



**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDING 30 JUNE 2008  
(Unaudited)**

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](http://www.prologis-ep.com)**

**PROLOGIS EUROPEAN PROPERTIES  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDING 30 JUNE 2008**

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**PROLOGIS EUROPEAN PROPERTIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 30 JUNE 2008 AND 31 DECEMBER 2007**

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

		30 June 2008 Unaudited	31 December 2007 Audited
	Notes	€000	€000
<b>Assets</b>			
<i>Non Current Assets</i>			
Investment in property as stated in Statement of investment in properties		3,945,297	4,143,109
Property under construction	5	45	14,050
Investment in an associate	6	258,679	108,172
Hedging instruments	26	73,886	48,577
Deferred tax asset	16	7,838	7,740
		<b>4,285,745</b>	<b>4,321,648</b>
<i>Current Assets</i>			
Due from related parties	20	3,514	1,259
Accounts receivable, net		44,623	44,533
Other current assets	7	43,805	49,900
Cash and cash equivalents	8	131,439	78,680
		<b>223,381</b>	<b>174,372</b>
<b>Total Assets</b>		<b>4,509,126</b>	<b>4,496,020</b>
<b>Equity</b>			
Capital contributions	9	1,911,810	1,911,810
Costs of raising capital		(37,721)	(37,721)
<b>Net capital contributed</b>		<b>1,874,089</b>	<b>1,874,089</b>
Net profit / (losses) for the period		(27,741)	170,343
Net Retained earnings	10	329,205	231,615
Cumulative foreign currency translation	11	(96,525)	(55,994)
Cashflow hedge valuation reserve	12	19,812	15,250
Equity items of an associate	6	(5,989)	-
Equity attributable to Unitholders		2,092,851	2,235,303
Minority interest in subsidiaries		6,888	6,612
<b>Total Equity</b>		<b>2,099,739</b>	<b>2,241,915</b>
<b>Liabilities</b>			
<i>Non-current liabilities</i>			
Interest bearing Secured notes	13	876,744	874,574
Interest bearing Unsecured notes	14	491,442	491,168
Interest bearing Long term bank loans, net of current portion	15	734,150	534,086
Hedging instruments	26	-	1,885
Deferred taxation	16	161,409	190,362
		<b>2,263,745</b>	<b>2,092,075</b>
<i>Current liabilities</i>			
Interest bearing bank loans, current portion	15	1,925	2,099
Accounts payable		3,453	8,558
Due to related parties	20	7,341	9,290
Income and other taxes payable	16	12,029	17,570
Accrued expenses and other current liabilities	17	95,219	93,609
Deferred income		25,675	30,904
		<b>145,642</b>	<b>162,030</b>
<b>Total Liabilities</b>		<b>2,409,387</b>	<b>2,254,105</b>
<b>Total equity and liabilities</b>		<b>4,509,126</b>	<b>4,496,020</b>

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

**PROLOGIS EUROPEAN PROPERTIES**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE PERIOD ENDING 30 JUNE 2008 AND 30 JUNE 2007**  
*(Unless otherwise stated, amounts are expressed in thousands of euros)*

		30 June 2008	30 June 2007
		Unaudited	Unaudited
	Notes	€000	€000
Rental income	18	147,149	158,523
Other property income		796	8,003
<b>Total revenue</b>		<b>147,945</b>	<b>166,526</b>
Ground rents paid		(1,328)	(1,121)
Property management fees		(9,566)	(10,143)
Other property rental expenses	19	(5,703)	(3,524)
<b>Cost of rental activities</b>		<b>(16,597)</b>	<b>(14,788)</b>
<b>Gross profit</b>		<b>131,348</b>	<b>151,738</b>
Fund management fees		(3,168)	(3,378)
Fund custodian fees		(81)	(105)
Fund incentive fees		-	(4,544)
Other fund expenses		(2,401)	(1,907)
<b>Fund expenses</b>		<b>(5,650)</b>	<b>(9,934)</b>
Investment and development property disposal proceeds		20,634	4,887
Historic cost of investment and development property disposals		(18,094)	-
<b>Profit on disposal of investment property</b>		<b>2,540</b>	<b>4 887</b>
Gross valuation gains on property, less disposals		37,479	92,981
Gross valuation losses on property, less disposals		(169,765)	(19,037)
Purchasers costs, less disposals		10,132	(24,039)
<b>Property fair value movements</b>		<b>(122,154)</b>	<b>49,905</b>
<b>Earnings before interest and tax</b>		<b>6,084</b>	<b>196,596</b>
Finance income	21	2,445	1,940
Finance expense	22	(55,200)	(53,475)
Share of loss of an associate		(81)	-
<b>Earnings before tax</b>		<b>(46,752)</b>	<b>145,061</b>
Benefit / Charge for taxation	16	19,287	(23,139)
<b>Net Profit/ (Losses) earnings for the period</b>		<b>(27,465)</b>	<b>121,922</b>
<b>Attributable to:</b>			
Minority interest		276	250
Unitholders		(27,741)	121,672
		<b>(27,465)</b>	<b>121,922</b>
		<b>Euro</b>	<b>Euro</b>
<b>Earnings per unit</b>	10		
Ordinary Units (Euros)		(0.15)	0.64
Outstanding Units		190,522,441	190,522,441
<b>Diluted earnings per unit</b>	10		
Ordinary units (Euros)		(0.15)	0.64

*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 PERIOD**  
**ENDING 30 JUNE 2008 AND THE YEAR ENDED 31 DECEMBER 2007**

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

	<b>Par Value</b>	<b>30 June 2008 Unaudited</b>	<b>31 December 2007 Audited</b>
		<b>€000</b>	<b>€000</b>
<i>Number of Units outstanding at the beginning of the period:</i>			
Ordinary shares	9.98	190,522,441	188,687,510
<i>Number of Units issued during the period:</i>			
Ordinary shares	15.39	-	1,834,931
<i>Number of Units outstanding at the end of the period:</i>			
Ordinary shares	9.98-15.39	190,522,441	190,522,441

1,834,931 Ordinary Units were issued on 28 March 2007 at €15.39 each as part payment to ProLogis for the acquisition of a portfolio of 15 distribution facilities.

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

**PROLOGIS EUROPEAN PROPERTIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS ENDED 30 JUNE 2008 AND 30 JUNE 2007**  
*(Unless otherwise stated, amounts are expressed in thousands of euros)*

	Capital contributions	Costs of raising capital	Retained earnings	Distributions	Net retained earnings	Cumulative translation adjustment	Cashflow hedge valuation reserve	Equity items of an associate	Total	Minority Interest	Total equity
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>Balance as at 31 December 2006</b>	<b>1,883,571</b>	<b>(37,721)</b>	<b>1,092,688</b>	<b>(694,360)</b>	<b>398,328</b>	<b>(5,682)</b>	<b>3,993</b>	<b>-</b>	<b>2,242,489</b>	<b>5,625</b>	<b>2,248,114</b>
Foreign currency translation	-	-	-	-	-	(1,213)	-	-	(1,213)	-	(1,213)
Net gains on cashflow hedges	-	-	-	-	-	-	13,154	-	13,154	-	13,154
Profit for the period	-	-	121,672	-	121,672	-	-	-	121,672	250	121,922
Total recognised income (loss) for the period	-	-	121,672	-	121,672	(1,213)	13,154	-	133,613	250	133,863
Capital contributions during the period	28,239	-	-	-	-	-	-	-	28,239	1,240	29,479
Distributions for the period	-	-	-	(86,508)	(86,508)	-	-	-	(86,508)	-	(86,508)
<b>Balance as at 30 June 2007</b>	<b>1,911,810</b>	<b>(37,721)</b>	<b>1,214,360</b>	<b>(780,868)</b>	<b>433,492</b>	<b>(6,895)</b>	<b>17,147</b>	<b>-</b>	<b>2,317,833</b>	<b>7,115</b>	<b>2,324,948</b>
<b>Balance as at 31 December 2007</b>	<b>1,911,810</b>	<b>(37,721)</b>	<b>1,263,031</b>	<b>(861,073)</b>	<b>401,958</b>	<b>(55,994)</b>	<b>15,250</b>	<b>-</b>	<b>2,235,302</b>	<b>6,612</b>	<b>2,241,915</b>
Foreign currency translation	-	-	-	-	-	(40,531)	-	-	(40,531)	-	(40,531)
Net gains on cashflow hedges	-	-	-	-	-	-	4,562	-	4,562	-	4,562
Share of equity items of an associate	-	-	-	-	-	-	-	(5,989)	(5,989)	-	(5,989)
(Loss) profit for the period	-	-	(27,741)	-	(27,741)	-	-	-	(27,741)	276	(27,465)
Total recognised (loss) income for the period	-	-	(27,741)	-	(27,741)	(40,531)	4,562	(5,989)	(63,710)	276	(69,423)
Distributions for the period	-	-	-	(72,753)	(72,753)	-	-	-	(72,753)	-	(72,753)
<b>Balance as at 30 June 2008</b>	<b>1,911,810</b>	<b>(37,721)</b>	<b>1,235,290</b>	<b>(933,826)</b>	<b>301,464</b>	<b>(96,525)</b>	<b>19,812</b>	<b>(5,989)</b>	<b>2,092,851</b>	<b>6,888</b>	<b>2,099,739</b>

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

**PROLOGIS EUROPEAN PROPERTIES**  
**CONSOLIDATED STATEMENT OF INVESTMENT IN PROPERTIES**  
**AS AT 30 JUNE 2008 AND 31 DECEMBER 2007**

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

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
<b>Historic cost</b>		
Cost at the beginning of the period	3,435,805	3,575,310
Asset additions, by way of property contribution agreements (PCA and SPCA - see note 21d)	-	215,873
Asset additions by way of third-party purchase	-	18,474
Other asset additions	-	33,882
Capital expenditure	2,369	20,742
Transfer of completed development from property under construction	2,439	-
Disposals	(2,610)	(375,032)
Effect of unrealised currency movements	(77,856)	(53,444)
<b>Cost at the end of the period</b>	<b>3,360,147</b>	<b>3,435,805</b>
<b>Net unrealised gains related to property</b>		
Net unrealised gains at the beginning of the period	707,304	667,108
Gross valuation gains on investment in real estate during the period, less disposals	37,479	169,399
Gross valuation losses on investment in property during the period, less disposals	(169,765)	(125,052)
Deduction for purchasers costs, less disposals	10,132	(4,151)
<b>Net unrealised gains at the end of the period</b>	<b>585,150</b>	<b>707,304</b>
<b>Fair value at the end of the period</b>	<b>3,945,297</b>	<b>4,143,109</b>
<b>Fair Value of investment property</b>		
Appraised gross property value at the end of the period	4,140,944	4,348,888
Purchasers costs	( 195,647)	( 205,779)
<b>Fair value at the end of the period</b>	<b>3,945,297</b>	<b>4,143,109</b>
<b>Appraised market value as a percentage of net assets</b>	<b>188%</b>	<b>185%</b>
<b>Appraised net property value subject to security</b>		
Secured Notes	1,746,216	1,854,685
Bank Loans	309,450	305,650
Finance Leases	52,957	53,142
	<b>2,108,623</b>	<b>2,213,477</b>
<b>Insured value</b>	<b>2,285,468</b>	<b>2,321,744</b>

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

**PROLOGIS EUROPEAN PROPERTIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE PERIODS ENDED 30 JUNE 2008 AND 30 JUNE 2007**  
*(Unless otherwise stated, amounts are expressed in thousands of euros)*

	Notes	30 June 2008 Unaudited €000	30 June 2007 Unaudited €000
<b>Net cash flow from operating activities</b>	<b>23</b>	<b>65,949</b>	<b>86,024</b>
<b>Cash flow from investing activities</b>			
Acquisitions of property under PCA and SPCA		-	(173,411)
Acquisition of properties from third parties		-	(18,474)
Investment in an associate		(161,881)	-
Distribution from an associate		3,050	-
Capital expenditure and other expenditure on investment property		(2,369)	(31,753)
Property under construction	<b>5</b>	(3,918)	(2,226)
Payments from insurance company in regard of building losses net of rebuilding costs		-	12,830
Proceeds from Property under construction		16,166	-
Proceeds from disposal of investment in property		-	4,887
<b>Net cash used in investing activities</b>		<b>(148,952)</b>	<b>(208,147)</b>
<b>Cash flow from financing activities</b>			
Proceeds from secured notes:	<b>13</b>		
- Gross proceeds		-	-
- Gross settlements		-	(21,364)
Proceeds from unsecured notes:			
- Gross proceeds		(278)	-
- Gross settlements		-	-
Proceeds from bank loans:	<b>15</b>		
- Gross (repayments)/proceeds		216,968	183,923
- Transaction costs		-	-
Distributions to Unitholders	<b>10</b>	(79,319)	(80,384)
<b>Net cash (used) / provided from financing activities</b>		<b>137,371</b>	<b>82,175</b>
<b>Effects of exchange rate changes</b>		<b>(1,608)</b>	<b>(5,033)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>52,760</b>	<b>(44,981)</b>
Cash and cash equivalents at the beginning of the period		78,680	138,049
<b>Cash and cash equivalents at the end of the period</b>		<b>131,440</b>	<b>93,068</b>

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

**PROLOGIS EUROPEAN PROPERTIES**  
**STATEMENT OF PERFORMANCE MEASURES**  
**FOR THE PERIODS ENDED 30 JUNE 2008 AND 30 JUNE 2007**  
*(Unless otherwise stated, amounts are expressed in thousands of euros)*

	Notes	30 June 2008 €000	30 June 2007 €000
<b>Net (losses) earnings attributable to unitholders</b>		(27,741 )	121,672
Adjustments for:			
Revaluation movements on investment properties and development properties		122,154	(49,905)
Movements in share of net assets of an associate		5,386	-
Profit on disposal of investment properties, net of tax		(3,032)	(4,887)
Deferred tax effects arising on revaluation of investment properties	16	(28,461)	9,962
Minority interest in respect of the above		102	250
<b>EPRA earnings for the period</b>		<b>68,408</b>	<b>77,092</b>
Weighted average number of Ordinary Units	10	190,522,441	190,522,441
<b>EPRA earnings per unit for the period</b>		<b>€0.36</b>	<b>€0.40</b>

Exception item refer to a non-recurring event in 2006 related to the public listing of the Ordinary units.

	Notes	30 June 2008 €000	31 December 2007 €000
<b>Net asset value attributable to Unitholders per IFRS financial statements</b>		<b>2,092,851</b>	<b>2,235,303</b>
Adjustments for:			
Deferred tax	16	161,409	190,362
<b>EPRA net asset value</b>		<b>2,254,260</b>	<b>2,425,665</b>
Number of Ordinary Units outstanding		190,522,441	190,522,441
<b>EPRA net asset value per unit</b>		<b>€11.83</b>	<b>€12.73</b>

No fair value adjustment is made to the value of the investment in an associate as its carrying value approximates its fair value as of 31 December 2007 and June 2008

The performance measures above are prepared in accordance with the Best Practices Policy Recommendations issued by European Public Real Estate Association (EPRA) in November 2006 updated in May 2008.

The EPRA triple net asset value is not presented.

*This statement is supplemental to these consolidated financial statements.*

**PROLOGIS EUROPEAN PROPERTIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDING 30 JUNE 2008**

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

**1 ORGANISATION AND REGULATION OF PROLOGIS EUROPEAN PROPERTIES**

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, 11 September 2006 and on 29 May 2007. 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.

PEPR's investment objective is to generate capital appreciation and a high level of distributable current income for its Unitholders through active management of direct investments in Distribution Facilities and by indirect investment in Distribution Facilities through investing in ProLogis Private Equity Funds and ProLogis Joint Ventures in Europe.

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.

The figures of the year 2007 related to "other current assets and due from related parties" along with "accrued expenses and other current liabilities and due to related parties" have been reclassified to ensure the comparability of the figures of the period ended 30 June 2008.

**Amendment to the Management Regulations**

On 26 March 2008, the Management Regulations were amended to redefine, with effect as at 24 October 2007, the Administrative Agent Agreement. The role of the administrative agent was transferred from ProLogis Management S.à.r.l. (Management Company) to ProLogis Management Services S.à.r.l. (Service Company), a limited liability company incorporated on 12 July 2007 and organised under the laws of Luxembourg (registration number B 131 298).

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

The NAV per Unit of each Class (including Ordinary Units) shall be determined by dividing (i) the net assets of PEPR, being the value of assets less liabilities, 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 Ordinary Units outstanding, provided that the assets attributable to Ordinary 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](http://www.prologis-ep.com).

**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 in properties and certain financial instruments relating to hedging which are stated at fair value.

These consolidated financial statements are presented for the period ended 30 June 2008, with comparative unaudited figures for the period ended 30 June 2007.

**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 period. Actual results could differ from those estimates.

The consolidated financial statements of PEPR have been authorised for issuance on 19 September 2008 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:

*This statement is supplemental to these consolidated financial statements.*

**PROLOGIS EUROPEAN PROPERTIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDING 30 JUNE 2008**

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

**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

**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.

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

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

The cost of investment in a subsidiary is eliminated against PEPR's share in the net assets of that subsidiary 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 operated by third parties independent of 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 27). 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 owns 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 five 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 2aa).

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 22).

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 heading of "Cumulative foreign currency translation". On the disposal of such a subsidiary, accumulated exchange differences are

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

**2b Foreign currency translation (continued)**

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. 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 implicit interest rate method.

**2e Property under construction**

Property assets under construction are recorded at historic cost incurred as at the balance sheet date less any provision for impairment. 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 Investment in an associate**

PEPR's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which PEPR has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost adjusted for post acquisition changes in the PEPR's share of the net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, PEPR recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between PEPR and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as PEPR. Where necessary, adjustments are made to bring the accounting policies in line with those of PEPR.

After application of the equity method, PEPR determines whether it is necessary to recognise an impairment loss of the PEPR's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case PEPR calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in Consolidated Income Statement.

**2g 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 in property, with any movement being recorded in the Consolidated Income Statement.

**2h 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.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

**2h Goodwill (continued)**

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.

**2i Amounts due between related parties**

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

**2j Accounts receivable**

Accounts receivable are carried at amortised cost less provisions for doubtful debts, if any. The Management Company assesses specific provisions on a customer by customer basis throughout the period.

**2k 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.

**2l 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).

**2m Capital contributions**

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

**2n 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.

**2o Accumulated distributions**

The Management Regulations create an obligation to pay a quarterly dividend to the extent that Distributable Cash Flow is available. Distributions are recognised in the financial statements as a liability in the period to which they are related.

**2p 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 26).

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.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

**2p Financial instruments (continued)**

For 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 15 and Note 26). 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.

**2q Interest bearing debt**

Debt, comprising secured and unsecured 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 2aa).

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.

**2r 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.

**2s 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:

- iii) 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
- iv) 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 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.

**2t 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

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

**2t Provisions and expense accruals (continued)**

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.

**2u 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.

**2v 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").

**2w Revenue recognition—other property income**

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

**2x 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 2n), the raising of debt (see note 2q) or incurred in the acquisition of an investment or construction of a property which are capitalised as part of the cost of an asset. Expenses arising on the disposal of investments are deducted from the disposal proceeds. PEPR acts as an agent in respect of the recovery of maintenance utilities and similar expenses and therefore they are presented net in the Consolidated Income Statement.

**2y Revenue recognition—Investment property disposals**

Gains on the disposal of investments in property are recorded at the time title is transferred which corresponds to the time when significant risks and rewards of ownership have been passed to the buyer.

**2z Finance income**

This includes interest income received during the period.

**2aa Finance expenses**

Finance expenses includes:

- i) interest expenses related to secured and unsecured 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 2q);
- 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 2p);
- 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).

**2ab 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 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 Europe.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

**2ac 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.

**2ad 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.

**2ae New standards**

PEPR has adopted the following new and amended IFRS and IFRIC interpretations during the year. The principal effects of these changes are as follows:

*IFRIC 12 — Service Concession Arrangements*

The interpretation clarifies that the infrastructure for contractual arrangements arising from entities providing public services should be recognised as financial asset and/or an intangible asset. This interpretation will not impact the financial position or performance of PEPR.

PEPR has chosen not to adopt early the following standards and interpretations:

*IFRS 3R — Business combination*

This standard is applicable prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in accounting for business combinations that will impact the amount of goodwill to be recognised, accounting for step-acquisitions and the treatment of contingent consideration. In addition all acquisition related costs will be required to be expensed at the time the services are received. PEPR plans to adopt this revised standard at its effective date or at the date of endorsement by the European Union, if later and does not anticipate any significant impacts on its financial statements.

*IAS 27R — Consolidated Financial Statements*

This standard is applicable for annual periods beginning on or after 1 July 2009 and must be adopted simultaneously with the adoption of IFRS 3R. The revised IAS 27 will require entities to account for changes in the ownership of a subsidiary, which does not result in the loss of control, as an equity transaction and therefore will not give rise to a gain or loss in income. In addition losses incurred by a subsidiary will be required to be allocated between the controlling and non-controlling interests, even if the losses exceed the non-controlling equity investment in the subsidiary. Finally on loss of control of a subsidiary, entities will be required to re-measure to fair value any retained interest, which will impact the gain or loss recognised on the disposal linked to the loss of control. PEPR plans to adopt this revised standard at its effective date or at the date of endorsement by the European Union, if later and does not anticipate any significant impacts on its financial statements.

*IAS 1 — Revised Presentation of Financial Statements*

The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owners changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. PEPR plans to adopt this interpretation at its effective date or at the date of endorsement by the European Union, if later, and does not anticipate any significant impacts on its financial statements.

*Amendments to IAS 32 and IAS 1 — Puttable Financial Instruments*

Amendments to IAS 32 and IAS 1 are to be applied for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. PEPR plans to adopt this interpretation at its effective date or at the date of endorsement by the European Union, if later. PEPR is currently assessing what impact the amendments will have on the presentation of its financial statements.

*IFRIC 15 – Agreements for the Construction of Real Estate*

The Interpretation which is applicable for the annual periods beginning on or after 1 January 2009 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction should be recognised. The adoption of this interpretation will not impact the financial performance or the accounting policies of PEPR.

*IFRIC 16 – Hedges of a Net Investment in a Foreign Operation*

The Interpretation which is applicable for the annual periods beginning on or after 1 October 2008 provides guidance on accounting for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements. PEPR is evaluating the potential impact of the interpretation onto its accounting policies

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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 due to significant resources available to competitors 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 either the SPCA or the PCA and will rely instead for the majority of its external growth through investments in ProLogis Private Equity Funds and ProLogis Joint Ventures in Europe, both of which provide indirect access to the ProLogis development pipeline. The first of these vehicles, ProLogis European Properties Fund II, was established by ProLogis in August 2007 and PEPR has committed to invest €900 million by August 2010 for a 30% stake in the fund.
- 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 30 June 2008, 54.7% of PEPR's customers (as measured by annualised rental income) were third party logistics companies, 14.2% were retailers, 10% were manufacturers and 21.1% 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 with 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.

**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 is within the scope of the French 3% real estate holding tax, although exempt without any disclosure requirement as an entity listed on a regulated market, the Euronext Amsterdam, and actively traded on the main compartment of that market. All the Fund's 100% direct or indirect subsidiaries also benefit from this automatic exemption under the new French 3% tax rules without any declaratory obligations; and
- iv) In the absence of cause, the Management Company cannot be removed and this may adversely affect the market price of PEPR's 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, wilful misconduct or fraud and (iii) the failure of ProLogis to observe ownership requirements as set out in the Management Regulations.

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**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 funds or ProLogis joint ventures;
- vi) PEPR will not enter into or invest in options, futures or other derivative transactions for speculative purposes but 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 valuation of its investment in property and associates 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 the aggregate valuation of its investment in property and associates as at the most recent valuation day.

**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 of accounts receivable 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 15). 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.

As at 30 June 2008, 65.1 per cent of PEPR's debt obligations were at fixed rates (with all fixed rate debt obligations comprising debt obligations under PEPR's CMBS transactions and unsecured notes).

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3f Interest rate risk (continued)**

The following table demonstrates the sensitivity to a reasonably possible change in interests rates, with all other variables held constant, to PEPR's profit before tax (through the impact on floating rate borrowings) and equity (through the impact of cash flow hedges).

	Increase/Decrease in basis point	Effect on profit before tax €000	Effect on equity €000
<b>June 2008</b>		<b>Unaudited</b>	<b>Unaudited</b>
Euro	+25	(6,112)	5,373
Sterling	+25	(200)	-
Euro	-25	739	(2,123)
Sterling	-25	200	-
<b>December 2007</b>		<b>Unaudited</b>	<b>Unaudited</b>
Euro	+25	(3,187)	2,724
Sterling	+25	(220)	-
Euro	-25	463	(2,741)
Sterling	-25	200	-

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 2p. Note 26 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.

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 2p.

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 26.

The following table demonstrates the sensitivity to a reasonably possible change in the sterling and other foreign currencies (Polish zloty, Czech kron, Hungarian forint, U.S. dollar) exchange rates, with all other variables held constant, to PEPR's profit before tax (due to the changes in the unhedged portion of the sterling borrowing and other monetary assets and liabilities).

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3g Foreign exchange risk (continued)**

	Increase/Decrease in basis point	Effect on profit before tax
€000		
<b>June 2008</b>		<b>Unaudited</b>
Sterling	+10	(15,706)
Other currencies	+10	81
Sterling	-10	15,706
Other currencies	-10	(81)
<b>December 2007</b>		<b>Unaudited</b>
Sterling	+10	(17,276)
Other currencies	+10	116
Sterling	-10	17,276
Other currencies	-10	(116)

**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.

In order to spread liquidity risk, PEPR has financed its activities through a variety of instruments in the capital markets and with a number of banks. The debt maturity profile is managed by spreading the contractual repayments dates. As of 30 June 2008, PEPR's has repaid no outstanding debt in 2008 (2007: 0.1%), based on the carrying value of borrowings reflected in the financial statements.

PEPR ensures, through the forecasting and budgeting of cash needs, that it maintains sufficient short-term liquidity to meet its immediate payment requirements. As of 30 June 2008, PEPR had €314 million (2007: €515 million) in undrawn capacity under its existing credit facilities.

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 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 2007, the property assets within PEPR are being revalued on a six monthly basis by the Independent Appraisers. At each balance sheet date, the Management Company reviews the latest independent valuation to ensure that it is still applicable. The last valuation exercise by the independent appraisers was performed as at 30 June 2008.

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**4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

**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 unsecured notes and certain financial leases and mortgages in France and Italy which are carried at amortised cost (see Note 26).

**4e Business combinations**

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

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.

In 2005, PEPR purchased 100% of the equity of Harbor Park Inगतlanmukodteto Kft ("**Investment Kft**") which owned 55.665% of the equity of Harbor Park Inगतlanfejlszto 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.

**5 PROPERTY UNDER CONSTRUCTION**

Property under construction comprises expenditure on real estate under construction.

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
Cost at the beginning of the period	14,050	7,157
Additions during the period	3,918	6,893
Disposals during the period	(15,484)	-
Transfers of stabilised property to investment properties	(2,439)	-
	<b>45</b>	<b>14,050</b>

The disposal during the period relates to the transfer of shares in two Hungarians asset owning companies by ProLogis Hungary THREE Kft to ProLogis European Development B.V., a wholly-owned subsidiary of ProLogis. The total value of the transfer was €6.2 million resulting in a gain of €0.7 million.

Transfers of stabilised property to investment properties relates to certain tenants improvement costs required by a customer in Poland.

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**6 INVESTMENT IN AN ASSOCIATE**

PEPR has a 29.99% interest in ProLogis European Properties Fund II ("PEPF II"), a private equity fund established by ProLogis in August 2007. PEPF II is expected to have total capital, including 50-60% leverage, of between €6 and €7.5 billion by August 2010 and to invest this capital by acquiring modern distribution facilities from ProLogis' development pipeline in Europe and from third-parties.

PEPF II is an externally managed real estate investment fund, organised as a Luxembourg open-end, infinite-life, *fonds commun de placement*, that is not listed on any public exchange.

As at 30 June 2008, PEPF II owned 93 distribution facilities, comprising 2,245,026 square metres of space in eleven European countries.

By the end of the period PEPR has invested €295 million for its 30% stake in PEPF II. After taking into account, amongst other things, its share of PEPF II's provisions for purchasers' costs, foreign exchange movements and fair value adjustments, the carrying value of PEPR's investment stood at €260 million at 30 June 2008.

The following table illustrates summarised financial information of PEPR's investment in PEPF II:

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
Current assets	45,597	14,448
Non-current assets	508,621	264,729
Current liabilities	(295,539)	(171,005)
Non current liabilities	-	-
<b>Net assets and carrying amount of the investment</b>	<b>258,679</b>	<b>108,172</b>
Share of the associate's revenue and loss		
Revenue	11,017	3,476
Loss	(81)	(23,919)

  

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
Initial investment (cash contribution)	295,231	133,350
Cumulative share of loss of an associate	(29,988)	(23,919)
Cumulated dividend received	(6,564)	(1,259)
<b>Carrying amount of the investment</b>	<b>258,679</b>	<b>108,172</b>

PEPR has received the first distribution of €1,259 thousand from PEPF II for the period ended 31 December 2007 and €5,305 thousand for the period ended 30 June 2008.

In the period ended 30 June 2008, PEPR recognised the share of the currency translation adjustment recorded in the equity of PEPF II. As a result an amount of €5,989 thousand was recorded in the consolidated statement of changes in equity for the period ended 30 June 2008.

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**7 OTHER CURRENT ASSETS**

Other current assets include:

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
VAT recoverable	14,165	21,041
Deposits with utility companies	1,717	1,717
Prepaid expenses and other receivables	17,048	14,516
Result of straight lined rents	10,071	11,822
Insurance receivable	804	804
	<b>43,805</b>	<b>49,900</b>

**Insurance receivable**

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

**8 CASH AND CASH EQUIVALENTS**

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
Restricted cash	60,500	48,598
Unrestricted cash	70,939	30,082
	<b>131,439</b>	<b>78,680</b>

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.

**9 OWNERSHIP OF PEPR**

Prior to 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 reclassified into Ordinary Units on September 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 Cash Flow of PEPR and to distribute such amount, if any, to Unitholders each quarter.

Prior to reclassifications of Units in 2006, 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.

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**9 OWNERSHIP OF PEPR (Continued)**

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) 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 21d and 21e).

Class C(1) and Class C(2) Units were 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.

	<b>30 June 2008 Unaudited</b>	<b>31 December 2007 Audited</b>
<b>Number of Units issued</b>	<b>No. of Units</b>	<b>No. of Units</b>
<b>Class of Units</b>		
Ordinary Units	190,522 441	190,522 441

  

	<b>30 June 2008 Unaudited</b>	<b>31 December 2007 Audited</b>
<b>Par value in issue</b>	<b>€000</b>	<b>€000</b>
<b>Class of Units</b>		
Ordinary Units	1,911,810	1,911,810
	1,911,810	1,911,810

**10 NET RETAINED EARNINGS**

	<b>Ordinary units €000</b>
<b>For the period ended 30 June 2008 (Unaudited)</b>	
<b>Losses per period net of minority interest</b>	
Basic	(27,741)
Diluted	(27,741)
<b>Weighted average number of units issued during the period</b>	
Basic	190,522,441
Diluted	190,522,441
<b>Earnings per Unit (Euros)</b>	
Basic	(0.15)
Diluted	(0.15)

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**10 NET RETAINED EARNINGS (continued)**

The weighted average number of Units is adjusted to reflect the rights of investors to distributions relating to the results of the three months ended 31 March 2007, for those Units issued that quarter.

	Ordinary units
	€000
<b>For the period ended 31 December 2007 (Audited)</b>	
<b>Earnings per year net of minority interest</b>	
Basic	170,343
Diluted	170,343
<b>Weighted average number of units issued during the year</b>	
Basic	190,522,441
Diluted	190,522,441
<b>Earnings per Unit (Euros)</b>	
Basic	0.89
Diluted	0.89

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

Class of unit	Total	30 June	31	30 June	31	To 31
		2008	December	2007	December	December
		Unaudited	Audited	Unaudited	Audited	Audited
		€000	€000	€000	€000	€000
Class A(1)	1,994	-	-	-	344	1,650
Class A(2)	361,586	-	-	-	60,084	301,502
Class A(3)	56,564	-	-	-	30,175	26,389
Class B1	96,867	-	-	-	8,938	87,929
Class B2	73,655	-	-	-	17,360	56,295
Class C(1)	51,681	-	-	-	5,459	46,222
Class C(2)	13,880	-	-	-	4,706	9,174
Ordinary	277,599	72,753	166,713	86,508	38,133	-
	<b>933,826</b>	<b>72,753</b>	<b>166,713</b>	<b>86,508</b>	<b>165,199</b>	<b>529,161</b>
<b>Accumulated earnings</b>		<b>1,263,031</b>	<b>1,092,688</b>	<b>1,092,688</b>	<b>655,957</b>	<b>420,631</b>
Cumulative distributions		(933,826)	(861,073)	(780,868)	(694,360)	(529,161)
<b>Net retained earnings</b>		<b>329,205</b>	<b>231,615</b>	<b>311,820</b>	<b>(38,403)</b>	<b>(108,530)</b>
Distribution brought forward		41,974	38,133	38,133	35,29	
Distribution for the period		72,753	166,713	86,508	165,199	
Distribution paid		(79,319)	(162,872)	(80,384)	(162,395)	
<b>Distribution carried forward</b>		<b>35,408</b>	<b>41,974</b>	<b>44,257</b>	<b>38,133</b>	

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**10 NET RETAINED EARNINGS (continued)**

**Distributions per Unit**

Class of Unit	June	December	June	December	December
	2008	2007	2007	2006	2005
	Unaudited Euro per unit	Audited Euro per unit	Unaudited Euro per unit	Audited Euro per unit	Audited Euro per unit
Class A(1)	-	-	-	0.69	0.84
Class A(2)	-	-	-	0.69	0.84
Class A(3)	-	-	-	0.58	0.34
Class B1	-	-	-	0.69	0.84
Class B2	-	-	-	0.65	0.78
Class C(1)	-	-	-	0.54	0.73
Class C(2)	-	-	-	0.46	0.63
Ordinary	0.38	0.87	0.45	0.20	-

**Capital management**

The primary objective of PEPR's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise unitholder value. PEPR manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, PEPR may adjust dividend distributions to unitholders, issue Ordinary Units or buy them back.

No changes were made in the objectives, policies or processes during the periods ending 30 June 2008 and 2007 (except for the changes resulting from the public listing of the Ordinary Units in 2006).

PEPR monitors capital using a loan to value ("LTV") ratio, which is debt divided by appraised gross property value plus investment in associates. Under PEPR's Management Regulations PEPR and its consolidated subsidiaries may not incur additional indebtedness (whether secured or unsecured) which would cause the LTV ratio to exceed 60%. For the purposes of effective cash management, PEPR may exceed this limit for temporary or short term purposes for a period not to exceed six months, provided that the LTV ratio does not exceed 65% at any time.

PEPR includes within debt, secured and unsecured note and interest bearing bank loans.

	30 June 2008 Unaudited	31 December 2007 Audited
	€000	€000
Interest bearing secured notes	876,744	874,574
Interest bearing unsecured notes	491,442	491,168
Interest bearing long term bank loans, net of current portion	734,150	534,086
Interest bearing bank loans, current portion	1,925	2,099
Less: transaction costs capitalised	23,034	25,881
<b>Total debt</b>	<b>2,127,295</b>	<b>1,927,808</b>
<b>Appraised Gross Property Value</b>	<b>4,140,944</b>	<b>4,348,888</b>
Investment in associate	260,354	108,172
<b>Total value</b>	<b>4,401,298</b>	<b>4,457,060</b>
<b>Loan to value ratio</b>	<b>48.3%</b>	<b>43.3%</b>

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**11 CUMULATIVE FOREIGN CURRENCY TRANSLATION**

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
Balance at the beginning of the period	(55,994)	(5,682)
Translation adjustments	(40,531)	(50,312)
<b>Balance at the end of the period</b>	<b>(96,525)</b>	<b>(55,994)</b>

**12 CASHFLOW HEDGE VALUATION RESERVE**

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
Balance at the beginning of the period	15,250	3,993
Movement in fair value of existing hedges	4,562	6,063
Fair value of hedges acquired during the period	-	-
Fair value of hedges repaid during the period	-	5,194
<b>Net variation during the period</b>	<b>4,562</b>	<b>11,257</b>
<b>Balance at the end of the period</b>	<b>19,812</b>	<b>15,250</b>

**13 INTEREST BEARING SECURED NOTES**

Euro Secured Floating Rate Notes (the "Notes") have been issued by certain SPEs (the "Issuers"), which although not owned by 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 (2007: 0.33%).

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.

Details of the Notes and the application of the proceeds are shown below.

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**13 INTEREST BEARING SECURED NOTES (continued)**

**Application of the Proceeds**

	<b>30 June 2008</b>	<b>31 December 2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
<b>Cumulative proceeds</b>		
<i>Proceeds from secured floating rate notes:</i>		
Loan Notes listed on the London Stock Exchange	884,135	884,135
Loan Notes listed on the Irish Stock Exchange	-	-
	<b>884,135</b>	<b>884,135</b>
<b>Transaction costs</b>		
<i>Cost</i>		
Balance at the beginning of the period	44,111	64,509
Retirements and amounts written off	-	(20,398)
Additions during the period	-	-
<b>Balance at the end of the period</b>	<b>44,111</b>	<b>44,111</b>
<i>Amortisation</i>		
Balance at the beginning of the period	34,550	45,381
Retirements and amounts written off	-	(20,398)
Amortisation shown in interest expense	2,170	9,567
<b>Balance at the end of the period</b>	<b>36,720</b>	<b>34,550</b>
<b>Net book value of Transaction Costs</b>	<b>7,391</b>	<b>9,561</b>
<b>Net book value of proceeds from Secured Notes</b>	<b>876,744</b>	<b>874,574</b>
<b>Value of pledged assets</b>		
For loan notes listed on the London Stock Exchange	1,746,216	1,854,685
For loan notes listed on the Irish Stock Exchange	-	-
	<b>1,746,216</b>	<b>1,854,685</b>

	<b>30 June 2008</b>	<b>31 December 2007</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>Proceeds from Notes listed on the London Stock Exchange</b>		
Pan European Industrial Properties Series II S.A. Class A - 2012	265,372	265,372
Pan European Industrial Properties Series II S.A. Class B - 2012	30,750	30,750
Pan European Industrial Properties Series II S.A. Class C - 2012	39,750	39,750
Pan European Industrial Properties Series III S.A. Class A - 2013	134,668	134,668
Pan European Industrial Properties Series III S.A. Class B - 2013	17,250	17,250
Pan European Industrial Properties Series III S.A. Class C - 2013	22,500	22,500
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class A - 2013	321,845	321,845
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
	<b>884,135</b>	<b>884,135</b>
<b>Net Property Value of pledged assets</b>		
Pan European Industrial Properties Series II S.A.	646,226	693,633
Pan European Industrial Properties Series III S.A.	379,472	414,818
Pan European Industrial Properties Series IV S.A.	720,518	746,234
	<b>1,746,216</b>	<b>1,854,685</b>

*This statement is supplemental to these consolidated financial statements.*

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**13 INTEREST BEARING SECURED NOTES (continued)**

**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			6.00%
	Class A	Class B	Class C
Amount	€265,372	€30,750	€39,750
Interest rate: three month Euribor +	0.32%	0.48%	0.90%
<b>Application of Proceeds</b>			
Euro tranche	€148,941	€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

**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			5.03%
	Class A	Class B	Class C
Amount	€134,668	€17,250	€22,500
Interest rate: three month Euribor +	0.35%	0.48%	0.85%
<b>Application of Proceeds</b>			
Euro tranche	€74,368	€9,802	€12,785
Fixed interest rate	4.23%	4.36%	4.73%
Sterling tranche (£'000)	£38,091	£4,705	£6,136
Fixed interest rate	4.95%	5.08%	5.45%
Exchange rate	0.6317	0.6317	0.6317

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**13 INTEREST BEARING SECURED NOTES (continued)**

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

	ProLogis European Finance VII S.à r.l.		
Borrower			
Issue price	100%		
Issue date	March 2005		
Legal Maturity date	May 2013		
Interest payment	Quarterly		
Effective interest rate	4.25%		
	Class A	Class B	Class C
Amount	€21,845	€2,000	€20,000
Interest rate: three month Euribor +	0.14%	0.18%	0.30%
<b>Application of Proceeds</b>			
Euro tranche	€68,151	€6,901	€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

**14 INTEREST BEARING UNSECURED NOTES**

The interest rate of 5.875% is subject to an increase to the rate of 7.625% per annum in the event of a three notch downgrade by Moody's Investors Service Limited.

	30 June 2008 Unaudited	31 December 2007 Audited
	€000	€000
<b>Cumulative proceeds</b>		
<i>Proceeds from unsecured fixed rate Eurobonds:</i>		
Loan Notes listed on the Luxembourg Stock Exchange	500,000	500,000
	500,000	500,000
<b>Transaction costs</b>		
<i>Cost</i>		
Balance at the beginning of the period	9,030	-
Retirements and amounts written off	-	-
Additions during the period	278	9,030
<b>Balance at the end of the period</b>	9,308	9,030
<i>Amortisation</i>		
Balance at the beginning of the period	198	-
Retirements and amounts written off	-	-
Amortisation shown in interest expense	552	198
<b>Balance at the end of the period</b>	750	198
<b>Net book value of Transaction Costs</b>	8,558	8,832
<b>Net book value of proceeds from Secured Notes</b>	491,442	491,168

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**14 INTEREST BEARING UNSECURED NOTES (continued)**

**Eurobonds - Rated A3 by Moody's Investors Service**

Principal Borrowers:	ProLogis International Funding S.A.
First drawdown	October, 2007
Final date	October, 2014
In between fixed interest rate according rating	5.875% to 7.625%
Interest payment	Annually
Effective interest rate	6.20%
Amount	€500,000

The interest rate of 5.875% is subject to an increase to the rate of 7.625% per annum in the event of a three notch downgrade by Moody's Investors Service Limited.

**15 INTEREST BEARING LONG TERM BANK LOANS**

**Loan Financing**

The majority of PEPR's funding for investment in ProLogis European Properties Fund II and other general corporate purposes is financed by a €900 million senior unsecured credit facility arranged through a syndicate of 19 banks led by Banc of America Securities LLC and ABN Amro Bank, N.A. The facility may be expanded up to €1.15 billion, through additional commitments, in accordance with the terms and conditions set forth in the credit agreement.

A secured revolving credit facility of €51 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.

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
<b>Proceeds:</b>		
Bank loans maturing beyond five years		
Bank loans maturing between two to five years	741,235	541,574
Bank loans maturing within one year	1,925	2,099
<b>Total proceeds from long term bank loans</b>	<b>743,160</b>	<b>543,673</b>
<b>Transaction costs</b>		
<i>Cost</i>		
Balance at the beginning of the period	7,564	12,578
Retirements and amounts written off	-	(12,578)
Additions during the period	32	7,564
<b>Balance at the end of the period</b>	<b>7,596</b>	<b>7,564</b>
<i>Amortisation</i>		
Balance at the beginning of the period	76	9,498
Retirements and amounts written off	-	(12,578)
Amortisation shown in interest expense	435	3,156
<b>Balance at the end of the period</b>	<b>511</b>	<b>76</b>
<b>Net book value of Transaction Costs</b>	<b>7,085</b>	<b>7,488</b>
<b>Net book value of proceeds from bank loans</b>	<b>736,075</b>	<b>536,185</b>
<b>Less current portion of bank loans</b>	<b>(1,925)</b>	<b>(2,099)</b>
<b>Net book value of bank loans net of current portion</b>	<b>734,150</b>	<b>534,086</b>

*This statement is supplemental to these consolidated financial statements.*

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**15 INTEREST BEARING LONG TERM BANK LOANS (continued)**

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

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
<b>Available facilities</b>		
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries	151,059	151,059
Loans unsecured	900,000	900,000
Loans secured by first mortgage	-	773
Finance leases	6,036	7,077
	<b>1,057,095</b>	<b>1,058,909</b>
<b>Amounts drawn</b>		
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries	151,059	151,059
Loans unsecured	586,065	384,764
Loans secured by first mortgage	-	773
Finance leases	6,036	7,077
	<b>743,160</b>	<b>543,673</b>
<b>Unutilised loan facilities</b>		
Loans secured by guarantee and on shares and intercompany receivables of certain subsidiaries	-	-
Loans unsecured	313,935	515,236
Loans secured by first mortgage	-	-
Finance leases	-	-
	<b>313,935</b>	<b>515,236</b>
<b>Value of pledged assets</b>		
Real estate - Loans	309,450	305,650
Real estate - Finance leases	52,957	53,142
	<b>362,407</b>	<b>358,792</b>

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

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
Within one year	2,420	1,749
Between one and two years	1,399	2,406
Between two and three years	1,188	1,359
Between three and four years	1,029	1,079
Between four and five years	-	484
After five years	-	-
<b>Total</b>	<b>6,036</b>	<b>7,077</b>
Number of loans	1	1
Weighted average effective interest rate	4.59%	4.59%

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**15 INTEREST BEARING LONG TERM BANK LOANS (continued)**

**Summary of facilities**

<b>Lender: Hypo Real Estate Bank International AG</b>	
Principal Borrower:	ProLogis Central European Finance S.L.
First drawdown	February 2004
Repayment date	March, 2010
Pricing three month Euribor	+ 137 bps
Interest payment	Quarterly
Effective interest rate	3.61%
<b>Lender: Banc of America Securities L.L.C. and ABN Amro Bank N.V.</b>	
<b>Senior credit agreement with a maximum capacity of Euro 900 million</b>	
Principal Borrowers:	ProLogis European Properties FCP
<b>Revolver facility first drawdown</b>	
Final date	December, 2010
Pricing one month Euribor	+ 47.5 bps
Facility fee	+ 17.5 bps
Interest payment	Monthly
Effective interest rate	5.47%
Available facilities	€300,000
Amount drawn	-
<b>Facility tranche I</b>	
Final date	December, 2012
Pricing one month Euribor	+ 65 bps
Interest payment	Monthly
Available facilities	€300,000
Amount drawn	€300,000
<b>Facility tranche II first drawdown</b>	
Final date	December, 2012
Euro tranche pricing one month Euribor	+ 70 bps
Sterling tranche pricing one month Libor	+ 70 bps
Interest payment	Monthly
Euro tranche effective interest rate	5.36%
Sterling tranche effective interest rate	7.02%
Available facilities	€300,000
Amount drawn in Euro	€129,000
Amount drawn in Sterling	£123,500

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**16 TAXATION**

PEPR is an unincorporated contractual co-ownership scheme governed by part II of 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 0.05% per annum on the net assets attributable to Ordinary units. 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 and associates of PEPR as it is unlikely that these profits will be remitted to the parent in a manner which will attract income tax.

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
<b>Deferred tax liability</b>		
<b>Opening balance</b>	<b>190,362</b>	<b>192,774</b>
Effect of revaluations of properties to fair value post acquisition	(28,461)	(2,409)
Deferred tax on properties disposed of	(492)	(3)
Deferred tax liabilities acquired as part of business combinations	-	-
<b>Movements on deferred tax liability</b>	<b>(28,953)</b>	<b>(2,412)</b>
<b>Closing balance</b>	<b>161,409</b>	<b>190,362</b>
<b>Made up of:</b>		
Deferred tax liabilities acquired as part of business combinations related to the difference in the tax base on carrying value of investment properties acquired	3 240	3,240
Revaluation of investment properties to fair value	158,169	187,122
<b>Total deferred tax liabilities</b>	<b>161,409</b>	<b>190,362</b>

*This statement is supplemental to these consolidated financial statements.*

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**16 TAXATION (continued)**

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
<b>Long term tax asset mainly relating to losses carried forward</b>		
<b>Opening balance</b>	<b>7,740</b>	<b>7,326</b>
Deferred tax assets acquired as part of business combinations related to the difference in the tax base on carrying value of investment properties acquired	-	-
Relating to tax losses carried forward	98	414
<b>Total deferred tax assets</b>	<b>7,838</b>	<b>7,740</b>
<b>Income and other current taxes payable</b>		
Balance brought forward	17,570	14,811
Tax expense	9,764	20,978
Tax paid	(15,305)	(18,219)
<b>Closing balance</b>	<b>12,029</b>	<b>17,570</b>
<b>Tax expense</b>		
Income taxes	7,872	18,349
Other taxes	1,502	1,309
Subscription taxes	390	1,320
<b>Income taxes expensed</b>	<b>9,764</b>	<b>20,978</b>
<b>Deferred tax expense</b>		
Arising from liabilities	(28,461)	(2,409)
Arising from properties disposed of	(492)	(3)
Arising from assets	(98)	(414)
<b>Net transfers from deferred tax liability</b>	<b>(29,051)</b>	<b>(2,826)</b>
<b>Charge for taxation reported in the consolidated Income Statement</b>	<b>(19,287)</b>	<b>18,152</b>

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**16 TAXATION (continued)**

A reconciliation between tax expense and the product of accounting profit multiplied by domestic tax rates for the period ended 30 June 2008 and 2007 is as follows:

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>€000</b>	<b>€000</b>
<b>Accounting profit and losses before income tax</b>	(46,752)	189,482
Tax exempt income/expense		
Property fair value movement	122,154	(40,196)
Share of loss of an associate	81	23,919
Fund expenses	5,650	11,170
	81,133	(5,107)
Tax deductible expenses		
Tax depreciation	(36,402)	(69,285)
Additional interest deductible for tax	(16,226)	(45,600)
	(52,628)	(114,885)
<b>Taxable profit and losses before tax</b>	<b>28,505</b>	<b>69,490</b>
Charge for taxation	7,506	18,698
Adjustment to the income tax charge of previous years	366	(349)
Others taxes	390	1,320
Subscription tax	1,502	1,309
<b>Charge for tax expense at the effective income tax rate of 26.33% (2007: 26.91%)</b>	<b>9,764</b>	<b>20,978</b>

**17 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	<b>30 June</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>€000</b>	<b>€000</b>
Accrued construction costs	3,457	7,111
Security deposits	10,258	9,556
Legal fee accruals	242	188
Interest payable	27,064	11,981
Other accrued expenses	11,555	12,558
VAT payable	7,235	10,240
Distributions payable	35,408	41,975
	<b>95,219</b>	<b>93,609</b>

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**18 RENTAL LEASES**

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

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

	Amount receivable	
	€000	%
Within 1 year	268,756	21.9%
between 2 and 5 years	686,603	55.8%
5 years and more	274,136	22.3%
	<b>1,229,495</b>	<b>100%</b>

**19 OTHER PROPERTY RENTAL EXPENSES**

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

	30 June	30 June
	2008	2007
	Unaudited	Unaudited
	€000	€000
Maintenance & utilities	2,485	1,100
Insurance costs	2,302	1,910
Property management fees (Note 20b)	916	514
	<b>5,703</b>	<b>3,524</b>

The Fund has contracted with the Management Company to provide management services to the Fund. In return the Management Company has subcontracted a number of related management companies to carry out property management functions for the Fund (Note 20b).

**20 TRANSACTIONS WITH RELATED PARTIES**

**20a Management fees**

Since the initial public offering of PEPR, 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 any interest in the real estate of 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; and
- (iii) from 31 December 2008, an incentive fee of 20% of IFRS net income per Unit above a hurdle rate of an annual return of 9% of net assets over an average of three years (see Note 21c below).

Prior thereto, 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 € billion of the value of real estate. Between € billion and €3.5 billion the rate was 30 basis points with 20 basis points charged on the excess beyond this range.

The management fee is invoices in two parts, a fund management fee equal to 15 basis points and a property management fee equal to 45 basis points.

**20b Property management fees**

The Management Company has entered into investment management agreements with ProLogis Management BV, ProLogis Management Services II 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.

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**20 TRANSACTIONS WITH RELATED PARTIES (continued)**

**20c Fund incentive fee**

As per the management regulations, PEPR is obliged to pay a fund incentive fee to the Investment Manager based on the performance of PEPR over a certain benchmark. The Fund incentive fee is calculated on a rolling three year basis, with the first computation period from IPO date to 31 December 2008 and annually thereafter. The incentive fee becomes payable if PEPR's IFRS earnings per unit for the year exceeds a hurdle rate of 9% of the opening IFRS NAV per unit for that year. Where this is the case, the incentive fee payable would be 20% of the excess over the hurdle. The incentive fee, if any, is due for payment in 2009. As of 30 June 2008 no incentive fee was accrued or due.

**20d 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 Property Value of the distribution facility owned. A minimum of 3% of this discounted Gross Property 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.

Following termination of the SPCA, the management Company on behalf of PEPR, entered into a Property Contribution Agreement ("PCA") 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, were to be contributed based on the fair value of their respective underlying assets and liabilities adjusted to reflect 95% of the Gross Property Value of the Distribution Facility owned. A minimum of 3% of this discounted Gross Property Value should be paid to ProLogis in the form of additional Ordinary Units and the balance in cash.

This agreement automatically terminated following the transfer of the required amount of the distribution facilities during the first half of 2007.

**20e Class B2 Subscription Agreement**

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

**20f Leasehold agreements**

PEPR has leased real estate to some of the Investment Managers on an arm's length basis. Rent charged for the period ending 30 June 2008 amounted to €0.8 million (2007: €0.5 million).

**20g Development fee**

Up until the Settlement Date, ProLogis had 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 received a development fee of 7% of the construction 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 in the respective local markets.

**20h 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.

**20i Leasing Commissions**

Under the terms of the revised Management Regulations, the Board of PEPR must approve annually the leasing commission rates to be charged by ProLogis based upon evidence in the respective local markets. These commissions can only be charged by ProLogis in situations where no outside broker is involved in the lease negotiations.

**20j 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 in Europe, on the condition that these investments fulfil certain criteria.

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

**21 FINANCE INCOME**

	<b>30 June</b>	<b>30 June</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>€000</b>	<b>€000</b>
Interest income	2,445	1,940
<b>Total finance income</b>	<b>2,445</b>	<b>1,940</b>

**22 FINANCE EXPENSES**

	<b>30 June</b>	<b>30 June</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>€000</b>	<b>€000</b>
Interest payable brought forward	(11,981)	(6,249)
Interest payable carried forward	27,065	12,145
Interest paid	37,083	43,507
<b>Interest expense</b>	<b>52,167</b>	<b>49,403</b>
Amortisation of initial borrowing costs	3,155	4,292
<b>Total interest and amortisation expense</b>	<b>55,322</b>	<b>53,695</b>
Unrealised change in value of fair value hedges	(22,632)	(882)
Other net unrealised foreign currency losses on monetary assets and liabilities	22,232	565
Cumulative realised losses	278	97
<b>Net foreign currency losses on monetary assets and liabilities</b>	<b>(122)</b>	<b>(220)</b>
<b>Total finance expenses</b>	<b>55,200</b>	<b>53,475</b>

*This statement is supplemental to 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)*

**23 NET CASH FLOW FROM OPERATING ACTIVITIES**

	<b>30 June</b>	<b>30 June</b>
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>€000</b>	<b>€000</b>
<b>Earnings before tax</b>	<b>(46,752)</b>	<b>145,061</b>
<i>Adjustments for non cash items</i>		
Reversal of rent leveling adjustment	1,240	921
Reversal of interest expense	52,167	49,403
Amortisation of transaction costs relating to debt	3,155	4,293
Unrealised change in value of fair value hedges	(22,632)	(882)
Other Net Unrealised foreign currency losses	22,232	3,147
Net Unrealised gain on the investment in real estate	122,154	(49,904)
Realised (gain)/loss on sale of investments	(1,857)	(4,887)
Realised (gain)/loss on sale of property under construction	(683)	-
Writeback of share of loss of an associate	81	-
<i>(Increase)/decrease in operating assets</i>	-	-
(Decrease)/increase in amounts due from related parties	-	(9,238)
Decrease/(increase) in accounts receivable	(89)	(19,495)
Decrease/(increase) in other assets	4,856	19,356
Decrease/(increase) in accounts payable	(5,106)	(5,732)
(Decrease)/increase in amounts due to related parties	(1,466)	1,356
Increase in amounts due to related parties	-	4,544
(Decrease)/increase in accrued expenses and other current liabilities	(3,736)	(5,816)
(Decrease)/increase in deferred income	(5,227)	8,053
Payment of income tax	(15,305)	(10,649)
Payment of interest	(37,083)	(43,507)
<b>Net cash generated by operating activities</b>	<b>65,949</b>	<b>86,024</b>

**24 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 15, Long term bank loans.

There are no material commitments for capital improvements and construction contracts at the end of 2008 (2007: €0 million).

**25 NON-CASH INVESTING AND FINANCING ACTIVITIES**

Under the PCA, PEPR issued no Ordinary Units (2007: €28.2 million) as Distribution Facilities are no longer contributed by ProLogis.

**26 FINANCIAL INSTRUMENTS**

**Interest rate and fair value**

The following table sets out the carrying value (before deduction of unamortised transaction costs) and fair value by maturity of PEPR's financial instruments which are exposed to interest rate risk.

*This statement is supplemental to these consolidated financial statements.*

**PROLOGIS EUROPEAN PROPERTIES**  
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**FOR THE PERIOD ENDING 30 JUNE 2008**

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

**26 FINANCIAL INSTRUMENTS (continued)**

**Interest rate and fair value (continued)**

Instruments at floating rate, i.e. which have an interest rate set 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.

<b>Period end 30 June 2008 (unaudited)</b>				
	<b>&lt;1 year</b>	<b>1-5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
<b>Fixed rate</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Obligations under finance leases				
Carrying value	2,420	3,616	-	6,036
Fair value	2,500	3,735	-	6,235
Obligations under Eurobonds loans				
Carrying value	-	-	(500,000)	(500,000)
Fair value	-	-	(497,600)	(497,600)
<b>Floating rate</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Cash and cash equivalent	131,440	-	-	131,440
Secured bank loans	-	(151,059)	-	(151,059)
Unsecured bank loans	-	(586,065)	-	(586,065)
Mortgages	-	-	-	-
Loan notes	-	(335,872)	(548,263)	(884,135)
Interest rate swap	-	1,939	17,873	19,812
Cross currency swap	-	31,346	22,728	54,074
<b>Year end 31 December 2007 (audited)</b>				
	<b>&lt;1 year</b>	<b>1-5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
<b>Fixed rate</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Obligations under finance leases				
Carrying value	1,749	5,328	-	7,077
Fair value	1,807	5,504	-	7,311
Obligations under Eurobonds loans				
Carrying value	-	-	(500,000)	(500,000)
Fair value	-	-	(517,300)	(517,300)
<b>Floating rate</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Cash and cash equivalent	78,680	-	-	78,680
Secured bank loans	-	(151,058)	-	(151,058)
Unsecured bank loans	-	(384,764)	-	(384,764)
Mortgages	(350)	(423)	-	(773)
Loan notes	-	(335,872)	(548,263)	(884,135)
Interest rate swap	-	828	14,422	15,250
Cross currency swap	-	20,381	11,061	31,442

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.

*This statement is supplemental to these consolidated financial statements.*

**PROLOGIS EUROPEAN PROPERTIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**26 FINANCIAL INSTRUMENTS (continued)**

Pan European Industrial Properties Series II S.A.				
<b>Issuer:</b>				
Starting date				February 2002
Maturity date				May 2012
Interest payment				Quarterly
<b>Swap counter-party:</b>	ABN AMRO	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>
Cash flows hedged		€64,406	€9,105	€1,769
Pays floating interest	three-month Euribor			
Receives fixed interest		5.45%	5.61%	6.03%
Fair value hedge (£'000)		£35,773	£3,853	-
Pays floating interest	three-month Euribor +	0.32%	0.48%	-
Receives fixed interest		5.915%	6.110%	-
Exchange rate		0.6145	0.6145	0.6145
<b>Swap counter-party:</b>	JP Morgan Chase	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>
Cash flows hedged		€84,535	€9,105	€1,770
Pays floating interest	three-month Euribor			
Receives fixed interest		5.450%	5.610%	6.030%
Fair value hedge (£'000)		£35,773	£3,853	£9,961
Pays floating interest	three-month Euribor +	0.32%	0.48%	0.90%
Receives fixed interest		5.915%	6.110%	6.540%
Exchange rate		0.6145	0.6145	0.6145

The total amount of interest paid and received is €7.1 million to June 2008 (2007: €34.2 million, June 2007 €17.2 million).

Pan European Industrial Properties Series III S.A.				
<b>Issuer:</b>				
Starting date				February 2003
Maturity date				May 2013
Interest payment				Quarterly
<b>Swap counter-party:</b>	ABN AMRO	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>
Cash flows hedged		€1,538	€4,901	€6,392
Pays floating interest	three-month Euribor			
Receives fixed interest		0	0	0
Fair value hedge (£'000)		£17,532	£2,352	£3,068
Pays floating interest	three-month Euribor +	0.35%	0.48%	0.85%
Receives fixed interest		4.950%	5.075%	0
Exchange rate		0.6317	0.6317	0.6317
<b>Swap counter-party:</b>	JP Morgan Chase	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>
Cash flows hedged		€42,830	€4,901	€6,393
Pays floating interest	three-month Euribor			
Receives fixed interest		4.228%	4.358%	4.728%
Fair value hedge (£'000)		£20,559	£2,353	£3,068
Pays floating interest	three-month Euribor +	0.35%	0.48%	0.85%
Receives fixed interest		4.950%	5.075%	5.445%
Exchange rate		0.6317	0.6317	0.6317

The total amount of interest paid and received is €7.9 million to June 2008 (2007: €16.2 million, June 2007 €8.1 million).

*This statement is supplemental to these consolidated financial statements.*

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**26 FINANCIAL INSTRUMENTS (continued)**

					Pan European Industrial Properties Series IV S.A. (Compartment 1)
<b>Issuer:</b>					
Starting date					March 2005
Maturity date					May 2013
Interest payment					Quarterly
<b>Swap counter-party:</b>	ABN AMRO	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>	
Cash flows hedged		€126,498	€13,451	€8,407	
Pays floating interest	three-month Euribor				
Receives fixed interest		3.285%	3.325%	3.445%	
Fair value hedge (£'000)		£18,557	£1,762	1,101	
Pays floating interest	three-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	
<b>Swap counter-party:</b>	Bank of America	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>	
Cash flows hedged		€41,653	€13,451	€8,407	
Pays floating interest	three-month Euribor				
Receives fixed interest		3.285%	3.325%	3.445%	
Fair value hedge (£'000)		£18,557	£1,762	£1,101	
Pays floating interest	three-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 received is €15.3 million to June 2008 (2007: €1.7 million, June 2007 €15.6 million).

	<b>30 June 2008 Unaudited €000</b>	<b>31 December 2007 Audited €000</b>
Balance at the beginning of the period	46,692	27,776
Movement in fair value of existing hedges	27,194	22,335
Fair value of hedges acquired during the period	-	-
Fair value of hedges terminated during the period	-	(3,419)
<b>Net variation during the period</b>	<b>27,194</b>	<b>18,916</b>
<b>Balance at the end of the period</b>	<b>73,886</b>	<b>46,692</b>
Positive hedge values	73,886	48,577
Negative hedge values		(1,885)
	<b>73,886</b>	<b>46,692</b>

*This statement is supplemental to these consolidated financial statements.*

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

*This statement is supplemental to these consolidated financial statements.*

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**27 LIST OF CONSOLIDATED ENTITIES (continued)**

**Companies Incorporated in Luxembourg:**

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

ProLogis Netherlands XVI S.à r.l.	ProLogis Spain XI S.à r.l.
ProLogis Netherlands XVII S.à r.l.	ProLogis Spain XII S.à r.l.
ProLogis Netherlands XVIII S.à r.l.	ProLogis UK II S.à r.l.
ProLogis Netherlands XIX S.à r.l.	ProLogis UK III S.à r.l.
ProLogis Netherlands XX S.à r.l.	ProLogis UK IV S.à r.l.
ProLogis Netherlands XXI S.à r.l.	ProLogis UK IX S.à r.l.
ProLogis Netherlands XXII S.à r.l.	ProLogis UK X S.à r.l.
ProLogis Netherlands XXXI S.à r.l.	ProLogis UK XI S.à r.l.
ProLogis Poland S.à r.l.	ProLogis UK XIV S.à r.l.
ProLogis Poland II S.à r.l.	ProLogis UK XV S.à r.l.
ProLogis Poland III S.à r.l.	ProLogis UK XVI S.à r.l.
ProLogis Poland IV S.à r.l.	ProLogis UK XVII S.à r.l.
ProLogis Poland V S.à r.l.	ProLogis UK XVIII S.à r.l.
ProLogis Poland VI S.à r.l.	ProLogis UK XXII S.à r.l.
ProLogis Poland VIII S.à r.l.	ProLogis UK XXIV S.à r.l.
ProLogis Poland X S.à r.l.	ProLogis UK XXVI S.à r.l.
ProLogis Poland XI S.à r.l.	ProLogis UK XXVIII S.à r.l.
ProLogis Poland XVI S.à r.l.	ProLogis UK XXXIV S.à r.l.
ProLogis Poland XIII S.à r.l.	ProLogis UK XXXV S.à r.l.
ProLogis Poland XIV S.à r.l.	ProLogis UK XXXVII S.à r.l.
ProLogis Poland XV S.à r.l.	ProLogis UK XL S.à r.l.
ProLogis Poland XVII S.à r.l.	ProLogis UK XLI S.à r.l.
ProLogis Poland XIX S.à r.l.	ProLogis UK XLV S.à r.l.
ProLogis Poland XX S.à r.l.	ProLogis UK XLVI S.à r.l.
ProLogis Poland XXII S.à r.l.	ProLogis UK XLVII S.à r.l.
ProLogis Poland XXVIII 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 II S.à r.l.	ProLogis UK LXXIV S.à r.l.
ProLogis Spain III S.à r.l.	ProLogis UK LXXIX S.à r.l.
ProLogis Spain IV S.à r.l.	ProLogis UK LXXX S.à r.l.
ProLogis Spain V S.à r.l.	ProLogis UK LXXXI S.à r.l.
ProLogis Spain VI S.à r.l.	ProLogis UK LXXXII S.à r.l.
ProLogis Spain VII S.à r.l.	ProLogis UK LXXXIII S.à r.l.
ProLogis Spain VIII S.à r.l.	ProLogis UK XC S.à r.l.
ProLogis Spain IX S.à r.l.	ProLogis UK CC S.à r.l.
ProLogis Spain X 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 Marston Gate Plot 1 (No.1) Limited

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**27 LIST OF CONSOLIDATED ENTITIES (continued)**

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

**Companies Incorporated in France:**

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

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

*This statement is supplemental to these consolidated financial statements.*

**PROLOGIS EUROPEAN PROPERTIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIODS ENDING 30 JUNE 2008, 31 DECEMBER 2007 AND JUNE 2007**  
*(Unless otherwise stated, amounts are expressed in thousands of euros)*

**27 LIST OF CONSOLIDATED ENTITIES (continued)**

**Companies Incorporated in Spain:**

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

ProLogis Spain I SL	ProLogis Spain VIII SL
ProLogis Spain II 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 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 VIIIb 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 XXVII BV (94.4%)
PLD Germany VII BV (94.8%)	ProLogis Germany XXVIII BV (94.4%)
ProLogis Finance BV	ProLogis Germany XXIX BV (94.4%)
ProLogis Germany II BV (94.4%)	ProLogis Germany XXXI BV (94.4%)
ProLogis Germany III BV	ProLogis Germany XXXIII 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 Germany XLVI BV (94.4%)
ProLogis Germany XXII BV (94.4%)	ProLogis Poland Finance BV
ProLogis Germany XXIII BV (94.4%)	ProLogis Realty I BV
ProLogis Germany XXV BV (94.4%)	ProLogis Realty II BV
ProLogis Germany XXVI 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 VI Sprl
ProLogis Belgium II Sprl	ProLogis Belgium VIII Sprl
ProLogis Belgium V Sprl	

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**PROLOGIS EUROPEAN PROPERTIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**27 LIST OF CONSOLIDATED ENTITIES (continued)**

**Companies Incorporated in Sweden:**

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

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

**Companies Incorporated in Poland:**

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

ProLogis Poland I Spzoo	ProLogis Poland XVII Spzoo
ProLogis Poland II Spzoo	ProLogis Poland XIX Spzoo
ProLogis Poland III Spzoo	ProLogis Poland XX Spzoo
ProLogis Poland IV Spzoo	ProLogis Poland XXII Spzoo
ProLogis Poland V Spzoo	ProLogis Poland XXVIII Spzoo
ProLogis Poland VI Spzoo	ProLogis Poland XXIX Spzoo
ProLogis Poland VIII Spzoo	ProLogis Poland XXXIV Spzoo
ProLogis Poland X Spzoo	ProLogis Poland XLVIII Spzoo
ProLogis Poland XI Spzoo	ProLogis Poland XXXV Spzoo
ProLogis Poland XIII Spzoo	ProLogis Poland XXXVI Spzoo
ProLogis Poland XIV Spzoo	ProLogis Poland XXXVII Spzoo
ProLogis Poland XV Spzoo	ProLogis Poland XXXVIII Spzoo
ProLogis Poland XVI 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 XI Sro
ProLogis Czech Republic III Sro	ProLogis Czech Republic XII Sro
ProLogis Czech Republic IV Sro	ProLogis Czech Republic XIII Sro
ProLogis Czech Republic VII Sro	ProLogis Czech Republic XIV Sro
ProLogis Czech Republic X Sro	

**Companies Incorporated in Hungary:**

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

ProLogis Hungary Kft	ProLogis Hungary TEN Kft
Harbor Park Ingatlanmukodteto Kft	ProLogis Hungary Finance Kft
Harbor Park Ingatlanfejlesztő Kft (55.665%)	ProLogis Italian Finance Kft
ProLogis Hungary TWO Eptesi es Beruhazasi Kft	ProLogis Finance Kft
Wingprojekt 2 Kft	
ProLogis Hungary THREE Eptesi es Beruhazasi Kft	

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**PROLOGIS EUROPEAN PROPERTIES FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIODS ENDING 30 JUNE 2008, 31 DECEMBER 2007 AND JUNE 2007**

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

**27 LIST OF CONSOLIDATED ENTITIES (continued)**

**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 (Liquidated on 28 December 2007)	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. (Liquidated on 28 December 2007)	Luxembourg

**REGISTERED OFFICE:**

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

**Operated by SGG Corporate Services S.A.:**

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

**REGISTERED OFFICE:**

412, F route d'Esch  
L-1030 Luxembourg

**28 SUBSEQUENT EVENTS**

*Subsequent investment into ProLogis European Properties Fund II (PEPF II) .*

In August 2008 PEPR invested a further €9.5 million into PEPF II. This investment, entirely funded from cash in hand, increases PEPR's gross investment in PEPF II to €314.7 and maintains PEPR's ownership at 30%.

PEPF II acquired 14 modern distribution facilities covering 235,500 square meters in four European countries, with third-party appraised values totalling €164,6 million gross (€159,1 million net), representing a 6.8% yield on investment. These facilities are two years old on average, 99.99 % occupied by pan-European customers and have 4.1 years to lease expiry or 4.0 to the first break on average.

Following this acquisition PEPF II's portfolio consist of 107 building, covering 2.5 million square metres in 11 European countries.

*Subsequent property disposal.*

In July 2008, PEPR has sold Zibido DC 1 (near Milan, Italy) for a gross consideration of €6.4 million to Finlema, an Italian manufacturer of personal hygiene products. As at December 2007, the appraised value was fixed at €6.3 million. The 12,800 square meters distribution facility was built in 1970 and acquired by PEPR, as part of a portfolio of Italian properties, in 2002. The age, smaller size and standalone nature of this building meant that it was not consistent with PEPR's strategy to own large, modern distribution facilities. Including the lease surrender premium received, the total proceeds represented a premium to the December 2007 valuation of over 14%.

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