment property disposal proceeds . . . . .		8,312	7,859
Carrying value of investment property disposals . . . . .		(7,119)	(6,581)
<b>Profit on disposal of investment property . . . . .</b>		<b>1,193</b>	<b>1,278</b>
Gross valuation gains on property, net of disposals . . . . .	2c	448,736	58,916
Gross valuation losses on property, net of disposals . . . . .	2c	(9,780)	(19,846)
Purchasers costs, net of disposals . . . . .	2c	(28,977)	(9,098)
<b>Property fair value movements . . . . .</b>		<b>409,979</b>	<b>29,972</b>
<b>Profit from activities of the Fund, prior to financing activities . .</b>		<b>529,497</b>	<b>141,754</b>
Finance income . . . . .	2y, 20	2,170	861
Finance expenses . . . . .	2z, 21	(40,955)	(42,319)
<b>Profit before taxation . . . . .</b>		<b>490,712</b>	<b>100,296</b>
Charges for taxation . . . . .	2q, 2r, 15	(116,834)	(15,815)
<b>Net profit for the period . . . . .</b>		<b>373,878</b>	<b>84,481</b>
<b>Attributable to:</b>			
Minority interest . . . . .		247	271
Unitholders . . . . .		373,631	84,210
		<b>373,878</b>	<b>84,481</b>
		Euro	Euro
<b>Earnings per share . . . . .</b>	9		
Class A and B Units . . . . .		2.20	0.54
Class C Units . . . . .		0.3375	0.3375
<b>Diluted earnings per share . . . . .</b>	9		
Diluted Earnings per share for Class A and B Units . . . . .		1.94	0.41
Diluted Earnings per share for Class C Units . . . . .		0.3375	0.3375

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

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**STATEMENT OF CHANGES IN THE NUMBER OF UNITS ISSUED**  
**FOR THE PERIODS ENDED 30 JUNE 2006 AND 31 DECEMBER 2005**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

	<u>Par Value</u>	<u>30 June 2006 6 months Unaudited</u>	<u>31 December 2005 12 months Audited</u>
<i>Number of Units outstanding at the beginning of the period:</i>			
Class A(1) Units . . . . .	10.00	500,000	500,000
Class A(2) Units . . . . .	10.00	87,391,985	87,391,985
Class A(3) Units . . . . .	10.27	52,093,478	52,093,478
Class B1 Units . . . . .	10.00	13,000,000	13,000,000
Class B2 Units . . . . .	10.00-11.43	23,128,953	20,483,038
Class C(1) Units . . . . .	10.00	10,160,000	10,160,000
Class C(2) Units . . . . .	10.00	<u>10,160,000</u>	<u>10,160,000</u>
<i>Number of Units issued during the period:</i>			
Class A(1) Units . . . . .		—	—
Class A(2) Units . . . . .		—	—
Class A(3) Units . . . . .		—	—
Class B1 Units . . . . .		—	—
Class B2 Units . . . . .	12.33	3,536,013	2,645,915
Class C(1) Units . . . . .		—	—
Class C(2) Units . . . . .		<u>—</u>	<u>—</u>
<i>Number of Units outstanding at the end of the period:</i>			
Class A(1) Units . . . . .	10.00	500,000	500,000
Class A(2) Units . . . . .	10.00	87,391,985	87,391,985
Class A(3) Units . . . . .	10.27	52,093,478	52,093,478
Class B1 Units . . . . .	10.00	13,000,000	13,000,000
Class B2 Units . . . . .	10.00-12.33	26,664,966	23,128,953
Class C(1) Units . . . . .	10.00	10,160,000	10,160,000
Class C(2) Units . . . . .	10.00	<u>10,160,000</u>	<u>10,160,000</u>

The Class A(3) and the Class C(2) Units were issued during the year ended 31 December 2003 on a partially paid basis. The final drawdowns occurred in April 2006 for the Class A(3) Units and in August 2004 for the Class C(2) Units.

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

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS**  
**FOR THE PERIODS ENDED 30 JUNE 2006 AND 30 JUNE 2005**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

	Notes	30 June 2006	30 June 2005
		Unaudited	Unaudited
<b>Total Equity attributable to Unitholders brought forward</b> . . . . .		<b>1,821,350</b>	<b>1,506,131</b>
Foreign currency translation . . . . .	11	(6,107)	12,339
Net gains/(losses) on cashflow hedges fair valuation . . . . .	12	29,359	(25,246)
<b>Total income and expense for the period recognised directly in equity</b> . .		<b>23,252</b>	<b>(12,907)</b>
Net profit for the period . . . . .		373,631	84,210
<b>Total net income and expense for the period</b> . . . . .		<b>396,883</b>	<b>71,303</b>
<b>Distributions for the period</b> . . . . .	10	<b>(83,860)</b>	<b>(66,959)</b>
Capital contributions by way of cash payment . . . . .		200,750	67,500
Capital contributions by way of contribution in kind . . . . .		43,599	5,715
<b>Net movement on capital for the period</b> . . . . .		<b>244,349</b>	<b>73,215</b>
<b>Changes in Equity</b> . . . . .		<b>557,372</b>	<b>77,559</b>
<b>Total Equity attributable to Unitholders carried forward</b> . . . . .		<b>2,378,722</b>	<b>1,583,690</b>

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

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**CONSOLIDATED STATEMENT OF INVESTMENT IN PROPERTY**  
**AS AT 30 JUNE 2006 AND 31 DECEMBER 2005**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

	30 June 2006	31 December 2005
	<u>Unaudited</u>	<u>Audited</u>
<b>Historic cost</b>		
Cost at the beginning of the period . . . . .	3,221,938	2,824,575
Asset additions, by way of Stabilised Property Contribution Agreement . . . . .	333,769	261,479
Asset additions by way of corporate acquisitions . . . . .	—	63,850
Other asset additions . . . . .	—	67,532
Capital expenditure . . . . .	18,141	21,881
Transfer of completed development from property under construction . . . . .	4,058	8,202
Write down of property subject to insurance claim . . . . .	(17,496)	—
Disposals, by way of direct disposals . . . . .	(7,119)	(33,910)
Effect of unrealised currency movements . . . . .	(4,528)	8,329
Cost at the end of the period . . . . .	<u><b>3,548,763</b></u>	<u><b>3,221,938</b></u>
<b>Net unrealised gains related to property</b>		
Net unrealised gains/(losses) at the beginning of the period . . . . .	251,870	99,232
Gross valuation gains on investment in real estate during the period, less disposals . . . . .	448,736	208,782
Gross valuation losses on investment in property during the period, less disposals . . . . .	(9,780)	(24,658)
Deduction for purchasers costs, less disposals . . . . .	(28,977)	(31,486)
Net unrealised gains at the end of the period . . . . .	<u><b>661,849</b></u>	<u><b>251,870</b></u>
<b>Fair value at the end of the period . . . . .</b>	<u><b>4,210,614</b></u>	<u><b>3,473,808</b></u>
<b>Fair Value of investment property</b>		
Appraised Gross Property Value at the end of the period . . . . .	4,406,323	3,640,542
Purchasers costs . . . . .	(195,706)	(166,734)
<b>Fair value at the end of the period . . . . .</b>	<u><b>4,210,614</b></u>	<u><b>3,473,808</b></u>
<b>Fair value as a percentage of net assets . . . . .</b>	<u><b>177%</b></u>	<u><b>190%</b></u>
<b>Appraised Gross Property Value subject to security</b>		
Secured Notes . . . . .	2,801,805	2,581,292
Bank Loans . . . . .	1,110,872	678,505
Finance Leases . . . . .	73,695	70,230
	<u><b>3,986,372</b></u>	<u><b>3,330,027</b></u>
<b>Insured value . . . . .</b>	<u><b>2,337,349</b></u>	<u><b>1,814,467</b></u>

**Property Held for Sale**

Included in the Fair Value of investment property at the end of the period is €61.4 million (Gross Property Value: €65.2 million) of investment property held for sale, which was disposed of on 12 July 2006 (note 27).

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

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE PERIODS ENDED 30 JUNE 2006 AND 30 JUNE 2005**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

	Notes	30 June 2006	30 June 2005
		Unaudited	Unaudited
<b>Net cash flow from operating activities</b> . . . . .	<b>22</b>	<b>78,096</b>	<b>76,342</b>
<b>Cash flow from investing activities</b>			
Acquisitions of property . . . . .		(298,897)	(71,597)
Capital expenditure on investment property . . . . .		(18,141)	(6,961)
Property under construction . . . . .	<b>5</b>	(4,112)	(420)
Proceeds from disposal of investment in property . . . . .		8,312	7,859
<b>Net cash used in investing activities</b> . . . . .		<b>(312,838)</b>	<b>(71,119)</b>
<b>Cash flow from financing activities</b>			
Proceeds from secured notes:			
— Gross proceeds . . . . .		—	389,000
— Transaction costs . . . . .		—	(9,748)
Proceeds from bank loans:			
— Gross (repayments)/proceeds . . . . .		133,003	(360,838)
— Transaction costs . . . . .	<b>14</b>	(220)	(1,024)
Proceeds from capital contributions . . . . .		200,750	67,500
Distributions to Unitholders . . . . .	<b>10</b>	(80,260)	(64,727)
<b>Net cash provided from financing activities</b> . . . . .		<b>253,273</b>	<b>20,163</b>
<b>Effects of exchange rate changes</b> . . . . .		<b>(3,154)</b>	<b>11,370</b>
<b>Net increase/(decrease) in cash and cash equivalents</b> . . . . .		<b>15,377</b>	<b>36,756</b>
Cash and cash equivalents at the beginning of the period . . . . .		96,785	68,762
<b>Cash and cash equivalents at the end of the period</b> . . . . .		<b>112,162</b>	<b>105,518</b>

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

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**1 ORGANISATION AND REGULATION OF THE FUND**

ProLogis European Properties Fund (the “**Fund**”), a *fonds commun de placement*, was established on 10 September 1999 under the laws of Luxembourg in the form of an unincorporated contractual co-ownership scheme and is now governed by the law on Undertakings for Collective Investments of 20 December 2002 (“**Luxembourg Law**”) and by its specific management regulations dated 10 September 1999 (the “**Management Regulations**”) as amended on 29 June 2001, 13 May 2003, 17 July 2003 and on 17 November 2005. The Fund is managed by ProLogis Management S.à r.l. (the “**Management Company**”), a limited liability company organised under the laws of Luxembourg (registration number B 70 940) having its registered office at 18 Boulevard Royal, L-2449 Luxembourg.

The Fund has been initially set up for a 10 year term from 10 September 1999, with the primary objective to generate a high level of current income and capital appreciation through investment in distribution facilities. The life of the Fund may be extended with the agreement of Unitholders.

The Management Company has the exclusive right to manage the Fund and is vested with broad powers to administer and manage the Fund in the name of and on behalf of the Unitholders subject to rules and regulations set out in the Management Regulations. The Fund is owned by 21 investors and has no parent company or ultimate parent company.

On Tuesday 25 April 2006 at an extraordinary general meeting, the Unitholders of the Fund voted to empower the Management Company to proceed with an Initial Public Offering of the Fund on the Amsterdam Euronext Stock Exchange in accordance with Article 4i) of the Management Regulations, subject to the final approval of the Unitholder Advisory Committee.

To facilitate the Offer there will be a number of changes to the Management Regulations of the Fund:

- i) the Class A and B Units will be reclassified into a single class of Ordinary Units. One Unitholder has elected to exercise its right to convert 2,500,000 Class C(1) and 2,500,000 Class C(2) Units into Class A(1) Units effective as at Admission, and the remaining Class C(1) and Class C(2) Units will be redeemed on or prior to the Settlement Date;
- ii) the Stabilised Property Contribution Agreement will be terminated;
- iii) the Fund will no longer have a limited life; and
- iv) the replacement of the Unitholder Advisory Committee (“**UAC**”) by an independent board with four independent members and two members appointed by ProLogis.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

Unless otherwise stated, the consolidated financial statements of the Fund are presented in thousands of euros. The consolidated financial statements are presented on an historical cost basis, except for the measurement of investment properties and certain financial instruments relating to hedging which are stated at Fair Value.

**Statement of compliance**

The consolidated financial statements of the Fund and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (“**IFRS**”). These interim consolidated financial statements have been prepared in accordance with the requirements of IAS 34. The same accounting policies and methods of computation are followed in these interim consolidated financial statements as compared with the audited consolidated financial statements for the year ended 31 December 2005. The results as of 30 June 2006 and 30 June 2005 and for each respective six-month period then ended are unaudited. The financial information related to December 2005 has been extracted from the audited annual consolidated financial statements.



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

The preparation of the interim consolidated financial statements in accordance with the generally accepted accounting principles as described above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The interim consolidated financial statements of the Fund have been authorised for issuance on 18 August 2006 by the Management Company.

The significant accounting principles applied by the Fund are regularly re-evaluated by the Management Company to ensure their continued quality and reasonableness. They are as follows:

**2a Principles of consolidation**

The consolidated interim financial statements include all activities of the Fund and its subsidiaries.

**Subsidiary companies**

Subsidiaries are defined as entities in which the Fund, directly or indirectly, has a controlling interest and are consolidated from the date on which control is transferred to the Fund and cease to be consolidated from the date on which control is transferred out of the Fund. The accounting principles of the Fund may differ from those applied in other countries. Where necessary, the accounts of the underlying entities have been adjusted or reclassified on consolidation in order that their results may be consistent with the accounting principles of the Fund.

Acquired companies have been included in the consolidated financial statements using the purchase method of accounting when, and only when the transaction can be identified as a business combination. When determining if an acquisition qualifies as a business combination or not, management consider if the transaction includes the acquisition of supporting infrastructure, employees, service provider agreements and major input and output processes, as well as active lease agreements. To date the only acquisition where management have determined that these criteria have been met is the Harbor Park transaction (see Note 6).

For business combinations, the Consolidated Income Statement and Consolidated Statement of Cash Flow include the results and cash flows of acquired companies for the period from its date of acquisition to the period end. On acquisition, the costs incurred in acquiring subsidiaries are allocated to the separable net assets of the acquired entity with any difference being allocated to goodwill. Subsequent valuation adjustments to goodwill are recorded in the Consolidated Income Statement.

When the transaction has not been identified as being a business combination, the transaction has been accounted for as an acquisition of individual assets and liabilities where the initial purchase consideration is allocated to the separable assets and liabilities acquired.

The cost of investment in a subsidiary is eliminated against the Fund's share in the net assets at the date of acquisition or contribution. All intercompany receivables, payables, income and expenses are eliminated.

Where the Fund, either directly or indirectly, holds a controlling interest in a subsidiary but does not have complete control of that subsidiary, the value of the interest not held by the Fund is recorded as a minority interest in the Consolidated Balance Sheet.

**Special purpose entities**

Certain wholly owned indirect subsidiaries of the Fund (the “**Finance Subsidiaries**”) have raised debt financing using special purpose entities (“**SPEs**”). These SPEs are orphan entities which are independently operated by third parties to both the Fund and the Management Company. As the sole

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

function of each SPE is to provide debt financing to a Finance Subsidiary and, in substance, the risks and rewards are with the Fund, for the purposes of these financial statements only, each SPE is treated as if it were a fully consolidated entity within the Fund (Note 26). The precise nature of the loan structure between the SPEs and the Finance Subsidiaries is explained in Note 13 to these consolidated interim financial statements.

**Related parties**

Related parties are defined as parties either directly or indirectly controlled, managed or owned by ProLogis, a real estate investment trust organised under the laws of Maryland, USA, which indirectly, through one or more wholly-owned subsidiaries, owns the Management Company and the Class B1 and Class B2 Units in the Fund (“ProLogis”).

**2b Foreign currency translation**

The presentation currency of the Fund is the Euro.

The functional currency of a subsidiary is determined as the principal currency in which the entity's assets, liabilities, income and expenses are denominated. This may be different to the local currency of the country of incorporation or the country where the subsidiary conducts its operations.

Subsidiaries with operations in all jurisdictions, except for the UK and two subsidiaries in Sweden, have the Euro as their functional currency.

Transactions in currencies other than the functional currency of an entity are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are recognised in the Consolidated Income Statement under “Finance expenses” (see Note 2z).

The cumulative effect of exchange differences on cash transactions are classified as realised gains and losses in the Consolidated Income Statement in the period in which they are settled. Exchange differences on transactions not yet settled in cash are classified as unrealised gains and losses under “Finance expenses” (see Note 21).

The assets and liabilities of subsidiaries are determined according to the accounting principles of the Fund. Where the functional currency is different from the presentation currency of the Fund those assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. The income statements of such subsidiaries are translated at the average exchange rate for the period. The exchange differences arising on the currency translation are recorded as a separate component of Unitholders reserves under the heading of “Cumulative foreign currency translation”. On the disposal of such a subsidiary, accumulated exchange differences are recognised in the Consolidated Income Statement as a component of the gain or loss on disposal, including any tax effects.

Exchange differences arising on monetary items, which in substance form part of the Fund's net investment in a foreign entity, are recorded as a separate component of Unitholders reserves under the heading of “Cumulative foreign currency translation”.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquired company and are recorded at the exchange rate at the date of the transaction.

**2c Investment in property**

Investment in property mainly comprises the investment in land and buildings in the form of distribution facilities which are not occupied substantially for use by, or in the operations of, the Fund, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation by leasing to third parties under long term operating leases.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

Investment in property is initially recorded at cost including acquisition costs such as transfer taxes, initial lease commissions and legal fees. Expenditure on renovation and development of investment properties is also initially capitalised at cost. After initial recognition, investment properties are measured at fair value as determined by third party independent appraisers (the “**Appraisers**”). Additionally, valuations are undertaken on acquisitions, contributions in kind and on disposals, in order to comply with Luxembourg law. The gain or loss arising from a change in the fair value of the investment property is included in the Consolidated Income Statement in the period in which it arises. Jones Lang LaSalle (“**JLL**”) and DTZ Zadelhoff (“**DTZ**”) have been appointed as the Appraisers for the Fund. Depreciation is not provided on investment properties.

Realised gains and losses on the disposal of investment in property is included in the Consolidated Income Statement in the period in which it arises.

**2d Leases**

Assets held under finance leases are capitalised and depreciated over the shorter of the life of the lease and the life of the assets, up to a maximum of 15 years. The related liability is included in bank loans and the implied interest charge is allocated to the Consolidated Income Statement over the lease term using the effective interest rate method.

**2e Property under construction**

Property assets under construction are recorded at historic cost incurred as at the balance sheet date. Historic cost is calculated with reference to invoiced costs to date and capitalised finance costs. When the property is fully let and stabilised the cost of the asset is transferred to “Investment in property”.

**2f Leasing commissions**

Initial leasing commissions are included in the cost of acquiring an investment property. Leasing commissions incurred post the acquisition of a property are recognised at cost in the carrying value of investment properties in the period in which they are incurred. Subsequently the Fair Value of the underlying leases are considered in the overall determination of the Fair Value of the investment property, with any movement being recorded in the Consolidated Income Statement.

**2g Goodwill**

Goodwill acquired in a business combination is initially measured at cost, being the excess cost of the business combination over the Fund’s interest in net Fair Value of the identifiable assets, liabilities and contingent liabilities. Following recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Fund’s cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Fund are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

**2h Amounts due between related parties**

Amounts due from or to related parties (see Note 2a) are stated at nominal value.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2i Accounts receivable**

Accounts receivable are stated at nominal value less provisions for doubtful debts, if any. The Management Company assesses specific provisions on a customer by customer basis throughout the period.

**2j Current assets and liabilities**

The fair value of other current financial assets and liabilities due within one year approximate the carrying value disclosed in the consolidated financial statements, due to the short time in which these transactions are settled.

**2k Cash and cash equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

**2l Capital contributions**

Capital contributions represents the amount of capital called and contributed to the Fund by current Unitholders since the inception of the Fund at historical cost.

**2m Cost of raising capital and launching the Fund**

General Fund launch costs are written off through the Consolidated Income Statement in the period in which they are incurred. The cost of raising capital represents direct costs incurred in establishing the capital of the Fund including, amongst others, legal, accounting and investment banker's fees. Such costs are netted off the capital raised and are disclosed as a separate component of equity.

**2n Accumulated distributions**

The Management Regulations creates an obligation to pay a quarterly dividend to the extent that Distributable Income is available. Distributions are recognised in the financial statements as a liability in the period to which they are related. Given the fact that such distributions are attached to equity instruments and that there is no obligation to pay them if they do not arise, they are classified in equity.

**2o Financial instruments**

The Fund uses financial instruments, such as interest rate and cross currency interest rate swaps, to hedge risks associated with interest rate and foreign currency fluctuations.

The effectiveness of the hedge is assessed by comparing the value of the hedged item with the notional value implicit in the contractual terms of the financial instrument being used in the hedge (Note 25).

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Consolidated Income Statement with the corresponding receivable or payable recognised in the balance sheet. Any corresponding gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Consolidated Income Statement.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

In relation to cash flow hedges used to manage interest rate risks which meet the criteria for hedge accounting, the Fund records interest on the hedged loan at an interest rate implicit in the swap agreement (see Note 14 and Note 25). Cash flow hedges are valued at Fair Value and included under "Hedging instruments" on the balance sheet. The effective portion of the gain or loss on the effective hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the Consolidated Income Statement.

Those financial instruments which do not meet the conditions for hedge accounting are accounted for at Fair Value with changes in Fair Value recognised immediately as a component of net profit.

**2p Interest bearing debt**

Debt, comprising secured notes and bank loans, is carried on the balance sheet at the fair value of the initial proceeds less the unamortised portion of discounts and transaction costs incurred to acquire the debt. Discounts and transaction costs are amortised over the life of the related debt through interest expense using the effective interest rate method (see Note 2z).

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transactions costs do not include internal administrative or holding costs.

**2q Taxation**

The companies of the Fund are subject to taxation in the countries in which they operate. Current taxation is provided for at the applicable current rates on the respective taxable profits.

**2r Deferred taxation**

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- i) where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax credits and unused tax losses can be utilised except:

- i) where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognised only to the extent that

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised. Unrecognised deferred income tax assets are re-assessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when an asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**2s Provisions and expense accruals**

A provision is recognised when, and only when the Fund has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

**2t Deferred income**

Deferred income represents rental income which has been billed to customers as at the balance sheet date, but which relates to future periods.

**2u Revenue recognition—rental income**

The Fund leases its buildings to customers under agreements that are classified as operating leases.

Rental income represents rents charged to customers and is recognised on a straight line basis taking account of any rent free periods and other lease incentives, net of any sales taxes, over the lease period to the first break option (“rent levelling”).

**2v Revenue recognition—other property income**

Represents income derived from property from sources other than customers, and is recognised on an accruals basis in the period to which it contractually relates, net of any sales taxes.

**2w Expense recognition**

Expenses are accounted for on an accruals basis. Expenses are charged to the Consolidated Income Statement, except for those incurred in the acquisition of an investment which are capitalised as part of the cost of the investment. Expenses arising on the disposal of investments are deducted from the disposal proceeds.

**2x Revenue recognition—Investment property disposals**

Gains on the disposal of investments in property are recorded at the time title is transferred.



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)**

**2y Finance income**

This includes interest income received during the period.

**2z Finance expenses**

Finance expenses includes:

- i) interest expenses related to secured notes, long term and short term debt, and is recognised on an accruals basis;
- ii) amortisation of transaction costs applicable to the period (see Note 2p);
- iii) the effect of the unrealised change in the Fair Value of mark to market currency hedges related to the financing activities for the period (see Note 2o);
- iv) the effect of the unrealised foreign currency gains and losses on monetary assets and liabilities arising in the period (see Note 2b);
- v) the effect of the realised foreign currency gains and losses on cash transactions completed during the period (see Note 2b).

**2aa Segment information**

The Fund operates using the ProLogis Operating System®, a system that allows customers' needs to be serviced regardless of their location. The majority of the properties owned by the Fund are designed such that they are of similar standard and design, regardless of their location. The design of the buildings is such that they are attractive to similar customers across markets, and many of ProLogis' customers occupy properties across Western Europe. As a consequence of the generic nature of the properties and needs of the customers, the Management Company believes that it is appropriate to classify all operations under one industry segment, namely Logistical property and one region, namely Western Europe.

**2ab Subsequent events**

Post period end events that provide additional information about the Fund's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post period end events that are not adjusting events are disclosed in the Notes when significant.

**2ac Contingencies**

Contingencies are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

**2ad Future standards**

The following IFRS and IFRIC interpretations are effective for the financial periods beginning on or after 30 June 2006. The Fund has chosen not to adopt these standards and interpretations early and the Fund expects that adoption of the pronouncements listed below as they become effective will have no significant impact on the Fund's financial statements:

- i) IFRS 7 Financial investments: Disclosures (effective 1 January 2007); and
- ii) Amendment to IAS 1: Presentation of Financial statements—Capital Disclosures (effective from 1 January 2007).

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**3 FINANCIAL RISK MANAGEMENT**

**3a Risk relating to investment in property**

Investment in property is subject to varying degrees of risk. The main factors which affect the value of the Investment in property include:

- i) changes in the general economic climate;
- ii) local conditions in respective markets, such as an oversupply of distribution space or a reduction in demand for distribution space in a specific area;
- iii) competition from other available properties; and
- iv) government regulations, including zoning, usage, environmental and tax laws.

**3b Investment restrictions**

To address the general risks in Note 3a above, the Fund is subject to certain investment restrictions, either according to Luxembourg Law or its own Management Regulations. The main restrictions are:

- i) No more than 20% of the net assets of the Fund may be invested in a single property, such restriction being effective at the date of the acquisition of the relevant property.
- ii) No more than 5% of the rental income of the Fund may be obtained from any one customer, with the exception that the Fund may derive up to 10% of its rental income from certain key customers.
- iii) Up to 10% of investment properties, by value, may be invested outside certain target markets.
- iv) No investment may be made in properties located in the United States of America.
- v) Once fully invested the Fund may not have more than 30% of its investment properties, by square metres of lettable area, in any one target market.
- vi) On acquisition, property must be fully constructed, at least 90% let with an average remaining minimum lease term of three years and provide a minimum net operating yield applicable to that target market. The net operating yield is defined as net rental income divided by cost of acquisition of the investment to the Fund.

**3c Credit risk**

The Fund's earnings, distributable cashflow and its net asset value could be adversely affected if a significant number of its customers are unable to meet their lease obligations.

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, the Fund obtains collateral in the form of bank deposits or bank or parent company guarantees.

The extent of the Fund's credit exposure is represented by the aggregate balance of amounts receivable, as reduced by the effects of any netting arrangements with counterparties.

The Fund has no significant concentrations of credit risk. The Fund has a large and diverse range of customers, and thus concentrations of credit risk in any particular geographic location or industry are considered low.

Accounts receivable are stated net of any provisions, and without any set off of deposits or guarantees, the Fund's maximum exposure to credit risk is represented by the balance disclosed in the Consolidated Balance Sheet.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**3 FINANCIAL RISK MANAGEMENT (continued)**

**3d Interest rate risk**

The Fund's interest rate risk arises from issuing secured notes through certain SPEs (the "Issuers"). Borrowings at variable rates expose the Fund to cashflow interest rate risk.

The Fund manages its cashflow interest rate risk by using floating to fixed interest rate swaps ("IRSs"). Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rate debt.

The Issuers have loaned the proceeds of the Notes to the finance subsidiaries through fixed rate financing (Note 13). Thus, the Issuers pay floating rate interest and receive fixed rate interest.

To hedge the risk of rising interest rates, the Issuers have entered into IRS agreements with ABN AMRO Bank London Branch, JPMorgan Chase Bank, Bank of America N.A. and Société Générale ("swap counterparties") regulated by the International Swaps and Derivatives Association ("ISDA"). Each one of the IRSs exactly matches the critical terms of a corresponding Euro tranche of the Notes issued: the amount, the currency, the maturity, the interest rate and the interest payment dates.

At the time the Issuer enters into the IRS agreements, these are designated as cash flow hedges. A description of the accounting treatment of the cash flow hedges is given in Note 2o.

Note 25 sets out the carrying amount, by maturity, of the Fund's financial instruments.

**3e Foreign exchange risk**

A part of the net assets of the Fund are exposed to variations in Sterling, Polish Zloty, Czech Kron, Hungarian Forint and Swedish Krona. According to the nature of the asset or liability, this exposure is either recorded against the "Cumulative foreign currency translation" in the Consolidated Balance Sheet or against "Finance expenses" in the Consolidated Income Statement.

The Issuers enter into foreign exchange contracts to manage their foreign exchange risk resulting from financing arrangements denominated in foreign currencies. This mainly comprises the currency risks of the Borrowers due to the fact that the finance subsidiaries borrow Euro denominated debt and lend predominantly Sterling denominated debt to other subsidiaries of the Fund to finance property acquisitions.

A portion of the proceeds of the Euro-denominated Notes is converted to Sterling and lent by the Issuers to the Borrowers to provide Sterling denominated fixed rate financing (Note 13). The purpose of the Cross Currency Swaps ("CCSs") is to hedge the risk of fluctuating foreign exchange rates of the Euro against Sterling. The Issuers have entered into CCS agreements with ABN AMRO Bank London Branch, JPMorgan Chase Bank and Bank of America, N.A. Each of the CCSs exactly matches the critical terms of a corresponding Sterling tranche of the Notes issued: the amount, the currency, the maturity, the interest rate and the interest payment dates.

At the time the Issuer enters into CCS agreements, these are designated as Fair Value hedges. A description of the accounting treatment of the Fair Value hedges is given in Note 2o.

Should a party default on the swap agreements in the performance of any payment obligation, the defaulting party will, on demand, be required to pay interest on the overdue amount to the other party in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the default rate.

A table showing the interest rate swaps, cross currency swaps and the financial instruments to which they relate is included in Note 25.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**3 FINANCIAL RISK MANAGEMENT (continued)**

**3f Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through appropriate and adequate credit lines and the ability of customers to settle obligations within normal terms of credit.

The Fund ensures, through the forecasting and budgeting of cash needs, that adequate committed credit lines are available.

To ensure that customers continue to be able to meet their credit terms, the financial viability of customers is kept under review.

**4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

**4a Significant accounting estimates and judgements**

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**4b Investment in property**

The Gross Property Value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction without deduction for any associated transfer taxes, sales taxes, or other costs normally borne by the purchaser. Transaction costs normally borne by the seller are not deducted in arriving at Gross Property Value, in accordance with IAS40. The Fair Value is calculated by deducting the costs normally borne by the purchaser from the Gross property value. Fair Value is not intended to represent the liquidation value of the property, which would be dependent upon the price negotiated at the time of sale less any associated selling costs. The Fair Value is largely based on estimates using property appraisal techniques and other valuation methods as outlined below. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

The appraisers derive the Fair Value by applying the methodology and valuation guidelines as set out by the Royal Institution of Chartered Surveyors in the United Kingdom in accordance with IAS 40. This approach is based on discounting the future net income receivable from properties to arrive at the net present value of that future income stream. Future net income comprises the rent secured under existing leases, less any known or expected non-recoverable costs and the current market rent attributable to future vacancy years. The consideration basis for this calculation excludes the effects of any taxes. The discount factors used to calculate Fair Value are consistent with those used to value similar properties, with comparable leases in each of the respective markets.

From June 2005, the property assets within the Fund are being revalued on an alternating six monthly basis such that all assets are revalued at least once a year by the Independent Appraisers. At each balance sheet date, the Management Company reviews the latest independent valuation to ensure that it is still applicable.

For the purpose of these accounts, the assets were valued in their entirety by the independent appraisers as at 30 June 2006.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

**4c Income and deferred taxes**

The Fund is subject to income and capital gains taxes in numerous jurisdictions. Significant judgement is required in determining the total provision for income and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain during the ordinary course of business. The Fund recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made.

**4d Fair Value currency and interest rate swaps**

The Fund estimates Fair Values of swaps by reference to current market conditions compared to the terms of the swap agreements using the results of an external appraisal process carried out by a third party.

**4e Fair Value financial liabilities**

The Fair Value of borrowings approximates to the carrying value disclosed in the consolidated financial statements due to the variable interest terms attached to those borrowings, except for certain financial lease and mortgages in France and Italy which are carried at amortised cost (see Note 25).

**4f Business combinations**

Significant judgement is required when determining the appropriate method of accounting for acquisitions of shares of a company owning property.

ProLogis contributes properties to the Fund under the Stabilised Property Contribution Agreement (“SPCA”) (see Note 19c). In the opinion of the Management Company, the special purpose vehicles which themselves own the investment property do not qualify as businesses under the definition of IFRS 3 as they do not represent “an integrated set of activities and assets”. Therefore, the contribution of these properties to the Fund does not represent a business combination under the definition of IFRS 3. The cost of the assets and liabilities acquired by way of the SPCA is allocated based upon their relative Fair Values, and no goodwill is recognised.

In the case of acquisitions of investment property from a third party, the Fund will only recognise a business combination where an integrated set of activities is acquired in addition to the investment property.

On 27 July 2005 the Fund purchased 100% of the equity of Harbor Park Ingatlanmukodteto Kft (“**Investment Kft**”) which owns 55.665% of the equity of Harbor Park Ingatlanfejlesztő Kft (“**Management Kft**”). Investment Kft owns investment property on a distribution park on the outskirts of Budapest. Management Kft owns part of the physical infrastructure of the park and has a management agreement to manage the park. This acquisition was treated as a business combination (see Note 6).

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**5 PROPERTY UNDER CONSTRUCTION**

Property under construction comprises expenditure on real estate under construction.

	<b>June 2006</b>	<b>December 2005</b>
	<b>Unaudited</b>	<b>Audited</b>
Cost at the beginning of the period . . . . .	7,052	1,724
Additions during the period . . . . .	4,112	13,530
Transfers of stabilised property to investment properties . . . . .	(4,058)	(8,202)
	<u><b>7,106</b></u>	<u><b>7,052</b></u>

**6 GOODWILL**

	<b>June 2006</b>	<b>December 2005</b>
	<b>Unaudited</b>	<b>Audited</b>
<i>Gross</i>		
Balance at the beginning of the period . . . . .	1,736	—
Additions during the period . . . . .	—	1,736
Disposals and amounts written off . . . . .	—	—
<b>Balance at the end of the period . . . . .</b>	<u><b>1,736</b></u>	<u><b>1,736</b></u>
<i>Impairment</i>		
Balance at the beginning of the period . . . . .	1,736	—
Amortisation for the period . . . . .	—	—
Amortisation on disposals and write-offs . . . . .	—	1,736
<b>Balance at the end of the period . . . . .</b>	<u><b>1,736</b></u>	<u><b>1,736</b></u>
<b>Net book value at the end of the period . . . . .</b>	<u><b>—</b></u>	<u><b>—</b></u>

Goodwill was recognised on the acquisition of Harbor Park in Budapest which was accounted for as a business combination. The amount recognised was equal to the deferred tax on the difference between the tax and the book value of the property at the time of acquisition less a reduction in the sales price attributable to a portion of this deferred tax liability to reflect its Fair Value. Since the fair value of all future cash flows from the property has been taken into account in the valuation of the investment property itself, there are no future cashflows the Management Company can allocate to the value of the goodwill. The entire amount of goodwill has therefore been impaired.



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**6 GOODWILL (continued)**

The Fair Value of the identified assets and liabilities acquired in the transaction are shown below:

	<b>December 2005</b>
Investment in property . . . . .	63,850
Investment in subsidiary . . . . .	459
Cash and cash equivalents . . . . .	2,925
Other net assets . . . . .	341
Debt . . . . .	(42,731)
Deferred tax assets . . . . .	465
Deferred tax liabilities . . . . .	(3,134)
	<u>22,175</u>
Goodwill . . . . .	1,736
<b>Total cost of acquisition paid by cash . . . . .</b>	<b><u>23,911</u></b>
Cash acquired by the subsidiary . . . . .	2,925
Cash paid . . . . .	(23,911)
<b>Net cash outflow . . . . .</b>	<b><u>(20,986)</u></b>

**7 OTHER CURRENT ASSETS**

Other current assets include:

	<b>June 2006</b>	<b>December 2005</b>
	<b>Unaudited</b>	<b>Audited</b>
VAT recoverable . . . . .	50,012	45,260
Deposits with utility companies . . . . .	2,905	2,416
Prepaid expenses . . . . .	13,295	10,682
Result of straight-lined rents . . . . .	22,670	17,399
Insurance receivable . . . . .	18,399	700
	<b><u>107,281</u></b>	<b><u>76,457</u></b>

**Insurance receivable**

On 11 December 2005 a major explosion occurred at an oil storage depot situated in the locality of two of the Fund's properties at Hemel Hempstead in the UK. As a result of this accident, the buildings sustained damage to both the structure and shell. Both buildings are fully insured for losses to both the property and the rental income arising from the accident. This sum represents the loss adjusters' estimate of the amount receivable from the insurers regarding insurable losses as a result of the incident.

**8 CASH AND CASH EQUIVALENTS**

	<b>June 2006</b>	<b>December 2005</b>
	<b>Unaudited</b>	<b>Audited</b>
Restricted cash . . . . .	75,601	85,946
Unrestricted cash . . . . .	36,561	10,839
	<b><u>112,162</u></b>	<b><u>96,785</u></b>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
**(Unless otherwise stated, amounts are expressed in thousands of euros)**

**8 CASH AND CASH EQUIVALENTS (continued)**

Under the terms of the secured notes, cash received from rental agreements is subject to certain restrictions in any one quarter until interest payments under the notes for that applicable quarter are made.

In addition £23 million (€34 million) is subject to restrictions, which represents the sale proceeds of an asset sale in the UK. Also a sum of €8 million is restricted in Spain subject to the performance of certain obligations under a development agreement.

**9 OWNERSHIP OF THE FUND**

The ownership of the Fund is split between Class A(1), Class A(2), Class A(3), Class B1, Class B2, Class C(1) and Class C(2) Unitholders.

The Management Regulations define the formula by which the Management company is contractually obliged to calculate Distributable Income of the Fund and to distribute such amount, if any, to unitholders each quarter.

Class A(1), Class A(2), Class A(3), Class B1 and Class B2 Units have voting rights in proportion to their respective paid-up capital (“**Invested Capital**”). The Class C(1) and Class C(2) Units, except under certain circumstances, have no voting rights until the date of conversion to Class A(1) Units or other fully paid securities (“**IPO Shares**”) superseding Class A(1) Units, as further described in the Management Regulations.

Units are not normally redeemable at the option of the Unitholders. Class A(1), Class A(2), Class A(3), Class C(1) and Class C(2) Units can be redeemed in specific circumstances in accordance with criteria set out in Articles 9 and 23 of the Management Regulations. In addition, the Management Company has the power to redeem units under the circumstances described in Article 15 of those regulations.

Class A(1) Units were issued partly paid on 10 December 1999 with the balance called over a three year period from 15 September 1999 at the discretion of the Management Company. Class A(1) Units were issued at an initial price of €10 per unit. On 31 December 2001, the majority of the Class A(1) Units were reclassified, with the consent of the Unitholders, into Class A(2) Units on a one for one basis.

Class A(3) Units were issued partly paid on 29 August 2003 with the balance to be called over a period of three years at the discretion of the Management Company.

Class B1 Units were subscribed for on 15 September 1999 by PLD International Incorporated (“**ProLogis**”) and were issued partly paid in exchange for certain contributed properties. Class B1 Units were issued at an initial price of €10 per unit.

Class B2 Units are issued to and subscribed for by ProLogis in accordance with the Stabilised Property Contribution Agreement dated 15 September 1999 and amended on 29 June 2001, (“**SPCA**”) and the Class B2 Subscription Agreement (see Notes 19c and 19d).

Class C(1) and Class C(2) Units are cumulative convertible preferred units, subscribed for on 15 September 1999 and 29 August 2003 respectively, and issued at €10 per unit, fully paid. The Class C(1) and Class C(2) Unitholders are entitled to receive preferred cash distributions. On an Initial Public Offering the Class C(1) and Class C(2) Units will be mandatorily redeemed in full provided that the holders have the right to convert their units into Class A(1) Units (or IPO shares) at

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**9 OWNERSHIP OF THE FUND (continued)**

a time and fixed conversion rate specified in the Management Regulations. From September 2006, PEP has the capability to redeem in full this Class of Units.

<u>Number of units in issue</u>	<u>June 2006 No. of Units Unaudited</u>	<u>December 2005 No. of Units Audited</u>
<b>Class of Units</b>		
Class A(1) . . . . .	500,000	500,000
Class A(2) . . . . .	87,391,985	87,391,985
Class A(3) . . . . .	52,093,478	52,093,478
Class B1 . . . . .	13,000,000	13,000,000
Class B2 . . . . .	26,664,966	23,128,953
Class C(1) . . . . .	10,160,000	10,160,000
Class C(2) . . . . .	10,160,000	10,160,000

<u>Par value of units in issue</u>	<u>June 2006 Unaudited</u>	<u>December 2005 Audited</u>
<b>Class of Units</b>		
Class A(1) . . . . .	5,000	5,000
Class A(2) . . . . .	873,920	873,920
Class A(3) . . . . .	535,000	334,250
Class B1 . . . . .	130,000	130,000
Class B2 . . . . .	289,650	246,052
Class C(1) . . . . .	101,600	101,600
Class C(2) . . . . .	101,600	101,600
	<b><u>2,036,770</u></b>	<b><u>1,792,422</u></b>

**Earnings per unit**

Basic Earnings per Unit amounts are calculated by dividing net profit for the year attributable to Class A, Class B and Class C Units drawdown, divided by the equivalent weighted average number of Class A, Class B and Class C Units drawdown during the period.

Diluted Earnings per Unit are calculated by dividing the net profit attributable to Class A, Class B and Class C Unitholders as if 100% of the Units had been drawdown, divided by the total number of Class A, Class B and Class C Units as if fully drawdown.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**9 OWNERSHIP OF THE FUND (continued)**

Earnings per Class C Unit both diluted and undiluted are the same as this represents the amount of distributions per Unit attributable to the Class C Unitholders according to the Management Regulations.

	<u>Class A and Class B Units</u>	<u>Class C Units</u>	<u>Total</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
<b>For the period ended 30 June 2006</b>			
<b>Earnings per year net of minority interest</b>			
Basic . . . . .	366,773	6,858	373,631
Diluted . . . . .	<u>366,773</u>	<u>6,858</u>	<u>373,631</u>
<b>Weighted average number of units issued during the period</b>			
Basic . . . . .	166,748,820	20,320,000	
Diluted . . . . .	<u>189,071,709</u>	<u>20,320,000</u>	
<b>Earnings per Unit (Euros)</b>			
Basic . . . . .	2.20	0.3375	
Diluted . . . . .	<u>1.94</u>	<u>0.3375</u>	
	<u>Class A and Class B Units</u>	<u>Class C Units</u>	<u>Total</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
<b>For the period ended 30 June 2005</b>			
<b>Earnings per year net of minority interest</b>			
Basic . . . . .	77,352	6,858	84,210
Diluted . . . . .	<u>77,352</u>	<u>6,858</u>	<u>84,210</u>
<b>Weighted average number of units issued during the period</b>			
Basic . . . . .	143,007,454	20,320,000	
Diluted . . . . .	<u>186,972,043</u>	<u>20,320,000</u>	
<b>Earnings per Unit (Euros)</b>			
Basic . . . . .	0.54	0.3375	
Diluted . . . . .	<u>0.41</u>	<u>0.3375</u>	

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**10 NET RETAINED EARNINGS**

The distributions have been calculated in accordance with Article 18 of the Management Regulations and are summarised as follows:

<u>Class of Unit</u>	<u>Total</u>	<u>June 2006 6 months</u>	<u>December 2005 12 months</u>	<u>To December 2004</u>
		<u>Unaudited</u>	<u>Audited</u>	<u>Audited</u>
Class A(1) . . . . .	1,883	233	421	1,229
Class A(2) . . . . .	342,177	40,675	73,540	227,962
Class A(3) . . . . .	44,995	18,606	17,969	8,420
Class B1 . . . . .	93,980	6,051	10,940	76,989
Class B2 . . . . .	67,732	11,437	18,039	38,256
Class C(1) . . . . .	49,905	3,683	7,366	38,856
Class C(2) . . . . .	12,349	3,175	6,350	2,824
	<b>613,021</b>	<b>83,860</b>	<b>134,625</b>	<b>394,536</b>
<b>Cumulative distributions . . . . .</b>		<b>613,021</b>	<b>529,161</b>	<b>394,536</b>
<b>Accumulated Profits . . . . .</b>		<b>655,957</b>	<b>420,631</b>	<b>241,937</b>
<b>Net Accumulated Profit . . . . .</b>		<b>42,936</b>	<b>(108,530)</b>	<b>(152,599)</b>
Distributions brought forward . . . . .		35,329	31,797	
Distributions for the Period . . . . .		83,860	134,625	
Distribution Paid . . . . .		(80,260)	(131,093)	
<b>Distribution carried forward . . . . .</b>		<b>38,929</b>	<b>35,329</b>	
<b>Distributions per Unit</b>				

<u>Class of Unit</u>	<u>June 2006 6 months</u>	<u>December 2005 12 months</u>
	<u>Unaudited Euros per Unit</u>	<u>Audited Euros per Unit</u>
Class A(1) . . . . .	0.47	0.84
Class A(2) . . . . .	0.47	0.84
Class A(3) . . . . .	0.36	0.34
Class B1 . . . . .	0.47	0.84
Class B2 . . . . .	0.43	0.78
Class C(1) . . . . .	0.36	0.73
Class C(2) . . . . .	0.31	0.63

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**11 CUMULATIVE FOREIGN CURRENCY TRANSLATION**

	June 2006	December 2005
	<u>Unaudited</u>	<u>Audited</u>
Balance at the beginning of the period . . . . .	(20,846)	(27,499)
Other translation adjustments . . . . .	(6,107)	6,653
<b>Net variation during the period . . . . .</b>	<b>(6,107)</b>	<b>6,653</b>
<b>Balance at the end of the period . . . . .</b>	<b><u>(26,953)</u></b>	<b><u>(20,846)</u></b>

**12 CASHFLOW HEDGE VALUATION RESERVE**

	June 2006	December 2005
	<u>Unaudited</u>	<u>Audited</u>
Balance at the beginning of the period . . . . .	(39,300)	(44,652)
Movement in Fair Value of existing hedges . . . . .	29,359	6,152
Fair Value of hedges acquired during the period . . . . .	—	(800)
<b>Net variation during the period . . . . .</b>	<b>29,359</b>	<b>5,352</b>
<b>Balance at the end of the period . . . . .</b>	<b><u>(9,941)</u></b>	<b><u>(39,300)</u></b>

**13 INTEREST BEARING SECURED NOTES**

Euro Secured Floating Rate Notes (the “**Notes**”) have been issued by certain SPEs (the “**Issuers**”), which although not owned by the Fund are consolidated according to the Fund’s accounting principles (Note 2a). The Issuers have each made an issue of Notes at 100% of their face value and bear interest at a floating rate of 3 month Euribor plus a weighted average margin of 0.33% per annum.

The Notes are stated net of unamortised transaction costs incurred in making the respective issue.

The Notes are secured on the assets of the respective borrower and its direct and indirect subsidiaries. The Notes must be redeemed in full, on or before the repayment date. However the Notes may be repaid earlier, in full or in part, at the option of certain finance subsidiaries of the Fund (the “**Borrowers**”), subject to certain conditions.

Repayment of all the Notes is due before May 2010.

**Application of the Proceeds**

A total of €407.7 million of the proceeds from these Notes was swapped (Note 2o) into £257.6 million and lent, together with the remaining Euro proceeds of €885.6 million, to the borrowers. The proceeds were primarily used to refinance existing debt. Under the terms and conditions of the respective Issuer/Borrower loan agreements, the Sterling loans bear interest at a weighted average fixed rate of



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**13 INTEREST BEARING SECURED NOTES (continued)**

5.66%. The Euro loans bear interest at a weighted average fixed rate of 4.57%. Details of the Notes and the application of the proceeds are shown below:

**Application of the Proceeds**

	<b>June 2006</b>	<b>December 2005</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>Cumulative proceeds</b>		
Proceeds from secured floating rate notes:		
Loan notes listed on the London Stock Exchange . . . . .	1,149,250	1,149,250
Loan notes listed on the Irish Stock Exchange . . . . .	144,000	144,000
	<u><b>1,293,250</b></u>	<u><b>1,293,250</b></u>
<b>Transaction costs</b>		
<i>Cost</i>		
Balance at the beginning of the period . . . . .	65,087	52,353
Currency movement . . . . .	(432)	—
Additions during the period . . . . .	—	12,734
<b>Balance at the end of the period . . . . .</b>	<u><b>64,655</b></u>	<u><b>65,087</b></u>
<i>Amortisation</i>		
Balance at the beginning of the period . . . . .	34,298	19,659
Currency movement . . . . .	—	—
Amortisation shown in interest expense . . . . .	4,445	14,639
<b>Balance at the end of the period . . . . .</b>	<u><b>38,743</b></u>	<u><b>34,298</b></u>
<b>Net book value of Transaction Costs . . . . .</b>	<u><b>25,912</b></u>	<u><b>30,789</b></u>
<b>Net book value of proceeds from Secured notes . . . . .</b>	<u><b>1,267,338</b></u>	<u><b>1,262,461</b></u>
<b>Value of pledged assets</b>		
For loan notes listed on the London Stock Exchange . . . . .	2,519,198	2,311,095
For loan notes listed on the Irish Stock Exchange . . . . .	282,607	270,197
	<u><b>2,801,805</b></u>	<u><b>2,581,292</b></u>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**13 INTEREST BEARING SECURED NOTES (continued)**

<u>Proceeds from Notes listed on the London Stock Exchange</u>	<u>June 2006</u>	<u>December 2005</u>
	<u>Unaudited</u>	<u>Audited</u>
Pan European Industrial Properties Series I S.A. 2011 . . . . .	213,750	213,750
Pan European Industrial Properties Series II S.A. Class A—2012 . . . . .	285,500	285,500
Pan European Industrial Properties Series II S.A. Class B—2012 . . . . .	30,750	30,750
Pan European Industrial Properties Series II S.A. Class C—2012 . . . . .	39,750	39,750
Pan European Industrial Properties Series III S.A. Class A—2013 . . . . .	150,750	150,750
Pan European Industrial Properties Series III S.A. Class B—2013 . . . . .	17,250	17,250
Pan European Industrial Properties Series III S.A. Class C—2013 . . . . .	22,500	22,500
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class A—2013 . . . . .	337,000	337,000
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class B—2013 . . . . .	32,000	32,000
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class C—2013 . . . . .	20,000	20,000
	<u><b>1,149,250</b></u>	<u><b>1,149,250</b></u>
<b>Value of pledged assets</b>		
Pan European Industrial Properties Series I S.A . . . . .	555,706	498,669
Pan European Industrial Properties Series II S.A . . . . .	779,651	690,445
Pan European Industrial Properties Series III S.A. . . . .	454,768	411,099
Pan European Industrial Properties Series IV S.A. . . . .	729,073	710,882
	<u><b>2,519,198</b></u>	<u><b>2,311,095</b></u>
<b>Issuer: Pan European Industrial Properties Series I S.A.</b>		
Borrower . . . . .	ProLogis European Finance S.à r.l.	
Issue price . . . . .	100%	
Issue date . . . . .	May 2001	
Legal Maturity date . . . . .	April 2011	
Interest payment . . . . .	Quarterly	
Amount . . . . .	€213,750	
Interest rate: 3 month Euribor + . . . . .	0.35%	
Effective interest rate . . . . .	7.09%	
<b>Application of Proceeds</b>		
Euro tranche . . . . .	€95,500	
Fixed interest rate . . . . .	5.410%	
Sterling tranche (£'000) . . . . .	£73,610	
Fixed interest rate . . . . .	6.033%	
Exchange rate . . . . .	0.6225	
<b>Issuer: Pan European Industrial Properties Series II S.A.</b>		
Borrower . . . . .	ProLogis European Finance II S.à r.l.	
Issue price . . . . .	100%	
Issue date . . . . .	May 2002	
Legal Maturity date . . . . .	July 2012	
Interest payment . . . . .	Quarterly	
Effective interest rate . . . . .	6.39%	

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**13 INTEREST BEARING SECURED NOTES (continued)**

	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Amount . . . . .	€285,500	€30,750	€39,750
Interest rate: 3 month Euribor + . . . . .	0.32%	0.48%	0.90%
<b>Application of Proceeds</b>			
Euro tranche . . . . .	€169,069	€18,210	€23,539
Fixed interest rate . . . . .	5.450%	5.610%	6.030%
Sterling tranche (£'000) . . . . .	£71,547	£7,706	£9,961
Fixed interest rate . . . . .	5.915%	6.110%	6.540%
Exchange rate . . . . .	0.6145	0.6145	0.6145
<b>Issuer: Pan European Industrial Properties Series III S.A.</b>			
Borrower . . . . .	ProLogis European Finance IV S.à r.l.		
Issue price . . . . .	100%		
Issue date . . . . .	February 2003		
Legal Maturity date . . . . .	May 2013		
Interest payment . . . . .	Quarterly		
Effective interest rate . . . . .	5.57%		
	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Amount . . . . .	€150,750	€17,250	€22,500
Interest rate: 3 month Euribor + . . . . .	0.35%	0.48%	0.85%
<b>Application of Proceeds</b>			
Euro tranche . . . . .	€85,660	€9,802	€12,785
Fixed interest rate . . . . .	4.228%	4.358%	4.728%
Sterling tranche (£'000) . . . . .	£41,118	£4,705	£6,136
Fixed interest rate . . . . .	4.950%	5.075%	5.445%
Exchange rate . . . . .	0.6317	0.6317	0.6317
<b>Issuer: Pan European Industrial Properties Series IV S.A.</b>			
<b>(Compartment 1)</b>			
Borrower . . . . .	ProLogis European Finance VII S.à r.l.		
Issue price . . . . .	100%		
Issue date . . . . .	March 2005		
Legal Maturity date . . . . .	May 2013		
Interest payment . . . . .	Quarterly		
Effective interest rate . . . . .	4.44%		
	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Amount . . . . .	€337,000	€32,000	€20,000
Interest rate: 3 month Euribor + . . . . .	0.14%	0.18%	0.30%
<b>Application of Proceeds</b>			
Euro tranche . . . . .	€283,306	€26,901	€16,813
Fixed interest rate . . . . .	3.285%	3.325%	3.445%
Sterling tranche (£'000) . . . . .	£37,113	£3,524	£2,203
Fixed interest rate . . . . .	5.093%	5.133%	5.263%
Exchange rate . . . . .	0.6912	0.6912	0.6912

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**13 INTEREST BEARING SECURED NOTES (continued)**

<u>Proceeds from notes listed on the Irish Stock Exchange</u>	<u>June 2006</u>	<u>December 2005</u>
	<u>Unaudited</u>	<u>Audited</u>
France Industrial Properties No. I S.A. Class A due 2012 . . . . .	115,000	115,000
France Industrial Properties No. I S.A. Class B due 2012 . . . . .	29,000	29,000
	<u><b>144,000</b></u>	<u><b>144,000</b></u>
<b>Value of pledged assets . . . . .</b>	<u><b>282,607</b></u>	<u><b>270,197</b></u>
 <b>Issuer: France Industrial Properties No. I S.A.</b>		
Borrower . . . . .	ProLogis European Finance V S.à r.l.	
Issue price . . . . .	100%	
Issue date . . . . .	April 2002	
Repayment date . . . . .	April 2012	
Interest payment . . . . .	Quarterly	
Effective interest rate . . . . .	6.37%	
	<u><b>Class A</b></u>	<u><b>Class B</b></u>
Amount . . . . .	€115,000	€29,000
Interest rate: 3 month Euribor + . . . . .	0.38%	0.90%
Fixed interest rate . . . . .	5.585%	6.105%
<b>Application of Proceeds</b>		
Euro tranche . . . . .	€115,000	€29,000
Fixed interest rate . . . . .	5.585%	6.105%

**14 INTEREST BEARING LONG TERM BANK LOANS**

**Loan Financing**

The secured Loan Notes require a minimum asset base before being presented to the market. Until such time as there is a critical mass of suitable real estate assets, assets are financed by a secured revolving €500m credit facility provided by Banc of America Securities Limited and ABN AMRO Bank N.V. The facility is secured by way of pledges on the shares of certain subsidiaries of the Fund, intercompany receivables and a guarantee from the Fund. A second secured facility of €151m is provided by Hypo Real Estate Bank International and secured on the assets of certain subsidiaries located in Central Europe.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**14 INTEREST BEARING LONG TERM BANK LOANS (continued)**

**Mortgage and Lease Financing**

Real estate assets which are either unsuitable for secured loan note transactions, or that have been acquired by the Fund with financing already in place, are primarily financed by either third party mortgages or in France and Italy by “credit bail” style finance leases.

	<b>June 2006</b>	<b>December 2005</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>Proceeds:</b>		
Bank loans maturing beyond 5 years . . . . .	2,837	4,311
Bank loans maturing between 2 to 5 years . . . . .	163,713	164,030
Bank loans maturing within 1 year . . . . .	338,770	203,976
<b>Total proceeds from long term bank loans . . . . .</b>	<b><u>505,320</u></b>	<b><u>372,317</u></b>
<b>Transaction costs</b>		
<i>Cost</i>		
Balance at the beginning of the period . . . . .	11,234	11,672
Retirements and amounts written off . . . . .	—	(3,632)
Additions during the period . . . . .	220	3,194
<b>Balance at the end of the period . . . . .</b>	<b><u>11,454</u></b>	<b><u>11,234</u></b>
<i>Amortisation</i>		
Balance at the beginning of the period . . . . .	8,420	6,863
Retirements and amounts written off . . . . .	—	(2,819)
Amortisation shown in interest expense . . . . .	484	4,376
<b>Balance at the end of the period . . . . .</b>	<b><u>8,904</u></b>	<b><u>8,420</u></b>
<b>Net book value of Transaction Costs . . . . .</b>	<b><u>2,550</u></b>	<b><u>2,814</u></b>
<b>Net book value of proceeds from bank loans . . . . .</b>	<b><u>502,770</u></b>	<b><u>369,503</u></b>
<b>Less current portion of bank loans . . . . .</b>	<b><u>(336,220)</u></b>	<b><u>(201,162)</u></b>
<b>Net book value of bank loans net of current portion . . . . .</b>	<b><u>166,550</u></b>	<b><u>168,341</u></b>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**14 INTEREST BEARING LONG TERM BANK LOANS (continued)**

Used and unused portions of these facilities are analysed as follows:

	<b>June 2006</b>	<b>December 2005</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>Available facilities</b>		
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries . . . . .	651,059	651,059
Loans secured by first mortgage . . . . .	1,290	1,450
Finance leases . . . . .	17,207	18,549
	<b><u>669,556</u></b>	<b><u>671,058</u></b>
<b>Amounts drawn</b>		
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries . . . . .	486,823	352,318
Loans secured by first mortgage . . . . .	1,290	1,450
Finance leases . . . . .	17,207	18,549
	<b><u>505,320</u></b>	<b><u>372,317</u></b>
<b>Unutilised loan facilities</b>		
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries . . . . .	164,236	298,741
Loans secured by first mortgage . . . . .	—	—
Finance leases . . . . .	—	—
	<b><u>164,236</u></b>	<b><u>298,741</u></b>
<b>Value of pledged assets</b>		
Real estate—Loans . . . . .	1,110,872	678,505
Real estate—Finance leases . . . . .	73,695	70,320
	<b><u>1,184,567</u></b>	<b><u>748,825</u></b>



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**14 INTEREST BEARING LONG TERM BANK LOANS (continued)**

The future minimum payments under existing finance lease arrangements, for the acquisition of certain real estate properties, are as follows:

	<b>June 2006</b>	<b>December 2005</b>
	<b>Un-Audited</b>	<b>Audited</b>
Within one year . . . . .	2,323	2,717
Between one and two years . . . . .	4,369	2,861
Between two and three years . . . . .	2,857	3,013
Between three and four years . . . . .	2,679	2,912
Between four and five years . . . . .	2,342	2,735
After five years . . . . .	2,637	4,311
<b>Total . . . . .</b>	<b>17,207</b>	<b>18,549</b>
Number of loans . . . . .	4	4
Weighted average effective interest rate . . . . .	4.14%	4.14%

**Summary of facilities**

**Lender: Hypo Real Estate Bank International AG**

Principal Borrower: . . . . .	ProLogis Central European Finance S.L.
First drawdown . . . . .	February 2004
Repayment date . . . . .	March, 2010
Pricing 3 month Euribor . . . . .	+ 137 bps
Interest payment . . . . .	Quarterly
Effective interest rate . . . . .	3.61%

**Lender: Banc of America Securities Limited and ABN AMRO Bank N.V.**

**Revolving credit facility with a maximum capacity of Euro 500 million**

Principal Borrowers: . . . . .	ProLogis European Properties VI S.à r.l. ProLogis European Properties VII S.à r.l. ProLogis European Properties IX S.à r.l.
First drawdown . . . . .	December, 2003
Final date . . . . .	December, 2007
Pricing 3 month Euribor . . . . .	+ 35 to 47.5 bps

**15 TAXATION**

The Fund is an unincorporated contractual co-ownership scheme governed by the law on Undertakings for Collective Investments of 20 December 2002.

According to legislation currently in force, the Fund is not subject to corporate income or capital gains taxes in Luxembourg. It is, however, liable to an annual subscription tax. This tax is 0.01% per annum on the net assets attributable to Class A(2), Class A(3), Class B1, Class B2, Class C(1) and Class C(2) Units. The equivalent rate on the net assets attributable to Class A(1) Units is 0.05%. The tax, payable quarterly, is assessed on the last day of each quarter.

Real estate revenues, or capital gains derived from real estate, may be subject to taxes by assessment, withholding or otherwise in the countries where the real estate is situated.

The Fund's subsidiaries depreciate their historical property cost in accordance with applicable tax regulations. Depreciation is deducted from taxable profits in determining current taxable income.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**15 TAXATION (continued)**

Deferred tax liabilities are calculated according to the full liability method, and mainly arise on timing differences generated by fair value adjustments occurring post acquisition in the case where an acquisition does not qualify as a business combination. In the case of acquisitions which are classified as business combinations deferred tax is recognised on the timing differences between the carrying value of real estate investments in these financial statements and the respective tax basis at the date of acquisition, and is subsequently remeasured in each period. Finally there is a deferred tax effect due to tax losses carried forward and other timing differences.

	June 2006	December 2005
	Unaudited	Audited
<b>Deferred tax liability</b>		
<b>Opening balance</b> . . . . .	<b>84,735</b>	<b>42,219</b>
Effect of revaluations of properties to fair value post acquisition . . . . .	112,384	39,276
Deferred tax liabilities acquired as part of business combinations . . . . .	—	3,240
<b>Movements on deferred tax liability</b> . . . . .	<b>112,384</b>	<b>42,516</b>
<b>Closing balance</b> . . . . .	<b>197,119</b>	<b>84,735</b>
<b>Made up of:</b>		
Deferred tax liabilities acquired as part of business combinations related to the difference in the tax base on carrying value of investment properties acquired . . . . .	3,240	3,240
Revaluation of investment properties to Fair Value . . . . .	193,879	81,495
<b>Total deferred tax liabilities</b> . . . . .	<b>197,119</b>	<b>84,735</b>
<b>Long term tax asset (mainly relating to losses carried forward)</b>		
<b>Opening balance</b> . . . . .	<b>5,992</b>	<b>3,509</b>
Deferred tax assets acquired as part of business combinations related to the difference in the tax base on carrying value of investment properties acquired . . . . .	—	466
Relating to tax losses carried forward . . . . .	1,591	2,017
<b>Total deferred tax assets</b> . . . . .	<b>7,583</b>	<b>5,992</b>
<b>Income and other current taxes payable</b>		
Balance brought forward . . . . .	16,457	13,883
Tax expense . . . . .	6,041	16,567
Tax paid . . . . .	(8,363)	(13,993)
<b>Closing balance</b> . . . . .	<b>14,135</b>	<b>16,457</b>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**15 TAXATION (continued)**

	June 2006	June 2005
	Unaudited	Unaudited
<b>Tax expense</b>		
Income taxes . . . . .	5,174	8,624
Other taxes . . . . .	752	258
Subscription taxes . . . . .	115	84
Income taxes expensed . . . . .	<u>6,041</u>	<u>8,966</u>
<b>Deferred tax expense</b>		
Arising from liabilities . . . . .	112,384	8,630
Arising from assets . . . . .	(1,591)	(1,781)
<b>Net transfers from deferred tax liability . . . . .</b>	<b><u>110,793</u></b>	<b><u>6,849</u></b>
<b>Charges for taxation reported in the consolidated income statement . . . . .</b>	<b><u>116,834</u></b>	<b><u>15,815</u></b>
<b>Effective tax rate . . . . .</b>	<b><u>23.81%</u></b>	<b><u>15.77%</u></b>
<b>Made up of:</b>		
Effective tax rate of the operating activities of subsidiaries . . . . .	5.53%	10.19%
Effective deferred tax on valuation movements . . . . .	18.28%	5.58%
	<u>23.81%</u>	<u>15.77%</u>
Weighted average tax rate . . . . .	29.07%	33.47%
Effect of temporary differences . . . . .	(5.26)%	(17.70)%
Effective tax rate . . . . .	<u>23.81%</u>	<u>15.77%</u>

**16 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	June 2006	December 2005
	Unaudited	Audited
Accrued construction costs . . . . .	13,717	10,124
Security deposits . . . . .	12,521	11,870
Legal fee accruals . . . . .	5,699	537
Interest payable . . . . .	5,338	5,343
Other accrued expenses . . . . .	12,987	9,998
VAT payable . . . . .	15,614	12,883
Distributions payable . . . . .	38,929	35,329
<b>Total . . . . .</b>	<b><u>104,805</u></b>	<b><u>86,084</u></b>

**17 RENTAL LEASES**

The Fund leases real estate under operating leases. The terms of the leases are in line with normal practices in each market. Leases are reviewed or subject to automatic inflationary adjustments as appropriate. Operating expenses, where applicable, are recharged to customers either by way of direct charge or monthly service charges.

Lease payments receivable from non-cancellable leases are shown below. For the purposes of this schedule it is conservatively assumed that a lease expires on the date of the first break option.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**17 RENTAL LEASES (continued)**

**Year of expiry or first break option**

	<u>Amount receivable</u>	<u>%</u>
Within 1 year . . . . .	286,835	20.4%
between 2 and 5 years . . . . .	604,346	43.1%
5 years and more . . . . .	511,449	36.5%
	<u><b>1,402,630</b></u>	<u><b>100%</b></u>

**18 OTHER PROPERTY RENTAL EXPENSES**

Property operating result comprises operating expenses net of amounts recoverable from customers and is analysed as follows:

	<u>June 2006 6 months Unaudited</u>	<u>June 2005 6 months Unaudited</u>
Maintenance & utilities . . . . .	932	818
Insurance costs . . . . .	1,950	1,408
Property management fees (Note 19b) . . . . .	1,338	1,077
<b>Total . . . . .</b>	<u><b>4,220</b></u>	<u><b>3,303</b></u>

The Management Company is obligated to provide management services to the Fund. In turn, the Management Company has subcontracted a number of related investment managers to carry out property management functions for the Fund (Note 19b). As a result, the Fund does not have any employees, except for three employees in a partially owned, indirect subsidiary incorporated in Hungary.

**19 TRANSACTIONS WITH RELATED PARTIES**

**19a Management fees**

The Management Company is entitled to a base management fee equivalent to a percentage of the value of the Fund's investment (direct or indirect) in real estate. Currently, the rate is 75 basis points per annum on the first €2 billion of the value of real estate. Between €2 billion and €3.5 billion the rate is 45 basis points and 35 basis points is charged on the excess beyond this range.

**19b Property management fees**

The Management Company has entered into investment management agreements with ProLogis Management BV, Garonor Services SAS, ProLogis Poland Management II SpZoo, ProLogis Germany Management II GmbH, ProLogis Italy Management II S.r.l., ProLogis Spain Management II SL, ProLogis Czech Management II S.r.o. and ProLogis Hungary Management II Kft respectively incorporated under the laws of The Netherlands, France, Poland, Germany, Italy, Spain, the Czech Republic and Hungary (the "**Investment Managers**"). Under the terms of these agreements, the Investment Managers carry out property management functions on behalf of the Fund. Fees paid to local non-related investment managers are deducted from the base management fee received by the Management Company.

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**19 TRANSACTIONS WITH RELATED PARTIES (continued)**

**19c The Stabilised Property Contribution Agreement**

In accordance with the provisions of the SPCA, ProLogis is obliged to offer for sale and the Management Company, on behalf of the Fund, is obliged to accept all distribution facilities that meet certain investment and operating criteria. The shares of the company owning eligible properties, or in certain cases the properties themselves, are contributed based on the Fair Value of their respective underlying assets and liabilities adjusted to reflect 95% of the gross appraised value of the distribution facility owned. A minimum of 3% of this discounted gross value is paid to ProLogis in the form of additional Class B2 Units. The remainder of the net book value is paid in cash. Net unrealised gains of the Fund include the recognition of the discounts. The SPCA will be terminated with effect from the Settlement Date.

**19d Class B2 Subscription Agreement**

Under the agreement dated 29 June 2001 between ProLogis and the Management Company additional series of Class B2 Units may be issued to ProLogis for a maximum amount of €150 million, by the Management Company at any time on or before 15 September 2009. The Management Company does not intend to make any further calls under the agreement.

**19e Leasehold agreements**

The Fund has leased real estate to some of the Investment Managers on an arm's length basis. Rent charged for the period amounted to €2.1 million (31 December 2005: €1.8 million).

**19f Development fee**

ProLogis has entered into a number of contracts with indirect subsidiaries of the Fund to manage, on behalf of those subsidiaries, significant redevelopment or extension projects. In return ProLogis receives a development fee of 7% of the cost of the project. These fees are included within the cost basis of real estate investments.

**19g Insurance**

The Management Company has, on behalf of the Fund, entered into an insurance contract with a related party under which the first US\$1 million of any claim is settled by that related party. The remainder of any claim is met by a syndicate of insurers who are not related parties.

**20 FINANCE INCOME**

	June 2006 6 months	June 2005 6 months
	Unaudited	Unaudited
Interest income . . . . .	2,170	861
<b>Total finance income . . . . .</b>	<b><u>2,170</u></b>	<b><u>861</u></b>

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**21 FINANCE EXPENSES**

	June 2006 6 months Unaudited	June 2005 6 months Unaudited
Interest payable brought forward . . . . .	(5,343)	(8,629)
Interest payable carried forward . . . . .	5,338	10,143
Interest paid . . . . .	40,037	33,665
Interest expense . . . . .	40,032	35,179
Amortisation of initial borrowing costs . . . . .	4,929	9,105
<b>Total interest and amortisation expense . . . . .</b>	<b>44,961</b>	<b>44,284</b>
Unrealised change in value of fair value hedges . . . . .	(4,046)	10,635
Other net unrealised foreign currency (gains)/losses on monetary assets and liabilities . . . . .	2,004	(11,151)
Cumulative realised (gains)/losses . . . . .	(1,964)	(1,449)
<b>Net foreign currency losses on monetary assets and liabilities . . . . .</b>	<b>(4,006)</b>	<b>(1,965)</b>
<b>Total finance expenses . . . . .</b>	<b>40,955</b>	<b>42,319</b>

**22 NET CASH FLOW FROM OPERATING ACTIVITIES**

	June 2006 6 months Unaudited	June 2005 6 months Unaudited
<b>Profit from operating activities before tax, extraordinary item and minority interest . . . . .</b>	<b>490,712</b>	<b>100,296</b>
<i>Adjustments for non-cash items</i>		
Reversal of rent levelling adjustment . . . . .	3,926	1,115
Amortisation of transaction costs relating to debt . . . . .	4,929	9,105
Unrealised change in value of fair value hedges . . . . .	(4,046)	10,635
Other Net Unrealised foreign currency losses . . . . .	2,004	(11,151)
Net Unrealised (gain)/loss on the investment in real estate . . . . .	(409,979)	(29,972)
Realised (gain)/loss on sale of investments . . . . .	(1,193)	(1,278)
<i>(Increase)/decrease in operating assets</i>		
(Increase)/decrease in amounts due from related parties . . . . .	(23)	—
Decrease/(increase) in accounts receivable . . . . .	(1,961)	4,523
Decrease/(increase) in other assets . . . . .	(7,621)	(4,373)
Decrease/(increase) in accounts payable . . . . .	3,213	(2,150)
(Increase)/decrease in amounts due to related parties . . . . .	(7,404)	175
Payment of income tax . . . . .	(8,363)	(5,219)
(Decrease)/increase in accrued expenses and other current liabilities . . . . .	15,121	862
(Decrease)/increase in deferred income . . . . .	(1,219)	3,774
<b>Net cash generated by operating activities . . . . .</b>	<b>78,096</b>	<b>76,342</b>

**23 CONTINGENCIES AND COMMITMENTS**

**Contingencies**

The Fund, through its direct and indirect subsidiaries, is contingently liable with respect to lawsuits and other matters that arise in the normal course of business. The Management Company is of the



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**23 CONTINGENCIES AND COMMITMENTS (continued)**

opinion that while it is impossible to accurately ascertain the ultimate legal and financial liability with respect to these contingencies, the ultimate outcome of these contingencies is not anticipated to have a material effect on the Fund's financial position and operations.

**Commitments**

Commitments under finance leases are disclosed under Note 14, Long term bank loans

Commitments for capital improvements and construction contracts total €10.5 million.

**24 NON-CASH INVESTING AND FINANCING ACTIVITIES**

Under the SPCA the Fund issued Class B2 Units totalling €43.6 million (six months to June 2005—€5.7 million) as part of the consideration for real estate assets contributed by ProLogis.

**25 FINANCIAL INSTRUMENTS**

**Interest rate and Fair Value**

The following table sets out the carrying amount before deduction of unamortised transaction costs and fair value, by maturity, of the Fund's financial instruments that are exposed to interest rate risk.

Instruments at floating rate, i.e. which have an interest rate fixed at regular intervals of three months or less, have a fair value equivalent to the carrying value. Instruments which are at fixed rate have a fair value calculated as the present value of payments to be made under the loan agreement.

**Period ended 30 June 2006**

<b>Fixed rate</b>	<b>&lt;1 year</b>	<b>1-5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
Obligations under finance leases				
Carrying value . . . . .	(2,323)	(12,247)	(2,637)	(17,207)
Fair value . . . . .	(2,408)	(12,692)	(2,733)	(17,833)
<b>Floating rate</b>	<b>&lt;1 year</b>	<b>1-5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
Cash and cash equivalents . . . . .	112,162	—	—	112,162
Secured bank loans . . . . .	(335,765)	(151,058)	—	(486,823)
Mortgages . . . . .	(682)	(408)	(200)	(1,290)
Loan notes . . . . .	—	(213,750)	(1,079,500)	(1,293,250)
Interest rate swap . . . . .	—	213,750	1,079,500	1,293,250

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**25 FINANCIAL INSTRUMENTS (continued)**

**Year ended 31 December 2005**

<u>Fixed rate</u>	<u>&lt;1 year</u>	<u>1-5 years</u>	<u>&gt;5 years</u>	<u>Total</u>
Obligations under finance leases				
Carrying value . . . . .	(2,717)	(11,521)	(4,311)	(18,549)
Fair value . . . . .	(2,811)	(11,920)	(4,460)	(19,191)
<u>Floating rate</u>	<u>&lt;1 year</u>	<u>1-5 years</u>	<u>&gt;5 years</u>	<u>Total</u>
Cash and cash equivalents . . . . .	96,785	—	—	96,785
Secured bank loans . . . . .	(201,259)	(151,059)	—	(352,318)
Mortgages . . . . .	—	(1,450)	—	(1,450)
Loan notes . . . . .	—	(213,750)	(1,079,500)	(1,293,250)
Interest rate swap . . . . .	—	213,750	1,079,500	1,293,250

Interest on floating rate financial instruments is reset at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Fund not included in the above tables are non-interest bearing, but given their short term nature are not subject to interest rate risk.

**Swap Agreements**

<u>Issuer:</u>	<u>Pan-European Industrial Properties Series I S.A.</u>
Starting date . . . . .	May 2001
Maturity date . . . . .	April 2011
Interest payment . . . . .	Quarterly
<u>Swap counter-party:</u>	<u>ABN AMRO</u>
Cash flows hedged . . . . .	€95,500
Pays floating interest . . . . .	3-month Euribor + 0.35%
Receives fixed interest . . . . .	5.410%
<u>Swap counter-party:</u>	<u>JPMorgan Chase</u>
Fair value hedge (£'000) . . . . .	£73,610
Pays floating interest . . . . .	3-month Euribor + 0.35%
Receives fixed interest . . . . .	6.033%
Exchange rate . . . . .	0.6225

The total amount of interest paid and interest received is €8.9 million for the six month period ended 30 June 2006 (2005: €17.3 million).

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**25 FINANCIAL INSTRUMENTS (continued)**

<u>Issuer:</u>		<u>Pan-European Industrial Properties Series II S.A.</u>			
Starting date . . . . .					May 2002
Maturity date . . . . .					July 2012
Interest payment . . . . .					Quarterly
<u>Swap counter-party:</u>	<u>ABN AMRO</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	
Cash flows hedged . . . . .		€84,534	€9,105	€11,769	
Pays floating interest . . . . .	3-month Euribor	—	—	—	
Receives fixed interest . . . . .		5.450%	5.610%	6.030%	
Fair value hedge (£'000) . . . . .		£35,773	£3,853	—	
Pays floating interest . . . . .	3-month Euribor +	0.32%	0.48%	—	
Receives fixed interest . . . . .		5.915%	6.110%	—	
Exchange rate . . . . .		0.6145	0.6145	0.6145	
<u>Swap counter-party:</u>	<u>JPMorgan Chase</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	
Cash flows hedged . . . . .		€84,535	€9,105	€11,770	
Pays floating interest . . . . .	3-month Euribor	—	—	—	
Receives fixed interest . . . . .		5.450%	5.610%	6.030%	
Fair value hedge (£'000) . . . . .		£35,773	£3,853	£9,961	
Pays floating interest . . . . .	3-month Euribor +	0.32%	0.48%	0.90%	
Receives fixed interest . . . . .		5.915%	6.110%	6.540%	
Exchange rate . . . . .		0.6145	0.6145	0.6145	

The total amount of interest paid and interest received is €14.8 million for the six month period ended 30 June 2006 (2005: €28.9 million).

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**25 FINANCIAL INSTRUMENTS (continued)**

<u>Issuer:</u>		<u>Pan-European Industrial Properties Series III S.A.</u>			
Starting date . . . . .				February 2003	
Maturity date . . . . .				May 2013	
Interest payment . . . . .				Quarterly	
<u>Swap counter-party:</u>	<u>ABN AMRO</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	
Cash flows hedged . . . . .		€42,830	€4,901	€6,392	
Pays floating interest . . . . .	3-month Euribor	—	—	—	
Receives fixed interest . . . . .		4.228%	4.358%	4.728%	
Fair value hedge (£'000) . . . . .		£20,559	£2,352	£3,068	
Pays floating interest . . . . .	3-month Euribor +	0.35%	0.48%	0.85%	
Receives fixed interest . . . . .		4.950%	5.075%	5.445%	
Exchange rate . . . . .		0.6317	0.6317	0.6317	
<u>Swap counter-party:</u>	<u>JPMorgan Chase</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	
Cash flows hedged . . . . .		€42,830	€4,901	€6,393	
Pays floating interest . . . . .	3-month Euribor	—	—	—	
Receives fixed interest . . . . .		4.228%	4.358%	4.728%	
Fair value hedge (£'000) . . . . .		£20,559	£2,353	£3,068	
Pays floating interest . . . . .	3-month Euribor +	0.35%	0.48%	0.85%	
Receives fixed interest . . . . .		4.950%	5.075%	5.445%	
Exchange rate . . . . .		0.6317	0.6317	0.6317	

The total amount of interest paid and interest received is €6.8 million for the six month period ended 30 June 2006 (2005: €13.6 million).

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**25 FINANCIAL INSTRUMENTS (continued)**

<u>Issuer:</u>		<b>Pan-European Industrial Properties Series IV S.A. (Compartment 1)</b>		
Starting date . . . . .				March 2005
Maturity date . . . . .				May 2013
Interest payment . . . . .				Quarterly
<u>Swap counter-party:</u>	<u>ABN AMRO</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Cash flows hedged . . . . .		€141,653	€13,451	€8,407
Pays floating interest . . . . .	3-month Euribor	—	—	—
Receives fixed interest . . . . .		3.285%	3.325%	3.445%
Fair value hedge (£'000) . . . . .		£18,557	£1,762	£1,101
Pays floating interest . . . . .	3-month Euribor +	0.14%	0.18%	0.30%
Receives fixed interest . . . . .		5.093%	5.133%	5.263%
Exchange rate . . . . .		0.6912	0.6912	0.6912
<u>Swap counter-party:</u>	<u>Bank of America</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Cash flows hedged . . . . .		€141,653	€13,451	€8,407
Pays floating interest . . . . .	3-month Euribor	—	—	—
Receives fixed interest . . . . .		3.285%	3.325%	3.445%
Fair value hedge (£'000) . . . . .		£18,557	£1,762	£1,101
Pays floating interest . . . . .	3-month Euribor +	0.14%	0.18%	0.30%
Receives fixed interest . . . . .		5.093%	5.133%	5.263%
Exchange rate . . . . .		0.6912	0.6912	0.6912

The total amount of interest paid and interest received is €12.0 million for the six month period ended 30 June 2006 (2005: € nil).

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**25 FINANCIAL INSTRUMENTS (continued)**

<u>Issuer:</u>	<u>France Industrial Finance No. 1 S.A.</u>		
Starting date . . . . .			April 2002
Maturity date . . . . .			April 2012
Interest payment . . . . .			Quarterly
<u>Swap counter-party:</u>	<u>Société Générale</u>	<u>Class A</u>	<u>Class B</u>
Cash flows hedged . . . . .		€115,000	€29,000
Pays floating interest . . . . .	3-month Euribor +	0.38%	0.90%
Receives fixed interest . . . . .	5.205% +	0.38%	0.90%

The total amount of interest paid and interest received is €6.2 million for the six month period ended 30 June 2006 (2005: €6.1 million).

**Fair Value of hedging instruments**

	<u>June 2006</u>	<u>December 2005</u>
	<u>Unaudited</u>	<u>Audited</u>
Balance at the beginning of the period . . . . .	(11,500)	(12,132)
Movement in fair value of existing hedges . . . . .	33,405	227
Fair value of hedges acquired during the period . . . . .	—	405
<b>Net variation during the period . . . . .</b>	<b>33,405</b>	<b>632</b>
<b>Balance at the end of the period . . . . .</b>	<b>21,905</b>	<b>(11,500)</b>
Positive hedge values . . . . .	41,222	27,148
Negative hedge values . . . . .	(19,317)	(38,648)
	<u>21,905</u>	<u>(11,500)</u>



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES**

**Companies under the control of the Fund:**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis European Holdings S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings II S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings V S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings VI S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings VII S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings VIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Holdings IX S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance II S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance III S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance V S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance VI S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance VII S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance VIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis European Finance IX S.à r.l. . . . .	Luxembourg	100.0
ProLogis Belgium S.à r.l. . . . .	Luxembourg	100.0
ProLogis Belgium II S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic II S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic III S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic VII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Czech Republic XIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France S.à r.l. . . . .	Luxembourg	100.0
ProLogis France I S.à r.l. . . . .	Luxembourg	100.0
ProLogis France II S.à r.l. . . . .	Luxembourg	100.0
ProLogis France III S.à r.l. . . . .	Luxembourg	100.0
ProLogis France IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis France V S.à r.l. . . . .	Luxembourg	100.0
ProLogis France VI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France VII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France IX S.à r.l. . . . .	Luxembourg	100.0
ProLogis France X S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XV S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XVI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XVIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XIX S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XX S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXI S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis France XXIV S.à r.l. . . . .	Luxembourg	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis France XXV S.à r.l. ....	Luxembourg	100.0
ProLogis France XXVI S.à r.l. ....	Luxembourg	100.0
ProLogis France XXVII S.à r.l. ....	Luxembourg	100.0
ProLogis France XXVIII S.à r.l. ....	Luxembourg	100.0
ProLogis France XXIX S.à r.l. ....	Luxembourg	100.0
ProLogis France XXXI S.à r.l. ....	Luxembourg	100.0
ProLogis France XXX S.à r.l. ....	Luxembourg	100.0
ProLogis France XXXIV S.à r.l. ....	Luxembourg	100.0
ProLogis France XXXV S.à r.l. ....	Luxembourg	100.0
ProLogis France XXXVI S.à r.l. ....	Luxembourg	100.0
ProLogis France XXXVII S.à r.l. ....	Luxembourg	100.0
ProLogis France XXXVIII S.à r.l. ....	Luxembourg	100.0
ProLogis France XXXIX S.à r.l. ....	Luxembourg	100.0
ProLogis France XL S.à r.l. ....	Luxembourg	100.0
ProLogis France XLI S.à r.l. ....	Luxembourg	100.0
ProLogis France XLIII S.à r.l. ....	Luxembourg	100.0
ProLogis France XLIV S.à r.l. ....	Luxembourg	100.0
ProLogis France XLV S.à r.l. ....	Luxembourg	100.0
ProLogis France XLVII S.à r.l. ....	Luxembourg	100.0
ProLogis France XLVIII S.à r.l. ....	Luxembourg	100.0
ProLogis France XLIX S.à r.l. ....	Luxembourg	100.0
ProLogis France LVII S.à r.l. ....	Luxembourg	100.0
PLD Germany V S.à.r.l. ....	Luxembourg	100.0
PLD Germany VII S.à.r.l. ....	Luxembourg	100.0
ProLogis Germany S.à r.l. ....	Luxembourg	100.0
ProLogis Germany III S.à r.l. ....	Luxembourg	100.0
ProLogis Germany IV S.à r.l. ....	Luxembourg	100.0
ProLogis Germany XIX S.à r.l. ....	Luxembourg	100.0
ProLogis Germany XV S.à r.l. ....	Luxembourg	100.0
ProLogis Germany XVII S.à.r.l. ....	Luxembourg	100.0
ProLogis Italy III S.à r.l. ....	Luxembourg	100.0
ProLogis Italy V S.à r.l. ....	Luxembourg	100.0
ProLogis Italy IX S.à r.l. ....	Luxembourg	100.0
ProLogis Italy XIV S.à r.l. ....	Luxembourg	100.0
ProLogis Italy XXV S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands I S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands II S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands IIa S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands III S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands IV S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands V S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands VI S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands VII S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands VIII S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands IX S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands X S.à r.l. ....	Luxembourg	100.0
ProLogis Netherlands XI S.à r.l. ....	Luxembourg	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis Netherlands XII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XVI S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XVIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XIX S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XX S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XXI S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XXII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Netherlands XXXI S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland II S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland III S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland V S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland VI S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland VIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland X S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XI S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XVI S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XX S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XXII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XXIX S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XXXIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Poland XLVIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Realty I S.à r.l. . . . .	Luxembourg	100.0
ProLogis S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain III S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain V S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain VI S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain VII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain VIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain IX S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain X S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain XI S.à r.l. . . . .	Luxembourg	100.0
ProLogis Spain XII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK II S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK III S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK IV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK IX S.à r.l. . . . .	Luxembourg	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis UK X S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XI S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XVI S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XVIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XXII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XXIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XXVI S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XXVIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XXXIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XXXV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XXXVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XL S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XLI S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XLIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XLV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XLVI S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XLVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XLIX S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LVII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LXI S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LXII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LXIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LXXI S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LXXIV S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LXXIX S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LXXX S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LXXXI S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LXXXII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK LXXXIII S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK XC S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK CC S.à r.l. . . . .	Luxembourg	100.0
ProLogis UK CCI S.à r.l. . . . .	Luxembourg	100.0
1&2 Buncefield Lane (No.1) Limited . . . . .	United Kingdom	100.0
1&2 Buncefield Lane (No. 2) Limited . . . . .	United Kingdom	100.0
Beddington Lane Unit C (No.1) Limited . . . . .	United Kingdom	100.0
Beddington Lane Unit C (No.2) Limited . . . . .	United Kingdom	100.0
Interlink Park Management Company . . . . .	United Kingdom	100.0
ProLogis Apex Park DC 3 (No.1) Limited . . . . .	United Kingdom	100.0
ProLogis Apex Park DC 3 (No.2) Limited . . . . .	United Kingdom	100.0
ProLogis (Basingstoke Unit D) Limited . . . . .	United Kingdom	100.0
ProLogis Corby Limited . . . . .	United Kingdom	100.0
ProLogis Grange Park Plot 6 Zone A (No.1) Limited . . . . .	United Kingdom	100.0
ProLogis Grange Park Plot 6 Zone A (No.2) Limited . . . . .	United Kingdom	100.0
ProLogis Grange Park Plot 6 Zone A (No.3) Limited . . . . .	United Kingdom	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis Grange Park Zone A Unit 4 (1) Limited . . . . .	United Kingdom	100.0
ProLogis Grange Park Zone A Unit 4 (2) Limited . . . . .	United Kingdom	100.0
ProLogis Keresley Limited . . . . .	United Kingdom	100.0
ProLogis Kettering (Number 1) Ltd . . . . .	United Kingdom	100.0
ProLogis Marston Gate Plot 1 (No.1) Limited . . . . .	United Kingdom	100.0
ProLogis Marston Gate Plot 1 (No.2) Limited . . . . .	United Kingdom	100.0
ProLogis Marston Gate Plot 3 (No.1) Limited . . . . .	United Kingdom	100.0
ProLogis Marston Gate Plot 3 (No.2) Limited . . . . .	United Kingdom	100.0
ProLogis (Plot 1200 Central Park Rugby No.1) Limited . . . . .	United Kingdom	100.0
ProLogis (Plot 1200 Central Park Rugby No.2) Limited . . . . .	United Kingdom	100.0
ProLogis Wakefield Limited . . . . .	United Kingdom	100.0
Angeloil S.à r.l. . . . .	France	100.0
Artoilog S.à r.l. . . . .	France	100.0
Bre Francilienne 2 S.à r.l. . . . .	France	100.0
Bre Francilienne Compans S.à r.l. . . . .	France	100.0
Bre Francilienne S.à r.l. . . . .	France	100.0
Bre Orbium S.à r.l. . . . .	France	100.0
Chesnes Nord . . . . .	France	100.0
Garonor SAS . . . . .	France	100.0
ProLogis France I Eurl . . . . .	France	100.0
ProLogis France II Eurl . . . . .	France	100.0
ProLogis France III Eurl . . . . .	France	100.0
ProLogis France IV Eurl . . . . .	France	100.0
ProLogis France VI Eurl . . . . .	France	100.0
ProLogis France VII Eurl . . . . .	France	100.0
ProLogis France VIII Eurl . . . . .	France	100.0
ProLogis France XI Eurl . . . . .	France	100.0
ProLogis France XII Eurl . . . . .	France	100.0
ProLogis France XIII Eurl . . . . .	France	100.0
ProLogis France XIV Eurl . . . . .	France	100.0
ProLogis France XV Eurl . . . . .	France	100.0
ProLogis France XVI Eurl . . . . .	France	100.0
ProLogis France XVII Eurl . . . . .	France	100.0
ProLogis France XVIII Eurl . . . . .	France	100.0
ProLogis France XX Eurl . . . . .	France	100.0
ProLogis France XXI Eurl . . . . .	France	100.0
ProLogis France XXII Eurl . . . . .	France	100.0
ProLogis France XXIII Eurl . . . . .	France	100.0
ProLogis France XXIV Eurl . . . . .	France	100.0
ProLogis France XXV Eurl . . . . .	France	100.0
ProLogis France XXVI Eurl . . . . .	France	100.0
ProLogis France XXVII Eurl . . . . .	France	100.0
ProLogis France XXX Eurl . . . . .	France	100.0
ProLogis France XXXI Eurl . . . . .	France	100.0
ProLogis France XXXII Eurl . . . . .	France	100.0
ProLogis France XXXIII Eurl . . . . .	France	100.0
ProLogis France XXXIV Eurl . . . . .	France	100.0
ProLogis France XXXV Eurl . . . . .	France	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis France XXXVI Eurl . . . . .	France	100.0
ProLogis France XXXVII Eurl . . . . .	France	100.0
ProLogis France XXXVIII Eurl . . . . .	France	100.0
ProLogis France XXXIX Eurl . . . . .	France	100.0
ProLogis France XL Eurl . . . . .	France	100.0
ProLogis France XLI Eurl . . . . .	France	100.0
ProLogis France XLIII Eurl . . . . .	France	100.0
ProLogis France XLIV Eurl . . . . .	France	100.0
ProLogis France XLV Eurl . . . . .	France	100.0
ProLogis France XLVII Eurl . . . . .	France	100.0
ProLogis France XLVIII Eurl . . . . .	France	100.0
ProLogis France XLIX Eurl . . . . .	France	100.0
ProLogis France LVII Eurl . . . . .	France	100.0
ProLogis France I SAS . . . . .	France	100.0
ProLogis France II SAS . . . . .	France	100.0
ProLogis France III SAS . . . . .	France	100.0
SCI Carrefour de l'Europe . . . . .	France	100.0
SCI Copernic . . . . .	France	100.0
SCI Crépy Paris Nord . . . . .	France	100.0
SCI d'Ormes . . . . .	France	100.0
SCI Ile de France . . . . .	France	100.0
SCI Le Parc . . . . .	France	100.0
SCI Plessis Pate . . . . .	France	100.0
SCI Plessis Pate 2 . . . . .	France	100.0
SNC Aulnay Extension Ouest . . . . .	France	100.0
SNC Melun 7 . . . . .	France	100.0
SCI Croisée des Autoroutes Lorraines . . . . .	France	100.0
SCI Magasins Généraux de Vitrolles . . . . .	France	100.0
Sofinvest S.à r.l. . . . .	France	100.0
The Bermuda Park Unit Trust . . . . .	Jersey, Channel Islands	100.0
ProLogis Spain I SL . . . . .	Spain	100.0
ProLogis Spain III SL . . . . .	Spain	100.0
ProLogis Spain IV SL . . . . .	Spain	100.0
ProLogis Spain V SL . . . . .	Spain	100.0
ProLogis Spain VI SL . . . . .	Spain	100.0
ProLogis Spain VII SL . . . . .	Spain	100.0
ProLogis Spain VIII SL . . . . .	Spain	100.0
ProLogis Spain IX SL . . . . .	Spain	100.0
ProLogis Spain X SL . . . . .	Spain	100.0
ProLogis Spain XI SL . . . . .	Spain	100.0
ProLogis Spain XII SL . . . . .	Spain	100.0
ProLogis Spain XIII SL . . . . .	Spain	100.0
ProLogis Central European Finance S.L. . . . .	Spain	100.0
ProLogis Italy Ia Srl . . . . .	Italy	100.0
ProLogis Italy Ib Srl . . . . .	Italy	100.0
ProLogis Italy Ic Srl . . . . .	Italy	100.0
ProLogis Italy Id Srl . . . . .	Italy	100.0
ProLogis Italy II Srl . . . . .	Italy	100.0



**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis Italy VI 1 Srl . . . . .	Italy	100.0
ProLogis Italy VIa Srl . . . . .	Italy	100.0
ProLogis Italy VI 2 Srl . . . . .	Italy	100.0
ProLogis Italy VII Srl . . . . .	Italy	100.0
ProLogis Italy VIIb Srl . . . . .	Italy	100.0
ProLogis Italy IX Srl . . . . .	Italy	100.0
ProLogis Italy IXa Srl . . . . .	Italy	100.0
ProLogis Italy X Srl . . . . .	Italy	100.0
ProLogis Italy XXV Srl . . . . .	Italy	100.0
PLD Germany V BV . . . . .	The Netherlands	94.8
PLD Germany VII BV . . . . .	The Netherlands	94.8
ProLogis Finance BV . . . . .	The Netherlands	100.0
ProLogis Germany III BV . . . . .	The Netherlands	100.0
ProLogis Germany IV BV . . . . .	The Netherlands	100.0
ProLogis Germany XII BV . . . . .	The Netherlands	94.8
ProLogis Germany XIX BV . . . . .	The Netherlands	100.0
ProLogis Germany XV BV . . . . .	The Netherlands	94.8
ProLogis Germany XVII BV . . . . .	The Netherlands	94.4
ProLogis Germany XXI BV . . . . .	The Netherlands	94.4
ProLogis Germany XXII BV . . . . .	The Netherlands	94.4
ProLogis Germany XXIII BV . . . . .	The Netherlands	94.4
ProLogis Germany XXV BV . . . . .	The Netherlands	94.4
ProLogis Germany XXVI BV . . . . .	The Netherlands	94.4
ProLogis Germany XXVII BV . . . . .	The Netherlands	94.4
ProLogis Germany XXVIII BV . . . . .	The Netherlands	94.4
ProLogis Germany XXXI BV . . . . .	The Netherlands	94.4
ProLogis Germany XXXV BV . . . . .	The Netherlands	94.4
ProLogis Germany XXXVI BV . . . . .	The Netherlands	94.4
ProLogis Germany XXXIX BV . . . . .	The Netherlands	94.4
ProLogis Germany XLI BV . . . . .	The Netherlands	94.4
ProLogis Germany XLIII BV . . . . .	The Netherlands	94.4
ProLogis Poland Finance BV . . . . .	The Netherlands	100.0
ProLogis Realty I BV . . . . .	The Netherlands	100.0
ProLogis Realty II BV . . . . .	The Netherlands	100.0
Garonor Deutschland GmbH . . . . .	Germany	100.0
Garonor Verwaltung GmbH . . . . .	Germany	100.0
Garonor Verwaltung GmbH & Köln Eifeltor KG . . . . .	Germany	100.0
ProLogis Belgium I Sprl . . . . .	Belgium	100.0
ProLogis Belgium II Sprl . . . . .	Belgium	100.0
ProLogis Sweden I AB . . . . .	Sweden	100.0
ProLogis Sweden Gothenburg AB . . . . .	Sweden	100.0
ProLogis Holding AB . . . . .	Sweden	100.0
ProLogis Sweden Norrköping AB . . . . .	Sweden	100.0
ProLogis Sweden Örebro AB . . . . .	Sweden	100.0
ProLogis Poland I Spzoo . . . . .	Poland	100.0
ProLogis Poland II Spzoo . . . . .	Poland	100.0
ProLogis Poland III Spzoo . . . . .	Poland	100.0
ProLogis Poland IV Spzoo . . . . .	Poland	100.0

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

<u>Company name</u>	<u>Country of incorporation</u>	<u>% owned</u>
ProLogis Poland V Spzoo . . . . .	Poland	100.0
ProLogis Poland VI Spzoo . . . . .	Poland	100.0
ProLogis Poland VIII Spzoo . . . . .	Poland	100.0
ProLogis Poland X Spzoo . . . . .	Poland	100.0
ProLogis Poland XI Spzoo . . . . .	Poland	100.0
ProLogis Poland XIII Spzoo . . . . .	Poland	100.0
ProLogis Poland XIV Spzoo . . . . .	Poland	100.0
ProLogis Poland XV Sp zoo . . . . .	Poland	100.0
ProLogis Poland XVI Spzoo . . . . .	Poland	100.0
ProLogis Poland XVII Spzoo . . . . .	Poland	100.0
ProLogis Poland XX Spzoo . . . . .	Poland	100.0
ProLogis Poland XXII Spzoo . . . . .	Poland	100.0
ProLogis Poland XXIX Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXIV Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXV Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXVI Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXVII Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXVIII Spzoo . . . . .	Poland	100.0
ProLogis Poland XXXIX Spzoo . . . . .	Poland	100.0
ProLogis Poland XLVIII Spzoo . . . . .	Poland	100.0
ProLogis Czech Republic II Sro . . . . .	Czech Republic	100.0
ProLogis Czech Republic III Sro . . . . .	Czech Republic	100.0
ProLogis Czech Republic IV Sro . . . . .	Czech Republic	100.0
ProLogis Czech Republic VII Sro . . . . .	Czech Republic	100.0
ProLogis Czech Republic XIII Sro . . . . .	Czech Republic	100.0
ProLogis Czech Republic XIV Sro . . . . .	Czech Republic	100.0
ProLogis Hungary Kft . . . . .	Hungary	100.0
Harbor Park Ingatlanmukodteto Kft . . . . .	Hungary	55.665
Harbor Park Ingatlanfejleszto Kft . . . . .	Hungary	100.0
ProLogis Hungary TWO Epitesi es Beruhazasi Kft . . . . .	Hungary	100.0
Mobilportfolio Kft . . . . .	Hungary	100.0
Wingprojekt 2 Kft . . . . .	Hungary	100.0
ProLogis Hungary THREE Epitesi es Beruhazasi Kft . . . . .	Hungary	100.0
ProLogis Hungary TEN Kft . . . . .	Hungary	100.0
ProLogis Hungary Finance Kft . . . . .	Hungary	100.0
ProLogis Italian Finance Kft . . . . .	Hungary	100.0
ProLogis Finance Kft . . . . .	Hungary	100.0

**Other Special Purpose entities relating to financing:**

**Operated by Equity Trust Company (Luxembourg) S.A.:**

<u>Company name</u>	<u>Country of incorporation</u>
Pan-European Industrial Properties Series I S.A. . . . .	Luxembourg
Pan-European Industrial Properties Series II S.A. . . . .	Luxembourg
Pan-European Industrial Properties Series III S.A. . . . .	Luxembourg
Pan-European Industrial Properties Series IV S.A. (Compartment 1) . . . . .	Luxembourg
France Industrial Properties No. 1 S.A. . . . .	Luxembourg

**PROLOGIS EUROPEAN PROPERTIES FUND**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**30 JUNE 2006**  
(Unless otherwise stated, amounts are expressed in thousands of euros)

**26 LIST OF CONSOLIDATED ENTITIES (continued)**

**REGISTERED OFFICE:**

46A, avenue J. F. Kennedy  
L-1855 Luxembourg

**Operated by Mercuria Services S.A.:**

<u>Company name</u>	<u>Country of incorporation</u>
Alzette Funding No. 1 S.à r.l. ....	Luxembourg

**REGISTERED OFFICE:**

8-10, rue Mathias Hardt  
L-1717 Luxembourg

**27 SUBSEQUENT EVENTS**

On 6 July 2006 the Fund repaid a finance lease relating to a property in France at a cost of €7.9 million.

On 12 July 2006 the Fund acquired undeveloped land in Blois, France for €2.9 million.

On 12 July 2006 the Fund disposed of 6 properties in France for a gross consideration of €65.8 million.

On 28 July 2006, the Fund made a distribution of €38.9 million to Unitholders, of which €35.5 million was paid to Class A and Class B Unitholders.

## **PART XII**

### **SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN US GAAP AND IFRS**

#### **Overview**

The consolidated financial information in Part X—“Consolidated Audited Financial Information for the Years Ended 31 December 2005, 31 December 2004 and December 2003” of this Prospectus, as well as the unaudited consolidated financial information in Part XI—“Consolidated Unaudited Results for the Six-Month Periods Ended 30 June 2006 and 30 June 2005” of this Prospectus have been prepared in accordance with IFRS. IFRS comprises standards and interpretations approved by the International Accounting Standards Board (“IASB”), International Accounting Standards and Standing Interpretations Committee interpretations approved by IASB’s predecessor, the International Accounting Standards Committee, that remain in effect.

IFRS differ in certain significant respects from US GAAP. Below are summarised certain differences that could have a significant effect on the results of PEP as shown under IFRS. PEP can, however, provide no assurance that the differences identified below represent all the relevant differences between IFRS and US GAAP. This summary should, therefore, not be taken as a complete list of all differences between IFRS and US GAAP. There may be other differences that affect the financial statements that result from transactions or events that may occur in the future. Furthermore, no attempt has been made to identify future differences between IFRS and US GAAP as the result of prescribed changes in accounting standards.

PEP has not prepared financial statements in accordance with US GAAP and, accordingly, cannot offer any assurances that the differences described below would, in fact, be the accounting principles creating the greatest differences between financial statements of PEP prepared under US GAAP and under IFRS. In addition, PEP cannot estimate the net effect that applying US GAAP would have on its results of operations or financial position, or any component thereof, in any of the presentations of financial information in this Prospectus. However, the effect of such differences may be, individually or in the aggregate material.

Potential investors should note that US GAAP is generally more restrictive and comprehensive than IFRS regarding recognition and measurement of transactions, account classification and disclosure requirements. No attempt has been made to identify the disclosure, presentation or classification of differences that would affect the manner in which transactions and events are presented in the financial information or the notes thereto contained in Part X and Part XI of this Prospectus.

Potential investors should consult with their own professional advisers for an understanding of the differences between IFRS and US GAAP and how those differences might affect the financial statements of PEP and any of PEP’s consolidated subsidiaries.

#### **Summary of Differences**

##### ***Investment in real estate***

Under IFRS, investment properties are initially recorded at fair value at the date of acquisition to PEP and thereafter accounted for at fair value as determined by an independent appraiser deducting any costs normally borne by a purchaser. Under US GAAP real estate properties are accounted for at value on the date of acquisition less depreciation over an appropriate useful economic life. Under IFRS land held for development is included in “Investment in property”; under US GAAP, such assets are shown as a separate item in the Consolidated Statement of Net Assets.

##### ***Fair value of tenant leases acquired***

IFRS does not separately value the fair value of lease contracts in existence at the time a property is acquired. The value of these leases is included in the fair value of the property acquired.

Under US GAAP, the fair value of the leases entered into with the tenants should be separated from the purchase price of the real estate properties acquired. These amounts should be recorded as an intangible asset and be amortised over the period of the lease agreement up to the earliest point at which the lease can be broken by the tenant.

### *Acquisition accounting*

Under IFRS, all business combinations are to be accounted for using the purchase method, including the recognition of any assets and liabilities not previously recorded by the acquiree with goodwill being recognised at cost. Where an acquisition is deemed not to be a business combination, the cost of the acquisition is attributed to the identifiable assets and liabilities, and no goodwill can be recognised.

Under US GAAP, according to EITF 98-3 and 98-11, the definition of what constitutes a business combination may differ from IFRS; although similar to IFRS, the acquisition of single asset owning special purpose entities recognises the fair value of each asset and liability acquired and no goodwill deemed to be acquired.

The Management Company has considered that the contribution of investment properties under the SPCA do not constitute a business combination under IFRS, and will only recognise a business combination on third party acquisitions where an integrated set of business processes are acquired.

Under IFRS, where a business combination is recognised goodwill is initially measured at cost, being the excess cost of the business combination over the Fund's interest in net Fair Value of the identifiable assets, liabilities and contingent liabilities. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

### *Deferred taxation*

Both IFRS and US GAAP recognise the deferred tax liabilities for all income tax consequences of "temporary differences".

Under IFRS, the calculation of deferred tax differs according to whether or not the initial acquisition was recognised as a business combination.

Where there is no business combination, no deferred tax is recognised on acquisition and deferred tax is only recognised on any revaluation of assets post acquisition by applying the enacted statutory tax rates to the change in value resulting from that revaluation. Any deferred tax assets arising as a result of tax credits are only recognised to the extent that they have arisen post acquisition.

For business combinations, deferred tax is recognised using the liability method on temporary differences between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes. Tax assets arising from tax credits are recognised in full subject to the management assessing that the asset is fully recoverable from future operating profits.

Under US GAAP, deferred tax is calculated by applying the enacted statutory tax rates to the difference between the tax bases of the assets and liabilities and the carrying value for US GAAP financial reporting purposes. Tax assets arising from tax credits are recognised less any allowance where the manager considers that the amounts cannot be considered "more likely than not" to be realised.

**PART XIII**  
**VALUATION REPORTS**

**1. Summary of Valuation Reports**

	<b>Number of Distribution Facilities Appraised</b>	<b>Gross Property Value €</b>	<b>Open Market Value €</b>
JLL Valuation	267	4,125,873,000	3,939,884,000
DTZ Valuation	14	280,450,000	270,730,000
<b>Total</b>	<b>281</b>	<b>4,406,323,000</b>	<b>4,210,614,000</b>



## 2. Valuation Certificate and Valuation Reports for Distribution Facilities Valued by JLL



22 Hanover Square London W1A 2BN  
tel +44 (0) 20 7493 6040 fax +44 (0) 20 7408

[www.joneslanglasalle.co.uk](http://www.joneslanglasalle.co.uk)

ProLogis Management S.à r.l  
18, boulevard Royal L-2449  
Luxembourg  
Grand Duchy of Luxembourg

ProLogis European Properties  
18, boulevard Royal L-2449  
Luxembourg  
Grand Duchy of Luxembourg

Deutsche Bank AG  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

Morgan Stanley & Co. International Limited  
25 Cabot Square  
Canary Wharf  
London E14 4QA

Deutsche Bank AG and Morgan Stanley & Co. International Limited, on their own behalf as Joint Global Coordinators and Joint Bookrunners and as representatives of the underwriters defined in the prospectus produced by PEP.

17 August 2006

Dear Sirs

### VALUATION OF FREEHOLD AND LONG LEASEHOLD PROPERTIES OF PROLOGIS EUROPEAN PROPERTIES

#### Instructions

In accordance with our engagement letter with ProLogis Management S.à r.l (the “**Company**”), we, (Jones Lang LaSalle), Chartered Surveyors, have considered the properties referred to in the attached schedule (the “**Schedule**”), in order to advise you of our opinion of the Market Value (as defined below) as at the date of the prospectus, of the freehold or leasehold interests (as appropriate) of ProLogis European Properties (“**PEP**”) in each of these properties (the “**Properties**”). The effective date of the valuation is 30th June 2006.

#### Purpose of Valuation

We understand that this valuation report and schedule (together, the “**Valuation Report**”) are required for inclusion in a prospectus which investors will rely on in making their decision to invest in PEP.

We can confirm that we have prepared our Valuation as external valuers as defined in the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards.

#### Basis of Valuation and Assumptions

We set out below the basis and assumptions we have used in preparing our Valuation followed by a summary of the aggregate values in each Country. Attached to this Valuation Certificate is a detailed schedule of the individual properties.

Jones Lang LaSalle Limited  
Registered in England and Wales Number 1188567  
Registered Office 9 Queen Victoria Street London EC4N 4YY



We confirm that the valuations have been made in accordance with the appropriate sections of both the current Practice Statements (“PS”), and United Kingdom Practice Statements (“UKPS”) contained within the RICS Appraisal and Valuation Standards, 5th Edition (the “Red Book”). This is an internationally accepted basis of valuation.

Market Value is defined as:

*“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”*

We can confirm that Market Value is entirely consistent with the normal valuation basis followed in each Country. Our valuation has also been undertaken in accordance with the relevant provisions of the Prospectus Directives and related guidance and has been undertaken by us as External Valuers as defined in the Manual. The subject properties are held as investments and we have therefore used the appropriate property investment valuation methodology to calculate the Market Values.

### **Valuation**

On the basis outlined in this certificate, we are of the opinion that the aggregate of the individual gross Market Values as at 30th June 2006 of the freehold and long leasehold interests subject to and with the benefit of various occupational leases, as summarised in the attached valuation schedule is:

**€4,125,873,000**

**Four Billion, One Hundred and Twenty Five Million, Eight Hundred and Seventy Three Thousand Euros**

On the basis outlined in this certificate, we are of the opinion that the aggregate of the individual net Market Values as at 30th June 2006 of the freehold and long leasehold interests subject to and with the benefit of various occupational leases, as summarised in the attached valuation schedules is:

**€3,939,884,000**

**Three Billion, Nine Hundred and Thirty Nine Million, Eight Hundred and Eighty Four Thousand Euros**

### **Realisation Costs**

Our Valuation is exclusive of VAT and no allowances have been made for any expenses of realisation nor for taxation which might arise in the event of a disposal of any property. Our net valuation is however net of purchaser’s acquisition costs which vary between countries.

### **Estimated Net Annual Rents Receivable**

We have calculated the net annual rents receivable from the properties having had regard to the definition of net annual rent as the current income or income estimated by the valuer:

1. Ignoring any special receipts or deductions arising from the property;
2. Excluding value added tax and before taxation (including tax on profits and any allowances for interest on capital or loans);
3. After making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a condition to command its rent.

Where premises are let on effective full repairing and insuring leases, the net annual rent receivable stated in this schedule are the presently contracted rents payable under those leases without any deduction for the cost of management or any other expenses.

We have calculated the aggregate net annual rents receivable from the subject properties as at 30th June 2006 as defined above to be:

**€283,055,000**

**Two Hundred and Eighty Three Million, Fifty Five Thousand Euros**

### **Estimated Net Annual Rental Value**

We have calculated the current estimated net annual rent for the purposes of the valuations, which is our opinion of the best rent at which a new letting of an interest in property would have been completed at the date of valuation assuming:

- a. a willing landlord;
- b. that, prior to the date of valuation there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the letting;
- c. that the state of the market, levels of value and other circumstances were, on any earlier assumed date of entering into an agreement for lease, the same as on the valuation date;
- d. that no account is taken of any additional bid by a prospective tenant with a special interest;
- e. that where relevant the length of term and principal conditions assumed to apply to the letting and other tenants terms are the same as those set out in the rent review clause contained in the occupational lease which we confirm are not exceptionally onerous or beneficial for letting of the type and class of the subject property; and
- f. that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

We have calculated the aggregate net estimated annual rents receivable from the subject properties as at 30th June 2006 as defined above to be:

**€276,899,000**

**Two Hundred and Seventy Six Million, Eight Hundred and Ninety Nine Thousand Euros**

### **Assumptions and Sources of Information**

An assumption is stated in the Glossary to the Red Book to be a “supposition taken to be true” (“**assumption**”). Assumptions are facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, need not be verified by a Valuer as part of the valuation process. In undertaking our valuations, we have made a number of assumptions and have relied on certain sources of information. Where appropriate, PEP advisers have confirmed that our assumptions are correct so far as they are aware. We believe that the assumptions we have made are reasonable, taking into account our knowledge of the properties, and the contents of reports made available to us. However, in the event that any of these assumptions prove to be incorrect then our valuations should be reviewed. The assumptions we have made for the purposes of our valuations are referred to below.

### **Inspections**

We have valued the properties in the past for accounts purposes and have inspected them at various intervals internally.

We have been advised by the Directors of the Issuer that there have been no material changes to any of the properties since our inspections.

### **Information**

We have made an assumption that the information PEP and its professional advisers have supplied to us in respect of the Properties is both full and correct.

It follows that we have made an assumption that details of all matters likely to affect value within their collective knowledge such as prospective lettings, rent reviews, outstanding requirements under legislation and planning decisions have been made available to us and that the information is up to date.

### **Title**

We have not had access to the title deeds of the Properties. We have assumed that the title is marketable and that the Properties are free from encumbrances, mortgages and charges.

### **Floor Areas**

We have measured the Properties and also have relied on the areas which have been supplied to us and on measured surveys which have been carried out on certain properties to verify floor areas.

### **Plant and Machinery**

Landlords' plant and machinery such as lifts, escalators, air-conditioning and other normal service installations have been treated as an integral part of each property and are included within our valuations. Plant and machinery, tenant's fixtures and specialist trade fittings have been excluded from our valuations.

No specialist tests have been carried out on any of these service systems and for the purposes of our valuations we have assumed that all are in good working order and in compliance with any relevant statute, bylaw or regulation.

### **Environmental Investigations and Ground Conditions**

We were not instructed to carry out site surveys or environmental assessments nor have we investigated any historical records, to establish whether any land or premises are or have been, contaminated. Unless we have been provided with information to the contrary, we have assumed that the properties are not, nor are likely to be, affected by land contamination and that there are no ground conditions which would affect the present or future use of the properties.

We were not instructed to carry out structural surveys of the properties but we have reflected any apparent wants of repair in our opinion of the value as appropriate. Properties have been valued on the basis of the issuers advice save where we have been specifically advised to the contrary, no deleterious materials have been used in the construction of any of the subject buildings.

### **Planning**

We have made verbal Town Planning enquiries only. In the course of our enquiries, we are advised by the Local Planning Authority that there are no adverse Town Planning, Highway or other schemes or proposals. Information supplied to us by Planning Officers is however, given without liability on their part and we cannot therefore accept responsibility for incorrect information or material omissions in the information supplied.

We have not seen planning consents and have assumed that the properties have been erected and are being occupied and used in accordance with all necessary consents and that there are no outstanding statutory notices. We have assumed that all buildings comply with all statutory and Local Authority requirements including building, fire and health and safety regulations.

### **Tenure and Tenancies**

We have read copies of the leases and have relied on the tenancy summaries provided by the Company for the purposes of our valuation.

We have not conducted credit enquires into the financial status of any of the tenants. However, in undertaking our valuations we have reflected our understanding of the market perception of the financial status of the tenants. We have also assumed that each tenant is capable of meeting its leasehold obligations and that there are no undisclosed breaches of covenant.

### **Exchange rates**

We have indicated the Market Values of the subject properties in the attached valuation schedule in Euros. We have used the exchange rate of the £ Sterling (GBP) against the Euro as at 21 June 2006 being 1 Euro = £0.6855.

### **Changes to Italian Tax Legislation Subsequent to the Effective Date of Valuation**

Changes to Italian tax legislation effective from 1st October 2006 will have the effect of introducing a registration tax on non residential property of either 2% or 4% of the purchase price and an annual lease registration tax of 1% of rent. These tax changes are likely to have a negative impact on the values of the Italian assets stated in our Valuation Report. It is too early to assess how the market will respond to the

additional taxes and who will bear their economic burden. Therefore, at the current time the extent of any negative impact on values is difficult to quantify, however, we consider that it is unlikely to exceed 4%.

**Responsibility**

Our Valuation and the schedule are confidential to the addressees as set out on the first page of this certificate for the specific purpose to which they refer and form part of the prospectus. Before this Valuation Report, or any part thereof, is reproduced or referred to in any other document, circular or statement and before its contents, or any part thereof, are otherwise disclosed orally or otherwise to a third party, the Valuer's written approval as to form and context of such publication or disclosure must first be obtained.

For the avoidance of doubt, such approval is required whether or not Jones Lang LaSalle are referred to by name and whether or not the contents of our Valuation Report are combined with other reports.

Yours faithfully

**Dermot Charleson MRICS**

**Director**

**For and on behalf of Jones Lang LaSalle Ltd**

**22 Hanover Square**

**London W1A 2BN**

**PROLOGIS EUROPEAN PROPERTIES**  
**SCHEDULE**  
**Properties Held as Investments**  
**Valuation as at 30 June 2006**

<b>Property Name</b>	<b>Location, Description &amp; Tenancy</b>	<b>Year of Construction</b>	<b>Total Lettable Area (sq. m.)</b>	<b>Gross Value</b>	<b>Market Value</b>
<b>Belgium</b>					
Tongeren DC 1	A modern warehouse situated in Tongeren Industrial Zone East. The property has good transport links and has a total site area of 3.56 ha. Let to Exel Logistics Belgium NV. Freehold.	2000	21,070	€10,130,000	€9,210,000
Liege DC I	A warehouse building of concrete framed construction with 10.6 metres eaves height, situated on the outskirts of Liege, approximately 79 km south east of Brussels. Total site area of 3.0 ha. Let to Skechers. Freehold.	2002	22,458	€13,380,000	€11,890,000
<b>Sub Total (Belgium):</b>			<b>43,528</b>	<b>€23,510,000</b>	<b>€21,100,000</b>



Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
<b>Czech Republic</b>					
Prague D1 West DC1	A concrete framed warehouse situated on a 2.91 ha site in an established industrial location, approximately 12 km south-east of Prague. Let to DHL Logistics s.r.o. Freehold.	1999	21,103	€14,440,000	€13,700,000
Prague D1 West DC2	A concrete framed warehouse situated on a 3.61 ha site in an established industrial location, approximately 12 km south-east of Prague. Let to Nagel. Freehold.	1999	13,695	€11,350,000	€10,770,000
Prague D1 West DC3	A concrete framed warehouse situated on a 2.22 ha site in an established industrial location, approximately 12 km south-east of Prague. Let to DHL Logistics s.r.o. Freehold.	1999	6,627	€4,320,000	€4,100,000
Prague D1 East DC1	A concrete framed warehouse with 10 metre clear height and with its own circulation area and separate entry, situated on a site of 3.78 ha. Located on the main national motorway D1, approximately 12 km south-east of Prague in an established industrial location. Let to Rossmann & L'Oreal. Freehold.	2001	15,256	€12,600,000	€11,960,000
Prague D1 East DC2	A concrete framed warehouse with 10 metre clear height and with its own circulation area and separate entry, situated on a site of 5.68 ha. Located on the main national motorway D1, approximately 12 km south-east of Prague in an established industrial location. Leased to Schneidersohne, Taroko and Hellmann. Freehold.	2001	24,429	€21,990,000	€20,865,000
Prague D1 East DC3	A concrete framed warehouse with 10 metre clear height and with its own circulation area and separate entry, situated on a site of 6.20 ha. Located on the main national motorway D1, approximately 12 km south-east of Prague in an established industrial location. Let to Tesco. Freehold.	2003	26,304	€19,770,000	€18,765,000
Prague D1 East DC4	A concrete framed warehouse with 10 metre clear height and with its own circulation area and separate entry, situated on a site of 6.10 ha. Located on the main national motorway D1, approximately 12 km south-east of Prague in an established industrial location. Let to NYK Logistics and UTC. Freehold.	2003	17,268	€14,150,000	€13,430,000
Prague D1 East DC6	A modern warehouse which forms part of the ProLogis Prague D1 East Park situated on the D1 motorway. The unit is of steel frame construction with insulated steel sheeting and a 10 metre eaves height and located on a site extending to 2.29 ha. Let to Kenvelo CZ, s.r.o. and DHL Logistics (ER), s.r.o. Freehold.	2005	13,474	€10,990,000	€10,425,000
Prague D1 East DC7	A modern warehouse which forms part of the ProLogis Prague D1 East Park situated along the D1 motorway. The unit is of steel frame construction with insulated steel sheeting and a 10 metre eaves height and located on a site extending to 2.53 ha. Let to P&P Spedition Trading and Setto Spedition. Freehold.	2005	11,390	€10,330,000	€9,800,000
<b>Sub Total (Czech Republic):</b>			<b>149,546</b>	<b>€119,940,000</b>	<b>€113,815,000</b>

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
<b>France</b>					
L'Isle d'Abeau DC1	A good quality 1970's warehouse occupying a 6.13 ha site and situated on one of the best estates in southern France, close to A43 and Lyon airport. Let to Auxine Logistics chez Botanic, Danzas DHL freight and Norma Sarl. Freehold.	1975	27,350	€13,610,000	€12,820,000
L'Isle d'Abeau DC2	A modern warehouse occupying a 4.16 ha site which is situated on one of the best warehouse estates in Southern France, close to A43 and Lyon airport. Let to Auchan France. Freehold.	1998	20,955	€11,440,000	€10,770,000
L'Isle d'Abeau DC3	A modern warehouse occupying a 2.49 ha site which is situated on one of the best warehouse estates in Southern France, close to A43 and Lyon airport. Let to Dubois Rhône-Alpes. Freehold.	1999	12,620	€6,690,000	€6,300,000
L'Isle D'Abeau DC4	A steel framed warehouse with a 10 metre eaves height and occupying a 4.67 ha site on one of the best warehouse estates in Southern France, close to A43 and Lyon Airport. Let to MGF Evolutions and MGF Logistique. Freehold.	2000	20,921	€11,100,000	€10,855,000
L'Isle d'Abeau DC5	A modern warehouse with a 10 metre eaves height and occupying a 5.33 ha site situated on one of the best warehouse estates in Southern France, close to A43 and Lyon Airport. Let to ABX Logistics (MGF Evolutions). Freehold.	2000	24,143	€13,950,000	€13,700,000
L'Isle D'Abeau DC6	A logistics warehouse of steel framed construction with a 10 metre eaves height. The property occupies a 4.68 ha site which is situated on one of the best warehouse estates in Southern France, close to the A43 and Lyon Airport. Let to New Wave Logistic. Freehold.	2000	21,582	€12,190,000	€11,960,000
Isle d'Abeau DC7	A modern logistics warehouse of steel framed construction with a 10 metre eaves height. The building occupies a 8.92 ha site which is situated on one of the best warehouse estates in Southern France, close to A43 and Lyon Airport. Let to Brandt Appliances. Freehold.	2001	34,344	€21,080,000	€20,710,000
L'Isle d'Abeau DC8	A modern, single storey, steel portal frame warehouse with a 10 metre eaves heights. The building occupies a 10.2 ha site which is situated on one of the best warehouse estates in Southern France, close to A43 and Lyon Airport. Let to Darty Rhône Alpes. Freehold.	2004	43,196	€28,410,000	€27,910,000
L'Isle d'Abeau DC9	A warehouse with office and ancillary technical space which occupies a 8.95 ha site situated on one of the best warehouse estates in Southern France, close to the A43 and Lyon Airport. Let to DHL Solutions France SAS and Geodis. Freehold.	2002	34,151	€20,850,000	€20,480,000
L'Isle d'Abeau DC10	A warehouse with office and ancillary technical space which occupies a 5.43 ha site situated on one of the best warehouse estates in Southern France, close to A43 and Lyon Airport. Let to Lu France. Freehold.	2005	20,805	€14,460,000	€14,200,000
L'Isle d'Abeau DC11	A modern warehouse occupying a 4.00 ha site situated on one of the best warehouse estates in Southern France, close to the A43 and Lyon Airport. Let to Skis Rossignol Rhône Alpes. Freehold.	2004	20,328	€13,640,000	€13,400,000
L'Isle d'Abeau DC14	A warehouse with office and ancillary technical space which occupies a 6.70 ha site situated on one of the best warehouse estates in Southern France, close to A43 and Lyon Airport. Let to UPS SCS France. Freehold.	2006	18,667	€13,080,000	€12,850,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
L'Isle d'Abeau DC15	A Logistics warehouse occupying a 3.97 ha site situated on one of the best warehouse estates in Southern France, close to the A43 and Lyon Airport. Let to ND Logistics. Freehold.	2005	17,855	€7,860,000	€7,400,000
Lille DC1	A modern warehouse with a 10.5 metre eaves height and occupying a 3.7 ha site situated close to A23, A22, A1 and Lille-Lesquin airport. Let to Conectis and Eveil & Jeux. Freehold.	2000	19,025	€11,088,000	€10,440,000
Lille DC2	Lille DC2 A modern warehouse with a 10.5 metre eaves height and occupying a 3.42 ha site situated close to A23, A22, A1 and Lille-Lesquin airport. Let to Auchan Logistique Nord. Freehold.	1999	16,000	€9,640,000	€9,080,000
Lille DC3	A modern warehouse with a 10.5 metre eaves height situated in a recognised industrial zone adjacent to junction 19 of the A1 motorway, 10 kms to the south of Lille. Let to Exel Loire. Freehold.	2003	17,928	€11,322,000	€11,122,000
Lille DC4	A warehouse with office and ancillary accommodation occupying a 6.7 ha site located in the Industrial Multimodal area of Lomme-Senequin, in the municipality of Lomme (59), at approximately 3 kms west of Lille, North of France. Let to Calberson- Geodis. Freehold.	2005	27,680	€17,420,000	€16,400,000
Cergy DC6 Ext	A modern warehouse building with a 10 metre eaves height and occupying a 2.81 ha site. The building physically adjoins the existing Building 6. Let to Lear Corporation Seating France SAS. Freehold.	2000	11,750	€11,250,000	€10,590,000
Cergy DC7	A modern warehouse with a 9.5 metre eaves height and occupying a 3.02 ha site which is well situated to the north- west of Paris, close to N14, A15 and A16. Let to Distriglass chez Distriplus. Freehold.	2003	13,930	€11,600,000	€11,380,000
Cergy DC8	A modern warehouse with a 9.5 metre eaves height and occupying a 5.03 ha site which is well situated to the north-west of Paris, close to N14, A15 and A16. Let to Giraud Logistics. Freehold.	2003	20,306	€15,230,000	€14,960,000
Garonor, Cergy (1+2+3+4+6)	Five warehouse units with eaves heights ranging between 7.5-9.5 metres and situated 45 kms north-west of Paris with excellent prominence to A15. Let on 12 leases with 4 vacant units totalling 6,682 sq m. Freehold.	2000	44,002	€28,370,000	€26,710,000
Senart DC3	A warehouse providing 13 flexible units occupying a 2.24 ha site and situated approximately 30 km south of Paris, close to N104. Let to Paul Hartmann with the remaining 376 sq m currently vacant. Freehold.	2000	13,662	€8,610,000	€8,460,000
Garonor, Senart (5+6)	Two warehouse buildings providing a total of 25 units. The building has a 9.5 metre eaves height and is situated approximately 30 km south of Paris, close to N104. The property includes 2,160 sq m of land let out for palette storage. Let to 10 tenants with two vacant units totalling 1,988 sq m. Freehold.	2000	28,095	€18,150,000	€17,090,000
Senart Terrains	Land at Senart. Freehold.	—	23	€320,000	€305,000
Garonor Land	Undeveloped land of 2 ha comprising site of future building 16, possible extension of building 1 (adjoining "Douanes"), car park adjoining site entrance. Freehold.	—	0	€847,000	€830,000
Garonor, Aulnay	Warehouse complex with offices, hotels and restaurants occupying a 70 ha site situated approximately 15 km north-west of Paris, Junction A1 & A3. Let to over 150 tenants. Freehold.	1967-1999	355,432	€219,000,000	€206,200,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Garonor, Vitrolles DC1	A warehouse forming part of a group of 3 units on the large established estate of Vitrolles being close to Marseille airport. Let to 4 tenants. Freehold	1975	17,103	€7,030,000	€6,620,000
Garonor, Vitrolles DC2	A warehouse forming part of a group of 3 units on the large established estate of Vitrolles being close to Marseille airport. Let to 3 tenants. Freehold.	1975	13,373	€5,380,000	€5,070,000
Garonor, Vitrolles DC3	A warehouse forming part of a group of 3 units on the large established estate of Vitrolles being close to Marseille airport. Let to 3 tenants. Freehold.	1975	8,223	€3,450,000	€3,250,000
Garonor, Vitrolles Parking	Carparking at Garonor. Freehold.	—	—	€60,000	€58,000
Mitry Mory DC1	A modern warehouse with ancillary offices occupying a 5.85 ha site, very close to Charles de Gaulle airport. This location is close to the A104 (“Francilienne”) by the RN2. Let to Bio Rad whilst the remainder will be let to Design Sportswear. Freehold.	2005	29,217	€20,530,000	€20,170,000
Mitry Mory DC2	A modern logistics warehouse with ancillary offices occupying a 3.91 ha site, very close to Charles de Gaulle airport. This location is close to the A104 (“Francilienne”) by the RN2. Let to Exacompta. Freehold.	2000	21,443	€17,150,000	€16,140,000
Mitry Mory DC3	A modern warehouse with ancillary offices occupying a 7.35 ha site, very close to Charles de Gaulle airport. This location is close to the A104 (“Francilienne”) by the RN2. Let to SNC Easydis and Viking SA. Freehold.	2001	34,323	€25,570,000	€24,080,000
Epone DC1	A purpose built, reinforced concrete frame warehouse with an 8 metre eaves height and occupying a 2.50 ha site located approximately 45 kms west of Paris, close to Mantes. Let to Auchan France. Freehold	1982	10,880	€6,550,000	€6,170,000
Longjumeau DC1	A purpose built, part steel frame, part reinforced concrete frame warehouse with 7.5 metre eaves height and situated approximately 15 km south of Paris, adjacent to the A6 & A10 motorways. Let to CAE. Freehold.	1967	19,970	€12,590,000	€11,850,000
Oceanie DC1	A purpose built reinforced concrete frame warehouse with a 7.5 metre eaves height and situated approximately 15 kms south of Paris, adjacent to the A10 motorway & N118. Total site area of 2.5 ha. Let to Coca-Cola Entreprise. Freehold.	1977	16,070	€8,700,000	€8,190,000
Orleans DC1	A modern purpose built warehouse of steel portal frame construction with blockwork elevations and a 9.5 metre eaves height. Total site area of 5.07 ha. Let to ND Logistics. Freehold.	1995	20,144	€10,060,000	€9,470,000
Orléans DC2	Warehouse incorporating office space on a stand alone site. Adjacent property included within the development also let to ND Logistics. High specification warehouse property of standard steel portal frame construction with a 10 metre eaves height. Let to ND Logistics. Freehold.	2001	28,089	€18,870,000	€18,535,000
Orléans DC3	Warehouse property incorporating office space on a stand alone site. Adjacent property included within the development also to be let to ND Logistics. High specification warehouse property of standard steel portal frame construction with a 10 metre eaves height. Let to ND Logistics. Freehold.	2001	18,131	€11,860,000	€11,650,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Orléans DC4	One of a pair of linked, high quality warehouses designed to 1430/1432 safety standards (storage of inflammable liquids). Situated on a growing warehouse estate immediately adjoining J15 of the A10 motorway approximately 20 kms south west of Orléans. Total site area of 11.15 ha. Let to Brandt Appliances. Freehold.	2003	37,286	€23,160,000	€22,750,000
Orléans DC5	One of a pair of linked, high quality warehouses designed to 1430/1432 safety standards (storage of inflammable liquids). Situated on a growing warehouse estate immediately adjoining junction 15 of the A10 motorway approximately 20 kms south west of Orléans. Total site area of 9.51 ha. Let to Brandt Appliances. Freehold.	2003	32,039	€20,240,000	€19,880,000
Orléans DC6	A high quality warehouse designed to 1430/1432 safety standards (storage of inflammable liquids). Situated on a growing warehouse estate immediately adjoining junction 15 of the A10 motorway approximately 20 kms south west of Orléans. Total site area of 6.06 ha. Let to ID Logistics France. Freehold.	2003	20,710	€13,770,000	€13,525,000
Orléans DC7	A warehouse, office and ancillary technical building located within the Logistic park of Meung-sur-Loire, adjacent to the autorout. Total site area of 9.82 ha. Let to DHL Solutions, ID Logistics France and Transalliance. Freehold.	2005	33,149	€22,950,000	€22,545,000
Aulney West DC25	A well positioned cross-docking building with a 10 metre eaves height and benefiting from excellent visibility from the A1 Paris-Lille motorway. Total site area of 6.4 ha. Let to GD Express France. Freehold.	2000	16,890	€22,270,000	€20,970,000
Aulney West DC26	Formerly a very heavily fitted-out warehouse building, incorporating a total new first floor installed at the previous tenant's (City Reach) expense. Now reconverted as warehouses and nearly fully let. Total site area of 3.29 ha. Let to CEF and NRJ with remaining 418 sq m of offices currently vacant. Freehold.	2000	8,672	€7,530,000	€7,090,000
Vatry DC1	A purpose built, steel framed warehouse with a 10 metre eaves height and situated approximately 150 kms east of Paris and 5 minutes from the A26 motorway. Let to TNT Automotive Logistics. Freehold.	2001	42,472	€24,130,000	€23,700,000
Vatry DC2	A purpose built, steel framed warehouse with a 10 metre eaves height and situated approximately 150 kms east of Paris and 5 minutes from the A26 motorway. Let to TNT Automotive Logistics. Freehold.	2001	20,265	€11,520,000	€11,320,000
Clesud DC1	A modern logistics warehouse lying close to the junction of the A54 (leading to the A9 and Spain) and A7 (Lyon-Marseilles) motorways. Total site area of 4.3 ha. Let to ID Logistics. Freehold.	2001	21,434	€12,490,000	€12,270,000
Clesud DC2	Warehouse building, situated on a logistics estate 45 km north west of Marseilles. A tunnel links this to Clésud 1 allowing communication by fork-lift trucks between the two buildings. Total site area of 4.83 ha. Let to ID Logistics France. Freehold.	2002	27,320	€15,580,000	€15,300,000
Clesud DC3	A modern warehouse building occupying a 4.82 ha site which is situated on a logistics estate 45 km north west of Marseilles. Built to standard "2662/2663", thus allowing storage of plastic items. Let to Aixor. Freehold.	2002	26,371	€15,780,000	€15,500,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Clesud DC4	A modern warehouse occupying a 6.0 ha site located in a Clesud, near Marseille and Aix en Provence with good accessibility from the A54 motorway. The warehouse is considered 'latest generation' with a railway connection. Let to ID Logistics. Freehold.	2004	26,118	€15,020,000	€14,750,000
Clesud DC5	A warehouse, office and ancillary technical building occupying a 4.15 ha site located within the Logistic park of Clesud. Let to Lorafret Sarl. Freehold.	2005	19,665	€13,270,000	13,035,000
Clesud DC6	A modern logistics warehouse in Clesud Logistics Park. The development lies close to the A54 (Marseille-Nîmes) and A7 (Marseille-Paris) motorways. Total site area of 4.59 ha. Let to Lorafret. Freehold.	2005	25,695	€17,030,000	16,730,000
Servon DC1	A large logistics building originally constructed in 1973, with several additions in 1992, 1997 and 1999. Total site area of 5.51 ha. Let to ID Logistics France. Freehold.	1973-1999	27,251	€17,750,000	€16,710,000
Servon DC2	A logistics building with a 9.5 metre eaves height. Total site area of 1.46 ha. Let to La Fleche Cavaillonnaise. Freehold.	2000	8,482	€5,960,000	€5,610,000
Plessis Pâté 1	A logistics warehouse with a 9.90 metre eaves height and occupying a 4.0 ha site located close to the A104 "Francilienne" and the A6 motorway. The site is approximately 20 minutes from Orly airport and 45 minutes from Roissy Charles de Gaulle airport. Let to Norauto SA. Freehold.	2000	21,743	€16,610,000	€15,640,000
Plessis Pâté 2	A logistics warehouse with a 9.90 metre eaves height and occupying a 3.40 ha site located close to the A104 "Francilienne" and the A6 motorway. The site is approximately 20 minutes from Orly airport and 45 minutes from Roissy Charles de Gaulle airport. Let to ACR Logistics France. Freehold.	2001	18,850	€14,650,000	€14,390,000
Le Havre DC1	A modern warehouse building comprising 8 cells of 4,000 sq m situated close to the Pont de Normandie (D929) and the A29 motorway. Total site area of 6.74 ha. Let to Chubb Securities Surveillance. Freehold.	2002	32,484	€16,850,000	€16,550,000
Le Havre DC2	A modern warehouse building comprising 5 cells of 6,000 sq m occupying a 6.37 ha site situated close to the Pont de Normandie (D929) and the A29 motorway. Let to Gefco SA. Freehold.	2002	32,669	€22,720,000	€22,270,000
Le Havre DC5	A modern warehouse building occupying a 2.01 ha site situated in an area controlled by the PAH (Port Autonome du Havre), close to the Pont de Normandie (D929) and the A29 motorway. The site lies some 12 km to the east of Le Havre on the northern side of the canal du Havre and west of the Pont de Tancarville. Let to Daher International. Long leasehold.	2001	7,422	€3,550,000	€3,340,000
Le Havre DC6	A modern warehouse building occupying a 1.85 ha site situated in an area controlled by the PAH (Port Autonome du Havre), close to the Pont de Normandie (D929) and the A29 motorway. The site lies some 12 km to the east of Le Havre on the northern side of the canal du Havre and west of the Pont de Tancarville. Let to Daher International. Long leasehold.	2001	7,790	€4,080,000	€3,840,000
Evry DC1	A good quality logistics warehouse occupying a 6.09 ha site situated close to both the A6 and the Francilienne in an industrial zone in the south west of Paris. Let to Geodis Logistics France. Freehold.	2003	30,083	€20,050,000	€19,700,000



Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Evry DC2	A modern warehouse occupying a 7.40 ha site located in a recent and modern industrial zone "Remise", near Evry to the south of Paris. Easy access by the A6 motorway. Let to ID Logistics France. Freehold.	2004	36,338	€29,220,000	€28,700,000
Evry DC3	A modern warehouse occupying a 4.60 ha site located in a recent and modern industrial zone "Remise", near Evry to the south of Paris. Easy access by the A6 motorway. Let to Bridgestone. Freehold.	2004	22,600	€17,920,000	€17,570,000
Evry DC4	A modern warehouse occupying a 12.14 ha site located in a recent and modern industrial zone "Remise", near Evry to the south of Paris. Easy access by the A6 motorway. Let to Geodis Logistis Ile-de-France. Freehold.	1981 and extended in 2000	39,858	€22,200,000	€20,900,000
Metz DC1	A steel framed warehouse with a 8 metre eaves height. Potential for future extension of 10,075 sq m. Total site area of 7.13 ha. Let to Caterpillar Logistics Services Inc. Freehold.	1992	17,862	€5,360,000	€5,050,000
Savigny Le Temple DC1	Three inter-communicating warehouse units with a 9 metre eaves height situated approximately 30 km south of Paris, close N104. Total site area of 5.20 ha. Let to TNT Logistique France. Freehold.	1991	32,427	€21,660,000	20,400,000
Angers DC1	A modern temperature and humidity-controlled warehouse building completed in two phases, situated 15 km to the north of Angers, close to junction 12 of the A11 motorway. The steel-framed building meets the latest EU regulations concerning the storage of pharmaceutical products, with 9.87 metre eaves height. Total site area of 7.27 ha. Let to Depolabo Pharma Logistique. Freehold.	2000 & 2001	20,624	€11,160,000	€10,960,000
Arras DC1	A temperature-regulated warehouse situated opposite the Wancourt service station and between the A1 and the TGV Nord railway line at junction 15 (Arras) of the A1 motorway. Total site area of 5.88 ha. The tenant has built a 9,000 sq m extension on a 16,000 sq m plot of land to the rear of the existing building. Let to Depolabo Pharma Logistique. Freehold.	2001	25,079	€17,160,000	€16,855,000
Cavaillon DC1	A modern warehouse building with a 9.50 metre eaves height prominently situated at the entrance to an established industrial estate 20 km south-east of Avignon. Total site area of 5.99 ha. Let to ID Logistics. Freehold.	1988-1996 & 2002	30,177	€13,480,000	€12,690,000
Belfort DC1	A warehouse located in a developing industrial zone, ZAC "de l'aéroport de Belfort Fontaine", situated on a cross-border motorway axis, connected to the motorway by the RD60 road. The building occupies a 7.50 ha site with the possibility of a railway connection. Let to Gefco S.A. Freehold.	2004	30,300	€18,830,000	€18,500,000
Lognes DC1	A purpose built warehouse with 10 metre eaves heights and a higher than normal office content. Located to the west of Paris at the junction of the N104 Francilienne and the A4 motorway. Total site area of 2.57 ha. Let to Burton. Freehold.	2005	13,047	€10,730,000	€10,540,000
<b>Sub Total (France):</b>			<b>1,934,888</b>	<b>€1,223,687,000</b>	<b>€1,177,755,000</b>

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
<b>Germany</b>					
Cologne DC1	A concrete framed logistics centre together with two three storey office blocks located close to the A4 motorway to the south of Köln (Cologne). The property occupies a site extending to 5.6 ha. Let to ADLOQ and REWE with 5,099 sq m currently vacant. Freehold.	2001	19,460	€15,940,000	€14,970,000
Cologne DC2	A modern logistics centre of steel frame construction with insulated corrugated steel sheeting located close to the A4 motorway to the south of Köln (Cologne). The property is located on a site that extends to 5.5 ha. Let to tts Global Logistics and ProLogis. Freehold.	2004	26,387	€22,150,000	€20,800,000
Cologne DC3	Logistics centre of concrete and steel framed construction with metal facade located close to the A4 motorway to the south of Köln (Cologne). The property is located on a site that extends to 2.35 ha. Let to tts Global Logistics GmbH. Freehold.	2002	10,062	€8,490,000	€7,970,000
Straubing DC1	A warehouse with two ancillary offices of concrete and steel framed construction with metal facade located in the industrial area of "Sand" 8 km east of Straubing with the A3 4 km away. The site extends to 2.2 ha. Let to Häring GmbH & Co. KG (Kühne & Nagel). Freehold.	2004	10,341	€7,440,000	€6,985,000
Straubing DC2	A warehouse of concrete and steel framed construction with metal facade located in the industrial area of "Sand", 8 km east of Straubing with the A3 4 km away. The site extends to 0.85 ha. Let to Häring GmbH & Co. KG (Kühne & Nagel). Freehold.	2005	4,295	€2,990,000	€2,810,000
Straubing DC3	A warehouse of concrete and steel framed construction with metal facade located in the industrial area of "Sand", 8 km east of Straubing with the A3 4 km away. The site extends to 1.24 ha. Let to Häring GmbH & Co. KG (Kühne + Nagel). Freehold.	2005	5,382	€3,780,000	€3,550,000
Soest DC1	Logistics centre located close to B745 motorway feeder road to the A44 junction Soest-east, situated on a site that extends to 5.62 ha. Let to Actebis. Freehold.	2001	28,643	€19,400,000	€18,220,000
Neustadt DC1	Logistics centre located on a site (previously industrial) close to the B229 and B16 main roads. The nearest motorway connection (A93) is approximately 10 km away. The property occupies a site that extends to 4.35 ha. Let to Tyco. Freehold.	2001	19,522	€16,760,000	€15,740,000
Saarwellingen DC1	A modern logistics park situated in the industrial area of Saarwellingen located opposite the Ford car factory and "supplier park" with connections to the A8 and A620 motorways. The property comprises a warehouse and assembly area of steel framed construction with metal facade, situated on a site that extends to 2 ha. Let to TDS Deutschland GmbH. Freehold.	2001	6,413	€4,870,000	€4,575,000
Saarwellingen DC3	A modern logistics park situated in the industrial area of Saarwellingen located opposite the Ford car factory and "supplier park" with connections to the A8 and A620 motorways. The property comprises warehouse and office accommodation located on a site of 1.57 ha. Let to Schenker Deutschland AG. Freehold.	2005	9,298	€8,290,000	€7,780,000
Krefeld DC2	A warehouse and assembly area of concrete and steel framed construction with metal facade and ancillary office space located on ProLogis Park Krefeld. The property occupies a site that extends to 2.35 ha. Let to Kayaba Europe GmbH. Freehold.	2003	11,379	€10,380,000	€9,750,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Alzenau DC1	A warehouse and assembly area of concrete and steel framed construction with metal facades with ancillary office space located in the Industrial Area of Alzenau-South. The property occupies a site that extends to 3.86 ha. Let to New Wave Logistics. Freehold.	2003	16,001	€14,020,000	€13,160,000
Muggensturm DC1	A warehouse and assembly area of concrete and steel framed construction with metal facade and ancillary office accommodation located on ProLogis Park Muggensturm with the A5 Motorway 3 km away. The property occupies a site that extends to 1.75 ha. Let to C&A Mode KG. Freehold.	2003	6,672	€4,920,000	€4,620,000
Muggensturm DC2	Two storage halls located on ProLogis Park Muggensturm with the A5 Motorway 3 km away. Both storage halls comprise logistics centres with offices, warehouse and assembly areas of concrete and steel framed construction with metal facade. Total site area of 3.19 ha. Let to Rhenus AG & Co. KG and C&A Mode KG. Freehold.	2004	17,495	€11,750,000	€11,030,000
Gernsheim DC1	A warehouse and assembly area of concrete and steel framed construction with metal facade with ancillary office accommodation located in a new industrial area north of Gernsheim, 2.5 km from the A67 motorway. The property is situated on a site that extends to 5.16 ha. Let to Tchibo Logistik GmbH. Freehold.	2004	15,290	€14,400,000	€13,515,000
Hamburg DC1	A modern distribution centre situated on the industrial harbour "Dradenau" in Hamburg. The property is of steel frame construction with insulated corrugated steel sheeting occupying a site that extends to 4.09 ha. Let to NYK Logistics (Deutschland) GmbH. The site is held on a 30 year ground lease from the City of Hamburg from 1 March 2004.	2004	30,261	€22,140,000	€20,790,000
Lauenau DC1	A logistics centre with a cross-docking hall, a warehouse and an office building on a site measuring 4.66 ha. The warehouse and assembly area is of concrete and steel framed construction with metal facades and the office building is of prefabricated concrete construction. Let to GEFCO Deutschland GmbH. Freehold.	2004	10,478	€13,350,000	€12,535,000
Neumarkt DC1	A modern distribution centre situated on the industrial estate Habersleha in the town of Neumarkt i.d.Opf approximately 2 km from the A9. The property is of reinforced concrete construction and is situated on a site measuring 5.1 ha. Let to Tchibo Logistik GmbH. Freehold.	2005	18,100	€16,720,000	€15,700,000
Munich 2A	A modern distribution centre situated in Neufahrn (Greater Munich area) close to the motorways A2 and A92 and the international airport Munich. The property is of reinforced concrete construction with ancillary office accommodation, occupying a site with a total area of 3.73 ha. Let to three freight forwarding companies and ProLogis Germany. Freehold.	2005	17,069	€19,220,000	€18,050,000
Munich 2B	A modern distribution centre situated in Neufahrn (Greater Munich area) close to the motorways A2 and A92 and the international airport Munich. The property is of reinforced concrete construction with ancillary office accommodation. The property occupies a site totalling 1.62 ha. Let to the freight forwarding company Erwin Steinle Internationale Spedition GmbH & Co. KG. The remaining vacant office areas are covered by a rent guarantee of ProLogis. Freehold.	2005	10,339	€11,020,000	€10,350,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Martinszehnten DC1	A newly built distribution centre (with freezer unit), offices and conference areas, situated to the north of Frankfurt/Main at the junction of the motorways A5 and A661. The property is situated on a site that extends to 1.81 ha. A 218 sq m office area is currently vacant but is covered by a rental guarantee from ProLogis Germany. The remainder is let to the freight forwarding company Baumann Spedition GmbH. Freehold.	2006	9,026	€13,340,000	€12,525,000
Malsfeld DC1	A modern distribution centre located between the main German logistics hubs Kassel and Bad Hersfeld with direct access to the A7. The unit is situated on a site of 4.59 ha. Let to the freight forwarding company Geodis Deutschland GmbH. Freehold.	2005/2006	20,600	€12,700,000	€11,925,000
<b>Sub Total (Germany):</b>			<b>322,513</b>	<b>€274,070,000</b>	<b>€257,350,000</b>

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
<b>Hungary</b>					
Budapest DC1	A warehouse constructed on part of a development site with a total area of approximately 6 hectares. ProLogis Park Budapest is located near the M5 highway, close to the city of Gyál. Let to Docuguard. 5,739 sq m is currently vacant. Freehold.	2002	20,500	€13,260,000	€12,875,000
Budapest DC2	A warehouse constructed on part of a development site with a total area of 1.42 ha. ProLogis Park Budapest is located near the M5 highway, close to the city of Gyál. The unit has an office content of circa 6.5%, a planned chilled storage area of 1,500 sq m, is sprinklered and has an eaves height of 10 metres. Let to Mvh (lease assigned by Hyperimpex), PLD Kft and Nagel Hungaria. Freehold.	2003	14,449	€10,550,000	€10,245,000
Budapest DC3	A warehouse constructed on part of a development site with a total area of 1.42 ha. ProLogis Park Budapest is located near the M5 highway, close to the city of Gyál. The unit has an office content of circa 2% and is sprinklered with a 10 metres clear eaves height. Let to Mvh (lease assigned by Hyperimpex) and Trebely. Freehold.	2003	14,257	€9,040,000	€8,780,000
Harbor Park Building A	Harbor Park is located in the industrial-commercial area of district XXII, to the south-west of Budapest. The site has strong road network connections and can be accessed directly from AutoRoute M6 (E73) which links to Pecs in southwest Hungary. The M0 Ring Road, which encircles the City of Budapest, is within 2.5 km of the site, providing easy access to the M1, M7 and M5 highways. The site extends to 0.78 ha. Let to Rewico with the remaining office space let between temporary office tenants, including the management of the park. Freehold.	2001	8,681	€7,190,000	€6,980,000
Harbor Park Building B	Harbor Park is located in the industrial-commercial area of district XXII, to the south-west of Budapest. The site has strong road network connections and can be accessed directly from AutoRoute M6 (E73) which links to Pecs in southwest Hungary. The M0 Ring Road, which encircles the City of Budapest, is within 2.5 km of the site, providing easy access to the M1, M7 and M5 highways. The site extends to 0.57 ha. Let to Schneider Electric. Freehold.	2001	6,458	€5,560,000	€5,400,000
Harbor Park Building C	Harbor Park is located in the industrial-commercial area of district XXII, to the south-west of Budapest. The site has strong road network connections and can be accessed directly from AutoRoute M6 (E73) which links to Pecs in southwest Hungary. The M0 Ring Road, which encircles the City of Budapest, is within 2.5 km of the site, providing easy access to the M1, M7 and M5 highways. Building C was constructed on a build-to-suit basis in accordance with the requirements of Budapest-Papir Kft. A three storey office building connects to a 11.0 m clear height storage hall with sprinklers in the storage area and a fan coil system in the offices. The site extends to 0.85 ha. Let to Budapest-Papir and Axex Papir. Freehold.	2003	9,853	€7,290,000	€7,075,000
Harbor Park Building D	Harbor Park is located in the industrial-commercial area of district XXII, to the south-west of Budapest. The site has strong road network connections and can be accessed directly from AutoRoute M6 (E73) which links to Pecs in southwest Hungary. The M0 Ring Road, which encircles the City of Budapest, is within 2.5 km of the site, providing easy access to the M1, M7 and M5 highways. The site extends to 0.77 ha. Let to Rewico. 63.7 sq m is currently vacant. Freehold.	2003	8,480	€6,510,000	€6,325,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Harbor Park Building E	Harbor Park is located in the industrial-commercial area of district XXII, to the south-west of Budapest. The site has strong road network connections and can be accessed directly from AutoRoute M6 (E73) which links to Pecs in southwest Hungary. The M0 Ring Road, which encircles the City of Budapest, is within 2.5 km of the site, providing easy access to the M1, M7 and M5 highways. Building E comprises two buildings, located back-to-back, of reinforced concrete structure. The site extends to 1.09 ha. Let to Chinoir. Freehold.	2002	12,214	€9,910,000	€9,625,000
Harbor Park Building F	Harbor Park is located in the industrial-commercial area of district XXII, to the south-west of Budapest. The site has strong road network connections and can be accessed directly from AutoRoute M6 (E73) which links to Pecs in southwest Hungary. The M0 Ring Road, which encircles the City of Budapest, is within 2.5 km of the site, providing easy access to the M1, M7 and M5 highways. Building F has a reinforced concrete structure, and there is a two-storey office building on the western elevation, connected to the main warehouse. The site extends to 1.53 ha. Let to Anda Present Kft and ProLogis Hungary Management Kft with the remaining space under escrow. Freehold.	2005	16,460	€11,880,000	€11,530,000
Harbor Park Building I1	Harbor Park is located in the industrial-commercial area of district XXII, to the south-west of Budapest. The site has strong road network connections and can be accessed directly from AutoRoute M6 (E73) which links to Pecs in southwest Hungary. The M0 Ring Road, which encircles the City of Budapest, is within 2.5 km of the site, providing easy access to the M1, M7 and M5 highways. Building I is divided into 2 separate structures with a two-storey office building connected above ground level along the entire length of the east and west elevation. The site extends to 0.96 ha. Let to Rewico Hungary. 370 sq m of office currently vacant. Freehold.	2004	10,090	€7,470,000	€7,250,000
Harbor Park Building I2	Harbor Park is located in the industrial-commercial area of district XXII, to the south-west of Budapest. The site has strong road network connections and can be accessed directly from AutoRoute M6 (E73) which links to Pecs in southwest Hungary. The M0 Ring Road, which encircles the City of Budapest, is within 2.5 km of the site, providing easy access to the M1, M7 and M5 highways. Building I is divided into 2 separate structures with a two-storey office building connected above ground level along the entire length of the east and west elevation. The site extends to 0.80 ha. Let to Pactiv, TNT and Schneider. Freehold.	2004	8,720	€6,590,000	€6,400,000
Harbor Park Building J	Harbor Park is located in the industrial-commercial area of district XXII, to the south-west of Budapest. The site has strong road network connections and can be accessed directly from AutoRoute M6 (E73) which links to Pecs in southwest Hungary. The M0 Ring Road, which encircles the City of Budapest, is within 2.5 km of the site, providing easy access to the M1, M7 and M5 highways. Building J has a reinforced concrete structure with a two-storey office building on the southern elevation, directly connected to the main warehouse. The site extends to 0.78 ha. Let to Buhivir and Hensel. The remaining space is under rental guarantee from the vendor. Freehold.	2004	9,408	€7,560,000	€7,340,000



Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Harbor Park Building K	Harbor Park is located in the industrial-commercial area of district XXII, to the south-west of Budapest. The site has strong road network connections and can be accessed directly from AutoRoute M6 (E73) which links to Pecs in southwest Hungary. The M0 Ring Road, which encircles the City of Budapest, is within 2.5 km of the site, providing easy access to the M1, M7 and M5 highways. Building K is primarily a warehouse building, with a larger, connected two-storey industrial building. One part of the factory hall is designed for a warehouse function and the larger part is designed as a printing house, with varying clear heights. The site extends to 1.02 ha. Let to Ringier with permission to sublet to Magyar Posta. Additional offices are currently being constructed on the site. Freehold.	2005	11,383	€11,200,000	€10,875,000
Budaors DC1	Built-to-suit logistics facility constructed in the Budaors area located at the border with Budapest. The property is situated on a site totalling 6.57 ha which has rail access. The unit has a 10 metre internal clear height. Let to Geodis Magyarorszag Logistikai Kft. Freehold.	2005	28,944	€20,500,000	€19,900,000
<b>Sub Total (Hungary):</b>			<b>179,897</b>	<b>€134,510,000</b>	<b>€130,600,000</b>

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
<b>Italy</b>					
Piacenza DC1	A modern well specified warehouse situated south of Piacenza, approximately 3 km from the A1 (Milano-Bologna-Roma), the motorway exit (Piacenza sud) and near the intersection of A1 and A21 (Torino-Brescia). Total site area of 3.3 ha. Uni Euro has assigned the lease to Piacenza Logistica (group company). Freehold.	2000	20,630	€14,380,000	€14,100,000
Piacenza DC2	A modern well specified warehouse situated south of Piacenza, in a park of 4 buildings, about 3 km from the A1 (Milano-Roma-Piacenza) motorway, exit Piacenza Sud and near the intersection of A1 and A21 (Torino-Brescia) motorway. Total site area of 3.25 ha. Let to Generali Trasporti Srl with half of the facility sublet to TNT tecnologistica SpA. Freehold.	2000	20,630	€14,250,000	€13,970,000
Piacenza DC3	A modern well-specified warehouse situated south of Piacenza, in an estate comprising 4 buildings, about 3 km from the Piacenza Sud exit of the A1 (Milan-Rome) motorway, near its intersection with the A21 (Turin-Brescia) motorway. Total site area of 4.50 ha. Let to Di Far.co di Cesare D'Acquisto C. s.n.c. Freehold.	2002	30,933	€21,710,000	€21,280,000
Piacenza DC4	A modern well-specified warehouse situated south of Piacenza, in an estate comprising 4 buildings, about 3 km from the Piacenza Sud exit of the A1 (Milan-Rome) motorway, near its intersection with the A21 (Turin-Brescia) motorway. Total site area of 1.5 ha. Let to Di Far.co di Cesare D'Acquisto C. s.n.c. Freehold.	2003	11,753	€8,070,000	€7,915,000
Lodi DC1	A well specified warehouse situated about 35 km south of Milan. The complex is about 3 km from the A1 (Milan-Rome) motorway, near the Casalpusterlengo exit, in a small industrial estate. Let to TNT Logistics Italia SpA. Freehold.	2002	40,335	€26,090,000	€25,575,000
Lodi DC2	A well specified warehouse situated about 35 km south of Milan. The complex is about 3 km from the A1 (Milan-Rome) motorway, near the Casalpusterlengo exit, in a small industrial estate. Let to TNT Logistics Italia SpA. Freehold.	2003	40,335	€28,880,000	€28,315,000
Lodi DC3	A well specified warehouse situated about 35 km south of Milan. The complex is about 3 km from the A1 (Milan-Rome) motorway, near the Casalpusterlengo exit, in a small industrial estate. Let to TNT Logistics Italia SpA. Freehold.	2003	20,380	€12,970,000	€12,720,000
Milan West DC1	A warehouse situated north-west of Milan, about 15 minutes drive from the A4 (Milan-Venice) motorway, 4 km from the Western Bypass and near the state road SS 11 which leads to Novara. Total site area of 4.09 ha. Let to Sittam SpA. Freehold.	2000	22,500	€17,980,000	€17,627,000
Romentino DC1	The Romentino DC1 building is located in the ProLogis Park, 30 km west of Milano, 5 km from Novara, and 20 km from Malpensa Airport. The warehouse is close to the Interporto of Novara and to the A4 Motorway (Novara East Exit). Total site area of 9.19 ha. Let to U.S.A. Ubaldini Stampa Autotrasporti S.r.l. Freehold.	2005	20,551	€13,475,000	€13,212,000
Romentino DC2	The ProLogis Park Romentino is situated about 30 km west of Milan, 20 km from the Malpensa Airport and 5 km from the city of Novara. The site is very close to the Interporto af Novara (approximately 3 km), and it has good visibility and from the A4 Turin-Venice motorway. The warehouse is easily accessible from the Novara East exit of this motorway. Total site area of 27 ha. Let to NYK Logistics (Italy) S.p.A. Freehold.	2004	33,055	€22,630,000	€22,188,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Castel San Giovanni DC1	The Castel San Giovanni DC1 warehouse is located on the A21 Turin-Piacenza motorway (Castel San Giovanni exit), 15 km west of Piacenza, 20 km from Pavia and 20 km from the intersection with A1 Milan-Bologna motorway. Total site area of 3.35 ha. Let to ND Logistics Italia S.p.A. Freehold.	2005	25,750	€15,450,000	€15,150,000
Turin DC1	The Turin DC1 complex comprising a warehouse and office building located in the industrial area of Trofarello, south-west of Turin, very close to the Vadò Exit of the A21 Turin-Piacenza Motorway, at the intersection of the A6 Turin-Savona Motorway. Total site area of 8.55 ha. Let to Geodis Zust Ambrosetti S.p.A. Freehold.	2005	29,304	€13,830,000	€13,562,000
Bologna DC1	A warehouse located in the Interporto of Bologna, 3 km from the A13 motorway (Bologna-Padua) and 20 km north of Bologna. The Interporto of Bologna is a multi-modal transport and logistics zone situated close to the main traffic routes crossing the north of Italy. Total site area of 9.20 ha. Let to Endesit Company SpA. Freehold.	2004	49,090	€30,750,000	€30,150,000
<b>Sub Total (Italy):</b>			<b>365,246</b>	<b>€240,465,000</b>	<b>€235,764,000</b>

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
<b>The Netherlands</b>					
Eemhaven DC1	The “Distripark Eemhaven” is situated approximately 10 km southwest of Rotterdam close to Pernis and in close proximity to the A15, which leads towards Germany. The warehouse is of steel frame construction with concrete floors and insulated steel elevation panels whilst the 2 level office accommodation has timber elevations and aluminium window frames with glazed panels. The property is situated on a site extending to 2.04 ha. The unit is currently vacant. Leasehold.	1991	12,847	€7,270,000	€6,630,000
Eemhaven DC2	The “Distripark Eemhaven” is situated approximately 10 km southwest of Rotterdam close to Pernis and in close proximity to the A15, which leads towards Germany. The warehouse is of steel frame construction with concrete floors and insulated steel elevation panels whilst the two office blocks provide accommodation on the ground and first floors. The property is situated on a site extending to 2.63 ha. Let to Ziegler Nederland B.V and Nippon Express B.V and Hudig Forwarding. Leasehold.	1998	17,380	€13,020,000	€12,000,000
Eemhaven DC3	The “Distripark Eemhaven” is situated approximately 10 km southwest of Rotterdam close to Pernis and in close proximity to the A15, which leads towards Germany. The warehouse is of steel frame construction with concrete floors and insulated steel and aluminium elevation panels. There are offices on two floors and at a mezzanine level. The property is situated on a site extending to 1.28 ha. Let to NCR Netherlands BV. Leasehold.	2000	8,503	€6,550,000	€6,030,000
Eemhaven DC4	The “Distripark Eemhaven” is situated approximately 10 km southwest of Rotterdam close to Pernis and in close proximity to the A15, which leads towards Germany. The property comprises a warehouse of steel frame construction with concrete sheeting and a 3 storey office building built around a concrete frame with concrete floors. Total site area of 2.48 ha. Let to eight tenants. A total of 165 sq m of office and 26 storage spaces are currently vacant. Leasehold expiring 9 March 2093.	1994	17,174	€14,230,000	€13,300,000
Schiphol DC1	Situated on the modern “Airport Business Park Oude Meer” located approximately 4 km to the south-east of the Schiphol International Airport terminal buildings and approximately 15 km to the south of Amsterdam. Access to the national and international motorway network is excellent via the A4 (Amsterdam/Rotterdam) motorway approximately 3.5 km from the property. A warehouse of steel frame construction with a concrete floor and concrete elevational panels and four office pods on two floors with brick elevations, in part provided with air conditioning. Total site area of 1.91 ha. Let to ITG Transport, DHL Danzas, ProLogis B.V and Japan Radio. Freehold.	1998	11,667	€16,050,000	€15,000,000
Schiphol DC2	Situated on the modern “Airport Business Park Oude Meer” located approximately 4 km to the south-east of the Schiphol International Airport terminal buildings and approximately 15 km to the south of Amsterdam. Access to the national and international motorway network is excellent via the A4 (Amsterdam/Rotterdam) motorway approximately 3.5 km from the property. A warehouse of steel frame construction with a concrete floor and corrugated steel elevation panels and office accommodation on three floors. Total site area of 2.0 ha. Let to Frans Maas Logistics Montfoort BV. Freehold.	1998	13,667	€19,470,000	€18,200,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Schiphol DC3	Situated on the modern "Airport Business Park Oude Meer" located approximately 4 km to the south-east of the Schiphol International Airport terminal buildings and approximately 15 km to the south of Amsterdam. Access to the national and international motorway network is excellent via the A4 (Amsterdam/Rotterdam) motorway approximately 3.5 km from the property. A warehouse of steel frame construction with a concrete floor and corrugated steel elevation panels and office accommodation on two floors. Total site area of 3.28 ha. Let to Air Express International BV (now Danzas). Leasehold.	1999	19,435	€18,110,000	€16,400,000
Schiphol DC4	Situated on the modern "Airport Business Park Oude Meer" located approximately 4 km to the south-east of the Schiphol International Airport terminal buildings and approximately 15 km to the south of Amsterdam. Access to the national and international motorway network is excellent via the A4 (Amsterdam/Rotterdam) motorway approximately 3.5 km from the property. Total site area of 2.12 ha. Let to Danzas/AEI. Freehold.	2000	14,377	€21,720,000	€20,300,000
Tilburg DC1	A distribution centre situated on the Industrial park "Vossenbergh" in Tilburg. Five adjoining units of steel frame construction with insulated corrugated steel sheeting, fitted with sprinkler installation and with an eaves height of 10.80 metres. Total site area of 3.62 ha. Let to DHL Solutions (Netherlands) B.V. Freehold.	2001	28,440	€23,750,000	€22,200,000
Tilburg DC2	A modern distribution centre situated on the Industrial park "Vossenbergh" in Tilburg. Five adjoining units of steel frame construction with insulated corrugated steel sheeting, fitted with sprinkler installation and with an eaves height of 10.80 metres. Total site area of 3.61 ha. Let to DHL Solutions (Netherlands) B.V. Freehold.	2001-2002	28,351	€21,940,000	€20,500,000
Moerdijk DC1	A distribution centre situated on the south-western part of the Industrial Park of the Port of Moerdijk, close to A59/A17/A16 motorways. Total site area of 3.67 ha. Let to Bax Global. Freehold.	2000	24,302	€18,620,000	€17,400,000
Moerdijk DC2	A distribution centre situated on the south-western part of the Industrial Park of the Port of Moerdijk, close to A59/A17/A16 motorways. Three warehouses of steel frame construction with concrete floors and steel/aluminium exterior panels and ancillary office accommodation. Total site area of 3.64 ha. Let to Klaver Holding BV. Freehold.	2000	16,868	€14,660,000	€13,700,000
Moerdijk DC3	A distribution centre situated on the south western part of the Industrial Park of the Port of Moerdijk, close to A59/A17/A16 motorways. Steel frame construction with insulated corrugated steel sheeting with associated office accommodation on two floors and at mezzanine level. Total site area of 2.07 ha. Let to GeoLogistics B.V. Freehold.	2000	14,440	€11,020,000	€10,300,000
Maasvlakte DC1	A distribution centre situated on the western part of the Industrial Park Maasvlakte, connected to the A15 motorways via the N15 trunk road. Steel frame construction with insulated corrugated steel sheeting with associated office accommodation on two floors and, in part, at mezzanine level. Total site area of 3.43 ha. Let to DHL Solutions (Netherlands) BV. Approximately 189 sq m of office and 3 parking spaces are currently vacant. Freehold.	2001	21,108	€11,610,000	€10,700,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Maasvlakte DC2	A distribution centre situated on the western part of the Industrial Park Maasvlakte, connected to the A15 motorways via the N15 trunk road. Steel frame construction with insulated corrugated steel sheeting with associated office accommodation on 2 floors. Total site area of 3.45 ha. Let to DHL Solutions (Netherlands) BV. Approximately 378 sq m of office and 10 parking spaces are currently vacant. Leasehold.	2001	20,838	€11,300,000	€10,400,000
Maasvlakte DC3	New distribution centre situated on the western part of the Industrial Park Maasvlakte, connected to the A15 motorways via the N15 trunk road. Steel frame construction with insulated corrugated steel sheeting with associated office accommodation on 2 floors. A mezzanine is provided across part of the front of the warehouse. Total site area of 3.64 ha. Let to ADM Specialty Ingredients (Europe) BV. Leasehold.	2005	25,771	€15,250,000	€14,000,000
Botlek DC1	A modern distribution centre situated on the “Distripark” Botlek in The Netherlands, close to A15 motorway. Total site area of 3.65 ha. Let to Schenker International Nederland B.V. Leasehold for 50 years with option to extend for 25 years.	2000	27,692	€15,880,000	€14,500,000
Venlo DC1	Situated at Marco Poloweg, on an extension to the modern “Trade Port West” business park, to the north west of Venlo. The business park is located approximately 1 km from the “Ind. Venlo” junction of the A67 (Oberhausen/Eindhoven) motorway, and approximately 8 km from Venlo city centre. A modern warehouse of steel frame construction with a concrete floor and corrugated steel clad elevations with an office element on 2 floors provided with top cooling. Total site area of 3.5 ha. Let to Danzas/Air Express International B.V. Freehold.	1999	21,329	€17,010,000	€15,900,000
Haafden DC1	A warehouse of steel frame construction with a concrete floor and insulated steel elevation panels with office and canteen accommodation on 2 floors. Total site area of 6.52 ha. Let to Van Wijk Beheer B.V. Freehold.	1999	44,930	€26,640,000	€24,900,000
Veghel DC1	A distribution centre situated on the Industrial park “De Amert” in Veghel. Two adjoining units of steel frame construction with insulated corrugated steel sheeting, fitted with sprinkler installation. Total site area of 2.95 ha. Let to Alloga Benelux BV. Freehold.	1999 (phase 1) and 2000 (phase 2)	20,027	€14,120,000	€13,200,000
Venlo DC2A	A modern distribution centre situated on the “Trade Port West” industrial park in Venlo. Steel frame construction with insulated corrugated steel sheeting, fitted with sprinkler installation. Total site area of 2.97 ha. Let to Geodis Vitesse Holding B.V. Freehold.	2002	20,829	€15,300,000	€14,300,000
Venlo DC2B	A modern distribution centre situated on the “Trade Port West” industrial park in Venlo. Steel frame construction with insulated corrugated steel sheeting, fitted with sprinkler installation. Total site area of 3.12 ha. Let to UPS SCS (Nederland) BV. Freehold.	2002	20,829	€16,800,000	€15,700,000
Zaandam Land	Site with foundations of warehouse complex and shell of office building. Site extends to 2.33 ha. Freehold.	—	—	€4,820,000	€4,500,000
Bergen op Zoom DC1	A modern distribution centre situated on the “Noordland” industrial park in Bergen op Zoom. Steel frame construction with insulated corrugated steel sheeting, fitted with sprinkler installation. Total site area of 8.64 ha. Let to Ricoh Europe BV. Freehold.	2004 & 2006	58,171	€38,410,000	€35,900,000
<b>Sub Total (The Netherlands):</b>			<b>508,973</b>	<b>€393,550,000</b>	<b>€365,960,000</b>



Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
<b>Poland</b>					
Warsaw 1	A steel frame and block construction warehouse and distribution building with a minimum clear eaves height of 7.2 metres. Total site area of 2.14 ha. The property forms part of an estate which is situated approximately 8 km south west of Warsaw city centre and in close proximity to the international airport. Let to Johnson & Johnson, Janssen Cilag, Blaks and Schulstad. Freehold.	1995	10,945	€14,200,000	€13,785,000
Warsaw 2	A steel frame and block construction warehouse and distribution building with a minimum clear eaves height of 7.2 metres, forming part of an estate approximately 8 km south west of Warsaw city centre and in close proximity to the international airport. The building occupies a 1.76 ha site and is let to 6 tenants. Freehold.	1995	8,524	€8,100,000	€7,860,000
Warsaw 3	A steel frame and block construction warehouse and distribution building with a minimum clear eaves height of 6.2 metres, forming part of an estate approximately 8 km south west of Warsaw city centre and in close proximity to the international airport. The building occupies a 2.14 ha site and is let to 6 tenants. Freehold.	1997	7,159	€6,390,000	€6,200,000
Warsaw 4	A steel frame and block construction warehouse and distribution building with a minimum clear eaves height of 7.2 metres, forming part of an estate approximately 8 km south west of Warsaw city centre and located in close proximity to the international airport. Total site area of 2.14 ha. Let to NovoNordisk and Masterlink Express. Freehold.	1997	11,587	€9,940,000	€9,650,000
Blonie DC1	A modern sprinklered warehouse with 9 metres clear eaves height, situated on the western edge of Warsaw forming part of The ProLogis Park Blonie. The property is located 25 km from the city centre and within close proximity to Poznan on route E-30. Total site area of 6.31 ha. Let to L'Oreal and DC. Freehold.	2000	16,958	€8,500,000	€8,250,000
Blonie DC2	A modern sprinklered warehouse with 10 metre clear eaves height, situated on the western edge of Warsaw forming part of The ProLogis Park Blonie. The property is located 25 km from the city centre and within close proximity to Poznan on route E-30. Total site area of 3.6 ha. Let to WSiP and Polta. Freehold.	2001	19,508	€10,590,000	€10,285,000
Blonie DC3	A modern sprinklered warehouse with 10 metre clear eaves height, situated on the western edge of Warsaw forming part of The ProLogis Park Blonie. The property is located 25 km from the city centre and within close proximity to Poznan on route E-30. Total site area of 3.6 ha. Let to Wincanton and Polifarb. Freehold.	2002	17,417	€8,790,000	€8,535,000
Blonie DC4	A modern sprinklered warehouse constructed in 2003 with 10 metre clear eaves height, situated on the western edge of Warsaw forming part of The ProLogis Park Blonie. The property is located 25 km from the city centre and within close proximity to Poznan on route E-30. Total site area of 2.72 ha. Let to 3 tenants. Freehold.	2003	17,452	€11,420,000	€11,085,000
Poznan DC1	A modern sprinklered warehouse with a clear eaves height of 10 metres, which forms part of The ProLogis Park Poznan. The property is situated approximately 10 km to the west of Poznan city centre within close proximity to the E30. Total site area of 1.69 ha. Let to Coca-Cola. Freehold.	2002	5,619	€6,050,000	€5,875,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Poznan DC2	A modern sprinklered warehouse with 10 metre clear eaves height which forms part of The ProLogis Park Poznan, situated approximately 10 km to the west of Poznan city centre adjacent to the E30. Let to Archive Management and to C.Hartwig. Freehold.	2003	5,791	€3,500,000	€3,400,000
Poznan DC3	Two modern sprinklered warehouses with 10 metre clear eaves height, which form part of The ProLogis Park Poznan. The property is situated approximately 10 km to the west of Poznan city centre within close proximity to the E30. Total site area of 4 ha. Let to 3 tenants. Freehold.	2002	19,515	€12,450,000	€12,085,000
Poznan DC4	A modern sprinklered warehouse with a 10 metre clear eaves height, which forms part of The ProLogis Park Poznan, situated approximately 10 km to the west of Poznan city centre within close proximity to the E30. Let to Univeg and Fastrack. Freehold.	2004	12,081	€7,620,000	€7,400,000
Poznan II DC1	A newly built sprinklered modern warehouse with a 10 metre clear eaves height, which forms part of The ProLogis Park Poznan II. The property is situated approximately 10 km to the west of Poznan city centre within close proximity to the E30. Total site area of 3.65 ha. Let to IBP Conex Ltd and JAS-FBG S.A. Freehold.	2005	15,462	€9,500,000	€9,220,000
Poznan II DC2	A newly built sprinklered modern warehouse with a 10 metres clear eaves height, which forms part of The ProLogis Park Poznan II. The property is situated approximately 10 km to the west of Poznan city centre within close proximity to the E30. Total site area of 3.65 ha. Let to 5 tenants. Freehold.	2005	16,697	€10,160,000	€9,860,000
Piotrkow DC1	A modern single-storey sprinklered warehouse with a 10.6 metre clear eaves height. Located 2 km from Piotrkow Tryb city centre, close to the E-67 Warsaw-Wroclaw highway and the E-75 Gdansk-Katowice. Total site area of 8.13 ha. Let to Ahold. Freehold.	2002	21,214	€17,820,000	€17,300,000
Piotrkow DC2	A modern single-storey sprinklered warehouse with a 10.6 metre clear eaves height. Located 2 km from Piotrkow Tryb city centre, close to the E-67 Warsaw-Wroclaw highway and the E-75 Gdansk-Katowice. Let to Unilever. Freehold.	2003	39,809	€21,840,000	€21,200,000
Teresin DC1	A modern sprinklered warehouse with a 10 metre clear eaves height located 40 km from Warsaw city centre and approximately 12 km from Sochaczew, close to the E-30 Warsaw-Berlin highway. Total site area of 4.8 ha. Let to 3 tenants. Freehold.	2000	26,503	€12,110,000	€11,760,000
Teresin DC2	A modern sprinklered warehouse with a 10 metre clear eaves height located 40 km from Warsaw city centre and approximately 12 km from Sochaczew, close to the E-30 Warsaw-Berlin highway. Total site area of 4.5 ha. Let to Distiland. Freehold.	2000	27,084	€13,840,000	€13,440,000
Teresin DC3 (#B)	A modern sprinklered warehouse with a 10 metre clear eaves height located 40 km from Warsaw city centre and approximately 12 km from Sochaczew, close to the E-30 Warsaw-Berlin highway. Total site area of 4.5 ha. Let to DHL and Schenker. Freehold.	2003	27,474	€12,630,000	€12,265,000
Teresin DC5	A modern sprinklered warehouse with a 10 metre clear eaves height located 40 km from Warsaw city centre and approximately 12 km from Sochaczew, close to the E-30 Warsaw-Berlin highway. Total site area of 3.62 ha. Let to Viva Manufacturing Polska Sp. Freehold.	2005	24,420	€13,840,000	€13,435,000
Wroclaw DC2	A newly built modern sprinklered warehouse with a 10 metre clear eaves height, which forms part of The ProLogis Park Wroclaw. The Park is located in Lowewr Silesia, aproximately 15 km south-west of Wroclaw along the 35 Road, close to the main crossroad of the A4, E-262 and E-67. Total site area of 6.69 ha. Let to 4 tenants. Freehold.	2005	18,561	€10,690,000	€10,375,000

<b>Property Name</b>	<b>Location, Description &amp; Tenancy</b>	<b>Year of Construction</b>	<b>Total Lettable Area (sq. m.)</b>	<b>Gross Value</b>	<b>Market Value</b>
Sosnowiec DC1	A newly built modern sprinklered warehouse with a clear eaves height of 10 metres, which forms part of The ProLogis Park Sosnowiec in Silesia, close to E-40 and E-75 Highways. Total site area of 6.31 ha. Let to four tenants. Freehold.	2005	28,790	€16,430,000	€15,950,000
Sosnowiec DC2	A newly built modern sprinklered warehouse with a clear eaves height of 10 metres, which forms part of The ProLogis Park Sosnowiec in Silesia, close to the E-40 and E-75 Highways. Total site area of 6.31 ha. Let to four tenants. Freehold.	2005	18,210	€9,860,000	€9,570,000
Bedzin DC1	A modern sprinklered warehouse with a 10.6 metre clear eaves height, located in Bedzin in the Silesia region, close to the E-75 Warsaw-Katowice highway which provide access to A-1 Motorway. Total site area of 19.9 ha. Let to Ahold. Perpetual Usufruct.	2002	34,084	€28,990,000	€28,150,000
<b>Sub Total (Poland):</b>			<b>450,864</b>	<b>€285,260,000</b>	<b>€276,935,000</b>

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
<b>Spain</b>					
Alcalá 1	A logistics cross docking warehouse of concrete frame construction with metal cladding occupying a 2.97 ha site located in Alcalá de Henares, close to the A2 (Madrid-Barcelona) and the toll road R2. Let to CAT España Logística Cargo S.L. Freehold.	2005	10,651	€13,490,000	€13,120,000
Alcalá 2	A modern logistics warehouse of concrete frame construction with metal cladding, occupying a 3.47 ha site and located within a newly created logistics park in Alcalá de Henares. The development lies close to the A2 (Madrid-Barcelona) and the toll road R2. Let to Aduanas Transitos Comercios S.A. (A.T.C.) and Goodyear Dunlop Tyres España. Freehold.	2005	23,779	€22,080,000	€22,480,000
Alcalá 3	A modern logistics warehouse of concrete frame construction with metal cladding, occupying a 3.68 ha site. Located within a logistics park in Alcalá de Henares, close to the A2 (Madrid-Barcelona) and the toll road R2. Let to Nova Line Plus Iberica and TNT Logistics España I, SAU. Freehold.	2005	23,778	€21,112,000	€20,560,000
Alcalá 4	A logistics warehouse of concrete-frame construction with metal cladding occupying a 34.1 ha site within a newly created logistics park in Alcalá de Henares. The development lies close to the A2 (Madrid-Barcelona) and the toll road R2. Let to TYCO Healthcare, CTC Pharma Logistics and Legrand. Freehold.	2004	36,257	€34,020,000	€33,030,000
Alcalá 5	A logistics warehouse of concrete-frame construction with metal cladding and occupying a 2.29 ha site in a newly created logistics park in Alcalá de Henares. The development lies close to the A2 (Madrid-Barcelona) and the toll road R2. Let to Nippon Express, Mahle Sistemas de Filtración and Abbott. Freehold.	2003	20,271	€21,162,000	€20,590,000
Sant Boi DC1	A logistics warehouse occupying a 2.57 ha site within a newly created logistics park in Barcelona. The development lies next to the San Boi junction of the A-32 close to Barcelona International Airport and the docks area. Concrete-frame construction with a solid concrete floor and blockwork walls. Let to Dinopol Supermercados. Freehold.	2002	20,494	€23,307,000	€22,670,000
Sant Boi DC2	A logistics warehouse occupying a 3.19 ha site located in a newly created logistics park in Barcelona. It is of concrete-frame construction with a solid concrete floor and blockwork walls. The development lies next to the San Boi junction of the A-32 close to Barcelona International Airport and the docks area. Let to Hamann, Miguel Torres and ProLogis Spain Management. 792 sq m is currently vacant. Freehold.	2001	25,380	€29,825,000	€29,000,000
Sant Boi DC3	A logistics warehouse occupying a 3.72 ha site, located within a newly created logistics park in Barcelona. It is of concrete-frame construction with a solid concrete floor and blockwork walls. The development lies next to the San Boi junction of the A-32 close to Barcelona International Airport and the docks area. Let to Schneider. Freehold.	2001	28,157	€31,540,000	€30,680,000
Sant Boi DC4	A logistics warehouse occupying a 3.12 ha site, located within a newly created logistics park in Barcelona. It is of concrete-frame construction with a solid concrete floor and blockwork walls. The development lies next to the San Boi junction of the A-32 close to Barcelona International Airport and the docks area. Let to Chronoexpres, S.A. Freehold.	2002	24,880	€30,804,000	€29,960,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Sant Boi DC5	A logistics warehouse occupying a 2.03 ha site within a newly created logistics park in Barcelona. It is of concrete-frame construction with a solid concrete floor and blockwork walls. The development lies next to the San Boi junction of the A-32 close to Barcelona International Airport and the docks area. Let to Salvador Escoda, S.A. Freehold.	2002	14,810	€17,139,000	€16,670,000
Valls DC1	A logistics warehouse occupying an 8.42 ha site within newly created logistics park, located within the Tarragona port region, on the south-east coast of Spain. Let to Eurofred. Freehold.	2002	42,360	€24,480,000	€23,810,000
Coslada DC1	A modern distribution warehouse with a high office content, occupying a 2.03 ha site, located in a expanding logistics zone close to Barajas International Airport in Madrid. The development lies close to the A2 (Madrid-Barcelona) and M40 & M45 ring roads. Let to Geodis Teisa. Freehold.	1997	11,590	€11,732,000	€11,410,000
<b>Sub Total (Spain):</b>			<b>282,407</b>	<b>€281,691,000</b>	<b>€274,040,000</b>

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
<b>United Kingdom</b>					
<b>Values Shown in British Pounds</b>					
Hams Hall DC3A	A modern warehouse of steel portal frame construction and occupying a 3.3 ha site. Located at Hams Hall just south of junction 9 of the M42 Motorway. Let to Leggett Freightways Ltd. Freehold.	1999	11,229	£10,710,000	£10,125,000
Hams Hall DC3B	A modern warehouse of steel portal frame construction located at Hams Hall just south of junction 9 of the M42 motorway. Total site area of 2.27 ha. Let to TNT UK Ltd. Freehold.	1999	7,983	£7,060,000	£6,675,000
Daventry Drayton Fields DC1	A single storey high bay warehouse with ancillary offices of steel portal frame construction with a 11 metre eaves height. Externally there are 185 car parking spaces, trailer parking and soft landscaping and the whole site totals 4.63 ha. The property is located on Drayton Fields Industrial Estate 3.5 km to the north of Daventry town centre and approximately 8 km to the north west of junction 17 of the M1 motorway. Let to Unigate Distribution Services t/a Wincanton Holdings Ltd. Freehold.	1999	20,439	£17,450,000	£16,500,000
Tingley, Leeds DC1	A 3 bay distribution warehouse of steel portal frame construction with 2 storey integral offices strategically located adjacent to junction 28 of the M62 motorway. Total site area of 4.9 ha. Let to Carlsberg-Tetley Brewing Ltd. Freehold.	1998	12,007	£10,580,000	£10,000,000
Marston Gate DC1	A modern, two-bay warehouse situated on an established Industrial Estate in Milton Keynes, just to the east of the M1 at Junction 13. Steel portal frame construction with blockwork elevations to circa 2.5 metres and profile metal sheeting above. Roof is profile metal sheeting incorporating translucent roof lights. The warehouse has 9 loading doors and a 12.5 metre eaves height. Total site area of 2.22 ha. Let to Aid Pack Systems Limited. Freehold.	2004	9,352	£9,310,000	£8,800,000
Marston Gate DC2	A modern warehouse of steel portal frame construction with a 13 metre eaves height, ancillary offices, 250 car parking spaces and lorry parking. Located on a new distribution park just off junction 13 of the M1 motorway on a site measuring 4.08 ha. Let to UCI Logistics Ltd. Freehold.	1999	17,439	£17,660,000	£16,700,000
Marston Gate DC3	A modern warehouse situated in an established industrial estate in Milton Keynes just to the East of the M1 at Junction 13. Steel portal framed with profile metal elevations and roof. Provides warehouse and 2 storey ancillary office accommodation. Total site area of 2.14 ha. Let to DTS Logistics Ltd. Freehold.	2004	9,642	£8,830,000	£8,350,000
Marston Gate DC5	A modern warehouse situated on the newly built Marston Gate Industrial Estate, close to Junction 13 of the M1 and 6.5 km to the east of Milton Keynes. Total site area of 5.6 ha. Let to Wolseley Centers Limited. Freehold.	1999	21,316	£22,530,000	£21,300,000
Marston Gate DC6	A modern warehouse with integral offices of steel portal frame construction with a 10 metre eaves height. 175 car parking spaces and lorry parking. Located on a new distribution park just off junction 13 of the M1 motorway on a site with a total area of 3.3 ha. Let to ANC Ltd. Freehold.	1999	7,810	£9,470,000	£8,950,000
Marston Gate DC8	A modern warehouse situated on the Marston Gate Industrial Estate, close to Junction 13 of the M1 and 6.5km east of Milton Keynes. Total site area of 10.56 ha. Let to Amazon.com International Sales Inc. Freehold.	2000	46,700	£50,000,000	£47,275,000



Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Bromford Gate DC1	A prime Industrial/Distribution Park providing 5 new units situated in an excellent location with good access to the motorway network. The building occupies a 4.3 ha site and is let to Hampson Aerospace Machining Ltd. Freehold.	1999	5,899	£6,770,000	£6,400,000
Bromford Gate DC2	A prime Industrial/Distribution Park providing 5 new units situated in an excellent location with good access to the motorway network. Unit 2 occupies a site that totals 3.70 ha and is let to Iforce Ltd. Freehold.	1999	5,944	£6,660,000	£6,300,000
Bromford Gate DC3	A prime Industrial/Distribution Park providing 5 new units situated in an excellent location with good access to the motorway network. Unit 3 occupies a site totalling 5 ha and is let to TDG Ltd. Freehold.	1999	8,841	£9,620,000	£9,100,000
Bromford Gate DC4	A prime Industrial/Distribution Park providing 5 new units situated in an excellent location with good access to the motorway network. Unit 4 occupies a site totalling 4.3 ha and is let to Claire's Accessories Ltd. Freehold.	1999	8,001	£9,080,000	£8,585,000
Bromford Gate DC5	A prime Industrial/Distribution Park providing 5 new units situated in an excellent location with good access to the motorway network. Unit 5 occupies a site totalling 4.0 ha and is let to Montague L. Meyer Ltd. Freehold.	1999	4,918	£5,660,000	£5,350,000
Interlink DC1	A high bay distribution warehouse of steel portal frame construction with 3 storey integral offices. The warehouse specification includes 30 dock levellers and 13 roller shutters doors. Strategically located approximately 2 km west of junction 22 of M1 the property is situated on a site of 7.89 ha. Let to Hayes Distribution Services Ltd. Freehold.	1999	23,735	£19,420,000	£18,365,000
Wembley DC1	A modern warehouse with integral offices of steel portal frame construction with a 12 metre eaves height, 102 car parking spaces and lorry parking. Located on a solus site close to North Wembley Station and convenient for the North Circular road. Total site area of 2.9 ha. Let to H&M Hennes Ltd. Freehold.	1999	12,712	£18,960,000	£17,925,000
Huntingdon DC2	A high bay warehouse situated to the South of Huntingdon adjacent to the A14 dual carriageway. The property has a 10 metre eaves height and 5% office content and is located on a site extending to 2.66 ha. Let to Carpetright. Freehold.	2000	7,452	£4,650,000	£4,400,000
Grange Park DC4 Zone A	A modern high bay warehouse situated on an established distribution park situated adjacent to junction 15 of the M1 and the A508 approximately 3 km south-west of Northampton. The unit lies adjacent to two further distribution warehouses also occupied by New Wave Logistics. Total site area of 3.44 ha. Let to New Wave Logistics Ltd. Freehold.	2001	15,606	£15,680,000	£14,825,000
Grange Park DC6 Zone A	A modern warehouse with ancillary offices situated in an established business park lying immediately adjacent to the M1, Junction 15, equidistant from London and Birmingham and providing good access to the wider motorway network. The property is of steel portal frame construction with profile metal elevations and a curved roof and has 14 hydraulic dock levellers and 2 level access doors. Total site area of 2.06 ha. Let to John Lewis. Freehold.	2004	14,945	£14,600,000	£13,800,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Hemel Hempstead DC1	A modern high bay warehouse situated on a distribution park. The building is located on Eastman Way within a mile of the M1 via Breakspear Way and Boundary Way. The property has three floors of high specification offices, 19 loading bays and parking for approximately 325 cars. The site is self contained and secured by fencing surrounding the perimeter and has a total area of 3.53 ha. Let to Next Plc. Freehold.	2001	15,889	£25,740,000	£24,335,000
Hemel Hempstead DC2	A modern distribution warehouse unit with ancillary office accommodation in a prime industrial and distribution location. The location provides excellent access to Junction 8 of the M1 motorway, and the M1/M25 motorway intersection is easily accessible. DC2 and DC3 benefit from approximately 122 heavy goods vehicle parking spaces, and 364 car parking spaces. The site benefits from security fencing and is accessed via two gatehouses which control both incoming and outgoing vehicles and the total site area of DC2 extends to 6.56 ha. Let to Gillette UK Limited. Freehold. The property has been affected by blast damage from the Buncefield Depot explosion. The valuation reflects the existing lease and assumes that the reinstatement costs of the building and loss of rent are fully covered by the insurance policy.	2001	22,136	£20,770,000	£19,635,000
Hemel Hempstead DC3	A modern distribution warehouse unit with ancillary office accommodation in a prime industrial and distribution location. The location provides excellent access to Junction 8 of the M1 motorway, and the M1/M25 motorway intersection is easily accessible. DC2 and DC3 benefit from approximately 122 heavy goods vehicle parking spaces, and 364 car parking spaces. The site benefits from security fencing and is accessed via two gatehouses which control both incoming and outgoing vehicles and the total site area of DC3 extends to 3.3 ha. Let to Gillette UK Limited. Freehold. The property has been affected by blast damage from the Buncefield Depot explosion. The valuation reflects the existing lease and assumes that the reinstatement costs of the building and loss of rent are fully covered by the insurance policy.	2001	11,323	£10,680,000	£10,100,000
Daventry Drayton DC1	A modern distribution warehouse situated within the established Drayton Fields Industrial Estate within close proximity to the A45 Trunk Road proving good accessibility to Junction 18 of M1 and the M45 with accessibility to the rest of the UK via the wider motorway network. The property is of steel frame construction with insulated profile metal elevations and roof and provides warehouse space with 2 storey ancillary office accommodation to the front. The property occupies a site with a total area of 2.44 and is let to CNH UK Limited. Freehold.	2001	8,454	£7,670,000	£7,250,000
Daventry Drayton DC2	A modern distribution warehouse situated within the established Drayton Fields Industrial Estate within close proximity to the A45 Trunk Road providing good accessibility to Junction 18 of M1 and the M45 with accessibility to the rest of the UK via the wider motorway network. Steel frame construction with insulated profile metal elevations and roof and provides warehouse space with 2 storey ancillary office accommodation to the front. The property occupies a site with a total area of 3.61 ha and is let to Netto Foodstores Ltd. Freehold.	2002	14,585	£13,990,000	£13,225,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Daventry Drayton DC5 (4)	A modern warehouse unit situated in Daventry in the heart of the national motorway network, close to the M1 and M6 interchange. Steel portal frame construction with profile metal elevations and roof and has 19 raised dock levellers and 6 level access doors and provides warehouse and 2 storey ancillary office accommodation. The property occupies a site with a total area of 4.48 ha and is let to J D Wetherspoons. Freehold.	2004	16,679	£15,090,000	£14,265,000
Daventry Drayton DC4 (3)	A distribution warehouse situated within the established Drayton Fields Industrial Estate in close proximity to the A45 Trunk Road providing good accessibility to Junction 18 of M1 and the M45 and good accessibility to the rest of the UK via the wider motorway network. Steel frame construction with insulated profile metal elevations and roof and provides warehouse and 2 storey, integral, ancillary office accommodation. The property occupies a site with a total area of 2.76 ha and is let to Whistlestop Discount Stores Limited. Freehold.	2004	14,114	£11,300,000	£10,685,000
Darlaston DC1	A high bay warehouse facility with an eaves height of 15 metres situated on the Black Country New Road approximately 2 km from the M6 motorway. The property occupies a site with a total area of 5.25 ha and is let to The ISE Group Plc. Freehold.	2000	22,767	£22,670,000	£21,435,000
Coventry Colliery DC8	A modern warehouse situated on this rail connected distribution park located 5 km equidistant from Coventry City Centre to the south and junction 3 of the M6 motorway to the north. The property occupies a site with a total area of 3.85 ha and is let to Exel Logistics Europe Ltd. Freehold.	2000	17,070	£18,960,000	£17,925,000
Coventry Colliery DC11	A modern warehouse with 2 storey ancillary office accommodation situated on a established business park in close proximity to junction 3 of the M6. The building is of steel portal frame construction with profile metal clad elevations and roof and has 28 dock levellers and four roller shutter doors and occupies a site that extends to 5.39 ha. Let to the Co-operative Group (CWS) Ltd. Freehold.	2004	28,799	£29,610,000	£28,000,000
Coventry Colliery DC13	A newly built distribution warehouse situated on ProLogis Park in north Coventry near to the A444 Trunk Road providing excellent accessibility to Junction 3 of the M6, M69 and M1 motorways and good accessibility to the rest of the UK via the wider motorway network. Steel frame construction with insulated profile metal elevations and roof and provides warehouse and 2 storey, integral, ancillary office accommodation. The property occupies a site totalling 4.35 ha and is let to Gefco. Freehold.	2005	21,342	£22,470,000	£21,250,000
Plot E Car Park, Coventry	A irregular shaped parcel of land extending to approximately 0.91 ha used as additional parking for Unit DC11. Let to Co-operative Group (CWS) Ltd. Freehold.	—	—	£550,000	£525,000
Leicester DC1	A modern warehouse occupying a 3.36 ha site situated on a new distribution park near Leicester outer ring road. ProLogis Park Leicester is located 3 km north of junction 21 of M1 Motorway and 5 km west of Leicester City Centre. The unit lies adjacent to a Carnaud Metal Box manufacturing plant and is to be linked by an enclosed walkway. Let to Carnaud MetalBox Plc. Freehold.	2001	16,887	£16,290,000	£15,400,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Wakefield DC1	A warehouse occupying a 2.53 ha site and situated on this major rail served distribution park. ProLogis Park Wakefield is situated adjacent to junction 31 of the M62 and 5 km from the M1. The Park is some 13 km from Leeds. Let to Isa Wholesale Plc. Freehold.	2001	11,148	£8,430,000	£7,975,000
Wakefield DC2	A newly built distribution warehouse situated on ProLogis Park in Wakefield, just off junction 31 of the M62. Total site area of 5.56 ha. Let to E Pawson & Sons Ltd. Freehold.	2006	23,576	£21,180,000	£20,030,000
Corby Eurohub DC1	A modern high bay warehouse situated on an established distribution park with a dedicated rail head situated 13 km north of the A14 (A1-M1 link) and approximately 2 km south east of Corby town centre. Total site area of 6.00 ha. Let to J Sainsbury Plc. Freehold.	2001	23,783	£16,290,000	£15,400,000
Dolphin Park II DC2	A high bay distribution warehouse with two storey offices. Located on an established distribution park by junction 31 of the M25 motorway approximately 30 km east of central London. Total site area of 3.22 ha. Let to French Connection. Freehold.	2001	13,777	£19,630,000	£18,560,000
Dunlop DC2	A modern distribution warehouse situated adjacent Bromford Gate Industrial Park and Fort Dunlop within close proximity to junction 5 of M6 Motorway with excellent accessibility to the rest of the UK via the wider motorway network. Total site area of 11.75 ha. Let to Dunlop Tyres Ltd. Freehold.	2002	51,728	£57,320,000	£54,200,000
Dunlop DC3	A newly built distribution warehouse with a 12 metre eaves height which is situated on ProLogis Park in Birmingham, just off the A47 close to its junction with the M6 at Junction 5. Total site area of 3.63 ha. Let to Tablogix UK Holdings Ltd. Freehold.	2005	15,389	£15,070,000	£14,250,000
Brackmills DC1	A modern logistics warehouse situated on established premier M1 Corridor distribution park within close proximity to Junction 15 of M1 Motorway with excellent accessibility to the rest of the UK via the wider motorway network. Steel frame construction with insulated profile metal elevations and roof capable of being split into smaller units and multi let. Total site area of 10.47 ha. Let to New Wave Logistics Ltd. Freehold.	2002	45,464	£46,460,000	£43,925,000
Basingstoke DC2D	A modern warehouse situated in Basingstoke, 60 km south west of London at junction 6 of the M3 motorway. Steel portal frame construction with a 10 metre eaves height. Provides warehouse and 2 storey office accommodation of high specification. Total site area of 2.6 ha. Let to Sainsburys plc. Freehold.	2004	10,428	£12,830,000	£12,130,000
Middlewich DC1	A modern warehouse situated approximatley 3 km west from junction 18 of the M6 and within close proximity to the wider motorway network. Provides warehouse and 2 storey ancillary office accommodation. Total site area of 4.31 ha. Let to Tesco. Freehold.	2001	17,347	£13,750,000	£13,000,000
Rugby DC2	A modern warehouse situated in an established industrial and warehouse location just off Junction 1 of the M6. Steel portal frame with profile metal clad elevations with an eaves height of 12 metres. Total site area of 5.73 ha. Let to Pallet Network Ltd. Freehold.	2004	20,885	£18,960,000	£17,925,000

Property Name	Location, Description & Tenancy	Year of Construction	Total Lettable Area (sq. m.)	Gross Value	Market Value
Kettering DC1	A newly built distribution warehouse with a 12 metre eaves height which is situated on ProLogis Park in Kettering, just off the A43 close to its junction with the A14. This links with the motorway network at the intersection of the M6 and M1. Total site area of 7.71 ha. Let to BSH Home Appliances. Freehold.	2005	39,758	£35,820,000	£33,865,000
Bermuda Park DC1	A newly built distribution warehouse with a 15 metre eaves height, which is situated on Bermuda Park, Nuneaton. The property is located just off the A444 within approximately 3 km of Junction 3 of the M6. The property is a 6 bay steel framed warehouse and occupies a 5.65 ha site. Let to Unipart Group Ltd. Freehold.	2005	28,420	£31,540,000	£29,825,000
<b>Sub Total (United Kingdom):</b>			<b>783,716</b>	<b>£787,770,000</b>	<b>£744,840,000</b>
Euro Total:				€2,976,683,000	€2,853,319,000
GBP Total:				£787,770,000	£744,840,000
Exchange Rate—21 June 2006: 1 Euro (EUR) = 0.6855 British Pound (GBP)					
<b>Euro Grand Total:</b>				<b>€4,125,873,000</b>	<b>€3,939,884,000</b>

### 3. Valuation Certificate and Valuation Reports for Distribution Facilities valued by DTZ



Maliebaan 50b  
3581 CS Utrecht, Netherlands  
tel +31 (0)30 252 45 45 fax +31 (0)30 2332 897

www.dtz.nl

#### VALUATION CERTIFICATE

ProLogis European Properties  
18, Boulevard Royal L-2449  
Luxembourg  
Grand Duchy of Luxembourg

Deutsche Bank AG, London Branch  
Winchester House  
1 Great Winchester Street  
London, EC2N 2DB

ProLogis Management S.a.r.l.  
18, Boulevard Royal L-2449  
Luxembourg  
Grand Duchy of Luxembourg

Morgan Stanley & Co. International Limited  
25 Cabot Square  
Canary Wharf  
London, E14 4QA

Deutsche Bank AG and Morgan Stanley & Co. International Limited, on their own behalf as Joint Global Coordinators and Joint Bookrunners and as representatives of the underwriters defined in the prospectus produced by PEP.

Utrecht, 26 July 2006

Dear Sirs,

#### Valuation of 14 Properties of the ProLogis European Properties Property Portfolio.

##### France:

- Brumath 1
- Isle d'Abeau 12 (St. Quentin Falavier)
- Senart 7 (Lieuxaint)
- Crepy 1

##### Italy:

- Arena Po 1
- Arena Po 2
- Cortemaggiore 1
- Zibido 1
- Seliport 4, being transformed into
  - Lodi 4 and
  - Lodi 5

##### Sweden:

- Norrköping DC1 DFDS
- Norrköping DC 2 K & N
- Gothenburg 1
- Örebro DC # 1

#### Instructions

In accordance with the instruction letter with ProLogis Management S.a.r.l. we have provided our opinions of value of the above properties owned by ProLogis European Properties (PEP) and, subject to and with the benefit of various occupational leases.



## Purpose of Valuation

We understand that our valuation is required in connection with the contemplation of an offer for a possible I.P.O. to Euronext. The valuation will be included in a prospectus prepared in accordance with the so-called “CESR” rules for 1a Property Companies.

This “valuation certificate” has been prepared for the purpose of the inclusion in a prospectus. We can confirm that we have prepared this advice as external valuers as defined in the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual.

## Basis of Valuation and Assumptions

We set out below the basis and assumptions we have used in preparing our advice followed by a summary of the aggregate values for the properties. Attached to this valuation certificate is a detailed schedule of the individual properties.

## Market Value

We confirm that the valuations have been prepared in accordance with the appropriate sections of the Practice Statements (“PS”) contained within the RICS Appraisal and Valuation Standards, 5th Edition (the “Red Book”).

We have assessed Market Value in accordance with Practice Statement 3.2 of the Red Book. Under these provisions, the term “Market Value” means “The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

In undertaking our valuation on the basis of Market Value we have applied the interpretative commentary which has been settled by the International Valuation Standards Committee (“IVSC”), and which is included in Practice Statements 3.2.1–3.2.12 (inclusive). The RICS considers that the application of the Market Value definition, when applied with the interpretative commentary settled by the IVSC, results in the same valuation figure as the application of the Market Value definition. This is an internationally accepted basis of valuation.

In undertaking our valuation on the basis of Market Value we have applied the interpretative commentary which has been settled by the International Valuation Standards Committee (IVSC). The commentary is included in PS 3.2. The commentary is reproduced below:

- “3.2 The term “property” is used because the focus of these Standards is the valuation of property. As these Standards encompass financial reporting, the term Asset may be substituted for general application of the definition. Each element of the definition has its own conceptual framework.
- 3.2.2 “*The estimated amount...*” Refers to a price expressed in terms of money (normally in the local currency) payable for the property in an arm’s-length market transaction. Market Value is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value.
- 3.2.3 “*... a property should exchange...*” Refers to the fact that the value of an asset is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the *Market Value* definition should be completed on the date of valuation.
- 3.2.4 “*... on the date of valuation...*” Requires that the estimated *Market Value* is time-specific as of a given date. As markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.

- 3.2.5 “... *between a willing buyer...*” Refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included among those who constitute “the market”. A valuer must not make unrealistic assumptions about market conditions or assume a level of Market Value above that which is reasonably obtainable.
- 3.2.6 “... *a willing seller...*” Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms for the best price attainable in the (open) market after proper marketing, whatever that price may be. The factual circumstances of the actual property owner are not a part of this consideration because the “willing seller” is a hypothetical owner.
- 3.2.7 “... *in an arm’s-length transaction...*” Is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because of an element of Special Value, (defined in IVSC Standard 2, para. 3.11). The *Market Value* transaction is presumed to be between unrelated parties each acting independently.
- 3.2.8 “... *after proper marketing...*” Means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the *Market Value* definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.
- 3.2.9 “... *wherein the parties had each acted knowledgeably, prudently...*” Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.
- 3.2.10 “... *and without compulsion*” Establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.
- 3.3 *Market Value* is understood as the value of a property estimated without regard to costs of sale or purchase and without offset of any associated taxes.”

We can confirm that the Market Value is entirely consistent with the normal valuation basis followed in France, Italy and Sweden. Our valuation has also been undertaken by External Valuers as defined in the Manual. The subject properties are not occupied as a business but are held as investments and we have therefore used the property investment valuation methodology to calculate the Market Values and not the existing use values.

## Valuations

On the basis outlined in this Valuation Certificate, we are of the opinion that the aggregate of the individual gross Market Values as at 30 June 2006 of the 14 freehold equivalent interests subject to and with the benefit of various occupational leases, as summarised in the attached valuation schedules is:

**EUR 280,450,000 (*costs to the purchaser*)**  
**Two Hundred and Eighty Million, Four Hundred and Fifty Thousand Euros**  
*costs to the purchaser*

On the basis outlined in this Valuation Certificate, we are of the opinion that the aggregate of the individual Net Market Values as at 30 June 2006 of the 14 freehold equivalent interests subject to and with the benefit of various occupational leases, as summarised in the attached valuation schedules is:

**EUR 270,730,000 (*costs to the purchaser*)**  
**Two Hundred and Seventy Million, Seven Hundred and Thirty Thousand Euros**  
***costs to the purchaser***

#### **Realisation Costs**

Our valuations are exclusive of VAT and no allowances have been made for any expenses of realisation nor for taxation which might arise in the event of a disposal of a property

#### **Net Annual Rents Receivable (Net rental income)**

We have calculated the net annual rents receivable from the properties. We define (net annual rent) as the current income or income estimated by the valuer:

- (i) ignoring any special receipts or deductions arising from the property;
- (ii) excluding Value Added Tax and before taxation (including tax on profits and any allowances for interest on capital and loans); and
- (iii) after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a condition to command its rent.

Where premises are let on effective full repairing and insuring leases, the net annual rent receivable stated in this schedule are the presently contracted rents payable under those leases without any deduction for the costs of management or any other expenses.

We have calculated the aggregate net annual rents receivable from the subject properties as at 30 June 2006 as defined above to be:

**EUR 21,400,000 *per annum***  
**(Twenty One Million Four Hundred Thousand Euros *per annum*)**

We confirm that no single property provided a significant proportion of the aggregate net annual rents receivable. The net annual rent does not differ materially from the estimated net annual rent set out below.

#### **Estimated Net Annual Rental Value (Net rental value)**

We have calculated the current estimated net annual rent for the purposes of the valuations, which is our opinion of the best rent at which a new letting of an interest in property would have been completed at the date of valuation assuming:

- (a) a willing landlord;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the rent and other letting terms and for the completion of the letting;
- (c) that the state of the market, levels of values and other circumstances were, on any earlier assumed date of entering into an agreement for lease, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective tenant with a special interest;
- (e) a stated length of term and stated principal conditions applying or assumed to apply to the letting and that the other terms are not exceptionally onerous or beneficial for a letting of the type and class of the subject property;
- (f) that no premium passed and that any rent free period is in respect only of the time which would have been needed by the incoming tenant to make the subject property fit for occupation; and
- (g) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

We have calculated the aggregate estimated net annual rental value of the subject properties as at 30 June 2006 as defined above to be:

**EUR 20,700,000 *per annum***  
**(Twenty Million Seven Hunderd Thousand Euros *per annum*)**

## **Assumptions and Sources of Information**

### **Inspections**

We inspected the subject properties in April 2006.

### **Title**

We have assumed that for each asset there exists good and marketable freehold equivalent title in each case and that the properties are free from rights of way or easements, restrictive covenants, disputes or onerous or unusual outgoing. We have also assumed that the Properties are free from mortgages, charges or other encumbrances.

### **Condition of structure and services, deleterious materials, plant and machinery and goodwill**

Due regard has been paid to the apparent state of repair and condition of each property, but condition surveys have not been undertaken, nor have woodwork or other parts of the structures which are covered, unexposed or inaccessible, been inspected. Therefore, we are unable to report that the properties are structurally sound or are free from any defects. We have assumed the properties are free from any rot, infestation, adverse toxic chemical treatments, and structural or design defects other than such as may have been mentioned in the body of our Report.

We have not arranged for investigations to be made to determine whether high alumina cement concrete, calcium chloride additive or any other deleterious material has been used in construction or any alterations, and therefore we cannot confirm that the properties are free from risk in this regard. For the purposes of these valuations, it has been assumed that any investigation would not reveal the presence of such materials in any adverse condition.

No mining, geological or other investigations have been undertaken to certify that the sites are free from any defect as to foundations. We have assumed that the load bearing qualities of the site of each property are sufficient to support the buildings constructed thereon.

No tests have been carried out as to electrical, electronic, heating, or any other services nor have the drains been tested. However, we have assumed all services to be functioning satisfactorily.

No allowance has been made in these valuations for any items of plant or machinery not forming part of the service installations of the buildings. We have specifically excluded all items of plant, machinery and equipment installed wholly or primarily in connection with any of the occupants' businesses. We have also excluded furniture and furnishings, fixtures, fittings, vehicles, stock and loose tools. Further, no account has been taken in our valuations of any goodwill that may arise from the present occupation of the properties.

It is a condition of DTZ Zadelhoff or any related company, or any qualified employee, providing advice and opinions as to value, that the client and/or third parties (whether notified to us or not) accept that the valuation report in no way relates to, or gives warranties as to the condition of the structure, foundations, soil and services of any of the properties.

### **Environmental matters**

We have been instructed not to make any investigations, in relation to the presence or potential presence of contamination in land or buildings, and to assume that if investigations were made to an appropriate extent then nothing would be discovered sufficient to affect value. We have not carried out any investigation into past uses, either of the Properties or any adjacent land to establish whether there is any potential for contamination from such uses or sites, and have therefore assumed that none exists.

In practice, purchasers in the property market do not make such an assumption about contamination and a purchaser of the properties may require appropriate investigations to be made so as to assess any risk before completing a transaction.

We have no basis upon which to assess the reasonableness of this assumption. If it were to prove invalid then the value would fall by an unspecified amount.

We have made no allowance in the valuation for any effect in respect of actual or potential contamination of land or buildings.

### **Areas**

We have been provided with information setting out the site and floor areas of the properties. As instructed, we have relied on these areas and have not checked them on site. We have assumed that the floor areas supplied to us have been calculated in accordance with local standards by a qualified expert.

### **Statutory requirements and planning**

It has been assumed that the buildings have been constructed in full compliance with valid town planning and building regulations approvals, that where necessary they have the benefit of a current Fire Certificate, and that the Properties are not subject to any outstanding statutory notices as to their construction, use or occupation. It has been further assumed that the existing use of each property is duly authorised or established and that no adverse planning condition or restriction applies.

We would draw your attention to the fact that employees of town planning departments not always give information on the basis that it should be relied upon and that formal searches should be made if more certain information is required. We assume that, if you should need to rely upon the information given about town planning matters, your solicitors would be instructed to institute such formal searches.

### **Leasing**

Where there are third party leases in place we have relied upon lease and tenancy information supplied by ProLogis.

We have not undertaken investigations into the financial strength of any tenants. Unless we have become aware by general knowledge or we have been specifically advised to the contrary, we have assumed that:

- (a) the tenants are financially in a position to meet their obligations;
- (b) there are no material arrears of rent or breaches of covenant; and
- (c) there are no current or anticipated tenant disputes.

Our valuations reflect the type of tenants actually in occupation, or responsible for meeting lease commitments, or likely to be in occupation, and the market's general perception of their creditworthiness.

We have also assumed that wherever rent reviews or lease renewals are pending or impending, with anticipated reversionary increases, all notices have been served validly within the appropriate time limits.

### **Information**

We have assumed that the information supplied to us in respect of the properties is both full and correct.

It follows that our valuations reflect the extent of the instruction in terms of inspections undertaken and information provided.

We have drawn your attention to the fact that we have been supplied with limited information. Should further information be provided, this may have an effect on value and our valuations should be reviewed in this context.

### **Reported Currencies**

We have indicated the Market Values of the subject properties in the attached valuation schedule in Euros and some Swedish properties in Swedish Crowns.

### **Confidentiality and Disclosure**

The contents of this Valuation Certificate and the schedule are confidential to the addressees as set out on the first page of the Valuation Certificate for the specific purpose to which they refer and form part of the Prospectus. Consequently and in accordance with current practice, no responsibility is accepted to any

other party in respect of the whole or any part of the contents beyond that owed to the addressees and to those persons (including noteholders) who may rely on our Valuation Certificate and the schedule.

We acknowledge that this Valuation Certificate is also to be disclosed for: Consent and confirmation, Bringdown at publication, Bringdown at admission.

Before this Report, or any part thereof, is reproduced or referred to, in any document, circular or statement, and before its contents, or any part thereof, are disclosed orally to a third party, the valuer's written approval as to the form and context of such publication or disclosure must first be obtained. For the avoidance of doubt such approval is required whether or not DTZ Zadelhoff are referred to by name and whether or not the contents of our Report are combined with others.

Yours faithfully,  
For and on behalf of,  
DTZ Zadelhoff,

Leopold Willems MSc MRE MRICS RT  
Chartered Surveyor  
Associate Director  
International Valuations

Attachments:

- Valuation Schedule France
- Valuation Schedule Italy
- Valuation Schedule Sweden



## PROPERTY INFORMATION

Property Name	Location & Description	Year(s) of Construction	Total Lettable Area (sq. m.)	Gross Capital Value	Net Capital Value
Norrköping DC 1 DFDS/Händelö 2:50	Property name: Händelö 2:50 Municipality: Norrköping Country: Sweden Street Address: Hanholmsvägen 50A- Freehold property some 3 km north of the City Centre of Norrköping and some 7 km from the nearest connection with the motorway E4. A one to three storey building of concrete and steel. 9 m clear height. Air-condition in office and restaurant. The entire property is let to DFDS Transport AB. Freehold.	2002 main building, addition in 2006 ready 2006-12	30.756*	182,800,000 kr	178,000,000 kr
Norrköping DC2 Kuhne & Nagel/ Händelö 2:54	Property name: Händelö 2:54 Municipality: Norrköping Country: Sweden Street Address: Bravikenvägen 10. A freehold property some 3 km north of the City Centre of Norrköping and some 7 km from the nearest connection with the motorway E4. One big new constructioned logistic building of steel and concrete. 10 m clear height. Air-conditioning in offices. The entire property is let to Kuehne & Nagel AB. Freehold.	Dec 2004 main building and Jan 2005 addition	20,412	144,400,000 kr	140,000,000 kr
Gothenburg 1/ Syrhåla 2:5	Property name: Syrhåla 2:6 Municipality: Gothenburg Country: Sweden Street Address: Hamneviksvägen 101. A freehold property some 10 km west of the City Centre of Gothenburg and some 2 km from the nearest connection with the motorway E6. Newly constructed production/logistics building with lightweight steel frame. App. 10 m clear height. Air-conditioning in offices. The entire property is let to Lear Corporation Sweden AB. Freehold.	2005	25,214	267,900,000 kr	260,000,000 kr
Örebro Distribution Center #1/Elektrikern 5	Property name: Elektrikern 5 Municipality: Örebro Country: Sweden Street Address: Birstagatan 8-10. A freehold property some 4 km south-west of the City Centre of Örebro, close to the highways E18 and E20. Erected 1967 and refurbished/extended 1972, 1976 and 1984. Two storage buildings (not heated) was also erected 1996. The main building has premises for storage and offices. The entire property is let to Elektroskandia AB. Freehold.	1967-1996	48,542	€31,000,000	€30,000,000
<b>Total Revaluation as at 30 June 2006</b>			<b>124,924</b>	<b>€95,768,615</b>	<b>€92,810,384</b>

\* Extension of the Norrköping facility (which will be completed and leased from Dec 2006)—future leases not included in the ProLogis reporting system as at 30 June 2006.

\* Exchange Rate as at 30 June 2006: 1 EUR = 9.2023 SEK

## PROPERTY INFORMATION

Property Name	Location & Description	Year(s) of Construction	Total Lettable Area (sq. m.)	Gross Capital Value (EUR)	Net Capital Value
Arena Po 1/ Campogrande	The site is located some 66 km to the south of Milan and some 20 km to the south-east of Pavia and 20 km to the west of Piacenza. It is well located for access to the motorway network being some 6 km from the entrance to the A21 (Turin-Brescia) and via the A21, 29 km from the A1 (Milan-Rome). This is the older of two warehouse buildings on the site. It is of prefabricate concrete structure and panels, with a clear height ranging from 6 m to 11.4 m, depending on the bays. The floor is partially made of concrete and asphalt and has in part been recently refurbished. The roof made of asbestos panels has been partially stabilised. The property has 8 loading bays, a ratio of 1 per 2,607 sq m with a further six ground level access points. The subject property is let to ASL Advanced Logistics Services SpA (now TNT). Freehold.	1977	21,735	9,670,000	9,570,000
Arena Po 2/ Campogrande	The site is located some 66 km to the south of Milan and some 20 km to the south east of Pavia and 20 km to the west of Piacenza. It is well located for access to the motorway network being some 6 km from the entrance to the A21 (Turin-Brescia) and via the A21, 29 km from the A1 (Milan-Rome). This is a new warehouse with an office/ancillary element of some 6.5%. The 42 loading bays provide an average of 672 sq m per bay, with an additional two access bays at ground level. The subject property is let to ASL Advanced Logistics Services SpA (now TNT). Freehold.	2002	30,273	17,280,000	17,110,000
Cortemaggiore 1/14 16 Via E Mattei	The site is located some 90 km south east of Milan and 20 km east of Piacenza. Motorway access is good, with the A21 direct some 3 km distant and the A1 some 6 km away. The property was constructed in two periods, in 1973 and in 2003. The warehouses are of prefabricated concrete construction with a clear height of 12.5 m in the old part and 10 m in the new part. In the older part the concrete slab floors were recently renovated and the asbestos roofing has been partially stabilized. In the older part the office content represents some 4.8% of the total floor area and there are 820 sq m of warehouse per loading bay; the corresponding figure for the new warehouse is 874 sq m per loading bay. The subject property is let to ASL Advanced Logistics Services SpA (now TNT). Freehold.	1973 and 2002/3	42,209	19,110,000	18,920,000
Zibido 1/san Giacomo 26-28 Via Longarone	The site is located some 21 km to the south of Milan and some 30 to the north of Pavia. Motorway access is good, with the A50 (Milan's ring road) some 3 km to the north, and to the A7 (Milan-Genova) some 5 km to the south. Immediate access to the site is less good, with a sharp turn onto the SS35. The building is of prefabricated concrete construction with a clear height of 6.5 m. On a gross floor area basis it has a 7.7% office component, while with 14 loading bays it has 1 bay per 692 sq m of warehouse, although several of the bays are only suitable for small vehicles. The property has been partly fitted with a sprinkler system. The concrete slab floors are in good condition and the asbestos roof has been partially stabilised, although the external walls suffer from spalling concrete. The subject property is let to ASL Advanced Logistics Services SpA (now TNT). Freehold.	1970	12,842	6,990,000	6,920,000

## PROPERTY INFORMATION

Property Name	Location & Description	Year(s) of Construction	Total Lettable Area (sq. m.)	Gross Capital Value (EUR)	Net Capital Value
Lodi 4/Somaglia, Strada Statale	The property will be located within ProLogis Park Lodi, in the municipalities of Somaglia and Casalpusterlengo, in the Lodi province. The site is some 30 km south of Milan, close to the motorway A1 (Milan-Naples) and 40 km south of motorway A4 (Corridor 5). According to the information provided, the asset is assumed to be completed before 30 December 2006; the warehouse will be completed according to modern logistics standards with clear working height of 10m and one loading bay per 800 sq m. The remaining construction costs as at 30 June 2006 are estimated by ProLogis as being €5.95 million. The surface area as at 30 April prior to demolition of existing building was 23,315 sq m. The new total lettable area will be 25,937 sq m (24,642 sq m of new logistic building and 1,295 sq m of existing office building). The subject property is let to TNT. Freehold.	2006	25,937	10,460,000	10,360,000
Lodi 5/Somaglia, Strada Statale	The property will be located within ProLogis Park Lodi, in the municipalities of Somaglia and Casalpusterlengo, in the Lodi province. The site is some 30 km south of Milan, close to the motorway A1 (Milan-Naples) and 40 km south of motorway A4 (Corridor 5). According to the information provided, the asset is assumed to be completed before 15 August 2006. The remaining construction costs as at 30 June 2006 are estimated by ProLogis as being €3.19 million. Total lettable area 35,501 sq m. The subject property is let to TNT. Freehold.	2006	35,501 *	19,310,000	19,120,000
<b>Total Revaluation as at 30 June 2006</b>			<b>n.a.</b>	<b>82,820,000</b>	<b>82,000,000</b>

\* Lodi 5 which will be completed and leased from Dec 2006. Future leases not included in ProLogis reporting systems as at 30 June 2006.

## PROPERTY INFORMATION

Property Name	Location & Description	Year(s) of Construction	Total Lettable Area (sq. m.)	Gross Capital Value (EUR)	Net Capital Value (EUR)
Brumath 1	Logistics platform located in the activity zone of “la Borde” in Brumath, around 25 km North of Strasbourg and around 25 km from the German border. Activity area which contains logistics platforms and other industrial and artisan activities. Location facing a main road, the A4 motorway, and close to the A35 motorway going to Germany. Site approximately 30 mn from “Enzheim”, Strasbourg airport Building Characteristics: 7 independent constructions. Unit 1, 2, 3, 5 and 7 of steel framed structure, unit 6 of concrete framed structure/part is equipped for positive cold storage (unit 3)/clear height 6 m for unit 7, 12 m for unit 3, 4, 5 and 15 m for unit 1, 2, 6/reinforced concrete slab supporting over 5T/sq m, 53 adaptable loading docks with elevating doors and street level doors/fire detection system, sprinkler system, RIA/gas heaters/charge room, plant room/connected to railway with enclosed loading bays/equipped offices: tiled or carpeted floor, false ceiling, air-conditioned, offices for each unit/garage/small ancillary house/fuel storage/let to FM Logistic/Freehold.	1982 to 1992	39,138	21,452,400	20,200,000
Isle d’Abeau (Saint Quentin Fullarier)	Logistics platform located in the activity zone of “Chesnes Tharabie” in Saint Quentin Fallavier, part of the town of L’isle d’Abeau, around 25 km south from Lyon. Established activity area which contains many large logistics platforms. Location close to main roads, the A43 motorway. Site approximately 20 mn from “Saint Exupéry” airport. Building Characteristics: 4 units: unit 1 and 2 of steel framed structure, unit 3 and 4 of concrete framed structure/mezzanine 1,100 sq m/clear height: 9.20 m for unit 1, 13 m for 2 and 13.50 for unit 3 and 4/mezzanine in unit 2 of 4,000 sq m for storage and mezzanine of 2,000 sq m in unit 3 and 4 for high value goods/reinforced concrete slab supporting over 5T/sq m, 52 adaptable loading docks with elevating doors and street level doors/fire detection system, sprinkler system, RIA/gas heaters/charge room, plant room/connected to railway with covered loading bays/equipped offices: tiled or carpeted floor, false ceiling, air-conditioned, offices for each unit/garage/small ancillary house/fuel storage. Additional development site for potential extension/let to FM Logistic/Freehold.	1988, 1997, and 1999	35,650	22,510,000	21,200,000
Development Site for potential extension				320,000	300,000
<b>Total Isle d’Abeau 12</b>				<b>22,830,000</b>	<b>21,500,000</b>
Senart 7 (Lieusaint)	Logistics warehousing and ancillary offices located in the activity zone of “Parisud” in Lieusaint, around 40 km from Paris. Location close to main roads, the A104 “Francilienne”, the A6 and A5 motorways. Site approximately 20 mn from Orly airport and 45 mn from “Roissy de Charles” airport. Building Characteristics: 3 units divided into 6 cells and a further fourth unit, mezzanine 1,100 sq m/concrete framed structure/clear height 15.50 m (8 m for building 4), reinforced concrete slab supporting over 5T/sq m, 63 adaptable loading docks with elevating doors and street level doors/fire detection system, sprinkler system, RIA/gas heaters/charge room, plant room/railway connected with covered loading bays/equipped offices: tiled or carpeted floor, false ceiling, air-conditioned, offices for each unit/garage/small ancillary house/let to Alphaprim/Freehold.	1988, 1990, 1996 and 1998.	36,028	19,169,100	18,050,000

## PROPERTY INFORMATION

Property Name	Location & Description	Year(s) of Construction	Total Lettable Area (sq. m.)	Gross Capital Value (EUR)	Net Capital Value (EUR)
Crepy 1	Logistics platform located in the industrial zone of Crépy en Valois, around 70 km from Paris. Activity area which contains logistics platforms and other industrial and artisan activities. Location close to N2 national road. Site approximately 40 km from “Roissy de Charles” airport. Building Characteristics: 7 buildings: concrete framed structure/part is equipped for positive cold storage, internal foot bridge/clear height 13.50 m (8 m for 3,000 sq m)/reinforced concrete slab supporting over 5T/sq m, 97 adaptable loading docks with elevating doors and street level doors/fire detection system, sprinkler system, RIA/gas heaters/charge room, plant room/connected to railway with covered loading bays/equipped offices: tiled or carpeted floor, false ceiling, air-conditioned, offices for each unit/garage/small ancillary house/Fuel storage/let to FM Logistic/Freehold.	1992 to 1996	62,449	38,410,000	36,170,000
<b>Total Revaluation as at 30 June 2006</b>			<b>173,265</b>	<b>101,861,500</b>	<b>95,920,000</b>

**PART XIV**  
**MANAGEMENT REGULATIONS OF PEP**

**ProLogis European Properties**  
*fonds commun de placement*

dated 10 September 1999 as amended on 29 June 2001, on 13 May 2003,  
on 7 July 2003, on 17 November 2005 and on 11 September 2006 (with effect from Admission  
(as defined herein))

**TABLE OF CONTENTS**

<u>Contents</u>	<u>Page</u>
INTERPRETATION .....	337
Article 1. Legal Structure .....	340
Article 2. The Management Company .....	340
Article 3. The Custodian and Other Agents .....	341
Article 4. The PEP Board .....	342
Article 5. Investment Managers .....	345
Article 6. Investment Objective and Policy .....	346
Article 7. Risk Diversification Rules and Borrowing Restrictions .....	346
Article 8. Issue of Units .....	347
Article 9. Calculation of NAV per Unit .....	349
Article 10. Unit Certificates .....	350
Article 11. Transfer of Units and Restrictions .....	350
Article 12. Redemption of Units and Compulsory Transfer of Units .....	354
Article 13. Charges and Expenses of PEP .....	355
Article 14. Fiscal Year, Audit and Information .....	357
Article 15. Distributions .....	358
Article 16. Amendments to the Management Regulations .....	358
Article 17. Replacement of the Management Company .....	359
Article 18. Unitholders' Meetings .....	360
Article 19. Publications and Communications .....	361
Article 20. Change of Legal Form, Duration of PEP and Winding-up Provisions .....	361
Article 21. Indemnification and Standard of Care .....	362
Article 22. United States Federal Income Tax Matters .....	364
Article 23. Applicable Law, Jurisdiction and Language .....	364



## MANAGEMENT REGULATIONS

### INTERPRETATION

In these Management Regulations, the following expressions shall, where not inconsistent with the context, have the following meanings respectively:

- **“2002 Law”** means the Luxembourg law of 20 December 2002 on Undertakings for Collective Investments.
- **“Admission”** means the date upon which the Ordinary Units are formally admitted to listing and trading on Euronext Amsterdam N.V.’s Eurolist by Euronext, which is expected to be on 27 September 2006.
- **“Article”** means an article of these Management Regulations.
- **“Board Members”** means collectively, the ProLogis Board Members and the Independent Board Members.
- **“Business Day”** means a day on which banks are open for business in Luxembourg and Amsterdam (excluding Saturdays, Sundays and public holidays).
- **“Class”** means a class of Units issued by PEP, and includes the Ordinary Units, the Preferred Units and any further Classes of Units issued by PEP.
- **“Class B1 Units”** means the Class B1 Units issued by PEP pursuant to Article 9 of the Management Regulations dated 10 September 1999 as amended on 29 June 2001, on 13 May 2003, on 7 July 2003 and on 17 November 2005.
- **“Control”** means the power to direct the management of an entity through voting rights, ownership or contractual obligations; **“Controlled”** shall have a correlative meaning.
- **“Correspondent”** means the correspondent as described in Article 3.
- **“Custodian”** means RBC Dexia Investor Services Bank S.A. or such other custodian from time to time appointed by the Management Company.
- **“Distribution Facility”** or **“Distribution Facilities”** means any industrial warehouse or logistics distribution facility or distribution facilities.
- **“Distributable Cash Flow”** means net earnings of PEP, as defined under IFRS, adjusted for (i) items which do not affect cash or cash equivalents or general provisions or reserves against assets (including but not limited to, amortisation of assets or liabilities, adjustments for deferred tax or unrealised valuation of assets and liabilities, including financial instruments) (ii) costs incurred in relation to the IPO and (iii) payments to ProLogis as holder of the Class B1 Units pursuant to Article 10 and Article 23(vii) of the Management Regulations dated 10 September 1999 as amended on 29 June 2001, on 13 May 2003, on 7 July 2003 and on 17 November 2005, less (i) non-revenue generating capital expenditures (including roof repairs, structural repairs, landscaping and other similar expenditures), and (ii) periodic contributions to a contingency reserve to include the general provisions or reserves mentioned above; such contingency reserve not to exceed €10 million in aggregate at any given time. The limit of €10 million may be amended from time to time with the approval of the PEP Board. The definition of Distributable Cash Flow may also be amended from time to time to include prudent amortisation of debt if in the best interests of PEP, with the approval of the PEP Board.
- **“Euro”** or **“€”** means the currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957) as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992).
- **“French 3% Tax”** means any taxation arising under Article 990D of the French Tax Code (as amended, supplemented or replaced from time to time).
- **“Gross Property Value”** means the gross property value of a Distribution Facility as determined by an Independent Appraiser in accordance with such methodology as deemed appropriate by the Independent Appraiser applying professional valuation standards without deduction of purchaser’s costs.
- **“IFRS”** means International Financial Reporting Standards.

- **“IML Circular 91/75”** means the circular dated January 21, 1991 of the Luxembourg Monetary Institute on the revision and recasting of rules governing Luxembourg undertakings covered by the law of 30 March 1988 on undertakings for collective investment, as amended.
- **“Independent Appraiser”** has the meaning set out in Article 9.
- **“Independent Board Member”** means a member of the PEP Board elected by a general meeting of Unitholders, such member being an individual that is not affiliated with ProLogis or any ProLogis Related Party, or any officer, director, manager, employee or agent thereof.
- **“Invested Capital”** means in respect of each Class of Units (or any Series thereof) the respective paid-up contributions at any point in time of the initial issue price in relation to such Class of Units (or such Series thereof).
- **“Investment Managers”** means collectively the investment managers appointed by the Management Company pursuant to the Investment Management Agreement, being ProLogis Management BV, ProLogis Poland Management II Sp zoo, Garonor Services SAS, ProLogis Spain Management II SL, ProLogis Germany Management II GmbH, ProLogis Italy Management II SRL, ProLogis Belgium Management Sprl, ProLogis Hungary Management II Kft, ProLogis Czech Republic Management II SRO and the other investment managers acceding from time to time to the Investment Management Agreement.
- **“Investment Management Agreement”** means the investment management agreement between the Management Company and the Investment Managers entered into on 15 September 1999 as amended and restated on 22 January 2001 (with effect as of 18 December 2000), on 10 May 2001, on 31 March 2004 (with effect as of 15 January 2004) and as further amended and restated on 11 September 2006 (with effect from Admission).
- **“Investment Objective and Policy”** means the investment objective and policy of PEP as described in the Prospectus and in Article 6.
- **“IPO”** means the initial public offering and listing of the Ordinary Units on Eurolist by Euronext Amsterdam N.V.
- **“Management Company”** means ProLogis Management SARL, a wholly owned indirect subsidiary of ProLogis, or any successor management company that may be appointed under these Management Regulations.
- **“Management Regulations”** means these management regulations as amended from time to time in accordance with these management regulations.
- **“Managers”** means the managers of the Management Company.
- **“NAV”** means the net assets of PEP, being the assets minus the liabilities, or where the context so requires, the net asset value per Unit of each Class (or Series thereof) as determined in accordance with Article 9.
- **“Non-Exempt Unitholder”** means an entity who owns, directly or indirectly, Units and who is not exempt from the French 3% Tax.
- **“Ordinary Units”** means the Ordinary Units issued pursuant to Article 8.
- **“Ordinary Unitholder”** means a holder of Ordinary Units.
- **“PEP”** means ProLogis European Properties, a *fonds commun de placement*, governed by Part II of the 2002 Law pursuant to these Management Regulations, and such term shall where the context so requires include all companies or other entities which are wholly owned or partially owned as to more than fifty per cent. (50%) directly or indirectly by ProLogis European Properties.
- **“PEP Board”** has the meaning set out in Article 4.
- **“PLD”** means PLD International Incorporated, a corporation established under the laws of the State of Delaware, United States of America.
- **“Portfolio”** means the Distribution Facilities owned by PEP, the interest of PEP in any ProLogis Private Equity Fund or ProLogis Joint Venture and such other assets and rights from time to time held directly or indirectly by PEP in accordance with these Management Regulations.
- **“Preferred Unitholder”** means a holder of Preferred Units.

- **“Preferred Units”** means Units that provide to holders a preferred cash distribution and a preferred reimbursement of Invested Capital (or such other amounts as specified by the Management Company on the issue thereof) upon a winding-up of PEP.
- **“Private Equity Fund Investment Agreement”** means the agreement between the Management Company and PLD in relation to the right of the Management Company acting on behalf of PEP to invest in ProLogis Private Equity Funds and ProLogis Joint Ventures.
- **“ProLogis”** means ProLogis, a real estate investment trust organised in the State of Maryland, United States of America.
- **“ProLogis Board Member”** means a member of the PEP Board appointed by the Management Company.
- **“ProLogis Joint Venture”** means any single investor joint venture sponsored by PLD, or an entity which is directly or indirectly controlled by PLD, and investing primarily in Distribution Facilities in Europe.
- **“ProLogis Private Equity Fund”** means any regulated or unregulated multi-investor real estate private equity fund sponsored by PLD, or an entity which is directly or indirectly controlled by PLD, and investing primarily in Distribution Facilities in Europe.
- **“ProLogis Related Party”** means (a) an entity that directly or indirectly is controlled by ProLogis or (b) an entity at least 35 per cent. (35%) of whose economic interest is owned directly or indirectly by ProLogis; for the avoidance of doubt, PEP shall not be a ProLogis Related Party.
- **“Property Contribution Agreement”** means the agreement between the Management Company and PLD under which PLD has agreed to contribute to PEP, upon stabilisation, and PEP has agreed to acquire, Distribution Facilities from a property portfolio.
- **“Prospectus”** means the prospectus in connection with the IPO and subsequent prospectuses for the placement of Units in PEP issued from time to time.
- **“Regulated Market”** means a market functioning regularly, which is regulated, recognised and open to the public.
- **“Residual Value”** means the total net proceeds (taking into account any distributions in specie) resulting from a winding-up of all PEP’s assets after repayment of all creditors.
- **“Schedule”** means the schedule to these Management Regulations.
- **“Series”** means a series of Units within a particular Class of Units.
- **“Tenant Transfer”** means the cancellation of a tenant’s lease of a Distribution Facility owned by PEP or a direct or indirect subsidiary of PEP and the subsequent lease within three months of such cancellation by such tenant of another property owned directly or indirectly by ProLogis or a ProLogis Related Party or a fund managed by ProLogis or a ProLogis Related Party and including the ProLogis Private Equity Funds and the ProLogis Joint Ventures, and in which PEP’s ownership interest is not at least equal to its interest in the original Distribution Facility.
- **“Unitholders”** means the holders of Units.
- **“Units”** means co-ownership participations in PEP which may be issued in different Classes or Series by PEP pursuant to these Management Regulations, including, but not limited to the Ordinary Units and the Preferred Units.
- **“Valuation Day”** means any Business Day which is designated by the Management Company as being a day by reference to which the assets of PEP shall be valued in accordance with Article 9, provided that there shall be at least semi-annual Valuation Days and that the Management Company shall be permitted to designate Valuation Days more frequently than semi-annually, in relation to the issuance of Units pursuant to Article 8, or in relation to any other circumstances if deemed appropriate by the Management Company, or if otherwise required by Luxembourg law or any other applicable law or regulation. The first Valuation Day was 31 December 1999 and subsequent Valuation Days were 30 June 2000, 31 December 2000, 30 June 2001, 31 December 2001, 30 June 2002, 31 December 2002, 31 March 2003, 31 December 2003, 30 June 2004, 31 December 2004, 30 June 2005, 31 December 2005, 30 April 2006 and 30 June 2006. The next Valuation Day will be 31 December 2006.

## Article 1. Legal Structure

ProLogis European Properties, a *fonds commun de placement* organised under the sponsorship of ProLogis, is an unincorporated co-proprietorship of securities and other assets, managed for the account and in the exclusive interest of its Unitholders by the Management Company. PEP is, in particular, subject to Part II of the 2002 Law. The assets of PEP, which are held in custody by the Custodian shall be segregated from those of the Management Company.

By the acquisition of Units of any Class (or any Series thereof) in PEP, a Unitholder is deemed to have fully accepted these Management Regulations, which determine the contractual relationship both among the Unitholders and among the Unitholders, the Management Company and the Custodian.

## Article 2. The Management Company

The Management Company is a company incorporated on 6 July 1999 as a *société à responsabilité limitée* under the laws of Luxembourg with an unlimited duration and having its registered office at 18, boulevard Royal, L-2449 Luxembourg. Its Articles of Incorporation have been amended on 19 August 2003.

The Management Company, or its designees, has the exclusive right to manage PEP and is vested with the broadest powers to administer and manage PEP, subject to the restrictions set forth in these Management Regulations, including, without limitation, Articles 4, 6, 7 and 20, in the name and on behalf of the Unitholders, including but not limited to, the purchase, sale and receipt of those investments specified in Article 6 and of securities and the exercise of all the rights attaching directly or indirectly to the assets of PEP. The activities of the Management Company shall be limited to the administration and management of PEP and the Management Company shall not administer or manage any other investment fund or company.

The Management Company, when managing the Portfolio, shall have due regard to the status of ProLogis as a real estate investment trust and shall have no obligation to adopt or implement any management decision which shall adversely affect the United States Federal income tax treatment of ProLogis' direct or indirect investment in PEP.

The fees paid by PEP to the Management Company or its designee are described in Article 13.

The Management Company is responsible for implementing the Investment Objective and Policy of PEP subject to the restrictions set out in Articles 6 and 7. The Management Company shall manage the Portfolio prudently with the same degree of care as would be expected of an absolute owner having particular regard to the quality and financial standing of the customers and the length of the lease terms.

The Management Company may appoint, without prejudice to its ultimate responsibility for these functions and subject to any limitations under the laws of Luxembourg, the Investment Managers, the duties of which are described in Article 5. The Managers shall discharge the duties of the Management Company. The Management Company shall be liable for the acts or omissions of the Investment Managers, the Managers and any other agents it shall appoint to perform the Management Company's functions under these Management Regulations as if such acts or omissions were those of the Management Company itself.

The Management Company may appoint such other agents, including transfer agents, listing agents and paying agents, to perform such services in connection with its obligations under these Management Regulations as the Management Company deems necessary or convenient for the performance of its duties hereunder, subject to any limitations under the laws of Luxembourg or contained herein, on such terms and conditions as are reasonable under the circumstances.

The Management Company shall perform all administrative agency duties for PEP under Luxembourg law, and in particular, the calculation of the NAV of PEP in accordance with Article 9. The Management Company shall act as domiciliary and service agent and as registrar and transfer agent for the wholly-owned subsidiaries of PEP organised in Luxembourg (the **"Domiciliary and Service Agent"**) and in such capacity will be responsible for all domiciliary and service agency duties and all registrar and transfer agency duties required by Luxembourg law.

The Management Company may only be terminated as prescribed in Article 17. The Management Company shall not terminate PEP except with the approval of the PEP Board, as set forth in Article 4 and the consent of Unitholders, as set forth in Article 20.2.

The Management Company shall comply with its obligations contained in these Management Regulations, the 2002 Law, in particular Article 14 thereof, the IML Circular 91/75 and all other applicable Luxembourg laws and regulations. The Management Company shall manage PEP in accordance with the principle of equal treatment of Unitholders.

The accounts of the Management Company shall be prepared in Euro.

### **Article 3. The Custodian and Other Agents**

RBC Dexia Investor Services Bank S.A. has been appointed on 21 April 2006 as Custodian of the assets of PEP and its wholly owned subsidiaries. The Custodian has its principal office at 5, rue Thomas Edison, L-1445 Strassen, Grand-Duchy of Luxembourg, and may perform any banking activities in Luxembourg. The Custodian shall carry out the usual duties regarding custody, cash and securities deposits. In particular, upon proper instructions of the Management Company, the Custodian will execute all financial transactions and provide such banking facilities for PEP and its wholly owned subsidiaries as the Management Company may require.

The Custodian will further, in accordance with the 2002 Law:

- a) ensure that the sale, issue, redemption and cancellation of Units effected on behalf of PEP are carried out in accordance with the 2002 Law and these Management Regulations;
- b) carry out the instructions of the Management Company, unless they conflict with the 2002 Law, any other applicable law or these Management Regulations;
- c) ensure that, in transactions involving the assets of PEP and its wholly owned subsidiaries, any consideration is remitted to it within the usual time limits in respect of the specified assets; and
- d) ensure that the income and assets attributable to PEP and its wholly owned subsidiaries are applied in accordance with these Management Regulations.

The Custodian may entrust the safekeeping of all or part of the assets of PEP and its wholly owned subsidiaries, in particular, securities traded abroad or listed on a foreign stock exchange or admitted to recognised clearing systems such as Clearstream International, to such clearing systems or to any bank or trust company or recognised clearing agency (a “**Correspondent**”); provided, however, that cash of wholly owned subsidiaries may be held with the prior approval of the Custodian by such banks as may be indicated by the Management Company; and provided further that the Management Company shall ensure that such banks forward any information to the Custodian necessary to enable it to properly execute its custodial functions. The Custodian’s liability in relation to its duties shall not be affected by the fact that it has entrusted the safekeeping of all or part of the assets in its care to a third party.

The rights and duties of the Custodian are governed by an agreement entered into on 21 April 2006 for an unlimited period of time, which may be terminated at any time by the Management Company or the Custodian upon 90 days’ prior written notice; provided, however, that such termination by the Management Company is subject to the requirement that within two months a new custodian assumes the responsibilities and functions of the Custodian under these Management Regulations; and provided, further, that the appointment of the Custodian shall, if terminated by the Management Company, continue thereafter for such period as may be necessary to allow for the complete transfer of all assets of PEP and its wholly owned subsidiaries held by the Custodian to the new custodian. In case of termination by the Custodian, the Management Company shall appoint a new custodian who shall assume the responsibilities and functions of the Custodian under these Management Regulations, provided that the Custodian’s termination shall not become effective until (i) a new custodian is appointed by the Management Company and (ii) all assets of PEP and its wholly owned subsidiaries held by the Custodian have been transferred to the new custodian.

All cash other than cash deposited with such banks as may be indicated by the Management Company to the Custodian and other securities constituting the assets of PEP and its wholly owned subsidiaries shall be held by the Custodian on behalf of the Unitholders on the terms of these Management Regulations. The Custodian may, under its own responsibility and with the approval of the Management Company, entrust any Correspondent with the custody of such cash and securities as are not listed on the Luxembourg Stock Exchange or currently traded in Luxembourg. Registrable assets (excluding real estate property) of PEP and its wholly owned subsidiaries will be registered in the name of PEP, in the name of the Custodian or the Correspondent or the nominee of either or in the name of a recognised clearing agency. The Custodian and Correspondent will have the normal duties of a bank with respect to the deposits of cash and securities



of PEP and its wholly owned subsidiaries. The Custodian and the Correspondent and such other banks as may be indicated by the Management Company with the prior approval of the Custodian may dispose of the assets of PEP and its wholly owned subsidiaries and make payments to third parties on behalf of PEP and its wholly owned subsidiaries only upon receipt of proper instructions from or as previously properly instructed by the Management Company or any agent appointed by the Management Company.

Upon receipt of proper instructions from or as previously properly instructed by the Management Company, the Custodian and the Correspondent and such other banks as indicated by the Management Company with the prior approval of the Custodian will perform all acts of disposal with respect to the assets of PEP and its wholly owned subsidiaries.

Subject to Luxembourg law, the Custodian is authorised and has the obligation in its own name to:

- a) protect the assets of PEP and its wholly owned subsidiaries against any claims of third parties;
- b) assert the rights of the Unitholders against the Management Company or against a former custodian; and
- c) take action against enforcement measures of third parties if PEP or its wholly owned subsidiaries are not liable to such parties.

Subject to Luxembourg law, the Management Company, acting in its own name and on behalf of PEP, is authorised and has the obligation to bring claims of the Unitholders against the Custodian.

Nothing in this Article 3 shall preclude the direct assertion of claims from Unitholders against the Custodian or the Management Company, respectively, to the extent that such action is permitted by Luxembourg law.

The Custodian shall be entitled, out of the net assets of PEP and its wholly owned subsidiaries, to such fees as shall be determined from time to time by agreement between the Management Company and the Custodian, provided that fees for services performed in Luxembourg are comparable with those charged by other banks in Luxembourg for the provision of similar services. In addition to the above fees, the Custodian shall be reimbursed by PEP and its wholly owned subsidiaries for all reasonable out of pocket expenses. Any Correspondent (other than affiliates of the Custodian) and such other banks as indicated by the Management Company with the prior approval of the Custodian shall be entitled to such fees out of the net assets of PEP and its wholly owned subsidiaries as shall be determined from time to time with the agreement of the Management Company, provided that fees for the provision of services of Correspondents are comparable with those charged by other banks or trust companies in the jurisdictions in which such Correspondent or other banks operate.

#### **Article 4. The PEP Board**

There shall be a PEP Board, comprised of four Independent Board Members and two ProLogis Board Members. The appointment and term of the Independent Board Members shall be as prescribed below in this Article 4. The ProLogis Board Members shall be appointed by the Management Company and their appointment and term shall be as prescribed below in this Article 4. The prior approval of the PEP Board shall be required in respect of all of the items in a) to q) below.

In respect of resolutions proposing the following items, only the Management Company, either on its own initiative or upon its due consideration of a suggestion of any two Independent Board Members, may table resolutions before the PEP Board:

- a) any acquisition or disposal of assets or any portfolio of assets of PEP in an aggregate amount in any rolling six-month period of more than five per cent. (5%) of the gross asset value of PEP as calculated on the most recent Valuation Day prior to the date such asset or portfolio of assets is acquired or sold, and any disposal or redemption of interests in any ProLogis Private Equity Fund or ProLogis Joint Venture;
- b) any amendments to these Management Regulations in the circumstances where the prior approval of the PEP Board is required under Article 16;
- c) the annual approval of (i) the appointment and the terms and conditions of the appointment of the Independent Appraiser and (ii) the appointment of the external auditors of PEP, in both cases for terms of one year. Neither appointment shall be terminated by the Management Company without the prior approval of the PEP Board;



- d) any issue of Units in PEP in accordance with Article 8 and the terms of any such issuance (including the currency of denomination of the Units, the appointment of any placement agents or distributors designated in respect of such issuance and the approval of their fees, which must be on an arm's length basis) and any increase in the level of leverage of PEP (within the limits laid down by Article 7);
- e) any major debt financings or refinancing (defined as debt facilities or financings or refinancings which, if fully drawn, would amount to in excess of twenty per cent. (20%) of the total gross asset value of PEP as at the most recent Valuation Day);
- f) any amendments to the definition of Distributable Cash Flow in respect of the size from time to time of the contingency reserve, or the policy regarding the amortisation of debt;
- g) the approval of the annual accounts, the incentive fee calculation for the relevant year, the annual operating and capital expenditure budget and funding policy of PEP. If such budget and policy are not approved in whole or in part by the PEP Board, the Management Company shall manage PEP on the basis of an annual operating and capital expenditure budget and funding policy corresponding to the most recently approved budget and policy with respect to any items of the proposed budget and funding policy that were not approved, provided that the Management Company may vary the relevant items by a percentage amount of up to five per cent. (5%);
- h) any transactions between PEP and any ProLogis Related Party, including without limitation a sale of assets by PEP to ProLogis or to a ProLogis Related Party, but excluding the entry into and (save as prescribed below) performance of these Management Regulations, the Investment Management Agreement, the Private Equity Fund Investment Agreement and the Property Contribution Agreement. With regard to related party transactions, the Management Company will provide the PEP Board, for approval, on an annual basis, with a schedule detailing both ProLogis rates and prevailing market rates for leasing commissions and construction management fees;
- i) any decision to waive any material right which would otherwise exist for the benefit of PEP, or any decision not to enforce any material right of PEP under the terms of the Investment Management Agreement, including any decision to waive the obligation of an Investment Manager to assume the obligations under the terminated lease of the vacated space in case of a Tenant Transfer;
- j) any changes to the method of calculating NAV as prescribed by these Management Regulations;
- k) the approval of legal fees and tax compliance fees payable to ProLogis Related Parties, and the approval in accordance with the first paragraph of Article 5 of any fees (other than those referred to in the Investment Management Agreement as at the date of these Management Regulations) which may be paid to the Investment Managers out of the net assets of PEP and not deducted from the Management Company's base management fee;
- l) any decision to terminate the Investment Management Agreement, other than for cause;
- m) any decision to extend the term of the Investment Management Agreement; and
- n) any decision to table before the general meeting of Unitholders a resolution to wind-up PEP, as provided in Article 20.2.

In respect of the following three items only, any two members of the PEP Board or the Management Company may table a resolution:

- o) any decision (i) to exercise the right of PEP under the Private Equity Fund Investment Agreement to subscribe for up to thirty per cent. (30%) of the equity securities and securities convertible into equity securities issued by any ProLogis Private Equity Fund or to exercise the right to participate in a ProLogis Joint Venture or (ii) to exercise the right of PEP under the Property Contribution Agreement to (a) approve the substitution of a property to be contributed thereunder with another property; (b) decide not to accept a property on account of material disclosures made with respect thereto; (c) serve a notice reducing the maximum Euro amount to be allocated to the purchase of properties where, in the reasonable opinion of the Management Company, the occurrence of certain events has made it impracticable or inadvisable for PEP to proceed with the acquisition of properties under the Property Contribution Agreement or subsequently serve a notice increasing such Euro amount to its original level where, in the reasonable opinion of the Management Company, it is no longer impracticable or inadvisable for

PEP to proceed with the acquisition of properties under the Property Contribution Agreement and following service of such a notice, to approve the list of properties by which PLD proposes to satisfy the increased Euro amount by contribution in accordance with the Property Contribution Agreement; or (d) to agree to an extension of the date after which, in certain circumstances, PLD must propose further properties for contribution to PEP and approve the contribution of such further properties;

- p) any decision to terminate the Investment Management Agreement for cause; and
- q) any decision to table before a meeting of Ordinary Unitholders a resolution to remove the Management Company without cause, as provided in Article 17.

The PEP Board shall consider in good faith and reasonable commercial judgement the proposals of the Management Company in respect of all of the above matters and any other decision or determination it is required to make acting in compliance with these Management Regulations, the Prospectus, Luxembourg laws and regulations and in the interest of the Unitholders. The affirmative vote of four members of the PEP Board is required for the approval of any of the above matters in this Article 4 or any other decision or determination by the PEP Board made pursuant to these Management Regulations, except for (i) decisions related to the approval of the incentive fee calculation for the relevant year under item g) above, which shall require the approval of a simple majority of the Independent Board Members, (ii) decisions related to the waiver of the obligation of an Investment Manager to assume the obligations under the terminated lease of the vacated space in case of a Tenant Transfer as referred to in item i) above, which shall require the approval of a simple majority of the Independent Board Members, (iii) decisions related to item q) above which shall require the approval of a simple majority of Independent Board Members to terminate the Management Company and as a consequence table a resolution before a meeting of Ordinary Unitholders to remove the Management Company in accordance with Article 17, (iv) decisions related to the creation of advisory committees which require the unanimous consent of all Board Members and (v) decisions related to the appointment of members of the nomination committee, which must be made as described below.

The PEP Board shall meet at least annually in Luxembourg. The PEP Board shall meet at least quarterly, unless the PEP Board shall agree otherwise, to review PEP's performance and may meet more frequently. The PEP Board may meet upon call by the Management Company or any two Board Members at the place indicated in the notice of meeting. The PEP Board may meet by telephone conference. Written notice of any meeting of the PEP Board shall be given to all Board Members at least 10 Business Days prior to the date set for such meeting, except in circumstance of emergency, in which case the nature of such circumstances shall be set forth in the notice of the meeting. This notice requirement may be waived by consent in writing, facsimile, e-mail or any other similar means of communication from all Board Members. Separate notices shall not be required for meetings held at times and places fixed in a resolution adopted by the Board Members. A written resolution in substitution for a meeting that is signed by all the Board Members shall be effective as a decision of the PEP Board. The Management Company shall forward to the PEP Board all relevant information within a period of time which is reasonably sufficient in the view of the Management Company to permit the PEP Board to make an informed decision on the relevant matter prescribed above. In addition, the Management Company shall respond so far as practicable to a reasonable request for information made by a Board Member to assist that Board Member to discharge its functions under this Article 4.

The PEP Board shall be entitled to designate advisory committees composed of one or more of the Board Members in order to assist the PEP Board and to make recommendations to the PEP Board in relation to decisions to be taken concerning the items referred to in a) to q) above. Such committees shall not have any authority to make decisions in lieu of the PEP Board.

The minutes of a meeting of the PEP Board shall be approved at the next following meeting of the PEP Board.

Apart from the functions prescribed in this Article 4, the PEP Board is available for consultation by the Management Company and may make suggestions and requests to the Management Company. However, other than decisions relating to any of the above matters, the Management Company is neither bound by such suggestions or requests nor obligated to take direction from the PEP Board.

Except for the initial term prescribed below in this Article 4, the term of office of each Independent Board Member shall be for a term of three years and until the ratification or appointment of his successor.

The Independent Board Members shall be designated Class I, Class II and Class III. The initial Class I Independent Board Members shall be appointed for a term of one year and until ratification or appointment of their successors, the initial Class II Independent Board Members for a term of two years and the initial Class III Independent Board Members for a term of three years. The initial Class I, Class II and Class III Independent Board Members shall be approved by the Management Company.

At the annual general meeting of the Unitholders of PEP at which the term of the Class I, II or III Independent Board Members is to expire, successors to the class of Independent Board Member whose term is to expire shall be elected for a three-year term. The successor Independent Board Member shall be proposed by a nomination committee composed of two Independent Board Members and one ProLogis Board Member. The ProLogis Board Member serving on the nomination committee shall be appointed by unanimous consent of the ProLogis Board Members. The Independent Board Members serving on the nomination committee shall be appointed by the affirmative vote of at least three Independent Board Members. The members of the nomination committee shall be appointed on an annual basis, for a term expiring on the date of the annual general meeting electing the candidate(s) designated by the nomination committee. The designated candidate(s) shall be elected by a simple majority of the Units voting or represented at that meeting of Unitholders at which there shall be no quorum requirement.

The Board Members who are ProLogis Board Members shall serve at the discretion of the Management Company for such time as determined by the Management Company. The Management Company shall have the right by notice to all Board Members to designate any ProLogis Board Member, or successor thereof and to remove such ProLogis Board Member and substitute another ProLogis Board Member at any time.

An Independent Board Member shall hold office until the annual general meeting of Unitholders for the year in which his term expires and until his successor shall be elected subject, however, to prior death, resignation or removal from office.

A Board Member may resign at any time by giving written notice thereof to the Management Company. The acceptance of a resignation shall not be necessary to make it effective. An Independent Board Member may be removed with or without cause by a vote of sixty-seven per cent. (67%) of the aggregate Units present or represented at a general meeting of Unitholders.

Any vacancy on the PEP Board caused by the resignation (whether automatic or otherwise), removal or death of any Board Member shall be filled (in the case of an Independent Board Member) by an appointee approved by a majority vote of the remaining Independent Board Members upon proposal by the Management Company or (in the case of a ProLogis Board Member) by direction of the Management Company. The successor Independent Board Member shall hold office until the next annual general meeting of Unitholders. At such meeting, the provisions for the election of successor Independent Board Members shall apply, save that the Independent Board Member elected at an annual general meeting to fill a vacancy shall have the same remaining term as that of his predecessor.

#### **Article 5. Investment Managers**

Under the Investment Management Agreement, the Investment Managers will, subject to the overall supervision, approval, direction and liability of the Management Company, and subject to compliance with the Investment Objective and Policy, carry out property management functions in relation to the day to day administration and operation of the Portfolio (excluding the ProLogis Private Equity Funds and the ProLogis Joint Ventures) and advise the Management Company on possible additions to, or potential divestments of the Portfolio subject to the proviso that the Investment Management Agreement may contain such terms and conditions and provide for such fees to be paid out of the net assets of PEP, as the parties thereto shall deem fit. Except to the extent provided in the Investment Management Agreement as at the date of these Management Regulations or as subsequently approved by the PEP Board, any fees paid to the Investment Managers out of the net assets of PEP shall be deducted from the Management Company's base management fee and may not in aggregate exceed the base management fee as prescribed in Article 13.

No Investment Manager will be appointed that is organised or carries on business in the United States.

Pursuant to the terms of the Investment Management Agreement, the Investment Management Agreement has a term expiring on 15 September 2016 and is renewable at the sole discretion of the Management Company for subsequent five year periods. Furthermore, pursuant to the terms of the

Investment Management Agreement, the Investment Management Agreement shall automatically terminate if the Management Company is no longer the management company of PEP.

#### **Article 6. Investment Objective and Policy**

The Investment Objective and Policy is to generate capital appreciation and a high level of distributable current income for its Unitholders through active management of direct investments in Distribution Facilities and by investing in ProLogis Private Equity Funds and ProLogis Joint Ventures, subject to the approval of such investments by the PEP Board if such approval is required under Article 4. PEP may hold its investments in Distribution Facilities either directly or indirectly through companies or entities that are subsidiaries and which may be either wholly or partially owned by PEP, and through investments in ProLogis Private Equity Funds or ProLogis Joint Ventures and, subject to the following paragraph, in other investment funds and investment companies.

In implementing its Investment Objective and Policy, PEP may not invest more than fifteen per cent. (15%) of its net asset value in investment funds and investment companies which are neither ProLogis Private Equity Funds nor ProLogis Joint Ventures. Furthermore, PEP may not hold more than forty-nine per cent. (49%) of the shares or units of such investment funds or investment companies.

Distribution Facilities may be sold during the life of PEP where such sale is considered to be in the best interest of PEP and appropriate having regard to the Investment Objective and Policy, and subject to the approval of the PEP Board in accordance with Article 4, if such approval is required.

On a sale of any Distribution Facility, the Management Company shall have regard to the Gross Property Value appraisal by the Independent Appraiser at the date which is on or after the most recent Valuation Day in agreeing the applicable sales price for such Distribution Facility.

#### **Article 7. Risk Diversification Rules and Borrowing Restrictions**

The Management Company shall comply with the diversification requirements set out in this Article 7 in the management of PEP. Pending investment or reinvestment of sale proceeds of Distribution Facilities or distribution, sales and/or redemption proceeds of ProLogis Private Equity Funds and ProLogis Joint Ventures, the cash assets of PEP will be invested in liquid Euro or Sterling denominated money market instruments, time deposits or debt securities.

In relation to the investment of the liquid cash assets of PEP in money market instruments or debt securities, PEP may not invest more than ten per cent. (10%) of its net assets in money market instruments or debt securities of one single issuer. Furthermore, PEP may not hold more than ten per cent. (10%) of any single class of money market instrument or debt security of a single issuer nor may it invest more than ten per cent. (10%) of its net assets in money market instruments or debt securities which are neither listed on a stock exchange nor dealt on a Regulated Market. The above restrictions are, however, not applicable to (i) securities issued by companies which are wholly or partly owned and controlled by PEP, (ii) any ProLogis Private Equity Fund or ProLogis Joint Venture created in the form of a Luxembourg regulated investment fund, and (iii) investments of PEP which are subject to the twenty per cent. (20%) risk diversification rule referred to in the next paragraph.

In order to achieve a minimum spread of investment risks, PEP will not invest more than twenty per cent. (20%) of its net asset value, directly or indirectly through companies or entities which are wholly-owned subsidiaries of PEP in a single real estate property or a company, or other investment vehicle which is partly owned by PEP and which PEP does not control.

Subject to the terms and conditions of the Private Equity Fund Investment Agreement, PEP shall have (i) the right to subscribe up to thirty per cent. (30%) of the equity securities and securities convertible into equity securities issued by any ProLogis Private Equity Fund, and (ii) the right to participate in ProLogis Joint Ventures. Such investment will not be subject to any of the restrictions set forth in the above paragraphs, provided that the relevant ProLogis Private Equity Fund or ProLogis Joint Venture has been created in the form of a Luxembourg regulated investment fund.

PEP shall not be required to pay a subscription fee or placement fee with respect to any investment which it makes in a ProLogis Private Equity Fund or ProLogis Joint Venture.

PEP will not enter into or invest in options, futures or other derivative transactions for speculative purposes and may only enter into such transactions for hedging purposes to mitigate currency and/or interest rate risks.



Hedging arrangements may be entered into in respect of the currency risk associated with distributions attributable to a Class of Units or Series thereof denominated in a currency other than Euro.

PEP may incur indebtedness whether secured or unsecured. However, save as prescribed below, PEP and its consolidated subsidiaries may not incur additional indebtedness (whether secured or unsecured) which would cause the value of total indebtedness of PEP and its consolidated subsidiaries in the aggregate to exceed sixty per cent. (60%) of the aggregate, as at the most recent Valuation Day prior to the incurrence of such indebtedness, of (i) the Gross Property Value of Distribution Facilities or other properties and property rights beneficially owned directly or indirectly by PEP and its consolidated subsidiaries and (ii) the value of debt and equity interests of PEP in real estate companies or in other real estate investment vehicles, which are not consolidated in the accounts of PEP, including both non consolidated ProLogis Private Equity Funds and non consolidated ProLogis Joint Ventures.

For the purposes of effective cash management, PEP may exceed such indebtedness limit for temporary or short term purposes for a period not to exceed six (6) months, provided that such total indebtedness shall not exceed sixty-five per cent. (65%) of such aggregate valuation at any time.

#### **Article 8. Issue of Units**

The Management Company shall, subject to the consent of the PEP Board and subject, except as provided below, to the consent of at least fifty per cent. (50%) of all Unitholders, except Preferred Unitholders, present or represented at the relevant general meeting of Unitholders, have the ability to issue Units of the same Class or different Classes or Series within such Classes subject to the terms of these Management Regulations and the Schedule by amending, where appropriate, these Management Regulations provided that such amendments are not inconsistent with the terms of these Management Regulations in respect of the Classes of Units or Series of Units within such Classes as are specifically prescribed below. No quorum requirements have to be complied with in relation to such general meeting. Fractional Units shall have no right to vote but shall have the right to participate pro-rata in distributions of Distributable Cash Flow and allocation of Residual Value in the event of the winding-up of PEP.

Notwithstanding the preceding paragraph, the Management Company shall, subject to the consent of the PEP Board, be entitled in each fiscal year to cause PEP to issue Units of different Classes or Series within such Classes for an aggregate issue price up to ten per cent. (10%) of the total economic value of issued Units at the start of the relevant fiscal year, without the approval of the Unitholders.

Units will be denominated in such currency as the Management Company with the approval of the PEP Board shall determine.

In accordance with the terms of these Management Regulations the following Classes of Units are in issue:

- Ordinary Units are denominated in Euro and were issued partly paid with an initial issue price per Unit of €10 in minimum investment amounts of 100,000 Units (or such lesser amount as approved by the Management Company) to investors. The balance of the issue price of all Ordinary Units has been called. Ordinary Units shall be issued in one Series only.

The Management Company shall have the ability, subject to the terms of the Management Regulations, to issue Classes of Units entitled to a preferred cash distribution subject to amending these Management Regulations in accordance with the terms hereof in order to define the preferred distributions such Units are entitled to. Preferred Units, if any, will be issued in Series and may be convertible and/or subject to redemption in accordance with the terms prescribed by the Management Company on issue.

Preferred Units, if any, will be entitled to a preferred cash distribution as set out in Article 15, Article 20 and the Schedule.

Where the Management Company so determines at the time of issue, the Preferred Units of the relevant Series shall be convertible, in whole or in part at the option of the Preferred Unitholders into Ordinary Units at the conversion rate specified by the Management Company on issue provided that the issue price of the relevant Series of Preferred Units divided by such conversion rate must at least be equal to the applicable NAV per Ordinary Unit at the date of the issue of the relevant Series of Preferred Units.

PEP will not be required to pay any accrued but unpaid cash distributions or interest thereon on any Preferred Units for which a conversion notice has been given to PEP.

Where the Management Company so determines at the time of issue, Preferred Units may be subject to redemption by the Management Company.

Units shall be issued in registered and definitive form only.

The Management Company is authorised to make an application for listing of each Class of Units (and Series thereof) on the Luxembourg Stock Exchange, the Euronext Amsterdam Stock Exchange and such other major stock exchanges as the Management Company may determine.

Units will be issued in the manner described herein. Any Prospectus in respect of such Units shall set forth all material terms governing such Units including, without limitation, the initial issue price per Unit, minimum investment amount, details of funding and conversion rights (if any).

The Management Company shall at all times consider the adequacy of the financial resources of PEP. The Management Company shall at each meeting of the PEP Board advise the PEP Board of PEP's available financial resources.

The initial issue price of any new Class of Units (or Series thereof) shall be determined by the Management Company and shall be set forth in the Prospectus in respect of such Class of Units (or Series thereof). Any Series of such Units shall be issued on the same date and at the same issue price.

The minimum number or value of Units that may be subscribed for by an investor shall be determined by the Management Company and set forth in the Prospectus in respect of such Units.

Where new Units are issued in accordance with the provisions of these Management Regulations, the existing holders of the same Class or Series thereof shall be reserved the right to subscribe for new Units or Series of such Class or similar Classes on a preferential and rateable basis in accordance with the provisions contained in the Law of 10 August 1915 on Commercial Companies governing preferential subscription rights for shares issued by public limited companies and such law shall be deemed to apply to PEP. At the time of resolving to issue new Units, the general meeting of Unitholders or the Management Company, where applicable, can decide to waive the right of existing holders of the same or similar Classes to subscribe to the new Units on a preferential and rateable basis. The Management Company may also waive such preferential subscription rights when the new Units are being issued pursuant to the Management Company's power to cause PEP to issue new Units in each fiscal year for an aggregate issue price of up to ten per cent. (10%) of the total economic value of issued Units at the start of the relevant fiscal year without the approval of Unitholders, as described in the second paragraph of this Article.

Where Ordinary Units are issued in accordance with these Management Regulations, ProLogis and ProLogis Related Parties shall, notwithstanding that preferential subscription rights have generally been waived with respect to such issuance pursuant to the preceding paragraph, have a preferential subscription right to subscribe for Ordinary Units such as to ensure a ProLogis ownership of Ordinary Units at or above twelve point five per cent. (12.5%) of the Ordinary Units in issue until 30 June 2008, and no less than ten per cent. (10%) thereafter.

Where PEP offers Units of the same Class (or of an additional Series thereof) for subscription after the date of first issue of Units of such Class (or Series thereof), the price per Unit at which such Units are offered shall be the NAV per Unit of the first Series of Units of the relevant Class as determined in compliance with Article 9 hereof as of such Valuation Day as is determined in accordance with such policy as the Management Company may from time to time determine.

The price at which Units may be issued may be increased by (i) a market premium (*commission*) based on the difference, if positive, between the economic value of each Unit of the same or similar Class, as determined by the Management Company taking into account relevant market and financial factors, minus the NAV per Unit of such same or similar Class, charged for the benefit of PEP, and (ii) a placement fee of up to five per cent. (5%) charged to investors for the benefit of PEP or placement agents, as determined by the Management Company, provided that if this placement fee is charged for the benefit of PEP, then investors investing at the same time shall be treated on an equal basis. The contributions in cash corresponding to the issue price so determined shall be made within a period as determined by the Management Company. Subject to the provisions of these Management Regulations, the Management Company shall make such arrangements as it deems appropriate for the sale of Units, including the requirement of purchasers of Units to enter into subscription agreements containing terms not inconsistent with the provisions of these Management Regulations.

The Management Company may, at its discretion, discontinue temporarily, cease permanently or limit the issue of Units at any time to persons or corporate bodies resident or established in certain particular countries and territories. The Management Company may exclude certain persons or corporate bodies



from the acquisition of Units, if such measure is necessary for the protection of the Unitholders as a whole or PEP. The Management Company may reject in its absolute discretion any application for Units.

The Management Company may enter into distribution agreements with any persons to act as duly authorised distributors of Units. Such distribution agreements may contain such terms and conditions and provide for fees (subject to PEP Board approval under Article 4) on an arms' length basis as the parties thereto shall negotiate, including the provision of authority to such duly authorised distributors to charge purchasers of Units sales commissions and retain such commissions, but, without prejudice to the Management Company's ability to decide that sales commission to distributors are payable from the net assets of PEP. Any such person may, with the consent of the Management Company, enter into sub-distributor agreements with other persons, compensation for which shall be paid from the fee of such person.

#### **Article 9. Calculation of NAV per Unit**

The NAV per Unit of each Class (or any Series thereof) shall be expressed in the relevant currency of denomination of such Units and shall be determined as at any Valuation Day by dividing (i) the net assets of PEP attributable to each Class of Units (or any Series thereof), being the value of the portion of assets less the portion of liabilities attributable to such Class (or Series thereof), on any such Valuation Day, by (ii) the number of Units in the relevant Class (or Series) then outstanding, in accordance with the valuation rules set forth below, provided that the assets attributable to each Class of Units (or Series) shall be determined in accordance with the rules applicable to the distribution of Residual Value upon a winding-up of PEP set forth in Article 20 and the Schedule.

The NAV per Unit may be rounded up or down to the nearest unit of currency of denomination of such Unit as the Management Company shall determine. If since the time of determination of the NAV of a Class of Units (or Series thereof) there has been a material change in relation to (i) a substantial part of the properties or property rights of PEP or (ii) the quotations in the markets on which a substantial portion of the investments of PEP are dealt in or quoted, PEP may, in order to safeguard the interests of the Unitholders and PEP, cancel the first valuation and carry out a second valuation.

The accounts of the real estate companies or other real estate investment vehicles in which PEP has a majority interest will be consolidated with the accounts of PEP in accordance with IFRS and accordingly the underlying assets and liabilities are valued in accordance with the valuation rules described below. The minority interests in quoted real estate companies and unquoted real estate companies or other real estate investment vehicles are valued respectively on the basis of the last available quotation and the probable net realisation value estimated by the Management Company with prudence and good faith.

The assets and liabilities of PEP for these purposes shall be determined in the following manner:

For the purpose of the valuation of real estate, the Management Company for and on behalf of PEP shall appoint an independent real estate appraisal professional who is licensed where appropriate and operates, or has subcontracted, with the approval of the Management Company, its duties to any entity who operates, in the jurisdiction where any relevant property is located and whose appointment is approved by the PEP Board in accordance with Article 4 on an annual basis; in circumstances where this professional is conflicted, the Management Company may appoint one (or several) additional independent real estate appraisal professional(s), meeting the same criteria, for the valuation of the real estate (the **"Independent Appraiser"**). The Independent Appraisers currently appointed are Jones Lang LaSalle Limited and DTZ Zadelhoff. The Independent Appraiser shall not be affiliated with ProLogis. With respect to each property, such valuation may be carried out once a year and used during the next following twelve months for the purposes of calculating the NAV unless, in the opinion of the Management Company, there is a change in the general economic situation or in the condition of the relevant properties or property rights held by PEP or by any of the companies in which PEP has a shareholding which requires new valuations to be carried out under the same conditions as the annual valuations.

The value of the assets and liabilities of PEP, including, for the avoidance of doubt, investments made by PEP in any ProLogis Private Equity Funds and ProLogis Joint Ventures, shall be determined in accordance with IFRS, and in relation to Distribution Facilities (directly or indirectly through subsidiaries other than ProLogis Private Equity Funds and ProLogis Joint Ventures) owned by PEP, such valuation will be effected by the Independent Appraiser.

For the purpose of this Article 9:

1. Units of PEP to be redeemed (if any) shall be treated as existing and taken into account until the date fixed for redemption, and from such time and until paid by PEP the price therefor shall be deemed to be a liability of PEP;
2. Units to be issued by PEP shall be treated as being in issue as from the date of issue and from such time and until received by PEP the price therefor shall be deemed to be a debt due to PEP;
3. all investments, cash balances and other assets expressed in currencies other than the currency of denomination of the relevant Units shall be valued after taking into account the market rate or rates of exchange in force at the date and time for determination of the NAV; and
4. where on any Valuation Day, PEP has contracted to:
  - purchase any asset, the value of the consideration to be paid for such asset shall be shown as a liability of PEP and the value of the asset to be acquired shall be shown as an asset of PEP;
  - sell any asset, the value of the consideration to be received for such asset shall be shown as an asset of PEP and the asset to be delivered by PEP shall not be included in the assets of PEP;

provided, however, that if the exact value or nature of such consideration or such asset is not known on such Valuation Day, then its value shall be estimated by PEP.

For the avoidance of doubt, the provisions of this Article 9 are rules for determining NAV per Unit and are not intended to affect the treatment for accounting or legal purposes of the assets and liabilities of PEP or any Units issued by the Management Company.

#### **Article 10. Unit Certificates**

The Management Company or the agent appointed in relation thereto will maintain a register of Unitholders and will issue, in representation of Units, certificates in registered and definitive form. A Unit certificate will be issued for any whole and/or fractional number of Units. Each certificate shall be signed for and on behalf of the Management Company (by one or several Managers and by the Custodian), which may be by facsimile.

Lost, stolen or destroyed Unit certificates may be replaced in accordance with Luxembourg law.

#### **Article 11. Transfer of Units and Restrictions**

Units of any Class may be owned or transferred by Unitholders subject to the restrictions indicated hereafter and as specified elsewhere in these Management Regulations.

##### **1. Restrictions on Ownership of Units**

###### *Section 1. Definitions.*

For the purposes of this Article 11, the following terms shall have the following meanings:

**“Beneficial Ownership”** shall mean beneficial ownership as defined under Rule 13d-3 of the U.S. Securities Exchange Act of 1934, as amended, and, with respect to such meaning, Beneficial Ownership by any Person shall include Beneficial Ownership by other Persons who are part of the same group as the original Person for the purposes of Rule 13d-3. The terms **“Beneficial Owner”**, **“Beneficially Owns”** and **“Beneficially Own”** shall have the correlative meanings.

**“ERISA”** shall mean the U.S. Employee Retirement Income Security Act of 1974, as amended.

**“ERISA Investor”** shall mean any “employee benefit plan” within the meaning of Section 3(3) of ERISA that is subject to Title I of ERISA, (b) any “plan” (as defined in Section 4975(e)(1) of the IRC (as defined in Article 22), including without limitation, an individual retirement account), that is subject to Section 4975 of the IRC (as defined in Article 22), (c) an entity whose underlying assets include assets of a plan described in (a) or (b) by reason of a plan’s or plans’ investment in such entity or (d) an entity that otherwise constitutes a Benefit Plan Investor (as defined in the Plan Asset Regulation promulgated by the U.S. Department of Labor) that is subject to Title I of ERISA or Section 4975 of the U.S. Internal Revenue Code, including but not limited to, an insurance company general account, an insurance company separate account, a collective investment fund or a governmental plan (whether foreign or domestic) or a plan maintained by a foreign corporation, as applicable.

**“Excess Units”** shall mean Ordinary Units in excess of the Ownership Limit whether resulting from subscription of Ordinary Units, transfer or otherwise.

**“Excess Units Fiduciary”** shall mean a person unaffiliated with PEP identified by the Management Company as a fiduciary for the purposes herein.

**“Excluded Holder”** shall mean ProLogis and a ProLogis Related Party, or any other Person, as identified by the Management Company.

**“Ownership Limit”** shall mean nine point nine per cent. (9.9%) in number of PEP’s outstanding Ordinary Units held by a single Person or fifty per cent. (50%) in number of PEP’s outstanding Ordinary Units held in aggregate by five or fewer Persons. The number of the outstanding Ordinary Units shall be determined by the Management Company in good faith, which determination shall be conclusive for all purposes hereof.

**“Person”** shall mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated association or government or any agency or political sub-division thereof.

**“Prohibited Unitholder”** shall mean any of (i) a Non-Exempt Unitholder, (ii) an ERISA Investor or (iii) a U.S. person purchasing Units from another Unitholder.

**“Purported Beneficial Transferee”** shall mean, with respect to any purported Transfer which results in Excess Units, the beneficial holder of the Ordinary Units, if such Transfer had been valid under Section 2 of this Article 11.

**“Transfer”** shall mean any sale, transfer, gift, assignment, devise or other disposition of Ordinary Units. The terms **“Transfers”** and **“Transferred”** shall have the correlative meanings.

#### *Section 2. Ownership Limitation.*

- A. A single Person who is a Beneficial Owner (other than an Excluded Holder) and owns Ordinary Units in excess of the Ownership Limit applicable to a single Person shall be prohibited from exercising voting rights in respect of Excess Units, and accordingly any purported votes of such Excess Units (save by the Excess Units Fiduciary) shall be disregarded and shall have no effect.
- B. Any five or fewer Persons who are Beneficial Owners (other than an Excluded Holder) and who collectively own Ordinary Units in excess of the Ownership Limit shall be prohibited from exercising voting rights in respect of Excess Units, and accordingly any purported votes of such Excess Units (save by the Excess Units Fiduciary) shall be disregarded and shall have no effect.
- C. The transfer of Ordinary Units that shall result in a breach of the provisions in (A) and (B) above shall result in such Ordinary Units becoming Excess Units and such Ordinary Units shall be transferred to an Excess Units Fiduciary and accordingly the voting rights in respect of the Excess Units shall be transferred to such Excess Units Fiduciary so that the Ordinary Units will cease to be Excess Units. Where a Person holds Ordinary Units in breach of the Ownership Limit, the Management Company may compulsorily transfer such Excess Units to the Excess Units Fiduciary.
- D. Nothing contained in this Article 11 shall preclude the settlement of any transaction entered into through the facilities of any securities exchange. However, any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article 11.

#### *Section 3. Excess Units.*

In determining which Ordinary Units are Excess Units, Ordinary Units in excess of the applicable Ownership Limit which are Beneficially Owned by any Person whose Transfer caused the relevant Ownership Limit to be exceeded shall become Excess Units. Where several such Persons exist, the creation of Excess Units shall be pro rata. Where the Ownership Limit applies to five or fewer persons, the creation of Excess Units shall also be pro rata.

#### *Section 4. Notice to PEP.*

Any Person who acquires or attempts to acquire Ordinary Units in violation of Section 2 herein, or any Person who is a transferee such that Excess Units result under Section 2 herein, shall immediately give written notice to PEP. Persons required to give notice under this Section 4 shall provide PEP with such other information as PEP may reasonably request in order to allow PEP to apply the ownership, voting and transfer restrictions of this Article 11.

### *Section 5. Information Reporting.*

Every Person owning Ordinary Units shall provide to PEP information as PEP may reasonably request in order to allow PEP to apply the ownership, voting and transfer restrictions of this Article 11.

### *Section 6. Ambiguities.*

In the case of an ambiguity in the application of any of the provisions of this Article 11, including any definition contained in Section 1, the Management Company shall have the power to determine the application of the provisions of this Article 11 with respect to any situation based on the facts known to it.

### *Section 7. Increase or Decrease in Ownership Limit.*

Subject to the limitations provided in Section 8 of this Article 11, the Management Company may from time to time increase the percentage of the Ownership Limit. For the avoidance of doubt, the Management Company may also, with the approval of the general meeting of Unitholders decrease the percentage of the Ownership Limit. Any such decrease may only be made prospectively as to subsequent Unitholders.

### *Section 8. Waivers by the Management Company.*

Notwithstanding Section 2 herein, the Management Company may exempt a person from the Ownership Limit if the Management Company obtains such representations and undertakings from such person as the Management Company may deem appropriate. In particular, the Management Company has exempted from the Ownership Limit Unitholders which hold more than nine point nine per cent. (9.9%) in number of PEP's outstanding Ordinary Units immediately prior to the date of the IPO, provided that any such Unitholders shall be subject to an ownership limit of twenty per cent. (20%) in number of PEP's outstanding Ordinary Units, and if such Unitholders acquire Ordinary Units in excess of such ownership limit, such Units shall be treated as Excess Units in accordance with this Article. For the avoidance of doubt, the above twenty per cent. (20%) ownership limit shall be without prejudice to the status of ProLogis and any ProLogis Related Party as Excluded Holders not subject to any ownership limit.

### *Section 9. Severability.*

If any provision of this Article 11 or any application of any such provision is determined to be void, invalid or unenforceable by any court having jurisdiction over the issue, the validity and enforceability of the remaining provisions shall be affected only to the extent necessary to comply with the determination of such court.

### *Section 10. Rights in Respect of Excess Units.*

The Excess Units Fiduciary shall hold the Excess Units transferred to it pursuant to this Article 11 for the exclusive benefit of the Purported Beneficial Transferee in accordance with the terms of this Section 10:

- a) the Excess Units Fiduciary shall be entitled to vote or decline to vote the Excess Units without reference to the Purported Beneficial Transferee and the Purported Beneficial Transferee shall not have the right to direct the Excess Units Fiduciary as to how such Ordinary Units shall be voted;
- b) the Excess Units Fiduciary shall hold all distributions and the proceeds of the redemption of Excess Units for the benefit of the Purported Beneficial Transferee and shall account to it for all such payments; and
- c) the Excess Units Fiduciary shall transfer Ordinary Units to the order of the Purported Beneficial Transferee. The proceeds of any sale on such transfer shall be remitted to the Purported Beneficial Transferee by the Excess Units Fiduciary.

## **2. Restrictions on ProLogis' Transfer of Units**

Subject as provided below, ProLogis agrees that it shall directly or indirectly through one or more entities, each of which shall be a ProLogis Related Party, maintain an aggregate ownership at or above twelve point five per cent. (12.5%) of the Ordinary Units in issue until 30 June 2008, and no less than ten per cent. (10%) thereafter.

For the purposes of determining whether ProLogis has satisfied the ownership requirement above, holdings of Ordinary Units which are held indirectly by ProLogis shall be calculated on the basis of the

maximum economic interest in such holding of Ordinary Units as can be attributed back to ProLogis on the basis of the economic interest owned directly or indirectly by ProLogis, in and through each such ProLogis Related Party.

Although ProLogis as a Unitholder and any Unitholder who is a ProLogis Related Party may sell, transfer or otherwise dispose of their Ordinary Units to any ProLogis Related Party, no other sale, transfer or disposal of Ordinary Units by ProLogis or any ProLogis Related Party shall be permitted that would otherwise cause a breach of this Part 2 of Article 11. The Management Company shall provide quarterly reports to Unitholders describing transfers in such quarter of Ordinary Units by ProLogis or by any ProLogis Related Party to any person (other than to ProLogis or to any ProLogis Related Party) and in such report the Management Company shall confirm that ProLogis has complied with the ownership requirement above.

Where ProLogis and any ProLogis Related Party shall fail to comply with the ownership requirement of this Part 2 of Article 11 by reason of a sale, transfer or disposal of Ordinary Units by ProLogis or any ProLogis Related Party then:

- a) the base management fee which would otherwise be payable to the Management Company pursuant to Article 13 shall not accrue or be payable in respect of the period during which the breach of the ownership obligations under this Part 2 of Article 11 occurred and in any period it shall continue; and
- b) the Ordinary Unitholders shall be entitled to terminate the Management Company pursuant to Article 17 at any time during which the breach of such ownership obligations shall continue.

Where the breach of such ownership obligations shall occur by reason of any event other than a sale, transfer or disposal by ProLogis or any ProLogis Related Party, then the Ordinary Unitholders shall be entitled to terminate the Management Company in accordance with paragraph (b) of this Part 2 of Article 11 but no other remedy or claim for loss shall apply in respect of such breach.

### **3. General Transfer Restrictions**

PEP will not recognise any attempted resale or other transfer of Units unless made in accordance with the transfer restrictions imposed in any subscription for Units, including, for the avoidance of doubt, transfer restrictions under ERISA, the U.S. Securities Act of 1933, as amended, and the U.S. Investment Company Act of 1940, as amended.

### **4. Prohibited Unitholders**

PEP shall be entitled not to register the transfer of Units if it reasonably determines that an entity which owns or owned such Units, directly or indirectly, is (i) a Non-Exempt Unitholder and PEP or any Relevant Entity (as defined in Article 15) may be liable to pay any French 3% Tax as a result of such ownership and there are no reasonably satisfactory alternative arrangements for the payment of such French 3% Tax by the relevant Non-Exempt Unitholder, (ii) an ERISA Investor, or (iii) a U.S. Person purchasing Units from another Unitholder.

The Management Company shall adopt such measures as are reasonably practicable in order to avoid the acquisition of Units by Prohibited Unitholders. Furthermore, the Management Company shall adopt such steps as are available to it under the Management Regulations and as are reasonably practicable (having regard to the nature of PEP post-IPO as a publicly traded vehicle) to (i) monitor whether Units are owned, directly or indirectly, by Prohibited Unitholders, and (ii) prevent such Prohibited Unitholders from owning such Units.

### **5. Ownership Limit Override**

The above restrictions on ownership of Ordinary Units, and general transfer restrictions (other than transfer restrictions related to Prohibited Unitholders, as described in Article 11.4 above) shall not apply if any Person has offered to all holders of all Classes of Ordinary Units the acquisition of their Ordinary Units at a price set out in the offer and Unitholders holding more than ninety-five per cent. (95%) of all such Ordinary Units, excluding Ordinary Units held by ProLogis or any ProLogis Related Party, have accepted the transfer of their Ordinary Units to such offeror. In such case, the transfer of Ordinary Units shall not be voidable and unenforceable against PEP.



## 6. General

In the absence of any indication of joint holding and save in respect of a specific Class or Series of Ordinary Units identified in a Prospectus where a separate agreement has been made with the person in whose name such Ordinary Units are registered in the Ordinary Unit register, the Management Company or any duly appointed agent thereof may regard, and shall be fully protected in dealing with, the person in whose name Ordinary Units are registered in the Ordinary Unit register as being the absolute owner of such Ordinary Units, and shall be entitled to disregard, and take no notice of, any right, interest or claim of any other person in or to such Units.

In order to give effect to the provisions on the restrictions on Transfer of Ordinary Units described above, any certificates evidencing the Ordinary Units will be endorsed with a legend describing the substance of those provisions and restrictions.

### Article 12. Redemption of Units and Compulsory Transfer of Units

Units shall not be redeemable at the option of Unitholders.

Units shall be redeemed by the Management Company in accordance with the provisions set out in Articles 8 and 20. In addition, Units may be called by the Management Company for redemption or be compulsorily transferred to any other person in the following circumstances:

- i. if the continued participation of a Unitholder is likely to cause PEP or the Management Company to violate any material law, regulation, or interpretation or would result in PEP, the Management Company or any Unitholder suffering material taxation, economic or other disadvantages which they would not have suffered had such person not been or ceased to be a Unitholder;
- ii. if such Unitholder has materially violated any provision of these Management Regulations, including for the avoidance of doubt the breach of the Ownership Limit or any other restrictions on ownership of Units;
- iii. if the Units were acquired or are being held, directly or indirectly, by or for the account or benefit of any person in violation of the provisions of these Management Regulations or the transfer restrictions set forth in the relevant Prospectus or offering document;
- iv. if in the opinion of the Management Company (a) such redemption would be appropriate to protect PEP from registration of the Units under the U.S. Securities Act of 1933, as amended, or from registration of PEP under the U.S. Investment Company Act of 1940, as amended; or (b) the holding of such Units would cause material regulatory or tax or other fiscal disadvantage to PEP;
- v. if the Units were acquired or are being held by or for the account of any employee benefit plan subject to Title I of ERISA or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended; and
- vi. such other circumstances as the Management Company may determine, where continued ownership would be materially prejudicial to the interests of PEP or the Unitholders.

Units which are to be redeemed by PEP or compulsorily transferred may be redeemed by PEP or compulsorily transferred upon the Management Company giving to the registered Unitholder not less than thirty (30) days' notice in writing of the intention to redeem or compulsorily transfer such Units specifying the date of such redemption or compulsory transfer, which must be a Business Day.

The amount payable on such redemption of Units shall be the NAV of the Units of the relevant Class (or Series thereof) on the most recent Valuation Day prior to redemption. Such redemption amount shall be payable without interest, as soon as practicable (having regard to the liquidity of the Portfolio and the interest of Unitholders) after the effective date of the redemption and may be paid in cash or, subject to the approval of each relevant individual Unitholder, marketable securities. Costs associated with the redemption or compulsory transfer may, if the Management Company so decides, be charged to the Unitholder whose Units are redeemed or transferred and such costs shall be deducted from the redemption or transfer proceeds payable to the Unitholder in circumstances where the Management Company has exercised its power to redeem or compulsorily transfer Units pursuant to paragraph (ii) or (iii) of this Article 12.



The amount payable on compulsory transfer shall be the lesser of (i) the NAV or (ii) the best price reasonably obtainable from any other person as determined by the Management Company at its reasonable discretion.

Any Units in respect of which a notice of redemption has been given shall not be entitled to participate in any distributions by PEP in respect of the period after the date specified as the date of redemption in the notice of redemption.

At the date specified in the notice of redemption or compulsory transfer, the Unitholder whose Units are being redeemed or compulsorily transferred shall be bound to deliver to the Management Company or any duly appointed agent thereof the certificate issued in representation of the relevant Units for cancellation.

In order to give effect to the provisions on redemption and compulsory transfer of Units described above, any certificates evidencing the Units will be endorsed with a legend describing the substance of those provisions and restrictions.

Should PEP be determined to be subject to ERISA, it may redeem Units held directly or indirectly by ERISA Investors as necessary to make ERISA inapplicable to PEP.

### **Article 13. Charges and Expenses of PEP**

PEP will bear the following charges and expenses in respect of it:

- i. the fees and expenses of the Management Company as further set forth below;
- ii. operating expenses including all taxes, duties, stamp duties, governmental and similar charges, commissions, foreign exchange costs, bank charges, registration fees relating to investments, insurance and security costs as well as expenses of the issue, exercise and redemption of Units;
- iii. brokerage and other transaction fees and expenses (including, without limitation, legal, accounting, surveyors' and other professional fees) incurred on transactions with respect to the acquisition or disposal or proposed acquisition or disposal of the Portfolio and related expenses and valuation fees charged by the Independent Appraisers in connection with the acquisition or disposal of Distribution Facilities;
- iv. the fees and expenses of the Custodian and any Correspondent, the Listing and Paying Agent, Registrar and Transfer Agent, any paying agent, any distributors and permanent representatives in places of registration of PEP, as well as any other agent employed by the Management Company for and on behalf of PEP plus any applicable value added taxes;
- v. reasonable fees, travel and other out-of-pocket expenses incurred by the Independent Board Members in their role as Board Members;
- vi. accounting, due diligence, legal, surveyors', building contractors', estate managers' and other service providers' fees and expenses in relation to the Portfolio and all other fees and expenses incurred by the Management Company acting in respect of PEP, including for the avoidance of doubt the reimbursement by the Management Company of out of pocket expenses incurred by the Investment Managers in respect of the Portfolio, and investments in the ProLogis Private Equity Funds and the ProLogis Joint Ventures, or proposed disposals or additions to the Portfolio or PEP's investment in the ProLogis Private Equity Funds and the ProLogis Joint Ventures. Such fees and expenses shall be in line with market standards and may, for the avoidance of doubt, include fees and expenses of a ProLogis Related Party (e.g. leasing fees and commissions, construction management fees, legal fees and tax compliance fees; the legal fees, and tax compliance fees being subject to the prior approval of the PEP Board in accordance with Article 4. k) and leasing fees and commissions and construction management fees being at or below market rates as shown by the schedule provided annually to the PEP Board in accordance with Article 4. h)), when assisting the Management Company subject to the Management Company having specifically requested such assistance, but, for the avoidance of doubt, such fees and expenses shall not include fees and expenses of a ProLogis Related Party with respect to services provided in relation to Distribution Facilities owned by a ProLogis Private Equity Fund or a ProLogis Joint Venture and not owned directly by PEP;
- vii. all fees and expenses relating to the placement and issue of Units in PEP (including fees related to the IPO and underwriting commissions, but excluding fees related to other secondary placings of existing Units), and all fees and expenses relating to the arrangement of debt facilities of and

for PEP. Such fees and expenses shall include fees and expenses of a ProLogis Related Party assisting the Management Company subject to the Management Company having specifically requested such assistance, other than fees of a ProLogis Related Party relating to the arrangement of debt facilities of and for PEP. The expenses shall include, but shall not be limited to, placement agents' fees and out-of-pocket expenses, legal, accounting, surveyors', valuation and other professional fees and expenses;

- viii. reporting and publishing expenses, including the cost of preparing and/or filing these Management Regulations and all other documents concerning PEP, including any Prospectus and explanatory memoranda and registration statements with all authorities having jurisdiction over PEP or the offering of Units of PEP; the cost of preparing, in such languages as are required for the benefit of the Unitholders, including the beneficial holders of the Units, and distributing annual and all other periodic reports and such other reports or documents as may be required under the applicable laws or regulations of the above-cited authorities and the costs and expenses of local representatives appointed in compliance with the requirements of such authorities;
- ix. the cost of preparing and distributing public notices to the Unitholders and the cost of convening Unitholders' Meetings;
- x. expenses incurred in determining PEP's NAV;
- xi. the costs of preparing, printing and distributing all valuations, statements, accounts and performance and investment reports;
- xii. auditor's fees and expenses;
- xiii. the costs of amending and supplementing these Management Regulations, and all similar administrative charges;
- xiv. costs incurred to enable PEP to comply with legislation and official requirements provided that such costs are incurred substantially for the benefit of the Unitholders and any fees and expenses involved in registering and maintaining the registration of PEP with any Governmental agencies or listing of Units on the Luxembourg Stock Exchange, Euronext Amsterdam, or on stock exchanges in any other country, including for the avoidance of doubt the costs linked to the realisation of the IPO; and
- xv. all other costs and expenses in connection with the operations or administration of PEP and the Portfolio and the achievement of the Investment Objective and Policy.

Where appropriate, the fees and expenses borne by PEP may be charged to PEP's subsidiaries.

Subject to the provisions in Part 2 of Article 11, PEP pays the Management Company or its designee a management fee quarterly, in arrears in cash on each calendar quarter-end day immediately following the closing of the IPO equal to a percentage of the value of PEP's interest (held directly or indirectly through its wholly-owned subsidiaries) in Distribution Facilities and in the net cash proceeds of sales of Distribution Facilities pending reinvestment, determined as of the most recent Valuation Day as follows:

- (i) 0.60% per annum of the Gross Property Value of the Portfolio, excluding for the avoidance of doubt the interest of PEP in the ProLogis Private Equity Funds and ProLogis Joint Ventures, as a base management fee;
- (ii) 0.10% per annum of the value of PEP's interests in cash deposits, money market instruments or debt securities other than debt securities issued by companies or entities which are wholly or partly owned and controlled by PEP, excluding for the avoidance of doubt cash deposits, money market instruments or debt securities held by a ProLogis Private Equity Fund or a ProLogis Joint Venture, or cash balances subject to cash pooling arrangements in the framework of commercial mortgage-backed securities transactions, as a cash management fee.

Subject to the following paragraph, PEP shall pay the Management Company an incentive fee (if any, but which will not be less than zero) on 31 December 2008 and every year thereafter calculated on a rolling three years basis, equal to:

- a) 20% of the excess of IFRS net income per Unit (before the deduction of the incentive fee payable in the current fiscal year) for the relevant incentive period (equal to the previous three fiscal years, or for the first incentive fee calculation, fractional years since the date of IPO), above the sum of the product of a) NAV per Unit at the beginning of each fiscal year during the

relevant incentive period (for fiscal year 2006, this will be the NAV per Unit on the date of IPO), and b) a hurdle rate of 9% per annum; multiplied by

- b) the weighted average number of Units outstanding during the relevant incentive period; less
- c) an amount equal to the incentive fee payable on the above basis for any period during the relevant incentive period for which the Management Company has already been paid an incentive fee (or the amount that it would have been paid but for the provisions of the following paragraph) (excluding the current calculation), provided that such amount is greater than zero.

PEP shall maintain a notional account in its records (the **“Fee Credit Account”**) and on each occasion that PEP pays or bears an incentive fee, carried interest or similar performance related fee with respect to PEP’s investment in a ProLogis Private Equity Fund or ProLogis Joint Venture, the amount of such fee which is paid or borne by PEP shall be added to the Fee Credit Account. On each occasion that PEP is required to pay an incentive fee in accordance with these Management Regulations (the **“Fee Amount”**), (i) if, as at the date on which the Fee Amount is payable, the amount of the Fee Credit Account is equal to or exceeds the Fee Amount, then no additional incentive fee shall be payable by PEP in that fiscal year and the Fee Credit Account shall be reduced by the Fee Amount; or (ii) if, as at the date on which the Fee Amount is payable, the amount of the Fee Credit Account is less than the Fee Amount, then the Fee Amount payable with respect to the relevant fiscal year shall be reduced by the amount of the Fee Credit Account and, following such reduction, the Fee Credit Account shall be reduced to zero. For the avoidance of doubt, the Fee Credit Account is notional only and does not constitute an amount owing to PEP or any Unitholder in any circumstances. The Fee Credit Account shall not bear interest.

For the avoidance of doubt, the incentive fee payable on 31 December 2008 will (i) reflect that no prior incentive fees would have been paid to the Management Company and (ii) the hurdle rate will be adjusted to reflect that PEP will have been operating for less than three years since the date of IPO.

Except to the extent provided for in the Investment Management Agreement as at the date of these Management Regulations or as subsequently approved by the PEP Board, any fees paid to the Investment Managers pursuant to Article 5 shall be deducted from the base management fee payable by PEP to the Management Company which is specified above in accordance with the terms of the Investment Management Agreement.

In respect of Distribution Facilities, property management fees and expenses shall not be borne by PEP. Such fees and expenses being at the lower of (i) the market rate or (ii) three per cent. (3%) of the aggregate rental revenue of the Portfolio may be charged by ProLogis or a ProLogis Related Party (through PEP as landlord) to customers of PEP.

#### **Article 14. Fiscal Year, Audit and Information**

The Management Company or any agent thereof shall maintain the principal records and books of PEP in Luxembourg. The fiscal year and the accounts of PEP will begin on 1 January and end on 31 December in each year during the term of PEP except that the first fiscal period of PEP ended on 31 December 2000 and the last fiscal year of PEP shall terminate on the date of the final distribution in winding-up PEP. The first interim report of PEP, being a non-audited report, was published for the period ending 31 December 1999. The first annual report, being an audited report, was published for the period ending 31 December 2000.

The accounts of PEP will be audited by independent auditors who shall be appointed by the Management Company with the approval of the PEP Board and the annual general meeting of Unitholders. The accounts of PEP will be prepared in Euro and in accordance with IFRS.

The Management Company shall, subject to reasonable notice, give Unitholders and their appointed agents access to all financial information of PEP reasonably requested by such Unitholders to enable Unitholders to prepare tax returns and other regulatory filings. Any expenses incurred by the Management Company or PEP in preparing specific information for or giving access to a Unitholder to such information shall be reimbursed together with value added tax (if applicable) by the relevant Unitholder, and in the absence of such reimbursement, such expenses may be deducted by the Management Company from distributions made to such Unitholder pursuant to these Management Regulations. The Management Company shall in consultation with the PEP Board seek to develop an information circular containing material information about PEP and its activities which will be issued on a quarterly basis to Unitholders.

Each Unitholder shall provide from time to time such information to PEP as may be reasonably requested for the purpose of determining to what extent any Units are owned, directly or indirectly, by a Non-Exempt Unitholder, and provide any other information necessary to PEP in view of fulfilling its tax compliance requirements, and PEP shall provide such assistance as any Unitholder may reasonably request in connection therewith.

#### **Article 15. Distributions**

Distributions of Distributable Cash Flow (substantially all of which will be distributed in respect of the Units, subject to any legal restrictions on distributions) will be made quarterly (within 30 days following the relevant end of quarter) (or more frequently as the Management Company so determines, including in the case of accrued and unpaid returns on Preferred Units) in the following sequence:

- i. Preferred Units will receive pro-rata payment of amounts of accrued and unpaid preferred returns plus interest on any such accruals at the rate of preferred return specified in Part 1 of the Schedule;
- ii. Preferred Units will receive pro-rata payment of an amount in respect of each Preferred Unit, calculated to provide a return at the rate of preferred return specified in Part I of the Schedule on the average Invested Capital per Preferred Unit over the period from the preceding payment date;
- iii. Preferred Units which are subordinated to Preferred Units in paragraphs (i) and (ii) above (if any) will then receive payment on the same basis as in paragraphs (i) and (ii) in the order of subordination; and
- iv. all other Units will receive hundred per cent. (100%) of all remaining Distributable Cash Flow which the Management Company has decided should be distributed; provided, however, that at the time of issue of a new Class of Units, other than Preferred Units, the formula of distribution of Distributable Cash Flow amongst these Units shall be set out in an amendment to these Management Regulations.

If a cash distribution on any Class of Preferred Units is unpaid and accruing, no cash distributions will be made in respect of any other Class of Units (or Series thereof) which may be issued by the Management Company until all such unpaid amounts, together with interest thereon, have been paid.

To the extent PEP or any entity which (i) owns, directly or indirectly, wholly or partially, any relevant asset and which (ii) is owned, wholly or partially, directly or indirectly, by PEP (a “**Relevant Entity**”) is liable to pay any French 3% Tax because of the ownership, directly or indirectly, by any Non-Exempt Unitholder of Units and such French 3% Tax is not paid by the relevant Non-Exempt Unitholder on its own account, the Non-Exempt Unitholder shall pay the amount of the French 3% Tax to PEP or as the Management Company may direct prior to the time it becomes payable by PEP or any such Relevant Entity. To the extent not so paid, PEP may and shall use reasonable efforts to either (a) deduct and set off the amount of such French 3% Tax from distributions on (i) any Units owned, directly or indirectly, by the relevant Non-Exempt Unitholder and (ii) any Units in relation to which the direct owner of the Units remains the same but the relevant Non-Exempt Unitholder has ceased to be the owner, direct or indirect, of such direct owner or (b) recover the amount of French 3% Tax from the relevant Non-Exempt Unitholder. In addition, the Management Company may, at any time, take such steps in accordance with Articles 11 and 12 of these Management Regulations as it deems appropriate.

The Management Company shall have the ability to decide that the proceeds from (i) the sale of any asset in the Portfolio, including, without limitation, Distribution Facilities, or (ii) any refinancing of the Portfolio or any asset of the Portfolio will be either distributed as Distributable Cash Flow or held for investment and re-investment.

#### **Article 16. Amendments to the Management Regulations**

The Management Company may amend these Management Regulations in the interest of the Unitholders with the prior approval of the PEP Board and the consent of the Custodian, but for the avoidance of doubt without the consent of Unitholders, provided that such amendment:

1. relates to the issuance of new Units subject to compliance with the ten per cent. (10%) threshold of the aggregate issue price of Units issued in a fiscal year, as set out in Article 8; or

2. relates to the increase of the percentage of the Ownership Limit; or
3. would be necessary
  - a) in order to comply with fiscal or other statutory or official requirements affecting PEP, or as otherwise specifically provided for in these Management Regulations;
  - b) in order to reflect a change of custodian, or other service providers to PEP; or
  - c) in order to cure any ambiguity or to correct or supplement any provision of the Management Regulations that may be inconsistent with any other provision of such Management Regulations,

provided that any such amendment in 1 and 2 above would not, in the judgement of the Management Company, to any material extent, release any person from any liability or duty to Unitholders, disproportionately alter the interest of a Unitholder in relation to distributions of Distributable Cash Flow or Residual Value, or would increase the costs and charges payable by PEP.

In any other circumstances, the prior approval of the PEP Board and an affirmative vote of sixty-seven per cent. (67%) of all Units, other than Preferred Units, is required for any amendment of these Management Regulations. No such amendment shall become effective in the absence of the consent of the Custodian to such change.

Where practicable, Unitholders will be given 15 Business Days notice of all amendments that are adopted without their consent in accordance with the foregoing.

Additions to the Schedule and amendments to these Management Regulations will become effective on the date of their signature by the Management Company and the Custodian.

#### **Article 17. Replacement of the Management Company**

On 15 September 2016 and every fifth year thereafter, Ordinary Unitholders will have the opportunity to remove the Management Company, without cause, by a sixty-seven per cent. (67%) vote of Ordinary Units. Any successor to the Management Company will have to be approved by the Luxembourg Supervisory Authority prior to its appointment. The meeting of Ordinary Unitholders to vote on the termination of the Management Company under this paragraph may only be convened at the initiative of a simple majority of Independent Board Members (following a simple majority of Independent Board Members having voted to terminate the Management Company's appointment) or by the Management Company pursuant to Article 18.1. At the end of the first quarter of 2016 and every fifth year thereafter, in the quarterly report, the Management Company will notify Ordinary Unitholders that, subject to a simple majority of Independent Board Members voting to remove the Management Company without cause and voting to convene a meeting of Ordinary Unitholders, the Ordinary Unitholders will have the right to remove the Management Company later that year in the manner referred to above.

The Management Company may be terminated by action of Ordinary Unitholders at any time in the event of (i) gross negligence, wilful misconduct or fraud by the Management Company; or (ii) failure by ProLogis or a ProLogis Related Party to observe the ownership requirements and restrictions on transfer of Units set out in Part 2 of Article 11. The decision to terminate the Management Company in each such event is subject to the approval of a simple majority of Ordinary Units.

In circumstances where no successor Management Company can be found within two months of such termination, pursuant to Luxembourg law PEP will be wound up in accordance with the winding-up provisions in Article 20.

The Management Company shall not resign or terminate PEP save with the consent of the affirmative vote of Units as prescribed in Article 20.2. except if the net asset value of PEP falls below €1,250,000 in which case Unitholders' consent is not required.

Following any decision to terminate the Management Company or any approval of the resignation of the Management Company, PEP and its subsidiaries shall cease to use the name "ProLogis" and any other intellectual property rights with respect to the name (including ProLogis trademarks, trade colour, logos or markings).



## Article 18. Unitholders' Meetings

### 1. General

The general meeting of Unitholders shall be convened by the Management Company. Except for any resolution related to the change of legal form of PEP as provided in Article 20 or the replacement of the Management Company without cause in accordance with the first paragraph of Article 17, it may also be convened upon the request of (i) Unitholders representing at least one fifth of the Invested Capital, provided that Invested Capital in respect of Units of any Class shall be disregarded to the extent such Units are not entitled to vote on any point on the agenda of the proposed general meeting or (ii) in relation to Class specific meetings of Unitholders representing at least one fifth of the Invested Capital of the relevant Class of Units.

Notice of any such meeting of Unitholders containing the agenda, the time and the place for the meeting shall be sent by the Management Company or any agent thereof to all Unitholders at their registered addresses not less than 21 days prior to the date of the meeting. The agenda shall be prepared by the Management Company except in the instance where the meeting is called upon the request of Unitholders, in which instance the Management Company may prepare a supplementary agenda.

Unitholders may participate in any general meetings of Unitholders in person or by written proxy granted specifically for the Unitholders' meeting at which it is to be exercised.

The quorum at a general meeting shall be Unitholders present or represented holding at least fifty per cent. (50%) of all Units outstanding on the date of the meeting unless otherwise stated herein, provided however that Classes of Preferred Units, if any, shall be disregarded in order to determine whether the meeting is quorate to the extent such Units are not entitled to vote. For Class specific meetings, the quorum shall be fifty per cent. (50%) of all Units of the relevant Class, unless otherwise stated herein.

No decisions can be taken if the quorum is not reached and in such case the meeting shall be dissolved. If such a quorum is not reached at the first general meeting, a second general meeting shall automatically be held on the day falling 14 days after the date of such inquorate meeting (provided that day is a Business Day in Luxembourg, and if that is not the case, it shall be held on the first Business Day falling thereafter) and such meeting shall not be subject to quorum requirements.

Except as otherwise provided in this Article, each Unitholder present in person or represented by written proxy at a general meeting of Unitholders and having a right to vote pursuant to these Management Regulations shall have one vote for each Unit held, provided that if Units are not fully paid-in, the voting rights attached thereto shall be proportionate to Invested Capital. Units of the same Class and of the same Class issued in Series shall vote as a single Class. Fractional Units shall have no rights to vote.

The Management Company shall be responsible for ensuring that the resolutions adopted at Unitholders' meetings are implemented.

The quorum and majority requirements applicable to general meetings of Unitholders set out in these Management Regulations are as follows:

Agenda Items	Quorum required	Majority required
1. Winding-up of PEP .....	50%	67%
2. Change of the Legal Form* .....	No	67%
3. Termination of the Management Company for cause .....	50%	50%
4. Replacement of Management Company .....	50%	67%
5. Amendment to the Management Regulations .....	50%	67%
6. Issuance of Units .....	No	50%
7. Election of Independent Board Members .....	No	50%
8. Appointment of independent auditor .....	No	50%
9. Approval of financial accounts for previous fiscal year .....	No	50%

\* As an exception to all other agenda items of the general meeting of Unitholders, Preferred Units shall be taken into account, in addition to Ordinary Units, for the determination of the majority requirement relating to the change of legal form, i.e. the conversion of PEP, being a *fonds commun de placement*, into an investment company with variable capital, *SICAV*, in compliance with Article 132 of the 2002 Law.



## **2. Right to Vote**

Units shall be entitled to vote in respect of the matters identified in these Management Regulations, as set forth below:

The approval or removal of Independent Board Members shall be subject to a vote of Ordinary Units at the annual general meeting of the Unitholders. In addition, Ordinary Units shall at the annual general meeting, by simple majority of the Units voting or represented at that meeting at which there shall be no quorum requirement, approve the appointment of the independent auditor and approve the financial accounts of PEP for the previous fiscal year. The annual general meeting shall be held on such Business Day as proposed by the Management Company but prior to the end of June of each calendar year.

Except as otherwise provided in Article 16, any change to the Management Regulations requires the approval of sixty-seven per cent. (67%) of all Classes of Units, other than Preferred Units, present or represented at a meeting convened to approve the change. Where any such change only impacts on a specific Class or Classes of Units, such Class or Classes of Units shall only be required to vote by a simple majority to approve such change.

The Management Company may be terminated by a vote of Ordinary Units as prescribed in Article 17.

Article 20 contains specific provisions in respect of Unitholder votes in respect of a change of legal form, duration and winding-up of PEP.

## **3. Further Issues**

In the event that any new Classes of Units or Series within such Classes are issued pursuant to Article 8 and Article 16 such Units shall, in the case of Preferred Units, have no greater voting rights than the rights set out in these Management Regulations and, in the case of other Units, shall have no greater voting rights than the Ordinary Units.

### **Article 19. Publications and Communications**

The audited annual and unaudited semi-annual reports and all other periodic reports of PEP including, without limitation, the summary quarterly unaudited reports that are prepared by the Management Company will be mailed to Unitholders at their request at their registered addresses and also made available to the Unitholders at the registered offices of the Management Company and the Custodian.

Any amendments of these Management Regulations, including the dissolution of PEP, will be published in the *Mémorial, Recueil des Sociétés et Associations* of Luxembourg and in such newspapers as shall be determined by the Management Company or required by authorities having jurisdiction over PEP or the sale of its Units. Notices to Unitholders shall be published in such newspaper as shall be determined by law and by a decision of the Management Company or required by authorities having jurisdiction over PEP or the sale of its Units.

All communications of investors with PEP should be in writing and addressed to the Management Company at 18, boulevard Royal, L-2449 Luxembourg.

### **Article 20. Change of Legal Form, Duration of PEP and Winding-up Provisions**

#### **1. Change of Legal Form**

Subject as mentioned below, any change in legal form of PEP must be tabled by the Management Company before a general meeting of Unitholders and approved at such general meeting of Unitholders by an affirmative vote of sixty-seven per cent. (67%) of all Units present or represented, unless the consent of all Units is required by Luxembourg law or the Luxembourg Supervisory Authority. No quorum requirements have to be complied with in relation to such general meeting.

In the event of a change in tax law or regulations of the United States of America governing the Federal taxation of real estate investment trusts which shall adversely affect the United States tax treatment of ProLogis' or any ProLogis Related Party's direct or indirect investment in PEP, the Management Company may take steps to change the legal form of PEP or the legal domicile of PEP subject to applicable laws including, without limitation, any required Unitholder consents.

## **2. Duration of PEP—Liquidation**

The life of PEP is unlimited. Any resolution to wind-up PEP shall require a resolution tabled at the initiative of the Management Company (with the prior approval of PEP Board as provided in Article 4. n) and adopted by sixty-seven per cent. (67%) of all Units present or represented at the general meeting of Unitholders.

In the event of a winding-up of PEP, the Management Company will seek to complete the winding-up process as soon as practicable in compliance with the provisions set forth under Luxembourg law but in any event within three years of commencement. During the winding-up period the Independent Appraiser will continue to provide appraisals of the Gross Property Value on Valuation Days and subsequent asset disposals shall be made having had regard to such appraisals of the Gross Property Value. Any distributions to Unitholders including ProLogis or a ProLogis Related Party will be made in cash.

In the event of a winding-up of PEP, the Management Company will dispose of the assets of PEP in the best interests of the Unitholders, and the Custodian, upon instructions given by the Management Company, will distribute the net proceeds of winding-up, after deduction of all winding-up expenses, among the Unitholders, as mentioned hereafter.

### **Minimum size of PEP**

Pursuant to the 2002 Law, the net assets of PEP may not be less than €1,250,000. Such legal minimum must be reached within a period of six months following the approval of PEP by the Luxembourg Supervisory Authority.

The Management Company must inform the Luxembourg Supervisory Authority without delay if the net assets of PEP shall fall below two-thirds of the legal minimum.

If the net assets of PEP fall below such legal minimum, the Luxembourg Supervisory Authority may require the Management Company to wind-up PEP. The winding-up shall be carried out by one or more liquidators in accordance with the 2002 Law specifying the steps to be taken to enable Unitholders to participate in the distribution of liquidation proceeds and provide for a deposit in escrow at the *Caisse de Consignation* at the close of the liquidation.

Amounts not claimed within the statutory liquidation period shall be forfeited in accordance with the provisions of Luxembourg law.

## **3. Winding-up**

In the event of winding-up of PEP, allocation of Residual Value shall be made in the following sequence to Units issued by PEP:

- i. Preferred Units with the same ranking will receive pro-rata payment of amounts of accrued and unpaid preferred returns plus interest on any such accruals at the appropriate rate specified in Part II of the Schedule;
- ii. Preferred Units with the same ranking will receive payment of a preferred return on the issue price per Unit for the period from the preceding date on which Distributable Cash Flow was distributed at the rate specified in Part II of the Schedule;
- iii. Preferred Units with the same ranking will receive a return of the issue price per Preferred Unit;
- iv. Preferred Units which are subordinated to Preferred Units in paragraphs (i) to (iii) inclusive, will then receive payment on the same basis as in paragraphs (i) to (iii) inclusive in the order of subordination;
- v. all Units other than Preferred Units will receive a payment of Residual Value to each Unit pro rata to the number of outstanding Units; and Preferred Units shown in Part II of the Schedule to be eligible for allocation under this paragraph (v) will receive amounts calculated in accordance with Part II of the Schedule.

## **Article 21. Indemnification and Standard of Care**

Subject to the provisions of Articles 15, 19 and 20 of the 2002 Law, in performing its functions under these Management Regulations the Management Company shall act with due diligence and in good faith in the best interests of the Unitholders and the Custodian shall use reasonable care in the exercise of its

functions. The Management Company and the Custodian and their respective managers, directors, officers, employees, partners and agents (including any Correspondent) and the PEP Board as a body or any Board Member shall not be liable for any error of judgement or mistake of law, for any loss suffered by PEP or for any actions taken or omitted to be taken in connection with the matters to which these Management Regulations relate, except for, in the case of each considered individually, any loss resulting from:

- a) in the case of the Management Company or Custodian, the non-fulfilment or improper fulfilment of the Management Company's or Custodian's, as the case may be, obligations under Luxembourg law; and
- b) in the case of the PEP Board as a body or any Board Member, gross negligence, wilful misconduct or fraud in the exercise of its functions.

The Management Company, the Custodian, any Correspondent, and any distributors appointed by the Management Company and their respective managers, directors, officers, employees, partners, members and shareholders and Board Members and, in the case of individuals among the foregoing, their personal representatives (collectively "**Indemnitees**" and individually an "**Indemnitee**") shall be indemnified and held harmless out of the assets of PEP against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by an Indemnitee in or about the conduct of PEP's business affairs or in the execution or discharge of his duties, powers, authorities or discretions in accordance with the terms of the appointment of the Indemnitee, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by him in defending (whether successfully or otherwise) any civil proceedings concerning PEP or its affairs in any court whether in Luxembourg or elsewhere, unless such actions in the conduct of PEP's affairs or in the execution or discharge of his duties shall have resulted from:

- a) an intentional, material violation of these Management Regulations, wilful misconduct, fraud, malfeasance by an Indemnitee;
- b) in the case of the Management Company or the Custodian and Indemnitees performing functions for and on behalf of the Management Company or the Custodian, the non-fulfilment or improper fulfilment of the Management Company's or the Custodian's, as the case may be, obligations under Luxembourg law;
- c) in the case of any Correspondent and Indemnitee performing functions for and on behalf of any Correspondent, negligence; and
- d) in the case of the PEP Board as a body or any Board Member, gross negligence, wilful misconduct or fraud.

No Indemnitee shall be liable (i) for the acts, receipts, neglects, defaults or omissions of any other Indemnitee or (ii) for any loss on account of defect of title to any property of PEP or (iii) for any loss occasioned by any default, breach of duty, breach of trust, error of judgement or oversight on his part or (iv) for any loss, damage or misfortune whatsoever which may happen in or arise from the execution or discharge of the duties, powers, authorities, or discretions of his office or in relation thereto, if the Indemnitee in good faith determined that such act or omission was in, or not opposed to, the best interests of Unitholders, and such act or omission does not constitute:

- a) a material violation of these Management Regulations, wilful misconduct, fraud, malfeasance by such Indemnitee;
- b) in the case of the Management Company or the Custodian and an Indemnitee performing functions for and on behalf of the Management Company or Custodian, the non-fulfilment or improper fulfilment of the Management Company's or Custodian's obligations under Luxembourg law;
- c) in the case of any Correspondent and Indemnitee performing functions for and on behalf of any Correspondent, negligence;
- d) in the case of the PEP Board as a body or any Board Member, gross negligence, wilful misconduct or fraud.

This Article in so far as it relates to the PEP Board or any Board Member may not be amended without the consent of the PEP Board.

## **Article 22. United States Federal Income Tax Matters**

PEP intends to be treated as a partnership for United States (“U.S.”) Federal income tax purposes. As such, any investor which owns a Unit or Units during PEP’s U.S. tax year will be a “partner” for the purposes of the discussion set forth below. Each partner and collectively all of the partners agree to be bound by the provisions set forth herein.

Each U.S. partner’s share of taxable profits and losses, as computed for PEP at the end of each U.S. tax year (computed under U.S. tax accounting rules and in accordance with the U.S. Internal Revenue Code (“IRC”) Section 704(b)), shall be allocated as follows:

After giving effect to the special allocations set forth in the next paragraph, profits and losses (or items thereof) shall be allocated among the U.S. partners based on the number of Units held by each U.S. partner, in a manner consistent with the economic interest in PEP’s profit and losses represented by such Units as set forth in these Management Regulations.

Notwithstanding anything to the contrary in the Management Regulations, profits and losses shall be allocated as though the Management Regulations contained (and there is hereby incorporated herein by reference) a qualified income offset provision which complies with U.S. tax regulation Section 1.704-1(b)(2)(ii)(d) and minimum gain chargeback and partner minimum gain chargeback provisions which comply with the U.S. tax regulation Section 1.704-2.

Notwithstanding this requirement, the partners will share certain items in order to comply with the requirements of IRC Section 704(c) and Section 721(c) and the partnership, in accordance with U.S. tax regulation Section 1.704-3, will allocate income, gain, loss, and deduction with respect to property contributed to PEP by ProLogis so as to take into account any variation between the adjusted tax basis of the property and its fair market value at the time of the contribution. As a result of this special allocation requirement, it is intended that any gain recognised on property contributed to PEP by ProLogis will be specially allocated back to ProLogis to the extent of the Section 704(c) gain on property.

All elections and accounting methods for purpose of the U.S. Federal income tax requirements, including the method of allocating items with respect to contributed property under U.S. tax regulation Section 1.704-3, will be made by the Tax Matters Partner designated below.

PEP’s tax year for purposes of the U.S. Federal income tax accounting rules and for the purpose of the allocations (set forth above) is the calendar year.

ProLogis will be the designated Tax Matters Partner as defined in IRC Section 6231, and is authorised and required to represent PEP (at PEP’s expense) in connection with all examinations of PEP’s affairs by the U.S. tax authorities, including without limitation judicial and administrative proceedings.

## **Article 23. Applicable Law, Jurisdiction and Language**

Any claim arising between the Unitholders, the Management Company, ProLogis and any ProLogis Related Party and the Custodian shall be settled according to the laws of the Grand Duchy of Luxembourg and subject to the jurisdiction of the District Court of Luxembourg, provided, however, that the Management Company and the Custodian may subject themselves and PEP to the jurisdiction of courts of the countries in which the Units are offered or sold, with respect to claims by investors resident in such countries and, with respect to matters relating to subscriptions, redemptions and conversions by Unitholders resident in such countries, to the laws of such countries.

These Management Regulations have been established in the English language which shall be determinative in their interpretation.

These Management Regulations shall enter into force on the date of Admission.

PROLOGIS MANAGEMENT SARL

By:

RBC DEXIA INVESTOR SERVICES BANK S.A.

By:

## SCHEDULE

### PART I—DISTRIBUTION OF DISTRIBUTABLE CASH FLOW UNDER ARTICLE 15

<u>Class/Series</u>	<u>Category</u>	<u>First Distribution Date</u>	<u>Preferred Units: Rate of preferred return and whether cumulative</u>	<u>Preferred Units: Entitlement to allocation and whether subordinated to any Class of Preferred Units together with ranking</u>	<u>Other Units: Entitlement to allocation</u>
Ordinary Units		Within 30 days after the calendar quarter- end day following the closing of the IPO	—	—	As specified in paragraph (iv) of Article 15 on the basis of the Distribution Formula.

**PART II—ALLOCATION OF RESIDUAL VALUE UNDER ARTICLE 20**

<u>Class/Series</u>	<u>Category</u>	<u>Preferred Units: Rate of preferred return and whether cumulative</u>	<u>Preferred Units: Entitlement to allocation and whether subordinated to any Class of Preferred Units together with ranking</u>	<u>Preferred Units: Entitlement to allocation under paragraph (v) of Article 20</u>	<u>Other Units: Entitlement to participate in paragraph (v) of Article 20</u>
Ordinary Units		—	—	—	Yes



## PART XV

### DEFINITIONS

The following definitions apply throughout this Prospectus unless the context requires otherwise:

<b>2002 Law</b>	means the Luxembourg law of 20 December 2002 on Undertakings for Collective Investment
<b>Administrative Agent</b>	means the Management Company appointed under the Administrative Agent Agreement
<b>Administrative Agent Agreement</b>	means the administrative agent agreement entered into on 16 February 2005 with certain of the wholly-owned subsidiaries of PEP
<b>Admission</b>	means the date upon which the Ordinary Units are formally admitted to listing and trading on Eurolist by Euronext
<b>AFM</b>	has the meaning provided on the cover page of this Prospectus
<b>Alzette</b>	has the meaning provided on page 122 of this Prospectus
<b>Alzette Facility Agreement</b>	has the meaning provided on page 122 of this Prospectus
<b>Alzette Security Trustee</b>	has the meaning provided on page 122 of this Prospectus
<b>Annualised Rental Income</b>	means the estimate of annual income for 2006 based on the rental income for leases in place as at 30 June 2006 based on rates effective at that date and on the assumption that rental income from such leases will continue to be received for the remainder of the financial year and does not take into account lease terminations, renewals, replacement of customers or other changes in rent levels in existing leases; and “Annualised Rent” shall be construed accordingly
<b>ASCIS</b>	means the Act on the Supervision of Collective Investment Schemes ( <i>Wet toezicht beleggingsinstellingen</i> ) of The Netherlands
<b>BaFin</b>	has the meaning provided on page 29 of this Prospectus
<b>Beneficial Owner</b>	has the meaning provided on page 148 of this Prospectus
<b>Board Members</b>	means, collectively, the Independent Board Members and the ProLogis Board Members, and “Board Member” means any one of them
<b>Business Day</b>	means a day on which banks are open for business in Luxembourg and Amsterdam (excluding Saturdays, Sundays and public holidays)
<b>CET</b>	means Central European Time
<b>CIS Order</b>	means the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001, as amended
<b>Class</b>	means a class of Units issued by PEP, and includes the Ordinary Units, the Preferred Units and any further classes of Units issued by PEP
<b>Class C Units</b>	means, collectively, the Class C(1) Units and the Class C(2) Units
<b>CMBS</b>	means commercial mortgage backed securities
<b>Code</b>	means the U.S. Internal Revenue Code of 1986, as amended

<b>Contribution Value</b>	means the sum equivalent to (i) 95% of the Gross Property Value of the relevant stabilised Distribution Facility or (ii) if shares of the company holding the relevant stabilised Distribution Facility are to be acquired, the net asset value of such company calculated in accordance with the terms of the Property Contribution Agreement.
<b>Control</b>	means the power to direct the management of an entity through voting rights, ownership or contractual obligations; the term “Controlled” shall have a correlative meaning
<b>CSSF</b>	has the meaning provided on the cover page of this Prospectus
<b>Custodian</b>	means RBC Dexia Investor Services Bank S.A. or such other custodian from time to time appointed by the Management Company
<b>Custodian Agreement</b>	means the custodian agreement entered into on 16 February 2006 between the Dexia Banque Internationale à Luxembourg (the former custodian) and the Management Company, as amended by a novation agreement dated 21 April 2006 appointing the Custodian
<b>Dealer Property</b>	has the meaning provided on page 163 of this Prospectus
<b>Debt-financed Exception</b>	has the meaning provided on page 163 of this Prospectus
<b>Deutsche Bank</b>	means Deutsche Bank AG
<b>Distributable Cash Flow</b>	means net earnings of PEP, as defined under IFRS, adjusted for (i) items which do not affect cash or cash equivalents or general provisions or reserves against assets (including, but not limited to, amortisation of assets or liabilities, adjustments for deferred tax or unrealised valuation of assets and liabilities, including financial instruments), (ii) costs incurred in relation to the Offer and (iii) payments to ProLogis as holder of the Class B1 Units pursuant to Article 10 and Article 23 (vii) of the Management Regulations dated 10 September 1999, as amended on 29 June 2001, on 13 May 2003, on 7 July 2003 and on 17 November 2005 less (i) non-revenue generating capital expenditures (including roof repairs, structural repairs, landscaping and other similar expenditures) and (ii) periodic contributions to a contingency reserve to include the general provisions or reserves mentioned above, such contingency reserve not to exceed €10 million in aggregate at any given time. Under the Management Regulations the limit of €10 million may be amended from time to time with the approval of the PEP Board and the definition of Distributable Cash Flow may also be amended from time to time to include prudent amortisation of debt if it is in the best interests of PEP, with the approval of the PEP Board
<b>Distribution Facility</b>	means any industrial warehouse or logistics distribution facility or distribution facilities
<b>DOL</b>	has the meaning provided on page 165 of this Prospectus
<b>Domiciliary and Service Agent</b>	means the Management Company in its capacity as domiciliary and service agent appointed under the Domiciliary and Service Agent Agreement
<b>Domiciliary and Service Agent Agreement</b>	means the domiciliary and service agent agreement entered into on 28 June 2001 between the Management Company and the wholly-owned Luxembourg based subsidiaries of PEP

<b>DTZ</b>	means DTZ Zadelhoff v.o.f. and its subsidiaries and affiliates retained to act as Independent Appraiser where Jones Lang LaSalle Limited is subject to a conflict of interest
<b>Dutch Paying Agent</b>	means Kempen & Co. N.V.
<b>Dutch Paying Agent Agreement</b>	means the paying agency agreement entered into on 11 September 2006 between Kempen & Co. N.V. and the Management Company (acting on behalf of PEP)
<b>ERISA</b>	means the U.S. Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder
<b>ERISA Investor</b>	means an employee benefit plan subject to Title I of ERISA
<b>ERISA Plan</b>	has the meaning provided on page 165 of this Prospectus
<b>EU</b>	means the European Union
<b>Euroclear Netherlands</b>	has the meaning provided on the cover page of this Prospectus
<b>Euro or €</b>	means the currency of the member states of the EU that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992)
<b>Eurolist by Euronext</b>	has the meaning provided on the cover page of this Prospectus
<b>Euro Zone</b>	means those member states of the EU that have adopted the Euro from time to time
<b>Euronext Rules</b>	means the rules which apply to entities whose securities have been admitted to Eurolist by Euronext
<b>Euronext Amsterdam</b>	has the meaning provided on the cover page of this Prospectus
<b>Euronext Listing Date</b>	has the meaning provided on the cover page of this Prospectus
<b>EU Savings Directive</b>	has the meaning provided on page 148 of this Prospectus
<b>Excess Units</b>	means those Units held by a Unitholder in excess of the Ownership Limitation
<b>Excess Units Fiduciary</b>	means a person unaffiliated with PEP, identified as a fiduciary for the purpose of holding Excess Units
<b>Exchange Act</b>	means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
<b>Existing Property Contribution Agreement</b>	means the existing property contribution agreement dated 15 September 1999 between PLD, the Management Company (for and on behalf of PEP) and certain other ProLogis Related Parties pursuant to which certain Distribution Facilities were contributed to PEP by PLD by way of a contribution of Shares
<b>FCP</b>	means a <i>fonds commun de placement</i> , an unincorporated contractual co-ownership scheme governed by management regulations
<b>Fee Credit Account</b>	means the notional account maintained by PEP pursuant to Article 13 of the Management Regulations
<b>Fee Amount</b>	has the meaning provided on page 60 of this Prospectus
<b>French 3 per cent. real estate holding tax</b>	has the meaning provided on page 150 of this Prospectus
<b>FSMA</b>	means the Financial Services and Markets Act 2000 of the United Kingdom
<b>Fully Exempt</b>	has the meaning provided on page 150 of this Prospectus

<b>Gross Property Value</b>	means the gross property value of a Distribution Facility as determined by an Independent Appraiser in accordance with such methodology as deemed appropriate by the Independent Appraisers applying professional valuation standards without deduction of purchaser's costs (and is referred to in the valuation reports in Part XIII—"Valuation Reports" of this Prospectus as "Gross Value" by JLL and "Gross Capital Value" by DTZ)
<b>Gross Rental Income</b>	means, with respect to any Distribution Facility, all income from such Distribution Facility, including, without limitation, rental income, rental income attributed to vacant space and ancillary income for the first full calendar year after the first due rental payment date
<b>Guarantor</b>	has the meaning provided on page 122 of this Prospectus
<b>HVB</b>	has the meaning provided on page 123 of this Prospectus
<b>IASB</b>	has the meaning provided on page 286 of this Prospectus
<b>IFRS</b>	means International Financial Reporting Standards
<b>Independent Appraisal Methodology</b>	means the methodology deemed by the Independent Appraiser to be appropriate applying professional valuation standards to determine Gross Property Value and OMV
<b>Independent Appraiser</b>	means JLL or, in circumstances where JLL is subject to a conflict of interest, DTZ
<b>Independent Board Member</b>	means a member of the PEP Board elected by a general meeting of Unitholders, such Board Member being an individual that is not affiliated with ProLogis or any ProLogis Related Party or any officer, director, manager, employee or agent thereof
<b>Internal Revenue Code</b>	means the U.S. Internal Revenue Code of 1986, as amended
<b>Inventory Property</b>	has the meaning provided on page 163 of this Prospectus
<b>Investment Company Act</b>	has the meaning provided on the cover page of this Prospectus
<b>Investment Management Agreement</b>	means the amended and restated investment management agreement between the Management Company and the Investment Managers entered into on 11 September 2006 to take effect on the Settlement Date
<b>Investment Managers</b>	means, collectively, the investment managers appointed by the Management Company pursuant to the Investment Management Agreement, being ProLogis Management BV, Garonor Services SAS, ProLogis Poland Management II Sp zoo, ProLogis Spain Management II SL, ProLogis Germany Management II GmbH, ProLogis Italy Management II Srl, ProLogis Hungary Management II Kft, ProLogis Belgium Management Sprl, ProLogis Czech Republic Management II SRO and the other investment managers acceding to the Investment Management Agreement from time to time
<b>Investment Objective and Policy</b>	means the investment objective and policy of PEP as described in Part II—"PEP and its Business" of this Prospectus and in Article 6 of the Management Regulations
<b>IRS</b>	has the meaning provided on page 155 of this Prospectus
<b>JLL</b>	means Jones Lang LaSalle Limited of 22 Hanover Square, London W1A 2BN, England
<b>Joint Bookrunners</b>	means Deutsche Bank and Morgan Stanley
<b>JPMorgan</b>	means J.P. Morgan Securities Ltd.

<b>Legal Entities</b>	has the meaning provided on page 150 of this Prospectus
<b>LIFFE</b>	means London International Financial Future and Options Exchange
<b>Loan Agreements</b>	has the meaning provided on page 123 of this Prospectus
<b>LTV or loan-to-value ratio</b>	means the aggregate of total financial debt (at nominal value) and accrued interest divided by the Gross Property Value (gross of purchaser's costs)
<b>Luxembourg</b>	means the Grand Duchy of Luxembourg
<b>Luxembourg Paying and Listing Agent</b>	means RBC Dexia Investor Services Bank S.A., or such other paying and listing agent from time to time appointed under the Luxembourg Paying and Listing Agent Agreement
<b>Luxembourg Paying and Listing Agent Agreement</b>	means the Luxembourg paying and listing agent agreement entered into on 16 February 2005 with effect as of 31 December 2004 between the Dexia Banque Internationale à Luxembourg (the former paying and listing agent) and the Management Company, as amended by a novation agreement dated 21 April 2006 appointing the Luxembourg Paying and Listing Agent
<b>Macquarie Capital Partners</b>	means Macquarie Capital Partners Limited
<b>Management Company</b>	means ProLogis Management S.à r.l., a wholly-owned indirect subsidiary of ProLogis, or any successor management company that may be appointed under the Management Regulations
<b>Management Regulations</b>	means the management regulations to be applicable to PEP and the Unitholders with effect from the Settlement Date as set out in Part XIV of this Prospectus, including, where the context so permits, as amended from time to time
<b>Managers</b>	means the managers of the Management Company
<b>Member State</b>	has the meaning provided on page 148 of this Prospectus
<b>MetLife</b>	has the meaning provided on page 114 of this Prospectus
<b>Moody's</b>	means Moody's Investors Service, Inc.
<b>Morgan Stanley</b>	means Morgan Stanley & Co. International Limited
<b>NAV</b>	means the net assets of PEP, being the assets minus the liabilities, or, where the context so requires, the net asset value per Unit of each Class (or Series thereof) as determined in accordance with Article 9 of the Management Regulations
<b>New Funds</b>	has the meaning provided on page 117 of this Prospectus
<b>Non-Exempt Legal Entities</b>	has the meaning provided on page 150 of this Prospectus
<b>Non-Exempt Unitholder</b>	means an entity who owns, directly or indirectly, Units and who is not exempt from the French 3 per cent. real estate holding tax
<b>Non-U.S. Unitholder</b>	has the meaning provided on page 164 of this Prospectus
<b>Offer</b>	has the meaning provided on the cover page of this Prospectus
<b>Offer Price</b>	means the price at which each Ordinary Unit is to be issued in connection with the Offer
<b>Offer Price Range</b>	means the indicative price range set forth on the cover page of this Prospectus and as described in Part VI—"The Offer" of this Prospectus

<b>OMV or Open Market Value</b>	means the open market value of a Distribution Facility as determined by the Independent Appraiser in accordance with such methodology as deemed appropriate by the Independent Appraisers applying professional valuation standards and after deduction of purchaser's costs (and is referred to in the valuation reports in Part XIII—"Valuation Reports" of this Prospectus as "Market Value" by JLL and "Net Capital Value" by DTZ)
<b>Ordinary Units</b>	has the meaning provided on the cover page of this Prospectus
<b>Ordinary Unitholder</b>	means a holder of Ordinary Units
<b>Original Companies</b>	means ProLogis Netherlands II S.à r.l., ProLogis Netherlands S.à r.l., ProLogis Finance IV S.à r.l. and ProLogis European Properties S.à r.l.
<b>Over-allotment Option</b>	has the meaning provided on the cover page of this Prospectus
<b>Over-allotment Units</b>	means the Ordinary Units that are the subject of the Over-allotment Option
<b>Ownership Limitation</b>	means the limits applicable to holdings of Ordinary Units pursuant to Article 11.1 of the Management Regulations as described more fully in Part VII—"Additional Information" of this Prospectus
<b>Parents</b>	has the meaning provided on page 122 of this Prospectus
<b>PEP</b>	means ProLogis European Properties, an FCP governed by Part II of the 2002 Law pursuant to the Management Regulations; and such term shall, where the context so requires, include all companies or other entities which are wholly-owned or partially owned as to more than 50 per cent., directly or indirectly, by ProLogis European Properties
<b>PEP Board</b>	means the board of PEP established in accordance with Article 4 of the Management Regulations
<b>Person</b>	means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated association or government or any agency or political sub-division thereof
<b>PFIC</b>	has the meaning provided on page 161 of this Prospectus
<b>PLD</b>	means PLD International Incorporated, a corporation established under the laws of the State of Delaware, United States of America
<b>PLD Related Party</b>	means an entity which is directly or indirectly Controlled by PLD
<b>Portfolio</b>	means the Distribution Facilities owned by PEP, the interest of PEP in any ProLogis Private Equity Fund or ProLogis Joint Venture and such other assets and rights from time to time held directly or indirectly by PEP in accordance with the Management Regulations
<b>Portfolio Assets</b>	has the meaning provided on page 158 of this Prospectus
<b>Portfolio Income Items</b>	has the meaning provided on page 158 of this Prospectus
<b>Preferential Subscription Rights Agreement</b>	means the preferential subscription rights agreement entered into on 11 September 2006 between PLD and the Selling Unitholders



<b>Preferred Units</b>	means Units that provide to holders a preferred cash distribution and a preferred reimbursement of invested capital (or such other amount as specified by the Management Company on the issue thereof) upon a winding up of PEP
<b>Preferred Unitholder</b>	means a holder of Preferred Units
<b>Private Equity Fund Investment Agreement</b>	means the agreement entered into on 11 September 2006 to take effect on the Settlement Date between PLD and the Management Company (acting on behalf of PEP) under which PEP has certain rights in invest in the ProLogis Private Equity Funds and ProLogis Joint Ventures
<b>Prohibited Unitholder</b>	has the meaning provided on page 99 of this Prospectus
<b>ProLogis</b>	means ProLogis, a REIT organised in the State of Maryland, United States of America, and, unless the context indicates otherwise, its consolidated subsidiaries
<b>ProLogis Board Member</b>	means a member of the PEP Board appointed by the Management Company
<b>ProLogis Joint Venture</b>	means any single investor joint venture sponsored by PLD or a PLD Related Party and investing primarily in Distribution Facilities in Europe
<b>ProLogis Operating System<sup>®</sup></b>	means an exclusive operating system designed and owned by ProLogis, details of which are set out at Part I—“PEP and its Business” of this Prospectus
<b>ProLogis Private Equity Fund</b>	means any regulated or unregulated multi-investor real estate private equity fund sponsored by PLD or a PLD Related Party and investing primarily in Distribution Facilities in Europe
<b>ProLogis Related Party</b>	means (i) an entity that is directly or indirectly Controlled by ProLogis or (ii) an entity at least 35 per cent. of whose economic interest is owned directly or indirectly by ProLogis; for the avoidance of doubt, PEP is not and shall not be a ProLogis Related Party
<b>Property Contribution Agreement</b>	means the agreement entered into on 11 September 2006 to take effect on the Settlement Date between the Management Company (acting on behalf of PEP) and PLD under which PLD has agreed to contribute to PEP, upon stabilisation, and PEP has agreed to acquire, Distribution Facilities from the Property Portfolio
<b>Property Portfolio</b>	means the portfolio of Distribution Facilities from which Distribution Facilities will be contributed to PEP pursuant to the Property Contribution Agreement
<b>Prospectus</b>	means this prospectus
<b>Prospectus Directive</b>	has the meaning provided on the cover page of this Prospectus
<b>Prospectus Law</b>	has the meaning provided on the cover page of this Prospectus
<b>QBU</b>	has the meaning provided on page 159 of this Prospectus
<b>QEF</b>	has the meaning provided on page 161 of this Prospectus
<b>QIBs</b>	has the meaning provided on the cover page of this Prospectus
<b>QPs</b>	has the meaning provided on the cover page of this Prospectus
<b>Registrar and Transfer Agent</b>	means RBC Dexia Investor Services Bank S.A. or such other registrar and transfer agent from time to time appointed by the Management Company

<b>Registrar and Transfer Agent Agreement</b>	means the registrar and transfer agent agreement entered into on 15 September 1999 between the First European Transfer Agent (the former registrar and transfer agent) and the Management Company, as amended by a novation agreement dated 21 April 2006 appointing the Registrar and Transfer Agent
<b>Regulation</b>	has the meaning provided on page 165 of this Prospectus
<b>Regulation S</b>	means Regulation S under the Securities Act
<b>REIT</b>	means an entity that qualifies as a “real estate investment trust” for U.S. Federal income tax purposes
<b>Relevant Entity</b>	means an entity which (i) owns, directly or indirectly, wholly or partially, any relevant asset and which (ii) is owned, wholly or partially, directly or indirectly, by PEP
<b>Relevant Period</b>	has the meaning provided on page 117 of this Prospectus
<b>Relevant Implementation Date</b>	means the date on which the Prospectus Directive is implemented in a Relevant Member State
<b>Relevant Member State</b>	means a member state of the European Economic Area which has implemented (totally or partially) the Prospectus Directive
<b>Residual Value</b>	means the total net proceeds (taking into account any distributions in specie) resulting from a winding-up of all PEP’s assets after repayment of all creditors
<b>Rule 144A</b>	has the meaning provided on the cover page of this Prospectus
<b>Securities Act</b>	has the meaning provided on the cover page of this Prospectus
<b>Selling Unitholder</b>	has the meaning provided on the cover page of this Prospectus
<b>Series</b>	means a series of Units within a particular Class of Units
<b>Settlement Date</b>	has the meaning provided on the cover page of this Prospectus
<b>Shares</b>	means the shares in the capital of the Original Companies
<b>Stabilised Property Contribution Agreement</b>	means the stabilised property contribution agreement between PLD, the Management Company (for and on behalf of PEP), ProLogis and certain other ProLogis Related Parties, entered into on 15 September 1999 and as amended on 29 June 2001
<b>Sterling</b>	means pounds sterling, the currency of the UK
<b>S&amp;P</b>	means Standard and Poor’s
<b>Takeovers Directive</b>	means the Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on takeover bids
<b>Tax-Exempt Entities</b>	has the meaning provided on page 162 of this Prospectus
<b>Tax Indemnity</b>	means the tax indemnity agreement dated 15 September 1999 between PLD and the Management Company (on behalf of PEP)
<b>Tenant Transfer</b>	means the cancellation of a tenant’s lease of a Distribution Facility owned by PEP or a direct or indirect subsidiary of PEP and the subsequent lease within three months of such cancellation by such tenant of another property owned, directly or indirectly, by ProLogis or a ProLogis Related Party or a fund managed by ProLogis or a ProLogis Related Party including the ProLogis Joint Ventures and the ProLogis Private Equity Funds, and in which PEP’s ownership interest is not at least equal to its interest in the original Distribution Facility
<b>Termination Agreement</b>	has the meaning provided on page 117 of this Prospectus
<b>UBIT</b>	has the meaning provided on page 162 of this Prospectus

<b>UCITS</b>	means an undertaking for collective investment in transferable securities within the meaning of Article 1 of Council Directive 85/611/EEC, as amended
<b>UK</b>	means the United Kingdom of Great Britain and Northern Ireland
<b>Underwriters</b>	has the meaning provided on the cover page of this Prospectus
<b>Underwriting Agreement</b>	means the underwriting agreement among PEP, the Management Company, the Selling Unitholders and the several underwriters named therein dated 11 September 2006
<b>United States or U.S.</b>	means the United States of America, its territories and possessions, any state of the United States and the District of Columbia
<b>Unitholders</b>	means the holders of Units
<b>Units</b>	means co-ownership participations in PEP which may be issued in different Classes or Series by PEP pursuant to the Management Regulations, including, but not limited to, the Ordinary Units and the Preferred Units
<b>US\$</b>	means the currency of the United States of America
<b>US GAAP</b>	means U.S. generally accepted accounting principles
<b>U.S. Person</b>	means a U.S. Person within the meaning of Regulation S
<b>U.S. Unitholder</b>	has the meaning provided on page 156 of this Prospectus
<b>Valuation Day</b>	means any Business Day which is designated by the Management Company as being a day by reference to which the assets of PEP will be valued in accordance with Article 9 of the Management Regulations, provided that there will be at least semi-annual Valuation Days and that the Management Company is permitted to designate Valuation Days more frequently than semi-annually, in relation to the issuance of Units pursuant to Article 8 of the Management Regulations, or in relation to any other circumstances if deemed appropriate by the Management Company, or if otherwise required by Luxembourg law or any other applicable law or regulation.

## MANAGERS AND ADVISERS

### MANAGERS OF THE MANAGEMENT COMPANY

Robert J. Watson  
Peter Cassells  
Ralf Wessel  
18, boulevard Royal  
L-2449 Luxembourg  
Grand Duchy of Luxembourg

### REGISTERED OFFICE OF PEP

18, boulevard Royal  
L-2449 Luxembourg  
Grand Duchy of Luxembourg

### MANAGEMENT COMPANY

ProLogis Management S.à r.l.  
18, boulevard Royal  
L-2449 Luxembourg  
Grand Duchy of Luxembourg

### DUTCH PAYING AGENT

Kempen & Co N.V.  
Beethovenstraat 300  
1077 WZ Amsterdam  
The Netherlands

### REGISTRAR AND TRANSFER AGENT

RBC Dexia Investor Services Bank S.A.  
5, rue Thomas Edison  
L-1445 Strassen  
Grand Duchy of Luxembourg

### CUSTODIAN AND LUXEMBOURG LISTING AND PAYING AGENT

RBC Dexia Investor Services Bank S.A.  
5, rue Thomas Edison  
L-1445 Strassen  
Grand Duchy of Luxembourg

### ENGLISH LEGAL ADVISERS TO PEP

Linklaters  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

### DUTCH LEGAL ADVISERS TO PEP

Linklaters  
WTC Amsterdam  
Zuidplein 180  
1077 XV Amsterdam  
The Netherlands

### U.S. LEGAL ADVISERS TO PEP

Mayer, Brown, Rowe &  
Maw LLP  
71 S. Wacker Drive  
Chicago Illinois 60606-4637  
United States of America

### LUXEMBOURG LEGAL ADVISERS TO PEP

Arendt & Medernach  
14, rue Erasme  
B.P. 39  
L-2010 Luxembourg  
Grand Duchy of  
Luxembourg

### AUDITORS

Ernst & Young S.A.  
7 Parch d'Activité Syrdall  
L-5365 Munsbach  
Grand Duchy of Luxembourg

### DUTCH LISTING AGENT

Morgan Stanley  
25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

### PRINCIPAL BANKERS

ABN AMRO Holding N.V.  
Gustav Mahlerlaan 10  
Amsterdam 1082 4PP  
The Netherlands

### JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

Deutsche Bank  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

Morgan Stanley  
25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

### FINANCIAL ADVISER TO PROLOGIS

Macquarie Capital Partners  
City Point  
1 Ropemaker Street  
35<sup>th</sup> Floor  
London EC2Y 9HD  
United Kingdom

### U.S. LEGAL ADVISERS TO THE JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

Sullivan & Cromwell LLP  
1 New Fetter Lane  
London EC4A 1AN  
United Kingdom

### LUXEMBOURG LEGAL ADVISERS TO THE JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

Loyens Winandy  
1, allée Scheffer  
L-2520 Luxembourg  
Grand Duchy of Luxembourg

### DUTCH LEGAL ADVISERS TO THE JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

Loyens Loeff  
Fred. Roeskestraat 100  
1076 ED Amsterdam  
The Netherlands





The pictures above and on the following page show Distribution Facilities forming part of PEP's Portfolio.



 **ProLogis European Properties™**