

PROLOGIS
Form 10-K
February 28, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-12846**

PROLOGIS

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

74-2604728
(I.R.S. employer
identification no.)

**4545 Airport Way
Denver, CO 80239**
(Address of principal executive offices and zip code)

(303) 567-5000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of each exchange on which registered |
|--|--|
| Common Shares of Beneficial Interest, par value \$0.01 per share | New York Stock Exchange New York Stock Exchange |

Series F Cumulative Redeemable Preferred Shares of
Beneficial Interest, par value \$0.01 per share
Series G Cumulative Redeemable Preferred Shares of
Beneficial Interest par value \$0.01 per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one) Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

Based on the closing price of the registrant's shares on June 30, 2006, the aggregate market value of the voting common equity held by non-affiliates of the registrant was \$12,721,119,420.

At February 22, 2007, there were outstanding approximately 256,237,200 common shares of beneficial interest of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2007 annual meeting of its shareholders are incorporated by reference in Part III of this report.

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Certain statements contained in this discussion or elsewhere in this report may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, variations of such words and similar expressions are intended to identify such forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future including statements relating to rent and occupancy growth, development activity and changes in sales or contribution volume of developed properties, general conditions in the geographic areas where we operate and the availability of capital in existing or new property funds are forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained and therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Some of the factors that may affect outcomes and results include, but are not limited to: (i) national, international, regional and local economic climates, (ii) changes in financial markets, interest rates and foreign currency exchange rates, (iii) increased or unanticipated competition for our properties, (iv) risks associated with acquisitions, (v) maintenance of real estate investment trust (REIT) status, (vi) availability of financing and capital, (vii) changes in demand for developed properties, and (viii) those additional factors discussed under Item 1A. Risk Factors . Unless the context otherwise requires, the terms we, us and our refer to ProLogis and our consolidated subsidiaries.

PART I

ITEM 1. Business

ProLogis

We are the world's largest owner, manager and developer of industrial distribution facilities. Our business strategy is designed to achieve long-term sustainable growth in cash flow and a high level of return for our shareholders. We manage our business by utilizing the ProLogis Operating System[®], an organizational structure and service delivery system that we built around our customers. When combined with our international network of distribution properties, the ProLogis Operating System enables us to meet our customers' distribution space needs on a global basis. We believe that by integrating international scope and expertise with a strong local presence in our markets, we have become an attractive choice for our targeted customer base, the largest global users of distribution space.

We are organized under Maryland law and have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code). Our world headquarters is located in Denver, Colorado. Our European headquarters is located in the Grand Duchy of Luxembourg with our European customer service headquarters located in Amsterdam, the Netherlands. Our regional offices in Asia are located in Tokyo, Japan and Shanghai, China. Our common shares were first listed on the New York Stock Exchange (NYSE) in March 1994 and currently trade under the ticker symbol PLD .

A copy of this Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports are available, free of charge, on the Internet in the Investor Relations section of our website (www.prologis.com). All required reports are made available on the website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (the SEC). Any references to our website address do not constitute incorporation by reference of the information contained in the website and such information should not be considered to be part of this document.

Business Strategy and Global Presence

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We were formed in 1991 as an owner of industrial distribution space operating in the United States with a primary objective of differentiating ourselves from our competition by focusing on our corporate customers' distribution space requirements on a national, regional and local basis and providing customers with consistent levels of service throughout the United States. As our customers' needs expanded to markets outside the

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United States, so did our portfolio and our management team. We currently have operations in North America, Europe and Asia. Our business strategy is to hold certain investments on a long-term basis and generate income from leasing space to our customers, develop properties primarily for contribution to property funds in which we maintain an ownership interest and manage those property funds and the properties they own. Since our inception, we have grown and expect to continue to do so through the development and selective acquisition of properties, individually and as portfolios, in targeted markets. In September 2005, we completed a merger whereby Catellus Development Corporation (Catellus) was merged into one of our subsidiaries (the Catellus Merger). In connection with the Catellus Merger, we added approximately \$4.5 billion of real estate assets to our direct owned investments. As of December 31, 2006, our direct owned real estate investments totaled \$14.0 billion.

At December 31, 2006, our total portfolio of properties owned, managed and under development, including direct-owned properties and properties owned by property funds and other joint ventures, consisted of 2,466 properties aggregating 422.0 million square feet and serving 4,709 customers in 80 markets in North America, Europe and Asia.

Distribution facilities are a crucial link in the modern supply chain, and they serve three primary purposes for supply-chain participants: (i) ensure accurate and seamless flow of goods to their appointed destinations; (ii) function as processing centers for goods; and (iii) enable companies to store enough inventory to meet unexpected surges in demand and to cushion themselves from the impact of a break in the supply chain.

The primary business drivers across the globe continue to be the need for greater distribution network efficiency and state-of-the-art facilities to support the growing business of global trade. After 15 years in operation, our focus on our customers' expanding needs and improving their supply-chain operations has enabled us to become the world's largest owner, manager and developer of industrial distribution facilities.

Our Operating Segments

Our business is primarily organized into three reportable business segments: (i) property operations, (ii) fund management and (iii) CDFS business. The following discussion of our business segments should be read in conjunction with Item 1A. Risk Factors, our property information presented in Item 2. Properties, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 18 to our Consolidated Financial Statements in Item 8.

Operating Segments - Property Operations

The property operations segment represents the direct long-term ownership of industrial distribution and retail properties. Our investment strategy in the property operations segment focuses primarily on the ownership and leasing of generic industrial distribution properties in key distribution markets.

Investments

At December 31, 2006, our property operations segment consisted of 1,473 operating properties aggregating 204.7 million square feet in North America, Europe and Asia. The properties are primarily distribution properties, other than 27 retail properties located in North America and aggregating 1.1 million square feet.

During 2006, we increased our investments in our property operations segment through the acquisition of 74 properties, aggregating 13.5 million square feet representing an investment of \$735.4 million, through various individual and/or portfolio acquisitions. These properties were acquired primarily in the CDFS business segment for future contribution to an unconsolidated property fund. It is our policy to hold acquired properties for long-term investment, although we often reduce our ownership to less than 100% through the contribution to a property fund

resulting in the realization of a portion of the development or repositioning profits. We also acquire properties through tax deferred exchanges that result in our holding the properties for long-term investment. In addition, we have increased our investment in the property operations segment through the development of distribution and retail properties, which are pending contribution to a property fund or sale to

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a third party, as further discussed below. Included in this segment at December 31, 2006 were 205 operating properties aggregating 49.8 million square feet at a total investment of \$3.1 billion that were developed or acquired in the CDFS business segment but are included in the property operations segment's assets pending contribution or sale.

We partially offset the increases in our investments by the disposition of 92 properties from this segment aggregating 7.7 million square feet with an investment of \$207.5 million at the time of disposition, which were sold to third parties or contributed to property funds, and the disposal of 70 properties from the CDFS business segment, as discussed below.

On a continuing basis, we are engaged in various stages of negotiations for the acquisition and/or disposition of individual properties or portfolios of properties.

Results of Operations

We earn rent from our customers under long-term operating leases, including reimbursement of certain operating costs, in our properties that we own directly in North America, Europe and Asia. We expect to grow our revenue through increases in properties owned and increases in occupancy rates and rental rates in our existing properties. Our strategy is to achieve these increases primarily through the acquisition of distribution properties, continued focus on our customers' global needs for distribution space in the three continents in which we operate, and use of the ProLogis Operating System. The costs of our property management function for both our direct-owned portfolio and the properties owned by the property funds and managed by us are all reported in rental expenses in the property operations segment.

Market Presence

At December 31, 2006, the 1,473 properties aggregating 204.7 million square feet in the property operations segment were located in 39 markets in North America (33 markets in the United States, five markets in Mexico and one market in Canada), 22 markets in 11 countries in Europe and six markets in four countries in Asia. Our largest markets for the property operations segment in North America (based on investment in the properties) are Atlanta, Chicago, Dallas/Fort Worth, New Jersey and San Francisco (East and South Bay), and Southern California. Our largest investment in the property operations segment in Europe is in the United Kingdom and our largest investment in Asia is in Japan. Direct-owned properties in Europe and Asia primarily consist of properties that were developed or acquired in the CDFS business segment that are pending contribution or sale. See Operating Segments' CDFS Business and Item 2. Properties .

Competition

In general, numerous other distribution properties are located in close proximity to our properties. The amount of rentable distribution space available in any market could have a material effect on our ability to rent space and on the rents that we can earn. In addition, in many of our submarkets, institutional investors and owners and developers of properties (including other REITs) compete for the acquisition, development and leasing of space. Many of these entities have substantial resources and experience. Competition in acquiring existing properties and land, both from institutional capital sources and from other REITs, has been very strong over the past several years. We believe we have differentiated ourselves from our competitors, as we are the largest owner, manager and developer of industrial distribution facilities, which has allowed us to operate on a consistent basis as a provider of state-of-the-art facilities in what we believe are the key global markets.

Property Management

Our business strategy includes a customer service focus that enables us to provide responsive, professional and effective property management services at the local level. To enhance our management services, we have developed and implemented proprietary operating and training systems to achieve consistent levels of performance and professionalism in all markets and to enable our property management team members to give

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the proper level of attention to our customers throughout our network. We manage substantially all of our direct-owned operating properties, other than the retail properties.

Customers

We have developed a customer base that is diverse in terms of industry concentration and represents a broad spectrum of international, national, regional and local distribution space users. At December 31, 2006, we had 3,314 customers occupying 175.7 million square feet of distribution and retail space. Our largest customer and 25 largest customers accounted for 2.2% and 18.4%, respectively, of our annualized collected base rents at December 31, 2006.

Employees

We employ approximately 1,270 persons. Our employees work in North America (approximately 780 persons), in 12 countries in Europe (approximately 300 persons) and in five countries in Asia (approximately 190 persons). Of the total, approximately 615 employees are assigned to the property operations segment. We have approximately 340 employees who work in corporate positions and are not assigned to a segment who may assist with property operations segment activities. We believe our relationships with our employees are good, and our employees are not generally represented by collective bargaining agreements.

Future Plans

Our current business plan allows for the expansion of our network of operating properties as necessary to: (i) address the specific expansion needs of customers; (ii) initiate or enhance our market presence in a specific country, market or submarket; (iii) take advantage of opportunities where we believe we have the ability to achieve favorable returns; and (iv) expand our direct-owned business.

We intend to fund our investment activities in the property operations segment in 2007 primarily with operating cash flow from this segment, borrowings on existing or new credit facilities, additional debt and equity financing and the proceeds from contributions and dispositions of properties.

Operating Segments Fund Management

The fund management segment represents the long-term investment management of property funds and the properties they own. We utilize our leasing and property management expertise to efficiently manage the properties and the funds. The costs of the property management function for both our direct-owned portfolio and the properties owned by the property funds are reported in the property operations segment and the costs of the fund management function are included in general and administrative expenses.

Our property fund strategy:

allows us, as the manager of the property funds, to maintain the market presence and customer relationships that are the key drivers of the ProLogis Operating System;

allows us to maintain a long-term ownership position in the properties;

allows us to realize a portion of the development profits from our CDFS business activities by contributing our stabilized development properties to property funds (profits are recognized to the extent of third party investment in the property fund);

provides diversified sources of capital;

allows us to earn fees for providing services to the property funds; and

provides us an opportunity to earn incentive performance participation income based on the investors' returns over a specified period.

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Investments

As of December 31, 2006, we had investments in and advances to 13 property funds totaling \$981.8 million with ownership interests ranging from 11.3% to 50.0%. These investments are in North America ten aggregating \$416.8 million; Europe one at \$430.8 million; and Japan two aggregating \$134.2 million. These property funds own, on a combined basis, 843 distribution properties aggregating 181.3 million square feet with a total entity investment (not our proportionate share) in operating properties of \$12.3 billion. We act as manager of each property fund.

During 2006, the property funds had the following activities:

During 2006, we contributed 94 properties aggregating 18.7 million square feet to the property funds for net proceeds of \$1.4 billion, prior to deferral of a portion of the gain due to our continuing ownership in the entities acquiring the properties.

On a combined basis, the property funds acquired eight properties from third parties, aggregating 2.2 million square feet.

In September 2006, ProLogis European Properties (currently referred to as PEPR and formerly known as ProLogis European Properties Fund) completed an initial public offering (IPO) on the Euronext Amsterdam stock exchange in which the selling unitholders offered 49.8 million ordinary units. The IPO allowed us, as the manager, to recognize an incentive return of \$109.2 million based on the internal rate of return that the pre-IPO unitholders earned. After the IPO, our ownership interest in PEPR increased to 24.0%.

We made our first contributions to the ProLogis Japan Properties Fund II, which was formed in late 2005.

We formed the North American Industrial Fund, with several institutional investors, which will primarily own distribution properties in major distribution markets throughout the United States and Canada and we made our first contributions.

On January 4, 2006, we purchased the remaining 80% ownership interests in each of ProLogis North American Properties Funds II, III and IV held by our fund partner and in March 2006, we contributed substantially all of the assets and associated liabilities we obtained in this acquisition to the North American Industrial Fund. We recognized an aggregate of \$71.6 million in earnings related to this transaction, including an incentive return of \$22.0 million.

See Note 4 to our Consolidated Financial Statements in Item 8 for more information on these activities.

Results of Operations

We recognize our proportionate share of the earnings or losses from our investments in unconsolidated property funds operating in North America, Europe and Asia. Along with the income recognized under the equity method, we include fees and incentives earned for services performed on behalf of the property funds and interest earned on advances to the property funds in this segment. We earn certain fees for services provided to the property funds, such as property management, asset management, acquisition, financing and development fees. We may earn incentives depending on the return provided to the fund partners over a specified period of time. We expect growth in income recognized to come from newly created property funds and growth in existing property funds. The growth in the existing property funds is expected to come primarily from additional properties the funds will acquire, generally from us, and increased rental revenues in the property funds due, in part, to our leasing and property management efforts from our property

operations segment.

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Market Presence

At December 31, 2006, the property funds on a combined basis owned 843 properties aggregating 181.3 million square feet located in 37 markets in North America (the United States and Mexico), 27 markets in 11 countries in Europe and five markets in Asia (Japan).

Competition

As the manager of the property funds, we compete with other fund managers for institutional capital throughout the capital markets. As the manager of the properties owned by the property funds, we compete with the other distribution properties located in close proximity to the properties owned by the property funds. The amount of rentable distribution space available in any market could have a material effect on the ability to rent space and on the rents that can be earned in the fund properties.

Property Management

We manage the properties owned by the property funds in our property operations segment utilizing our leasing and property management experience and the ProLogis Operating System. Our business strategy includes a customer service focus that enables us to provide responsive, professional and effective property management services at the local level. To enhance our management services, we have developed and implemented proprietary operating and training systems to achieve consistent levels of performance and professionalism in all markets and to enable our property management team members to give the proper level of attention to our customers throughout our network.

Customers

We have developed a customer base that is diverse in terms of industry concentration and represents a broad spectrum of international, national, regional and local distribution space users in both our direct-owned properties and those properties we manage on behalf of the property funds. At December 31, 2006, the property funds, on a combined basis, had 1,523 customers occupying 174.7 million square feet of distribution space. The largest customer and 25 largest customers of the property funds, on a combined basis, accounted for 2.7% and 24.7%, respectively, of the total combined annualized collected base rents at December 31, 2006.

Employees

The property funds generally have no employees of their own. We have approximately 45 employees who work in corporate positions assigned to the management of the property funds in our fund management segment. Employees in our property operations segment are responsible for the management of the properties owned by the property funds. Our other 340 corporate employees may assist with these activities as well. We believe that our relationships with our employees are good, and our employees are generally not represented by a collective bargaining agreement.

Future Plans

We expect an overall increase in our investments in the property funds. We expect to achieve this increase through the existing property funds acquisition of properties that have been developed or acquired by us in the CDFS business segment, as well as from third parties. We also expect growth from property funds that may be formed in the future. We expect the fee income we earn from the property funds and our proportionate share of net earnings of the property funds will increase as the portfolios owned by the property funds increase.

Operating Segments **CDFS Business**

Our CDFS business segment primarily encompasses our development of real estate properties that are subsequently contributed to a property fund in which we have an ownership interest and act as manager, or sold to third parties. Additionally, we acquire properties with the intent to rehabilitate and/or reposition the

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property in the CDFS business segment prior to it being contributed to a property fund. We also engage in mixed-use development activities.

Investments

At December 31, 2006, we had 114 distribution and retail properties aggregating 30.0 million square feet under development with a total expected cost at completion of \$2.2 billion. Our properties under development at December 31, 2006 include:

North America: 44 properties in Canada, Mexico and the United States, for a combined total of 11.6 million square feet, with a total expected cost of \$597.9 million (approximately 27.3% of the total);

Europe: 45 properties in ten countries, for a combined total of 10.3 million square feet, with a total expected cost of \$844.0 million (approximately 38.5% of the total); and

Asia: 25 properties in China and Japan, for a combined total of 8.1 million square feet, with a total expected cost of \$748.5 million (approximately 34.2% of the total).

In addition, at December 31, 2006, we had 205 operating properties aggregating 49.8 million square feet with a current investment of \$3.1 billion that we had previously developed or acquired in the CDFS business segment. These properties and their results of operations are currently included in the property operations segment pending contribution or sale. This brings our total pipeline of direct-owned potential CDFS business disposition properties to \$5.3 billion at December 31, 2006.

In addition to the properties under development and completed properties that we own directly, unconsolidated joint ventures in which we have an ownership interest had four distribution properties under development in Europe and China aggregating 0.5 million square feet with a total expected cost at completion of \$22.6 million.

At December 31, 2006, we directly held 6,204 acres of land for future development with a current investment of \$1.4 billion. The land is in North America (4,648 acres), Europe (1,397 acres) and Asia (159 acres). This land is primarily held for the future development of properties to be contributed to a property fund or sold to a third party, although some of the land will be sold as is or further developed and sold to third parties. In addition, we also directly control, through either letter of intent or option, another 4,092 acres in North America (1,758 acres), Europe (1,896 acres) and Asia (438 acres). The CDFS joint ventures in which we have an ownership interest also own or control another 625 acres for the future development of distribution properties within the venture.

During 2006, we had investment activity in the CDFS business segment as follows:

We started the development of 143 properties aggregating 35.6 million square feet with a total expected cost at completion of \$2.5 billion. These projects either were completed during 2006, as discussed below, or are under development at December 31, 2006, as discussed above.

We completed the development of 102 properties aggregating 27.9 million square feet with a total expected cost of \$2.2 billion. Either these projects were under development at December 31, 2005 or development began in 2006.

We contributed or disposed of 70 properties aggregating 15.6 million square feet that were developed or acquired by us in the CDFS business segment, including 15 properties reflected as discontinued operations. These transactions generated proceeds of \$1.4 billion, after the deferral of \$65.5 million of gains due to our

continuing ownership in the entities acquiring the properties.

We acquired 2,242 acres of land for future development for \$812.6 million.

We disposed of 851.5 acres of land for total proceeds of \$122.5 million.

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We invested \$74.1 million in CDFS joint ventures operating in North America (\$17.6 million) and Asia (\$56.5 million). See Note 4 to our Consolidated Financial Statements in Item 8 for more information on our investments.

Results of Operations

We recognize income primarily from the contributions of developed and rehabilitated/repositioned properties to the property funds and from dispositions to third parties. In addition, we: (i) earn fees from our customers or other third parties for development activities that we provide on their behalf; (ii) recognize interest income on notes receivable related to asset dispositions; (iii) recognize net gains from the disposition of land parcels; and (iv) recognize our proportionate share of the earnings or losses generated by CDFS joint ventures in which we have an investment. We expect increases in this segment to come primarily from the continued development of high-quality distribution and retail properties in our key markets in North America, Europe and Asia, resulting in the contribution to property funds or sale to third parties. In addition, we expect to increase our land and mixed-use development activities for development fees and sales to third parties. Due to the nature of the income recognized in the CDFS business segment, the level and timing of income will vary between periods.

Market Presence

Our CDFS business segment operates in substantially all of the markets as our property operations segment. At December 31, 2006, we had properties under development in 23 markets in North America (18 in the United States, four in Mexico and one in Canada), in 16 markets in ten countries in Europe and in seven markets in two countries in Asia. At December 31, 2006, the land positions owned by us were located in 34 markets in North America (28 in the United States, five in Mexico and one in Canada), 19 markets in 11 countries in Europe and six markets in three countries in Asia.

Competition

In general, numerous other distribution properties are located in close proximity to our properties. The amount of rentable distribution space available in any market could have a material effect on our ability to rent space and on the rents that we can charge. In addition, in many of our submarkets, institutional investors and owners and developers of properties (including other REITs) compete for the acquisition, development and leasing of space. Many of these entities have substantial resources and experience. Competition in acquiring existing properties and land, both from institutional capital sources and from other REITs, has been very strong over the past several years. We believe we have competitive advantages due to the strategic locations of our land positions owned or under control, our personnel who are experienced in the land entitlement process, our global experience in the development of distribution properties, our relationships with key customers established by our local personnel and our global customer base.

North America there are a number of other national, regional and local developers engaged in the distribution property development markets where we conduct business. We compete with these developers for land acquisition and development opportunities. The market in North America is very competitive and is driven by the supply of new developments, access to capital and interest rate levels. A key component of our success in the CDFS business segment in North America will continue to be our ability to develop and timely lease properties that will generate profits when contributed or sold and our ability to continue to access capital that allows for the continued acquisition of our properties by the property funds. We believe our existing land bank positions us to timely respond to development opportunities as they arise.

Europe our competition in the CDFS business segment in Europe primarily comes from local and regional developers in our target markets. As in North America, the market in Europe is very competitive and is driven by the supply of new developments, access to capital and interest rate levels. During 2006, in addition to other land acquisitions, we added substantially to our land position in the United Kingdom, through a portfolio acquisition that will support more than 3.5 million square feet of distribution property development in the East and West Midlands, the country's primary area for distribution and logistics.

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Asia our competition in the CDFS business segment in Asia comes primarily from local and regional developers. We face competition when trying to acquire land or, in the case of China, land rights. In late 2006, the central government of China promulgated a new policy to tighten the control of land administration. According to the new policy, the government will set the minimum price of industrial land use rights. All industrial land use rights will only be granted through an auction and bidding process. This new policy may make it more difficult and costly for us, as well as existing and future competitors, to acquire the land use rights necessary for development in China.

Customers

We use the customer relationships that we have developed in our property operations segment and the ProLogis Operating System in marketing our CDFS business. Approximately half of the space leased in the newly developed properties in our CDFS business segment continues to be with repeat customers.

Employees

We employ approximately 270 employees that are assigned to the CDFS business segment. Our employees assigned to another business segment or working at a corporate level may assist with CDFS business segment activities as well. We believe that our relationships with our employees are good and our employees are generally not represented by collective bargaining agreements.

Seasonal Nature of the Business

The demand for the properties that are developed or acquired in the CDFS business segment is not seasonal in nature. However, development activities may be impeded by weather in certain markets, particularly during the winter months, affecting the scheduling of development activities and potentially delaying construction starts and completions.

Future Plans

We intend to continue to conduct the business of the CDFS business segment substantially as we have in the past. To be successful in the CDFS business segment, we believe we must be able to: (i) develop, acquire and rehabilitate or reposition and lease properties on a timely basis; and (ii) have access to capital available to acquire our CDFS business properties. With respect to the first requirement for success, we have demonstrated that we have the ability to develop and acquire properties that can be contributed or disposed of to generate profits. The ability to lease our properties is dependent on customer demand. Properties contributed to property funds must generally meet specified leasing criteria. We experienced stronger leasing activity in 2006 than in prior years and expect absorption of available space to continue to be strong throughout 2007. Our market research and customer feedback indicate that consolidation and reconfiguration of supply chains driven by the need for distribution space will continue to favorably influence the demand for distribution properties that we plan to offer in the CDFS business segment in 2007. In addition, we believe the limited supply of state-of-the-art distribution space in locations that minimize transportation costs, but allow for high levels of service to the customer and our position of being a single-source provider of distribution space will provide opportunities within this operating segment. We believe we have differentiated ourselves from our competitors by providing high quality customer service on a global basis. As noted earlier, approximately half of the space leased in our newly developed CDFS business segment properties is leased to repeat customers.

We expect to increase our development activities in all three continents. We expect the growth to be through direct owned development, as well as investments in CDFS joint ventures. We currently invest in CDFS joint ventures in

North America, Europe and Asia that develop and own distribution properties and retail properties. In addition, we expect to increase our mixed-use development activities where we may complete the entitlement process and develop the land and infrastructure in return for development fees, the rights to receive tax increment financing (TIF) bonds, profit participation on land sales, title to the land, or a combination thereof.

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We intend to utilize the capital generated through the contributions and sales of properties, the proceeds from private or public debt and equity issuances and borrowings on existing or new credit facilities to fund our future CDFS business activities. Further, we intend to actively pursue other sources of committed capital to form new property funds that will acquire our CDFS business properties not currently subject to exclusivity. We have commitments to contribute properties to certain existing property funds. See Note 4 to our Consolidated Financial Statements in Item 8 for further discussion.

There can be no assurance that if the existing property funds do not continue to acquire the properties we have available, we will be able to secure other sources of capital such that we can contribute or sell these properties in a timely manner and continue to generate profits from our development activities in a particular reporting period.

Other

We have other segments that do not meet the threshold criteria to disclose as a reportable segment. At December 31, 2006, these operations include primarily the management of land subject to ground leases. During 2006, we sold 21 properties out of these other segments, primarily office buildings and a hotel property, all of which were acquired in the Catellus Merger.

Our Management

Senior Management

Our Chief Executive Officer, Jeffrey H. Schwartz, and our President and Chief Operating Officer, Walter C. Rakowich head our management team. Mr. Schwartz and Mr. Rakowich also serve as members on our Board of Trustees (the Board).

In addition to the leadership and oversight provided by Messrs. Schwartz and Rakowich, Ted R. Antenucci is our President of Global Development, Dessa M. Bokides is our Chief Financial Officer, our General Counsel and Secretary is Edward S. Nekritz and John P. Morland is Managing Director of Global Human Resources. In addition, our investments and operations are overseen by John R. Rizzo, Managing Director of Global Development, Charles Sullivan, Managing Director for North America Capital Management, Larry Harmsen, Managing Director for North America Capital Deployment, Silvano Solis, Regional Director Mexico, Gary E. Anderson, Europe President and Chief Operating Officer, Masato Miki and Mike Yamada, Japan Co-Presidents and Ming Z. Mei, China President. Further, in North America, generally two senior members of the management team lead each of our six regions (Central, Midwest, Mexico, Northeast/Canada, Pacific and Southeast), one of whom is responsible for operations and one of whom is responsible for capital deployment. A senior officer who has both operations and capital deployment responsibilities leads each of the four regions in Europe (Northern Europe, Central Europe, Southern Europe and the United Kingdom). We also have teams dedicated to our fund management business in each of the continents in which we operate.

We maintain a Code of Ethics and Business Conduct applicable to our Board and all of our officers and employees, including the principal executive officer, the principal financial officer, and the principal accounting officer, or persons performing similar functions. A copy of our Code of Ethics and Business Conduct is available on our website, www.prologis.com. In addition to being accessible through our website, copies of our Code of Ethics and Business Conduct can be obtained, free of charge, upon written request to Investor Relations, 4545 Airport Way, Denver, Colorado 80239. Any amendments to or waivers of our Code of Ethics and Business Conduct that apply to the principal executive officer, the principal financial officer, or the principal accounting officer, or persons performing similar functions, and that relate to any matter enumerated in Item 406(b) of Regulation S-K, will be disclosed on our

website.

The reference to our website does not constitute incorporation by reference of the information contained in the website and such information should not be considered part of this document.

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ProLogis Operating System

Our management team is responsible for overseeing the ProLogis Operating System, the cornerstone of our business strategy, to allow us to achieve long-term sustainable growth in cash flow and a high level of return for our shareholders. The ProLogis Operating System is a proprietary property management and customer service delivery system that we designed to assist our professional management team in providing a unique and disciplined approach to serving existing and prospective customers. We believe that, through the ProLogis Operating System, we are, and will continue to be, well positioned to leverage our customer relationships to generate additional business opportunities.

Capital Management and Capital Deployment

Within the ProLogis Operating System, we have a team of professionals who are responsible for managing and leasing our properties and those owned by the property funds that we manage. These capital management team members are part of the Market Services Group. We have market officers who are primarily responsible for understanding and meeting the needs of existing and prospective customers in their respective markets. In addition, the market officers, along with their team of property management and leasing professionals, use their knowledge of local market conditions to assist the Global Services Group in identifying and accommodating those customers with multiple market requirements and assisting in the marketing efforts directed at those customers. The market officers ability to serve customers in the local market is enhanced by their access to our national and international resources. The focus of the market officers is on: (i) creating and maintaining relationships with customers, potential customers and industrial brokers; (ii) managing the capital invested in their markets; (iii) leasing our properties; and (iv) identifying potential acquisition and development opportunities in their markets.

Capital deployment is the responsibility of a team of professionals who focus on ensuring that our capital resources are deployed in an efficient and productive manner that will best serve our long-term objective of increasing shareholder value. The team members responsible for capital deployment evaluate acquisition, disposition and development opportunities in light of the market conditions in their respective regions and our overall goals and objectives. Capital deployment officers work closely with the Global Development Group to create master-planned distribution parks utilizing the extensive experience of the Global Development Group team members. The Global Development Group incorporates the latest technology with respect to building design and systems and has developed standards and procedures that we strictly adhere to in the development of all properties to ensure that properties we develop are of a consistent quality.

Customer Service

The Global Solutions Group provides services to a targeted customer base that has been identified as large users of distribution space. The Global Solutions Group's primary focus is to position us as the preferred provider of distribution space to these targeted customers. The professionals in the Global Solutions Group also seek to build long-term relationships with our existing customers by addressing their distribution and logistics needs. The Global Solutions Group provides our customers with outsourcing options for network optimization tools, strategic site selection assistance, business location services, material handling equipment and design consulting services.

Executive Committee Members

*Jeffrey H. Schwartz** 47 Chief Executive Officer of ProLogis since January 2005. Mr. Schwartz was President of International Operations of ProLogis from March 2003 to December 2004 and he was Asia President and Chief Operating Officer from March 2002 to December 2004. Mr. Schwartz was President and Chief Executive Officer of

Vizional Technologies, Inc., previously an unconsolidated investee of ProLogis from September 2000 to February 2002. From October 1994 to August 2000, Mr. Schwartz was with ProLogis, most recently as Vice Chairman for International Operations. Prior to originally joining ProLogis in October 1994, Mr. Schwartz was a founder and managing partner of The Krauss/Schwartz Company, an industrial real estate developer in Florida. Mr. Schwartz was appointed to the Board in August 2004.

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*Walter C. Rakowich** 49 President and Chief Operating Officer of ProLogis since January 2005 and Chief Financial Officer from December 1998 until September 2005. Mr. Rakowich was Managing Director of ProLogis from December 1998 to December 2004. Mr. Rakowich has been with ProLogis in various capacities since July 1994. Prior to joining ProLogis, Mr. Rakowich was a consultant to ProLogis in the area of due diligence and acquisitions and he was a Principal with Trammell Crow Company, a diversified commercial real estate company in North America. Mr. Rakowich was appointed to the Board in August 2004.

*Ted R. Antenucci** 42 President of Global Development of ProLogis since September 2005. Prior to joining ProLogis, Mr. Antenucci was President of Catellus Commercial Development Corp. from September 2001 to September 2005, with responsibility for all development, construction and acquisition activities. Prior thereto, Mr. Antenucci served as Executive Vice President of Catellus Commercial Group from April 1999 to September 2001, where he managed the company's industrial development activities throughout the western United States, including northern and southern California, Denver, Chicago, Dallas, and Portland.

*Dessa M. Bokides** 47 Executive Vice President and Chief Financial Officer of ProLogis since September 2005. Prior to joining ProLogis, Ms. Bokides was the Vice President-Finance and Treasurer for Pitney Bowes, Inc., a global provider of mailstream solutions. From 1996 to 1999, Ms. Bokides was the Global Head and Managing Director of the Rating Advisory and Capital Strategy Group at Deutsche Bank Securities and a Managing Director on the Deutsche Bank debt capital markets desk. From 1987 to 1996, Ms. Bokides was employed by Goldman Sachs where she was Head of Commitment products and served on the firm-wide risk steering committee.

*Edward S. Nekritz** 41 General Counsel of ProLogis since December 1998 and Secretary of ProLogis since March 1999, where he oversees the provision of all legal services for ProLogis and is responsible for ProLogis Risk Management and Asset Services departments. Mr. Nekritz has been with ProLogis in varying capacities since September 1995. Prior to joining ProLogis, Mr. Nekritz was an attorney with Mayer, Brown & Platt (now Mayer, Brown, Rowe and Maw).

Gary E. Anderson 41 Europe President and Chief Operating Officer since November 2006 where he is responsible for investments and development in the 12 European countries in which ProLogis operates. From 2003 to 2006, Mr. Anderson was the Managing Director responsible for investments and development in the company's Southwest and Mexico Regions. Prior to 2003, Mr. Anderson was a Market Officer for ProLogis from 1996 to 2003 and responsible for developing ProLogis' global expansion strategy from 1995 to 1996.

Ming Z. Mei 34 China President of ProLogis since January 2007, where he is responsible for capital management and development activities in China. Mr. Mei was a Managing Director from December 2005 to January 2007, a Senior Vice President from December 2004 to December 2005, and a First Vice President from 2003 to December 2004 with similar responsibilities in China. Prior to joining ProLogis in March 2003, Mr. Mei was Director of Finance and Business Development for the Asia Pacific Region of Owens Corning, a global building materials manufacturing company.

Masato Miki 42 Japan Co-President of ProLogis since March 2006, where he is responsible for acquisitions, finance operations and fund management in Japan. Mr. Miki was Managing Director from December 2004 to March 2006 and Senior Vice President of ProLogis from January 2004 to December 2004 with similar responsibilities in Japan and he has been with ProLogis since August 2002. Prior to joining ProLogis, Mr. Miki was Vice President of Mitsui Fudosan Investment Advisors, Inc., an affiliate of Mitsui Fudosa Co., Ltd., a comprehensive real estate company in Japan.

John P. Morland 48 Managing Director of Global Human Resources since October 2006, where he is responsible for strategic human resources initiatives to align ProLogis' human capital strategy with overall business activities. Most

recently, Mr. Morland was with Barclays Global Investors at its San Francisco headquarters from April 2000 to March 2005, where he was the Global Head of Compensation.

Robert J. Watson 57 Chief Executive Officer of ProLogis European Properties since September 2006. Mr. Watson was North America President and Chief Operating Officer from January 2004 to September 2006 and President and Chief Operating Officer Europe of ProLogis from December 1998 to January 2004

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and has been with ProLogis in various capacities since November 1992. Prior to joining ProLogis, Mr. Watson was the Regional Partner for Southwest United States Real Estate with Trammell Crow Company, a diversified commercial real estate company in North America.

Mike Yamada 53 Japan Co-President of ProLogis since March 2006, where he is responsible for development and leasing activities in Japan. Mr. Yamada was Managing Director from December 2004 to March 2006 and Senior Vice President of ProLogis from January 2004 to December 2004 with similar responsibilities in Japan and he has been with ProLogis since April 2002. Prior to joining ProLogis, Mr. Yamada was a Senior Officer of Fujita Corporation, a construction company in Japan.

* These individuals are designated as Executive Officers under Item 401 of Regulation S-K.

Environmental Matters

We are exposed to various environmental risks that may result in unanticipated losses that could affect our operating results and financial condition. A majority of the properties acquired by us were subjected to environmental reviews either by us or the previous owners. While some of these assessments have led to further investigation and sampling, none of the environmental assessments has revealed an environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations. See Note 17 to our Consolidated Financial Statements in Item 8 and Item 1A. Risk Factors.

Insurance Coverage

We carry comprehensive insurance coverage. We determine the type of coverage and the policy specifications and limits based on what we deem to be the risks associated with our ownership of properties and other of our business operations in specific markets. Such coverage includes property, liability, fire, flood, earthquake, environmental, terrorism, extended coverage and rental loss. We believe that our insurance coverage contains policy specifications and insured limits that are customary for similar properties, business activities and markets and we believe our properties are adequately insured. However, an uninsured loss could result in loss of capital investment and anticipated profits.

ITEM 1A. Risk Factors

Our operations and structure involve various risks that could adversely affect our financial condition, results of operations, distributable cash flow and the value of our common shares. These risks include, among others:

General Real Estate Risks

General economic conditions and other events or occurrences that affect areas in which our properties are geographically concentrated, such as California, may impact financial results.

We are exposed to the general economic conditions, the local, regional, national and international economic conditions and other events and occurrences that affect the markets in which we own properties. Our operating performance is further impacted by the economic conditions of the specific markets in which we have concentrations of properties. Approximately 29.5% of our North American properties (based on our investment before depreciation in our direct-owned portfolio) are located in California. Properties in California may be more susceptible to certain types of natural disasters, such as earthquakes, brush fires, flooding and mudslides, than properties located in other markets and a major natural disaster in California could have a material adverse effect on our operating results. We also have significant holdings in certain markets of our direct-owned portfolio located in Atlanta, Chicago, Dallas/Fort Worth,

New Jersey, Japan and the United Kingdom. Our operating performance could be adversely affected if conditions become less favorable in any of the markets in which we have a concentration of properties. Conditions such as an oversupply of distribution space or a reduction in demand for distribution space may impact operating conditions. Any material oversupply of distribution space or material reduction in demand for distribution space could adversely affect our results of operations, distributable cash flow and the value of our securities. In addition,

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the property funds in which we have an ownership interest have concentrations of properties in the same markets.

Real property investments are subject to risks that could adversely affect our business.

Real property investments are subject to varying degrees of risk. While we seek to minimize these risks through geographic diversification of our portfolio, market research and our property management capabilities, these risks cannot be eliminated. Some of the factors that may affect real estate values include:

changes in the general economic climate;

local conditions, such as an oversupply of distribution space or a reduction in demand for distribution space in an area;

the attractiveness of our properties to potential customers;

competition from other available properties;

our ability to provide adequate maintenance of, and insurance on, our properties;

our ability to control rents and variable operating costs;

governmental regulations, including zoning, usage and tax laws and changes in these laws; and

potential liability under, and changes in, environmental, zoning and other laws.

Our investments are concentrated in the industrial distribution sector and our business would be adversely affected by an economic downturn in that sector or an unanticipated change in the supply chain dynamics.

Our investments in real estate assets are primarily concentrated in the industrial distribution sector. This concentration may expose us to the risk of economic downturns in this sector to a greater extent than if our business activities included a more significant portion of other sectors of the real estate industry.

Our real estate development strategies may not be successful.

We have developed a significant number of distribution properties since our inception and intend to continue to pursue development activities as opportunities arise. In addition, we currently own approximately 6,204 acres of land for potential future development of distribution properties and other commercial real estate projects. Such development activities generally require various government and other approvals and we may not receive such approvals. We will be subject to risks associated with such development activities including, but not limited to:

the risk that development opportunities explored by us may be abandoned and the related investment will be impaired;

the risk that we may not be able to obtain, or may experience delays in obtaining, all necessary zoning, building, occupancy and other governmental permits and authorizations;

the risk that we may not be able to obtain land on which to develop or that due to the increased cost of land, our activities may not be as profitable, especially in certain land constrained areas;

the risk that construction costs of a property may exceed the original estimates or that construction may not be concluded on schedule, making the project less profitable than originally estimated or not profitable at all; including the possibility of contract default, the effects of local weather conditions, the possibility of local or national strikes and the possibility of shortages in materials, building supplies or energy and fuel for equipment; and

the risk that occupancy levels and the rents that can be earned for a completed project will not be sufficient to make the project profitable.

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Our business strategy associated with contributing properties to property funds we manage or disposing of properties to third parties may not be successful.

We have contributed to property funds, or sold to third parties, a significant number of distribution properties in recent years and we intend to continue to contribute and sell properties as opportunities arise, particularly from our CDFS business segment, which is an integral part of our business strategy. Our ability to contribute or sell properties on advantageous terms is affected by competition from other owners of properties that are trying to dispose of their properties, current market conditions, including the capitalization rates applicable to our properties, and other factors beyond our control. Our ability to develop and timely lease properties will impact our ability to contribute or sell these properties. Continued access to debt and equity capital, in the private and public markets, by the property funds is necessary in order for us to continue our strategy of contributing properties to property funds. Should we not have sufficient properties available that meet the investment criteria of current or future property funds, or should the property funds have limited or no access to capital on favorable terms, then these contributions could be delayed resulting in adverse effects on our liquidity and on our ability to meet projected earnings levels in a particular reporting period. Failure to meet our projected earnings levels in a particular reporting period could have an adverse effect on our results of operations, distributable cash flow and on the value of our securities. Further, our inability to redeploy the proceeds from our divestitures in accordance with our investment strategy could have an adverse effect on our results of operations, distributable cash flow, our ability to meet our debt obligations in a timely manner and the value of our securities in subsequent periods.

Our growth will depend on future acquisitions of distribution properties, which involves risks that could adversely affect our operating results and the value of our securities.

We acquire distribution properties in both our property operations and CDFS business segments. The acquisition of properties involves risks, including the risk that the acquired property will not perform as anticipated and that any actual costs for rehabilitation, repositioning, renovation and improvements identified in the pre-acquisition due diligence process will exceed estimates. There is, and it is expected there will continue to be, significant competition for investment opportunities that meet our investment criteria as well as risks associated with obtaining financing for acquisition activities.

Our operating results and distributable cash flow will depend on the continued generation of lease revenues from customers.

Our operating results and distributable cash flow would be adversely affected if a significant number of our customers were unable to meet their lease obligations. We are also subject to the risk that, upon the expiration of leases for space located in our properties, leases may not be renewed by existing customers, the space may not be re-leased to new customers or the terms of renewal or re-leasing (including the cost of required renovations or concessions to customers) may be less favorable to us than current lease terms. In the event of default by a significant number of customers, we may experience delays and incur substantial costs in enforcing our rights as landlord. A customer may experience a downturn in its business, which may cause the loss of the customer or may weaken its financial condition, resulting in the customer's failure to make rental payments when due or requiring a restructuring that might reduce cash flow from the lease. In addition, a customer of any of our properties may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of such customer's lease and thereby cause a reduction in our available cash flow.

Our ability to renew leases or re-lease space on favorable terms as leases expire significantly affects our business.

Our results of operations, distributable cash flow and the value of our securities would be adversely affected if we were unable to lease, on economically favorable terms, a significant amount of space in our operating properties. We had 5.9 million square feet of distribution and retail space with leases that either expired on December 31, 2006 or were on a month-to-month basis at that date and we have 24.8 million square feet of distribution and retail space (out of a total of 175.7 million occupied square feet) with leases that expire in 2007 in our direct-owned properties. Our unconsolidated investees had a combined 3.4 million

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square feet of distribution space with leases that either expired on December 31, 2006 or were on a month-to-month basis at that date and a combined 19.5 million square feet of distribution space (out of a total of 177.8 million occupied square feet) with leases that expire in 2007. The number of distribution and retail properties in a market or submarket could adversely affect both our ability to re-lease the space and the rental rates that can be obtained in new leases.

The fact that real estate investments are not as liquid as other types of assets may reduce economic returns to investors.

Real estate investments are not as liquid as other types of investments and this lack of liquidity may limit our ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. Like other companies qualifying as REITs under the Code, we must comply with the safe harbor rules relating to the number of properties that can be disposed of in a year, the tax basis and the costs of improvements made to these properties, and meet other tests that enable a REIT to avoid punitive taxation on the sale of assets. Thus, our ability at any time to sell assets, or contribute assets to property funds or other entities in which we have an ownership interest may be restricted.

Our insurance coverage does not include all potential losses.

We and our unconsolidated investees currently carry comprehensive insurance coverage including property, liability, fire, flood, earthquake, environmental, terrorism, extended coverage and rental loss as appropriate for the markets where each of our properties and business operations are located. The insurance coverage contains policy specifications and insured limits customarily carried for similar properties, business activities and markets. We believe our properties and the properties of our unconsolidated investees, including the property funds, are adequately insured. However, there are certain losses, including losses from floods, earthquakes, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed economically feasible or prudent to do so. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of our properties, we could experience a significant loss of capital invested and potential revenues in these properties and could potentially remain obligated under any recourse debt associated with the property.

We are exposed to various environmental risks that may result in unanticipated losses that could affect our operating results and financial condition.

Under various federal, state and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances.

A majority of the properties we have acquired were subjected to environmental reviews either by us or by the predecessor owners. While some of these assessments have led to further investigation and sampling, none of the environmental assessments have resulted in the recognition of an environmental liability, other than as discussed below.

In connection with the Catellus Merger, we acquired certain properties in urban and industrial areas that may have been leased to or previously owned by commercial and industrial companies that discharged hazardous materials. In accordance with purchase accounting, we recorded a liability for the estimated costs of environmental remediation to be incurred in connection with certain operating properties acquired and properties previously sold by Catellus. This

liability was established to cover the environmental remediation costs, including cleanup costs, consulting fees for studies and investigations, monitoring costs and legal costs relating to cleanup, litigation defense, and the pursuit of responsible third parties. In addition, we may incur environmental remediation costs associated with certain land parcels we acquire in connection with the development of the land. We establish a liability at the time of acquisition to cover such costs. We purchase various environmental insurance policies to mitigate our exposure to environmental liabilities. We are not

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aware of any environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations.

We cannot give any assurance that other such conditions do not exist or may not arise in the future. The presence of such substances on our real estate investments could adversely affect our ability to sell such investments or to borrow using such investments as collateral and may also have an adverse effect on our distributable cash flow.

Risks Related to Financing and Capital

Our operating results and financial condition could be adversely affected if we do not continue to have access to capital.

As a REIT, we are required to distribute at least 90% of our taxable income to our shareholders. Consequently, we are, as are all REITs, largely dependent on external capital to fund our development and acquisition activities. We have been accessing debt and equity capital, in both the private and public markets, through the establishment of property funds that acquire our properties. Our ability to access capital through the property funds is dependent upon a number of factors, including general market conditions and competition from other real estate companies. Further, we generate significant profits as a result of the contributions of properties to the property funds. To the extent that capital is not available to the property funds to allow them to acquire our properties, these profits may not be realized or realization may be delayed, which could result in an earnings stream that is less predictable than some of our competitors and result in us not meeting our projected earnings and distributable cash flow levels in a particular reporting period. Our ability to contribute or sell properties from our development pipeline and recognize profits from our development activities will be jeopardized and our ability to meet projected earnings levels and generate distributable cash flow would be adversely affected should the existing equity commitments to the property funds not be available (due to investor default or otherwise) such that these property funds cannot acquire the properties that we expect to have available for contribution. This impact would occur in the short-term and would continue until we are able to sell the properties to third parties or until we could secure another source of capital to finance the properties. Failure to meet our projected earnings and distributable cash flow levels in a particular reporting period could have an adverse effect on our financial condition and on the market price of our securities.

Our operating results and financial condition could be adversely affected if we are unable to make required payments on our debt or are unable to refinance our debt.

We are subject to risks normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest. There can be no assurance that we will be able to refinance any maturing indebtedness, that such refinancing would be on terms as favorable as the terms of the maturing indebtedness, or otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flow and our financial condition would be adversely affected and we may lose the property securing such indebtedness. Our unsecured credit facilities bear interest at variable rates. Increases in interest rates would increase our interest expense under these agreements.

Covenants in our credit agreements could limit our flexibility and adversely affect our financial condition.

The terms of our various credit agreements and other indebtedness require us to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the

amount of our distributable cash flow and our financial condition would be adversely affected.

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Federal Income Tax Risks

Failure to qualify as a REIT could adversely affect our cash flows.

We have elected to be taxed as a REIT under the Code commencing with our taxable year ended December 31, 1993. In addition, we have a consolidated subsidiary that has elected to be taxed as a REIT and certain unconsolidated investees that are REITs, and are subject to all the risks pertaining to the REIT structure, discussed herein. To maintain REIT status, we must meet a number of highly technical requirements on a continuing basis. Those requirements seek to ensure, among other things, that the gross income and investments of a REIT are largely real estate related, that a REIT distributes substantially all of its ordinary taxable income to shareholders on a current basis and that the REIT's equity ownership is not overly concentrated. Due to the complex nature of these rules, the available guidance concerning interpretation of the rules, the importance of ongoing factual determinations and the possibility of adverse changes in the law, administrative interpretations of the law and changes in our business, no assurance can be given that we will qualify as a REIT for any particular year.

If we fail to qualify as a REIT, we will be taxed as a regular corporation, and distributions to shareholders will not be deductible in computing our taxable income. The resulting corporate income tax liabilities could materially reduce our cash flow and funds available for reinvestment. Moreover, we might not be able to elect to be treated as a REIT for the four taxable years after the year during which we ceased to qualify as a REIT. In addition, if we later requalified as a REIT, we might be required to pay a full corporate-level tax on any unrealized gains in our assets as of the date of requalification and to make distributions to our shareholders equal to any earnings accumulated during the period of non-REIT status.

Potential adverse effect of REIT distribution requirements could adversely affect our financial condition.

To maintain qualification as a REIT under the Code, a REIT must annually distribute to its shareholders at least 90% of its REIT taxable income, excluding the dividends paid deduction and our net capital gains. This requirement limits our ability to accumulate capital. We may not have sufficient cash or other liquid assets to meet the distribution requirements. Difficulties in meeting the distribution requirements might arise due to competing demands for our funds or to timing differences between tax reporting and cash receipts and disbursements, because income may have to be reported before cash is received, because expenses may have to be paid before a deduction is allowed or because deductions may be disallowed or limited, or the Internal Revenue Service (the IRS) may make a determination that adjusts reported income. In those situations, we might be required to borrow funds or sell properties on adverse terms in order to meet the distribution requirements and interest and penalties could apply which could adversely affect our financial condition. If we fail to make a required distribution, we would cease to be taxed as a REIT.

Prohibited transaction income could result from certain property transfers.

We contribute properties to property funds and sell properties to third parties from the REIT and from taxable REIT subsidiaries (TRS). Under the Code, a disposition of a property from other than a TRS could be deemed a prohibited transaction. In such case, a 100% penalty tax on the resulting gain could be assessed. The determination that a transaction constitutes a prohibited transaction is based on the facts and circumstances surrounding each transaction. The IRS could contend that certain contributions or sales of properties by us are prohibited transactions. While we do not believe the IRS would prevail in such a dispute, if the IRS successfully argued the matter, the 100% penalty tax could be assessed against the gains from these transactions. Additionally, any gain from a prohibited transaction may adversely affect our ability to satisfy the income tests for qualification as a REIT.

Liabilities recorded for pre-existing tax audits may not be sufficient.

We are subject to pending audits by the IRS and the California Franchise Tax Board of Catellus 1999 through 2002 income tax returns, including certain of its subsidiaries and partnerships. We have recorded an accrual that represents our best estimate of the liabilities that may arise from these audits. The audits may result in an adjustment in which the actual liabilities or settlement costs, including interest and potential

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penalties, if any, may prove to be more than the liability we have recorded. See Note 7 to our Consolidated Financial Statements in Item 8.

Uncertainties relating to Catellus' estimate of its earnings and profits attributable to C-corporation taxable years may have an adverse effect on our distributable cash flow.

In order to qualify as a REIT, a REIT cannot have at the end of any REIT taxable year any undistributed earnings and profits that are attributable to a C-corporation taxable year. A REIT has until the close of its first full taxable year as a REIT in which it has non-REIT earnings and profits to distribute these accumulated earnings and profits. Because Catellus' first full taxable year as a REIT was 2004, Catellus was required to distribute these earnings and profits prior to the end of 2004. Failure to meet this requirement would result in Catellus' disqualification as a REIT. Catellus distributed its accumulated non-REIT earnings and profits in December 2003, well in advance of the 2004 year-end deadline, and believed that this distribution was sufficient to distribute all of its non-REIT earnings and profits. However, the determination of non-REIT earnings and profits is complicated and depends upon facts with respect to which Catellus may have less than complete information or the application of the law governing earnings and profits, which is subject to differing interpretations, or both. Consequently, there are substantial uncertainties relating to the estimate of Catellus' non-REIT earnings and profits, and we cannot be assured that the earnings and profits distribution requirement has been met. These uncertainties include the possibility that the IRS could upon audit increase the taxable income of Catellus, which would increase the non-REIT earnings and profits of Catellus. There can be no assurances that we have satisfied the requirement that Catellus distribute all of its non-REIT earnings and profits by the close of its first taxable year as a REIT, and therefore, this may have an adverse effect on our distributable cash flow.

There are potential deferred and contingent tax liabilities that could affect our operating results or financial condition.

Palmtree Acquisition Corporation, our subsidiary that was the surviving corporation in the Catellus Merger, is subject to a federal corporate level tax at the highest regular corporate rate (currently 35%) and potential state taxes on any gain recognized within ten years of Catellus' conversion to a REIT from a disposition of any assets that Catellus held at the effective time of its election to be a REIT, but only to the extent of the built-in-gain based on the fair market value of those assets on the effective date of the REIT election (which was January 1, 2004). Gain from a sale of an asset occurring more than 10 years after the REIT conversion will not be subject to this corporate-level tax. We do not currently expect to dispose of any asset of the surviving corporation in the merger if such a disposition would result in the imposition of a material tax liability unless we can affect a tax-deferred exchange of the property. However, certain assets are subject to third party purchase options that may require us to sell such assets, and those assets may carry deferred tax liabilities that would be triggered on such sales. We have recorded deferred tax liabilities related to these built-in-gains. There can be no assurances that our plans in this regard will not change and, if such plans do change or if a purchase option is exercised, that we will be successful in structuring a tax-deferred exchange.

Other Risks

We are dependent on key personnel.

Our executive and other senior officers have a significant role in our success. Our ability to retain our management group or to attract suitable replacements should any members of the management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely affect our financial condition and cash flow. Further, such a loss could be negatively perceived in the capital markets.

Share prices may be affected by market interest rates.

The annual distribution rate on common shares as a percentage of our market price may influence the trading price of such common shares. An increase in market interest rates may lead investors to demand a higher annual distribution rate than we have set, which could adversely affect the value of our common shares.

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The depreciation in the value of the foreign currency in countries where we have a significant investment may adversely affect our results of operations and financial position.

We have pursued, and intend to continue to pursue, growth opportunities in international markets and often invest in countries where the U.S. dollar is not the national currency. As a result, we are subject to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. A significant depreciation in the value of the foreign currency of one or more countries where we have a significant investment may have a material adverse effect on our results of operations and financial position. Although we attempt to mitigate adverse effects by borrowing under debt agreements denominated in foreign currencies and through the use of derivative contracts, there can be no assurance that those attempts to mitigate foreign currency risk will be successful.

We are subject to governmental regulations and actions that affect operating results and financial condition.

Many laws and governmental regulations apply to us, our unconsolidated investees and our properties. Changes in these laws and governmental regulations, or their interpretation by agencies or the courts, could occur. Further, economic and political factors, including civil unrest, governmental changes and restrictions on the ability to own assets and transfer capital across borders in the countries in which we have invested, can have a major impact on us as a global company.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

We have directly invested in real estate assets that are primarily generic industrial distribution properties. In Japan, our distribution properties will generally be multi-level centers, which is common in Japan due to the high cost and limited availability of land. Our properties are typically used for storage, packaging, assembly, distribution and light manufacturing of consumer and industrial products. Based on the square footage of operating properties directly owned by us in our property operations segment at December 31, 2006, our properties are 99.5% distribution properties, including 92.0% of properties used for bulk distribution, 6.6% used for light manufacturing and assembly and 0.9% for other purposes, primarily service centers, while the remaining 0.5% of our properties are retail.

At December 31, 2006, we have direct ownership of 1,473 operating properties, including 1,446 distribution properties located in North America, Europe and Asia and 27 retail properties in North America. In North America, properties that are owned directly by us are located in 33 markets in 24 states and the District of Columbia in the United States, in 5 markets in Mexico and in 1 market in Canada. In Europe, the properties owned directly by us are located in 22 markets in 11 countries. In Asia, the properties that are owned directly by us are located in 6 markets in 4 countries.

Geographic Distribution

We define our markets based on the concentration of properties in a specific area. A market, as defined by us, can be a metropolitan area, a city, a subsection of a metropolitan area, a subsection of a city or a region of a state or country.

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The information in the following tables is as of December 31, 2006 for the operating properties, properties under development and land directly owned by us including 147 buildings owned by entities we consolidate but own less than 100%. All of the operating properties are included in our property operations segment, while properties under development and land are included in the CDFS business segment. No individual property or group of properties operating as a single business unit amounted to 10% or more of our consolidated total assets at December 31, 2006. No individual property or group of properties operating as a single business unit generated income equal to 10% or more of our consolidated gross revenues or total income for the year ended December 31, 2006. The table does not include properties that are owned by property funds or by our other unconsolidated investees which are discussed under Unconsolidated Investees.

| | No. of Bldgs. | Percentage Leased (1) | Rentable Square Footage | Investment Before Depreciation | Encumbrances (2) |
|---|--------------------------|----------------------------------|--|---|-------------------------|
| Operating properties owned in the property operations segment at December 31, 2006 (dollars and rentable square footage in thousands): | | | | | |
| Distribution properties: | | | | | |
| North America by Market (3): | | | | | |
| United States: | | | | | |
| Atlanta, Georgia | 83 | 89.52% | 11,728 | \$ 404,119 | \$ 33,715 |
| Austin, Texas | 24 | 100.00% | 1,532 | 61,810 | |
| Charlotte, North Carolina | 32 | 83.49% | 4,282 | 139,598 | 39,246 |
| Chicago, Illinois | 88 | 86.02% | 17,943 | 922,002 | 172,282 |
| Cincinnati, Ohio | 39 | 95.40% | 4,814 | 138,275 | 25,131 |
| Columbus, Ohio | 32 | 88.62% | 5,925 | 218,449 | 33,888 |
| Dallas/Fort Worth, Texas | 109 | 91.99% | 14,519 | 587,484 | 70,863 |
| Denver, Colorado | 35 | 94.97% | 5,562 | 259,356 | 71,609 |
| El Paso, Texas | 16 | 81.39% | 2,051 | 63,339 | 411 |
| Houston, Texas | 82 | 95.99% | 7,778 | 261,496 | |
| I-81 Corridor, Pennsylvania | 12 | 93.93% | 3,735 | 190,638 | 11,361 |
| Indianapolis, Indiana | 32 | 95.15% | 3,376 | 120,918 | |
| Las Vegas, Nevada | 18 | 88.01% | 2,314 | 108,405 | 11,354 |
| Louisville, Kentucky | 10 | 100.00% | 2,502 | 82,231 | 18,021 |
| Memphis, Tennessee | 42 | 79.93% | 6,170 | 170,704 | |
| Nashville, Tennessee | 38 | 91.62% | 4,093 | 109,779 | |
| New Jersey | 38 | 94.29% | 7,959 | 486,537 | 49,956 |
| Orlando, Florida | 20 | 96.01% | 1,902 | 80,821 | 3,341 |
| Phoenix, Arizona | 33 | 93.72% | 2,700 | 125,389 | 14,357 |
| Portland, Oregon | 28 | 92.77% | 2,451 | 139,287 | 23,678 |
| Reno, Nevada | 21 | 100.00% | 2,897 | 115,088 | |
| Salt Lake City, Utah | 5 | 83.56% | 853 | 31,605 | |

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| | | | | | |
|---|----|--------|-------|---------|--------|
| San Antonio, Texas | 54 | 90.37% | 4,408 | 149,597 | |
| San Diego, California | 13 | 96.97% | 188 | 26,176 | |
| San Francisco (Central Valley), California | 15 | 98.14% | 3,965 | 175,787 | 25,779 |
| San Francisco (East Bay), California | 57 | 98.69% | 4,901 | 307,540 | 96,053 |
| San Francisco (South Bay), California | 84 | 90.69% | 5,516 | 460,650 | 89,176 |

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| | No. of Bldgs. | Percentage Leased (1) | Rentable Square Footage | Investment Before Depreciation | Encumbrances (2) |
|--|--------------------------|----------------------------------|--|---|-------------------------|
| Seattle, Washington | 9 | 99.50% | 1,036 | \$ 46,851 | \$ 327 |
| South Florida | 14 | 98.37% | 1,288 | 78,884 | 6,928 |
| Southern California | 95 | 94.47% | 20,121 | 1,542,755 | 464,741 |
| St. Louis, Missouri | 13 | 90.00% | 1,252 | 42,020 | 4,457 |
| Tampa, Florida | 56 | 97.01% | 3,649 | 149,576 | 9,771 |
| Washington D.C./Baltimore, Maryland | 41 | 82.52% | 5,428 | 275,508 | 56,855 |
| Other | 7 | 97.94% | 1,514 | 35,292 | |
| Subtotal United States | 1,295 | 91.68% | 170,352 | 8,107,966 | 1,333,300 |
| Mexico: | | | | | |
| Guadalajara | 2 | 91.98% | 423 | 24,855 | |
| Juarez | 11 | 83.97% | 1,123 | 44,385 | |
| Mexico City | 20 | 91.28% | 3,093 | 175,447 | 72,776 |
| Monterrey | 6 | 88.40% | 576 | 20,299 | |
| Reynosa | 16 | 94.28% | 1,923 | 85,264 | |
| Subtotal Mexico | 55 | 90.75% | 7,138 | 350,250 | 72,776 |
| Canada Toronto | 3 | 81.25% | 988 | 62,120 | |
| Subtotal North America | 1,353 | 91.58% | 178,478 | 8,520,336 | 1,406,076 |
| Europe by Country (22 markets) (4): | | | | | |
| Belgium | 3 | 64.73% | 587 | 33,620 | |
| Czech Republic | 4 | 36.21% | 401 | 28,663 | |
| France | 13 | 46.83% | 3,552 | 190,510 | |
| Germany | 6 | 97.06% | 1,411 | 92,019 | |
| Hungary | 1 | 100.00% | 211 | 10,670 | |
| Italy | 6 | 19.83% | 1,774 | 107,287 | |
| Netherlands | 1 | 0.00% | 197 | 11,679 | |
| Poland | 15 | 73.02% | 3,474 | 160,040 | |
| Spain | 1 | 100.00% | 288 | 18,748 | |
| Sweden | 1 | 0.00% | 187 | 14,868 | |
| United Kingdom | 19 | 64.38% | 6,150 | 629,677 | |
| Subtotal Europe | 70 | 59.81% | 18,232 | 1,297,781 | |
| Asia by Country (6 markets) (5): | | | | | |
| China | 14 | 100.00% | 2,436 | 81,455 | |
| Japan | 7 | 93.79% | 4,139 | 496,782 | |

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| | | | | | | |
|---|--------------|---------------|----------------|----------------------|-----------|------------------|
| Korea | 1 | 23.98% | 134 | 14,315 | | |
| Singapore | 1 | 100.00% | 150 | 12,580 | | |
| Subtotal Asia | 23 | 94.77% | 6,859 | 605,132 | | |
| Total distribution properties | 1,446 | 88.85% | 203,569 | \$ 10,423,249 | \$ | 1,406,076 |
| Retail properties (4 markets) | 27 | 97.62% | 1,105 | \$ 305,188 | \$ | 27,597 |
| Total operating properties owned in the property operations segment at December 31, 2006 | 1,473 | 88.89% | 204,674 | \$ 10,728,437 | \$ | 1,433,673 |

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| | Land Held for | | No. of Bldgs. | Properties Under Development Rentable | | Total Expected Cost (6) |
|--|---------------|------------|---------------------|--|------------|-------------------------------|
| | Acreage | Investment | | Square Footage | Investment | |
| Land held for development and properties under development at December 31, 2006 (dollars and rentable square footage in thousands): | | | | | | |
| North America by Market: | | | | | | |
| United States: | | | | | | |
| Atlanta, Georgia | 489.4 | \$ 32,509 | | | \$ | \$ |
| Austin, Texas | 25.3 | 6,048 | 5 | 224 | 26,050 | 38,146 |
| Charlotte, North Carolina | 29.0 | 4,076 | | | | |
| Chicago, Illinois | 399.3 | 54,544 | 1 | 750 | 22,483 | 26,924 |
| Cincinnati, Ohio | 40.0 | 3,349 | 1 | 737 | 19,201 | 26,112 |
| Columbus, Ohio | 154.9 | 6,301 | 1 | 524 | 15,914 | 17,807 |
| Dallas / Fort Worth, Texas | 322.2 | 28,413 | 3 | 1,333 | 13,563 | 42,825 |
| Denver, Colorado | 17.0 | 2,101 | | | | |
| El Paso, Texas | 73.4 | 4,429 | | | | |
| Houston, Texas | 150.8 | 13,443 | 1 | 324 | 5,815 | 14,744 |
| I-81 Corridor, Pennsylvania | 278.5 | 32,237 | 1 | 930 | 12,735 | 46,841 |
| Indianapolis, Indiana | 92.7 | 5,021 | | | | |
| Las Vegas, Nevada | 2.1 | 275 | | | | |
| Louisville, Kentucky | 42.5 | 2,887 | 1 | 273 | 3,549 | 10,528 |
| Memphis, Tennessee | 159.5 | 12,658 | 2 | 978 | 7,706 | 32,244 |
| Nashville, Tennessee | 44.8 | 1,641 | | | | |
| New Jersey | 211.0 | 98,299 | 2 | 379 | 7,534 | 26,906 |
| Orlando, Florida | | | 1 | 112 | 5,666 | 5,797 |
| Portland, Oregon | 45.9 | 12,001 | 1 | 72 | 3,076 | 4,457 |
| Reno, Nevada | 6.2 | 577 | 1 | 602 | 11,861 | 24,110 |
| Salt Lake City, Utah | 9.6 | 216 | | | | |
| San Antonio, Texas | 7.7 | 497 | 4 | 285 | 3,608 | 14,860 |
| San Francisco (Central Valley), California | 996.7 | 31,186 | 2 | 692 | 3,279 | 35,132 |
| San Francisco (South Bay), California | 27.2 | 14,929 | | | | |
| Seattle, Washington | 10.6 | 2,309 | | | | |
| Southern California | 369.7 | 131,171 | 2 | 706 | 14,662 | 42,963 |
| South Florida | 17.5 | 10,933 | | | | |
| Tampa, Florida | 32.8 | 2,005 | 1 | 215 | 6,181 | 11,380 |
| Washington D.C./Baltimore, Maryland | 82.6 | 10,905 | 3 | 303 | 11,055 | 39,015 |
| Mexico: | | | | | | |
| Guadalajara | 58.5 | 17,973 | 1 | 224 | 3,334 | 10,665 |
| Juarez | 13.1 | 2,691 | 3 | 233 | 7,777 | 10,704 |

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| | | | | | | |
|--|---------|---------|----|--------|---------|---------|
| Mexico City | 111.8 | 37,202 | 2 | 633 | 19,612 | 34,582 |
| Monterrey | 193.9 | 28,822 | 2 | 314 | 7,463 | 14,143 |
| Reynosa | 114.8 | 9,665 | | | | |
| Canada Toronto | 16.6 | 6,676 | 3 | 814 | 24,186 | 67,003 |
| Subtotal North America | 4,647.6 | 627,989 | 44 | 11,657 | 256,310 | 597,888 |
| Europe by Country (19 total markets): | | | | | | |
| Belgium | 20.6 | 4,667 | | | | |
| Czech Republic | 73.3 | 15,805 | 2 | 554 | 9,798 | 39,914 |
| France | 186.2 | 24,343 | 2 | 473 | 14,066 | 25,498 |
| Germany | 54.7 | 22,368 | 4 | 699 | 40,898 | 66,482 |
| | | 26 | | | | |

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| | Land Held for | | No. of Bldgs. | Properties Under Development Rentable | | Total Expected Cost (6) |
|---|------------------------|---------------------|---------------------|--|-------------------|-------------------------------|
| | Development Acreage | Investment | | Square Footage | Investment | |
| Hungary | 103.9 | 11,947 | 3 | 595 | 13,738 | 35,255 |
| Italy | 80.4 | 30,133 | | | | |
| Netherlands | 8.1 | 3,671 | 3 | 667 | 19,454 | 46,122 |
| Poland | 98.8 | 37,311 | 17 | 3,595 | 86,856 | 226,588 |
| Romania | 114.7 | 19,145 | 2 | 578 | 19,419 | 33,747 |
| Spain | 61.6 | 16,456 | 2 | 612 | 6,167 | 30,034 |
| Sweden | | | 1 | 222 | 21,634 | 22,170 |
| United Kingdom | 594.5 | 345,920 | 9 | 2,335 | 157,422 | 318,149 |
| Subtotal Europe | 1,396.8 | 531,766 | 45 | 10,330 | 389,452 | 843,959 |
| Asia by Country (7 total markets): | | | | | | |
| China | 82.6 | 16,206 | 17 | 2,862 | 33,430 | 83,085 |
| Japan | 48.6 | 204,500 | 8 | 5,189 | 285,650 | 665,457 |
| Korea | 28.2 | 16,620 | | | | |
| Subtotal Asia | 159.4 | 237,326 | 25 | 8,051 | 319,080 | 748,542 |
| Total land held for development and properties under development in the CDFS business segment at December 31, 2006 | | | | | | |
| | 6,203.8 | \$ 1,397,081 | 114 | 30,038 | \$ 964,842 | \$ 2,190,389 |

The following is a summary of our direct-owned investments in real estate assets at December 31, 2006:

| | Investment Before Depreciation (in thousands) |
|---|--|
| Distribution properties (3)(4)(5) | \$ 10,423,249 |
| Retail properties | 305,188 |
| Land subject to ground leases and other (7) | 472,412 |
| Properties under development | 964,842 |
| Land held for development | 1,397,081 |
| Other investments (8) | 391,227 |
| Total | \$ 13,953,999 |

- (1) Represents the percentage leased at December 31, 2006. Operating properties at December 31, 2006 include recently completed development properties that may be in the initial lease-up phase, including 91 properties aggregating 25.3 million square feet that were completed in 2006. The inclusion of properties in the initial lease-up phase can reduce the overall leased percentage.
- (2) Certain properties are pledged as security under our secured debt and assessment bonds at December 31, 2006. For purposes of this table, the total principal balance of a debt issuance that is secured by a pool of properties is allocated among the properties in the pool based on each property's investment balance. In addition to the amounts reflected here, we also have \$45.3 million of encumbrances related to other real estate assets not included in the property operations segment. See Schedule III Real Estate and Accumulated Depreciation to our Consolidated Financial Statements in Item 8 for additional identification of the properties pledged.
- (3) In North America, includes 114 properties aggregating 25.4 million square feet at a total investment of \$1,190.7 million that were developed or acquired in the CDFS business segment and are pending contribution to a property fund or sale to a third party.

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- (4) In Europe, includes 69 properties aggregating 17.6 million square feet at a total investment of \$1,273.3 million that were developed or acquired in the CDFS business segment and are pending contribution to a property fund or sale to a third party.
- (5) In Asia, includes 22 properties aggregating 6.8 million square feet at a total investment of \$597.0 million that were developed or acquired in the CDFS business segment and are pending contribution to a property fund.
- (6) Represents the total expected cost at completion for properties under development, including the cost of land, fees, permits, payments to contractors, architectural and engineering fees and interest, project management costs and other appropriate costs to be capitalized during construction, rather than actual costs incurred to date.
- (7) Amounts represent investments of \$422.7 million in land subject to ground leases, \$20.0 million in office properties and an investment of \$29.7 million in railway depots.
- (8) Other investments primarily include: (i) restricted funds that are held in escrow pending the completion of tax-deferred exchange transactions involving operating properties; (ii) earnest money deposits associated with potential acquisitions; (iii) costs incurred during the pre-acquisition due diligence process; (iv) costs incurred during the pre-construction phase related to future development projects, including purchase options on land and certain infrastructure costs; and (v) costs related to our corporate office buildings.

Unconsolidated Investees

At December 31, 2006, our investments in and advances to unconsolidated investees totaled \$1.3 billion. Our investments in and advances to property funds in the fund management segment totaled \$981.8 million at December 31, 2006. Our investments in and advances to CDFS joint ventures operating in the CDFS business segment totaled \$203.3 million at December 31, 2006 and our investments in other unconsolidated investees totaled \$114.5 million at December 31, 2006.

Table of Contents*Property Funds*

At December 31, 2006, we had ownership interests ranging from 11.3% to 50% in 13 property funds that are presented under the equity method. The property funds primarily own operating properties and our investments in the property funds are included in our fund management segment. We act as manager of each property fund. The information provided in the table below (dollars and square footage in thousands) is for the total entity in which we have an ownership interest, not just our proportionate share. See Item 1. Business and Note 4 to our Consolidated Financial Statements in Item 8.

| | No. of Bldgs. | No. of Markets | Rentable Square Footage | Percentage Leased | Entity s Investment (1) |
|---|--------------------------|---------------------------|--|------------------------------|------------------------------------|
| North America: | | | | | |
| ProLogis California | 81 | 1 | 14,211 | 99.01% | \$ 695,447 |
| ProLogis North American Properties Fund I | 36 | 16 | 9,406 | 95.52% | 381,206 |
| ProLogis North American Properties Fund V | 154 | 31 | 36,106 | 97.59% | 1,531,045 |
| ProLogis North American Properties Fund VI | 22 | 7 | 8,648 | 96.62% | 512,172 |
| ProLogis North American Properties Fund VII | 29 | 8 | 6,055 | 86.10% | 388,832 |
| ProLogis North American Properties Fund VIII | 24 | 9 | 3,064 | 93.94% | 191,825 |
| ProLogis North American Properties Fund IX | 20 | 7 | 3,439 | 92.01% | 194,351 |
| ProLogis North American Properties Fund X | 29 | 10 | 4,191 | 79.54% | 220,022 |
| ProLogis North American Properties Fund XI | 14 | 3 | 4,315 | 98.78% | 230,402 |
| ProLogis North American Industrial Fund | 126 | 27 | 21,218 | 98.48% | 1,200,655 |
| Total North America | 535 | 37 (2) | 110,653 | 96.15% | 5,545,957 |
| Europe: | | | | | |
| ProLogis European Properties | 277 | 27 | 58,114 | 96.90% | 4,826,246 |
| Asia: | | | | | |
| ProLogis Japan Properties Fund I | 18 | 3 | 7,424 | 99.45% | 1,183,701 |
| ProLogis Japan Properties Fund II | 13 | 4 | 5,082 | 99.86% | 718,366 |
| Total Asia | 31 | 5 (3) | 12,506 | 99.62% | 1,902,067 |
| Total property funds | 843 | 69 | 181,273 | 96.63% | \$ 12,274,270 |

(1)

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Investment represents 100% of the carrying value of the properties, before depreciation, of each entity at December 31, 2006, except with respect to ProLogis North American Properties Fund XI. We acquired our ownership interest in this entity in 2004, and therefore, in accordance with purchase accounting, the investment represents 100% of the fair value of the operating properties owned by these entities at that time, adjusted for subsequent activity.

- (2) Represents the total number of markets in North America on a combined basis.
- (3) Represents the total number of markets in Asia on a combined basis.

Table of Contents*CDFS joint ventures*

At December 31, 2006, we had ownership interests in several entities that perform CDFS business activities and are presented under the equity method. These entities develop and invest in distribution properties, retail properties and residential development in North America, Europe and China. On a combined basis, these entities own 32 completed distribution properties and have four distribution properties under development. The information provided in the table below (dollars in thousands) is for the total entity in which we have an ownership interest, not just our proportionate share, as of December 31, 2006.

| | Effective Weighted Ownership Percentage | Total Assets | Third Party Debt |
|--------------------------------------|--|---------------------|-----------------------------|
| Industrial CDFS Joint Ventures: | | | |
| North America | 50% | \$ 66,595 | \$ 12,568 |
| Europe | 50% | 18,708 | |
| Asia | 50% | 179,590 | |
| Total Industrial CDFS Joint Ventures | | \$ 264,893 | \$ 12,568 |

| | Type of Real Estate | Effective Weighted Ownership Percentage | Total Assets | Third Party Debt |
|--|--------------------------------|--|---------------------|-----------------------------|
| Non-Industrial CDFS Joint Ventures: | | | | |
| North America | Residential | 50% | \$ 107,438 | \$ 5,878 |
| Asia | Retail | 30% | 549,338 | 410,872 |
| Total Non-Industrial CDFS Joint Ventures | | | \$ 656,776 | \$ 416,750 |

See Note 4 to our Consolidated Financial Statements in Item 8 for additional information.

ITEM 3. Legal Proceedings

From time to time, we and our unconsolidated investees are parties to a variety of legal proceedings arising in the ordinary course of business. We believe that, with respect to any such matters that we are currently a party to, the ultimate disposition of any such matter will not result in a material adverse effect on our business, financial position or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Table of Contents**PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information and Holders**

Our common shares are listed on the NYSE under the symbol **PLD**. The following table sets forth the high and low sale prices, as reported in the NYSE Composite Tape, and distributions per common share, for the periods indicated.

| | High Sale Price | Low Sale Price | Per Common Share Distribution |
|-------------------------------------|----------------------------|---------------------------|--|
| 2005: | | | |
| First Quarter | \$ 43.50 | \$ 36.67 | \$ 0.37 |
| Second Quarter | 42.34 | 36.50 | 0.37 |
| Third Quarter | 46.41 | 40.12 | 0.37 |
| Fourth Quarter | 47.61 | 39.81 | 0.37 |
| 2006: | | | |
| First Quarter | 56.31 | 46.29 | 0.40 |
| Second Quarter | 53.85 | 46.66 | 0.40 |
| Third Quarter | 58.86 | 52.05 | 0.40 |
| Fourth Quarter | 65.81 | 56.07 | 0.40 |
| 2007: | | | |
| First Quarter (through February 22) | \$ 71.64 | \$ 59.02 | \$ 0.46 |

On February 22, 2007, we had approximately 256,237,200 common shares outstanding, which were held of record by approximately 10,000 shareholders.

Distributions and Dividends

In order to comply with the REIT requirements of the Code, we are generally required to make common share distributions and preferred share dividends (other than capital gain distributions) to our shareholders in amounts that together at least equal (i) the sum of (a) 90% of our REIT taxable income computed without regard to the dividends paid deduction and net capital gains and (b) 90% of the net income (after tax), if any, from foreclosure property, minus (ii) certain excess non-cash income. Our common share distribution policy is to distribute a percentage of our cash flow that ensures that we will meet the distribution requirements of the Code and that allows us to maximize the cash retained to meet other cash needs, such as capital improvements and other investment activities.

We announce the following year's projected annual common share distribution level after the Board performs its annual budget review and approves a common share distribution level, generally in December of each year. In December 2006, the Board announced an increase in the annual distribution level for 2007 from \$1.60 to \$1.84 per common share. The payment of common share distributions is subject to the discretion of the Board, is dependent on our financial condition and operating results and may be adjusted at the discretion of the Board during the year.

In addition to common shares, we have issued cumulative redeemable preferred shares of beneficial interest. At December 31, 2006, we had three series of preferred shares outstanding (Series C Preferred Shares , Series F Preferred Shares and Series G Preferred Shares). Holders of each series of preferred shares outstanding have limited voting rights, subject to certain conditions, and are entitled to receive cumulative preferential dividends based upon each series' respective liquidation preference. Such dividends are payable quarterly in arrears on the last day of March, June, September and December. Dividends on preferred shares are payable when, and if, they have been declared by the Board, out of funds legally available for payment of dividends. After the respective redemption dates, each series of preferred shares can be redeemed

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at our option. The cash redemption price (other than the portion consisting of accrued and unpaid dividends) with respect to Series C Preferred Shares is payable solely out of the cumulative sales proceeds of other capital shares of ours, which may include shares of other series of preferred shares. With respect to the payment of dividends, each series of preferred shares ranks on parity with our other series of preferred shares. Annual per share dividends paid on each series of preferred shares were as follows for the periods indicated:

| | Years Ended December 31, | |
|---------------------------|-------------------------------------|-------------|
| | 2006 | 2005 |
| Series C Preferred Shares | \$ 4.27 | \$ 4.27 |
| Series F Preferred Shares | \$ 1.69 | \$ 1.69 |
| Series G Preferred Shares | \$ 1.69 | \$ 1.69 |

Pursuant to the terms of our preferred shares, we are restricted from declaring or paying any distribution with respect to our common shares unless and until all cumulative dividends with respect to the preferred shares have been paid and sufficient funds have been set aside for dividends that have been declared for the then-current dividend period with respect to the preferred shares.

For more information regarding our distributions and dividends, see Note 9 to our Consolidated Financial Statements in Item 8.

Securities Authorized for Issuance Under Equity Compensation Plans

For information regarding securities authorized for issuance under our equity compensation plans see Notes 5 and 14 to our Consolidated Financial Statements in Item 8.

Other Shareholder Matters*Other Issuances of Common Shares*

In 2006, we issued 180,000 common shares, upon exchange of limited partnership units in our majority-owned and consolidated real estate partnerships. These common shares were issued in transactions exempt from registration under Section 4(2) of the Securities Act of 1933.

Common Share Plans

We have approximately \$84.1 million remaining on our Board authorization to repurchase common shares that began in 2001. We have not repurchased our common shares since 2003.

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, for further information relative to our equity compensation plans.

Table of Contents**ITEM 6. Selected Financial Data**

The following table sets forth selected financial data relating to our historical financial condition and results of operations for 2006 and the four preceding years. Certain amounts for the years prior to 2006 presented in the table below have been reclassified to conform to the 2006 financial statement presentation and to reflect discontinued operations. The amounts in the table below are in millions, except for per share amounts.

| | Years Ended December 31, | | | | |
|---|---------------------------------|-----------------|-------------|-------------|-------------|
| | 2006 | 2005 (1) | 2004 | 2003 | 2002 |
| Operating Data: | | | | | |
| Total revenues | \$ 2,464 | \$ 1,834 | \$ 1,852 | \$ 1,457 | \$ 1,489 |
| Total expenses | \$ 1,699 | \$ 1,404 | \$ 1,502 | \$ 1,129 | \$ 1,137 |
| Operating income | \$ 765 | \$ 430 | \$ 350 | \$ 328 | \$ 352 |
| Interest expense | \$ 294 | \$ 178 | \$ 153 | \$ 154 | \$ 152 |
| Earnings from continuing operations | \$ 718 | \$ 306 | \$ 220 | \$ 237 | \$ 235 |
| Discontinued operations (2) | \$ 156 | \$ 90 | \$ 13 | \$ 14 | \$ 8 |
| Net earnings | \$ 874 | \$ 396 | \$ 233 | \$ 251 | \$ 243 |
| Net earnings attributable to common shares | \$ 849 | \$ 371 | \$ 203 | \$ 212 | \$ 216 |
| Net earnings per share attributable to common shares Basic: | | | | | |
| Continuing operations | \$ 2.81 | \$ 1.38 | \$ 1.04 | \$ 1.10 | \$ 1.10 |
| Discontinued operations | 0.64 | 0.44 | 0.07 | 0.08 | 0.04 |
| Net earnings per share attributable to common shares Basic | \$ 3.45 | \$ 1.82 | \$ 1.11 | \$ 1.18 | \$ 1.14 |
| Net earnings per share attributable to common shares Diluted: | | | | | |
| Continuing operations | \$ 2.71 | \$ 1.34 | \$ 1.02 | \$ 1.09 | \$ 0.81 |
| Discontinued operations | 0.61 | 0.42 | 0.06 | 0.07 | 0.03 |
| Net earnings per share attributable to common shares Diluted | \$ 3.32 | \$ 1.76 | \$ 1.08 | \$ 1.16 | \$ 0.84 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 246 | 203 | 182 | 179 | 178 |
| Diluted | 257 | 214 | 192 | 187 | 185 |
| Common Share Distributions: | | | | | |
| Common share cash distributions paid | \$ 393 | \$ 297 | \$ 266 | \$ 258 | \$ 252 |
| Common share distributions paid per share | \$ 1.60 | \$ 1.48 | \$ 1.46 | \$ 1.44 | \$ 1.42 |
| FFO (3): | | | | | |
| Reconciliation of net earnings to FFO: | | | | | |
| Net earnings attributable to common shares | \$ 849 | \$ 371 | \$ 203 | \$ 212 | \$ 216 |
| Total NAREIT defined adjustments | 149 | 161 | 196 | 159 | 178 |

| | | | | | |
|---|------------|------------|----------|----------|----------|
| Total our defined adjustments | (53) | (2) | 1 | 29 | (1) |
| FFO attributable to common shares as defined by us | \$ 945 | \$ 530 | \$ 400 | \$ 400 | \$ 393 |
| Cash Flow Data: | | | | | |
| Net cash provided by operating activities | \$ 721 | \$ 499 | \$ 516 | \$ 367 | \$ 441 |
| Net cash used in investing activities | \$ (2,103) | \$ (2,233) | \$ (652) | \$ (115) | \$ (159) |
| Net cash provided by (used in) financing activities | \$ 1,645 | \$ 1,713 | \$ 37 | \$ (31) | \$ (200) |

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| | 2006 | 2005 (1) | December 31, 2004 | 2003 | 2002 |
|---|-----------|-----------|----------------------|----------|----------|
| Financial Position: | | | | | |
| Real estate owned, excluding land held for development, before depreciation | \$ 12,557 | \$ 10,830 | \$ 5,738 | \$ 5,343 | \$ 5,009 |
| Land held for development | \$ 1,397 | \$ 1,045 | \$ 596 | \$ 511 | \$ 387 |
| Investments in and advances to unconsolidated investees | \$ 1,300 | \$ 1,050 | \$ 909 | \$ 677 | \$ 809 |
| Total assets | \$ 15,904 | \$ 13,126 | \$ 7,098 | \$ 6,367 | \$ 5,911 |
| Total debt | \$ 8,387 | \$ 6,678 | \$ 3,414 | \$ 2,991 | \$ 2,732 |
| Total liabilities | \$ 9,453 | \$ 7,580 | \$ 3,929 | \$ 3,271 | \$ 2,995 |
| Minority interest | \$ 52 | \$ 58 | \$ 67 | \$ 37 | \$ 42 |
| Total shareholders' equity | \$ 6,399 | \$ 5,488 | \$ 3,102 | \$ 3,059 | \$ 2,874 |
| Number of common shares outstanding | 251 | 244 | 186 | 180 | 178 |

- (1) On September 15, 2005, we completed the Catellus Merger with an aggregate purchase price of \$5.3 billion. See Note 3 to our Consolidated Financial Statements in Item 8 for additional information.
- (2) Discontinued operations include income attributable to assets disposed of and net gains recognized on the disposition of assets to third parties. See Note 8 to our Consolidated Financial Statements in Item 8 for additional information. Amounts are net of losses related to temperature controlled distribution assets of \$25.2 million and \$36.7 million in 2005 and 2004, respectively.
- (3) Funds from operations (FFO) is a non-U.S. generally accepted accounting principle (GAAP) measure that is commonly used in the real estate industry. The most directly comparable GAAP measure to FFO is net earnings. Although the National Association of Real Estate Investment Trusts (NAREIT) has published a definition of FFO, modifications to the NAREIT calculation of FFO are common among REITs, as companies seek to provide financial measures that meaningfully reflect their business. FFO, as we define it, is presented as a supplemental financial measure. FFO is not used by us as, nor should it be considered to be, an alternative to net earnings computed under GAAP as an indicator of our operating performance or as an alternative to cash from operating activities computed under GAAP as an indicator of our ability to fund our cash needs.

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor do we intend it to present, a complete picture of our financial condition and operating performance. We believe net earnings computed under GAAP remains the primary measure of performance and that FFO is only meaningful when it is used in conjunction with net earnings computed under GAAP. Further, we believe that our consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of our financial condition and our operating performance.

At the same time that NAREIT created and defined its FFO concept for the REIT industry, it also recognized that management of each of its member companies has the responsibility and authority to publish financial information that it regards as useful to the financial community. We believe that financial analysts, potential investors and shareholders who review our operating results are best served by a defined FFO measure that includes other adjustments to net earnings computed under GAAP in addition to those included in the NAREIT defined measure of FFO. Our FFO measure is discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Funds From Operations .

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with our Consolidated Financial Statements included in Item 8 of this report and the matters described under Item 1A. Risk Factors .

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Management's Overview

We are a self-administered and self-managed REIT that operates a global network of real estate properties, primarily industrial distribution properties. The primary business drivers across the globe continue to be the need for greater distribution network efficiency and the growing focus on global trade. Our focus on our customers' expanding needs has enabled us to become the world's largest owner, manager and developer of industrial distribution facilities.

Our business is organized into three reportable business segments: (i) property operations, (ii) fund management and (iii) CDFS business. Our property operations segment represents the direct long-term ownership of distribution and retail properties. Our fund management segment represents the long-term investment management of property funds and the properties they own. Our CDFS business segment primarily encompasses our development or acquisition of real estate properties that are rehabilitated and/or repositioned and subsequently contributed to a property fund in which we have an ownership interest and act as manager, or sold to third parties.

We generate and seek to increase revenues, earnings, FFO and cash flows through our segments primarily as follows:

Property Operations Segment

We earn rent from our customers under long-term operating leases, including reimbursements of certain operating costs, in our distribution and retail properties that we own directly in North America, Europe and Asia. We expect to grow our revenue through the selective acquisition of properties and increases in occupancy rates and rental rates in our existing properties. Our strategy is to achieve these increases in occupancy and rental rates primarily through continued focus on our customers' global needs for distribution space in the three continents in which we operate and use of the ProLogis Operating System.

Fund Management Segment

We recognize our proportionate share of the earnings or losses from our investments in unconsolidated property funds operating in North America, Europe and Asia. Along with the income recognized under the equity method, we include fees and incentives earned for services performed on behalf of the property funds and interest earned on advances to the property funds in this segment. We earn fees for services provided to the property funds, such as property management, asset management, acquisition, financing and development fees. We may earn incentives based on the return provided to the fund partners. We expect growth in income recognized to come from newly created property funds and growth in existing property funds. The growth in the existing property funds is expected to come primarily from additional properties the funds will acquire, generally from us, and increased rental revenues in the property funds due, in part, to our leasing and property management efforts from our property operations segment.

CDFS Business Segment

We recognize income primarily from the contributions of developed, rehabilitated and repositioned properties to the property funds and from dispositions to third parties. In addition, we: (i) earn fees from our customers or other third parties for development activities that we provide on their behalf; (ii) recognize interest income on notes receivable related to asset dispositions; (iii) recognize net gains from the disposition of land parcels; and (iv) recognize our proportionate share of the earnings or losses generated by development joint ventures in which we have an investment. We expect increases in this segment to come primarily from the continued development of high-quality distribution and retail properties in our key markets in North America, Europe and

Asia, resulting in the contribution to property funds or sale to third parties. In addition, we expect to increase our land and other mixed-use development activities for development management fees and sales to third parties.

Table of Contents*Summary of 2006*

The fundamentals of our business continued to be strong in 2006. We increased our net operating income from our property operations segment to \$660.3 million for the year ended December 31, 2006 from \$430.3 million in 2005. The increase was primarily a result of the growth in our direct-owned operating portfolio, as well as an increase in same store net operating income (as defined below) for assets we own directly. Our direct-owned operating portfolio increased due to the Catellus Merger, completed at the end of the third quarter of 2005, individual and portfolio acquisitions and increased development activity, offset partially by dispositions. See Note 18 to our Consolidated Financial Statements in Item 8 for a reconciliation of net operating income to earnings before minority interest.

We increased our total operating portfolio of distribution and retail properties owned or managed, including direct-owned properties, and distribution properties owned by the property funds and CDFS joint ventures, to 391.4 million square feet at December 31, 2006 from 349.7 million square feet at December 31, 2005. Our stabilized leased percentage (as defined below) was 95.3% at December 31, 2006, compared with 94.5% at December 31, 2005. Our same store net operating income increased by 3.1% in 2006 over 2005 and our same store average occupancy increased by 2.6% for the year ended December 31, 2006 as compared to 2005. Same store rent growth was a positive 2.6% in 2006, compared with a negative 1.5% in 2005.

We increased our net operating income from the fund management segment to \$305.0 million for the year ended December 31, 2006 from \$113.0 million for 2005. In 2006, two significant transactions in our fund management segment contributed \$168.3 million to net operating income. Early in 2006, we acquired our partner's interests in each of ProLogis North American Properties Funds II, III and IV (Funds II-IV) and subsequently contributed substantially all of the assets and associated liabilities to the recently created North American Industrial Fund, and in September 2006, we completed the initial public offering of PEPR. Both of these transactions are discussed in more detail below. In addition, there was an increase in the properties managed by us on behalf of the property funds from 752 properties at December 31, 2005 to 843 properties at December 31, 2006.

Net operating income of the CDFS business segment increased in the year ended December 31, 2006 to \$379.5 million, as compared to \$252.6 million in 2005, due primarily to increased levels of dispositions brought about by increased development activity and earnings from CDFS joint ventures, as well as increases in development management fees and interest income. During 2006, we started development on projects with a total expected cost at completion of \$2.5 billion and completed development projects with a total expected cost of \$2.2 billion. This compares with 2005 when we started development projects with a total expected cost at completion of \$2.1 billion and completed development projects with a total expected cost of \$1.4 billion.

Key Transactions in 2006

In September 2006, PEPR completed an IPO on the Euronext Amsterdam stock exchange in which the selling unitholders offered 49.8 million ordinary units. As the manager of the property fund, we were entitled to an incentive return based on the internal rate of return that the pre-IPO unitholders earned. The final incentive return was determined and recognized in the fourth quarter of 2006 as \$109.2 million. The return was paid to us by an initial allocation of ordinary units, which increased our investment by \$68.6 million and our ownership interest to 24.0%, with the balance received in cash. In addition, we were previously obligated to the pre-IPO unitholders of PEPR under a tax indemnification agreement related to properties contributed to PEPR prior to its IPO. Based on the average closing price of the ordinary units of PEPR during the 30-day post-IPO period, we are no longer obligated for indemnification with respect to those properties. Therefore, we recognized a deferred tax benefit of \$36.8 million related to the reversal of this obligation in the fourth quarter of 2006.

During 2006, we generated net proceeds of \$1.3 billion from contributions of CDFS properties and sales of land, excluding discontinued operations. This includes contributions to our recently formed property funds in Japan and North America and is after deferral of \$65.5 million of gains due to our continuing ownership in the property funds.

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We generated net proceeds of \$176.0 million, after deferral of \$18.6 million of gains, and recognized net gains of \$81.5 million on the contribution of 39 non-CDFS properties to two of the property funds in 2006.

During 2006, we disposed of 89 CDFS and non-CDFS properties to third parties that are included in discontinued operations, which generated net proceeds of \$777.5 million and resulted in the recognition of \$137.2 million of gains.

We acquired 13.5 million square feet of operating properties for an aggregate purchase price of \$735.4 million, primarily to be rehabilitated and/or repositioned for future contribution to a property fund or, in certain circumstances, to be held by us for long-term investment.

In 2006, we started development on projects with a total expected cost at completion of \$2.5 billion and completed development projects with a total expected cost of \$2.2 billion. We also acquired 2,242 acres of land for future development for \$812.6 million.

On January 4, 2006, we purchased the 80% ownership interests in Funds II-IV held by our fund partner. In March 2006, we contributed substantially all of the assets and associated liabilities we obtained in this acquisition to the North American Industrial Fund. In connection with this transaction, we recognized \$59.1 million and \$12.5 million of income in our fund management and CDFS business segments, respectively. See further discussion below and in Note 4 to our Consolidated Financial Statements in Item 8.

We invested \$74.1 million in CDFS joint ventures operating in North America and Asia. These joint ventures primarily develop and operate distribution and retail properties.

During 2006, we issued \$1.9 billion of senior and other notes.

In June 2006, we increased our borrowing capacity on our global senior credit facility (Global Line) from \$2.6 billion to \$3.4 billion.

Our Board approved an increase in our annual distribution in 2007 to \$1.84 per common share, from \$1.60 per common share, or an increase of 15.0%. The common share distribution is declared quarterly and may be adjusted at the discretion of the Board.

Critical Accounting Policies

A critical accounting policy is one that is both important to the portrayal of an entity's financial condition and results of operations and requires judgment on the part of management. Generally, the judgment requires management to make estimates about the effect of matters that are inherently uncertain. Estimates are prepared using management's best judgment, after considering past and current economic conditions. Changes in estimates could affect our financial position and specific items in our results of operations that are used by shareholders, potential investors, industry analysts and lenders in their evaluation of our performance. Of the accounting policies discussed in Note 2 to our Consolidated Financial Statements in Item 8, those presented below have been identified by us as critical accounting policies.

Revenue Recognition

We recognize gains from the contributions and sales of real estate assets, generally at the time the title is transferred and we have no future involvement as a direct owner of the real estate asset contributed or sold. In many of our transactions, an entity in which we have an ownership interest will acquire a real estate asset from us. We make

judgments based on the specific terms of each transaction as to the amount of the total profit from the transaction that we recognize given our continuing ownership interest and our level of future involvement with the investee that acquires the assets. We also make judgments regarding the timing of recognition of certain fees and incentive when they are fixed and determinable.

Business Combinations

We acquire individual properties, as well as portfolios of properties or businesses. When we acquire a property for investment purposes, we allocate the purchase price to the various components of the acquisition based upon the fair value of each component. The components typically include land, building, debt and other

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assumed liabilities, and intangible assets related to above and below market leases, value of costs to obtain tenants and goodwill, deferred tax liabilities and other assets and liabilities in the case of an acquisition of a business. In an acquisition of multiple properties, we must also allocate the purchase price among the properties. The allocation of the purchase price is based on our assessment of expected future cash flows of the property and various characteristics of the markets where the property is located. The initial allocation of the purchase price is based on management's preliminary assessment, which may differ when final information becomes available. Subsequent adjustments made to the initial purchase price allocation are made within the allocation period, which typically does not exceed one year.

Consolidation

Our consolidated financial statements include the accounts of ProLogis and all entities that we control, either through ownership of a majority voting interest or as the general partner, and variable interest entities when we are the primary beneficiary. Investments in entities in which we do not control but over which we have the ability to exercise significant influence over operating and financial policies are presented under the equity method. Investments in entities that we do not control and over which we do not exercise significant influence are carried at the lower of cost or fair value, as appropriate. Our judgment with respect to our level of influence or control of an entity and whether we are the primary beneficiary of a variable interest entity involve the consideration of various factors including the form of our ownership interest, our representation on the entity's governing body, the size of our investment (including loans), estimates of future cash flows, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the venture, if applicable. Our ability to correctly assess our influence or control over an entity affects the presentation of these investments in our consolidated financial statements.

Capitalization of Costs and Depreciation

We capitalize costs incurred in developing, renovating, acquiring and rehabilitating real estate assets as part of the investment basis. Costs incurred in making certain other improvements are also capitalized. During the land development and construction periods, we capitalize interest costs, insurance, real estate taxes and certain general and administrative costs of the personnel performing development, renovations, rehabilitation and leasing activities if such costs are incremental and identifiable to a specific activity. Capitalized costs are included in the investment basis of real estate assets except for the costs capitalized related to leasing activities, which are presented as a component of other assets. We estimate the depreciable portion of our real estate assets and related useful lives in order to record depreciation expense. We generally do not depreciate properties during the period from the completion of the development, rehabilitation or repositioning activities through the date the properties are contributed or sold. Our ability to accurately assess the properties to depreciate and to estimate the depreciable portions of our real estate assets and useful lives is critical to the determination of the appropriate amount of depreciation expense recorded and the carrying value of the underlying assets. Any change to the assets to be depreciated and the estimated depreciable lives of these assets would have an impact on the depreciation expense recognized.

Impairment of Long-Lived Assets

We assess the carrying value of our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable and, with respect to goodwill, at least annually applying a fair-value-based test. The determination of the fair value of long-lived assets, including goodwill, involves significant judgment. This judgment is based on our analysis and estimates of the future operating results and resulting cash flows of each long-lived asset. Our ability to accurately predict future operating results and cash flows affects the determination of fair value.

If there is a decline in the fair value of a long-lived asset or a history of the asset generating operating losses, we determine whether the operating losses associated with the asset will continue. Our assessment as to the nature of a decline in fair value is primarily based on estimates of future operating results, the resulting

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cash flows and our intent to either hold or dispose of the long-lived asset. If an investment is considered impaired, an impairment charge is recognized based on these analyses.

Income Taxes

As part of the process of preparing our consolidated financial statements, significant management judgment is required to estimate our current income tax liability, the liability associated with open tax years that are under review and our compliance with REIT requirements. Our estimates are based on interpretation of tax laws. We estimate our actual current income tax due and assess temporary differences resulting from differing treatment of items for book and tax purposes resulting in the recognition of deferred income tax assets and liabilities. These estimates may have an impact on the income tax expense recognized. Adjustments may be required by a change in assessment of our deferred income tax assets and liabilities, changes in assessments of the recognition of income tax benefits for certain non-routine transactions, changes due to audit adjustments by federal and state tax authorities, our inability to qualify as a REIT, the potential for built-in-gain recognition, changes in the assessment of properties to be contributed to TRSs and changes in tax laws. Adjustments required in any given period are included within the income tax provision in the statements of earnings, other than adjustments to income tax liabilities acquired in a business combination, which are adjusted to goodwill.

Results of Operations

Information for the years ended December 31, regarding net earnings attributable to common shares was as follows:

| | 2006 | December 31, 2005 | 2004 |
|--|-------------|------------------------------|-------------|
| Net earnings attributable to common shares (in millions) | \$ 849.0 | \$ 370.7 | \$ 202.8 |
| Net earnings per share attributable to common shares Basic | \$ 3.45 | \$ 1.82 | \$ 1.11 |
| Net earnings per share attributable to common shares Diluted | \$ 3.32 | \$ 1.76 | \$ 1.08 |

The increase in net earnings attributable to common shares in 2006 over 2005 was due to increases in the earnings of each of our reportable business segments driven by: (i) the PEPR IPO; (ii) the liquidation of Funds II-IV; (iii) increased gains on contributions of both CDFS and non-CDFS properties to property funds; (iv) improved property operating performance; (v) gains on sales of CDFS and non-CDFS properties to third parties; and (vi) the Catellus Merger. The increase in net earnings in 2005 over 2004 was primarily due to: (i) improved property operating performance; (ii) gains on dispositions of non-CDFS assets during the third and fourth quarters of 2005; (iii) increases in income from the property funds; (iv) increased net gains from the disposition of CDFS business assets; and (v) the Catellus Merger.

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In the discussion that follows, we present the results of operations by reportable business segment. The following table summarizes our total operating portfolio of properties, including distribution and retail properties owned by us, and distribution properties owned by the property funds and CDFS joint ventures. Our operating portfolio includes properties that were developed or acquired in our CDFS business segment and are pending contribution to a property fund or disposition to a third party. The operating portfolio does not include properties under development or any other properties owned by the CDFS joint ventures, other than distribution properties (square feet in thousands):

| Reportable Business Segment | 2006 | | December 31, 2005 | | 2004 | |
|-----------------------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
| | Number of Properties | Square Feet | Number of Properties | Square Feet | Number of Properties | Square Feet |
| Property operations (1) | 1,473 | 204,674 | 1,461 | 186,663 | 1,228 | 133,630 |
| Fund management | 843 | 181,273 | 752 | 159,769 | 708 | 149,141 |
| CDFS business (2) | 32 | 5,474 | 23 | 3,283 | 10 | 1,538 |
| Totals | 2,348 | 391,421 | 2,236 | 349,715 | 1,946 | 284,309 |

(1) Our operating portfolio includes properties that were developed or acquired in our CDFS business segment and are pending contribution to a property fund or disposition to a third party as follows (square feet in thousands):

| | Number of Properties | Square Feet |
|------|-------------------------|-------------|
| 2006 | 205 | 49,792 |
| 2005 | 124 | 29,383 |
| 2004 | 90 | 17,959 |

(2) Only includes distribution properties owned by the CDFS joint ventures. We include our wholly owned CDFS properties in the property operations segment (see above).

The stabilized operating properties owned by us, the property funds and the CDFS joint ventures were 95.3% leased at December 31, 2006, 94.5% leased at December 31, 2005 and 92.3% leased at December 31, 2004. The stabilized properties are those properties where the capital improvements, repositioning efforts, new management and new marketing programs for acquisitions or the marketing programs in the case of newly developed properties, have been completed and in effect for a sufficient period of time to achieve stabilization. A property generally enters the stabilized pool at the earlier of 12 months from acquisition or completion or when it becomes substantially occupied, which we generally define as 93.0%.

Same Store Analysis

We evaluate the operating performance of the operating properties included in each of our three reportable business segments using a same store analysis because the population of properties in this analysis is consistent from period to period, thereby eliminating the effects of changes in the composition of the portfolio on performance measures. We include properties owned directly and indirectly, by the property funds and by the CDFS joint ventures, in the same store analysis. Accordingly, we define the same store portfolio of operating properties for each period as those properties that have been in operation throughout the full period in both the current and prior year. When a property is disposed of to a third party, it is removed from the population for the full quarter in which it was disposed and the corresponding period of the prior year. The same store portfolio aggregated 270.6 million square feet at December 31, 2006 and included only distribution properties.

Same store results were as follows:

Net operating income generated by the same store portfolio (defined for the same store analysis as rental income, excluding termination and renegotiation fees, less rental expenses) increased 3.1% in 2006 over

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2005, due to a 3.3% increase in rental income, partially offset by a 4.2% increase in rental expenses. The increase in rental expenses was primarily driven by increases in property insurance and property taxes, which are largely recovered from our customers as rental recoveries included in rental income. For 2005, the net operating income of the same store portfolio increased by 1.5% over 2004. Rental income increased 2.0% in 2005 and rental expenses increased 3.9% in 2005, both over 2004.

Average occupancy in the same store portfolio increased 2.6% in 2006 over 2005. This compares with an increase of 2.2% in average occupancy in 2005 over 2004.

The same store portfolio's rental rates, associated with leasing activity for space that has been previously leased by us, increased by 2.6% in 2006 over 2005. In 2005, the rental rates in the same store portfolio decreased by 1.5% from 2004.

We believe the factors that affect net operating income, rental rates and average occupancy in the same store portfolio are the same as for the total portfolio. The percentage change presented is the weighted average of the measure computed separately for us and each entity individually with the weighting based on each entity's proportionate share of the combined component on which the change is computed. In order to derive an appropriate measure of period-to-period operating performance, the percentage change computation removes the effects of foreign currency exchange rate movements by computing each property's components in that property's functional currency.

Rental income computed under GAAP applicable to the properties included in the same store portfolio is adjusted to remove the net termination and renegotiation fees recognized in each period. Net termination and renegotiation fees excluded from rental income for the same store portfolio were \$4.4 million and \$9.9 million for 2006 and 2005, respectively. Net termination and renegotiation fees represent the gross fee negotiated to allow a customer to terminate or renegotiate their lease, offset by the write-off of the asset recognized due to the adjustment to straight-line rents over the lease term, if any. Removing the net termination fees from the same store calculation of rental income allows us to evaluate the growth or decline in each property's rental income without regard to items that are not indicative of the property's recurring operating performance.

In computing the percentage change in rental expenses, the rental expenses applicable to the properties in the same store portfolio include property management expenses for our direct-owned properties. These expenses are based on the property management fee that is provided for in the individual agreements under which our wholly owned management company provides property management services to each property (generally, the fee is based on a percentage of revenues). On consolidation, the management fee income earned by the management company and the management fee expense recognized by the properties are eliminated and the direct costs of providing property management services are recognized as part of our rental expenses reported under GAAP.

Operational Outlook

Changes in economic conditions will generally affect customer leasing decisions and absorption of new distribution properties. Since late 2004, we have experienced strong customer demand and continued strengthening in occupancies across our global markets. During 2006, leasing activity continued to improve with our stabilized portfolio being 95.3% leased at December 31, 2006. Market rental rates are increasing in most of our markets and we have experienced positive rental rate growth, in the aggregate, for the past three quarters. As a result, we expect to continue to see increasing rents in most of our markets. Growth in global trade continues to support strong market fundamentals, which in turn, supports the acceleration of leasing activity in our global development pipeline. We executed 102.2 million square feet of leases during the year ended December 31, 2006, an increase of 7.7% over 2005. We expect absorption of available space to continue to be strong throughout 2007. An important fundamental to our long-term growth is repeat business with our global customers. For the last three years, approximately half of the

space leased in our newly developed properties continues to be with repeat customers.

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The net operating income of the property operations segment consists of rental income and rental expenses from the distribution and retail operating properties that we directly own. The costs of our property management function for both our direct-owned portfolio and the properties owned by the property funds are all reported in rental expenses in the property operations segment. The net earnings or losses generated by operating properties that were developed or acquired in the CDFS business segment are included in the property operations segment during the interim period from the date of completion or acquisition through the date the properties are contributed or sold. See Note 18 to our Consolidated Financial Statements in Item 8 for a reconciliation of net operating income to earnings before minority interest. The net operating income from the property operations segment, excluding rental income and rental expenses associated with the properties that are presented as discontinued operations in our Consolidated Financial Statements, was as follows (in thousands):

| | Years Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| Rental income | \$ 885,733 | \$ 589,531 | \$ 509,490 |
| Rental expenses | 225,432 | 159,184 | 131,238 |
| Total net operating income property operations segment | \$ 660,301 | \$ 430,347 | \$ 378,252 |

The number and composition of operating properties that we own throughout the periods and the timing of contributions affect rental income and rental expenses for each period. Rental income includes net termination and renegotiation fees and rental expense recoveries of \$186.5 million, \$114.7 million and \$96.9 million in 2006, 2005 and 2004, respectively.

When a property is contributed to a property fund, we begin reporting our share of the earnings of the property under the equity method in the fund management segment. However, the overhead costs incurred by us to provide the property management services to the property fund continue to be reported as part of rental expenses. The increases in rental income and rental expenses, in 2006 over 2005, and in 2005 over 2004, are due primarily to the increase in properties owned resulting from the Catellus Merger and other acquisitions and increases in the net operating income of the same store properties we directly own. The increase in the number of properties under management has also contributed to the increase in rental expenses.

Fund Management Segment

The net operating income of the fund management segment consists of: (i) earnings or losses recognized under the equity method from our investments in the property funds; (ii) fees and incentives earned for services performed on behalf of the property funds; and (iii) interest earned on advances to the property funds, if any. The net earnings or losses of the property funds may include the following income and expense items of the property funds, in addition to rental income and rental expenses: (i) interest income and interest expense; (ii) depreciation and amortization expenses; (iii) general and administrative expenses; (iv) income tax expense; (v) foreign currency exchange gains and losses; and (vi) gains on dispositions of properties or fund interests. The fluctuations in income we recognize in any given period are primarily the result of: (i) variances in the income and expense items of the property funds; (ii) the size of the portfolio and occupancy levels in each period; (iii) changes in our ownership interest; and (iv) fluctuations in foreign currency exchange rates at which we translate our share of net earnings to U.S. dollars, if applicable. The

costs of the property management function performed by us for the properties owned by the property funds are reported in the property operations segment and the costs of the fund management function are included in our general and administrative expenses. See Notes 4 and 18 to our Consolidated Financial Statements in Item 8 for additional information on the property funds and for a reconciliation of net operating income to earnings before minority interest.

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The net operating income from the fund management segment was as follows for the periods indicated (in thousands):

| | Years Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| ProLogis North American property funds (1) | \$ 117,532 | \$ 56,348 | \$ 48,037 |
| ProLogis European Properties (2) | 167,227 | 44,002 | 37,886 |
| ProLogis Japan property funds (3) | 20,225 | 12,662 | 7,754 |
| Total net operating income fund management segment | \$ 304,984 | \$ 113,012 | \$ 93,677 |

- (1) Represents the income earned by us from our investments in property funds in North America. We had interests in 10, 12 and 13 funds at December 31, 2006, 2005 and 2004, respectively. Our ownership interests ranged from 11.3% to 50.0% at December 31, 2006. These property funds on a combined basis owned 535, 471 and 465 properties at December 31, 2006, 2005 and 2004, respectively.

In January 2006, we purchased the 80% ownership interests held by our fund partner in Funds II-IV and subsequently contributed substantially all of the assets and associated liabilities to the North American Industrial Fund in March 2006. In connection with this transaction, we earned an incentive return of \$22.0 million and we recognized \$37.1 million in income, representing our proportionate share of the net gain recognized by Funds II-IV upon termination.

On September 30, 2005, we purchased the remaining 80% interest in ProLogis North American Properties Fund XII and therefore the assets and earnings are now included in our property operations segment.

- (2) Represents the income earned by us from our investment in one property fund, previously referred to as ProLogis European Properties Fund. Since its IPO in September 2006, as discussed earlier, it is now referred to as ProLogis European Properties or PEPR. PEPR has acquired properties, primarily from us, and increased its portfolio size since it began operations in 1999. PEPR owned 277, 263 and 230 properties at December 31, 2006, 2005 and 2004, respectively. Our ownership interest in PEPR was 24.0%, 21.0% and 21.8% at December 31, 2006, 2005 and 2004, respectively. In connection with the IPO in 2006, we recognized \$109.2 million in an incentive return based on the internal rate of return that the pre-IPO unit holders earned. During 2006, PEPR incurred professional fees and other expenses related to the completion of its IPO, which resulted in a decrease of approximately \$8.9 million in the earnings we recognized.
- (3) Amounts represent our 20% ownership interest in two property funds in Japan. ProLogis Japan Properties Fund I increased its portfolio to 18 properties at December 31, 2006 and 2005 from 13 properties at December 31, 2004. In September 2005, we formed a second property fund in Japan, ProLogis Japan Properties Fund II. During 2006, the fund acquired its first 13 properties, six of which were contributed by us.

CDFS Business

Net operating income from the CDFS business segment consists primarily of: (i) gains resulting from the contributions and dispositions of properties, generally developed by us or acquired with the intent to rehabilitate and/or reposition; (ii) gains from the dispositions of land parcels; (iii) fees earned for development services provided

to customers and third parties; (iv) interest income earned on notes receivable related to property dispositions; (v) our proportionate share of the earnings or losses of CDFS joint ventures; and (vi) costs associated with the potential acquisition of CDFS business assets, land holding costs and impairment charges, if any. See Note 18 to our Consolidated Financial Statements in Item 8 for a reconciliation of net operating income to earnings before minority interest.

For 2006, our net operating income in this segment, excluding discontinued operations, which is presented separately, was \$379.5 million, as compared to \$252.6 million in 2005, an increase of \$126.9 million or 50.2%. The increased net operating income in this segment was primarily due to increased levels of dispositions brought about by increased development activity, earnings from CDFS joint ventures, development

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fees and interest income. Net operating income of this segment increased \$149.8 million or 56.9% when the gains from CDFS business transactions recognized as discontinued operations are included. In 2006, 46.5% of the net operating income of this operating segment was generated in North America, 28.5% was generated in Europe and 25.0% was generated in Asia.

For 2005, the net operating income in this segment, excluding discontinued operations, which is presented separately, was \$252.6 million, an increase from 2004 of \$78.3 million or 44.9%. The increase in net operating income in 2005, as compared with 2004, reflects higher gross margins on contributions and increased development fees and interest income. In 2005, 27.8% of the net operating income of this operating segment was generated in North America, 28.2% was generated in Europe and 44.0% was generated in Asia. In 2004, 26.7% of the net operating income of this operating segment was generated in North America, 53.4% was generated in Europe and 19.9% was generated in Asia.

We attribute the strong performance in 2006 to increased development activity and improved leasing activity for CDFS business properties. We believe the current economic conditions have positively affected our customers decisions with respect to changes in their distribution networks. Increased demand is driven by the need for distribution efficiencies and on-going growth in global trade. There can be no assurance we will be able to maintain or increase the current level of net operating income in this segment. See Item 1A. Risk Factors for factors that may affect our performance in this business segment.

The CDFS business segment's net operating income includes the following components for the periods indicated (in thousands):

| | Years Ended December 31, | | |
|---|---------------------------------|-------------------|-------------------|
| | 2006 | 2005 | 2004 |
| Disposition proceeds, prior to deferral (1) | \$ 1,337,278 | \$ 1,190,264 | \$ 1,322,084 |
| Contingent proceeds realized | | | 5,871 |
| Proceeds deferred and not recognized (2) | (65,542) | (52,770) | (43,433) |
| Recognition of previously deferred amounts (2) | 15,105 | 2,963 | 4,143 |
| Cost of dispositions (1) | (993,926) | (917,782) | (1,111,698) |
| Net gains | 292,915 | 222,675 | 176,967 |
| Development management and other income (3) | 37,420 | 25,464 | 2,698 |
| Interest income on long-term notes receivable (4) | 16,730 | 6,781 | |
| Earnings from CDFS joint ventures (5) | 44,974 | 5,671 | 189 |
| Other expenses and charges (6) | (12,554) | (7,983) | (5,519) |
| Total net operating income CDFS business segment | \$ 379,485 | \$ 252,608 | \$ 174,335 |
| CDFS transactions recognized as discontinued operations (7): | | | |
| Disposition proceeds | \$ 245,500 | \$ 100,494 | \$ 241,875 |
| Cost of dispositions | (211,986) | (89,878) | (209,156) |
| Net CDFS gains in discontinued operations | \$ 33,514 | \$ 10,616 | \$ 32,719 |

- (1) During 2006, we contributed 55 buildings to the property funds (30 in North America, 19 in Europe and six in Japan), compared with 42 buildings contributed in 2005 (20 in North America, 19 in Europe and three in Japan), and compared with 78 buildings contributed in 2004 (43 in North America, 32 in Europe and three in Japan). In addition, we recognized net gains of \$24.6 million, \$14.5 million and \$26.1 million from the disposition of land parcels during 2006, 2005 and 2004, respectively.

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- (2) When we contribute a property to a property fund in which we have an ownership interest, we defer a portion of the proceeds from the computation of the gain resulting from the contribution, based on our continuing ownership interest in the contributed property that arises due to our ownership interest in the property fund that acquires the property. We defer this portion of the proceeds by recognizing a reduction to our investment in the respective property fund. We adjust our proportionate share of earnings or losses that we recognize under the equity method from the property fund in later periods to reflect the property fund's depreciation expense as if the depreciation expense was computed on our lower basis in the contributed property rather than on the property fund's basis in the contributed property. If a loss results when a property is contributed to a property fund, the entire loss is recognized.

When a property that we originally contributed to a property fund is disposed of to a third party by the property fund, we recognize in earnings the net amount of proceeds we had previously deferred in the period that the disposition to the third party occurs, in addition to our proportionate share of the net gain or loss recognized by the property fund. Further, during periods when our ownership interest in a property fund decreases, we recognize gains to the extent that previously deferred proceeds are recognized to coincide with our new ownership interest in the property fund, including \$12.5 million related to the termination of Funds II-IV recognized in the first quarter of 2006.

- (3) Amounts include fees we earned for the performance of development activities. The increases in both 2006 and 2005, over the prior years, are due primarily to development management activities undertaken since the Catellus Merger and increased development management activity in Europe.
- (4) Amounts represent interest income earned on notes receivable related to previous property sales that were acquired through the Catellus Merger.
- (5) Represents the net earnings we recognized under the equity method from our investments in CDFS joint ventures. The increase in 2006 is due primarily to earnings recognized in our investments in joint ventures acquired in connection with the Catellus Merger. Included in the earnings for 2006 was \$35.0 million, representing our proportionate share of the earnings of a CDFS joint venture, LAAFB JV. As our investment in LAAFB JV is held in a taxable subsidiary, we also recognized \$27.0 million of current income tax expense and a deferred tax benefit of \$12.4 million (see further discussion in *Income Taxes* below).
- (6) Includes land holding costs and charges for previously capitalized pursuit costs related to potential CDFS business segment projects when the acquisition is no longer probable.
- (7) Includes 15 CDFS business properties aggregating 1.9 million square feet, eight CDFS business properties aggregating 1.1 million square feet and 10 CDFS business properties aggregating 2.3 million square feet that were sold to third parties during 2006, 2005 and 2004, respectively, that met the criteria to be presented as discontinued operations.

The level and timing of income generated from the CDFS business segment is dependent on several factors, including but not limited to: (i) our ability to develop and timely lease properties; (ii) our ability to acquire properties that eventually can be contributed to property funds after rehabilitating or repositioning; (iii) our ability to identify and secure sites for redevelopment; (iv) our ability to generate a profit from these activities; and (v) our success in raising capital to be used by the property funds to acquire the properties we developed or repositioned. There can be no assurance we will be able to maintain or increase the current level of net operating income in this segment. Overall, we believe that the continued demand for state-of-the-art distribution properties resulted in improved leasing activity, which helps support our CDFS business segment. We continue to monitor leasing activity and general economic

conditions as it pertains to the CDFS business segment.

In North America, in 2006, we acquired 895 acres of land for future potential development in the United States and Mexico. In 2005, we started our first developments in Canada and as part of the Catellus Merger, we acquired 2,500 acres of land for future potential development in North America in our existing markets and also acquired interests in several entities that engage in land and commercial development activities in North America, all of which we believe will provide additional CDFS business opportunities.

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In Europe, during 2006, we acquired 1,096 acres of land for future potential development. This included land acquired in the United Kingdom to support more than 3.5 million square feet of distribution development in the East and West Midlands.

In Asia, we believe demand for state-of-the-art distribution properties will continue to provide opportunities for us in the CDFS business segment. In China, we are positioning ourselves to meet what we believe will be significant future demand for distribution space due to the expected growth in manufacturing and consumer demand for goods. In both China and Japan, the CDFS business opportunities available to us will be limited if we are unable to acquire adequate land parcels for development.

Other Components of Operating Income

General and Administrative Expenses

General and administrative expenses were \$156.9 million in 2006, \$107.2 million in 2005 and \$84.9 million in 2004. The increases in general and administrative expenses in all years are due primarily to our continued investment in the infrastructure necessary to support our business growth and expansion into new international markets, the formation of new property funds, our growing portfolio of properties through the Catellus Merger and other acquisitions and the growth in our CDFS business segment. In addition, in 2006, we recognized \$5.0 million of expense related to a contribution to our foundation.

Depreciation and Amortization

Depreciation and amortization expenses were \$293.0 million in 2006, \$191.9 million in 2005 and \$162.0 million in 2004. The increase in all periods is due to the real estate assets and intangible lease assets acquired through the Catellus Merger and other acquisitions and, to a lesser extent, improvements made to the properties in our property operations segment and increased leasing activity.

Merger Integration Expenses

Merger integration costs were \$2.6 million in 2006 and \$12.2 million in 2005. These costs are indirect costs associated with the Catellus Merger, such as employee transition costs as well as severance costs for certain of our employees whose responsibilities became redundant after the merger that were incurred through June 2006.

Interest Expense

Interest expense was \$294.4 million in 2006, \$177.6 million in 2005 and \$152.6 million in 2004. The increase in interest expense in 2006, over 2005 and 2004, is due to increases in our borrowings, primarily as a result of the Catellus Merger, increased development activity, increased investments in property funds and CDFS joint ventures and individual and portfolio acquisitions, offset somewhat by a decrease in our weighted average interest rates and additional capitalized interest. The increase in capitalized interest is due to the significant increase in our development activities. See Note 13 to our Consolidated Financial Statements in Item 8 for additional information on our interest expense and debt.

Gains Recognized on Dispositions of Certain Non-CDFS Business Assets

In 2006, we recognized gains of \$81.5 million on the disposition of 39 properties from our property operations segment to two of the unconsolidated property funds. Due to our continuing involvement through our ownership in the

property funds, these dispositions are not included in discontinued operations and the gain recognized represents the portion attributable to the third party ownership in the property funds that acquired the properties.

Foreign Currency Exchange Gains (Expenses/Losses), Net

We and certain of our foreign consolidated subsidiaries have intercompany or third party debt that is not denominated in that entity's functional currency. When the debt is remeasured against the functional currency of the entity, a gain or loss can result. To mitigate our foreign currency exchange exposure, we borrow in the

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functional currency of the borrowing entity when appropriate. Certain of our intercompany debt is remeasured with the resulting adjustment recognized as a cumulative translation adjustment in accumulated other comprehensive income in shareholders' equity. This treatment is applicable to intercompany debt that is deemed a permanent source of capital to the subsidiary or investee. If the intercompany debt is deemed not permanent in nature, when the debt is remeasured, we recognize a gain or loss in earnings. Additionally, we utilize derivative financial instruments to manage certain foreign currency exchange risks, primarily put option contracts with notional amounts corresponding to a portion of our projected net operating income from our operations in Europe and Japan. See Note 16 to our Consolidated Financial Statements in Item 8.

Income Taxes

We and one of our consolidated subsidiaries have elected to be taxed as a REIT under the Code, and are not generally required to pay federal income taxes if we make distributions in excess of taxable income and meet the REIT requirements of the Code. Certain of our consolidated subsidiaries in the United States are subject to federal income taxes and we are taxed in certain states in which we operate. In addition, many of the foreign countries where we have operations do not recognize REITs or do not accord REIT status under their respective tax laws to our entities that operate in their jurisdiction. Accordingly, we recognize income taxes for these jurisdictions, as appropriate.

Current income tax expense is generally a function of the level of income recognized by our taxable subsidiaries operating primarily in the CDFS business segment, state income taxes, taxes incurred in foreign jurisdictions and interest associated with our income tax liabilities. Deferred income tax is generally a function of the period's temporary differences (items that are treated differently for tax purposes than for financial reporting purposes), the utilization of tax net operating losses generated in prior years that had been previously recognized as deferred income tax assets and deferred income tax liabilities related to indemnification agreements related to certain contributions to property funds.

For federal income tax purposes, the Catellus Merger was treated as a tax-free transaction resulting in a carry-over basis for tax purposes. For financial reporting purposes and in accordance with purchase accounting, we recorded all of the acquired assets and liabilities at the estimated fair values at the date of acquisition. For our taxable subsidiaries, we recognized the deferred income tax liabilities that represent the tax effect of the difference between the tax basis carried over and the fair values of these assets at the date of acquisition. As taxable income is generated in these subsidiaries, we recognize a deferred tax benefit in earnings as a result of the reversal of the deferred income tax liability previously recorded at the acquisition date and we record current income tax expense representing the entire current income tax liability.

During 2006, 2005 and 2004, our current income tax expense was \$84.3 million, \$14.8 million and \$24.9 million, respectively. The increase in 2006 over 2005 is due primarily to; (i) increased earnings from our investments in CDFS joint ventures and increased development management fees, both within our taxable subsidiaries; (ii) increased CDFS disposition income that is taxable in foreign jurisdictions; and (iii) increased interest charges due to the increase in income tax liabilities as a result of the Catellus Merger. During 2004, we had a higher level of property sales to third parties in the United Kingdom, which resulted in increased current income tax expense in 2004, and is the primary reason for the decrease in current income tax expense from 2004 to 2005.

During 2006, we recognized a deferred tax benefit of \$53.7 million, compared with deferred tax expense of \$12.0 million and \$18.7 million in 2005 and 2004, respectively. The benefit recognized in 2006 was caused primarily by the reversal of deferred tax liabilities recorded in connection with our investments in CDFS joint ventures acquired through the Catellus Merger, as well as the reversal of a deferred tax obligation related to PEPR. We were previously obligated to the pre-IPO unitholders of PEPR under a tax indemnification agreement related to properties we contributed to PEPR prior to its IPO. Based on the average closing price of the ordinary units of PEPR during the

30-day post-IPO period, we are no longer obligated for indemnification with respect to those properties. Therefore, we recognized a deferred tax benefit of \$36.8 million related to the reversal of this obligation in the fourth quarter of 2006. The deferred tax expense in 2005 and 2004 related primarily to the indemnification agreements related to property contributions, including the PEPR indemnification, as discussed in Note 7 to our Consolidated Financial Statements in Item 8.

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Discontinued Operations

Discontinued operations represent a component of an entity that has either been disposed of or is classified as held for sale if both the operations and cash flows of the component have been or will be eliminated from ongoing operations of the entity as a result of the disposal transaction and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. The results of operations of the component of the entity that has been classified as discontinued operations are reported separately as discontinued operations in the statements of earnings. From time to time, we dispose of properties to third parties from both our CDFS business and our property operations segments. The results of operations for these properties, as well as the gain or loss recognized upon disposition, are included in discontinued operations. In addition, as of December 31, 2006, we had eight properties classified as held for sale and therefore, the results of operations of those properties are included in discontinued operations.

In addition, in 2005, we sold our temperature-controlled distribution assets in France, which had been classified as held for sale during 2004. We recognized losses in discontinued operations of \$25.2 million and \$36.7 million in 2005 and 2004, respectively.

See Note 8 to our Consolidated Financial Statements in Item 8 for further discussion of discontinued operations.

Environmental Matters

For a discussion of environmental matters, see Note 17 to our Consolidated Financial Statements in Item 8.

Liquidity and Capital Resources

Overview

We consider our ability to generate cash from operating activities, contributions and dispositions of properties and from available financing sources to be adequate to meet our anticipated future development, acquisition, operating, debt service and shareholder distribution requirements.

Our credit facilities provide liquidity and financial flexibility, which allows us to efficiently respond to market opportunities and execute our business strategy on a global basis. Regular repayments of our credit facilities are necessary to allow us to maintain adequate liquidity. We anticipate future repayments of the borrowings under our credit facilities will be funded primarily through the proceeds from future property contributions and dispositions and from proceeds generated by future issuances of debt or equity securities, depending on market conditions.

Our credit facilities provide aggregate borrowing capacity of \$3.5 billion at December 31, 2006. This includes our Global Line, where a syndicate of 35 banks allows us to draw funds in U.S. dollar, euro, Japanese yen, British pound sterling, Chinese renminbi, South Korean won and Canadian dollar. The total commitment under the Global Line fluctuates in U.S. dollars based on the underlying currencies, and was \$3.5 billion at December 31, 2006. Based on our public debt ratings, interest on the borrowings under the Global Line accrues at a variable rate based upon the interbank offered rate in each respective jurisdiction in which the borrowings are outstanding. The Global Line matures, excluding a twelve-month extension at our option, for all currencies in October 2009, except the renminbi, which matures in May 2009.

During 2006, we issued \$1.9 billion of senior and other notes, as follows: \$550.0 million of 5.625% senior notes were issued in November and are due 2016; \$250.0 million of senior notes were issued in August with a variable rate of

interest based on London Interbank Offered Rate (LIBOR), plus a margin, and are due 2009; \$450.0 million of 5.5% senior notes due 2012 and \$400.0 million of 5.75% senior notes due 2016 were issued in March; and ¥36.0 billion of yen notes were issued in June and December (the currency equivalent of approximately \$312.9 million at issue date) with a variable rate of interest based on the Tokyo Interbank Offered Rate (TIBOR), plus a margin and are due in 2007. The proceeds were used primarily to repay borrowings under our Global Line and other general corporate purposes.

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During 2006, we assumed approximately \$559.6 million of secured debt, in connection with certain property and portfolio acquisitions. In 2006, we repaid \$39.2 million of secured debt that was assumed in connection with the Catellus Merger that was scheduled to mature in 2008.

We received proceeds of \$358.0 million from the issuance of 6.9 million common shares throughout 2006 under our various common share plans. This includes \$320.8 million received for the issuance of 5.4 million common shares under our Controlled Equity Offering Program.

In addition to common share distributions and preferred share dividend requirements, we expect our primary short and long-term cash needs will consist of the following for 2007 and future years:

- development of properties directly and additional investment in joint ventures in the CDFS business segment;
- acquisitions of properties in the CDFS business segment;
- acquisitions of land for future development in the CDFS business segment;
- direct acquisitions of operating properties and/or portfolios of operating properties in key distribution markets for direct, long-term investment in the property operations segment;
- capital expenditures on properties; and
- scheduled principal and interest payments and repayment of debt that is scheduled to mature.

We expect to fund cash needs for 2007 and future years primarily with cash from the following sources, all subject to market conditions:

- property operations;
- fees and incentives earned for services performed on behalf of the property funds;
- proceeds from the contributions of properties to property funds (existing property funds and property funds that may be formed in the future);
- proceeds from the sale of certain properties, including properties that are classified as held for sale;
- proceeds from the disposition of land parcels and properties to third parties;
- borrowing capacity under the Global Line or other credit facilities;
- assumption of debt in connection with acquisitions; and
- proceeds from the issuance of equity or debt securities, including sales under various common share plans.

Commitments related to future contributions to Property Funds

We are committed to offer to contribute substantially all of our stabilized distribution properties developed in Canada and the United States to the North American Industrial Fund. The North American Industrial Fund has equity

commitments, which expire in February 2009, aggregating approximately \$1.5 billion from third party investors, of which \$1.1 billion was unfunded at December 31, 2006.

We are committed to offer to contribute all of our stabilized distribution properties developed in Japan to ProLogis Japan Properties Fund II through August 2008. ProLogis Japan Properties Fund II has an equity commitment of \$600.0 million from our fund partner, which expires in August 2008, of which \$408.4 million was unfunded at December 31, 2006.

As discussed earlier, PEPR completed an IPO in September 2006. In connection with the IPO, we entered into a property contribution agreement under which we are committed to offer to contribute to PEPR certain stabilized distribution properties having an aggregate contribution value of 200 million (the currency equivalent of \$263.6 million at December 31, 2006), in specified markets in Europe through September 30,

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2007, subject to the property meeting certain leasing and other criteria. As of December 31, 2006, we had not contributed any properties under this commitment.

These property funds are committed to acquire such properties, subject to certain exceptions, including that the properties meet certain specified leasing and other criteria, and that the property funds have available capital. We believe that, while the current capital commitments and borrowing capacities of these property funds may be expended prior to the expiration dates of these commitments, each property fund will have sufficient debt or equity capital to acquire the properties that we expect to offer to contribute during 2007. Should the property funds choose not to acquire, or not have sufficient capital available to acquire, a property that meets the specified criteria, the rights under the agreement with regard to that specific property will terminate. We continually explore our options related to both new and existing property funds to support the business objectives of our CDFS business segment.

There can be no assurance that if these property funds do not continue to acquire the properties we have available, we will be able to secure other sources of capital such that we can contribute or sell these properties in a timely manner and continue to generate profits from our development activities in a particular reporting period.

Cash Provided by Operating Activities

Net cash provided by operating activities was \$720.8 million for 2006, \$498.7 million for 2005 and \$516.4 million for 2004. The increase in cash provided by operating activities in 2006 over 2005 is due to the increase in earnings, which is more fully discussed above. The decrease in cash provided by operating activities in 2005 from 2004 was due to changes in assets and liabilities. Operational items that impact net cash provided by operating activities are more fully discussed in Results of Operations. Cash provided by operating activities exceeded the cash distributions paid on common shares and dividends paid on preferred shares in all periods.

Cash Investing and Cash Financing Activities

For 2006, 2005 and 2004, investing activities used net cash of \$2.1 billion, \$2.2 billion and \$0.7 billion, respectively. The net cash used is summarized as follows:

Investments in real estate required cash of \$4.1 billion in 2006, \$2.6 billion in 2005 and \$1.7 billion in 2004. These amounts include the acquisition of operating properties (74 properties, 25 properties and 31 properties with an aggregate purchase price of \$735.4 million, \$453.9 million and \$322.3 million in 2006, 2005 and 2004, respectively); acquisitions of land for future development; costs for current and future development projects; and recurring capital expenditures and tenant improvements on existing operating properties. At December 31, 2006, we had 114 properties aggregating 30.0 million square feet under development, with a total expected investment of \$2.2 billion.

Invested cash in new and existing unconsolidated investees of \$217.9 million, \$16.7 million and \$63.5 million in 2006, 2005 and 2004, respectively. These additional investments were primarily in the North American Industrial Fund and CDFS joint ventures in China, including \$42.2 million that was escrowed in 2006 for future potential investments in a CDFS joint venture that develops retail properties, subject to the attainment of certain performance criteria. In January 2006, we invested \$55.0 million in a preferred interest in ProLogis North American Properties Fund V, which we sold in August 2006, as discussed below.

Generated net cash from contributions and dispositions of properties and land parcels of \$2.1 billion, \$1.5 billion and \$1.4 billion in 2006, 2005 and 2004, respectively. See further discussion in Results of Operations - CDFS Segment .

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Received proceeds from unconsolidated investees as a return of investment of \$146.2 million, \$48.7 million and \$53.4 million in 2006, 2005 and 2004, respectively (including \$42.0 million from LAAFB JV and \$55.0 million related to the sale of a preferred interest in ProLogis North American Properties Fund V, both of which occurred in 2006).

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Invested cash of \$259.2 million in connection with the purchase of our fund partner's ownership interests in Funds II-IV during the first quarter of 2006.

Invested cash of \$113.9 million related to an acquisition that closed in February 2007. See Note 20 to our Consolidated Financial Statements in Item 8.

Generated net cash proceeds from payments on notes receivable related to dispositions of assets of \$73.7 million, \$60.0 million and zero in 2006, 2005 and 2004, respectively.

Used \$1.3 billion of cash (net of Catellus' cash on the merger date) as partial consideration related to the Catellus Merger in 2005.

Net cash payment of \$333.5 million was made in 2004 associated with the Keystone transaction.

For 2006, 2005 and 2004, financing activities provided net cash of \$1.6 billion, \$1.7 billion and \$36.6 million, respectively, as summarized below.

Issued \$1.9 billion of senior and other notes and repaid \$250.0 million of maturing senior notes, resulting in proceeds of \$1.7 billion during 2006. Received proceeds from issuance of other debt of \$375.0 million for 2006 (net of \$135.0 million of secured debt that was paid off prior to maturity). In 2005, we received proceeds from the issuance of senior notes of \$890.0 million and proceeds from borrowings on credit facilities and short-term borrowings of \$1.3 billion, which were used primarily for the cash consideration for the Catellus Merger and repayment of \$106.4 million of debt assumed in the Catellus Merger. In 2004, we received proceeds from the issuance of senior notes of \$420.6 million and proceeds from borrowings on credit facilities and short-term \$210.8 million.

Distributions paid to holders of common shares were \$393.3 million, \$297.4 million and \$266.1 million in 2006, 2005 and 2004, respectively. Dividends paid on preferred shares were \$19.1 million, \$25.4 million and \$25.7 million in 2006, 2005 and 2004, respectively.

Generated proceeds from sales and issuances of common shares of \$358.0 million, \$45.6 million and \$146.8 million in 2006, 2005 and 2004, respectively. This includes \$320.8 million received for the issuance of 5.4 million common shares under our Controlled Equity Offering Program.

Redeemed preferred shares in 2004 for \$125.0 million.

Borrowing Capacities

As of December 31, 2006, we had available credit facilities, including the Global Line of \$3.5 billion. Under these facilities, we had outstanding borrowings of \$2.5 billion and \$129.1 million of letters of credit outstanding with participating lenders resulting in remaining borrowing capacity of \$937.4 million.

Table of Contents*Off-Balance Sheet Arrangements*

Liquidity and Capital Resources of Our Unconsolidated Investees

We had investments in and advances to unconsolidated investees of \$1.3 billion at December 31, 2006, of which \$1.0 billion relates to our investments in the property funds. Summarized financial information for the property funds (for the entire entity, not our proportionate share) at December 31, 2006 is presented below (dollars in millions):

| | Total Assets | Third Party Debt (1) (2) | Weighted Average Interest Rate | Our Ownership |
|---|---------------------|-------------------------------------|---|--------------------------|
| ProLogis California | \$ 608.6 | \$ 325.0 | 7.5% | 50.0% |
| ProLogis North American Properties Fund I | 333.3 | 242.3 | 7.6% | 41.3% |
| ProLogis North American Properties Fund V | 2,517.1 | 827.2 | 5.4% | 11.3% |
| ProLogis North American Properties Fund VI | 508.4 | 307.0 | 5.4% | 20.0% |
| ProLogis North American Properties Fund VII | 382.8 | 229.0 | 5.5% | 20.0% |
| ProLogis North American Properties Fund VIII | 191.5 | 112.0 | 5.3% | 20.0% |
| ProLogis North American Properties Fund IX | 191.8 | 122.1 | 5.7% | 20.0% |
| ProLogis North American Properties Fund X | 214.5 | 135.0 | 5.7% | 20.0% |
| ProLogis North American Properties Fund XI | 228.4 | 66.1 | 4.5% | 20.0% |
| ProLogis North American Industrial Fund | 1,244.3 | 748.1 | 5.4% | 20.0% |
| ProLogis European Properties | 4,856.0 | 2,615.6 | 5.3% | 24.0% |
| ProLogis Japan Properties Fund I | 1,215.5 | 528.7 | 1.5% | 20.0% |
| ProLogis Japan Properties Fund II | 742.8 | 375.5 | 2.0% | 20.0% |
| Total property funds | \$ 13,235.0 | \$ 6,633.6 | | |

- (1) As of December 31, 2006, we had guaranteed \$15.0 million related to borrowings of ProLogis North American Properties Fund V, which was repaid in January 2007 with proceeds from the issuance of secured debt that we do not guarantee.
- (2) The approximate principal payments due on the third party debt of the property funds during each of the years in the five year period ending December 31, 2011 and thereafter are as follows: 2007 \$976.0 million; 2008 \$392.0 million; 2009 \$1,268.8 million; 2010 \$1,255.7 million; 2011 \$522.8 million; and thereafter \$2,218.3 million.

Table of Contents*Contractual Obligations*

Long-Term Contractual Obligations

We had long-term contractual obligations at December 31, 2006 related to long-term debt (senior and other notes, secured debt and assessment bonds), unfunded commitments on development projects and amounts due on lines of credit as follows (in millions):

| | Total | Payments Due By Period | | | |
|---|-----------|------------------------|-----------------|-----------------|----------------------|
| | | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
| Long-term debt obligations | \$ 5,871 | \$ 543 | \$ 1,095 | \$ 1,078 | \$ 3,155 |
| Interest on long-term debt obligations | 2,006 | 334 | 560 | 441 | 671 |
| Unfunded commitments on development projects (1) | 1,226 | 1,226 | | | |
| Amounts due on credit facilities (2) | 2,463 | | | 2,463 | |
| Interest on lines of credit and short-term borrowings (2) | 329 | 88 | 174 | 67 | |
| Totals | \$ 11,895 | \$ 2,191 | \$ 1,829 | \$ 4,049 | \$ 3,826 |

(1) We had properties under development at December 31, 2006 with a total expected investment of \$2.2 billion. The unfunded commitments presented include all costs necessary to place the property into service, including the costs of tenant improvements and marketing and leasing costs, not only those costs that we are obligated to fund under construction contracts.

(2) The maturity date of the credit agreements assumes that we exercise our option to extend.

Other Commitments

At December 31, 2006, we had letters of intent or contingent contracts, subject to final due diligence, for the acquisition of properties aggregating approximately 1.9 million square feet at an estimated total acquisition cost of approximately \$150 million. These transactions are subject to a number of conditions and we cannot predict with certainty that they will be consummated.

From time to time, we enter into Special Limited Contribution Agreements (SLCAs) in connection with certain of our contributions of properties to certain property funds. The potential obligations under the SLCAs aggregate \$663.6 million at December 31, 2006 and the combined market value of the assets in the property funds that are subject to the provisions of SLCAs was approximately \$9.1 billion at December 31, 2006. See Note 17 to our Consolidated Financial Statements in Item 8.

Distribution and Dividend Requirements

Our common share distribution policy is to distribute a percentage of our cash flow that ensures we will meet the distribution requirements of the Code relating to a REIT while still allowing us to maximize the cash retained to meet other cash needs such as capital improvements and other investment activities. Because depreciation is a non-cash expense, cash flow typically will be greater than operating income and net earnings.

Cash distributions per common share paid in 2006, 2005 and 2004 were \$1.60, \$1.48 and \$1.46, respectively. In December 2006, the Board approved an increase in the annual distribution for 2007 from \$1.60 to \$1.84 per common share. The payment of common share distributions is dependent upon our financial condition and operating results and may be adjusted at the discretion of the Board during the year. A distribution of \$0.46 per common share for the first quarter of 2007 was declared on February 1, 2007. This distribution will be paid on February 28, 2007 to holders of common shares on February 14, 2007. We have increased our common share distribution level every year since our common shares became publicly traded in 1994.

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At December 31, 2006, we had three series of preferred shares outstanding. The annual dividend rates on preferred shares are \$4.27 per Series C Preferred Share, \$1.69 per Series F Preferred Share and \$1.69 per Series G Preferred Share.

Pursuant to the terms of our preferred shares, we are restricted from declaring or paying any distribution with respect to our common shares unless and until all cumulative dividends with respect to the preferred shares have been paid and sufficient funds have been set aside for dividends that have been declared for the then current dividend period with respect to the preferred shares.

Derivative Financial Instruments

We use derivative financial instruments as hedges to manage well-defined risk associated with interest and foreign currency exchange rate fluctuations on existing or anticipated obligations and transactions. The use of derivative financial instruments allows us to manage the risks of increases in interest rates and fluctuations in foreign currency exchange rates with respect to the effect these fluctuations would have on our income and cash flows. We do not use derivative financial instruments for trading or speculative purposes. See Note 16 to our Consolidated Financial Statements in Item 8 for information on contracts outstanding at December 31, 2006.

New Accounting Pronouncements

See Note 2 to our Consolidated Financial Statements in Item 8.

Funds from Operations

FFO is a non-GAAP measure that is commonly used in the real estate industry. The most directly comparable GAAP measure to FFO is net earnings. Although NAREIT has published a definition of FFO, modifications to the NAREIT calculation of FFO are common among REITs, as companies seek to provide financial measures that meaningfully reflect their business. FFO, as we define it, is presented as a supplemental financial measure. We do not use FFO as, nor should it be considered to be, an alternative to net earnings computed under GAAP as an indicator of our operating performance or as an alternative to cash from operating activities computed under GAAP as an indicator of our ability to fund our cash needs.

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor do we intend it to present, a complete picture of our financial condition and operating performance. We believe net earnings computed under GAAP remains the primary measure of performance and that FFO is only meaningful when it is used in conjunction with net earnings computed under GAAP. Further, we believe our consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of our financial condition and our operating performance.

NAREIT's FFO measure adjusts net earnings computed under GAAP to exclude historical cost depreciation and gains and losses from the sales of previously depreciated properties. We agree that these two NAREIT adjustments are useful to investors for the following reasons:

(a) historical cost accounting for real estate assets in accordance with GAAP assumes, through depreciation charges, that the value of real estate assets diminishes predictably over time. NAREIT stated in its White Paper on FFO since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Consequently, NAREIT's definition of FFO reflects the fact that real estate, as an asset

class, generally appreciates over time and depreciation charges required by GAAP do not reflect the underlying economic realities.

(b) REITs were created as a legal form of organization in order to encourage public ownership of real estate as an asset class through investment in firms that were in the business of long-term ownership and management of real estate. The exclusion, in NAREIT's definition of FFO, of gains and losses from the sales of previously depreciated operating real estate assets allows investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assists in

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comparing those operating results between periods. We include the gains and losses from dispositions of properties acquired or developed in our CDFS business segment and our proportionate share of the gains and losses from dispositions recognized by the property funds in our definition of FFO.

At the same time that NAREIT created and defined its FFO concept for the REIT industry, it also recognized that management of each of its member companies has the responsibility and authority to publish financial information that it regards as useful to the financial community. We believe financial analysts, potential investors and shareholders who review our operating results are best served by a defined FFO measure that includes other adjustments to net earnings computed under GAAP in addition to those included in the NAREIT defined measure of FFO.

Our defined FFO measure excludes the following items from net earnings computed under GAAP that are not excluded in the NAREIT defined FFO measure:

- (i) deferred income tax benefits and deferred income tax expenses recognized by our subsidiaries;
- (ii) current income tax expense related to acquired tax liabilities that were recorded as deferred tax liabilities in an acquisition, to the extent the expense is offset with a deferred income tax benefit in GAAP earnings that is excluded from our defined FFO measure;
- (iii) certain foreign currency exchange gains and losses resulting from certain debt transactions between us and our foreign consolidated subsidiaries and our foreign unconsolidated investees;
- (iv) foreign currency exchange gains and losses from the remeasurement (based on current foreign currency exchange rates) of certain third party debt of our foreign consolidated subsidiaries and our foreign unconsolidated investees; and
- (v) mark-to-market adjustments associated with derivative financial instruments utilized to manage foreign currency risks.

FFO of our unconsolidated investees is calculated on the same basis.

The items that we exclude from net earnings computed under GAAP, while not infrequent or unusual, are subject to significant fluctuations from period to period that cause both positive and negative effects on our results of operations, in inconsistent and unpredictable directions. Most importantly, the economics underlying the items that we exclude from net earnings computed under GAAP are not the primary drivers in management's decision-making process and capital investment decisions. Period to period fluctuations in these items can be driven by accounting for short-term factors that are not relevant to long-term investment decisions, long-term capital structures or long-term tax planning and tax structuring decisions. Accordingly, we believe investors are best served if the information that is made available to them allows them to align their analysis and evaluation of our operating results along the same lines that our management uses in planning and executing our business strategy.

Real estate is a capital-intensive business. Investors' analyses of the performance of real estate companies tend to be centered on understanding the asset value created by real estate investment decisions and understanding current operating returns that are being generated by those same investment decisions. The adjustments to net earnings computed under GAAP that are included in arriving at our FFO measure are helpful to management in making real estate investment decisions and evaluating our current operating performance. We believe these adjustments are also helpful to industry analysts, potential investors and shareholders in their understanding and evaluation of our performance on the key measures of net asset value and current operating returns generated on real estate investments.

While we believe our defined FFO measure is an important supplemental measure, neither NAREIT's nor our measure of FFO should be used alone because they exclude significant economic components of net earnings computed under GAAP and are, therefore, limited as an analytical tool. Some of these limitations are:

The current income tax expenses that are excluded from our defined FFO measure represent the taxes that are payable.

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Depreciation and amortization of real estate assets are economic costs that are excluded from FFO. FFO is limited, as it does not reflect the cash requirements that may be necessary for future replacements of the real estate assets. Further, the amortization of capital expenditures and leasing costs necessary to maintain the operating performance of distribution properties are not reflected in FFO.

Gains or losses from property dispositions represent changes in the value of the disposed properties. By excluding these gains and losses, FFO does not capture realized changes in the value of disposed properties arising from changes in market conditions.

The deferred income tax benefits and expenses that are excluded from our defined FFO measure result from the creation of a deferred income tax asset or liability that may have to be settled at some future point. Our defined FFO measure does not currently reflect any income or expense that may result from such settlement.

The foreign currency exchange gains and losses that are excluded from our defined FFO measure are generally recognized based on movements in foreign currency exchange rates through a specific point in time. The ultimate settlement of our foreign currency-denominated net assets is indefinite as to timing and amount. Our FFO measure is limited in that it does not reflect the current period changes in these net assets that result from periodic foreign currency exchange rate movements.

We compensate for these limitations by using the FFO measure only in conjunction with net earnings computed under GAAP. To further compensate, we always reconcile our FFO measure to net earnings computed under GAAP in our financial reports. Additionally, we provide investors with complete financial statements prepared under GAAP; our definition of FFO, which includes a discussion of the limitations of using our non-GAAP measure; and a reconciliation of our GAAP measure (net earnings) to our non-GAAP measure (FFO, as we define it), so that investors can appropriately incorporate this measure and its limitations into their analyses.

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FFO attributable to common shares as defined by us was \$945.1 million, \$530.5 million and \$400.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. The reconciliations of FFO attributable to common shares as defined by us to net earnings attributable to common shares computed under GAAP are as follows for the periods indicated (in thousands):

| | Years Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| FFO: | | | |
| Reconciliation of net earnings to FFO: | | | |
| Net earnings attributable to common shares | \$ 848,951 | \$ 370,747 | \$ 202,813 |
| Add (deduct) NAREIT defined adjustments: | | | |
| Real estate related depreciation and amortization | 283,701 | 184,792 | 158,344 |
| Additional CDFS proceeds recognized | 466 | | |
| Gains recognized on dispositions of certain non-CDFS business assets and other | (81,470) | | (6,236) |
| Reconciling items attributable to discontinued operations: | | | |
| Gains recognized on dispositions of non-CDFS business assets | (103,729) | (86,444) | (1,718) |
| Real estate related depreciation and amortization | 5,315 | 11,399 | 6,351 |
| Totals discontinued operations | (98,414) | (75,045) | 4,633 |
| Our share of reconciling items from unconsolidated investees: | | | |
| Real estate related depreciation and amortization | 68,151 | 57,766 | 42,635 |
| (Gains) losses on dispositions of non-CDFS business assets | (7,124) | (1,114) | 601 |
| Other amortization items | (16,000) | (5,134) | (3,498) |
| Totals unconsolidated investees | 45,027 | 51,518 | 39,738 |
| Totals NAREIT defined adjustments | 149,310 | 161,265 | 196,479 |
| Subtotals NAREIT defined FFO | 998,261 | 532,012 | 399,292 |
| Add (deduct) our defined adjustments: | | | |
| Foreign currency exchange gains, net | (19,555) | (14,065) | (16,590) |
| Current income tax expense | 23,191 | | |
| Deferred income tax (benefit) expense | (53,722) | 12,045 | 18,692 |
| Reconciling items attributable to discontinued operations deferred income tax benefit | | (213) | (1,075) |
| Our share of reconciling items from unconsolidated investees: | | | |
| Foreign currency exchange (gains) expenses/losses, net | (45) | 298 | 443 |
| Deferred income tax (benefit) expense | (2,982) | 395 | (359) |
| Totals unconsolidated investees | (3,027) | 693 | 84 |
| Totals our defined adjustments | (53,113) | (1,540) | 1,111 |
| FFO attributable to common shares as defined by us | \$ 945,148 | \$ 530,472 | \$ 400,403 |

ITEM 7A. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risk from changes in interest rates and foreign currency exchange rates. We use certain derivative financial instruments, primarily foreign currency put option and forward contracts, to reduce our foreign currency market risk. We have also used interest rate swap agreements to reduce our interest rate

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market risk. We do not use financial instruments for trading or speculative purposes and all financial instruments are entered into in accordance with policies that have been approved by our Board.

We estimate our market risk exposures using a sensitivity analysis. We define our market risk exposure as: (i) the potential loss in future earnings and cash flows due to interest rate exposure and (ii) the potential loss in future earnings with respect to foreign currency exchange exposure. Our sensitivity analysis estimates the exposure to market risk sensitive instruments assuming a hypothetical 10% adverse change in year end interest rates and foreign currency exchange rates. The results of the sensitivity analysis are summarized below. The sensitivity analysis is of limited predictive value. As a result, our ultimate realized gains or losses with respect to interest rate and foreign currency exchange rate fluctuations will depend on the exposures that arise during a future period, hedging strategies at the time and the prevailing interest and foreign currency exchange rates.

Interest Rate Risk

Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows. To achieve this objective, we borrow on a fixed rate basis for longer-term debt issuances. In anticipation of a financing expected to occur in 2006, we entered into several interest rate swap contracts that were designated as cash flow hedges to fix the interest rate on a portion of the expected financing. The financing occurred in November 2006 with the issuance of \$550.0 million of senior notes. We have no derivative contracts outstanding at December 31, 2006 as hedges of our future fixed rate debt or our variable lines of credit, although we may in the future fix existing variable rate borrowings to manage our interest rate exposure.

Our primary interest rate risk is created by the variable rate lines of credit. During the year ended December 31, 2006, we had weighted average daily outstanding borrowings of \$2.3 billion on our variable rate lines of credit. Based on the results of the sensitivity analysis, which assumed a 10% adverse change in interest rates, the estimated market risk exposure for the variable rate lines of credit was approximately \$7.0 million of cash flow for the year ended December 31, 2006. The sensitivity analysis was based on the weighted average outstanding variable rate borrowings for 2006.

We also have \$552.0 million of variable interest rate debt in which we have a market risk of increased rates. Based on a sensitivity analysis with a 10% adverse change in interest rates our estimated market risk exposure for this issuance is approximately \$1.7 million on our cash flow for the year ended December 31, 2006.

Foreign Currency Risk

We use foreign currency forward contracts to manage the foreign currency fluctuations of an intercompany loan denominated in pounds sterling, which allows us to sell pounds sterling at a fixed exchange rate to the U.S. dollar. At December 31, 2006, we had forward contracts outstanding with an aggregate notional amount of \$661.0 million.

We incur foreign currency exchange risk related to third party and intercompany debt of our foreign consolidated subsidiaries and unconsolidated investees that are not denominated in the functional currency of the subsidiary or investee. The remeasurement of certain of this debt results in the recognition of foreign currency exchange gains or losses. Our primary exposure to foreign currency exchange rates exists with the following currencies versus the U.S. dollar: euro, pound sterling and yen. Based on the results of a sensitivity analysis, which assumed a 10% adverse change in foreign currency exchange rates, the estimated market risk exposure to future earnings associated with this debt was \$118.1 million at December 31, 2006.

We primarily use foreign currency put option contracts to manage foreign currency exchange rate risk associated with the projected net operating income (operating income net of foreign denominated interest expense) of our foreign

consolidated subsidiaries and unconsolidated investees. At December 31, 2006, we had put option contracts outstanding with an aggregate notional amount of \$54.7 million.

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We translate to U.S. dollars the income and expenses of our consolidated foreign subsidiaries and our proportionate share of the net earnings or losses of our unconsolidated investees recognized under the equity method. We hedge the foreign currency exchange risk associated with approximately 40% to 65% of the forecasted net operating income from our foreign consolidated subsidiaries and unconsolidated investees through foreign currency put option contracts. The effect of the change in foreign currency exchange rates on translated income and expenses of our foreign consolidated subsidiaries and unconsolidated investees has a high degree of inverse correlation with the derivative instruments used to hedge it when rates go above the option strike rate (when rates are below or are expected to be below, there is no offset). Since we hedge approximately 40% to 65% of our projected net operating income from our foreign subsidiaries and investees for foreign currency rate fluctuations above the option strike rate, approximately 35% to 60% of the impact to the net earnings of our foreign subsidiaries and investees of an adverse movement in foreign exchange rates would not be offset by derivative instruments.

Fair Value of Financial Instruments

See Note 16 to our Consolidated Financial Statements in Item 8.

ITEM 8. Financial Statements and Supplementary Data

Our Consolidated Balance Sheets as of December 31, 2006 and 2005, our Consolidated Statements of Earnings, Shareholders' Equity and Comprehensive Income and Cash Flows for each of the years in the three-year period ended December 31, 2006, Notes to Consolidated Financial Statements and Schedule III - Real Estate and Accumulated Depreciation, together with the reports of KPMG LLP, Independent Registered Public Accounting Firm, are included under Item 15 of this report and are incorporated herein by reference. Selected unaudited quarterly financial data is presented in Note 21 of our Consolidated Financial Statements.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of December 31, 2006 to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to December 31, 2006, there were no significant changes in our internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

Management's Report on Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of our internal control over financial reporting was conducted as

of December 31, 2006 based on the criteria described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that, as of December 31, 2006, our internal control over financial reporting was effective.

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KPMG LLP, an independent registered public accounting firm, who audited and reported on our consolidated financial statements, has issued an attestation report on management's assessment of internal control over financial reporting that is included in Item 8.

Limitations of the Effectiveness of Controls

Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Trustees and Officers

The information required by this item is incorporated herein by reference to the description under Item 1 Our Management Executive Committee Members (but only with respect to Jeffrey H. Schwartz, Walter C. Rakowich, Ted R. Antenucci, Dessa M. Bokides, and Edward S. Nekritz), and to the descriptions under the captions Election of Trustees Nominees, Additional Information - Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Code of Ethics and Business Conduct, and Board of Trustees and Committees Audit Committee in our 2007 Proxy Statement.

ITEM 11. Executive Compensation

The information required by this item is incorporated herein by reference to the descriptions under the captions Compensation Matters and Board of Trustees and Committees Compensation Committee Interlocks and Insider Participation in our 2007 Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the descriptions under the captions Information Relating to Trustees, Nominees and Executive Officers Common Shares Beneficially Owned and to the table titled Equity Compensation Plan Information under the caption Compensation Matters Narrative Discussion to the Summary Compensation Table for Fiscal Year 2006 and the Grants of Plan-Based Awards Table for Fiscal Year 2006 in our 2007 Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the descriptions under the captions Information Relating to Trustees, Nominees and Executive Officers Certain Relationships and Related Transactions and Corporate Governance Trustee Independence in our 2007 Proxy Statement.

ITEM 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the description under the caption Independent Registered Public Accounting Firm in our 2007 Proxy Statement.

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PART IV

ITEM 15. Exhibits, Financial Statement Schedules

The following documents are filed as a part of this report:

(a) Financial Statements and Schedules:

1. Financial Statements:

See Index to Consolidated Financial Statements and Schedule III on page 62 of this report, which is incorporated herein by reference.

2. Financial Statement Schedules:

Schedule III Real Estate and Accumulated Depreciation

All other schedules have been omitted since the required information is presented in the Consolidated Financial Statements and the related Notes or is not applicable.

(b) Exhibits: The Exhibits required by Item 601 of Regulation S-K are listed in the Index to Exhibits on pages 140 to 144 of this report, which is incorporated herein by reference.

(c) Financial Statements: See Index to Consolidated Financial Statements and Schedule III on page 62 of this report, which is incorporated by reference.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders

ProLogis:

We have audited the accompanying consolidated balance sheets of ProLogis and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of ProLogis' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ProLogis and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ProLogis' internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*, and our report dated February 27, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Los Angeles, California
February 27, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders

ProLogis:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting that ProLogis maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. ProLogis' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of ProLogis' internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that ProLogis maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Also, in our opinion, ProLogis maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ProLogis and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows and related financial statement schedule for each of the years in the three-year period ended December 31, 2006, and our reports dated February 27, 2007 expressed an unqualified opinion on those consolidated financial statements and related financial statement schedule.

KPMG LLP

Los Angeles, California

February 27, 2007

Table of Contents**PROLOGIS****CONSOLIDATED STATEMENTS OF EARNINGS****Years Ended December 31, 2006, 2005 and 2004****(In thousands, except per share data)**

| | 2006 | 2005 | 2004 |
|--|------------------|------------------|------------------|
| Revenues: | | | |
| Rental income | \$ 927,719 | \$ 600,869 | \$ 509,490 |
| CDFS disposition proceeds | 1,286,841 | 1,140,457 | 1,288,665 |
| Property management and other fees and incentives | 211,929 | 66,934 | 50,778 |
| Development management and other income | 37,420 | 25,464 | 2,698 |
| Total revenues | 2,463,909 | 1,833,724 | 1,851,631 |
| Expenses: | | | |
| Rental expenses | 239,545 | 161,680 | 131,238 |
| Cost of CDFS dispositions | 993,926 | 917,782 | 1,111,698 |
| General and administrative | 156,889 | 107,164 | 84,861 |
| Depreciation and amortization | 293,027 | 191,945 | 161,968 |
| Merger integration expenses | 2,630 | 12,152 | |
| Relocation expenses | 93 | 4,451 | 6,794 |
| Other expenses | 13,013 | 8,633 | 5,519 |
| Total expenses | 1,699,123 | 1,403,807 | 1,502,078 |
| Operating income | 764,786 | 429,917 | 349,553 |
| Other income (expense): | | | |
| Earnings from unconsolidated property funds | 93,055 | 46,078 | 42,899 |
| Earnings (losses) from CDFS joint ventures and other unconsolidated investees | 50,703 | 6,421 | (801) |
| Interest expense | (294,403) | (177,562) | (152,551) |
| Interest income on long-term notes receivable | 16,730 | 6,781 | |
| Interest and other income, net | 18,248 | 10,724 | 5,721 |
| Total other income (expense) | (115,667) | (107,558) | (104,732) |
| Earnings before minority interest | 649,119 | 322,359 | 244,821 |
| Minority interest | 3,457 | 5,243 | 4,875 |
| Earnings before certain net gains | 645,662 | 317,116 | 239,946 |
| Gains recognized on dispositions of certain non-CDFS business assets and other | 81,470 | | 9,400 |
| Foreign currency exchange gains, net | 21,086 | 15,979 | 14,686 |
| Earnings before income taxes | 748,218 | 333,095 | 264,032 |
| Income taxes: | | | |

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| | | | | |
|--|----------|------------|------------|------------|
| Current income tax expense | | 84,250 | 14,847 | 24,870 |
| Deferred income tax (benefit) expense | | (53,722) | 12,045 | 18,692 |
| Total income taxes | | 30,528 | 26,892 | 43,562 |
| Earnings from continuing operations | | 717,690 | 306,203 | 220,470 |
| Discontinued operations: | | | | |
| Income attributable to disposed properties and assets held for sale | | 19,434 | 18,050 | 14,728 |
| Losses related to temperature-controlled distribution assets | | | (25,150) | (36,671) |
| Gains recognized on dispositions: | | | | |
| Non-CDFS business assets | | 103,729 | 86,444 | 1,549 |
| CDFS business assets | | 33,514 | 10,616 | 32,719 |
| Total discontinued operations | | 156,677 | 89,960 | 12,325 |
| Net earnings | | 874,367 | 396,163 | 232,795 |
| Less preferred share dividends | | 25,416 | 25,416 | 25,746 |
| Less excess of redemption values over carrying values of preferred shares redeemed | | | | 4,236 |
| Net earnings attributable to common shares | | \$ 848,951 | \$ 370,747 | \$ 202,813 |
| Weighted average common shares outstanding | Basic | 245,952 | 203,337 | 182,226 |
| Weighted average common shares outstanding | Diluted | 256,852 | 213,713 | 191,801 |
| Net earnings per share attributable to common shares | Basic: | | | |
| Continuing operations | | \$ 2.81 | \$ 1.38 | \$ 1.04 |
| Discontinued operations | | 0.64 | 0.44 | 0.07 |
| Net earnings per share attributable to common shares | Basic | \$ 3.45 | \$ 1.82 | \$ 1.11 |
| Net earnings per share attributable to common shares | Diluted: | | | |
| Continuing operations | | \$ 2.71 | \$ 1.34 | \$ 1.02 |
| Discontinued operations | | 0.61 | 0.42 | 0.06 |
| Net earnings per share attributable to common shares | Diluted | \$ 3.32 | \$ 1.76 | \$ 1.08 |
| Distributions per common share | | \$ 1.60 | \$ 1.48 | \$ 1.46 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**PROLOGIS****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)**

| | December 31, | |
|--|---------------------|---------------|
| | 2006 | 2005 |
| ASSETS | | |
| Real estate | \$ 13,953,999 | \$ 11,875,130 |
| Less accumulated depreciation | 1,280,206 | 1,118,547 |
| | 12,673,793 | 10,756,583 |
| Investments in and advances to unconsolidated investees | 1,299,697 | 1,049,743 |
| Cash and cash equivalents | 475,791 | 203,800 |
| Accounts and notes receivable | 439,791 | 327,214 |
| Other assets | 957,295 | 788,840 |
| Discontinued operations assets held for sale | 57,158 | |
| Total assets | \$ 15,903,525 | \$ 13,126,180 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Liabilities: | | |
| Debt | \$ 8,386,886 | \$ 6,677,880 |
| Accounts payable and accrued expenses | 518,651 | 344,423 |
| Other liabilities | 546,129 | 557,210 |
| Discontinued operations assets held for sale | 1,012 | |
| Total liabilities | 9,452,678 | 7,579,513 |
| Minority interest | 52,268 | 58,644 |
| Shareholders equity: | | |
| Series C preferred shares at stated liquidation preference of \$50.00 per share; \$0.01 par value; 2,000 shares issued and outstanding at December 31, 2006 and 2005 | 100,000 | 100,000 |
| Series F preferred shares at stated liquidation preference of \$25.00 per share; \$0.01 par value; 5,000 shares issued and outstanding at December 31, 2006 and 2005 | 125,000 | 125,000 |
| Series G preferred shares at stated liquidation preference of \$25.00 per share; \$0.01 par value; 5,000 shares issued and outstanding at December 31, 2006 and 2005 | 125,000 | 125,000 |
| Common shares; \$0.01 par value; 250,912 shares issued and outstanding at December 31, 2006 and 243,781 shares issued and outstanding at December 31, 2005 | 2,509 | 2,438 |
| Additional paid-in capital | 6,000,119 | 5,606,017 |
| Accumulated other comprehensive income | 216,922 | 149,586 |

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| | | |
|--|---------------|---------------|
| Distributions in excess of net earnings | (170,971) | (620,018) |
| Total shareholders' equity | 6,398,579 | 5,488,023 |
| Total liabilities and shareholders' equity | \$ 15,903,525 | \$ 13,126,180 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

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**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
Years Ended December 31, 2006, 2005 and 2004
(In thousands)**

| | 2006 | 2005 | 2004 |
|---|--------------|--------------|--------------|
| Common shares number of shares at beginning of year | 243,781 | 185,789 | 180,183 |
| Issuance of common shares in connection with the Catellus Merger | | 55,889 | |
| Issuances of common shares under common share plans | 6,951 | 2,092 | 5,590 |
| Conversions of limited partnership units | 180 | 11 | 16 |
| Common shares number of shares at end of year | 250,912 | 243,781 | 185,789 |
| Common shares par value at beginning of year | \$ 2,438 | \$ 1,858 | \$ 1,802 |
| Issuance of common shares in connection with the Catellus Merger | | 559 | |
| Issuances of common shares under common share plans | 69 | 21 | 56 |
| Conversions of limited partnership units | 2 | | |
| Common shares par value at end of year | \$ 2,509 | \$ 2,438 | \$ 1,858 |
| Preferred shares at stated liquidation preference at beginning of year | \$ 350,000 | \$ 350,000 | \$ 475,000 |
| Redemption of Series D preferred shares | | | (125,000) |
| Preferred shares at stated liquidation preference at end of year | \$ 350,000 | \$ 350,000 | \$ 350,000 |
| Additional paid-in capital at beginning of year | \$ 5,606,017 | \$ 3,249,576 | \$ 3,073,959 |
| Issuance of common shares in connection with the Catellus Merger | | 2,285,029 | |
| Issuances of common shares under common share plans | 357,448 | 43,126 | 148,248 |
| Conversions of limited partnership units | 6,475 | 150 | 869 |
| Excess of redemption values over carrying values of preferred shares redeemed | | | 4,236 |
| Cost of issuing preferred shares | | | (473) |
| Cost of issuing common shares | (76) | (1,395) | (157) |
| Change in receivable from timing differences on equity transactions | 244 | 2,494 | (1,365) |
| Cost of share-based compensation awards | 30,011 | 27,037 | 24,259 |
| Additional paid-in capital at end of year | \$ 6,000,119 | \$ 5,606,017 | \$ 3,249,576 |
| Accumulated other comprehensive income at beginning of year | \$ 149,586 | \$ 194,445 | \$ 138,235 |
| Foreign currency translation gains (losses), net | 70,777 | (70,076) | 63,276 |

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| | | | |
|---|--------------|--------------|--------------|
| Unrealized (losses) gains on derivative contracts, net | (3,441) | 25,217 | (7,066) |
| Accumulated other comprehensive income at end of year | \$ 216,922 | \$ 149,586 | \$ 194,445 |
| Distributions in excess of net earnings at beginning of year | \$ (620,018) | \$ (693,386) | \$ (630,064) |
| Net earnings | 874,367 | 396,163 | 232,795 |
| Preferred share dividends | (25,416) | (25,416) | (25,746) |
| Excess of redemption values over carrying values of preferred shares redeemed | | | (4,236) |
| Common share distributions | (399,904) | (297,379) | (266,135) |
| Distributions in excess of net earnings at end of year | \$ (170,971) | \$ (620,018) | \$ (693,386) |
| Total shareholders' equity at end of year | \$ 6,398,579 | \$ 5,488,023 | \$ 3,102,493 |
| Comprehensive income attributable to common shares: | | | |
| Net earnings | \$ 874,367 | \$ 396,163 | \$ 232,795 |
| Preferred share dividends | (25,416) | (25,416) | (25,746) |
| Excess of redemption values over carrying values of preferred shares redeemed | | | (4,236) |
| Foreign currency translation gains (losses), net | 70,777 | (70,076) | 63,276 |
| (Losses) gains on derivative contracts, net | (3,441) | 25,217 | (7,066) |
| Comprehensive income attributable to common shares | \$ 916,287 | \$ 325,888 | \$ 259,023 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2006, 2005 and 2004
(In thousands)

| | 2006 | 2005 | 2004 |
|---|-------------|-------------|-------------|
| Operating activities: | | | |
| Net earnings | \$ 874,367 | \$ 396,163 | \$ 232,795 |
| Minority interest share in earnings | 3,457 | 5,243 | 4,875 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Straight-lined rents | (36,418) | (11,411) | (9,654) |
| Cost of share-based compensation awards | 21,567 | 22,615 | 15,290 |
| Depreciation and amortization | 298,342 | 204,378 | 174,606 |
| Cumulative translation losses and impairment charge on assets held for sale | | 26,864 | 50,582 |
| Equity in earnings from unconsolidated investees | (143,758) | (52,499) | (42,098) |
| Distributions from and changes in operating receivables of unconsolidated investees | 99,062 | 47,514 | 34,452 |
| Amortization of deferred loan costs and net premium on debt | (6,366) | 1,615 | 5,741 |
| Gains recognized on dispositions of non-CDFS business assets and investments in property funds, net | (185,199) | (86,444) | (10,949) |
| Adjustments to foreign currency exchange amounts recognized | (18,774) | (10,288) | (10,477) |
| Deferred income tax (benefit) expense | (53,722) | 12,045 | 18,692 |
| Increase in accounts and notes receivable and other assets | (203,918) | (54,091) | (64,582) |
| Increase (decrease) in accounts payable and accrued expenses and other liabilities | 72,201 | (2,986) | 117,102 |
| Net cash provided by operating activities | 720,841 | 498,718 | 516,375 |
| Investing activities: | | | |
| Real estate investments | (3,729,313) | (2,468,396) | (1,659,209) |
| Purchase of ownership interests in property funds | (259,248) | | |
| Tenant improvements and lease commissions on previously leased space | (66,787) | (53,919) | (46,693) |
| Recurring capital expenditures | (29,437) | (26,989) | (24,561) |
| Cash consideration paid in Catellus Merger in 2005 and Keystone Transaction in 2004, net of cash acquired | | (1,292,644) | (510,560) |
| Cash received associated with the Keystone Transaction | | | 177,106 |
| Proceeds from dispositions of real estate assets | 2,095,231 | 1,516,614 | 1,405,420 |
| Proceeds from dispositions of investments in unconsolidated investees | | | 13,209 |
| Advances on notes receivable | (115,417) | | |
| Proceeds from repayments of notes receivable | 73,723 | 59,991 | |
| Increase in restricted cash for potential investment | (42,174) | | |
| Investments in unconsolidated investees | (175,677) | (16,726) | (63,528) |

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| | | | |
|---|-------------|-------------|------------|
| Return of investment from unconsolidated investees | 146,206 | 48,652 | 53,361 |
| Adjustments to cash balances resulting from a reporting change | | | 3,284 |
| Net cash used in investing activities | (2,102,893) | (2,233,417) | (652,171) |
| Financing activities: | | | |
| Net proceeds from sales and issuances of common shares under various common share plans | 358,038 | 45,641 | 146,782 |
| Redemptions of preferred shares | | | (125,000) |
| Distributions paid on common shares | (393,317) | (297,379) | (266,135) |
| Minority interest redemptions and distributions | (11,576) | (13,953) | (7,685) |
| Dividends paid on preferred shares | (19,062) | (25,416) | (25,746) |
| Debt and equity issuance costs paid | (13,840) | (8,112) | (4,507) |
| Repayment of debt assumed in Catellus Merger | | (106,356) | |
| Net proceeds from lines of credit and short-term borrowings | 368,158 | 1,348,023 | 210,784 |
| Proceeds from issuance of senior and other notes and secured debt | 1,945,325 | 890,011 | 420,573 |
| Payments on senior notes, secured debt and assessment bonds | (588,844) | (119,067) | (312,465) |
| Net cash provided by financing activities | 1,644,882 | 1,713,392 | 36,601 |
| Effect of exchange rate changes on cash | 9,161 | (11,422) | 4,221 |
| Net increase (decrease) in cash and cash equivalents | 271,991 | (32,729) | (94,974) |
| Cash and cash equivalents, beginning of year | 203,800 | 236,529 | 331,503 |
| Cash and cash equivalents, end of year | \$ 475,791 | \$ 203,800 | \$ 236,529 |

See Note 19 for information on non-cash investing and financing activities and other information.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Description of Business:**

ProLogis, collectively with our consolidated subsidiaries (we, our, us, the Company or ProLogis), is a publicly held real estate investment trust (REIT) that owns, operates and develops (directly and through our unconsolidated investees) primarily industrial distribution properties in North America, Europe and Asia. Our business consists of three reportable business segments: (i) property operations, (ii) fund management and (iii) CDFS business. Our property operations segment represents the direct long-term ownership of industrial distribution and retail properties. Our fund management segment represents the long-term investment management of property funds and the properties they own. Our CDFS business segment primarily encompasses our development or acquisition of real estate properties that are generally contributed to a property fund in which we have an ownership interest and act as manager, or sold to third parties. See Note 18 for further discussion of our business segments.

2. Summary of Significant Accounting Policies:

Basis of Presentation and Consolidation. The accompanying consolidated financial statements are presented in our functional currency, the U.S. dollar. All material intercompany transactions with consolidated entities have been eliminated.

We consolidate all entities that are wholly owned or those we own less than 100% but we control, as well as any variable interest entities in which we are the primary beneficiary. We evaluate our ability to control an entity and whether the entity is a variable interest entity and we are the primary beneficiary through the consideration of the following factors:

- (i) the form of our ownership interest;
- (ii) our representation on the entity's governing body;
- (iii) the size of our investment (including loans);
- (iv) estimates of future cash flows;
- (v) our ability to participate in policy making decisions, including but not limited to, the acquisition or disposition of investment properties and the incurrence or refinancing of debt;
- (vi) the rights of other investors to participate in the decision making process; and
- (vii) the ability for other partners or owners to replace us as manager and/or liquidate the venture, if applicable.

In June 2005, the Emerging Issues Task Force (EITF) reached a consensus regarding EITF Issue 04-5 *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity when the Limited Partners Have Certain Rights* (EITF 04-5). The EITF agreed on a framework for evaluating when a general partner controls a limited partnership and whether the partnership should be consolidated. The Financial Accounting Standards Board (the FASB) ratified the consensus that was effective June 29, 2005 for all new or modified partnerships and effective January 1, 2006 for all existing partnerships. We adopted EITF 04-5 on January 1, 2006. As such, we performed an evaluation of each of our unconsolidated investees. We first determined whether the entity needed to be evaluated under EITF 04-5 based on the ownership and legal structure. Next, we evaluated whether the limited partners had substantive kick-out rights or participating rights, both as defined under EITF 04-5. We concluded that the unconsolidated investees that were subject to EITF 04-5 and needed to be evaluated should be accounted for under the equity method of accounting based on the rights provided to the limited partners under the governing documents of the respective entity.

Use of Estimates. The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as

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PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of the date of the financial statements and revenue and expenses during the reporting period. Our actual results could differ from those estimates and assumptions.

Foreign Operations. The U.S. dollar is the functional currency for our consolidated subsidiaries and unconsolidated investees operating in the United States and Mexico and certain of our consolidated subsidiaries that operate as holding companies for foreign investments. The functional currency for our consolidated subsidiaries and unconsolidated investees operating in countries other than the United States and Mexico is the principal currency in which the entity's assets, liabilities, income and expenses are denominated, which may be different from the local currency of the country of incorporation or the country where the entity conducts its operations. The functional currencies of our consolidated subsidiaries and unconsolidated investees include the British pound sterling, Canadian dollar, Chinese renminbi, Czech Republic koruna, euro, Hungarian forint, Japanese yen, Korean won, Polish zloty, Swedish krona and Singapore dollar.

Our consolidated subsidiaries whose functional currency is not the U.S. dollar ultimately translate their financial statements into U.S. dollars at the time of consolidation of those subsidiaries' financial statements into our financial statements. Generally, assets and liabilities are translated at the exchange rate in effect as of the financial statement date. Income statement accounts are translated using the average exchange rate for the period. Income statement accounts that represent significant nonrecurring transactions are translated at the rate in effect as of the date of the transaction. Gains and losses resulting from the translation are included in accumulated other comprehensive income as a separate component of shareholders' equity. We translate our share of the net earnings or losses of our unconsolidated investees whose functional currency is not the U.S. dollar at the average exchange rate for the period.

We and our consolidated subsidiaries and unconsolidated investees may have transactions, including investments and advances, denominated in currencies other than the respective functional currency. In these instances, nonmonetary assets and liabilities are reflected at the historical exchange rate, monetary assets and liabilities are remeasured at the exchange rate in effect at the end of the period and income statement accounts are remeasured at the average exchange rate for the period. Gains and losses from remeasurement are generally included in our results of operations. Investment balances and certain intercompany advances are remeasured with the resulting adjustment recognized as a cumulative translation adjustment in accumulated other comprehensive income in shareholders' equity. This treatment is applicable to intercompany advances that are deemed to be a permanent source of capital to the subsidiary or investee. Upon the partial or complete sale of the foreign investment or upon complete or substantially complete liquidation of the foreign investment, the gain or loss on the sale or redemption transaction will include a portion of the cumulative translation adjustments that have been previously recorded in other comprehensive income. The amount included in the gain or loss is the portion of the cumulative translation adjustments that is attributable to that particular investment or intercompany advance that has become realized as a result of the transaction, generally when funds are repatriated to the United States.

Gains or losses are also included in results of operations when transactions with a third party, denominated in a currency other than the entity's functional currency, are settled and the functional currency cash flows realized are more or less than expected based upon the exchange rate in effect when the transactions were initiated.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of the net foreign currency exchange gains recognized in our results of operations were as follows (in thousands):

| | Years Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| Gains from remeasurement of certain intercompany and third party debt, net | \$ 36,025 | \$ 11,316 | \$ 11,075 |
| Gains (losses) from the settlement of certain intercompany and third party debt, net (1) | 1,843 | (4,418) | 4,065 |
| Transaction gains (losses), net | (2,068) | (638) | 144 |
| Derivative financial instruments (2): | | | |
| Expense associated with contracts settled during the period | (1,274) | (1,028) | (2,048) |
| Mark-to-market (losses) gains on outstanding contracts, net | (15,977) | | 1,450 |
| Gains realized at settlement of contracts (1) | 2,537 | 10,747 | |
| Totals | \$ 21,086 | \$ 15,979 | \$ 14,686 |

- (1) At the time certain debt balances are settled, remeasurement gains or losses that have been recognized in results of operations as unrealized are reversed and the cumulative foreign currency exchange gain or loss realized with respect to the settled balance is recognized in our results of operations as a realized gain or loss. During 2006, 2005 and 2004, we recognized gains of \$6.2 million, losses of \$7.2 million and gains of \$4.1 million, respectively, due to the settlement of intercompany loans denominated in British pounds sterling. In addition, during 2006 and 2005, we recognized gains of \$2.4 million and \$6.1 million, respectively (with no gains in 2004), associated with derivative contracts that settled during the period and were designed to manage the foreign currency fluctuations of these intercompany loans.
- (2) We enter into foreign currency put option contracts related to our operations in Europe and Japan. These put option contracts do not qualify for hedge accounting treatment. Accordingly, the cost of the contract is capitalized at the contract's inception and we mark the derivative to market as of the end of each subsequent reporting period and the related gains or losses are recorded in our earnings. Upon settlement of the contract, the mark-to-market adjustment is reversed, the total cost of the contract is expensed and any proceeds received are recognized as a realized gain.

Revenue Recognition.

Rental and other income. We lease our operating properties to customers under agreements that are classified as operating leases. We recognize the total minimum lease payments provided for under the leases on a straight-line basis over the lease term. Generally, under the terms of our leases, some or all of our rental expenses are recovered

from our customers. We reflect amounts recovered from customers as a component of rental income. A provision for possible loss is made if the collection of a receivable balance is considered doubtful. Some of our retail and ground leases provide for additional rent based on sales over a stated base amount during the lease year. We recognize this additional rent when each customer's sales exceed their sales threshold. We recognize interest income and management, development and other fees and incentives when earned, fixed and determinable.

Gains or Losses on Disposition of Real Estate. Gains or losses on the disposition of real estate assets are recorded when the recognition criteria have been met, generally at the time title is transferred, and we no longer have substantial continuing involvement with the real estate asset sold.

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When we contribute a property to a property fund or joint venture in which we have an ownership interest, we do not recognize a portion of the proceeds in our computation of the gain resulting from the contribution. The amount of proceeds not recognized is based on our continuing ownership interest in the contributed property that arises due to our ownership interest in the entity acquiring the property. We defer this portion of the proceeds by recognizing a reduction to our investment in the applicable unconsolidated investee. We adjust our proportionate share of net earnings or losses under the equity method in future periods to recognize the investee's recorded depreciation expense as if it were computed on our lower basis in the contributed properties rather than on the entity's basis. If a loss is realized when a property is contributed to an investee, the entire loss is recognized.

When a property that we originally contributed to a property fund or joint venture is disposed of to a third party, we recognize the amount of the proceeds we had previously deferred during the period the disposition occurs, in addition to our proportionate share of the gain or loss recognized by the investee. Further, during periods when our ownership interest in an investee decreases, we will recognize gains relating to previously deferred proceeds to coincide with our new ownership interest in the investee.

Rental Expenses. Rental expenses primarily include the cost of on-site and property management personnel, utilities, repairs and maintenance, property insurance and real estate taxes. Also included are direct expenses associated with our management of the property funds' operations.

Share-Based Compensation. On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123R *Share Based Payment* (SFAS 123R) using the modified prospective application. This standard requires companies to measure the cost of employee services received in exchange for an award of an equity instrument based on the award's fair value on the grant date and recognize the cost over the period during which an employee is required to provide service in exchange for the award, generally the vesting period. The impact of adoption of SFAS 123R is the inclusion of compensation expense within our Consolidated Statements of Earnings, which were previously disclosed as pro forma amounts within the notes to our Consolidated Financial Statements. See Note 5.

Prior to January 1, 2006, we recognized the costs of our share-based compensation plans under SFAS No. 123 *Accounting and Disclosure of Stock Based Compensation* that allowed us to continue to account for these plans under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). Under APB 25, if the exercise price of the share option granted equaled or exceeded the market price of the underlying share on the date of grant, no compensation expense was recognized. We granted share options to employees and members of our Board of Trustees (the Board) that had an exercise price that was equal to the market price on the day the options were granted. Therefore, no compensation expense was recognized. We recognized compensation expense if the terms of the share options or other instruments awarded were changed in such a manner that the variable accounting rules as provided in APB 25 became applicable. We recognized the intrinsic value related to other share awards granted as compensation expense over the applicable vesting period.

Relocation Expenses. The relocation expenses relate to the move of our corporate headquarters in the first quarter of 2006 and the relocation of our information technology and corporate accounting functions from El Paso, Texas to Denver, Colorado in the first quarter of 2005.

Income Taxes. ProLogis was formed as a Maryland real estate investment trust in January 1993 and we have, along with our consolidated REIT subsidiary, elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code). Under the Code, REITs are generally not required to pay federal income taxes if they distribute 100% of their taxable income and meet certain income, asset and shareholder tests. Certain of our consolidated subsidiaries in the United States are subject to federal income taxes and we are taxed in certain states in which we operate. In addition, many of the foreign countries where we have

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operations do not recognize REITs or do not accord REIT status under their respective tax laws to our entities that operate in their jurisdiction. Accordingly, we recognize income taxes for these jurisdictions, as appropriate.

Income taxes are accounted for under the asset and liability method. Deferred income tax is generally a function of the period's temporary differences (items that are treated differently for tax purposes than for financial reporting purposes), the utilization of tax net operating losses generated in prior years that had been previously recognized as deferred income tax assets and deferred income tax liabilities related to indemnification agreements related to certain contributions to property funds. A valuation allowance for deferred income tax assets is provided if we believe all or some portion of the deferred income tax asset may not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances that causes a change in the estimated realizability of the related deferred income tax asset is included in income. See also Note 7.

Long-Lived Assets

Real Estate Assets. Real estate assets are carried at cost. Costs incurred that are directly associated with the successful acquisition of real estate assets are capitalized as part of the investment basis of the real estate assets. Costs that are associated with unsuccessful acquisition efforts are expensed at the time the acquisition is abandoned. Costs incurred in developing, renovating, rehabilitating and improving real estate assets are capitalized as part of the investment basis of the real estate assets. Costs incurred in making repairs and maintaining real estate assets are expensed as incurred.

During the land development and construction periods of qualifying projects, we capitalize interest costs, insurance, real estate taxes and general and administrative costs of the personnel performing the development, renovation, rehabilitation and leasing activities; if such costs are incremental and identifiable to a specific activity. Capitalized costs are included in the investment basis of real estate assets except for the costs capitalized related to leasing activities, which are presented as a component of other assets. When a municipality district finances costs we incur for public infrastructure improvements, we record the costs in real estate until we are reimbursed.

The depreciable portions of real estate assets are charged to expense on a straight-line basis over their respective estimated useful lives. These useful lives are generally seven years for capital improvements, 10 years for standard tenant improvements, 30 years for industrial properties acquired, 40 years for office and retail properties acquired and 40 years for properties developed by us. Capitalized leasing costs are amortized over the respective lease term. Our average lease term for all leases in effect at December 31, 2006 was between four and five years. We develop properties in our CDFS business segment generally with the intent to contribute the properties to property funds in which we maintain an ownership interest and act as manager, or to sell the properties to third parties. We may acquire properties in our CDFS business segment that we generally plan to rehabilitate and/or reposition prior to contributing the properties to a property fund. We generally do not depreciate properties during the period from the completion of the development, rehabilitation or repositioning activities through the date the properties are contributed or sold.

Business Combinations, Goodwill and Intangible Assets. When we acquire a business or individual properties for long term investment, we allocate the purchase price to the various components of the acquisition based upon the fair value of each component. We estimate:

the fair value of the buildings on an as-if-vacant basis. The fair value allocated to land is generally based on relevant market data;

the market value of above and below market leases based upon our best estimate of current market rents. The value of each lease is recorded in either other assets or other liabilities, as appropriate;

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the value of costs to obtain tenants, primarily leasing commissions. These costs are recorded in other assets;

the value of debt based on quoted market rates for the same or similar issues, or by discounting future cash flows using rates currently available for debt with similar terms and maturities. Any discount or premium is included in the principal amount;

the value of any management contracts by discounting future expected cash flows under these contracts; and

the value of all other assumed assets and liabilities based on the best information available.

We amortize the acquired assets or liabilities as follows:

Above and below market leases are charged to rental income over the average term of the acquired lease.

Leasing commissions are charged to amortization expense over the average remaining estimated life of the lease.

Debt discount or premium is charged to interest expense using the effective interest method over the remaining term of the related debt.

Management contracts are charged to expense over the remaining term of the contract.

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. Goodwill amounts are not amortized, but rather we assess goodwill for impairment annually. However, an impairment assessment is performed at an earlier date if circumstances indicate that goodwill, or a portion thereof, may be impaired.

Investments in Unconsolidated Investees. Our investments in certain entities are presented under the equity method. The equity method is used when we have the ability to exercise significant influence over operating and financial policies of the investee but do not have control of the investee. Under the equity method, these investments (including advances to the investee) are initially recognized in the balance sheet at our cost and are subsequently adjusted to reflect our proportionate share of net earnings or losses of the investees, distributions received, deferred proceeds on the contribution of properties and certain other adjustments, as appropriate.

Impairment of Long-Lived Assets. We assess the carrying values of our respective long-lived assets, including goodwill and intangible assets, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. Recoverability of these assets is measured by comparison of the carrying amount of the asset to the estimated fair value. For operating buildings, the recoverability is based on the future undiscounted cash flows. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset, and the loss would be recognized as an impairment loss in our Consolidated Statements of Earnings.

Assets Held for Sale and Discontinued Operations. Discontinued operations represent a component of an entity that has either been disposed of or is classified as held for sale if both the operations and cash flows of the component have been or will be eliminated from ongoing operations of the entity as a result of the disposal transaction and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. The results of operations of the component of the property or operation that has been classified as discontinued operations are also reported as discontinued operations for all periods presented. A property is classified as held for sale when certain criteria are met. At such time, the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respective assets and liabilities are presented separately on our Consolidated Balance Sheets and depreciation is no longer recognized. Assets held for sale are reported at the lower of their carrying amount or their estimated fair value less the estimated costs to sell the assets.

Properties disposed of to third parties are considered discontinued operations unless such properties were developed under a pre-sale agreement. Properties contributed to property funds in which we maintain an ownership interest and act as manager are not considered discontinued operations due to our continuing involvement with the properties. The contribution of properties to the property funds is reflected in our Consolidated Statements of Earnings based on the nature of the properties contributed, either CDFS or non-CDFS. Discontinued operations recognized directly by our unconsolidated investees, if any, are not reflected separately from our investment balance or separately from the net earnings or losses of those unconsolidated investees.

Cash and Cash Equivalents. We consider all cash on hand, demand deposits with financial institutions and short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Our cash and cash equivalents are financial instruments that are exposed to concentrations of credit risk. We invest our cash with high-credit quality institutions. Cash balances may be invested in money market accounts that are not insured. We have not realized any losses in such cash investments or accounts and believe that we are not exposed to any significant credit risk.

Notes Receivable. The principal balance on notes receivable from third parties at December 31, 2006 and 2005 was \$237.3 million and \$145.2 million, respectively. Interest is recognized as earned and included in interest income on notes receivable in our Consolidated Statements of Earnings; however, we discontinue accruing interest when collection is considered doubtful. We use the effective interest method for notes receivable with stepped interest rates. Our weighted average effective annual interest rate for our notes receivable as of December 31, 2006 and 2005 was 8.6% and 9.9%, respectively. Notes receivable are generally collateralized by real property or a financing agreement.

Minority Interest. We recognize the minority interests in real estate partnerships or joint ventures in which we consolidate at each minority holder's respective share of the estimated fair value of the real estate as of the date of formation. Minority interest that was created or assumed as a part of a business combination is recognized at the underlying book value as of the date of the transaction. Minority interest is subsequently adjusted for additional contributions, distributions to minority holders and the minority holders' proportionate share of the net earnings or losses of each respective entity.

Certain limited partnership interests issued by us in connection with the formation of a real estate partnership and as consideration in a business combination are exchangeable into our common shares. Common shares issued upon exchange of a holder's minority interest are accounted for at our carrying value of the surrendered minority interest.

Preferred Share Redemptions. We recognize the excess of the redemption value of cumulative redeemable preferred shares over the carrying value as a charge to earnings attributable to common shares.

Costs of Raising Capital. Costs incurred in connection with the issuance of both common shares and preferred shares are treated as a reduction to additional paid-in capital. Costs incurred in connection with the issuance or renewal of debt are capitalized in other assets, and amortized to interest expense over the remaining term of the related debt.

Financial Instruments. In the normal course of business, we use certain types of derivative financial instruments for the purpose of managing our foreign currency exchange rate and interest rate risk. To qualify for hedge accounting treatment, the derivative instruments used for risk management purposes must effectively

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reduce the risk exposure that they are designed to hedge. For instruments associated with the hedge of anticipated transactions, hedge effectiveness criteria also require that the occurrence of the underlying transactions be probable. Instruments meeting these hedging criteria are formally designated as hedges at the inception of the contract.

We reflect our derivative financial instruments at fair value and record changes in the fair value of these derivatives each period in earnings or comprehensive income, as appropriate. The ineffective portion of a hedge, if any, is immediately recognized in earnings to the extent that the change in value of a derivative does not perfectly offset the change in value of the instrument being hedged. The unrealized gains and losses recorded in accumulated other comprehensive income are amortized to earnings over the remaining term of the hedged items.

In assessing the fair value of our financial instruments, we use a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. Primarily, we use quoted market prices or quotes from brokers or dealers for the same or similar instruments. These values represent a general approximation of possible value and may never actually be realized.

Environmental costs. We incur certain environmental remediation costs, including cleanup costs, consulting fees for environmental studies and investigations, monitoring costs, and legal costs relating to cleanup, litigation defense, and the pursuit of responsible third parties. Costs incurred in connection with operating properties and properties previously sold are expensed. Costs related to undeveloped land are capitalized as development costs. Costs incurred for properties to be disposed are included in the cost of disposed assets when the properties are disposed. We maintain a liability for estimated costs of environmental remediation to be incurred in connection with undeveloped land, operating properties and properties previously sold.

Recent Accounting Pronouncements. In July 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48), was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* . FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new standard also provides guidance on various income tax accounting issues, including derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006 and are to be applied to all tax positions upon initial adoption. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 is to be reported as an adjustment to the opening balance of retained earnings for the year of adoption. We do not expect the adoption of FIN 48 on January 1, 2007 to have a material impact on our financial position.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for fiscal years ending after November 15, 2006. We adopted SAB 108 for our fiscal year ended December 31, 2006, and it had no impact on our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements so it does not require any new fair value measurements. SFAS 157 is

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effective for fiscal years beginning after November 15, 2007. We plan to adopt SFAS 157 beginning in the first quarter of 2008. We are currently assessing what impact, if any, the adoption of SFAS 157 will have on our financial position and results of operations.

Reclassifications. Certain amounts included in our Consolidated Financial Statements for prior years have been reclassified to conform to the 2006 financial statement presentation.

3. Mergers and Acquisitions:*Catellus Development Corporation*

On September 15, 2005, Catellus Development Corporation, a publicly traded REIT (Catellus), merged with and into Palmtree Acquisition Corporation, one of our subsidiaries (the Catellus Merger). The total purchase price was \$5.3 billion, which was financed by \$1.3 billion of cash and 55.9 million common shares issued to former Catellus stockholders (valued at \$2.3 billion), \$37.4 million in cash for transaction costs and the assumption of \$1.7 billion in liabilities. In allocating the purchase price based on estimated fair values, we initially recorded approximately \$4.5 billion of real estate assets, \$661.9 million of other assets, primarily tangible assets, and \$152.9 million of goodwill. The allocation of goodwill increased by approximately \$27.0 million in 2006 primarily as a result of changes in the valuation of real estate assets, partially offset by liabilities recorded for certain pre-merger contingencies that were deemed to be probable and could be reasonably estimated.

In connection with the Catellus Merger, we incurred \$2.6 million and \$12.2 million of merger integration costs in 2006 and 2005, respectively. These costs were indirect costs associated with the Catellus Merger, such as employee transition costs, as well as severance costs for certain of our employees whose responsibilities became redundant after the merger.

ProLogis North American Properties Fund XII

On September 30, 2005, we acquired the 80% interest in ProLogis North American Properties Fund XII owned by our fund partner. The acquisition resulted in the addition of 12 buildings aggregating 3.4 million square feet with an aggregate property value of \$283.2 million to our direct-owned industrial portfolio, including assumed debt of approximately \$15.1 million.

Keystone

On May 3, 2004, we and affiliates of four investment funds managed by Eaton Vance Management (the Fund Affiliates) established five property funds (the Acquiring Property Funds and also referred to by us as ProLogis North American Properties Funds VI, VII, VIII, IX and X see Note 4). We have a 20% ownership interest in each of the Acquiring Property Funds with the remainder owned by the Fund Affiliates. In addition, on May 3, 2004, we and the Acquiring Property Funds entered into an agreement to acquire the outstanding equity of Keystone Property Trust (Keystone), a publicly traded REIT, and the operating units of Keystone Operating Partnership, L.P., a subsidiary of Keystone (the Keystone Transaction).

On August 4, 2004, we and the Acquiring Property Funds paid \$23.80 per Keystone common share outstanding and retired approximately \$567 million of Keystone's outstanding debt. On September 3, 2004, we and the Acquiring Property Funds paid a cash liquidation distribution of approximately \$125 million, including accrued dividends, to the holders of the outstanding preferred shares of Keystone, and Keystone was liquidated. Including these payments, assumed liabilities (including the issuance of limited partnership units to certain of Keystone's limited partners) and estimated transaction costs, the total consideration for the Keystone Transaction was approximately \$1.7 billion. Our share of the total consideration was approximately \$579 million, including our investment in the Acquiring Property Funds of approximately \$279 million and our direct

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acquisition of certain assets (nine properties aggregating 2.3 million square feet) and assumption of certain liabilities aggregating on a net basis approximately \$300 million.

4. Unconsolidated Investees:*Summary of Investments and Income*

Our investments in and advances to investees that are accounted for under the equity method are summarized by type of investee as follows (in thousands):

| | December 31, | |
|--|---------------------|--------------|
| | 2006 | 2005 |
| Property funds | \$ 981,840 | \$ 755,320 |
| CDFS joint ventures and other unconsolidated investees | 317,857 | 294,423 |
| Totals | \$ 1,299,697 | \$ 1,049,743 |

Property Funds

We recognize earnings or losses from our investments in property funds consisting of our proportionate share of the net earnings or losses of the property funds and interest income on advances made, if any. In addition, we earn fees for providing services to the property funds. The amounts we have recognized from our investments in the property funds are summarized as follows (in thousands):

| | Years Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| Earnings from unconsolidated property funds: | | | |
| North America | \$ 59,732 | \$ 24,224 | \$ 25,532 |
| Europe | 21,605 | 13,938 | 12,550 |
| Asia | 11,718 | 7,916 | 4,817 |
| Total earnings from unconsolidated property funds | \$ 93,055 | \$ 46,078 | \$ 42,899 |
| Property management and other fees and incentives: | | | |
| North America | \$ 57,800 | \$ 32,124 | \$ 22,505 |
| Europe | 145,622 | 30,064 | 25,336 |
| Asia | 8,507 | 4,746 | 2,937 |

| | | | |
|---|------------|-----------|-----------|
| Total property management and other fees and incentives | \$ 211,929 | \$ 66,934 | \$ 50,778 |
|---|------------|-----------|-----------|

Contributions of developed properties to a property fund allow us to realize a portion of the profits from our development activities while at the same time allowing us to maintain a long-term ownership interest in our developed properties. This business strategy also provides liquidity to fund our future development activities and generates fee income. The property funds generally own operating properties that we have contributed to them, although certain of the property funds have also acquired properties from third parties. We generally receive additional ownership interests in the property funds as part of the proceeds generated by the contributions of properties to maintain our ownership interest. We recognize our proportionate share of the earnings or losses of each property fund, earn fees for acting as the manager, and may earn additional fees and incentives by providing other services including, but not limited to, acquisition, development, construction management and leasing activities. We may also earn incentive performance participation income based on the investors' returns over a specified period.

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In September 2006, ProLogis European Properties (PEPR) completed an initial public offering (IPO) on the Euronext Amsterdam stock exchange in which the selling unitholders offered 49.8 million ordinary units. As the manager of the property fund, we were entitled to an incentive return based on the internal rate of return that the pre-IPO unitholders earned. The final incentive return of \$109.2 million was determined and recognized in the fourth quarter of 2006. The return was paid to us by an initial allocation of 3.9 million ordinary units, which increased our investment by \$68.6 million and our ownership interest to 24.0%, with the balance received in cash.

On January 4, 2006, we purchased the 80% ownership interests in each of ProLogis North American Properties Funds II, III and IV (collectively Funds II-IV) from our fund partner. On March 1, 2006, we contributed substantially all of these assets and associated liabilities to the ProLogis North American Industrial Fund (the North American Industrial Fund), which was formed in February 2006 (see below). In connection with these transactions, we recognized the following amounts in the respective financial statement line items for the year ended December 31, 2006, after deferral of \$17.9 million due to our continuing 20% ownership interest in the North American Industrial Fund (in thousands):

| | |
|---|-----------|
| CDFS disposition proceeds (1) | \$ 12,492 |
| Property management and other fees and incentives (2) | \$ 21,958 |
| Earnings from unconsolidated property funds (3) | \$ 37,113 |

(1) Represents the recognition of proceeds that we had previously deferred as part of CDFS proceeds upon the initial contributions of the properties to Funds II-IV.

(2) Represents an incentive return we earned due to certain return levels achieved by our fund partner upon the termination of Funds II-IV.

(3) Represents our proportionate share of the gain on termination recognized by Funds II-IV.

Information about our property funds (the names in parentheses represent the legal names of the entities) is as follows as of December 31:

| Fund Names | Number of properties owned 2006 | Square feet (in millions) 2006 | Ownership Percentage | | Investment in and advances to | |
|--|---|--|-------------------------|-------|----------------------------------|------------|
| | | | 2006 | 2005 | 2006 | 2005 |
| ProLogis California (ProLogis California I LLC) (1) | 81 | 14.2 | 50.0% | 50.0% | \$ 112,915 | \$ 115,743 |

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| | | | | | | |
|--|-----|-------|-------|-------|------------|------------|
| ProLogis North American Properties Fund I (ProLogis North American Properties Fund I LLC)(1) | 36 | 9.4 | 41.3% | 41.3% | 30,902 | 33,241 |
| ProLogis North American Properties Fund II - IV (2) | | | | 20.0% | | 12,410 |
| ProLogis North American Properties Fund V (3) | 154 | 36.2 | 11.3% | 11.3% | 53,331 | 53,104 |
| ProLogis North American Properties Fund VI (Allagash Property Trust) (1) | 22 | 8.6 | 20.0% | 20.0% | 39,149 | 42,227 |
| ProLogis North American Properties Fund VII (Brazos Property Trust) (1) | 29 | 6.1 | 20.0% | 20.0% | 31,816 | 32,543 |
| ProLogis North American Properties Fund VIII (Cimmaron Property Trust) (1) | 24 | 3.1 | 20.0% | 20.0% | 15,397 | 15,602 |
| ProLogis North American Properties Fund IX (Deerfield Property Trust) (1) | 20 | 3.4 | 20.0% | 20.0% | 14,076 | 14,274 |
| ProLogis North American Properties Fund X (Elkhorn Property Trust) (1) | 29 | 4.2 | 20.0% | 20.0% | 15,399 | 15,968 |
| ProLogis North American Properties Fund XI (KPJV, LLP) (1) | 14 | 4.3 | 20.0% | 20.0% | 31,871 | 33,094 |
| ProLogis North American Industrial Fund (4) | 126 | 21.2 | 20.0% | | 72,053 | |
| PEPR (ProLogis European Properties) (5) | 277 | 58.1 | 24.0% | 21.0% | 430,761 | 283,435 |
| ProLogis Japan Properties Fund I (PLD/RECO Japan TMK Property Trust) (1) | 18 | 7.4 | 20.0% | 20.0% | 87,705 | 103,679 |
| ProLogis Japan Properties Fund II (ProLogis Japan Properties Trust) (1)(6) | 13 | 5.1 | 20.0% | | 46,465 | |
| Totals | 843 | 181.3 | | | \$ 981,840 | \$ 755,320 |

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- (1) We have one fund partner in each of these property funds.
- (2) As discussed above, on January 4, 2006, we purchased the remaining 80% ownership interests of our fund partner in each of these property funds and subsequently contributed substantially all the assets and associated liabilities into the North American Industrial Fund.
- (3) We refer to the combined entities in which we have ownership interests (ProLogis-Macquarie Fund and the management company, as discussed below) as one property fund named ProLogis North American Properties Fund V.

Our ownership interest is held directly or indirectly by us, Macquarie ProLogis Trust (MPR), a publicly traded listed property trust in Australia and Macquarie Bank Limited (Macquarie Bank). We and a United States subsidiary of Macquarie Bank each have a 50% ownership interest in a company that was formed to act as manager of the ProLogis-Macquarie Fund.

At December 31, 2006, we had guaranteed \$15.0 million of borrowings to ProLogis North American Properties Fund V outstanding on a term loan that was repaid in January 2007 with proceeds from the issuance of secured debt which we do not guarantee. At December 31, 2005, we had guaranteed \$12.5 million of borrowings of ProLogis North American Properties Fund V outstanding on a term loan that was repaid in 2006.

On January 9, 2006, a preferred unit holder in a subsidiary of ProLogis North American Properties Fund V exercised its option to put its interest to us for \$55.0 million, which we acquired. We had an agreement with ProLogis North American Properties Fund V that enabled us to put this interest to the fund at the same price after June 30, 2006. On August 4, 2006, we exercised our option and received payment from ProLogis North American Properties Fund V.

During 2006, we contributed 20 properties for aggregate proceeds of \$132.4 million to ProLogis North American Properties Fund V.

- (4) In February 2006, we formed the North American Industrial Fund, with ten institutional investors, which will primarily own distribution properties in major distribution markets throughout the United States and Canada. We refer to the combined entities in which we have ownership interests as one property fund named ProLogis North American Industrial Fund. Our ownership percentage is based on our levels of ownership interest in these different entities. We are committed to offer to contribute to substantially all of our stabilized distribution properties developed in Canada and the United States to the North American Industrial Fund. The North American Industrial Fund has equity commitments, which expire in February 2009, aggregating approximately \$1.5 billion from third party investors, of which \$1.1 billion was unfunded at December 31, 2006. During 2006, we contributed 49 buildings for aggregate proceeds of \$451.8 million to the North American Industrial Fund in addition to the assets that were acquired from Funds II-IV, as discussed above.
- (5) During 2006, prior to PEPR's IPO, we contributed 19 properties to PEPR for aggregate proceeds of \$419.6 million. In connection with PEPR's IPO, we entered into a property contribution agreement under which

we are committed to offer to contribute to PEPR certain stabilized properties having an aggregate contribution value of 200 million (the currency equivalent of \$263.6 million at December 31, 2006), in specified markets in Europe through September 30, 2007, subject to the property meeting certain leasing and other criteria. As of December 31, 2006, we had not contributed any properties under this commitment.

- (6) ProLogis Japan Properties Fund II was formed on September 1, 2005. We are committed to offer to contribute all of the properties that we develop and stabilize in Japan through August 2008 to this property fund, subject to the property meeting certain leasing and other criteria. ProLogis Japan Properties Fund II has an equity commitment of \$600.0 million from our fund partner, which expires in August 2008, of

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which \$408.4 million was unfunded at December 31, 2006. During the year ended December 31, 2006, we contributed six properties to this property fund for aggregate proceeds of \$405.5 million and the property fund acquired seven properties from third parties.

Summarized financial information of the property funds (for the entire entity, not our proportionate share) and our investment in such funds is presented below as of and for the years ended December 31, 2006 and 2005 (dollars in millions):

| | 2006 | | | |
|---|--------------------------|---------------|-------------|--------------|
| | North America | Europe | Asia | Total |
| Revenues | \$ 494.6 | \$ 414.4 | \$ 120.9 | \$ 1,029.9 |
| Net earnings (1) | \$ 266.2 | \$ 88.2 | \$ 47.7 | \$ 402.1 |
| Total assets | \$ 6,420.7 | \$ 4,856.0 | \$ 1,958.3 | \$ 13,235.0 |
| Amounts due to us | \$ 6.7 | \$ 14.0 | \$ 75.2 | \$ 95.9 |
| Third party debt (2) | \$ 3,113.8 | \$ 2,615.6 | \$ 904.2 | \$ 6,633.6 |
| Total liabilities | \$ 4,360.8 | \$ 2,968.0 | \$ 1,054.2 | \$ 8,383.0 |
| Equity | \$ 2,054.2 | \$ 1,881.4 | \$ 904.1 | \$ 4,839.7 |
| Our weighted average ownership at end of period (3) | 23.1% | 24.0% | 20.0% | 23.0% |
| Our investment balance (4) | \$ 416.8 | \$ 430.8 | \$ 134.2 | \$ 981.8 |
| Deferred proceeds, net of amortization (5) | \$ 112.8 | \$ 123.7 | \$ 66.2 | \$ 302.7 |

| | 2005 | | | |
|---|--------------------------|---------------|-------------|--------------|
| | North America | Europe | Asia | Total |
| Revenues | \$ 489.9 | \$ 368.6 | \$ 70.7 | \$ 929.2 |
| Net earnings | \$ 99.3 | \$ 54.0 | \$ 32.9 | \$ 186.2 |
| Total assets | \$ 4,786.6 | \$ 4,052.0 | \$ 1,230.1 | \$ 10,068.7 |
| Amounts due to us | \$ 9.0 | \$ 15.7 | \$ 71.3 | \$ 96.0 |
| Third party debt (2) | \$ 2,690.7 | \$ 1,991.2 | \$ 535.1 | \$ 5,217.0 |
| Total liabilities | \$ 2,921.0 | \$ 2,409.6 | \$ 639.8 | \$ 5,970.4 |
| Equity | \$ 1,864.1 | \$ 1,637.9 | \$ 590.3 | \$ 4,092.3 |
| Our weighted average ownership at end of period (3) | 23.5% | 21.0% | 20.0% | 22.1% |
| Our investment balance (4) | \$ 368.2 | \$ 283.4 | \$ 103.7 | \$ 755.3 |
| Deferred proceeds, net of amortization (5) | \$ 77.7 | \$ 105.5 | \$ 44.1 | \$ 227.3 |

(1) Included in net earnings for Europe are expenses of approximately \$43.3 million related to the costs to complete PEPR's IPO, as this was an offering of existing units and no new capital was raised by PEPR. Included in net

earnings for North America is \$185.7 million representing the net gain recognized by the Funds II-IV upon termination in the first quarter of 2006.

- (2) As of December 31, 2006 and 2005, we had guaranteed \$15.0 million and \$12.5 million, respectively, related to borrowings of ProLogis North American Properties Fund V, both of which were repaid with proceeds from the issuance of secured debt that we do not guarantee.
- (3) Represents the weighted average of our ownership interests in all property funds at December 31, based on each entity's contribution to total assets, before depreciation, net of other liabilities.
- (4) The difference between our percentage ownership interest of the property fund's equity and our investment balance results from three types of transactions: (i) deferring a portion of the proceeds we receive from a contribution of one of our properties to a property fund as a result of our continuing ownership in the

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property (see below); (ii) recording additional costs associated with our investment in the property fund; and (iii) advances to the property funds.

- (5) This amount is recorded as a reduction to our investment and represents the proceeds that are deferred when we contribute a property to a property fund due to our continuing ownership in the property.

CDFS joint ventures and other unconsolidated investees

At December 31, 2006, we had investments in entities that perform some of our CDFS business activities (the CDFS joint ventures) and certain other investments. These joint ventures include entities that develop and own distribution properties and also include entities that perform land, multi-use, retail and residential development activity. The other operating joint ventures primarily include entities that own a hotel property and office properties.

The amounts we have recognized as our proportionate share of the earnings or losses from our investments in CDFS joint ventures and other unconsolidated investees, are summarized as follows (in thousands):

| | Years Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| North America | \$ 45,651 | \$ 4,178 | \$ (2,079) |
| Europe | 2,097 | 1,186 | 1,201 |
| Asia | 2,955 | 1,057 | 77 |
| Total earnings (losses) from CDFS joint ventures and other unconsolidated investees | \$ 50,703 | \$ 6,421 | \$ (801) |

Included in our earnings from CDFS joint ventures in North America for 2006 is income of \$35.0 million representing our proportionate share of the earnings of a CDFS joint venture, LAAFB JV . The LAAFB JV was formed to redevelop a U.S. Air Force base in Los Angeles, California in exchange for land parcels and certain rights to receive tax increment financing (TIF) proceeds over a period of time. As our investment in LAAFB JV is held in a taxable subsidiary, we also recognized a deferred income tax benefit of \$12.4 million and a current income tax expense of \$27.0 million for 2006 in our Consolidated Statements of Earnings. As of December 31, 2006, the operations of LAAFB JV were substantially complete.

Our investments in and advances to these entities were as follows as of December 31 (in thousands):

| | 2006 | 2005 |
|----------------------|-------------|-------------|
| CDFS joint ventures: | | |
| United States (1) | \$ 75,197 | \$ 113,008 |

| | | |
|------------------------------|------------|------------|
| Europe (2) | 8,499 | 12,238 |
| China (3) | 119,614 | 57,165 |
| Total CDFS joint ventures | \$ 203,310 | \$ 182,411 |
| Other investees: | | |
| Operating joint ventures (4) | \$ 88,104 | \$ 84,731 |
| Other | 26,443 | 27,281 |
| Total other investees | \$ 114,547 | \$ 112,012 |
| Total | \$ 317,857 | \$ 294,423 |

(1) Includes a 50% interest in one multi-use development entity, two residential development entities and two entities that own or are developing distribution properties.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (2) Includes investments in joint ventures that own land for future development of distribution properties and develop distribution properties.
- (3) Includes investments in joint ventures that own distribution properties that were acquired from third parties or developed by the joint venture, and that also develop distribution properties. In September 2006, we invested in an entity in China that we present on a consolidated basis. This entity has an investment interest (\$41.7 million at December 31, 2006) in an entity that primarily owns and develops retail properties and is accounted for under the equity method of accounting. As part of this transaction, we may be required to invest up to \$42.2 million of additional equity based on the attainment of certain performance criteria. This amount was deposited in escrow and is included in other assets in our Consolidated Balance Sheet at December 31, 2006. In addition, we have a commitment to provide a financial guarantee for up to 600 million renminbi (the currency equivalent of \$76.9 million at December 31, 2006). As of December 31, 2006, we have not been required to provide any guarantees.
- (4) Includes investments acquired in connection with the Catellus Merger, consisting primarily of a 25.16% interest in an entity that owns and operates a hotel property, a 38.75% interest in an entity that owns and operates the parking lot adjacent to the hotel property and a 66.67% interest in an entity that owns and operates office properties.

5. Long-Term Compensation:

The 2006 long-term incentive plan together with our 1997 long-term incentive plan (the Incentive Plan) provides for grants of share options, stock appreciation rights (SARs), full value awards and cash incentive awards to employees and other persons providing services to us and our subsidiaries, including outside trustees. No more than 28,660,000 common shares in the aggregate may be awarded under the Incentive Plan. In any one calendar-year period, no participant shall be granted: (i) more than 500,000 share options and SARs; (ii) more than 200,000 full value awards; or (iii) more than \$10,000,000 in cash incentive awards. Common shares may be awarded under the Incentive Plan until it is terminated by the Board. At December 31, 2006, 6,903,030 common shares were available to be issued under the Incentive Plan.

Share Options

We have granted various share options to our employees and trustees, subject to certain conditions. Each share option is exercisable into one common share. The holders of share options granted before 2001 earn dividend equivalent units (DEUs) on December 31st of each year until the earlier of the date the underlying share option is exercised or the expiration date of the underlying share option. The holders of share options granted in 2001 earned DEUs through 2005 and the holders of share options granted in 2002 and later do not earn DEUs. At December 31, 2006, there were 2,141,284 share options with a weighted average exercise price and remaining life of \$21.26 and 2.6 years, respectively, that will earn DEUs in the future. Share options granted to employees generally have graded vesting over a four-year period and have an exercise price equal to the market price on the date of grant. Share options granted to employees since September 2006 have an exercise price equal to the closing market price of our common stock on the date of grant. Prior to September 2006, the exercise price was based on the average of the high and low prices on the

date of grant. Share options granted to trustees generally vest immediately.

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Share options outstanding at December 31, 2006 were as follows:

| | Number of Options | Exercise Price | Expiration Date | Weighted Average Remaining Life (in years) |
|-----------------------|------------------------------|-----------------------|----------------------------|---|
| Outside Trustees Plan | 110,000 | \$19.75 - \$43.80 | 2009-2015 | 5.6 |
| Incentive Plan: | | | | |
| 1997 grants | 133,581 | \$21.22 | 2007 | 0.7 |
| 1998 grants | 662,105 | \$20.94 - \$21.09 | 2008 | 1.9 |
| 1999 grants | 651,409 | \$17.19 - \$18.63 | 2009 | 2.7 |
| 2000 grants | 645,586 | \$21.75 - \$24.25 | 2010 | 3.7 |
| 2001 grants | 529,625 | \$20.67 - \$22.02 | 2011 | 4.7 |
| 2002 grants | 985,074 | \$22.98 - \$24.76 | 2007, 2012 | 5.4 |
| 2003 grants | 1,205,295 | \$24.90 - \$31.26 | 2013 | 6.7 |
| 2004 grants | 1,610,138 | \$29.41 - \$41.50 | 2014 | 7.7 |
| 2005 grants | 1,067,210 | \$40.86 - \$45.46 | 2015 | 8.9 |
| 2006 grants | 864,030 | \$53.07 - \$59.92 | 2016 | 10.0 |
| Total | 8,464,053 | | | 6.2 |

The activity for the year ended December 31, 2006, with respect to our share options, is presented below:

| | Options Outstanding | | Options Exercisable | | |
|------------------------------|------------------------------|--|------------------------------|--|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price | Weighted Average Life (in years) |
| Balance at January 1, 2006 | 8,873,820 | \$ 29.19 | | | |
| Granted | 864,030 | 59.73 | | | |
| Exercised | (1,159,663) | 27.05 | | | |
| Forfeited | (114,134) | 36.71 | | | |
| Balance at December 31, 2006 | 8,464,053 | \$ 32.50 | 5,523,080 | \$ 26.20 | 5.0 |

The weighted-average grant-date fair value of options granted during the years 2006, 2005 and 2004 was \$10.40, \$7.26 and \$5.10, respectively. Total remaining compensation cost related to unvested share options as of December 31, 2006 was \$19.4 million, prior to adjustments for capitalized amounts due to our development and leasing activities and forfeited awards.

The activity for the year ended December 31, 2006, with respect to our non-vested share options, is presented below:

| | Number of Shares | Weighted-Average Grant-Date Fair Value |
|------------------------------|-----------------------------|---|
| Balance at January 1, 2006 | 3,897,954 | \$ 5.22 |
| Granted | 864,030 | 10.40 |
| Vested | (1,706,877) | 4.52 |
| Forfeited | (114,134) | 5.40 |
| Balance at December 31, 2006 | 2,940,973 | \$ 7.14 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Full Value Awards

Restricted Share Units

Restricted share units (RSUs) are granted at a rate of one common share per RSU to our employees. The RSUs are valued on the grant date based upon the market price of a common share on that date. We recognize the value of the RSUs granted as compensation expense over the applicable vesting period, which is generally four or five years. The RSUs do not carry voting rights during the vesting period, but do generally earn DEUs that vest according to the underlying RSU. The weighted-average fair value of RSUs granted during the years 2006, 2005 and 2004 was \$53.86, \$45.29 and \$34.00, respectively. In addition, annually we issue fully vested deferred share units to our trustees, which are expensed at the time of grant and earn DEUs.

Contingent Performance Shares and Performance Share Awards

Certain employees are granted contingent performance shares (CPSs) and Performance Share Awards (PSAs). There were grants of CPSs in December 2005, May 2006 and December 2006 of which the CPSs are earned based on our ranking in a defined subset of companies in the National Association of Real Estate Investment Trust s (NAREIT s) published index. These CPSs generally vest over a three-year period and the recipient must continue to be employed by us until the end of the vesting period. The amount of CPSs to be issued will be based on our ranking at the end of the three-year period, and may range from zero to twice the targeted award, or a maximum of 574,000 shares at December 31, 2006. For purposes of calculating compensation expense, we consider the CPSs to have a market condition and therefore we have estimated the grant date fair value of the CPSs using a pricing valuation model. We recognize the value of the CPSs granted as compensation expense utilizing the grant date fair value and the target shares over the vesting period.

There were grants of PSAs issued through December 31, 2005 based on certain specified performance criteria, established in advance, for each employee eligible for the grant. If a PSA is earned based on the performance criteria, the recipient must continue to be employed by us until the end of the vesting period, which is generally two years, before any portion of the grant is vested. The PSAs are valued on the grant date, based upon the market price of a common share on that date, which is recognized as compensation expense over the vesting period.

These awards carry no voting rights during this vesting period, but do earn DEUs that are vested at the end of the vesting period of the underlying award. The weighted-average fair value of CPSs and PSAs granted during the years 2006, 2005 and 2004 was \$64.35, \$48.78 and \$43.33, respectively.

Dividend Equivalent Units

DEUs in the form of common shares are earned at a rate of one common share per DEU for certain awards. Prior to the adoption of SFAS 123R, we recognized the value of the DEUs issued as compensation expense, based on the market price of a common share on the grant date, over the vesting period of the underlying share award. With the adoption of SFAS 123R, we treat the DEUs as dividends, which are charged to retained earnings and factored into the computation of the fair value of the underlying share award at grant date.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Summary of Activity of CPSs, PSAs and RSUs

Activity with respect to our CPSs, PSAs and RSUs is as follows:

| | Shares Outstanding | | |
|------------------------------|-----------------------------|--|------------------------------------|
| | Number of Shares | Weighted Average Original Value | Number of Vested Shares |
| Balance at January 1, 2006 | 1,792,335 | \$ 36.74 | 645,025 |
| Granted | 791,976 | 56.02 | |
| Exercised | (292,703) | 31.02 | |
| Forfeited | (26,732) | 48.62 | |
| Balance at December 31, 2006 | 2,264,876 | \$ 44.08 | 808,544 |

Total remaining compensation cost related to unvested CPSs, PSAs and RSUs as of December 31, 2006 was \$62.0 million, prior to adjustments for capitalized amounts due to our development and leasing activities and forfeited awards. This expense will be recognized through 2011, which equates to a weighted average period of 2.2 years.

The activity for the year ended December 31, 2006, with respect to our non-vested CPSs, PSAs and RSUs is presented below:

| | Number of Shares | | Weighted-Average Grant-Date Fair Value |
|------------------------------|-----------------------------|----|---|
| Balance at January 1, 2006 | 1,147,310 | \$ | 42.22 |
| Granted | 791,976 | | 56.02 |
| Vested | (456,222) | | 39.97 |
| Forfeited | (26,732) | | 48.62 |
| Balance at December 31, 2006 | 1,456,332 | \$ | 50.31 |

Adoption of SFAS 123R

During the year ended December 31, 2006, we recognized \$21.6 million of compensation expense under the provisions of SFAS 123R. This includes expense related to awards granted to our outside trustees and is net of \$8.4 million that was capitalized due to our development and leasing activities and forfeited awards. During the years ended December 31, 2005 and 2004, under the provisions of APB 25, we recognized \$22.6 million and \$15.3 million of compensation expense, respectively, net of \$4.6 million and \$7.4 million, respectively, that was capitalized due to our development and leasing activities. With the adoption of SFAS 123R, we now recognize the compensation cost associated with stock options that was previously disclosed in the notes to our Consolidated Financial Statements and we treat DEUs as dividends, which are charged to retained earnings and factored into the computation of the fair value of the underlying share award at grant date. Had we not adopted SFAS 123R for the year ended December 31, 2006, our net earnings attributable to common shares would have been \$846.8 million and our basic and diluted net earnings per share attributable to common shares would have been \$3.44 and \$3.31, respectively.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Had we adopted SFAS 123R on January 1, 2004, our net earnings attributable to common shares for the years ended December 31 would have changed as follows (in thousands, except per share amounts):

| | 2005 | 2004 |
|---|-------------|-------------|
| Net earnings attributable to common shares: | | |
| As reported | \$ 370,747 | \$ 202,813 |
| Pro forma | \$ 373,074 | \$ 206,429 |
| Net earnings per share attributable to common shares: | | |
| As reported Basic | \$ 1.82 | \$ 1.11 |
| As reported Diluted | \$ 1.76 | \$ 1.08 |
| Pro forma Basic | \$ 1.83 | \$ 1.13 |
| Pro forma Diluted | \$ 1.77 | \$ 1.10 |

We calculated the fair value of the options granted using a Black-Scholes pricing model and the following weighted average assumptions:

| | Years Ended December 31, | | |
|------------------------------|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| Risk-free interest rate | 4.51% | 4.33% | 3.82% |
| Dividend yield | 3.40% | 3.92% | 4.27% |
| Volatility | 19.46% | 20.33% | 20.52% |
| Weighted average option life | 5.8 years | 5.9 years | 6.25 years |

We use historical data to estimate dividend yield, share option exercises, expected term and employee departure behavior used in the Black-Scholes pricing model. The risk free rate for periods within the expected term of the share option is based on the U.S. Treasury yield curve in effect at the time of grant. To calculate expected volatility, we use historical volatility of our common stock and implied volatility of traded options on our common stock.

Other Plans

We have a 401(k) Savings Plan and Trust (401(k) Plan), that provides for matching employer contributions in common shares of 50 cents for every dollar contributed by an employee, up to 6% of the employees' annual compensation (within the statutory compensation limit). A total of 190,000 common shares have been authorized for issuance under the 401(k) Plan. The vesting of contributed common shares is based on the employees' years of service, with 20% vesting each year of service, over a five-year period. Through December 31, 2006, no common shares have been issued under the 401(k) Plan. All of our matching contributions have been made with common shares purchased by us in the open market.

We have a nonqualified savings plan to provide benefits for certain employees. The purpose of this plan is to allow highly compensated employees the opportunity to defer the receipt and income taxation of a certain portion of their compensation in excess of the amount permitted under the 401(k) Plan. We match the lesser of (a) 50% of the sum of deferrals under both the 401(k) Plan and this plan, and (b) 3% of total compensation up to certain levels. The matching contributions vest in the same manner as the 401(k) Plan. On a combined basis for both plans, our contributions under the matching provisions were \$1.1 million, \$0.8 million and \$0.5 million for 2006, 2005 and 2004, respectively.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Minority Interest:**

The minority interest at December 31 is as follows (dollars in thousands):

| | 2006 | | | 2005 | | |
|-------------------------|------------------|-----------|----------------------|------------------|-----------|----------------------|
| | # of Entities | Balance | Minority Interest | # of Entities | Balance | Minority Interest |
| North America (1)(2)(3) | 6 | \$ 38,112 | 1-31% | 7 | \$ 57,746 | 1-31% |
| China | 4 | 14,156 | 20-40% | 1 | 898 | 20% |
| | | \$ 52,268 | | | \$ 58,644 | |

- (1) At December 31, 2006 and 2005, an aggregate of 5,138,809 and 5,410,578, respectively, limited partnership units held by minority interest holders are convertible into 5,139,799 and 5,411,567, respectively, common shares. Certain of the limited partnerships units are owned by our Chief Executive Officer. See Note 15.
- (2) As of December 31, 2006 and 2005, there were 4,658,700 and 5,400,675, respectively, of the outstanding limited partnership units that were entitled to receive cumulative preferential quarterly cash distributions equal to the quarterly distributions paid on common shares.
- (3) Certain properties owned by these partnerships cannot be sold, prior to the occurrence of certain events, without the consent of the limited partners, other than in tax-deferred exchanges. The partnership agreement provides that a minimum level of debt must be maintained within the partnership, which can include intercompany debt to us.

7. Income Taxes:

For 2006, 2005 and 2004, we, and our REIT subsidiary, believe we have complied with the REIT requirements of the Code. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any alternative minimum tax) and may not be able to qualify as a REIT for the four subsequent taxable years. Even as a REIT, we may be subject to certain state and local taxes on our own income and property, and to federal income and excise taxes on our undistributed taxable income.

We have elected taxable REIT subsidiary (TRS) status for some of our consolidated subsidiaries, which operate primarily in the CDFS business segment. This enables us to provide services that would otherwise be considered impermissible for REITs. We recognize current income tax expense for the federal and state income taxes incurred by our TRSs.

The statute of limitations for our tax returns is generally three years, with our major tax jurisdictions being the United States, Luxemburg and the United Kingdom. As such, our tax returns that remain subject to examination would be primarily from 2003 and thereafter, except for Catellus. Certain 1999 and later federal and state income tax returns of Catellus are still open for audit or are currently under audit by the Internal Revenue Service (IRS) and various state taxing authorities. As of December 31, 2006, we have recorded an estimated federal and state income tax liability that represents our best estimate of the liability associated with these open periods. We will continue to evaluate the adequacy of the liability as additional information becomes available. Any increases or decreases in the liability associated with the potential income taxes related to Catellus will be reflected as an adjustment to goodwill recorded as part of the Catellus Merger.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Components of earnings before income taxes for the years ended December 31, are as follows (in thousands):

| | 2006 | 2005 | 2004 |
|---------------|-------------|-------------|-------------|
| Domestic | \$ 353,409 | \$ 91,316 | \$ 90,207 |
| International | 394,809 | 241,779 | 173,825 |
| Total | \$ 748,218 | \$ 333,095 | \$ 264,032 |

Components of the provision for income taxes for the years ended December 31, are as follows (in thousands):

| | 2006 | 2005 | 2004 |
|--|-------------|-------------|-------------|
| <i>Current income tax expense</i> | | | |
| Federal | \$ 49,900 | \$ 3,379 | \$ 2,598 |
| Non-U.S. | 20,254 | 10,547 | 21,830 |
| State and local | 14,096 | 921 | 442 |
| Total Current | 84,250 | 14,847 | 24,870 |
| <i>Deferred income tax (benefit) expense</i> | | | |
| Federal | (26,382) | 5,726 | 7,310 |
| Non-U.S. | (27,340) | 6,319 | 11,382 |
| Total Deferred | (53,722) | 12,045 | 18,692 |
| Total income taxes | \$ 30,528 | \$ 26,892 | \$ 43,562 |

Current Income Taxes

Current income tax expense is generally a function of the level of income recognized by our TRSs, state income taxes, taxes incurred in foreign jurisdictions and interest and penalties associated with our income tax liabilities. During the years ended December 31, 2006, 2005 and 2004, cash paid for income taxes were \$74.1 million, \$17.5 million and \$14.3 million, respectively.

We recognize interest related to unrecognized tax benefits based on applicable interest rates in income tax expense, along with any penalties. During the years ended December 31, 2006, 2005, and 2004, we recognized approximately \$11.1 million, \$2.3 million, and none, respectively, in interest and penalties. At December 31, 2006 and 2005, we had

approximately \$45.2 million and \$34.1 million, respectively, accrued for the payment of interest and penalties, which is included in our total current income tax liability of \$173.3 million and \$157.2 million as of December 31, 2006 and 2005, respectively.

Deferred Income Taxes

Deferred income tax expense is generally a function of the period's temporary differences, the utilization of tax net operating losses generated in prior years that had been previously recognized as deferred income tax assets and deferred income tax liabilities related to indemnification agreements related to contributions to certain property funds.

For federal income tax purposes, the Catellus Merger and certain other acquisitions were treated as a tax-free transaction resulting in a carry-over basis for tax purposes. For financial reporting purposes and in accordance with purchase accounting, we recorded all of the acquired assets and liabilities at the estimated fair values at the date of acquisition. For our taxable subsidiaries, we recognized the deferred income tax liabilities

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

that represent the tax effect of the difference between the tax basis carried over and the fair value of these assets at the date of acquisition. As taxable income is generated in these subsidiaries, we recognize a deferred income tax benefit in earnings as a result of the reversal of the deferred income tax liability previously recorded at the acquisition date and we record current income tax expense representing the entire current income tax liability. Any increases or decreases that result from a change in circumstances in the deferred income tax liability recorded in connection with the Catellus Merger will be reflected as an adjustment to goodwill.

Indemnification Agreements

In September 2006 and June 2004, we entered into indemnification agreements with PEPR and ProLogis North American Properties Fund V, respectively, whereby we indemnify the funds for certain future capital gains tax liabilities that could be incurred by the funds associated with contributions of properties to the funds after a specified date. Our contributions to the funds are structured as contributions of the shares of companies that own the real estate assets. Accordingly, the capital gains tax liabilities associated with the step up in the value, if any, of the underlying real estate assets is deferred and transferred to the funds at contribution. We have indemnified the funds to the extent that the funds: (i) incur capital gains tax as a result of a direct sale of the real estate asset, as opposed to a transaction in which the shares of the company owning the real estate asset are transferred or sold or (ii) are required to grant a discount to the buyer of shares under a share transfer transaction as a result of the funds transferring the embedded capital gain tax liability to the buyer of the shares in the transaction. The agreements limit the amount that is subject to our indemnification with respect to each property to 100% of the actual capital gains tax liabilities that are deferred and transferred by us to the funds at the time of the initial contribution. Pursuant to the indemnification agreements, we have recognized a liability of \$5.9 million associated with the contributions of 27 properties located in Mexico to ProLogis North American Properties Fund V during the period from March 28, 2002 through December 31, 2006. As of December 31, 2006, we had not contributed any properties to PEPR subject to the September 2006 agreement and therefore have no liability. We were previously obligated to the pre-IPO unitholders of PEPR under a tax indemnification agreement entered into in August 2003 and related to properties contributed to PEPR prior to its IPO. Based on the average closing price of the ordinary units of PEPR during the 30-day, post-IPO period, we are no longer obligated for indemnification with respect to those properties. Therefore, we recognized a deferred income tax benefit of \$36.8 million related to the reversal of this obligation in the fourth quarter of 2006. See Note 4 for more details on the PEPR IPO.

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Deferred income tax assets and liabilities as of December 31, were as follows (in thousands):

| | 2006 | 2005 |
|---|-------------|--------------|
| Deferred income tax assets: | | |
| Net operating loss carryforwards (1) | \$ 13,759 | \$ 19,492 |
| Basis difference real estate properties | 8,132 | 10,664 |
| AMT credit carryforward | 796 | 413 |
| Other temporary differences | 16,371 | 780 |
| Total deferred income tax assets | 39,058 | 31,349 |
| Valuation allowance | (1,711) | (1,000) |
| Net deferred income tax assets | 37,347 | 30,349 |
| Deferred income tax liabilities: | | |
| Basis difference real estate properties | (7,944) | |
| Built-in gains real estate properties | (47,621) | (48,090) |
| Basis difference equity investees | (9,246) | (32,258) |
| Built-in gains equity investees | (22,781) | (23,614) |
| Indemnification liabilities | (5,916) | (28,383) |
| Other temporary differences | (25,527) | (24,454) |
| Total deferred income tax liabilities | (119,035) | (156,799) |
| Net deferred income tax liabilities | \$ (81,688) | \$ (126,450) |

(1) At December 31, 2006, we have net operating loss (NOL) carryforwards for U.S. federal income tax purposes and various international jurisdictions of approximately \$25.0 million and \$11.1 million, respectively. If not utilized, the U.S. NOLs expire between 2019 and 2024 and the international NOLs expire in 2011.

8. Discontinued Operations:

Amounts classified as discontinued operations relate to the properties disposed of in 2006, 2005 and 2004 and the properties held for sale as of December 31, 2006, and are summarized as follows for the years ended December 31, interest expense represents interest directly attributable to these properties (in thousands):

| 2006 | 2005 | 2004 |
|-------------|-------------|-------------|
|-------------|-------------|-------------|

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| | | | |
|---|-----------|-----------|-----------|
| Rental income | \$ 45,343 | \$ 48,661 | \$ 37,458 |
| Rental expenses | (19,720) | (18,135) | (11,154) |
| Depreciation and amortization | (5,315) | (11,399) | (10,792) |
| Interest expense | (874) | (1,077) | (784) |
| Income attributable to disposed properties and assets held for sale | \$ 19,434 | \$ 18,050 | \$ 14,728 |

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following information relates to properties disposed of during the years ended December 31 (in thousands, except number of properties):

| | 2006 | 2005 | 2004 |
|--------------------------------|-------------|-------------|-------------|
| Non-CDFS business assets: | | | |
| Number of properties | 74 | 64 | 10 |
| Net proceeds from dispositions | \$ 531,969 | \$ 335,610 | \$ 23,122 |
| Net gains from dispositions | \$ 103,729 | \$ 86,444 | \$ 1,549 |
| CDFS business assets: | | | |
| Number of properties | 15 | 8 | 10 |
| Net proceeds from dispositions | \$ 245,500 | \$ 100,494 | \$ 241,875 |
| Net gains from dispositions | \$ 33,514 | \$ 10,616 | \$ 32,719 |

In July 2005, we sold our temperature-controlled distribution assets in France. In connection with the sale, we received total proceeds of 30.8 million (the currency equivalent of approximately \$36.6 million as of the sale date) including a note receivable of 23.9 million. The note was paid in full in January 2006. We recognized cumulative translation losses and impairment charges of \$26.9 million and \$50.6 million in 2005 and 2004, respectively, to reflect our investment in this business at its estimated fair value less costs to sell. These charges are included in Losses related to temperature-controlled distribution assets in our Consolidated Statements of Earnings. Included in the cumulative translation losses recognized in 2005 was approximately \$6.7 million related to an unrecognized translation loss as of December 31, 2005, which should have been included in the impairment charge recognized in the fourth quarter of 2004. We became aware that this loss had not been recorded during the second quarter of 2005 and therefore, recognized the additional loss at that time. We do not believe that the recognition of this loss in the second quarter of 2005 rather than in the fourth quarter of 2004 is material to our results of operations in either 2005 or 2004. If this loss had been recognized in 2004, our loss attributable to assets held for sale and net earnings for the year ended December 31, 2004 would have been \$43.4 million and \$226.1 million, respectively.

At December 31, 2006, we had eight properties that were classified as held for sale and the respective assets and liabilities are presented separately in our Consolidated Balance Sheet at December 31, 2006.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Distributions and Dividends:**

The following summarizes the taxability of common share distributions and the preferred share dividends for each series of preferred shares (taxability for 2006 is estimated):

| | Years Ended December 31, | | |
|-------------------------------|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| Per common share: | | | |
| Ordinary income | \$ 0.95 | \$ 0.99 | \$ 0.94 |
| Qualified dividend | 0.04 | 0.07 | |
| Capital gains | | 0.15 | 0.17 |
| Return of capital | 0.61 | 0.27 | 0.35 |
| Total distribution | \$ 1.60 | \$ 1.48 | \$ 1.46 |
| Per preferred share Series C: | | | |
| Ordinary income | \$ 4.10 | \$ 3.49 | \$ 3.62 |
| Qualified dividend | 0.17 | 0.24 | |
| Capital gains | | 0.54 | 0.65 |
| Total dividend | \$ 4.27 | \$ 4.27 | \$ 4.27 |
| Per preferred share Series F: | | | |
| Ordinary income | \$ 1.62 | \$ 1.38 | \$ 1.43 |
| Qualified dividend | 0.07 | 0.09 | |
| Capital gains | | 0.22 | 0.26 |
| Total dividend | \$ 1.69 | \$ 1.69 | \$ 1.69 |
| Per preferred share Series G: | | | |
| Ordinary income | \$ 1.62 | \$ 1.38 | \$ 1.43 |
| Qualified dividend | 0.07 | 0.09 | |
| Capital gains | | 0.22 | 0.26 |
| Total dividend | \$ 1.69 | \$ 1.69 | \$ 1.69 |

In order to comply with the REIT requirements of the Code, we are generally required to make common share distributions (other than capital gain distributions) to our shareholders at least equal to (i) the sum of (a) 90% of our REIT taxable income computed without regard to the dividends paid deduction and our net capital gains and (b) 90%

of the net income (after tax), if any, from foreclosure property, minus (ii) certain excess non-cash income. Our common share distribution policy is to distribute a percentage of our cash flow to ensure we will meet the distribution requirements of the Code, while allowing us to maximize the cash retained to meet other cash needs, such as capital improvements and other investment activities.

Common share distributions are characterized for federal income tax purposes as ordinary income, qualified dividend, capital gains, non-taxable return of capital or a combination of the four. Common share distributions that exceed our current and accumulated earnings and profits (calculated for tax purposes) constitute a return of capital rather than a dividend and generally reduce the shareholder's basis in the common shares. To the extent that a distribution exceeds both current and accumulated earnings and profits and the shareholder's basis in the common shares, it will generally be treated as a gain from the sale or exchange of

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

that shareholder's common shares. At the beginning of each year, we notify our shareholders of the taxability of the common share distributions paid during the preceding year.

In December 2006, the Board approved an increase in the annual distribution for 2007 from \$1.60 to \$1.84 per common share. The payment of common share distributions is dependent upon our financial condition and operating results and may be adjusted at the discretion of the Board during the year. A distribution of \$0.46 per common share for the first quarter of 2007 was declared on February 1, 2007. This distribution will be paid on February 28, 2007 to holders of common shares on February 14, 2007.

Pursuant to the terms of our preferred shares, we are restricted from declaring or paying any distribution with respect to our common shares unless and until all cumulative dividends with respect to the preferred shares have been paid and sufficient funds have been set aside for dividends that have been declared for the then-current dividend period with respect to the preferred shares.

Our tax return for the year ended December 31, 2006 has not been filed. The taxability information presented for our distributions and dividends paid in 2006 is based upon the best available data. Our tax returns for previous tax years have not been examined by the IRS. Consequently, the taxability of distributions and dividends is subject to change.

10. Earnings Per Common Share:

We determine basic earnings per share based on the weighted average number of common shares outstanding during the period. We determine diluted earnings per share based on the weighted average number of common shares outstanding combined with the incremental weighted average shares that would have been outstanding assuming all potentially dilutive instruments were converted into shares at the earliest date possible. The following table sets forth the computation of our basic and diluted earnings per share (in thousands, except per share amounts):

| | Years Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| Net earnings attributable to common shares | \$ 848,951 | \$ 370,747 | \$ 202,813 |
| Minority interest share in earnings | 3,457 | 5,243 | 4,875 |
| Adjusted net earnings attributable to common shares | \$ 852,408 | \$ 375,990 | \$ 207,688 |
| Weighted average common shares outstanding - Basic | 245,952 | 203,337 | 182,226 |
| Incremental weighted average effect of conversion of limited partnership units | 5,198 | 5,540 | 5,035 |
| Incremental weighted average effect of potentially dilutive instruments (1) | 5,702 | 4,836 | 4,540 |
| Weighted average common shares outstanding - Diluted | 256,852 | 213,713 | 191,801 |

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| | | | | | | | |
|--|---------|----|------|----|------|----|------|
| Net earnings per share attributable to common shares | Basic | \$ | 3.45 | \$ | 1.82 | \$ | 1.11 |
| Net earnings per share attributable to common shares | Diluted | \$ | 3.32 | \$ | 1.76 | \$ | 1.08 |

(1) Total weighted average potentially dilutive instruments outstanding (in thousands) were 10,909, 10,783 and 11,356 for 2006, 2005 and 2004, respectively. Of the total potentially dilutive instruments, 25, 103 and 553 (in thousands) were antidilutive for 2006, 2005 and 2004, respectively.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. Real Estate:***Real Estate Assets*

Real estate assets directly owned by us primarily consist of income producing properties, including those properties pending contribution or sale, properties under development and land held for future development. Our real estate assets, presented at cost, include the following (in thousands):

| | December 31, | |
|--|---------------------|---------------|
| | 2006 | 2005 |
| Distribution operating properties (1): | | |
| Improved land | \$ 2,227,953 | \$ 1,774,923 |
| Buildings and improvements | 8,195,296 | 6,955,983 |
| Retail operating properties (2): | | |
| Improved land | 77,808 | 66,848 |
| Buildings and improvements | 227,380 | 221,405 |
| Land subject to ground leases and other (3) | 472,412 | 792,668 |
| Properties under development, including cost of land (4) | 964,842 | 884,345 |
| Land held for development (5) | 1,397,081 | 1,045,042 |
| Other investments (6) | 391,227 | 133,916 |
| Total real estate assets | 13,953,999 | 11,875,130 |
| Less accumulated depreciation | 1,280,206 | 1,118,547 |
| Net real estate assets | \$ 12,673,793 | \$ 10,756,583 |

- (1) At December 31, 2006 and 2005, we had 1,446 and 1,432 distribution operating properties consisting of 203.6 million square feet and 185.6 million square feet, respectively.
- (2) At December 31, 2006 and 2005, we had 27 and 29 retail operating properties consisting of 1.1 million square feet at both periods.
- (3) At December 31, 2006 and 2005, we held land subject to ground leases as well as railway depots and office properties. Also at December 31, 2005, we owned a hotel property and several office properties that were sold during 2006.
- (4) Properties under development consisted of 114 properties aggregating 30.0 million square feet at December 31, 2006 and 72 properties aggregating 23.2 million square feet at December 31, 2005. Our total expected investment

upon completion of the properties under development at December 31, 2006 is approximately \$2.2 billion.

- (5) Land held for future development consisted of 6,204 and 6,568 acres at December 31, 2006 and 2005, respectively.
- (6) Other investments primarily include: (i) restricted funds that are held in escrow pending the completion of tax-deferred exchange transactions involving operating properties; (ii) earnest money deposits associated with potential acquisitions; (iii) costs incurred during the pre-acquisition due diligence process; (iv) costs incurred during the pre-construction phase related to future development projects, including purchase options on land and certain infrastructure costs; and (v) costs related to our corporate office buildings.

We directly own real estate assets in North America (Canada, Mexico and the United States), Europe (Belgium, the Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Romania, Spain, Sweden, and the United Kingdom) and Asia (China, Japan, Korea and Singapore).

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the last three years, we completed individual and portfolio acquisitions of industrial distribution properties, other than those discussed in Note 3, as follows (aggregated, dollars and square feet in thousands):

| | Number of Properties | Aggregate Square Feet | Aggregate Purchase Price | Debt Assumed |
|------|-------------------------------------|----------------------------------|---|-------------------------|
| 2006 | 74 | 13,529 | \$ 735,427 | \$ 87,919 |
| 2005 | 13 | 3,783 | \$ 170,744 | \$ 19,919 |
| 2004 | 22 | 4,774 | \$ 195,703 | \$ |

Operating Lease Agreements

We lease our operating properties to customers under agreements that are generally classified as operating leases. At December 31, 2006, minimum lease payments on leases with lease periods greater than one year for space in our operating properties, excluding properties held for sale, during each of the years in the five-year period ending December 31, 2011 and thereafter are as follows (in thousands):

| | |
|------------|--------------|
| 2007 | \$ 688,808 |
| 2008 | 595,381 |
| 2009 | 474,156 |
| 2010 | 372,744 |
| 2011 | 268,743 |
| Thereafter | 1,028,298 |
| | \$ 3,428,130 |

The schedule does not reflect future rental revenues from the renewal or replacement of existing leases and excludes reimbursements of property operating expenses. In addition to minimum rental payments, certain customers pay reimbursements for their pro rata share of specified operating expenses, which amounted to \$183.5 million, \$115.8 million and \$94.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. These amounts are included as rental income and operating expenses in the accompanying Consolidated Statements of Earnings.

For our direct-owned properties, the largest customer and the 25 largest customers accounted for 2.2% and 18.4%, respectively, of our annualized collected base rents at December 31, 2006.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Other Assets and Other Liabilities:**

Our other assets consisted of the following, as of December 31 (in thousands):

| | 2006 | 2005 |
|---|-------------|-------------|
| Goodwill | \$ 254,192 | \$ 229,444 |
| Value added taxes receivable | 215,712 | 161,237 |
| Rent leveling asset and above market leases | 105,478 | 93,863 |
| Leasing commissions | 98,296 | 108,556 |
| Non-qualified savings plan assets | 48,579 | 43,895 |
| Fixed assets | 28,623 | 25,037 |
| Loan fees | 35,715 | 28,149 |
| Performance escrow | 42,174 | |
| Other | 128,526 | 98,659 |
| Totals | \$ 957,295 | \$ 788,840 |

Our other liabilities consisted of the following as of December 31 (in thousands):

| | 2006 | 2005 |
|--|-------------|-------------|
| Tax liabilities | \$ 160,929 | \$ 151,796 |
| Deferred income taxes | 81,688 | 126,450 |
| Tenant security deposits | 79,378 | 51,889 |
| Unearned rents | 40,788 | 33,837 |
| Non-qualified savings plan liabilities | 37,180 | 44,315 |
| Value added taxes payable | 34,896 | 59,335 |
| Disposition costs | 33,009 | 27,814 |
| Below market leases | 18,155 | 25,528 |
| Other | 60,106 | 36,246 |
| Totals | \$ 546,129 | \$ 557,210 |

The leasing commissions and above and below market leases, net, of \$185.6 million at December 31, 2006 are expected to be amortized as follows (in thousands):

| | Amortization Expense | Net Charge to Rental Income |
|------------|---------------------------------|--|
| 2007 | \$ 36,325 | \$ 12,066 |
| 2008 | 27,657 | 14,356 |
| 2009 | 11,367 | 12,981 |
| 2010 | 7,936 | 13,467 |
| 2011 | 5,187 | 7,415 |
| Thereafter | 9,824 | 27,038 |
| Total | \$ 98,296 | \$ 87,323 |

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Debt:**

Our debt consisted of the following as of December 31 (in thousands):

| | 2006 | 2005 |
|---|--------------|--------------|
| Unsecured lines of credit and short-term borrowings | \$ 2,462,796 | \$ 2,240,054 |
| Senior and other notes | 4,445,092 | 2,759,675 |
| Secured debt | 1,445,021 | 1,643,586 |
| Assessment bonds | 33,977 | 34,565 |
| Totals | \$ 8,386,886 | \$ 6,677,880 |

Unsecured Lines of Credit and Short-Term Borrowings

We have a global senior credit facility (Global Line), which was amended and increased in June 2006. The total commitment fluctuates in U.S. dollars based on the underlying currencies and was \$3.5 billion at December 31, 2006. Funds may be drawn in U.S. dollar, euro, Japanese yen, British pound sterling, Chinese renminbi, South Korean won and Canadian dollar. The Global Line matures in October 2009 for all currencies except the renminbi, which matures in May 2009 and has a 12-month extension at our option. Based on our public debt ratings, interest on the borrowings under the Global Line accrues at a variable rate based on the interbank offered rate in each respective jurisdiction in which the borrowings are outstanding (3.56% per annum at December 31, 2006 based on a weighted average using local currency rates). In addition, we also have other credit facilities with total commitments of \$68.7 million at December 31, 2006.

Our lines of credit borrowings are summarized below (dollars in millions):

| | Years Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| Weighted average daily interest rate (1) | 3.03% | 2.77% | 2.08% |
| Borrowings outstanding at December 31 | \$ 2,462.8 | \$ 1,850.1 | \$ 912.3 |
| Weighted average daily borrowings | \$ 2,294.7 | \$ 1,278.2 | \$ 930.0 |
| Maximum borrowings outstanding at any month end | \$ 2,760.8 | \$ 1,850.1 | \$ 1,036.5 |
| Aggregate borrowing capacity of all lines of credit at December 31 | \$ 3,529.3 | \$ 2,589.9 | \$ 1,832.2 |
| Outstanding letters of credit under the lines of credit | \$ 129.1 | \$ 98.0 | \$ 35.3 |
| Aggregate remaining capacity available to us on all lines of credit at December 31 | \$ 937.4 | \$ 641.8 | \$ 884.6 |

On September 15, 2005, we entered into a bridge facility with certain lenders. Upon closing, we borrowed \$1.5 billion, the entire amount available, which was used to finance the Catellus Merger. Interest on the borrowings under this facility accrued at a variable rate based upon the London Interbank Offered Rate (LIBOR) plus a margin, along with a facility fee. We utilized the proceeds from the issuance of senior notes, borrowings on the Global Line and sales of certain real estate properties to make payments on this facility. The balance outstanding on this facility at December 31, 2005 was \$390.0 million, which was paid in full in March 2006.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Senior and Other Notes*

The senior and other notes outstanding at December 31, 2006 are summarized as follows (dollars in thousands):

| Maturity Date | Principal Balance | Coupon Rate |
|------------------------------|------------------------------|------------------------|
| June 22, 2007 (1)(13) | \$ 6,550 | floating |
| November 20, 2007 (1) | 135,000 | 7.25% |
| December 11, 2007 (1)(13) | 287,848 | floating |
| December 19, 2007 (1)(13) | 7,553 | floating |
| April 15, 2008 (1) | 250,000 | 7.10% |
| May 15, 2008 (2) | 50,000 | 7.95% |
| March 1, 2009 (3) | 56,250 | 8.72% |
| May 15, 2009 (4) | 28,125 | 7.88% |
| August 24, 2009 (1)(5) | 250,000 | floating |
| November 20, 2009 (1) | 25,000 | 7.30% |
| November 15, 2010 (1)(6) | 500,000 | 5.25% |
| April 13, 2011 (1)(7) | 461,230 | 4.38% |
| April 1, 2012 (1)(8) | 450,000 | 5.50% |
| March 1, 2013 (1) | 300,000 | 5.50% |
| February 1, 2015 (9) | 100,000 | 7.81% |
| March 1, 2015 (10) | 50,000 | 9.34% |
| November 15, 2015 (1)(6) | 400,000 | 5.63% |
| April 1, 2016 (1)(8) | 400,000 | 5.75% |
| May 15, 2016 (11) | 50,000 | 8.65% |
| November 15, 2016 (1)(12) | 550,000 | 5.63% |
| July 1, 2017 (1) | 100,000 | 7.63% |
| Total par value | \$ 4,457,556 | |
| Less: discount, net | 12,464 | |
| Total principal balance, net | \$ 4,445,092 | |

(1) Principal due at maturity.

(2) Annual principal payments of \$25.0 million are due on May 15th of each year through 2008.

(3) Annual principal payments of \$18.8 million are due on March 1st of each year through 2009.

- (4) Annual principal payments of \$9.4 million are due on May 15th of each year through 2009.
- (5) On August 24, 2006, we issued \$250.0 million of senior notes. Interest on the notes accrues at a variable rate based on LIBOR plus a margin (5.62% at December 31, 2006). We utilized the net proceeds of \$250.0 million to repay borrowings under our Global Line and other general corporate purposes.
- (6) In July 2006, we completed the exchange and registration of these senior notes that were issued in a private placement in 2005.
- (7) In 2004, we issued 350.0 million senior notes (the currency equivalent of approximately \$420.6 million at the date of issuance).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (8) On March 27, 2006, we issued \$450.0 million of 5.5% senior notes and \$400.0 million of 5.75% senior notes. We received net proceeds of \$838.7 million that were used to repay borrowings under our Global Line, the bridge facility from the Catellus Merger and other general corporate purposes.
- (9) Beginning on February 1, 2010, and through February 1, 2015, requires annual principal payments ranging from \$10.0 million to \$20.0 million.
- (10) Beginning on March 1, 2010, and through March 1, 2015, requires annual principal payments ranging from \$5.0 million to \$12.5 million.
- (11) Beginning on May 15, 2010, and through May 15, 2016, requires annual principal payments ranging from \$5.0 million to \$12.5 million.
- (12) On November 14, 2006, we issued \$550.0 million of 5.625% senior notes. We received net proceeds of \$543.5 million that were used to repay borrowings under our Global Line and other general corporate purposes.
- (13) On June 19, 2006 and December 7, 2006, we issued ¥780.5 million and ¥35.2 billion, respectively, in TMK bonds (the currency equivalent of approximately \$312.9 million at issue date). TMK bonds are a financing vehicle in Japan for special purpose companies known as TMKs. TMK bonds are not secured by properties, but do contain restrictions on the TMK's ability to incur additional debt or to use property associated with the loan as security for another loan. The net proceeds were used to repay borrowings under our Global Line. These bonds will be repaid and refinanced by the ProLogis Japan Properties Fund II when we contribute the related properties to the property fund.

Our obligations under the senior notes are effectively subordinated in certain respects to any of our debt that is secured by a lien on real property, to the extent of the value of such real property. The senior notes require interest payments be made quarterly, semi-annually or annually.

We have designated the senior notes as **Designated Senior Debt** under and as defined in the Amended and Restated Security Agency Agreement dated as of October 6, 2005 (the **Security Agency Agreement**) among various creditors (or their representatives) and Bank of America, N.A., as Collateral Agent. The Security Agency Agreement provides that all Designated Senior Debt holders will, subject to certain exceptions and limitations, share payments and other recoveries received post default/post acceleration so that all Designated Senior Debt holders receive payment of substantially the same percentage of their respective credit obligations.

All of the senior notes, except for the \$250.0 million floating rate notes, are redeemable at any time at our option, subject to certain prepayment penalties. Such redemption and other terms are governed by the provisions of indenture agreements, various note purchase agreements and a trust deed.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Secured Debt*

Our secured debt outstanding at December 31, 2006 includes any premium or discount recorded at acquisition and consisted of the following (dollars in thousands):

| Maturity Date | Interest Rate (1) | Periodic Payment Date | Principal Balance | Balloon Payment Due at Maturity |
|------------------------|--------------------------|------------------------------|--------------------------|--|
| November 11, 2008 | 5.96% | (2) | \$ 65,894 | \$ 60,646 |
| November 11, 2008 | 6.01% | (2) | 301,035 | \$ 276,065 |
| April 1, 2012 | 7.05% | (2) | 254,386 | \$ 196,462 |
| August 1, 2015 | 5.47% | (2) | 135,780 | \$ 111,690 |
| April 12, 2016 | 7.25% | (2) | 213,557 | \$ 150,373 |
| April 1, 2024 | 7.58% | (2) | 197,063 | \$ 127,187 |
| Various | (3) | (3) | 277,306 | (3) |
| Total secured debt (4) | | | \$ 1,445,021 | |

(1) The weighted average annual interest rate for the total mortgage notes was 7.0% for the year ended December 31, 2006.

(2) Monthly amortization with a balloon payment due at maturity.

(3) Includes 32 mortgage notes with interest rates ranging from 4.12% to 9.68%, maturing from 2007 to 2018, primarily requiring monthly amortization with a balloon payment at maturity.

(4) The mortgage notes are secured by 291 real estate properties with an aggregate undepreciated cost of \$3.2 billion at December 31, 2006.

Assessment Bonds

The assessment bonds are issued by municipalities and guaranteed by us as a means of financing infrastructure and are secured by assessments (similar to property taxes) on various underlying real estate assets with an aggregate undepreciated cost of \$1.1 billion at December 31, 2006. Interest rates range from 4.75% per annum to 8.75% per annum. Maturity dates range from 2007 to 2033.

Debt Covenants

Under the terms of certain of our debt agreements, we are subject to various financial covenants relating to leverage ratios, fixed charge and debt service coverage ratios, investments and indebtedness to total asset value ratios, minimum consolidated net worth and restrictions on distributions and redemptions. In connection with the issuance of the \$500.0 million of 5.25% senior notes due November 2010 and \$400.0 million of 5.63% senior notes due November 2015, we modified certain financial and operating covenants under the indenture governing the notes. These notes, along with all senior notes issued subsequently, are subject to the existing covenants until all senior debt securities outstanding prior to November 2, 2005 are repaid, at which time the remaining senior notes will be subject to the modified covenants. As of December 31, 2006, we were in compliance with all of our debt covenants.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Long-Term Debt Maturities*

The approximate principal payments due on the senior and other notes, secured debt and assessment bonds during each of the years in the five-year period ending December 31, 2011 and thereafter are as follows (in thousands):

| | |
|----------------------|--------------|
| 2007 | \$ 542,597 |
| 2008 | 716,621 |
| 2009 | 377,495 |
| 2010 | 564,455 |
| 2011 | 515,262 |
| Thereafter | 3,155,067 |
| Total principal due | 5,871,497 |
| Add: premium, net | 52,593 |
| Total carrying value | \$ 5,924,090 |

Interest Expense

Interest expense includes the following components (in thousands):

| | Years Ended December 31, | | |
|-------------------------------------|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| Gross interest expense (1) | \$ 398,066 | \$ 239,832 | \$ 183,946 |
| (Premium) discount recognized, net | (12,564) | (3,980) | 252 |
| Amortization of deferred loan costs | 6,198 | 5,595 | 5,741 |
| | 391,700 | 241,447 | 189,939 |
| Less: capitalized amounts | 97,297 | 63,885 | 37,388 |
| Net interest expense | \$ 294,403 | \$ 177,562 | \$ 152,551 |

(1) Includes the stated interest on the debt instrument plus applicable fees. The amount of interest paid in cash, net of amounts capitalized, for the years ended December 31, 2006, 2005 and 2004 was \$288.2 million, \$168.0 million, and \$134.9 million, respectively.

14. Shareholders Equity:

Shares Authorized

At December 31, 2006, 375.0 million shares were authorized to be issued. The Board may increase the number of authorized shares and may classify or reclassify any unissued shares of our stock from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of such shares.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Common Shares*

In September 2005, we issued 55.9 million common shares in connection with the Catellus Merger (see Note 3). We sell and/or issue common shares under various common share plans, including share-based compensation plans as follows:

1999 Dividend Reinvestment and Share Purchase Plan, as amended (the 1999 Dividend Reinvestment Plan): Allows holders of common shares to automatically reinvest distributions and certain holders and persons who are not holders of common shares to purchase a limited number of additional common shares by making optional cash payments, without payment of any brokerage commission or service charge. Common shares that are acquired under the 1999 Dividend Reinvestment Plan through reinvestment of distributions are acquired at a price ranging from 98% to 100% of the market price of such common shares, as we determine.

Controlled Equity Offering Program: Allows us to sell up to 7.4 million common shares through two designated agents who earn a fee up to 2.25% of the gross proceeds, as agreed on a transaction-by-transaction basis. As of December 31, 2006, we have approximately 0.4 million shares available under this plan.

The Incentive Plan and Outside Trustees Plan: Certain of our employees and outside trustees participate in these share-based compensation plans that provide compensation, generally in the form of common shares. See Note 5 for additional information on these plans.

ProLogis Trust Employee Share Purchase Plan (the Employee Share Plan): Certain of our employees may purchase common shares, through payroll deductions only, at a discounted price of 85% of the market price of the common shares. The aggregate fair value of common shares that an individual employee can acquire in a calendar year under the Employee Share Plan is \$25,000. Subject to certain provisions, the aggregate number of common shares that may be issued under the Employee Share Plan may not exceed 5.0 million common shares. As of December 31, 2006, we have approximately 4.8 million shares available under this plan.

Under the plans discussed above, we issued shares and received proceeds as follows (in thousands):

| | 2006 | | 2005 | | 2004 | |
|--|--------|----------|--------|-----------|--------|-----------|
| | Shares | Proceeds | Shares | Proceeds | Shares | Proceeds |
| 1999 Dividend Reinvestment Plan | 69 | \$ 3,738 | 412 | \$ 16,197 | 1,021 | \$ 35,410 |
| Controlled Equity Offering Program | 5,383 | 320,786 | 225 | 8,267 | 1,430 | 53,321 |
| Incentive Plan and Outside Trustees Plan | 1,460 | 31,350 | 1,425 | 17,664 | 3,096 | 58,444 |
| Employee Share Plan | 39 | 1,643 | 30 | 1,019 | 43 | 1,129 |

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| | | | | | | |
|-------|-------|------------|-------|-----------|-------|------------|
| Total | 6,951 | \$ 357,517 | 2,092 | \$ 43,147 | 5,590 | \$ 148,304 |
|-------|-------|------------|-------|-----------|-------|------------|

Limited partnership units were redeemed into 180,000 common shares in 2006, 11,000 common shares in 2005, and 16,000 common shares in 2004 (see Note 6).

We have approximately \$84.1 million remaining on our Board authorization to repurchase common shares that began in 2001. We have not repurchased our common shares since 2003.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Preferred Shares*

At December 31, 2006, we had three series of preferred shares outstanding (Series C Preferred Shares , Series F Preferred Shares , and Series G Preferred Shares). Holders of each series of preferred shares have, subject to certain conditions, limited voting rights and all holders are entitled to receive cumulative preferential dividends based upon each series' respective liquidation preference. Such dividends are payable quarterly in arrears on the last day of March, June, September and December. Dividends on preferred shares are payable when, and if, they have been declared by the Board, out of funds legally available for the payment of dividends. After the respective redemption dates, each series of preferred shares can be redeemed at our option. The cash redemption price (other than the portion consisting of accrued and unpaid dividends) with respect to Series C Preferred Shares is payable solely out of the cumulative sales proceeds of our other capital shares, which may include shares of other series of preferred shares. With respect to the payment of dividends, each series of preferred shares ranks on parity with the other series of preferred shares.

Our preferred shares outstanding at December 31, 2006 are summarized as follows:

| | Dividend Rate | Dividend Equivalent Based on Liquidation Preference | Optional Redemption Date |
|---------------------------|--------------------------|--|---|
| Series C Preferred Shares | 8.54% | \$4.27 per share | 11/13/26 |
| Series F Preferred Shares | 6.75% | \$1.69 per share | 11/28/08 |
| Series G Preferred Shares | 6.75% | \$1.69 per share | 12/30/08 |

On January 12, 2004, the remaining 5,000,000 Series D Preferred Shares were redeemed at the price of \$25.00 per share, plus \$0.066 in accrued and unpaid dividends for a total redemption value (including accrued dividends) of \$125.3 million. We recognized a charge of \$4.2 million in 2004 representing the excess of the redemption values over the carrying values of the Series D Preferred Shares redeemed.

Ownership Restrictions

For us to qualify as a REIT under the Code, five or fewer individuals may not own more than 50% of the value of our outstanding shares of beneficial interest at any time during the last half of our taxable year. Therefore, our Declaration of Trust restricts beneficial ownership (or ownership generally attributed to a person under the REIT tax rules) of our outstanding shares of beneficial interest by a single person, or persons acting as a group, to 9.8% of our outstanding shares. This provision assists us in protecting and preserving our REIT status and protects the interests of shareholders in takeover transactions by preventing the acquisition of a substantial block of outstanding shares.

Shares of beneficial interest owned by a person or group of persons in excess of these limits are subject to redemption by us. The provision does not apply where a majority of the Board, in its sole and absolute discretion, waives such limit after determining that the status of us as a REIT for federal income tax purposes will not be jeopardized or the

disqualification of us as a REIT is advantageous to our shareholders.

15. Related Party Transactions:

Transactions with the Chief Executive Officer and Former Vice Chairman of the Board

At December 31, 2006, Jeffrey H. Schwartz, our Chief Executive Officer, owned 128,265 of the limited partnership units outstanding in two of the limited partnerships in which we own a majority interest and consolidate.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At December 31, 2006, Irving F. Lyons, III, our former Vice Chairman and Chief Investment Officer, owned 436,471 of the outstanding limited partnership units of one of the limited partnerships in which we own a majority interest and consolidate. Mr. Lyons retired as Vice Chairman of our Board in May 2006.

See Note 6 for more information regarding these partnerships in North America.

16. Financial Instruments:*Derivative Financial Instruments*

We use derivative financial instruments as hedges to manage our risk associated with interest and foreign currency exchange rate fluctuations on existing or anticipated obligations and transactions. We do not use derivative financial instruments for trading purposes.

The primary risks associated with derivative instruments are market risk and credit risk. Market risk is defined as the potential for loss in the value of the derivative due to adverse changes in market prices (interest rates or foreign currency exchange rates). The use of derivative financial instruments allows us to manage the risks of increases in interest rates and fluctuations in foreign currency exchange rates with respect to the effects these fluctuations would have on our earnings and cash flows.

Credit risk is the risk that one of the parties to a derivative contract fails to perform or meet their financial obligation under the contract. We do not obtain collateral to support financial instruments subject to credit risk but we monitor the credit standing of the counterparties, primarily global commercial banks. We do not anticipate non-performance by any of the counterparties to our derivative contracts. However, should a counterparty fail to perform, we would incur a financial loss to the extent of the positive fair market value of the derivative contracts, if any.

The following table summarizes the activity in our derivative contracts for the years ended December 31, 2006, 2005 and 2004 (in millions):

| | Foreign Currency | Foreign Currency | Interest Rate Swaps |
|---------------------------------------|-----------------------------|-----------------------------|--------------------------------|
| | Put Options (1) | Forwards (2) | (3) |
| Notional amounts at January 1, 2004 | \$ 57.9 | \$ 47.4 | \$ 94.7 |
| New contracts | 19.6 | 71.8 | 190.9 |
| Settled contracts | (77.5) | (119.2) | (235.6) |
| Notional amounts at December 31, 2004 | | | 50.0 |
| New contracts | 98.0 | 669.5 | 650.0 |
| Settled contracts | (98.0) | (669.5) | (700.0) |

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| | | | | |
|---------------------------------------|----|---------|---------|---------|
| Notional amounts at December 31, 2005 | | | | |
| New contracts | | 169.3 | 900.3 | 350.0 |
| Settled contracts | | (114.6) | (239.3) | (350.0) |
| Notional amounts at December 31, 2006 | \$ | 54.7 | \$ | 661.0 |
| | | | \$ | |

(1) The foreign currency put option contracts are paid in full at execution and are related to our operations in Europe and Japan. The put option contracts provide us with the option to exchange euros, pounds sterling and yen for U.S. dollars at a fixed exchange rate such that, if the euro, pound sterling or yen were to depreciate against the U.S. dollar to predetermined levels as set by the contracts, we could exercise our options and mitigate our foreign currency exchange losses. The notional amounts of the put option contracts represent

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

\$17.5 million on euro option contracts, \$13.5 million on pound sterling option contracts and \$23.7 million on yen option contracts at December 31, 2006.

These contracts generally do not qualify for hedge accounting treatment and are marked-to-market through earnings at the end of each period. Upon expiration of the contract, the mark-to-market adjustment is reversed, the total cost of the contract is expensed and any proceeds are recognized as a gain. On various put option contracts, we recognized net expense of \$1.5 million in 2006, net gains of \$3.6 million in 2005 and net expense of \$0.6 million in 2004, which included no mark-to-market gains in 2006 and 2005 and \$1.5 million of mark-to-market gains in 2004.

- (2) The 2006 and 2005 forward currency forward contracts were designed to manage the foreign currency fluctuations of an intercompany loan denominated in pounds sterling, and allowed us to sell pounds sterling at a fixed exchange rate to the U.S. dollar. These contracts were not designated as hedges, were marked-to-market through earnings and were substantially offset by the remeasurement gains and losses recognized on the intercompany loans. We recognized a net loss of \$13.3 million in 2006 and a net gain of \$6.1 million in 2005, which included mark-to-market losses of \$15.7 million in 2006 and no mark-to-market gains or losses in 2005.

The 2004 foreign currency forward contracts were designated as a net investment hedge of certain of our investments in Europe and allowed us to sell euro at a fixed exchange rate to the U.S. dollar. These contracts qualified for hedge accounting treatment and we recognized the total increase in value of the contracts of \$1.7 million in other comprehensive income in shareholders' equity in 2004 upon settlement of the contracts. The value of these contracts will remain in other comprehensive income until the investment is substantially sold.

- (3) During 2006 and 2005, we entered into several contracts with a total notional amount of \$350.0 million and \$650.0 million, respectively, associated with an anticipated debt issuance. All of these contracts were designated as cash flow hedges and qualified for hedge accounting treatment, which allowed us to fix a portion of the interest rate associated with the issuance of senior notes (see Note 13). All of the contracts were settled as of December 31, 2006 and we recognized a decrease in value of \$13.1 million and an increase in value of \$20.7 million associated with these contracts in other comprehensive income as of December 31, 2006 and 2005, respectively. The amount in other comprehensive income related to these contracts is being amortized as an increase to interest expense as interest payments are made on the senior notes.

In July 2004, we entered into forward-starting interest rate swap contracts, with a total notional amount of \$100 million, related to the anticipated issuance of debt. One contract was terminated in August 2004 and we recognized \$0.3 million of expense upon termination. As of December 31, 2004, the anticipated transaction had not been completed. We recognized a mark-to-market adjustment of \$1.1 million in other comprehensive income in shareholders' equity at December 31, 2004, which represented the decrease in value of the outstanding contract.

In 2003 and 2004, we entered into forward-starting interest rate swap contracts related to the anticipated issuance of debt. The contracts, designated as cash flow hedges, allowed us to fix a portion of the interest rate associated with the seven-year Euro Notes that were issued in April 2004 (see Note 13). These contracts qualified for hedge accounting treatment. We recognized a total decrease in value of \$5.6 million in other comprehensive income in shareholders' equity upon settlement of the contracts that is being amortized to interest expense as interest payments are made on the Euro Notes.

We amortized a net amount of \$1.5 million, related to the above forward-starting interest rate swap contracts, from other comprehensive income as a reduction to interest expense during 2006 and we will amortize a total of \$0.3 million as a reduction to interest expense during 2007.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Fair Value of Financial Instruments*

We have estimated the fair value of our financial instruments using available market information and valuation methodologies we believe to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that we would realize upon disposition.

At December 31, 2006 and 2005, the carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts and notes receivable and accounts payable and accrued expenses were representative of their fair values due to the short-term nature of these instruments or due to the recent acquisition of these items. Similarly, the carrying values of the lines of credit and short-term borrowings balances outstanding approximate their fair values as of those dates since the interest rates on the lines of credit and short-term borrowings are based on current market rates. At December 31, 2006 and 2005, the fair value of our senior and other notes, secured debt and assessment bonds have been estimated based upon quoted market prices for the same or similar issues or by discounting the future cash flows using rates currently available to us for debt with similar terms and maturities. The differences in the fair value of our senior and other notes, secured debt and assessment bonds from the carrying value in the table below are the result of differences in the interest rates that were available to us at December 31, 2006 and 2005 from the interest rates that were in effect when the debt was issued or acquired. The senior notes and many of the issues of secured debt contain pre-payment penalties or yield maintenance provisions that could make the cost of refinancing the debt at the lower rates exceed the benefit that would be derived from doing so.

The fair value of our derivative financial instruments represents the amount at which they could be settled, based on quoted market prices or estimates obtained from brokers or dealers. As we mark our derivative financial instruments to market at each reporting period, their fair values are the same as their carrying values. At December 31, 2006, the carrying value of the foreign currency put options and forward contracts are reflected as components of other assets and other liabilities, respectively. At December 31, 2005, there were no outstanding derivative contracts.

The following table reflects the carrying amounts and estimated fair values of our financial instruments (in thousands):

| | December 31, | | | |
|------------------------------------|---------------------------|-------------------|---------------------------|-------------------|
| | 2006 | | 2005 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Senior and other notes | \$ 4,445,092 | \$ 4,507,182 | \$ 2,759,675 | \$ 2,866,796 |
| Secured debt and assessment bonds: | | | | |
| Secured debt | \$ 1,445,021 | \$ 1,497,790 | \$ 1,643,586 | \$ 1,686,157 |
| Assessment bonds | 33,977 | 34,495 | 34,565 | 36,513 |
| | \$ 1,478,998 | \$ 1,532,285 | \$ 1,678,151 | \$ 1,722,670 |

Total secured debt and assessment
bonds

Derivative financial instruments:

| | | | | | | |
|--|----|----------|----|----------|----|----|
| Foreign currency forwards | \$ | (15,664) | \$ | (15,664) | \$ | \$ |
| Foreign currency put options | | 249 | | 249 | | |
| Total derivative financial instruments | \$ | (15,415) | \$ | (15,415) | \$ | \$ |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Commitments and Contingencies:

Environmental Matters

A majority of the properties acquired by us were subjected to environmental reviews either by us or the previous owners. While some of these assessments have led to further investigation and sampling, none of the environmental assessments have revealed an environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations.

In connection with the Catellus Merger, we acquired certain properties in urban and industrial areas that may have been leased to or previously owned by commercial and industrial companies that discharged hazardous materials. In accordance with purchase accounting, we recorded a liability for the estimated costs of environmental remediation to be incurred in connection with certain operating properties acquired and properties previously sold by Catellus. This liability was established to cover the environmental remediation costs, including cleanup costs, consulting fees for studies and investigations, monitoring costs and legal costs relating to cleanup, litigation defense, and the pursuit of responsible third parties. In addition, we expect to incur environmental remediation costs associated with certain land parcels we acquire in connection with the development of the land. We establish a liability at the time of acquisition to cover such costs. We purchase various environmental insurance policies to mitigate our exposure to environmental liabilities. We are not aware of any environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations.

Off-Balance Sheet Liabilities

We have issued performance and surety bonds and standby letters of credit in connection with certain development projects, to guarantee certain tax obligations and the construction of certain real property improvements and infrastructure, such as grading, sewers and streets. Performance and surety bonds are commonly required by public agencies from real estate developers. Performance and surety bonds are renewable and expire upon the payment of the taxes due or the completion of the improvements and infrastructure. As of December 31, 2006, we had approximately \$158.3 million outstanding.

We have made debt guarantees to certain of our unconsolidated investees. At December 31, 2006, based on the investee's outstanding balance, these debt guarantees totaled \$15.0 million. In addition, we have a commitment to provide a financial guarantee to a CDFS joint venture in China for up to 600 million renminbi (the currency equivalent of \$76.9 million at December 31, 2006). As of December 31, 2006, we have not been required to provide any guarantees.

We may be required to make additional capital contributions to certain of our unconsolidated investees should additional capital contributions be necessary to fund development costs or operation shortfalls. See Note 4.

From time to time we enter into Special Limited Contribution Agreements (SLCA) in connection with certain contributions of properties to certain of our property funds. Under the SLCAs, we are obligated to make an additional capital contribution to the respective property fund under certain circumstances, the occurrence of which we believe to be remote. Specifically, we would be required to make an additional capital contribution to the property fund if the

property fund's third-party lender, whose loans to the property fund are generally secured by the property fund's assets and are non-recourse, does not receive a specified minimum level of debt repayment. However, the proceeds received by the third-party lender from the exhaustion of all of the assets of the property fund combined with the debt repayments received directly from the property fund will reduce our obligations under the SLCA on a dollar-for-dollar basis. Our potential obligations under the respective SLCAs, as a percentage of the undepreciated book value of the assets in the property funds, range from 1% to 23%. Given the respective year-end capital structures of the various funds impacted by SLCAs

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and structural provisions within the SLCAs, we estimate that the minimum level of fund devaluation required to trigger an SLCA liability ranges between 91% and 40% of fund value. We believe that the likelihood of declines in the values of the assets that support the third-party loans of the magnitude necessary to require an additional capital contribution is remote, especially in light of the geographically diversified portfolios of properties owned by the property funds and the historical occupancy and rental rates of the property funds. In addition, we have not been required to make a payment under any SLCAs since we first entered into a SLCA in 2000. Accordingly, these potential obligations have not been recognized as a liability by us at December 31, 2006. The potential obligations under the SLCAs aggregate \$663.6 million at December 31, 2006 and the combined market value of the assets in the property funds that are subject to the provisions of the SLCAs was approximately \$9.1 billion at December 31, 2006.

As of December 31, 2006, \$9.1 million of Community Facility District bonds were outstanding that were originally issued to finance public infrastructure improvements at one of our development projects. We are required to satisfy any shortfall in annual debt service obligation for these bonds if tax revenues generated by the project are insufficient. As of December 31, 2006, we have not been required to, nor do we expect to be required to, satisfy any shortfall in annual debt service obligation for these bonds other than through our payment of normal project and special district taxes.

18. Business Segments:

We have three reportable business segments:

Property operations representing the direct long-term ownership of industrial distribution and retail properties. Each operating property is considered to be an individual operating segment having similar economic characteristics that are combined within the reportable segment based upon geographic location. Included in this segment are properties we developed and properties we acquired and rehabilitated or repositioned within the CDFS business segment with the intention of contributing the property to a property fund or selling to a third party. The costs of our property management function for both our direct-owned portfolio and the properties owned by the property funds and managed by us are all reported in rental expenses in the property operations segment. Our operations in the property operations business segment are in North America (Canada, Mexico and the United States), Europe (properties are located in Belgium, the Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom and are generally pending contribution to a property fund or sale to a third party) and Asia (properties are located in China, Japan, Korea, and Singapore and are generally pending contribution to a property fund or sale to a third party).

Fund management representing the long-term investment management of property funds and the properties they own. We recognize our proportionate share of the earnings or losses from our investments in unconsolidated property funds operating in North America, Europe and Asia. Along with the income recognized under the equity method, we include fees and incentives earned for services performed on behalf of the property funds and interest earned on advances to the property funds, if any. We utilize our leasing and property management expertise to efficiently manage the properties and the funds, and we report the costs as part of rental expenses in the property operations segment. Each investment in a property fund is considered to be an individual operating segment having similar economic characteristics that are combined within the reportable segment based upon geographic location. Our operations in the fund management segment are in North America (Mexico and the

United States), Europe (Belgium, the Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Spain, Sweden, and the United Kingdom), and Asia (Japan).

CDFS business primarily encompasses our development of real estate properties that are subsequently contributed to a property fund in which we have an ownership interest and act as manager, or

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sold to third parties. Additionally, we acquire properties with the intent to rehabilitate and/or reposition the property in the CDFS business segment prior to being contributed to a property fund. We engage in mixed-use development activities generally with the intention of selling the land or completed projects to third parties. We also have investments in several unconsolidated entities that perform development activities and we include our proportionate share of their earnings or losses in this segment. Additionally, we include fees earned for development activities performed on behalf of customers or third parties, interest income earned on notes receivable related to asset sales and gains on the disposition of land parcels when our development plans no longer include the parcels. The separate activities in this segment are considered to be individual operating segments having similar economic characteristics that are combined within the reportable segment based upon geographic location. Our CDFS business segment operations are in North America (Canada, Mexico and the United States), in Europe (Belgium, the Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Romania, Spain, Sweden and the United Kingdom) and in Asia (China, Japan and Korea).

We have other operating segments that do not meet the threshold criteria to disclose as a reportable segment, primarily the management of land subject to ground leases in the United States. Each ground lease is considered to be an individual operating segment.

The assets of the CDFS business segment generally include properties under development, land held for development and our investments in and advances to CDFS joint ventures. During the period between the completion of development, rehabilitation or repositioning of a property and the date the property is contributed to a property fund or sold to a third party, the property and its associated rental income and rental expenses are included in the property operations segment because the primary activity associated with the property during that period is leasing. Upon contribution or sale, the resulting gain or loss is included in the income of the CDFS business segment. The assets of the fund management segment include our investments in and advances to the unconsolidated property funds.

We present the operations and net gains associated with properties sold to third parties generally as discontinued operations. In addition, as of December 31, 2006, we had eight properties classified as held for sale, whose operations are included in discontinued operations. Accordingly, the operations of all of these properties are excluded from the segment presentation. See Note 8.

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Reconciliations are presented below for: (i) each reportable business segment's revenue from external customers to our total revenues; (ii) each reportable business segment's net operating income from external customers to our earnings before minority interest; and (iii) each reportable business segment's assets to our total assets. Our chief operating decision makers rely primarily on net operating income and similar measures to make decisions about allocating resources and assessing segment performance. The applicable components of our revenues, earnings before minority interest and assets, excluding discontinued operations, are allocated to each reportable business segment's revenues, net operating income and assets. Items that are not directly assignable to a segment, such as certain corporate income and expenses, are reflected as reconciling items. The following reconciliations are presented in thousands:

| | Years Ended December 31, | | |
|-----------------------------------|---------------------------------|--------------|--------------|
| | 2006 | 2005 | 2004 |
| Revenues (1): | | | |
| Property operations (2): | | | |
| North America | \$ 818,211 | \$ 566,293 | \$ 495,509 |
| Europe | 35,619 | 10,334 | 8,512 |
| Asia | 31,903 | 12,904 | 5,469 |
| Total property operations segment | 885,733 | 589,531 | 509,490 |
| Fund management (3): | | | |
| North America | 117,532 | 56,348 | 48,037 |
| Europe | 167,227 | 44,002 | 37,886 |
| Asia | 20,225 | 12,662 | 7,754 |
| Total fund management segment | 304,984 | 113,012 | 93,677 |
| CDFS business (4): | | | |
| North America | 549,181 | 291,750 | 398,154 |
| Europe | 451,154 | 383,179 | 675,908 |
| Asia | 385,630 | 503,444 | 217,490 |
| Total CDFS business segment | 1,385,965 | 1,178,373 | 1,291,552 |
| Total segment revenue | 2,576,682 | 1,880,916 | 1,894,719 |
| Other - North America | 41,986 | 11,338 | |
| Reconciling item (5) | (154,759) | (58,530) | (43,088) |
| Total revenues | \$ 2,463,909 | \$ 1,833,724 | \$ 1,851,631 |

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| | Years Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| Net operating income: | | | |
| Property operations (6): | | | |
| North America | \$ 607,025 | \$ 413,489 | \$ 370,734 |
| Europe | 24,961 | 6,162 | 3,176 |
| Asia | 28,315 | 10,696 | 4,342 |
| Total property operations segment | 660,301 | 430,347 | 378,252 |
| Fund management (3): | | | |
| North America | 117,532 | 56,348 | 48,037 |
| Europe | 167,227 | 44,002 | 37,886 |
| Asia | 20,225 | 12,662 | 7,754 |
| Total fund management segment | 304,984 | 113,012 | 93,677 |
| CDFS business (7)(8): | | | |
| North America | 176,699 | 70,250 | 46,467 |
| Europe | 108,079 | 71,329 | 93,032 |
| Asia | 94,707 | 111,029 | 34,836 |
| Total CDFS business segment | 379,485 | 252,608 | 174,335 |
| Total segment net operating income | 1,344,770 | 795,967 | 646,264 |
| Other North America | 27,873 | 8,842 | |
| Reconciling items: | | | |
| Earnings (losses) from other unconsolidated investees | 5,729 | 750 | (990) |
| General and administrative expenses | (156,889) | (107,164) | (84,861) |
| Depreciation and amortization expense | (293,027) | (191,945) | (161,968) |
| Merger integration and relocation expenses | (2,723) | (16,603) | (6,794) |
| Other expenses | (459) | (650) | |
| Interest expense | (294,403) | (177,562) | (152,551) |
| Interest and other income, net | 18,248 | 10,724 | 5,721 |
| Total reconciling items | (723,524) | (482,450) | (401,443) |
| Total earnings before minority interest | \$ 649,119 | \$ 322,359 | \$ 244,821 |

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| | December 31, | |
|---|---------------------|---------------|
| | 2006 | 2005 |
| Assets (9): | | |
| Property operations (10): | | |
| North America (11) | \$ 7,960,432 | \$ 7,530,062 |
| Europe | 1,295,207 | 673,342 |
| Asia | 633,623 | 106,069 |
| Total property operations segment | 9,889,262 | 8,309,473 |
| Fund management (12): | | |
| North America | 416,909 | 368,206 |
| Europe | 430,761 | 283,435 |
| Asia | 134,170 | 103,679 |
| Total fund management segment | 981,840 | 755,320 |
| CDFS business (13): | | |
| North America | 1,312,883 | 1,142,319 |
| Europe (11) | 1,456,064 | 1,062,338 |
| Asia | 802,464 | 535,190 |
| Total CDFS business segment | 3,571,411 | 2,739,847 |
| Total segment assets | 14,442,513 | 11,804,640 |
| Other North America | 488,987 | 901,281 |
| Reconciling items: | | |
| Investments in and advances to other unconsolidated investees | 114,547 | 27,281 |
| Cash and cash equivalents | 475,791 | 203,800 |
| Accounts and notes receivable | 129,880 | 38,864 |
| Other assets | 194,649 | 150,314 |
| Discontinued operations assets held for sale | 57,158 | |
| Total reconciling items | 972,025 | 420,259 |
| Total assets | \$ 15,903,525 | \$ 13,126,180 |

(1) Includes revenues attributable to the United States for the years ended December 31, 2006, 2005 and 2004 of \$1,484.8 million, \$861.8 million and \$905.7 million, respectively.

- (2) Includes rental income of our distribution and retail properties.
- (3) Includes fund management fees and incentive revenue and our share of the earnings or losses recognized under the equity method from our investment in unconsolidated property funds along with interest earned on advances to the property funds, if any.
- (4) Includes proceeds received on CDFS property dispositions, fees earned from customers and third parties for development activities, interest income on long-term notes receivable related to asset dispositions and our share of earnings or losses recognized under the equity method from our investment in CDFS joint ventures.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (5) Amount represents the earnings or losses recognized under the equity method from our investments in unconsolidated property funds and CDFS joint ventures and interest income on long-term notes receivable related to asset dispositions. These items are not presented as a component of revenues in our Consolidated Statements of Earnings.
- (6) Includes rental income less rental expenses of our distribution and retail properties. Included in rental expenses are the costs of managing the properties owned by the property funds.
- (7) Includes net gains or losses associated on CDFS property dispositions, fees earned from customers and third parties for development activities, interest income on long-term notes receivable related to asset dispositions, and our share of earnings or losses recognized under the equity method from our investment in CDFS joint ventures, offset partially by land holding costs and the write-off of previously capitalized pursuit costs associated with potential CDFS business assets when it becomes likely the assets will not be acquired.
- (8) Excludes a net gain of \$33.5 million, \$10.6 million and \$32.7 million for the years ended December 31, 2006, 2005 and 2004, respectively, associated with CDFS properties sold to third parties and presented as discontinued operations in our Consolidated Statements of Earnings. See Note 8.
- (9) Includes long-lived assets attributable to the United States as of December 31, 2006 and 2005 of \$9.1 billion and \$8.8 billion, respectively.
- (10) Includes properties that were developed or acquired in the CDFS business segment that have not yet been contributed or sold of \$3.1 billion and \$1.4 billion for the years ended December 31, 2006 and 2005, respectively.
- (11) Goodwill of \$200.4 million and \$173.2 million as of December 31, 2006 and 2005, respectively was attributable to the property operations segment and \$53.8 million and \$56.2 million as of December 31, 2006 and 2005, respectively, was attributable to the CDFS business segment.
- (12) Represents our investments in and advances to the property funds.
- (13) Represents primarily land held for development, properties under development, other real estate investments, investments in CDFS joint ventures, and notes receivable related to asset dispositions.

19. Supplemental Cash Flow Information:

Non-cash investing and financing activities for the years ended December 31, 2006, 2005 and 2004 are as follows:

We received \$128.0 million, \$74.5 million and \$115.5 million of equity interests in property funds from the contribution of properties to these property funds during 2006, 2005 and 2004, respectively.

In 2006 we received 3.9 million ordinary units in PEPR, valued at \$68.6 million, representing the initial allocation of an incentive return we earned as manager of the property fund. See Note 4 for further discussion of this transaction.

As partial consideration for properties we contributed in 2006 to the North American Industrial Fund, we received ownership interests of \$62.1 million, representing a 20% ownership interest, and the property fund assumed \$677.2 million of secured debt and short-term borrowings. See Note 4 for further discussion of this transaction.

In connection with the purchase in 2006 of the 80% ownership interests held by our fund partner in Funds II-IV, we assumed \$418.0 million of secured debt (which was later assumed by the North American Industrial Fund). See Note 4 for further discussion of this transaction.

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PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Limited partnership units aggregating \$6.5 million, \$0.1 million and \$0.9 million were converted into common shares in 2006, 2005 and 2004, respectively.

During 2006, 2005, and 2004, we capitalized portions of the total cost of our share-based compensation awards of \$8.4 million, \$4.6 million and \$7.4 million, respectively, to the investment basis of our real estate and other assets.

As partial consideration for certain property contributions, we received: (i) \$1.9 million, \$32.6 million and \$23.4 million in the form of notes receivable from ProLogis North American Properties Fund V in 2006, 2005 and 2004, respectively, (all of which has been paid); (ii) a \$50.9 million note from a third party in 2005 (which was outstanding at December 31, 2005 and repaid during 2006); and (iii) the assumption of an outstanding mortgage note in the amount of \$14.5 million from ProLogis North American Properties Fund VII in 2005.

As partial consideration for the sale of a property, a third party assumed an outstanding mortgage note in the amount of \$42.9 million in 2006.

We assumed \$141.6 million and \$35.0 million of secured debt in 2006 and 2005, respectively, and operating receivables and liabilities of \$19.0 million and \$22.6 million, respectively, in 2006 in connection with the acquisition of properties.

We recognized net foreign currency translation adjustments of \$115.8 million in gains, \$67.8 million in losses, and \$46.3 million in gains in 2006, 2005 and 2004, respectively.

See also the discussion of the Catellus Merger and the Keystone Transaction in Note 3.

20. Subsequent Events:

In February 2007, we purchased the industrial business and made an investment in the retail business of a European developer for total consideration of approximately \$1.1 billion in cash, the issuance of stock and the assumption of debt and certain other liabilities, as follows:

We purchased the industrial business of Parkridge Holdings Limited (Parkridge) for £284.4 million (\$556.9 million). We paid net cash of approximately £67.4 million (\$131.9 million), issued 4.8 million of our common shares (valued at \$64.364 per share) and assumed debt payable to certain of our consolidated subsidiaries and certain other liabilities of £58.2 million (\$113.9 million) and £1.7 million (\$3.4 million), respectively. The notes, in the amount of £58.2 million, were issued by us in November 2006 to certain affiliates of Parkridge to finance the buyout of a Parkridge joint venture partner, the payoff of existing debt and fund other development costs that were incurred between the time of valuation and the closing of the transaction, and are included in Accounts and Notes Receivable in our Consolidated Balance Sheet at December 31, 2006. We may be required to make additional payments (primarily through the issuance of our common shares) of approximately £52.3 million (\$102.4 million) upon the successful completion of pending land entitlements in the United Kingdom.

We made an investment in Parkridge's mixed-use and retail development business for £71.3 million (\$139.7 million) paid in cash, which represents a 25% interest.

Included in the acquisition of Parkridge's industrial business was a 50% interest in a Central European distribution development joint venture. In a separate transaction, we acquired the remaining 50% interest in this joint venture from Parkridge's partner for 345.2 million (\$450.2 million) in cash, which includes 246.3 million (\$321.2 million) of debt that was paid at closing.

Table of Contents**PROLOGIS****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The cash portion of the acquisition was funded with borrowings under our Global Line and a new \$600.0 million multi-currency senior credit facility. The new senior facility has similar terms as the Global Line (as discussed in Note 13), except it bears interest at a variable rate based on LIBOR plus a margin.

21. Selected Quarterly Financial Data (Unaudited):

Selected quarterly 2006 and 2005 data (in thousands, except per share amounts) is summarized in the table below. The amounts have been restated from previously disclosed amounts due to the disposal of properties in 2006 and 2005 whose results of operations were reclassified to discontinued operations in our Consolidated Statements of Earnings:

| | Three Months Ended, | | | |
|--|----------------------------|-----------------|----------------------|---------------------|
| | March 31, | June 30, | September 30, | December 31, |
| 2006: | | | | |
| Total revenues | \$ 571,115 | \$ 687,397 | \$ 580,476 | \$ 624,921 |
| Operating income | \$ 163,692 | \$ 170,260 | \$ 174,720 | \$ 256,114 |
| Earnings from continuing operations | \$ 160,307 | \$ 125,878 | \$ 123,510 | \$ 307,995 |
| Net earnings attributable to common shares | \$ 183,159 | \$ 168,397 | \$ 166,305 | \$ 331,090 |
| Net earnings per share attributable to common shares Basic (1) | \$.75 | \$.69 | \$.68 | \$ 1.33 |
| Net earnings per share attributable to common shares Diluted (1) | \$.72 | \$.66 | \$.65 | \$ 1.28 |
| 2005: | | | | |
| Total revenues | \$ 427,591 | \$ 465,404 | \$ 525,906 | \$ 414,823 |
| Operating income | \$ 94,251 | \$ 118,336 | \$ 117,269 | \$ 100,061 |
| Earnings from continuing operations | \$ 67,709 | \$ 93,622 | \$ 87,740 | \$ 57,132 |
| Net earnings attributable to common shares | \$ 55,074 | \$ 77,169 | \$ 129,402 | \$ 109,102 |
| Net earnings per share attributable to common shares Basic (1) | \$ 0.30 | \$ 0.41 | \$ 0.66 | \$ 0.45 |
| Net earnings per share attributable to common shares Diluted (1) | \$ 0.29 | \$ 0.40 | \$ 0.63 | \$ 0.43 |

- (1) Quarterly earnings per common share amounts may not total to the annual amounts due to rounding and to the change in the number of common shares outstanding.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders

ProLogis:

Under date of February 27, 2007, we reported on the consolidated balance sheets of ProLogis and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule, Schedule III - Real Estate and Accumulated Depreciation (Schedule III). Schedule III is the responsibility of ProLogis' management. Our responsibility is to express an opinion on Schedule III based on our audits.

In our opinion, Schedule III - Real Estate and Accumulated Depreciation, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Los Angeles, California
February 27, 2007

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PROLOGIS
SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2006

| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Date of Construction Acquisition |
|--|---------------|--------------|---------------------------------------|---|---|--|-------------|--------|------------------------------|----------------------------------|
| | | | ProLogis Building & Land Improvements | Costs Capitalized & Subsequent Acquisition To | Costs Capitalized & Subsequent Acquisition To | as of December 31, 2006 Building & Land Improvements | Total (a,b) | | | |
| Industrial Operating Properties (d) | | | | | | | | | | |
| North American Markets: | | | | | | | | | | |
| <i>United States:</i> | | | | | | | | | | |
| Atlanta, Georgia | | | | | | | | | | |
| Atlanta NE Distribution Center | 8 | (e) | 5,582 | 3,047 | 27,059 | 6,276 | 29,412 | 35,688 | (10,862) | 1996, 1997 |
| Atlanta West Distribution Center | 18 | (e) | 10,336 | 48,444 | 14,025 | 10,147 | 62,658 | 72,805 | (18,353) | 1994, 1996, 2005, 2006 |
| Berkeley Lake Dist Ctr | 1 | | 2,178 | 8,712 | 155 | 2,209 | 8,836 | 11,045 | (160) | 2006 |
| Carter-Pacific Business Center Cedars | 3 | | 556 | 3,151 | 1,467 | 556 | 4,618 | 5,174 | (1,990) | 1995 |
| Distribution Center Douglas Hill | 1 | | 1,366 | 7,739 | 3,069 | 1,692 | 10,482 | 12,174 | (2,862) | 1999 |
| Distribution Center (d) Greenwood Ind | 5 | | 16,647 | 46,825 | 30,461 | 16,647 | 77,286 | 93,933 | (1,689) | 2005, 2006 |
| Park (d) | 1 | | 3,989 | | 17,426 | 3,989 | 17,426 | 21,415 | | 2006 |
| Horizon Dist Ctr International | 1 | | 2,846 | 11,385 | | 2,846 | 11,385 | 14,231 | (206) | 2006 |
| Airport Industrial Center LaGrange | 9 | | 2,939 | 14,146 | 7,925 | 2,972 | 22,038 | 25,010 | (8,748) | 1994, 1995 |
| Distribution Center | 1 | | 174 | 986 | 727 | 174 | 1,713 | 1,887 | (821) | 1994 |
| Midland Dist Ctr Northeast | 1 | | 1,919 | 7,679 | | 1,919 | 7,679 | 9,598 | (139) | 2006 |
| Industrial Center | 4 | | 1,109 | 6,283 | 2,888 | 1,050 | 9,230 | 10,280 | (4,211) | 1996 |

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| | | | | | | | | | | |
|------------------------------------|----|-----|--------|---------|---------|--------|---------|---------|----------|------------------|
| Northmont Industrial Center | 1 | | 566 | 3,209 | 1,057 | 566 | 4,266 | 4,832 | (1,861) | 1994 |
| Peachtree Commerce Business Center | 5 | | 1,519 | 7,253 | 1,752 | 1,519 | 9,005 | 10,524 | (2,478) | 1994, 2006 |
| Piedmont Court Distribution Center | 2 | | 885 | 5,013 | 2,553 | 885 | 7,566 | 8,451 | (3,274) | 1997 |
| Plaza Industrial Center | 1 | | 66 | 372 | 192 | 66 | 564 | 630 | (244) | 1995 |
| Pleasantdale Industrial Center | 2 | | 541 | 3,184 | 1,155 | 541 | 4,339 | 4,880 | (1,871) | 1995 |
| Riverside Distribution Center | 3 | | 2,533 | 13,336 | 2,575 | 2,556 | 15,888 | 18,444 | (4,275) | 1999 |
| South Royal Distribution Center | 1 | | 356 | 2,019 | 58 | 356 | 2,077 | 2,433 | | 2002 |
| Tradeport Distribution Center | 3 | (e) | 1,464 | 4,563 | 7,312 | 1,479 | 11,860 | 13,339 | (4,919) | 1994, 1996 |
| Weaver Distribution Center | 2 | | 935 | 5,182 | 1,499 | 935 | 6,681 | 7,616 | (2,960) | 1995 |
| Westfork Industrial Center | 10 | (e) | 2,483 | 14,115 | 3,132 | 2,442 | 17,288 | 19,730 | (6,864) | 1995 |
| Total Atlanta, Georgia | 83 | | 60,989 | 216,643 | 126,487 | 61,822 | 342,297 | 404,119 | (78,787) | |
| Austin, Texas | | | | | | | | | | |
| Corridor Park Corporate Center | 6 | | 1,652 | 1,681 | 15,449 | 2,113 | 16,669 | 18,782 | (6,944) | 1995, 1996 |
| Montopolis Distribution Center | 1 | | 580 | 3,384 | 1,342 | 580 | 4,726 | 5,306 | (2,297) | 1994 |
| Rutland Distribution Center | 2 | | 460 | 2,617 | 899 | 462 | 3,514 | 3,976 | (1,460) | 1993 |
| Southpark Corporate Center | 5 | | 1,137 | | 8,636 | 1,137 | 8,636 | 9,773 | (3,601) | 1994, 1995 |
| Walnut Creek Corporate Center | 10 | | 2,171 | 2,632 | 19,170 | 2,225 | 21,748 | 23,973 | (8,554) | 1994, 1995, 1996 |
| Total Austin, Texas | 24 | | 6,000 | 10,314 | 45,496 | 6,517 | 55,293 | 61,810 | (22,856) | |

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| | | | | | | | | | | |
|---|----|-----|--------|--------|--------|--------|---------|---------|----------|------------------------|
| Charlotte, North Carolina Barringer Industrial Center Bond | 3 | | 308 | 1,746 | 1,101 | 308 | 2,847 | 3,155 | (1,205) | 1994 |
| Distribution Center Carowinds | 2 | | 905 | 5,126 | 1,684 | 905 | 6,810 | 7,715 | (2,911) | 1994 |
| Distribution Center Charlotte Commerce Center | 1 | | 3,600 | 20,400 | | 3,600 | 20,400 | 24,000 | (5,242) | 1999 |
| Charlotte Distribution Center Interstate North Business Park (d) | 10 | (e) | 4,341 | 24,954 | 8,131 | 4,342 | 33,084 | 37,426 | (15,265) | 1994 |
| Charlotte Distribution Center Northpark | 9 | (e) | 4,578 | | 26,578 | 6,096 | 25,060 | 31,156 | (9,557) | 1995, 1996, 1997, 1998 |
| Distribution Center West Pointe Bus Ctr (d) | 3 | | 948 | 3,030 | 4,057 | 947 | 7,088 | 8,035 | (1,551) | 1997, 2006 |
| Distribution Center West Pointe Bus Ctr (d) | 2 | (e) | 1,183 | 6,707 | 1,988 | 1,184 | 8,694 | 9,878 | (3,056) | 1994, 1998 |
| Distribution Center West Pointe Bus Ctr (d) | 2 | | 4,851 | | 13,382 | 4,851 | 13,382 | 18,233 | | 2006 |
| Total Charlotte, North Carolina | 32 | | 20,714 | 61,963 | 56,921 | 22,233 | 117,365 | 139,598 | (38,787) | |

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| PROLOGIS | | | | | | | | | | | |
|--|----------------------|---------------------|------------------------|---------------------|--------------------|--------------------------|---------------------|--------------------|---------------------------------------|-------------------------------------|---|
| SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued) | | | | | | | | | | | |
| December 31, 2006 | | | | | | | | | | | |
| Gross Amounts At Which Carried | | | | | | | | | | | |
| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Costs Capitalized | | | Gross Amounts At Which Carried | | Date of Construction Acquisition |
| | | | Land | Improvements | Acquisition | Land | Improvements | Total (a,b) | Accumulated Depreciation (c) | | |
| (In thousands, as applicable) | | | | | | | | | | | |
| Chicago, Illinois Addison Distribution Center | 1 | | 646 | 3,662 | 784 | 640 | 4,452 | 5,092 | (1,678) | 1997 | |
| Chicago, Illinois Addison Distribution Center | 2 | | 2,093 | 11,859 | 8,252 | 2,549 | 19,655 | 22,204 | (9,269) | 1997, 1999 | |
| Chicago, Illinois Arlington Heights Dist Ctr | 1 | | 831 | 3,326 | 20 | 831 | 3,346 | 4,177 | | 2006 | |
| Chicago, Illinois Bedford Park Industrial Center | 1 | | 941 | 4,907 | 817 | 941 | 5,724 | 6,665 | (246) | 2005 | |
| Chicago, Illinois Bensenville Distribution Center | 2 | | 1,668 | 9,448 | 5,307 | 1,667 | 14,756 | 16,423 | (6,769) | 1997 | |
| Chicago, Illinois Bolingbrook Distribution Center (d) | 6 | | 16,178 | 73,755 | 2,444 | 16,177 | 76,200 | 92,377 | (7,360) | 1999, 2003, 2006 | |
| Chicago, Illinois Crestwood Plaines Distribution Center | 3 | | 2,158 | 12,232 | 4,813 | 2,159 | 17,044 | 19,203 | (6,776) | 1995, 1996, 1995, 1996, 1997, | |
| Chicago, Illinois Frank Grove Distribution Center (d) | 27 | | 25,298 | 114,010 | 16,651 | 25,198 | 130,761 | 155,959 | (21,105) | 1998, 1999, 2006 | |
| Chicago, Illinois Horn Lake Distribution Center | 1 | | 713 | 4,043 | 929 | 713 | 4,972 | 5,685 | (1,663) | 1997 | |
| Chicago, Illinois Lendale Heights Distribution Center | 3 | | 3,903 | 22,119 | 1,913 | 3,903 | 24,032 | 27,935 | (6,223) | 1999 | |
| Chicago, Illinois Menview Distribution Center | 2 | | 1,156 | 6,550 | 1,318 | 1,156 | 7,868 | 9,024 | (2,700) | 1996, 1999 | |
| Chicago, Illinois Nurnee Distribution Center (d) | 2 | (e) | 1,847 | 10,466 | 296 | 1,847 | 10,762 | 12,609 | | 2005 | |

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| | | | | | | | | | | |
|-------------------------|----|-----|---------|---------|---------|---------|---------|---------|----------|------------------|
| 294 | | | | | | | | | | |
| Distribution Center (d) | 1 | | 858 | | 7,096 | 858 | 7,096 | 7,954 | 2005 | |
| 80 Morris (d) | 1 | | 4,690 | | 19,869 | 4,690 | 19,869 | 24,559 | 2006 | |
| asca | | | | | | | | | | |
| Distribution Center | 3 | | 1,613 | 9,143 | 1,094 | 1,613 | 10,237 | 11,850 | (3,381) | 1996, 1997, 1998 |
| ombard | | | | | | | | | | |
| Distribution Center | 1 | | 1,170 | 6,630 | 309 | 1,170 | 6,939 | 8,109 | (1,864) | 1999 |
| inooka | | | | | | | | | | |
| Distribution Center | 1 | (e) | 10,403 | 27,247 | 15,275 | 10,403 | 42,522 | 52,925 | (1,806) | 2005 |
| itchell | | | | | | | | | | |
| Distribution Center | 1 | | 1,236 | 7,004 | 1,894 | 1,236 | 8,898 | 10,134 | (3,728) | 1996 |
| orth Avenue | | | | | | | | | | |
| Distribution Center | 2 | | 3,201 | | 8,996 | 2,047 | 10,150 | 12,197 | (3,387) | 1997, 1998 |
| orthlake | | | | | | | | | | |
| Distribution Center | 1 | | 372 | 2,106 | 737 | 372 | 2,843 | 3,215 | (1,003) | 1996 |
| asant Prairie | | | | | | | | | | |
| Distribution Center | 1 | | 1,314 | 7,450 | 2,396 | 1,315 | 9,845 | 11,160 | (2,052) | 1999 |
| oLogis Park 57 | 1 | | 686 | 3,885 | 1,313 | 686 | 5,198 | 5,884 | (618) | 2004 |
| omeoville | | | | | | | | | | |
| Distribution Center | 6 | (e) | 23,731 | 96,764 | 451 | 23,731 | 97,215 | 120,946 | (5,632) | 1999, 2005 |
| outh Holland | | | | | | | | | | |
| Distribution Center | 2 | | 1,156 | 6,550 | 883 | 1,156 | 7,433 | 8,589 | (2,111) | 1999 |
| est Chicago | | | | | | | | | | |
| Distribution Center | 1 | | 3,125 | 12,499 | 21 | 3,125 | 12,520 | 15,645 | (504) | 2005 |
| oodale | | | | | | | | | | |
| Distribution Center | 1 | | 263 | 1,490 | 413 | 263 | 1,903 | 2,166 | (680) | 1997 |
| oodridge | | | | | | | | | | |
| Distribution Center | 14 | (e) | 49,508 | 198,032 | 1,776 | 49,508 | 199,808 | 249,316 | (8,563) | 2005 |
| otal Chicago, Illinois | 88 | | 160,758 | 655,177 | 106,067 | 159,954 | 762,048 | 922,002 | (99,118) | |
| ncinnati, Ohio | | | | | | | | | | |
| irpark | | | | | | | | | | |
| Distribution Center | 2 | (e) | 1,128 | | 11,785 | 1,716 | 11,197 | 12,913 | (4,130) | 1996 |

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| | | | | | | | | | | |
|-----------------------------------|----|-----|--------|--------|--------|--------|---------|---------|----------|------------|
| Capital Distribution Center I | 4 | | 1,750 | 9,922 | 3,710 | 1,751 | 13,631 | 15,382 | (5,878) | 1994 |
| Capital Distribution Center II | 5 | (e) | 1,953 | 11,067 | 4,209 | 1,953 | 15,276 | 17,229 | (6,753) | 1994 |
| Capital Industrial Center I | 10 | | 1,039 | 5,885 | 4,497 | 1,105 | 10,316 | 11,421 | (4,549) | 1994, 1995 |
| Constitution Distribution Center | 1 | | 1,465 | 8,301 | 598 | 1,465 | 8,899 | 10,364 | (2,316) | 1999 |
| Values Drive Distribution Center | 1 | | 921 | 5,218 | 1,807 | 921 | 7,025 | 7,946 | (362) | 2003 |
| Empire Distribution Center | 3 | (e) | 529 | 2,995 | 2,180 | 529 | 5,175 | 5,704 | (2,126) | 1995 |
| Enterprise Distribution Center | 1 | | 1,275 | 7,222 | 35 | 1,275 | 7,257 | 8,532 | (50) | 2005 |
| Airfield Business Center | 1 | | 348 | 1,971 | 591 | 381 | 2,529 | 2,910 | (244) | 2004 |
| Airfield Commerce Center (d) | 1 | | 1,558 | 8,831 | 1,256 | 1,558 | 10,087 | 11,645 | | 2004 |
| Airfield Distribution Center | 1 | | 586 | 3,319 | 1,074 | 586 | 4,393 | 4,979 | (15) | 2002 |
| Posteller Distribution Center (d) | 1 | | 473 | 2,678 | 1,029 | 483 | 3,697 | 4,180 | | 2004 |
| Production Distribution Center | 2 | | 717 | 2,717 | 2,702 | 824 | 5,312 | 6,136 | (1,654) | 1994, 1998 |
| Marionville Distribution Center | 3 | (e) | 1,761 | | 12,351 | 2,424 | 11,688 | 14,112 | (2,994) | 1997, 1998 |
| Springdale Commerce Center | 3 | | 421 | 2,384 | 2,017 | 421 | 4,401 | 4,822 | (1,875) | 1996 |
| Total Cincinnati, Ohio | 39 | | 15,924 | 72,510 | 49,841 | 17,392 | 120,883 | 138,275 | (32,946) | |

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PROLOGIS
SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued)
December 31, 2006

| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Date of Construction Acquisition |
|---|---------------|--------------|-----------------|-----------------------|---|--|------------------------------|-------------|------------------------------|----------------------------------|
| | | | ProLogis Land | Building Improvements | Costs Capitalized & Subsequent Acquisition To (In thousands, as applicable) | as of December 31, 2006 Building & Land Improvements | Building & Land Improvements | Total (a,b) | | |
| Columbus, Ohio | | | | | | | | | | |
| Franklin Distribution Center | 2 | | 5,964 | 23,858 | 1,378 | 5,965 | 25,235 | 31,200 | (1,040) | 2005 |
| High Pointe Distribution Center | 1 | | 1,237 | 7,013 | 1,816 | 1,268 | 8,798 | 10,066 | (1,865) | 1999 |
| Industrial Park South Distribution Center | 3 | (e) | 1,588 | | 23,888 | 1,980 | 23,496 | 25,476 | (8,212) | 1996 |
| Lincoln Street Distribution Center | 1 | (e) | 1,245 | 7,055 | 301 | 1,245 | 7,356 | 8,601 | (1,864) | 1999 |
| Columbus West Industrial Center | 1 | | 295 | 1,899 | 682 | 295 | 2,581 | 2,876 | (1,105) | 1995 |
| Corporate Park West (d) | 3 | (e) | 1,079 | 6,117 | 3,138 | 1,080 | 9,254 | 10,334 | (1,935) | 1996, 2006 |
| Dist Ctr (d) | 1 | | 1,633 | | 16,217 | 1,633 | 16,217 | 17,850 | | 2006 |
| Meridian Distribution Center | 1 | (e) | 1,197 | 6,785 | 2,423 | 1,197 | 9,208 | 10,405 | (4,312) | 1995 |
| Northgate Trade Center I | 5 | (e) | 6,527 | 36,989 | 5,287 | 6,992 | 41,811 | 48,803 | (10,896) | 1999 |
| Norman Distribution Center | 5 | (e) | 1,664 | 9,429 | 5,226 | 1,664 | 14,655 | 16,319 | (5,881) | 1994 |
| World Distribution Center | 1 | | 207 | 1,173 | 1,913 | 207 | 3,086 | 3,293 | (1,576) | 1994 |
| Winton Park Distribution Center | 2 | (e) | 3,344 | 15,182 | 279 | 3,343 | 15,462 | 18,805 | (2,035) | 1999, 2006 |
| Yonkers Business Center | 5 | | 2,271 | 9,862 | 990 | 2,242 | 10,881 | 13,123 | (1,427) | 1998, 2006 |
| Yonkers Distribution Center | 1 | | 152 | 859 | 287 | 152 | 1,146 | 1,298 | (398) | 1994 |
| Columbus, Ohio | 32 | | 28,403 | 126,221 | 63,825 | 29,263 | 189,186 | 218,449 | (42,546) | |
| Dallas/Fort Worth, Texas | | | | | | | | | | |
| Enterprise Distribution Center | 1 | (e) | 3,653 | 14,613 | | 3,653 | 14,613 | 18,266 | (629) | 2005 |
| Enterprise Industrial Center | 1 | | 334 | | 2,412 | 334 | 2,412 | 2,746 | (958) | 1996 |
| Enterprise Distribution Center | 1 | | 1,250 | 7,082 | 445 | 1,250 | 7,527 | 8,777 | (1,946) | 1999 |
| Enterprise Corporate Center | 10 | | 5,161 | | 32,280 | 5,460 | 31,981 | 37,441 | (10,902) | |

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| | | | | | | | | | 1996, 1998, 1999, 2006, 1998, 1995, 1997, 1999, 2001, 2005 | |
|---|-----|-----|--------|---------|---------|--------|---------|---------|--|------------------|
| Enterprise Distribution Center | 3 | | 2,719 | 15,410 | 549 | 2,719 | 15,959 | 18,678 | (3,994) | 1999 |
| Enterprise Corp Ctr (d) | 1 | | 555 | | 3,925 | 555 | 3,925 | 4,480 | | 2006 |
| Enterprise Distribution Center | 4 | | 1,393 | 5,549 | 4,870 | 1,440 | 10,372 | 11,812 | (3,423) | 1998 |
| Enterprise Southwest Distribution Center | 38 | (e) | 39,449 | 173,329 | 14,530 | 37,983 | 189,325 | 227,308 | (30,662) | 2005 |
| Enterprise Star Distribution Center | 1 | | 512 | 2,896 | 1,242 | 511 | 4,139 | 4,650 | (1,319) | 1996 |
| Enterprise Gate Distribution Center | 8 | (e) | 12,928 | 57,757 | 5,626 | 13,809 | 62,502 | 76,311 | (7,907) | 2005 |
| Enterprise Circle Park Distribution Center (d)(f) | 1 | | 5,058 | | 19,929 | 3,880 | 21,107 | 24,987 | (2,890) | 2001 |
| Enterprise Distribution Center | 7 | | 3,915 | 22,186 | 1,854 | 3,915 | 24,040 | 27,955 | (6,143) | 1999 |
| Enterprise Bird Distribution Center | 2 | | 1,095 | 6,212 | 1,461 | 1,096 | 7,672 | 8,768 | (2,340) | 1994, 1999 |
| Enterprise Hill Distribution Center | 1 | | 811 | 4,598 | 565 | 811 | 5,163 | 5,974 | (923) | 2001 |
| Enterprise Commons Distribution Center | 1 | | 272 | 1,544 | 655 | 272 | 2,199 | 2,471 | (890) | 1995 |
| Enterprise Commons Industrial Center | 11 | | 1,820 | 11,705 | 4,345 | 1,819 | 16,051 | 17,870 | (6,260) | 1994, 1996, 1999 |
| Enterprise Valley Mills Distribution Center | 7 | | 4,453 | 27,346 | 2,322 | 4,405 | 29,716 | 34,121 | (9,044) | 2001 |
| Enterprise Wood Business Center | 6 | (e) | 4,661 | 21,823 | 1,078 | 4,538 | 23,024 | 27,562 | (2,570) | 2001, 2005 |
| Enterprise Wood Distribution Center | 5 | | 3,811 | 21,341 | 2,155 | 3,810 | 23,497 | 27,307 | (6,036) | 1999 |
| Enterprise Dallas/Fort Worth, Texas | 109 | | 93,850 | 393,391 | 100,243 | 92,260 | 495,224 | 587,484 | (98,836) | |
| Enterprise Denver, Colorado | | | | | | | | | | 1992, 1996, 2005 |
| Enterprise Denver Business Center | 6 | | 1,507 | 8,302 | 9,007 | 1,506 | 17,310 | 18,816 | (6,829) | 1996, 2005 |
| Enterprise Medina Distribution Center | 1 | | 401 | 2,281 | 788 | 401 | 3,069 | 3,470 | (1,661) | 1993 |
| Enterprise Pine Distribution Center | 1 | | 327 | 1,850 | 799 | 327 | 2,649 | 2,976 | (1,153) | 1994 |
| Enterprise Scrieff Distribution Center | 1 | | 314 | 2,493 | 1,086 | 314 | 3,579 | 3,893 | (1,712) | 1992 |
| Enterprise Mesa Distribution Center | 1 | | 406 | 2,322 | 951 | 406 | 3,273 | 3,679 | (1,571) | 1993 |
| Enterprise Prologis Park 70 (d) | 1 | | 2,128 | | 11,335 | 2,252 | 11,211 | 13,463 | (158) | 2005 |
| Enterprise Metton Business Center | 12 | (e) | 34,634 | 139,256 | 1,478 | 34,635 | 140,733 | 175,368 | (6,072) | 2005 |

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| SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued) | | | | | | | | | | |
| December 31, 2006 | | | | | | | | | | |
| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Date of Construction/ Acquisition |
| | | | ProLogis Building & Land Improvements | Costs Capitalized Subsequent To Acquisition | as of December 31, 2006 Building & Land Improvements | Total (a,b) | | | | |
| (In thousands, as applicable) | | | | | | | | | | |
| Upland Distribution Center I | 6 | | 808 | 4,421 | 11,533 | 821 | 15,941 | 16,762 | (7,144) | 1992, 1994, 1995 |
| Upland Distribution Center II | 6 | | 2,456 | 13,946 | 4,527 | 2,489 | 18,440 | 20,929 | (8,499) | 1993, 1994 |
| Total Denver, Colorado | 35 | | 42,981 | 174,871 | 41,504 | 43,151 | 216,205 | 259,356 | (34,799) | |
| El Paso, Texas | | | | | | | | | | |
| Billy the Kid Distribution Center | 1 | | 273 | 1,547 | 1,148 | 273 | 2,695 | 2,968 | (1,062) | 1994 |
| Goodyear Distribution Center | 1 | | 511 | 2,899 | 775 | 511 | 3,674 | 4,185 | (1,318) | 1991 |
| Northwestern Corporate Center | 5 | | 981 | | 18,421 | 2,168 | 17,234 | 19,402 | (5,616) | 1992, 1993, 1994, 1997 |
| Pan American Distribution Center | 1 | | 196 | 1,110 | 999 | 196 | 2,109 | 2,305 | (116) | 2002 |
| Vista Corporate Center | 4 | | 1,945 | | 11,993 | 1,946 | 11,992 | 13,938 | (4,708) | 1994, 1995, 1996 |
| Vista Del Sol Industrial Center | 4 | | 996 | | 19,545 | 2,056 | 18,485 | 20,541 | (6,387) | 1995, 1997, 1998 |
| Total El Paso, Texas | 16 | | 4,902 | 5,556 | 52,881 | 7,150 | 56,189 | 63,339 | (19,207) | |
| Houston, Texas | | | | | | | | | | |

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| | | | | | | | | | |
|---|----|-------|--------|--------|-------|--------|--------|----------|-------------------------------------|
| Blalock Distribution Center | 2 | 595 | 3,370 | 992 | 595 | 4,362 | 4,957 | (422) | 2002 |
| Brittmore Distribution Center | 2 | 1,838 | 10,417 | 1,037 | 1,838 | 11,454 | 13,292 | (3,433) | 1999 |
| Crosstimbers Distribution Center | 1 | 359 | 2,035 | 1,120 | 359 | 3,155 | 3,514 | (1,217) | 1994 |
| Hempstead Distribution Center | 3 | 1,013 | 5,740 | 1,840 | 1,013 | 7,580 | 8,593 | (3,339) | 1994 |
| Hobby Business Park | 1 | 721 | 2,885 | 81 | 721 | 2,966 | 3,687 | (127) | 2005 |
| Jersey Village Corp Ctr (d) | 1 | 1,056 | | 6,746 | 1,056 | 6,746 | 7,802 | | 2006 |
| Kempwood Business Center | 4 | 1,746 | 9,894 | 1,695 | 1,746 | 11,589 | 13,335 | (2,665) | 2001 |
| Northpark Dist Ctr (d) | 1 | 1,148 | 4,591 | 104 | 1,148 | 4,695 | 5,843 | | 2006 |
| Perimeter Distribution Center | 2 | 813 | 4,604 | 944 | 813 | 5,548 | 6,361 | (1,589) | 1999 |
| Pine Forest Business Center | 12 | 4,111 | 22,356 | 5,751 | 4,111 | 28,107 | 32,218 | (11,059) | 1993, 1995 |
| Pine North Distribution Center | 2 | 847 | 4,800 | 645 | 847 | 5,445 | 6,292 | (1,650) | 1999 |
| Pine Timbers Distribution Center | 2 | 2,956 | 16,750 | 2,625 | 2,956 | 19,375 | 22,331 | (5,897) | 1999 |
| Pinemont Distribution Center | 2 | 642 | 3,636 | 572 | 642 | 4,208 | 4,850 | (1,272) | 1999 |
| Post Oak Business Center | 15 | 3,005 | 15,378 | 7,143 | 3,005 | 22,521 | 25,526 | (10,119) | 1993, 1994, 1996 |
| Post Oak Distribution Center | 7 | 2,115 | 12,017 | 5,675 | 2,039 | 17,768 | 19,807 | (8,836) | 1993, 1994 |
| South Loop Distribution Center | 5 | 1,051 | 5,964 | 3,802 | 1,052 | 9,765 | 10,817 | (4,555) | 1994 |
| Southland Distribution Center | 1 | 1,209 | 6,849 | 894 | 1,209 | 7,743 | 8,952 | (387) | 2002 |
| Sugarland Corporate Center (d) | 1 | 452 | | 2,970 | 452 | 2,970 | 3,422 | | 2005 |
| West by Northwest Industrial Center | 17 | 4,916 | 7,980 | 42,581 | 5,019 | 50,458 | 55,477 | (17,339) | 1993, 1994, 1995, 1996, 1997, |

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| | | | | | | | | | 1998, 2006 |
|--|----|-----------|---------|--------|--------|---------|---------|----------|------------|
| (d) White Street Distribution Center | 1 | 469 | 2,656 | 1,295 | 469 | 3,951 | 4,420 | (1,342) | 1995 |
| Total Houston, Texas | 82 | 31,062 | 141,922 | 88,512 | 31,090 | 230,406 | 261,496 | (75,248) | |
| I-81 Corridor, Pennsylvania Harrisburg Distribution Center | 1 | 2,243 | 12,572 | 672 | 2,243 | 13,244 | 15,487 | (1,030) | 2004 |
| Harrisburg Industrial Center | 1 | 782 | 6,190 | 856 | 782 | 7,046 | 7,828 | (859) | 2002 |
| Kraft Distribution Center | 1 | 2,457 | 13,920 | 70 | 2,457 | 13,990 | 16,447 | (3,586) | 1999 |
| Lehigh Valley Distribution Center | 6 | 9,387 | 52,723 | 1,391 | 9,387 | 54,114 | 63,501 | (4,301) | 2004 |
| Middleton Distribution Center | 1 | (e) 4,190 | 23,478 | 272 | 4,190 | 23,750 | 27,940 | (1,881) | 2004 |
| Northport Industrial Center | 1 | 395 | 21,707 | 2,785 | 1,869 | 23,018 | 24,887 | (2,699) | 2002 |
| Quakertown Dist Ctr (d) | 1 | 6,966 | | 27,582 | 6,966 | 27,582 | 34,548 | | 2006 |
| Total I-81 Corridor, Pennsylvania | 12 | 26,420 | 130,590 | 33,628 | 27,894 | 162,744 | 190,638 | (14,356) | |

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| SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued) | | | | | | | | | | |
| December 31, 2006 | | | | | | | | | | |
| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Date of Construction Acquisition |
| | | | Land | ProLogis Building Improvements | Subsequent Acquisition Costs | Land | Building & Improvements | Total (a,b) | | |
| (In thousands, as applicable) | | | | | | | | | | |
| Indianapolis, Indiana Airport Business Center | 2 | | 600 | 3,406 | 5,682 | 934 | 8,754 | 9,688 | (2,299) | 1999 |
| Westside Distribution Center Lago Court | 2 | | 1,204 | 6,820 | 1,234 | 1,275 | 7,983 | 9,258 | (2,274) | 1995, 1999 |
| Distribution Center North by Northeast | 1 | | 3,352 | 18,678 | 316 | 3,352 | 18,994 | 22,346 | (1,504) | 2004 |
| Distribution Center Park 100 Industrial Center | 1 | | 1,058 | | 7,221 | 1,059 | 7,220 | 8,279 | (2,557) | 1995 |
| Center Park Fletcher | 14 | | 4,948 | 28,691 | 8,793 | 4,900 | 37,532 | 42,432 | (14,476) | 1994, 1995 1994, 1995 |
| Distribution Center Madeland Industrial Center | 9 | | 2,687 | 15,224 | 5,793 | 2,785 | 20,919 | 23,704 | (8,250) | 1996 |
| Center | 3 | | 428 | 2,431 | 2,352 | 429 | 4,782 | 5,211 | (1,893) | 1995 |
| Total Indianapolis, Indiana | 32 | | 14,277 | 75,250 | 31,391 | 14,734 | 106,184 | 120,918 | (33,253) | |
| Las Vegas, Nevada Black Mountain | 2 | | 1,108 | | 7,407 | 1,206 | 7,309 | 8,515 | (2,424) | 1997 |
| Distribution Center Cameron Business Center | 1 | (e) | 1,634 | 9,256 | 251 | 1,634 | 9,507 | 11,141 | (2,484) | 1999 |
| Highes Airport Center | 1 | | 876 | | 3,277 | 910 | 3,243 | 4,153 | (1,220) | 1994 1994, 1995 |
| Las Vegas Corporate Center (d) Acid Street | 8 | (g) | 6,468 | | 32,849 | 6,555 | 32,762 | 39,317 | (8,585) | 1996, 1997 2006 |
| Distribution Center South Arville Center | 1 | (e) | 2,620 | 14,848 | 52 | 2,620 | 14,900 | 17,520 | (3,845) | 1999 |
| West One Business Center | 1 | | 1,440 | 8,160 | 225 | 1,440 | 8,385 | 9,825 | (2,172) | 1999 |
| Center | 4 | | 2,468 | 13,985 | 1,481 | 2,468 | 15,466 | 17,934 | (5,698) | 1996 |

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| | | | | | | | | | | |
|--|----|-----|--------|---------|--------|--------|---------|---------|----------|--------------------|
| atal Las Vegas, evada | 18 | | 16,614 | 46,249 | 45,542 | 16,833 | 91,572 | 108,405 | (26,428) | |
| ouisville, Kentucky rpk Commerce enter | 4 | | 1,583 | 8,971 | 5,485 | 1,583 | 14,456 | 16,039 | (6,201) | 1998 |
| edar Grove istribution Center | 1 | (e) | 3,775 | 15,098 | 9 | 3,775 | 15,107 | 18,882 | (651) | 2005 |
| ommerces Crossings istribution Center | 1 | (e) | 1,912 | 7,649 | | 1,912 | 7,649 | 9,561 | (329) | 2005 |
| 5 Meyer istribution Center | 1 | | 2,801 | | 13,413 | 2,801 | 13,413 | 16,214 | | 2006 |
| ouisville istribution Center | 2 | | 680 | 3,402 | 4,631 | 689 | 8,024 | 8,713 | (2,638) | 1995, 1998 |
| verport Distribution enter | 1 | (e) | 1,515 | 8,585 | 2,722 | 1,515 | 11,307 | 12,822 | (2,336) | 1999 |
| atal Louisville, entucky | 10 | | 12,266 | 43,705 | 26,260 | 12,275 | 69,956 | 82,231 | (12,155) | |
| emphis, Tennessee rport Distribution enter | 18 | | 6,536 | 36,998 | 10,968 | 6,536 | 47,966 | 54,502 | (18,461) | 1995, 1996 1999 |
| enterpointe istribution Center | 3 | | 2,497 | 14,151 | 1,843 | 2,497 | 15,994 | 18,491 | (3,627) | 2001 |
| elp Distribution enter | 10 | | 4,886 | 27,687 | 7,546 | 4,886 | 35,233 | 40,119 | (13,472) | 1995, 1997 1999 |
| ed Jones istribution Center | 1 | | 125 | 707 | 267 | 125 | 974 | 1,099 | (447) | 1994 |
| emphis Distribution enter | 1 | | 480 | 2,723 | 338 | 481 | 3,060 | 3,541 | (430) | 2002 |
| ive Branch istribution Center | 2 | | 2,892 | 16,389 | 2,028 | 2,892 | 18,417 | 21,309 | (5,064) | 1999 |
| ines Distribution enter | 1 | | 1,635 | 9,264 | 3,980 | 1,635 | 13,244 | 14,879 | (5,832) | 1998 |
| uthpark istribution Center | 1 | | 859 | 4,866 | 465 | 859 | 5,331 | 6,190 | (217) | 2003 |
| uthwide Industrial enter | 4 | | 725 | 4,105 | 1,351 | 724 | 5,457 | 6,181 | (1,445) | 1999 |
| illow Lake istribution Center | 1 | | 613 | 3,474 | 306 | 613 | 3,780 | 4,393 | (1,064) | 1999 |
| atal Memphis, ennessee | 42 | | 21,248 | 120,364 | 29,092 | 21,248 | 149,456 | 170,704 | (50,059) | |

| | | | | | | | | | |
|---|---|-------|-------|-------|-------|--------|--------|---------|--------------------|
| Memphis, Tennessee Distribution Center | 2 | 463 | 2,626 | 680 | 463 | 3,306 | 3,769 | (1,387) | 1995 |
| 10 Industrial Center | 4 | 1,711 | 9,698 | 1,358 | 1,712 | 11,055 | 12,767 | (3,767) | 1995, 1996 1999 |

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| SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued) | | | | | | | | | | |
| December 31, 2006 | | | | | | | | | | |
| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Date of Construction Acquisition |
| | | | ProLogis Building Land Improvements | Costs Capitalized & Subsequent To Acquisition | as of December 31, 2006 Building & Land Improvements | Total (a,b) | | | | |
| (In thousands, as applicable) | | | | | | | | | | |
| Interchange City Distribution Center (d) | 17 | | 8,107 | 38,553 | 14,204 | 8,862 | 52,002 | 60,864 | (11,661) | 1994, 1995, 1996, 1997, 1998, 2001, 2003 |
| Space Park South Distribution Center | 15 | | 3,499 | 19,830 | 9,050 | 3,499 | 28,880 | 32,379 | (12,838) | 1994 |
| Total Nashville, Tennessee | 38 | | 13,780 | 70,707 | 25,292 | 14,536 | 95,243 | 109,779 | (29,653) | |
| New Jersey Bellmawr Distribution Center | 1 | | 212 | 1,197 | 391 | 211 | 1,589 | 1,800 | (455) | 1999 |
| Brunswick Distribution Center | 2 | | 870 | 4,928 | 2,158 | 870 | 7,086 | 7,956 | (3,339) | 1997 |
| Chester Distribution Center | 1 | | 548 | 5,320 | | 548 | 5,320 | 5,868 | (2,805) | 2002 |
| Clearview Distribution Center | 1 | | 2,232 | 12,648 | 525 | 2,232 | 13,173 | 15,405 | (4,696) | 1996 |
| Clifton Business Center | 1 | | 2,014 | 11,317 | | 2,014 | 11,317 | 13,331 | (488) | 2005 |
| Exit 10 Distribution Center | 6 | | 22,738 | 126,961 | | 22,738 | 126,961 | 149,699 | (5,475) | 2005 |
| Exit 8A Distribution Center (d) | 2 | (e) | 20,558 | 44,103 | 25,680 | 20,718 | 69,623 | 90,341 | (1,912) | 2005 |
| Kilmer Distribution | 4 | (e) | 2,526 | 14,313 | 2,708 | 2,526 | 17,021 | 19,547 | (6,150) | 1996 |

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| | | | | | | | | | | |
|--|----|-----|--------|---------|--------|--------|---------|---------|----------|---------------------|
| Center Meadowland Distribution | 5 | (e) | 12,526 | 80,219 | | 12,526 | 80,219 | 92,745 | (19,485) | 2002, 2005 |
| Center Meadowland Industrial Center | 8 | (e) | 5,676 | 32,167 | 15,460 | 5,677 | 47,626 | 53,303 | (22,904) | 1996, 1997, 1998 |
| Center Mt. Laurel Distribution | 3 | | 826 | 4,679 | 1,472 | 826 | 6,151 | 6,977 | (1,586) | 1999 |
| Center Pennsauken Distribution | 3 | | 376 | 2,132 | 391 | 384 | 2,515 | 2,899 | (731) | 1999 |
| Center Port Reading Business Park (d) | 1 | | 4,138 | | 22,528 | 4,138 | 22,528 | 26,666 | | 2005 |
| | 38 | | 75,240 | 339,984 | 71,313 | 75,408 | 411,129 | 486,537 | (70,026) | |
| Center Orlando, Florida 33rd Street Industrial Center | 9 | | 1,980 | 11,237 | 3,844 | 1,980 | 15,081 | 17,061 | (6,084) | 1994, 1995, 1996 |
| Center Chancellor Distribution | 1 | | 380 | 2,156 | 1,256 | 380 | 3,412 | 3,792 | (1,520) | 1994 |
| Center Consulate Distribution | 3 | | 4,148 | 23,617 | 963 | 4,148 | 24,580 | 28,728 | (6,420) | 1999 |
| Center La Quinta Distribution | 1 | | 354 | 2,006 | 1,664 | 354 | 3,670 | 4,024 | (1,456) | 1994 |
| Center Orlando Central Park | 3 | | 1,378 | | 10,054 | 1,871 | 9,561 | 11,432 | (2,866) | 1997, 1998 |
| Center Orlando Corporate Center (d) | 1 | | 959 | | 6,430 | 959 | 6,430 | 7,389 | | 2006 |
| Center Princeton Oaks Distribution | 1 | (e) | 900 | 5,100 | 22 | 900 | 5,122 | 6,022 | (1,317) | 1999 |
| Center Titusville Industrial Center | 1 | | 283 | 1,603 | 487 | 283 | 2,090 | 2,373 | (780) | 1994 |
| Total Orlando, Florida | 20 | | 10,382 | 45,719 | 24,720 | 10,875 | 69,946 | 80,821 | (20,443) | |
| Center Phoenix, Arizona 24th Street Industrial Center | 2 | | 503 | 2,852 | 1,437 | 561 | 4,231 | 4,792 | (2,077) | 1994 |
| | 2 | (e) | 3,872 | 14,358 | 1,326 | 3,872 | 15,684 | 19,556 | (667) | 2005 |

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|--|----|-----|--------|--------|--------|--------|---------|---------|----------|---------------------|
| Alameda Distribution Center | | | | | | | | | | |
| Buckeye Road Industrial Center | 2 | | 1,236 | 4,988 | 72 | 1,236 | 5,060 | 6,296 | (221) | 2005 |
| Hohokam 10 Industrial Center | 6 | | 4,258 | 7,467 | 13,179 | 4,258 | 20,646 | 24,904 | (6,887) | 1996, 1999 |
| -10 West Business Center | 3 | | 263 | 1,525 | 684 | 263 | 2,209 | 2,472 | (1,042) | 1993 |
| Kyrene Commons Distribution Center | 3 | | 2,369 | 5,475 | 559 | 1,093 | 7,310 | 8,403 | (2,682) | 1992, 1998, 1999 |
| Kyrene Commons South Distribution Center | 2 | | 1,096 | | 5,972 | 1,163 | 5,905 | 7,068 | (1,742) | 1998 |
| Martin Van Buren Distribution Center | 6 | | 572 | 3,285 | 1,729 | 572 | 5,014 | 5,586 | (2,344) | 1993, 1994 |
| Papago Distribution Center | 3 | | 4,828 | 20,017 | 741 | 4,829 | 20,757 | 25,586 | (1,972) | 1994, 2005 |
| Roosevelt Distribution Center | 1 | (e) | 1,766 | 7,065 | | 1,766 | 7,065 | 8,831 | (304) | 2005 |
| University Dr Distribution Center | 1 | | 683 | 2,735 | 16 | 683 | 2,751 | 3,434 | (118) | 2005 |
| Watkins Distribution Center | 1 | | 242 | 1,375 | 478 | 243 | 1,852 | 2,095 | (736) | 1995 |
| Wilson Drive Distribution Center | 1 | (e) | 1,273 | 5,093 | | 1,273 | 5,093 | 6,366 | (219) | 2005 |
| Total Phoenix, Arizona | 33 | | 22,961 | 76,235 | 26,193 | 21,812 | 103,577 | 125,389 | (21,011) | |

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued)
December 31, 2006

| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Date of Construction Acquisition |
|-----------------------------------|---------------|--------------|--------------------------|--------------|-------------|--------------------------------|-----------------|--------------|------------------------------|----------------------------------|
| | | | ProLogis Building & Land | Improvements | Acquisition | as of December 31, 2006 | Building & Land | Improvements | | |
| (In thousands, as applicable) | | | | | | | | | | |
| Portland, Oregon | | | | | | | | | | |
| Argyle Distribution Center | 3 | | 946 | 5,388 | 1,094 | 946 | 6,482 | 7,428 | (2,986) | 1993 |
| Columbia Distribution Center | 2 | | 550 | 3,121 | 1,009 | 551 | 4,129 | 4,680 | (1,747) | 1994 |
| DX Corp Ctr North Phase II (d) | 2 | (g) | 4,103 | | 8,477 | 4,103 | 8,477 | 12,580 | | 2006 |
| DX Corporate Center East | 2 | (g) | 1,785 | | 7,072 | 2,100 | 6,757 | 8,857 | (2,257) | 1997 |
| DX Corporate Center North | 7 | (g) | 2,405 | | 11,944 | 2,542 | 11,807 | 14,349 | (4,560) | 1995, 1996 |
| Southshore Corporate Center (d) | 6 | (e)(g) | 14,846 | 52,299 | 7,760 | 15,058 | 59,847 | 74,905 | (1,886) | 2005, 2006 |
| Wilsonville Corporate Center | 6 | | 2,963 | | 13,525 | 2,964 | 13,524 | 16,488 | (5,300) | 1995, 1996 |
| Total Portland, Oregon | 28 | | 27,598 | 60,808 | 50,881 | 28,264 | 111,023 | 139,287 | (18,736) | |
| Reno, Nevada | | | | | | | | | | |
| Golden Valley Distribution Center | 3 | | 2,975 | 13,686 | 10,942 | 4,451 | 23,152 | 27,603 | (3,106) | 1996, 1998, 2005 |
| Meredith Kleppe Business Center | 5 | | 1,573 | 8,949 | 3,359 | 1,573 | 12,308 | 13,881 | (5,245) | 1993 |
| Wacker Way Distribution Center | 2 | | 506 | 2,879 | 1,487 | 506 | 4,366 | 4,872 | (2,177) | 1993 |
| White Island Distribution Center | 1 | | 435 | 2,466 | 2,285 | 435 | 4,751 | 5,186 | (1,361) | 1996, 1994, 1995 |
| Yasta Industrial Center | 10 | | 9,566 | 40,036 | 13,944 | 9,566 | 53,980 | 63,546 | (12,255) | 2001 |
| Total Reno, Nevada | 21 | | 15,055 | 68,016 | 32,017 | 16,531 | 98,557 | 115,088 | (24,144) | |

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| | | | | | | | | | |
|---|----|--------|--------|--------|--------|---------|---------|----------|---------------------|
| Alt Lake City, Utah Centennial Distribution Center | 2 | 1,149 | | 9,151 | 1,149 | 9,151 | 10,300 | (3,560) | 1995 |
| Crossroads Corporate Center (d) | 1 | 284 | | 7,189 | 926 | 6,547 | 7,473 | | 2005 |
| Alt Lake International Distribution Center | 2 | 1,367 | 2,792 | 9,673 | 1,364 | 12,468 | 13,832 | (4,757) | 1994, 1996 |
| Total Salt Lake City, Utah | 5 | 2,800 | 2,792 | 26,013 | 3,439 | 28,166 | 31,605 | (8,317) | |
| San Antonio, Texas 711 Distribution Center | 2 | 582 | 3,301 | 1,748 | 582 | 5,049 | 5,631 | (2,406) | 1994 |
| City Park East Distribution Center | 3 | 1,002 | 5,676 | 903 | 1,002 | 6,579 | 7,581 | (276) | 2003 |
| Coliseum Distribution Center (d) Distribution Drive Center | 3 | 1,547 | 923 | 9,578 | 1,584 | 10,464 | 12,048 | (2,366) | 1994, 2006 |
| 35 Business Center | 1 | 473 | 2,680 | 1,007 | 473 | 3,687 | 4,160 | (1,983) | 1992 |
| Macro Distribution Center | 4 | 663 | 3,773 | 2,277 | 663 | 6,050 | 6,713 | (2,804) | 1993 |
| Herrin Creek Corporate Center | 3 | 1,705 | 9,024 | 1,912 | 1,705 | 10,936 | 12,641 | (604) | 2002 |
| Hattiman East Ind Park (d) | 6 | 1,716 | | 10,386 | 1,634 | 10,468 | 12,102 | (3,876) | 1995, 1996 |
| Hattiman West Ind Park (d) | 7 | 5,938 | 23,756 | 66 | 5,939 | 23,821 | 29,760 | | 2006 |
| San Antonio Distribution Center I | 2 | 1,237 | 4,950 | 51 | 1,237 | 5,001 | 6,238 | | 2006 |
| San Antonio Distribution Center II | 13 | 2,154 | 12,247 | 8,420 | 2,154 | 20,667 | 22,821 | (9,978) | 1992, 1993, 1994 |
| San Antonio Distribution Center III | 3 | 945 | | 6,615 | 885 | 6,675 | 7,560 | (2,799) | 1994 |
| Tri-County Dist Ctr (d) | 4 | 1,176 | 6,571 | 3,105 | 1,176 | 9,676 | 10,852 | (3,875) | 1996 |
| Woodlake Distribution Center | 1 | 950 | | 7,634 | 950 | 7,634 | 8,584 | | 2006 |
| Total San Antonio, Texas | 2 | 248 | 1,405 | 1,253 | 248 | 2,658 | 2,906 | (1,089) | 1994 |
| Total San Antonio, Texas | 54 | 20,336 | 74,306 | 54,955 | 20,232 | 129,365 | 149,597 | (32,056) | |
| San Diego, California San Diego Industrial Center | 13 | 8,685 | 16,128 | 1,363 | 8,684 | 17,492 | 26,176 | (702) | 2005 |

| | | | | | | | | | | |
|---|----|--------|--------|--------|-------|--------|--------|--------|---------|---------------------|
| Postal San Diego, California | 13 | | 8,685 | 16,128 | 1,363 | 8,684 | 17,492 | 26,176 | (702) | |
| San Francisco (Central Valley), California | | | | | | | | | | |
| Central Valley Distribution Center (d) | 4 | | 6,935 | 34,316 | 4,551 | 6,935 | 38,867 | 45,802 | (7,201) | 1999, 2002, 2003 |
| Central Valley Industrial Center | 4 | (e)(g) | 11,418 | 48,726 | 5,912 | 11,868 | 54,188 | 66,056 | (8,657) | 1999, 2002, 2005 |
| Anteeca Distribution Center | 1 | (e) | 9,280 | 27,841 | 55 | 9,280 | 27,896 | 37,176 | (1,203) | 2005 |

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|--|----------------------|---------------------|--|--|---|---------------------------------------|---------|---------|-------------------------------------|---|
| SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued) | | | | | | | | | | |
| December 31, 2006 | | | | | | | | | | |
| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Date of Construction Acquisition |
| | | | ProLogis Building & Land Improvements | Costs Capitalized & Subsequent To Acquisition | as of December 31, 2006 Building & Land Improvements | Total (a,b) | | | | |
| (In thousands, as applicable) | | | | | | | | | | |
| Atterson Pass Business Center | 5 | | 2,496 | 4,885 | 9,764 | 2,496 | 14,649 | 17,145 | (5,334) | 1993, 1997-1998 |
| Bay Distribution Center (d) | 1 | | 2,802 | 6,539 | 267 | 2,802 | 6,806 | 9,608 | | 2004 |
| Central Valley, California | 15 | | 32,931 | 122,307 | 20,549 | 33,381 | 142,406 | 175,787 | (22,395) | |
| East San Francisco (East Bay), California | | | | | | | | | | |
| Maravado Business Center | 10 | (e) | 20,739 | 62,595 | 523 | 20,739 | 63,118 | 83,857 | (2,710) | 2005 |
| Marriott Business Center | 3 | | 1,741 | 9,863 | 1,352 | 1,741 | 11,215 | 12,956 | (3,019) | 1999 |
| North Bay Industrial Center | 1 | | 531 | 3,009 | 550 | 531 | 3,559 | 4,090 | (1,619) | 1994 |
| Penbrodt Way Distribution Center | 1 | (e) | 393 | 2,228 | 445 | 393 | 2,673 | 3,066 | (1,214) | 1993 |
| San Francisco Commerce Center | 4 | | 1,933 | 10,955 | 1,859 | 1,933 | 12,814 | 14,747 | (5,476) | 1993 |
| San Francisco Commerce Center | 7 | | 1,968 | 11,167 | 3,327 | 1,968 | 14,494 | 16,462 | (6,611) | 1994 |
| San Francisco Distribution Center | 6 | (e) | 2,906 | 19,165 | 4,022 | 3,327 | 22,766 | 26,093 | (10,404) | 1993 |
| San Francisco Industrial Center | 13 | (e) | 4,481 | 25,393 | 5,169 | 4,481 | 30,562 | 35,043 | (13,444) | 1993 |
| San Francisco Distribution Center | 4 | (e) | 8,992 | 26,976 | 597 | 8,992 | 27,573 | 36,565 | (1,169) | 2005 |
| San Francisco Industrial Center | 3 | (e) | 8,234 | 24,704 | 426 | 8,235 | 25,129 | 33,364 | (1,044) | 2005 |
| San Francisco Business Center | 2 | (e) | 7,688 | 23,063 | | 7,688 | 23,063 | 30,751 | (993) | 2005 |
| San Francisco Distribution Center | 3 | (e) | 1,387 | 7,862 | 1,297 | 1,387 | 9,159 | 10,546 | (4,171) | 1993 |

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| | | | | | | | | | | |
|--|----|--------|--------|---------|--------|---------|---------|---------|----------|------------|
| Central San Francisco (East Bay), California | 57 | | 60,993 | 226,980 | 19,567 | 61,415 | 246,125 | 307,540 | (51,874) | |
| Central San Francisco (South Bay), California | | | | | | | | | | |
| Emeryville Business Center | 2 | (g) | 2,088 | | 5,048 | 2,088 | 5,048 | 7,136 | (2,201) | 1996 |
| Emeryville Corporate Center | 7 | (g) | 4,365 | | 18,569 | 4,365 | 18,569 | 22,934 | (8,369) | 1995, 1996 |
| Emeryville Plaza I | 12 | (g) | 5,212 | 18,008 | 3,499 | 5,216 | 21,503 | 26,719 | (9,333) | 1993 |
| Emeryville Plaza II | 2 | (g) | 634 | | 3,380 | 634 | 3,380 | 4,014 | (1,784) | 1994 |
| Enterprise Corporate Center | 11 | (g) | 7,575 | 24,746 | 7,329 | 7,575 | 32,075 | 39,650 | (14,524) | 1993, 1996 |
| Enterprise Business Center | 4 | | 5,933 | | 19,610 | 7,815 | 17,728 | 25,543 | (5,748) | 1997, 1998 |
| Enterprise Overlook | | | | | | | | | | |
| Enterprise Distribution Center | 1 | | 1,573 | 8,915 | 31 | 1,573 | 8,946 | 10,519 | (2,318) | 1999 |
| Enterprise Pacific Commons | | | | | | | | | | |
| Enterprise Industrial Center | 7 | (e)(g) | 30,107 | 90,416 | 329 | 30,107 | 90,745 | 120,852 | (3,894) | 2005 |
| Enterprise Pacific Industrial Center | 6 | (e) | 21,676 | 65,083 | 4,566 | 25,294 | 66,031 | 91,325 | (2,809) | 2005 |
| Enterprise Coreline Business Center | 8 | (g) | 4,328 | 16,101 | 2,222 | 4,328 | 18,323 | 22,651 | (7,771) | 1993 |
| Enterprise Coreline Business Center II | 2 | (g) | 922 | | 5,914 | 922 | 5,914 | 6,836 | (2,566) | 1995 |
| Enterprise Innaker Business Center | 12 | (g) | 7,043 | 25,220 | 4,811 | 7,043 | 30,031 | 37,074 | (12,927) | 1993 |
| Enterprise Thornton Business Center | 5 | | 3,988 | 11,706 | 7,240 | 3,989 | 18,945 | 22,934 | (7,194) | 1993, 1996 |
| Enterprise Trimble Distribution Center | 5 | | 2,836 | 16,067 | 3,560 | 2,836 | 19,627 | 22,463 | (8,529) | 1994 |
| Enterprise Central San Francisco (South Bay), California | 84 | | 98,280 | 276,262 | 86,108 | 103,785 | 356,865 | 460,650 | (89,967) | |
| Enterprise Seattle, Washington | | | | | | | | | | |
| Enterprise Andover East Business Center | 2 | | 535 | 3,033 | 611 | 535 | 3,644 | 4,179 | (1,551) | 1994 |
| Enterprise Pacific Corporate Center | 3 | | 4,059 | | 11,401 | 4,209 | 11,251 | 15,460 | (3,955) | 1996 |
| Enterprise Rent Corporate Center | 2 | (g) | 2,882 | 1,987 | 9,950 | 3,276 | 11,543 | 14,819 | (4,668) | 1995 |
| Enterprise Van Doren Distribution Center | 2 | (g) | 2,473 | | 9,920 | 3,111 | 9,282 | 12,393 | (3,570) | 1995, 1997 |

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| | | | | | | | | | |
|--|---|-------|--------|--------|--------|--------|--------|----------|------------|
| Central Seattle, Washington | 9 | 9,949 | 5,020 | 31,882 | 11,131 | 35,720 | 46,851 | (13,744) | |
| South Florida Airport West Distribution Center | 2 | 1,253 | 3,825 | 3,281 | 1,974 | 6,385 | 8,359 | (2,023) | 1995, 1998 |
| Alca Dist Ctr | 1 | 1,474 | 5,918 | | 1,474 | 5,918 | 7,392 | (90) | 2006 |
| InterPort Distribution Center | 3 | 2,083 | 11,806 | 666 | 2,083 | 12,472 | 14,555 | (3,426) | 1999 |
| Spans Distribution Center | 2 | 504 | 2,857 | 535 | 504 | 3,392 | 3,896 | (1,254) | 1997, 1998 |
| Wide Distribution Center | 1 | 2,589 | 14,670 | | 2,589 | 14,670 | 17,259 | (713) | 2005 |

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PROLOGIS
SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued)
December 31, 2006

| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Date of Construction Acquisition |
|---|---------------|--------------|--------------------------|--------------|----------------------------------|---|--------------|-------------|------------------------------|----------------------------------|
| | | | ProLogis Building & Land | Improvements | Costs Capitalized To Acquisition | as of December 31, 2006 Building & Land | Improvements | Total (a,b) | | |
| Andrews Distribution Center | 1 | | 698 | 3,956 | 101 | 698 | 4,057 | 4,755 | (1,654) | 1994 |
| Lauderdale Distribution Center | 2 | | 896 | | 8,341 | 2,205 | 7,032 | 9,237 | (1,827) | 1997 |
| Logis Park I-595 | 2 | (e) | 1,998 | 11,326 | 107 | 1,999 | 11,432 | 13,431 | (1,511) | 2003 |
| South Florida | 14 | | 11,495 | 54,358 | 13,031 | 13,526 | 65,358 | 78,884 | (12,498) | |
| Western California | | | | | | | | | | |
| Leim Industrial Center | 13 | (e) | 32,275 | 59,983 | 140 | 32,275 | 60,123 | 92,398 | (2,587) | 2005 |
| Orinda Commerce Center | 1 | (e) | 4,201 | 7,802 | 66 | 4,201 | 7,868 | 12,069 | (337) | 2005 |
| Brooklands Business Center (d) | 8 | (e) | 56,343 | 95,951 | 9,725 | 56,344 | 105,675 | 162,019 | (4,133) | 2005, 2006 |
| Winton Industrial Center | 2 | (e) | 8,238 | 15,300 | 14 | 8,239 | 15,313 | 23,552 | (659) | 2005 |
| Country Distribution Center | 7 | (e)(g) | 50,268 | 93,355 | 341 | 50,268 | 93,696 | 143,964 | (4,041) | 2005 |
| 1 Empire Distribution Center | 7 | (e) | 52,379 | 84,275 | 36,165 | 53,134 | 119,685 | 172,819 | (6,267) | 1999, 2005 |
| San Francisco Distribution Center | 7 | (e)(g) | 120,885 | 224,599 | 1 | 120,886 | 224,599 | 345,485 | (9,520) | 2005 |
| Los Angeles Industrial Center | 2 | (e) | 3,777 | 7,015 | | 3,777 | 7,015 | 10,792 | (302) | 2005 |
| Orange County Industrial Center | 14 | (e) | 45,864 | 87,107 | 7,900 | 45,830 | 95,041 | 140,871 | (3,563) | 2005, 2006 |
| Street Spec Distribution Center | 1 | | 1,232 | 31,842 | 1,268 | 1,232 | 33,110 | 34,342 | | 2005 |
| Orange Industrial Center | 2 | (e) | 5,930 | 11,014 | | 5,930 | 11,014 | 16,944 | (474) | 2005 |
| San Joaquin Cucamonga Distribution Center | 6 | (e)(g) | 51,283 | 95,241 | 33 | 51,283 | 95,274 | 146,557 | (4,101) | 2005 |

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| | | | | | | | | | | |
|-----------------------------------|----|-----|---------|---------|--------|---------|-----------|-----------|----------|------------------|
| lands Commerce r (d) | 1 | | 14,173 | | 16,924 | 13,813 | 17,284 | 31,097 | | 2005 |
| lands Dist Ctr | 3 | | 18,176 | 43,423 | 20,704 | 18,176 | 64,127 | 82,303 | | 2006 |
| Ana bution Center Bay | 2 | (e) | 4,318 | 8,019 | 31 | 4,318 | 8,050 | 12,368 | (345) | 2005 |
| bution Center n Industrial | 2 | (e) | 9,907 | 18,398 | | 9,907 | 18,398 | 28,305 | (792) | 2005 |
| r on Distribution | 2 | (e) | 4,553 | 8,456 | 46 | 4,553 | 8,502 | 13,055 | (365) | 2005 |
| r | 15 | (e) | 25,439 | 47,250 | 1,126 | 25,441 | 48,374 | 73,815 | (2,042) | 2005 |
| Southern ornia | 95 | | 509,241 | 939,030 | 94,484 | 509,607 | 1,033,148 | 1,542,755 | (39,528) | |
| ouis, Missouri City Industrial | 8 | (e) | 3,375 | 19,144 | 6,726 | 3,375 | 25,870 | 29,245 | (9,581) | 1997, 1998 |
| r wood bution Center | 2 | | 847 | 4,802 | 759 | 847 | 5,561 | 6,408 | (1,559) | 1997, 1998 |
| ort bution Center | 3 | | 761 | 4,310 | 1,296 | 761 | 5,606 | 6,367 | (1,897) | 1997 |
| St. Louis, ouri | 13 | | 4,983 | 28,256 | 8,781 | 4,983 | 37,037 | 42,020 | (13,037) | |
| a, Florida o Distribution | 6 | | 2,105 | 11,930 | 1,743 | 2,105 | 13,673 | 15,778 | (2,833) | 1995, 2000 |
| r nerce Park | 4 | | 811 | 4,597 | 1,384 | 811 | 5,981 | 6,792 | (2,850) | 1994 |
| bution Center ood | 1 | | 122 | 690 | 127 | 122 | 817 | 939 | (365) | 1994 |
| and bution Center | 1 | | 938 | 5,313 | 1,261 | 938 | 6,574 | 7,512 | (2,681) | 1994 |
| and Interstate ark (d) | 1 | | 1,515 | | 5,855 | 1,515 | 5,855 | 7,370 | | 2006 |
| d Lake trial Center | 1 | | 41 | 235 | 44 | 41 | 279 | 320 | (110) | 1994 |
| City bution Center | 1 | | 206 | 1,169 | 268 | 206 | 1,437 | 1,643 | (587) | 1994 |
| Park bution Center | 8 | (e) | 3,180 | 10,364 | 15,018 | 3,516 | 25,046 | 28,562 | (6,500) | 1996, 1998, 2000 |
| Send bution Center | 4 | | 2,887 | 16,358 | 3,460 | 2,887 | 19,818 | 22,705 | (8,093) | 1994 |
| | 1 | | 525 | 2,975 | 742 | 525 | 3,717 | 4,242 | (1,562) | 1994 |

| | | | | | | | | | |
|---|----|--------|--------|--------|--------|---------|---------|----------|---------|
| Bend Industrial r a East bution Center | 10 | 2,700 | 15,302 | 2,896 | 2,541 | 18,357 | 20,898 | (7,983) | 1994 |
| a East trial Center | 2 | 332 | 1,880 | 574 | 332 | 2,454 | 2,786 | (1,057) | 1994 |
| a West bution Center | 13 | 2,995 | 16,829 | 3,883 | 3,040 | 20,667 | 23,707 | (9,061) | 1994, 1 |
| a West trial Center | 3 | 355 | (9) | 5,976 | 635 | 5,687 | 6,322 | (1,976) | 1996, 1 |
| Tampa, la | 56 | 18,712 | 87,633 | 43,231 | 19,214 | 130,362 | 149,576 | (45,658) | |

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|--|---------------|--------------|-----------------|--------------|-------------|--------------------------------|--------------|-------------|------------------------------|----------------------------------|
| SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued) | | | | | | | | | | |
| December 31, 2006 | | | | | | | | | | |
| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Date of Construction Acquisition |
| | | | Land | Improvements | Acquisition | Land | Improvements | Total (a,b) | | |
| (In thousands, as applicable) | | | | | | | | | | |
| Washington C./Baltimore, Maryland 001 Park 100 Drive | 1 | | 2,409 | 7,227 | 8 | 2,409 | 7,235 | 9,644 | (111) | 2006 |
| Airport Commons Distribution Center Pardmore | 2 | (e) | 2,320 | | 9,963 | 2,360 | 9,923 | 12,283 | (3,423) | 1997 |
| Distribution Center Pardmore Industrial Center | 3 | | 1,431 | 8,110 | 1,542 | 1,431 | 9,652 | 11,083 | (4,108) | 1994 |
| Center Poncorde | 2 | | 984 | 5,581 | 1,211 | 985 | 6,791 | 7,776 | (3,078) | 1994 |
| Industrial Center De Soto Business Park | 4 | (e) | 1,538 | 8,717 | 2,518 | 1,538 | 11,235 | 12,773 | (4,616) | 1995 |
| Center Edgewood Distribution Center () | 5 | | 1,774 | 10,055 | 4,880 | 1,774 | 14,935 | 16,709 | (6,766) | 1996 |
| Center Kenshower Industrial Center | 1 | | 4,244 | 12,732 | 4,497 | 4,244 | 17,229 | 21,473 | | 2005 |
| Center Sweet Distribution Center | 3 | (e) | 1,240 | 7,025 | 2,334 | 1,240 | 9,359 | 10,599 | (4,063) | 1994 |
| Center Gateway Bus Ctr () | 8 | (e) | 3,198 | 18,121 | 2,707 | 3,115 | 20,911 | 24,026 | (8,458) | 1996 |
| Center Gateway Distribution Center | 2 | | 3,762 | | 9,052 | 3,762 | 9,052 | 12,814 | | 2006 |
| Center Hampton Central Distribution Center | 2 | | 192 | | 4,400 | 831 | 3,761 | 4,592 | (969) | 1998 |
| Center Hickory Ridge Distribution Center | 2 | (e) | 1,769 | | 10,374 | 2,251 | 9,892 | 12,143 | (3,161) | 1996, 1997 |
| Center Leadowridge Distribution Center | 2 | (e) | 15,988 | 47,964 | 7 | 15,988 | 47,971 | 63,959 | (1,744) | 2005 |
| Center Mapasco Distribution Center | 1 | (e) | 1,757 | | 6,159 | 1,902 | 6,014 | 7,916 | (1,520) | 1998 |
| Center White Oak Distribution Center | 1 | | 270 | 1,528 | 1,394 | 270 | 2,922 | 3,192 | (1,267) | 1995 |
| Center | 1 | | 3,986 | 24,107 | 7 | 3,986 | 24,114 | 28,100 | (3,014) | 2002 |

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| | | | | | | | | | |
|---|----|--------|---------|--------|--------|---------|---------|----------|------------------------------------|
| Winchester Distribution Center | 1 | 3,286 | 13,142 | (2) | 3,286 | 13,140 | 16,426 | (566) | 2005 |
| Total Washington D.C./Baltimore, Maryland | 41 | 50,148 | 164,309 | 61,051 | 51,372 | 224,136 | 275,508 | (46,864) | |
| Wether Lawrence Distribution Center (one) | 1 | 2,858 | 11,432 | | 2,858 | 11,432 | 14,290 | (492) | 2005 |
| Wheat Port Distribution Center | 4 | 2,063 | 11,688 | 2,585 | 2,063 | 14,273 | 16,336 | (5,930) | 1994 |
| Wheat Peoria Distribution Center | 1 | 108 | 430 | 15 | 108 | 445 | 553 | (20) | 2005 |
| Wheat Valley Industrial Center (Brownsville, Texas) | 1 | 363 | | 3,750 | 363 | 3,750 | 4,113 | (1,081) | 1997 |
| | 7 | 5,392 | 23,550 | 6,350 | 5,392 | 29,900 | 35,292 | (7,523) | |
| Total Mexico: Guadalajara Medros-Jalisco Dist r (d) | 2 | 3,701 | 20,972 | 182 | 3,719 | 21,136 | 24,855 | | 2006 |
| Total Guadalajara, Mexico | 2 | 3,701 | 20,972 | 182 | 3,719 | 21,136 | 24,855 | | |
| Wheat El Norte Industrial Center (dependencia Industrial Center (d)) | 1 | 1,041 | 7,827 | 2,385 | 1,381 | 9,872 | 11,253 | (13) | 2002 |
| Wheat Los Aztecas Industrial Center | 2 | 3,214 | | 6,811 | 3,182 | 6,843 | 10,025 | | 2005 |
| Wheat Ramon Rivera Industrial Center | 1 | 148 | 837 | 419 | 33 | 1,371 | 1,404 | (384) | 1999 |
| Wheat Rio Bravo Industrial Center | 1 | 445 | | 3,353 | 2,246 | 1,552 | 3,798 | (394) | 2000 |
| Wheat Industrial Center | 1 | 349 | 1,979 | 343 | 410 | 2,261 | 2,671 | (490) | 2001 |
| Wheat Tlaxiaco Industrial Center (d) | 5 | 3,017 | | 12,217 | 3,480 | 11,754 | 15,234 | (1,114) | 1998, 1999, 2000, 2002, 2005 |

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| | | | | | | | | | | |
|------------------------------|----|-----|--------|---------|--------|--------|---------|---------|---------|------|
| Total Juarez, Mexico | 11 | | 8,214 | 10,643 | 25,528 | 10,732 | 33,653 | 44,385 | (2,395) | |
| Mexico City | | | | | | | | | | |
| Pedros-Tepotzotlan | | | | | | | | | | |
| Dist Ctr (d) | 9 | (e) | 9,809 | 55,582 | 276 | 9,843 | 55,824 | 65,667 | | 2006 |
| LP Dist Ctr (d) | 1 | (e) | 1,099 | 6,227 | 32 | 1,104 | 6,254 | 7,358 | | 2006 |
| or-T Dist Ctr (d) | 7 | (e) | 10,960 | 62,106 | 267 | 10,986 | 62,347 | 73,333 | | 2006 |
| riente Dist Ctr (d) | 2 | (e) | 1,425 | 8,073 | 42 | 1,432 | 8,108 | 9,540 | | 2006 |
| hala Dist Ctr (d) | 1 | (e) | 2,920 | 16,546 | 83 | 2,930 | 16,619 | 19,549 | | 2006 |
| Total Mexico City, Mexico | 20 | | 26,213 | 148,534 | 700 | 26,295 | 149,152 | 175,447 | | |

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PROLOGIS
SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued)
December 31, 2006

| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Com |
|----------------|---------------|--------------|-----------------|----------------------------------|---|--------------------------------|-------------------------|-------------|------------------------------|-----|
| | | | Land | ProLogis Building & Improvements | Costs Capitalized Subsequent To Acquisition | Land | Building & Improvements | Total (a,b) | | |
| Industrial | 6 | | 4,427 | 3,785 | 12,087 | 4,756 | 15,543 | 20,299 | (3,498) | 19 |
| errey, | 6 | | 4,427 | 3,785 | 12,087 | 4,756 | 15,543 | 20,299 | (3,498) | 20 |
| Industrial | 2 | | 943 | 1,574 | 3,098 | 670 | 4,945 | 5,615 | | 19 |
| Industrial | 2 | | 809 | | 7,165 | 1,065 | 6,909 | 7,974 | (2,467) | |
| Industrial (d) | 2 | | 2,114 | | 14,167 | 2,114 | 14,167 | 16,281 | | 20 |
| ge Ind Ctr | 2 | | 1,011 | | 7,485 | 1,011 | 7,485 | 8,496 | | 20 |
| ge Center (d) | 3 | | 2,347 | | 14,875 | 2,347 | 14,875 | 17,222 | | 19 |
| Industrial | 4 | | 1,415 | 921 | 10,492 | 1,856 | 10,972 | 12,828 | (3,158) | |
| la Center(d) | 1 | | 2,527 | 14,314 | 7 | 2,527 | 14,321 | 16,848 | | |
| osa, | 16 | | 11,166 | 16,809 | 57,289 | 11,590 | 73,674 | 85,264 | (5,625) | |
| a tr (d) | 3 | | 16,371 | | 45,749 | 16,372 | 45,748 | 62,120 | | |
| | 3 | | 16,371 | | 45,749 | 16,372 | 45,748 | 62,120 | | |

nto,

| | | | | | | | | |
|------------------|-------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
| North Markets | 1,353 | 1,625,461 | 5,157,869 | 1,737,006 | 1,650,867 | 6,869,469 | 8,520,336 | (1,259,075) |
|------------------|-------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|

Markets

| | | | | | | | | |
|----------|---|--|--|-------|--|-------|-------|--|
| Dist Ctr | 1 | | | 9,632 | | 9,632 | 9,632 | |
|----------|---|--|--|-------|--|-------|-------|--|

| | | | | | | | | |
|----------|---|-------|--|--------|-------|--------|--------|--|
| Dist Ctr | 2 | 5,104 | | 18,884 | 5,104 | 18,884 | 23,988 | |
|----------|---|-------|--|--------|-------|--------|--------|--|

| | | | | | | | | |
|----|---|-------|--|--------|-------|--------|--------|--|
| um | 3 | 5,104 | | 28,516 | 5,104 | 28,516 | 33,620 | |
|----|---|-------|--|--------|-------|--------|--------|--|

ublic:

| | | | | | | | | |
|--------|---|-------|--|--------|-------|--------|--------|----|
| Center | 3 | 3,832 | | 17,425 | 4,043 | 17,214 | 21,257 | 20 |
|--------|---|-------|--|--------|-------|--------|--------|----|

| | | | | | | | | |
|--------|---|-------|--|-------|-------|-------|-------|--|
| st (d) | 1 | 1,189 | | 6,217 | 1,189 | 6,217 | 7,406 | |
|--------|---|-------|--|-------|-------|-------|-------|--|

| | | | | | | | | |
|---|---|-------|--|--------|-------|--------|--------|--|
| h | 4 | 5,021 | | 23,642 | 5,232 | 23,431 | 28,663 | |
|---|---|-------|--|--------|-------|--------|--------|--|

| | | | | | | | | |
|--------------|---|--------|--------|-------|--------|--------|--------|----|
| au Center | 2 | 10,271 | 25,447 | 7,052 | 10,366 | 32,404 | 42,770 | 20 |
|--------------|---|--------|--------|-------|--------|--------|--------|----|

| | | | | | | | | |
|--------|---|-------|--|--------|-------|--------|--------|------------|
| Center | 3 | 1,398 | | 32,162 | 1,412 | 32,148 | 33,560 | (1,055) 20 |
|--------|---|-------|--|--------|-------|--------|--------|------------|

| | | | | | | | | |
|-----------|---|-------|--|--------|-------|--------|--------|--|
| t Ctr (d) | 1 | 2,065 | | 22,299 | 2,065 | 22,299 | 24,364 | |
|-----------|---|-------|--|--------|-------|--------|--------|--|

| | | | | | | | | |
|-----------|---|-------|-------|-----|-------|-------|-------|-------|
| tribution | 1 | 1,070 | 6,500 | 364 | 1,119 | 6,815 | 7,934 | (489) |
|-----------|---|-------|-------|-----|-------|-------|-------|-------|

| | | | | | | | | |
|------------------|---|-------|--|--------|-------|--------|--------|----|
| amayel Center | 6 | 4,730 | | 77,152 | 5,906 | 75,976 | 81,882 | 20 |
|------------------|---|-------|--|--------|-------|--------|--------|----|

| | | | | | | | | |
|----|----|--------|--------|---------|--------|---------|---------|---------|
| ce | 13 | 19,534 | 31,947 | 139,029 | 20,868 | 169,642 | 190,510 | (1,544) |
|----|----|--------|--------|---------|--------|---------|---------|---------|

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| | | | | | | | |
|-----------------------|---|-------|--------|-------|--------|--------|---------|
| t Ctr (d) | 1 | 3,449 | 11,796 | 3,449 | 11,796 | 15,245 | |
| n Center | 1 | 80 | 14,425 | | 14,505 | 14,505 | |
| Riederhof n Center | 1 | 7,320 | 16,571 | 7,830 | 16,061 | 23,891 | (1,092) |
| tribution | 1 | 2,143 | 11,042 | 2,752 | 10,433 | 13,185 | (921) |
| | | | 128 | | | | |

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| SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued) | | | | | | | | | |
| December 31, 2006 | | | | | | | | | |
| Description | No. of Bldgs. | Encum- brances | Initial Cost to | | | Gross Amounts At Which Carried | | Accumulated Depreciation (c) | Date of Construction/ Acquisition |
| | | | Land | ProLogis Building Improvements | Costs Capitalized & Subsequent To Acquisition (In thousands, as applicable) | as of December 31, 2006 Building & Improvements (a,b) | | | |
| Malsch Dist Ctr (d) | 1 | | 2,149 | | 7,738 | 2,149 | 7,738 | 9,887 | 2006 |
| Peine Dist Ctr (d) | 1 | | 2,141 | | 13,165 | 2,141 | 13,165 | 15,306 | 2006 |
| Total Germany | 6 | | 17,282 | | 74,737 | 18,321 | 73,698 | 92,019 | (2,013) |
| <i>Hungary:</i> | | | | | | | | | |
| Budapest Distribution Center (d) | 1 | | 1,302 | | 9,368 | 1,435 | 9,235 | 10,670 | 2005 |
| Total Hungary | 1 | | 1,302 | | 9,368 | 1,435 | 9,235 | 10,670 | |
| <i>Italy:</i> | | | | | | | | | |
| Bologna Dist Ctr (d) | 1 | | 4,413 | | 11,009 | 4,413 | 11,009 | 15,422 | 2006 |
| Lodi Distribution Center (d) | 2 | | 7,996 | 35,613 | 1,682 | 11,628 | 33,663 | 45,291 | 2005, 2006 |
| Padua Distribution Center (d) | 1 | | 2,724 | | 11,583 | 3,023 | 11,284 | 14,307 | 2005 |
| Romentino Distribution Center (d) | 2 | | 3,758 | | 28,509 | 3,758 | 28,509 | 32,267 | 2006 |
| Total Italy | 6 | | 18,891 | 35,613 | 52,783 | 22,822 | 84,465 | 107,287 | |
| <i>Netherlands:</i> | | | | | | | | | |
| Venlo Dist. Ctr. (d) | 1 | | 2,750 | | 8,929 | 2,750 | 8,929 | 11,679 | 2006 |

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| | | | | | | | | |
|---|----|--------|---------|--------|---------|---------|------------------|--|
| Total Netherlands | 1 | 2,750 | 8,929 | 2,750 | 8,929 | 11,679 | | |
| <i>Poland:</i> | | | | | | | | |
| Blonie Distribution Center (d) | 3 | 3,565 | 21,935 | 3,711 | 21,789 | 25,500 | 2005, 2006 | |
| Chorzow Dist Ctr (d) | 3 | 5,868 | 41,990 | 5,869 | 41,989 | 47,858 | 2006 | |
| Piotrkow Dist Ctr (d) | 1 | 711 | 4,761 | 711 | 4,761 | 5,472 | 2006 | |
| Poznan II Distribution Center (d) | 3 | 3,792 | 20,673 | 3,937 | 20,528 | 24,465 | 2005, 2006 | |
| Teresin Distribution Center (d) | 2 | 2,151 | 25,421 | 2,376 | 25,196 | 27,572 | (545) 2004, 2005 | |
| Wroclaw Distribution Center (d) | 3 | 5,847 | 23,326 | 6,054 | 23,119 | 29,173 | 2005, 2006 | |
| Total Poland | 15 | 21,934 | 138,106 | 22,658 | 137,382 | 160,040 | (545) | |
| <i>Spain:</i> | | | | | | | | |
| Penedes Dist Ctr (d) | 1 | 6,767 | 11,981 | 6,767 | 11,981 | 18,748 | 2006 | |
| Total Spain | 1 | 6,767 | 11,981 | 6,767 | 11,981 | 18,748 | | |
| <i>Sweden:</i> | | | | | | | | |
| Haninge AB Dist Ctr (d) | 1 | 1,889 | 12,979 | 1,889 | 12,979 | 14,868 | 2006 | |
| Total Sweden | 1 | 1,889 | 12,979 | 1,889 | 12,979 | 14,868 | | |
| <i>United Kingdom:</i> | | | | | | | | |
| Ardra Road, Edmonton Distribution Center (d) | 1 | 13,715 | 18,964 | 15,267 | 17,412 | 32,679 | 2005 | |
| Campbell Road Distribution Center (d) | 1 | 7,391 | 19,432 | 11,678 | 15,145 | 26,823 | 2004 | |
| Crewe Dist Ctr (d) | 1 | 11,643 | 25,431 | 11,643 | 25,431 | 37,074 | 2006 | |

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| | | | | | | | | | |
|---|---|--------|-------|--------|--------|--------|---------|---------|------|
| Didcot Distribution Center (d) | 1 | 9,512 | | 13,246 | 10,564 | 12,194 | 22,758 | | 2005 |
| Dunstable Dist Ctr (d) | 2 | 69,500 | | 52,672 | 69,500 | 52,672 | 122,172 | | 2006 |
| Fort Dunlop Distribution Center (d) | 1 | 6,640 | | 1,208 | 7,848 | | 7,848 | | 2001 |
| Hayes Dist Ctr (d) | 1 | 6,985 | | 8,819 | 6,985 | 8,819 | 15,804 | | 2006 |
| Houghton Main Dist Ctr (d) | 1 | 8,993 | | 30,474 | 8,993 | 30,474 | 39,467 | | 2006 |
| Kings Lynn Coldstore Distribution Center | 1 | 16,435 | 5,325 | 2,707 | 18,462 | 6,005 | 24,467 | (6,026) | 2003 |
| Marston Gate Dist Ctr (d) | 1 | 2,806 | | 6,595 | 2,806 | 6,595 | 9,401 | | 2006 |
| North Kettering Distribution Center (d) | 1 | 28,768 | | 49,443 | 28,768 | 49,443 | 78,211 | | 2006 |
| Peterborough Dist. Ctr. (d) | 1 | 17,941 | | 37,027 | 17,941 | 37,027 | 54,968 | | 2006 |

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PROLOGIS
SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued)
December 31, 2006

| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | Costs Capitalized Subsequent To Acquisition (In thousands, as applicable) | Gross Amounts At Which Carried as of December 31, 2006 | | | Accumulated Depreciation (c) | Committed |
|------------------|---------------|--------------|-----------------|----------------------------------|--|--|--------------|-------------|------------------------------|-----------|
| | | | Land | ProLogis Building & Improvements | | Land | Improvements | Total (a,b) | | |
| ist Ctr | 3 | | 27,080 | | 46,595 | 27,080 | 46,595 | 73,675 | | |
| Dist Ctr | 1 | | 11,994 | | 18,174 | 11,994 | 18,174 | 30,168 | | |
| rough n | 2 | | 15,731 | | 38,431 | 16,468 | 37,694 | 54,162 | 200 | |
| ed | 19 | | 255,134 | 5,325 | 369,218 | 265,997 | 363,680 | 629,677 | (6,026) | |
| European | 70 | | 355,608 | 72,885 | 869,288 | 373,843 | 923,938 | 1,297,781 | (10,128) | |
| Markets | | | | | | | | | | |
| u Baopu r (d) | 5 | | 6,738 | 23,190 | 2 | 6,739 | 23,191 | 29,930 | (196) | |
| u n | 1 | | 1,067 | | 4,077 | 1,106 | 4,038 | 5,144 | (134) | |
| Park (d) | 1 | | 741 | 3,633 | | 741 | 3,633 | 4,374 | (40) | |
| Park | 2 | | 3,538 | | 9,989 | 3,538 | 9,989 | 13,527 | (294) | |
| tribution | 5 | | 8,787 | | 19,693 | 8,512 | 19,968 | 28,480 | (835) | |
| a | 14 | | 20,871 | 26,823 | 33,761 | 20,636 | 60,819 | 81,455 | (1,499) | |

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| | | | | | | | | |
|---|-------|-----------|-----------|-----------|-----------|-----------|------------|-------------|
| Park i (d) Park | 1 | 34,499 | | 80,031 | 34,499 | 80,031 | 114,530 | |
| Park II (d) Park I (d) Park II (d) Park d) Park d) | 1 | | 8,151 | | | 8,151 | 8,151 | (741) |
| Park II (d) | 1 | 19,351 | | 30,795 | 19,351 | 30,795 | 50,146 | |
| Park I (d) | 1 | 18,002 | | 68,495 | 18,002 | 68,495 | 86,497 | |
| Park II (d) | 1 | 16,282 | | 39,547 | 16,282 | 39,547 | 55,829 | |
| Park d) | 1 | 80,131 | | 86,704 | 80,131 | 86,704 | 166,835 | |
| Park d) | 1 | 9,281 | 5,513 | | 9,281 | 5,513 | 14,794 | |
| n | 7 | 177,546 | 13,664 | 305,572 | 177,546 | 319,236 | 496,782 | (741) |
| Park g (d) | 1 | 5,062 | 9,253 | | 5,061 | 9,254 | 14,315 | |
| apore | 1 | 5,062 | 9,253 | | 5,061 | 9,254 | 14,315 | |
| : uth on | 1 | | 11,598 | 982 | | 12,580 | 12,580 | (855) |
| apore | 1 | | 11,598 | 982 | | 12,580 | 12,580 | (855) |
| sian | 23 | 203,479 | 61,338 | 340,315 | 203,243 | 401,889 | 605,132 | (3,095) |
| strial (d) | 1,446 | 2,184,548 | 5,292,092 | 2,946,609 | 2,227,953 | 8,195,296 | 10,423,249 | (1,272,298) |

rating

olorado
opping

| | | | | | | | |
|---|-------|--------|---|-------|--------|--------|-------|
| 1 | 3,758 | 15,036 | 2 | 3,758 | 15,038 | 18,796 | (485) |
|---|-------|--------|---|-------|--------|--------|-------|

ver,

| | | | | | | | |
|---|-------|--------|---|-------|--------|--------|-------|
| 1 | 3,758 | 15,036 | 2 | 3,758 | 15,038 | 18,796 | (485) |
|---|-------|--------|---|-------|--------|--------|-------|

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PROLOGIS
SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued)
December 31, 2006

| Location | No. of Bldgs. | Encumbrances | Initial Cost to | | | Gross Amounts At Which Carried | | | Accumulated Depreciation (c) | Disposal Costs |
|---------------|---------------|--------------|-----------------|----------------------------------|---|--------------------------------|--------------|-------------|------------------------------|----------------|
| | | | Land | ProLogis Building & Improvements | Costs Capitalized Subsequent To Acquisition | Land | Improvements | Total (a,b) | | |
| Orange | 1 | | 4,478 | 10,450 | | 4,478 | 10,450 | 14,928 | (337) | |
| Retail | 3 | | 10,376 | 24,208 | 163 | 10,375 | 24,372 | 34,747 | (782) | |
| Orange | 4 | | 14,854 | 34,658 | 163 | 14,853 | 34,822 | 49,675 | (1,119) | |
| San Francisco | 8 | (e)(g) | 23,041 | 81,693 | 1 | 23,042 | 81,693 | 104,735 | (2,638) | |
| Center | 1 | | 2,604 | 9,232 | 20 | 2,604 | 9,252 | 11,856 | (298) | |
| San Francisco | 9 | | 25,645 | 90,925 | 21 | 25,646 | 90,945 | 116,591 | (2,936) | |
| San Francisco | 13 | | 27,669 | 62,358 | 30,099 | 33,551 | 86,575 | 120,126 | (1,855) | 200 |

| | | | | | | | | |
|-----------------------------|-------|-----------|-----------|-----------|-----------|-----------|------------|-------------|
| San Francisco (California), | 13 | 27,669 | 62,358 | 30,099 | 33,551 | 86,575 | 120,126 | (1,855) |
| San Francisco (California), | 27 | 71,926 | 202,977 | 30,285 | 77,808 | 227,380 | 305,188 | (6,395) |
| Operating | 1,473 | 2,256,474 | 5,495,069 | 2,976,894 | 2,305,761 | 8,422,676 | 10,728,437 | (1,278,693) |
| Notes: | | | | | | | | |
| Texas Regional | 5 | 12,716 | | 13,334 | 26,050 | | 26,050 | |
| Texas Regional | 5 | 12,716 | | 13,334 | 26,050 | | 26,050 | |
| Illinois Distributions | 1 | 5,443 | | 17,040 | 22,483 | | 22,483 | |
| Chicago, Illinois | 1 | 5,443 | | 17,040 | 22,483 | | 22,483 | |
| Cincinnati, Ohio | 1 | 6,294 | | 12,907 | 19,201 | | 19,201 | |
| Cincinnati, Ohio | 1 | 6,294 | | 12,907 | 19,201 | | 19,201 | |

| | | | | | |
|--------------------------|---|-------|--------|--------|--------|
| Ohio Distribution | 1 | 1,668 | 14,246 | 15,914 | 15,914 |
| Columbus, | 1 | 1,668 | 14,246 | 15,914 | 15,914 |
| Texas Center | 1 | 545 | 4,202 | 4,747 | 4,747 |
| on | 1 | 2,775 | 5,981 | 8,756 | 8,756 |
| on | 1 | | 60 | 60 | 60 |
| as, | 3 | 3,320 | 10,243 | 13,563 | 13,563 |
| Texas Large Center | 1 | 1,780 | 4,035 | 5,815 | 5,815 |
| ston, | 1 | 1,780 | 4,035 | 5,815 | 5,815 |

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| SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued) | | | | | | | | |
| December 31, 2006 | | | | | | | | |
| Description | No. of Bldgs. | Encumbrances | Initial Cost | Costs | Gross Amounts At | Accumulated Depreciation | Date of Construction/ Acquisition | |
| | | | to | Capitalized | as of December 31, | | | 2006 |
| | | | ProLogis Buildings | Subsequent To Land Improvements | Building & Land Improvements | (a, b) | | |
| | | | (In thousands, as applicable) | | | | | |
| I-81 Corridor (E. Pennsylvania) Park 33 Distribution Center | 1 | | 12,113 | 622 | 12,735 | 12,735 | 2006 | |
| Total I-81 Corridor (E. Pennsylvania) | 1 | | 12,113 | 622 | 12,735 | 12,735 | | |
| Louisville, Kentucky I-65 Meyer Distribution Center | 1 | | 1,671 | 1,878 | 3,549 | 3,549 | 2006 | |
| Total Louisville, Kentucky | 1 | | 1,671 | 1,878 | 3,549 | 3,549 | | |
| Memphis, Tennessee DeSoto Distribution Center | 2 | | 4,992 | 2,714 | 7,706 | 7,706 | 2006 | |
| Total Memphis, Tennessee | 2 | | 4,992 | 2,714 | 7,706 | 7,706 | | |
| New Jersey Stults Distribution Center | 1 | | 829 | 120 | 949 | 949 | 2005 | |
| Port Reading Business Park | 1 | | 6,175 | 410 | 6,585 | 6,585 | 2006 | |
| Total New Jersey | 2 | | 7,004 | 530 | 7,534 | 7,534 | | |

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|--|---|--------|-------|--------|--------|------|
| Orlando, Florida Orlando Corporate Center | 1 | 701 | 4,965 | 5,666 | 5,666 | 2005 |
| Total Orlando, Florida | 1 | 701 | 4,965 | 5,666 | 5,666 | |
| Portland, Oregon Clackamas Distribution Center | 1 | 700 | 2,376 | 3,076 | 3,076 | 2006 |
| Total Portland, Oregon | 1 | 700 | 2,376 | 3,076 | 3,076 | |
| Reno, Nevada Tahoe-Reno Industrial Center | 1 | 2,813 | 9,048 | 11,861 | 11,861 | 2006 |
| Total Reno, Nevada | 1 | 2,813 | 9,048 | 11,861 | 11,861 | |
| San Antonio, Texas Eisenhower Distribution Center | 3 | 1,199 | 340 | 1,539 | 1,539 | 2006 |
| Perrin Creek Corporate Center | 1 | 241 | 1,828 | 2,069 | 2,069 | 2006 |
| Total San Antonio, Texas | 4 | 1,440 | 2,168 | 3,608 | 3,608 | |
| Central Valley, California Patterson Pass Business Center | 1 | 1,024 | 1,840 | 2,864 | 2,864 | 2006 |
| Tracy II Distribution Center | 1 | | 415 | 415 | 415 | 2006 |
| Total Central Valley, California | 2 | 1,024 | 2,255 | 3,279 | 3,279 | |
| Southern California | 1 | 12,126 | 1,103 | 13,229 | 13,229 | 2006 |

| | | | | | | |
|---|---|--------|-------|--------|--------|------|
| Redlands Distribution Center | | | | | | |
| Mill Street Distribution Center | 1 | 580 | 853 | 1,433 | 1,433 | 2006 |
| Total Southern California | 2 | 12,706 | 1,956 | 14,662 | 14,662 | |
| Tampa, Florida Sabal Park Distribution Center | 1 | 877 | 5,304 | 6,181 | 6,181 | 2006 |
| Total Tampa, Florida | 1 | 877 | 5,304 | 6,181 | 6,181 | |

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PROLOGIS
SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued)
December 31, 2006

| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | Gross Amounts At | | Date of Construction/ Acquisition |
|--|---------------|--------------|-------------------------------------|---|--|--------------------------|--------------------------------------|
| | | | ProLogis Building Land Improvements | Subsequent Costs Capitalized To Acquisition | as of December 31, 2006 Building & Land Improvements | Accumulated Depreciation | |
| (In thousands, as applicable) | | | | | | | |
| Washington D.C./Baltimore Gateway Business Center | 2 | | 4,136 | 229 | 4,365 | 4,365 | 2006 |
| Chesapeake Distribution Center | 1 | | 6,405 | 285 | 6,690 | 6,690 | 2006 |
| Total Washington D.C./Baltimore | 3 | | 10,541 | 514 | 11,055 | 11,055 | |
| <i>Mexico:</i> | | | | | | | |
| Guadalajara El Salto Distribution Center | 1 | | 3,304 | 30 | 3,334 | 3,334 | 2006 |
| Total Guadalajara, Mexico | 1 | | 3,304 | 30 | 3,334 | 3,334 | |
| Juarez Independencia Center | 1 | | 1,292 | 2,342 | 3,634 | 3,634 | 2006 |
| Los Aztecas Industrial Center | 1 | | 564 | 1,464 | 2,028 | 2,028 | 2006 |
| Ramon Rivera Lara Industrial Center | 1 | | 615 | 1,500 | 2,115 | 2,115 | 2006 |
| Total Juarez, Mexico | 3 | | 2,471 | 5,306 | 7,777 | 7,777 | |
| Mexico City Cedros-Tepotzotlan Distribution Center | 1 | | 10,325 | 3,054 | 13,379 | 13,379 | 2006 |
| JLP Distribution Center | 1 | | 5,018 | 1,215 | 6,233 | 6,233 | 2006 |
| Total Mexico City, Mexico | 2 | | 15,343 | 4,269 | 19,612 | 19,612 | |

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| | | | | | | |
|--|----|---------|---------|---------|---------|------|
| Monterrey | | | | | | |
| Monterrey Airport | 2 | 3,984 | 3,479 | 7,463 | 7,463 | 2006 |
| Total Monterrey, Mexico | 2 | 3,984 | 3,479 | 7,463 | 7,463 | |
| <i>Canada:</i> | | | | | | |
| Toronto | | | | | | |
| Mississauga Gateway Center | 3 | 18,038 | 6,148 | 24,186 | 24,186 | 2006 |
| Total Toronto, Canada | 3 | 18,038 | 6,148 | 24,186 | 24,186 | |
| | | | | | | |
| Subtotal North American Markets | 44 | 130,943 | 125,367 | 256,310 | 256,310 | |
| | | | | | | |
| European Markets: | | | | | | |
| <i>Czech Republic:</i> | | | | | | |
| Uzice Distribution Center | 2 | 5,838 | 3,960 | 9,798 | 9,798 | 2006 |
| Total Czech Republic | 2 | 5,838 | 3,960 | 9,798 | 9,798 | |
| | | | | | | |
| <i>France:</i> | | | | | | |
| Clesud Grans Miramas Distribution Center | 1 | 1,314 | 6,768 | 8,082 | 8,082 | 2006 |
| Grenoble Distribution Center | 1 | 1,121 | 4,863 | 5,984 | 5,984 | 2006 |
| Total France | 2 | 2,435 | 11,631 | 14,066 | 14,066 | |
| | | | | | | |
| <i>Germany:</i> | | | | | | |
| Dradenau Distribution Center | 1 | | 4,938 | 4,938 | 4,938 | 2006 |
| Hassfurt Distribution Center | 1 | 494 | 3,120 | 3,614 | 3,614 | 2006 |
| Munich Distribution Center | 2 | 15,700 | 16,646 | 32,346 | 32,346 | 2006 |
| Total Germany | 4 | 16,194 | 24,704 | 40,898 | 40,898 | |

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PROLOGIS
SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (continued)
December 31, 2006

| Description | No. of Bldgs. | Encumbrances | Initial Cost to | | Gross Amounts At | | Date of Construction/ Acquisition |
|---------------------------------|---------------|--------------|-------------------------------------|---------------------------------|--|------------------------------|--------------------------------------|
| | | | ProLogis Building Land Improvements | Subsequent Acquisition Costs To | as of December 31, 2006 Building & Land Improvements (a,b) | Accumulated Depreciation (c) | |
| (In thousands, as applicable) | | | | | | | |
| <i>Hungary:</i> | | | | | | | |
| Budapest Park | 1 | | 1,078 | 648 | 1,726 | 1,726 | 2006 |
| Budapest Park Phase II | 1 | | 1,430 | 8,518 | 9,948 | 9,948 | 2006 |
| Hegyeshalom Distribution Center | 1 | | 116 | 1,948 | 2,064 | 2,064 | 2006 |
| Total Hungary | 3 | | 2,624 | 11,114 | 13,738 | 13,738 | |
| <i>Netherlands:</i> | | | | | | | |
| Tilburg Distribution Center | 3 | | 11,439 | 8,015 | 19,454 | 19,454 | 2006 |
| Total Netherlands | 3 | | 11,439 | 8,015 | 19,454 | 19,454 | |
| <i>Poland:</i> | | | | | | | |
| Chorzow Distribution Center | 4 | | 4,966 | 11,110 | 16,076 | 16,076 | 2006 |
| Gdansk Distribution Center | 2 | | 3,000 | 8,308 | 11,308 | 11,308 | 2005, 2006 |
| Janki Distribution Center | 1 | | 3,539 | 218 | 3,757 | 3,757 | 2006 |
| Poznan II Distribution Center | 2 | | 3,167 | 2,899 | 6,066 | 6,066 | 2006 |
| Warsaw II Distribution Center | 2 | | 2,694 | 1,442 | 4,136 | 4,136 | 2006 |
| Warsaw III Distribution Center | 1 | | 2,716 | 7,608 | 10,324 | 10,324 | 2006 |
| Wroclaw Distribution Center | 4 | | 10,142 | 14,601 | 24,743 | 24,743 | 2006 |
| Wroclaw II Distribution Center | 1 | | 1,746 | 8,700 | 10,446 | 10,446 | 2006 |

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| | | | | | | |
|---|----|--------|--------|---------|---------|------|
| Total Poland | 17 | 31,970 | 54,886 | 86,856 | 86,856 | |
| <i>Romania:</i> | | | | | | |
| Bucharest Distribution Center | 2 | 3,576 | 15,843 | 19,419 | 19,419 | 2006 |
| Total Romania | 2 | 3,576 | 15,843 | 19,419 | 19,419 | |
| <i>Spain:</i> | | | | | | |
| Massalaves Distribution Center | 1 | 2,302 | 185 | 2,487 | 2,487 | 2006 |
| Tarancon Distribution Center | 1 | 3,283 | 397 | 3,680 | 3,680 | 2006 |
| Total Spain | 2 | 5,585 | 582 | 6,167 | 6,167 | |
| <i>Sweden:</i> | | | | | | |
| Gothenburg Distribution Center | 1 | 3,377 | 18,257 | 21,634 | 21,634 | 2006 |
| Total Sweden | 1 | 3,377 | 18,257 | 21,634 | 21,634 | |
| <i>United Kingdom:</i> | | | | | | |
| Corby Distribution Center | 1 | 1,914 | 12,536 | 14,450 | 14,450 | 2006 |
| Hayes Distribution Center | 3 | 21,714 | 13,614 | 35,328 | 35,328 | 2006 |
| Hemel Hempstead North Kettering Distribution Center | 1 | 14,928 | 2,997 | 17,925 | 17,925 | 2004 |
| Pineham Distribution Center | 1 | 16,579 | 21,356 | 37,935 | 37,935 | 2006 |
| Stafford Distribution Center | 1 | 16,105 | 570 | 16,675 | 16,675 | 2006 |
| Wellingborough Distribution Center | 1 | 9,552 | 5,304 | 14,856 | 14,856 | 2006 |
| Total United Kingdom | 9 | 98,374 | 59,048 | 157,422 | 157,422 | |

| | | | | | |
|---------------------------|----|---------|---------|---------|---------|
| Subtotal European Markets | 45 | 181,412 | 208,040 | 389,452 | 389,452 |
|---------------------------|----|---------|---------|---------|---------|

| | | | | | | | |
|--------|-----|--------------|--------------|--------------|--------------|--------------|---------------------------|
| rk | | | | | | | |
| rk | 1 | 25,419 | 41,187 | 66,606 | | 66,606 | |
| | 1 | 8,214 | 199 | 8,413 | | 8,413 | |
| | 8 | 157,470 | 128,180 | 285,650 | | 285,650 | |
| an | 25 | 173,294 | 145,786 | 319,080 | | 319,080 | |
| ties | | | | | | | |
| nt (o) | 114 | 485,649 | 479,193 | 964,842 | | 964,842 | |
| TOTAL | | \$ 2,742,123 | \$ 5,495,069 | \$ 3,456,087 | \$ 3,270,603 | \$ 8,422,676 | \$ 11,693,279 (1,278,693) |

Table of Contents**Schedule III Footnotes**

As of December 31, 2006

(a) Reconciliation of real estate assets per Schedule III to our Consolidated Balance Sheet as of December 31, 2006 (in thousands):

| | |
|--|-----------------------|
| Total per Schedule III | \$ 11,693,279 |
| Land held for development | 1,397,081 |
| Land subject to ground leases and other | 472,412 (e)(g) |
| Other investments | 391,227 (h) |
| Total per consolidated balance sheet | \$ 13,953,999 (i) |

(b) The tax basis at 12/31/2006 of our real estate assets for federal income tax purposes was approximately \$9,365,458,000.

(c) Real estate assets (excluding land balances) are depreciated over their estimated useful lives. These useful lives are generally seven years for capital improvements, 10 years for standard tenant improvements, 30 years for acquired industrial properties, 40 years for office and retail properties acquired and 40 years for properties developed by us.

Reconciliation of accumulated depreciation per Schedule III to our Consolidated Balance Sheet as of December 31, 2006 (in thousands):

| | |
|---|------------------|
| Total accumulated depreciation per Schedule III | \$ 1,278,693 |
| Accumulated depreciation on other investments | 1,513 |
| Total per Consolidated Balance Sheet | \$ 1,280,206 |

(d) Total operating properties include 205 properties developed or acquired in the CDFS business segment aggregating 49.8 million square feet at a total investment of \$3.1 billion. See Item 1. Business Operating Segments Property Operations .

(e) Properties with an aggregate undepreciated cost of \$3,209,727,000 secure \$1,445,021,000 of mortgage notes. See Note 13.

(f) With respect to one building, we own only 98,000 square feet or 31% of the building. The remaining portion is owned by the North American Properties Fund V.

(g) Properties with an aggregate undepreciated cost of \$1,061,442,000 secure \$33,977,000 of assessment bonds. See Note 13.

(h) Other investments include: (i) restricted funds that are held in escrow pending the completion of tax-deferred exchange transactions involving operating properties; (ii) earnest money deposits associated with potential acquisitions; (iii) costs incurred during the pre-acquisition due diligence process; (iv) costs incurred during the pre-construction phase related to future development projects, including purchase options on land and certain

infrastructure costs; and (v) costs related to our corporate office buildings.

Table of Contents**Schedule III Footnotes (continued)**

(i) A summary of activity for our real estate assets and accumulated depreciation for the three years ended December 31, 2006, 2005 and 2004 is as follows (in thousands of U.S. dollars):

| | 2006 | 2005 | 2004 |
|--|---------------|---------------|--------------|
| Real estate assets: | | | |
| Balance at beginning of year | \$ 11,875,130 | \$ 6,333,731 | \$ 5,854,047 |
| Acquisitions of operating properties, transfers of development completions from CIP and improvements to operating properties | 3,345,394 | 5,414,725 | 1,441,703 |
| Basis of operating properties disposed of | (1,636,116) | (1,188,407) | (1,253,290) |
| Change in properties under development balance | 80,497 | 308,642 | 171,122 |
| Change in land held for development balance | 352,039 | 449,041 | 86,666 |
| Change in land subject to ground leases and other balance | (320,256) | 538,095 | |
| Change in capitalized preacquisition costs balance | 257,311 | 19,303 | 33,483 |
| Balance at end of year | \$ 13,953,999 | \$ 11,875,130 | \$ 6,333,731 |
| Accumulated Depreciation: | | | |
| Balance at beginning of year | \$ 1,118,547 | \$ 989,221 | \$ 847,221 |
| Depreciation expense | 248,484 | 174,244 | 149,127 |
| Balances retired upon disposition of operating properties | (86,825) | (44,918) | (7,127) |
| Balance at end of year | \$ 1,280,206 | \$ 1,118,547 | \$ 989,221 |

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROLOGIS

By: /s/ JEFFREY H. SCHWARTZ
 Jeffrey H. Schwartz
Chief Executive Officer and Trustee

Date: February 27, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|--|-------------------|
| /s/ JEFFREY H. SCHWARTZ Jeffrey H. Schwartz | Chief Executive Officer and Trustee | February 27, 2007 |
| /s/ WALTER C. RAKOWICH Walter C. Rakowich | President, Chief Operating Officer and Trustee | February 27, 2007 |
| /s/ DESSA M. BOKIDES Dessa M. Bokides | Executive Vice President and Chief Financial Officer | February 27, 2007 |
| /s/ JEFFREY S. FINNIN Jeffrey S. Finnin | Senior Vice President and Chief Accounting Officer | February 27, 2007 |
| /s/ K. DANE BROOKSHER K. Dane Brooksher | Chairman and Trustee | February 27, 2007 |
| /s/ STEPHEN L. FEINBERG Stephen L. Feinberg | Trustee | February 27, 2007 |
| /s/ GEORGE L. FOTIADES George L. Fotiades | Trustee | February 27, 2007 |
| /s/ CHRISTINE N. GARVEY Christine N. Garvey | Trustee | February 27, 2007 |

Christine N. Garvey

/s/ DONALD P. JACOBS

Trustee

February 27, 2007

Donald P. Jacobs

/s/ NELSON C. RISING

Trustee

February 27, 2007

Nelson C. Rising

/s/ D. MICHAEL STEUERT

Trustee

February 27, 2007

D. Michael Steuert

/s/ J. ANDRÉ TEIXEIRA

Trustee

February 27, 2007

J. André Teixeira

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| Signature | Title | Date |
|--|--------------|-------------------|
| /s/ WILLIAM D. ZOLLARS William D. Zollars | Trustee | February 27, 2007 |
| /s/ ANDREA M. ZULBERTI Andrea M. Zulberti | Trustee | February 27, 2007 |

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Certain of the following documents are filed herewith. Certain other of the following documents that have been previously filed with the Securities and Exchange Commission and, pursuant to Rule 12b-32, are incorporated herein by reference.

| Exhibit Number | Description |
|-----------------------|--|
| 1.1 | Sales Agreement dated February 27, 2007, between ProLogis and Cantor Fitzgerald & Co. |
| 3.1 | Articles of Amendment and Restatement of Declaration of Trust of ProLogis (incorporated by reference to exhibit 4.1 to ProLogis Form 10-Q for the quarter ended June 30, 1999). |
| 3.2 | Certificate of Amendment, dated as of May 22, 2002, to Amended and Restated of Declaration of Trust of ProLogis (incorporated by reference to exhibit 99.1 to ProLogis Form 8-K dated May 30, 2002). |
| 3.3 | Amended and Restated Bylaws of ProLogis dated March 15, 2005 (incorporated by reference to Exhibit 3.1 to ProLogis Form 8-K filed on March 21, 2005). |
| 3.4 | Articles Supplementary Classifying and Designating the Series F Cumulative Redeemable Preferred Shares of Beneficial Interest (incorporated by reference exhibit 4.2 to ProLogis Form 8-K dated December 24, 2003). |
| 3.5 | Articles Supplementary Classifying and Designating the Series G Cumulative Redeemable Preferred Shares of Beneficial Interest (incorporated by reference exhibit 4.3 to ProLogis Form 8-K dated December 24, 2003). |
| 3.6 | Articles of Amendment to Amended and Restated Declaration of Trust of ProLogis dated as of May 19, 2005 (incorporated by reference to Exhibit 3.1 to ProLogis Form 8-K filed on May 20, 2005). |
| 3.7 | Articles of Amendment to Amended and Restated Declaration of Trust of ProLogis dated as of July 12, 2005 (incorporated by reference to Exhibit 3.1 to ProLogis Form 8-K filed on July 13, 2005). |
| 3.8 | Articles Supplementary Reclassifying and Designating Shares of Beneficial Interest of ProLogis as Common Shares of Beneficial Interest (incorporated by reference to Exhibit 3.2 to ProLogis Form 8-K filed on July 13, 2005). |
| 3.9 | Amendment to Amended and Restated Bylaws, dated as March 15, 2006 (incorporated by reference to exhibit 3.1 to ProLogis Form 8-K filed on March 17, 2006). |
| 4.1 | Form of share certificate for common shares of Beneficial Interest of ProLogis (incorporated by reference to exhibit 4.4 to ProLogis registration statement No. 33-73382). |
| 4.2 | ProLogis Trust Employee Share Purchase Plan, as amended and restated (incorporated by reference to Exhibit 4.27 to ProLogis Form S-8, dated September 27, 2001). |
| 4.3 | 8.72% Note due March 1, 2009 (incorporated by reference to exhibit 4.7 to ProLogis Form 10-K for the year ended December 31, 1994). |
| 4.4 | Form of share certificate for Series C Cumulative Redeemable Preferred Shares of Beneficial Interest of ProLogis (incorporated by reference to exhibit 4.8 to ProLogis Form 10-K for the year ended December 31, 1996). |
| 4.5 | 9.34% Note due March 1, 2015 (incorporated by reference to exhibit 4.8 to ProLogis Form 10-K for the year ended December 31, 1994). |
| 4.6 | 7.875% Note due May 15, 2009 (incorporated by reference to exhibit 4.4 to ProLogis Form 8-K dated May 9, 1995). |
| 4.7 | 7.95% Note due May 15, 2008 (incorporated by reference to exhibit 4.2 to ProLogis Form 10-Q for the quarter ended June 30, 1996). |
| 4.8 | 8.65% Note due May 15, 2016 (incorporated by reference to exhibit 4.3 to ProLogis Form 10-Q for the quarter ended June 30, 1996). |
| 4.9 | 7.81% Medium-Term Notes, Series A, due February 1, 2015 (incorporated by reference to exhibit 4.17 to ProLogis Form 10-K for the year ended December 31, 1996). |

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- 4.10 Indenture, dated as of March 1, 1995, between ProLogis and State Street Bank and Trust Company, as Trustee (incorporated by reference to exhibit 4.9 to ProLogis Form 10-K for the year ended December 31, 1994).
- 4.11 Collateral Trust Indenture, dated as of July 22, 1993, between Krauss/Schwartz Properties, Ltd. and NationsBank of Virginia, N.A., as Trustee (incorporated by reference to exhibit 4.10 to ProLogis Form 10-K for the year ended December 31, 1994).

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| Exhibit Number | Description |
|---------------------------|--|
| 4.12 | First Supplement Collateral Trust Indenture, dated as of October 28, 1994, among ProLogis Limited Partnership-IV, Krauss/Schwartz Properties, Ltd., and NationsBank of Virginia, N.A., as Trustee (incorporated by reference to exhibit 10.6 to ProLogis Form 10-Q for the quarter ended September 30, 1994). |
| 4.13 | 7.625% Note due July 1, 2017 (incorporated by reference to exhibit 4 to ProLogis Form 8-K dated July 11, 1997). |
| 4.14 | Form of 7.10% Promissory Note due April 15, 2008 (incorporated by reference to exhibit 4.27 to ProLogis Form 10-K for the year ended December 31, 1999). |
| 4.15 | Form of 5.50% Promissory Note due March 1, 2013 (incorporated by reference to exhibit 4.26 to ProLogis Form 10-K for the year ended December 31, 2002). |
| 4.16 | Form of share certificate for Series F Cumulative Redeemable Preferred Shares of Beneficial Interest of ProLogis (incorporated by reference to exhibit 4.1 to ProLogis Form 8-K dated November 26, 2003). |
| 4.17 | Form of share certificate for Series G Cumulative Redeemable Preferred Shares of Beneficial Interest of ProLogis (incorporated by reference to exhibit 4.1 to ProLogis Form 8-K dated December 24, 2003). |
| 4.18 | First Supplemental Indenture, dated as of February 9, 2005, by and between ProLogis and U.S. Bank National Association, as Trustee (as successor in interest to State Street Bank and Trust Company) (incorporated by reference to exhibit 4.1 to ProLogis Form 8-K dated February 9, 2005). |
| 4.19 | Second Supplemental Indenture dated as of November 2, 2005 by and between ProLogis and U.S. Bank National Association, as Trustee (as successor in interest to State Street Bank and Trust Company) (incorporated by reference to Exhibit 4.1 to ProLogis Form 8-K filed on November 4, 2005). |
| 4.20 | Third Supplemental Indenture dated as of November 2, 2005 by and between ProLogis and U.S. Bank National Association, as Trustee (as successor in interest to State Street Bank and Trust Company) (incorporated by reference to Exhibit 4.2 to ProLogis Form 8-K filed on November 4, 2005). |
| 10.1 | Agreement of Limited Partnership of ProLogis Limited Partnership-I, dated as of December 22, 1993, by and among ProLogis, as general partner, and the limited partners set forth therein (incorporated by reference to exhibit 10.4 to ProLogis Registration Statement No. 33-73382). |
| 10.2 | Form of Indemnification Agreement entered into between ProLogis and its Trustees and executive officers (incorporated by reference to exhibit 10.16 to ProLogis Registration Statement No. 33-73382). |
| 10.3 | Indemnification Agreement between ProLogis and each of its independent Trustees (incorporated by reference to exhibit 10.16 to ProLogis Form 10-K for the year ended December 31, 1995). |
| 10.4 | Declaration of Trust for the benefit of ProLogis independent Trustees (incorporated by reference to exhibit 10.17 to ProLogis Form 10-K for the year ended December 31, 1995). |
| 10.5* | Share Option Plan for Outside Trustees (as Amended and Restated Effective September May 18, 2004) (incorporated by reference to exhibit 10.1 to ProLogis Form 8-K dated May 18, 2003). |
| 10.6 | 1999 Dividend Reinvestment and Share Purchase Plan (incorporated by reference to the Prospectus filed January 5, 2007 pursuant to Rule 424(b)(3) with respect to Registration Statement No. 333-102166). |
| 10.7 | Amended and Restated Agreement of Limited Partnership of ProLogis Limited Partnership-III, dated as of October 28, 1994, by and among ProLogis, as general partner, and the limited partners set forth therein (incorporated by reference to exhibit 10.3 to ProLogis Form 10-Q for the quarter ended September 30, 1994). |
| 10.8 | Amended and Restated Agreement of Limited Partnership of ProLogis Limited Partnership-IV, dated as of October 28, 1994, by and among ProLogis IV, Inc., as general partner, and the limited partners set |

forth therein (incorporated by reference to exhibit 10.4 to ProLogis Form 10-Q for the quarter ended September 30, 1994).

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| Exhibit Number | Description |
|---------------------------|---|
| 10.9 | Note Purchase Agreement among Meridian and The Travelers Insurance Company (I/N/TRAL & CO.), United Services Automobile Association (I/N/O SALKELD & CO.), The Variable Annuity Life Insurance Company, The United States Life Insurance Company in the City of New York, All American Life Insurance Company, The Old Line Life Insurance Company of America, The Lincoln National Life Insurance Company, Lincoln Life & Annuity Company of New York, First Penn-Pacific Life Insurance Company (I/N/O CUDD & CO), Lincoln National Health & Casualty Insurance Company, Allied Life Insurance Company B (I/N/O GERLACH & CO), sons of Norway (I/N/O VAR & CO), Aid Association for Lutherans(I/N/O NIMER & CO), Metropolitan Life Insurance Company, National Life Insurance Company, Life Insurance Company of the Southwest, Keyport Life Insurance Company (I/N/O BOST & CO), Union Central Life Insurance Company (I/N/O HARE & CO), and Pan-American Life Insurance Company, dated November 15, 1997 (incorporated by reference to exhibit 10.66 to Meridian's Form 10-K for the year ended December 31, 1997). |
| 10.10 | Agreement of Limited Partnership of Meridian Realty Partners, L.P. (incorporated by reference to exhibit 99.1 to ProLogis' Registration Statement No. 333-86081). |
| 10.11* | ProLogis Trust 1997 Long-Term Incentive Plan (as Amended and Restated Effective as of September 26, 2002 (incorporated by reference to exhibit 10.1 to ProLogis' Form 8-K dated February 19, 2003). |
| 10.12* | Amended and Restated Special Equity Agreement between ProLogis and K. Dane Brooksher, dated as of March 5, 2003 (incorporated by reference to exhibit 10.28 to ProLogis' Form 10-K for the year ended December 31, 2002). |
| 10.13* | Special Equity Agreement between ProLogis and Irving F. Lyons III, dated as of March 5, 2003 (incorporated by reference to exhibit 10.29 to ProLogis' Form 10-K for the year ended December 31, 2002). |
| 10.14 | Amended and Restated Agreement of Limited Partnership of ProLogis Fraser, L.P. dated as of August 4, 2004 (incorporated by reference to exhibit 10.1 to ProLogis' Form 10-Q for the quarter ended September 30, 2004). |
| 10.15 | Amended and Restated Security Agency Agreement dated as of October 6, 2005, among Bank of America, N.A., as global administrative agent under the Global Senior Credit Agreement referred to therein, certain other creditors of ProLogis and Bank of America, N.A., as collateral agent (incorporated by reference to Exhibit 10.2 to ProLogis' Form 8-K filed on November 4, 2005). |
| 10.16 | Global Senior Credit Agreement dated as of October 6, 2005, among ProLogis, certain of its subsidiaries, Bank of America, N.A., as global administrative agent, collateral agent, U.S. funding agent, U.S. swing line lender, and a U.S. L/C issuer, Bank of America, N.A., acting through its Canada Branch, as Canadian funding agent and a Canadian L/C issuer, ABN AMRO Bank N.V., as global syndication agent, Euro funding agent, Euro swing line lender, and a Euro L/C issuer, Sumitomo Mitsui Banking Corporation, as a global documentation agent, Yen tranche bookrunner, KRW tranche bookrunner, Yen Funding Agent, KRW funding agent, and a Yen L/C issuer, JPMorgan Chase Bank, N.A. and the Royal Bank of Scotland PLC, as global documentation agents, and the other lenders party thereto Banc of America Securities LLC and ABN AMRO Bank N.V., as global joint lead arrangers and global joint book runners (incorporated by reference to Exhibit 10.1 to ProLogis Form 8-K filed on October 12, 2005). |
| 10.17 | First Amendment to the Amended and Restated Special Equity Agreement dated as of March 5, 2003 by and between ProLogis and K. Dane Brooksher entered into as of September 22, 2005 (incorporated by reference to Exhibit 10.1 to ProLogis' Form 8-K filed on September 26, 2005). |
| 10.18 | |

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First Amendment to the Special Equity Agreement dated as of March 5, 2003 by and between ProLogis and Irving F. Lyons III entered into as of September 22, 2005 (incorporated by reference to Exhibit 10.2 to ProLogis Form 8-K filed on September 26, 2005).

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| Exhibit Number | Description |
|---------------------------|--|
| 10.19 | Amendment, dated as of May 2, 2005, to Note Purchase Agreement among ProLogis (as successor by merger to Meridian Industrial Trust, Inc., a Maryland corporation) and The Travelers Insurance Company (I/N/TRAL & CO.), United Services Automobile Association (I/N/O SALKELD & CO.), The Variable Annuity Life Insurance Company, The United States Life Insurance Company in the City of New York, All American Life Insurance Company, The Old Line Life Insurance Company of America, The Lincoln National Life Insurance Company, Lincoln Life & Annuity Company of New York, First Penn-Pacific Life Insurance Company (I/N/O CUDD & CO), Lincoln National Health & Casualty Insurance Company, Allied Life Insurance Company B (I/N/O GERLACH & CO), sons of Norway (I/N/O VAR & CO), Aid Association for Lutherans (I/N/O NIMER & CO), Metropolitan Life Insurance Company, National Life Insurance Company, Life Insurance Company of the Southwest, Keyport Life Insurance Company (I/N/O BOST & CO), Union Central Life Insurance Company (I/N/O HARE & CO), and Pan-American Life Insurance Company (incorporated by reference to Exhibit 10.1 to ProLogis Form 8-K filed on May 2, 2005). |
| 10.20 | Forms of Executive Protection Agreements entered into between ProLogis and Jeffrey H. Schwartz and Walter C. Rakowich (incorporated by reference to Exhibit 10.1 to ProLogis Form 8-K filed on March 21, 2005). |
| 10.21 | Forms of Executive Protection Agreements entered into between ProLogis and Robert J. Watson, Steven K. Meyer and Edward S. Nekritz (incorporated by reference to Exhibit 10.2 to ProLogis Form 8-K filed on March 21, 2005). |
| 10.22 | Forms of Executive Protection Agreements entered into between ProLogis and M. Gordon Keiser, Jr., Paul C. Congelton, Masato Miki, Miki Yamada and Ming Z. Mei (incorporated by reference to Exhibit 10.3 to ProLogis Form 8-K filed on March 21, 2005). |
| 10.23 | First Amendment to Global Senior Credit Agreement, dated as of June 27, 2006, among ProLogis, certain of its subsidiaries, Bank of America, N.A., as Global Administrative Agent, Collateral Agent, U.S. Funding Agent, U.S. Swing Line Lender, and a U.S. L/C Issuer, Bank of America, N.A., acting through its Canada Branch, as Canadian Funding Agent and a Canadian L/C Issuer, ABN AMRO Bank N.V., as Global Syndication Agent, Euro Funding Agent, Euro Swing Line Lender, and a Euro L/C Issuer, Sumitomo Mitsui Banking Corporation, as a Global Documentation Agent, Yen Tranche Bookrunner, KRW Tranche Bookrunner, Yen Funding Agent, KRW Funding Agent, and a Yen L/C Issuer, Bank of America, N.A., acting through its Shanghai Branch, as RMB Funding Agent, JPMorgan Chase Bank, N.A. and the Royal Bank of Scotland PLC, as Global Documentation Agents, the other lenders party thereto and Banc of America Securities LLC and ABN AMRO Bank N.V., as Global Joint Lead Arrangers and Global Joint Book Runners (incorporated by reference to exhibit 10.1 to ProLogis Form 8-K filed on July 3, 2006). |
| 10.24 | ProLogis 2006 Long-Term Incentive Plan (incorporated by reference to exhibit 10.2 to ProLogis Form 8-K filed on June 2, 2006) |
| 10.25 | Amended and Restated Employment Agreement, dated May 26, 2006, entered into between ProLogis and Ted R. Antenucci (incorporated by reference to exhibit 10.1 to ProLogis Form 8-K filed on June 2, 2006). |
| 10.26 | Executive Protection Agreement, dated May 31, 2006, entered into between ProLogis and Ted R. Antenucci (incorporated by reference to exhibit 10.3 to ProLogis Form 8-K filed on June 2, 2006). |
| 10.27 | Executive Protection Agreement, dated December 21, 2006, entered into between ProLogis and Dessa M. Bokides (incorporated by reference to exhibit 10.1 to ProLogis Form 8-K filed on December 22, 2006). |
| 12.1 | Statement re: Computation of Ratio of Earnings to Fixed Charges. |

| | |
|------|---|
| 12.2 | Statement re: Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends. |
| 21.1 | Subsidiaries of ProLogis. |
| 23.1 | Consent of KPMG LLP. |
| 31.1 | Certification of Chief Executive Officer. |
| 31.2 | Certification of Chief Financial Officer. |

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| Exhibit Number | Description |
|---------------------------|---|
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.1 | Limited Liability Company Agreement of CSI/Frigo LLC dated as of January 2, 2001 (incorporated by reference to exhibit 99.5 to ProLogis Form 10-K/A#1 for the year ended December 31, 2000). |
| 99.2 | Promissory Note from CSI/Frigo LLC dated January 5, 2001(incorporated by reference to exhibit 99.6 to ProLogis Form 10-K/A#1 for the year ended December 31, 2000). |
| 99.3 | Promissory Note from K. Dane Brooksher dated July 18, 2000 to GoProLogis Incorporated (incorporated by reference to exhibit 99.8 to ProLogis Form 10-K/A#1 for the year ended December 31, 2000). |
| 99.4 | Option agreement dated July 18, 2000 among GoProLogis Incorporated, K. Dane Brooksher and ProLogis (incorporated by reference to exhibit 99.9 to ProLogis Form 10-K/A#1 for the year ended December 31, 2000). |
| 99.5 | Promissory Note from K. Dane Brooksher dated September 20, 2000 to ProLogis Broadband(1) Incorporated (incorporated by reference to exhibit 99.10 to ProLogis Form 10-K/A#1 for the year ended December 31, 2000). |
| 99.6 | Promissory Note from K. Dane Brooksher dated January 4, 2001 to ProLogis Broadband(1) Incorporated (incorporated by reference to exhibit 99.11 to ProLogis Form 10-K/A#1 for the year ended December 31, 2000). |
| 99.7 | Option Agreement dated September 20, 2000 among ProLogis Broadband(1) Incorporated, K. Dane Brooksher and ProLogis (incorporated by reference to exhibit 99.12 to ProLogis Form 10-K/A#1 for the year ended December 31, 2000). |
| 99.8 | Purchase and Sale Agreement dated October 23, 2002, between CSI/Frigo LLC and ProLogis (incorporated by reference to exhibit 99.14 to ProLogis Form 10-K for the year ended December 31, 2002). |
| 99.9 | Promissory Note from CSI/Frigo LLC dated October 23, 2002 (incorporated by reference to exhibit 99.15 to ProLogis Form 10-K for the year ended December 31, 2002). |
| 99.10 | Registration Rights Agreement dated February 9, 2007, between ProLogis and each of the parties identified therein. |

* Management Contract or Compensatory Plan or Arrangement