

A year of activity...

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...across Europe

Southern

2.4 million m²

45% of portfolio by value

99.1% occupancy

7.5% initial yield

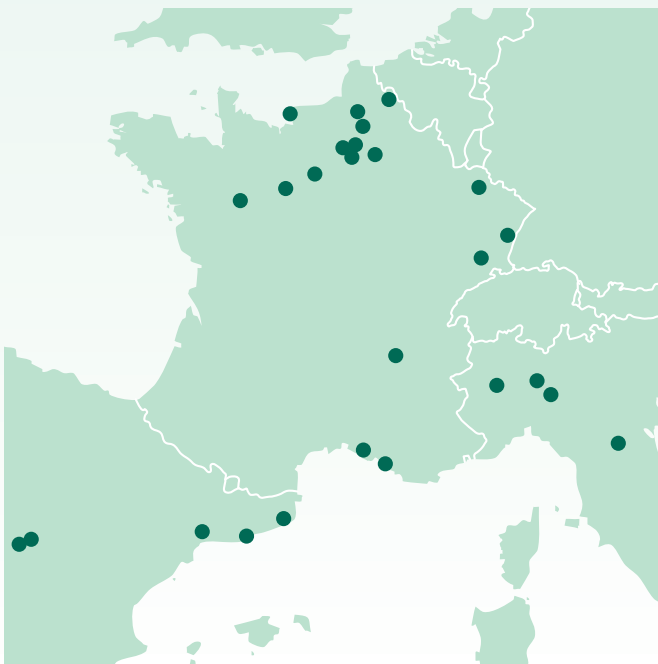
Southern Europe is a core logistics market, with Europe's primary north-south distribution corridor running through France, connecting the Northern European ports and population centres with those in Southern Europe. This region is the largest part of PEPR's portfolio, accounting for 44.6% of annualised rental income by the end of 2008. Consumer spending in Southern Europe has fallen, following weaker economic forecasts, making occupiers more cautious about leasing, particularly in secondary markets. In spite of this, over half of PEPR's leasing activity in Q4 2008 occurred in the region demonstrating the high quality and prime locations of its distribution facilities.

France
61 properties

Spain
13 properties

Italy
18 properties

● ProLogis European Properties



Northern

1.2 million m²

23% of portfolio by value

95.0% occupancy

7.0% initial yield

Northern Europe has a well-established logistics market thanks to its central location in the expanded EU, combined with its excellent and extensive infrastructure. PEPR has owned distribution facilities in Northern Europe since its inception in 1999 and by the end of 2008 it represented 23.0% of annualised rental income. The economic slowdown during 2008 has led to reduced demand for all but prime logistics space and locations. With its modern, high quality warehouses, spread across the major markets including Amsterdam, Brussels, Cologne, Frankfurt, Hamburg, Munich and Rotterdam, PEPR is well positioned to meet this demand.

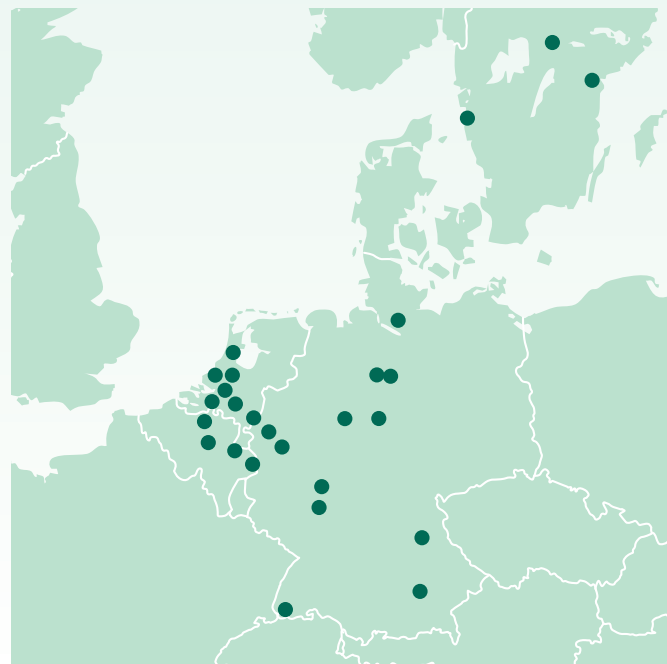
Belgium
5 properties

The Netherlands
23 properties

Germany
26 properties

Sweden
4 properties

● ProLogis European Properties



Central

0.8 million m²

16% of portfolio by value

95.4% occupancy

7.4% initial yield

The expansion of the EU has opened up Central Europe, both as a manufacturing hub and as a consumer market. Continuing economic growth, increasing prosperity, and tightening integration into the EU has resulted in growing volumes of truck traffic and freight entering, exiting, and traversing the region, as well as between Central Europe and the rest of the world. PEPR entered the Central European market in 2002 and has grown this part of the business to 14.6% of annualised rental income by the end of 2008. This region's property markets escaped much of the fall-out from deteriorating economic conditions in 2008 with significant activity throughout the year.

Czech Republic

12 properties

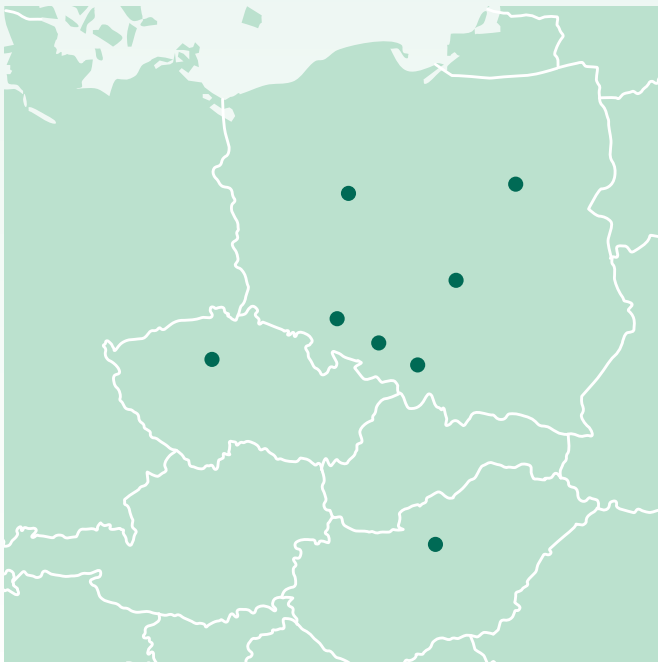
Poland

26 properties

Hungary

14 properties

● ProLogis European Properties



UK

0.8 million m²

16% of portfolio by value

97.0% occupancy

8.2% initial yield

The UK has the most mature and transparent logistics market in Europe. Its island geography means that its supply chain networks are focused on regional or national distribution rather than on broader, pan-European solutions. This was one of the first markets tapped by PEPR in 1999. At the end of 2008, 17.8% of annualised rental income was sourced from the UK. Despite a deterioration in economic conditions and the subsequent impact on occupier demand for distribution facilities, PEPR has maintained high occupancy levels.

England

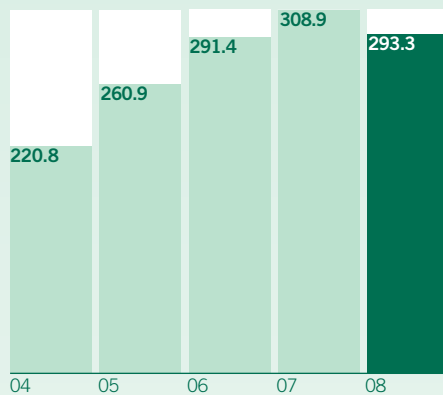
44 properties

● ProLogis European Properties

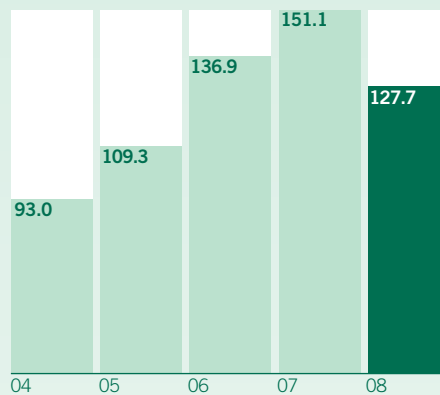


Financial highlights

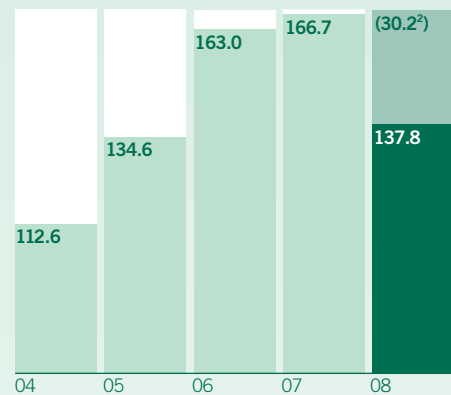
Total revenue (€ million)



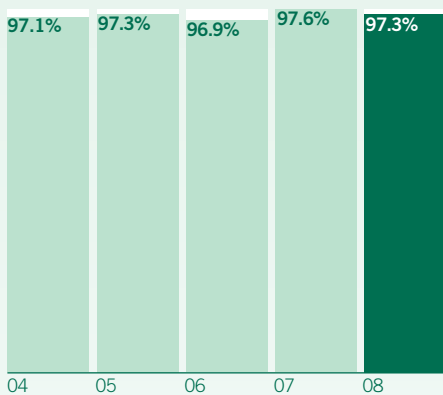
EPRA earnings¹ (€ million)



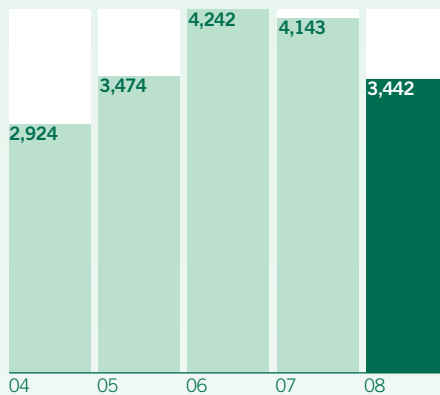
Distributable cash flow (€ million)



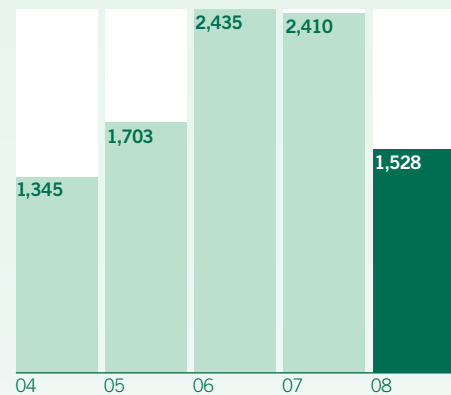
Portfolio occupancy (%)



Portfolio value (€ million)



EPRA net asset value³ (€ million)



Forward-looking statements

This annual report may contain certain 'forward-looking' statements with respect to PEPR's expectations, plans, strategy, management objectives, future performance and other trend information. These statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements. Any forward-looking statements made by or on behalf of PEPR speak only as of the date they are made. PEPR does not undertake to update forward-looking statements to reflect any changes in PEPR's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. Nothing in this annual report should be construed as a profit forecast. Past share performance cannot be relied upon as a guide to future performance

¹ IFRS post-tax earnings/loss adjusted in accordance with EPRA (European Public Real Estate Association) "Best Practice Policy Recommendations", issued May 2008.

² Dividend payments have been suspended from Q4 2008 for the foreseeable future. Q4 2008 distributable cash flow of €30.2 million has therefore been retained by the business.

³ IFRS net asset value adjusted in accordance with EPRA "Best Practice Policy Recommendations", issued May 2008.

Chairman's overview



This is my first annual report following the reshaping of our board in December and my appointment as an independent Chairman. We have also seen some changes within the management team with the retirement of Gordon Keiser as Chief Executive Officer and the appointment of Peter Cassells, former Chief Financial Officer, to the position. I would like to take this opportunity to thank Gordon for his contribution to the business and to welcome Peter to his new role. Peter has been with PEPR since 2000 and is well qualified to lead the company at a time when rigorous financial management is more imperative than ever.

During the latter part of 2008, as a global credit crisis tightened its grip and economic growth slowed across Europe, we listened carefully to stakeholders and investors who had raised concerns about our financial commitments and the deteriorating business outlook.

While our operational performance remains extremely strong, with a 97.3% occupancy rate and a continued strong flow of rental income, we have taken significant steps towards reducing our debt. Our priority for 2009 is to maintain these high occupancy levels and to continue efforts to address liquidity concerns.

In December, we sold two thirds of our 30% stake in ProLogis European Properties Fund II for €43.7 million. This disposal saved PEPR €348 million in future equity commitments to that fund. The sale was followed in February 2009 by the disposal of our remaining 10% stake to a group of six institutional investors, raising another €14.4 million and closing off a further €174 million of future investments. These disposals were key steps in the implementation of our strategy to reduce leverage to levels concomitant with a more challenging fund-raising environment, in which slowing demand for new logistics properties will curtail the need for further investment in the medium term.

To reduce leverage further, we have decided to suspend dividend payments for the foreseeable future and deploy profits to paying down debt. As a result of these actions, and discussions with our financiers, we are now confident that we can fulfil our future funding needs.

As owner of Europe's largest portfolio of modern warehouse facilities, valued at €3,441.7 million on 31 December 2008, PEPR is better placed than many other property investors to ride out an economic downturn. Our geographical diversification enables us to provide Europe's leading companies with a pan-European platform through which to deliver their goods to markets across the European Union.

Our customer base is equally diversified, providing a hedge against difficult times afflicting particular sectors. Our policy of actively managing our portfolio continues to generate high levels of lease renewals and new lettings, ensuring an exceptional level of occupancy, a continued strong flow of rental income, and a solid return on our investments. This sound operational performance is reinforced by our external manager, ProLogis, whose experienced team has detailed knowledge of client needs and local markets in the countries where we operate.

The skills of our portfolio managers cannot fully insulate our business against dramatic currency movements, such as the slide in Sterling, nor against substantial falls in levels of industrial activity across the European economy and a slide in the valuations of industrial property in many national markets. But together with the quality of our facilities our portfolio managers can and will help maintain the highest possible levels of occupancy, at a time when competition for tenants has intensified.

Today, the outlook for the European logistics space is more challenging than it has been for many years. However I am confident that our financial restructuring and the quality of our assets will position us well to weather the downturn and benefit from recovery when it comes.

A handwritten signature in black ink that reads "Geoffrey Bell". The signature is written in a cursive, flowing style.

Geoffrey Bell
Chairman

Chief executive officer's review



I am delighted to have the opportunity, in my first annual report as CEO, to update you on the steps we have taken to adapt our strategy to suit the current climate in which we operate and to keep you abreast of the considerable progress we are making. Few people could have anticipated the present level of economic turbulence or the issues that this would entail. What is important now is how we can address these issues moving forward. Since inception, PEPR has aspired to generate high levels of distributable cash flow through its bias towards high-quality, well-located distribution facilities and its focus on long-term customer relationships. These tenets are grounded on extensive knowledge of both the industrial real estate market and a conservative approach to financial risk.

In addition to these themes, I should add three business principles: the delivery of long-term shareholder value, cliché though it may be; remaining true to medium and longer term value trends without being misled by temporary market trends; and finally and perhaps most importantly, maintaining transparency and open two-way dialogue with our investors.

Turning to our business performance, PEPR has continued to deliver strong operational results during a period dominated by acute slowdown in the credit markets and widespread economic uncertainty. In addition, we have proven ourselves capable of executing on difficult decisions to safeguard the investments of our unitholders and to ensure we are well positioned when the markets turn. Nevertheless, our EPRA NAV per unit fell to €8.02 and our EPRA earnings for the year decreased to €0.67 per unit. In light of current market conditions, the Board reviewed our dividend policy and decided to suspend future dividend payments in order to improve liquidity and preserve capital. As a result, dividends paid to investors for the year totalled €0.57 per unit, with PEPR retaining the Q4 2008 dividend of €0.16 per unit within the business.

The business environment throughout 2008 and today is dominated by credit market dislocation, with declining asset values and a lack of available credit at the forefront of market concerns. As such, we have been diligent in reviewing all of our refinancing options for upcoming debt maturities and are pursuing a number of options to address these. We have already successfully amended our tangible net worth covenant to provide additional headroom following the write-down of our investment in PEPF II and portfolio devaluations. In 2009 we repaid early the €335.9 million Commercial Mortgage Backed Security ("CMBS"), due in July 2009. This repayment crystallises some €43 million of cash flow from the unwinding of related derivatives and releases over €550 million of secured properties, based on values at 31 December 2008, into our unsecured asset pool. We continue to make good progress in discussions with a combination of new and current lenders on new financing packages and maturity extensions for our bank loans, due in 2010.

Additional strategic initiatives to deleverage the business and improve liquidity were announced in December 2008, including the significant step to dispose of our current investment and future commitment to PEPF II. We sold two thirds of our 30% stake to ProLogis before the year end and the remaining one third to six institutional investors in February 2009. Whilst these disposals were concluded at substantial discounts to book value, they significantly improve future liquidity by removing our requirement to invest a further €522 million in PEPF II by August 2010. Furthermore, they enable us to renew our focus on core property investment and management activities.

On the whole, property market fundamentals remained relatively robust during 2008 considering the escalation of the global credit crisis and weakening economic forecasts. Overall take up for the logistics sector fell by only 5% compared to 2007, itself a record year. However, this masks an unprecedented downturn in the UK market where yields have increased by some 300 basis points in the last 18 months alone. The impact on our portfolio is exacerbated by the weakening of Sterling which decreased 33% against the Euro over the year. The picture on the continent is more positive given that yields did not reach quite the same lows as in the UK, possibly due to shorter lease lengths and higher instance of owner-occupation. In these difficult times the geographic diversity of our portfolio and the prime quality of our assets has stood us in good stead. Portfolio occupancy at the end of the year remains high, at 97.3%, and customer retention rates for the first half of 2009 are already at an impressive 84%.

The market outlook for 2009 is challenging with weakening economic forecasts pushing most European countries into recession. The impact on the real estate market has been increasing yields across all sectors and an emerging downward pressure on rents. Customers are taking longer to make decisions and are requesting shorter, more flexible leases to help them manage the potential effects of a slowdown in consumer spending. However, the continued dearth of available credit and rising property yields have resulted in a sharp decline in supply of new distribution space. This combined with unwanted relocation costs means that customers are more likely to stay in their current premises, a trend we have started to see already.

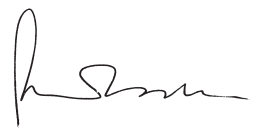
Our priorities for 2009 are to remain focused on occupancy levels across the portfolio. This is where we benefit from our relationship with ProLogis. We are able to utilise its strong network of customer relationships and the expertise of its local market teams to ensure that we continue to anticipate and meet customer expectations. In addition, we have to maximise the opportunities provided by the significant reduction in new supply of comparable distribution facilities in the market place.

We will continue to scrutinise rental receipts closely as it is inevitable that some customers are going to come under pressure in the current environment. Early warning of potential problems enables us to take appropriate action. Our portfolio has a well diversified customer base, with the largest customer accounting for less than 7% of annualised rental income and our top 20 customer accounting for less than half.

In relation to the capital side of the business, we will concentrate on further deleveraging the balance sheet and on finalising discussions with lenders in relation to new secured financing. Our loan-to-value ratios have been conservative and our portfolio has proven its ability to more than cover the cost of servicing our debt. The low risk, diversified nature of the portfolio, combined with a reputable name puts us in a good position to attract future financing.

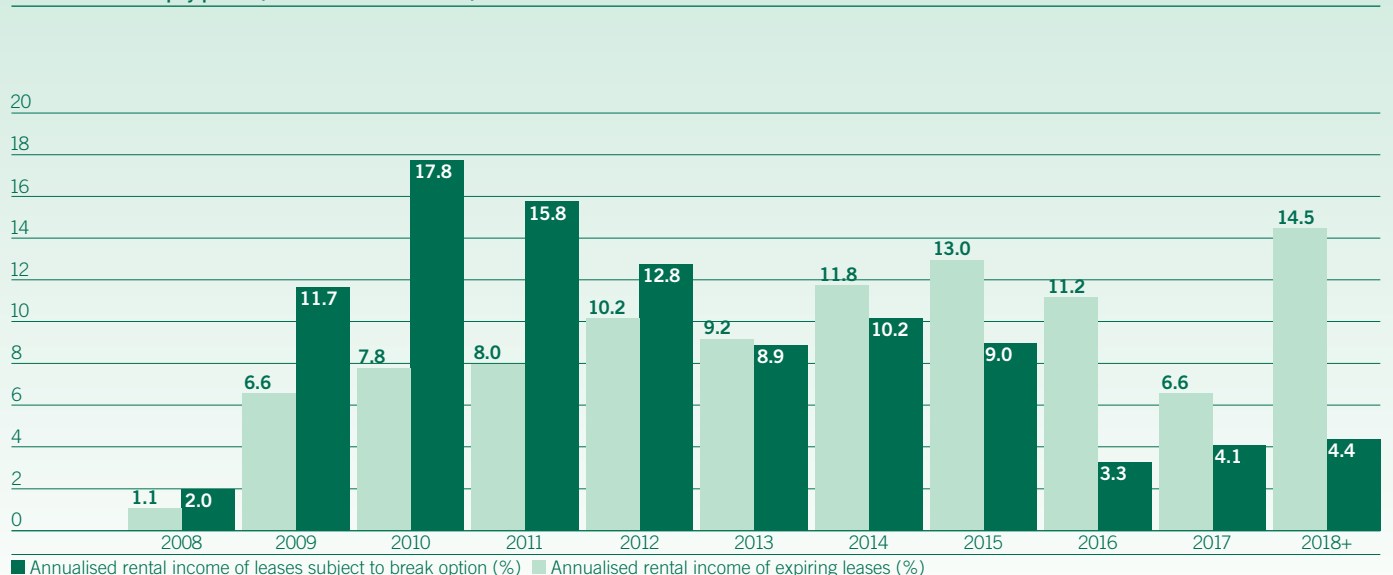
Finally, we will carry out ongoing analysis of the portfolio to identify suitable assets for disposal, improving liquidity in the short to medium term and optimising long-term portfolio value. Whilst investment market activity stalled in 2008 and uncertainty remains over potential future portfolio valuation declines there are several purchasers active in the market today. We also see a significant amount of investment capital waiting in the wings for values to stabilise before re-entering the market.

Given the strategic initiatives already completed, together with further actions to deleverage the business and our sustained operational performance, we believe that we will be well placed to react to opportunities when the markets stabilise.



Peter Cassells
Chief Executive Officer

Lease break and expiry profile (as at 31 December 2008)



Business and financial review

2008 overview

2008 has been a tumultuous year for PEPR and for the real estate market as a whole. The deterioration of economic fundamentals across the globe and the continued scarcity of financing has led to increasing property yields across all markets, particularly the UK. In this challenging environment, PEPR has continued to benefit from the strength of its business model and the relative stability of the industrial real estate market. The operational performance of PEPR's high-quality portfolio has remained resilient, although financial results have been impacted by a significant decline in portfolio values, the write-down associated with the sale of PEPF II, an unprecedented decline in Sterling versus the Euro and one-off receipts in 2007.

Portfolio performance

The prolonged crisis in global credit markets has severely impacted investment demand for all real estate classes, including distribution facilities. The resultant lack of transactions has rendered the valuation process extremely difficult and made it increasingly subjective.

The entire portfolio recorded a 9.2% valuation decline in the second half of the year, excluding disposals and foreign exchange adjustments. Overall net market value including the impact of disposals and currency movements decreased 12.8%, to €3,441.7 million from €3,945.3 million at June 2008. For the full year, the portfolio suffered an overall decline of 16.9%, or a fall of 11.3% excluding disposals and foreign exchange adjustments.

Looking at the different European regions, the UK showed the largest movement declining 14.8% to £538.2 million, from £631.7 million at 30 June 2008. This decline was exacerbated by the significant weakening of Sterling, particularly in the last quarter, as the portfolio value is reported in Euros. On this basis, the value of the UK portfolio decreased 29.7% to €565.1 million from €803.4 million. During the second half of the year, the gross yield¹ on the UK assets increased 140 basis points to 8.7%.



Delivering the goods

We own the largest portfolio of modern distribution facilities in Europe. Our state-of-the-art, strategically located warehouses continue to be attractive to manufacturers and distribution companies at a time when many are seeking to improve the efficiency of their logistics operations.

Through this period of market turmoil, we have continued to deliver positive operating performance, benefiting from invaluable customer relationships, broadly spread across reputable names and businesses – including Sainsbury's, DHL and L'Oréal among others – and ultimately delivering industry-leading occupancy levels across Europe. Throughout the year we maintained occupancy levels of over 97% on our 246 properties, finishing the year at 97.3%. Our impressive levels of lease renewals and new lettings further demonstrate the strength of our customer relationships, the experience of our asset management team and the quality of our portfolio.

In 2008 we signed lease agreements for over 660,000 square metres, compared to 253,000 square metres in 2007. In the fourth quarter alone, when the European economy was slowing sharply, PEPR completed a total of 22 lease transactions on 182,300 square metres, demonstrating sustained occupier demand in most markets.

With a highly diversified customer base and leases averaging 6.1 years to expiry or 4.0 years until the next lease break, our risk profile remains attractive. In terms of overall market outlook, the logistics sector is holding up relatively well. What's more, as supply of new distribution facilities continues to dry up and customers are increasingly likely to remain in current premises rather than take on the costs associated with moving, we expect to be well positioned to respond to future market opportunities.

¹ Annualised rental income expressed as a percentage of net open market value i.e. after deduction of purchasers' costs.

On the continent Central European and Northern European properties experienced similar valuation declines of 9.3% and 9.4% respectively, whilst Southern Europe showed greater resilience with a decline of only 7.4%. The continental portfolio as a whole showed a decline of 8.5% to €2,875.7 million from €3,141.9 million at June 2008.

The gross yield of the entire portfolio at the end of 2008 increased to 8.0% (7.6% net yield²) from 7.3% (6.9% net yield) at 30 June 2008.

At 31 December 2008, the portfolio comprised 246 distribution facilities, covering over 5.2 million square metres across 11 countries with an open market value of €3.4 billion. The risk profile remains highly attractive with a diversified customer base, 97.3% occupancy and 4.0 years on average to next lease break or 6.1 years to lease expiry. The largest customer accounts for 6.8% of annualised rental income, with the top 20 customers accounting for 46.6%. Third party logistics companies remain the largest industry grouping among our customer base at a steady 56% of annualised rental income with retailers at less than 14%.

Leasing performance

In 2008, ProLogis, as PEPR's external manager, completed 82 lease transactions covering over 660,000 square metres and maintaining PEPR's typically high occupancy levels. The majority of leases are with existing customers, demonstrating both the desirability of PEPR's distribution facilities and the ability to meet and service customer needs.

48 leases, covering 345,500 square metres, were either renewed or expanded with existing customers such as Auchan, Burton, DHL and J. Sainsbury. In addition, 34 new leases were signed during the year for a total of 316,200 square metres. These leases were signed with a combination of existing customers such as Gefco, Iron Mountain and L'Oréal and with new customers such as TCNET in Spain and TGN in The Netherlands. This level of leasing validates PEPR's continued focus on maintaining occupancy during challenging market conditions. The portfolio at the end of the year remains highly occupied, at 97.3%.

Looking to 2009, of the 19 lease breaks and expiries due on 31 December 2008, covering 119,000 square metres, 16 leases or 113,000 square metres have either been renewed or replaced after the year end. The three remaining vacancies account for €0.5 million of annualised rental income.

Furthermore, of the 30 lease breaks or expiries due in the first half of 2009, covering 243,200 square metres, 84% by value or €13.6 million of annualised rental income will remain in place based on agreements already completed with occupiers. This is significantly above historical levels of between 60% and 65%.



Driving logistics demand

The requirement for our customers to reduce costs during times of increased uncertainty has re-emphasised the importance of an efficient supply chain. Despite the current disruption in global economies, we believe that the long-term business drivers that support the need for global distribution space will persist. There will continue to be a shift of low-cost manufacturing to places where labour is relatively inexpensive, supported by the steady trend toward more liberalised trade. By being able to offer a modern pan-European portfolio and by leveraging ProLogis' industry-leading reputation for quality and customer service, we have positioned ourselves well to take advantage of these long-term trends.

As companies reconfigure their supply chain networks to improve their competitive edge in an uncertain global environment, distribution centres in the right markets remain critical to maintaining efficient, low-cost logistics operations. This drives demand for distribution facilities in locations that minimise transportation costs but also allow for high levels of service to end users. Increasingly, it also makes more sense for customers to lease their distribution centres rather than owning as it provides them with substantial flexibility to reconfigure their supply chain networks in response to changing market conditions. With the number of new competitive distribution facilities falling, supply has tightened. Over the past decade we have assembled one of the most extensive and modern logistics platforms in Europe, strategically located next to leading European ports, major city centres and key transport routes. Thus, while we recognise that industrial fundamentals are softening and further decreases in occupancies and rent levels are likely, we believe that we have established ourselves as a partner of choice for companies seeking quality distribution space in key logistics markets.

² Annualised rental income expressed as a percentage of gross open market value i.e. before deduction of purchasers' costs.



SAVING OF
€522 MILLION
FUTURE FUNDING
OBLIGATIONS

Focus on liquidity

Flexibility and rapid reaction to changing market conditions have always been the hallmarks of successful property investment. True to these principles, we have sold our 30% stake in private equity fund PEPF II, while retaining an option to buy back 20% if a market upturn makes that wise.

This move comes as part of a range of strategic initiatives launched in December 2008 to improve liquidity in response to the economic slowdown and to underlying investor concerns regarding PEPR's future equity commitments. The sale will reduce our future cash flow requirement by €522 million and the total €54 million in net proceeds enable us to pay down our debt.

These disposals, whilst at a discount to book value, were achieved in challenging market conditions and more importantly free us from the commitment to invest in new warehouse facilities at a time of slowing growth in demand. In addition, it allows management to focus on further deleveraging initiatives to strengthen our balance sheet.

Capital recycling

In the normal course of business, PEPR would expect to rotate 2%–3%, or €75 to €100 million, of property assets per annum on average. However, during 2008 PEPR slowed its capital recycling programme, disposing of two small non-core assets for a total of €11.0 million. Firstly, the sale of 23,300 square metres of land in Zaandam, north of Amsterdam, for €4.6 million, a modest premium to latest valuation. Secondly, a 12,800 square metre distribution facility in Zibido, near Milan, for €6.4 million. Including the lease surrender premium received, the total proceeds represented a premium to latest valuation of over 14%. These disposals generated a net profit on disposal of €1.5 million for the year.

Whilst investment market activity slowed significantly in 2008, there are still a number of purchasers currently in the market or waiting in the wings to acquire prime logistics assets. PEPR is well positioned to benefit from these opportunities as they arise.

ProLogis European Properties Fund II ("PEPF II")

PEPF II is a private equity fund, established in 2007 by ProLogis, to acquire assets from both ProLogis' development pipeline in Europe and from third parties. In August 2007 PEPR committed to invest €900 million over a three-year period in PEPF II, for a 30% stake.

In December 2008, PEPR sold two thirds of its investment and associated future funding obligations in PEPF II to ProLogis for €43.7 million, an implied 30% discount to the combined value of the existing investment and €348 million of future funding obligations. This disposal decreased PEPR's ownership in PEPF II to 10% and its total gross commitment to €300 million, of which €125.9 million, or 42%, had already been invested.

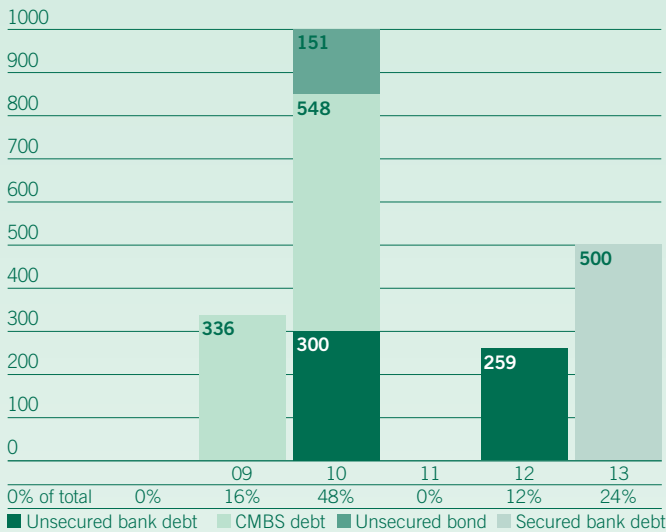
In February 2009, PEPR disposed of its remaining one-third stake in PEPF II to six institutional investors for €14.4 million, an implied 28% discount to the value of its investment and the remaining funding obligations of €174 million.

As a result of these transactions, PEPR recorded a €205.6 million write-down in the book value of its investment in PEPF II at the year end. However, the priority for PEPR was to reduce its debt requirements significantly over the next 18 months by €522 million and enable the business to focus on further deleveraging initiatives. Net proceeds of some €54 million, after disposal fees, will be used to repay debt.

PEPR earned €15.9 million of distributions from PEPF II for 2008, including a pro-rata dividend of €6.2 million for the fourth quarter. This corresponds to a 7.0% annualised cash return³.

³ Based on a time weighted cash investment.

Debt maturity (as at 31 December 2008) (€ million)



Financial performance

Highlights

PEPR reported an IFRS loss for 2008 of €577.9 million, compared to a €171.3 million gain for 2007. This is largely due to €483.7 million of unrealised valuation losses in 2008 as compared to a €1.8 million loss in 2007; the €205.6 million loss on disposal and related impairment on the investment in PEPF II; €3.2 million of bad debt provision and higher interest expense in 2008 associated with higher levels of debt. Additionally, 2007 included €43.2 million of property disposal gains and the receipt of a €6.0 million termination fee.

EPRA earnings for 2008, which more accurately reflect underlying performance, decreased €23.4 million to €127.7 million from €151.1 million, driven by a €15.6 million decline in total revenue, due largely to weaker Sterling but also to the change in portfolio mix, and the one-off termination receipt in the prior year.

As with earnings, PEPR uses an EPRA NAV figure to reflect the underlying value of the business. At the end of 2008, the adjusted NAV per unit was €8.02, a 36.6% decrease over the year, from €12.65 per unit. The principal drivers were the portfolio devaluations during the year, the write-down on sale of PEPF II and currency movements.

The fourth quarter dividend of €0.16 per unit will be retained in the business following the decision to suspend future dividend payments to improve liquidity. As a result, total cash distributions to investors for the year equalled €0.57 per unit, returning €107.6 million of cash to unitholders.

PEPR will revert to paying a dividend as soon as it is prudent to do so and when permitted under the €900 million unsecured credit facility.

Total revenue

Rental and property income for the year fell by €15.6 million to €293.3 million, primarily related to the net loss of €10.7 million in rents following the sale of the Garonor portfolio offset by rental income on newly acquired properties; a €12.2 million decline in UK sourced income and the loss of €1.6 million of rental income from customer defaults in the first half of 2008. These reductions were offset by marginal increases in occupancy levels throughout the year and the release of further rent indemnifications received when properties were originally acquired. In addition, 2007 revenue included €6.0 million related to an exceptionally large UK lease termination.

Operating expenses

Total operating expenses comprise the cost of operating the portfolio and managing PEPR as a fund. In 2008, expenses increased to €44.7 million, from €39.8 million in 2007, largely driven by a €3.2 million provision for bad debts, €1.0 million of non-recoverable VAT, and increased portfolio valuation fees. As an externally managed business, the majority of PEPR's expenses relate to asset management fees paid to ProLogis, the external manager, and as such have a direct correlation to the value of the portfolio. Given the decline in portfolio values during 2008, fees paid to ProLogis decreased 9.2%.



Shifting financial gears

We continue to make considerable headway in our efforts to strengthen the balance sheet and improve liquidity. With the sale of our stake and future equity contributions to PEPF II completed, our financial priorities for 2009 now lie in generating cash, deleveraging and addressing our debt maturities. To ensure a sound debt structure going forward, we have decided to overhaul our unsecured credit facility, refinance part of our Commercial Mortgage Backed Securities and seek a maturity extension on the rest.

Our banking panel has already approved an amendment to the tangible net worth covenant on our €900 million unsecured credit facility, under which the minimum net worth of our business is now reduced to €1.10 billion from €1.95 billion. In exchange for this enhanced flexibility, the margin on the facility was increased by 125 basis points over Euribor/Libor.

We anticipate that this facility, together with €110 million to €120 million made available by the suspension of dividend payments, will enable us to meet our commitments in 2009. In 2009 we repaid a €335.9 million CMBS debt maturity which was not due until July 2009, demonstrating the progress we are making with our deleveraging initiatives. We also expect to refinance the majority of our 2010 secured debts maturities, totalling €699.3 million, with secured debt, thus assuring our financial stability through the slow-down.

With this range of deleveraging initiatives already underway and continued strong operating performance, we believe we are well positioned to capture growth when the markets stabilise and to safeguard the investments of our unitholders into 2009 and beyond.

Property fair value movements

Total property fair value movements for the year resulted in a net loss of €483.7 million, comprising €539.4 million of revaluation losses, partially offset by €39.0 million of revaluation gains and a €16.6 million reduction in associated provision for purchasers' costs.

Share of gain/(loss) of an associate

During 2008, PEPR suffered a €76.8 million negative fair value adjustment as its share of the operating income from PEPF II was more than offset by its share of the purchaser's costs and portfolio revaluation losses for the year.

The disposal of two-thirds of PEPF II to ProLogis in December resulted in a €137.1 million write-down in PEPR's investment in PEPF II. In addition, PEPR recorded a further €68.5 million value impairment for the post-2008 sale of the remaining one-third stake.

PEPR received a pro-rata €6.2 million distribution from PEPF II for the fourth quarter, taking distributions for the year to €15.9 million.

Financing and debt

PEPR's financing structure utilises a mixture of secured and unsecured debt sources with a spread of maturities. The majority of secured debt is in the form of Commercial Mortgage Backed Securities ("CMBS") which are each secured against specific pools of PEPR's properties, with no recourse to another CMBS or assets within the business.

At the end of 2008, total outstanding debt was €2,094 million (2007: €1,928 million), of which 50.5% is unsecured and 66.1% is at fixed rates of interest. In terms of liquidity, PEPR has €77.1 million cash on the Balance Sheet and the €300 million undrawn under the revolving portion of the unsecured Credit Facility remains undrawn.

The weighted average interest rate for 2008 increased marginally to 5.3% (2007: 5.1%) and the weighted average maturity across all debt arrangements is 2.7 years. Given the relatively short average maturity of debt, PEPR is actively pursuing a number of options to manage this profile. In 2009, PEPR has repaid early the €335.9 million of CMBS debt, due July 2009, using a combination of cash and undrawn bank facilities available. Following this repayment, there is no further debt to be repaid in 2009 and the focus has turned to debt maturing in 2010.

Given PEPR's plan to deleverage the business, it intends to use cash flow from sales proceeds and the suspension of dividends to reduce total debt and has begun discussions with a number of lenders to replace portions of the 2010 secured debt with other secured financing packages. In addition, PEPR is aiming for a maturity extension for the 2010 tranches of the €900 million credit facility. The successful conclusion of these activities will smooth PEPR's debt maturity profile and will provide PEPR with greater flexibility during these challenging times.

Net financing costs, comprising interest income received, interest expense and foreign exchange gains/losses for the year increased 14.1% to €110.8 million (2006: €97.1 million), primarily due to increased borrowing used to invest in PEPF II and higher debt servicing costs.

Financial covenants

The secured CMBS structures do not have specific financial covenants, although they are required to ensure that the income received from the secured assets exceeds interest cost by at least 1.5 times. A breach of this ratio does not constitute a default but does require cash trapping within the breached CMBS pool until the breach is remedied. Historically this ratio has averaged between 2.5 and 3.3 times.

The €151.1 million secured bank loan, due March 2010, has two financial covenants. Firstly, leverage within the secured property pool cannot exceed 70%. At 31 December 2008, leverage is 53.7%. Secondly, interest coverage must be at least 1.3 times. Historically this ratio has averaged between 1.5 and 2.1 times.

The unsecured debt consists of a €500 million Eurobond and the €900 million senior unsecured credit facility. The financial covenants applicable to the Eurobond are a) it is redeemable at par if there is a change of control and a subsequent downgrade of PEPR's credit rating to Ba1 or below; and b) a limit of total secured debt as a percentage of total assets of 40%. At 31 December 2008 PEPR's ratio is 27.5%. The Eurobond has no other financial covenants. At 31 December 2008, PEPR was rated Baa2, with negative outlook, by Moody's Investors Service. This rating has since been further reduced to Baa3.

Financial covenants applying to the €900 million unsecured credit facility are:

- a) a leverage limit of 60%, which can be exceeded up to 65% for a maximum of six months. At 31 December 2008 PEPR's leverage is 55%;
- b) a fixed charge coverage ratio of at least 1.5 times.
At 31 December 2008 PEPR's ratio is 2.0 times;
- c) an unencumbered interest coverage ratio of at least 1.5 times.
At 31 December 2008 PEPR's ratio is 1.8 times;
- d) net worth, excluding intangible assets, must exceed €1.1 billion.
At 31 December 2008 PEPR's net worth is €1.5 billion; and
- e) the value of total unsecured debt as a proportion of total unencumbered assets must not exceed 65%. At 31 December 2008 PEPR's ratio is 61%.

PEPR also has an additional borrowing restriction as a result of its *fonds commun de placement* ('FCP') structure, where loan to value, based on debt as a percentage of gross portfolio value plus investment in PEPF II, is limited to 60%. Under its Management Regulations, PEPR could exceed this limit, to 65%, for a maximum of six months. At the end of 2008, this loan to value was 57.1%, excluding the use of cash on hand, as compared to 43.3% at the end of 2007. The FCP structure does allow for this borrowing restriction to be amended with approval from the Luxembourg Commission de Surveillance du Secteur Financier and a majority shareholder vote.

Tax

The tax result for 2008 is a credit of €48.9 million (2007: €18.2 million loss), comprising current income tax expense of €23.6 million (2007: €21.0 million) offset by a large deferred tax credit of €72.5 million (2007: €2.8 million). The deferred tax credit is driven by the portfolio valuation decline which results in a partial reversal of previously recorded deferred tax liabilities on unrealised revaluation gains.

The current income tax expense of €23.6 million represents a consolidated effective tax rate of 15.7% for the year compared to 11.4% for 2007.

The financial information contained in this review is extracted or calculated from the financial statements, shown on pages 16 to 72.

PEPR management

Management team

Peter Cassells

Chief Executive Officer

Mr Cassells became CEO of PEPR in February 2009, having been Chief Financial Officer from September 2006. Previously, Mr Cassells was first Vice President and Fund Manager of ProLogis in Europe with responsibility for managing fund investor relations, reporting, treasury and corporate secretarial functions. Prior to joining ProLogis in 2000, Mr Cassells previously worked with Eltag Bailey Process Automation NV, Price Waterhouse and Anglo-American plc in a number of finance and treasury positions.

Based: Luxembourg.

Luke A. Lands

Interim Chief Financial Officer

Prior to becoming Interim Chief Financial Officer, Mr Lands was most recently Chief Financial Officer – Europe for ProLogis from 1996 to January 2009. Mr Lands was responsible for ProLogis' accounting operations, internal and external financial reporting, budgeting and forecasting, and centralised support services. Previously, Mr Lands worked with Lincoln Property Company and Arthur Andersen in a series of finance and accounting positions.

Based: Luxembourg.

Simon Nelson

Head of Asset Management

Mr Nelson became Head of Asset Management in July 2008. He joined ProLogis in January 2001 with initial responsibility for investment acquisitions in Southern Europe. Latterly he has been responsible for European acquisitions and disposals, together with overseeing the portfolio valuations. Prior to joining ProLogis, he was a Partner and Investment Director at DTZ in France, covering all aspects of commercial real estate investment.

Based: The Netherlands.



Left to right
Peter Cassells
Luke A. Lands
Simon Nelson



Left to right

Geoffrey Bell
 Professor Horst Albach
 Pierre Rodocanachi
 Sylvia Tóth
 Ted R. Antenucci
 Robert J Watson

Board members

Geoffrey Bell*

Mr Bell became Chairman of PEPR in December 2008 and has been a member of the PEPR Board since September 2006. Mr Bell is an economist, banker, and executive secretary of the Washington based Group of Thirty. He is also President of Geoffrey Bell and Company, a consulting company which advises a wide range of central banks and governments on their international reserve asset and liability management programmes. Based: UK and USA.

Professor Horst Albach*

Formerly a member of the supervisory boards of Dresdner Bank AG, AEG AG, Kugelfischer Ball Bearings (FAG) and Mercedes Automobil Holding AG. Prof. Albach has also served on the Scientific Advisory Board to the German Federal Minister of Economics and the Board of Economic Advisors to the German Parliament. He is Professor Emeritus of Management at Humboldt University Berlin. Based: Germany.

Pierre Rodocanachi**

A retired Senior Vice President and Director of Booz Allen and Hamilton inc., one of the world's largest management consulting firms and currently the Chairman of its advisory board in Paris, Mr Rodocanachi is the Managing Partner of Management Patrimonial Conseil which advises entrepreneurs and large company owners on their asset allocation and investment strategies. A former President of the American Chamber of Commerce in France and Director of Carrefour, the world number two distribution chain, he is currently a member of Vivendi and DMC supervisory boards. Based: France.

Sylvia Tóth*

President of Tóco USA and Tóco d'Azur and was previously chairwoman of Content Beheer and a supervisory director at Aegon N.V., Endemol Entertainment, Creyf's and Vendex KBB N.V. Based: The Netherlands.

Ted R. Antenucci

Mr Antenucci is ProLogis' President and Chief Investment Officer. Before joining ProLogis in September 2005, Mr Antenucci served as President of Catellus Commercial Development Corp., with responsibility for all development, construction and acquisition activities. Prior to that, Mr Antenucci served as Executive Vice President of Catellus Commercial Group. Before joining Catellus in 1995, Mr Antenucci was Vice President of real estate for Omnitrax, one of the largest short line operators in the United States. Based: USA.

Robert J Watson*

Mr Watson is Chief Sustainability Officer for ProLogis. From May 2006 to June 2008, Mr Watson was Chief Executive Officer of PEPR. Previously, Mr Watson was President and Chief Operating Officer of ProLogis' European division from 1999 until 2003 and as President and Chief Operating Officer of ProLogis' North America division from 2004 to May 2006, and has been with ProLogis since November 1992. Before joining ProLogis, Mr Watson spent nearly 19 years with real estate provider Trammell Crow Company, where he was a member of the Management Board and Regional Partner. Based: USA.

* Member of audit committee

• Member of nomination committee

Portfolio overview

As at 31 December 2008

	Number of distribution facilities	Open market value ("OMV") ¹ €million	% of total OMV	Leaseable area 000m ²	% of total leaseable area	Annualised rental income ² €million	ERV ³ €million	Yield on OMV	Average age of distribution facilities years	Occupancy level	Number of leases	Average number of years to next lease break	Average number of years to lease expiry
France	61	935	27%	1,590.6	31%	77.3	70.9	8.3%	7.5	100.0%	78	3.1	6.4
Italy	18	307	9%	522.7	10%	24.5	22.2	8.0%	8.5	96.1%	18	5.6	6.3
Spain	13	306	9%	309.5	6%	21.1	22.7	6.9%	6.0	99.8%	21	2.9	5.3
<i>Southern</i>	<i>92</i>	<i>1,548</i>	<i>45%</i>	<i>2,422.8</i>	<i>47%</i>	<i>122.9</i>	<i>115.8</i>	<i>7.9%</i>	<i>7.4</i>	<i>99.1%</i>	<i>117</i>	<i>3.5</i>	<i>6.2</i>
Belgium	5	56	1%	98.3	2%	4.3	4.1	7.8%	4.5	100.0%	5	2.5	9.4
Germany	26	305	9%	423.1	8%	25.1	23.9	8.2%	4.6	97.9%	50	3.3	4.6
Netherlands	23	340	10%	512.3	10%	27.2	27.7	8.0%	8.4	90.4%	36	3.4	3.9
Sweden	4	90	3%	130.3	2%	7.0	6.2	7.7%	13.9	100.0%	4	8.8	10.1
<i>Northern</i>	<i>58</i>	<i>791</i>	<i>23%</i>	<i>1,164.0</i>	<i>22%</i>	<i>63.6</i>	<i>61.9</i>	<i>8.0%</i>	<i>7.9</i>	<i>95.0%</i>	<i>95</i>	<i>3.9</i>	<i>5.3</i>
Czech Republic	12	116	3%	180.4	3%	8.6	8.9	7.4%	5.8	94.3%	44	1.9	2.5
Hungary	14	121	4%	182.0	3%	10.1	9.2	8.3%	5.7	97.8%	47	2.7	4.7
Poland	26	299	9%	494.4	10%	21.5	22.3	7.2%	6.5	94.9%	102	2.9	3.4
<i>Central</i>	<i>52</i>	<i>536</i>	<i>16%</i>	<i>856.8</i>	<i>16%</i>	<i>40.2</i>	<i>40.4</i>	<i>7.5%</i>	<i>6.0</i>	<i>95.4%</i>	<i>193</i>	<i>2.6</i>	<i>3.5</i>
<i>UK</i>	<i>44</i>	<i>566</i>	<i>16%</i>	<i>784.4</i>	<i>15%</i>	<i>49.0</i>	<i>47.6</i>	<i>8.7%</i>	<i>7.5</i>	<i>97.0%</i>	<i>43</i>	<i>6.5</i>	<i>9.0</i>
TOTAL	246	3,441	100%	5,228.0	100%	275.7	265.7	8.0%	7.0	97.3%	448	4.0	6.1

Vacant space (at ERV per m²)

7.4

273.1

- 1 An independent revaluation of the portfolio is conducted every 30 June and 31 December. In accordance with IFRS fair value accounting, valuations are reported net i.e. after deduction of purchasers' costs.
- 2 Annualised rental income means the estimate of annual income based on the gross rental income for leases in place as at the latest valuation date based on rates effective at that date and on the assumption that rental income from such leases will continue to be received for the whole of the financial year. It does not take into account lease terminations, renewals, replacement of customers or other changes in rent levels in existing leases.
- 3 ERV refers to the Estimated Rental Value calculated by the independent third-party appraisers as at the latest valuation date.
- 4 Annualised rental income expressed as a percentage of open market value.

Lease break and maturity dates

As at 31 December 2008

	Number of leases with next break option in year ¹	Leased m ² subject to next break option	Annualised rental income of leases subject to first break option €million	Annualised rental income of leases subject to first break option %	Number of leases with expiry later in year ²	Leased m ² subject to lease expiry	Annualised rental income of expiring leases €million	Annualised rental income ¹ of expiring leases %
2008	19	119	5.7	2.0	17	59	3.0	1.1
2009	74	549	32.3	11.7	49	312	18.3	6.6
2010	84	890	49.0	17.8	52	349	21.5	7.8
2011	107	885	43.4	15.8	79	424	22.0	8.0
2012	46	647	35.2	12.8	48	457	28.2	10.2
2013	37	447	24.4	8.9	41	447	25.5	9.2
2014	30	512	28.2	10.2	36	624	32.4	11.8
2015	22	453	24.8	9.0	35	738	35.8	13.0
2016	9	163	9.2	3.3	26	615	30.9	11.2
2017	6	199	11.4	4.1	21	349	18.1	6.6
2018+	14	221	12.1	4.4	44	712	40.0	14.5
Total	448	5,085	275.7	100.0	448	5,085	275.7	100.0

1 Leases at earlier of next break date or expiry date.

2 Leases at expiry date regardless of upcoming lease breaks.

Largest 20 customers (by annualised rental income)

As at 31 December 2008

Customer name ³	Industry type	Share of annualised rental income	Number of leases
1 Ceva (previously TNT Logistics)	3PL	6.8%	14
2 Deutsche Post AG (DHL)	3PL	5.6%	23
3 Geodis	3PL	4.6%	14
4 NYK Holdings (Nippon Yusen Kaisha)	3PL	3.9%	11
5 ND Logistics	3PL	2.7%	6
6 Gefco (PSA Peugeot)	3PL	2.3%	5
7 FM Logistic	3PL	2.3%	7
8 Kuehne & Nagel	3PL	2.0%	7
9 ID Logistics Group	3PL	1.8%	5
10 GoodYear/Dunlop	Automotive	1.6%	2
11 Fago Electrodomesticos (Brandt Appliances)	Industrial Durables	1.7%	3
12 Deutsche Bahn	3PL	1.7%	8
13 Carrefour	Retail	1.5%	2
14 DSV A/S	3PL	1.4%	5
15 Fiege Logistik gruppe	3PL	1.3%	12
16 Wincanton Logistics	3PL	1.2%	7
17 Eurofred	3PL	1.1%	2
18 Groupe PPR (previously Pinault-Printemps-Redoute)	Wholesale/Distributor	1.1%	2
19 Amazon.com Inc	Retail	1.0%	1
20 Ricoh	Computer/Electronics	1.0%	1
Subtotal of largest 20 customers		46.6%	137
Leases with 200 other customers		53.4%	311
Total		100.0%	448

3 Customer's names shown are either actual names or the name of the parent company of the customers.

Consolidated financial statements

For the year ended 31 December 2008

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Independent auditor's report

To the Unitholders of
ProLogis European Properties
Luxembourg

We have audited the accompanying consolidated financial statements of ProLogis European Properties, *a fonds commun de placement* ("PEPR"), which comprise the consolidated balance sheet as at 31 December 2008, and the related consolidated income statement, statement of changes in the number of units issued, consolidated statement of changes in equity, consolidated statement of investment in properties and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The managers of the Management Company responsibility for the consolidated financial statements

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

Responsibility of the "réviseur d'entreprises"

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the managers of the Management Company, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ProLogis European Properties FCP as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that as of 31 December 2008 PEPR has €999.3 million of debt maturing in 2010. This note also details PEPR's exposure to adverse developments in the markets in which it operates which could have an impact on its ability to comply with loan covenants. PEPR has developed a plan to meet these obligations through, amongst other things, property sales, maturity extensions and new secured financing, which remain to be negotiated and are therefore uncertain. These conditions indicate the existence of material uncertainty about PEPR's ability to continue as a going concern.

Other matters

Supplementary information included in the Annual Report, including the Statement of performance measures, has been reviewed in the context of our mandate but has not been subject to specific audit procedures carried out in accordance with the standards described above. Consequently, we express no opinion on such information. However, we have no observation to make concerning such information in the context of the consolidated financial statements taken as a whole.

Ernst & Young

Société Anonyme Réviseur d'Entreprises



Michael Hornsby, Luxembourg, 6 April 2009

Consolidated balance sheet

As at 31 December 2008 and 31 December 2007

	Notes	31 December 2008 €000	31 December 2007 €000
Assets			
<i>Non current assets</i>			
Investment in property as stated in consolidated statement of investment in properties		3,441,722	4,143,109
Property under construction	5	132	14,050
Investment in an associate	6	–	108,172
Hedging instruments	28	90,259	48,577
Deferred tax asset	18	5,625	7,740
		3,537,738	4,321,648
<i>Current assets</i>			
Due from related parties	22	6,168	1,259
Accounts receivable, net	7	60,097	44,533
Other current assets	8	30,841	49,900
Other financial assets, available for sale	9	48,496	–
Cash and cash equivalents	10	77,101	78,680
		222,703	174,372
Total assets		3,760,441	4,496,020
Equity			
Capital contributions	11	1,911,810	1,911,810
Costs of raising capital		(37,721)	(37,721)
Net capital contributed		1,874,089	1,874,089
Net retained (losses)/earnings	12	(282,586)	401,958
Cumulative foreign currency translation adjustment	13	(176,288)	(55,994)
Cash flow hedge valuation reserve	14	(9,959)	15,250
Equity attributable to Unitholders		1,405,256	2,235,303
Minority interest in subsidiaries		5,589	6,612
Total equity		1,410,845	2,241,915
Liabilities			
<i>Non-current liabilities</i>			
Interest bearing secured notes	15	543,626	874,574
Interest bearing unsecured notes	16	492,005	491,168
Interest bearing bank loans, net of current portion	17	700,216	534,086
Hedging instruments	28	6,509	1,885
Deferred taxation	18	112,421	190,362
		1,854,777	2,092,075
<i>Current liabilities</i>			
Interest bearing bank loans and secured notes, current portion	15	335,288	2,099
Accounts payable		1,371	8,558
Due to related parties	22	40,387	9,290
Income and other taxes payable	18	16,449	17,570
Accrued expenses and other current liabilities	19	53,998	93,609
Deferred income		47,326	30,904
		494,819	162,030
Total liabilities		2,349,596	2,254,105
Total equity and liabilities		3,760,441	4,496,020

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

Consolidated income statement

For the years ending 31 December 2008 and 31 December 2007

	Notes	31 December 2008 €000	31 December 2007 €000
Rental income	20	292,177	298,555
Other property income		1,146	10,321
Total revenue		293,323	308,876
Ground rents paid		(2,576)	(2,273)
Property management fees	22	(18,332)	(20,176)
Other property rental expenses	21	(11,484)	(6,148)
Cost of rental activities		(32,392)	(28,597)
Gross profit		260,931	280,279
Fund management fees	22	(6,058)	(6,690)
Fund custodian fees		(191)	(253)
Other fund expenses		(6,065)	(4,226)
Fund expenses		(12,314)	(11,169)
Investment and development property disposal proceeds		27,609	376,197
Carrying value of investment and development property disposals		(26,082)	(333,028)
Profit on disposal of investment and development property		1,527	43,169
Gross valuation gains on property		39,022	146,459
Gross valuation losses on property		(539,382)	(120,967)
Purchasers costs		16,642	(27,300)
Property fair value movements		(483,718)	(1,808)
Earnings/(losses) before net financial cost, associate and impairment and tax		(233,574)	310,471
Finance income	23	5,319	4,772
Finance expense	24	(116,124)	(101,842)
Share of loss of an associate	6	(76,834)	(23,919)
Loss on disposal of investment of an associate	6	(137,048)	–
Impairment of other financial asset, available for sale	9	(68,523)	–
Earnings/(losses) before tax		(626,784)	189,482
Benefit/(charge) for taxation	18	48,866	(18,152)
Net profit/(loss) for the period		(577,918)	171,330
Attributable to:			
Minority interest		(1,023)	987
Unitholders		(576,895)	170,343
		(577,918)	171,330
		Euro	Euro
Earnings/(losses) per unit			
Basic	12	(3.03)	0.89
Diluted	12	(3.03)	0.89

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

Statement of changes in the number of ordinary units issued

For the years ending 31 December 2008 and the year ended 31 December 2007

	Par value	31 December 2008 €000	31 December 2007 €000
Number of ordinary units outstanding at the beginning of the period	9.98	190,522,441	188,687,510
Number of ordinary units issued during the period	15.39	–	1,834,931
Number of ordinary units outstanding at the end of the period	9.98–15.39	190,522,441	190,522,441

1,834,931 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.

Consolidated statement of changes in equity

For the years ended 31 December 2008 and 31 December 2007

	Capital contributions €000	Costs of raising capital €000	Net retained earnings/ (losses) €000	Cumulative foreign currency translation adjustment €000	Cash flow hedge valuation reserve €000	Total equity attributable to Unitholders €000	Minority interest €000	Total equity €000
Balance as at 31 December 2006	1,883,571	(37,721)	398,328	(5,682)	3,993	2,242,489	5,625	2,248,114
Foreign currency translation	–	–	–	(50,312)	–	(50,312)	–	(50,312)
Net gains on cash flow hedges	–	–	–	–	11,257	11,257	–	11,257
Profit for the period	–	–	170,343	–	–	170,343	987	171,330
Total recognised income/(loss) for the period	–	–	170,343	(50,312)	11,257	131,288	987	132,275
Capital contributions during the period	28,239	–	–	–	–	28,239	–	28,239
Distributions for the period	–	–	(166,713)	–	–	(166,713)	–	(166,713)
Balance as at 31 December 2007	1,911,810	(37,721)	401,958	(55,994)	15,250	2,235,303	6,612	2,241,915
Foreign currency translation	–	–	–	(120,294)	–	(120,294)	–	(120,294)
Net gains/(losses) on cash flow hedges	–	–	–	–	(25,209)	(25,209)	–	(25,209)
Income/(loss) for the period	–	–	(576,895)	–	–	(576,895)	(1,023)	(577,918)
Total recognised income/(loss) for the period	–	–	(576,895)	(120,294)	(25,209)	(722,398)	(1,023)	(723,421)
Distributions for the period	–	–	(107,649)	–	–	(107,649)	–	(107,649)
Balance as at 31 December 2008	1,911,810	(37,721)	(282,586)	(176,288)	(9,959)	1,405,256	5,589	1,410,845

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

Consolidated statement of investment in properties

For the year ended 31 December 2008 and 31 December 2007

	31 December 2008 €000	31 December 2007 €000
Historic cost		
Cost at the beginning of the period	3,435,805	3,575,310
Asset additions, by way of property contribution agreements (See Note 22d)	–	215,873
Asset additions by way of third-party purchase	–	18,474
Capital expenditure	8,095	52,178
Leasing commission	10,959	–
Rent levelling	8,635	–
Transfer of completed development from property under construction	2,439	2,446
Disposals	(8,531)	(375,032)
Effect of unrealised currency movements	(212,678)	(53,444)
Cost at the end of the period	3,244,724	3,435,805
Net unrealised gains related to property		
Net unrealised gains at the beginning of the period	707,304	667,108
Gross valuation gains on investment in property during the period	39,022	146,459
Gross valuation losses on investment in property during the period	(539,382)	(120,967)
Adjustment for purchasers costs	16,642	(27,300)
Reversal of accumulated revaluation (gain)/loss on disposal	(2,067)	42,004
Effect of unrealised currency movements	(24,521)	–
Net unrealised gains at the end of the period	196,998	707,304
Fair value at the end of the period	3,441,722	4,143,109
Fair value of investment property		
Appraised gross property value at the end of the period	3,617,279	4,348,888
Purchasers costs	(175,557)	(205,779)
Fair value at the end of the period	3,441,722	4,143,109
Appraised market value as a percentage of net assets	244%	185%
Appraised net property value subject to security		
Secured notes	1,516,413	1,854,685
Bank loans	281,400	305,650
Finance leases	–	53,142
	1,797,813	2,213,477
Insured value	2,137,536	2,321,744

In June 2008, PEPR sold 23,300 square metres of land in Zaandam, north of Amsterdam for a gross consideration of €4.5 million.

In July 2008, PEPR 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 €6.3 million. The 12,800 square metre 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 a lease surrender premium received, the total proceeds represented a premium to the December 2007 valuation of over 14%.

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

Consolidated statement of cash flows

For the years ended 31 December 2008 and 31 December 2007

	Notes	31 December 2008 €000	31 December 2007 €000
Net cash flow from operating activities	25	114,950	186,130
Cash flow from investing activities			
Acquisitions of property under PCA		–	(187,634)
Acquisition of property from third parties		–	(18,474)
Investment in an associate	6	(244,381)	(133,350)
Distribution from an associate		11,009	–
Capital expenditure and other expenditure on investment property		(8,095)	(54,624)
Property under construction	5	(4,005)	(6,893)
Payments from insurance company in regard of building losses net of rebuilding costs		2,955	18,029
Proceeds from disposal of shares of an associate	6	43,734	–
Proceeds from disposal of property under construction		16,167	–
Proceeds from disposal of investment property		11,581	376,197
Net cash used in investing activities		(171,035)	(6,749)
Cash flow from financing activities			
Proceeds from secured notes:	15		
– Gross settlements		–	(404,324)
Proceeds from unsecured notes:	16		
– Gross proceeds		–	500,000
– Transaction costs		(278)	(9,030)
Proceeds from bank loans:	17		
– Gross (repayments)/proceeds		209,149	(152,694)
– Transaction costs		(3,180)	(7,564)
Distributions to unitholders	12	(149,624)	(162,872)
Net cash provided/(used) from financing activities		56,067	(236,484)
Effects of exchange rate changes		(1,561)	(2,266)
Net increase/(decrease) in cash and cash equivalents		(1,579)	(59,369)
Cash and cash equivalents at the beginning of the period		78,680	138,049
Cash and cash equivalents at the end of the period		77,101	78,680

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

Statement of performance measures

For the years ended 31 December 2008 and 31 December 2007

	Notes	31 December 2008 €000	31 December 2007 €000
EPRA earnings per share			
Net (loss)/earnings attributable to Unitholders		(576,895)	170,344
Adjustments for:			
Revaluation movements on investment properties and development properties		483,718	1,808
Movements in share of net assets of an associate		76,834	23,919
Distribution from an associate		15,918	–
Loss on disposal of investment of an associate		137,048	–
Impairment of other financial assets, available for sale		68,523	–
Profit on disposal of investment properties, net of tax		(1,527)	(43,169)
Deferred tax effects arising on revaluation of investment properties	18	(74,587)	(2,412)
Minority interest in respect of the above		(1,345)	644
EPRA earnings for the period		127,687	151,133
Weighted average number of units	12	190,522,441	190,522,441
EPRA earnings per unit for the period		€0.67	€0.80
EPRA net asset value			
	Notes	31 December 2008 €000	31 December 2007 €000
Net asset value attributable to Unitholders per IFRS financial statement		1,405,256	2,235,303
Adjustments for:			
Cash flow hedge valuation reserve		9,959	(15,250)
Deferred tax	18	112,421	190,362
EPRA net asset value		1,527,636	2,410,415
Number of units outstanding		190,522,441	190,522,441
EPRA net asset value per unit		€8.02	€12.65

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.

Notes to the consolidated financial statements

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

1 Organisation and regulations 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, 29 May 2007 and on 26 March 2008. 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.

Going concern assessment

PEPR has been adversely affected by the developments in the real estate and financial markets in which it operates. Management has performed an assessment of PEPR's future financial position, performance and cash flows and has concluded that the continued application of the going concern assumption is appropriate, even though an element of uncertainty exists.

Management has developed a viable plan to address €999.3 million of debt maturing in 2010 and to ensure it remains in compliance with all of its debt covenants. The plan comprises initiatives to deleverage and/or refinance the business along with other measures to improve PEPR's liquidity. The following actions have either already been taken or are in progress as part of the plan:

- Dividend distributions were suspended for the fourth quarter of 2008 and for the immediate future (see Note 12),
- 20% of its investment in PEPF II was sold in December 2008 with the remaining 10% disposed of since year end, thereby eliminating significant future capital commitments to PEPF II (see Note 6 and Note 30),
- One covenant concerning the net asset value was amended in December 2008 providing PEPR with additional headroom. PEPR has to comply with certain other covenants (see Note 12),
- The CMBS issue of €335.9 million due to be repaid in July 2009 has been repaid three months early, thereby releasing €550.8 million of properties to the pool of unencumbered assets (see Note 30),
- A maturity extension of a secured bank loan due in March 2010 of €151.9 million has been sought, but not finalised,
- Substantial progress has been made on the disposal of €120 million of properties,
- Five financing packages totalling €350 million of new debt are under discussion with a number of banks, at various stages of completion, and
- A two-year maturity extension to €600 million of unsecured bank loans, due to expire in December 2010 will be sought.

Despite the element of uncertainty in the implementation of the above plan, Management is highly focused on achieving its deleveraging and refinancing objectives.

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).

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

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

2 Summary of significant accounting principles

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

The amounts in the consolidated balance sheet as at 31 December 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 with the amounts for the year ended 31 December 2008. The presentation of the amounts in the consolidated income statement for the year ended 31 December 2007 related to “Profit on disposal of investment property” and “Property fair value movements” have been reclassified to better reflect the economic substance of the property disposals and to follow industry best practice. In addition the amounts in the consolidated statement of investment in properties for the year ended 31 December 2007 related to “gross valuation gain in investment in property” and “adjustment for purchasers costs” have been similarly reclassified. EPRA net asset value as at 31 December 2007 has been amended to include “cash flow hedge valuation reserve” to better reflect EPRA best practices policy recommendations.

These consolidated financial statements are presented for the year ended 31 December 2008, with comparative audited figures for the year ended 31 December 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, 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 6 April 2009 by the Management Company.

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

2a Principles of consolidation

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

Subsidiary companies

Subsidiaries are defined as entities in which PEPR, directly or indirectly, has a controlling interest and are consolidated from the date on which control is transferred to PEPR and cease to be consolidated from the date on which control is transferred out of PEPR. The accounting principles of PEPR may differ from those applied in other countries. Where necessary, the accounts of the underlying entities have been adjusted or reclassified on consolidation in order that their results may be consistent with the accounting principles of PEPR. Acquired companies have been included in the consolidated financial statements using the purchase method of accounting when, and only when the transaction can be identified as a business combination. When determining if an acquisition qualifies as a business combination or not, management consider if the transaction includes the acquisition of supporting infrastructure, employees, service provider agreements and major input and output processes, as well as active lease agreements.

For business combinations, the consolidated income statement and consolidated statement of cash flows 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.

2 Summary of significant accounting principles (continued)

2a Principles of consolidation (continued)

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 is a fully consolidated entity within PEPR (Note 28). The precise nature of the loan structure between the SPEs and the Finance Subsidiaries is explained in Note 15 to these consolidated financial statements.

Related parties

Related parties are defined as parties either directly or indirectly controlled, managed or owned by ProLogis, a Real Estate Investment Trust organised under the laws of Maryland, USA, which indirectly, through one or more wholly-owned subsidiaries, owns the Management Company and owns Ordinary Units (“ProLogis”).

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 expense” (see Note 2ae).

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 expense” (see Note 24).

The assets and liabilities of subsidiaries are determined in accordance with 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 equity under the heading of “Cumulative foreign currency translation adjustment”. On the disposal of such a subsidiary, accumulated exchange differences are recognised in the consolidated income statement as a component of the gain or loss on disposal, including any tax effects. Exchange differences arising on monetary items, which in substance form part of PEPR’s net investment in a foreign entity, are recorded as a separate component of equity 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”), CB Richard Ellis (“CBRE”) and DTZ Zedehoff (“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 properties are determined as the difference between the disposal proceeds and the carrying value and are included in the consolidated income statement in the period in which they arise.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

2 Summary of significant accounting principles (continued)

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 Leasing commissions

Initial leasing commissions are included in the cost of acquiring a leased 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.

2f 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".

2g 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.

Upon application of the equity method, PEPR determines whether it is necessary to recognise an impairment loss of PEPR's investment in any associates. PEPR 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 the consolidated income statement.

2h Financial asset

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. PEPR determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value. In the case of investments not at fair value, financial assets are recognised initially at fair value plus directly attributable transaction costs, or, at carrying value if reclassified from investment in associate. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention marketplace (regular way purchases) are recognised on the trade date, i.e., the date that PEPR commits to purchase or sell the asset.

PEPR's financial assets include cash and short-term deposits, trade and other receivables, unquoted financial instruments available for sale, and derivative financial instruments.

2 Summary of significant accounting principles (continued)

2h Financial asset (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon the initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the PEPR that do not meet hedging accounting criteria as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with gains or losses recognised in the consolidated income statement. PEPR did not have any financial assets at fair value through profit and loss during the years ended 31 December 2008 and 2007.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised costs using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when PEPR has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised costs using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process. PEPR did not have any held-to-maturity investments during the years ended 31 December 2008 and 2007.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is (i) derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the income statement, or (ii) determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the income statement.

2i Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. PEPR determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transactions costs.

PEPR's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon the initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the PEPR that do not meet hedging accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

2 Summary of significant accounting principles (continued)

2i Financial liabilities (continued)

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised costs using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts issued by PEPR are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of a guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognised less cumulative amortisation. PEPR did have financial guarantee contracts during the years ended 31 December 2008 and 2007. However, at the end of December 2008 PEPR no longer had any financial guarantee contracts.

Offsetting of financial instrument

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same, discounted cash flows analysis or other valuation methods.

Amortised cost of financial instruments

Amortised costs are computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

2j Impairment of financial assets

PEPR assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Available-for-sale investments

For available-for-sale investments, PEPR assesses at each balance sheet date whether there is objective evidence that an investment is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instrument classified as available-for-sale, objective evidence is assessed based on the same criteria as financial asset carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "finance income". If, in a subsequent year, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2 Summary of significant accounting principles (continued)

2k Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or a part of similar financial assets) is derecognised when:

- i) the rights to receive cash flows from the assets have expired; or
- ii) PEPR has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass through” arrangement; either (a) PEPR has transferred substantially all the risks and rewards of the asset, or (b) PEPR has neither transferred nor substantially retained all the risks and rewards of the asset, but has transferred control of the asset.

When PEPR has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of PEPR’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that PEPR could be required to repay. When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of PEPR’s continuing involvement is the amount of the transferred asset that PEPR may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of PEPR’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amount is recognised in the income statement.

2l Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

PEPR uses derivative financial instruments, such as forward currency contracts and interest rate swaps to hedge risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at the fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the income statement. 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 28).

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

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

At the inception of a hedge relationship, PEPR formally designates and documents the hedge relationship to which it wishes to apply hedge accounting as well as the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period for which they are designated.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

2 Summary of significant accounting principles (continued)

21 Derivative financial instruments and hedge accounting (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the income statement.

PEPR uses forward exchange contracts and cross currency swaps as hedges of its exposure to foreign currency risk in forecasted transactions (see Note 16 and Note 28).

Cash flows hedges

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. 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. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when the forecast sale occurs.

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 the consolidated income statement.

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

PEPR uses interest rate swaps as hedges of its exposure to changes in market interest rates (see Note 16 and Note 28).

Hedges of a net investment

Hedges of a net investment in a foreign operation, included a hedged monetary item that is accounted for as part of the net investment, are accounted for in a similar manner to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the income statement.

2m 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 the net fair value of the identifiable assets, liabilities and contingent liabilities. Following recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

2n Amounts due between related parties

Amounts due from or to related parties (see Note 22) are stated at amortised cost.

2o 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. A provision for impairment of trade receivables is established where there is objective evidence that PEPR will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation proceedings, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'Other property rental expenses'. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'Other property rental expenses' in the income statement.

2 Summary of significant accounting principles (continued)

2p 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 frame in which these transactions are settled.

2q 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 10).

2r 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.

2s 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.

2t 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. The PEPR Board has discretion to adjust dividend distributions to Unitholders in order to maintain a healthy capital structure (see Note 12). From the fourth quarter 2008 PEPR decided to suspend the dividend distributions and therefore such distributions are no longer treated as contractual for accounting purposes. Distributions will be recognised as a liability in the period in which they are declared and approved or paid.

2u Interest bearing debt

Debt, comprising secured and unsecured notes and bank loans, is carried on the consolidated 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 2ae).

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.

2v 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.

2w 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.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

2 Summary of significant accounting principles (continued)

2w Deferred taxation (continued)

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.

2x Provisions and expense accruals

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

2y 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.

2z 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”).

2aa 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.

2ab 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 2s), the raising of debt (see Note 2u) 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.

2ac 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.

2ad Finance income

This includes interest income received during the period.

2ae Finance expenses

Finance expenses include:

- 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 which are part of the effective interest rate, (see Note 2u);
- 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 2l);
- iv) the effect of the unrealised foreign currency gains and losses on monetary assets and liabilities arising in the period (see Note 2b) plus the counterpart of (iii) connected to the application of the net investment method in foreign operations; and
- v) the effect of the realised foreign currency gains and losses on cash transactions completed during the period (see Note 2b).

2 Summary of significant accounting principles (continued)

2af Segment information

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.

2ag 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.

2ah Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable.

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

2ai New standards

The accounting policies adopted are consistent with those of the previous financial year except that PEPR has adopted the following IFRIC interpretation during the year.

IFRIC 12 – Service Concession Arrangements

The interpretation clarifies that the infrastructure for contractual arrangements arising from entities providing public services should be recognised as a financial asset and/or an intangible asset. This interpretation had no impact on the financial position or performance of PEPR.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for PEPR's accounting periods beginning on or after 1 January 2009 or later periods but which PEPR has not yet early adopted.

IFRS 3R – Business Combinations and IAS 27R – Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. 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 revised standard 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.

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.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

2 Summary of significant accounting principles (continued)

2ai New standards (continued)

IAS 39 – Financial Instruments: Recognition and Measurement – Eligible Hedged Items

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009.

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. PEPR plans to adopt this revised standard 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.

Improvements to IFRSs

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. PEPR has not yet adopted the following amendments to standards and anticipates that these changes will have no material effect on the financial statements:

- *IFRS 7 – Financial Instruments: Disclosures*: Removal of the reference to “total interest income” as a component of finance costs.
- *IAS 1 – Presentation of Financial Statements*: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet.
- *IAS 8 – Accounting Policies, Change in Accounting Estimates and Errors*: Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 10 – Events after the Reporting Period*: Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 – Property, Plant and Equipment*: Replace the term “net selling price” with “fair value less costs to sell”.
- *IAS 16 – Property, Plant and Equipment*: Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- *IAS 18 – Revenue*: Replacement of the term “direct costs” with “transaction costs” as defined in IAS 39.
- *IAS 23 – Borrowing Costs*: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of “borrowing costs” into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- *IAS 28 – Investment in Associates*: If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on PEPR as it does not account for its associates at fair value in accordance with IAS 39. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.
- *IAS 34 – Interim Financial Reporting*: Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.
- *IAS 36 – Impairment of Assets*: When discounted cash flows are used to estimate “fair value less cost to sell” additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate “value in use”. This amendment has no immediate impact on the consolidated financial statements of PEPR because the recoverable amount of its cash generating units is currently estimated using “value in use”.
- *IAS 39 – Financial Instruments: Recognition and Measurement*: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the “fair value through profit or loss” classification after initial recognition. Removed the reference in IAS 39 to a “segment” when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- *IAS 40 – Investment Property*: Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, the amendment revised the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

2 Summary of significant accounting principles (continued)

2ai New standards (continued)

Improvements to IFRSs (continued)

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. PEPR plans to adopt this interpretation at its effective date or at the date of endorsement by the European Union, if later and anticipates that 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. This interpretation will not impact the financial position or performance of PEPR.

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;
- vi) greater uncertainty of market values given recent market stagnation and volatility of property prices.

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 Net Asset Value of Ordinary Units;
- ii) PEPR no longer has direct access to the ProLogis development pipeline following the termination of the PCA (see Note 22d). In order to generate growth in the future, PEPR will seek a variety of opportunities, as appropriate, including 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, ("PEPF 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. In December 2008 and February 2009, PEPR disposed of its investment in PEPF II (see Notes 6, 9 and 30).
- iii) PEPR's investments are concentrated in the industrial logistics sector and therefore its business would be adversely affected by an economic downturn in that sector. As at 31 December 2008, 55.83% of PEPR's customers (as measured by annualised rental income) were third party logistics companies, 13.65% were retailers, 13.41% were manufacturers and 17.11% 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. The absence of comparable market transactions in a stagnant investment market increases the reliance on valuers' judgement; and
- 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.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

3 Financial risk management (continued)

3c Risks relating to PEPR

- i) ProLogis may have investment objectives and policies comparable to those of PEPR and may compete with PEPR in particular with Distribution Facilities developed or redeveloped by ProLogis;
- ii) Changes in tax laws, regulations or interpretations by tax authorities could increase tax liabilities and require changes in PEPR's structure, which could negatively affect its distributable cash flow;
- iii) PEPR 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 of PEPR'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.

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 has (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 did 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 cash flow and its net asset value could be adversely affected if a significant number of its customers are unable to meet their lease obligations or credit institutions to meet their obligations under derivative contracts. 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 and the balance of hedging instruments receivable. To ensure that customers continue to meet their credit terms, the financial viability of customers is kept under review.

PEPR has no significant concentrations of credit risk. PEPR has a large and diverse range of customers and swap counterparties (see Note 3f), 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 and the balance of the hedging instruments receivable disclosed in the consolidated balance sheet.

3 Financial risk management (continued)

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 cash flow interest rate risk. PEPR manages its cash flow 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 and Bank of America N.A. ("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 31 December 2008, 66.1% (2007: 71.8%) 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).

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 points	Effect on profit before tax €000	Effect on equity €000
December 2008			
Euro	+25	(1,450)	1,363
Sterling	+25	(325)	-
Euro	-25	1,450	(1,367)
Sterling	-25	325	-
December 2007			
Euro	+25	(908)	2,724
Sterling	+25	(432)	-
Euro	-25	908	(2,741)
Sterling	-25	432	-

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 21. Note 28 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 krona. According to the nature of the asset or liability, this exposure is either recorded against the "Cumulative foreign currency translation" in the consolidated balance sheet or against "Finance expense" 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 15). 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 21.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

3 Financial risk management (continued)

3g Foreign exchange risk (continued)

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 28.

The following table demonstrates the sensitivity to a reasonably possible change in the Sterling and other foreign currency (Polish zloty, Czech kron, Hungarian forint, US 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).

	Increase/ decrease per cent	Effect on profit before tax €000
December 2008		
Sterling	+10	(12,988)
Other currencies	+10	36
Sterling	-10	12,988
Other currencies	-10	(36)
December 2007		
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 31 December 2008, 16.0% of PEPR's outstanding debt (2007: 0.1%) was due to be repaid in 2009 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 31 December 2008, PEPR had €300 million (2007: €517 million) in undrawn capacity under its existing credit facilities.

The table below summarises the maturity profile of PEPR's total debt as at 31 December 2008 based on contractual undiscounted payments (see Note 28 for an analysis of the financial derivatives).

Interest-bearing loans and borrowings	On demand €000	Less than 6 months €000	6 to 12 months €000	13 to 24 months €000	3 to 5 years €000	> 5 years €000	Total €000
Year ended 31 December 2008 – Loans outstanding	–	335,872	–	999,323	258,876	500,000	2,094,071
Year ended 31 December 2008 – Interest payable	15,166	44,158	44,781	83,334	242,353	88,897	611,728
Year ended 31 December 2007 – Loans outstanding	–	–	2,099	335,872	541,574	1,048,263	1,927,808
Year ended 31 December 2007 – Interest payable	11,981	51,639	56,566	88,939	241,166	173,419	708,085

In April 2009, PEPR will repay early the €335.9 million CMBS, due July 2009 (Note 30). There is no further debt to repay in 2009 and PEPR is focused on managing the €1 billion of debt maturing in 2010. PEPR intends to use a combination of cash flow from the suspension of dividends and property sales to reduce total debt levels and to use new debt sources to refinance the remaining 2010 debt. Finally, PEPR intends to request a maturity extension from its bank group for the 2010 branches of the €900 million unsecured credit facility.

These deleveraging and refinancing initiatives are subject to an element of uncertainty, however PEPR management is highly focused on achieving these objectives.

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 IAS 40. The fair value is calculated by deducting the costs normally borne by the purchaser from the Gross Property Value. Fair value is not intended to represent the liquidation value of the property, which would be dependent upon the price negotiated at the time of sale less any associated selling costs. The fair value is largely based on estimates using property appraisal techniques and other valuation methods as outlined below. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

The appraisers derive the fair value by applying the procedural rules and valuation guidelines as set out by the Royal Institution of Chartered Surveyors in the United Kingdom in accordance with IAS 40. 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 consistency in approach between both valuers and markets. The last valuation exercise by the Independent Appraisers was performed as at 31 December 2008.

Current volatility in the global financial system has created a significant degree of turbulence in commercial real estate markets across the world. Furthermore, the lack of liquidity in the capital markets means that it may be more difficult to achieve a sale of a property asset in the short term. This inevitably resulted in greater uncertainty of the property values as of 31 December 2008.

The valuations are undertaken by the Independent Appraisers using the investment method of valuation and within this primarily the income capitalisation method. This approach is based on capitalising the net current income until reversion at a market yield and the net reversionary income into perpetuity also at a market yield. The rate or "yield" used is derived from the observation of sales in the market or in the absence of such sales from a valuers knowledge of the expectations of active market participants.

In addition valuers may also use the discounted cash flow technique, which discounts 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 making explicit assumptions in respect of all future income voids. 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.

Valuations were based on factual information provided by the Management Company in addition to various assumptions on town planning, the repair and condition of building and sites – including ground and groundwater contamination, as well as the valuers professional judgement of applicable initial and reversionary yields, releasing periods and purchasers costs. The below table summarise the average effective initial yield per each country.

Country	Initial average yield 2008 %	Initial average yield 2007 %
Belgium	7.0	5.7
Czech Republic	7.1	6.9
France	7.9	6.8
German	7.4	6.7
Hungary	8.1	6.5
Italy	6.9	6.4
Netherlands	6.5	5.9
Poland	7.2	6.7
Spain	6.7	6.0
Sweden	6.6	6.5
UK	8.2	6.5

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

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.

4d Fair value financial liabilities

The fair value of loans and 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 which bear fixed interest rates (see Note 28).

4e Special purpose entities

Judgement is required to determine whether the substance of the relationship between PEPR and a special purpose entity indicates that the special purpose entity is controlled by PEPR (see Note 2a).

5 Property under construction

Property under construction comprises the following:

	31 December 2008 €000	31 December 2007 €000
Cost at the beginning of the period	14,050	7,157
Capital expenditure during the period	4,005	9,339
Disposals during the period	(15,484)	–
Transfers of stabilised property to investment properties	(2,439)	(2,446)
	132	14,050

The disposal during the period relates to the transfer of shares in two Hungarian 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 €16.2 million resulting in a gain of €0.7 million.

Transfers of stabilised property to investment properties relates to certain tenant improvements carried out on a property in Poland.

6 Investment in an associate

Up until 22 December 2008, PEPR had a 30% interest in ProLogis European Properties Fund II (“PEPF II”), a Luxembourg open-ended, infinite life, private equity fund established by ProLogis in August 2007 with the purpose of investing in modern distribution facilities from ProLogis’ development pipeline in Europe and from third-parties.

As at 22 December 2008, PEPR has invested €378 million, representing a 30% stake in PEPF II. After taking into account, PEPR’s share of PEPF II’s performance (net operating income, property valuation movements, foreign exchange effects, etc), the carrying value of PEPR’s investment stood at €237 million at 22 December 2008.

6 Investment in an associate (continued)

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

	22 December 2008 Date of disposal €000	31 December 2007 €000
Share of associate's balance sheet		
Current assets	70,048	14,448
Non-current assets	574,887	264,729
Current liabilities	(40,802)	(171,005)
Non-current liabilities	(367,078)	–
Net assets and carrying amount of the investment	237,055	108,172
Share of the associate's revenue and loss		
Revenue	31,068	3,476
Loss	(76,834)	(23,919)

PEPR has received distributions of €15.9 million for the period ended 31 December 2008 (2007: €1.3 million) from PEPF II. As at 22 December 2008, PEPR recognised €22.7 million for the share of the currency translation adjustment recorded in the equity of PEPF II.

As part of management's plan to improve liquidity, PEPR sold a 20% share in PEPF II to ProLogis on 22 December 2008.

	31 December 2008 €000
Selling price	43,734
Carrying amount of the investment	(158,036)
Release of the cumulated equity items of an associate	(22,746)
Net loss on disposal of an investment in an associate	(137,048)

As a result of the sale of its 20% share in PEPF II, PEPR lost significant influence over the activities of PEPF II. The remaining investment has been classified as investment available for sale (see Note 9) and sold post 31 December 2008 (see Note 30).

	31 December 2008 €000	31 December 2007 €000
Initial investment (cash contribution)	377,731	133,350
Cumulative share of loss of an associate	(100,753)	(23,919)
Cumulated dividend received	(17,177)	(1,259)
Cumulated equity items of an associate	(22,746)	–
Cost of sale of 20% share in PEPF II	(158,036)	–
Reclassification to investment available for sale (Note 9)	(79,019)	–
Carrying amount of the investment in an associate	–	108,172

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

7 Accounts receivable, net

	31 December 2008 €000	31 December 2007 €000
Account receivable from customers	55,093	39,304
Unbilled recoveries	7,403	5,816
Allowance for uncollectible account receivable	(3,019)	(1,164)
Other receivables	620	577
	60,097	44,533

As at 31 December, the ageing analysis of trade receivables are as follows:

	Total €000	<30 days €000	30-60 days €000	60-90 days €000	>90 days €000
2007	39,304	20,781	14,552	838	3,133
2008	55,093	51,266	455	99	3,273

The level of accounts receivable from customers varies due to the timing and receipt of first quarter invoices.

	2008 €000	2007 €000
Bad debt provision is as follows (all individually impaired):		
At 1 January	1,164	1,121
Charge for the period	3,952	682
Utilised	(1,367)	(639)
Unused amounts reversed	(730)	–
As at 31 December	3,019	1,164

8 Other current assets

Other current assets include:

	31 December 2008 €000	31 December 2007 €000
VAT recoverable	13,185	21,041
Deposits with utility companies	1,715	1,717
Prepaid expenses and other receivables	14,449	14,516
Result of straight-lined rents	–	11,822
Insurance receivable	1,492	804
	30,841	49,900

9 Other financial assets, available for sale

After the disposal of its 20% share in PEPF II (see Note 6), PEPR holds a 10% share in PEPF II as at 31 December 2008. This remaining investment has been subject to an impairment provision to bring its carrying value substantially in line with a negotiated selling price, at which it was sold on 12 February 2009 (see Note 30).

	31 December 2008 €000
Reclassification from investment in an associate (Note 6)	79,019
Contributions to PEPF II	38,000
Impairment of the investment available for sale	(68,523)
Carrying value of other financial assets, available for sale	48,496

10 Cash and cash equivalents

	31 December 2008 €000	31 December 2007 €000
Restricted cash	23,973	48,598
Unrestricted cash	53,128	30,082
	77,101	78,680

Restricted cash mainly comprises cash which, under the terms of the secured notes, is received under 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 for it, or the notes are partially repaid.

11 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 27 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. The PEPR Board has discretion to adjust dividend distributions to unitholders to maintain a healthy capital structure.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

11 Ownership of PEPR (continued)

	31 December 2008	31 December 2007
Number of Units issued	No. of Units	No. of Units
Ordinary Units	190,522,441	190,522,441

	31 December 2008	31 December 2007
Par value in issue	€000	€000
Ordinary Units	1,911,810	1,911,810

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 of 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.

12 Net retained earnings

	31 December 2008	31 December 2007
	€000	Audited €000
For the period ended 31 December 2008		
Earnings/(losses) per period net of minority interest		
Basic	(576,895)	170,343
Diluted	(576,895)	170,343
Weighted average number of units issued during the period		
Basic	190,522,441	190,522,441
Diluted	190,522,441	190,522,441
Earnings/(losses) per Unit (Euros)		
Basic	(3.03)	0.89
Diluted	(3.03)	0.89

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.

12 Net retained earnings (continued)

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

Class of Unit	Total	31 December	31 December	31 December
	€000	2008 €000	2007 €000	2006 €000
Class A(1)	1,994	–	–	1,994
Class A(2)	361,586	–	–	361,586
Class A(3)	56,564	–	–	56,564
Class B1	96,867	–	–	96,867
Class B2	73,655	–	–	73,655
Class C(1)	51,681	–	–	51,681
Class C(2)	13,880	–	–	13,880
Ordinary	312,496	107,650	166,713	38,133
	968,723	107,650	166,713	694,360
Accumulated earnings		686,137	1,263,032	1,092,688
Cumulative distributions		(968,723)	(861,073)	(694,360)
Net retained earnings		(282,586)	401,958	398,328
Distribution brought forward		41,975	38,134	
Distribution for the year		107,649	166,713	
Distribution paid		(149,624)	(162,872)	
Distribution carried forward		0	41,975	
Distributions per Unit				
Class of Unit	31 December	31 December	31 December	31 December
	2008 Euro per unit	2007 Euro per unit	2006 Euro per unit	2005 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	0.57	0.87	0.20	–

In December 2008, the PEPR Board suspended dividend distributions, including fourth quarter 2008, as part of PEPR's deleveraging plan.

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 31 December 2008 and 2007 other than those to address liquidity needs (see Note 1).

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

12 Net retained earnings (continued)

Capital management (continued)

PEPR monitors capital using a loan to value ("LTV") ratio, which is debt divided by appraised gross property value plus investment in an associate and investments available for sale. 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, however 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. The loan to value ratio does not take into account the amount of cash balances of the business. Taking unrestricted cash of €53.1 million (2007: €30.1 million) into account, this ratio would be 56.3% (2007: 43.0%) as at 31 December 2008. PEPR intends to increase the headroom on the loan to value limit through deleveraging and refinancing initiatives currently underway (see Note 1 and Note 3h).

For these purposes, PEPR includes within debt, secured and unsecured notes and interest bearing bank loans.

	31 December 2008 €000	31 December 2007 €000
Long term interest bearing secured notes	543,626	874,574
Long term interest bearing unsecured notes	492,005	491,168
Long term interest bearing long term bank loans, net of current portion	700,216	534,086
Interest bearing secured notes and bank loans, current portion	335,288	2,099
Less: transaction costs capitalised	22,937	25,881
Total debt	2,094,071	1,927,808
Appraised Gross Property Value	3,617,279	4,348,888
Investment in an associate	–	108,172
Investment available for sale	48,496	–
Total value	3,665,775	4,457,060
Loan to value ratio	57.1%	43.3%

Under the current financial arrangement PEPR has to comply with certain debt covenants, some of which are linked to net retained earnings and the leverage ratio.

13 Cumulative foreign currency translation adjustment

	31 December 2008 €000	31 December 2007 €000
Balance at the beginning of the period	(55,994)	(5,682)
Translation adjustments	(120,294)	(50,312)
Balance at the end of the period	(176,288)	(55,994)

14 Cash flow hedge valuation reserve

	31 December 2008 €000	31 December 2007 €000
Balance at the beginning of the period	15,250	3,993
Movement in fair value of existing hedges	(25,209)	6,063
Fair value of hedges acquired during the period	–	–
Fair value of hedges repaid during the period	–	5,194
Net variation during the period	(25,209)	11,257
Balance at the end of the period	(9,959)	15,250

15 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.

Application of the proceeds

	31 December 2008 €000	31 December 2007 €000
Cumulative proceeds		
<i>Proceeds from secured floating rate notes:</i>		
Notes listed on the London Stock Exchange	884,135	884,135
	884,135	884,135
Transaction costs		
<i>Cost</i>		
Balance at the beginning of the period	44,111	64,509
Retirements and amounts written off	–	(20,398)
Balance at the end of the period	44,111	44,111
<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	4,340	9,567
Balance at the end of the period	38,890	34,550
Net book value of transaction costs	5,221	9,561
Net book value of proceeds from secured notes	878,914	874,574
Less current portion	335,288	–
Net book value of secured loans net of current portion	543,626	874,574
Value of pledged assets		
For notes listed on the London Stock Exchange	1,516,413	1,854,685
	1,516,413	1,854,685

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

15 Interest bearing secured notes (continued)

	31 December 2008 €000	31 December 2007 €000
Proceeds from Notes listed on the London Stock Exchange		
Pan European Industrial Properties Series II S.A. Class A	265,372	265,372
Pan European Industrial Properties Series II S.A. Class B	30,750	30,750
Pan European Industrial Properties Series II S.A. Class C	39,750	39,750
Pan European Industrial Properties Series III S.A. Class A	134,668	134,668
Pan European Industrial Properties Series III S.A. Class B	17,250	17,250
Pan European Industrial Properties Series III S.A. Class C	22,500	22,500
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class A	321,845	321,845
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class B	32,000	32,000
Pan European Industrial Properties Series IV S.A. (Compartment 1) Class C	20,000	20,000
	884,135	884,135
Net Property Value of pledged assets		
Pan European Industrial Properties Series II S.A.	550,854	693,634
Pan European Industrial Properties Series III S.A.	325,343	414,818
Pan European Industrial Properties Series IV S.A.	640,216	746,233
	1,516,413	1,854,685

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
Redemption date	July 2009
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%
Application of proceeds			
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

15 Interest bearing secured notes (continued)

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

Borrower	ProLogis European Finance IV S.à r.l.
Issue price	100%
Issue date	February 2003
Legal maturity date	May 2013
Redemption date	July 2010
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%
Application of proceeds			
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

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

Borrower	ProLogis European Finance VII S.à r.l.
Issue price	100%
Issue date	March 2005
Legal maturity date	May 2013
Redemption date	July 2010
Interest payment	Quarterly
Effective interest rate	4.25%

	Class A	Class B	Class C
Amount	€321,845	€32,000	€20,000
Interest rate: three-month Euribor +	0.14%	0.18%	0.30%
Application of proceeds			
Euro tranche	€268,151	€26,901	€16,813
Fixed interest rate	3.29%	3.33%	3.45%
Sterling tranche (£'000)	£37,113	£3,524	£2,203
Fixed interest rate	5.09%	5.13%	5.26%
Exchange rate	0.6912	0.6912	0.6912

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

16 Interest bearing unsecured notes

	31 December 2008 €000	31 December 2007 €000
Cumulative proceeds		
<i>Proceeds from unsecured fixed rate Eurobonds:</i>		
Loan notes listed on the Luxembourg Stock Exchange	500,000	500,000
	500,000	500,000
Transaction costs		
<i>Cost</i>		
Balance at the beginning of the period	9,030	–
Retirements and amounts written off	–	–
Additions during the period	278	9,030
Balance at the end of the period	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	1,115	198
Balance at the end of the period	1,313	198
Net book value of transaction costs	7,995	8,832
Net book value of proceeds from unsecured notes	492,005	491,168

Eurobonds – Rated Baa2 by Moody's Investors Service

Principal Borrowers:	ProLogis International Funding S.A.
First drawdown	October 2007
Final date	October 2014
Fixed interest rate*	5.875%
Interest payment	Annually
Effective interest rate	6.20%
Amount	€500,000

*The interest rate of 5.875% is subject to an increase to 7.625% per annum in the event of a credit rating downgrade by Moody's Investors Service Limited to Ba1 or below. The noteholders have the option to redeem at par if there is a change of control and a subsequent credit rating downgrade to Ba1 or below by Moody's Investors Service Limited.

17 Interest bearing long term bank loans

Loan Financing

The majority of PEPR's funding for 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. Connected to the first PEPR downgrade (A3 to Baa1, refer to "summary of facilities" in this note) an increase of the applicable margin has been applied from 3 November 2008 to 30 December 2008. As at 30 December 2008, a further downgrade (Baa1 to Baa2) was announced.

A secured credit facility of €151 million is provided by Hypo Real Estate Bank International and secured on the assets of certain subsidiaries located in Central Europe.

	31 December 2008 €000	31 December 2007 €000
Proceeds:		
Bank loans maturing beyond five years	–	–
Bank loans maturing between two to five years	709,936	541,574
Bank loans maturing within one year	–	2,099
Total proceeds from long term bank loans	709,936	543,673
Transaction costs		
<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	3,180	7,564
Balance at the end of the period	10,744	7,564
<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	948	3,156
Balance at the end of the period	1,024	76
Net book value of transaction costs	9,720	7,488
Net book value of proceeds from bank loans	700,216	536,185
Less current portion of bank loans	–	(2,099)
Net book value of bank loans net of current portion	700,216	534,086

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

17 Interest bearing long term bank loans (continued)

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

	31 December 2008 €000	31 December 2007 €000
Available facilities		
Loans secured by guarantee and on shares, properties and intercompany receivables of certain subsidiaries	151,059	151,059
Loans unsecured	900,000	900,000
Loans secured by first mortgage	–	773
Finance leases	–	7,077
	1,051,059	1,058,909
Amounts drawn		
Loans secured by guarantee and on shares, properties and intercompany receivables of certain subsidiaries	151,059	151,059
Loans unsecured	558,877	384,764
Loans secured by first mortgage	–	773
Finance leases	–	7,077
	709,936	543,673
Unutilised loan facilities		
Loans secured by guarantee and on shares, properties and intercompany receivables of certain subsidiaries	–	–
Loans unsecured (*)	341,123	515,236
Loans secured by first mortgage	–	–
Finance leases	–	–
	341,123	515,236
Value of pledged assets		
Real estate – loans	281,400	305,650
Real estate – finance leases	–	53,142
	281,400	358,792

(*) Difference between available facilities and amounts drawn in Euros. However, PEPR's ability to utilise undrawn facilities is limited to €300 million, the revolving element of the unsecured credit facility.

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. The financial lease arrangements of €7.1 million as at 31 December 2007 has been fully reimbursed during the year 2008.

17 Interest bearing long term bank loans (continued)

Summary of facilities

Lender: Hypo Real Estate Bank International AG

Principal Borrower:	ProLogis Central European Finance S.L.
First drawdown	February 2004
Repayment date	March 2010
Pricing three month Euribor	+ 137 bps
Interest payment	Quarterly
Effective interest rate	3.61%
Amount	€151,059

Lender: Banc of America Securities L.L.C. and ABN Amro Bank N.V.

Senior credit agreement with a maximum capacity of Euro 900 million

Principal Borrowers: ProLogis European Properties FCP

Revolver facility first drawdown

Final date	Before 3 November 2008	From 3 November 2008 to 30 December 2008	December 2010 After 30 December 2008
Pricing one month Euribor	+ 47.5 bps	+ 55 bps	+ 185 bps
Facility fee	+ 17.5 bps	+ 20 bps	+ 35 bps
Interest payment			Monthly
Effective interest rate			6.22%
Available facilities			€300,000
Amount drawn			–

Facility tranche I

Final date	Before 3 November 2008	From 3 November 2008 to 30 December 2008	December 2012 After 30 December 2008
Pricing one month Euribor	+ 65 bps	+ 75 bps	+ 220 bps
Interest payment			Monthly
Effective interest rate			5.62%
Available facilities			€300,000
Amount drawn			€300,000

Facility tranche II first drawdown

Final date	Before 3 November 2008	From 3 November 2008 to 30 December 2008	December 2012 After 30 December 2008
Euro tranche pricing one month Euribor	+ 70 bps	+ 80 bps	+ 225 bps
Sterling tranche pricing one month Libor	+ 70 bps	+ 80 bps	+ 225 bps
Interest payment			Monthly
Euro tranche effective interest rate			6.18%
Sterling tranche effective interest rate			7.22%
Available facilities			€300,000
Amount drawn in Euro			€129,000
Amount drawn in Sterling			£123,500

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

18 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.

No deferred tax liabilities have 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.

	31 December 2008 €000	31 December 2007 €000
Deferred tax liability		
Opening balance	190,362	192,774
Effect of revaluations of properties to fair value post acquisition	(74,629)	(2,409)
Deferred tax on properties disposed of	42	(3)
Deferred tax liabilities acquired as part of business combinations	(3,354)	–
Movements on deferred tax liability	(77,941)	(2,412)
Closing balance	112,421	190,362
Made up of:		
Deferred tax liabilities acquired as part of business combinations related to the difference in the tax base on carrying value of investment properties acquired	3,170	3,240
Revaluation of investment properties to fair value	109,251	187,122
Total deferred tax liabilities	112,421	190,362

18 Taxation (continued)

	31 December 2008 €000	31 December 2007 €000
Long term tax asset mainly relating to losses carried forward		
Opening balance	7,740	7,326
Deferred tax assets acquired as part of business combinations related to the difference in the tax base of carrying value of investment properties acquired	–	–
Relating to tax losses carried forward	(2,115)	414
Total deferred tax assets	5,625	7,740
Income and other current taxes payable		
Balance brought forward	17,570	14,811
Tax expense	23,606	20,978
Tax paid	(24,727)	(18,219)
Closing balance	16,449	17,570
Tax expense		
Income taxes	20,830	18,349
Other taxes	2,060	1,309
Subscription taxes	716	1,320
Current income taxes expense	23,606	20,978
Deferred tax (benefit)/expense		
Arising from liabilities	(74,629)	(2,409)
Arising from properties disposed of	42	(3)
Arising from assets	2,115	(414)
Deferred income tax benefit	(72,472)	(2,826)
Benefit/charge for taxation reported in the consolidated income statement	(48,866)	18,152

As of 31 December 2008 the unrecognised portion of deferred tax assets related to property fair value movements were €34.5 million (2007: €nil).

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

18 Taxation (continued)

A reconciliation between tax expense and the product of accounting profit multiplied by domestic tax rates for the years ended 31 December 2008 and 2007 is as follows:

	31 December 2008 €000	31 December 2007 €000
Accounting (loss)/profit before income tax	(626,784)	189,482
Tax exempt income/expense		
Property fair value movement	483,718	(40,196)
Share of loss of an associate, loss on disposal of an associate and impairment loss of an investment available for sale	282,405	23,919
Fund expenses	12,314	11,170
	778,437	(5,107)
Tax deductible expenses		
Tax depreciation	(67,637)	(69,285)
Interest and others	(13,771)	(45,600)
	(81,408)	(114,885)
Taxable profit before tax	70,245	69,490
Charge for taxation	18,332	18,698
Adjustment to the income tax charge of previous years	2,498	(349)
Others taxes	2,060	1,309
Subscription tax	716	1,320
Charge for current income tax at the effective tax rate of 26.10% (2007: 26.91%)	23,606	20,978

19 Accrued expenses and other current liabilities

	31 December 2008 €000	31 December 2007 €000
Accrued construction costs	4,768	7,111
Security deposits	9,519	9,556
Legal fee accruals	236	188
Interest payable	15,166	11,981
Other accrued expenses	14,396	12,558
VAT payable	9,913	10,240
Distributions payable	-	41,975
	53,998	93,609

20 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 one year	258,716	23.4%
between two and five years	626,719	56.7%
Five years and more	219,208	19.9%
	1,104,643	100.0%

21 Other property rental expenses

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

	31 December 2008 €000	31 December 2007 €000
Maintenance and utilities	2,453	(37)
Insurance costs	3,875	3,426
Bad debt expense (Note 7)	3,222	682
Property management fees (Note 22b)	1,934	2,077
	11,484	6,148

PEPR has contracted with the Management Company to provide management services to it. In return the Management Company has subcontracted a number of related management companies to carry out property management functions for PEPR (Note 22b).

22 Transactions with related parties

22a Management fees

Since the initial public offering of PEPR, the Management Company is entitled to charge the following management fees:

- 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;
- a cash management fee equal to 0.10% per annum of unrestricted balances of cash and cash equivalents; and
- 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 a rolling three year period (see Note 22c).

The management fee is invoiced in two parts, a fund management fee equal to 15 basis points and a property management fee equal to 45 basis points. Amounts unpaid as 31 December 2008 are €2.2 million (2007: €0.5 million). The total cost recognised in the consolidated income statement for the year is €24.4 million (2007: €26.9 million).

22b Property management fees

The Management Company has entered into investment management agreements with ProLogis Management Services II SAS, ProLogis Poland Management II Spzoo, ProLogis Spain Management II SL, ProLogis Czech Management II Sro and ProLogis Hungary Management II Kft respectively incorporated under the laws of France, Poland, 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 management fee paid to the Management Company.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

22 Transactions with related parties (continued)

22c Fund incentive fee

As per the Management Regulations, PEPR is obliged to pay an incentive fee to the Management Company based on the performance of PEPR over a certain benchmark. This 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 the following year. As of 31 December 2008 no incentive fee was accrued or due.

22d The Property Contribution Agreement

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.

22e 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 31 December 2008 amounted to €0.3 million (2007: €0.6 million).

22f Development fee

ProLogis 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 between 3.25% to 12% of the construction cost of the project, dependent on project size. These fees are included within the cost basis of real-estate investments. Under the terms of the Management Regulations the Board of PEPR is required to annually approve ProLogis development fee rates based upon evidence in the respective local markets.

22g 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.

22h Leasing commissions

Under the terms of the 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.

22i 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.

22j ProLogis European Properties Fund II ("PEPF II")

In connection with PEPF II:

- (i) the capital call issued to PEPR by PEPF II on 4 December 2008 of €38.0 million is accrued for at year end;
- (ii) the dividend declared but not paid to PEPR by PEPF II for the last quarter of 2008 of €6.2 million (2007: €1.3 million) is accrued for at year end.

22 Transactions with related parties (continued)

22k Board members' compensation

Board members include independent directors who are members of the Board and/or Audit Committee. There are four members appointed to the Board and three to the Audit Committee. PEPR pays a "one time fee" upon their appointment and compensation based on each member's meeting attendance. In 2008, PEPR paid €0.2 million to Board members (2007: €0.5 million, including €0.3 million of one time fees).

An annual complementary compensation is paid by PEPR to independent Board members. The amount paid is not settled in cash but by an equivalent number of PEPR's Ordinary Units. In 2008, PEPR paid €0.1 million (2007: €0.1 million).

22l Legal and tax compliance fees

As part of the management regulations, ProLogis is entitled to receive legal and tax compliance fees in return for legal and tax services provided to PEPR. These fees are calculated on an hourly basis, with the rate approved by the Board annually. Legal and tax compliance fees paid for the year ended 2008 amounted to €0.4 million (2007: €nil).

22m Disposals to ProLogis

In 2005, PEPR purchased Harbor Park in Budapest, including 29,522 square metres of surplus land. At that time, ProLogis entered into an agreement with PEPR to purchase the land once legal ownership could be separated from the properties acquired. This separation and subsequent transfer to ProLogis was finalised in 2008 (see Note 5).

In December 2008, PEPR sold a 20% share of its investment and future capital commitments in PEPF II to ProLogis for €43.7 million (see Note 6).

23 Finance income

	31 December 2008 €000	31 December 2007 €000
Interest income	5,319	4,772
Total finance income	5,319	4,772

24 Finance expense

	31 December 2008 €000	31 December 2007 €000
Interest payable brought forward	(11,981)	(6,249)
Interest payable carried forward	15,166	11,981
Interest paid	105,136	89,246
Interest expense	108,321	94,978
Amortisation of initial borrowing costs	6,403	12,921
Total interest and amortisation expense	114,724	107,899
Unrealised change in value of fair value hedges	(62,267)	(7,418)
Other net unrealised foreign currency losses on monetary assets and liabilities	64,267	6,576
Cumulative realised losses	(600)	(5,215)
Net foreign currency losses on monetary assets and liabilities	1,400	(6,058)
Total finance expenses	116,124	101,842

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

25 Net cash flow from operating activities

	31 December 2008 €000	31 December 2007 €000
Earnings before tax	(626,784)	189,482
<i>Adjustments for non-cash items</i>		
Reversal of rent levelling adjustment	1,971	6,861
Reversal of interest expense	108,321	94,978
Amortisation of transaction costs relating to debt	6,403	12,921
Unrealised change in value of fair value hedges	(62,267)	(7,418)
Other net unrealised foreign currency losses	64,267	6,576
Net unrealised gain on the investment in real estate	483,718	1,808
Realised (gain)/loss on sale of investments	(844)	(43,169)
Realised (gain)/loss on sale of property under construction	(683)	–
Writeback of share of loss of an associate	76,834	23,919
Loss on disposal of investment of an associate	137,048	–
Impairment of other financial asset, available for sale	68,523	–
<i>Changes in working capital</i>		
Decrease/(increase) in accounts receivable	(15,564)	(10,620)
Decrease/(increase) in other assets	19,059	19,451
Decrease/(increase) in accounts payable	(7,188)	(3,684)
(Decrease)/increase in amounts due to related parties	(6,419)	3,745
(Decrease)/increase in accrued expenses and other current liabilities	(18,005)	(9,885)
(Decrease)/increase in deferred income	16,423	8,630
Payment of income tax	(24,727)	(18,219)
Payment of interest	(105,136)	(89,246)
Net cash generated by operating activities	114,950	186,130

26 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:

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

At 31 December 2008, PEPR had a €174 million (2007: €767 million) commitment to invest equity into PEPF II. Subsequent to 31 December 2008 PEPR sold its remaining investment and commitment in PEPF II (See Note 30).

27 Non-cash investing and financing activities

Following the termination of the property contribution agreement (see Note 22d), no distribution facilities were contributed to PEPR by ProLogis in 2008. As a result, PEPR issued no Ordinary Units in 2008 (2007: €28.2 million).

28 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.

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.

28 Financial instruments (continued)

Year end 31 December 2008

Fixed rate	<1 year €000	1-5 years €000	>5 years €000	Total €000
Obligations under Eurobond loans				
Carrying value	–	–	(500,000)	(500,000)
Fair value	–	–	(197,400)	(197,400)

Fixed rate	<1 year €000	1-5 years €000	>5 years €000	Total €000
Cash and cash equivalent	77,101	–	–	77,101
Secured bank loans	–	(151,059)	–	(151,059)
Unsecured bank loans	–	(558,877)	–	(558,877)
Loan notes	(335,872)	(548,263)	–	(884,135)
Interest rate swap	(3,132)	(6,803)	–	(9,935)
Cross currency swap	50,754	42,931	–	93,685

Year end 31 December 2007

Fixed rate	<1 year €000	1-5 years €000	>5 years €000	Total €000
Obligations under finance leases				
Carrying value	(1,749)	(5,328)	–	(7,077)
Fair value	(1,807)	(5,504)	–	(7,311)
Obligations under Eurobond loans				
Carrying value	–	–	(500,000)	(500,000)
Fair value	–	–	(517,300)	(517,300)

Floating rate	<1 year €000	1-5 years €000	>5 years €000	Total €000
Cash and cash equivalent	78,680	–	–	78,680
Secured bank loans	–	(151,059)	–	(151,059)
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.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

28 Financial instruments (continued)**Swap agreements**

Issuer:	Pan European Industrial Properties Series II S.A.
Starting date	February 2002
Legal maturity date	July 2012
Settlement date	July 2009
Interest payment	Quarterly

Swap counter-party:	ABN AMRO	Class A	Class B	Class C
Cash flows hedged		€64,406	€9,105	€11,769
Pays floating interest	three-month Euribor +	0.32%	0.48%	0.90%
Receives fixed interest		5.45%	5.61%	6.03%
Fair value and cash flow hedged (£'000)		£35,773	£3,853	–
Pays floating interest	three-month Euribor +	0.32%	0.48%	–
Receives fixed interest		5.92%	6.11%	–
Exchange rate fixed (£)		0.6145	0.6145	–

Swap counter-party:	JP Morgan Chase	Class A	Class B	Class C
Cash flows hedged		€84,535	€9,105	€11,770
Pays floating interest	three-month Euribor +	0.32%	0.48%	0.90%
Receives fixed interest		5.450%	5.610%	6.030%
Fair value and cash flow hedged (£'000)		£35,773	£3,853	£9,961
Pays floating interest	three-month Euribor +	0.32%	0.48%	0.90%
Receives fixed interest		5.92%	6.11%	6.54%
Exchange rate fixed (£)		0.6145	0.6145	0.6145

The total amount of interest paid and received is €34.7 million to 31 December 2008 (2007: €34.2 million).

28 Financial instruments (continued)

Issuer:	Pan European Industrial Properties Series III S.A.
Starting date	February 2003
Legal maturity date	May 2013
Settlement date	May 2010
Interest payment	Quarterly

Swap counter-party:	ABN AMRO	Class A	Class B	Class C
Cash flows hedged		€31,538	€4,901	€6,393
Pays floating interest	three-month Euribor +	0.35%	0.48%	0.85%
Receives fixed interest		4.23%	4.36%	4.73%
Fair value and cash flows hedged (£'000)		£17,532	£2,352	£3,068
Pays floating interest	three-month Euribor +	0.35%	0.48%	0.85%
Receives fixed interest		4.95%	5.08%	5.45%
Exchange rate fixed (£)		0.6317	0.6317	0.6317

Swap counter-party:	JP Morgan Chase	Class A	Class B	Class C
Cash flows hedged		€42,830	€4,901	€6,393
Pays floating interest	three-month Euribor +	0.35%	0.48%	0.85%
Receives fixed interest		4.23%	4.36%	4.73%
Fair value and cash flows hedged (£'000)		£20,559	£2,353	£3,068
Pays floating interest	three-month Euribor +	0.35%	0.48%	0.85%
Receives fixed interest		4.95%	5.08%	5.45%
Exchange rate fixed (£)		0.6317	0.6317	0.6317

The total amount of interest paid and received is €16.1 million to 31 December 2008 (2007: €16.2 million).

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

28 Financial instruments (continued)

Issuer:	Pan European Industrial Properties Series IV S.A.
Starting date	March 2005
Legal maturity date	May 2013
Settlement date	May 2010
Interest payment	Quarterly

Swap counter-party:	ABN AMRO	Class A	Class B	Class C
Cash flows hedged		€126,498	€13,451	€8,407
Pays floating interest	three-month Euribor +	0.14%	0.18%	0.30%
Receives fixed interest		3.29%	3.33%	3.45%
Fair value and cash flows hedged (£'000)		£18,557	£1,762	£1,101
Pays floating interest	three-month Euribor +	0.14%	0.18%	0.30%
Receives fixed interest		5.09%	5.13%	5.26%
Exchange rate fixed (£)		0.6912	0.6912	0.6912

Swap counter-party:	Bank of America	Class A	Class B	Class C
Cash flows hedged		€141,653	€13,451	€8,407
Pays floating interest	three-month Euribor +	0.14%	0.18%	0.30%
Receives fixed interest		3.29%	3.33%	3.45%
Fair value and cash flows hedge (£'000)		£18,557	£1,762	£1,101
Pays floating interest	three-month Euribor +	0.14%	0.18%	0.30%
Receives fixed interest		5.09%	5.13%	5.26%
Exchange rate		0.6912	0.6912	0.6912

The total amount of interest paid and received is €31.3 million to 31 December 2008 (2007: €31.7 million).

Summary of movements in hedge values	31 December 2008 €000	31 December 2007 €000
Balance at the beginning of the period	46,692	27,776
Movement in fair value of interest rate swaps	(25,209)	11,257
Movement in fair value of cross-currency swaps	62,267	7,418
Fair value of hedges acquired during the period	-	-
Fair value of hedges terminated during the period	-	(241)
Net variation during the period	37,058	18,916
Balance at the end of the period	83,750	46,692
Positive hedge values	90,259	48,577
Negative hedge values	(6,509)	(1,885)
	83,750	46,692

29 List of consolidated entities

Companies incorporated in Luxembourg:

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

ProLogis European Holdings S.à r.l.	ProLogis France XXX S.à r.l.
ProLogis European Holdings II S.à r.l.	ProLogis France XXXIV S.à r.l.
ProLogis European Holdings IV S.à r.l.	ProLogis France XXXV S.à r.l.
ProLogis European Holdings VI S.à r.l.	ProLogis France XXXVI S.à r.l.
ProLogis European Holdings VII S.à r.l.	ProLogis France XXXVII S.à r.l.
ProLogis European Holdings VIII S.à r.l.	ProLogis France XXXVIII S.à r.l.
ProLogis European Holdings IX S.à r.l.	ProLogis France XXXIX S.à r.l.
ProLogis European Finance S.à r.l.	ProLogis France XL S.à r.l.
ProLogis European Finance II 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 International Funding, S.A.
ProLogis France III S.à r.l.	ProLogis Italy III S.à r.l.
ProLogis France IV S.à r.l.	ProLogis Italy V S.à r.l.
ProLogis France V S.à r.l.	ProLogis Italy IX S.à r.l.
ProLogis France VI S.à r.l.	ProLogis Italy XIV S.à r.l.
ProLogis France IX S.à r.l.	ProLogis Italy XXV S.à r.l.
ProLogis France X S.à r.l.	ProLogis Netherlands S.à r.l.
ProLogis France XI S.à r.l.	ProLogis Netherlands I S.à r.l.
ProLogis France XIII S.à r.l.	ProLogis Netherlands II S.à r.l.
ProLogis France XV S.à r.l.	ProLogis Netherlands IIa S.à r.l.
ProLogis France XVI S.à r.l.	ProLogis Netherlands III S.à r.l.
ProLogis France XVII S.à r.l.	ProLogis Netherlands IV S.à r.l.
ProLogis France XVIII S.à r.l.	ProLogis Netherlands V S.à r.l.
ProLogis France XX S.à r.l.	ProLogis Netherlands VI S.à r.l.
ProLogis France XXI S.à r.l.	ProLogis Netherlands VII S.à r.l.
ProLogis France XXII S.à r.l.	ProLogis Netherlands VIII S.à r.l.
ProLogis France XXIII S.à r.l.	ProLogis Netherlands IX S.à r.l.
ProLogis France XXIV S.à r.l.	ProLogis Netherlands X S.à r.l.
ProLogis France XXV S.à r.l.	ProLogis Netherlands XI S.à r.l.
ProLogis France XXVI S.à r.l.	ProLogis Netherlands XII S.à r.l.
ProLogis France XXVII S.à r.l.	ProLogis Netherlands XIII S.à r.l.
ProLogis France XXIX S.à r.l.	ProLogis Netherlands XIV S.à r.l.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

29 List of consolidated entities (continued)**Companies incorporated in Luxembourg:***(Unless otherwise stated, all companies 100% owned by PEPR)*

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

29 List of consolidated entities (continued)

Companies incorporated in the United Kingdom:

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

1&2 Buncefield Lane (No.1) Limited	ProLogis Apex Park DC 3 (No.1) Limited
1&2 Buncefield Lane (No. 2) Limited	ProLogis Apex Park DC 3 (No.2) Limited
Interlink Park Management Company	ProLogis Marston Gate Plot 1 (No.1) Limited
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 1) Limited	ProLogis Wakefield DC 2 (No.2) Limited
The Bermuda Park Unit Trust	

Companies incorporated in France:

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

ProLogis Angeloir S.à r.l.	ProLogis France XXXIII Eurl
ProLogis Artoilog S.à r.l.	ProLogis France XXXIV Eurl
ProLogis Bre Francilienne 2 S.à r.l.	ProLogis France XXXV Eurl
ProLogis Bre Francilienne Compans S.à r.l.	ProLogis France XXXVI Eurl
ProLogis Bre Francilienne S.à r.l.	ProLogis France XXXVII Eurl
ProLogis Bre Orbium S.à r.l.	ProLogis France XXXVIII Eurl
ProLogis 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 S.à r.l.
ProLogis France XIX Eurl	ProLogis SCI Carrefour de l'Europe
ProLogis France XX Eurl	ProLogis SCI Copernic
ProLogis France XXI Eurl	ProLogis SCI Crépy Paris Nord
ProLogis France XXII Eurl	ProLogis SCI d'Ormes
ProLogis France XXIII Eurl	ProLogis SCI Le Parc
ProLogis France XXIV Eurl	ProLogis SCI Plessis Pate
ProLogis France XXV Eurl	ProLogis SCI Plessis Pate 2
ProLogis France XXVI Eurl	ProLogis SNC Aulnay Extension Ouest
ProLogis France XXX Eurl	ProLogis SCI Croisée des Autoroutes Lorraines
ProLogis France XXXI Eurl	ProLogis Sofinvest S.à r.l.

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

29 List of consolidated entities (continued)**Companies incorporated in Spain:***(Unless otherwise stated, all companies 100% owned by PEPR)*

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 PEPR)*

ProLogis Italy Ia Srl	ProLogis Italy VI 2 Srl
ProLogis Italy Ib Srl	ProLogis Italy VII Srl
ProLogis Italy Ic Srl	ProLogis Italy VIIb 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 Netherlands:*(Unless otherwise stated, all companies 100% owned by PEPR)*

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 PEPR)*

ProLogis Deutschland GmbH	ProLogis Verwaltung GmbH & Köln Eifeltor KG
ProLogis Verwaltung GmbH	

29 List of consolidated entities (continued)

Companies incorporated in Belgium:

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

ProLogis Belgium I Sprl	ProLogis Belgium VI Sprl
ProLogis Belgium II Sprl	ProLogis Belgium VIII Sprl
ProLogis Belgium V Sprl	

Companies incorporated in Sweden:

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

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

Companies incorporated in Poland:

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

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 Sp zoo	ProLogis Poland XXXVIII Spzoo
ProLogis Poland XVI Spzoo	ProLogis Poland XXXIX Spzoo

Companies incorporated in the Czech Republic:

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

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 PEPR)

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

Notes to the consolidated financial statements (continued)

For the year ending 31 December 2008

(unless otherwise stated, amounts are expressed in thousands of Euros)

29 List of consolidated entities (continued)

Other Special Purpose entities relating to financing:

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

Company name	Country of incorporation
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

Registered Office:

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

30 Subsequent events

Subsequent disposal of remaining one-third investment in ProLogis European Properties Fund II ("PEPF II")

In February 2009, PEPR completed the disposal of the remaining one-third investment and associated future funding obligations in PEPF II to six institutional investors. Gross proceeds of €14.4 million in addition to the elimination of €174 million of future commitments implies a 28% discount to 31 December 2008 investment value. PEPR recorded an impairment in the value of PEPF II in 2008 (see Note 9). As a result no gain or loss on sale will be realised in 2009.

This disposal, combined with the sale of the initial two-thirds stake in PEPF II to ProLogis in December 2008, decreases PEPR's ownership in PEPF II to zero. Overall, the disposal of the entire position relieves PEPR of the obligation to fund further investments of €522 million in PEPF II before August 2010.

Net proceeds of both disposals have been used to reduce debt in line with the strategic initiatives outlined by PEPR in December 2008.

Subsequent early repayment of €335.9 million of secured notes relating to Pan-European Industrial Properties Series II ("CMBS II")

In April 2009, PEPR repaid all of CMBS II debt (€335.9 million) three months earlier than contractually required. PEPR has used a combination of cash from operations, cash inflows from the unwinding of related derivatives and available capacity under its €900 million unsecured credit facility to finance the repayment.

The early repayment will crystallise approximately €43 million of cash flow following the unwinding of related derivatives and release some €550 million of secured properties, based on values at 31 December 2008, to PEPR's unsecured asset pool.

Subsequent credit ratings downgrade from Moody's Investors Service

On 30 March 2009, Moody's Investors Service ("Moody's") downgraded PEPR's corporate credit rating to Baa3 from Baa2 and affirmed its negative outlook. The downgrade reflects PEPR's poorer-than-expected financial metrics and heightened liquidity risk profile, given (i) the large refinancing requirement of €1.3 billion over the course of 2010, and (ii) the limited headroom under its banking covenants. Moody's state that "Management has taken several positive steps to manage its overall liquidity and funding profile, but progress has been slower than Moody's expected. Therefore, Moody's is concerned about execution risk in light of the continuing difficult credit market conditions".

The impact of this one-notch ratings downgrade on PEPR's debt is a 20 basis point increase in the borrowing margin of the €900 million unsecured credit facility. The margin on the three year tranches will increase to 240 basis points over Euribor/LIBOR and the margin on the five year tranche to 245 basis points.

Glossary of terms

Annualised rental income

Annualised rental income means the estimate of annual income based on the gross rental income for leases in place as at the latest valuation date based on rates effective at that date and on the assumption that rental income from such leases will continue to be received for the whole of the financial year. It does not take into account lease terminations, renewals, replacement of customers or other changes in rent levels in existing leases.

Basis point

A unit that is equal to 1/100th of 1%.

Earnings per share (“EPS”)

Profit after taxation attributable to Ordinary Unitholders divided by the weighted average number of Ordinary Units in issue during the year.

EPRA

European Public Real Estate Association.

EPRA earnings

IFRS post-tax profit adjusted in line with EPRA “Best Practice Policy Recommendations” issued in May 2008.

EPRA earnings per share (“EPS”)

Earnings per share based on EPRA earnings.

EPRA net asset value (“NAV”) per unit

NAV per unit adjusted in line with EPRA “Best Practice Policy Recommendations” issued in May 2008.

Gross yield on OMV

Annualised net rents on investment properties expressed as a percentage of the valuation ignoring costs of purchase or sale.

IFRS

International Financial Reporting Standards.

Initial yield

Annualised in-place rents on investment properties expressed as a percentage of gross property valuation.

Leverage

Total borrowings as a percentage of portfolio value.

Net asset value (“NAV”) per unit

Total equity divided by the number of ordinary Units in issue at the period end.

Net yield on OMV

Annualised net rents on investment properties expressed as a percentage of the property valuation.

Open market value (“OMV”)

Open market value is an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation (as determined by external valuers). In accordance with usual practice, values are reported net, after the deduction of the prospective purchaser’s costs, including stamp duty, agent and legal fees.

ProLogis European Properties

18, Boulevard Royal
L-2449
Luxembourg
T: +352 2620 5740

Investor Relations Headquarters

Bond Street House
14 Clifford Street
London W1S 4JU
United Kingdom
T: +44 207 518 8710
ir@prologis-ep.com

Customer Service Headquarters

Schiphol Boulevard 115
F Tower, Floor 6
Schiphol, Noord Holland
1118 BG
The Netherlands
T: +31 20 655 66 66