

## Report for the third quarter of 2006

### Highlights

- On 27 September 2006, we successfully completed the IPO of PEPR through a secondary offering of €715m of ordinary units comprising 26.4% of total equity
- Redeemed €153.2m preferred units as part of the IPO and converted €50.0m preferred units into ordinary units
- Increased banking facility capacity from €500m to €800m
- In July, we disposed of a portfolio of 6 assets in France for €66.5m, a 7% premium to June 2006 valuations, generating €18.0m profit based on historical cost
- Property portfolio valuation remains stable at €4.2 bn with occupancy at 96.7%
- Rental income for the quarter is €71.0m, up 8.9% on the same period in 2005 primarily due to growth in the portfolio
- Excluding costs associated with IPO, the result of property disposals and fair value adjustments, profit for the quarter of €34.9m is 8.3% up on the same period in 2005 primarily due to growth in the portfolio
- Based on the 25 October 2006 closing price on Euronext of €14.75, PEPR has a equity market capitalisation of €2.8 bn and including debt of €2.0 bn has a total market value of €4.8 bn
- IFRS net asset value per unit declined 0.5% from €11.74 to €11.68 since June 2006, due to the increased number of ordinary units and costs incurred in completing the IPO
- EPRA net asset value per unit at the end of the quarter was €12.65 compared to €12.77 at the end of June 2006

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Robert Watson, Chief Executive Officer of ProLogis European Properties (PEPR) said:

"We are delighted to be presenting our first set of quarterly results as a public company. We are very pleased with the quality of our investor base following PEPR's successful listing in September on Euronext Amsterdam. The growing portfolio continues to perform in line with our expectations as evidenced by the 41% growth in cash from operations for the quarter compared to the corresponding quarter in 2005."

### Portfolio

Following the disposal of six buildings in France in July, PEPR's portfolio comprises 275 distribution facilities located in 11 European countries, covering approximately 5.3 million square metres of leasable space. The market value of the portfolio is estimated at €4,170.9 million (net of purchasers' costs), as appraised by the independent valuers in June 2006. Details of the movement in the portfolio value are provided on page 6.

At the end of September 2006 the occupancy of the portfolio was 96.7%, down 60bp from the June 2006 level of 97.3%. Occupancy is above 98% in five of the eleven countries represented.

### Distributable cash flow

Distributable cash flow increased by 41.2% from €28.9 million for the quarter ending 30 September 2005 to €40.8 million in the same period of 2006.

The Fund's Management Regulations provide that we distribute substantially all distributable cash flow on a

quarterly basis. PEPR has historically made cash distributions on this basis and anticipates continuing to do so in the future, whilst making provisions for anticipated capital expenditures and retaining discretion to reinvest proceeds of disposals made during the quarter.

Distributable cash flow earned by unitholders during the period from 1 July 2006 to the 27 September 2006 (the official IPO Settlement Date) will not be distributed to investors who acquired ordinary units in the IPO, but will be distributed to existing unitholders in accordance with the outgoing management regulations. Accordingly, €39.9 million of the €40.8 million distributable cash flow generated by PEPR for the quarter has been calculated to represent this pre-IPO element. This will be distributed to pre-IPO Unitholders on 30 October 2006 with the balance brought forward for distribution as part of Q4 dividends.

## **Net Profit**

Net profit was €6.8 million for the three months ended 30 September 2006, compared to €20.3 million for the same period in 2005. Excluding costs associated with IPO, the result of property disposals and fair value adjustments, net profit for the quarter of €34.9m is 8.3% up on the same period in 2005.

## **Total Revenue**

### *Rental Income and Other Property Income*

Total revenue for the three-month period ending 30 September 2006 was €71.0 million compared to €65.2 million for the same period in 2005, representing an increase of 8.9%. This growth in rental income has been predominantly driven by the addition of 29 distribution facilities to the portfolio since September 2005.

Significant yield compression has been experienced in the industrial property sector across Europe. The net operating income yield (NOI yield) of the portfolio was 7.3% one year ago. This has decreased to 6.8% as of 30 June 2006 and 6.6% as of 30 September 2006 as, generally, investment yields in Europe have dropped with the sharpest reductions occurring in the United Kingdom and Central European markets.

The long-term lease profile continues to be strong; with 64% of the leases in place today not expiring before the beginning of 2012 (based on lease expiry date).

"PEPR continues to have a strong and diverse customer base comprising almost 400 customers. Our most significant customers continue to be third party logistics companies who serve clients in a variety of industries and, as a result, provide additional diversity to our customer base", Mr Watson added. At 30 September 2006, third party logistics companies accounted for approximately 56% of our total rental income calculated on an annualised basis by reference to the leases in place at that date.

## **Expenses**

### *Management fees — property and fund related*

Property management and other fees increased from €4.0 million in the three-month period ending 30 September 2005 to €4.6 million for the same period in 2006, an increase of 15.0%. Over the same period, fund management fees increased from €1.4 million to €1.6 million, an increase of 14.3%. The increases in these fees in 2006 were due to the growth in our portfolio. Following the completion of the IPO in September 2006, management fees will be calculated at 60bp of gross property value per annum.

### *Other operating expenses*

Other operating expenses are typically general and administrative costs such as auditing, banking, custodian services, administrative services, investor relations costs as well as consulting and other fees. The expenses for the three-month period to 30 September 2006 include an estimated one-time charge of €27.4 million in relation to completion of the IPO. In June 2006, PEPR recorded an initial accrual for IPO costs of €7.0 million, taking the total cost of the listing to €34.4 million. Excluding this charge for IPO expenses, other operating expenses fell from €1.0 million for the three-month period ending 30 September 2005 to €0.8 million for the corresponding period this year.

## **Profit on disposal of investment property**

Six buildings in France were disposed of in July 2006 with proceeds of €66.5 million resulting in a profit of €18.0 million when compared with historical cost and 7% in excess of previously reported valuation. Mr Watson commented that "PEPR disposes of assets when it is considered an opportune time to do so from a valuation perspective or because they no longer fit into our long term investment or business plans."

## Property fair value movements

The portfolio was last valued in its entirety at 30 June 2006 by Jones Lang LaSalle and DTZ. A revaluation of approximately half of the portfolio will be carried out by the end of the year. Fair value adjustments recorded in previous periods in relation to the six buildings disposed of in France in July 2006 were reversed during the quarter ended 30 September 2006.

## Financial income and expenses

Financial income increased from €0.4 million for the three months to 30 September 2005 to €1.1 million for the same period in 2006.

Financial expenses comprise interest expense, the periodic amortisation charge of initial borrowing costs and the impact of currency movements for the period. Overall, financial expenses increased from €23.3 million for the quarter ended 30 September 2005 to €30.0 million for the same period of 2006, an increase of 28.8% due predominantly to financing the growth of our portfolio.

Interest expense rose from €18.6 million in the third quarter of 2005 to €21.3 million in 2006, an increase of €2.7 million or 14.5%, which is in line with the increased borrowings to finance acquisitions as well as the increase in euro and sterling interest rates. Our weighted average interest rate for the nine-month period to 30 September 2005 was 4.7% and has fallen to 4.5% for the same period in 2006 reflecting a higher proportion of variable rate debt in the latter period. Approximately 66% of PEPR's debt at the end of September 2006 is subject to fixed interest rates resulting from five issues of commercial mortgage-backed securities (CMBS) since 2001. Currently, we have almost €1.3 billion of CMBS debt in place.

In conjunction with the IPO, PEPR redeemed €153.2 million of preferred units at par and converted another €50.0 million of preferred units into ordinary units. An average coupon rate of 6.75% was payable on the preferred units. The redemption was financed by debt drawn under our recently increased €800 million revolving line of credit with Bank of America and ABN Amro taking leverage to 45.0%, up from 40.9% at the end of June 2006.

### *Foreign exchange gains (losses)*

Foreign exchange gains and losses reflect realised and unrealised gains and losses on monetary assets, monetary liabilities and fair value hedges. Our primary exposure in this regard is to sterling.

## Charges for taxation

Tax charges and provisions of approximately €4.7 million were made for the three-month period ended 30 September 2005 whereas a net credit of €1.7 million had been reflected in the third quarter of 2006. This is due to the reversal of the deferred tax provision originally made in relation to the six buildings disposed of in France this quarter.

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ProLogis European Properties, or PEPR, which listed on Euronext Amsterdam in September 2006, is a leading pan-European owner and operator of high quality distribution and logistics facilities. PEPR's portfolio of real estate is located in 25 submarkets within 11 European countries. Established in 1999, PEPR is a real estate investment fund (organised as a Luxembourg closed-ended *fonds commun de placement*) externally managed by a subsidiary of ProLogis, a leading U.S. based real estate investment trust that operates a global network of industrial distribution properties.

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

**PROLOGIS EUROPEAN PROPERTIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 30 SEPTEMBER AND 30 JUNE 2006**

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

	30 September 2006	30 June 2006
	<i>Unaudited</i>	<i>Unaudited</i>
<b>Assets</b>		
<i>Non Current Assets</i>		
Investment in property (see statement of movements on page 6)	4,170,923	4,210,614
Property under construction	14,391	7,106
Hedging instruments	31,219	41,222
Deferred tax asset	7,558	7,583
	<b>4,224,091</b>	<b>4,266,525</b>
<i>Current Assets</i>		
Due from related parties	221	23
Accounts receivable, net	40,316	34,237
Other current assets	102,792	107,281
Cash and cash equivalents	138,237	112,162
	<b>281,566</b>	<b>253,703</b>
<b>Total Assets</b>	<b>4,505,657</b>	<b>4,520,228</b>
<b>Equity</b>		
Capital contributions	1,883,571	2,036,770
Costs of raising capital	(37,721)	(37,721)
Net capital contributed	1,845,850	1,999,049
Profit for the period	380,427	373,631
Net retained earnings	(1,120)	42,936
Cumulative foreign currency translation	(10,558)	(26,953)
Cashflow hedge valuation reserve	(11,146)	(9,941)
Equity attributable to unitholders	2,203,453	2,378,722
Minority interest in subsidiaries	5,505	5,505
<b>Total Equity</b>	<b>2,208,957</b>	<b>2,384,227</b>
<b>Liabilities</b>		
<i>Non-current liabilities</i>		
Interest bearing Secured notes	1,270,858	1,267,338
Hedging instruments	17,130	19,317
Interest bearing bank loans, long term portion	159,598	166,550
Deferred taxation	191,189	197,119
	<b>1,638,775</b>	<b>1,650,324</b>
<i>Current liabilities</i>		
Interest bearing bank loans, current portion	493,246	336,220
Accounts payable	14,677	8,628
Due to related parties	-	-
Income and other taxes payable	16,210	14,135
Accrued expenses and other current liabilities	113,918	104,805
Deferred income	19,874	21,889
	<b>657,925</b>	<b>485,677</b>
<b>Total liabilities</b>	<b>2,296,700</b>	<b>2,136,001</b>
<b>Total equity and liabilities</b>	<b>4,505,657</b>	<b>4,520,228</b>

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**PROLOGIS EUROPEAN PROPERTIES****CONSOLIDATED INCOME STATEMENT****FOR THE NINE AND THREE MONTH PERIODS ENDED 30 SEPTEMBER 2006 AND THREE MONTH PERIOD ENDED 30 SEPTEMBER 2005***(Unless otherwise stated, amounts are expressed in thousands of euros)*

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	Nine months ended 30 September 2006	Three months ended 30 September 2006	Three months ended 30 September 2005
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Rental income	213,479	71,037	65,202
Other property income	3,334	1,147	389
<b>Total revenue</b>	<b>216,813</b>	<b>72,184</b>	<b>65,591</b>
Ground rents paid	(1,629)	(560)	(500)
Property management fees	(13,370)	(4,581)	(3,984)
Other property rental expenses	(6,564)	(2,344)	(1,223)
<b>Cost of rental activities</b>	<b>(21,563)</b>	<b>(7,485)</b>	<b>(5,707)</b>
<b>Gross profit</b>	<b>195,250</b>	<b>64,699</b>	<b>59,884</b>
Fund management fees	(4,711)	(1,640)	(1,434)
Fund custodian fees	(192)	(95)	(9)
Other fund expenses	(37,222)	(28,164)	(968)
<b>Fund expenses</b>	<b>(42,125)</b>	<b>(29,899)</b>	<b>(2,411)</b>
Profit on disposal of investment property	19,231	18,038	(595)
Net valuation gains on property, net of disposals	417,476	(21,480)	(3,651)
Purchasers costs, net of disposals	(26,268)	2,709	(3,500)
Impairment of goodwill	-	-	(1,736)
<b>Property fair value movements</b>	<b>391,208</b>	<b>(18,771)</b>	<b>(8,887)</b>
<b>Profit from activities, prior to financing activities</b>	<b>563,564</b>	<b>34,067</b>	<b>47,991</b>
Finance income	3,278	1,108	374
Finance expense	(70,991)	(30,036)	(23,347)
<b>Profit before tax</b>	<b>495,851</b>	<b>5,139</b>	<b>25,018</b>
Credit/(charge) for taxation	(115,177)	1,657	(4,667)
<b>Net profit for the period</b>	<b>380,674</b>	<b>6,796</b>	<b>20,351</b>
<b>Distributable cash flow for the period</b>	<b>117,800</b>	<b>40,800</b>	<b>28,900</b>

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**PROLOGIS EUROPEAN PROPERTIES****CONSOLIDATED INVESTMENT IN PROPERTY (STATEMENT OF MOVEMENTS)****FOR THREE MONTHS ENDED 30 SEPTEMBER 2006 AND SIX MONTHS ENDED 30 JUNE 2006**

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

	<b>Three months ended 30 September 2006</b>	<b>Six months ended 30 June 2006</b>
	<i>Unaudited</i>	<i>Unaudited</i>
<b>Historic cost</b>		
Cost at the beginning of the period	3,548,763	3,221,938
Asset additions, by way of agreement with ProLogis	-	333,769
Asset additions by way of corporate acquisitions	-	-
Other asset additions	-	-
Capital expenditure	8,107	18,141
Write down of property subject to insurance claim	(496)	(17,496)
Transfer from property under construction	-	4,058
Disposals, by way of direct disposals	(47,652)	(7,119)
Effect of unrealised currency movements	19,123	(4,528)
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Cost at the end of the period	3,527,845	3,548,763
<b>Net unrealised gains related to property</b>		
Net unrealised gains/(losses) at the beginning of the period	661,849	251,870
Net valuation gains on investment during the period, less impact of disposals	(21,480)	438,956
Deduction for purchasers costs, less impact of disposals	2,709	(28,977)
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Net unrealised gains at the end of the period	643,078	661,849
<b>Fair value at the end of the period</b>	<b><u>4,170,923</u></b>	<b><u>4,210,614</u></b>
<b>Fair Value of investment property</b>		
Appraised gross property value at the end of the period	4,363,924	4,406,323
Purchasers costs	(193,001)	(195,706)
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<b>Fair value at the end of the period</b>	<b><u>4,170,923</u></b>	<b><u>4,210,614</u></b>
<b>Appraised market value as a percentage of net assets</b>	<b><u>189%</u></b>	<b><u>177%</u></b>

**EPRA Triple NAV (NNNAV)**

	<b>30 September 2006</b>		<b>30 June 2006</b>	
	<b>euro millions</b>	<b>euro/share</b>	<b>euro millions</b>	<b>euro/share</b>
Number of ordinary units	188,687,510		185,239,510	
Unitholder equity (per balance sheet)	2,203.5	€11.68	2,175.5	€11.74
Deferred tax	183.6	€0.97	189.5	€1.02
<b>EPRA triple NAV (NNNAV)</b>	<b>2,395.4</b>	<b>€12.65</b>	<b>2,365.0</b>	<b>€12.77</b>

**Finance Ratios**

	<b>September 2006</b>	<b>June 2006</b>	<b>December 2005</b>
Gross value of real estate portfolio (euro millions)	4,363.9	4,406.3	3,640.5
Debt (euro millions)	1,964.5	1,803.9	1,670.9
Leverage (debt as % gross value of portfolio)	45.0%	40.9%	45.9%
Average interest (%)	4.5%	4.6%	4.0%
Average maturity, based on earliest repayment date (years)	2.5	2.7	3.4
Average maturity, based on latest repayment date (years)	4.5	4.7	5.8