

PROLOGIS EUROPEAN PROPERTIES
(a fonds commun de placement)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2006

ProLogis European Properties is listed and traded on Eurolist by Euronext,
the regulated market of Euronext Amsterdam N.V
Code PEPR
ISIN LU 0100194785
www.ProLogis-ep.com

No subscription can be accepted on the basis of these consolidated financial statements. Subscriptions are only valid if they are made on the basis of the latest published prospectus accompanied by the latest annual report and the most recent semi-annual report, if published thereafter.

**PROLOGIS EUROPEAN PROPERTIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of ProLogis European Properties Luxembourg

We have audited the accompanying financial statements of ProLogis European Properties, a fonds commun de placement ("PEPR") which comprise the consolidated balance sheet as at 31 December 2006, and the related consolidated income statement, statement of changes in the number of units issued, consolidated statement of changes in equity attributable to Unitholders, consolidated statement of investment in properties and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by use in the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "réviseur d'entreprises"

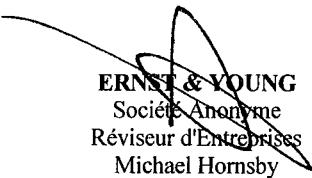
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of ProLogis European Properties as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by use in the European Union.



ERNST & YOUNG
Société Anonyme
Réviseur d'Entreprises
Michael Hornsby
13 March, 2007

PROLOGIS EUROPEAN PROPERTIES
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006, 31 DECEMBER 2005 AND 31 DECEMBER 2004
(Unless otherwise stated, amounts are expressed in thousands of euros)

	<u>Notes</u>	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Assets				
<i>Non Current Assets</i>				
Investment in property as stated in statement of investment in properties	2c	4,242,418	3,473,808	2,923,807
Property under construction	2e, 5	7,157	7,052	1,724
Hedging instruments	2o, 25	38,087	27,148	35,795
Deferred tax asset	2r, 15	7,326	5,992	3,509
		4,294,988	3,514,000	2,964,835
<i>Current Assets</i>				
Accounts receivable, net	2i	33,913	32,276	32,933
Other current assets	2j, 7	94,241	76,457	71,515
Cash and cash equivalents	2k, 8	138,049	96,785	68,762
		266,203	205,518	173,210
Total Assets		4,561,191	3,719,518	3,138,045
Equity				
Capital contributions	2l, 9	1,883,571	1,792,422	1,589,908
Costs of raising capital	2m	(37,721)	(37,721)	(37,721)
Net capital contributed		1,845,850	1,754,701	1,552,187
Net earnings for the period		436,731	235,325	178,694
Net retained earnings	2n, 10	(38,403)	(108,530)	(152,599)
Cumulative foreign currency translation	2b, 11	(5,682)	(20,846)	(27,499)
Cashflow hedge valuation reserve	12	3,993	(39,300)	(44,652)
Equity attributable to Unitholders		2,242,489	1,821,350	1,506,131
Minority interest in subsidiaries		5,625	4,353	2,957
Total Equity		2,248,114	1,825,703	1,509,088
Liabilities				
<i>Non-current liabilities</i>				
Interest bearing Secured notes	2p, 13	1,269,331	1,262,461	871,556
Hedging instruments	2o, 25	10,311	38,648	47,927
Interest bearing long term bank loans, net of current portion	2p, 14	159,056	168,341	133,614
Deferred taxation	2r, 15	192,774	84,735	42,219
		1,631,472	1,554,185	1,095,316
<i>Current liabilities</i>				
Interest bearing bank loans, current portion	2p, 14	534,231	201,162	405,381
Accounts payable	2j	12,243	5,415	8,377
Due to related parties	2h	5,062	7,404	—
Income and other taxes payable	2q, 15	14,811	16,457	13,883
Accrued expenses and other current liabilities	2j, 16	92,984	86,084	89,164
Deferred income	2t	22,274	23,108	16,836
		681,605	339,630	533,641
Total Liabilities		2,313,077	1,893,815	1,628,957
Total Equity and Liabilities		4,561,191	3,719,518	3,138,045

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

**PROLOGIS EUROPEAN PROPERTIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2006, 31 DECEMBER 2005
AND 31 DECEMBER 2004**

(Unless otherwise stated, amounts are expressed in thousands of euros)

	<u>Notes</u>	<u>31 December 2006</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
Rental income	2u, 17	286,713	259,079	219,840
Other property income	2v	4,716	1,805	923
Total revenue		291,429	260,884	220,763
Ground rents paid		(2,173)	(2,009)	(1,975)
Property management fees	19b	(18,372)	(15,739)	(13,988)
Other property rental expenses	18	(8,007)	(6,851)	(5,861)
Cost of rental activities		(28,552)	(24,599)	(21,824)
Gross profit		262,877	236,285	198,939
Fund management fees	19a	(6,526)	(5,187)	(4,089)
Fund custodian fees		(231)	(69)	(252)
Other fund expenses		(39,316)	(3,889)	(4,535)
Fund expenses		(46,073)	(9,145)	(8,876)
Investment property disposal proceeds		72,501	34,596	3,474
Carrying value of investment property disposals		(54,682)	(33,910)	(733)
Profit on disposal of investment property		17,819	686	2,741
Gross valuation gains on property, less disposals		471,587	208,782	200,988
Gross valuation losses on property, less disposals		(21,455)	(24,658)	(84,756)
Purchasers costs, less disposals		(34,894)	(31,486)	(21,151)
Impairment of goodwill	6	—	(1,736)	—
Property fair value movements		415,238	150,902	95,081
Earnings before interest and tax		649,861	378,728	287,885
Finance income	2y, 20	4,673	1,663	1,516
Finance expense	2z, 21	(97,174)	(90,663)	(74,074)
Earnings before tax		557,360	289,728	215,327
Charge for taxation	2q, 2r, 15	(120,262)	(53,827)	(36,292)
Net earnings for the period		437,098	235,901	179,035
Attributable to:				
Minority interest		367	576	341
Unitholders		436,731	235,325	178,694
		437,098	235,901	179,035
		Euro	Euro	Euro
Earnings per unit	10			
Ordinary Units		1.15	—	—
Class A and Class B units		2.90	1.52	1.32
Class C Units		0.675	0.675	0.675
Outstanding Units		188,687,510	196,434,416	193,888,501
Diluted earnings per unit	10			
Diluted earnings per share for Ordinary Units		1.15	—	—
Diluted earnings per share for Class A and Class B Units		2.72	1.18	0.89
Diluted earnings per share for Class C Unitholders		0.675	0.675	0.675

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

PROLOGIS EUROPEAN PROPERTIES
STATEMENT OF CHANGES IN THE NUMBER OF UNITS ISSUED
FOR THE YEARS ENDED 31 DECEMBER 2006, 31 DECEMBER 2005
AND 31 DECEMBER 2004

(Unless otherwise stated, amounts are expressed in thousands of euros)

	<u>Par Value</u>	<u>31 December</u> <u>2006</u>	<u>31 December</u> <u>2005</u>	<u>31 December</u> <u>2004</u>
<i>Number of Units outstanding at the beginning of the period:</i>				
Class A(1) Units	10.00	500,000	500,000	500,000
Class A(2) Units	10.00	87,391,985	87,391,985	87,391,985
Class A(3) Units	10.27	52,093,478	52,093,478	52,093,478
Class B1 Units	10.00	13,000,000	13,000,000	13,000,000
Class B2 Units	10.00 - 11.43	23,128,953	20,483,038	15,685,966
Class C(1) Units	10.00	10,160,000	10,160,000	10,160,000
Class C(2) Units	10.00	10,160,000	10,160,000	10,160,000
Ordinary Units		—	—	—
<i>Number of Units issued during the period:</i>				
Class A(1) Units		—	—	—
Class A(2) Units		—	—	—
Class A(3) Units		—	—	—
Class B1 Units		—	—	—
Class B2 Units	12.33	3,536,013	2,645,915	4,797,072
Class C(1) Units		—	—	—
Class C(2) Units		—	—	—
Ordinary Units	9.98	188,687,510	—	—
<i>Number of Units redeemed during the period:</i>				
Class A(1) Units	10.00	500,000	—	—
Class A(2) Units	10.00	87,391,985	—	—
Class A(3) Units	10.27	52,093,478	—	—
Class B1 Units	10.00	13,000,000	—	—
Class B2 Units	10.00-12.33	26,664,966	—	—
Class C(1) Units	10.00	10,160,000	—	—
Class C(2) Units	10.00	10,160,000	—	—
Ordinary Units		—	—	—
<i>Number of Units outstanding at the end of the period:</i>				
Class A(1) Units	10.00	—	500,000	500,000
Class A(2) Units	10.00	—	87,391,985	87,391,985
Class A(3) Units	10.27	—	52,093,478	52,093,478
Class B1 Units	10.00	—	13,000,000	13,000,000
Class B2 Units	10.00-11.43	—	23,128,953	20,483,038
Class C(1) Units	10.00	—	10,160,000	10,160,000
Class C(2) Units	10.00	—	10,160,000	10,160,000
Ordinary Units	9.98	188,687,510	—	—

The Class A(3) and the Class C(2) Units were issued during 2003 on a partially paid basis. The final drawdowns occurred in April 2006 for the Class A(3) Units and in August 2004 for the Class C(2) Units. Ordinary Units were issued on September 27, 2006 as part of a public offering in The Netherlands and were admitted for listing and trading on Euronext Amsterdam N.V.'s Eurolist by Euronext on that date with an issue price of €14.35.

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

PROLOGIS EUROPEAN PROPERTIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO
UNITHOLDERS
FOR THE YEARS ENDED 31 DECEMBER 2006, 31 DECEMBER 2005
AND 31 DECEMBER 2004

(Unless otherwise stated, amounts are expressed in thousands of euros)

	<u>Notes</u>	<u>31 December</u> <u>2006</u>	<u>31 December</u> <u>2005</u>	<u>31 December</u> <u>2004</u>
Total Equity attributable to Unitholders brought forward		1,821,350	1,506,131	1,207,099
Foreign currency translation	11	15,164	6,653	4,532
Net gains/(losses) on cashflow hedges fair valuation	12	43,293	5,352	(7,995)
Total income and expense for the period recognised directly in equity		58,457	12,005	(3,463)
Net earnings for the period		436,731	235,325	178,694
Total net income and expense for the period		495,188	247,330	175,231
Distributions for the period	10	(165,199)	(134,625)	(113,472)
Capital contributions by way of cash payment		200,750	172,500	186,520
Capital contributions by way of contribution in kind	19	43,599	30,014	49,350
Capital redemptions		(153,199)	—	—
Cost of raising capital		—	—	1,403
Net movement in capital for the period		91,150	202,514	237,273
Changes in Equity		421,139	315,219	299,032
Total Equity attributable to Unitholders carried forward		2,242,489	1,821,350	1,506,131

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

PROLOGIS EUROPEAN PROPERTIES
CONSOLIDATED STATEMENT OF INVESTMENT IN PROPERTIES
AS AT 31 DECEMBER 2006, 31 DECEMBER 2005 AND 31 DECEMBER 2004
(Unless otherwise stated, amounts are expressed in thousands of euros)

	<u>31 December</u> <u>2006</u>	<u>31 December</u> <u>2005</u>	<u>31 December</u> <u>2004</u>
Historic cost			
Cost at the beginning of the period	3,221,938	2,824,575	2,312,264
Asset additions, by way of Stabilised Property Contribution Agreement	333,640	261,479	459,638
Asset additions by way of corporate acquisitions	—	63,850	—
Other asset additions	22,863	67,532	—
Capital expenditure	37,043	21,881	17,538
Write down of property subject to insurance claim	(17,742)	—	—
Transfer of completed development from property under construction	13,471	8,202	25,200
Disposals, by way of direct disposals	(54,682)	(33,910)	(733)
Effect of unrealised currency movements	18,779	8,329	10,668
Cost at the end of the period	<u>3,575,310</u>	<u>3,221,938</u>	<u>2,824,575</u>
Net unrealised gains related to property			
Net unrealised gains at the beginning of the period	251,870	99,232	4,151
Gross valuation gains on investment in real estate during the period, less disposals	471,587	208,782	200,988
Gross valuation losses on investment in property during the period, less disposals	(21,455)	(24,658)	(84,756)
Deduction for purchasers costs, less disposals	(34,894)	(31,486)	(21,151)
Net unrealised gains at the end of the period	<u>667,108</u>	<u>251,870</u>	<u>99,232</u>
Fair value at the end of the period	<u>4,242,418</u>	<u>3,473,808</u>	<u>2,923,807</u>
Fair value of investment property			
Appraised Gross Property Value at the end of the period	4,444,046	3,640,542	3,059,055
Purchasers costs	(201,628)	(166,734)	(135,248)
Fair value at the end of the period	<u>4,242,418</u>	<u>3,473,808</u>	<u>2,923,807</u>
Appraised market value as a percentage of net assets	<u>189%</u>	<u>190%</u>	<u>194%</u>
Appraised Gross Property Value subject to security			
Secured Notes	2,865,985	2,581,292	1,790,660
Bank Loans	1,414,457	678,505	1,061,428
Finance Leases	57,110	70,230	109,446
	<u>4,337,552</u>	<u>3,330,027</u>	<u>2,961,534</u>
Insured value	<u>2,198,877</u>	<u>1,814,467</u>	<u>1,474,722</u>

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

PROLOGIS EUROPEAN PROPERTIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2006, 31 DECEMBER 2005
AND 31 DECEMBER 2004

(Unless otherwise stated, amounts are expressed in thousands of euros)

	<u>Notes</u>	<u>31 December</u> <u>2006</u>	<u>31 December</u> <u>2005</u>	<u>31 December</u> <u>2004</u>
Net cash flow from operating activities	22	139,711	147,867	122,900
Cash flow from investing activities				
Acquisitions of property		(321,632)	(302,037)	(415,009)
Acquisition of a business net of cash		—	(20,986)	—
Capital expenditure on investment property		(37,043)	(21,881)	(17,538)
Property under construction	5	(13,576)	(13,530)	(14,797)
Payments from insurance company in regard of building losses net of rebuilding costs		—	(427)	—
Proceeds from disposal of investment in property		72,501	34,596	3,474
Net cash used in investing activities		(299,750)	(324,265)	(443,870)
Cash flow from financing activities				
Proceeds from secured notes:				
— Gross proceeds		—	389,000	—
— Gross settlements		(4,645)	—	—
— Transaction costs	13	—	(12,734)	(439)
Proceeds from bank loans:				
— Net proceeds/(repayments)		321,792	(209,657)	254,599
— Transaction costs	14	(220)	(3,194)	(3,465)
Proceeds from capital contributions	9	200,749	172,500	186,520
Redemption of capital		(153,199)	—	—
Distributions to Unitholders	10	(162,395)	(131,093)	(114,599)
Net cash provided from financing activities		202,082	204,822	322,616
Effects of exchange rate changes		(779)	(401)	160
Net increase/(decrease) in cash and cash equivalents		41,264	28,023	1,806
Cash and cash equivalents at the beginning of the period		96,785	68,762	66,956
Cash and cash equivalents at the end of the period		138,049	96,785	68,762

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

**PROLOGIS EUROPEAN PROPERTIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006, 31 DECEMBER 2005
AND 31 DECEMBER 2004**

(Unless otherwise stated, amounts are expressed in thousands of euros)

1 ORGANISATION AND REGULATION OF PEPR

ProLogis European Properties ("**PEPR**") a *fonds commun de placement*, was established on 10 September 1999 under the laws of Luxembourg in the form of an unincorporated contractual co-ownership scheme and is now governed by the law on undertakings for collective investments of 20 December 2002 ("**Luxembourg Law**") and by its specific Management Regulations dated 10 September 1999 which appear in Appendix E to the Private Placement Memorandum of 10 September 1999 (the "**Management Regulations**") as amended on 29 June 2001, 13 May 2003, 7 July 2003, 17 November 2005 and on 11 September 2006. PEPR is managed by ProLogis Management S.à.r.l. (the "**Management Company**"), a limited liability company organised under the laws of Luxembourg (registration number B 70 940) having its registered office at 18 Boulevard Royal, L-2449 Luxembourg.

The Management Company has the exclusive right to manage PEPR and is vested with broad powers to administer and manage PEPR in the name of and on behalf of the Unitholders subject to rules and regulations set out in the Management Regulations.

Amendment to the Management Regulations

On 27 September, 2006 (the "**Settlement Date**"), PEPR successfully completed the listing of ordinary units on Amsterdam N.V.'s Eurolist by Euronext ("**Euronext**") Code **PEPR**, ISIN **LU 0100194785**. To facilitate PEPR's public listing, there were a number of changes to the Management Regulations, notably:

- i) the Class A and Class B Units were reclassified as Ordinary Units;
- ii) 15.3 million Class C Units were redeemed and 5 million Class C Units were reclassified as Ordinary Units
- iii) the Stabilised Property Contribution Agreement (the "SPCA") was terminated;
- iv) PEPR will have an unlimited life; and
- v) the Unitholder Advisory Committee ("**UAC**") was replaced by an independent board with four independent members and two members appointed by ProLogis.

Calculation of Net Asset Value ("NAV") per Unit

The NAV per Unit of each Class shall be determined by dividing (i) the net assets of PEPR attributable to each Class of Units, being the value of the portion of assets less the portion of liabilities attributable to such Class, on any Valuation Day (the value such assets and liabilities to be determined according to the accounting principles of PEPR as outlined in Note 2), by (ii) the number of Units in the relevant Class then outstanding, provided that the assets attributable to each Class of Units shall be determined in accordance with the rules applicable to the distribution of Residual Value upon a winding-up of PEPR.

Redemption of Units

Units shall be redeemed by the Management Company in accordance with the provisions set out in Articles 8 and 20 of the Management Regulations. In such circumstances, the Management Company has the ability to call for the redemption of Units in the manner laid out in the Management Regulations. The price, if there would be such redemption of Units, would be the NAV of the Units of the relevant Class on the most recent valuation day prior to redemption.

Full details of the Management Regulations are available on the PEPR website: www.ProLogis-ep.com.

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

**PROLOGIS EUROPEAN PROPERTIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006, 31 DECEMBER 2005
AND 31 DECEMBER 2004**

(Unless otherwise stated, amounts are expressed in thousands of euros)

2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Unless otherwise stated, the consolidated financial statements of PEPR are presented in thousands of euros. The consolidated financial statements are presented on an historical cost basis, except for the measurement of investment properties and certain financial instruments relating to hedging which are stated at fair value.

These consolidated financial statements are presented for the year ended 31 December 2006, with comparative audited figures for the years ended 31 December 2005 and 2004.

Statement of compliance

The consolidated financial statements of PEPR and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("**IFRS**").

The preparation of the consolidated financial statements in accordance with the generally accepted accounting principles as described above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The consolidated financial statements of PEPR have been authorised for issuance on 14 March 2007 by the Management Company.

The significant accounting principles applied by PEPR are regularly re-evaluated by the Management Company to ensure their continued quality and reasonableness. They are as follows:

2a Principles of consolidation

The consolidated financial statements include all activities of PEPR and its subsidiaries.

Subsidiary companies

Subsidiaries are defined as entities in which PEPR, directly or indirectly, has a controlling interest and are consolidated from the date on which control is transferred to PEPR and cease to be consolidated from the date on which control is transferred out of PEPR. The accounting principles of PEPR may differ from those applied in other countries. Where necessary, the accounts of the underlying entities have been adjusted or reclassified on consolidation in order that their results may be consistent with the accounting principles of PEPR.

Acquired companies have been included in the consolidated financial statements using the purchase method of accounting when, and only when the transaction can be identified as a business combination. When determining if an acquisition qualifies as a business combination or not, management consider if the transaction includes the acquisition of supporting infrastructure, employees, service provider agreements and major input and output processes, as well as active lease agreements. To date the only acquisition where management have determined that these criteria have been met is the Harbor Park transaction (see Note 6).

For business combinations, the Consolidated Income Statement and Consolidated Cash Flow Statement include the results and cash flows of acquired companies for the period from its date of acquisition to the period end. On acquisition, the costs incurred in acquiring subsidiaries are allocated to the separable net assets of the acquired entity with any difference being allocated to goodwill. Subsequent valuation adjustments to goodwill are recorded in the Consolidated Income Statement.

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

**PROLOGIS EUROPEAN PROPERTIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006, 31 DECEMBER 2005
AND 31 DECEMBER 2004**

(Unless otherwise stated, amounts are expressed in thousands of euros)

2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

When the transaction has not been identified as being a business combination, the transaction has been accounted for as an acquisition of individual assets and liabilities where the initial purchase consideration is allocated to the separable assets and liabilities acquired.

The cost of investment in a subsidiary is eliminated against PEPR's share in the net assets at the date of acquisition or contribution. All intercompany receivables, payables, income and expenses are eliminated.

Where PEPR, either directly or indirectly, holds a controlling interest in a subsidiary but does not have complete control of that subsidiary, the value of the interest not held by PEPR is recorded as a minority interest in the Consolidated Balance Sheet.

Special purpose entities

Certain wholly owned indirect subsidiaries of PEPR (the "**Finance Subsidiaries**") have raised debt financing using special purpose entities ("**SPEs**"). These SPEs are orphan entities which are independently operated by third parties to both PEPR and the Management Company. As the sole function of each SPE is to provide debt financing to a Finance Subsidiary and, in substance, the risks and rewards are with PEPR, for the purposes of these financial statements only, each SPE is treated as if it were a fully consolidated entity within PEPR (Note 26). The precise nature of the loan structure between the SPEs and the Finance Subsidiaries is explained in Note 13 to these consolidated financial statements.

Related parties

Related parties are defined as parties either directly or indirectly controlled, managed or owned by ProLogis, a Real Estate Investment Trust organised under the laws of Maryland, USA, which indirectly, through one or more wholly-owned subsidiaries, owns the Management Company, used to own the Class B1 and Class B2 Units of PEPR ("**ProLogis**") and now own Ordinary Units.

2b Foreign currency translation

The presentation currency of PEPR is the Euro.

The functional currency of a subsidiary is determined as the principal currency in which the entity's assets, liabilities, income and expenses are denominated. This may be different to the local currency of the country of incorporation or the country where the subsidiary conducts its operations.

Subsidiaries with operations in all jurisdictions, except for the UK and two subsidiaries in Sweden, have the Euro as their functional currency.

Transactions in currencies other than the functional currency of an entity are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are recognised in the Consolidated Income Statement under "Finance expenses" (see Note 2z).

The cumulative effect of exchange differences on cash transactions are classified as realised gains and losses in the Consolidated Income Statement in the period in which they are settled. Exchange differences on transactions not yet settled in cash are classified as unrealised gains and losses under "Finance expenses" (see Note 21).

The assets and liabilities of subsidiaries are determined according to the accounting principles of PEPR. Where the functional currency is different from the presentation currency of PEPR those assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. The income statements of such subsidiaries are translated at the average exchange rate for the period. The exchange differences arising on the currency translation are recorded as a separate component of Unitholders reserves under the

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2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

heading of "Cumulative foreign currency translation". On the disposal of such a subsidiary, accumulated exchange differences are recognised in the Consolidated Income Statement as a component of the gain or loss on disposal, including any tax effects. Exchange differences arising on monetary items, which in substance form part of PEPR's net investment in a foreign entity, are recorded as a separate component of Unitholders reserves under the heading of "Cumulative foreign currency translation".

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquired company and are recorded at the exchange rate at the date of the transaction.

2c Investment in property

Investment in property mainly comprises the investment in land and buildings in the form of distribution facilities which are not occupied substantially for use by, or in the operations of, PEPR, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation by leasing to third parties under long term operating leases.

Investment in property is initially recorded at cost including acquisition costs such as transfer taxes, initial lease commissions and legal fees. Expenditure on renovation and development of investment properties is also initially capitalised at cost. After initial recognition, investment properties are measured at Fair Value as determined by third party independent appraisers (the "**Appraisers**"). Additionally, valuations are undertaken on acquisitions, contributions in kind and on disposals, in order to comply with Luxembourg Law. The gain or loss arising from a change in the Fair Value of the investment property is included in the Consolidated Income Statement in the period in which it arises. Jones Lang LaSalle ("**JLL**") and DTZ Zadelhoff ("**DTZ**") have been appointed as the Appraisers for PEPR. Depreciation is not provided on investment properties.

Realised gains and losses on the disposal of investment in property are included in the Consolidated Income Statement in the period in which they arise.

2d Leases

Assets held under finance leases are capitalised and depreciated over the shorter of the life of the lease and the life of the assets, up to a maximum of 15 years. The related liability is included in bank loans and the implied interest charge is allocated to the Consolidated Income Statement over the lease term using the effective interest rate method.

2e Property under construction

Property assets under construction are recorded at historic cost incurred as at the balance sheet date. Historic cost is calculated with reference to invoiced costs to date and capitalised finance costs. When the property is fully let and stabilised, the cost of the asset is transferred to "Investment in property".

2f Leasing commissions

Initial leasing commissions are included in the cost of acquiring an investment property. Leasing commissions incurred post the acquisition of a property are recognised at cost in the carrying value of investment properties in the period in which they are incurred. Subsequently, the Fair Values of the underlying leases are considered in the overall determination of the Fair value of the investment property, with any movement being recorded in the Consolidated Income Statement.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2g Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess cost of the business combination over PEPR's interest in net fair value of the identifiable assets, liabilities and contingent liabilities. Following recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of PEPR's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of PEPR are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

2h Amounts due between related parties

Amounts due from or to related parties (see Note 2a) are stated at nominal value.

2i Accounts receivable

Accounts receivable are stated at nominal value less provisions for doubtful debts, if any. The Management Company assesses specific provisions on a customer by customer basis throughout the year.

2j Current assets and liabilities

The fair value of other current financial assets and liabilities due within one year approximate the carrying value disclosed in the consolidated financial statements, due to the short time in which these transactions are settled.

2k Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value. The use and disbursement of certain cash deposits are restricted under the terms of various financing agreements (see Note 8).

2l Capital contributions

Capital contributions represent the amount of capital called and contributed to PEPR by current Unitholders since the inception of PEPR at historical cost.

2m Cost of raising capital and launching PEPR

General Fund launch costs are written off through the Consolidated Income Statement in the period in which they are incurred. The cost of raising capital represents direct costs incurred in establishing the capital of PEPR including, amongst others, legal, accounting and investment banker's fees. Such costs are netted against the capital raised and are disclosed as a separate component of equity.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2n Accumulated distributions

The Management Regulations create an obligation to pay a quarterly dividend to the extent that Distributable Income is available. Distributions are recognised in the financial statements as a liability in the period to which they are related. Given the fact that such distributions are attached to equity instruments and that there is no obligation to pay them if they do not arise, they are classified in equity.

2o Financial instruments

PEPR uses financial instruments, such as interest rate and cross currency interest rate swaps, to hedge risks associated with interest rate and foreign currency fluctuations. The effectiveness of the hedge is assessed by comparing the value of the hedged item with the notional value implicit in the contractual terms of the financial instrument being used in the hedge (Note 25).

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Consolidated Income Statement with the corresponding receivable or payable recognised in the Balance Sheet. Any corresponding gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the consolidated income statement.

In relation to cash flow hedges used to manage interest rate risks which meet the criteria for hedge accounting, PEPR records interest on the hedged loan at an interest rate implicit in the swap agreement (see Note 14 and Note 25). Cash flow hedges are valued at fair value and included under "Hedging instruments" on the Balance Sheet. The effective portion of the gain or loss on the effective hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the Consolidated Income Statement.

Those financial instruments which do not meet the conditions for hedge accounting are accounted for at fair value with changes in fair value recognised immediately as a component of net profit.

Where financial instruments are unwound prior to their planned maturity, any gain or loss and associated costs are recorded in "Finance expenses" in the period in which the swap is unwound.

2p Interest bearing debt

Debt, comprising secured notes and bank loans, is carried on the Balance Sheet at the fair value of the initial proceeds less the unamortised portion of discounts and transaction costs incurred to acquire the debt. Discounts and transaction costs are amortised over the life of the related debt through finance expenses using the effective interest rate method (see Note 2z).

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include internal administrative or holding costs.

2q Taxation

The consolidated subsidiaries of PEPR are subject to taxation in the countries in which they operate. Current taxation is provided for at the applicable current rates on the respective taxable profits.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2r Deferred taxation

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

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

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

2s Provisions and expense accruals

A provision is recognised when, and only when PEPR has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2t Deferred income

Deferred income represents rental income which has been billed to customers as at the balance sheet date, but which relates to future periods.

2u Revenue recognition—rental income

PEPR leases its buildings to customers under agreements that are classified as operating leases.

Rental income represents rents charged to customers and is recognised on a straight line basis taking account of any rent free periods and other lease incentives, net of any sales taxes, over the lease period to the first break option ("**rent levelling**").

2v Revenue recognition—other property income

Represents income derived from property from sources other than customers, and is recognised on an accruals basis in the period to which it contractually relates, net of any sales taxes.

2w Expense recognition

Expenses are accounted for on an accruals basis. Expenses are charged to the Consolidated Income Statement, except for those which are related to the raising of equity (see note 2m), the raising of debt (see note 2p) or incurred in the acquisition of an investment which are capitalised as part of the cost of the investment. Expenses arising on the disposal of investments are deducted from the disposal proceeds.

2x Revenue recognition—Investment property disposals

Gains on the disposal of investments in property are recorded at the time title is transferred.

2y Finance income

This includes interest income received during the period.

2z Finance expenses

Finance expenses includes:

- i) interest expenses related to secured notes, long term and short term debt, and is recognised on an accruals basis;
- ii) amortisation of transaction costs applicable to the period, (see Note 2p);
- iii) the effect of the unrealised change in the fair value of mark to market currency hedges related to the financing activities for the period (see Note 2o);
- iv) the effect of the unrealised foreign currency gains and losses on monetary assets and liabilities arising in the period (see Note 2b) and;
- v) the effect of the realised foreign currency gains and losses on cash transactions completed during the period (see Note 2b).

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2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

2aa Segment information

PEPR operates using the ProLogis Operating System®, a system that allows customers' needs to be serviced regardless of their location. The majority of the properties owned by PEPR are designed such that they are of similar standard and design, regardless of their location. The design of the buildings is such that they are attractive to similar customers across markets, and many of ProLogis' customers occupy properties across Western Europe. As a consequence of the generic nature of the properties and needs of the customers, the Management Company believes that it is appropriate to classify all operations under one industry segment, namely Logistical property and one region, namely Western Europe.

2ab Subsequent events

Post-period-end events that provide additional information about PEPR's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when significant.

2ac Contingencies

Contingencies are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is possible.

2ad Future standards

The following IFRS and IFRIC interpretations were issued in 2006 with an effective date for the financial period beginning on or after 1 January 2007. PEPR has chosen not to adopt these standards and interpretations early and PEPR expects that adoption of the pronouncements listed above as they become effective will have no significant impact on PEPR's financial statements:

- i) IFRS 7 Financial investments: Disclosures (effective 1 January 2007);
- ii) IFRS 8 Operating segments (effective January 2009);
- iii) Amendment to IAS 1: Presentation of Financial statements—Capital Disclosures (effective from 27 January 2006);
- iv) Amendments to IAS 39 Financial instruments; Recognition and Measurement and IFRS 4 Insurance Contracts—Financial Guarantee Contracts (effective from 27 January 2006);
- v) Amendments to IAS 39 Fair value option (effective 1 January 2006) and amendment to IAS 39: Cash flow Hedge Accounting (effective 1 January 2006); IFRIC Interpretation 9 Reassessment of Embedded Derivatives (effective from 1 June 2006);
- vi) IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2009).

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

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3 FINANCIAL RISK MANAGEMENT

3a Risk relating to investment in property

Investment in property is subject to varying degrees of risk. The main factors which affect the value of the investment in property include but are not limited to:

- i) changes in general economic climate;
- ii) local conditions, such as an oversupply of distribution space or a reduction in demand for distribution space in an area;
- iii) the relative attractiveness of PEPR's Distribution Facilities to potential customers;
- iv) government regulations, including zoning, usage, environmental and tax laws; and
- v) real estate investments are not as liquid as other types of assets, which may affect PEPR's ability to react promptly to certain changes.

3b Risks relating to the business

- i) PEPR faces competition in each of its markets in terms of significant resources competitors have which can cause a reduction in rental income and negatively impact PEPR's results of operations, Distributable Cash Flow and the NAV of Ordinary Units;
- ii) PEPR no longer has direct access to the ProLogis development pipeline through the SPCA and relies instead on external growth through investments in the ProLogis Private Equity Funds and ProLogis Joint Ventures both of which give PEPR an indirect access to the ProLogis development pipeline;
- iii) PEPR's investments are concentrated in the industrial logistics sector and therefore its business would be adversely affected by an economic downturn in that sector. As at 31 December 2006, 56% of PEPR's customers (as measured by annualised rental income) were third party logistics companies, 14% were retailers, 13% were manufacturers and 17% were others;
- iv) Operating results and Distributable Cash Flow are dependent on the continued generation of lease revenues from customers and may adversely affect PEPR in an event of an economic downturn in these customers' businesses, or by these customers failing to make rental payments that might reduce cash flow to PEPR from the lease;
- v) PEPR's business may be adversely affected if it is unable to renew leases or re-lease space on favourable terms as leases expire;
- vi) Increased maintenance and redevelopment costs could negatively affect PEPR's results of operations as the average age of the properties in the portfolio increases over time;
- vii) Property valuations are inherently subjective and uncertain and there is no assurance that the valuations would reflect actual sales prices;
- viii) PEPR's insurance coverage does not cover all potential losses such as acts of war or riots as the Management Company does not feel it is economically feasible or prudent to do so. PEPR does have the benefit of insurance coverage, including property, liability, fire, flood, earthquake, environmental, terrorism, extended coverage and rental loss as these are items the Management Company considers appropriate for the markets where each of PEPR's Distribution Facilities are located.

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3 FINANCIAL RISK MANAGEMENT (continued)

3c Risks relating to PEPR

- i) ProLogis may have investment objectives and policies comparable to those of PEPR and may compete with PEPR in particular with Distribution Facilities developed or redeveloped by ProLogis;
- ii) Changes in tax laws, regulations or interpretations by tax authorities could increase tax liabilities and require changes in PEPR's structure, which could negatively affect its Distributable Cash Flow;
- iii) PEPR may be subject to the French 3% real estate holding tax. Although PEPR is in the process of seeking a tax ruling from the French tax authorities to determine whether it is eligible for the exemption, there can be no assurance that the ruling, if and when it is granted, that it will be positive; and
- iv) In the absence of cause, the Management Company cannot be removed and this may adversely affect the NAV or market price of Ordinary Units. The Management Company can only be removed or replaced (i) without cause, by a vote of 67% of Ordinary Units, on 15 September 2016 and every fifth year thereafter, or (ii) by a simple majority of Ordinary Units at any time in the event of gross negligence, willful misconduct or fraud and (iii) the failure of ProLogis to observe ownership requirements as set out in the Management Regulations.

3d Risk diversification rules and borrowing restrictions

- i) Pending investment or reinvestment of the proceeds from the sale of Distribution Facilities or distributions, sales and/or redemption proceeds of ProLogis private equity funds and ProLogis joint ventures, the cash assets of PEPR will be invested in liquid Euro or Sterling denominated money market instruments, time deposits or debt securities;
- ii) In relation to the above point, PEPR may not invest or hold more than 10 % of its net assets in money market instruments, debt securities of a single issuer or debt securities that are neither listed nor dealt with on a Regulated Market;
- iii) PEPR will not invest more than 20% of its net asset value, directly or indirectly in a single property or a company, or other investment vehicle which is partly owned by PEPR and which PEPR does not control;
- iv) PEPR shall have (i) the right to subscribe up to 30% of equity securities issued by any ProLogis private equity fund in Europe, and (ii) the right to participate in ProLogis joint ventures;
- v) PEPR shall not be required to pay a subscription or placement fee with respect to investments made in the ProLogis private equity fund or ProLogis joint venture;
- vi) PEPR will not enter into or invest in options, futures or other derivative transactions for speculative purposes and may enter into such transactions for currency or interest rate hedging;
- vii) PEPR and its consolidated subsidiaries may not incur additional indebtedness which would cause the value of total indebtedness to exceed 60% of the aggregate as at the most recent valuation day; and
- viii) For the purpose of effective cash management, PEPR may exceed the indebtedness limit of 60% for temporary or short term purposes for up to six months provided that such total indebtedness shall not exceed 65% of aggregate valuation as at the most recent valuation day.

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3 FINANCIAL RISK MANAGEMENT (continued)

3e Credit risk

PEPR's earnings, distributable cashflow and its net asset value could be adversely affected if a significant number of its customers are unable to meet their lease obligations.

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, PEPR obtains collateral in the form of bank deposits and/or bank or parent company guarantees.

The extent of PEPR's credit exposure is represented by the aggregate balance of amounts receivable, as reduced by the effects of any netting arrangements with counterparties.

PEPR has no significant concentrations of credit risk. PEPR has a large and diverse range of customers, and thus concentrations of credit risk in any particular geographic location or industry are considered low.

Accounts receivable are stated net of any provisions, and without any set off of deposits or guarantees. PEPR's maximum exposure to credit risk is represented by the balance disclosed in the Consolidated Balance Sheet.

3f Interest rate risk

PEPR's interest rate risk arises from issuing secured notes at variable interest rates through certain SPEs (the "Issuers"). Borrowings at variable rates expose PEPR to cashflow interest rate risk.

PEPR manages its cashflow interest rate risk by using floating to fixed interest rate swaps ("IRS"). Such interest rate swaps have the economic effect of converting borrowings from floating rate to fixed rate debt.

The Issuers have loaned the proceeds of the notes to the finance subsidiaries of PEPR through fixed rate financing (Note 14). Thus, the Issuers pay floating rate interest and receive fixed rate interest.

To hedge the risk of rising interest rates, the Issuers have entered into IRS agreements with ABN Amro Bank London Branch, JPMorgan Chase Bank, Bank of America N.A. and Société Générale ("swap counterparties") regulated by the International Swaps and Derivatives Association ("ISDA"). Each one of the IRSs exactly matches the critical terms of a corresponding Euro tranche of the Notes issued: the amount, the currency, the maturity, the interest rate and the interest payment dates.

At the time the Issuer enters into the IRS agreements, these are designated as cash flow hedges. A description of the accounting treatment of the cash flow hedges is given in Note 2o. Note 25 sets out the carrying amount, by maturity, of PEPR's financial instruments.

3g Foreign exchange risk

A part of the net assets of PEPR are exposed to variations in Sterling, Polish Zloty, Czech Kron, Hungarian Forint and Swedish Krone. According to the nature of the asset or liability, this exposure is either recorded against the "Cumulative foreign currency translation" in the Consolidated Balance Sheet or against "Finance expenses" in the Consolidated Income Statement.

The Issuers enter into foreign exchange contracts to manage their foreign exchange risk resulting from financing arrangements denominated in foreign currencies. This mainly comprises the currency risks of the Borrowers due to the fact that the finance subsidiaries borrow Euro denominated debt and lend predominantly Sterling denominated debt to other subsidiaries of PEPR to finance property acquisitions.

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3 FINANCIAL RISK MANAGEMENT (continued)

A portion of the proceeds of the Euro-denominated Notes is converted to Sterling and lent by the Issuers to the Borrowers to provide Sterling denominated fixed rate financing (Note 13). The purpose of the Cross Currency Swaps ("CCSs") is to hedge the risk of fluctuating foreign exchange rates of the Euro against Sterling. The Issuers have entered into CCS agreements with ABN Amro Bank London Branch, JPMorgan Chase Bank and Bank of America N.A. Each of the CCSs exactly matches the critical terms of a corresponding Sterling tranche of the Notes issued: the amount, the currency, the maturity, the interest rate and the interest payment dates.

At the time the Issuer enters into CCS agreements, these are designated as fair value hedges. A description of the accounting treatment of the fair value hedges is given in Note 2o.

Should a party default on the swap agreements in the performance of any payment obligation, the defaulting party will, on demand, be required to pay interest on the overdue amount to the other party in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the default rate.

A table showing the interest rate swaps, cross currency swaps and the financial instruments to which they relate is included in Note 25.

3h Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through appropriate and adequate credit lines and the ability of customers to settle obligations within normal terms of credit.

PEPR ensures, through the forecasting and budgeting of cash needs, that adequate committed credit lines are available.

To ensure that customers continue to be able to meet their credit terms, the financial viability of customers is kept under review.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

PEPR makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4a Investment in properties

The gross property value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction without deduction for any associated transfer taxes, sales taxes, or other costs normally borne by the purchaser. Transaction costs normally borne by the seller are not deducted in arriving at Gross Property Value, in accordance with IAS40. The Fair value is calculated by deducting the costs normally borne by the purchaser from the Gross Property Value. Fair Value is not intended to represent the liquidation value of the property, which would be dependent upon the price negotiated at the time of sale less any associated selling costs. The Fair value is largely based on estimates using property appraisal techniques and other valuation methods as outlined below. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

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

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4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

The appraisers derive the fair value by applying the methodology and valuation guidelines as set out by the Royal Institution of Chartered Surveyors in the United Kingdom in accordance with IAS 40. This approach is based on discounting the future net income receivable from properties to arrive at the net present value of that future income stream. Future net income comprises the rent secured under existing leases, less any known or expected non-recoverable costs and the current market rent attributable to future vacancy years. The consideration basis for this calculation excludes the effects of any taxes. The discount factors used to calculate fair value are consistent with those used to value similar properties, with comparable leases in each of the respective markets.

From June 2005, the property assets within PEPR are being revalued on an alternating six monthly basis such that all assets are revalued at least once a year by the Independent Appraisers. At each balance sheet date, the Management Company reviews the latest independent valuation to ensure that it is still applicable. The last valuation exercise by the independent appraisers was performed as at 31 December 2006.

4b Income and deferred taxes

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

4c Fair value currency and interest rate swaps

PEPR estimates fair values of swaps by reference to current market conditions compared to the terms of the swap agreements using the results of an external appraisal process carried out by a third party.

4d Fair value financial liabilities

The fair value of borrowings approximates to the carrying value disclosed in the consolidated financial statements due to the variable interest terms attached to those borrowings, except for certain financial leases and mortgages in France and Italy which are carried at amortised cost (see Note 25).

4e Business combinations

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

Since inception of PEPR, ProLogis contributed properties to PEPR under the Stabilised Property Contribution Agreement ("SPCA") (see Note 19c). In the opinion of the Management Company, the special purpose vehicles which themselves own the investment property do not qualify as businesses under the definition of IFRS 3 as they do not represent "an integrated set of activities and assets". Therefore, the contribution of these properties to PEPR does not represent a business combination under the definition of IFRS 3. The cost of the assets and liabilities acquired by way of the SPCA is allocated based upon their relative fair values, and no goodwill is recognised.

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

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

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4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

On 27 July 2005 PEPR purchased 100% of the equity of Harbor Park Ingatlanmukodteto Kft ("**Investment Kft**") which owns 55.665% of the equity of Harbor Park Ingatlanfejlesztő Kft ("**Management Kft**").

Investment Kft owns investment property on a distribution park on the outskirts of Budapest. Management Kft owns part of the physical infrastructure of the park and has a management agreement to manage the park. This acquisition was treated as a business combination (see Note 6).

5 PROPERTY UNDER CONSTRUCTION

Property under construction comprises expenditure on real estate under construction.

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Cost at the beginning of the period	7,052	1,724	12,127
Additions during the period	13,576	13,530	14,797
Transfers of stabilised property to investment properties	<u>(13,471)</u>	<u>(8,202)</u>	<u>(25,200)</u>
	<u>7,157</u>	<u>7,052</u>	<u>1,724</u>

6 GOODWILL

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
<i>Gross</i>			
Balance at the beginning of the period	1,736	—	—
Additions during the period	—	1,736	—
Disposals and amounts written off	<u>—</u>	<u>—</u>	<u>—</u>
Balance at the end of the period	<u>1,736</u>	<u>1,736</u>	<u>—</u>
<i>Impairment</i>			
Balance at the beginning of the period	(1,736)	—	—
Amortisation for the period	—	—	—
Amortisation on disposals and write-offs	<u>—</u>	<u>(1,736)</u>	<u>—</u>
Balance at the end of the period	<u>(1,736)</u>	<u>(1,736)</u>	<u>—</u>
Net book value at the end of the period	<u>—</u>	<u>—</u>	<u>—</u>

Goodwill was recognised on the acquisition of Harbor Park in Budapest which was accounted for as a business combination. The amount recognised was equal to the deferred tax on the difference between the tax and the book value of the property at the time of acquisition less a reduction in the sales price attributable to a portion of this deferred tax liability to reflect its fair value. Since the Fair Value of all future cash flows from the property has been taken into account in the valuation of the investment property itself, there are no future cashflows the Management Company can allocate to the value of the goodwill. The entire amount of goodwill has therefore been impaired.

The fair value of the identified assets and liabilities acquired in the transaction are shown below:

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6 GOODWILL (continued)

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Investment in property	—	63,850	—
Investment in subsidiary	—	459	—
Cash and cash equivalents	—	2,925	—
Other net assets	—	341	—
Debt	—	(42,731)	—
Deferred tax assets	—	465	—
Deferred tax liabilities	—	(3,134)	—
	—	22,175	—
Goodwill	—	1,736	—
Total cost of acquisition paid by cash	—	23,911	—
Cash acquired by the subsidiary	—	2,925	—
Cash paid	—	(23,911)	—
Net cash outflow	—	(20,986)	—

7 OTHER CURRENT ASSETS

Other current assets include:

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
VAT recoverable	43,039	45,260	44,483
Deposits with utility companies	1,634	2,416	2,707
Prepaid expenses and other receivables	12,474	10,682	7,057
Result of straight-lined rents	18,261	17,399	15,655
Insurance receivable	18,833	700	1,613
	94,241	76,457	71,515

Insurance receivable

This represents the best estimate of the amount receivable from the insurers regarding insurable losses.

8 CASH AND CASH EQUIVALENTS

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Restricted cash	90,245	85,946	54,084
Unrestricted cash	47,804	10,839	14,678
	138,049	96,785	68,762

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8 CASH AND CASH EQUIVALENTS (continued)

Restricted cash mainly comprises cash which, under the terms of the secured notes, is received from rental agreements and is subject to certain restrictions in any one quarter until interest payments under the notes for that applicable quarter are made.

Under the terms of the Secured Notes, cash received in respect of the sale of assets which are part of the security for those Loan Notes, is held as collateral until either a new property is substituted in as a replacement, or the Notes are partially repaid. At December 31, 2006 £17.0 million and €1.6 (totaling €6.9 million) was held as collateral for 2 property sales (2005: €25 million). In addition, a sum of €8 million is restricted in Spain subject to the performance of certain obligations under a development agreement.

9 OWNERSHIP OF PEPR

Before PEPR's initial public offering, ownership was split between Class A(1), Class A(2), Class A(3), Class B1, Class B2, Class C(1) and Class C(2) Unitholders. All classes of Units were either redeemed or converted into Ordinary Units on September 27, 2006.

The rights of holders' of Ordinary Units may be limited in several important ways compared to rights that typically attach to ordinary shares, including the following:

- i) the Management Company has the exclusive right to manage PEPR in the exclusive interests of Unitholders and has the sole power to table resolutions to the PEPR Board on all but a limited number of decisions, including the sale of Distribution Facilities;
- ii) the Management Regulations limit when the Management Company can be replaced, other than for cause (see Note 3c);
- iii) Ordinary Unitholders (including ProLogis and ProLogis Related Parties) have the right to elect four Independent Board Members (other than the initial Independent Board Members) upon proposal by a nomination committee, and the Management Company has the right to appoint two ProLogis Board Members; and
- iv) although the Independent Board Members will represent a majority of the Board, they will have limited rights with respect to the management and governance of PEPR.

The Management Regulations define the formula by which the Management Company is contractually obliged to calculate Distributable Income of PEPR and to distribute such amount, if any, to Unitholders each quarter.

Prior to conversion, the rights of the Unitholders were as follows:

Class A(1), Class A(2), Class A(3), Class B1 and Class B2 Units had voting rights in proportion to their respective paid-up capital ("**Invested Capital**"). The Class C(1) and Class C(2) Units, except under certain circumstances, had no voting rights until the date of conversion to Class A(1) Units or other fully paid securities ("**Ordinary Units**") superseding Class A(1) Units, as further described in the Management Regulations.

Units were not normally redeemable at the option of the Unitholders. Class A(1), Class A(2), Class A(3), Class C(1) and Class C(2) Units could have been redeemed in specific circumstances in accordance with criteria set out in Articles 9 and 23 of the Management Regulations. In addition, the Management Company had the power to redeem units under the circumstances described in Article 15 of those regulations.

Class A(1) Units were issued partly paid on 10 December 1999 with the balance called over a three year period from 15 September 1999 at the discretion of the Management Company. Class A(1)

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

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9 OWNERSHIP OF PEPR (continued)

Units were issued at an initial price of €10 per unit. On 31 December 2001, the majority of the Class A(1) Units were reclassified, with the consent of the Unitholders, into Class A(2) Units on a one for one basis.

Class A(3) Units were issued partly paid on 29 August 2003 with the balance to be called over a period of three years at the discretion of the Management Company.

Class B1 Units were subscribed for on 15 September 1999 by PLD International Incorporated ("ProLogis") and were issued partly paid in exchange for certain contributed properties. Class B1 Units were issued at an initial price of €10 per unit.

Class B2 Units are issued to and subscribed for by ProLogis in accordance with the Stabilised Property Contribution Agreement dated 15 September 1999 and amended on 29 June 2001, ("SPCA") and the Class B2 Subscription Agreement (see Notes 19c and 19d).

Class C(1) and Class C(2) Units are cumulative convertible Preferred Units, subscribed for on 15 September 1999 and 29 August 2003 respectively, and issued at €10 per unit, fully paid. The Class C(1) and Class C(2) Unitholders are entitled to receive preferred cash distributions.

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
<u>Number of units in issue</u>	<u>No. of Units</u>	<u>No. of Units</u>	<u>No. of Units</u>
Class of Units			
Class A(1)	—	500,000	500,000
Class A(2)	—	87,391,985	87,391,985
Class A(3)	—	52,093,478	52,093,478
Class B1	—	13,000,000	13,000,000
Class B2	—	23,128,953	20,483,038
Class C(1)	—	10,160,000	10,160,000
Class C(2)	—	10,160,000	10,160,000
Ordinary	188,687,510	—	—
	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Par Value in issue			
Class of Units			
Class A(1)	—	5,000	5,000
Class A(2)	—	873,920	873,920
Class A(3)	—	334,250	161,750
Class B1	—	130,000	130,000
Class B2	—	246,052	216,038
Class C(1)	—	101,600	101,600
Class C(2)	—	101,600	101,600
Ordinary	1,883,571	—	—
	<u>1,883,571</u>	<u>1,792,422</u>	<u>1,589,908</u>

10 NET RETAINED EARNINGS

Earnings per unit

Basic Earnings per unit amounts are calculated by dividing net profit for the year attributable to Class A, Class B, Class C and Ordinary Units drawdown, divided by the equivalent weighted average number Class A, Class B, Class C and Ordinary Units drawdown during the year.

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10 NET RETAINED EARNINGS (continued)

Diluted Earnings per unit are calculated by dividing the net profit attributable to Class A, Class B, Class C and Ordinary Unitholders as if 100% of the units had been drawdown, divided by the total number of Class A, Class B, Class C and Ordinary Units as if fully drawdown. Earnings per Class C unit both diluted and undiluted are the same as this represents the amount of distributions per Unit attributable to the Class C Unitholders according to the Management Regulations.

	<u>Ordinary Units</u>	<u>Class A and Class B Units</u>	<u>Class C units</u>	<u>Total</u>
For the year ended 31 December 2006				
Earnings per year net of minority interest				
Basic	56,304	370,262	10,165	380,427
Diluted	56,304	370,262	10,165	380,427
Weighted average number of units issued during the year				
Basic	49,110,448	127,510,533	15,031,233	—
Diluted	49,110,448	135,994,220	15,031,233	—
Earnings per Unit (Euros)				
Basic	1.15	2.90	0.675	—
Diluted	1.15	2.72	0.675	—

	<u>Ordinary Units</u>	<u>Class A and Class B Units</u>	<u>Class C units</u>	<u>Total</u>
For the year ended 31 December 2005				
Earnings per year net of minority interest				
Basic	—	221,609	13,716	235,325
Diluted	—	221,609	13,716	235,325
Weighted average number of units issued during the year				
Basic	—	145,388,000	20,320,000	—
Diluted	—	187,556,114	20,320,000	—
Earnings per Unit (Euros)				
Basic	—	1.52	0.675	—
Diluted	—	1.18	0.675	—

	<u>Ordinary Units</u>	<u>Class A and Class B Units</u>	<u>Class C units</u>	<u>Total</u>
For the year ended 31 December 2004				
Earnings per year net of minority interest				
Basic	—	168,613	10,081	178,694
Diluted	—	164,978	13,716	178,694
Weighted average number of units issued during the year				
Basic	—	127,388,906	14,934,814	—
Diluted	—	184,868,108	20,320,000	—
Earnings per Unit (Euros)				
Basic	—	1.32	0.675	—
Diluted	—	0.89	0.675	—

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

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10 NET RETAINED EARNINGS (continued)

The distributions have been calculated in accordance with Article 15 of the Management Regulations and are summarised as follows:

<u>Class of Unit</u>	<u>Total</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>To December 2003</u>
Class A(1)	1,994	344	421	406	823
Class A(2)	361,586	60,084	73,540	71,004	156,958
Class A(3)	56,564	30,175	17,969	7,186	1,234
Class B1	96,867	8,938	10,940	10,562	66,427
Class B2	73,655	17,360	18,039	14,233	24,023
Class C(1)	51,681	5,459	7,366	7,366	31,490
Class C(2)	13,880	4,706	6,350	2,715	109
Ordinary	38,133	38,133	—	—	—
	694,360	165,199	134,625	113,472	281,064
Accumulated earnings		655,957	420,631	241,937	136,900
Cumulative distributions		(694,360)	(529,161)	(394,536)	(281,064)
Net retained earnings		(38,403)	(108,530)	(152,599)	(144,164)
Distributions brought forward		35,329	31,797	32,924	48,042
Distributions for the period		165,199	134,625	113,472	116,591
Distributions paid		(162,395)	(131,093)	(114,599)	(131,709)
Distributions carried forward		38,133	35,329	31,797	32,924
Distributions per unit					
<u>Class of Unit</u>		<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
		Euro	Euro	Euro	Euro
		per unit	per unit	per unit	per unit
Class A(1)		0.69	0.84	0.81	0.77
Class A(2)		0.69	0.84	0.81	0.84
Class A(3)		0.58	0.34	0.14	0.02
Class B1		0.69	0.84	0.81	1.73
Class B2		0.65	0.78	0.69	0.74
Class C(1)		0.54	0.73	0.73	0.73
Class C(2)		0.46	0.63	0.27	0.01
Ordinary		0.20	—	—	—

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11 CUMULATIVE FOREIGN CURRENCY TRANSLATION

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Balance at the beginning of the period	(20,846)	(27,499)	(32,031)
Other translation adjustments	<u>15,164</u>	<u>6,653</u>	<u>4,532</u>
Balance at the end of the period	<u>(5,682)</u>	<u>(20,846)</u>	<u>(27,499)</u>

12 CASHFLOW HEDGE VALUATION RESERVE

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Balance at the beginning of the period	(39,300)	(44,652)	(36,657)
Movement in fair value of existing hedges	43,388	6,152	(7,995)
Fair value of hedges acquired during the year	—	(800)	—
Fair value of hedges repaid during the year	<u>(95)</u>	<u>—</u>	<u>—</u>
Net variation during the period	<u>43,293</u>	<u>5,352</u>	<u>(7,995)</u>
Balance at the end of the period	<u>3,993</u>	<u>(39,300)</u>	<u>(44,652)</u>

13 INTEREST BEARING SECURED NOTES

Euro Secured Floating Rate Notes (the "**Notes**") have been issued by certain SPEs (the "**Issuers**"), which although not owned by PEPR are consolidated according to PEPR's accounting principles (Note 2a). The Issuers have each made an issue of Notes at 100% of their face value and bear interest at a floating rate of three month Euribor plus a weighted average margin of 0.33% per annum (2005: 0.33% and 2004: 0.40%).

The Notes are stated net of unamortised transaction costs incurred in making the respective issue.

The Notes are secured on the assets of the respective borrower and its direct and indirect subsidiaries. The Notes must be redeemed in full, on or before the repayment date. However, the Notes may be repaid earlier, in full or in part, at the option of certain finance subsidiaries of PEPR (the "**Borrowers**"), subject to certain conditions.

Repayment of all the Notes is due before May 2010.

Application of the proceeds

A total of €402.8 million of the proceeds from these Notes was swapped (Note 2o) into £257.6 million and lent, together with the remaining Euro proceeds of €385.6 million, to the borrowers (2005: €407.7 million was swapped into £257.6 million; 2004: €345.7 million was swapped into £214.8 million). The proceeds were primarily used to refinance existing debt. Under the terms and conditions of the respective Issuer/Borrower loan agreements, the Sterling loans bear interest at a weighted average fixed rate of 5.67% (2005: 5.66% and 2004: 6.00%). The Euro loans bear interest at a weighted average fixed rate of 4.49% (2005: 4.57% and 2004: 5.33%).

On 6 November, 2006 €4.8 million was repaid to Loan Noteholders. To effect the repayment £3.0 million of the sterling tranche was repaid to the swap counterparty and €4.8 million was received at an exchange rate of 0.6317 equal to the fixed rate of exchange. Details of the Notes and the application of the proceeds are shown below:

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

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13 INTEREST BEARING SECURED NOTES (continued)

Application of the Proceeds

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Cumulative proceeds			
<i>Proceeds from secured floating rate notes:</i>			
Loan notes listed on the London Stock Exchange	1,144,459	1,149,250	760,250
Loan notes listed on the Irish Stock Exchange	<u>144,000</u>	<u>144,000</u>	<u>144,000</u>
	<u>1,288,459</u>	<u>1,293,250</u>	<u>904,250</u>
Transaction costs			
<i>Cost</i>			
Balance at the beginning of the period	65,087	52,353	51,914
Retirements and amounts written off	(578)	—	—
Additions during the period	<u>—</u>	<u>12,734</u>	<u>439</u>
	<u>64,509</u>	<u>65,087</u>	<u>52,353</u>
Balance at the end of the period			
<i>Amortisation</i>			
Balance at the beginning of the period	34,298	19,659	13,134
Retirements and amounts written off	—	—	263
Amortisation shown in interest expense	<u>11,083</u>	<u>14,639</u>	<u>6,262</u>
	<u>45,381</u>	<u>34,298</u>	<u>19,659</u>
Balance at the end of the period			
Net book value of Transaction Costs	<u>19,128</u>	<u>30,789</u>	<u>32,694</u>
Net book value of proceeds from Secured notes	<u>1,269,331</u>	<u>1,262,461</u>	<u>871,556</u>
Value of pledged assets			
For loan notes listed on the London Stock Exchange	2,582,908	2,311,095	1,530,790
For loan notes listed on the Irish Stock Exchange	<u>283,077</u>	<u>270,197</u>	<u>259,870</u>
	<u>2,865,985</u>	<u>2,581,292</u>	<u>1,790,660</u>

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

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13 INTEREST BEARING SECURED NOTES (continued)

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Proceeds from Notes listed on the London Stock Exchange			
Pan European Industrial Properties Series I S.A. 2011	213,750	213,750	213,750
Pan European Industrial Properties Series II S.A. Class A—2012	285,500	285,500	285,500
Pan European Industrial Properties Series II S.A. Class B—2012	30,750	30,750	30,750
Pan European Industrial Properties Series II S.A. Class C—2012	39,750	39,750	39,750
Pan European Industrial Properties Series III S.A. Class A—2013	145,959	150,750	150,750
Pan European Industrial Properties Series III S.A. Class B—2013	17,250	17,250	17,250
Pan European Industrial Properties Series III S.A. Class C—2013	22,500	22,500	22,500
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class A—2013	337,000	337,000	—
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class B—2013	32,000	32,000	—
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class C—2013	20,000	20,000	—
	<u>1,144,459</u>	<u>1,149,250</u>	<u>760,250</u>
 Gross Value of pledged assets			
Pan European Industrial Properties Series I S.A.	566,790	498,669	478,522
Pan European Industrial Properties Series II S.A.	748,010	690,445	672,095
Pan European Industrial Properties Series III S.A.	463,804	411,099	380,173
Pan European Industrial Properties Series IV S.A.	804,304	710,882	—
	<u>2,582,908</u>	<u>2,311,095</u>	<u>1,530,790</u>

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

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13 INTEREST BEARING SECURED NOTES (continued)

Issuer: Pan European Industrial Properties

Series I S.A.

Borrower	ProLogis European Finance S.à r.l.
Issue price	100%
Issue date	May 2001
Legal Maturity date	April 2011
Interest payment	Quarterly
Amount	£213,750
Interest rate: 3 month Euribor +	0.35%
Effective interest rate	7.09%

Application of Proceeds

Euro tranche	€95,500
Fixed interest rate	5.41%
Sterling tranche (£'000)	£73,610
Fixed interest rate	6.033%
Exchange rate	0.6225

Issuer: Pan European Industrial Properties

Series II S.A.

Borrower	ProLogis European Finance II S.à r.l.
Issue price	100%
Issue date	May 2002
Legal Maturity date	July 2012
Interest payment	Quarterly
Effective interest rate	6.39%

	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Amount	€285,500	€30,750	€39,750
Interest rate: 3 month Euribor +	0.32%	0.48%	0.90%
Application of Proceeds			
Euro tranche	€169,069	€18,210	€23,539
Fixed interest rate	5.45%	5.61%	6.03%
Sterling tranche (£'000)	£71,547	£7,706	£9,961
Fixed interest rate	5.92%	6.11%	6.54%
Exchange rate	0.6145	0.6145	0.6145

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

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13 INTEREST BEARING SECURED NOTES (continued)

**Issuer: Pan European Industrial Properties
Series III S.A.**

Borrower	ProLogis European Finance IV S.à r.l.
Issue price	100%
Issue date	February 2003
Legal Maturity date	May 2013
Interest payment	Quarterly
Effective interest rate	5.57%

As at 31 December 2006	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Amount	€45,959	€7,250	€2,500
Interest rate: 3 month Euribor +	0.35%	0.48%	0.85%

Application of Proceeds

Euro tranche	€85,660	€9,802	€12,785
Fixed interest rate	4.23%	4.36%	4.73%
Sterling tranche (£'000)	£38,092	£4,705	£6,136
Fixed interest rate	4.95%	5.08%	5.45%
Exchange rate	0.6317	0.6317	0.6317

As at 31 December 2005	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Amount	€50,750	€7,250	€2,500
Interest rate: 3 month Euribor +	0.35%	0.48%	0.85%

Application of Proceeds

Euro tranche	€85,660	€9,802	€12,785
Fixed interest rate	4.23%	4.36%	4.73%
Sterling tranche (£'000)	£41,118	£4,705	£6,136
Fixed interest rate	4.95%	5.08%	5.45%
Exchange rate	0.6317	0.6317	0.6317

As at 31 December 2004	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Amount	€50,750	€7,250	€2,500
Interest rate: 3 month Euribor +	0.35%	0.48%	0.85%

Application of Proceeds

Euro tranche	€85,660	€9,802	€12,785
Fixed interest rate	4.23%	4.36%	4.73%
Sterling tranche (£'000)	£41,118	£4,705	£6,136
Fixed interest rate	4.95%	5.08%	5.45%
Exchange rate	0.6317	0.6317	0.6317

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

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13 INTEREST BEARING SECURED NOTES (continued)

Issuer: Pan European Industrial Properties
Series IV S.A. (Compartment 1)

Borrower	ProLogis European Finance VII S.à r.l.		
Issue price	100%		
Issue date	March 2005		
Legal Maturity date	May 2013		
Interest payment	Quarterly		
Effective interest rate	4.44%		
	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Amount	€37,000	€32,000	€20,000
Interest rate: 3 month Euribor +	0.14%	0.18%	0.30%
Application of Proceeds			
Euro tranche	€283,306	€26,901	€16,813
Fixed interest rate	3.29%	3.33%	3.45%
Sterling tranche (£'000)	£37,113	£3,524	£2,203
Fixed interest rate	5.09%	5.13%	5.26%
Exchange rate	0.6912	0.6912	0.6912

Proceeds from Notes listed on the Irish Stock Exchange

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
France Industrial Properties No I S.A. Class A 2012	115,000	115,000	115,000
France Industrial Properties No I S.A. Class B 2012	29,000	29,000	29,000
	<u>144,000</u>	<u>144,000</u>	<u>144,000</u>
Value of pledged assets	<u>285,077</u>	<u>270,197</u>	<u>259,870</u>

Issuer: France Industrial Properties No I S.A.

Borrower	ProLogis European Finance V S.à r.l.	
Issue price	100%	
Issue date	April 2002	
Repayment date	April 2012	
Interest payment	Quarterly	
Effective interest rate	6.37%	
	<u>Class A</u>	<u>Class B</u>
Amount	€15,000	€29,000
Interest rate: 3 month Euribor +	0.38%	0.90%
Fixed interest rate	5.59%	6.11%
Application of Proceeds		
Euro tranche	€15,000	€29,000
Fixed interest rate	5.59%	6.11%

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

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14 INTEREST BEARING LONG TERM BANK LOANS

Loan Financing

The secured Loan Notes require a minimum asset base before being presented to the market. Until such time as there is a critical mass of suitable real estate assets, assets are financed by a secured revolving € 500 million credit facility provided by Banc of America N.A. and ABN AMRO Bank N.V. The facility is secured by way of pledges on the shares of certain subsidiaries of PEPR, intercompany receivables and a guarantee from PEPR. A second secured facility of €151 million is provided by Hypo Real Estate Bank International and secured on the assets of certain subsidiaries located in Central Europe.

Mortgage and Lease Financing

Real estate assets which are either unsuitable for secured loan note transactions, or that have been acquired by PEPR with financing already in place, are primarily financed by either third party mortgages or in France and Italy by "credit bail" style finance leases.

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Proceeds			
Bank loans maturing beyond 5 years	2,294	4,311	7,200
Bank loans maturing between 2 to 5 years	156,761	164,030	126,414
Bank loans maturing within 1 year	<u>537,312</u>	<u>203,976</u>	<u>410,190</u>
Total proceeds from long term bank loans	<u>696,367</u>	<u>372,317</u>	<u>543,804</u>
Transaction costs			
<i>Cost</i>			
Balance at the beginning of the period	11,234	11,672	8,207
Retirements and amounts written off	1,124	(3,632)	—
Additions during the period	<u>220</u>	<u>3,194</u>	<u>3,465</u>
Balance at the end of the period	<u>12,578</u>	<u>11,234</u>	<u>11,672</u>
<i>Amortisation</i>			
Balance at the beginning of the period	8,420	6,863	3,559
Retirements and amounts written off	(1,134)	(2,819)	77
Amortisation shown in interest expense	<u>2,212</u>	<u>4,376</u>	<u>3,227</u>
Balance at the end of the period	<u>9,498</u>	<u>8,420</u>	<u>6,863</u>
Net book value of Transaction Costs	<u>3,080</u>	<u>2,814</u>	<u>4,809</u>
Net book value of proceeds from bank loans	693,287	369,503	538,995
Less current portion of bank loans	<u>(534,231)</u>	<u>(201,162)</u>	<u>(405,381)</u>
Net book value of bank loans net of current portion	<u>159,056</u>	<u>168,341</u>	<u>133,614</u>

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

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14 INTEREST BEARING LONG TERM BANK LOANS (continued)

Used and unused portions of these facilities are analysed as follows:

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Available facilities			
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries	951,059	651,059	609,700
Loans secured by first mortgage	1,123	1,450	1,756
Finance leases	8,971	18,549	26,120
	<u>961,153</u>	<u>671,058</u>	<u>637,576</u>
Amounts drawn			
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries	686,273	352,318	515,928
Loans secured by first mortgage	1,123	1,450	1,756
Finance leases	8,971	18,549	26,120
	<u>696,367</u>	<u>372,317</u>	<u>543,804</u>
Unutilised loan facilities			
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries	264,786	298,741	93,772
Loans secured by first mortgage	—	—	—
Finance leases	—	—	—
	<u>264,786</u>	<u>298,741</u>	<u>93,772</u>
Value of pledged assets			
Real estate—Loans	1,414,457	678,505	1,061,428
Real estate—Finance leases	57,110	70,320	109,446
	<u>1,471,567</u>	<u>748,825</u>	<u>1,170,874</u>

The future minimum payments under existing finance lease arrangements, for the acquisition of certain real estate properties, are as follows:

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Within one year	1,893	2,717	3,656
Between one and two years	1,982	2,861	3,827
Between two and three years	1,813	3,013	4,008
Between three and four years	1,562	2,912	3,939
Between four and five years	1,237	2,735	3,490
After five years	484	4,311	7,200
Total	<u>8,971</u>	<u>18,549</u>	<u>26,120</u>
Number of loans	2	4	8
Weighted average effective interest rate	4.15%	4.14%	3.90%

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14 INTEREST BEARING LONG TERM BANK LOANS (continued)

Summary of facilities

Lender: Hypo Real Estate Bank International AG

Principal Borrower:	ProLogis Central European Finance S.L.
First drawdown	February 2004
Repayment date	March 2010
Pricing 3 month Euribor	+ 137 bps
Interest payment	Quarterly
Effective interest rate	3.61%

Lender: Banc of America N.A. and ABN AMRO Bank N.V.

Revolving credit facility with a maximum capacity of €800 million

Principal Borrowers:	ProLogis European Properties VI S.à r.l. ProLogis European Properties VII S.à r.l. ProLogis European Properties IX S.à r.l.
First drawdown	December 2003
Final date	December 2007
Pricing 3 month Euribor	+ 35 to 47.5 bps

15 TAXATION

PEPR is an unincorporated contractual co-ownership scheme governed by the law on Undertakings for Collective Investments of 20 December 2002.

According to legislation currently in force, PEPR is not subject to corporate income or capital gains taxes in Luxembourg. It is, however, liable to an annual subscription tax based upon the Ordinary units in issue. This tax is 0.01% per annum on the net assets attributable to Class A(2), Class A(3), Class B1, Class B2, Class C(1) and Class C(2) Units. The equivalent rate on the net assets attributable to Class A(1) units and Ordinary Units is 0.05%. The tax, payable quarterly, is assessed on the last day of each quarter.

Real estate revenues, or capital gains derived from real estate, may be subject to taxes by assessment, withholding or otherwise in the countries where the real estate is situated.

PEPR's subsidiaries depreciate their historical property cost in accordance with applicable tax regulations. Depreciation is deducted from taxable profits in determining current taxable income.

Deferred tax liabilities are calculated according to the full liability method, and mainly arise on timing differences generated by fair value adjustments occurring post acquisition in the case where an acquisition does not qualify as a business combination. In the case of acquisitions which are classified as business combinations deferred tax is recognised on the timing differences between the carrying value of real estate investments in these financial statements and the respective tax basis at the date of acquisition, and is subsequently remeasured in each period

Deferred tax liability has not been accrued in respect of unremitted profits contained in direct and indirect subsidiaries of PEPR as it is unlikely that these profits will be remitted to the parent in a manner which will attract income tax.

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15 TAXATION (continued)

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Deferred tax liability			
Opening balance	84,735	42,219	20,026
Effect of revaluations of properties to fair value post acquisition	113,989	39,276	22,193
Deferred tax on properties disposed of	(5,950)	—	—
Deferred tax liabilities acquired as part of business combinations	—	3,240	—
Movements on deferred tax liability	108,039	42,516	22,193
Closing balance	192,774	84,735	42,219
Made up of:			
Deferred tax liabilities acquired as part of business combinations related to the difference in the tax base on carrying value of investment properties acquired	—	3,240	—
Revaluation of investment properties to fair value	192,774	81,495	42,219
Total deferred tax liabilities	192,774	84,735	42,219
Long term tax asset mainly relating to losses carried forward			
Opening balances	5,992	3,509	3,368
Deferred tax assets acquired as part of business combinations related to the difference in the tax base on carrying value of investment properties acquired	—	466	—
Relating to tax losses carried forward	1,334	2,017	141
Total deferred tax assets	7,326	5,992	3,509
Income and other current taxes payable			
Balance brought forward	16,457	13,883	6,567
Tax expense	13,557	16,567	14,240
Tax paid	(15,203)	(13,993)	(6,924)
Closing balance	14,811	16,457	13,883
Tax expense			
Income taxes	13,515	15,647	12,975
Other taxes	(130)	748	1,089
Subscription taxes	172	172	176
Income taxes expensed	13,557	16,567	14,240
Deferred tax expense			
Arising from liabilities	113,989	39,277	22,193
Arising from properties disposed of	(5,950)	—	—
Arising from assets	(1,334)	(2,017)	(141)
Net transfers from deferred tax liability	106,705	37,260	22,052
Charge for taxation reported in the consolidated income statement	120,262	53,827	36,292

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

PROLOGIS EUROPEAN PROPERTIES
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15 TAXATION (continued)

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Effective tax rate	21.58%	18.58%	16.85%
Made up of:			
Effective tax rate of the operating activities of subsidiaries	9.69%	10.27%	11.74%
Effective deferred tax on valuation movements	11.89%	8.31%	5.11%
	21.58%	18.58%	16.85%
Weighted average tax rate	28.91%	28.41%	30.46%
Effect of permanent differences	(7.33%)	(9.83%)	(13.61%)
Effective tax rate	21.58%	18.58%	16.85%

16 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Accrued construction costs	7,222	10,124	16,320
Security deposits	13,437	11,870	11,064
Legal fee accruals	614	537	1,180
Interest payable	6,249	5,343	8,629
Other accrued expenses	9,422	9,998	8,961
VAT payable	17,907	12,883	11,213
Distributions payable	38,133	35,329	31,797
Total	92,984	86,084	89,164

17 RENTAL LEASES

PEPR leases real estate under operating leases. The terms of the leases are in line with normal practices in each market. Leases are reviewed or subject to automatic inflationary adjustments as appropriate. Operating expenses, where applicable, are recharged to customers either by way of direct charge or monthly service charges.

Lease payments receivable from non-cancellable leases is shown below. For the purposes of this schedule it is conservatively assumed that a lease expires on the date of the first break option.

	<u>Amount</u> <u>receivable</u>	<u>%</u>
Within 1 year	288,928	19.3%
between 2 and 5 years	764,100	51.1%
5 years and more	441,117	29.6%
	1,494,145	100%

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18 OTHER PROPERTY RENTAL EXPENSES

Property operating result comprises operating expenses net of amounts recoverable from customers and is analysed as follows:

	<u>2006</u> <u>12 months</u>	<u>2005</u> <u>12 months</u>	<u>2004</u> <u>12 months</u>
Maintenance & utilities	2,929	2,471	196
Insurance costs	3,263	2,126	3,443
Property management fees (Note 19b)	<u>1,815</u>	<u>2,254</u>	<u>2,222</u>
Total	<u>8,007</u>	<u>6,851</u>	<u>5,861</u>

The Management Company is obliged to provide management services to PEPR. In return the Management Company has subcontracted a number of related investment managers to carry out property management functions for PEPR (Note 19b), as a result, PEPR does not have any employees except for 3 employees in a partly owned, indirect subsidiary incorporated in Hungary.

19 TRANSACTIONS WITH RELATED PARTIES

19a Management fees

Since Settlement Date the Management Company is entitled to charge the following management fees

- (i) a management fee equivalent to 0.60% per annum of the Gross property Value of the Portfolio, excluding the any interest in any ProLogis Private Equity Funds or ProLogis Joint Ventures.
- (ii) A cash management fee equal to 0.10% per annum of unrestricted balances of cash and cash equivalents.
- (iii) From December 31, 2008, an incentive fee of 20% of net income per Unit above a hurdle rate of an annual return of 9% of Net assets over an average of three years.

Prior to settlement date the Management Company was entitled to a base management fee equivalent to a percentage of the value of PEPR's investment (direct or indirect) in real estate. The rate was 60 basis points per annum on the first €2 billion of the value of real estate. Between €2 billion and €3.5 billion the rate was 30 basis points and 20 basis points is charged on the excess beyond this range.

19b Property management fees

The Management Company has entered into investment management agreements with ProLogis Management BV, Garonor Services SAS, ProLogis Poland Management II Spzoo, ProLogis Germany Management II GmbH, ProLogis Italy Management II S.r.l., ProLogis Spain Management II SL, ProLogis Czech Management II Sro and ProLogis Hungary Management II Kft respectively incorporated under the laws of The Netherlands, France, Poland, Germany, Italy, Spain, the Czech Republic and Hungary (the "**Investment Managers**"). Under the terms of these agreements, the Investment Managers carry out property management functions on behalf of PEPR. Fees paid to local non related investment managers are deducted from the base management fee received by the Management Company.

19c The Stabilised Property Contribution Agreement and The Property Contribution Agreement

On 11 September, 2006 the Stabilised Property Contribution Agreement ("SPCA") was terminated. In accordance with the provisions of the SPCA, ProLogis was obliged to offer for sale and the Management Company, on behalf of PEPR, was obliged to accept all distribution facilities that met certain investment and operating criteria. The shares of the company owning eligible properties, or in certain cases the properties themselves, were contributed based on the fair value of their respective underlying assets and liabilities adjusted to reflect 95% of the Gross value of the distribution facility owned. A minimum of 3% of this discounted gross appraised value was paid to ProLogis in the form of additional Class B2 Units. The remainder of the net book value was paid in cash. Net unrealised gains of PEPR include the recognition of the discounts.

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19 TRANSACTIONS WITH RELATED PARTIES (continued)

Following termination of the SPCA, The management Company on behalf of PEPR, entered into a Property Contribution Agreement on 11 September, 2006 pursuant to which PEPR agreed to acquire upon stabilisation, Distribution facilities having an aggregate Contribution Value of €200 million. The shares of the company owning eligible properties, or in certain cases the properties themselves, are to be contributed based on the fair value of their respective underlying assets and liabilities adjusted to reflect 95% of the Gross value of the distribution facility owned. A minimum of 3% of this discounted gross appraised value will be paid to ProLogis in the form of additional Units and the balance will be paid for in cash.

19d Class B2 Subscription Agreement

Under the agreement dated 29 June 2001 between ProLogis and the Management Company additional series of Class B2 Units were issued to ProLogis for a maximum amount of €150 million, by the Management Company at any time on or before 15 September 2009. The Management Company does not intend to make any further calls under the agreement.

19e Leasehold agreements

PEPR has leased real estate to some of the Investment Managers on an arm's length basis. Rent charged for the year amounted to €1.0 million (2005: €1.4 million, 2004: €1.8 million).

19f Development fee

Up until the Settlement Date ProLogis has entered into a number of contracts with indirect subsidiaries of PEPR to manage, on behalf of those subsidiaries, significant redevelopment or extension projects. In return ProLogis receives a development fee of 7% of the cost of the project. These fees are included within the cost basis of real estate investments. Under the terms of the revised Management Regulations the Board of PEPR will annually approve ProLogis development rates based upon evidence of Local Market Rates.

19g Insurance

The Management Company has, on behalf of PEPR, entered into an insurance contract with a related party under which the first US\$1 million of any claim is settled by that related party. The remainder of any claim is met by a syndicate of insurers who are not related parties.

19h Leasing Commissions

Under the terms of the revised Management Regulations the Board of PEPR will annually approve ProLogis Leasing Commissions based upon evidence of Local Market Rates, which can be charged for initial and renewed leases where no outside broker is involved in the lease negotiations.

19i Private Equity Fund Investment Agreement

Under the Private Equity Fund Investment Agreement ProLogis has granted to PEPR the right to participate in offers for subscription of equity securities and securities convertible into equity securities by any ProLogis Private Equity Funds or ProLogis Joint Ventures, on the condition that these investments fulfill certain criteria.

20 FINANCE INCOME

	<u>2006</u> <u>12 months</u>	<u>2005</u> <u>12 months</u>	<u>2004</u> <u>12 months</u>
Interest income	4,673	1,663	1,516
Total finance income	4,673	1,663	1,516

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

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21 FINANCE EXPENSES

	<u>2006</u> <u>12 months</u>	<u>2005</u> <u>12 months</u>	<u>2004</u> <u>12 months</u>
Interest payable brought forward	(5,343)	(8,629)	(11,075)
Interest payable carried forward	6,249	5,343	8,629
Interest paid	84,073	76,302	64,717
Interest expense	84,979	73,016	62,271
Amortisation of initial borrowing costs	12,635	17,283	9,487
Total interest and amortisation expense	97,614	90,299	71,758
Unrealised change in value of fair value hedges	4,017	4,720	9,024
Other net unrealised foreign currency (gains)/losses on monetary assets and liabilities	(1,744)	(3,696)	(5,954)
Cumulative realised (gains)/losses	(2,715)	(660)	(754)
Net foreign currency losses on monetary assets and liabilities	(442)	364	2,316
Total finance expenses	97,172	90,663	74,074

22 NET CASH FLOW FROM OPERATING ACTIVITIES

	<u>2006</u> <u>12 months</u>	<u>2005</u> <u>12 months</u>	<u>2004</u> <u>12 months</u>
Earnings before taxes	557,360	289,728	215,327
<i>Adjustments for non cash items</i>			
Reversal of rent levelling adjustment	8,865	2,116	2,783
Reversal of goodwill impairment	-	1,736	—
Amortisation of transaction costs relating to debt	12,635	17,283	9,487
Unrealised change in value of fair value hedges	4,017	4,720	9,024
Other Net Unrealised foreign currency losses	(1,744)	(3,696)	(5,954)
Net Unrealised gain on the investment in real estate	(415,238)	(150,902)	(95,081)
Realised (gain)/loss on sale of investments	(17,819)	(686)	(2,741)
<i>(Increase)/decrease in operating assets</i>			
(Increase)/decrease in amounts due from related parties	—	—	5,644
Decrease/(increase) in accounts receivable	(1,637)	657	(5,459)
Decrease/(increase) in other assets	727	(3,198)	(12,692)
Decrease/(increase) in accounts payable	6,828	(2,962)	(4,435)
(Decrease)/increase in amounts due to related parties	(2,342)	7,404	—
Payment of income tax	(15,203)	(13,993)	(6,924)
(Decrease)/increase in accrued expenses and other current liabilities	4,096	(6,612)	10,068
(Decrease)/increase in deferred income	(834)	6,272	3,853
Net cash generated by operating activities	139,711	147,867	122,900

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

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23 CONTINGENCIES AND COMMITMENTS

Contingencies:

PEPR, through its direct and indirect subsidiaries, is contingently liable with respect to lawsuits and other matters that arise in the normal course of business. The Management Company is of the opinion that while it is impossible to accurately ascertain the ultimate legal and financial liability with respect to these contingencies, the ultimate outcome of these contingencies is not anticipated to have a material effect on PEPR's financial position and operations.

Commitments:

Commitments under finance leases are disclosed under Note 14, Long term Bank loans

Commitments for capital improvements and construction contracts total €15.2 million (December 2005: €1.5 million).

24 NON-CASH INVESTING AND FINANCING ACTIVITIES

Under the SPCA PEPR issued Class B2 Units totalling €43.6 million (December 2005 - €30.0 million) as part of the consideration for real estate assets contributed by ProLogis.

25 FINANCIAL INSTRUMENTS

Interest rate and Fair Value

The following table sets out the carrying amount before deduction of unamortized transaction costs and fair value by maturity, of PEPR's financial instruments that are exposed to interest rate risk.

Instruments at floating rate, i.e. which have an interest rate fixed at regular intervals of three months or less, have a fair value equivalent to the carrying value. Instruments which are at fixed rate have a fair value calculated as the present value of payments to be made under the loan agreement.

Year end 31 December 2006

<u>Fixed rate</u>	<u><1 year</u>	<u>1-5 years</u>	<u>>5 years</u>	<u>Total</u>
Obligations under finance leases				
Carrying value	(1,893)	(6,594)	(484)	(8,971)
Fair value	(2,157)	(6,594)	(498)	(9,249)
<u>Floating rate</u>	<u><1 year</u>	<u>1-5 years</u>	<u>>5 years</u>	<u>Total</u>
Cash and cash equivalent	138,049	—	—	138,049
Secured bank loans	(535,214)	(151,059)	—	(686,273)
Mortgages	(288)	(835)	—	(1,123)
Loan notes	—	(213,750)	(1,074,709)	(1,288,459)
Interest rate swap	—	(213,750)	(1,074,709)	(1,288,459)

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

PROLOGIS EUROPEAN PROPERTIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006, 2005 AND 2004

(Unless otherwise stated, amounts are expressed in thousands of euros)

25 FINANCIAL INSTRUMENTS (continued)

Year end 31 December 2005

<u>Fixed rate</u>	<u><1 year</u>	<u>1-5 years</u>	<u>>5 years</u>	<u>Total</u>
Obligations under finance leases				
Carrying value	(2,717)	(11,521)	(4,311)	(18,549)
Fair value	(2,811)	(11,920)	(4,460)	(19,191)
<u>Floating rate</u>	<u><1 year</u>	<u>1-5 years</u>	<u>>5 years</u>	<u>Total</u>
Cash and cash equivalent	96,785	—	—	96,785
Secured bank loans	(201,259)	(151,059)	—	(352,318)
Mortgages	—	(1,450)	—	(1,450)
Loan notes	—	(213,750)	(1,079,500)	(1,293,250)
Interest rate swap	—	213,750	1,079,500	1,293,250

Year end 31 December 2004

<u>Fixed rate</u>	<u><1 year</u>	<u>1-5 years</u>	<u>>5 years</u>	<u>Total</u>
Obligations under finance leases				
Carrying value	(3,656)	(15,264)	(7,200)	(26,120)
Fair value	(3,789)	(15,820)	(7,462)	(27,071)
<u>Floating rate</u>	<u><1 year</u>	<u>1-5 years</u>	<u>>5 years</u>	<u>Total</u>
Cash and cash equivalent	68,762	—	—	68,762
Mortgages	(284)	(1,472)	—	(1,756)
Secured bank loans	(406,250)	(109,678)	—	(515,928)
Loan notes	—	—	(904,250)	(904,250)
Interest rate swap	—	—	904,250	904,250

Interest on floating rate financial instruments is reset at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of PEPR not included in the above tables are non-interest bearing, but given their short term nature are not subject to interest rate risk.

Swap Agreements

<u>Issuer:</u>	<u>Pan-European Industrial Properties Series I S.A.</u>	
Starting date	May 2001	
Maturity date	April 2011	
Interest payment	Quarterly	
<u>Swap counter-party:</u>	<u>ABN Amro</u>	
Cash flows hedged		€95,500
Pays floating interest	3-month Euribor +	0.35%
Receives fixed interest		5.410%
<u>Swap counter-party:</u>	<u>JPMorgan Chase</u>	
Fair value hedge (£'000)		£73,610
Pays floating interest	3-month Euribor +	0.35%
Receives fixed interest		6.033%
Exchange rate		0.6225

The total amount of interest paid and interest received is €19.0 million for 2006 (2005: €17.3 million, 2004: €17.2 million).

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

PROLOGIS EUROPEAN PROPERTIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006, 2005 AND 2004

(Unless otherwise stated, amounts are expressed in thousands of euros)

25 FINANCIAL INSTRUMENTS (continued)

Swap Agreements

Issuer:

Starting date

Maturity date

Interest payment

Pan-European Industrial Properties Series II S.A.

May 2002

July 2012

Quarterly

Swap counter-party:

Cash flows hedged
Pays floating interest
Receives fixed interest
Fair value hedge (£'000)
Pays floating interest
Receives fixed interest
Exchange rate

ABN Amro

Class A

Class B

Class C

€34,534 €9,105 €1,769
3-month Euribor — — —
5.450% 5.610% 6.030%
£35,773 £3,853 —
3-month Euribor + 0.32% 0.48% —
5.915% 6.110% —
0.6145 0.6145 0.6145

Swap counter-party:

Cash flows hedged
Pays floating interest
Receives fixed interest
Fair value hedge (£'000)
Pays floating interest
Receives fixed interest
Exchange rate

JPMorgan Chase

Class A

Class B

Class C

€34,535 €9,105 €1,770
3-month Euribor — — —
5.450% 5.610% 6.030%
£35,773 £3,853 £9,961
3-month Euribor + 0.32% 0.48% 0.90%
5.915% 6.110% 6.540%
0.6145 0.6145 0.6145

The total amount of interest paid and interest received is €31.9 million for 2006 (2005: €28.9 million, 2004: €28.0 million).

Issuer:

Starting date

Maturity date

Interest payment

Pan-European Industrial Properties Series III S.A.

February 2003

May 2013

Quarterly

Swap counter-party:

Cash flows hedged
Pays floating interest
Receives fixed interest
Fair value hedge (£'000)
Pays floating interest
Receives fixed interest
Exchange rate

ABN Amro

Class A

Class B

Class C

€38,092 €1,901 €6,392
3-month Euribor — — —
4.228% 4.358% 4.728%
£17,533 £2,352 £3,068
3-month Euribor + 0.35% 0.48% 0.85%
4.950% 5.075% 5.445%
0.6317 0.6317 0.6317

Swap counter-party:

Cash flows hedged
Pays floating interest
Receives fixed interest
Fair value hedge (£'000)
Pays floating interest
Receives fixed interest
Exchange rate

JPMorgan Chase

Class A

Class B

Class C

€42,830 €1,901 €6,393
3-month Euribor — — —
4.228% 4.358% 4.728%
£20,559 £2,353 £3,068
3-month Euribor + 0.35% 0.48% 0.85%
4.950% 5.075% 5.445%
0.6317 0.6317 0.6317

The total amount of interest paid and interest received is €14.5 million for 2006 (2005: €13.6 million, 2004: €13.0 million).

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

PROLOGIS EUROPEAN PROPERTIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Unless otherwise stated, amounts are expressed in thousands of euros)

25 FINANCIAL INSTRUMENTS (continued)

Swap Agreements

<u>Issuer:</u>	Pan-European Industrial Properties Series IV S.A.			
	<u>(Compartment 1)</u>			
Starting date	March 2005			
Maturity date	May 2013			
Interest payment	Quarterly			
<u>Swap counter-party:</u>	<u>ABN Amro</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Cash flows hedged	€41,653	€13,451	€8,407	
Pays floating interest	3-month Euribor	—	—	—
Receives fixed interest		3.285%	3.325%	3.445%
Fair value hedge (£'000)		£18,557	£1,762	£1,101
Pays floating interest	3-month Euribor +	0.14%	0.18%	0.30%
Receives fixed interest		5.093%	5.133%	5.263%
Exchange rate		0.6912	0.6912	0.6912
<u>Swap counter-party:</u>	<u>Bank of America</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>
Cash flows hedged	€41,653	€13,451	€8,407	
Pays floating interest	3-month Euribor	—	—	—
Receives fixed interest		3.285%	3.325%	3.445%
Fair value hedge (£'000)		£18,557	£1,762	£1,101
Pays floating interest	3-month Euribor +	0.14%	0.18%	0.30%
Receives fixed interest		5.093%	5.133%	5.263%
Exchange rate		0.6912	0.6912	0.6912

The total amount of interest paid and interest received is €25.6 million for 2006 (2005: €15.1 million).

<u>Issuer:</u>	France Industrial Properties No.1 S.A.		
Starting date	April 2002		
Maturity date	April 2012		
Interest payment	Quarterly		
<u>Swap counter-party:</u>	<u>Société Générale</u>	<u>Class A</u>	<u>Class B</u>
Cash flows hedged	€15,000	€9,000	
Pays floating interest	3-month Euribor +	0.38%	0.90%
Receives fixed interest	5.205% +	0.38%	0.90%

The total amount of interest paid and interest received is €13.3 million for 2006 (2005: €2.1 million, 2004: €2.1 million).

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

PROLOGIS EUROPEAN PROPERTIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006, 2005 AND 2004

(Unless otherwise stated, amounts are expressed in thousands of euros)

25 FINANCIAL INSTRUMENTS (continued)

Fair value of hedging instruments

	<u>December</u> <u>2006</u>	<u>December</u> <u>2005</u>	<u>December</u> <u>2004</u>
Balance at the beginning of the period	<u>(11,500)</u>	<u>(12,132)</u>	<u>4,887</u>
Movement in fair value of existing hedges	39,371	227	(17,019)
Fair value of hedges acquired during the year	—	405	—
Fair value of hedges terminated during the year	<u>(95)</u>	<u>—</u>	<u>—</u>
Net variation during the period	<u>39,276</u>	<u>632</u>	<u>(17,019)</u>
Balance at the end of the period	<u>27,776</u>	<u>(11,500)</u>	<u>(12,132)</u>
Positive hedge values	38,087	27,148	35,795
Negative hedge values	<u>(10,311)</u>	<u>(38,648)</u>	<u>(47,927)</u>
	<u>27,776</u>	<u>(11,500)</u>	<u>(12,132)</u>

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

PROLOGIS EUROPEAN PROPERTIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006, 2005 AND 2004

(Unless otherwise stated, amounts are expressed in thousands of euros)

26 LIST OF CONSOLIDATED ENTITIES

Companies Incorporated in Luxembourg:

(Unless otherwise stated, all companies 100% owned by the fund)

ProLogis European Holdings S.à r.l.	ProLogis France XXVII S.à r.l.
ProLogis European Holdings II S.à r.l.	ProLogis France XXVIII S.à r.l.
ProLogis European Holdings IV S.à r.l.	ProLogis France XXIX S.à r.l.
ProLogis European Holdings V S.à r.l.	ProLogis France XXX S.à r.l.
ProLogis European Holdings VI S.à r.l.	ProLogis France XXXI S.à r.l.
ProLogis European Holdings VII S.à r.l.	ProLogis France XXXIV S.à r.l.
ProLogis European Holdings VIII S.à r.l.	ProLogis France XXXV S.à r.l.
ProLogis European Holdings IX S.à r.l.	ProLogis France XXXVI S.à r.l.
ProLogis European Finance S.à r.l.	ProLogis France XXXVII S.à r.l.
ProLogis European Finance II S.à r.l.	ProLogis France XXXVIII S.à r.l.
ProLogis European Finance III S.à r.l.	ProLogis France XXXIX S.à r.l.
ProLogis European Finance IV S.à r.l.	ProLogis France XL S.à r.l.
ProLogis European Finance V S.à r.l.	ProLogis France XLI S.à r.l.
ProLogis European Finance VI S.à r.l.	ProLogis France XLIII S.à r.l.
ProLogis European Finance VII S.à r.l.	ProLogis France XLIV S.à r.l.
ProLogis European Finance VIII S.à r.l.	ProLogis France XLV S.à r.l.
ProLogis European Finance IX S.à r.l.	ProLogis France XLVII S.à r.l.
ProLogis Belgium S.à r.l.	ProLogis France XLVIII S.à r.l.
ProLogis Belgium II S.à r.l.	ProLogis France XLIX S.à r.l.
ProLogis Czech Republic S.à r.l.	ProLogis France LVII S.à r.l.
ProLogis Czech Republic II S.à r.l.	PLD Germany V S.à r.l.
ProLogis Czech Republic III S.à r.l.	PLD Germany VII S.à r.l.
ProLogis Czech Republic IV S.à r.l.	ProLogis Germany S.à r.l.
ProLogis Czech Republic VII S.à r.l.	ProLogis Germany III S.à r.l.
ProLogis Czech Republic XIII S.à r.l.	ProLogis Germany IV S.à r.l.
ProLogis France S.à r.l.	ProLogis Germany XIX S.à r.l.
ProLogis France I S.à r.l.	ProLogis Germany XV S.à r.l.
ProLogis France II S.à r.l.	ProLogis Germany XVII S.à r.l.
ProLogis France III S.à r.l.	ProLogis Italy III S.à r.l.
ProLogis France IV S.à r.l.	ProLogis Italy V S.à r.l.
ProLogis France V S.à r.l.	ProLogis Italy IX S.à r.l.
ProLogis France VI S.à r.l.	ProLogis Italy XIV S.à r.l.
ProLogis France VII S.à r.l.	ProLogis Italy XXV S.à r.l.
ProLogis France IX S.à r.l.	ProLogis Netherlands S.à r.l.
ProLogis France X S.à r.l.	ProLogis Netherlands I S.à r.l.
ProLogis France XI S.à r.l.	ProLogis Netherlands II S.à r.l.
ProLogis France XIII S.à r.l.	ProLogis Netherlands IIa S.à r.l.
ProLogis France XIV S.à r.l.	ProLogis Netherlands III S.à r.l.
ProLogis France XV S.à r.l.	ProLogis Netherlands IV S.à r.l.
ProLogis France XVI S.à r.l.	ProLogis Netherlands V S.à r.l.
ProLogis France XVII S.à r.l.	ProLogis Netherlands VI S.à r.l.
ProLogis France XVIII S.à r.l.	ProLogis Netherlands VII S.à r.l.
ProLogis France XIX S.à r.l.	ProLogis Netherlands VIII S.à r.l.
ProLogis France XX S.à r.l.	ProLogis Netherlands IX S.à r.l.
ProLogis France XXI S.à r.l.	ProLogis Netherlands X S.à r.l.
ProLogis France XXIII S.à r.l.	ProLogis Netherlands XI S.à r.l.
ProLogis France XXIV S.à r.l.	ProLogis Netherlands XII S.à r.l.
ProLogis France XXV S.à r.l.	ProLogis Netherlands XIII S.à r.l.
ProLogis France XXVI S.à r.l.	

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

PROLOGIS EUROPEAN PROPERTIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Unless otherwise stated, amounts are expressed in thousands of euros)

26 LIST OF CONSOLIDATED ENTITIES

Companies Incorporated in Luxembourg:

(Unless otherwise stated, all companies 100% owned by the fund)

ProLogis Netherlands XIV S.à r.l.	ProLogis Spain XII S.à r.l.
ProLogis Netherlands XV S.à r.l.	ProLogis UK II S.à r.l.
ProLogis Netherlands XVI S.à r.l.	ProLogis UK III S.à r.l.
ProLogis Netherlands XVII S.à r.l.	ProLogis UK IV S.à r.l.
ProLogis Netherlands XVIII S.à r.l.	ProLogis UK IX S.à r.l.
ProLogis Netherlands XIX S.à r.l.	ProLogis UK X S.à r.l.
ProLogis Netherlands XX S.à r.l.	ProLogis UK XI S.à r.l.
ProLogis Netherlands XXI S.à r.l.	ProLogis UK XIV S.à r.l.
ProLogis Netherlands XXII S.à r.l.	ProLogis UK XV S.à r.l.
ProLogis Netherlands XXXI S.à r.l.	ProLogis UK XVI S.à r.l.
ProLogis Poland S.à r.l.	ProLogis UK XVII S.à r.l.
ProLogis Poland II S.à r.l.	ProLogis UK XVIII S.à r.l.
ProLogis Poland III S.à r.l.	ProLogis UK XXII S.à r.l.
ProLogis Poland IV S.à r.l.	ProLogis UK XXIV S.à r.l.
ProLogis Poland V S.à r.l.	ProLogis UK XXVI S.à r.l.
ProLogis Poland VI S.à r.l.	ProLogis UK XXXIII S.à r.l.
ProLogis Poland VIII S.à r.l.	ProLogis UK XXXIV S.à r.l.
ProLogis Poland X S.à r.l.	ProLogis UK XXXV S.à r.l.
ProLogis Poland XI S.à r.l.	ProLogis UK XXXVII S.à r.l.
ProLogis Poland XVI S.à r.l.	ProLogis UK XL S.à r.l.
ProLogis Poland XIII S.à r.l.	ProLogis UK XLI S.à r.l.
ProLogis Poland XIV S.à r.l.	ProLogis UK XLIV S.à r.l.
ProLogis Poland XV S.à r.l.	ProLogis UK XLV S.à r.l.
ProLogis Poland XVII S.à r.l.	ProLogis UK XLVI S.à r.l.
ProLogis Poland XX S.à r.l.	ProLogis UK XLVII S.à r.l.
ProLogis Poland XXII S.à r.l.	ProLogis UK XLIX S.à r.l.
ProLogis Poland XXIX S.à r.l.	ProLogis UK LV S.à r.l.
ProLogis Poland XXXIV S.à r.l.	ProLogis UK LVII S.à r.l.
ProLogis Poland XLVIII S.à r.l.	ProLogis UK LXI S.à r.l.
ProLogis Realty I S.à r.l.	ProLogis UK LXII S.à r.l.
ProLogis S.à r.l.	ProLogis UK LXIV S.à r.l.
ProLogis Spain S.à r.l.	ProLogis UK LXXI S.à r.l.
ProLogis Spain III S.à r.l.	ProLogis UK LXXIV S.à r.l.
ProLogis Spain IV S.à r.l.	ProLogis UK LXXIX S.à r.l.
ProLogis Spain V S.à r.l.	ProLogis UK LXXX S.à r.l.
ProLogis Spain VI S.à r.l.	ProLogis UK LXXXI S.à r.l.
ProLogis Spain VII S.à r.l.	ProLogis UK LXXXII S.à r.l.
ProLogis Spain VIII S.à r.l.	ProLogis UK LXXXIII S.à r.l.
ProLogis Spain IX S.à r.l.	ProLogis UK XC S.à r.l.
ProLogis Spain X S.à r.l.	ProLogis UK CC S.à r.l.
ProLogis Spain XI S.à r.l.	ProLogis UK CCI S.à r.l.

Companies Incorporated in the United Kingdom:

(Unless otherwise stated, all companies 100% owned by the fund)

1&2 Buncefield Lane (No.1) Limited	Interlink Park Management Company
1&2 Buncefield Lane (No. 2) Limited	ProLogis Apex Park DC 3 (No.1) Limited
Beddington Lane Unit C (No.1) Limited	ProLogis Apex Park DC 3 (No.2) Limited
Beddington Lane Unit C (No.2) Limited	ProLogis (Basingstoke Unit D) Limited

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Unless otherwise stated, amounts are expressed in thousands of euros)

26 LIST OF CONSOLIDATED ENTITIES

Companies Incorporated in the United Kingdom:

(Unless otherwise stated, all companies 100% owned by the fund)

ProLogis Corby Limited	ProLogis Marston Gate Plot 1 (No.1) Limited
ProLogis Grange Park Plot 6 Zone A (No.1) Limited	ProLogis Marston Gate Plot 1 (No.2) Limited
ProLogis Grange Park Plot 6 Zone A (No.2) Limited	ProLogis Marston Gate Plot 3 (No.1) Limited
ProLogis Grange Park Plot 6 Zone A (No.3) Limited	ProLogis Marston Gate Plot 3 (No.2) Limited
ProLogis Grange Park Zone A Unit 4 (1) Limited	ProLogis (Plot 1200 Central Park Rugby No.1) Limited
ProLogis Grange Park Zone A Unit 4 (2) Limited	ProLogis (Plot 1200 Central Park Rugby No.2) Limited
ProLogis Keresley Limited	ProLogis Wakefield Limited
ProLogis Kettering (Number I) Limited	

Companies Incorporated in France:

(Unless otherwise stated, all companies 100% owned by the fund)

Angeloir S.à r.l.	ProLogis France XXXI Eurl
Artoilog S.à r.l.	ProLogis France XXXIII Eurl
Bre Francilienne 2 S.à r.l.	ProLogis France XXXIV Eurl
Bre Francilienne Compans S.à r.l.	ProLogis France XXXV Eurl
Bre Francilienne S.à r.l.	ProLogis France XXXVI Eurl
Bre Orbium S.à r.l.	ProLogis France XXXVII Eurl
Chesnes Nord	ProLogis France XXXIX Eurl
Garonor SAS	ProLogis France XL Eurl
ProLogis France I Eurl	ProLogis France XLI Eurl
ProLogis France II Eurl	ProLogis France XLIII Eurl
ProLogis France III Eurl	ProLogis France XLIV Eurl
ProLogis France IV Eurl	ProLogis France XLV Eurl
ProLogis France VI Eurl	ProLogis France XLVII Eurl
ProLogis France VII Eurl	ProLogis France XLVIII Eurl
ProLogis France VIII Eurl	ProLogis France XLIX Eurl
ProLogis France XI Eurl	ProLogis France LVII Eurl
ProLogis France XII Eurl	ProLogis France II SAS
ProLogis France XIII Eurl	ProLogis France III SAS
ProLogis France XIV Eurl	SCI Carrefour de l'Europe
ProLogis France XV Eurl	SCI Copernic
ProLogis France XVI Eurl	SCI Crépy Paris Nord
ProLogis France XVII Eurl	SCI d'Ormes
ProLogis France XVIII Eurl	SCI Ile de France
ProLogis France XX Eurl	SCI Le Parc
ProLogis France XXI Eurl	SCI Plessis Pate
ProLogis France XXII Eurl	SCI Plessis Pate 2
ProLogis France XXIII Eurl	SNC Aulnay Extension Ouest
ProLogis France XXIV Eurl	SNC Melun 7
ProLogis France XXV Eurl	SCI Croisée des Autoroutes Lorraines
ProLogis France XXVI Eurl	SCI Magasins Généraux de Vitrolles
ProLogis France XXVII Eurl	Sofinvest S.à r.l.
ProLogis France XXX Eurl	

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

PROLOGIS EUROPEAN PROPERTIES
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(Unless otherwise stated, amounts are expressed in thousands of euros)

26 LIST OF CONSOLIDATED ENTITIES

Companies Incorporated in Spain:

(Unless otherwise stated, all companies 100% owned by the fund)

ProLogis Spain I SL	ProLogis Spain IX SL
ProLogis Spain III SL	ProLogis Spain X SL
ProLogis Spain IV SL	ProLogis Spain XI SL
ProLogis Spain V SL	ProLogis Spain XII SL
ProLogis Spain VI SL	ProLogis Spain XIII SL
ProLogis Spain VII SL	ProLogis Central European Finance S.L.
ProLogis Spain VIII SL	

Companies Incorporated in Italy:

(Unless otherwise stated, all companies 100% owned by the fund)

ProLogis Italy Ia Srl	ProLogis Italy VI 2 Srl
ProLogis Italy Ib Srl	ProLogis Italy VII Srl
ProLogis Italy Ic Srl	ProLogis Italy VIII Srl
ProLogis Italy Id Srl	ProLogis Italy IX Srl
ProLogis Italy II Srl	ProLogis Italy IX a Srl
ProLogis Italy VIa Srl	ProLogis Italy X Srl
ProLogis Italy VI 1 Srl	ProLogis Italy XXV Srl

Companies Incorporated in the The Netherlands:

(Unless otherwise stated, all companies 100% owned by the fund)

PLD Germany V BV (94.8%)	ProLogis Germany XXVI BV (94.4%)
PLD Germany VII BV (94.8%)	ProLogis Germany XXVII BV (94.4%)
ProLogis Finance BV	ProLogis Germany XXVIII BV (94.4%)
ProLogis Germany III BV	ProLogis Germany XXXI BV (94.4%)
ProLogis Germany IV BV	ProLogis Germany XXXV BV (94.4%)
ProLogis Germany XII BV (94.8%)	ProLogis Germany XXXVI BV (94.4%)
ProLogis Germany XIX BV	ProLogis Germany XXXIX BV (94.4%)
ProLogis Germany XV BV (94.8%)	ProLogis Germany XLI BV (94.4%)
ProLogis Germany XVII BV (94.4%)	ProLogis Germany XLIII BV (94.4%)
ProLogis Germany XXI BV (94.4%)	ProLogis Poland Finance BV
ProLogis Germany XXII BV (94.4%)	ProLogis Realty I BV
ProLogis Germany XXIII BV (94.4%)	ProLogis Realty II BV
ProLogis Germany XXV BV (94.4%)	

Companies Incorporated in Germany:

(Unless otherwise stated, all companies 100% owned by the fund)

Garonor Deutschland GmbH	Garonor Verwaltung GmbH & Köln Eifeltor KG
Garonor Verwaltung GmbH	

Companies Incorporated in Belgium:

(Unless otherwise stated, all companies 100% owned by the fund)

ProLogis Belgium I Sprl	ProLogis Belgium II Sprl
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The accompanying notes are an integral part of these consolidated financial statements.

PROLOGIS EUROPEAN PROPERTIES
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(Unless otherwise stated, amounts are expressed in thousands of euros)

26 LIST OF CONSOLIDATED ENTITIES

Companies Incorporated in Sweden:

(Unless otherwise stated, all companies 100% owned by the fund)

ProLogis Sweden I AB	ProLogis Sweden Nörrköping AB
ProLogis Sweden Gothenburg AB	ProLogis Sweden Örebro AB
ProLogis Holding AB	

Companies Incorporated in Poland:

(Unless otherwise stated, all companies 100% owned by the fund)

ProLogis Poland I Spzoo	ProLogis Poland XVI Spzoo
ProLogis Poland II Spzoo	ProLogis Poland XVII Spzoo
ProLogis Poland III Spzoo	ProLogis Poland XX Spzoo
ProLogis Poland IV Spzoo	ProLogis Poland XXII Spzoo
ProLogis Poland V Spzoo	ProLogis Poland XXIX Spzoo
ProLogis Poland VI Spzoo	ProLogis Poland XXXIV Spzoo
ProLogis Poland VIII Spzoo	ProLogis Poland XLVIII Spzoo
ProLogis Poland X Spzoo	ProLogis Poland XXXV Spzoo
ProLogis Poland XI Spzoo	ProLogis Poland XXXVI Spzoo
ProLogis Poland XIII Spzoo	ProLogis Poland XXXVII Spzoo
ProLogis Poland XIV Spzoo	ProLogis Poland XXXVIII Spzoo
ProLogis Poland XV Spzoo	ProLogis Poland XXXIX Spzoo

Companies Incorporated in Czech Republic:

(Unless otherwise stated, all companies 100% owned by the fund)

ProLogis Czech Republic II Sro	ProLogis Czech Republic VII Sro
ProLogis Czech Republic III Sro	ProLogis Czech Republic XIV Sro
ProLogis Czech Republic IV Sro	ProLogis Czech Republic XIII Sro

Companies Incorporated in Hungary:

(Unless otherwise stated, all companies 100% owned by the fund)

ProLogis Hungary Kft	ProLogis Hungary THREE Epitesi es Beruhazasi Kft
Harbor Park Ingatlanmukodteto Kft	ProLogis Hungary TEN Kft
Harbor Park Ingatlanfejleszto Kft (55.665%)	ProLogis Hungary Finance Kft
ProLogis Hungary TWO Epitesi es Beruhazasi Kft	ProLogis Italian Finance Kft
Mobilporfolio Kft	ProLogis Finance Kft
Wingprojekt 2 Kft	

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

**PROLOGIS EUROPEAN PROPERTIES FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006, 2005 AND 2004**

(Unless otherwise stated, amounts are expressed in thousands of euros)

26 LIST OF CONSOLIDATED ENTITIES

Other Special Purpose entities relating to financing:

Operated by Equity Trust Company (Luxembourg) S.A.:

<u>Company name</u>	<u>Country of incorporation</u>
Pan-European Industrial Properties Series I S.A	Luxembourg
Pan-European Industrial Properties Series II S.A	Luxembourg
Pan-European Industrial Properties Series III S.A	Luxembourg
Pan-European Industrial Properties Series IV S.A. (Compartment 1)	Luxembourg
France Industrial Properties No. 1 S.A.	Luxembourg

REGISTERED OFFICE:

46A, Avenue J. F. Kennedy
L-1855 Luxembourg

Operated by Mercuria Services S.A.:

<u>Company name</u>	<u>Country of incorporation</u>
Alzette Funding No. 1 S.à r.l.	Luxembourg

REGISTERED OFFICE:

8-10, rue Mathias Hardt
L-1717 Luxembourg

27 SUBSEQUENT EVENTS

Repayment of CMBS II

On the 5 January 2007 €7.7 million was repaid to the Class A Note Holders, by way of a partial repayment on the Loan Notes in relation to the sale of Servon 1 on July 12, 2006.

Repayment of CMBS I

On the 15 January 2007, €13.2 million was repaid to Note Holders by way of a partial repayment on the Loan Notes in relation to the sale of Bromley by Bow DC 8 on the 25 August 2005. The Sterling proceeds of £8.2 was swapped at the original conversion rate of 1.6064.

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