PROLOGIS
Form 10-K/A
March 17, 2008

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

FORM 10-K/A

Amendment #1

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

OR

o **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	**74-2604728**
(State or other jurisdiction of incorporation or organization)	(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
Series F Cumulative Redeemable Preferred Shares of Beneficial Interest, par	New York Stock Exchange

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 þ No o

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 o No þ

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 þ No o

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 o No þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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 o No þ

Based on the closing price of the registrant s shares on June 30, 2007, the aggregate market value of the voting common equity held by non-affiliates of the registrant was $14,561,373,852.

At February 22, 2008, there were outstanding approximately 258,202,700 common shares of beneficial interest of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the 2008 annual meeting of its shareholders are incorporated by reference in Part III of this report.

Explanatory Note:

This Annual Report on Form 10-K for ProLogis for the year ended December 31, 2007 is being amended to revise Part II, Item 8 and Part IV, Item 15 to include audited Financial Statements for ProLogis North American Industrial Fund, LP.

PART II

ITEM 8. Financial Statements and Supplementary Data

Our Consolidated Balance Sheets as of December 31, 2007 and 2006, 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, 2007, Notes to Consolidated Financial Statements, Schedule III Real Estate and Accumulated Depreciation and Financial Statements of ProLogis North American Industrial Fund, LP, 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 20 of our Consolidated Financial Statements.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this amendment:

(a) Financial Statements and Schedules:

1. Financial Statements:

See the financial statements identified below.

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: See the exhibit index on page 94 of this amendment, which is incorporated herein by reference.

(c) Financial Statements: See Index to Consolidated Financial Statements and Schedule III below, which is incorporated by reference.

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, 2007 and 2006, 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, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, 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), ProLogis internal control over financial reporting as of December 31, 2007, 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, 2008 expressed an unqualified opinion on the effectiveness of ProLogis internal control over financial reporting.

KPMG LLP

Denver, Colorado
February 27, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders
ProLogis:

We have audited ProLogis internal control over financial reporting as of December 31, 2007, 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 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, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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, ProLogis maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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, 2007 and 2006, 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, 2007, and our report dated February 27, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Denver, Colorado

February 27, 2008

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CONSOLIDATED STATEMENTS OF EARNINGS
Years Ended December 31, 2007, 2006 and 2005
(In thousands, except per share data)

	2007	2006	2005
Revenues:			
Rental income	$ 1,067,865	$ 910,202	$ 584,352
CDFS disposition proceeds:			
Developed and repositioned properties	2,530,377	1,286,841	1,140,457
Acquired property portfolios	2,475,035		
Property management and other fees and incentives	104,719	211,929	66,934
Development management and other income	26,670	37,420	25,464
Total revenues	6,204,666	2,446,392	1,817,207
Expenses:			
Rental expenses	288,569	239,221	162,245
Cost of CDFS dispositions:			
Developed and repositioned properties	1,835,274	993,926	917,782
Acquired property portfolios	2,406,426		
General and administrative	204,558	153,516	118,166
Depreciation and amortization	308,971	286,807	186,605
Other expenses	24,963	13,013	8,633
Total expenses	5,068,761	1,686,483	1,393,431
Operating income	1,135,905	759,909	423,776
Other income (expense):			
Earnings from unconsolidated property funds	94,453	93,055	46,078
Earnings from CDFS joint ventures and other unconsolidated investees	11,165	50,703	6,421
Interest expense	(368,065)	(294,403)	(177,562)
Interest income on notes receivable	8,066	16,730	6,781
Interest and other income, net	25,935	18,248	10,724
Total other income (expense)	(228,446)	(115,667)	(107,558)
Earnings before minority interest	907,459	644,242	316,218
Minority interest	(6,003)	(3,457)	(5,243)
Earnings before certain net gains	901,456	640,785	310,975
Gains recognized on dispositions of certain non-CDFS business assets	146,667	81,470	
Foreign currency exchange gains, net	7,915	21,086	15,979

Earnings before income taxes		1,056,038		743,341		326,954
Income taxes:						
Current income tax expense		68,349		84,250		14,847
Deferred income tax expense (benefit)		550		(53,722)		12,045
Total income taxes		68,899		30,528		26,892
Earnings from continuing operations		987,139		712,813		300,062
Discontinued operations:						
Income attributable to disposed properties and assets held for sale		5,704		24,311		24,191
Losses related to temperature-controlled distribution assets						(25,150)
Gains recognized on dispositions:						
Non-CDFS business assets		52,776		103,729		86,444
CDFS business assets		28,721		33,514		10,616
Total discontinued operations		87,201		161,554		96,101
Net earnings		1,074,340		874,367		396,163
Less preferred share dividends		25,423		25,416		25,416
Net earnings attributable to common shares	$	1,048,917	$	848,951	$	370,747
Weighted average common shares outstanding Basic		256,873		245,952		203,337
Weighted average common shares outstanding Diluted		267,226		256,852		213,713
Net earnings per share attributable to common shares Basic:						
Continuing operations	$	3.74	$	2.79	$	1.35
Discontinued operations		0.34		0.66		0.47
Net earnings per share attributable to common shares Basic	$	4.08	$	3.45	$	1.82
Net earnings per share attributable to common shares Diluted:						
Continuing operations	$	3.61	$	2.69	$	1.31
Discontinued operations		0.33		0.63		0.45
Net earnings per share attributable to common shares Diluted	$	3.94	$	3.32	$	1.76
Distributions per common share	$	1.84	$	1.60	$	1.48

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

PROLOGIS

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31, 2007	December 31, 2006
ASSETS		
Real estate	$ 16,578,845	$ 13,897,091
Less accumulated depreciation	1,368,458	1,264,227
	15,210,387	12,632,864
Investments in and advances to unconsolidated investees	2,345,277	1,299,697
Cash and cash equivalents	418,991	475,791
Accounts and notes receivable	340,039	439,791
Other assets	1,389,733	998,224
Discontinued operations assets held for sale	19,607	57,158
Total assets	$ 19,724,034	$ 15,903,525
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Debt	$ 10,506,068	$ 8,386,886
Accounts payable and accrued expenses	933,075	518,651
Other liabilities	769,408	546,129
Discontinued operations assets held for sale	424	1,012
Total liabilities	12,208,975	9,452,678
Minority interest	78,661	52,268
Shareholders equity:		
Series C preferred shares at stated liquidation preference of $50 per share; $0.01 par value; 2,000 shares issued and outstanding at December 31, 2007 and 2006	100,000	100,000
Series F preferred shares at stated liquidation preference of $25 per share; $0.01 par value; 5,000 shares issued and outstanding at December 31, 2007 and 2006	125,000	125,000
Series G preferred shares at stated liquidation preference of $25 per share; $0.01 par value; 5,000 shares issued and outstanding at December 31, 2007 and 2006	125,000	125,000
Common shares; $0.01 par value; 257,712 shares issued and outstanding at December 31, 2007 and 250,912 shares issued and outstanding at December 31, 2006	2,577	2,509
Additional paid-in capital	6,412,473	6,000,119
Accumulated other comprehensive income:		
Unrealized (losses) gains on derivative contracts	(27,091)	4,524

Foreign currency translation gains	302,413	212,398
Retained earnings (distributions in excess of net earnings)	396,026	(170,971)
Total shareholders equity	7,436,398	6,398,579
Total liabilities and shareholders equity	$ 19,724,034	$ 15,903,525

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, 2007, 2006 and 2005
(In thousands)

	2007	2006	2005
Common shares number of shares at beginning of year	250,912	243,781	185,789
Issuance of common shares in connection with mergers and acquisitions	4,781		55,889
Issuances of common shares under common share plans	1,891	6,951	2,092
Conversions of limited partnership units	128	180	11
Common shares number of shares at end of year	257,712	250,912	243,781
Common shares par value at beginning of year	$ 2,509	$ 2,438	$ 1,858
Issuance of common shares in connection with mergers and acquisitions	48		559
Issuances of common shares under common share plans	19	69	21
Conversions of limited partnership units	1	2	
Common shares par value at end of year	$ 2,577	$ 2,509	$ 2,438
Preferred shares at stated liquidation preference at beginning and end of year	$ 350,000	$ 350,000	$ 350,000
Additional paid-in capital at beginning of year	$ 6,000,119	$ 5,606,017	$ 3,249,576
Issuance of common shares in connection with mergers and acquisitions	339,449		2,285,029
Issuances of common shares under common share plans	37,417	357,448	43,126
Conversions of limited partnership units	4,444	6,475	150
Cost of issuing common shares	(106)	(76)	(1,395)
Change in receivable from timing differences on equity transactions	247	244	2,494
Cost of share-based compensation awards	30,903	30,011	27,037
Additional paid-in capital at end of year	$ 6,412,473	$ 6,000,119	$ 5,606,017
Accumulated other comprehensive income at beginning of year	$ 216,922	$ 149,586	$ 194,445
Foreign currency translation gains (losses), net	90,015	70,777	(70,076)
Unrealized (losses) gains on derivative contracts, net	(31,615)	(3,441)	25,217
Accumulated other comprehensive income at end of year	$ 275,322	$ 216,922	$ 149,586
Distributions in excess of net earnings at beginning of year	$ (170,971)	$ (620,018)	$ (693,386)
Net earnings	1,074,340	874,367	396,163

FIN 48 adoption	(9,272)		
Preferred share dividends	(25,423)	(25,416)	(25,416)
Common share distributions	(472,648)	(399,904)	(297,379)
Retained earnings (distributions in excess of net earnings) at end of year	$ 396,026	$ (170,971)	$ (620,018)
Total shareholders equity at end of year	$ 7,436,398	$ 6,398,579	$ 5,488,023
Comprehensive income attributable to common shares:			
Net earnings	$ 1,074,340	$ 874,367	$ 396,163
Preferred share dividends	(25,423)	(25,416)	(25,416)
Foreign currency translation gains (losses), net	90,015	70,777	(70,076)
(Losses) gains on derivative contracts, net	(31,615)	(3,441)	25,217
Comprehensive income attributable to common shares	$ 1,107,317	$ 916,287	$ 325,888

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, 2007, 2006 and 2005
(In thousands)

	2007	2006	2005
Operating activities:			
Net earnings	$ 1,074,340	$ 874,367	$ 396,163
Minority interest share in earnings	6,003	3,457	5,243
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Straight-lined rents	(44,403)	(36,418)	(11,411)
Cost of share-based compensation awards	23,934	21,567	22,615
Depreciation and amortization	311,867	298,342	204,378
Equity in earnings from unconsolidated investees	(105,618)	(143,758)	(52,499)
Distributions from unconsolidated investees	74,348	99,062	47,514
Amortization of deferred loan costs	10,555	7,673	5,595
Amortization of debt premium, net	(7,797)	(13,861)	(3,980)
Gains recognized on dispositions of non-CDFS business assets	(199,443)	(185,199)	(86,444)
Gains recognized on dispositions of CDFS business assets included in discontinued operations	(28,721)	(33,514)	(10,616)
Cumulative translation losses and impairment charge on disposed properties			26,864
Unrealized foreign currency exchange losses (gains)	16,229	(18,774)	(10,288)
Deferred income tax expense (benefit)	550	(53,722)	12,045
Impairment charges	13,259		
Increase in accounts and notes receivable and other assets	(136,405)	(204,096)	(54,091)
Increase (decrease) in accounts payable and accrued expenses and other liabilities	216,338	72,201	(2,986)
Net cash provided by operating activities	1,225,036	687,327	488,102
Investing activities:			
Real estate investments	(5,213,870)	(3,695,799)	(2,457,780)
Purchase of ownership interests in property funds		(259,248)	
Tenant improvements and lease commissions on previously leased space	(67,317)	(66,787)	(53,919)
Recurring capital expenditures	(37,948)	(29,437)	(26,989)
Cash consideration paid in Parkridge acquisition in 2007 and Catellus Merger in 2005, net of cash acquired	(700,812)		(1,292,644)
Purchase of Macquarie ProLogis Trust (MPR), net of cash acquired	(1,137,028)		
Proceeds from dispositions of real estate assets	3,618,622	2,095,231	1,516,614
Advances on notes receivable	(18,270)	(115,417)	
Proceeds from repayments of notes receivable	115,620	73,723	59,991
Increase in restricted cash for potential investment		(42,174)	

Investments in and advances to unconsolidated investees	(661,796)	(175,677)	(16,726)
Return of investment from unconsolidated investees	50,243	146,206	48,652
Net cash used in investing activities	(4,052,556)	(2,069,379)	(2,222,801)
Financing activities:			
Proceeds from sales and issuances of common shares under various common share plans	46,855	358,038	45,641
Distributions paid on common shares	(472,645)	(393,317)	(297,379)
Minority interest distributions	(9,341)	(11,576)	(13,953)
Dividends paid on preferred shares	(31,781)	(19,062)	(25,416)
Debt and equity issuance costs paid	(15,830)	(13,840)	(8,112)
Repayment of debt assumed in Catellus Merger			(106,356)
Net (payments) proceeds from lines of credit and short-term borrowings	(431,506)	368,158	1,348,023
Proceeds from issuance of debt to finance MPR and Parkridge acquisitions	1,719,453		
Proceeds from issuance of senior convertible notes	2,329,016		
Proceeds from issuance of senior notes, secured and unsecured debt	781,802	1,945,325	890,011
Payments on senior notes, secured debt, unsecured debt and assessment bonds	(1,174,335)	(588,844)	(119,067)
Net cash provided by financing activities	2,741,688	1,644,882	1,713,392
Effect of exchange rate changes on cash	29,032	9,161	(11,422)
Net (decrease) increase in cash and cash equivalents	(56,800)	271,991	(32,729)
Cash and cash equivalents, beginning of year	475,791	203,800	236,529
Cash and cash equivalents, end of year	$ 418,991	$ 475,791	$ 203,800

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.

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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) investment management; and (iii) development or CDFS business. Our property operations segment represents the direct long-term ownership of industrial distribution and retail properties. Our investment 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 reporting 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 in which we own less than 100% but 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 and legal structure;

(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.

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 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, Indian rupee, Polish zloty, Slovakia crown, Swedish krona and Singapore dollar.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For our consolidated subsidiaries whose functional currency is not the U.S. dollar, we translate their financial statements into U.S. dollars at the time we consolidate those subsidiaries financial statements. Generally, assets and liabilities are translated at the exchange rate in effect as of the balance sheet date. Our initial investments in unconsolidated investees are reflected at the historical exchange rate. Income statement accounts are translated using the average exchange rate for the period and income statement accounts that represent significant non-recurring transactions are translated at the rate in effect as of the date of the transaction. 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. The resulting translation adjustments are included in the accumulated other comprehensive income component of shareholders equity.

We and certain of our consolidated subsidiaries have intercompany and third party debt that is not denominated in the entity s functional currency. When the debt is remeasured against the functional currency of the entity, a gain or loss can result. The resulting adjustment is generally reflected in results of operations unless it is intercompany debt that is deemed to be long-term in nature. If the intercompany debt is deemed long-term in nature, when the debt is remeasured, the resulting adjustment is recognized as a cumulative translation adjustment in accumulated other comprehensive income in shareholders equity.

Gains or losses are included in results of operations when transactions with a third party, denominated in a currency other than the entity s functional currency, are settled. Additionally, we utilize derivative financial instruments to manage certain foreign currency exchange risks. See our policy footnote on financial instruments and Note 16 for more information related to our derivative financial instruments.

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 on Disposition of Real Estate. Gains on the disposition of real estate 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 sold.

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 recognized in future periods to reflect 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. We reflect the gains recognized from contributions of CDFS properties to property funds and CDFS joint ventures in operating cash flows and we include the costs related to the CDFS properties and the recovery of those costs through the proceeds we receive upon contribution in investing cash flows in our Consolidated Statements of Cash Flows.

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, along with

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

our proportionate share of the gain recognized by the investee. During periods when our ownership interest in an investee decreases, we 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. With the adoption of SFAS 123R, we recognize compensation cost associated with stock options that was previously disclosed in the notes to our consolidated financial statements and we treat dividend equivalent units (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.

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 grant share options to employees and members of our Board of Trustees (the Board) with an exercise price equal to the market price on the day of grant and therefore, we generally did not recognize expense related to share options. We recognized the intrinsic value related to other share awards granted as compensation expense over the applicable vesting period. We recognized the value of 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.

Had we adopted SFAS 123R on January 1, 2005, 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
Net earnings attributable to common shares:		
As reported	$	370,747
Pro forma	$	373,074
Net earnings per share attributable to common shares:		
As reported Basic	$	1.82
As reported Diluted	$	1.76
Pro forma Basic	$	1.83
Pro forma Diluted	$	1.77

Further information regarding stock options can be found in Note 5, Long-Term Compensation.

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. 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

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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 allows us to provide services that would otherwise be considered impermissible for REITs. 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. In the United States, we are taxed in certain states in which we operate. Accordingly, we recognize income tax expense for the federal and state income taxes incurred by our TRSs, taxes incurred in certain states and foreign jurisdictions and interest and penalties, if any, associated with our unrecognized tax benefit liabilities.

In July 2006, Financial Accounting Standards Board (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 were effective for our fiscal year beginning January 1, 2007 and were applied to all tax positions upon initial adoption. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities. The cumulative effect of applying the provisions of FIN 48 was reported as an adjustment to the opening balance of retained earnings for the year of adoption. We adopted the provisions of FIN 48 and, as a result, we recognized a $9.3 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of distributions in excess of net earnings.

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. For further information of income taxes, see Note 7.

Long-Lived Assets

Real Estate Assets. Real estate assets are carried at depreciated 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 included in other assets. When a municipality district

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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 depreciation expense on a straight-line basis over their respective estimated useful lives. We generally use the following useful lives: 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 we develop. Capitalized leasing costs are amortized over the respective lease term. Our average lease term for all leases in effect at December 31, 2007 was between six and seven 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. We may acquire properties or portfolios of properties in our CDFS business segment that we generally plan to contribute 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.

Business Combinations, Goodwill and Intangible Assets. When we acquire a business or individual properties, with the intention to hold 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;

- 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 remaining estimated life of the 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 against income 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 or when circumstances indicate goodwill 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

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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 investee, 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 that we intend to hold long-term, 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 other expense 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 properties that have been classified as discontinued operations are also reported as discontinued operations for all periods presented. We classify property as held for sale when certain criteria are met. At such time, the 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.

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 of notes receivable from third parties at December 31, 2007 and 2006 was $24.2 million and $237.3 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, 2007 and 2006 was 6.9% and 8.6%, 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

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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.

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. We reflect our derivative financial instruments at fair value and record changes in the fair value of these derivatives each period in earnings, unless specific hedge accounting criteria are met. To qualify for hedge accounting treatment, the derivative instruments used for risk management purposes must effectively reduce the risk exposure that they are designed to hedge (primarily interest rate swaps). 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.

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 estimating 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 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 but does not require any new fair value measurements. SFAS 157 is effective for our fiscal year beginning January 1, 2008. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), that delays the effective date of SFAS 157 s fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. Fair value measurements identified in FSP FAS 157-2 will be effective for our fiscal year beginning January 1, 2009. The adoption of SFAS 157 will primarily impact the valuation of our financial instruments,

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as discussed above, which we do not expect to materially impact our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 provides entities the irrevocable option to measure many financial instruments and certain other items at fair value. If the fair value option is elected, changes in the fair value would be recorded in earnings at each subsequent reporting date. The provisions of SFAS 159 are effective for our fiscal year beginning January 1, 2008. We do not plan to elect the fair value option provided by SFAS 159.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R) and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* (SFAS 160). SFAS 141R and 160 require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. The provisions of SFAS 141R and 160 are effective for our fiscal year beginning January 1, 2009. SFAS 141R will be applied to business combinations occurring after the effective date and SFAS 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We are currently assessing what impact the adoption of SFAS 141R and 160 will have on our financial position and results of operations.

Proposed Accounting Pronouncements. The FASB has issued proposed FASB Staff Position No. APB-14a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (the proposed FSP) that would require, if ratified, separate accounting for the debt and equity components of convertible instruments. The proposed FSP would require that the value assigned to the debt component would be the estimated fair value of a similar bond without the conversion feature, which would result in the debt being recorded at a discount. The debt would subsequently be accreted to its par value over its expected life with a rate of interest being reflected in earnings that reflects the market rate at issuance. The proposed FSP, if ratified in the form expected, would be effective January 1, 2009 and would be applied retrospectively to both new and existing convertible instruments, including the convertible notes that we issued in March 2007 and November 2007, and would result in us recognizing additional interest expense of between $55.8 million and $67.1 million per annum.

Reclassifications. Certain amounts included in our consolidated financial statements for prior years have been reclassified to conform to the 2007 financial statement presentation. This includes a reclass of the gains recognized on the disposition of CDFS business assets included in discontinued operations of $33.5 million and $10.6 million for the years ended December 31, 2006 and 2005, respectively, from operating activities to investing activities in the Consolidated Statements of Cash Flows.

3. Mergers and Acquisitions:

Parkridge Holdings Limited

In February 2007, we purchased the industrial business and made a 25% investment in the retail business of Parkridge Holdings Limited (Parkridge), a European real estate development company. The total purchase price was $1.3 billion, which was financed with $733.9 million in cash, including amounts settled in cash subsequent to the purchase date, the issuance of 4.8 million common shares (valued for accounting purposes at $71.01 per share for a total of $339.5 million) and the assumption of $191.5 million in debt and other liabilities. The assumption of debt included $113.0 million of loans made by us to certain affiliates of Parkridge in November 2006, which were included in Accounts and Notes Receivable in our Consolidated Balance Sheet at December 31, 2006. The cash portion of the acquisition was funded with borrowings under

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our global senior credit facility (Global Line) and a new senior unsecured facility (see Note 13 for more information on our credit facilities).

The acquisition included 6.3 million square feet of operating distribution properties, including developments under construction, and 1,139 acres of land, primarily in Central Europe and the United Kingdom. We allocated the purchase price based on estimated fair values and recorded approximately $724.7 million of real estate assets, $156.3 million of investments in CDFS joint ventures and other unconsolidated investees, $58.1 million of cash and other tangible assets and $325.8 million of goodwill and other intangible assets, which are included in Other Assets in our Consolidated Balance Sheet. The allocation of the purchase price was based upon preliminary estimates and assumptions and, accordingly, these allocations are subject to revision when final information is available. Revisions to the fair value allocations, which may be significant, will be recorded as adjustments to the purchase price allocation in subsequent periods and should not have a significant impact on our overall financial position or results of operations. The Parkridge acquisition would not have had a material impact on our consolidated results of operations for the years ended December 31, 2007, 2006 and 2005, and as such, we have not presented any pro forma financial information.

We may be required to make additional payments to the selling shareholders over the next several years (primarily through the issuance of our common shares) of up to £52.3 million (the currency equivalent of $105.0 million at December 31, 2007) upon the successful completion of pending land entitlements or achievement of certain incremental development profit targets.

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 the issuance of 55.9 million of our common shares 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 $11.0 million 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, which are included in General and Administrative Expenses in our Consolidated Statements of Earnings. 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.

See also Note 11 for information on real estate acquisitions.

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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, 2007	December 31, 2006
Property funds	$ 1,755,113	$ 981,840
CDFS joint ventures and other unconsolidated investees	590,164	317,857
Totals	$ 2,345,277	$ 1,299,697

Property Funds

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

	Years Ended December 31, 2007	2006	2005
Earnings from unconsolidated property funds:			
North America	$ 17,161	$ 59,732	$ 24,224
Europe	60,913	21,605	13,938
Asia	16,379	11,718	7,916
Total earnings from unconsolidated property funds	$ 94,453	$ 93,055	$ 46,078
Property management and other fees and incentives:			
North America	$ 47,164	$ 57,800	$ 32,124
Europe	43,752	145,622	30,064
Asia	13,803	8,507	4,746
Total property management and other fees and incentives	$ 104,719	$ 211,929	$ 66,934

In our CDFS business segment, as further discussed in Note 18, we develop and acquire real estate properties primarily with the intent to contribute to a property fund in which we have an ownership interest and act as manager. Upon contribution of properties to a property fund, we realize a portion of the profits from our CDFS activities while at the same time allowing us to maintain a long-term ownership interest in our CDFS properties. This business strategy also provides liquidity to fund our future development activities and enhances future fee income. We generally receive ownership interests in the property funds as part of the proceeds generated by the contributions of properties to maintain our ownership interest. 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 recognize our proportionate share of the earnings or losses of each property fund, earn fees for acting as the manager, and earn additional fees by providing other services including, but not limited to, acquisition, development, construction management, leasing and financing activities. We may also earn incentive performance returns based on the investors returns over a specified period.

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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 2007	Square feet (in millions) 2007	Ownership Percentage 2007	Ownership Percentage 2006	Investment in and advances to 2007	Investment in and advances to 2006
ProLogis California (ProLogis California I LLC) (1)	80	14.2	50.0%	50.0%	$ 106,630	$ 112,915
ProLogis North American Properties Fund I (ProLogis North American Properties Fund I LLC) (1)	36	9.4	41.3%	41.3%	27,135	30,902
ProLogis North American Properties Fund V (2)				11.3%		53,331
ProLogis North American Properties Fund VI (Allagash Property Trust) (1)	22	8.6	20.0%	20.0%	37,218	39,149
ProLogis North American Properties Fund VII (Brazos Property Trust) (1)	29	6.1	20.0%	20.0%	31,321	31,816
ProLogis North American Properties Fund VIII (Cimmaron Property Trust) (1)	24	3.1	20.0%	20.0%	14,982	15,397
ProLogis North American Properties Fund IX (Deerfield Property Trust) (1)	20	3.4	20.0%	20.0%	13,986	14,076
ProLogis North American Properties Fund X (Elkhorn Property Trust) (1)	29	4.2	20.0%	20.0%	15,721	15,399
ProLogis North American Properties Fund XI (KPJV, LLP) (1)	13	4.1	20.0%	20.0%	30,712	31,871
ProLogis North American Industrial Fund (3)	217	37.2	23.2%	20.0%	104,277	72,053
ProLogis North American Industrial Fund II (ProLogis NA2 LP) (1)(2)	153	36.1	36.9%		274,238	
ProLogis North American Industrial Fund III (ProLogis NA3 LP) (1)(4)	122	24.7	20.0%		123,720	
ProLogis Mexico Industrial Fund (ProLogis MX Fund LP) (5)	32	4.2	20.0%		38,085	
PEPR (ProLogis European Properties) (6)	247	56.4	24.9%	24.0%	494,593	430,761
	41	10.4	24.3%		158,483	

PEPF II (ProLogis European Properties II) (7)						
ProLogis Japan Properties Fund I (PLD/RECO Japan TMK Property Trust) (1)	16	7.1	20.0%	20.0%	87,663	87,705
ProLogis Japan Properties Fund II (ProLogis Japan Properties Trust) (1)(8)	44	14.6	20.0%	20.0%	189,584	46,465
ProLogis Korea Fund (ProLogis Korea Properties Trust) (1)(9)	6	0.4	20.0%		6,765	
Totals	1,131	244.2			$ 1,755,113	$ 981,840

(1) We have one fund partner in each of these property funds.

(2) We referred to the combined entities in which we had ownership interests (ProLogis-Macquarie Fund and the management company) as one property fund named 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.

On July 11, 2007, we completed the acquisition of all of the units in Macquarie ProLogis Trust, an Australian listed property trust (MPR). At the time of acquisition, MPR owned approximately 89% of ProLogis North American Properties Fund V and certain other assets. The total consideration was approximately $2.0 billion, consisting of cash of $1.2 billion and assumed liabilities of $0.8 billion. The cash portion of the acquisition was financed primarily with borrowings under a credit agreement with an affiliate of Citigroup USA, Inc. (Citigroup), consisting of a $473.1 million term loan and a $646.2 million convertible loan. Prior to the acquisition, we entered into foreign currency forward contracts to economically hedge the purchase price of MPR (see Note 16 for additional information regarding these derivatives). As a result of the MPR transaction, on July 11, 2007, we owned 100% of, and began consolidating, ProLogis North American Properties Fund V.

On August 27, 2007, Citigroup converted $546.2 million of the convertible loan into equity of a newly formed property fund, which owns all of the real estate assets and debt obligations that were acquired or issued in connection with the MPR acquisition. We refer to the combined entities in which we have ownership interests as one property fund named ProLogis North American Industrial Fund II. Our ownership percentage is based on our levels of ownership interest in these different entities. In addition, we made an equity contribution of $100.0 million into the fund, which was used to repay the remaining balance on the convertible loan. The conversion resulted in Citigroup owning 63.1% and us owning 36.9% of the equity of ProLogis North American Industrial Fund II. We account for our investment under the equity method of accounting. Upon conversion, we recognized net gains of $68.6 million (including $16.6 million of previously deferred gains from the initial contribution of the assets to ProLogis North American Properties

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Fund V) that are reflected in CDFS Acquired Property Portfolios in our Consolidated Statements of Earnings.

(3) In February 2006, we formed the North American Industrial Fund, with ten institutional investors. 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 substantially all of the properties we develop and stabilize in Canada and the United States to the North American Industrial Fund, subject to the property meeting certain leasing and other criteria. ProLogis North American Industrial Fund has equity commitments, which expire in February 2009, aggregating approximately $1.4 billion from third party investors, of which $729.7 million was unfunded at December 31, 2007. In connection with the acquisition of MPR, discussed above, we acquired an additional 3% ownership interest in ProLogis North American Industrial Fund and are committed to fund $25.5 million in cash through February 2009 for our equity share in future acquisitions of properties, generally from us. During 2007 and 2006, we contributed 92 properties (26 CDFS and 66 non-CDFS) and 49 properties (22 CDFS and 27 non-CDFS) for aggregate proceeds of $907.5 million and $451.8 million, respectively, to ProLogis North American Industrial Fund in addition to the assets that were acquired from ProLogis North American Properties Funds II, III and IV (collectively Funds II-IV), as discussed below.

(4) In July 2007, we formed a new property fund, ProLogis North American Industrial Fund III, to acquire a portfolio of 122 industrial properties from a third party. We refer to the combined entities in which we have ownership interests as one property fund named ProLogis North American Industrial Fund III. The total consideration for the acquisition was approximately $1.8 billion, including transaction costs. Our investment was made in cash and represents a 20% ownership interest in this newly formed property fund. The remaining 80% of the property fund is owned by an affiliate of Lehman Brothers, Inc., who provided interim debt financing to the property fund.

(5) On September 11, 2007, we contributed properties to a new property fund formed with several institutional investors, ProLogis Mexico Industrial Fund. We refer to the combined entities in which we have ownership interests as one property fund named ProLogis Mexico Industrial Fund. We are committed to offer to contribute substantially all of the properties we develop and stabilize in Mexico, and in certain circumstances properties we acquire, to ProLogis Mexico Industrial Fund subject to the property meeting certain leasing and other criteria. ProLogis Mexico Industrial Fund has equity commitments of $500.0 million from third party investors that expire in August 2010 and of which $411.5 million was unfunded at December 31, 2007. In 2007, we contributed 35 properties (24 CDFS and 11 non-CDFS) to this property fund for aggregate proceeds of $251.8 million. This includes nine stabilized properties that were part of a portfolio of properties we had previously acquired with the intent to contribute to a new property fund at, or slightly above, our cost. The proceeds and costs related to these nine properties are reflected in CDFS Acquired Property Portfolios in our Consolidated Statements of Earnings. The proceeds and costs for the remaining 15 CDFS contributed properties are included in CDFS Developed and Repositioned Properties in our Consolidated Statements of Earnings.

(6) 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 at that time to 24.0%, with the balance received in cash. In connection with PEPR s IPO, we entered into a property contribution agreement under which we were committed to offer to contribute certain stabilized properties to PEPR having an aggregate contribution value of 200 million. During 2007, we fulfilled our commitment by contributing 16 CDFS properties to PEPR for aggregate proceeds of $287.6 million. As a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

result of these contributions, our ownership interest increased to 24.9% at December 31, 2007. In July 2007, PEPR sold a portfolio of 47 properties, which resulted in a net gain of $155.8 million to PEPR and $38.2 million to us as our proportionate share. In 2006, prior to PEPR s IPO, we contributed 19 properties to the fund for aggregate proceeds of $419.6 million.

(7) In July 2007, we formed a new European property fund, ProLogis European Properties Fund II (PEPF II) with several third party investors. Our ownership interest in PEPF II is 24.3%, including a 16.85% direct interest in PEPF II, along with a 7.45% indirect interest through our 24.9% investment in PEPR, which owns approximately 30% of PEPF II. We are committed to offer to contribute substantially all of the properties we develop and stabilize in Europe and, in certain circumstances properties we acquire, to PEPF II, subject to the property meeting certain leasing and other criteria. PEPF II has equity commitments from PEPR and third party investors of 2.5 billion ($3.6 billion as of December 31, 2007), which expire in August 2010, and of which 2.1 billion ($3.1 billion as of December 31, 2007) was unfunded at December 31, 2007. In 2007, we contributed 38 properties for aggregate proceeds of $1.3 billion. This includes 13 stabilized properties that were part of a portfolio of properties we acquired in February 2007 as part of the Parkridge acquisition discussed in Note 3, with the intent to contribute to a new property fund at, or slightly above, our cost. The proceeds and costs related to these 13 properties are reflected in CDFS Acquired Property Portfolios in our Consolidated Statements of Earnings. The proceeds and costs for the remaining 25 CDFS properties are included in CDFS Developed and Repositioned Properties in our Consolidated Statements of Earnings. In connection with these contributions, we advanced PEPF II £25.2 million ($51.9 million as of December 31, 2007), which bears interest at LIBOR plus a margin and matures on February 26, 2008.

(8) We are committed to offer to contribute all of the properties that we develop and stabilize in Japan through September 2010 to ProLogis Japan Properties Fund II, subject to the property meeting certain leasing and other criteria. In 2007 and 2006, we contributed five properties and six properties, all CDFS properties, to this property fund for aggregate proceeds of $642.9 and $405.5 million, respectively. In addition in 2007, the property fund acquired nine properties from a third party and its investors acquired a portfolio of 17 properties for an aggregate purchase price of $735 million, through a joint venture in which we own 20% and our current partner in ProLogis Japan Properties Fund II owns the remaining 80%. ProLogis Japan Properties Fund II has an equity commitment of $600.0 million from our fund partner, which expires in August 2008, of which $28.2 million was unfunded at December 31, 2007. In February 2008, ProLogis Japan Properties Fund II received an additional equity commitment of $400.0 million from our fund partner that expires in September 2010.

(9) The ProLogis Korea Fund, which was formed in 2006, acquired six properties from a third party in 2007. We are committed to offer to contribute substantially all of the properties we develop and stabilize in South Korea and, in certain circumstances properties we acquire, to ProLogis Korea Fund, subject to the property meeting certain leasing and other criteria. ProLogis Korea Fund has an equity commitment from our fund partner of $200.0 million, which expires in June 2010, of which $179.4 million was unfunded at December 31, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2007 and 2006 (dollars in millions):

	2007			
	North America	Europe	Asia	Total
Revenues	$ 634.1	$ 493.2	$ 180.4	$ 1,307.7
Net earnings (1)	$ 27.6	$ 234.1	$ 64.4	$ 326.1
Total assets	$ 9,034.7	$ 6,526.4	$ 3,810.5	$ 19,371.6
Amounts due to us	$ 24.8	$ 70.0	$ 109.1	$ 203.9
Third party debt (2)	$ 5,305.2	$ 3,456.2	$ 1,889.5	$ 10,650.9
Total liabilities	$ 5,678.5	$ 4,057.7	$ 2,550.7	$ 12,286.9
Minority interest	$ 17.4	$ 10.8	$	$ 28.2
Equity	$ 3,338.8	$ 2,457.8	$ 1,259.9	$ 7,056.5
Our weighted average ownership at end of period (3)	27.9%	24.8%	20.0%	25.5%
Our investment balance (4)	$ 818.0	$ 653.1	$ 284.0	$ 1,755.1
Deferred proceeds, net of amortization (5)	$ 216.4	$ 193.9	$ 127.0	$ 537.3

	2006			
	North America	Europe	Asia	Total
Revenues	$ 494.6	$ 414.4	$ 120.9	$ 1,029.9
Net earnings (6)	$ 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
Minority interest	$ 5.7	$ 6.6	$	$ 12.3
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

(1) Included in net earnings for Europe is a net gain of $155.8 million from the disposition of 47 properties by PEPR.

(2) As of December 31, 2007, we had not guaranteed any of the debt of the property funds. As of December 31, 2006, we had guaranteed $15.0 million of borrowings of ProLogis North American Properties Fund V.

(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 principally 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 property (see below); (ii) additional costs we incur 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 we defer when we contribute a property to a property fund due to our continuing ownership in the property.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) 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 Funds II-IV upon termination in the first quarter of 2006 (see below).

The unconsolidated property funds that we manage, and in which we have an equity ownership, may enter into interest rate swap contracts that are designated as cash flow hedges to mitigate interest expense volatility associated with movements of interest rates for the debt they expect to issue. In 2007, certain of the property funds issued short-term bridge financing to finance their acquisitions of properties from us and third parties. Based on the anticipated refinancing of these bridge financings with long-term debt issuances, the property funds have the following interest rate swap contracts outstanding at December 31, 2007 (amounts are for the entire entity and are in thousands):

Entity	Our Ownership	Notional Amounts	Swap Rate	Maturity	Fair Value
ProLogis North American Industrial Fund II	36.9%	$ 1,005,900	5.31 - 5.83%	2009 - 2018	($ 68,757)
ProLogis North American Industrial Fund III	20.0%	$ 642,000	5.79%	2017	($ 58,577)
ProLogis Mexico Industrial Fund	20.0%	$ 137,000	5.24 - 5.56%	2017	($ 8,650)

We have recorded our proportionate share of the liabilities of the funds related to these instruments in Other Comprehensive Income in Shareholders Equity. Once these contracts are settled, the amount of the gain or loss upon settlement, which is recorded by the property funds in other comprehensive income, will be amortized over the life of the hedged debt issuance. We guarantee our proportionate share of the ProLogis North American Industrial Fund III contracts.

On January 4, 2006, we purchased the 80% ownership interests in each of Funds II-IV from our fund partner. On March 1, 2006, we contributed substantially all of these assets and associated liabilities to ProLogis North American Industrial Fund, which was formed in February 2006 (see above). In connection with these transactions, after deferral of $17.9 million due to our continuing ownership interest in ProLogis North American Industrial Fund, we recognized total earnings of $71.6 million ($12.5 million in CDFS Disposition Proceeds Developed and Repositioned Properties, $22.0 million in Property Management and Other Fees and Incentives and $37.1 million in Earnings from Unconsolidated Property Funds).

CDFS joint ventures and other unconsolidated investees

At December 31, 2007, 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 and retail properties and also include entities that perform land and mixed-use 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 (losses) from our investments in CDFS joint ventures and other unconsolidated investees, are summarized as follows (in thousands):

	Years Ended December 31,		
	2007	**2006**	**2005**
North America	$ 7,428	$ 45,651	$ 4,178
Europe	(2,856)	2,097	1,186
Asia	6,593	2,955	1,057
Total earnings from CDFS joint ventures and other unconsolidated investees	$ 11,165	$ 50,703	$ 6,421

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Included in our earnings from CDFS joint ventures in North America for 2006 is $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. This entity substantially completed its operations at the end of 2006.

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

	2007	2006
CDFS joint ventures:		
United States (1)	$ 60,502	$ 75,197
Europe(2)	228,396	8,499
Asia (3)	194,583	119,614
Total CDFS joint ventures	$ 483,481	$ 203,310
Other investees:		
Operating joint ventures (4)	$ 85,720	$ 88,104
Other	20,963	26,443
Total other investees	$ 106,683	$ 114,547
Total	$ 590,164	$ 317,857

(1) Includes a 50% interest in three mixed-use development entities and three entities that own or are developing distribution properties.

(2) Includes investments in joint ventures that own land for current and future development of distribution, retail and other mixed-use properties. In February 2007, in connection with the Parkridge acquisition, we made a 25% investment in Parkridge Holdings Limited, which is primarily a retail and mixed-use development business for $146.9 million (see Note 3). Also included in this amount is £42.5 million ($91.8 million at December 31, 2007), which represents a loan we made to this entity during 2007. The loan bears interest at London Interbank Offered Rate (LIBOR) or Euro Interbank Offered Rate (EURIBOR) (depending on currency borrowed) plus a margin, matures February 2012 and provides for additional borrowing of either euro or pound sterling up to 25% of the approved budget for development projects inside the venture, representing our ownership interest, up to a maximum of 50 million pound sterling.

(3)

Includes investments in three joint ventures that own distribution properties that were acquired from third parties or developed by the joint venture. Also includes our investment in an entity in China that we present on a consolidated basis. This entity holds an investment interest ($70.3 million at December 31, 2007) in an entity that primarily develops retail properties and invests in joint ventures that own and operate retail properties in China that is accounted for under the equity method of accounting. As part of this investment, we may be required to invest an additional $42 million based primarily on the attainment of certain performance criteria, which we deposited in escrow in 2006. In 2007, we advanced $24 million of these escrowed funds to this entity to fund development activities. The advance bears interest at 7% and matures December 2008.

(4) Principally includes 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Long-Term Compensation:

The 2006 long-term incentive plan together with our 1997 long-term incentive plan (the Incentive Plan) have been approved by our shareholders and 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, 2007, 4,919,474 common shares were available for future issuance 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, 2007, there were 1,750,467 share options with a weighted average exercise price and remaining life of $21.27 and 1.8 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 shares 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.

Share options outstanding at December 31, 2007 were as follows:

	Number of Options	Exercise Price	Expiration Date	Weighted Average Remaining Life (in years)
Outside Trustees Plan	102,500	$19.75 - $43.80	2009-2015	4.6
Incentive Plan:				
1998 grants	539,947	$20.94 - $21.09	2008	0.9
1999 grants	594,498	$17.19 - $18.63	2009	1.7
2000 grants	586,022	$21.75 - $24.25	2010	2.7
2001 grants	391,561	$20.67 - $22.02	2011	3.7
2002 grants	703,092	$22.98 - $24.76	2012	4.7

2003 grants	946,591	$24.90 - $31.26	2013	5.7
2004 grants	1,394,342	$29.41 - $41.50	2014	6.7
2005 grants	936,225	$40.86 - $45.46	2015	7.9
2006 grants	820,454	$53.07 - $59.92	2016	9.0
2007 grants	983,178	$60.60 - $64.82	2017	10.0
Total	7,998,410			6.0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The activity for the year ended December 31, 2007, 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, 2007	8,464,053	$	32.50				
Granted	983,178		60.62				
Exercised	(1,342,912)		27.29				
Forfeited	(105,909)		47.32				
Balance at December 31, 2007	7,998,410	$	36.63	5,504,282	$	29.14	4.7

The weighted-average grant-date fair value of options granted during the years 2007, 2006 and 2005 was $11.42, $10.40 and $7.26, respectively. Total remaining compensation cost related to unvested share options as of December 31, 2007 was $21.7 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, 2007, with respect to our non-vested share options, is presented below:

	Number of Shares		Weighted-Average Grant-Date Fair Value
Balance at January 1, 2007	2,940,973	$	7.14
Granted	983,178		11.42
Vested	(1,324,114)		6.14
Forfeited	(105,909)		7.73
Balance at December 31, 2007	2,494,128	$	9.33

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 2007, 2006 and 2005 was $63.25, $53.86 and $45.29, 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). There were grants of CPSs in 2007, 2006 and 2005 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 840,000 shares at December 31, 2007. For purposes of calculating compensation expense, we consider the CPSs to have a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Certain employees were granted Performance Share Awards (PSAs) through December 31, 2005 based on individual and company performance criteria. If a PSA was earned based on the performance criteria, the recipient must have continued to be employed by us until the end of the vesting period before any portion of the grant is vested, generally two years. The PSAs were valued based upon the market price of a common share on grant date. We recognize the value of the PSAs granted 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 2007, 2006 and 2005 was $71.48, $64.35 and $48.78, respectively.

Dividend Equivalent Units

RSUs, CPSs and certain share options granted through 2001 earn DEUs in the form of common shares at a rate of one common share per DEU. 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. Prior to the adoption of SFAS 123R on January 1, 2006, 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.

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, 2007	2,264,876	$ 44.08	808,544
Granted	707,443	64.91	
Exercised	(389,476)	38.83	
Forfeited	(28,057)	57.77	
Balance at December 31, 2007	2,554,786	$ 50.50	829,689

Total remaining compensation cost related to unvested CPSs and RSUs as of December 31, 2007 was $79.6 million, prior to adjustments for forfeited awards and capitalized amounts due to our development and leasing activities. As of

December 31, 2007, all PSAs were either fully vested or were forfeited. The remaining expense will be recognized through 2011, which equates to a weighted average period of 2.1 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The activity for the year ended December 31, 2007, 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, 2007	1,456,332	$ 50.31
Granted	707,443	64.91
Vested	(410,621)	44.52
Forfeited	(28,057)	57.77
Balance at December 31, 2007	1,725,097	$ 57.55

Compensation Expense

During the years ended December 31, 2007 and 2006, we recognized $23.9 million and $21.6 million, respectively, of compensation expense under the provisions of SFAS 123R. These amounts are net of $10.8 million and $8.4 million, respectively, that was capitalized due to our development and leasing activities and forfeited awards and includes expense related to awards granted to our outside trustees. During the year ended December 31, 2005, under the provisions of APB 25, we recognized $22.6 million of compensation expense, net of $4.6 million that was capitalized due to our development and leasing activities.

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

	Years Ended December 31,		
	2007	2006	2005
Risk-free interest rate	3.78%	4.51%	4.33%
Dividend yield	3.44%	3.40%	3.92%
Volatility	23.43%	19.46%	20.33%
Weighted average option life	5.8 years	5.8 years	5.9 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 interest 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 employee s 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 employee s years of service, with 20% vesting each year of service, over a five-year period. Through December 31, 2007, 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, $1.1 million and $0.8 million for 2007, 2006 and 2005, respectively.

6. Minority Interest:

The minority interest associated with real estate partnerships or joint ventures that we consolidate at December 31 is as follows (dollars in thousands):

	2007			2006		
Continent	# of Entities	Balance	Minority Interest	# of Entities	Balance	Minority Interest
North America (1)(2)(3)	3	$ 31,192	4-31%	5	$ 37,614	1-31%
North America other	3	537	1-25%	1	498	25%
China	6	40,646	20-49%	4	14,156	20-40%
Europe	1	6,286	50%			
		$ 78,661			$ 52,268	

(1) At December 31, 2007 and 2006, an aggregate of 5,052,197 and 5,138,809, respectively, limited partnership units held by minority interest holders are convertible into 5,053,187 and 5,139,799, respectively, common shares.

(2) As of December 31, 2007 and 2006, there were 4,530,435 and 4,658,700, respectively, of 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 one of these partnerships cannot be sold, other than in tax-deferred exchanges, prior to the occurrence of certain events and without the consent of the limited partners. 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 2007, 2006 and 2005, we, and our consolidated REIT subsidiary, believe we have complied with the REIT requirements of the Code. The statute of limitations for our tax returns is generally three years, with our major tax jurisdictions being the United States, Japan, Luxembourg and the United Kingdom. As such, our tax returns that remain subject to examination would be primarily from 2004 and thereafter, except for Catellus. Certain 1999 through 2005 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.

The unrecognized tax benefit liability, which is defined in FIN 48 as the difference between a tax position taken or expected to be taken in a tax return and the benefit measured and recognized in the financial statements, at December 31, 2007 and 2006, which includes accrued interest and penalties of $70.9 million and $45.2 million, respectively, principally consists of estimated federal and state income tax liabilities associated with acquired companies. Included in the December 31, 2007 interest accrual is $3.7 million associated with our adoption of FIN 48 on January 1, 2007. Any increases or decreases in the liabilities for unrecognized tax benefits associated with income tax uncertainties related to an acquired company will be reflected as an adjustment to goodwill recorded as part of the transaction.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the liability for unrecognized tax benefits is as follows (in millions):

Balance at January 1, 2007	$	172.7
Additions based on tax positions related to the current year		8.5
Additions for tax positions of prior years		16.0
Reductions for tax positions of prior years		(2.3)
Reductions due to lapse of applicable statute of limitations		(2.5)
Balance at December 31, 2007	$	192.4

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

		2007		2006		2005
Domestic	$	274,528	$	348,532	$	85,175
International		781,510		394,809		241,779
Total	$	1,056,038	$	743,341	$	326,954

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

		2007		2006		2005
Current income tax expense						
Federal	$	28,264	$	49,900	$	3,379
Non-U.S.		37,433		20,254		10,547
State and local		2,652		14,096		921
Total Current		68,349		84,250		14,847
Deferred income tax (benefit) expense						
Federal		(16,197)		(26,382)		5,726
Non-U.S.		16,747		(27,340)		6,319
Total Deferred		550		(53,722)		12,045

Total income tax expense	$ 68,899	$ 30,528	$ 26,892

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, 2007, 2006 and 2005, we recognized $22.0 million, $11.1 million, and $2.3 million, respectively, of interest and penalties related to our unrecognized tax benefits. During the years ended December 31, 2007, 2006 and 2005, cash paid for income taxes was $35.9 million, $74.1 million and $17.5 million, 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 for contributions to certain property funds.

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For federal income tax purposes, certain acquisitions have been treated as tax-free transactions resulting in a carry-over basis for tax purposes. For financial reporting purposes and in accordance with purchase accounting, we record all of the acquired assets and liabilities at the estimated fair values at the date of acquisition. For our TRSs, we recognize the deferred income tax liabilities that represent the tax effect of the difference between the tax basis carried over and the fair value of the tangible 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 to the deferred income tax liability recorded in connection with these acquisitions, related to tax uncertainties acquired, will be reflected as an adjustment to goodwill. During 2007, we reduced deferred tax liabilities and goodwill by $16.3 million.

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

	2007	2006
Deferred income tax assets:		
Net operating loss carryforwards(1)	$ 22,139	$ 13,759
Basis difference real estate properties	8,060	8,132
AMT credit carryforward	786	796
Other temporary differences	15,007	16,371
Total deferred income tax assets	45,992	39,058
Valuation allowance	(675)	(1,711)
Net deferred income tax assets	45,317	37,347
Deferred income tax liabilities:		
Basis difference real estate properties	(50,698)	(7,944)
Built-in gains real estate properties	(29,802)	(47,621)
Basis difference equity investees	(11,554)	(9,246)
Built-in gains equity investees	(26,597)	(22,781)
Indemnification liabilities	(15,451)	(5,916)
Other temporary differences	(18,835)	(25,527)
Total deferred income tax liabilities	(152,937)	(119,035)
Net deferred income tax liabilities	$ (107,620)	$ (81,688)

(1)

At December 31, 2007, we had net operating loss (NOL) carryforwards for U.S. federal income tax purposes of $53.4 million and various international jurisdictions of $0.7 million. If not utilized, the U.S. NOLs expire between 2022 and 2027 and the international NOLs expire in 2012.

Indemnification Agreements

We have indemnification agreements related to most property funds operating outside of the United States for the contribution of certain properties. We enter into agreements whereby we indemnify the funds, or our fund partners, for taxes that may be assessed with respect to certain properties we contribute to these funds. Our contributions to these funds are generally structured as contributions of shares of companies that own the real estate assets. Accordingly, the capital gains associated with the step up in the value of the underlying real estate assets, for tax purposes, are deferred and transferred to the funds at contribution. We have generally indemnified these funds to the extent that the funds: (i) incur capital gains or withholding tax as a result of a

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 generally limit the amount that is subject to our indemnification with respect to each property to 100% of the actual tax liabilities related to the capital gains that are deferred and transferred by us to the funds at the time of the initial contribution less any deferred tax assets transferred with the property.

In connection with our acquisition of MPR in 2007, we are no longer obligated under an indemnification we previously provided to ProLogis North American Properties Fund V and, accordingly, we recognized a deferred tax benefit of $6.3 million in 2007 for the reversal of the obligation. In 2006, 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. As we were no longer obligated for indemnification with respect to those properties, we recognized a deferred income tax benefit of $36.8 million related to the reversal of this obligation in 2006.

The ultimate outcome under these agreements is uncertain as it is dependent on the method and timing of dissolution of the related property fund or disposition of any properties by the property fund. As discussed above, two of our previous agreements were terminated without any amounts being due or payable by us. We consider the probability, timing and amounts in estimating our potential liability under the agreements, which we have estimated as $15.5 million and $5.9 million at December 31, 2007 and 2006, respectively. We continue to monitor these agreements and the likelihood of the sale of assets that would result in recognition and will adjust the potential liability in the future as facts and circumstances dictate.

8. Discontinued Operations:

At December 31, 2007 and 2006, we had two and eight properties, respectively, that were classified as held for sale and, accordingly, the respective assets and liabilities are presented separately in our Consolidated Balance Sheets. The operations of the properties held for sale or disposed of to third parties, including land subject to ground leases, and the aggregate net gains recognized upon their disposition are presented as discontinued operations in our Consolidated Statements of Earnings for all periods presented. Interest expense is included in discontinued operations if it is directly attributable to these properties.

Income attributable to discontinued operations is summarized as follows for the years ended December 31 (in thousands):

	2007	2006	2005
Rental income	$ 12,095	$ 62,860	$ 65,178
Rental expenses	(3,495)	(26,140)	(23,171)
Depreciation and amortization	(2,896)	(11,535)	(16,739)
Interest expense		(874)	(1,077)

Income attributable to disposed properties and assets held for sale	$ 5,704	$ 24,311	$ 24,191

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following properties were disposed of and included in discontinued operations during each of the years ended December 31 (dollars in thousands):

	2007	2006	2005
Non-CDFS business assets:			
Number of properties	75	74	64
Net proceeds from dispositions	$ 221,063	$ 531,969	$ 335,610
Net gains from dispositions	$ 52,776	103,729	$ 86,444
CDFS business assets:			
Number of properties	5	15	8
Net proceeds from dispositions	$ 205,775	$ 245,500	$ 100,494
Net gains from dispositions	$ 28,721	$ 33,514	$ 10,616

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 in 2005 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.

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Distributions and Dividends:

The following summarizes the taxability of our common share distributions and preferred share dividends (taxability for 2007 is estimated):

	Years Ended December 31,		
	2007	**2006**	**2005**
Per common share:			
Ordinary income	$ 0.89	$ 0.95	$ 0.99
Qualified dividend		0.04	0.07
Capital gains	0.64		0.15
Return of capital	0.31	0.61	0.27
Total distribution	$ 1.84	$ 1.60	$ 1.48
Per preferred share Series C:			
Ordinary income	$ 2.47	$ 4.10	$ 3.49
Qualified dividend		0.17	0.24
Capital gains	1.80		0.54
Total dividend	$ 4.27	$ 4.27	$ 4.27
Per preferred share Series F:			
Ordinary income	$ 0.98	$ 1.62	$ 1.38
Qualified dividend		0.07	0.09
Capital gains	0.71		0.22
Total dividend	$ 1.69	$ 1.69	$ 1.69
Per preferred share Series G:			
Ordinary income	$ 0.98	$ 1.62	$ 1.38
Qualified dividend		0.07	0.09
Capital gains	0.71		0.22
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 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 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 2007, the Board approved an increase in the annual distribution for 2008 from $1.84 to $2.07 per common share. The payment of common share distributions is dependent upon our financial

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

condition and operating results and may be adjusted at the discretion of the Board during the year. A distribution of $0.5175 per common share for the first quarter of 2008 was declared on February 1, 2008. This distribution will be paid on February 29, 2008 to holders of common shares on February 15, 2008.

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, 2007 has not been filed. The taxability information presented for our distributions and dividends paid in 2007 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 effect from all outstanding potentially dilutive instruments.

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,		
	2007	**2006**	**2005**
Net earnings attributable to common shares	$ 1,048,917	$ 848,951	$ 370,747
Minority interest(1)	4,813	3,457	5,243
Adjusted net earnings attributable to common shares	$ 1,053,730	$ 852,408	$ 375,990
Weighted average common shares outstanding Basic	256,873	245,952	203,337
Incremental weighted average effect of conversion of limited partnership units	5,078	5,198	5,540
Incremental weighted average effect of share options and awards(2)	5,275	5,702	4,836
Weighted average common shares outstanding Diluted	267,226	256,852	213,713
Net earnings per share attributable to common shares Basic	$ 4.08	$ 3.45	$ 1.82

Net earnings per share attributable to common shares	Diluted	$	3.94	$	3.32	$	1.76

(1) Includes only the minority interest related to the convertible limited partnership units, which are included in incremental shares.

(2) Total weighted average potentially dilutive instruments outstanding (in thousands) were 10,098, 10,909 and 10,783 for 2007, 2006 and 2005, respectively. The majority of these were dilutive in all periods.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Real Estate:

Real Estate Assets

Real estate assets, including those properties pending contribution or sale, are presented at cost, and consist of the following (in thousands):

	December 31, 2007	December 31, 2006
Industrial distribution operating properties (1):		
Improved land	$ 2,200,761	$ 2,207,318
Buildings and improvements	8,799,318	8,138,387
Retail operating properties (2):		
Improved land	77,536	77,808
Buildings and improvements	250,884	227,380
Land subject to ground leases and other (3)	458,782	472,412
Properties under development, including cost of land (4)	1,986,285	964,842
Land held for development (5)	2,152,960	1,397,081
Other investments (6)	652,319	411,863
Total real estate assets	16,578,845	13,897,091
Less accumulated depreciation	1,368,458	1,264,227
Net real estate assets	$ 15,210,387	$ 12,632,864

(1) At December 31, 2007 and 2006, we had 1,378 and 1,446 distribution operating properties consisting of 207.3 million square feet and 203.6 million square feet, respectively.

(2) At December 31, 2007 and 2006, we had 31 and 27 retail operating properties consisting of 1.2 million square feet and 1.1 million square feet, respectively.

(3) At December 31, 2007 and 2006, amount represents investments of $414.7 million and $422.7 million in land we own and lease to our customers under long-term ground leases, $7.9 million and $20.0 million in office properties and an investment of $36.2 million and $29.7 million in railway depots, respectively.

(4) Properties under development consisted of 180 properties aggregating 48.8 million square feet at December 31, 2007 and 114 properties aggregating 30.0 million square feet at December 31, 2006. At December 31, 2007, our

total expected investment upon completion of the properties under development is approximately $3.9 billion, of which $2.0 billion was incurred.

(5) Land held for future development consisted of 9,351 and 6,204 acres of land or land use rights at December 31, 2007 and 2006, 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 ($94.5 million and $91.9 million at December 31, 2007 and 2006, respectively.); (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; (v) cost of land use rights on operating properties in China; and (vi) costs related to our corporate office buildings.

At December 31, 2007, we directly owned 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, Slovakia, Spain, Sweden, and the United Kingdom) and Asia (China, Japan and South Korea).

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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 and Note 4, as follows (aggregated, dollars and square feet in thousands):

	Number of Properties	Aggregate Square Feet	Aggregate Purchase Price	Debt Assumed
2007	41	7,347	$ 351,639	$ 30,141
2006	74	13,529	$ 735,427	$ 87,919
2005	13	3,783	$ 170,744	$ 19,919

During the years ended December 31, 2007 and 2006, we recognized gains of $146.7 million and $81.5 million, respectively, in Gains Recognized on Dispositions of Certain Non-CDFS Business Assets in our Consolidated Statements of Earnings for properties contributed to the property funds (77 in 2007 and 39 in 2006), from our property operations segment. In addition, we recognized previously deferred proceeds related to non-CDFS properties sold to a third party by a property fund. Due to our continuing involvement through our ownership in the property funds, these dispositions are not included in discontinued operations and the gains recognized include only the portion attributable to the third party ownership in the property funds that acquired the properties. No gains were recognized in 2005.

Included in other expenses for the year ended December 31, 2007, are impairment charges of $13.3 million related primarily to certain properties held and used in our property operations segment.

Operating Lease Agreements

We lease our operating properties and certain land parcels to customers under agreements that are generally classified as operating leases. Our largest customer and 25 largest customers accounted for 2.6% and 19.7%, respectively, of our annualized collected base rents at December 31, 2007. At December 31, 2007, minimum lease payments on leases with lease periods greater than one year for space in our operating properties, excluding properties held for sale, and including leases of land under ground leases, during each of the years in the five-year period ending December 31, 2012 and thereafter are as follows (in thousands):

2008	$ 733,723
2009	626,373
2010	520,116
2011	405,315
2012	291,631
Thereafter	1,390,902
	$ 3,968,060

These amounts do 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 $217.8 million, $180.0 million and $113.6 million for the years ended December 31, 2007, 2006 and 2005, respectively. These amounts are included as rental income and operating expenses in the accompanying Consolidated Statements of Earnings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Other Assets and Other Liabilities:

Our other assets consisted of the following, net of amortization and depreciation, if applicable, as of December 31 (in thousands):

	2007	2006
Goodwill	$ 530,760	$ 254,192
Value added taxes receivable	287,659	215,712
Leasing commissions	135,662	139,225
Rent leveling assets and above market leases	100,263	105,478
Fixed assets	72,509	28,623
Non-qualified savings plan assets	53,113	48,579
Loan fees	40,954	35,715
Other	168,813	170,700
Totals	$ 1,389,733	$ 998,224

Our other liabilities consisted of the following, net of amortization and depreciation, if applicable, as of December 31 (in thousands):

	2007	2006
Income tax liabilities	$ 192,403	$ 160,929
Deferred income taxes	107,620	81,688
Tenant security deposits	94,483	79,378
Accrued disposition costs	90,998	33,009
Value added taxes payable	73,896	34,896
Unearned rents	55,073	40,788
Non-qualified savings plan liabilities	41,558	37,180
Below market leases	12,015	18,155
Other	101,362	60,106
Totals	$ 769,408	$ 546,129

The leasing commissions, rent leveling asset and above market leases, net of below market leases, total $223.9 million at December 31, 2007, and are expected to be amortized as follows (in thousands):

	Amortization Expense	Net Charge to Rental Income
2008	$ 48,477	$ 12,339
2009	26,798	9,287
2010	21,614	13,470
2011	17,422	12,390
2012	11,616	9,945
Thereafter	9,735	30,817
Total	$ 135,662	$ 88,248

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Debt:

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

	2007	2006
Unsecured lines of credit	$ 1,955,138	$ 2,462,796
Senior and other unsecured debt	4,891,106	4,445,092
Convertible notes	2,332,905	
Secured debt	1,294,809	1,445,021
Assessment bonds	32,110	33,977
Totals	$ 10,506,068	$ 8,386,886

Unsecured Lines of Credit

We have a Global Line, which was amended and increased in June 2006. Our Global Line commitment fluctuates in U.S. dollars based on the underlying currencies and was $3.7 billion at December 31, 2007. The funds may be drawn in U.S. dollar, euro, Japanese yen, British pound sterling, Chinese renminbi, South Korean won and Canadian dollar. Based on our public debt ratings, interest on the borrowings under the Global Line primarily accrues at a variable rate based upon the interbank offered rate in each respective jurisdiction in which the borrowings are outstanding (3.2% per annum at December 31, 2007 based on a weighted average using local currency rates). The majority of the Global Line matures in October 2009, however it contains provisions for an extension, at our option subject to certain conditions, to October 2010. The renminbi tranche accrues interest based upon the People s Bank of China rate and matures in May 2009. In addition, we also have other credit facilities with total commitments of $70.6 million at December 31, 2007.

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

	Years Ended December 31,		
	2007	2006	2005
Weighted average daily interest rate	3.43%	3.03%	2.77%
Borrowings outstanding at December 31	$ 1,955.1	$ 2,462.8	$ 1,850.1
Weighted average daily borrowings	$ 2,519.9	$ 2,294.7	$ 1,278.2
Maximum borrowings outstanding at any month end	$ 2,994.2	$ 2,760.8	$ 1,850.1
Aggregate borrowing capacity of all lines of credit at December 31	$ 3,745.7	$ 3,529.3	$ 2,589.9
Outstanding letters of credit under the lines of credit	$ 148.2	$ 129.1	$ 98.0
	$ 1,642.4	$ 937.4	$ 641.8

Aggregate remaining capacity available to us on all lines of credit at
December 31

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Senior and Other Unsecured Debt

The senior and other unsecured debt outstanding at December 31, 2007 are summarized as follows (dollars in thousands):

Maturity Date	Principal Balance	Coupon Rate
Senior unsecured debt:		
April 15, 2008 (1)	$ 250,000	7.10%
May 15, 2008 (1)	25,000	7.95%
March 1, 2009 (2)	37,500	8.72%
May 15, 2009 (2)	18,750	7.88%
August 24, 2009 (1)(3)	250,000	floating
November 15, 2010 (1)	500,000	5.25%
April 1, 2012 (1)(4)	450,000	5.50%
March 1, 2013 (1)	300,000	5.50%
February 1, 2015 (5)	100,000	7.81%
March 1, 2015 (6)	50,000	9.34%
November 15, 2015 (1)	400,000	5.63%
April 1, 2016 (1)(4)	400,000	5.75%
May 15, 2016 (7)	50,000	8.65%
November 15, 2016 (1)(8)	550,000	5.63%
July 1, 2017 (1)	100,000	7.63%
Total senior unsecured debt	3,481,250	
Other unsecured debt:		
July 31, 2008 (1)(9)	17,387	floating
December 19, 2008 (1)(10)	264,191	floating
October 6, 2009 (1)(11)	609,223	floating
November 20, 2009 (1)	25,000	7.30%
April 13, 2011 (1)(12)	504,560	4.38%
Total other unsecured debt	1,420,361	
Total par value	$ 4,901,611	
Less: discount, net	10,505	
Total principal balance, net	$ 4,891,106	

(1) Principal due at maturity.

(2) Annual principal payments ranging from $9.4 million to $18.8 million are due through 2009.

(3) On August 24, 2006, we issued $250.0 million of senior notes that bear interest at a variable rate based on LIBOR plus a margin (5.28% at December 31, 2007).

(4) On March 27, 2006, we issued $450.0 million of 5.5% senior notes and $400.0 million of 5.75% senior notes.

(5) Beginning on February 1, 2010, and through February 1, 2015, requires annual principal payments ranging from $10.0 million to $20.0 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Beginning on March 1, 2010, and through March 1, 2015, requires annual principal payments ranging from $5.0 million to $12.5 million.

(7) Beginning on May 15, 2010, and through May 15, 2016, requires annual principal payments ranging from $5.0 million to $12.5 million.

(8) On November 14, 2006, we issued $550.0 million of 5.625% senior notes.

(9) In July 2007, we entered into a new senior credit facility based in renminbi. Borrowings under this facility bear interest at the rate established by the Chinese government. As of December 31, 2007, we had available capacity to borrow 87.0 million renminbi ($11.9 million) under this facility.

(10) In December 2007, we issued ¥29.6 billion in TMK bonds that bear interest at a variable rate based upon the Tokyo interbank offered rate plus a margin (1.205% at December 31, 2007). 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 negative pledge security 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 assumed by ProLogis Japan Properties Fund II when we contribute the related properties to the property fund.

(11) In February 2007 in connection with the Parkridge acquisition, as discussed in Note 3, we entered into a new multi-currency senior credit facility. This facility fluctuates in U.S. dollars based on the underlying currencies and the funds may be drawn in U.S. dollar, euro, Japanese yen and British pound sterling. Borrowings under this facility bear interest at a variable rate based upon the interbank offered rate in each respective jurisdiction issued in Europe plus a margin (5.22% at December 31, 2007). The facility provides us the ability to re-borrow, within a specified period of time, any amounts repaid on the facility. As of December 31, 2007, we had no available capacity to borrow under this facility.

(12) Represents 350.0 million senior notes.

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, the Global Line and certain other unsecured debt 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, have the benefit of certain pledged intercompany receivables and 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 and other unsecured debt, except for the $250.0 million floating rate notes due August 24, 2009, 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.

Convertible Notes

On March 26, 2007, in a private placement, we issued $1.25 billion aggregate principal amount of 2.25% convertible senior notes due 2037, including the exercise of an over-allotment option. On November 1, 2007, we issued $1.12 billion aggregate principal amount of 1.875% convertible senior notes due 2037, including the exercise of an over-allotment option. We refer to both of these issuances as Convertible Notes . We used the net proceeds of approximately $2.33 billion, after underwriter s discounts, to repay a portion of the outstanding

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

balance under our Global Line to repay our 7.25% senior notes that matured in November 2007 and for general corporate purposes.

The Convertible Notes are senior unsecured obligations of ProLogis and are convertible, under certain circumstances, for cash, our common shares or a combination of cash and our common shares, at our option, at a conversion rate per $1,000 of principal amount of the notes of 13.0576 shares for the March 2007 issuance and 12.1957 shares for the November 2007 issuance. The initial conversion price represents a 20% premium over the closing price of our common shares at the date of first sale ($76.58 for the March 2007 issuance and $82.00 for the November 2007 issuance). The notes are redeemable at our option beginning in 2012 for the principal amount plus accrued and unpaid interest and at any time prior to maturity to the extent necessary to preserve our status as a REIT. Holders of the notes have the right to require us to repurchase their notes every five years beginning in 2012 and at any time prior to their maturity upon certain limited circumstances. Therefore, we have reflected these amounts in 2012 in the schedule of debt maturities below.

While we have the legal right to settle the conversion in either cash or shares, we intend to settle the principal balance of the Convertible Notes in cash and, therefore, we have not included the effect of the conversion of these notes in our computation of diluted earnings per share. Based on the conversion rates, 30.0 million shares would be required to settle the principal amount in shares. Such potentially dilutive shares, and the corresponding adjustment to interest expense, are not included in our computation of diluted earnings per share. The amount in excess of the principal balance of the notes (the Conversion Spread) will be settled in cash or, at our option, ProLogis common shares. When the Conversion Spread becomes dilutive to our earnings per share, (i.e., when our share price exceeds $76.58 for the March issuance and $82.00 for the November issuance) we will include the shares in our computation of diluted earnings per share. The conversion option associated with the notes, when analyzed as a free standing instrument, meets the criteria under the Emerging Issues Task Force Issue No. 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s own Common Stock* , and therefore, we have accounted for the debt as a single instrument and not bifurcated the derivative instrument. See Note 1 for information on a proposed accounting pronouncement that, if issued in its current form, would impact our accounting for the Convertible Notes.

Secured Debt

Our secured debt outstanding at December 31, 2007 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)	$ 63,090	$ 60,646
November 11, 2008	6.01%	(2)	287,694	$ 276,065

April 1, 2012	7.05%	(2)	244,460	$ 196,462
August 1, 2015	5.47%	(2)	133,484	$ 111,690
April 12, 2016	7.25%	(2)	208,083	$ 149,917
April 1, 2024	7.58%	(2)	195,019	$ 127,187
Various	(3)	(3)	162,979	(3)
Total secured debt (4)			$ 1,294,809	

(1) The weighted average annual interest rate for total secured debt was 6.59% for the year ended December 31, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(3) Includes 16 mortgage notes with interest rates ranging from 4.12% to 7.23%, maturing from 2008 to 2025, primarily requiring monthly amortization with a balloon payment at maturity. The combined balloon payment for all of the notes is $144,418,000.

(4) Debt is secured by 254 real estate properties with an aggregate undepreciated cost of $2.9 billion at December 31, 2007.

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 properties with an aggregate undepreciated cost of $1.0 billion at December 31, 2007. Interest rates range from 4.75% per annum to 8.75% per annum. Maturity dates range from 2009 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 2005, in connection with the issuance of senior notes, we modified certain financial and operating covenants under the indenture governing the notes. These notes, and all senior notes issued subsequently, are subject to the existing covenants until all senior notes 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, 2007, we were in compliance with all of our debt covenants.

Long-Term Debt Maturities

Principal payments due on our debt, excluding unsecured lines of credit, during each of the years in the five-year period ending December 31, 2012 and thereafter are as follows (in thousands):

2008	$ 963,535
2009	962,400
2010	559,364
2011	554,204
2012	3,081,266
Thereafter	2,428,762
Total principal due	8,549,531
Add: premium, net	1,399

Total carrying value	$ 8,550,930

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest Expense

Interest expense includes the following components (in thousands):

	Years Ended December 31, 2007	2006	2005
Gross interest expense	$ 490,689	$ 397,888	$ 239,832
Amortization of (premium) discount, net	(7,797)	(13,861)	(3,980)
Amortization of deferred loan costs	10,555	7,673	5,595
	493,447	391,700	241,447
Less: capitalized amounts	125,382	97,297	63,885
Net interest expense	$ 368,065	$ 294,403	$ 177,562

The amount of interest paid in cash, net of amounts capitalized, for the years ended December 31, 2007, 2006 and 2005 was $356.8 million, $288.2 million, and $168.0 million, respectively.

14. Shareholders Equity:

Shares Authorized

At December 31, 2007, 375.0 million shares were authorized to be issued. The Board may, without shareholder approval, 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.

Common Shares

In February 2007 and September 2005, we issued 4.8 million and 55.9 million common shares in connection with the Parkridge acquisition and Catellus Merger, respectively (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 15 million common shares through one designated agent who earns a fee up to 2.25% of the gross proceeds, as agreed on a transaction-by-transaction basis. No shares were issued under this plan in 2007.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2007, 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):

	2007		2006		2005	
	Shares	**Proceeds**	**Shares**	**Proceeds**	**Shares**	**Proceeds**
1999 Dividend Reinvestment Plan	66	$ 4,145	69	$ 3,738	412	$ 16,197
Controlled Equity Offering Program			5,383	320,786	225	8,267
Incentive Plan and Outside Trustees Plan	1,781	31,151	1,460	31,350	1,425	17,664
Employee Share Plan	44	2,140	39	1,643	30	1,019
Total	1,891	$ 37,436	6,951	$ 357,517	2,092	$ 43,147

Limited partnership units were redeemed into 128,000 common shares in 2007, 180,000 common shares in 2006, and 11,000 common shares in 2005 (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.

Preferred Shares

At December 31, 2007, 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, 2007 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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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:

On June 8, 2007, Jeffrey H. Schwartz, our Chief Executive Officer, converted limited partnership units, in the limited partnerships in which we own a majority interest and consolidate, into 128,000 of our common shares. See Note 6 for more information regarding these partnerships in North America. Please also see Note 4 for a discussion of transactions between us and the property funds.

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 could incur a financial loss to the extent of the positive fair market value of the derivative contracts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the activity in our derivative contracts for the years ended December 31, 2007, 2006 and 2005 (in millions):

	Foreign Currency Put Options (1)	Foreign Currency Forwards (2)	Interest Rate Swaps (3)
Notional amounts at January 1, 2005	$	$	$ 50.0
New contracts	98.0	669.5	650.0
Matured or expired contracts	(98.0)	(669.5)	(700.0)
Notional amounts at December 31, 2005			
New contracts	169.3	900.3	350.0
Matured or expired contracts	(114.6)	(239.3)	(350.0)
Notional amounts at December 31, 2006	54.7	661.0	
New contracts		2,637.2	959.2
Matured or expired contracts	(54.7)	(2,937.5)	(959.2)
Notional amounts at December 31, 2007	$	$ 360.7	$

(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.

These contracts generally do not qualify for hedge accounting treatment and are marked-to-market through earnings at the end of each period. On various put option contracts, we recognized no expense in 2007, net expense of $1.5 million in 2006 and net gains of $3.6 million in 2005, which includes mark-to-market gains or losses.

(2) The forward currency forward contracts were designed to manage the foreign currency fluctuations of intercompany loans denominated in a currency other than the entity s functional currency and not deemed to be a long-term investment. The foreign currency forward contracts allowed us to sell pounds sterling and euros 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 net losses of $95.9 million and $13.3 million in 2007 and 2006, respectively

and a net gain of $6.1 million in 2005, including mark-to-market gains or losses. These losses/gains were substantially offset by the net gains recognized on the remeasurement and settlement of the related intercompany loans of $73.8 million, $34.9 million and $10.0 million for the years ended December 31, 2007, 2006 and 2005, respectively.

During the second quarter of 2007, we purchased several foreign currency forward contracts to manage the foreign currency fluctuations of the purchase price of MPR (see Note 4). These contracts allowed us to buy Australian dollars at a fixed exchange rate to the U.S. dollar. Derivative instruments used to manage the foreign currency fluctuations of an anticipated business combination do not qualify for hedge accounting treatment and are marked-to-market through earnings in Foreign Currency Exchange Gains, Net. The contracts settled in July 2007 in connection with the completed acquisition and resulted in the recognition of a net gain of $26.6 million in earnings for the year ended December 31, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) During 2007, 2006 and 2005, we entered into several contracts with total notional amounts of $959.2 million, $350.0 million, and $650.0 million, respectively, associated with an anticipated debt issuance.

In 2006 and 2005, 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 February 2007, we entered into contracts with an aggregate notional amount of $500.0 million associated with a future debt issuance. All of these contracts were designated as cash flow hedges, qualified for hedge accounting treatment and allowed us to fix a portion of the interest rate associated with the anticipated issuance of senior notes. In March 2007, in connection with the issuance of the convertible notes (see Note 13), we unwound the contracts, recognized a decrease in value of $1.4 million associated with these contracts in other comprehensive income in shareholders equity and began amortizing as an increase to interest expense as interest payments are made on the senior notes.

In June 2007, we entered into a contract with a notional amount of $188.0 million, which represented our share of future debt issuances of a new property fund we formed in July 2007, the ProLogis North American Industrial Fund III. This contract was transferred into the fund at formation, qualifies for hedge accounting treatment by the fund and any future changes in value will be recognized in other comprehensive income within equity of the fund. We guarantee the property fund s performance on this contract. See Note 4 for additional information on these contracts.

In June 2007, we entered into contracts with an aggregate notional amount of $271.2 million associated with future debt issuances of a new property fund we formed in July 2007, the ProLogis North American Industrial Fund II. These contracts did not qualify for hedge accounting treatment by us and were marked-to-market resulting in additional interest expense of $0.8 million for the year ended December 31, 2007. These contracts were transferred to ProLogis North American Industrial Fund II following the establishment of the fund, at which time the contracts qualified for hedge accounting treatment by the fund and any future changes in value will be recognized in other comprehensive income within equity of the fund. See Note 4 for additional information on these contracts.

We amortized a net amount of $0.1 million, related to the above forward-starting interest rate swap contracts, from other comprehensive income as a reduction to interest expense during 2007 and we will amortize a total of $0.1 million as a reduction to interest expense during 2008.

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, 2007 and 2006, 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 balances outstanding

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approximate their fair values as of those dates since the interest rates on the lines of credit are based on current market rates. At December 31, 2007 and 2006, the fair value of our senior and other unsecured debt, convertible 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 debt 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, 2007 and 2006 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. After January 1, 2008, SFAS 157 changes the definition of fair value and fair value will no longer equal where the hedges could be settled. 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, 2007 and 2006, the carrying value of the foreign currency put options and forward contracts are reflected as components of other assets and other liabilities, respectively.

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

	December 31,			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior and other unsecured debt	$ 4,891,106	$ 4,834,053	$ 4,445,092	$ 4,507,182
Convertible notes	2,332,905	2,249,341		
Secured debt	1,294,809	1,283,779	1,445,021	1,497,790
Assessment bonds	32,110	31,473	33,977	34,495
Total debt	$ 8,550,930	$ 8,398,646	$ 5,924,090	$ 6,039,467
Derivative financial instruments:				
Foreign currency forwards	$ 773	$ 773	$ (15,664)	$ (15,664)
Foreign currency put options			249	249
Total derivative financial instruments	$ 773	$ 773	$ (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 we acquire are subjected to environmental reviews either by us or by the predecessor owners. In addition, we may incur environmental remediation costs associated with certain land parcels we acquire in connection with the development of the land. 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. 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, 2007, we had approximately $165.6 million outstanding under such arrangements.

At December 31, 2007, we had made debt guarantees to certain of our unconsolidated investees that, based on the investee s outstanding balance, totaled $28.3 million.

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. In addition, to the extent a property fund acquires properties from a third party, we may be required to contribute our proportionate share of the equity component in cash to the property fund. 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 is in default on third-party debt, the default remains uncured, and the third-party lender does not receive a specified minimum level of repayment after pursuing all contractual and legal remedies against the property fund. To the extent that a third-party lender receives repayment of principal and to the extent that the property fund liquidates its assets to satisfy any remaining repayment deficit, our obligations under the SLCA are reduced 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 5% to 48%. Given the respective year-end capital structures of the various funds impacted by SLCAs and structural provisions within the SLCAs, we estimate that the minimum level of fund devaluation required to trigger an SLCA liability ranges between 95% and 35% 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 generally remote, especially in light of the geographically diversified portfolios of properties owned by the property funds. The potential obligations under the SLCAs aggregate $1.2 billion at December 31, 2007 and the combined value of the assets in the property fund that are subject to the provisions of the SLCAs was approximately $6.3 billion at December 31, 2007. Based on our assessment of the probability and range of loss, we have estimated the fair value and recognized a liability of $1.3 million related to our potential obligations at December 31, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2007, $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, 2007, 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 (the Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Romania, Slovakia, Sweden and the United Kingdom) and Asia (China, Japan, and South Korea).

Investment 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 investment management segment are in North America (Mexico and the United States), Europe (Belgium, the Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Slovakia, Spain, Sweden, and the United Kingdom), and Asia (Japan and South Korea).

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 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 contributing to a property fund. The proceeds and related costs of these dispositions are presented as Developed and Repositioned Properties in the Consolidated Statements of Earnings and Comprehensive Income. In addition, we occasionally acquire a portfolio of properties with the intent of contributing the portfolio to an existing or future property fund. The proceeds and related costs of these dispositions are presented as Acquired Property Portfolios in the Consolidated Statements of Earnings. 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, including land subject to ground leases. The separate activities in this segment are considered to be individual operating segments having similar economic characteristics that are combined within the reportable

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, Slovakia, Spain, Sweden and the United Kingdom) and in Asia (China, Japan and South 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 investment 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, 2007, we had two 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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,		
	2007	**2006**	**2005**
Revenues (1):			
Property operations (2):			
North America	$ 860,795	$ 805,871	$ 551,350
Europe	114,218	35,619	10,334
Asia	48,627	31,903	12,904
Total property operations segment	1,023,640	873,393	574,588
Investment management (3):			
North America	64,325	117,532	56,348
Europe	104,665	167,227	44,002
Asia	30,182	20,225	12,662
Total investment management segment	199,172	304,984	113,012
CDFS business (4):			
North America	2,887,183	549,181	291,750
Europe	1,494,320	451,154	383,179
Asia	662,016	385,630	503,444
Total CDFS business segment	5,043,519	1,385,965	1,178,373
Total segment revenue	6,266,331	2,564,342	1,865,973
Other North America	44,225	36,809	9,764
Reconciling item (5)	(105,890)	(154,759)	(58,530)
Total revenues	$ 6,204,666	$ 2,446,392	$ 1,817,207
Net operating income:			

Property operations (6):			
North America	$ 623,675	$ 601,266	$ 403,290
Europe	74,950	18,865	561
Asia	38,663	28,315	10,696
Total property operations segment	737,288	648,446	414,547
Investment management (3):			
North America	64,325	117,532	56,348
Europe	104,665	167,227	44,002
Asia	30,182	20,225	12,662
Total investment management segment	199,172	304,984	113,012
CDFS business (7)(8):			
North America	257,162	176,699	70,250
Europe	284,423	108,079	71,329
Asia	248,329	94,707	111,029
Total CDFS business segment	789,914	379,485	252,608
Total segment net operating income	1,726,374	1,332,915	780,167
Other North America	29,393	22,535	7,560
Reconciling items:			
Earnings from other unconsolidated investees	7,794	5,729	750
General and administrative expenses	(204,558)	(153,516)	(118,166)
Depreciation and amortization expense	(308,971)	(286,807)	(186,605)
Other expenses	(443)	(459)	(650)
Interest expense	(368,065)	(294,403)	(177,562)
Interest and other income, net	25,935	18,248	10,724
Total reconciling items	(848,308)	(711,208)	(471,509)
Total earnings before minority interest	$ 907,459	$ 644,242	$ 316,218

PROLOGIS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2007	December 31, 2006
Assets (9):		
Property operations (10):		
North America (11)	$ 7,971,582	$ 7,953,685
Europe	1,900,327	1,295,207
Asia	898,375	633,623
Total property operations segment	10,770,284	9,882,515
Investment management (12):		
North America	818,025	416,909
Europe	653,076	430,761