
LETTER TO PEPR INVESTORS

This letter does not constitute an offer to sell or the solicitation of an offer to buy any of the securities referred to herein. The securities referenced in this letter have not and will not be registered under the US Securities Act of 1933, as amended (the “US Securities Act”), or under any securities laws of any state or other jurisdiction in the United States, and may not be offered or sold within the United States except pursuant to an exemption from the registration requirements of the US Securities Act and in compliance with applicable securities laws of any state or jurisdiction of the United States. Offers and sales of the securities referred to herein will only be made in the United States to persons who are “accredited investors” within the meaning of Regulation D under the US Securities Act and/or “qualified institutional buyers” within the meaning of Rule 144A under the US Securities Act.

Luxembourg, September 7, 2009

Dear Madam or Sir,

ProLogis Management S.à r.l. (the “**Management Company**”) of ProLogis European Properties (“**PEPR**”) hereby informs you of a proposal relating to the conversion of PEPR, currently a *fonds commun de placement* (“**FCP**”) subject to Part II of the 2002 Law (as defined hereafter), into a *société d’investissement à capital fixe* (“**SICAF**”) incorporated as a *société en commandite par actions* (“**SCA**”) also subject to Part II of the 2002 Law (as defined hereafter) (the “**Conversion**”) as further set out below.

The purpose of this letter is to provide investors in PEPR with sufficient information in relation to the proposed Conversion to allow each investor to seek independent advice from their professional advisers in relation to the proposed Conversion (and its consequences for that investor) and to make an informed judgement in relation to the resolutions to be decided upon at three general meetings of investors in PEPR (in their capacity as unitholders in PEPR and subsequently as shareholders in PEPR) in connection with the Conversion, two of which are to be held on September 30, 2009 and one of which is to be held on October 16, 2009.

In addition, the purpose of this letter also is to provide notice to all investors in PEPR (both in their capacity as unitholders in PEPR as an FCP and, immediately following the First General Meeting (as defined below), in their capacity as shareholders in PEPR as a SICAV, as defined below) (“**PEPR Investors**”) of the above mentioned general meetings in accordance with PEPR’s management regulations dated September 10, 1999, as amended on June 29, 2001, on May 13, 2003, on July 7, 2003, on November 17, 2005, on September 11, 2006 and May 29, 2007 (the “**Management Regulations**”), the Luxembourg law dated August 10, 1915 on commercial companies, as amended (the “**1915 Law**”), the Luxembourg law dated December 20, 2002 on undertakings for collective investment, as amended (the “**2002 Law**”) and any other applicable Luxembourg laws and regulations.

In addition, a Third General Meeting, as defined below, of PEPR Investors (in their capacity as shareholders in PEPR as a SICAF-SCA) will, assuming the first two meeting are successful, be called for October 16, 2009 in order to declare the completion of the Conversion (which will, nonetheless have already come into effect on September 30, 2009).

This letter should be read in conjunction with the enclosed draft information memorandum expected to be dated September 30, 2009, which will be issued by PEPR (as a SICAF-SCA) following the successful implementation of the Conversion (the “**Draft Information Memorandum**”). The Draft Information Memorandum contains important information in relation to PEPR, its current financial situation and the rights attaching to the PEPR shares following Conversion.

The information regarding PEPR in this letter and the Draft Information Memorandum are correct at the date hereof. In the event of material changes relating to the Conversion between the date hereof and the Third General Meeting, as defined below, PEPR will post updates to their website, which will be available for inspection from the following URL (www.prologis-ep.com) and will be inserted in the Information Memorandum published by PEPR on Conversion.

1. Introduction and rationale for the Conversion

The business environment in which PEPR operates has been deteriorating since 2007 and has been significantly impacted by the dislocation of the credit markets in 2008, resulting in lack of liquidity and declining property values.

Despite PEPR's relatively strong operational performance during this period, the adverse economic environment has significantly affected PEPR's results of operations in 2008 and the first six months of 2009, primarily as a result of downward fair market valuation adjustments and impairment charges recorded during this time.

The Management Company believes that PEPR does not currently have sufficient working capital in order to meet its present requirements (*i.e.* the period of twelve months from the date of the Draft Information Memorandum). These working capital requirements, which include the maturity of a substantial amount of PEPR's existing indebtedness, are described further in the section entitled "Working Capital" in Part VII—"Additional Information" of the Draft Information Memorandum accompanying this letter. Additionally, in view of the continued downward trend in real estate fair market valuations, PEPR's headroom under its financial covenants has reduced significantly and the Management Company believes that PEPR runs the risk of breaching the financial covenants contained in certain of its debt agreements, potentially as early as December 2009 unless further working capital is raised. Breaches of these covenants could result in defaults under such debt financing agreements (even if PEPR has satisfied its payment obligations), which would adversely affect PEPR's financial condition.

In response to these concerns and as further described in the enclosed Draft Information Memorandum, the Management Company has had an active focus on debt management for some time and has already initiated a range of measures designed to address some of the adverse effects of the difficult current economic conditions on PEPR's business.

In addition, the Management Company is actively pursuing a number of other options to either reduce PEPR's future working capital requirements or to generate additional sources of capital required to meet its anticipated future requirements.

However, whilst a key element of those plans is the ability of PEPR to raise new equity, PEPR's current structure as an FCP materially restricts its ability to do so.

In particular, under both Articles 9(1) and 66 of the 2002 Law and Articles 8 and 9 of the Management Regulations, PEPR is currently prohibited from issuing equity interests at a price other than the net asset value per PEPR Unit (the "NAV per Unit"). Accordingly, as PEPR's Units are currently trading on Euronext Amsterdam and the Luxembourg Stock Exchange at a substantial discount to the NAV per Unit (which makes an issue of Units at NAV per Unit commercially unattractive), PEPR is unable (for all practical purposes) in its current form as an FCP to raise the new equity which would create the additional capital required.

In light of this situation, the Management Company and the PEPR Board have undertaken a process of considering alternatives open to PEPR to address these working capital concerns and have identified the Conversion of PEPR into a SICAF-SCA as a suitable first step in a process which would allow PEPR to quickly react to market conditions and to conduct an equity raise at the appropriate time without the current pricing constraints applying to it as an FCP.

As a result, it is proposed that PEPR be converted into a SICAF-SCA, the corporate features of which are closer to the current FCP structure of PEPR, as compared to the other corporate structures that would have been available upon a statutory transformation of PEPR. Following the Conversion PEPR will remain a tax-exempt vehicle for direct Luxembourg tax purposes.

PEPR Investors should also be aware that the Management Company and the PEPR Board are also taking the opportunity of the Conversion to propose a number of improvements of the governance structure of PEPR (as described in detail in Section 4 below). The Management Company and the

PEPR Board believe that these changes will make PEPR more closely aligned with common market practice within the European equity capital markets.

Further, as more fully described in Section 4 “**Key consequences of the Conversion**” below, such a Conversion will result in, amongst other things, a change in the legal form of PEPR into a corporate vehicle having a separate legal personality, the replacement of the current Management Regulations with new constitutional documents, a change in the role of ProLogis Management S.à r.l. (the current Management Company) from that of a ‘management company’ to that of a ‘general partner’, (the “**General Partner**”) and the replacement of the current PEPR Board with a Supervisory Board.

In addition, in order to facilitate an equity raising by PEPR at an appropriate time in the future, it is also proposed that the new constitutional documents of PEPR will, upon Conversion, contain an authorisation for the Management Company (then in its capacity as general partner of the SICAF-SCA) to issue new equity interests of up to 300 per cent. of the number of the current PEPR units, subject to the total proceeds (including nominal value and share premium if any) received by PEPR from such issuance of Shares not exceeding in aggregate four hundred million euro (€400,000,000), before September 30, 2010 without the need to seek further approval from PEPR Investors. Full details of that authorisation are set out in Section 5 “**Increase of authorised capital and possible future equity raise**” below.

In assessing whether the Conversion is a suitable alternative for PEPR and the PEPR Investors, the Management Company and the PEPR Board were particularly concerned to ensure that the Conversion would not have any material impact on the level of protection currently afforded to PEPR Investors. In this respect, PEPR Investors should note that, PEPR will remain governed by the provisions of the 2002 Law and as a result, PEPR Investors will continue to benefit from the protections offered by the 2002 Law. Furthermore, the Management Company will remain responsible for the management of PEPR although it will, going forward, act as general partner of the SICAF-SCA, rather than as the management company of the FCP.

2. Summary of the Conversion process

As the 2002 Law does not provide for a statutory mechanism for the conversion of an FCP directly into a SICAF, the Conversion is proposed to take place by means of a two-step process, *i.e.* an initial conversion of the FCP into a *société d’investissement à capital variable* governed by the 2002 Law (a “**SICAV**”), immediately followed by a conversion of the SICAV into a SICAF-SCA.

PEPR Investors will therefore initially be asked to attend one physical meeting constituting, legally, two general meetings of PEPR: (i) a general meeting of unitholders of PEPR (as an FCP) on September 30, 2009 to resolve on the conversion of PEPR into a SICAV in accordance with the provisions of Article 132(2) of the 2002 Law and Article 20.1 (*Change of Legal Form*) of the Management Regulations (the “**First General Meeting**”); and (ii) immediately thereafter a general meeting of shareholders of PEPR (as a SICAV) to resolve on the conversion of the SICAV into a SICAF-SCA (the “**Second General Meeting**”).

Further, provided that the resolutions put to the First General Meeting and the Second General Meeting are duly passed, a third general meeting of PEPR Investors (as shareholders in the SICAF-SCA) will be convened for October 16, 2009 in order to declare the completion of the Conversion (the “**Third General Meeting**”). However, PEPR Investors should note that, notwithstanding the convening of the Third General Meeting, the Conversion will be legally effective immediately following the Second General Meeting.

A situation where PEPR would be converted into a SICAV and not be further converted into a SICAF-SCA would not achieve the intended outcome of the Conversion and may have materially adverse taxation consequences for certain PEPR Investors and therefore must be avoided (please see Annex C for further details in relation thereto). As a result, the decision of the First General Meeting (of PEPR as an FCP) to convert PEPR into a SICAV will be subject to a condition subsequent (*condition résolutoire*) that the resolutions put to the Second General Meeting (of PEPR as a SICAV) are duly passed.

As a result, if for any reason the Second General Meeting (of PEPR as a SICAV) does not approve and authorise the subsequent conversion into a SICAF-SCA on September 30, 2009, the first resolution pertaining to the conversion of PEPR into a SICAV will be retroactively cancelled and PEPR shall remain an FCP.

PEPR Investors should note that the information in the Draft Information Memorandum accompanying this letter is in draft form only and is subject to updating, completion, revision, verification and amendment. The final Information Memorandum is expected to be published immediately after the passing of the resolutions on September 30, 2009 at the Second General Meeting approving the Conversion. Although it is intended that the final Information Memorandum will be approved by the *Commission de Surveillance du Secteur Financier* (the “CSSF”) as an information memorandum for the purposes of the 2002 Law, the Draft Information Memorandum has not, as at the date of this letter, been so approved.

Further to the Conversion, PEPR’s units, as converted into shares, will continue to be traded on the Regulated Market of the Luxembourg Stock Exchange and Euronext Amsterdam immediately after the Conversion (please see Section 4(f) below for further details in relation thereto).

A timetable setting out the key steps to be taken in connection with the Conversion is set out at Annex A to this letter.

3. The General Meetings

As indicated above, the implementation of the Conversion proposals set out in this letter will require the holding of three separate general meetings of PEPR Investors: (i) the First General Meeting on September 30, 2009, being a general meeting of unitholders of PEPR (as an FCP), to resolve on the conversion of PEPR into a SICAV; (ii) immediately thereafter, the Second General Meeting on September 30, 2009, being a general meeting of shareholders of PEPR (as a SICAV), to resolve on the conversion of the SICAV into a SICAF-SCA; and (iii) the Third General Meeting on October 16, 2009, being a general meeting of shareholders of PEPR as a SICAF-SCA, to declare the completion of the Conversion.

The First General Meeting and the Second General Meeting are hereby convened for 9.00 a.m. on September 30, 2009 at the offices of Arendt & Medernach located 14, rue Erasme, L-2082 Luxembourg, Grand Duchy of Luxembourg. The formal notice convening both the First General Meeting and the Second General Meeting is included with this letter.

Considering the items to be resolved on at the First General Meeting and Second General Meeting, and in addition to the condition subsequent (“*condition résolutoire*”) applicable in relation to the resolutions of the First General Meeting, the Management Company reserves the right not to proceed to the vote on items at the agenda of the First General Meeting if the quorum necessary to validly vote during the Second General Meeting, *i.e.* 50% of the shares of PEPR being present or represented, is not reached for the vote at the First General Meeting already.

A separate notice convening the Third General Meeting (to be held at 9.00 a.m. on October 16, 2009) will be sent to PEPR Investors immediately following the successful completion of the Second General Meeting (although PEPR Investors should note that, if they wish to do so, they may also use the Proxy Form attached to this letter as their proxy form for the Third General Meeting).

You will find below a summary of the resolutions to be taken at the First General Meeting, the Second General Meeting and the Third General Meeting.

(a) First General Meeting: Conversion of PEPR from an FCP to a SICAV

At the First General Meeting, PEPR Investors (then in their capacity as unitholders in an FCP) will, pursuant to both the current Management Regulations and to Article 132 (2) of the 2002 Law, be asked to resolve on the following items: (i) the conversion of PEPR from an FCP to a SICAV; (ii) the adoption of the new articles of incorporation of PEPR as a SICAV (attached to the convening notice and Proxy Form provided in connection with this letter); and (iii) the formal appointment of the members of the Management Board and the Supervisory Board Members and the statutory auditor, the determination of the end of the first financial year and registered office of the SICAV.

As noted above, the resolutions put to PEPR Investors at the First General Meeting will be conditional pending the resolutions put to PEPR Investors at the Second General Meeting also being duly passed.

The resolutions referred to above will require the approval of 67 per cent. of PEPR's units present or represented by proxy and having a right to vote at the First General Meeting. No quorum requirements apply to the First General Meeting.

(b) Second General Meeting: Conversion of PEPR from a SICAV to a SICAF-SCA

At the Second General Meeting, PEPR Investors (then in their capacity as shareholders in a SICAV) will, pursuant to both the articles of incorporation of the newly formed SICAV and to the 1915 Law, be asked to resolve on the following items: (i) the conversion of PEPR from a SICAV into a SICAF-SCA; (ii) the adoption of the new articles of incorporation of PEPR as a SICAF-SCA (the “**Articles of Incorporation**”), including the appointment of ProLogis Management S.à r.l., to be renamed ProLogis European, as general partner of PEPR as well as of the Supervisory Board Members; and (iii) the appointment of the statutory auditor, the determination of the end of the first financial year and registered office of the SICAF-SCA.

The resolutions referred to above will require the approval of a two-thirds majority of the votes validly cast, provided that PEPR Investors representing at least 50 per cent. of the SICAV shares are present or represented.

(c) Third General Meeting: Declaration of completion of the Conversion

At the Third General Meeting, PEPR Investors (then in their capacity as shareholders in an SICAF-SCA) will be asked to resolve on the declaration of the formal completion of the Conversion process.

The resolutions referred to above will require the approval of a two-thirds majority of the votes validly cast, provided that PEPR Investors representing at least 50 per cent. of the SICAF-SCA shares are present or represented.

PEPR Investors intending to exercise their vote at the First General Meeting and Second General Meeting by way of written proxy, rather than attending and voting in person, should complete and return the reply Proxy Form to the address set out thereon so as to arrive not less than 48 hours before the appointed time of the First General Meeting.

PEPR Investors are conveniently able to use the Proxy Form attached to this letter as their proxy form for the Third General Meeting.

4. Key consequences of the Conversion

The attention of PEPR Investors is drawn to the fact that the description of the key consequences of the Conversion for PEPR and PEPR Investors below is not exhaustive, and there may be other material consequences and/or risks that the Management Company does not consider to be material or of which the Management Company is not aware. PEPR Investors should therefore seek individual professional advice from their legal and/or tax adviser prior to making a decision to vote on the Conversion.

The Management Company also draws the attention of PEPR Investors to: (i) the risk factors set out in Annex B to this letter, which describe certain risks associated with the Conversion; and (ii) the risk factors set out in the Risk Factors Part of the Draft Information Memorandum accompanying this letter, which describe certain risks associated with the holding of shares in PEPR following the Conversion.

(a) Change of the legal nature of PEPR and Conversion mechanism

Upon the implementation of the Conversion, PEPR will cease to be an FCP governed by Part II of the 2002 Law and will, instead, be a SICAF-SCA, governed by Part II of the 2002 Law.

The legal nature of a SICAF-SCA is to be contrasted with the nature of the existing FCP structure of PEPR. In particular, an FCP is a contractual undertaking for collective investment and is not an entity having a separate legal personality. The assets of an FCP are held jointly by the members of the FCP in a contractual undivided co-ownership. The rights and obligations of the members of the FCP are also of a contractual nature and are set out in management regulations executed by the management company and the custodian bank of the FCP, and to which unitholders are deemed to have adhered as a result of their subscription for units in the FCP.

In contrast, a SICAF-SCA is a corporate vehicle and has a legal personality separate from that of its shareholders, and of its general partner. The rights and obligations of shareholders of a SICAF-SCA are of a corporate nature and are as set out in the articles of incorporation of the SICAF-SCA and the 1915 Law and are binding on shareholders as a result of their holding of shares in the SICAF-SCA.

As indicated above, the FCP qualifies as a co-ownership of assets between investors, the entitlements of which are represented by units issued by the FCP to such investors in relation to their contributions to the FCP. In managing the FCP, the management company acting in its name and on behalf of the FCP validly binds such co-ownership of assets in accordance with the 2002 Law and the management regulations of the FCP. Any contractual engagement entered into between the management company acting in its name and on behalf of the FCP (subject to compliance with the management regulations) and a contracting party is validly binding.

The Management Company believes that as a result of the Conversion of the FCP into the SICAV and subsequently into a SICAF-SCA in accordance with Article 132(2) of the 2002 Law and subsequently the 1915 Law, all assets and liabilities of the FCP are transferred to the SICAF-SCA, including any engagements and claims of the FCP towards any contracting parties. Therefore any contractual engagements validly binding on the FCP should be regarded as being continued by the SICAF-SCA by the effect of the Conversion.

The Management Company also believes that notwithstanding the Conversion process, the assets and liabilities of PEPR will remain unaffected by the Conversion (*i.e.* the assets and liabilities of PEPR prior to the Conversion will be the same as the assets and liabilities of PEPR following the Conversion) and, therefore, the change in legal form of PEPR should not have any direct impact on the underlying economic value of an interest in PEPR.

(b) Incorporation of PEPR as a SICAF-SCA, replacement of the Management Regulations by the Articles of Incorporation and rights of PEPR Investors

The SICAF-SCA structure is considered by the Management Company, following consultation with the PEPR Board, as the most appropriate legal form for PEPR to adopt in order to create the necessary conditions to allow PEPR to address its capital requirements while retaining the main features of PEPR following Conversion.

As a result of the Conversion, the Management Regulations governing the operations of PEPR as an FCP will be replaced with the Articles of Incorporation governing the operation of PEPR as a SICAF-SCA. The text of the proposed Articles of Incorporation of the SICAF-SCA are set out in full in Part XI of the Draft Information Memorandum and PEPR Investors are invited to carefully consider the terms of the proposed Articles of Incorporation in connection with voting on the Conversion. The Management Regulations are available for download and inspection at the following URL (www.prologis-ep.com/pepr/corporate/regulations) and can be obtained upon request, free of charge, at the registered office of the Management Company.

The legal and economic terms of the Management Regulations have, to the largest extent practicable, been replicated in the proposed Articles of Incorporation. However, as a result of the change of legal structure and choice of the SICAF-SCA vehicle, a number of amendments had to be made in order to comply with the applicable Luxembourg laws and regulations. Additional changes have also been made to improve the governance of PEPR.

Whilst PEPR Investors should review in full the proposed Articles of Incorporation set out in Part XI of the Draft Information Memorandum (and the summary of certain key terms of the Articles of Incorporation set out in Part VII—“Additional Information” of the Draft Information Memorandum), some important differences between the proposed Articles of Incorporation and the Management Regulations include the following:

- The Management Regulations currently require that substantially all of PEPR’s “Distributable Cash Flow” (as defined in the Management Regulations) be distributed quarterly, subject to any legal restrictions on distributions. Under the proposed Articles of Incorporation, distributions in relation to each fiscal year and the amount thereof will require the approval of a general meeting of PEPR’s shareholders. The Management Company, in its capacity as the General Partner and in accordance with Articles 72-2 and 72-3 of the 1915 Law, will decide the amount of Distributable Cash Flow to be distributed each quarter as interim dividends, but is

not required to distribute substantially all (or any) Distributable Cash Flow in any given year. In addition, PEPR's ability to make distributions will be subject to Luxembourg legal requirements applicable to a SICAF-SCA, which require that in no event shall any distributions be made which would result in (i) the net assets of PEPR falling below the minimum amount required under Luxembourg law, which as at the date of this letter is €1,250,000 or (ii) PEPR's total assets as set out in its annual accounts, at the closing date of the financial year being, or following such distribution, becoming less than one and a half times PEPR's total liabilities to creditors as set out in such annual accounts (it being understood that the General Partner may only decide to make interim distributions subject to the formalities set out in Article 72-2 of the Law of 1915). Notwithstanding these changes, the Management Company (in its capacity as general partner of the SICAF-SCA) intends to continue the existing distribution policy of PEPR where it is able to do so. The Management Company suspended dividend payments in December 2008, and (in its capacity as General Partner) does not contemplate paying dividends for the foreseeable future and intends to use distributable cash, instead, to pay down debt. The terms of PEPR's unsecured credit facilities, as amended in December 2008, prohibit cash distributions for so long as PEPR remains below certain financial thresholds.

- Currently, the Management Company may, in certain limited circumstances, amend the Management Regulations with the prior approval of the PEPR Board and the consent of the Custodian, but without the consent of PEPR Investors. In contrast, all amendments to the proposed Articles of Incorporation will require approval by PEPR's shareholders.
- The Management Regulations contain provisions restricting the voting rights that may be exercised by any single person that beneficially owns more than 9.9 per cent. of PEPR's outstanding units or any five or fewer persons that beneficially own more than 50 per cent. of PEPR's outstanding units. These restrictions will not be included in the proposed Articles of Incorporation and will therefore cease to apply following Conversion.
- Under the Management Regulations, the Management Company is entitled, with the consent of the PEPR Board (but without the consent of PEPR Investors), to issue new PEPR Units in each fiscal year up to 10 per cent. of the total economic value of issued Units at the start of the fiscal year. This entitlement does not expire, and the Management Company may, subject to certain restrictions, issue new classes or series of Units pursuant thereto. In contrast, under the proposed Articles of Incorporation, the Management Company, in its capacity as the General Partner, will be authorised, with the approval of the Supervisory Board (but without the consent of PEPR's shareholders): (i) to issue, in the period from September 30, 2009 until September 30, 2010, a number of additional Shares up to 300 per cent. of the number of Shares in issue as of September 30, 2009, subject to the total proceeds (including nominal value and share premium if any) received by PEPR from such issuance of Shares not exceeding in aggregate four hundred million euro (€400,000,000); and (ii) to issue during the fiscal year ending on December 31, 2010 and every fiscal year thereafter until December 31, 2013 (including the period from December 31, 2013 to September 30, 2014), a number of additional Shares equal to 10 per cent. of the number of Shares in issue as at the date on which the General Partner resolves to issue Shares pursuant to the Authorised Capital. After December 31, 2013 such authority may be renewed with the approval of shareholders, and may not be used to issue shares of a new class or series (which would require shareholder approval).
- PEPR may not currently offer Units at an issue price which is less than their NAV per Unit. After Conversion, PEPR will be able to issue shares at an issue price which may be less than their NAV per share, but if it did so, it is required to first offer those existing shareholders preferential subscription rights.
- As a result of Luxembourg legal requirements applicable to a SICAF-SCA, the majority voting thresholds and quorum requirements applicable to certain votes of PEPR Investors are different under the proposed Articles of Incorporation to those applicable under the Management Regulations.
- Under the Management Regulations, notice of meetings of PEPR Investors is required to be given not less than 21 days prior to the date of the meeting. The minimum notice period for general meetings under the proposed Articles of Incorporation is 14 days.
- The means by which the general partner of the SICAF-SCA can be removed for 'cause' has been amended to accommodate certain restrictions created by the SICAF-SCA structure—please see Section 4(c) below for details.

From a management perspective, the main difference between a SICAF incorporated as an SCA and other types of corporate forms is that the SCA is neither managed by a management company nor by a board of directors, but rather by one or more unlimited shareholders (*actionnaires commandités*), also referred to as the general partner(s), having an unlimited personal liability for all liabilities of the SICAF-SCA and designated by the articles of incorporation.

Accordingly, in order to replicate the current management structure of PEPR, it is proposed that the Management Company be appointed as general partner of the SICAF-SCA upon Conversion.

The Management Company and PEPR Board sought to ensure to the extent possible that the rights of PEPR Investors are not materially impacted by the Conversion in comparison to their rights as unitholders in PEPR as an FCP. However, as indicated above, as a result of the change of legal structure and choice of the SICAF-SCA vehicle, a number of amendments had to be made in order to comply with the applicable Luxembourg laws and regulations. Additional changes have also been made to improve the governance of PEPR as a SICAF-SCA.

The status of PEPR Investors as shareholders in a SICAF-SCA will generally confer upon them additional rights in comparison to their rights as unitholders in PEPR as an FCP, in particular, in relation to the election of the supervisory board members, the appointment of the independent auditor, the approval of financial accounts and the distribution of dividends.

(c) Change of the capacity in which the Management Company will manage PEPR and amended removal mechanism

As indicated above, the management of a SICAF-SCA is performed by a general partner acting in the name, and on behalf of the SICAF-SCA, in the exclusive interest of shareholders of the SICAF-SCA.

As noted above, the Management Company will continue to be the entity responsible for the management and operation of PEPR in its capacity as general partner of the SICAF-SCA. The role of a general partner of a SICAF-SCA is analogous to the role of a management company of an FCP and the standard of care applicable in relation thereto remains equivalent.

PEPR Investors should note, however, that certain structural changes have been made to the provisions applying to the removal of the general partner of PEPR in order to translate the commercial effect of the current provisions of the Management Regulations into the proposed Articles of Incorporation. In particular, under the Management Regulations, the removal of the Management Company for ‘cause’ can currently be achieved by a simple majority of PEPR ordinary units present or represented. However, such a voting threshold is not possible under a SICAF-SCA structure, as a general partner, the name of which will be included in the proposed Articles of Incorporation, may only be removed upon a vote of the general meeting of shareholders of the SICAF-SCA at the majority and quorum required to amend the Articles of Incorporation, *i.e.* approval of two-thirds of the shares of the SICAF-SCA represented at a general meeting with a 50 per cent. quorum. For the avoidance of doubt, a successor general partner may only be appointed by a general meeting of shareholders of PEPR at the majority and quorum required to amend the Articles of Incorporation as further set out in the Articles of Incorporation enclosed herewith.

Accordingly, as a result of the exercise of the call option, the general partner, which is obliged to own at least one share, can be removed for ‘cause’. Pursuant to the call option, the general partner will be required to sell to PEPR or its assignee (and PEPR or its assignee will be required to purchase) all shares held by the general partner in PEPR (which will have the effect of ensuring that the general partner is no longer a shareholder in the SICAF-SCA and therefore can no longer act as the general partner of PEPR) (the “**Call Option Mechanism**”). The Call Option Mechanism (which will be contained in a call option agreement between PEPR and the Management Company, as general partner of PEPR, to be signed on the date of Conversion) may be exercised at any time within 12 months of a ‘cause’ event occurring, upon a vote of 50 per cent. of all PEPR shares.

A more detailed description of the Call Option Mechanism, along with a full description of the rights, responsibilities and powers of the general partner, are set out in the Articles of Incorporation and in Part IV and VII of the Draft Information Memorandum.

(d) Replacement of the PEPR Board by the Supervisory Board

The PEPR Board will, on Conversion, be replaced by a Supervisory Board, which will perform a similar role to the current PEPR Board. Details of the initial members of the proposed Supervisory Board are set out in Part IV of the Draft Information Memorandum accompanying this letter.

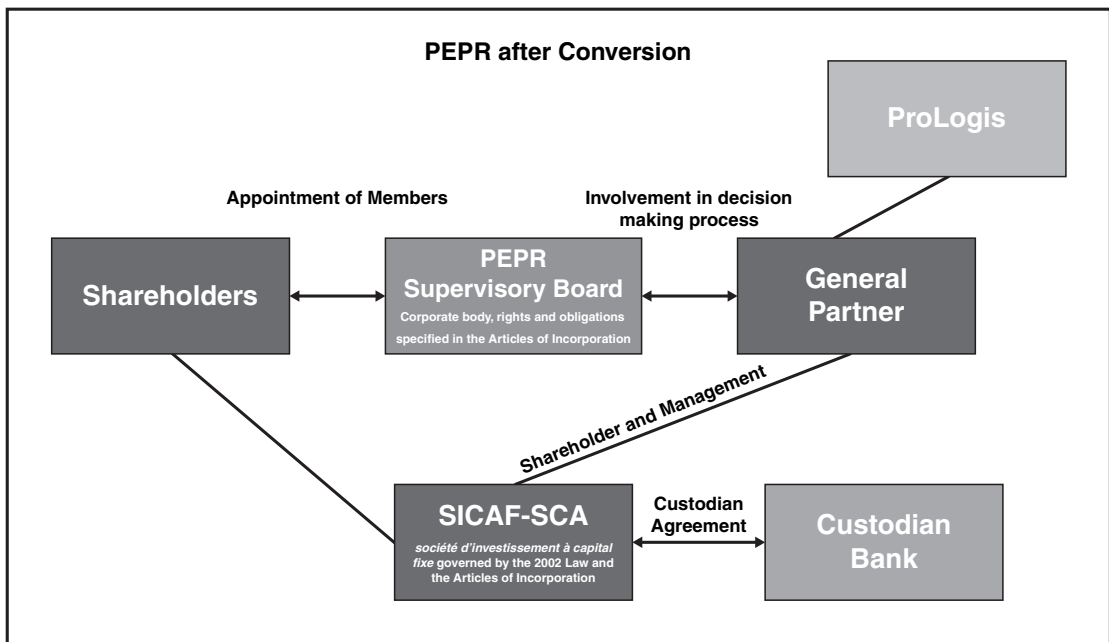
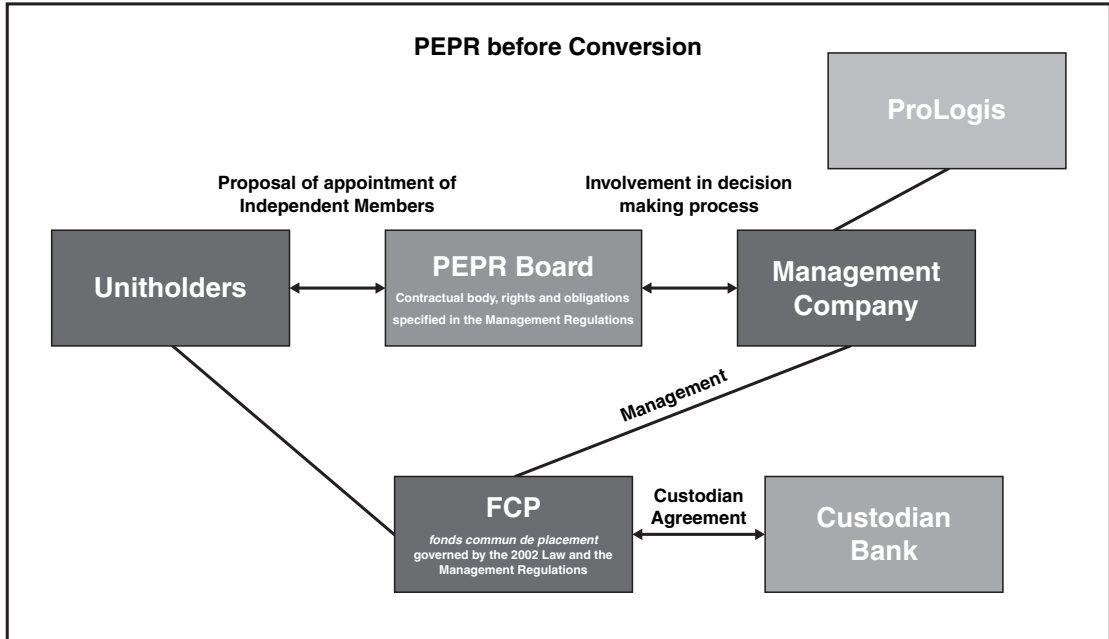
To the extent possible, the role and the powers of the Supervisory Board mirror those of the PEPR Board. However, as indicated above, as a result of the change of legal structure and choice of a SICAF-SCA vehicle to structure PEPR, a number of amendments have been made to align the corporate governance of PEPR as a SICAF-SCA with common market practice, or in order to comply with the applicable Luxembourg laws and regulations.

In particular, whilst PEPR Investors should review the description of the role and powers of the Supervisory Board set out in Article 4 of the proposed Articles of Incorporation (which are set out in Part XI—“Articles of Incorporation of PEPR” and summarised in Part IV—“Management of PEPR” of the Draft Information Memorandum), PEPR Investors should be aware of the following key differences between the current PEPR Board and the proposed Supervisory Board:

- Certain matters in respect of which the PEPR Board currently has a veto right will, instead, require prior approval by a vote of shareholders of the SICAF-SCA at a general meeting. These matters include amendments to the Articles of Incorporation, the appointment of auditors, certain share issuances above the authorised capital (as such term is defined in the Articles of Incorporation), changes to calculation of net asset value and a decision to wind up PEPR. The Supervisory Board will, however, have the right to be consulted on those matters.
- Certain approval rights currently requiring approval by four members of the entire PEPR Board will, following Conversion, instead be exercised by a simple majority decision of independent Supervisory Board members.
- Currently, the Management Company is able to appoint the ProLogis PEPR Board members at its discretion whilst successor independent PEPR Board members are appointed by a nomination committee composed of two independent PEPR Board members and one ProLogis PEPR Board member. After the Conversion, all Supervisory Board members other than the initial Supervisory Board members (including ProLogis-nominated members) will be appointed by a general meeting of shareholders. In particular, successor ProLogis Board members will be appointed by a general meeting from a list of nominees chosen by ProLogis-related shareholders. Candidates for election as successor independent Supervisory Board members will be chosen by a nomination committee comprising the independent Supervisory Board members only (although shareholders with 10 per cent. or more of PEPR shares can also nominate alternative candidates), and appointed by the general meeting.
- Currently, the PEPR Board has no right to unilaterally call a general meeting and has only limited rights to table resolutions at such meetings. In contrast, the Supervisory Board will have the right to convene a general meeting of PEPR’s shareholders at any time and will be able to table any item of business at a general meeting.
- The PEPR Board currently has limited rights to require the Management Company to take certain actions at the initiative of the PEPR Board, including the termination of the investment management agreement for cause. The Supervisory Board will not be able to direct the Management Company, in its capacity as general partner, to take actions. The Supervisory Board will, however, be granted certain veto rights.
- The proposed Articles of Incorporation give the Supervisory Board an additional veto right over any decision of the Management Company, in its capacity as General Partner, to distribute disposal proceeds in respect of the sale of an asset if such proceeds exceed more than 5 per cent. of PEPR’s gross asset value over a rolling six-month period.

(e) **Diagrams of PEPR before and after Conversion**

You will find below for information purposes diagrams illustrating the high-level structure of PEPR before and after Conversion.



(f) Effect on the securities held by PEPR Investors

As discussed above, all Ordinary Units currently in issue by PEPR under the FCP structure will, upon Conversion, be converted into ordinary shares in the newly formed SICAV and subsequently the SICAF-SCA without the need of any action on the part of PEPR Investors (other than the approval of the Conversion). Accordingly, following the Conversion, PEPR investors will be shareholders in a corporate vehicle (the SICAV, then the SICAF-SCA) rather than unitholders of a contractual vehicle (the FCP).

In particular, each Ordinary Unit in PEPR will become one Ordinary Share in the newly formed SICAF-SCA. Subject to the differences referred to above in relation to the rights of the general meeting of shareholders in a SICAF-SCA as well as the differences between the Management Regulations and the proposed Articles of Incorporation, the rights and entitlements attaching to the Ordinary Shares of PEPR following Conversion will be identical to the rights and entitlements attaching to the current PEPR Ordinary Units. In particular, the Ordinary Shares of PEPR following Conversion will remain listed on the regulated market of the Luxembourg Stock Exchange and listed and traded on Euronext Amsterdam and transferable on the same terms as currently applying to the Ordinary Units.

PEPR Investors registered directly in the unitholders register of PEPR will, as a result of the Conversion of PEPR and the conversion of its Units into SICAF-SCA Shares, be registered in the shareholders register of the SICAF-SCA.

The Ordinary Units are deposited with Euroclear Nederland and certain PEPR Investors hold their interests in the PEPR Ordinary Units through the accounts with institutions admitted to Euroclear Nederland. Euroclear Nederland and the admitted institutions operate the Dutch book-entry transfer system. As a result of the Conversion, the Ordinary Units registered on the accounts of the institutions admitted to Euroclear will convert into SICAF-SCA Shares.

(g) Tax consequences of the Conversion

PEPR is currently a tax-exempt vehicle for direct Luxembourg tax purposes. The SICAV and SICAF-SCA are fund vehicles which are also tax-exempt in Luxembourg. Therefore the conversions should have no impact for Luxembourg direct tax purposes within PEPR.

Please see Annex C for a more detailed description of the taxation consequences associated with the Conversion.

5. Increase of authorised capital and possible future equity raise

As noted above, one of the key drivers of the proposed Conversion is to give PEPR the flexibility in the future to conduct an equity raise at a price below NAV per Unit. Accordingly, it is anticipated that, subject to market conditions, PEPR may wish to carry out an equity raise at an appropriate time following Conversion to raise the additional capital required to address its medium-term capital requirements.

As described in Section 4(b) above, in order to facilitate any such an equity raising, it is proposed as part of the Conversion process that the Management Company of PEPR (then as the general partner of the SICAF-SCA) will be authorised, with the approval of the Supervisory Board (but without the consent of PEPR's shareholders): (i) to issue, in the period from September 30, 2009 until September 30, 2010, a number of additional Shares up to 300 per cent. of the number of Shares in issue as of September 30, 2009, subject to the total proceeds (including nominal value and share premium) received by PEPR from such issuance of Shares not exceeding in aggregate four hundred million euro (€400,000,000); and (ii) to issue during the fiscal year ending on December 31, 2010 and every fiscal year thereafter until December 31, 2013 (including the period from December 31, 2013 to September 30, 2014), a number of additional Shares equal to 10 per cent. of the number of Shares in issue as at the date on which the General Partner resolve to issue Shares pursuant to the Authorised Capital. After December 31, 2013 such authority may be renewed with the approval of shareholders, and may not be used to issue shares of a new class or series (which would require shareholder approval).

This will enable the Management Company of PEPR (then as the general partner of the SICAF-SCA) to determine, with the consent of the PEPR Supervisory Board, the appropriate terms on which any equity raise is to take place (including the timing, amount and pricing of any such equity raise).

Details of any such equity raise will be communicated to PEPR Investors in an offering document (in the form of a prospectus) at such time as the Management Company (then as the general partner of the SICAF-SCA) considers market conditions suitable for the offering to take place.

This letter does not constitute an offer to sell or the solicitation of an offer to buy any of the securities referred to herein. The Ordinary Shares offered pursuant to any such equity raise will not be registered under the US Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. This letter shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the PEPR Ordinary Shares in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Offers and sales of the securities referred to herein will only be made in the United States to persons who are either an “accredited investor” within the meaning of Regulation D under the US Securities Act and/or a “qualified institutional buyer” within the meaning of Rule 144A under the US Securities Act.

In connection with US securities laws, unitholders are informed that they will need to confirm whether they are located in the US or not. If unitholders are located or resident in the US, they will be required to confirm (1) that they are “accredited investors” (within the meaning of Regulation D under the US Securities Act) and/or “qualified institutional buyers” within the meaning of Rule 144A under the US Securities Act) and (2) that the statements in Annex D to this unitholder letter are true. These confirmations will be made (or deemed to be made), by checking the applicable box and signing at the end of the enclosed Proxy Form. Failure to check the applicable box or to meet the foregoing criteria could result in your vote on the Conversion not being counted.

6. Review of documents

You are invited to carefully review this letter, the Draft Information Memorandum, (which includes the proposed Articles of Incorporation of PEPR as a SICAF-SCA), the convening notice and other information enclosed with this letter. Also enclosed are the draft articles of incorporation of PEPR as a SICAV (which will only be applicable for the time period between the adoption of the resolutions put to the First General Meeting and the Second General Meeting). If you have any doubt about such information and/or the action to be taken, you are recommended to immediately seek your own personal financial advice from an appropriately qualified independent adviser.

In addition, copies of the documents below are available upon request addressed to the Management Company or available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) at the registered office of the Management Company up to and including the close of business on September 29, 2009:

- the audited report and accounts of PEPR for the financial year ended December 31, 2007;
- the audited report and accounts of PEPR for the financial year ended December 31, 2008;
- the unaudited accounts of PEPR as at June 30, 2009;
- the current prospectus of PEPR, including the Management Regulations; and
- this letter.

The above documents are also available for review at the following URL (www.prologis-ep.com).

7. Action to be taken by PEPR Investors

As noted above, PEPR Investors are invited to attend both the First General Meeting and the Second General Meeting to be held on September 30, 2009 at 9:00 am and 9:30 am respectively at the offices of Arendt & Medernach located 14, rue Erasme, L-2082 Luxembourg, Grand Duchy of Luxembourg to consider and, if thought fit, pass the necessary resolutions required to implement the Conversion. In addition PEPR Investors are also invited to attend the Third General Meeting to be held on October 16, 2009 at 9:00 am at the offices of Arendt & Medernach located 14, rue Erasme, L-2082 Luxembourg, Grand Duchy of Luxembourg to consider the necessary resolutions to declare the

Conversion completed. Please see Section 3 “The General Meetings” above for details of those resolutions.

PEPR Investors are invited to attend the general meetings, or to complete and return the reply Proxy Form for the general meetings to the address set out thereon so as to arrive not less than 48 hours before the appointed time of the First General Meeting. Completion and return of the Proxy Form will not prevent PEPR Investors entitled to attend and vote at the general meetings from attending and voting in person should they wish to do so.

PEPR Investors are conveniently able to use the Proxy Form attached to this letter as their proxy form for the Third General Meeting.

(When completing the Proxy Form, attention is directed to the information and requirements described at the end of Section 5 above and towards the end of the Proxy Form in relation to certain confirmations made (or deemed to be made) by persons returning Proxy Forms are as to whether they are located or resident in the United States or not.)

8. Management Company’s recommendation

The PEPR Board and the Management Company considers the proposed Conversion of PEPR to be in the best interests of PEPR Investors considered as a whole.

Accordingly, the Management Company recommends that PEPR Investors support the Conversion by voting in favour of the resolutions proposed at the general meetings convened pursuant to the notice enclosed with this letter.

Yours faithfully

Peter Cassells
Manager of the Management Company

ANNEX A
EXPECTED TIMETABLE

Deadline for receipt of Proxy Form	9:00 am on 28 September 2009
First General Meeting to pass a resolution to convert PEPR from an FCP to a SICAV	9:00 am on 30 September 2009
Second General Meeting to pass a resolution to convert PEPR from a SICAV to a SICAF-SCA	30 September 2009 (immediately following the conclusion of the First General Meeting)
Announcement of results of First General Meeting and Second General Meeting	30 September 2009
Implementation of the Conversion	30 September 2009
Third General Meeting to pass a resolution to declare the Conversion completed.	9:00 am on 16 October 2009

References to times in this document are to times in Luxembourg, unless otherwise stated. The above times and/or dates may be subject to change and, in the event of such change, the revised times and/or dates will be notified to PEPR Investors.

ANNEX B
RISK FACTORS

PEPR Investors should read the following risk factors before making a decision on how to vote in respect of the Conversion. If PEPR Investors are in any doubt as to the content of this document, in particular this Annex B, or as to what action to take, they should immediately seek their own personal advice from an appropriately qualified independent adviser.

The implementation (or non-implementation) of the Conversion carries a degree of risk including the risks referred to below. You should carefully review and evaluate the risks and the other information contained in this document before making a decision in relation to the Conversion. The risks referred to below relate to the Conversion and do not purport to be exhaustive. PEPR Investors should review this letter carefully and in its entirety and consult with their professional advisers before making a decision in relation to the Conversion. There may be additional risks that the Management Company does not consider to be material or of which the Management Company is not aware.

The Management Company also draws your attention to the risk factors set out in the “Risk Factors” in the Draft Information Memorandum accompanying this letter which describe the risks associated with a holding of Ordinary Shares in PEPR following the Conversion.

1. Risk relating to the Conversion

The 2002 Law does not expressly provide for a direct conversion mechanism to convert an FCP, such as PEPR, into a SICAF-SCA. PEPR will therefore be first converted into a SICAV in the form of a public limited company (*société anonyme*), subject to the condition subsequent of the conversion of PEPR into a SICAF-SCA in the form of a limited partnership by shares (*société en commandite par actions*), each as permitted by the terms of the 2002 Law. However, because the conversion from an FCP to a SICAV and the conversion from a SICAV to a SICAF-SCA will occur on the same day, there is a possibility that, notwithstanding that the Third General Meeting will be held, certain corporate formalities will not have been strictly complied with. Accordingly, if a person challenging the Conversion can demonstrate that, had those formalities been complied with, the outcome of the votes on the Conversion would have changed, then the Conversion might be retroactively unwound. Even though the Management Company believes that it is highly unlikely that a shareholder in the SICAF-SCA could successfully challenge the Conversion, should such a challenge ultimately be successful, the convening of the Second General Meeting and the resolution taken during the Second General Meeting on that basis, if this result were to occur, PEPR would convert back from a SICAF-SCA to an FCP and the Ordinary Shares of PEPR as a SICAF-SCA would convert back into units of PEPR as an FCP. In such a case, the purposes sought to be achieved by the Conversion would not be realized which may have a material adverse impact on the prospects of PEPR.

2. Risk of Conversion not being approved

The Management Company has proposed the Conversion as a means of providing PEPR with the ability to raise new equity at a price below the NAV per Unit, something that PEPR’s current structure as an FCP materially restricts its ability to do.

Whilst the Management Company is actively pursuing a number of other steps to reduce PEPR’s working capital requirements and to generate the future working capital required, there can be no assurance that such steps will be successful to enable PEPR to meet its working capital requirements through December 2010. Accordingly, failure by PEPR Investors to approve the Conversion to a SICAF-SCA would materially increase the risk that PEPR would not be able to meet those future requirements.

A failure by PEPR to obtain the amount of working capital required could result in defaults under the instruments governing PEPR’s indebtedness, which could have a material adverse effect on PEPR’s business since PEPR would risk: (i) in the case of secured debt obligations, the loss of some or all of its pledged assets to foreclosure or sale to satisfy those debt obligations; and (ii) in the case of unsecured debt obligations, being placed into administration or another similar insolvency procedures. In addition, a default under one debt instrument may give rise to cross-defaults of instruments governing other indebtedness of PEPR.

3. PEPR may be restricted from continuing to utilise part of its €900 million senior unsecured credit facility following Conversion

The terms of PEPR's €900 million senior unsecured credit facility currently contain a representation and warranty given by PEPR relating to its due authorisation and organisation as an FCP.

Given that this representation and warranty will not remain accurate following Conversion, a technical breach of that representation and warranty will occur should the representation and warranty be deemed to be repeated at any time following Conversion. As such a repetition of the representation and warranty will occur at any time that there is a credit extension or borrowing (but not a continuation thereof) under the facility, there is a risk that any continued use of the revolving part of the facility following Conversion will result in a technical breach of the facility terms.

Accordingly, in order to avoid any such breach, the Management Company is currently in negotiations with the lenders under the facility to make the necessary amendments to the facility to reflect the expected legal structure of PEPR post Conversion.

Whilst the Management Company is confident that those amendments will be in place prior to Conversion, there can be no assurance that this will be the case. To the extent that the necessary amendments cannot be agreed with the lenders, the Management Company will, following Conversion, be unable to draw on the revolving part of the facility, thereby putting further stress on PEPR's current working capital position (as described more fully in the accompanying Draft Information Memorandum).

4. No assurance that additional equity will be raised

As noted above, the Management Company has proposed the Conversion as a means of providing PEPR with the ability to raise new equity in order to address its medium to long term working capital requirements. However, no assurance can be given that market conditions will allow PEPR to raise new equity at all or, if new equity is raised, that such equity will be able to be obtained at a time, and on terms, which are satisfactory to PEPR.

5. PEPR shares may be illiquid following Conversion

PEPR Units currently have limited liquidity in the market and the Management Company does not know the extent to which the Conversion into a SICAF-SCA 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. If an active and liquid trading market does not develop or is not sustained, PEPR Investors may have difficulty selling their Ordinary Shares.

6. Issuance of SICAF-SCA shares at a price below net asset value per share could dilute the interests of existing PEPR Investors

As set out in detail in the "Risk Factors—Future issuances of Ordinary Shares could dilute the interests of existing Shareholders" Part of the Draft Information Memorandum, PEPR Investors should note that, as the SICAF-SCA structure permits the issue of interests at a price below net asset value per share, any issue of SICAF-SCA shares to third parties may result in each PEPR Investor's holding of SICAF-SCA shares being diluted: (i) in terms of net asset value per share if such shares are issued at a price lower than the net asset value per share of the Ordinary Shares, and (ii) in ownership terms.

7. SICAF-SCA shareholders' rights will be limited in several important ways

The nature and extent of the rights of shareholders of PEPR as a SICAF-SCA will be as set out in the proposed Articles of Incorporation for PEPR, which are set out in full in Part XI—"Articles of Incorporation of PEPR" of the Draft Information Memorandum.

The governance rights attached to the Ordinary Shares in PEPR following Conversion will be different from rights that typically attach to ordinary shares in a company. In particular, the governance rights in PEPR following Conversion will be limited in several important ways, including the following:

- the General Partner will have the exclusive right to manage PEPR;

- the Articles of Incorporation will limit when the general partner can be replaced;
- ordinary shareholders (including ProLogis and ProLogis Related Parties (as defined in the Articles of Incorporation)) will have the right to elect four independent Supervisory Board members (other than the initial independent Supervisory Board members) from a list of candidates proposed by a nomination committee (subject to certain rights of shareholders to nominate alternative candidates, as described in the proposed Articles of Incorporation), and the two ProLogis Supervisory Board members (other than the initial ProLogis Supervisory Board members) from a list of candidates proposed by ProLogis;
- although the Independent Supervisory Board members will represent a majority of the Supervisory Board, the Supervisory Board has limited rights with respect to the management and governance of PEPR other than the right to approve or be consulted with respect to certain management decisions.

Accordingly, PEPR Investors should be aware that, following Conversion, they will be entrusting substantially all aspects of the administration and management of PEPR to the general partner. See Part IV—“Management of PEPR” of the Draft Information Memorandum for information of the management and governance of PEPR following Conversion.

Further, PEPR Investors should be aware that, as set out in Section 4 of this letter, the rights of the Ordinary Shares in PEPR following Conversion will differ from those rights currently pertaining to the Ordinary Units in PEPR.

8. Taxation risks

Please see Annex C for a description of the material taxation risks associated with the Conversion.

ANNEX C
TAXATION

The following is based on the Management Company's understanding of, and advice received on, certain aspects of the law and practice currently in force in the relevant jurisdictions. It does not purport to be a complete analysis of all possible tax situations that may be relevant to investors in PEPR. This summary does not allow any conclusions to be drawn with respect to issues not specifically addressed. The following description of tax laws in the relevant jurisdictions is based upon the law and regulations as in effect in the relevant jurisdictions and as interpreted by the relevant tax authorities on the date of this letter and is subject to any amendments in law (or in interpretation) later introduced, whether or not on a retroactive basis. Investors should consult their professional advisers on the possible tax and other consequences of the Conversion under the laws of their country of incorporation, establishment, citizenship, residence or domicile.

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1. GENERAL

The comments below are of a general and non-exhaustive nature based on the Management Company's understanding of the current fiscal law and practice applying in Luxembourg, The Netherlands, Germany, Singapore, the UK and the U.S., each of which is subject to change. The following summary does not therefore constitute legal or tax advice.

An investment in PEPR involves a number of complex tax considerations. Changes in law, regulations or interpretations by the courts or tax authorities in any of the countries in which PEPR will have investments or in Luxembourg (or in any other country in which a subsidiary of PEPR is located), or changes in tax treaties negotiated by those countries, could adversely affect the returns to PEPR Investors on their investment in PEPR.

The analysis assumes that all PEPR Investors hold, and will continue to hold their interest in PEPR on investment account. However the analysis does not address the full tax consequences of the Conversion for PEPR Investors. In addition, the tax consequences of the Conversion may differ between investors on a case by case basis depending on the specific tax status of each PEPR Investor. Therefore PEPR Investors should consult their professional advisers on the potential tax consequences for them of the Conversion.

Definitions

FCP	A ‘ <i>Fonds Commun de Placement</i> ’
SICAV	A ‘ <i>Société d’investissement à capital variable</i> ’
SICAF	A ‘ <i>Société d’investissement à capital fixe</i> ’
SA	A ‘ <i>Société anonyme</i> ’
SCA	A ‘ <i>Société en commandite par actions</i> ’
PEPR	The ProLogis European Properties
PEPR Investors	unitholders in PEPR pre-Conversion, and shareholders in PEPR post-Conversion
SuperHoldCo	The Luxembourg tax resident S.à rl. wholly owned by PEPR
SuperHoldCo Shares	Shares in SuperHoldCo
Loan Notes	The loans advanced by PEPR to SuperHoldCo
Third Party Debt	The debt owed by PEPR to third parties
Internal Debt	The debt owed by PEPR to direct and indirect subsidiaries
FCP Liabilities	The third party debt, the internal debt and other miscellaneous liabilities of the PEPR FCP
Underlying Assets	The Shares, the Loan Notes, other miscellaneous assets and the FCP Liabilities
Conversion	The two-stage conversion of PEPR from an FCP into a SICAF as set out below and in Section 2 of the main body of this letter
Step 1	The first stage of ‘the Conversion’ being the conversion of PEPR from an FCP into a SICAV
Step 2	The second stage of ‘the Conversion’ being the conversion of PEPR from a SICAV into a SICAF

Current structure

On a non-consolidated basis, PEPR holds the following assets and liabilities:

Assets:

- (i) the SuperHoldCo Shares
- (ii) the Loan Notes
- (iii) other miscellaneous assets

Liabilities:

- (iv) the Third Party Debt
- (v) the Internal Debt
- (vi) other miscellaneous liabilities

The Conversion

It is proposed that the Conversion will involve a “two-step” process: Step 1, whereby PEPR is transformed from an FCP into a SICAV in the form of a limited company (SA) and, immediately afterwards, Step 2 being the conversion of the SICAV into a SICAF in the form of a partnership limited by shares (SCA).

Step 1–FCP conversion to SICAV

From a Luxembourg legal perspective, this involves the conversion of PEPR from an FCP to a SICAV as expressly envisaged under Luxembourg law. The General Partner understands that such a conversion is considered to be a transformation of a Luxembourg FCP into a Luxembourg SICAV which should not result in a liquidation of the FCP, as Luxembourg law intends that the transformation occurs within a

framework of continuity (i.e. without a liquidation). However, strictly speaking this is the transformation of an entity without legal personality into an entity with legal personality. The FCP will cease to exist as a result of this transformation and units in the FCP will be extinguished.

Step 2–SICAV conversion to SICAF

The General Partner understands that this is the conversion of the newly-incorporated SICAV, in the form of an SA, being a company limited by shares, to the status of a SICAF, in the form of an SCA being a partnership limited by shares. The conversion of the SICAV into a SICAF will take place immediately after the conversion of PEPR from an FCP into the SICAV. Both conversions will be executed in one single notarial deed and the transformation of the FCP into the SICAV will be conditional on the subsequent successful transformation of the SICAV into SICAF.

Please refer to Section 2 (‘Summary of the Conversion Process’) of the main body of this Letter for the detailed legal and regulatory description of the process of Conversion of PEPR from an FCP to a SICAF.

2. TAX IMPACT WITHIN PEPR

Luxembourg direct tax

Upon conversion from an FCP to a SICAF, an initial capital duty of €1,250 will be due.

PEPR, regardless of its legal form as an FCP, SICAV or SICAF, is subject to an annual subscription tax in Luxembourg of 0.05 per cent. per annum of the net assets attributable to any units/shares which may be in issue at the time of the calculation of the subscription tax. Such annual subscription tax is payable by PEPR quarterly on the basis of the value of the aggregate net assets of units/shares as of the end of the preceding calendar quarter. The conversion from an FCP to a SICAV and then to a SICAF should have no material impact on the calculation or quantum of any subscription tax payable.

With the exception of the subscription tax noted above, PEPR is currently a tax-exempt vehicle for direct Luxembourg tax purposes. The SICAV and SICAF are fund vehicles which are also tax-exempt in Luxembourg. Therefore the conversions should have no impact for Luxembourg direct tax purposes within PEPR.

VAT status

The VAT treatment of the SICAV is not considered relevant as PEPR will exist in this form only momentarily before its conversion to a SICAF.

The conversion to a SICAF should not result in any material differences to the VAT treatment of VAT incurred on third party fees incurred by PEPR, or on the VAT treatment of management fees paid to the Management Company/General Partner, as compared to the current VAT treatment of PEPR as an FCP.

Broadly this means that PEPR should continue:

- (i) to incur no irrecoverable VAT cost in relation to the management fees paid to the Management Company/General Partner (provided that the nature of the Management Regulations and the services rendered fall within the VAT exemption according to article 44§1.d LTVA which the Management Company/General Partner expects to be the case); and
- (ii) to incur a net irrecoverable VAT cost on certain third party fees incurred by it.

There will be some consequent changes to PEPR’s VAT compliance and filing obligations but these are considered to be purely administrative.

3. COUNCIL DIRECTIVE 2003/48/EC OF 3 JUNE 2003 ON TAXATION OF SAVINGS INCOME IN THE FORM OF INTEREST PAYMENTS (“EU SAVINGS DIRECTIVE” OR “EUSD”)

Summary

If PEPR, constituted as an FCP, is recognised as being within the scope of the EU Savings Directive, the exchange of units in the FCP for shares in the SICAV may fall within the scope of the EU Savings Directive. If the exchange of units in the FCP for shares in the SICAV is effected via a “Paying Agent” in a jurisdiction that applies withholding tax for EUSD purposes, investors in the FCP (i.e. individual EU residents or certain other entities) who are resident in a different country than the Paying Agent may be

subject to withholding tax of 20 per cent. on any gain (or any interest income included within any such gain) realised as a result of the conversion to a SICAV.

Background

Under EC Council Directive 2003/48/EC on the taxation of savings income (“the EU Savings Directive”), Member States are required to provide the tax authorities of another Member State with details of Interest payments (which could include gains realised on the Conversion) made by a Paying Agent within their jurisdiction to (i) an individual with a Permanent Address in that other Member State (“Beneficial Owners”), or (ii) certain other entities established in that other Member State (“Residual Entities”). However, for a transitional period, Luxembourg and Austria have chosen to operate a withholding system in relation to such payments (unless during that period they elect otherwise). Belgium also chose to operate a withholding system, although it has elected to abandon the withholding system as from 1 January 2010. In each jurisdiction the end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.

A number of non-EU countries (“Third Countries”) and territories (“Dependent and Associated territories”) have adopted similar measures. EU-based Paying Agents are also obliged to operate a withholding system or an exchange of information system with regards to payments of Interest to individuals with a permanent address in certain Dependent and Associated Territories, and payments of Interest to Residual Entities in those Dependent and Associated Territories.

The current rate of the withholding tax under the EU Savings Directive is 20 per cent.

In those jurisdictions operating a withholding system, Paying Agents are required to propose to Beneficial Owners an alternative procedure to such withholding. Under the Directive, two alternative procedures are provided for: (i) exchange of information and (ii) the tax certificate procedure. Jurisdictions operating a withholding system can choose to allow one or both alternative procedures.

Any withholding tax applied under the EU Savings Directive (or under any other agreements concluded with the Third Countries and Dependent and Associated Territories) should in principle be creditable or deductible (any excess being refundable) in the hands of Beneficial Owners and Residual Entities who suffered such withholding tax.

On 13 November 2008 the European Commission published proposed amendments to the EU Savings Directive, which, if implemented, would broaden the scope of the requirements described above. In any event PEPR Investors should consult their professional advisors as to their position.

Please note that for the purposes of this section, the terms “Residual Entity”, “Paying Agent”, “Interest”, “Transitional Period” and “Beneficial Owner” have the meaning included within the EU Savings Directive and guidelines as implemented in the relevant jurisdictions.

4. LUXEMBOURG

The following general summary assumes that the “Luxembourg PEPR Investor” is a Luxembourg limited liability company fully taxable in Luxembourg.

Step 1

Luxembourg tax resident corporate investors

PEPR is currently constituted as a Luxembourg FCP which is a tax transparent entity for Luxembourg tax purposes. Luxembourg PEPR Investors are deemed to invest directly in the Underlying Assets.

A SICAV is opaque for Luxembourg tax purposes and therefore Luxembourg PEPR Investors are considered to hold the shares in a SICAV rather than investing directly in the Underlying Assets held by it.

From a Luxembourg tax perspective, the conversion from an FCP into a SICAV should be treated as a taxable event for Luxembourg PEPR Investors. As such Luxembourg PEPR Investors should be considered to have contributed their direct interest in the Underlying Assets of the FCP (at market value) to the SICAV in return for shares in the SICAV.

Any capital gain/loss arising to Luxembourg PEPR Investors from the contribution of the Underlying Assets would either be a capital gain/loss on the SuperHoldCo Shares or a capital gain/loss (including foreign exchange differences) on the other Underlying Assets.

Luxembourg PEPR Investors will be taxable, at the global Luxembourg corporate income tax rate, which is currently 28.59 per cent. (inclusive of Luxembourg Corporate Income Tax and Municipal Business Tax for Luxembourg City), on their share of the income and gains arising on the contribution at their current market value of the Underlying Assets. Any losses arising should be tax deductible against other income and gains of the Luxembourg PEPR Investors. Certain tax exemptions may apply for Luxembourg PEPR Investors depending on individual circumstances.

Non-Luxembourg tax resident unitholders

Foreign PEPR Investors (i.e. non-Luxembourg tax residents, which do not hold their units in PEPR through a permanent establishment or a permanent representative in Luxembourg) will only be taxable in Luxembourg on their share of any gains arising on the contribution of the SuperHoldCo Shares if the following conditions apply:

- (i) The relevant tax treaty between Luxembourg and the jurisdiction in which the foreign PEPR Investor is resident does not allocate exclusive taxation rights to the jurisdiction in which the foreign PEPR Investor is resident; and
- (ii) The foreign PEPR Investor holds a substantial holding in SuperHoldCo's Share Capital (i.e. the foreign PEPR Investor, together with any spouse and children, has held, directly or indirectly, at any time during a period of five years prior to the sale more than 10 per cent. of SuperHoldCo's Share Capital); and

either

- (a) The foreign PEPR Investor has held those SuperHoldCo Shares for less than six months; or
- (b) The foreign PEPR Investor is an individual who was tax resident in Luxembourg for more than fifteen years prior to the disposal and became non-Luxembourg tax resident less than 5 years before the disposal.

Step 2

Under Luxembourg law, the SICAV, and the SICAF into which it is converted, are considered to be the same legal entity but simply constituted in a different legal form. Article 22bis of the Luxembourg Income Tax Law should apply to Luxembourg PEPR Investors such that the transformation of legal form does not crystallise any gains in relation to their shares in the SICAV.

In any event, as the conversion from the SICAV to the SICAF is effected immediately after the conversion of the FCP into a SICAV, no additional gain or income should be realised on the conversion from a SICAV to a SICAF.

5. UK

Introduction

For the purposes of these comments, "UK PEPR Investors" are defined as ordinary UK companies subject to UK corporation tax, specifically excluding UK life insurance companies.

According to guidance issued by HMRC in their manuals (INTM180030), Luxembourg FCPs, such as PEPR, are generally treated as transparent vehicles for UK tax purposes. As a result, UK PEPR Investors holding units in PEPR are treated, for UK tax purposes, as holding directly the Underlying Assets held by PEPR.

However, under FA 2009 Sch 22 para 15 (which received Royal Assent on 21 July 2009), UK corporate taxpayers may (subject to PEPR meeting the definition of an "offshore fund" in accordance with section 40A of the Finance Act 2008) elect to treat certain foreign tax transparent vehicles such as certain Luxembourg FCPs as companies for UK tax purposes. Such an election (a "Para 15 Election") may be made with retrospective effect from 1 April 2003. UK PEPR Investors should seek their own tax advice in respect of whether a Para 15 Election can be validly made in respect of their investment in PEPR and the tax consequences of making such an election. Where a Para 15 Election is made, and is effective prior to the Conversion, a summary of the UK tax treatment of the Conversion is set out in section I below.

For those UK PEPR Investors who do not make a Para 15 Election to treat the FCP as a company, a summary of the UK tax treatment of the Conversion is set out in section II.

I—UK tax treatment of the Conversion when the UK PEPR Investor has made a Para 15 Election to treat the FCP as a company

Where the UK PEPR Investor makes a Para 15 Election with effect from a date prior to the Conversion, at the time of the Conversion the FCP will be treated as a company for UK corporation tax purposes and the units held by the UK PEPR Investors in the FCP will be treated as if they were shares in a company. Therefore, for the purposes of this Letter, any reference to “shares in the FCP” should be viewed as the interest in the FCP held by the UK PEPR Investors where a Para 15 Election has been made.

(i) Step 1—Conversion of the FCP into a SICAV-SA

According to HMRC guidance in their tax manuals (INTM180030), a Luxembourg SA is viewed as a tax opaque entity and should be treated as a company for UK tax purposes. As a result of Step 1, the UK PEPR Investors will cease to hold shares in the FCP and instead will hold only shares in the SICAV-SA.

The conversion of the FCP into a SICAV-SA should be treated as a scheme of reconstruction under the provisions of TCGA 1992 s136 with the effect that the UK PEPR Investors should, subject to the effect of certain anti-avoidance provisions noted below, not be treated as having made a disposal of their shares in the FCP. Instead the shares in the SICAV-SA shall be treated for tax purposes as the same asset as the shares in the FCP immediately before the Conversion.

This treatment is subject to the anti-avoidance provisions set out in TCGA 1992 s137. These provisions preclude the application of TCGA 1992 s136 to UK PEPR Investors holding more than 5 per cent. of the shares in the FCP unless the scheme of reconstruction is effected for *bona fide* commercial reasons and does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of liability to corporation tax. The General Partner considers that, subject to the specific circumstances of individual UK PEPR Investors, TCGA 1992 s137 should not have effect to prevent the application of TCGA 1992 s136 to the Conversion at Step 1.

(ii) Step 2—Conversion of SICAV-SA into SICAF-SCA

According to HMRC guidance in their manuals (INTM180030), a Luxembourg SCA is treated as an opaque entity, i.e. as a company, for UK tax purposes. From a Luxembourg legal perspective, the conversion of a company organised as an SA into a company organised as an SCA occurs through a simple modification of the company’s articles of association. Such modification of the company’s articles of association will modify the management of the company and create a new set of rules to govern the relationship between the company and its shareholders.

However, the conversion of the SICAV-SA into a SICAF-SCA does not involve the winding up of a company and creation of a new company. An investor’s interest in the company before and after the conversion is generally the same, notwithstanding that the companies’ administration is organised differently. The General Partner considers that such modifications in the company’s articles of association should not be sufficient to characterise a disposal (or any other taxable event) for UK tax purposes. For these reasons, it is considered that the conversion of the SICAV-SA into a SICAF-SCA should not have any UK tax impact on the UK PEPR Investors.

(iii) UK PEPR Investors’ tax base cost of shares in the SICAF-SA

For UK tax purposes, the tax base cost of the shares in the SICAF-SCA to the UK PEPR Investors should be the same as that of the shares in the SICAV-SA; subject to the comments set out in section I(i) above, the shares in the SICAV-SA should have the same tax base cost as the shares held in the FCP following the Para 15 Election to treat the FCP as a company for UK tax purposes.

II—UK tax treatment of UK PEPR Investors who do not make a Para 15 Election to treat the FCP as a company

Where the UK PEPR Investors do not elect to treat the FCP as a company, they will be treated for UK tax purposes as if they held the Underlying Assets directly. The material Underlying Assets currently include: (i) 100 per cent. of the SuperHoldCo Shares; (ii) the Loan Notes; and (iii) the FCP Liabilities.

Broadly speaking, because of the tax transparency of an FCP, dividend and interest income arising to PEPR from the Underlying Assets should be subject to tax in the UK as if such income had arisen to the UK PEPR Investors directly. The same tax transparent treatment should apply to expenses in respect of

the FCP Liabilities. The precise UK tax treatment of each item of income or expense will depend on the particular circumstances of each UK PEPR Investor.

The market value of the units in the FCP reflects the market value of the Underlying Assets and does not necessarily equate to the value of the FCP's net assets as reflected in its standalone accounts. As the total market capitalisation of PEPR is (as at the date of this Letter and is expected to be at the date of the Conversion) lower than the net amount of the face value of the Loan Notes less the face value of the FCP Liabilities, and on the basis that the equity holders in SuperHoldCo are subordinated to the Loan Note holders in any distribution of SuperHoldCo's assets in the event of a winding up, the General Partner considers that the market value of the units is attributable solely to the Loan Notes, net of the FCP Liabilities. Accordingly, the General Partner considers that the market value of the SuperHoldCo Shares would be nil at the relevant times.

Accordingly, in the view of the General Partner, the consideration given by the SICAV-SA for the SuperHoldCo Shares and Loan Notes, being the issue of shares in the SICAV-SA and the assumption of the FCP Liabilities by the SICAV-SA, is given solely and entirely in exchange for the Loan Notes, and not for the SuperHoldCo Shares.

(i) Step 1—Conversion of the FCP into a SICAV-SA

As a result of the Conversion, the UK PEPR Investors will cease to be treated as if they held directly a portion of the Underlying Assets and instead will be treated as holding shares in the SICAV-SA, an entity treated as a company for UK tax purposes.

Transfer of Shares

As the SICAV-SA will own 100 per cent. of the SuperHoldCo Shares as a consequence of Step 1 and as it is expected that the Loan Notes will be treated as “debentures” (in view of the definition within Companies Act 2006 s738), Step 1 is expected to fall within TCGA 1992 s135.

Under TCGA 1992 s 135(3), Step 1 should be treated as an exchange of securities for those in another company with the effect that the UK PEPR Investors should not be treated as having made a disposal of their SuperHoldCo Shares. Instead for UK tax purposes, the shares in the SICAV-SA shall be treated as the same asset as the SuperHoldCo Shares. In other words, the new shares in the SICAV-SA will be treated as having been acquired for the same acquisition cost and at the same time as the SuperHoldCo Shares were acquired by the UK PEPR Investor (through its investment in the FCP units).

This tax treatment is subject to the same anti-avoidance rules in TCGA 1992 s137 as set out in section I above.

As noted above the General Partner considers that the market value of the SuperHoldCo Shares is nil and therefore would not expect any non-share consideration given (i.e. the assumption of the FCP Liabilities) to be allocable to the SuperHoldCo Shares. However, if, on an arm's length analysis, any non-share consideration is in fact allocable to the SuperHoldCo Shares, the UK PEPR Investors should treat this as a taxable disposal event and calculate any chargeable gains thereon. To do so, an apportionment of the original tax base cost of the SuperHoldCo Shares will need to be made between the shares received in the SICAV-SA and the other consideration received on the disposal, based on the respective market values of each at the time of the Conversion.

Transfer of Loan Notes

There are two key implications relating to the transfer of the Loan Notes by the unitholders in the FCP to the SICAV-SA: (i) the UK tax treatment of the Loan Notes as further consideration for the issue of the SICAV-SA shares; and (ii) the UK tax treatment of any impairment in the value of the Loan Notes as at the date of their transfer to the SICAV-SA.

- (i) The transfer of the Loan Notes should be viewed as “new consideration” given for the shares in the SICAV-SA to the extent that, broadly, the market value of the shares in the SICAV-SA immediately after the reorganisation exceeds the market value of the SuperHoldCo Shares immediately before the reorganisation. On the basis of the analysis above which concludes that the expected market value of the SuperHoldCo Shares is nil at the date of the Conversion, this should mean that the new consideration given (by way of the transfer of the Loan Notes) for the shares in SICAV-SA is equal to the market value of the SICAV-SA immediately after Step 1.

In computing the chargeable gain/loss on any disposal of the shares in the SICAV-SA, any such new consideration given shall be treated as having been given for the SuperHoldCo Shares. As result of the application of TCGA 1992 s128, any such new consideration will form part of the allowable tax base cost of the shares in the SICAV-SA. However, by virtue of TCGA 1992 s131, on any disposal of the shares in the SICAV-SA, any indexation allowance calculated in respect of the consideration given will be calculated from the date on which that new consideration was given (i.e. on the Conversion) and not from the date of acquisition of the original units in the FCP.

- (ii) Under CTA 2009 s302, the Loan Notes should be treated as a loan relationship for UK tax purposes.

Other than HMRC guidance INTM180030, which expressly confirms an FCP's tax transparent status for UK tax purposes, there is no other publicly available HMRC guidance on the UK tax treatment of a Luxembourg FCP. However, the General Partner understands that HMRC's general view is that an FCP is not considered to be a partnership for the purposes of CTA 2009 Part 5, Chapter 9.

Where the FCP is treated as a fully tax-transparent entity (but not as a partnership), the tax treatment of loan relationship debits and credits by the UK PEPR Investors should be based on the individual investor's accounts. This could mean that UK PEPR Investors may not get tax relief for any accumulated losses, subject to their accounting treatment.

On the basis that no UK PEPR Investor exerts "control" over the FCP ("control" as defined in CTA 2009 s472), the General Partner considers that there is no "connection" (for the purposes of CTA 2009 s466) between the UK PEPR Investors and SuperHoldCo. Therefore, the methods of calculating loan relationship debits and credits applicable to connected parties (as set out in CTA 2009 Pt 5 Ch 6) should not apply to the transfer of the Loan Notes in Step 1.

(ii) Step 2—Conversion of SICAV-SA into SICAF-SCA

The UK tax treatment of the UK PEPR Investors in Step 2 is the same as previously explained in section I(ii) in respect of UK PEPR Investors who make a Para 15 election under FA 2009 Sch 22 Para 15.

(iii) UK PEPR Investors' tax base cost of the shares in the SICAF-SA

For UK tax purposes, the tax base cost of the shares in the SICAF-SCA to the UK PEPR Investors should be the same as that of the shares in the SICAV-SA; the tax base cost of the shares in the SICAV-SA should comprise the aggregate of the original tax base cost of the SuperHoldCo Shares (as adjusted for any disposal triggered by the receipt of any non-share consideration allocable to the SuperHoldCo Shares at Step 1) and, broadly, the market value of any new consideration given by the investor on the Conversion.

6. THE NETHERLANDS

This general summary is limited to certain Dutch corporate income and individual income tax consequences applicable to the following PEPR Investors in connection with the Conversion:

- (i) Dutch pension funds which qualify as tax exempted entities pursuant to article 5(1)(b) Dutch Corporate Income Tax Act 1969 ("CITA") and which own the units in PEPR themselves (i.e. not via a taxable entity);
- (ii) Dutch resident individuals who own the units in PEPR as a portfolio investment, taxable in Box III as defined in the Dutch Individual Income Tax Act 2001 ("IITA").

Dutch tax exempted pension funds

Pursuant to article 5(1)(b) CITA, entities whose sole purpose is, broadly, to protect their beneficiaries' interests by means of a pension scheme or early retirement scheme, are generally exempt from Dutch corporate income tax. However the CITA provides that these entities (i.e. pension funds) are not tax exempt to the extent that they undertake activities which are not directly connected to the core purpose of a pension fund as described above. (Such activities can only be defined in a general decree to be issued by the Dutch tax authorities. However, as at the date of this letter, this general decree has not yet been issued and it is uncertain if it will be issued and indeed, if it is issued, what it will say).

Additional conditions also apply to achieve tax exempt status, including the condition that (except for a distribution of up to 5 per cent. of the nominal paid in capital or deposits) the pension fund's annual profit may only be allocated for:

- (i) the benefit of the policy holders,
- (ii) another tax exempt pension fund (pursuant to Article 5 (1)(b) CITA), or
- (iii) a non-profit entity for the common good.

Furthermore under article 5(2)(a) and (b) CITA, pension funds are generally not tax exempt if, broadly:

- (i) a beneficiary of the fund (or a member of his/her close family group) holds a direct or indirect shareholder interest of at least 10 per cent. in the pension fund, or
- (ii) if the pension fund activities are mainly undertaken for the benefit of employees of companies in which a beneficiary of the pension fund (or a member of his/her close family group) holds a direct or indirect shareholder interest of at least 10 per cent.

The Conversion should not, in itself, have any Dutch corporate income tax consequences for Dutch pension funds which qualify in accordance with the analysis above as tax exempt entities pursuant to article 5(1)(b) Dutch CITA.

Dutch tax resident individuals

Dutch individual income tax is levied on the taxable income of individuals who are Dutch tax residents. Under the IITA, there are three categories or "Boxes" of taxable income, Box I, II and III, each having its own treatment and tax rate. Box III taxes general savings and investments held as portfolio investments provided the income of these savings and investments are not taxable in Box I or Box II. The analysis below applies only to Dutch tax resident individuals who own Shares in PEPR as a portfolio investment which are taxable in Box III, as defined in the IITA.

In Box III, the taxation of savings and investments is based on the average net investment basis for the relevant year. The net investment basis is the difference between the fair market value of the assets and the fair market value of the liabilities in Box III (with the exception of certain specific assets and liabilities as defined in the IITA). The basis for taxation in Box III (being the "Capital Yield Tax Base") is the average of the net investment basis on 1 January and 31 December each year, to the extent this average exceeds a tax-free amount as defined in the IITA.

The taxable yield in Box III is determined at a notional amount equalling 4 per cent. per year of the Capital Yield Tax Base. As a result, the amount of investment return actually received (e.g. dividends, gains etc) on such assets is not relevant for determining the taxable basis in Box III. The notional yield of 4 per cent. of the Capital Yield Tax Base is subject to 30 per cent. income tax. This translates into Dutch individual income tax of 1.2 per cent. on the average Capital Yield Tax Base.

For Dutch tax resident individuals who own units in PEPR as a portfolio investment, the Capital Yield Tax Base in Box III should reflect the fair market value of the units/shares held in respectively the FCP and the SICAF on the reference dates (i.e. 1 January and 31 December). Therefore the Conversion should not, in itself, have any incremental IIT 2001 consequences for Dutch tax resident individuals.

7. GERMANY

The following general summary assumes that the "German PEPR Investor" is a German health or life insurance company subject to unlimited taxation in Germany that holds its units in PEPR on investment account.

It is expected that the Conversion will be treated as a taxable event for German PEPR Investors. This is because it is regarded as a disposal of the FCP units in exchange for the SICAV shares immediately followed by a second exchange of SICAV shares for shares in the SICAF.

The Conversion should not be treated as a tax neutral event under the GITA provisions. Sections 14 and 17a GITA provide the preconditions for a tax neutral event that are to be met for a foreign investment fund resident in an EU or EEA country which has agreed to the exchange of tax relevant information with the German tax authorities. Under these Sections, only full asset transfers from one investment fund to

another (i.e. a “fund merger”) can be treated as a tax neutral event for the German PEPR Investors and only then if several conditions are simultaneously met:

- (i) the requirements of the provision for a fund merger have to be met within the relevant jurisdiction,
- (ii) confirmation that condition (i) has been met must be obtained from the financial supervisory authorities of the country in which the investment fund is resident; and
- (iii) the receiving fund must account for the received assets at their historic acquisition costs (as accounted for in the transferring fund) and a certificate by a tax advisor/auditor needs to be obtained confirming that this requirement is met.

In addition, a tax neutral merger under section 17a GITA also requires that the transfer of all assets of one fund completes at the end of that fund’s fiscal year, the value of the receiving and the transferring fund is calculated at that closing date and the transaction is audited by an auditor.

Given that the Conversion does not lead to transfer of assets but only a change in the legal form of the FCP into a SICAV and then into a SICAF, and the Conversion is expected to take place prior to PEPR’s fiscal year end, the above mentioned requirements of section 17a GITA will not be fulfilled.

Given the special character of the GITA provisions, the Conversion should also not be treated as a tax neutral event under the general provisions of the German Transformation Tax Act (“*Umwandlungsteuergesetz*” or TTA) that implements the EU Mergers Directive (90/434/EEC) into German domestic law. Even if the TTA provision could be applied beside the GITA rules, the requirements of a tax neutral change of legal form (“*Formwechsel*”) under the TTA cannot be achieved as an FCP does not fall within the scope of the TTA. This is because an FCP is not included in the catalogue of Luxembourg legal entities being subject to corporate income tax in Luxembourg listed in the Appendix of the EEC Mergers Directive.

As a consequence, German PEPR Investors that hold units in PEPR are expected to realise profits or losses for German tax purposes at the time of the Conversion. The amount of the profit or loss will be the difference between the current fair market value of the PEPR units at the time of the conversion and each German PEPR Investor’s historic acquisition costs in those units. It is expected that the second stage conversion of the SICAV to a SICAF will not give rise to an additional gain or loss as the market value of shares in the two entities should be identical.

8. SINGAPORE

The following general summary assumes that the Singapore PEPR Investor is a corporate entity taxable in Singapore that holds its units in PEPR on investment account.

Step 1

Under Singapore general tax principles, because an FCP has no legal personality, a Singapore PEPR Investor holding units in the FCP should be regarded as holding its share of the Underlying Assets directly. As a SICAV is a public limited company having the status of a separate legal person, the Singapore Comptroller is likely to regard the conversion of PEPR from an FCP to a SICAV as a transfer of the Underlying Assets to the SICAV in exchange for shares in the SICAV (together with the subsequent dissolution of the FCP). Therefore, the Singapore Controller is likely to regard or deem a Singapore PEPR Investor as having disposed of its share of the Underlying Assets at their fair market value upon the conversion of PEPR from an FCP to a SICAV.

On the assumption that the investment in PEPR is held by a Singapore PEPR Investor with a view to long term investment and therefore regarded as held on capital account, any gain or loss arising from the disposal or deemed disposal of the Underlying Assets should not be taxable or deductible to the Singapore PEPR Investor. This is because there is no tax on capital gains in Singapore.

Step 2

Under Singapore general tax principles the SICAF-SCA is treated as a separate legal entity from the SICAV. Therefore under a similar analysis to Step 1, the Singapore Comptroller is likely to regard the conversion of PEPR from a SICAV to a SICAF-SCA as a disposal, or deemed disposal, by the SICAV of its Underlying Assets to the SICAF-SCA in consideration for shares in the SICAF-SCA (together with a

dissolution of the SICAV and a deemed liquidation distribution of the shares in the SICAF-SCA to the Singapore PEPR Investor).

A liquidation distribution, following the dissolution of the SICAV, should generally represent a return of the capital invested. Any surplus received in excess of the amount invested should represent an appreciation of the shareholders' investment. As the conversion from the SICAV to the SICAF will be effected immediately after the conversion of the FCP into a SICAV, no surplus should arise. In any event, if any surplus did arise, the appreciation is likely to be treated as capital in nature and not taxable in Singapore to the Singapore PEPR Investor.

9. UNITED STATES

U.S. Internal Revenue Service Circular 230 Notice

The discussion herein is not intended or written by PEPR, the Management Company, the General Partner or the Management Company's or General Partner's counsel to be used, and cannot be used by any person, for the purpose of avoiding tax penalties that might be imposed under U.S. tax laws. This discussion is provided to support the promotion or marketing by PEPR of the transactions described herein, and accordingly is written in support of the promotion or marketing of such transactions. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor concerning the potential tax consequences of the Conversion.

The following general summary assumes that the "U.S. PEPR Investor" is (i) a citizen or individual resident of the U.S. or (ii) a corporation or partnership, not subject to special tax rules, either created or organized in or under the laws of the U.S., that hold the units and shares as capital assets.

Both an FCP and a SICAF-SCA are "foreign eligible entities" that may elect to be classified as partnerships for U.S. federal income tax purposes. PEPR, in connection with its formation as an FCP, has made an election to be classified as a partnership for U.S. federal income tax purposes and it is expected that PEPR, as an SICAF-SCA, will make a similar election following the Conversion. However, the SICAV will be formed as an S.A. which is not a "foreign eligible entity" that may elect its classification but is instead a "per se corporation" that must be classified as an association taxable as a corporation for U.S. federal income tax purposes.

The General Partner intends to take the position that PEPR's momentary status as an S.A. (while it is a SICAV) is disregarded for U.S. federal income tax purposes as merely a transitory step necessary to effect its conversion from an FCP to a SICAF-SCA. If PEPR's transitory status as a SICAV is disregarded, its conversion from an FCP classified as a partnership for U.S. federal income tax purposes to a SICAF-SCA also classified as a partnership for U.S. federal income tax purposes would not result in the recognition of gain or loss for a U.S. PEPR Investor so long as there is no shifting of the amount of PEPR's debt that is allocated to a U.S. PEPR Investor as a result of the Conversion (which is not expected to be the case). Similarly, each U.S. PEPR Investor's tax basis and holding period with respect to its interest in PEPR prior to the Conversion would carry over to its interest in PEPR after the Conversion.

Nevertheless, it is possible that the U.S. Internal Revenue Service could assert that PEPR's status as a SICAV should be regarded for U.S. federal income tax purposes. If PEPR's conversion to a SICAV and subsequent conversion to a SICAF-SCA were each regarded as separate steps for U.S. federal income tax purposes, then PEPR's initial conversion to a SICAV would be treated as an incorporation, followed by a taxable liquidation when the SICAV is subsequently converted into a SICAF-SCA. The incorporation could give rise to gain (but not loss) for a U.S. PEPR Investor to the extent a U.S. PEPR Investor's share of the fair market value of PEPR's assets exceeds that U.S. PEPR Investor's adjusted tax basis in its PEPR interests, and for other U.S. PEPR Investors (whose share of the fair market value of PEPR's assets do not exceed their adjusted tax basis in their PEPR interests) to the extent that PEPR's liabilities exceed PEPR's adjusted tax basis in its assets, or to the extent that a U.S. PEPR Investor's allocable share of PEPR's liabilities exceeds such investor's adjusted tax basis in its interests in PEPR. Additionally, under certain circumstances PEPR may be required to adjust the tax basis of its assets in connection with the deemed incorporation. As a result of the taxable liquidation U.S. PEPR Investors would recognize gain or loss equal to the difference between the fair market value of their interests in PEPR and their adjusted tax basis in such interests (after taking into account any gain recognized in connection with the incorporation). Such gain or loss would be capital gain or loss if such interests are held as capital assets. **Each U.S. PEPR Investor is urged to consult its independent tax advisor concerning its decision in voting in favour of the Conversion.**

ANNEX D

REPRESENTATIONS OF UNITHOLDERS LOCATED OR RESIDENT IN THE UNITED STATES

Each unitholder that is located or resident in the United States hereby represents that:

- The unitholder is an “accredited investor” and/or a “qualified institutional buyer” as such terms are defined in Rule 501 and Rule 144A, respectively, under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”). These definitions are reproduced below for convenience.
- The unitholder is acquiring the ordinary shares for investment purposes and not with a view to resale or distribution of the ordinary shares within the meaning of the U.S. securities laws.
- The unitholder understands and acknowledges that the ordinary shares are being issued in a transaction not involving any “public offering of securities” in the U.S. within the meaning of the Securities Act, that the ordinary shares have not been and will not be registered under the Securities Act and are being offered and sold to the unitholder in a transaction exempt from the registration requirements of the Securities Act.
- The unitholder further understands and acknowledges that PEPR is not, and will not be, registered as an investment company under the U.S. Investment Company Act of 1940, as amended.
- The unitholder received a copy of the Draft Information Memorandum dated September 30, 2009 and has conducted its own investigation with respect to PEPR and the ordinary shares and has received and reviewed all information that it believes is necessary or appropriate in connection with the acquisition of the ordinary shares. The unitholder has sufficient knowledge and experience in financial and business matters that it is capable of properly understanding and evaluating the merits and risks of its prospective investment in the ordinary shares. The unitholder has the ability to bear the economic risk of its investment in the ordinary shares, has adequate means of providing for its current and contingent needs, has no need for liquidity with respect to an investment in the ordinary shares, and is able to sustain a complete loss of its investment in the ordinary shares should such loss occur. The unitholder has also consulted its tax and other professional advisers with respect to tax and other consequences and considerations applicable to the unitholder in connection with any investment in ordinary shares.
- The unitholder understands and agrees that (1) the ordinary shares may be viewed as “restricted securities” and have not been registered under the Securities Act and may not be offered, sold or otherwise transferred except pursuant to a registration statement under the Securities Act or pursuant to the resale exemption in Rule 904 of Regulation S under the Securities Act to a transferee not known to be a “U.S. person” (within the meaning of Regulation S) and upon delivery of such documents and opinions PEPR may require in connection therewith, (2) any certificated ordinary shares of PEPR may carry the legend set forth in Part IX of the accompanying Draft Information Memorandum, and (3) the compulsory transfer provisions and other restrictions under the articles of incorporation (of PEPR as a SICAV) will apply.
- The unitholder understands that PEPR and its financial advisors are relying on the truth and accuracy of these representations and other statements made by the unitholder, including those on the enclosed proxy card, and authorizes the use of all such documents on which they are made, to evidence such reliance.
- If the undersigned is a broker dealer acting as agent on behalf of a customer, it has the authority to make and is making the statements set forth above and has confirmed that the customer is an accredited investor and/or a qualified institutional buyer.

Definitions of “Qualified Institutional Buyer” and “Accredited Investor”

(A) Qualified Institutional Buyer

A *qualified institutional buyer* (“QIB”) means any of the following entities, acting for its own account or the accounts of other qualified institutional buyers, that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the entity:

- a. Any *insurance company* as defined in section 2(a)(13) of the Securities Act;
- b. Any *investment company* registered under the Investment Company Act of 1940, as amended, or any *business development company* as defined in section 2(a)(48) of that Act;

- c. Any *Small Business Investment Company* licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958, as amended;
- d. Any *plan* established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees;
- e. Any *employee benefit plan* within the meaning of title I of the Employee Retirement Income Security Act of 1974;
- f. Any trust fund whose trustee is a bank or trust company and whose participants are exclusively plans of the types identified in paragraphs (d) and (e) above, except trust funds that include as participants individual retirement accounts or H.R. 10 plans.
- g. Any *business development company* as defined in section 202(a)(22) of the Investment Advisers Act of 1940, as amended;
- h. Any organization described in section 501(c) (3) of the U.S. Internal Revenue Code, corporation (other than a bank as defined in section 3(a)(2) of the Securities Act or a savings and loan association or other institution referenced in section 3(a)(5)(A) of the Securities Act or a foreign bank or savings and loan association or equivalent institution), partnership, or Massachusetts or similar business trust; and
- i. Any *investment adviser* registered under the Investment Advisers Act of 1940, as amended.

(B) *Accredited Investor*

An *accredited investor* means any person who comes within any of the following categories, or who the issuer reasonably believes comes within any of the following categories, at the time of the sale of the securities to that person:

- a. Any bank as defined in section 3(a)(2) of the Securities Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; as amended, any insurance company as defined in section 2(a)(13) of the Securities Act; any investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), or a business development company as defined in section 2(a)(48) of the Investment Company Act; any Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;
- b. Any private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940, as amended;
- c. Any organization described in section 501(c)(3) of the U.S. Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$5,000,000;
- d. Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;
- e. Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his purchase exceeds \$1,000,000;
- f. Any natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- g. Any trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of the Securities Act; and
- h. Any entity in which all of the equity owners are accredited investors.



ProLogis European Properties
c/o ProLogis Management S.à r.l. • 34-38 Avenue de la Liberté • L-1930 Luxembourg
R. C. S. Luxembourg B 70.940 • Share Capital: €125,000
Telephone: +352 2620 5740 • Facsimile: +352 2620 5744 • www.prologis-ep.com