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PROLOGIS TRUST  
Form 10-K/A  
April 05, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K/A#1

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER 1-12846

PROLOGIS TRUST

(Exact name of registrant as specified in its charter)

MARYLAND  
(State or other jurisdiction of  
of incorporation or organization)

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

14100 EAST 35TH PLACE  
AURORA, COLORADO 80011  
(Address of principal executive offices and zip code)

(303) 375-9292  
(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 A Cumulative Redeemable Preferred Shares of Beneficial Interest, par value \$0.01 per share	New York Stock Exchange
Series B Cumulative Convertible Redeemable Preferred Shares of Beneficial Interest, par value \$0.01 per share	New York Stock Exchange
Series D Cumulative Redeemable Preferred Shares of Beneficial Interest, par value \$0.01 per share	New York Stock Exchange
Series E Cumulative Redeemable Preferred Shares of	New York Stock Exchange

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Beneficial Interest, par value \$0.01 per share  
Preferred Share Purchase Rights

New York Stock Exchange  
New York Stock Exchange

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

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Based on the closing price of the registrant's shares on March 16, 2001, the aggregate market value of the voting shares held by non-affiliates of the registrant was \$2,455,192,440.

At March 16, 2001, there were outstanding approximately 173,560,729 common shares of beneficial interest of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2001 annual meeting of its shareholders are incorporated by reference in Part III of this report.

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The purpose of this Form 10-K/A is to amend the disclosures set forth in Items 2, 13 and 14 to the Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

PROLOGIS TRUST

ProLogis Trust ("ProLogis") is a real estate investment trust ("REIT") that operates a global network of industrial distribution facilities. ProLogis owns (directly, through consolidated entities or through investments in other real estate entities accounted for under the equity method) 171.7 million square feet of industrial distribution facilities operating or under development in North America and Europe. Additionally, ProLogis owns, operates under lease agreements or has under development 369.9 million cubic feet of temperature-controlled distribution facilities (including 35.5 million cubic feet of dry distribution space located in temperature-controlled distribution facilities) located in the United States and Europe. This network of distribution facilities makes ProLogis the largest publicly held U.S.-based global owner and lessor of industrial distribution and temperature-controlled distribution facilities. The ProLogis Operating System(TM), comprised of the Market Services Group, the Global Services Group, the Global Development Group and the Integrated Solutions Group, combined with ProLogis' international network of distribution facilities, enables ProLogis to meet its customers' distribution space needs globally. ProLogis believes it has distinguished itself from its competition by developing an organizational structure and service delivery system built around its customers. ProLogis believes that its service approach, which combines international scope and expertise and a strong local presence in each of its target markets, makes it attractive to its targeted customer base that includes the largest global users of distribution facilities. ProLogis is organized under Maryland law and has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code").

ProLogis' business strategy is designed to: (i) achieve long-term

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sustainable growth in cash flow; (ii) minimize the need to issue direct public debt or public equity capital; and (iii) increase the overall return on equity for shareholders. ProLogis has organized its business into three operating segments in order to achieve its objectives. For a discussion of certain financial information regarding each segment see Note 10 to ProLogis' Consolidated Financial Statements in Item 8. ProLogis' three operating segments are:

- o Property Operations -- The long-term ownership, management and leasing of industrial distribution facilities in North America and Europe, primarily distribution space that is adaptable for both distribution and light manufacturing or assembly uses. This operating segment generates income from rents and reimbursement of property operating expenses from unaffiliated customers and earns management fees from entities in which ProLogis has an ownership interest. As of December 31, 2000, in this operating segment ProLogis owned and operated (directly or through its consolidated and unconsolidated entities) 161.5 million square feet of operating facilities at an investment of \$6.0 billion. Of the total, 126.3 million square feet at an investment of \$4.3 billion are owned directly by ProLogis and its consolidated entities. Facilities in this operating segment located in North America aggregate 145.4 million square feet of the total with the remaining 16.1 million square feet located in Europe.
- o Corporate Distribution Facilities Services Business ("CDFS Business")-- The development of industrial distribution facilities to be disposed of to unaffiliated customers or entities in which ProLogis has an ownership interest in North America and Europe or for a development fee for unaffiliated customers in North America and Europe. Income from this operating segment is derived from the profit resulting from the disposition of the facilities developed and from fees paid by customers for the development of facilities on their behalf. The development activities in this segment are performed directly by ProLogis, directly by a consolidated entity in which ProLogis recognizes substantially all of the economic benefits or through an unconsolidated entity, accounted for under the equity method, in which ProLogis recognizes substantially all of the economic benefits. Once an entity in which ProLogis has an ownership interest acquires the facilities from ProLogis or its consolidated and unconsolidated entities, the operations of these facilities and the management fees earned by ProLogis related to these facilities are reflected in ProLogis' property operations segment. As of December 31, 2000, ProLogis had (directly or through its consolidated and unconsolidated entities) 10.2 million square feet of distribution facilities under development with a total budgeted cost of \$491.4 million. Of the total, 8.7 million square feet at a total budgeted development cost of \$355.2 million were owned directly by ProLogis and its consolidated entity. Also, as of December 31, 2000, ProLogis owned or controlled (directly or through its consolidated and unconsolidated entities) 5,126 acres of land with the capacity for developing approximately 85.7 million square feet of distribution facilities. Of the total, 3,279 acres of land with the capacity for developing approximately 57.4 million square feet of distribution facilities were owned directly by ProLogis and its consolidated entity. Land positions in North America aggregated 2,385 acres with the remaining 2,741 acres located in Europe. Upon completion, ProLogis expects to dispose of the facilities developed to unaffiliated customers or to entities in which ProLogis has an ownership interest.

- o Temperature-Controlled Distribution Operations -- The operation of temperature-controlled distribution facilities earning revenues from unaffiliated customers for various services associated with a temperature-controlled distribution environment. Such services include: (i) total supply chain management; (ii) management of customer inventory and related services, (i.e. case picking, sorting, labeling, shrink-wrapping and blast freezing); (iii) temperature-controlled product consolidation and transportation services; and (iv) third-party logistics services and facility management for leading grocery retailers. In this operating segment, ProLogis recognizes substantially all of the economic benefits of two companies that are accounted for under the equity method. As of December 31, 2000, ProLogis' unconsolidated entities owned or operated under lease agreements 363.6 million cubic feet of temperature-controlled distribution space (including 35.5 million cubic feet of dry distribution space located in temperature-controlled distribution facilities) and had 6.3 million cubic feet of temperature-controlled distribution facilities under development. Of the total cubic feet in operation, 175.9 million cubic feet are located in the United States and 187.7 million cubic feet are located in Europe. The facilities under development are located in Anaheim (4.0 million cubic feet) and Houston (2.3 million cubic feet).

#### 2000 Operating Performance

Total funds from operations increased by \$56.5 million from \$320.2 million in 1999 to \$376.7 million in 2000. This increase was driven by ProLogis' successful operating and investment strategies. The contribution to total funds from operations by ProLogis' operating segments for 2000 and 1999 is as follows (see Note 10 to ProLogis' Consolidated Financial Statements in Item 8):

- o 69.6% and 70.6% of total funds from operations is attributable to the property operations segment in 2000 and 1999, respectively;
- o 27.5% and 20.3% of total funds from operations is attributable to the CDFS business segment in 2000 and 1999, respectively; and
- o 2.9% and 9.1% of total funds from operations is attributable to the temperature-controlled distribution operations segment in 2000 and 1999, respectively.

Funds from operations is a performance measure used by REITs and it is defined and discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity of Capital Resources -- Funds from Operations".

ProLogis' net earnings attributable to Common Shares increased to \$157.7 million in 2000 from \$124.0 million in 1999. ProLogis generated earnings from operations of \$241.8 million in 2000, an increase of \$75.3 million over 1999. ProLogis' cash flow provided by operating activities for 2000 was \$336.8 million, an increase of \$65.4 million over 1999. See ProLogis' Consolidated Financial Statements in Item 8.

#### BUSINESS STRATEGY AND OPERATING SEGMENTS

##### Business Strategy

ProLogis was originally formed in 1991 with the objective of building a distribution and light manufacturing asset base at costs significantly below

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replacement cost and a land inventory for the future development of industrial distribution facilities. Additionally, ProLogis intended to create a national operating company that would differentiate itself from its competition through its ability to meet a corporate customer's distribution facility requirements on a national, regional and local basis. In 1997, ProLogis expanded its property operations into Mexico and Europe to meet the needs of its targeted national and international customers as they expanded and reconfigured their distribution facility requirements globally. In December 1998, ProLogis added 54 operating facilities aggregating 5.2 million square feet in France to its European portfolio. To enhance its North American property operations and service platform, ProLogis completed a merger with Meridian Industrial Trust Inc. ("Meridian"), a publicly held REIT, in 1999 adding 32.2 million square feet of operating facilities and 228 acres of land for future development to ProLogis' holdings. See Note 11 to ProLogis' Consolidated Financial Statements in Item 8.

Having established its core property operations business, in 1997 and 1998 ProLogis expanded its service platform by acquiring an international temperature-controlled distribution network. Additionally, the merger with Meridian added 15.2 million cubic feet of temperature-controlled distribution facilities to ProLogis' holdings in 1999. Also, to enhance its corporate distribution facilities

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services business, ProLogis acquired an industrial distribution facility development company with extensive holdings in the United Kingdom in August 1998.

To further its objective of increasing cash flows without raising additional capital through direct public debt and public equity offerings, ProLogis formed four ventures in 1999 and 2000. Each of the ventures owns operating facilities acquired primarily from ProLogis with equity contributed by third party investors. ProLogis maintains an ownership interest (from 20.0% to 50.0% as of December 31, 2000) in each of the ventures. ProLogis utilizes the ProLogis Operating System(TM) to provide asset and property management services to the ventures for a fee. In North America, ProLogis has an ownership interest in three ventures. These ventures own, on a combined basis, 20.9 million square feet of operating facilities at a combined investment of \$927.0 million as of December 31, 2000. ProLogis European Properties Fund, formed in 1999, has enabled ProLogis to take advantage of the growth opportunities in the European industrial distribution market by allowing ProLogis to access over 1.06 billion euros (the currency equivalent of approximately \$986.3 million as of December 31, 2000 based on currency exchange rates quoted by Reuters) of third party equity capital that has been committed by a group of institutional investors to ProLogis European Properties Fund through 2002. ProLogis European Properties Fund owns 14.4 million square feet of operating facilities at an investment of \$792.3 million as of December 31, 2000. See "Item 2. Properties -- Unconsolidated Entities -- Property Operations" and Note 4 to ProLogis' Consolidated Financial Statements in Item 8.

Also in 1999, ProLogis formed the Integrated Solutions Group (see " -- ProLogis Operating System(TM) -- Integrated Solutions Group") with the objective of increasing ProLogis' service income thereby growing cash flows in a less capital intensive manner. In 2000, ProLogis made investments in two logistics technology companies and began earning license fees for the non-exclusive use of the ProLogis Operating System(TM) by these companies.

ProLogis believes that its network of distribution facilities along with the ProLogis Operating System(TM) have positioned it to become the global leader

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in the industrial distribution facility industry. ProLogis' three operating segments are discussed in further detail below.

### Property Operations Segment

#### Investments

In the property operations segment, ProLogis owned and operated (directly or through its consolidated and unconsolidated entities) 1,461 operating facilities aggregating 161.5 million square feet as of December 31, 2000. ProLogis' investment strategy with respect to the property operations segment is to focus primarily on generic distribution facilities with an average office finish level of less than 10%. ProLogis' distribution facilities are adaptable for both distribution and light manufacturing or assembly uses. ProLogis has invested in selected distribution markets in North America and Europe where it believes the distribution dynamics are strong and supply and demand factors allow for high occupancy levels and increasing rental rates. In making its investment decisions, ProLogis evaluates market conditions that would indicate favorable distribution growth prospects. Such conditions include: (i) growth in imports and exports; (ii) long-term cost and quality of labor advantages for domestic and international manufacturers (such as markets benefiting from the U.S./Mexico twin plant program); (iii) proximity to large regional and local population centers with good access to transportation networks; and (iv) a high ratio of distribution space per capita.

Property operations segment investment activities in 2000 included:

- o During 2000, ProLogis European Properties Fund acquired operating facilities aggregating 11.2 million square feet and disposed of a 161,000 square foot operating facility. Of the operating facilities acquired in 2000, 9.6 million square feet were acquired from ProLogis or its consolidated and unconsolidated entities. These acquisitions include 60 facilities aggregating 6.6 million square feet owned by ProLogis European Properties S.a.r.l., a wholly owned entity of ProLogis until January 7, 2000 when ProLogis contributed 50.1% of its common stock to ProLogis European Properties Fund for an equity interest. The remaining 49.9% of the common stock of ProLogis European Properties S.a.r.l. was contributed to ProLogis European Properties Fund by ProLogis for an additional equity interest on January 7, 2001. As of December 31, 2000, ProLogis' ownership in ProLogis European Properties Fund was 34.4% (increasing to 45.6% as of January 7, 2001). See "Item 2. Properties-- Unconsolidated Entities-- Property Operations Segment" and Note 4 to ProLogis' Consolidated Financial Statements in Item 8.
- o In North America, ProLogis North American Properties Fund I LLC and ProLogis Iowa I LLC ("ProLogis Principal") were formed in 2000. These ventures own 8.0 million and 0.4 million square feet of operating facilities, respectively, that were all

previously owned by ProLogis or its consolidated entities. ProLogis California I LLC ("ProLogis California"), which was formed in 1999, grew from 11.5 million square feet of operating facilities as of December 31, 1999 to 12.4 million square feet of operating facilities as of December 31, 2000. The increase in 2000 is the net result of the acquisition of an additional operating facility from ProLogis, the completion of two developments and the disposition of three operating

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facilities.

- o ProLogis acquired five operating facilities in 2000, four facilities aggregating 138,000 square feet located in Dallas and a 125,000 square foot facility located in Juarez, Mexico for a total investment of \$8.7 million. The four facilities in Dallas were acquired to complete a tax-deferred exchange transaction.

### Operations

The property operations segment generated approximately 81% of ProLogis' total income in 2000 (including amounts recognized under the equity method with respect to ProLogis' unconsolidated entities). This operating segment generated approximately 85% and 94% of ProLogis' total income in 1999 and 1998, respectively, (including amounts recognized under the equity method with respect to ProLogis' unconsolidated entities). See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- Property Operations" and Notes 4 and 10 to ProLogis' Consolidated Financial Statements in Item 8.

Operational achievements in this operating segment in 2000 included:

- o ProLogis' stabilized operating facilities aggregating 155.0 million square feet (including facilities owned by ProLogis and its consolidated and unconsolidated entities) was 96.2% leased (95.4% occupied) as of December 31, 2000. Also, as of December 31, 2000, ProLogis' total operating portfolio of 161.5 million square feet (including facilities owned by ProLogis and its consolidated and unconsolidated entities) was 94.1% leased (92.9% occupied). Stabilized facilities are those in which capital improvements, repositioning, new management and new marketing programs (or development and marketing, in the case of newly developed facilities) have been in effect for a sufficient period of time (generally 12 months) to achieve stabilized occupancy (typically 93%, but ranging from 90% to 95%, depending on the submarket and product type).
- o During 2000, ProLogis and its consolidated and unconsolidated entities leased 36.3 million square feet of distribution space in 1,137 transactions. Rental rates on both new and renewed leases of previously leased space increased 15.5% in 2000 and ProLogis' weighted average customer retention rate was 65.7% in 2000.
- o ProLogis' "same store" portfolio of operating facilities (facilities owned by ProLogis and its consolidated and unconsolidated entities that were in operation throughout both 2000 and 1999) aggregated 105.6 million square feet. The net operating income (rental revenues less net rental expenses) of the "same store" portfolio increased by 5.94% in 2000 over 1999.

### Market Presence

As of December 31, 2000, the operating facilities in the property operations segment that are owned by ProLogis (directly or through its consolidated entities) are located in 42 cities in 24 states and the District of Columbia in the United States, 4 cities in Mexico and 6 cities in 4 countries in Europe. No individual market represents more than 10% of ProLogis' total real estate assets. ProLogis' largest markets (based on cost) are Dallas/Fort Worth (9.2%), Chicago (7.3%), Atlanta (6.5%), San Francisco (South Bay) (5.4%), San Francisco (East Bay) (5.2%) and Houston (5.1%).

The 77 operating facilities owned by ProLogis California as of December 31, 2000 are all located in the Los Angeles/Orange County market. The 33 operating



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facilities owned by ProLogis North American Properties Fund I as of December 31, 2000 are located in 17 cities in 12 states. The three operating facilities owned by ProLogis Principal as of December 31, 2000 are all located in the Dallas/Ft. Worth market. The 104 operating facilities owned by ProLogis European Properties Fund (including facilities owned by ProLogis European Properties S.a.r.l.) as of December 31, 2000 are located in 15 cities in 6 countries in Europe (including 55 buildings in Paris, France). See "Item 2. Properties -- Facilities" and "Item 2. Properties -- Unconsolidated Entities -- Property Operations".

ProLogis has sought to achieve significant market presence through the development and acquisition of distribution facilities and master-planned distribution parks in its target market cities and selected submarkets of those cities. The target market cities and submarkets are selected when ProLogis' market research indicates that the long-term demand for distribution and light manufacturing space is stable to strong. ProLogis defines market presence not only in terms of square feet of facilities and acres of development land

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owned, but also by the extent ProLogis has developed relationships with customers in such markets. ProLogis' operating strategy is designed to meet the needs of today's distribution space users, which means providing functional, cost-effective facilities with a comprehensive level of service. ProLogis believes that by being a significant local owner and developer in a given market, it can generate high relative rental rates and occupancy levels, primarily because it has the ability to reduce turnover by meeting its customers' needs to either expand or contract. With its network of distribution facilities and land positions, ProLogis is able to either relocate customers within its existing inventory of distribution space or develop new facilities to meet the customer's needs.

A strong market presence provides ProLogis with increased access to potential leasing and CDFS business segment transactions. ProLogis' experience has been that many members of the industrial brokerage community and many corporate users are motivated to develop relationships with the significant owners and developers in a particular market to facilitate their respective distribution needs. Having the opportunity to compete for a large percentage of the distribution space requirements in each target market is a crucial factor in achieving ProLogis' operating objectives.

### Competition

In general, there are numerous other industrial distribution facilities located in close proximity to ProLogis' facilities. The amount of rentable distribution space available in any market could have a material effect on ProLogis' ability to rent space and on the rents that ProLogis can charge. In addition, in many of ProLogis' submarkets, institutional investors and owners and developers of industrial distribution facilities (including other REITs) compete for the acquisition, development and leasing of distribution space. Many of these entities have substantial resources and experience. Competition for acquisition of existing distribution facilities and land, both from institutional capital sources and from other REITs, has increased over the past several years.

### Property Management

ProLogis provides active and effective property management to directly serve its customers at the local level; a strategy that ProLogis believes will enhance the long-term economic performance of its operating facilities and

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increase cash flow. ProLogis' property management group seeks to provide exceptional customer service and attention to customer needs by developing and implementing proprietary operating, recruiting and training systems to achieve consistent levels of performance and professionalism throughout the ProLogis network. Of the operating facilities owned by ProLogis (directly or by its consolidated and unconsolidated entities) as of December 31, 2000, ProLogis' property management group was managing 97.5% of the North American operating facilities and 100.0% of the European operating facilities.

### Customers

One of ProLogis' objectives is to develop a customer base in each market that is diverse in terms of industry concentration and represents a broad spectrum of international, national, regional and local distribution space users. As of December 31, 2000, ProLogis (including its consolidated and unconsolidated entities) had over 3,500 customers in 150.1 million square feet of occupied distribution space. ProLogis believes that having a large number of customers with generic space requirements in each submarket reduces its exposure to overall occupancy declines. ProLogis' largest customer (based on rental income) accounted for 1.5% of ProLogis' 2000 rental income (on an annualized basis) for the year ended December 31, 2000. The annualized base rent for ProLogis' 25 largest customers (based on rental income) accounted for 13.2% of ProLogis' 2000 rental income (on an annualized basis) for the year ended December 31, 2000.

### Employees

ProLogis and its consolidated entities directly employ approximately 640 persons in North America and Europe. Of the total, approximately 350 employees are assigned directly to the property operations segment. ProLogis' other employees may provide assistance in this operating segment. ProLogis believes its relationship with its employees to be good. ProLogis' employees are not represented by a collective bargaining agreement.

### Seasonal Nature of the Business

The demand for industrial distribution space is not seasonal.

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### Future Plans

ProLogis believes that its current level of investment in the property operations segment in North America enables it to serve its customers at a high level and increase returns to shareholders. ProLogis' business plan for the property operations segment in North America calls for the expansion of its network of operating facilities to: (i) address the specific expansion needs of its customers; (ii) enhance its market presence in specific submarkets; or (iii) take advantage of opportunities where ProLogis believes it has the ability to achieve favorable returns, including the formation of ventures such as ProLogis North American Properties Fund I that will acquire facilities developed within the CDFS business segment.

ProLogis' market research and customer feedback continue to reflect strong demand for distribution space in Europe as cross-border trade continues to increase and many companies continue to move toward consolidation and reconfiguration of their distribution networks. Consolidation and the emergence of dominant regional distribution centers have provided, and ProLogis believes will continue to provide, opportunities for ProLogis as a single-source

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pan-European provider of distribution facilities. Consequently, ProLogis' business plan for the property operations segment in Europe emphasizes growth in key distribution markets, primarily from the development of facilities within ProLogis' CDFS business segment that will be acquired by ProLogis European Properties Fund and then managed by ProLogis.

ProLogis intends to self-fund its future investment activities in the property operations segment in 2001 with operating cash flow and the proceeds from dispositions of facilities to third parties and real estate entities in which ProLogis maintains an ownership interest. See the discussion of factors that could affect the future plans of ProLogis and its consolidated and unconsolidated entities in the property operations segment at "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition -- Risk Factors".

### CDFS Business Segment

#### Investments

ProLogis operates its CDFS business segment in North America directly and through ProLogis Development Services Incorporated ("ProLogis Development Services"), a consolidated entity in which ProLogis realizes substantially all of the economic benefits. See "Item 2. Properties -- Consolidated Entities -- ProLogis Development Services". In Europe (excluding the United Kingdom), ProLogis directly operates the CDFS business segment. In the United Kingdom, the CDFS business segment is operated by Kingspark S.A. and its wholly owned subsidiary, Kingspark Group Holdings Limited ("ProLogis Kingspark") (collectively "the Kingspark entities"). Kingspark S.A. is an unconsolidated entity in which ProLogis recognizes substantially all of the economic benefits under the equity method through its ownership of 100% of Kingspark S.A.'s non-voting preferred stock. See "Item 2. Properties -- Unconsolidated Entities -- CDFS Business" and Note 4 to ProLogis' Consolidated Financial Statements in Item 8.

Within this operating segment, ProLogis, ProLogis Development Services and the Kingspark entities develop distribution facilities with the intent to dispose of the facilities to customers, third parties or entities in which ProLogis maintains an ownership interest. Also within this operating segment, ProLogis, ProLogis Development Services and the Kingspark entities develop facilities for customers or third parties for a development fee. Proceeds from the disposition of these facilities are redeployed into land acquisitions and other development opportunities. ProLogis addresses specific needs of customers with respect to a specialized facility or the need to have a facility in a market that ProLogis does not consider to have favorable dynamics by developing the facility on a fee development basis or through a pre-sale agreement within this operating segment.

As of December 31, 2000, all of ProLogis' development activities were part of the CDFS business segment. As of December 31, 2000, ProLogis, ProLogis Development Services and the Kingspark entities had 10.2 million square feet of facilities under development with a total budgeted development cost of \$491.4 million. Of the total, 8.7 million square feet with a total budgeted development cost of \$355.2 million are owned directly by ProLogis and ProLogis Development Services. Facilities under development in North America aggregated 6.3 million square feet at a total budgeted cost of \$257.5 million and facilities under development in Europe aggregated 3.9 million square feet at a total budgeted cost of \$233.9 million. These facilities are being developed with the objective of disposing of the facility to a third party or to an entity in which ProLogis has an ownership interest. To the extent the facilities are acquired by entities in which ProLogis has an ownership interest, ProLogis' continuing interest in the operations of these facilities will be included in its property operations segment (see "-- Property Operations Segment"). ProLogis

Development Services and the Kingspark entities also earn fees under development management agreements. During 2000, 2.7 million square feet were developed under such agreements generating development fees of \$11.5 million.

ProLogis, ProLogis Development Services and the Kingspark entities have land positions (land owned or controlled through option, letter of intent, development rights agreement or contingent contract) aggregating 5,126 acres with the capacity for developing approximately 85.7 million square feet of distribution facilities. Of the total land positions, 3,279 acres, with the capacity for developing approximately 57.4 million square feet of distribution facilities, are owned or controlled by ProLogis and ProLogis Development Services. Land positions in North America total 2,385 acres with the capacity for developing approximately 42.3 million square feet of distribution facilities and land positions in Europe total 2,741 acres with the capacity for developing approximately 43.4 million square feet of distribution facilities.

CDFS business segment investment activities in 2000 included:

- o Development starts aggregated 13.7 million square feet at a total budgeted cost of \$651.6 million. Of the total, 12.6 million square feet at a total budgeted cost of \$509.8 million were started by ProLogis and ProLogis Development Services. Development starts in North America in 2000 aggregated 8.0 million square feet at a total budgeted cost of \$329.6 million and development starts in Europe aggregated 5.7 million square feet at a total budgeted cost of \$322.0 million.
- o Development completions aggregated 15.2 million square feet at a total budgeted cost of \$736.9 million. Of the total, 13.1 million square feet at a total budgeted cost of \$512.0 million were completed by ProLogis and ProLogis Development Services. Development completions in North America in 2000 aggregated 9.8 million square feet at a total budgeted cost of \$360.2 million and development completions in Europe aggregated 5.4 million square feet at a total budgeted cost of \$376.7 million.
- o Land acquisitions in 2000 aggregated 1,158 acres, 846 acres in North America and 312 acres in Europe. This land can be used for the development of approximately 24.3 million square feet of distribution facilities.

#### Operations

The primary source of income in the CDFS business segment is the profits from dispositions of facilities developed and development management fees earned by ProLogis Development Services and the Kingspark entities. In 2000, the CDFS business generated \$121.9 million of ProLogis' total income as compared to 1999 and 1998 when the CDFS business generated \$70.5 million and \$20.5 million of ProLogis' total income, respectively. As a percentage of total income, this operating segment has increased in each of the last three years (to 18.9% in 2000 from 12.4% and 5.6% in 1999 and 1998, respectively). ProLogis' share of the net earnings of the Kingspark entities recognized under the equity method is included in this segment's total income (\$43.8 million in 2000, \$23.9 million in 1999 and \$2.9 million for the period from acquisition on August 14, 1998 to December 31, 1998).

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The CDFS business segment generated funds from operations of \$126.8 million in 2000 (\$60.4 million in North America and \$66.4 million in Europe); \$76.5 million in 1999 (\$28.9 million in North America and \$47.6 million in Europe); and \$22.2 million in 1998 (\$17.3 million in North America and \$4.9 million in Europe). See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- CDFS Business", "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Funds from Operations" and Notes 4 and 10 to ProLogis' Consolidated Financial Statements in Item 8.

Operational achievements in this operating segment in 2000 included:

- o ProLogis, ProLogis Development Services and the Kingspark entities disposed of 11.8 million square feet of distribution facilities developed and land parcels generating net proceeds of \$672.4 million.
- o ProLogis Development Services and the Kingspark entities developed 2.7 million square feet of distribution facilities on behalf of customers under development management agreements. Fees and other miscellaneous income in the CDFS business segment aggregated \$18.7 million in 2000.

### Market Presence

ProLogis' CDFS business spans substantially all of ProLogis' property operations markets. As of December 31, 2000, ProLogis had facilities under development in 16 cities in 11 states and the District of Columbia in the United States, 2 cities in Mexico and 8

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cities in 4 countries in Europe. As of December 31, 2000, ProLogis' land positions were located in 30 cities in 19 states and the District of Columbia in the United States, 4 cities in Mexico and 8 cities in 7 countries in Europe.

### Competition

There are a number of other national, regional and local developers engaged in industrial distribution facility development in the same North American markets that ProLogis conducts business. Competition for land acquisitions, from both institutional capital sources and other REITs, has increased over the past several years. The disposition market in North America is competitive and is driven by the supply of new developments, access to capital and interest rate levels.

ProLogis believes that there are no other REITs or pan-European real estate operating companies in direct competition with its operations in Europe. However, there are a number of local and regional developers in ProLogis' target markets. As in North America, the disposition market in Europe is competitive and driven by the supply of new developments, access to capital and interest rate levels. However, the formation of ProLogis European Properties Fund provides ProLogis and the Kingspark entities with a source of capital that will allow them to dispose of the facilities they develop in the CDFS business segment at independently appraised values.

ProLogis believes that it, ProLogis Development Services and the Kingspark entities have a significant competitive advantage based upon the strategic locations of the extensive land positions owned or under control. Also, as the only distribution facilities and services provider operating on a national and pan-European basis, ProLogis believes it has differentiated itself from many of

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its competitors.

### Customers

ProLogis leverages off its existing customer relationships, primarily within the property operations segment and utilizes the ProLogis Operating System(TM) in identifying and marketing its CDFS business. See "-- Property Operations -- Customers" and "-- ProLogis Operating System(TM)".

### Employees

ProLogis and its consolidated entities directly employ approximately 640 persons in North America and Europe. Of the total, approximately 90 employees are assigned directly to the CDFS business segment. ProLogis' other employees may provide assistance in this operating segment. ProLogis believes its relationship with its employees to be good. ProLogis' employees are not represented by a collective bargaining agreement.

The Kingspark entities employ approximately 60 persons and these employees do not participate in a collective bargaining agreement. The Kingspark entities believe their relationship with their employees to be good.

### Seasonal Nature of the Business

The demand for the industrial distribution facilities that are developed by ProLogis' CDFS business is not impacted on a seasonal basis. However, the development process can be impeded by weather, particularly during the winter months in certain markets, which can potentially delay construction completions.

### Future Plans

ProLogis' objective is to utilize the capital generated in the CDFS business to self-fund future CDFS business activities in North America and Europe. In addition, proceeds from the disposition of operating facilities in the property operations segment to third parties can also be re-invested in new development facilities within the CDFS business segment. ProLogis believes that the reconfiguration of supply chains, necessitated by the need for customers to add efficiencies within their distribution networks, in both North America and Europe could favorably impact demand for the distribution facilities and distribution-related services provided by ProLogis within its CDFS business segment. Additionally, a limited supply of new state-of-the-art distribution space in Europe could also provide opportunities within this operating segment. See the discussion of factors that could affect the future plans of ProLogis, ProLogis Development Services and the Kingspark entities in the CDFS business segment at "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition -- Risk Factors".

### Temperature-Controlled Distribution Operations

#### Investments

ProLogis recognizes substantially all of the economic benefits of ProLogis Logistics Services Incorporated ("ProLogis Logistics") through its ownership of 100% of ProLogis Logistics' preferred stock. ProLogis Logistics owns 100% of CS Integrated LLC ("CSI"), a temperature-controlled distribution company operating in the United States. As of December 31, 2000, CSI owned or operated under lease agreements 59 temperature-controlled distribution facilities aggregating 175.9

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million cubic feet (including 35.5 million cubic feet of dry distribution space located in temperature-controlled distribution facilities) and had 6.3 million cubic feet under development in Anaheim (4.0 million cubic feet) and Houston (2.3 million cubic feet). Additionally, ProLogis recognizes substantially all of the economic benefits of Frigoscandia S.A. through its ownership of 100% of Frigoscandia S.A.'s preferred stock. Frigoscandia S.A. owns, through its wholly owned subsidiaries, 100% of Frigoscandia AB ("Frigoscandia"), a temperature-controlled distribution company operating in Europe. As of December 31, 2000, Frigoscandia owned or operated under lease agreements 89 temperature-controlled distribution facilities aggregating 187.7 million cubic feet in 10 European countries. ProLogis accounts for its investments in ProLogis Logistics/CSI and Frigoscandia S.A./Frigoscandia under the equity method. See "Item 2. Properties -- Unconsolidated Entities -- Temperature-Controlled Distribution Operations" and Note 4 to ProLogis' Consolidated Financial Statements in Item 8.

In order to provide value-added supply chain management services to its customers, CSI and Frigoscandia leverage their existing temperature-controlled distribution facilities network with information technology investments that increase the velocity and visibility of inventory and information throughout the entire supply chain. CSI added 8.3 million cubic feet of operating capacity in 2000, including a 4.8 million cubic feet facility that was developed by CSI in Atlanta. Frigoscandia's operating capacity has remained virtually constant over the past three years (187.7 million as of December 31, 2000, 192.3 million as of December 31, 1999 and 192.0 million as of December 31, 1998). This trend reflects Frigoscandia's emphasis on serving its key customers through improvements and upgrades to technology systems and its existing facilities rather than increasing its operating capacity.

During 1999 and 2000, both CSI and Frigoscandia enhanced and improved their logistics information technology systems. These systems are being coordinated on a global basis which enables CSI and Frigoscandia to maximize synergies within and between the North American operations and European operations, while still maintaining operational independence. CSI's non-asset based retail dedicated business segment, where CSI provides all warehouse logistics services to supermarket retailers in distribution facilities not owned by CSI, has enabled CSI to increase its revenues without significantly increasing its invested capital. Retail-dedicated revenues are earned through fees charged to the retailer based on volume with no fixed costs attributable to the retail-dedicated operations.

### Operations

ProLogis recognizes its share of the net earnings of ProLogis Logistics/CSI and Frigoscandia S.A./Frigoscandia under the equity method as a component of its total income. ProLogis' share of the net earnings of ProLogis Logistics/CSI was \$12.0 million in 2000, \$10.8 million in 1999 and \$7.3 million in 1998. In each year, 1998 to 2000, Frigoscandia S.A./Frigoscandia generated net losses with ProLogis' share aggregating \$20.3 million in 2000, \$4.4 million in 1999 and \$7.5 million in 1998.

ProLogis' share of the combined funds from operations of ProLogis Logistics/CSI and Frigoscandia S.A./Frigoscandia was \$27.0 million in 2000 as compared to \$46.1 million in 1999 and \$45.7 million in 1998. See "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition -- Results of Operations -- Temperature-Controlled Distribution Operations", "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Funds From Operations" and Notes 4 and 10 to ProLogis' Consolidated Financial Statements in Item 8.

### Market Presence

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Market presence in the temperature-controlled distribution industry is generally defined by the volume available for storage of frozen and chilled foods in addition to the transportation network in place to serve customers. ProLogis believes that CSI and Frigoscandia are well positioned to provide supply-chain management services to major food manufacturers and retailers across multiple markets. With 59 facilities aggregating 175.9 million cubic feet in operation (including 35.5 million cubic feet of dry distribution space operated in temperature-controlled distribution facilities), CSI has the third largest network in the United States (based on cubic feet in operation). CSI's largest markets (based on cubic feet in operation) are Phoenix (16.9%), Southern California (16.2%), Southeastern Pennsylvania (14.5%) and Atlanta (12.2%). Frigoscandia is the largest temperature-controlled distribution company in Europe with 89 facilities aggregating 187.7 million cubic feet in operation in 10 countries. Frigoscandia's largest markets (based on cubic feet in operation) are France (34.1%), the United Kingdom (24.5%) and Germany (13.7%).

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### Competition

ProLogis believes that the temperature-controlled distribution industry has significant barriers to entry due to its capital-intensive nature, which limits competition. In the United States, CSI competes directly with several national temperature-controlled distribution companies. However, CSI's primary competition in many markets is from local, and considerably smaller, warehouse operators. In Europe, Frigoscandia has a distinct advantage over its competitors as few other European temperature-controlled distribution companies have operations in more than one country (as compared to the 10 countries in which Frigoscandia operates). Additionally, Frigoscandia is the largest operator of temperature-controlled distribution facilities in Europe (based on cubic feet in operation), with a temperature-controlled storage volume of approximately three times that of its closest competitor. Like CSI, Frigoscandia's primary competition in many markets is from local, and considerably smaller, warehouse operators.

### Customers

CSI has approximately 950 customers including some of the nation's leading supermarket retailers in the United States. Of CSI's total revenues, approximately 69% were derived from its 25 largest customers and CSI's largest customer accounted for approximately 36% of its total revenues. Excluding the fees generated by CSI's retail-dedicated operations where CSI provides warehouse logistics services in the distribution facilities that are owned by the customer, the 25 largest customers accounted for approximately 48% of total revenues with the largest customer accounting for approximately 6% of total revenues. See "-- Investments".

Frigoscandia has approximately 7,000 customers. Of Frigoscandia's total revenues, approximately 49% were derived from its 25 largest customers and Frigoscandia's largest customer accounted for approximately 8% of its total revenues.

### Employees

CSI and Frigoscandia directly employ all employees in the temperature-controlled distribution operations segment. CSI employs approximately 3,835 persons in the United States, of whom approximately 58% participate in collective bargaining agreements. Frigoscandia employs approximately 2,665 persons in 10 European countries, of whom approximately 80%



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participate in collective bargaining agreements. Both CSI and Frigoscandia believe their relationships with their employees to be good.

### Seasonal Nature of the Business

Temperature-controlled distribution operations are seasonal, in that demand for temperature-controlled distribution facilities is stronger during the third quarter of the calendar year and is at its lowest level in the first quarter of the calendar year. The seasonal nature of temperature-controlled distribution operations coincides with the lower demand for frozen foods, such as ice cream, during the winter months and the timing of the harvests of various food crops in the third quarter of the year, which increases the demand for temperature-controlled storage capacity during that time.

### Future Plans

There will be a continued strong emphasis in 2001 on the global marketing of the varied service offerings that CSI and Frigoscandia can provide to customers who can benefit from a single-source global temperature-controlled logistics provider. CSI and Frigoscandia will continue to leverage off their investments in information technology in 1999 and 2000 to increase their service offerings to customers, including integrated supply chain management and transportation services. Additionally, both companies will focus on operational issues to increase operating efficiencies in 2001. In particular, Frigoscandia is addressing occupancy issues and other operational issues including transportation services. See "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition -- Results of Operations -- Temperature-Controlled Distribution Operations" for a discussion of operating performance of this business segment and see the discussion of factors that could affect the future plans of ProLogis, CSI and Frigoscandia at "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition -- Risk Factors".

ProLogis views its investments in CSI and Frigoscandia as a temperature-controlled distribution network delivering worldwide temperature-controlled logistics solutions to its United States and European customers. Expansion into new markets or within existing markets in the United States will be considered only to the extent that such expansion is necessary to enable CSI to expand its services to the major food manufacturers and retailers that operate across multiple markets. Expansion within the European operations will be

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considered on a limited basis to address specific customer needs. The funds for such expansions are expected to come principally from internally generated capital from this operating segment's operations.

### FINANCING STRATEGY

In order to build its network of distribution facilities, ProLogis accessed the public debt and public equity markets through the second quarter of 1999. Since that time, ProLogis has funded its capital requirements primarily with internally generated funds from its operations and from the disposition of facilities to third parties and to entities in which ProLogis maintains an ownership interest. Additionally, ProLogis has utilized, and will continue to utilize, the borrowing capacity available through its unsecured lines of credit to finance investment opportunities pending completion of asset dispositions and, as needed, longer-term debt or equity financing arrangements.

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ProLogis' financing activities in 2000 included:

- o ProLogis, ProLogis Development Services and the Kingspark entities generated \$806.0 million of proceeds from the disposition of facilities and land parcels in 2000. These dispositions were primarily within the CDFS business segment (\$672.3 million of proceeds) but also included dispositions within the property operations segment (\$133.7 million of proceeds). Of the total proceeds of \$806.0 million, \$55.7 million was received in the form of equity interests in the entities acquiring the facilities.
- o ProLogis restructured its U.S. dollar denominated revolving credit facilities during 2000. ProLogis' previous \$550.0 million unsecured line of credit was reduced to \$475.0 million, with the ability to increase the borrowing capacity to \$500.0 million. Additionally, provisions were included in the new agreement that allows for direct borrowings by ProLogis Development Services and ProLogis Logistics. Also, ProLogis increased its borrowing capacity under its U.S. dollar denominated discretionary line of credit from \$25.0 million to \$55.0 million (with the additional \$30.0 million of borrowings available only in foreign currency equivalents).
- o The formation of ProLogis North American Properties Fund I provided ProLogis the opportunity to access over \$300.0 million of third party debt and equity capital, including 10-year secured, non-recourse debt financing of \$232.6 million within the venture.
- o From September 1999 to December 31, 2000, ProLogis has accessed 325.6 million euros (the currency equivalent of approximately \$302.9 million as of December 31, 2000 based on currency exchange rates quoted by Reuters) of third party equity capital provided by a group of institutional investors to ProLogis European Properties Fund through 2002. As of December 31, 2000, an additional 734.7 million euros (the currency equivalent of approximately \$683.4 million as of December 31, 2000 based on currency exchange rates quoted by Reuters) has been committed to ProLogis European Properties Fund by this investor group through 2002. This capital is to be used to fund acquisitions of operating facilities in Europe from ProLogis, the Kingspark entities or third parties.

ProLogis' revolving credit facilities (the U.S. dollar denominated unsecured borrowing arrangements aggregating \$530.0 million of capacity and ProLogis' multi-currency borrowing arrangement that allows for the currency equivalent of 325.0 million euros of borrowings) provide ProLogis with significant financial flexibility. As of December 31, 2000, ProLogis' outstanding combined revolving credit facility borrowings of \$439.8 million were at an average interest rate of 6.79% and ProLogis' total debt as a percentage of total undepreciated book capitalization (excluding accumulated comprehensive income adjustments) was 43.5%.

### PROLOGIS OPERATING SYSTEM(TM)

The cornerstone of ProLogis' business strategy is the ProLogis Operating System(TM), comprised of the Market Services Group, the Global Services Group, the Global Development Group and the Integrated Solutions Group. The ProLogis Operating System(TM) is a customer service delivery system that has been designed to provide substantial benefits to existing and prospective ProLogis customers. The customer focus of the ProLogis Operating System(TM) provides for a high-quality service level and a single point of contact for distribution solutions on a global basis and positions ProLogis to build customer relationships that will generate additional business opportunities.

#### Market Services Group

The Market Services Group is comprised of approximately 350 property management and leasing employees including 20 market officers. ProLogis' market officers have extensive experience in marketing industrial distribution space and are responsible for understanding the needs of existing and prospective customers in their respective markets. To meet such needs, market officers utilize their extensive knowledge of local market conditions, including the cost and availability of alternative space, and are supported by their team of property management and leasing professionals. A key role of the market officers is assisting the Global Services Group in identifying ProLogis' customers with multiple market requirements. ProLogis believes that the market officers' access to national and pan-European ProLogis resources improves their ability to serve customers in the local market.

Market officers do not develop projects or borrow or commit capital. Their focus is strictly on managing the facilities in their markets, creating and maintaining relationships with distribution space users and industrial brokers, marketing ProLogis products and identifying potential acquisition, development and leasing opportunities in their target markets.

#### Global Services Group

The Global Services Group, comprised of 18 employees, is dedicated to providing service to the largest users of distribution space that ProLogis has identified as targeted customers, with the primary focus on making ProLogis the preferred provider of distribution space to these companies. The Global Services Group is headquartered in Denver and Amsterdam and has regional offices in Atlanta, Chicago and the New York City metropolitan area. ProLogis' multi-market presence permits it to accommodate the reconfiguration needs of its customers by relocating an existing customer within a market or between markets in North America or in Europe. ProLogis' development program, land inventory and existing facilities allow the Global Services Group to assist existing and prospective customers whose growing business needs require them to expand their distribution facilities. The expansion can result in relocating the customer to larger ProLogis spaces or in developing a facility specifically for the customer.

Global Services Group professionals build long-term relationships with ProLogis' customers and provide a single point of contact for multi-location global users of distribution facilities to simplify and streamline the execution of such customers' distribution space plans. ProLogis' experience to date suggests that many major corporate customers are limiting the number of services providers that they work with to meet their distribution facility requirements. An ancillary benefit of this extensive contact with customers is the ability to be on the forefront of international and national distribution and logistics trends.

#### Global Development Group

The Global Development Group, comprised of approximately 90 employees, focuses substantial research and development efforts on creating industry-leading distribution facilities and master-planned distribution parks. Members of the Global Development Group have extensive experience in the development and construction of generic facilities that will appeal to a wide variety of customers and the development of facilities that will meet a specific customers needs. ProLogis incorporates the latest technology with respect to

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building design and building systems and has developed consistent standards and procedures that it strictly adheres to in the development of all facilities.

The Global Development Group is comprised principally of architects, engineers and construction professionals who oversee every aspect of the land planning and building design processes. These professionals also monitor the construction process and oversee the performance of third-party general contractors. The Global Development Group's development specialists and project managers operate regionally to better serve their markets. The project managers supervise each project with oversight from ProLogis' management, pursuant to uniform standards, procedures and specifications that have been carefully designed to achieve consistent quality.

ProLogis believes the depth and breadth of experience within the Global Development Group enhances the effectiveness of the Global Services Group and provides the market officers in the Market Services Group with a distinct competitive advantage for development opportunities in their respective markets.

### Integrated Solutions Group

The Integrated Solutions Group, currently comprised of three employees, coordinates a menu of value-added distribution-related services to customers, including network optimization tools, strategic site selection, business location services (including tax incentive analysis and tax negotiation consulting) and design consulting services. The Integrated Solutions Group was formed in August 1999 to

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allow ProLogis to address all areas of its customers' distribution needs. ProLogis believes that by offering these additional services, ProLogis will be able to deepen its customer relationships and increase cash flows with relatively small additional capital requirements.

### PROLOGIS MANAGEMENT

ProLogis' success depends upon its management's ability to provide strategic and day-to-day management, research, investment analysis, acquisition and due diligence, development, marketing, asset management, capital markets, asset disposition, management information systems support and legal and accounting services. ProLogis believes that the quality of its management should be assessed in light of the following factors:

- o Management Depth -- ProLogis has several senior executives with the leadership, operational, investment and financial skills and experience to oversee the entire operation of the company. See " -- Executive Officers and Trustees" and " -- Senior Officers".
- o Strategic Vision-- ProLogis' management has demonstrated a strategic vision in determining an operating and investment focus that has provided favorable initial yields and long-term growth prospects. ProLogis' business strategy has focused on acquiring (at prices below replacement cost) and developing an international distribution facility network and a land inventory at attractive prices in selected distribution markets. Through the ProLogis Operating System(TM), ProLogis believes it is the first international operating company that has been able to address and service a corporate customer's distribution space requirements on an international, national, regional and local basis. Additionally, since mid-1999, ProLogis has

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focused on self-funding its investment activities utilizing cash generated by operations and the proceeds from the disposition of facilities, primarily to entities in which ProLogis maintains an ownership interest.

- o Research Capability -- ProLogis divides its target market cities into numerous submarkets for analysis purposes. ProLogis' management has emphasized a submarket by submarket research-based approach in determining appropriate investment opportunities.
- o Investment Committee Process -- An internal investment committee provides ProLogis with discipline and guidance to allow ProLogis to achieve its investment goals. The members of ProLogis' investment committee have extensive experience in the real estate industry. The internal investment committee evaluates all prospective investments pursuant to uniform underwriting criteria prior to submission of investment recommendations to the investment committee of ProLogis' Board of Trustees (the "Board").
- o Acquisitions Capability/Due Diligence Process/Asset Dispositions -- ProLogis has experienced senior personnel who perform disciplined and thorough due diligence in determining whether potential investments and divestitures meet ProLogis' long-term objectives. ProLogis has developed extensive uniform systems and procedures for analysis and due diligence to ensure that it maximizes its investment and divestiture opportunities.
- o Development Capability -- By internally developing projects, ProLogis has captured additional value that normally escapes through sales premiums paid to third party developers. ProLogis' development employees have significant development experience. ProLogis has engaged in substantial development of distribution facilities since its inception in 1991 (64.0 million square feet at a total investment of \$2.4 billion developed).
- o Operating Capability -- ProLogis believes that management can substantially improve operating performance and achieve long-term sustainable growth in cash flow by actively and effectively managing assets. ProLogis conceived of and developed the ProLogis Operating System(TM) to effectively operate ProLogis' business and provide customers with an exceptional level of coordinated, comprehensive services, including property management, leasing and development management services. ProLogis also provides comprehensive asset management services to entities in which ProLogis has an ownership interest.
- o Capital Markets Capability -- ProLogis has been able to effectively raise public debt and public equity capital that has allowed it to achieve strong growth in cash flows from its investments. ProLogis enhances its ability to raise capital by its ability to effectively communicate ProLogis' business strategy and performance to investors and the financial media.

Previously, certain of ProLogis' administrative functions were supplemented by or provided by Security Capital Group Incorporated ("Security Capital"), ProLogis' largest shareholder, pursuant to an administrative services agreement. These functions

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included payroll and human resources, cash management, accounts payable, specified information systems support, research and insurance services. ProLogis began transferring these functions from Security Capital to ProLogis personnel during 2000. As of December 31, 2000, all functions except the cash management and certain information systems support functions had been assumed by ProLogis. These remaining functions are expected to be assumed by ProLogis personnel during the first quarter of 2001.

### Executive Officers and Trustees

K. Dane Brooksher -- 62 -- Mr. Brooksher has served as a Trustee since October 1993. Mr. Brooksher has been Chairman and Chief Executive Officer of ProLogis since March 1999 and he was Co-Chairman and Chief Operating Officer of ProLogis from November 1993 to March 1999 (through September 1997 he was employed by ProLogis' former management company). Prior thereto, Mr. Brooksher was Area Managing Partner and Chicago Office Managing Partner of KPMG Peat Marwick (now KPMG LLP), independent public accountants, where he served on the Board of Directors and Management Committee and as International Development Partner for Belgium and the Netherlands. Mr. Brooksher is a Director of Vizional Technologies, Inc. (an entity in which ProLogis has invested) and Butler Manufacturing Company and he serves as an Advisory Board Member of the J.L. Kellogg Graduate School of Management of Northwestern University. Mr. Brooksher's term as Trustee expires in 2002.

Irving F. Lyons, III -- 51 -- Mr. Lyons has served as a Trustee since March 1996. Mr. Lyons has been President of ProLogis since March 1999 and Chief Investment Officer of ProLogis since March 1997. Mr. Lyons was Co-Chairman of ProLogis from March 1997 to March 1999 and from December 1993 to March 1997, he was a Managing Director with ProLogis (through September 1997 he was employed by ProLogis' former management company). Prior thereto, Mr. Lyons was the Managing Partner of King & Lyons, a San Francisco Bay Area industrial real estate development and management company, since its inception in 1979. Mr. Lyons' term as Trustee expires in 2003.

C. Ronald Blankenship -- 51 -- Mr. Blankenship has served as a Trustee since June 2000. Mr. Blankenship has been Director, Vice Chairman and Chief Operating Officer of Security Capital since May 1998. Mr. Blankenship was Managing Director of Security Capital from 1991 until 1998 and he was Chairman of Archstone Communities Trust, (a REIT focused on apartment communities and a former affiliate of Security Capital) until June 1997. Mr. Blankenship was a Trustee of Archstone Communities Trust from March 2000 until February 2001. Since May 1999, Mr. Blankenship has also been Interim Chairman, Chief Executive Officer and Director of Homestead Village Incorporated (an affiliate of Security Capital). He is a Trustee of City Center Retail Trust and Urban Growth Property Trust (both affiliates of Security Capital). Mr. Blankenship is a Director of BelmontCorp, Carr America Realty Corporation, InterPark Holdings Inc., Macquarie Capital Partners LLC, Regency Centers Corporation and Storage USA, Inc. (all affiliates of Security Capital). Mr. Blankenship's term as Trustee expires in 2001.

Stephen L. Feinberg -- 56 -- Mr. Feinberg has served as a Trustee since January 1993. Mr. Feinberg has been Chairman of the Board and Chief Executive Officer of Dorsar Investment Co., Inc., a diversified holding company with interests in real estate and venture capital since 1970. Mr. Feinberg is also a Director of Security Capital Preferred Growth Incorporated (an affiliate of Security Capital), Continental Transmission Corporation, The Harvill Press Limited, MetaMetrics, Inc., St. John's College, The Santa Fe Institute, and The Feinberg Foundation, Inc. He was formerly Chairman of the Board of St. John's College, and a former Director of Farrar, Strauss and Giroux, Inc. (a private publishing company), Molecular Informatics, Inc., Border Steel Mills, Inc., Springer Building Materials Corporation, Circle K Corporation, EnerServ

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Products, Inc. and Texas Commerce Bank-First State. Mr. Feinberg's term as Trustee expires in 2001.

Donald P. Jacobs -- 73 -- Mr. Jacobs has served as a Trustee since February 1996. Mr. Jacobs has been a faculty member of the J.L. Kellogg Graduate School of Management of Northwestern University since 1957, and Dean since 1975. Mr. Jacobs is a Director of Hartmarx Corporation, Terex Corporation, CDW Computer Centers and GP Strategies. Mr. Jacobs was formerly a Director of Commonwealth Edison and its parent company, Unicom and he was formerly Chairman of the Public Review Board of Andersen Worldwide. Mr. Jacobs was Chairman of the Advisory Committee of the Oversight Board of the Resolution Trust Corporation for the third region from 1990 to 1992, Chairman of the Board of AMTRAK from 1975 to 1979, Co-Staff Director of the Presidential Commission on Financial Structure and Regulation from 1970 to 1971 and Senior Economist for the Banking and Currency Committee of the U.S. House of Representatives from 1963 to 1964. Mr. Jacobs' term as Trustee expires in 2001.

William G. Myers -- 73 -- Mr. Myers has served as a Trustee since January 1995. Mr. Myers is Chief Executive Officer of Ojai Ranch and Investment Company, Inc., Santa Barbara, California, an agri-business and investment company that Mr. Myers founded in 1963. Mr. Myers was formerly a Trustee of Archstone Communities Trust (a former affiliate of Security Capital) and a former Director of S.E.E. International, Itedek, Inc. and Bank of A. Levy. Mr. Myers serves as a Director of the Library of Congress, James Madison Council, California Historical Society Foundation and St. Joseph's Health & Retirement Foundation. He is also a Director of

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the Santa Barbara Botanic Gardens, Chalone Wine Group and The Nature Conservancy and he is Trustee of H.C. and R.C. Merritt Trusts. Mr. Myers' term as Trustee expires in 2003.

John E. Robson -- 70 -- Mr. Robson has served as a Trustee since April 1994. Mr. Robson has been Senior Advisor of Robertson Stephens and Company, a San Francisco based investment banking firm, since 1994. Mr. Robson was Deputy Secretary of the United States Treasury from 1989 to 1992, Dean and Professor of Management, Emory University School of Business Administration from 1986 to 1989, President and Chief Executive Officer and Executive Vice President and Chief Operating Officer of G.D. Searle & Co., a pharmaceutical and consumer products firm over the period 1978-1983. Mr. Robson is currently a Director of Pharmacia Corporation, Northrop Grumman Corporation, COR Solutions, Inc., SCRAM Technologies, Inc. He is also on the Business Advisory Board of Gilead Sciences, Inc. Mr. Robson's term as Trustee expires in 2003.

Kenneth N. Stensby -- 61-- Mr. Stensby has served as a Trustee since March 1999. Mr. Stensby was a Director of Meridian from 1996 to March 1999. Mr. Stensby was President and Chief Executive Officer of United Properties, a Minneapolis-based diversified real estate company, from 1974 until his retirement in January 1995. Mr. Stensby is past President of the National Association of Industrial and Office Parks and was a Director of First Asset Realty Advisors, a pension advisory subsidiary of First Bank of Minneapolis and Corner House. Mr. Stensby's term as Trustee expires in 2002.

J. Andre Teixeira -- 48 -- Mr. Teixeira has served as a Trustee since February 1999. Mr. Teixeira is the President of Coca-Cola for the Russia/Ukraine region and General Manager of Coca-Cola Russia, Ukraine and Belarus. Mr. Teixeira also serves as Head of Representation for the Coca-Cola Export Corporation, Moscow. From 1995 to 1998, Mr. Teixeira was Director of the

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Development Center, Europe, Coca-Cola Greater Europe; Director, Brussels Operations, Coca-Cola Greater Europe and Managing Director, Coca-Cola Services S.A. Mr. Teixeira was the Africa Group Account Executive, Development, for Coca-Cola from 1994 to 1995 and Director, Research & Development, Coca-Cola Greater Europe from 1990 to 1995. Mr. Teixeira's term as Trustee expires in 2001.

Thomas G. Wattles -- 49 -- Mr. Wattles has served as a Trustee since January 1993. Mr. Wattles was a Director of ProLogis' predecessor since its formation in June 1991 until January 1993. Mr. Wattles was Non-Executive Chairman of ProLogis from March 1997 to May 1998 and Co-Chairman and Chief Investment Officer of ProLogis from November 1993 to March 1997 (through September 1997 he was employed by ProLogis' former management company). Mr. Wattles is a Managing Director of Security Capital and has been with Security Capital in various capacities since March 1991. Mr. Wattles is a Trustee of City Center Retail Trust, CWS Communities Trust and Urban Growth Property Trust (all affiliates of Security Capital). He is a Director of Access Self-Storage Holdings S.A., Akeler Holdings S.A., Bernheim-Comofi S.A., CWE Property Holdings S.A., Interpark Holdings Inc., London & Henley Holdings S.A., Millers Storage Holdings S.A., Regency Centers Corporation and Security Capital European Realty, (all affiliates of Security Capital). Mr. Wattles' term as Trustee expires in 2002.

### Senior Officers

Ned K. Anderson -- 54 -- Managing Director of ProLogis since December 1998, where he is responsible for the Market Services Group in the Pacific Region of the United States. Mr. Anderson has been with ProLogis in varying capacities since December 1993 (through September 1997 he was employed by ProLogis' former management company). Prior to joining ProLogis, Mr. Anderson was a partner at King & Lyons, a San Francisco Bay Area industrial real estate development and management company.

Paul C. Congleton -- 46 -- Managing Director of ProLogis since September 1999, where he is responsible for coordinating investment and financing opportunities utilizing institutional capital. Mr. Congleton has been with ProLogis in varying capacities since January 1995 (through September 1997 he was employed by ProLogis' former management company). Prior to joining ProLogis, he was Managing Principal with Overland Company, an Arizona based property management, leasing and consulting concern.

Tim M. Harvie -- 40 -- Managing Director and Chief Technology Officer of ProLogis since December 2000, where he is responsible for ProLogis' information technology operations. Mr. Harvie was with USFreightways Corporation, a provider of comprehensive supply chain management services from February 1989 to December 2000, most recently as Chief Information Officer.

Steven K. Meyer -- 52 -- Managing Director of ProLogis since December 1998, where he is responsible for the Market Services Group in the Central Region of the United States and in Mexico. Mr. Meyer has been with ProLogis in varying capacities since September 1994 (through September 1997 he was employed by ProLogis' former management company). Prior to joining ProLogis,

Mr. Meyer was an Executive Vice President with Trammell Crow Company, a diversified commercial real estate services company in North America.

Walter C. Rakowich -- 43 -- Managing Director and Chief Financial Officer



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of ProLogis since December 1998, where he is responsible for worldwide corporate finance. Mr. Rakowich has been with ProLogis in varying capacities since July 1994 (through September 1997 he was employed by ProLogis' former management company). Prior thereto, Mr. Rakowich was a consultant to ProLogis in the area of due diligence and acquisitions and also a Principal with Trammell Crow Company.

John R. Rizzo -- 51 -- Managing Director of ProLogis since December 2000, where he is responsible for the North American operations of the Global Development Group. Mr. Rizzo has been with ProLogis in varying capacities since January 1999. Prior to joining ProLogis, Mr. Rizzo was Senior Vice President and Chief Operating Officer of Perini Management Services Incorporated, an affiliate of Perini Corporation, a construction management and general contracting firm.

John W. Seiple, Jr.-- 42-- Managing Director of ProLogis since December 1997 and Chief Operating Officer for North American operations of ProLogis since December 1998. Mr. Seiple has been with ProLogis since October 1993 in varying capacities (through September 1997 he was employed by ProLogis' former management company). Prior to joining ProLogis, Mr. Seiple was a Senior Vice President with Trammell Crow Company.

Robert J. Watson -- 51 -- Managing Director of ProLogis since January 1993 and Chief Operating Officer for European Operations since December 1998. Mr. Watson has been with ProLogis in varying capacities since January 1993 (through September 1997 he was employed by ProLogis' former management company). Prior to joining ProLogis, Mr. Watson with Trammell Crow Company, most recently as the Regional Partner for Southwest United States Real Estate.

Robin P. R. von Weiler -- 44-- Managing Director and Regional Head of ProLogis since December 1999, where he is responsible for the Market Services and Global Development Groups in Northern and Central Europe. Mr. von Weiler has been with ProLogis in varying capacities since October 1997. Prior to joining ProLogis, Mr. Von Weiler was with DTZ Zadelhoff V.O.F., part of DTZ Debenham Tie Lung, in Rotterdam, the Netherlands, most recently as Vice Managing Director, Real Estate Agent and Corporate Advisor. Mr. von Weiler is a registered Real Estate Agent.

Frank H. Fallon -- 39 -- Senior Vice President of ProLogis since September 1999, where he is responsible for the Market Services Group in the Southeast Region of the United States. Mr. Fallon has been with ProLogis in varying capacities since January 1995 (through September 1997 he was employed by ProLogis' former management company). Prior to joining ProLogis, Mr. Fallon was with Trammell Crow Company.

Ranald Hahn -- 44 -- Senior Vice President and Regional Head of ProLogis since December 2000, where he is responsible for the Market Services and Global Development Groups in Southern Europe. Mr. Hahn has been with ProLogis in varying capacities since March 1999. Prior to joining ProLogis, Mr. Hahn was the International Business Development Director of GSE, a French logistics construction company.

M. Gordon Keiser, Jr. -- 56 -- Senior Vice President since October 1995 and Treasurer of ProLogis since December 1998, where he is responsible for relationships with ProLogis' lenders. Mr. Keiser has been with ProLogis in varying capacities since October 1995 (through September 1997 he was employed by ProLogis' former management company). Prior to joining ProLogis, Mr. Keiser was Senior Vice President of JMB Realty Corporation with responsibilities for corporate finance and capital markets financing. Previously, Mr. Keiser was with KPMG Peat Marwick (now KPMG LLP).

Luke A. Lands -- 44 -- Senior Vice President and Controller of ProLogis since August 2000, where he supervises accounting, financial reporting and

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forecasting. Mr. Lands has been with ProLogis in varying capacities since January 1996 (through September 1997 he was employed by ProLogis' former management company). Prior to joining ProLogis, Mr. Lands was Vice President of SCG Realty Services (an affiliate of Security Capital) from February 1995 to January 1996 and he was Vice President and Controller for Lincoln Property Company, a diversified national real estate operating company. Mr. Lands is a Certified Public Accountant.

Debra A. McRight -- 41 -- Senior Vice President of ProLogis since December 1999, where she is responsible for North American property management operations. Ms. McRight has been with ProLogis in varying capacities since September 1995 (through September 1997 she was employed by ProLogis' former management company). Prior to joining ProLogis, Ms. McRight was with Paragon Group, Inc., a full service real estate company, where she was responsible for property management operations in St. Louis, Missouri.

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David S. Morze -- 40 -- Senior Vice President of ProLogis since March 1999, where he is responsible for the Market Services Group in the Mid-Atlantic Region of the United States. Mr. Morze has been with ProLogis in varying capacities since March 1995 (through September 1997 he was employed by ProLogis' former management company). Prior to joining ProLogis, Mr. Morze was the Director of Marketing for Northern California for The SARES REGIS Group.

Edward S. Nekritz -- 35 -- Senior Vice President and General Counsel of ProLogis since December 1998 and Secretary of ProLogis since March 1999, where he oversees the provision of all legal services for ProLogis and he is also responsible for ProLogis' due diligence and risk management functions. Mr. Nekritz has been with ProLogis in varying capacities since September 1995 (through September 1997 he was employed by ProLogis' former management company). Prior to joining ProLogis, Mr. Nekritz was an attorney with Mayer, Brown & Platt.

### ENVIRONMENTAL MATTERS

Under various federal, state and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. The presence of such substances may adversely affect the owner's ability to sell such real estate or to borrow using such real estate as collateral. ProLogis has not been notified by any governmental authority of any non-compliance, liability or other claim in connection with any of the properties owned or being acquired at December 31, 2000, and ProLogis is not aware of any environmental condition with respect to any of its properties that is likely to be material. ProLogis or the predecessor owners have subjected each of its properties to an environmental assessment (which does not involve invasive procedures such as soil sampling or ground water analysis) by independent consultants. While some of these assessments have led to further investigation and sampling, none of the environmental assessments has revealed, nor is ProLogis aware of, any environmental liability (including asbestos-related liability) that ProLogis believes would have a material adverse effect on its business, financial condition or results of operations. No assurance can be given, however, that these assessments and investigations reveal all potential environmental liabilities, that no prior owner or operator created any material environmental condition not known to ProLogis or the

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independent consultants or that future uses or conditions (including, without limitation, customer actions or changes in applicable environmental laws and regulations) will not result in unreimbursed costs relating to environmental liabilities.

### INSURANCE COVERAGE

ProLogis and its consolidated and unconsolidated entities currently carry comprehensive insurance coverage including property, liability, fire, flood, earthquake, environmental, extended coverage and rental loss, as appropriate for the markets where each entities facilities and business operations are located. The insurance coverage contains policy specifications and insured limits customarily carried for similar facilities. ProLogis believes its facilities and the facilities of its consolidated and unconsolidated entities are adequately insured; however, an uninsured loss could result in loss of capital investment and anticipated profits.

### ITEM 2. PROPERTIES

#### INDUSTRIAL DISTRIBUTION FACILITIES

ProLogis and its consolidated entities (see -- "Consolidated Entities") have invested primarily in generic industrial distribution facilities with an average office finish level of less than 10%. Due to the costs associated with retrofitting customer spaces, service center product has been acquired only on a very limited basis, generally as part of portfolio acquisitions in which the majority of product being acquired was bulk distribution. ProLogis' industrial distribution facilities is typically used for storage, packaging, assembly, distribution and light manufacturing of consumer and industrial products.

- o Distribution. -- ProLogis' distribution facilities are adaptable for both bulk distribution and light manufacturing or assembly uses. Based upon square footage, ProLogis' operating portfolio was comprised of 88.5% bulk distribution and 10.4% light manufacturing facilities as of December 31, 2000.
- o Service Center and Other -- Under ProLogis' definition, service centers are multi-customer buildings that have a higher percentage of office space than distribution facilities and only have grade-level loading as opposed to truck dock loading. As of December 31, 2000, service center product constituted approximately 0.9% of the square feet in ProLogis' operating portfolio

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and other miscellaneous facilities, primarily office facilities acquired as part of portfolio acquisitions, constituted 0.2% of the square feet in ProLogis' operating portfolio.

#### GEOGRAPHIC DISTRIBUTION

ProLogis and its consolidated entities (see -- "Consolidated Entities") have direct ownership of 1,285 industrial distribution facilities (operating and under development) in North America and Europe as of December 31, 2000. In the United States, ProLogis' facilities are located in 42 cities in 24 states and the District of Columbia. ProLogis' facilities in Mexico are located in four cities. In Europe, ProLogis' facilities are located in 11 cities in 5 countries. The table below demonstrates the geographic distribution of ProLogis' portfolio (operating facilities and facilities under development). The table excludes land

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held for future development, which is less than 5% of ProLogis' total investment, based on cost as of December 31, 2000 and 1999. The table does not include facilities that are owned by ProLogis' unconsolidated entities which are discussed under "-- Unconsolidated Entities".

	DECEMBER 31,		
	2000		
	NUMBER OF FACILITIES	PERCENTAGE OF ASSETS BASED ON COST(1)	NUMBER OF FACILITIES
NORTH AMERICAN MARKETS (2) (3) :			
Atlanta, Georgia .....	97	6.46%	10
Austin, Texas .....	37	2.00	3
Birmingham, Alabama .....	6	0.75	
Charlotte, North Carolina .....	32	2.57	3
Chattanooga, Tennessee .....	5	0.33	
Chicago, Illinois .....	64	7.45	6
Cincinnati, Ohio .....	47	3.00	4
Columbus, Ohio .....	32	4.13	3
Dallas/Fort Worth, Texas .....	116	8.53	12
Denver, Colorado .....	26	1.80	2
El Paso, Texas .....	19	1.49	2
Fort Lauderdale/Miami, Florida .....	17	1.73	1
Houston, Texas .....	82	4.67	8
I-95 Corridor, New Jersey .....	31	4.89	3
Indianapolis, Indiana .....	43	2.79	4
Juarez, Mexico .....	7	0.37	
Kansas City, Kansas/Missouri .....	29	1.28	2
Las Vegas, Nevada .....	18	2.20	1
Los Angeles/Orange County, California .....	6	1.62	
Louisville, Kentucky .....	8	1.01	1
Memphis, Tennessee .....	40	3.25	4
Monterrey, Mexico .....	10	0.97	1
Nashville, Tennessee .....	29	1.63	3
Oklahoma City, Oklahoma .....	6	0.24	
Orlando, Florida .....	23	1.85	2
Phoenix, Arizona .....	31	1.67	3
Portland, Oregon .....	26	1.59	2
Reno, Nevada .....	20	1.48	1
Reynosa, Mexico .....	15	1.01	1
Rio Grande Valley (Brownsville), Texas .....	14	0.54	1
Salt Lake City, Utah .....	7	0.93	1
San Antonio, Texas .....	46	2.16	4
Seattle, Washington .....	15	1.33	1
San Francisco (East Bay), California .....	54	4.79	5
San Francisco (South Bay), California .....	71	4.98	7
St. Louis, Missouri .....	15	1.05	1
Tampa, Florida .....	58	2.67	6
Tijuana, Mexico .....	5	0.60	
Tulsa, Oklahoma .....	9	0.26	
Washington D.C./Baltimore, Maryland .....	48	4.13	4
Other(4) .....	3	0.12	2

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Subtotal North America(2) (3) .....	1,267	96.32	1,30
EUROPEAN MARKETS(5) (6) (7) (8):			
Amsterdam, Netherlands .....	--	--	--
Brabant, Netherlands .....	1	0.27	--
Cologne, Germany .....	1	0.28	--
Lille, France .....	1	0.06	--
Lyon, France .....	1	0.14	--
Marseille, France .....	1	0.14	--
Milan, Italy .....	2	0.35	--
Neustadt, Germany .....	1	0.28	--
Paris, France .....	3	0.66	5
Rotterdam, Netherlands .....	3	0.47	--
Soest, Germany .....	1	0.31	--
Warsaw, Poland .....	3	0.72	--
Subtotal Europe(5) (6) (7) (8) .....	18	3.68	7
Total .....	1,285(9)	100.00%	1,37

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- (1) Facilities under development are reflected at their total budgeted development cost, rather than cost incurred to date.
  - (2) In January 2001, ProLogis acquired three operating facilities in Memphis, Tennessee aggregating 0.7 million square feet for \$16.6 million. These facilities were acquired to complete a tax-deferred exchange transaction.
  - (3) In January 2001, ProLogis contributed three facilities to ProLogis North American Properties Fund I in exchange for an additional equity interest of \$34.1 million. The three facilities, one located in Atlanta and two located in Dallas/Ft. Worth, aggregated 0.9 million square feet.
  - (4) In 2000, includes one facility each in Akron, Ohio, Detroit, Michigan and Norfolk, Virginia. In 1999, includes one facility each in Akron, Ohio, Boston, Massachusetts and Norfolk, Virginia and 21 facilities in Detroit, Michigan, 20 of which were disposed of during 2000.
  - (5) In January 2001, ProLogis contributed two additional facilities located in France (Lyon and Paris) to ProLogis European Properties Fund. These facilities aggregated 0.4 million square feet and generated net proceeds of \$16.1 million.
  - (6) Does not include facilities owned by the Kingspark entities (13 operating facilities and 12 facilities under development as of December 31, 2000 and 15 operating facilities and 14 facilities under development as of December 31, 1999). See "-- Unconsolidated Entities -- CDFS Business" and Note 4 to ProLogis' Consolidated Financial Statements in Item 8.
  - (7) On January 7, 2000, ProLogis contributed 50.1% of the common stock of ProLogis European Properties S.a.r.l., one of its wholly owned European entities, to ProLogis European Properties Fund in exchange for an equity

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interest. ProLogis European Properties S.a.r.l. owned 60 facilities (54 facilities in Paris, four facilities in Warsaw, one facility in Lyon and one facility in Rotterdam) as of December 31, 2000. The remaining 49.9% of the common stock of ProLogis European Properties S.a.r.l. was contributed to ProLogis European Properties Fund by ProLogis on January 7, 2001 in exchange for an additional equity interest.

- (8) ProLogis is committed to contribute substantially all of its stabilized facilities in Europe to ProLogis European Properties Fund, subject to meeting specified criteria.
- (9) Includes 41 facilities under development as of December 31, 2000 and 51 facilities under development as of December 31, 1999.

### FACILITIES

The information in the following table is as of December 31, 2000 for the facilities owned by ProLogis and its consolidated entities in North America and Europe. No individual facility or group of facilities operated as a single business unit amounted to 10% or more of ProLogis' consolidated total assets as of December 31, 2000 or generated gross revenue equal to 10% or more of ProLogis' consolidated gross revenues for the year ended December 31, 2000. The table does not include facilities that are owned by ProLogis' unconsolidated entities which are discussed under "-- Unconsolidated Entities".

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	NO. OF BLDGS.	PERCENTAGE OCCUPANCY (1)	RENTABLE SQUARE FOOTAGE
OPERATING FACILITIES OWNED AS			
OF DECEMBER 31, 2000 (4):			
NORTH AMERICAN			
MARKETS (5) (6):			
Atlanta, Georgia .....	95	88.04%	9,131,533
Austin, Texas .....	35	94.66	2,156,609
Birmingham, Alabama .....	6	100.00	1,135,278
Charlotte, North			
Carolina .....	32	95.70	3,980,670
Chattanooga, Tennessee .....	5	100.00	1,147,872
Chicago, Illinois .....	61	93.51	7,689,671
Cincinnati, Ohio .....	45	88.44	5,031,002
Columbus, Ohio .....	31	94.96	5,747,391
Dallas/Fort Worth, Texas .....	116	86.64	11,805,472
Denver, Colorado .....	26	95.26	3,094,209
El Paso, Texas .....	18	89.86	2,231,903
Fort Lauderdale/Miami,			
Florida .....	16	91.04	1,694,808
Houston, Texas .....	82	95.20	7,210,747
I-95 Corridor, New			
Jersey .....	30	95.31	4,836,537
Indianapolis, Indiana .....	43	87.07	4,187,721
Juarez, Mexico .....	7	84.98	487,152
Kansas City,			
Kansas/Missouri .....	29	95.83	1,578,487
Las Vegas, Nevada .....	18	92.97	2,296,811

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Los Angeles/Orange County, California .....	2	100.00	289,283
Louisville, Kentucky .....	7	100.00	1,469,988
Memphis, Tennessee .....	39	90.54	5,415,819
Monterrey, Mexico .....	10	84.82	1,167,403
Nashville, Tennessee .....	29	88.99	3,084,949
Oklahoma City, Oklahoma .....	6	98.73	639,942
Orlando, Florida .....	23	91.22	2,112,100
Phoenix, Arizona .....	31	96.82	2,289,922
Portland, Oregon .....	26	95.42	1,957,401
Reno, Nevada .....	19	91.57	2,327,917
Reynosa, Mexico .....	12	86.32	1,140,853
Rio Grande Valley (Brownsville), Texas .....	14	99.65	916,746
Salt Lake City, Utah .....	7	98.19	1,643,468
San Antonio, Texas .....	46	93.39	3,906,603
Seattle, Washington .....	15	100.00	1,390,447
San Francisco (East Bay), California .....	54	89.21	5,768,799
San Francisco (South Bay), California .....	71	99.87	3,694,781
St. Louis, Missouri .....	15	85.97	1,621,825
Tampa, Florida .....	58	97.56	3,325,581
Tijuana, Mexico .....	4	88.24	615,120
Tulsa, Oklahoma .....	9	100.00	523,623
Washington D.C./Baltimore, Maryland .....	40	97.14	3,619,350
Other .....	3	100.00	160,998
	-----	-----	-----
Subtotal North America (5) (6) .....	1,235	92.45	124,526,791
	-----	-----	-----
EUROPEAN MARKETS (7) (8) (9):			
Lille, France (10) .....	1	48.18	16,587
Lyon, France .....	1	100.00	225,194
Milan, Italy .....	2	--	444,122
Paris, France .....	1	100.00	126,477
Rotterdam, Netherlands .....	2	--	435,420
Warsaw, Poland .....	2	57.26	500,655
	-----	-----	-----
Subtotal Europe (7) (8) (9) .....	9	36.97	1,748,455
	-----	-----	-----
TOTAL OPERATING FACILITIES OWNED AS OF DECEMBER 31, 2000 (4) .....	1,244	91.68%	126,275,246
	=====	=====	=====

NO. OF BLDGS.	RENTABLE SQUARE FOOTAGE	INVESTME (2)
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FACILITIES UNDER DEVELOPMENT AS OF  
DECEMBER 31, 2000 (12) (13):

NORTH AMERICAN MARKETS:

Atlanta, Georgia .....	2	702,000	\$ 10,331,
Austin, Texas .....	2	209,600	5,339,
Chicago, Illinois .....	3	725,072	19,699,
Cincinnati, Ohio .....	2	214,080	4,824,
Columbus, Ohio .....	1	289,280	6,763,
El Paso, Texas .....	1	239,131	5,368,
Fort Lauderdale/Miami, Florida .....	1	94,500	3,923,
I-95 Corridor, New Jersey .....	1	299,000	9,499,
Los Angeles/Orange County, California .....	4	1,084,192	43,248,
Louisville, Kentucky .....	1	350,000	7,811,
Memphis, Tennessee .....	1	360,000	8,486,
Reno, Nevada .....	1	218,500	2,233,
Reynosa, Mexico .....	3	360,294	9,154,
Tijuana, Mexico .....	1	141,290	3,334,
Washington D.C./Baltimore, Maryland .....	8	1,037,261	16,963,
	-----	-----	-----
Subtotal North America .....	32	6,324,200	156,980,
	-----	-----	-----

EUROPEAN MARKETS:

Brabant, Netherlands .....	1	307,700	6,911,
Cologne, Germany .....	1	206,938	4,798,
Marseille, France .....	1	230,576	1,247,
Neustadt, Germany .....	1	212,266	903,
Paris, France .....	2	675,129	4,709,
Rotterdam, Netherlands .....	1	157,154	1,056,
Soest, Germany .....	1	305,579	2,136,
Warsaw, Poland .....	1	291,940	7,277,
	-----	-----	-----
Subtotal Europe .....	9	2,387,282	29,039,
	-----	-----	-----

TOTAL FACILITIES UNDER

DEVELOPMENT AS OF DECEMBER 31,  
2000 (12) (13) .....

	41	8,711,482	\$186,019,
	=====	=====	=====

	ACREAGE	INVESTMENT (2)	ENC
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LAND HELD FOR DEVELOPMENT AS OF DECEMBER 31,  
2000 (14) (15):

NORTH AMERICAN MARKETS:

Atlanta, Georgia .....	228.3	\$ 14,624,463	\$
Austin, Texas .....	7.2	763,323	
Charlotte, North Carolina .....	25.3	2,554,060	
Chicago, Illinois .....	245.0	32,623,248	
Cincinnati, Ohio .....	90.2	6,658,637	
Columbus, Ohio .....	56.5	2,242,658	
Dallas/Fort Worth, Texas .....	182.6	11,390,734	
Denver, Colorado .....	15.6	1,405,890	
El Paso, Texas .....	108.3	6,448,009	
Houston, Texas .....	64.9	5,299,734	
I-95 Corridor, New Jersey .....	10.1	739,801	



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Indianapolis, Indiana .....	72.7	5,873,642	
Juarez, Mexico .....	21.4	3,812,547	
Kansas City, Kansas/Missouri .....	16.6	1,511,000	
Las Vegas, Nevada .....	61.8	6,937,917	
Los Angeles/Orange County, California .....	27.8	5,892,455	
Louisville, Kentucky .....	13.0	600,409	
Memphis, Tennessee .....	47.9	3,631,205	
Monterrey, Mexico .....	25.9	3,875,347	
Orlando, Florida .....	28.1	2,788,623	
Portland, Oregon .....	18.0	2,848,334	
Reno, Nevada .....	30.1	4,196,675	
Reynosa, Mexico .....	82.6	6,456,419	
Rio Grande Valley (Brownsville), Texas .....	14.8	439,288	
Salt Lake City, Utah .....	30.3	2,015,954	
San Antonio, Texas .....	58.1	5,289,233	
San Francisco (East Bay), California .....	77.6	5,953,538	
Seattle, Washington .....	10.6	1,919,882	
Tampa, Florida .....	53.2	3,758,156	
Tijuana, Mexico .....	14.1	2,926,257	
Washington D.C./Baltimore, Maryland .....	22.3	1,960,650	
	-----	-----	-----
Subtotal North America .....	1,760.9	157,438,088	
	-----	-----	-----
EUROPEAN MARKETS:			
Barcelona, Spain .....	70.8	19,971,847	
Brabant, Netherlands .....	8.9	1,710,486	
Cologne, Germany .....	13.4	613,824	
La Havre, France .....	123.6	1,105,112	
Lyon, France .....	17.6	2,014,115	
Milan, Italy .....	16.2	1,223,960	
Tongerren, Belgium .....	3.3	182,189	
Warsaw, Poland .....	32.3	3,145,201	
	-----	-----	-----
Subtotal Europe .....	286.1	29,966,734	
	-----	-----	-----
TOTAL LAND HELD FOR DEVELOPMENT AS OF DECEMBER 31, 2000(14) (15) .....	2,047.0	\$187,404,822	\$
	=====	=====	=====

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	NO. OF BLDGS.	ACREAGE	RENTABLE SQUARE FOOTAGE	INVESTMENT (2)
	-----	-----	-----	-----
GRAND TOTALS AS OF DECEMBER 31, 2000:				
Operating Facilities .....	1,244	n/a	126,275,246	\$4,260,276,414
Facilities Under Development ....	41	n/a	8,711,482	186,019,982
Land Held for Development .....	n/a	2,047.0	n/a	187,404,822
	-----	-----	-----	-----
Totals .....	1,285	2,047.0	134,986,728	\$4,633,701,218
	=====	=====	=====	=====

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- (1) Percentage Occupancy is physical occupancy for the facility as of December 31, 2000. Operating facilities as of December 31, 2000 include recently completed development facilities in initial lease-up (3.4 million square feet completed in the fourth quarter of 2000) which impacts the overall occupancy percentage as of December 31, 2000.
- (2) Investment is as of December 31, 2000 and represents ProLogis' historical cost.
- (3) Certain facilities are pledged as collateral under ProLogis' mortgage notes, securitized debt and assessment bonds as of December 31, 2000. See Schedule III -- Real Estate and Accumulated Depreciation to ProLogis' Consolidated Financial Statements in Item 8 for specific facilities pledged.
- (4) All assets are utilized in the property operations segment. See "Item 1 -- Business -- ProLogis Trust".
- (5) In January 2001, ProLogis acquired three operating facilities in Memphis, Tennessee aggregating 0.7 million square feet for \$16.6 million. These facilities were acquired to complete a tax-deferred exchange transaction.
- (6) In January 2001, ProLogis contributed three facilities to ProLogis North American Properties Fund I in exchange for an additional equity interest of \$34.1 million. The three facilities, one located in Atlanta and two located in Dallas/Ft. Worth, aggregated 0.9 million square feet.
- (7) In January 2001, ProLogis contributed two additional facilities located in France (Lyon and Paris) to ProLogis European Properties Fund. These facilities aggregated 0.4 million square feet and generated net proceeds of \$16.1 million.
- (8) ProLogis is committed to contribute substantially all of its stabilized facilities in Europe to ProLogis European Properties Fund, subject to meeting specified criteria.
- (9) Does not include 13 operating facilities with an investment of \$139.2 million and 12 facilities under development with a total budgeted cost of \$136.2 million owned by the Kingspark entities in the United Kingdom as of December 31, 2000. Beginning January 2, 2001, the accounts of the Kingspark entities will be consolidated in ProLogis' financial statements along with ProLogis' other majority-owned and controlled subsidiaries and partnerships. See "-- Unconsolidated Entities -- CDFS Business" and Note 4 to ProLogis' Consolidated Financial Statements in Item 8.
- (10) Represents an office building acquired as part of a portfolio acquisition.
- (11) Represents the total budgeted development cost at completion for facilities under development, which includes the cost of land, fees, permits, payments to contractors, architectural and engineering fees and interest and property taxes to be capitalized during construction, rather than costs incurred to date.

- (12) All of the facilities under development are expected to be utilized in the CDFS business segment. See "Item 1 -- Business -- ProLogis Trust".
- (13) Includes 0.8 million square feet in the design and permitting stage.
- (14) All of the land held for future development is expected to be utilized in the CDFS business segment for the development of approximately 36.2 million square feet of distribution facilities. See "Item 1 -- Business -- ProLogis Trust". Does not include 1,232 acres of land controlled under option, letter of intent or contingent contract with the capacity of developing approximately 21.2 million square feet of distribution facilities.
- (15) Does not include 332 acres of land owned and 1,515 acres of land under control by the Kingspark entities in the United Kingdom as of December 31, 2000 which has the combined capacity for the development of approximately 28.3 million square feet of distribution facilities.
- (16) See Schedule III -- Real Estate and Accumulated Depreciation to ProLogis' Consolidated Financial Statements in Item 8 for a reconciliation of this amount to ProLogis' total investment in real estate.

#### CONSOLIDATED ENTITIES

##### Partnerships

As of December 31, 2000, ProLogis held a majority interest in and controlled five partnerships (collectively, the "Partnerships"), which are consolidated with the accounts of ProLogis. Generally, pursuant to the Partnership agreements, ProLogis or one of its wholly owned entities, is the sole controlling general partner and has full responsibility for the management and control of the Partnerships. The limited partners have no authority to transact business for, or, except as noted below, participate in the management decisions of, the Partnerships. However, any decision to amend certain provisions of the applicable partnership agreement, to dissolve a Partnership prior to the term set forth in the applicable partnership agreement or to enter into certain extraordinary transactions would require the consent of all limited partners. Pursuant to the partnership agreements, ProLogis, or its wholly owned entity, as the case may be, may not voluntarily withdraw from the applicable Partnership or transfer or assign its interests in the Partnership without the consent of all of the limited partners thereto. The limited partners may freely transfer their Partnership units to affiliates, provided that such transfer does not cause a termination of the Partnership for federal income tax purposes and does not cause ProLogis to cease to comply with requirements under the Code for qualification as a REIT. Each of the Partnership agreements grants to the limited partners the right to exchange their Partnership units for ProLogis common shares of beneficial interest, par value \$0.01 per share, ("Common Shares"), subject to certain conditions. For financial reporting purposes, the assets, liabilities, results of operations and cash flows of each of the Partnerships are included in ProLogis' consolidated financial statements, and the interests of the limited partners are reflected as minority interest. See Note 6 to ProLogis' Consolidated Financial Statements in Item 8. The Partnerships, which are part of the property operations segment, are as follows as of December 31, 2000:

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ENTITY	FORMATION DATE	INVESTMENT IN REAL ESTATE (IN MILLIONS)	PROLOGIS OWNERSHIP
-----	-----	-----	-----
ProLogis Limited Partnership-I(1) .....	1993	\$ 211.0 (2)	68
ProLogis Limited Partnership-II .....	1994	\$ 58.3 (4)	97
ProLogis Limited Partnership-III .....	1994	\$ 52.0 (5)	86
ProLogis Limited Partnership-IV(6) .....	1994	\$ 103.9 (7)	98
Meridian Realty Partners Limited Partnership .....	(8)	\$ 10.4 (9)	88

(1) These facilities cannot be sold, prior to the occurrence of certain events, without the consent of the limited partners thereto, other than in tax-deferred exchange transactions.

(2) Facilities are located in the San Francisco (both South Bay and East Bay) and Tampa markets.

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(3) Convertible into Common Shares on a one for one basis.

(4) Facilities are located in the Charlotte, Dallas/Ft. Worth, Denver, El Paso, San Francisco (East Bay), St. Louis and Washington, D.C./Baltimore markets.

(5) Facilities are located in the Chicago, Ft. Lauderdale/Miami, Norfolk, Orlando, San Antonio and Tampa markets.

(6) ProLogis Limited Partnership-IV was formed through a cash contribution from a wholly owned subsidiary of ProLogis, ProLogis-IV, Inc., and the contribution of distribution facilities from the limited partner. ProLogis Limited Partnership-IV and ProLogis-IV, Inc. are legal entities separate and distinct from ProLogis, its affiliates and each other, and each has separate assets, liabilities, business functions and operations. The sole assets of ProLogis-IV, Inc. are its general partner advances to and its interest in ProLogis Limited Partnership-IV. As of December 31, 2000, ProLogis Limited Partnership-IV had outstanding borrowings from ProLogis-IV, Inc., of \$0.4 million and ProLogis-IV, Inc. had outstanding borrowings from ProLogis and its affiliates of \$0.4 million.

(7) Facilities are located in the Akron, Cincinnati, Dallas/Ft. Worth, Ft. Lauderdale/Miami, I-95 New Jersey Corridor, Orlando and Tampa markets.

(8) Acquired in merger with Meridian in March 1999. See Note 11 to ProLogis' Consolidated Financial Statements in Item 8.

(9) Facility is located in the Los Angeles/Orange County market.

(10) Convertible into Common Shares on a 1.1 for one basis, plus \$2.00.

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### ProLogis Development Services

ProLogis Development Services, which is part of the CDFS business segment, develops distribution facilities that are often disposed of to customers, third parties or entities in which ProLogis maintains an ownership interest. ProLogis Development Services also contracts on a fee basis to develop distribution facilities for customers or third parties. ProLogis owns 100% of the non-voting preferred stock of ProLogis Development Services representing a 95% interest in ProLogis Development Services' earnings. ProLogis advances mortgage loans to ProLogis Development Services to fund its acquisition, development and construction activities. A charitable trust owns 100% of the voting common stock of ProLogis Development Services but has no substantive role in the decision-making process regarding the operations of ProLogis Development Services. Accordingly, ProLogis has control of ProLogis Development Services and it is consolidated with ProLogis. ProLogis Development Services' real estate assets represented 9.7% of ProLogis' total real estate assets (at cost) as of December 31, 2000. ProLogis Development Services is not a qualified REIT subsidiary of ProLogis under the Code. Accordingly, provisions for federal and state income taxes are recognized, as appropriate. In October 2001, ProLogis acquired the voting common stock of ProLogis Development Services from the charitable trust for \$1.3 million. As a result, ProLogis owns all of the outstanding stock of ProLogis Development Services.

### UNCONSOLIDATED ENTITIES

As of December 31, 2000, ProLogis' investments in and advances to unconsolidated entities totaled \$1.45 billion. These investments were structured to either allow ProLogis to comply with the requirements of the Code to qualify as a REIT or to further ProLogis' objective of increasing cash flows without raising additional capital through direct public debt and public equity offerings.

ProLogis invested in the non-voting preferred stock of certain entities that have ownership interests in companies that produce income that is not REIT "qualifying" income (i.e., rental income and mortgage interest income) under the Code. To maintain its qualification as a REIT, ProLogis can collectively invest in these entities in amounts up to 25% of the fair market value of ProLogis' total assets, with a maximum per company investment of 5% of the fair market value of ProLogis' total assets. Of these investments, ProLogis Development Services, ProLogis Logistics, Frigoscandia S.A. and the Kingspark entities all own properties. ProLogis accounts for the investments in ProLogis Logistics, Frigoscandia S.A. and the Kingspark entities under the equity method. These entities' investments in properties are discussed under "-- CDFS Business" and "-- Temperature-Controlled Distribution Operations". ProLogis Development Services is consolidated with ProLogis. Properties owned by ProLogis Development Services are included in the tables in "-- Geographic Distribution" and "-- Facilities" and ProLogis Development Services is discussed in "--

Consolidated Entities--ProLogis Development Services". See also "Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations -- New Tax Legislation".

The entities discussed below under "-- Property Operations" were all formed to allow ProLogis to generate capital for future development activities while still maintaining an ownership position in the facilities. All of ProLogis' unconsolidated entities are discussed in Note 4 to ProLogis' Consolidated

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Financial Statements in Item 8.

### Property Operations

As of December 31, 2000, ProLogis had a 50.0% ownership interest in ProLogis California, a 34.4% ownership interest in ProLogis European Properties Fund, a 20.0% ownership interest in ProLogis North America Properties Fund I and a 20.0% ownership interest in ProLogis Principal. See "Item 1. Business -- Business Strategy and Operating Segments -- Property Operations Segment", "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations -- Results of Operations -- Property Operations" and Note 4 to ProLogis' Consolidated Financial Statements in Item 8.

	NO. OF BLDGS.	RENTABLE SQUARE FOOTAGE	
		-----	-----
<b>NORTH AMERICA:</b>			
ProLogis California(3):			
Los Angeles/Orange County,			
California .....	77	12,394,603	
		-----	-----
ProLogis North American Properties			
Fund I(5):			
Atlanta, Georgia .....	4	970,568	
Chicago, Illinois .....	1	249,576	
Cincinnati, Ohio .....	2	297,720	
Columbus, Ohio .....	2	888,691	
Dallas/Fort Worth, Texas .....	1	492,500	
Denver, Colorado .....	2	198,892	
El Paso, Texas .....	1	354,159	
Houston, Texas .....	2	238,450	
Indianapolis, Indiana .....	2	719,829	
Louisville, Kentucky .....	3	905,800	
Nashville, Tennessee .....	1	412,800	
Northern New Jersey .....	5	1,100,320	
Phoenix, Arizona .....	1	156,410	
Salt Lake City, Utah .....	3	396,600	
San Antonio, Texas .....	1	244,800	
San Francisco (East Bay),			
California .....	2	404,400	
		-----	-----
	33	8,031,515	
		-----	-----
ProLogis Principal:			
Dallas/Fort Worth, Texas .....	3	440,016	
		-----	-----
Subtotal North America .....	113	20,866,134	
		-----	-----
<b>EUROPE:</b>			
ProLogis European Properties			
Fund(8)(9):			
Amsterdam, Netherlands .....	5	804,564	
Anney, France .....	1	47,028	
Barcelona, Spain .....	1	125,648	
Birmingham, United Kingdom .....	5	714,116	
Gelderland, Netherlands .....	2	499,880	
Lille, France .....	12	376,492	
London, United Kingdom .....	5	1,534,763	

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Lyon, France .....	3	1,147,981
Marseille, France .....	1	415,383
Metz, France .....	1	193,042
Paris, France .....	55	6,329,903
Rotterdam, Netherlands .....	6	1,161,906
Tongeren, Belgium .....	1	226,797
Venlo, Netherlands .....	1	232,383
Warsaw, Poland .....	5	574,937
	-----	-----
Subtotal Europe .....	104	14,384,823
	-----	-----
TOTAL UNCONSOLIDATED		
ENTITIES .....	217	35,250,957
	=====	=====

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(1) Percentage Occupancy is physical occupancy for the facility as of December 31, 2000.

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(2) Investment represents 100% of the entities' historical cost in the assets as of December 31, 2000.

(3) ProLogis California also had a 332,000 square foot facility under development and 10.7 acres of land for future development in Los Angeles. In January 2001, ProLogis California acquired a 326,000 square foot facility from a third party for \$11.3 million.

(4) ProLogis had a 50.0% ownership interest in ProLogis California as of December 31, 2000.

(5) In January 2001, ProLogis North American Properties Fund I acquired three facilities, one located in Atlanta and two located in Dallas/Ft. Worth from ProLogis aggregating 0.9 million square feet for an additional \$34.1 million equity interest. After this contribution, ProLogis' ownership interest in ProLogis North American Properties Fund I was 41.3%.

(6) ProLogis had a 20.0% ownership interest in ProLogis North American Properties Fund I as of December 31, 2000.

(7) ProLogis had a 20.0% ownership interest in ProLogis Principal as of December 31, 2000.

(8) Includes all of the facilities owned by ProLogis European Properties S.a.r.l., which is owned by ProLogis European Properties Fund (50.1%) and ProLogis (49.9%). ProLogis European Properties S.a.r.l. owned 60 operating facilities aggregating 6.6 million square feet in three countries (54 of the facilities are located in France) as of December 31, 2000. On January 7, 2001, ProLogis contributed its 49.9% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund in exchange for an additional equity interest bringing its ownership interest in ProLogis European Properties Fund to 45.6%.

(9) In January 2001, ProLogis European Properties Fund acquired four

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facilities from ProLogis and the Kingspark entities. The two facilities acquired from ProLogis aggregated 0.4 million square feet and are located in Lyon and Paris, France. The two facilities acquired from the Kingspark entities aggregated 0.7 million square feet and are located in Birmingham, United Kingdom. The total acquisition price for the four facilities was \$87.0 million, of which \$8.7 million was received by ProLogis and the Kingspark entities in the form of an additional equity interest.

- (10) ProLogis had a 34.4% ownership interest in ProLogis European Properties Fund as of December 31, 2000.

### CDFS Business

ProLogis recognizes 95% of the earnings of the Kingspark entities through its ownership of 100% of the non-voting preferred stock of Kingspark S.A. As of December 31, 2000, the Kingspark entities owned 13 operating facilities aggregating 1.6 million square feet at an investment of \$139.2 million and 12 facilities under development aggregating 1.5 million square feet with a total budgeted development cost of \$136.2 million. In addition, the Kingspark entities owned 332 acres and controlled 1,515 acres of land through purchase option, letter of intent, development rights agreement or contingent contract as of December 31, 2000. This land has the combined capacity for the future development of approximately 28.3 million square feet of distribution facilities. The Kingspark entities' facilities and land acreage are located in 12 cities or counties in the United Kingdom. See "Item 1. Business -- Business Strategy and Operating Segments -- CDFS Business Segment", "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- CDFS Business" and Note 4 to ProLogis' Consolidated Financial Statements in Item 8.

### Temperature-Controlled Distribution Operations

- o ProLogis recognizes 95% of the earnings of ProLogis Logistics, which owns 100% of CSI. As of December 31, 2000, CSI owned or operated under lease agreements 59 facilities aggregating 175.9 million cubic feet of temperature-controlled distribution facilities (including 35.5 million cubic feet of dry distribution space located in temperature-controlled distribution facilities) in 28 cities in the United States and had 6.3 million cubic feet under development in Anaheim (4.0 million cubic feet) and Houston (2.3 million cubic feet).

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- o ProLogis recognizes 95% of the earnings of Frigoscandia S.A., which owns, through its subsidiaries, 100% of Frigoscandia. Frigoscandia owned or operated under lease agreements 89 facilities aggregating 187.7 million of cubic feet of temperature-controlled distribution facilities in 10 countries in Europe as of December 31, 2000.

See "Item 1. Business-- Business Strategy and Operating Segments -- Temperature-Controlled Distributions Operations Segment", "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-- Results of Operations-- Temperature-Controlled Distribution Operations".

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## PART III

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

#### AMENDED AND RESTATED INVESTOR AGREEMENT

ProLogis and Security Capital are parties to a Third Amended and Restated Investor Agreement, dated as of September 9, 1997 (the "Investor Agreement"). Pursuant to the Investor Agreement, Security Capital has the right, so long as it owns between 10% and 25% of the Common Shares, to nominate one person to the Board. So long as Security Capital owns 25% or more of the Common Shares, Security Capital will be entitled to nominate a proportionate number of persons to the Board subject to a maximum of three nominees if the size of the Board does not increase above the current size of ten Trustees. In addition, ProLogis is required to consult with Security Capital's nominees to the Board prior to taking any action with respect to the following: (i) finalization of the annual budget and substantial deviations therefrom; (ii) the acquisition or sale of assets in a single transaction or group of related transactions where the price exceeds \$25 million; (iii) any contract for investment, property management or leasing services; and (iv) any service contract providing for payments in excess of \$1.0 million. ProLogis has no obligation to follow the advice of Security Capital with respect to the foregoing matters.

Under the Investor Agreement, so long as it owns at least 25% of the Common Shares, Security Capital also has the right of prior approval with respect to the following matters: (i) the issuance of equity securities or securities convertible into equity securities (other than issuances in connection with option, dividend reinvestment and similar plans) for less than the fair market value of such securities; (ii) the issuance of any preferred shares which would result in the Fixed Charge Coverage Ratio (as defined therein) being less than 1.4 to 1.0; (iii) adopting any employee benefit plans under which Common Shares may be issued; and (iv) the compensation of senior officers of ProLogis; (v) the incurrence of additional indebtedness which would result in the Interest Expense Coverage Ratio (as defined therein) being less than 2.0 to 1.0.

#### ADMINISTRATIVE SERVICES AGREEMENT

ProLogis and a subsidiary of Security Capital entered into an administrative services agreement (the "ASA"), pursuant to which Security Capital provides ProLogis with certain administrative and other services with respect to certain aspects of ProLogis' business, as selected from time to time by ProLogis at its option. These services include, but are not limited to, payroll and human resources, cash management, accounts payable, specified information systems support, research and insurance services. These services are provided in exchange for a fee based on negotiated rates for each service provided. Total fees incurred under the ASA were \$2.5 million in 2000. ProLogis began transitioning these functions from Security Capital during 2000 and ProLogis has assumed substantially all of the functions previously provided by Security Capital. The ASA expired on December 31, 2000. Security Capital is continuing to provide the services not yet assumed by ProLogis under a month-to-month agreement until the transition is completed, for which ProLogis paid \$820,995 through December 31, 2001. ProLogis believes that the terms and conditions of the administrative services agreement are as favorable as those that could have been obtained from unaffiliated third parties.

#### FINANCIAL ADVISORY FEES

Macquarie Capital Partners LLC (prior to January 2001 Security Capital Markets Group Incorporated), an affiliate of Security Capital, provided

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financial advisory and investment banking services to ProLogis. During 2000, ProLogis paid investment advisory fees of \$104,000 to Security Capital Markets Group Incorporated related to additional equity contributed by The New York State Common Retirement Fund to ProLogis California I LLC, a limited liability company whose members are ProLogis and The New York State Common Retirement Fund.

### PROTECTION OF BUSINESS AGREEMENT

Prior to September 9, 2000, Security Capital and ProLogis were parties to a protection of business agreement which prohibited Security Capital and its affiliates from providing, anywhere within the United States, directly or indirectly, management services to any entity that owns or operates real property that is or is planned to be used primarily for distribution and light manufacturing properties. The protection of business agreement terminated on September 9, 2000.

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### PARTNERSHIP AFFILIATIONS

As part of its acquisition program of industrial distribution facilities, ProLogis has consummated certain transactions pursuant to which it contributed cash, and third party partnerships contributed a portfolio of facilities, to ProLogis Limited Partnership -- I. Irving F. Lyons, III, President, Chief Investment Officer and Trustee of ProLogis, is a partner in ProLogis Limited Partnership - I, holding an indirect 2.9% limited partnership interest (which could increase to 3.3% if the partnership meets certain distribution levels) valued at \$8,906,323, based on the December 31, 2001 closing price of Common Shares. Mr. Lyons also owns minority interests in a substantial amount of undeveloped industrial land near ProLogis' industrial distribution parks in the San Francisco Bay Area. ProLogis has purchased options and rights of first refusal with respect to all sales of land and build-to-suit opportunities involving this property. The ProLogis Limited Partnership -- I transaction and the prices for such options (which are fixed or determined pursuant to formulas) were negotiated at arm's length prior to Mr. Lyons' affiliation with ProLogis.

### PREFERRED STOCK SUBSIDIARIES

ProLogis has invested in the non-voting preferred stock of certain entities that have ownership interests in companies that produce income that is not REIT qualifying income (i.e., rental income and mortgage interest income) under the Code. The voting common stock of these companies was held by four entities in which ProLogis did not have an ownership interest. ProLogis' largest shareholder, Security Capital Group Incorporated, had a non-controlling ownership interest in two of these entities. During 2000, certain amendments to the Code were passed that were to be effective in January 2001. The Code, as amended in 2001, would allow for ProLogis to have a voting ownership interest in these entities; however, many of the states in which ProLogis operates had not amended their income tax laws governing REITs to coincide with the amendments made to the Code. For ProLogis to continue to qualify as a REIT under applicable state income tax laws, the non-voting preferred stock ownership structure had to continue after the Code amendments took effect in January 2001.

In anticipation of the changes in the Code, ProLogis began negotiating purchase agreements with the owners of the voting common stock in three of the entities. Rather than postpone the completion of these purchases pending changes to the state income tax laws governing REITs, the purchase of the voting common

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stock of each entity was completed with the voting interest in these entities acquired by Mr. K. Dane Brooksher, ProLogis' chairman and chief executive officer. The transactions through which Mr. Brooksher became an owner in these entities are further discussed below. The purchase of the voting common stock of one of the entities, ProLogis Development Services, was not completed until October 2001. As the state income tax laws governing REITs had been amended at that time, ProLogis directly acquired the voting common stock of this entity. ProLogis is currently evaluating the most effective manner in which it holds its investment in these entities as a result of the changes to applicable state income tax laws.

On January 5, 2001, a newly formed limited liability company, Kingspark LLC, of which Mr. Brooksher, ProLogis' chairman, is the voting member and ProLogis is the non-voting member, acquired the ordinary shares of Kingspark Holding S.A. (an entity in which ProLogis owns all of the non-voting preferred stock) from Kingspark Holdings LLC (a limited liability company in which unrelated third parties owned 100% of the voting interests and Security Capital owned 100% of the non-voting interests) for approximately \$8.1 million. The entire purchase price of \$8.1 million was funded by ProLogis either directly or through loans to Kingspark LLC or Mr. Brooksher. The ProLogis loan to Kingspark LLC was in the principal amount of \$7.3 million, is due January 5, 2006 and bears interest at an annual rate of 8%. ProLogis made a direct capital contribution to Kingspark LLC in the amount of \$770,973. Mr. Brooksher's \$40,557 capital contribution to Kingspark LLC was loaned to Mr. Brooksher by ProLogis, which recourse loan is payable on January 5, 2006 and bears interest at an annual rate of 8%. ProLogis owns 95% of the membership interests (all non-voting) and Mr. Brooksher owns 5% of the membership interests (all voting) of Kingspark LLC and Mr. Brooksher is its managing member. Mr. Brooksher may transfer his membership interest, subject to certain conditions, including the approval of ProLogis. There are no provisions that give ProLogis the right to acquire Mr. Brooksher's membership interest. Mr. Brooksher will not receive any compensation in connection with being the managing member. His membership interest entitles him to dividends equal to 5% of the net cash flow of Kingspark LLC, as defined, if any. ProLogis structured the transaction in the manner described above to enable ProLogis to continue to qualify as a REIT under applicable state income tax laws. As the state income tax laws governing REITs were eventually changed in 2001 such that ProLogis would be able to own 100% of this entity, ProLogis is in the process of evaluating the most effective manner to restructure its investment in this entity.

Also on January 5, 2001, a newly formed limited liability company of which Mr. Brooksher is the voting member and ProLogis is the non-voting member, acquired the common shares of Frigoscandia S.A. and ProLogis Logistics Services Incorporated (both entities in which ProLogis owns all of the non-voting preferred stock) for an aggregate of approximately \$3.3 million. The common shares of Frigoscandia S.A. were owned by a limited liability company in which unrelated third parties owned 100% of the

voting interests and Security Capital owned 100% of the non-voting interests. The common shares of ProLogis Logistics Services Incorporated were owned by a limited liability company in which unrelated third parties owned all of the membership interest. Mr. Brooksher contributed \$50,000 to the capital of the newly formed limited liability company. ProLogis loaned CSI/Frigo LLC \$2.9 million, which loan is due January 5, 2011 and bears interest at an annual rate of 8%. ProLogis also made a capital contribution to CSI/Frigo LLC in the amount of \$404,545. ProLogis owns 89% of the membership interests (all non-voting) and Mr. Brooksher owns 11% of the membership interests (all voting) of CSI/Frigo

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LLC. Mr. Brooksher is the managing member of CSI/Frigo LLC. Additionally, ProLogis has a note agreement with CSI/Frigo LLC that allows ProLogis to participate in its earnings such that ProLogis will recognize 95% of the earnings of CSI/Frigo LLC. Mr. Brooksher may transfer his membership interest, subject to certain conditions, including the approval of ProLogis. There are no provisions that give ProLogis the right to acquire Mr. Brooksher's membership interest. Mr. Brooksher will not receive any compensation in connection with being the managing member. Mr. Brooksher's membership interest and the provisions of the participating note entitle him to dividends equal to 5% of the net cash flow of CSI/Frigo LLC, as defined, if any. ProLogis structured the transaction in the manner described above to enable ProLogis to continue to qualify as a REIT under applicable state income tax laws. As the state income tax laws governing REITs were eventually changed in 2001 such that ProLogis would be able to own 100% of this entity, ProLogis is in the process of evaluating the most effective manner to hold its investments in these entities given it's long-term objectives with respect to investments in this business segment and given that it does not control these entities.

As a result of the foregoing transactions, Mr. Brooksher has an effective 0.04% interest in the earnings of ProLogis Logistics Services Incorporated, an effective 0.25% interest in the earnings of Frigoscandia S.A. and an effective 0.25% interest in the earnings of Kingspark Holding S.A. Mr. Brooksher receives no compensation in connection with his interest in these companies.

In 2000, ProLogis invested in two technology companies whose income was not REIT qualifying income under the Code (amendments to the Code and state income tax laws governing REITs were not in effect at this time). These investments were structured whereby ProLogis would have only a non-voting preferred stock ownership interest. To complete the transactions, Mr. Brooksher acquired the voting ownership interest in each entity. These investments are discussed below.

In July 2000, ProLogis acquired an indirect interest in Vizional Technologies, Inc. (formerly GoWarehouse.com, Inc.). In order to facilitate the acquisition, ProLogis acquired all of the non-voting preferred stock of GoProLogis Incorporated ("GoProLogis"), representing a 98% interest in the earnings of GoProLogis. GoProLogis holds the direct investment in Vizional Technologies, Inc. Mr. Brooksher acquired all of the voting common stock of GoProLogis, representing a 2% interest in the earnings of GoProLogis and is entitled to receive dividends equal to 2% of the net cash flow of GoProLogis, as defined, if any. Mr. Brooksher contributed a \$1.1 million recourse promissory note to GoProLogis in exchange for his interest in the entity, which note is payable on July 18, 2005 and bears interest at an annual rate of 8%. Mr. Brooksher is not restricted from transferring his ownership interest in GoProLogis and ProLogis does not have the right to acquire Mr. Brooksher's ownership interest in 2000. However, beginning in 2001, an option agreement does allow ProLogis to acquire Mr. Brooksher's ownership interest for a price equal to the outstanding principal amount of the promissory note plus accrued and unpaid interest. GoProLogis invested \$25.0 million in the preferred stock of Vizional Technologies. GoProLogis also received \$30.4 million of preferred stock of Vizional Technologies under a license agreement for the non-exclusive use of the ProLogis Operating System(TM) over a five-year period. ProLogis structured the transaction in the manner described above to enable ProLogis to continue to qualify as a REIT under applicable state income tax laws. As the state income tax laws governing REITs were eventually changed in 2001 such that ProLogis would be able to own 100% of this entity, ProLogis is in the process of evaluating the most effective manner to restructure its investment in this entity.

In September 2000, ProLogis acquired an indirect interest in PhatPipe, Inc. In order to facilitate the acquisition, ProLogis acquired all of the

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non-voting preferred stock of ProLogis Broadband (1) Incorporated ("ProLogis PhatPipe"), representing a 98% interest in the earnings of ProLogis PhatPipe. ProLogis PhatPipe holds the direct investment in PhatPipe, Inc. Mr. Brooksher acquired all of the voting common stock of ProLogis PhatPipe, representing a 2% interest in the earnings of ProLogis PhatPipe and is entitled to receive dividends equal to 2% of the net cash flow of ProLogis PhatPipe, as defined, if any. Mr. Brooksher contributed an aggregate of \$122,449 principal amount of recourse promissory notes to ProLogis PhatPipe in exchange for his interest in the entity. A promissory note with the principal amount of \$71,429 is due September 20, 2005 and a promissory note with the principal amount of \$51,020 is due January 4, 2006. Both notes bear interest at an annual rate of 8%. Mr. Brooksher is not restricted from transferring his ownership interest in ProLogis PhatPipe and ProLogis does not have the right to acquire Mr. Brooksher's ownership interest in 2000. However, beginning in 2001, an option agreement does allow ProLogis to acquire Mr. Brooksher's ownership interest for a price equal to the outstanding principal amount of the promissory notes plus accrued and unpaid interest. ProLogis PhatPipe invested \$3.5 million in the preferred stock of PhatPipe, Inc. and has committed to fund a total of \$8.0 million in ProLogis PhatPipe by March 31, 2001 pursuant to the terms of a stock purchase agreement. ProLogis PhatPipe also received \$3.5 million of preferred stock of

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PhatPipe, Inc. under a license agreement for the non-exclusive use of the ProLogis Operating System(TM) over a three-year period. ProLogis structured the transaction in the manner described above to enable ProLogis to continue to qualify as a REIT under applicable state income tax laws. As the state income tax laws governing REITs were eventually changed in 2001 such that ProLogis would be able to own 100% of this entity, ProLogis is in the process of evaluating the most effective manner to restructure its investment in this entity.

### LEASING TRANSACTIONS

ProLogis leases space to Security Capital and certain of its affiliates on market terms that management believes are no less favorable to ProLogis than those that could be obtained with unaffiliated third parties. ProLogis' rental income related to these leases were \$534,000, \$757,000, \$756,000, and \$717,000 for the years ended December 31, 2001, 2000, 1999, and 1998, respectively. As of December 31, 2000, 109,804 square feet were leased to related parties. The annualized rental revenue for these leases is \$763,000. As of December 31, 2001, 60,103 square feet were leased to related parties. The annualized rental revenue for these leases is \$472,000.

### LOANS TO EXECUTIVE OFFICERS

In 1997, ProLogis made the following loans to the Named Executive Officers for the purchase price of Common Shares pursuant to the share purchase program which loans remain outstanding (balances as of March 15, 2001): Mr. Brooksher, \$1,862,600; Mr. Lyons, \$1,862,600; Mr. Rakowich, \$931,300; Mr. Seiple, \$931,300, and Mr. Watson, \$1,117,548. Each loan is full recourse to the executive officer and is secured by the purchased Common Shares. The loans bear interest at the lower of ProLogis' annual dividend yield on Common Shares or 6.0% per annum, and have a ten-year term. The loans will become due and payable (i) immediately upon the sale of the purchased Common Shares or ProLogis' termination of the executive officer's employment for cause, (ii) 180 days after ProLogis' termination of the executive officer's employment following a change in control, (iii) 365 days after termination of the executive officer's employment by reason of death, disability or retirement or (iv) 90 days after

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termination of the executive officer's employment for any other reason.

In 2001, ProLogis entered into a loan with K. Dane Brooksher. The proceeds of the loan were used by Mr. Brooksher to repay a loan from Security Capital which was made by Security Capital while Mr. Brooksher was an employee of Security Capital. Under the terms of the promissory note, ProLogis lent Mr. Brooksher \$474,997.50, which amount was due on January 31, 2002. A payment of \$237,500 on the principal amount was paid to ProLogis in January 2001 from the proceeds of Mr. Brooksher's target bonus for 2000. The balance was repaid by Mr. Brooksher from the proceeds of Mr. Brooksher's target bonus for 2001 in January 2002. Interest on the unpaid principal amount outstanding accrued at a floating rate per annum equal to ProLogis' line of credit rate charged by Bank of America (LIBOR plus 75 basis points). Accrued interest is due and payable semi-annually during the term of the loan beginning on January 4, 2001 and thereafter on each July 4 and January 4 until payment in full.

In 2001, ProLogis entered into a loan with Robert J. Watson. The proceeds of the loan were used by Mr. Watson to repay a loan from Security Capital which was made by Security Capital while Mr. Watson was an employee of Security Capital. Under the terms of the promissory note, ProLogis lent Mr. Watson \$90,000, which amount is due on September 1, 2003. Interest on the unpaid principal amount outstanding accrues at a floating rate per annum equal to ProLogis' line of credit rate charged by Bank of America (LIBOR plus 75 basis points). Accrued interest is due and payable annually during the term of the loan beginning on January 31, 2001 and thereafter on each January 31 until payment in full.

### SPECIAL EQUITY AGREEMENT

In December 2000, ProLogis and Mr. Brooksher entered into a Special Equity Agreement. Pursuant to the agreement, the parties agreed that Mr. Brooksher would continue his employment with ProLogis through December 31, 2003. In connection with the agreement, ProLogis agreed that the expiration date of each existing option held by Mr. Brooksher under the 1997 Long-Term Incentive Plan shall be no later than the fifth anniversary of the first to occur of Mr. Brooksher's retirement, disability or death but in no event later than the tenth anniversary of the date on which the option was granted. ProLogis further agreed that the expiration date of each option granted in the future to Mr. Brooksher under the 1997 Long-Term Incentive Plan shall be no later than the fifth anniversary of the first to occur of Mr. Brooksher's retirement, disability, or death but in no event later than the tenth anniversary of the date on which the option was granted. Notwithstanding the foregoing, any dividend equivalent units granted with respect to options granted to or held by Mr. Brooksher will not be credited after the first anniversary of the first to occur of Mr. Brooksher's retirement, disability or death.

Pursuant to the Special Equity Agreement, ProLogis also agreed to grant Mr. Brooksher on December 31, 2000, 167,500 restricted share units under the 1997 Long-Term Incentive Plan. The restricted share units granted to Mr. Brooksher will vest in equal installments on December 31, 2004, 2005, 2006, and 2007, subject to earlier vesting upon a change in control (as defined in the 1997 Long-Term Incentive Plan). Prior to settlement of the restricted share units, dividends will be paid with respect to the restricted share units. The restricted share units will be settled in Common Shares.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

(a) Financial Statements and Schedules:

1. Financial Statements:

See Index to Consolidated Financial Statements, which is incorporated herein by reference.

3. Exhibits:

See Index to Exhibits, which is incorporated herein by reference.

(c) Exhibits: The Exhibits required by Item 601 of Regulation S-K are listed in the Index to Exhibits, which is incorporated herein by reference.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE III

ProLogis Trust:

Report of Independent Public Accountants.....	
Consolidated Balance Sheets.....	
Consolidated Statements of Earnings.....	
Consolidated Statements of Shareholders' Equity.....	
Consolidated Statements of Cash Flows.....	
Notes to Consolidated Financial Statements.....	
Report of Independent Public Accountants.....	
Schedule III-- Real Estate and Accumulated Depreciation.....	

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees and Shareholders of  
ProLogis Trust

We have audited the accompanying consolidated balance sheets of ProLogis Trust and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of earnings, shareholders' equity, and cash flows for

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each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Frigoscandia Holding AB accounted for under the equity method of accounting, in which the Trust has investments in and advances to amounting to \$171.9 million and \$196.9 million as of December 31, 2000 and 1999, respectively, and losses from unconsolidated entity of \$20.0 million, \$2.9 million and \$7.6 million in 2000, 1999 and 1998, respectively. We did not audit the financial statements of CS Integrated LLC accounted for under the equity method of accounting, in which the Trust has an investment in and advances to amounting to \$225.8 million and \$186.9 million as of December 31, 2000 and 1999 and earnings from unconsolidated entity of \$8.0 million and \$9.2 million in 2000 and 1999. These statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for these entities is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of ProLogis Trust and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Chicago, Illinois  
March 15, 2001

PROLOGIS TRUST

CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

	DECEMBER 31,	
	-----	
	2000	
	-----	
Real estate .....	\$ 4,689,492	\$
Less accumulated depreciation .....	476,982	
	-----	



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Investments in and advances to unconsolidated entities .....	4,212,510	
Cash and cash equivalents .....	1,453,148	
Accounts and notes receivable .....	57,870	
Other assets .....	50,856	
	171,950	
	-----	-----
Total assets .....	\$ 5,946,334	\$
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Lines of credit .....	\$ 439,822	\$
Senior unsecured debt .....	1,699,989	
Other unsecured debt .....	--	
Secured debt .....	537,925	
Accounts payable and accrued expenses (including amount due to affiliate of \$221 in 1999) .....	107,494	
Construction payable .....	40,925	
Distributions and dividends payable .....	57,739	
Other liabilities .....	88,439	
	-----	-----
Total liabilities .....	2,972,333	
	-----	-----

Minority interest ..... 46,630

Shareholders' equity:

Series A Preferred Shares; \$0.01 par value; 5,400,000 shares issued and outstanding at December 31, 2000 and 1999; stated liquidation preference of \$25.00 per share .....	135,000	
Series B Convertible Preferred Shares; \$0.01 par value; 6,256,100 shares issued and outstanding at December 31, 2000 and 7,020,703 shares issued and outstanding at December 31, 1999; stated liquidation preference of \$25.00 per share .....	156,403	
Series C Preferred Shares; \$0.01 par value; 2,000,000 shares issued and outstanding at December 31, 2000 and 1999; stated liquidation preference of \$50.00 per share .....	100,000	
Series D Preferred Shares; \$0.01 par value; 10,000,000 shares issued and outstanding at December 31, 2000 and 1999; stated liquidation preference of \$25.00 per share .....	250,000	
Series E Preferred Shares; \$0.01 par value; 2,000,000 shares issued and outstanding at December 31, 2000 and 1999; and stated liquidation preference of \$25.00 per share .....	50,000	
Common shares of beneficial interest; \$0.01 par value; 165,287,358 shares issued and outstanding at December 31, 2000 and 161,825,466 shares issued and outstanding at December 31, 1999 .....	1,653	
Additional paid-in capital .....	2,740,136	
Employee share purchase notes .....	(18,556)	
Accumulated other comprehensive income .....	(33,768)	
Distributions in excess of net earnings .....	(453,497)	
	-----	-----
Total shareholders' equity .....	2,927,371	
	-----	-----
Total liabilities and shareholders' equity .....	\$ 5,946,334	\$
	=====	=====

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

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### PROLOGIS TRUST

#### CONSOLIDATED STATEMENTS OF EARNINGS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	2000	1999
	-----	-----
Income:		
Rental income .....	\$ 480,088	\$ 490,000
Other real estate income .....	78,103	48,000
Income from unconsolidated entities .....	78,063	20,000
Interest .....	7,267	10,000
	-----	-----
Total income .....	643,521	568,000
	-----	-----
Expenses:		
Rental expenses, net of recoveries \$91,706 in 2000, \$87,907 in 1999 and \$57,415 in 1998 and including amounts paid to affiliate of \$1,188 in 2000, \$1,314 in 1999 and \$984 in 1998 .....	27,177	30,000
General and administrative, including amounts paid to affiliate of \$958 in 2000, \$1,582 in 1999 and \$1,992 in 1998 .....	44,954	30,000
Depreciation and amortization .....	151,483	150,000
Interest .....	172,191	170,000
Interest rate hedge expense .....	--	--
Other .....	5,909	--
	-----	-----
Total expenses .....	401,714	480,000
	-----	-----
Earnings from operations .....	241,807	160,000
Minority interest share in earnings .....	5,586	--
	-----	-----
Earnings before gain on disposition of real estate and foreign currency exchange gains (losses) .....	236,221	160,000
Gain on disposition of real estate .....	1,314	30,000
Foreign currency hedge income .....	--	--
Foreign currency exchange gains (losses), net .....	(17,927)	(10,000)
	-----	-----
Earnings before income taxes .....	219,608	180,000
Income taxes:		
Current income tax expense .....	900	--
Deferred income tax expense .....	4,230	--
	-----	-----
Total income taxes .....	5,130	--
	-----	-----
Earnings before cumulative effect of accounting change .....	214,478	180,000
Cumulative effect of accounting change .....	--	--
	-----	-----
Net earnings .....	214,478	180,000
Less preferred share dividends .....	56,763	50,000

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Net earnings attributable to Common Shares .....	\$ 157,715	\$ 12
Weighted average Common Shares outstanding-- Basic .....	163,651	15
Weighted average Common Shares outstanding-- Diluted .....	164,401	15
Basic per share net earnings attributable to Common Shares:		
Earnings before cumulative effect of accounting change .....	\$ 0.96	\$
Cumulative effect of accounting change .....	--	
Net earnings attributable to Common Shares .....	\$ 0.96	\$
Diluted per share net earnings attributable to Common Shares:		
Earnings before cumulative effect of accounting change .....	\$ 0.96	\$
Cumulative effect of accounting change .....	--	
Net earnings attributable to Common Shares .....	\$ 0.96	\$

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

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PROLOGIS TRUST

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998  
(IN THOUSANDS)

	2000	1999
	-----	-----
Common Shares -- Number of shares at beginning of year .....	161,825	123,
Sale of Common Shares .....	--	
Issuance of Common Shares under plans and through warrants .....	1,642	
Limited partnership units converted to Common Shares .....	238	
Series B preferred shares converted to Common Shares .....	980	
Retirements of employee share purchase notes .....	--	
Common Shares issued in merger with Meridian .....	--	37,
Common Shares issued in acquisition of unconsolidated entity .....	602	
Common Shares -- Number of shares at end of year .....	165,287	161,
Common Shares at beginning of year .....	\$ 1,618.2	\$ 1,23
Sale of Common Shares .....	--	
Issuance of Common Shares under plans and through warrants .....	16.4	
Limited partnership units converted to Common Shares .....	2.4	
Series B preferred shares converted to Common Shares .....	9.8	
Retirements of employee share purchase notes .....	--	
Common Shares issued in merger with Meridian .....	--	37
Common Shares issued in acquisition of unconsolidated		

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entity .....	6.0	
	-----	-----
Common Shares at end of year .....	\$ 1,652.8	\$ 1,61
	=====	=====
Preferred Shares at beginning of year .....	\$ 710,518	\$ 673,
Series B preferred shares converted to Common Shares .....	(19,115)	(12,
Sale of Series D preferred shares .....	--	
Issuance of Series E preferred shares in merger with Meridian .....	--	50,
	-----	-----
Preferred Shares at end of year .....	\$ 691,403	\$ 710,
	=====	=====
Additional Paid-in Capital at beginning of year .....	\$ 2,663,350	\$ 1,907,
Issuance of Common Shares under plans and through warrants .....	30,251	6,
Limited partnership units converted to Common Shares .....	8,167	
Series B preferred shares converted to Common Shares .....	19,105	12,
Sale of Common Shares and Series D preferred shares .....	--	
Retirements of employee share purchase notes .....	--	
Sale of options to unconsolidated entities .....	2,153	1,
Stock-based compensation .....	5,238	2,
Preferred and Common Shares issued in merger with Meridian .....	--	733,
Common Shares issued in acquisition of unconsolidated entity .....	11,872	
	-----	-----
Additional Paid-in Capital at end of year .....	\$ 2,740,136	\$ 2,663,
	=====	=====
Employee share purchase notes at beginning of year .....	\$ (22,906)	\$ (25,
Retirements of employee share purchase notes .....	--	
Principal payments on employee share purchase notes .....	4,350	2,
	-----	-----
Employee share purchase notes at end of year .....	\$ (18,556)	\$ (22,
	=====	=====
Accumulated other comprehensive income at beginning of year .....	\$ (9,765)	\$
Foreign currency translation adjustments .....	(24,003)	(9,
	-----	-----
Accumulated other comprehensive income at end of year .....	\$ (33,768)	\$ (9,
	=====	=====
Distributions in excess of net earnings at beginning of year .....	\$ (389,079)	\$ (300,
Net earnings .....	214,478	180,
Preferred share dividends .....	(56,763)	(56,
Common Share distributions paid .....	(165,123)	(158,
Common Share distributions accrued .....	(57,010)	(54,
	-----	-----
Distributions in excess of net earnings at end of year .....	\$ (453,497)	\$ (389,
	=====	=====
Total shareholders' equity at end of year .....	\$ 2,927,371	\$ 2,953,
	=====	=====
Comprehensive income for the year:		
Net earnings .....	\$ 214,478	\$ 180,
Preferred share dividends .....	(56,763)	(56,
Foreign currency translation adjustments .....	(24,003)	(9,
	-----	-----
Comprehensive income for the year .....	\$ 133,712	\$ 114,
	=====	=====

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

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PROLOGIS TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998  
(IN THOUSANDS)

	2000	
	-----	-----
Operating activities:		
Net earnings .....	\$ 214,478	\$
Minority interest share in earnings .....	5,586	
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization .....	151,483	
Gain on disposition of real estate .....	(1,314)	
Straight-lined rents .....	(6,716)	
Amortization of deferred loan costs .....	4,597	
Stock-based compensation .....	3,811	
(Income) loss from unconsolidated entities .....	(64,239)	
Foreign currency exchange (gains) losses, net .....	20,956	
Foreign currency hedge income .....	--	
Interest rate hedge expense .....	--	
Cumulative effect of accounting change .....	--	
Increase in accounts receivable and other assets .....	(31,452)	
Increase in accounts payable, accrued expenses and other liabilities .....	39,639	
	-----	-----
Net cash provided by operating activities .....	336,829	
	-----	-----
Investing activities:		
Real estate investments .....	(639,692)	
Tenant improvements and lease commissions on previously leased space .....	(19,623)	
Recurring capital expenditures .....	(23,895)	
Proceeds from dispositions of real estate .....	496,744	
Investments in and advances to unconsolidated entities .....	(188,750)	
Cash balances contributed with ProLogis European Properties S.a.r.l .....	(17,968)	
Cash acquired in merger with Meridian .....	--	
	-----	-----
Net cash used in investing activities .....	(393,184)	
	-----	-----
Financing activities:		
Proceeds from sale of shares, net of expenses .....	--	
Proceeds from exercised warrants and stock options and from dividend reinvestment and share purchase plans .....	30,734	
Repurchase of Common Shares .....	--	
Proceeds from secured financing transactions .....	--	
Proceeds from issuance of senior unsecured debt .....	--	
Debt issuance and other transaction costs incurred .....	(4,598)	
Distributions paid on Common Shares (includes \$11,132 paid to shareholders of Meridian in 1999) .....	(219,333)	
Distributions paid to minority interest holders .....	(7,123)	
Dividends paid on preferred shares (includes \$729 paid to		

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shareholders of Meridian in 1999) .....	(56,763)	
Principal payments on senior unsecured debt .....	(30,000)	
Principal payments received on and retirements of employee share purchase notes .....	4,350	
Net proceeds from (payments on) derivative financial instruments .....	808	
Payments to Meridian shareholders .....	--	
Proceeds from lines of credit and short-term borrowings .....	1,075,473	
Payments on lines of credit and short-term borrowings .....	(734,351)	
Payment on line of credit assumed in merger with Meridian .....	--	
Regularly scheduled principal payments on secured debt .....	(7,100)	
Principal payments on secured debt at maturity and prepayments .....	(7,210)	
	-----	-----
Net cash provided by (used in) financing activities .....	44,887	
	-----	-----
Net increase (decrease) in cash and cash equivalents .....	(11,468)	
Cash and cash equivalents, beginning of year .....	69,338	
	-----	-----
Cash and cash equivalents, end of year .....	\$ 57,870	\$
	=====	=====

See Note 12 for information on non-cash investing and financing activities.

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

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### PROLOGIS TRUST

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2000

#### 1. DESCRIPTION OF BUSINESS:

ProLogis Trust ("ProLogis") is a publicly held real estate investment trust ("REIT") that owns and operates a network of industrial distribution facilities in North America and Europe. The ProLogis Operating System(TM), comprised of the Market Services Group, the Global Services Group, the Global Development Group and the Integrated Solutions Group, utilizes ProLogis' international network of distribution facilities to meet its customers' distribution space needs globally. ProLogis has organized its business into three operating segments: property operations, corporate distribution facilities services business ("CDFS business") and temperature-controlled distribution operations. See Note 10.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

##### Principles of Financial Presentation

The accounts of ProLogis, its wholly owned subsidiaries and its majority owned and controlled partnerships are consolidated in the accompanying financial statements. All material intercompany transactions have been eliminated. Certain amounts included in the consolidated financial statements for prior years have been reclassified to conform to the 2000 financial statement presentation.

The preparation of financial statements in conformity with generally

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accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### REIT Organization Status

In January 1993, ProLogis was formed as a Maryland REIT and has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code").

REITs are not generally required to pay federal income taxes if minimum distribution and income, asset and shareholder tests are met. During 2000, 1999 and 1998, ProLogis was in compliance with the REIT requirements. Thus, no federal income tax provision has been reflected in the accompanying consolidated financial statements for ProLogis and its wholly owned subsidiaries which are qualified REIT subsidiaries. The foreign countries that ProLogis operates in do not recognize REITs under their respective tax laws. Accordingly, ProLogis has recognized foreign country income taxes in its results of operations, as applicable.

### Real Estate and Depreciation

Real estate is carried at cost, which is not in excess of estimated fair market value. Costs directly associated with the successful acquisition, renovation or development of real estate are capitalized. Direct costs associated with unsuccessful acquisitions are expensed at the time the pursuit is abandoned.

Depreciation is computed over the estimated useful lives of depreciable property on a straight-line basis: 7 years for capital improvements, 10 years for tenant improvements, 30 years for acquired facilities and 40 years for facilities developed by ProLogis.

ProLogis' management periodically reviews long-lived assets (primarily real estate and investments in unconsolidated entities) that it owns and operates for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," management's review involves comparing current and future operating performance of the assets, the most significant of which is undiscounted operating cash flows, to the carrying value of the assets. Based on this analysis, a provision for possible loss is recognized if necessary. In management's opinion, long-lived assets, primarily real estate assets and investments in unconsolidated entities, are not carried at amounts in excess

of their estimated realizable values. Long-lived assets (primarily real estate and investments in unconsolidated entities) to be disposed of, if any, are reported at the lower of their carrying amount or fair value less cost to sell.

ProLogis acquired certain real estate through the formation of partnerships (as discussed in Note 6) wherein ProLogis contributed cash and the limited partners contributed real estate in exchange for partnership units which are ultimately exchangeable for ProLogis common shares of beneficial interest, \$0.01 par value ("Common Shares"). In consolidating the partnerships' assets, real

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estate cost includes the estimated fair value attributable to the limited partners' interests as of the acquisition dates.

ProLogis Development Services Incorporated ("ProLogis Development Services") is a subsidiary of ProLogis that operates in the CDFS business. See Note 10. ProLogis owns 100% of the non-voting preferred stock of ProLogis Development Services representing a 95% interest in its earnings. ProLogis advances mortgage loans to ProLogis Development Services to fund its acquisition, development and construction activities. A charitable trust owns 100% of the voting common stock of ProLogis Development Services but has no substantive role in the decision-making process regarding operations of ProLogis Development Services. Accordingly, ProLogis has control of ProLogis Development Services and it is consolidated with ProLogis. ProLogis Development Services is not a qualified REIT subsidiary of ProLogis under the Code. Accordingly, provisions for federal and state income taxes are recognized, as appropriate.

### Capitalization Policy

Renovations and improvements to real estate assets are capitalized and depreciated over their estimated useful lives. Repairs and maintenance costs are expensed as incurred to the extent they are not acquisition-related renovation costs identified during ProLogis' pre-acquisition due diligence.

General and administrative costs incurred for development (including land acquisitions), renovation and leasing activities that are incremental and identifiable to a specific activity are capitalized. Prior to April 1, 1998, ProLogis also capitalized direct and incremental management costs incurred in connection with the acquisition of existing operating facilities. In accordance with Emerging Issues Task Force Issue 97-11, "Accounting for Internal Costs Relating to Real Estate Property Acquisitions," which was effective on April 1, 1998, such costs are no longer capitalized.

Costs capitalized to real estate are depreciated over the estimated useful lives of the real estate. Costs capitalized related to leasing activities are included with other assets and are amortized over the lease term. ProLogis' average lease term is between four and five years.

ProLogis capitalizes interest costs incurred during the land development or construction period of qualifying projects.

### Unconsolidated Entities

ProLogis' investments in certain entities are accounted for under the equity method. Accordingly, these investments are recognized at ProLogis' cost as adjusted for ProLogis' proportionate share of the earnings or losses of the companies, distributions received and other basis adjustments, as appropriate. ProLogis' proportionate share of the earnings or losses of these companies is recognized in income. See Note 4.

### Cash and Cash Equivalents

ProLogis considers 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.

### Costs of Raising Capital



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Costs incurred in connection with the issuance of shares are deducted from shareholders' equity. Costs incurred in connection with the incurrence or renewal of debt are capitalized, included with other assets, and amortized over the term of the related loan or the renewal term.

### Minority Interest

ProLogis acquired a controlling interest in five partnerships that owned real estate, which are now consolidated in ProLogis' financial statements. These five partnerships are ProLogis Limited Partnership - I, ProLogis Limited Partnership - II, ProLogis Limited Partnership - III, ProLogis Limited Partnership - IV and Meridian Realty Partners Limited Partnership. The acquisition of the controlling interest resulted in a step-up to fair value of the real estate owned by the partnerships. Therefore, the minority interest in the partnerships has been stated at each holders' respective share of the fair value of the real estate at the date of acquisition, as adjusted for subsequent earnings, contributions and distributions. Common Shares issued upon exchange of limited partnership units are accounted for at the cost of the minority interest surrendered.

### Financial Instruments

In the normal course of business, ProLogis uses certain derivative financial instruments for the purpose of foreign currency exchange rate and interest rate risk management. To qualify for hedge accounting, the derivative instruments used for risk management purposes must effectively reduce the risk exposure that they are designed to hedge. For instruments associated with the hedge of anticipated transactions, hedge effectiveness criteria also require that the occurrence of the underlying transactions be probable. Instruments meeting these hedging criteria are formally designated as hedges at the inception of the contract. Those risk management instruments not meeting these criteria are accounted for at fair value with changes in fair value recognized immediately in net income. See Note 16.

In assessing the fair value of its financial instruments, both derivative and non-derivative, ProLogis uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. Primarily, ProLogis uses 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. See Note 16.

ProLogis adopted SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities," as amended, on January 1, 2001. SFAS No. 133 provides comprehensive guidelines for the recognition and measurement of derivatives and hedging activities and, specifically, requires all derivatives to be recorded on the balance sheet at fair value as an asset or liability, with an offset to accumulated other comprehensive income or income. As discussed in Note 16, ProLogis' only derivative financial instruments, the foreign currency put option contracts, were marked to market through income as of December 31, 2000. These contracts also do not qualify for hedge accounting treatment under SFAS No. 133, therefore, ProLogis will continue to mark these contracts to market through income in 2001. ProLogis' unconsolidated entities also adopted SFAS No. 133 on January 1, 2001. The effect to ProLogis of their adoption of SFAS No. 133 was immaterial as these entities utilize derivative financial instruments on a limited basis.

### Foreign Currency Exchange Gains or Losses

ProLogis' consolidated subsidiaries whose functional currency is not the U.S. dollar translate their financial statements into U.S. dollars. Assets and liabilities are translated at the exchange rate in effect as of the financial statement date. Income statement accounts are translated using the average

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exchange rate for the period. Income statement accounts that represent significant, nonrecurring transactions are translated at the rate in effect as of the date of the transaction. Gains and losses resulting from the translation are included in accumulated other comprehensive income as a separate component of shareholders' equity. ProLogis and its foreign subsidiaries have certain transactions denominated in currencies other than their functional currency. In these instances, nonmonetary assets and liabilities are reflected at the historical exchange rate, monetary assets and liabilities are remeasured at the exchange rate in effect at the end of the period, and income statement accounts are remeasured at the average exchange rate for the period. Gains and losses from remeasurement are included in ProLogis' results of operations. In addition, gains or losses are recorded in the income statement when a transaction with a third party, denominated in a currency other than the functional currency, is settled and the functional currency cash flows realized are more or less than expected based upon the exchange rate in effect when the transaction was initiated.

The net foreign currency exchange gains and losses recognized in ProLogis' results of operations were as follows for the periods indicated (in thousands of U.S. dollars):

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	YEAR ENDED DECEMBER	
	2000	1999
	-----	-----
Gains (losses) from the remeasurement of third party debt and remeasurement and settlement of intercompany debt, net .....	\$ (18,762)	\$ (16,549)
Mark to market losses on foreign currency put option contracts(1) .....	(854)	(47)
Gains (losses) from the settlement of foreign currency put option contracts, net .....	1,481	(45)
Other gains (losses), net .....	208	(177)
	\$ (17,927)	\$ (16,818)

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- (1) ProLogis entered into foreign currency put option contracts related to its operations in Europe for 2000 and 1999. These put option contracts do not qualify for hedge accounting treatment; therefore, ProLogis marks these contracts to market as of the end of the applicable accounting period. Upon settlement, the mark to market adjustments are reversed and the total realized gain or loss is recognized. See Note 16.

### Revenue Recognition

ProLogis leases its operating facilities under operating leases and recognizes the total lease payments provided for under the leases on a straight-line basis over the lease term. A provision for possible loss is made when collection of receivables is considered doubtful.

Gains or losses on the disposition of real estate are recorded when the recognition criteria set forth under GAAP have been met, generally at the time

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title is transferred and ProLogis has no future obligations under the contract.

### Rental Expenses

Rental expenses include costs of on-site and property management personnel, utilities, repairs and maintenance, property insurance and real estate taxes, net of amounts recovered from tenants under the terms of the respective leases.

### Stock-Based Compensation

ProLogis adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which allows ProLogis to continue to account for its various stock-based compensation plans using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under APB No. 25, if the exercise price of the stock options issued equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized. Certain pro forma earnings per share disclosures required by SFAS No. 123 are presented in Note 13.

### Cost of Start-Up Activities

Statement of Position ("SOP") 98-5 "Reporting on the Costs of Start-Up Activities," which requires that costs associated with organization, pre-opening, and start-up activities be expensed as incurred was adopted by ProLogis on January 1, 1999. Through December 31, 1998, ProLogis capitalized costs associated with start-up activities and amortized such costs over an appropriate period, generally five years. ProLogis expensed all unamortized organization and start-up costs, approximating \$1.4 million, as a cumulative effect of a change in accounting principle as of January 1, 1999. Subsequent to that date, such costs incurred have been expensed.

## 3. REAL ESTATE

### Real Estate Investments

Real estate investments consisting of income producing industrial distribution facilities, facilities under development and land held for future development, at cost, are summarized as follows (in thousands):

	DECEMBER 31, 2000	1999
	-----	-----
Operating facilities:		
Improved land .....	\$ 648,950 (1)	\$ 736
Buildings and improvements .....	3,619,543 (1)	3,871
	-----	-----
	4,268,493	4,608
Facilities under development (including cost of land) .....	186,020 (2) (3)	186
Land held for development .....	187,405 (4)	163
Capitalized preacquisition costs .....	47,574 (5)	17
	-----	-----
Total real estate .....	4,689,492	4,974
Less accumulated depreciation .....	476,982	366
	-----	-----
Net real estate .....	\$4,212,510	\$4,608

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- (1) As of December 31, 2000 and December 31, 1999, ProLogis had 1,244 and 1,328 operating facilities, respectively, consisting of 126,275,000 and 133,689,000 square feet, respectively.
- (2) Facilities under development consist of 41 buildings aggregating 8,711,000 square feet as of December 31, 2000 and 51 buildings aggregating 10,721,000 square feet as of December 31, 1999.
- (3) In addition to the December 31, 2000 construction payable of \$40.9 million, ProLogis had unfunded commitments on its contracts for facilities under construction totaling \$169.2 million.
- (4) Land held for future development consisted of 2,047 acres as of December 31, 2000 and 1,798 acres as of December 31, 1999.
- (5) Capitalized preacquisition costs include \$32.5 million and \$6.3 million of funds on deposit with title companies as of December 31, 2000 and December 31, 1999, respectively.
- (6) On January 7, 2000, ProLogis contributed 50.1% of the common stock of one of its wholly owned European entities, ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund for an equity interest. ProLogis European Properties S.a.r.l. owned real estate with a net book value of \$334.9 million as of December 31, 1999. ProLogis contributed the remaining 49.9% of the common stock to ProLogis European Properties Fund on January 7, 2001 for an additional equity interest. See Note 4.

ProLogis' operating facilities, facilities under development and land held for future development are located in North America (the United States and Mexico) and seven countries in Europe. No individual market represents more than 10% of ProLogis' real estate assets.

Operating Lease Agreements

ProLogis leases its facilities to customers under agreements, which are classified as operating leases. The leases generally provide for payment of all or a portion of utilities, property taxes and insurance by the tenant. As of December 31, 2000, minimum lease payments on leases with lease periods greater than one year are as follows (in thousands):

2001 .....	\$ 435,093
2002 .....	360,759
2003 .....	276,559
2004 .....	200,510
2005 .....	137,800
2006 and thereafter .....	323,467
	-----
	\$1,734,188
	=====

ProLogis' largest customer (based on rental income) accounted for 1.5% of ProLogis' rental income (on an annualized basis) for the year ended December 31, 2000. The annualized base rent for ProLogis' 25 largest customers (based on rental income) accounted for 13.2% of ProLogis' rental income (on an annualized

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basis) for the year ended December 31, 2000.

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4. UNCONSOLIDATED ENTITIES:

Investments In and Advances To Unconsolidated Entities

Investments in and advances to unconsolidated entities are as follows (in thousands):

	DECEMBER 31,	
	2000	1999
Insight(1) .....	\$ 2,470	\$ 2,442
ProLogis Logistics:		
Investment(2) .....	7,163	11,549
Notes receivable .....	162,856	135,090
Mortgage notes receivable .....	24,082	23,706
Accrued interest and other receivables .....	36,952	22,262
	-----	-----
	231,053	192,607
Frigoscandia S.A.:		
Investment(2) .....	(50,761)	(17,396)
Notes receivable .....	208,945	209,314
Accrued interest and other receivables .....	33,797	22,090
	-----	-----
	191,981	214,008
Kingspark S.A.:		
Investment(2) .....	28,829	23,584
Notes receivable .....	409,440	197,611
Mortgage notes receivable .....	103,106	140,668
Accrued interest and other receivables .....	29,207	19,908
	-----	-----
	570,582	381,771
ProLogis California:		
Investment(3) .....	131,116	121,325
Other receivables .....	1,127	3,235
	-----	-----
	132,243	124,560
ProLogis European Properties Fund:		
Investment(4) .....	145,850	32,800
Other receivables (payables) .....	2,088	(7,824)
	-----	-----
	147,938	24,976
ProLogis European Properties S.a.r.l.(5) .....	84,767	--
ProLogis North American Properties Fund I:		
Investment(6) .....	9,778	--
Other receivables .....	591	--
	-----	-----
	10,369	--
ProLogis Principal:		
Investment(7) .....	71	--
Note receivable .....	13,250	--

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Accrued interest and other receivables .....	87	--
	-----	-----
	13,408	--
ProLogis Equipment Services (2) (8) .....	450	--
GoProLogis (9) .....	56,315	--
ProLogis PhatPipe (10):		
Investment .....	11,542	--
Other receivables .....	30	--
	-----	-----
	11,572	--
	-----	-----
Total .....	\$ 1,453,148	\$ 940,364
	=====	=====

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- (1) Investment represents ProLogis Development Services' investment in the common stock of Insight, Inc. ("Insight"), a privately owned logistics optimization consulting company, as adjusted for ProLogis Development Services' share of Insight's earnings or loss. ProLogis Development Services had a 33.3% ownership interest in Insight as of December 31, 2000 and 1999.
  - (2) Investment represents ProLogis' investment in the non-voting preferred stock of the respective companies including acquisition costs, as adjusted for ProLogis' share of each company's earnings or loss and cumulative translation adjustments, as appropriate.
  - (3) Investment represents ProLogis' investment in the membership interests of ProLogis California I LLC ("ProLogis California"), a limited liability company that began operations on August 26, 1999, including acquisition costs, as adjusted for ProLogis' share of the earnings or loss of ProLogis California and for the portion of the gain from the disposition of ProLogis' properties

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to ProLogis California that does not qualify for income recognition due to ProLogis' continuing ownership in ProLogis California. ProLogis had a 50% ownership interest in ProLogis California as of December 31, 2000 and 1999.

- (4) Investment represents ProLogis' investment in the common units of ProLogis European Properties Fund which began operations on September 23, 1999, including acquisition costs, as adjusted for ProLogis' share of the earnings or loss of ProLogis European Properties Fund, the portion of the gain from the disposition of ProLogis' facilities to ProLogis European Properties Fund that does not qualify for income recognition due to ProLogis' continuing ownership in ProLogis European Properties Fund and cumulative translation account adjustments, as appropriate. ProLogis' ownership interest in ProLogis European Properties Fund was 34.4% and 19.7% as of December 31, 2000 and 1999, respectively.
- (5) Investment represents ProLogis' investment in 49.9% of the common stock of ProLogis European Properties S.a.r.l., a Luxembourg company,

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as adjusted for ProLogis' share of the earnings or loss of ProLogis European Properties S.a.r.l. Prior to January 7, 2000, ProLogis owned 100% of the common stock of ProLogis European Properties S.a.r.l. and the accounts of this entity were consolidated in ProLogis' financial statements along with ProLogis' other majority owned and controlled subsidiaries and partnerships. On January 7, 2000, ProLogis contributed 50.1% of the common stock to ProLogis European Properties Fund in exchange for an equity interest. ProLogis contributed the remaining 49.9% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund on January 7, 2001 in exchange for an additional equity interest. ProLogis' ownership interest in ProLogis European Properties Fund increased to 45.6% on January 7, 2001 as a result of this transaction.

- (6) Investment represents ProLogis' and ProLogis Development Services' investment in the membership interests of ProLogis North American Properties Fund I LLC, a limited liability company that began operations on June 30, 2000, including acquisition costs, as adjusted for ProLogis' and ProLogis Development Services' share of the earnings or loss of ProLogis North American Properties Fund I and the portion of the gain from the disposition of ProLogis' and ProLogis Development Services' facilities to ProLogis North American Properties Fund I that does not qualify for income recognition due to ProLogis' and ProLogis Development Services' continuing ownership in ProLogis North American Properties Fund I. On a combined basis, ProLogis and ProLogis Development Services had a 20.0% ownership interest in ProLogis North American Properties Fund I as of December 31, 2000.
- (7) Investment represents ProLogis' investment in the membership interests of ProLogis Iowa I LLC ("ProLogis Principal"), a limited liability company that began operations on June 30, 2000, including acquisition costs, as adjusted for ProLogis' share of the earnings or loss of ProLogis Principal and the portion of the gain from the disposition of ProLogis' facilities to ProLogis Principal that does not qualify for income recognition due to ProLogis' continuing ownership in ProLogis Principal. ProLogis had a 20.0% ownership interest in ProLogis Principal as of December 31, 2000.
- (8) Investment represents ProLogis Development Services' investment in the membership interests of ProLogis Equipment Services LLC, a limited liability company whose other member is a subsidiary of Dana Commercial Credit Corporation, as adjusted for ProLogis Development Services' share of the earnings or loss of ProLogis Equipment Services. ProLogis Equipment Services began operations on April 26, 2000 for the purpose of acquiring, leasing and selling material handling equipment and providing asset management services for such equipment. ProLogis Development Services had a 50.0% ownership interest in ProLogis Equipment Services as of December 31, 2000.
- (9) ProLogis owns 100% of the non-voting preferred stock of GoProLogis Incorporated ("GoProLogis") which has invested \$25.0 million in the non-cumulative preferred stock of Vizional Technologies, Inc. (formerly GoWarehouse.com, Inc.) ("Vizional Technologies"), a provider of integrated global logistics network technology services. GoProLogis also received \$30.4 million of non-cumulative preferred stock of Vizional Technologies under a license agreement for the non-exclusive use of the ProLogis Operating System(TM) over a five-year period. Investment amount also includes \$0.9 million of other costs associated with this investment. This investment was made on July 21, 2000. ProLogis accounts for its investment in GoProLogis under the equity method. GoProLogis did not receive any dividends from its preferred stock investment in Vizional Technologies in 2000. As of December 31,

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2000, ProLogis had deferred \$27.7 million of income related to the license fee agreement. ProLogis' net investment in GoProLogis was \$28.6 million as of December 31, 2000 (\$55.4 million of non-cumulative preferred stock and \$0.9 million of additional costs offset by \$27.7 million of deferred income). ProLogis' investment in the non-voting preferred stock of GoProLogis represents a 98% interest in its earnings. The voting interest of GoProLogis represents a 2% interest in its earnings. K. Dane Brooksher, ProLogis' chairman and chief executive officer, holds the voting interest and is entitled to receive dividends equal to 2% of the net cash flow of GoProLogis, as defined, if any. Mr. Brooksher

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contributed a \$1.1 million recourse promissory note to GoProLogis in exchange for his interest in the entity, which note is payable on July 18, 2005 and bears interest at an annual rate of 8%. Mr. Brooksher is not restricted from transferring his ownership interest in GoProLogis and ProLogis does not have the right to acquire Mr. Brooksher's interest as of December 31, 2000. However, beginning in 2001, an option agreement does allow ProLogis to acquire Mr. Brooksher's ownership interest at a price equal to the principal amount plus accrued interest under the promissory note. See Note 15.

- (10) ProLogis owns 100% of the non-voting preferred stock of ProLogis Broadband (1) Incorporated ("ProLogis PhatPipe") which has invested \$3.5 million in the non-cumulative preferred stock of PhatPipe, Inc. ("PhatPipe"), a real estate technology company. ProLogis has committed to fund a total of \$8.0 million in ProLogis PhatPipe by March 31, 2001 pursuant to the terms of a stock purchase agreement. ProLogis PhatPipe also received \$3.5 million of non-cumulative preferred stock of Phatpipe and a \$4.5 million receivable both received under a license agreement for the non-exclusive use of the ProLogis Operating System(TM) over a three-year period. Investment also includes \$42,000 of other costs associated with this investment. This investment was made on September 20, 2000. ProLogis accounts for its investment in ProLogis PhatPipe under the equity method. ProLogis PhatPipe did not receive any dividends from its preferred stock investment in PhatPipe in 2000. As of December 31, 2000, ProLogis had deferred \$7.3 million of income related to the license fee agreement. ProLogis' net investment in ProLogis PhatPipe was \$7.3 million as of December 31, 2000 (\$7.0 million of non-cumulative preferred stock, a \$4.5 million receivable and \$42,000 of additional costs offset by \$7.3 million of deferred income). ProLogis' investment in the non-voting preferred stock of ProLogis PhatPipe represents a 98% interest in the earnings of ProLogis PhatPipe. The voting interest in ProLogis PhatPipe represents a 2% interest in the earnings of ProLogis PhatPipe. K. Dane Brooksher, ProLogis' chairman and chief executive officer, holds the voting interest and is entitled to receive dividends equal to 2% of the net cash flow of ProLogis PhatPipe, as defined, if any. Mr. Brooksher contributed recourse promissory notes with an aggregate of \$122,449 principal amount to ProLogis PhatPipe in exchange for his interest in the entity. A promissory note with the principal amount of \$71,429 is due September 20, 2005 and a promissory note with the principal amount of \$51,020 is due January 4, 2006. Both notes bear interest at an annual rate of 8%. Mr. Brooksher is not restricted from transferring his ownership interest in ProLogis PhatPipe and ProLogis does not have the right to acquire Mr. Brooksher's ownership interest as of December 31, 2000. However, beginning in 2001, an option



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agreement does allow ProLogis to acquire Mr. Brooksher's ownership interest at a price equal to the principal amount plus accrued interest under the promissory note. See Note 15.

### Income (Loss) from Unconsolidated Entities

ProLogis recognized income (loss) from its investments in unconsolidated entities as follows (in thousands):

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Insight(1) .....	\$ 27	\$ (77)	\$
ProLogis Logistics(2) .....	11,950	10,791	
Frigoscandia S.A.(2) .....	(20,298)	(4,364)	
Kingspark S.A. (2)(3) .....	43,795	23,855	
ProLogis California(4) .....	13,178	3,917	
ProLogis North American Properties Fund I(5) .....	1,806	--	
ProLogis Principal(6) .....	612	--	
ProLogis Equipment Services .....	(130)	--	
GoProLogis(7) .....	2,693	--	
ProLogis PhatPipe(7) .....	741	--	
ProLogis European Properties Fund(8) .....	15,648	820	
ProLogis European Properties S.a.r.l .....	8,041	--	
ProLogis Garonor(9) .....	--	(12,423)	
	\$ 78,063	\$ 22,519	\$
	=====	=====	=====

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- (1) Prior to July 1, 1998, this investment was accounted for under the cost method.
  - (2) Amounts represent 95% of the entity's earnings or loss. Includes interest income on notes due to ProLogis.
  - (3) ProLogis acquired Kingspark Holding S.A. ("Kingspark S.A.") and its consolidated entities on August 14, 1998. ProLogis' share of Kingspark S.A.'s earnings or loss includes net gains from the disposition of facilities developed by to ProLogis European Properties Fund of \$4.3 million in 2000 and \$4.5 million in 1999. The gains are net of \$2.5 million in 2000 and \$1.1 million in 1999.

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1999 that did not qualify for income recognition by ProLogis due to ProLogis' continuing ownership in ProLogis European Properties Fund.

- (4) ProLogis California began operations on August 26, 1999. Amounts recognized include management, leasing and development fees of \$2.7 million for 2000 and \$0.9 million for 1999.
- (5) ProLogis North American Properties Fund was formed on June 30, 2000.

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Includes management fees of \$0.7 million.

- (6) ProLogis Principal was formed on June 30, 2000. Includes management fees of \$52,000.
- (7) Represents license fees earned for the non-exclusive use of the ProLogis Operating System(TM) under licensing agreements.
- (8) ProLogis European Properties Fund began operations on September 23, 1999. ProLogis recognizes its share of the earnings or loss of ProLogis European Properties Fund based on its average ownership interest during the period. Amounts recognized include management fees of \$5.3 million in 2000 and \$0.3 million in 1999. ProLogis began recognizing its share of the earnings or loss of ProLogis European Properties S.a.r.l. under the equity method on January 7, 2000.
- (9) On December 29, 1998, ProLogis invested in Garonor Holdings S.A. ("Garonor Holdings") by acquiring 100% of its non-voting preferred stock. Garonor Holdings, a Luxembourg company, owned Garonor S.A. ("ProLogis Garonor"), a real estate operating company in France. Security Capital Group Incorporated ("Security Capital"), ProLogis' largest shareholder, owned 100% of the voting common stock of Garonor Holdings. On June 29, 1999, ProLogis acquired the common stock of Garonor Holdings from Security Capital, resulting in ProLogis owning all of the outstanding common and preferred stock of Garonor Holdings. Accordingly, as of that date the accounts of Garonor Holdings were consolidated in ProLogis' financial statements along with ProLogis' other majority owned and controlled subsidiaries and partnerships. The results of operations of Garonor Holdings for the period from December 29, 1998 through June 29, 1999 are reflected by ProLogis under the equity method. ProLogis Garonor was transferred to ProLogis European Properties S.a.r.l. prior to ProLogis contributing 50.1% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund on January 7, 2000 for an equity interest. On January 7, 2001, ProLogis contributed the remaining 49.9% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund for an additional equity interest.

### ProLogis Logistics

ProLogis owns 100% of the non-voting preferred stock of ProLogis Logistics Services Incorporated ("ProLogis Logistics"), representing a 95% interest in the earnings of ProLogis Logistics. In January 2001, this interest was increased from 95% to 99.23% as the result of the conversion of loans from ProLogis to ProLogis Logistics into equity. From April 24, 1997 through June 12, 1998, ProLogis Logistics owned between 60.0% and 77.1% of CS Integrated LLC ("CSI"), a temperature-controlled distribution company operating in the United States. ProLogis Logistics increased its ownership interest in CSI to 100% on June 12, 1998. As of December 31, 2000, CSI owned or operated under lease agreements temperature-controlled distribution facilities aggregating 182.2 million cubic feet (including 35.5 million cubic feet of dry distribution space located in temperature-controlled facilities). Of the total, 6.3 million cubic feet was under development.

As of December 31, 2000, ProLogis had invested \$19.9 million in the non-voting preferred stock of ProLogis Logistics and had the following notes and mortgage notes receivable outstanding:

- o \$157.8 million unsecured note from ProLogis Logistics; interest at 8.0% per annum; due on April 2002;
- o \$5.0 million net unsecured notes from CSI; interest at 10.4% per annum; due March 2004; and

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- o \$24.1 million net mortgage notes from CSI; secured by operating properties of CSI; interest at 9.5% per annum; due March 2004.

The voting common stock of ProLogis Logistics, representing a 5% interest in the earnings of ProLogis Logistics, was owned by an unrelated party until January 5, 2001, when it was purchased for \$2.1 million by CSI/Frigo LLC, a limited liability company whose members are ProLogis and K. Dane Brooksher, ProLogis' chairman. CSI/Frigo LLC also acquired the voting common stock of Frigoscandia Holding S.A. ("Frigoscandia S.A."). ProLogis owns 89% of the membership interests (all non-voting) and Mr. Brooksher owns 11% of the membership interests (all voting) of CSI/Frigo LLC. Mr. Brooksher is the managing member of CSI/Frigo LLC.

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Additionally, ProLogis has a note agreement with CSI/Frigo LLC that allows ProLogis to participate in its earnings such that ProLogis will recognize 95% of the earnings of CSI/Frigo LLC. Mr. Brooksher may transfer his membership interest, subject to certain conditions, including the approval of ProLogis. There are no provisions that give ProLogis the right to acquire Mr. Brooksher's membership interest. Mr. Brooksher does not receive any compensation in connection with his ownership interest or in connection with being the managing member. Mr. Brooksher's membership interest and the provisions of the participating note entitle him to dividends equal to 5% of the net cash flow of CSI/Frigo LLC, as defined, if any. Mr. Brooksher invested \$50,000 in CSI/Frigo LLC. This transaction did not result in ProLogis acquiring control of ProLogis Logistics or Frigoscandia S.A., as it has no voting interests in CSI/Frigo LLC, ProLogis Logistics or Frigoscandia S.A., therefore, ProLogis will continue to account for its investments in these entities under the equity method. See Note 15.

On January 2, 2001, ProLogis Logistics borrowed \$125.0 million under ProLogis' U.S. dollar denominated unsecured line of credit agreement as a designated subsidiary borrower under the agreement (see Note 5), the proceeds of which were used to repay \$125.0 million of the outstanding notes and accrued interest due to ProLogis (including all of the amounts due from CSI). The remaining amounts due to ProLogis were converted to preferred stock by ProLogis as of January 2, 2001.

Frigoscandia S.A.

ProLogis owns 100% of the non-voting preferred stock of Frigoscandia S. A., representing a 95% interest in the earnings of Frigoscandia S.A. On January 16, 1998, Frigoscandia S.A., a Luxembourg company, acquired Frigoscandia AB, a temperature-controlled distribution company headquartered in Sweden by acquiring Frigoscandia Holding AB. Frigoscandia Holding AB owns 100% of Frigoscandia AB. As of December 31, 2000, Frigoscandia AB, which operates in 10 European countries, owned or operated under lease agreements 187.7 million cubic feet of temperature-controlled distribution facilities.

As of December 31, 2000, ProLogis had invested \$22.6 million in the non-voting preferred stock of Frigoscandia S.A. and had the following notes receivable outstanding:

- o 776.6 million Swedish krona (the currency equivalent of approximately \$81.5 million as of December 31, 2000) unsecured note from Frigoscandia Holding AB; interest at 5.0% per annum; due on demand;

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- o 12.8 million euro (the currency equivalent of approximately \$11.9 million as of December 31, 2000) unsecured note from Frigoscandia Holding AB; interest at 5.0% per annum; due on demand; and
- o \$115.5 million unsecured note from Frigoscandia S.A.; interest at 5.0% per annum; \$80.0 million due July 15, 2008 with the remainder due on demand.

The voting common stock of Frigoscandia S.A. was owned by a limited liability company in which unrelated parties owned 100% of the voting interests and Security Capital owned 100% of the non-voting interests until January 5, 2001, when the voting common stock was purchased for \$1.2 million by CSI/Frigo LLC. See Note 15.

As of December 31, 2000, Frigoscandia had a multi-currency revolving credit agreement in the currency equivalent of 360.0 million Deutsche marks through a consortium of 11 European banks. The currency equivalent of approximately \$168.1 million was outstanding as of December 31, 2000 and ProLogis had guaranteed 25% of the amount outstanding (ProLogis' guarantee was increased to 100% on March 1, 2001). The loan will be due on March 31, 2001 and bears interest at the relevant index (LIBOR or Euribor based on the currency borrowed) plus 1.15%. Frigoscandia is negotiating a new credit agreement that will provide for the currency equivalent of 185.0 million euros of borrowing capacity with interest charged at the relevant index plus 0.90%, to mature on December 31, 2001. ProLogis will guarantee 100% of the borrowings under the new agreement.

Kingspark S.A.

ProLogis owns 100% of the non-voting preferred stock of Kingspark S.A., representing a 95% interest in the earnings of Kingspark S.A. On August 14, 1998, Kingspark S.A., a Luxembourg company, acquired an industrial distribution facility development company operating in the United Kingdom, Kingspark Group Holdings Limited ("ProLogis Kingspark") (collectively "the Kingspark entities"). As of December 31, 2000, the Kingspark entities had 1.6 million square feet of operating facilities at an investment of \$139.2 million and 1.5 million square feet of facilities under development with a total budgeted cost of \$136.2 million. Additionally, as of December 31, 2000, the Kingspark entities owned 332 acres of land and controlled 1,515 acres of land through

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purchase options, letters of intent or contingent contracts. The land owned and controlled by the Kingspark entities has the capacity for the future development of approximately 28.3 million square feet of facilities.

As of December 31, 2000, ProLogis had invested \$24.0 million in the non-voting preferred stock of Kingspark S.A. and had the following notes and mortgage notes receivable outstanding:

- o 187.3 million pounds sterling (the currency equivalent of approximately \$280.1 million as of December 31, 2000) outstanding on an unsecured loan facility from ProLogis to the Kingspark entities that provides for borrowings of up to 200 million pounds sterling (the currency equivalent of approximately \$299.0 million as of December 31, 2000); interest at 8.0% per annum; due on demand;
- o \$129.3 million unsecured note from Kingspark S.A.; interest at 5.0% per annum; due on demand;

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- o 42.0 million pound sterling (the currency equivalent of approximately \$62.9 million, as of December 31, 2000) mortgage note from ProLogis Kingspark; secured by land parcels; interest at 8.0% per annum; due on demand; and
- o 26.9 million pound sterling (the currency equivalent of approximately \$40.2 million as of December 31, 2000) mortgage note from the Kingspark entities; secured by land parcels and facilities under development; interest at 7.0% per annum; due on demand.

The voting common stock of Kingspark S.A. was owned by a limited liability company, in which unrelated third parties owned 100% of the voting interests and Security Capital owned 100% of the non-voting interests. On January 5, 2001, this voting common stock was acquired by a limited liability company. ProLogis owns 95% of the membership interests (all non-voting) and Mr. Brooksher owns 5% of the membership interests (all voting) of the company acquiring the common stock and Mr. Brooksher is its managing member. The entire purchase price of \$8.1 million was funded by ProLogis either directly or through loans to Kingspark LLC or Mr. Brooksher. Mr. Brooksher may transfer his membership interest, subject to certain conditions, including the approval of ProLogis. There are no provisions that give ProLogis the right to acquire Mr. Brooksher's membership interest. Mr. Brooksher does not receive any compensation in connection with his ownership interest or in connection with being the managing member. Mr. Brooksher's membership interest entitles him to dividends equal to 5% of the net cash flow of Kingspark LLC, as defined, if any. This transaction did not result in ProLogis acquiring control of the Kingspark entities, as ProLogis does not have a direct interest in the voting interests of Kingspark LLC or the Kingspark entities, therefore, ProLogis will continue to account for its investment in these entities under the equity method. See Note 15.

ProLogis Kingspark has a line of credit agreement with a bank in the United Kingdom. The line of credit agreement provides for borrowings of up to 15.0 million pounds sterling (the currency equivalent of approximately \$22.4 million as of December 31, 2000) and has been guaranteed by ProLogis. As of December 31, 2000, no borrowings were outstanding on the line of credit. However, as of December 31, 2000, ProLogis Kingspark had the currency equivalent of approximately \$13.8 million of letters of credit outstanding that reduce the amount of available borrowings on the line of credit.

### ProLogis California I LLC

ProLogis California began operations on August 26, 1999 as a limited liability company whose members are ProLogis and New York State Common Retirement Fund ("NYSCRF"). As of December 31, 2000, ProLogis California owned 77 operating facilities aggregating 12.4 million square feet and had one 332,000 square foot facility under development (all of which were acquired from ProLogis). All of ProLogis California's facilities are in the Los Angeles/Orange County market. ProLogis had a 50.0% ownership interest in ProLogis California as of December 31, 2000.

ProLogis' total investment in ProLogis California as of December 31, 2000 consisted of (in millions):

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Equity interest .....	\$ 169.1
Distributions (\$13.9 million received in 2000) .....	(23.6)
ProLogis' share of ProLogis California's earnings,	

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excluding fees earned .....	12.6
	-----
Subtotal .....	158.1
Adjustments to carrying value(1) .....	(28.5)
Other, including acquisition costs .....	1.5
	-----
	131.1
Other receivables .....	1.1
	-----
Total .....	\$ 132.2
	=====

-----

(1) Reflects the reduction in carrying value for the amount of net gain on the disposition of properties to ProLogis California that does not qualify for income recognition due to ProLogis' continuing ownership in ProLogis California.

### ProLogis European Properties Fund

ProLogis European Properties Fund was formed on September 16, 1999 and began operations on September 23, 1999. As of December 31, 2000, ProLogis European Properties Fund owned 104 operating facilities aggregating 14.4 million square feet (including 60 facilities aggregating 6.6 million square feet owned by ProLogis European Properties S.a.r.l.). All but 10 of the facilities, aggregating 1.5 million square feet, owned by ProLogis European Properties Fund were acquired from ProLogis or the Kingspark entities.

ProLogis' total investment in ProLogis European Properties Fund as of December 31, 2000 consisted of (in millions of U.S. dollars):

Equity interest .....	\$ 155.4
Distributions (all were received in 2000) .....	(4.0)
ProLogis' share of ProLogis European Properties Fund's earnings, excluding fees earned .....	9.1
	-----
Subtotal .....	160.5
Adjustments to carrying value(1) .....	(14.9)
Other, net .....	0.3
	-----
	145.9
Other receivables .....	2.0
	-----
Total .....	\$ 147.9
	=====

-----

(1) Reflects the reduction in carrying value for amount of net gain on the disposition of facilities to ProLogis European Properties Fund that does not qualify for income recognition due to ProLogis' continuing ownership in ProLogis European Properties Fund.

On January 7, 2000, ProLogis contributed 50.1% of the common stock of one of its wholly owned European entities, ProLogis European Properties S.a.r.l., to ProLogis European Properties Fund in exchange for an equity interest. ProLogis contributed the remaining 49.9% of the common stock to ProLogis European

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Properties Fund on January 7, 2001 in exchange for an additional equity interest. As of December 31, 2000, ProLogis had a 34.4% ownership interest in ProLogis European Properties Fund (increased to 45.6% as of January 7, 2001).

Third parties (19 institutional investors) have invested 325.6 million euros (the currency equivalent of approximately \$302.9 million as of December 31, 2000) in ProLogis European Properties Fund and have committed to fund an additional 734.7 million euros (the currency equivalent of approximately \$683.4 million as of December 31, 2000) through 2002. ProLogis has also entered into a subscription agreement to make additional capital contributions (excluding the remaining 49.9% of the common stock of ProLogis European Properties S.a.r.l.) of 93.2 million euros (the currency equivalent of approximately \$86.7 million as of December 31, 2000).

ProLogis European Properties Fund intends to acquire additional stabilized operating facilities from ProLogis, the Kingspark entities and unrelated parties, including facilities to be developed by ProLogis and the Kingspark entities in the future. Stabilized facilities have been defined for purposes of ProLogis European Properties Fund as facilities that meet minimum leasing criteria and minimum net operating income yields, as defined and established by agreement for each country. ProLogis European Properties Fund has the right to refuse to acquire facilities that ProLogis and the Kingspark entities have developed if they do not meet the established criteria. ProLogis has an agreement to manage ProLogis European Properties Fund for a fee pursuant to a 20-year management agreement.

ProLogis European Properties Fund has a credit agreement with two international banks for a multi-currency, secured revolving credit facility in the currency equivalent of 500.0 million euros. The credit agreement matures in October 2002. Borrowings can be

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denominated in sterling currencies or the euro, and will bear interest at rates above the relevant index (LIBOR or Euribor). As of December 31, 2000, 118.2 million euros and 62.6 million pound sterling were outstanding on the line (the currency equivalent of approximately \$205.5 million as of December 31, 2000). Of the total borrowings, ProLogis has guaranteed the currency equivalent of approximately \$93.0 million as of December 31, 2000.

ProLogis European Properties S.a.r.l.

As of December 31, 2000, ProLogis owned 49.9% of the common stock of ProLogis European Properties S.a.r.l. and recognized 49.9% of the earnings of this entity under the equity method for the period from January 7, 2000 to December 31, 2000. ProLogis European Properties Fund owned the remaining 50.1% of the common stock of ProLogis European Properties S.a.r.l. and recognized 50.1% of the earnings of this entity in its income. ProLogis contributed its 49.9% ownership of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund on January 7, 2001 in exchange for an additional equity interest. Of the 6.6 million square feet of operating facilities owned by ProLogis European Properties S.a.r.l. as of December 31, 2000, 6.1 million square feet are located in France, 0.4 million square feet are located in Poland and 0.1 million square feet are located in the Netherlands. Additionally, ProLogis European Properties S.a.r.l. had the currency equivalent of approximately \$141.3 million of debt outstanding as of December 31, 2000 (including the currency equivalent of approximately \$19.9 million that is guaranteed by ProLogis).

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### ProLogis North American Properties Fund I

ProLogis North American Properties Fund I LLC began operations on June 30, 2000, as a limited liability company whose members are ProLogis, ProLogis Development Services and the State Teachers Retirement Board of Ohio. ProLogis North American Properties Fund I owned 33 operating facilities aggregating 8.0 million square feet as of December 31, 2000. ProLogis and ProLogis Development Services had a combined 20.0% ownership interest in ProLogis North American Properties Fund I as of December 31, 2000.

ProLogis' and ProLogis Development Services' total investment in ProLogis North American Properties Fund I as of December 31, 2000 consisted of (in millions):

Equity interest .....	\$	18.6
Distributions .....		(0.4)
ProLogis' share of ProLogis North American Properties Fund's earnings, excluding fees earned .....		0.3
Adjustments to carrying value(1) .....		(9.1)
Other, net .....		.4
		-----
		9.8
Other receivables .....		0.6
		-----
Total .....	\$	10.4
		=====

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- (1) Reflects the reduction in carrying value for amount of net gain on the disposition of facilities to ProLogis North American Properties Fund I that does not qualify for income recognition due to ProLogis' and ProLogis Development Services' continuing ownership in ProLogis North American Properties Fund I.

ProLogis North American Properties Fund I acquired three stabilized operating facilities from ProLogis in January 2001 in exchange for an additional equity interest, bringing the combined ownership interest to 41.3%. ProLogis has an agreement to manage ProLogis North American Properties Fund I for a fee for a 10-year period, unless terminated at an earlier date as provided under the terms of the agreement.

### ProLogis Principal

ProLogis Principal began operations on June 30, 2000, as a limited liability company whose members are ProLogis and Principal Financial Group. ProLogis Principal owned three operating facilities acquired from ProLogis aggregating 440,000 square feet as of December 31, 2000. As of December 31, 2000, ProLogis has a \$13.2 million note receivable from ProLogis Principal that earns interest at 8.25% per annum and is due March 31, 2001. ProLogis has an agreement to manage ProLogis Principal's operating facilities for a fee pursuant to a four-year agreement. ProLogis had a 20.0% ownership interest in ProLogis Principal as of December 31, 2000.



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ProLogis' total investment in ProLogis Principal as of December 31, 2000 consisted of (in millions):

Equity interest .....	\$	0.6
Adjustments to carrying value(1) .....		(0.4)
		-----
		0.2
Note receivable .....		13.2
		-----
Total .....	\$	13.4
		=====

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(1) Reflects the reduction in carrying value for amount of net gain on the disposition of facilities to ProLogis Principal that does not qualify for income recognition due to ProLogis' continuing ownership in ProLogis Principal.

### Summarized Financial Information

Summarized financial information for ProLogis' unconsolidated entities as of and for the year ended December 31, 2000 is presented below (in millions of U.S. dollars). The information presented is for the entire entity.

	PROLOGIS LOGISTICS (1)	FRIGOSCANDIA S.A. (1)	KINGSPARK S.A. (1)	PROLOGIS CALIFORNIA (2)	PROLOGIS EUROPEAN PROPERTIES FUND (3)
	-----	-----	-----	-----	-----
Total assets .....	\$ 376.6	\$ 508.5	\$ 636.3	\$ 590.5	\$ 906.9
Total liabilities(6) (7) ..	\$ 368.5	\$ 566.1	\$ 598.7	\$ 274.3	\$ 412.0
Minority interest .....	\$ --	\$ 0.4	\$ --	\$ --	\$ 84.8
Equity(8) .....	\$ 8.1	\$ (58.0)	\$ 37.6	\$ 316.2	\$ 410.1
Revenues .....	\$ 331.4	\$ 382.9	\$ 46.4(9)	\$ 63.6	\$ 69.6
Net earnings (loss)(10) ..	\$ (3.6)	\$ (31.3)(11)	\$ 20.0(12)	\$ 19.8	\$ 28.0

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- (1) ProLogis had a 95.0% economic interest in each entity as of December 31, 2000.
- (2) ProLogis had a 50.0% ownership interest as of December 31, 2000.
- (3) ProLogis had a 34.4% ownership interest as of December 31, 2000. ProLogis European Properties S.a.r.l. is consolidated with ProLogis European Properties Fund. Minority interest represents ProLogis' 49.9% investment in the common stock of ProLogis European Properties S.a.r.l.
- (4) ProLogis and ProLogis Development Services had a combined 20.0% ownership interest as of December 31, 2000. ProLogis North American Properties Fund I was formed on June 30, 2000.
- (5) ProLogis had a 20.0% ownership interest as of December 31, 2000.

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ProLogis Principal was formed on June 30, 2000.

- (6) Includes amounts due to ProLogis of \$223.9 million from ProLogis Logistics, \$242.7 million from Frigoscandia S.A., \$541.8 million from Kingspark S.A., \$1.1 million from ProLogis California, \$2.1 million from ProLogis European Properties Fund, \$0.6 million from ProLogis North American Properties Fund I and \$13.3 million from ProLogis Principal.
- (7) Includes loans from third parties (including accrued interest) of \$91.4 million for ProLogis Logistics, \$185.4 million for Frigoscandia S.A., (\$42.0 million was guaranteed by ProLogis as of December 31, 2000; increased to \$168.1 million guaranteed as of March 1, 2001), \$262.9 million for ProLogis California, \$359.4 million for ProLogis European Properties Fund (\$112.9 million guaranteed by ProLogis) and \$233.8 million for ProLogis North American Properties Fund I.
- (8) ProLogis has entered into a subscription agreement to make additional capital contributions (excluding the remaining 49.9% of the common stock of ProLogis European Properties S.a.r.l.) of 93.2 million euros (the currency equivalent of approximately \$86.7 million as of December 31, 2000).
- (9) Includes \$32.3 million of gains related to the disposition of facilities, including a gain of \$4.7 million from the disposition of facilities to ProLogis European Properties Fund.
- (10) ProLogis' share of the net earnings (loss) of the respective entities and interest income on notes and mortgage notes due to ProLogis are recognized in the Consolidated Statements of Earnings as "Income from unconsolidated entities." The net earnings (loss) of each entity includes interest expense on amounts due to ProLogis, as applicable.

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- (11) Includes net foreign currency exchange losses of \$0.9 million.
- (12) Includes net foreign currency exchange gains of \$0.4 million.
- (13) Includes net foreign currency exchange gains of \$7.1 million.
- (14) Net earnings for the year ended December 31, 2000 was \$22,000.

### 5. BORROWINGS:

#### Unsecured Lines of Credit

ProLogis has an unsecured credit agreement with Bank of America, N.A. ("Bank of America"), Commerzbank AG and Chase Bank of Texas, National Association, as agents for a bank group that provides for a \$475.0 million unsecured revolving line of credit. The credit agreement allows ProLogis to increase the available commitment by \$25.0 million to a total of \$500.0 million. ProLogis Logistics and ProLogis Development Services may also borrow under the credit agreement with such borrowings guaranteed by ProLogis. ProLogis' borrowings under the agreement generally bear interest at LIBOR plus an applicable margin (based upon ProLogis' current senior unsecured debt ratings). ProLogis' borrowings in 2000 were primarily at the 30-day LIBOR rate plus 0.75% (7.31% as of December 31, 2000). Additionally, the credit agreement provides for a facility fee of 0.15% per annum. The credit agreement matures on June 6, 2003

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and may be extended for an additional year at ProLogis' option. As of December 31, 2000, ProLogis had \$184.7 million of borrowings outstanding on the unsecured line of credit and ProLogis was in compliance with all covenants contained in the credit agreement. As of December 31, 2000, ProLogis Logistics and ProLogis Development Services had not borrowed under the credit agreement.

In addition, ProLogis has a \$55.0 million unsecured discretionary line of credit with Bank of America that matures on June 6, 2001. Of the total, ProLogis can borrow the currency equivalent of \$30.0 million in certain foreign currencies with U.S. dollar borrowings limited to \$25.0 million. By agreement between ProLogis and Bank of America, the rate of interest on and the maturity date of each advance are determined at the time of each advance. There were \$25.0 million of borrowings outstanding on the discretionary line of credit as of December 31, 2000.

ProLogis has a credit agreement that provides for a 325.0 million euro multi-currency, unsecured revolving line of credit (the currency equivalent of approximately \$302.3 million as of December 31, 2000) through a group of 17 banks, on whose behalf ABN AMRO Bank, N.V. acts as agent. Borrowings under the line of credit bear interest at Euribor plus 0.75% or Sterling LIBOR plus 0.75% (borrowings outstanding as of December 31, 2000 were at a weighted average interest rate of 6.23%). The credit agreement provides for an unused commitment fee of 0.375% per annum. As of December 31, 2000, the currency equivalent of approximately \$230.1 million of borrowings were outstanding on the line of credit and ProLogis was in compliance with all covenants contained in the credit agreement.

A summary of ProLogis' unsecured lines of credit borrowings is as follows (dollar amounts in thousands):

	YEAR ENDED DECEMBER 31	
	2000	1999
Weighted average daily interest rate .....	6.33%	6.13%
Borrowings outstanding as of December 31 .....	\$ 439,822	\$ 98,700
Weighted average daily borrowings .....	\$ 251,528	\$ 232,821
Maximum borrowings outstanding at any month end .....	\$ 439,822	\$ 440,100
Total borrowing capacity on all lines of credit as of December 31 .....	\$ 832,317	\$ 902,340

### Senior Unsecured Notes

ProLogis has issued senior unsecured notes and medium-term unsecured notes that bear interest at fixed rates, payable semi-annually (the "Notes"). The Notes outstanding as of December 31, 2000 are summarized as follows (in thousands of dollars):

DATE OF ISSUANCE	ORIGINAL PRINCIPAL	COUPON RATE	MATURITY DATE	PRINCIPAL BALANCE (
-----	-----	-----	-----	-----

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May 16, 1995 .....	\$ 17,500	7.300%	05/15/01	\$ 17,
May 17, 1996 .....	25,000	7.250%	05/15/02	24,
October 9, 1998 .....	125,000	7.000%	10/01/03	125,
April 26, 1999 .....	250,000	6.700%	04/15/04	249,
July 20, 1998 .....	250,000	7.050%	07/15/06	249,
November 20, 1997 .....	135,000	7.250%	11/20/07	134,
April 26, 1999 .....	250,000	7.100%	04/15/08	249,
May 17, 1996 .....	100,000	7.950%	05/15/08	99,
March 2, 1995 .....	150,000	8.720%	03/01/09	150,
May 16, 1995 .....	75,000	7.875%	05/15/09	74,
November 20, 1997 .....	25,000	7.300%	11/20/09	24,
February 4, 1997 .....	100,000	7.810%	02/01/15	100,
March 2, 1995 .....	50,000	9.340%	03/01/15	50,
May 17, 1996 .....	50,000	8.650%	05/15/16	49,
July 11, 1997 .....	100,000	7.625%	07/01/17	99,
	-----			-----
	\$ 1,702,500			\$ 1,699,
	=====			=====

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- (1) Amounts are net of applicable unamortized original issue discount.
- (2) Principal due at maturity.
- (3) Annual principal payments of \$12.5 million from May 15, 2001 to May 15, 2002.
- (4) Annual principal payments of \$25.0 million from May 15, 2005 to May 15, 2008.
- (5) Annual principal payments of \$18.75 million from March 1, 2002 to March 1, 2009.
- (6) Annual principal payments of \$9.375 million from May 15, 2002 to May 15, 2009.
- (7) Annual principal payments ranging from \$10.0 million to \$20.0 million from February 1, 2010 to February 1, 2015.
- (8) Annual principal payments ranging from \$5.0 million to \$12.5 million from March 1, 2010 to March 1, 2015.
- (9) Annual principal payments ranging from \$5.0 million to \$12.5 million from May 15, 2010 to May 15, 2016.

The Notes rank equally with all other unsecured and unsubordinated indebtedness of ProLogis from time to time outstanding. The Notes are redeemable at any time at ProLogis' option. Such redemption and other terms are governed by the provisions of an indenture agreement or, with respect to the \$160.0 million of Notes issued on November 20, 1997, note purchase agreements. Under the terms of the indenture agreement and note purchase agreements, ProLogis must meet certain financial covenants and ProLogis was in compliance with all such covenants as of December 31, 2000.

Secured Debt

Secured debt as of December 31, 2000 consisted of the following (in thousands):

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DESCRIPTION -----	INTEREST RATE (1) -----	MATURITY DATE -----	PERIODIC PAYMENT DATE -----
Mortgage notes:			
Rio Grande Industrial Center #1 .....	8.875%	09/01/01	(2)
Titusville Industrial Center #1 .....	10.000	09/01/01	(2)
Prudential Insurance(3) .....	8.590	04/01/03	(2)
Sullivan 75 Distribution Center #1 .....	9.960	04/01/04	(2)
Charter American Mortgage(3) .....	8.750	08/01/04	(2)
West One Business Center #3 .....	9.000	09/01/04	(2)
Raines Distribution Center .....	9.500	01/01/05	(2)
Prudential Insurance(3) (4) .....	6.850	04/01/05	(5)
Consulate Distribution Center #300(4) .....	6.970	02/01/06	(2)
Plano Distribution Center #7(4) .....	7.020	04/15/06	(2)
Connecticut General Life Insurance(3) .....	7.080	03/01/07	(2)
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Vista Del Sol Industrial Center #1 & 2 .....	9.680	08/01/07	(6)
State Farm Insurance(3) (4) .....	7.100	11/01/08	(2)
Placid Street Distribution Center #1(4) .....	7.180	12/01/09	(2)
Earth City Industrial Center #4 .....	8.500	07/01/10	(6)
GMAC Commercial Mortgage(3) .....	7.750	10/01/10	(6)
Executive Park Distribution Center #3 .....	8.190	03/01/11	(6)
Cameron Business Center #1(4) .....	7.230	07/01/11	(2)
Platte Valley Industrial Center #9 .....	8.100	04/01/17	(6)
Platte Valley Industrial Center #4 .....	10.100	11/01/21	(6)
Morgan Guaranty Trust(3) .....	7.584	04/01/24	(7)
Assessment bonds:			
City of Fremont .....	7.000%	03/01/11	(6)
Various(8) .....	(8)	(8)	(6)
Securitized debt:			
Tranche A .....	7.740%	02/01/04	(2)
Tranche B .....	9.940	02/01/04	(2)
Total secured debt .....			

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- (1) The weighted average interest rates for mortgage notes, assessment bonds and securitized debt were 7.49%, 7.12% and 8.46%, respectively as of December 31, 2000. The total weighted average interest rate for ProLogis' secured borrowings is 7.53%.
- (2) Monthly amortization with a balloon payment due at maturity.
- (3) Secured by various distribution facilities.
- (4) Mortgage note was assumed by ProLogis in connection with the merger with Meridian. See Note 11. Under purchase accounting, the mortgage note was recorded at its fair value. Accordingly, a premium or discount was recognized, as applicable.
- (5) Carrying value includes premium. Terms are interest only with stated principal amount of \$48.9 million due at maturity.
- (6) Fully amortizing.
- (7) Monthly interest only payments through May 2005, monthly principal and interest payments from June 2005 to April 2024 with a balloon payment due at maturity.
- (8) Includes nine issues of assessment bonds with four municipalities. Interest rates range from 5.50% per annum to 8.75% per annum. Maturity dates range from August 2004 to September 2016.

Mortgage notes, assessment bonds and securitized debt are secured by real estate with an aggregate undepreciated cost of \$927.0 million, \$236.3 million and \$61.3 million, respectively, as of December 31, 2000.

### Other Unsecured Debt

As of December 31, 1999, ProLogis had an unsecured term loan in the amount of 200.0 million French francs (the currency equivalent of approximately \$30.9 million). This debt was held by ProLogis European Properties S.a.r.l. See Note 4.

### Long-Term Debt Maturities

Approximate principal payments due on senior unsecured notes and secured debt (mortgage notes, assessment bonds and securitized debt) during each of the years in the five-year period ending December 31, 2005 and thereafter are as follows (in thousands):

2001 .....	\$	44,665
2002 .....		48,898
2003 .....		184,856
2004 .....		316,221
2005 .....		112,063
2006 and thereafter .....		1,533,722
		-----

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Total principal due .....	2,240,425
Less: Original issue discount .....	(2,511)
	-----
Total carrying value .....	\$ 2,237,914
	=====

### Interest Expense

For 2000, 1999 and 1998, interest expense was \$172.2 million, \$170.7 million and \$77.7 million, respectively, which is net of capitalized interest of \$18.5 million, \$16.0 million and \$19.2 million, respectively. Amortization of deferred loan costs included in interest expense was \$4.6 million, \$4.4 million and \$2.2 million for 2000, 1999 and 1998, respectively. The total interest paid in cash on all outstanding debt was \$178.4 million, \$169.8 million and \$83.2 million during 2000, 1999 and 1998, respectively.

### 6. MINORITY INTEREST:

Minority interest represents the limited partners' interests in real estate partnerships controlled by ProLogis. With respect to each of the partnerships either ProLogis or a subsidiary of ProLogis is the sole general partner with all management powers over the business and affairs of the partnership. The limited partners of each partnership generally do not have the right to participate in or exercise management control over the business and affairs of the partnership. With respect to each partnership the general partner may not, without the written consent of all of the limited partners, take any action that would prevent such partnership from conducting its business, possess the property of the partnership, admit an additional partner or subject a limited partner to the liability of a general partner.

As of December 31, 2000, ProLogis or a subsidiary of ProLogis is the controlling general partner in five partnerships. In each of these partnerships, the limited partners are entitled to exchange partnership units for Common Shares. Additionally, the limited partners are entitled to receive preferential cumulative quarterly distributions per unit equal to the quarterly distributions in respect of Common Shares. The five partnerships as of December 31, 2000 are as follows:

ENTITY -----	FORMATION DATE -----	INVESTMENT IN REAL ESTATE (IN MILLIONS) -----	PROLOGIS' OWNERSHIP -----	L PARTNE OUT -----
ProLogis Limited Partnership-I(1) .....	1993	\$ 211.0	68.70%	4,5
ProLogis Limited Partnership-II .....	1994	\$ 58.3	97.80%	
ProLogis Limited Partnership-III .....	1994	\$ 52.0	86.39%	3
ProLogis Limited Partnership-IV(3) .....	1994	\$ 103.9	98.50%	
Meridian Realty Partners Limited Partnership .....	(4)	\$ 10.4	88.00%	

-----

- (1) These facilities cannot be sold, prior to the occurrence of certain events, without the consent of the limited partners thereto, other than in tax-deferred exchanges.
- (2) Convertible into Common Shares on a one for one basis.

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- (3) ProLogis Limited Partnership-IV was formed through a cash contribution from a wholly owned subsidiary of ProLogis, ProLogis-IV, Inc. and the contribution of industrial distribution facilities from the limited partner. ProLogis Limited Partnership-IV and ProLogis-IV, Inc. are legal entities separate and distinct from ProLogis, its affiliates and each other, and each has separate assets, liabilities, business functions and operations. The sole assets of ProLogis-IV, Inc. are its general partner advances to and its interest in ProLogis Limited Partnership-IV. As of December 31, 2000, ProLogis Limited Partnership-IV had outstanding borrowings from ProLogis-IV, Inc., of \$0.4 million and ProLogis-IV, Inc. had outstanding borrowings from ProLogis and its affiliates of \$0.4 million.
- (4) Acquired in merger with Meridian. See Note 11.
- (5) Convertible into Common Shares on a 1.1 for one basis, plus \$2.00.

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For financial reporting purposes, the assets, liabilities, results of operations and cash flows of each of the five partnerships are included in ProLogis' consolidated financial statements, and the interests of the limited partners are reflected as minority interest.

### 7. SHAREHOLDERS' EQUITY:

#### Shares Authorized

As of December 31, 2000, 275,000,000 shares were authorized. ProLogis' Board of Trustees (the "Board") may increase the number of authorized shares and may classify or reclassify any unissued shares of ProLogis stock from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as of distributions, qualifications and terms or conditions of redemption of such shares.

#### Preferred Shares

As of December 31, 2000, ProLogis had four series of cumulative redeemable preferred shares of beneficial interest outstanding (Series A, C, D and E) and one series of cumulative convertible redeemable preferred shares of beneficial interest outstanding (Series B). The Series B preferred shares are convertible at any time, unless previously redeemed, at the option of the holders thereof into Common Shares at a conversion price of \$19.50 per share (equivalent to a conversion rate of 1.282 Common Shares for each Series B preferred share).

Holders of each series of preferred shares have, subject to certain conditions, limited voting rights. The holders of the preferred shares 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 for all series of preferred shares, with the exception of Series E, which are payable quarterly on the last day of January, April, July and October, when, and if, declared by the Board, out of funds legally available for payment of dividends. After the respective redemption dates, each series can be redeemed for a cash redemption price which (other than the portion consisting of accrued and unpaid dividends) is payable solely out of the sales proceeds of other capital shares of ProLogis, which may include shares of other series of preferred shares. With respect to payment of dividends, each series of preferred shares ranks on parity with



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ProLogis' other series of preferred shares.

ProLogis' preferred shares as of December 31, 2000 are summarized as follows:

	NUMBER OF SHARES OUTSTANDING	STATED LIQUIDATION PREFERENCE	DIVIDEND RATE	DIVIDEND EQUIVALENT BAS ON LIQUIDATIO PREFERENCE
	-----	-----	-----	-----
Series A Cumulative Redeemable Preferred Shares .....	5,400,000	\$ 25.00	9.40%	\$2.35 per sha
Series B Cumulative Convertible Redeemable Preferred Shares(2) .....	6,256,100	\$ 25.00	7.00%	\$1.75 per sha
Series C Cumulative Redeemable Preferred Shares .....	2,000,000	\$ 50.00	8.54%	\$4.27 per sha
Series D Cumulative Redeemable Preferred Shares .....	10,000,000	\$ 25.00	7.92%	\$1.98 per sha
Series E Cumulative Redeemable Preferred Shares .....	2,000,000	\$ 25.00	8.75%	\$2.19 per sha

-----

- (1) After this date, the preferred shares can be redeemed at ProLogis' option.
- (2) During 2000 and 1999, Series B preferred shares of 764,599 and 516,897, respectively, were converted into 980,216 and 662,661 Common Shares, respectively.
- (3) ProLogis will redeem these shares on March 20, 2001.

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### Recent Developments

On January 11, 2001, ProLogis announced a Common Share repurchase program under which it may repurchase up to \$100.0 million of its Common Shares. The Common Shares will be repurchased from time to time in the open market and in privately negotiated transactions, depending on market prices and other conditions. On February 12, 2001 ProLogis announced its call for redemption of all outstanding Series B cumulative convertible redeemable preferred shares at a price of \$25.00 per share, plus \$0.442 in accrued and unpaid dividends, for an aggregate redemption price of \$25.442 per preferred share. The redemption date is March 20, 2001. On or prior to March 13, 2001, the Series B preferred shares could be converted into Common Shares at a conversion rate of 1.282 Common Shares for each Series B preferred share.

### Issuance of Common Shares

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During 2000, ProLogis generated net proceeds of \$30.3 million from the issuance of 1,479,000 Common Shares under its 1999 Dividend Reinvestment and Share Purchase Plan and issuance of 163,000 Common Shares under long-term compensation plans. See Note 13. In addition, ProLogis issued: (i) 602,000 Common Shares in connection with the acquisition agreement for the Kingspark entities (see Note 4); (ii) 980,000 Common Shares upon conversion of 765,000 cumulative convertible redeemable Series B preferred shares; and (iii) 238,000 Common Shares to the holders of 216,000 convertible limited partnership units.

### Shelf Registration

ProLogis has a shelf registration statement on file with the Securities and Exchange Commission that allows ProLogis to issue securities in the form of debt securities, preferred shares, Common Shares, rights to purchase Common Shares and preferred share purchase rights on an as-needed basis. These \$608.0 million of shelf-registered securities are available for issuance, subject to ProLogis' ability to effect an offering on satisfactory terms.

### Ownership Restrictions and Significant Shareholder

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

Shares owned by a person or group of persons in excess of these limits are subject to redemption by ProLogis. 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 ProLogis as a REIT for federal income tax purposes will not be jeopardized or the disqualification of ProLogis as a REIT is advantageous to the shareholders.

Security Capital is exempt from the ownership restrictions described above. Security Capital owned 30.2% the outstanding Common Shares as of December 31, 2000. For tax purposes, Security Capital's ownership is attributed to its shareholders.

### Dividend Reinvestment and Share Purchase Plan

In March 1995, ProLogis adopted a Dividend Reinvestment and Share Purchase Plan (the "1995 Plan"), which commenced in April 1995. The 1995 Plan allowed holders of Common Shares the opportunity to acquire additional Common Shares by automatically reinvesting distributions. Holders of Common Shares who do not participate in the 1995 Plan continue to receive distributions as declared. The 1995 Plan also allowed participating 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 are acquired pursuant to the 1995 Plan at a price equal to 98% of the market price of such Common Shares, without payment of any brokerage commission or service charge.

The 1995 Plan was amended in June 1999 by the 1999 Dividend Reinvestment and Share Purchase Plan (the "1999 Plan"). The primary change effective with the 1999 Plan allows persons who are not holders of Common Shares to participate in the share purchase plan.

Shareholder Purchase Rights

On December 7, 1993, the Board declared a dividend of one preferred share purchase right ("Right") for each outstanding Common Share to be distributed to all holders of record of the Common Shares on December 31, 1993. Each Right entitles the registered holder to purchase one-hundredth of a Participating Preferred Share for an exercise price of \$40.00 per one-hundredth of a Participating Preferred Share, subject to adjustment as provided in the Rights Agreement. The Rights will generally be exercisable only if a person or group (other than certain affiliates of ProLogis) acquires 20% or more of the Common Shares or announces a tender offer for 25% or more of the Common Shares. Under certain circumstances, upon a shareholder acquisition of 20% or more of the Common Shares (other than certain affiliates of ProLogis), each Right will entitle the holder to purchase, at the Right's then-current exercise price, a number of Common Shares having a market value of twice the Right's exercise price. The acquisition of ProLogis pursuant to certain mergers or other business transactions will entitle each holder of a Right to purchase, at the Right's then-current exercise price, a number of the acquiring company's common shares having a market value at that time equal to twice the Right's exercise price. The Rights held by certain 20% shareholders will not be exercisable. The Rights will expire on December 7, 2003, unless the expiration date of the Rights is extended, and the Rights are subject to redemption at a price of \$0.01 per Right under certain circumstances.

8. DISTRIBUTIONS AND DIVIDENDS:

Common Distributions

ProLogis' annual distribution per Common Share was \$1.34 in 2000, \$1.30 in 1999 and \$1.24 in 1998. For Federal income tax purposes, the following summarizes the taxability of cash distributions paid on Common Shares in 1999 and 1998 and the estimated taxability for 2000:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Per Common Share:			
Ordinary income .....	\$ 1.19	\$ 0.84	\$ 1.12
Capital gains .....	0.15	0.35	--
Return of capital .....	--	0.11	0.12
Total .....	\$ 1.34	\$ 1.30	\$ 1.24

The distribution level for 2001 was set at \$1.38 per Common Share by the Board in December 2000. Additionally, on December 15, 2000, ProLogis declared a distribution of \$0.345 per Common Share payable on February 23, 2001 to holders of Common Shares on February 9, 2001.

Preferred Dividends

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The annual dividends per preferred share were as follows:

	YEAR ENDED DECEMBER	
	2000(1)	1999(2)
Series A Cumulative Redeemable Preferred Shares .....	\$ 2.35	\$ 2.35
Series B Cumulative Convertible Redeemable Preferred Shares .....	1.75	1.75
Series C Cumulative Redeemable Preferred Shares .....	4.27	4.27
Series D Cumulative Redeemable Preferred Shares .....	1.98	1.98
Series E Cumulative Redeemable Preferred Shares .....	2.19	1.64 (5)

- 
- (1) For federal income tax purposes \$2.08 of the Series A dividend, \$1.55 of the Series B dividend, \$3.78 of the Series C dividend, \$1.75 of the Series D dividend and \$1.94 of the Series E dividend are treated as ordinary income to the holders. The remaining portion of each dividend represents capital gains.
  - (2) For federal income tax purposes \$1.65 of the Series A dividend, \$1.23 of the Series B dividend, \$3.00 of the Series C dividend, \$1.39 of the Series D dividend and \$1.15 of the Series E dividend are treated as ordinary income to the holders. The remaining portion of each dividend represents capital gains.
  - (3) For federal income tax purposes these dividends are treated as ordinary income to the holders.

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- (4) For the period from date of issuance to December 31, 1998.
- (5) For the period from date of issuance to December 31, 1999.

Pursuant to the terms of its preferred shares, ProLogis is restricted from declaring or paying any distribution with respect to the Common Shares unless 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.

ProLogis' tax return for the year ended December 31, 2000 has not been filed. The taxability information for 2000 is based upon the best available data. ProLogis' tax returns for prior years have not been examined by the Internal Revenue Service. Consequently, the taxability of distributions and dividends is subject to change.

### 9. EARNINGS PER COMMON SHARE:

A reconciliation of the denominator used to calculate basic earnings per Common Share to the denominator used to calculate diluted earnings per Common Share for the years indicated (in thousands, except per share amounts) is as follows:

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	YEAR ENDED DECEMBER 31	
	2000	1999
Net earnings attributable to Common Shares .....	\$157,715	\$123,999
Weighted average Common Shares outstanding--		
Basic .....	163,651	152,412
Incremental weighted effect of common stock equivalents and contingently issuable shares (see Note 13) .....	750	327
Adjusted weighted average Common Shares outstanding-- Diluted .....	164,401	152,739
Basic and diluted per share net earnings attributable to Common Shares .....	\$ 0.96	\$ 0.81

For the year ended December 31, 1999, basic and diluted per share net earnings attributable to Common Shares before the cumulative effect of accounting change were \$0.82. The following convertible securities were not included in the calculation of diluted net earnings per Common Share as the effect, on an as-converted basis, was antidilutive (in thousands):

	YEAR ENDED DECEMBER 31	
	2000	1999
Series B cumulative convertible redeemable preferred shares .....	8,417	9,221
Limited partnership units .....	5,348	5,461

10. BUSINESS SEGMENTS:

ProLogis has three reportable business segments:

- o Property operations represents the long-term ownership and leasing of industrial distribution facilities in the United States, (portions of which are owned through ProLogis California, ProLogis North American Properties Fund I and ProLogis Principal-- See Note 4) Mexico and Europe (portions of which were owned through Garonor Holding (see Note 4), a subsidiary that was recognized under the equity method until June 29, 1999 and through ProLogis European Properties Fund in 2000 and 1999 and ProLogis European Properties S.a.r.l. in 2000-- See Note 4); each operating facility is considered to be an individual operating segment having similar economic characteristics which are combined within the reportable segment based upon geographic location;
- o Corporate distribution facilities services business ("CDFS") represents the development of industrial distribution facilities by ProLogis, ProLogis Development Services or the Kingspark entities in

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the United States, Mexico and Europe (see Note 4) which are often disposed of to third parties or entities in which ProLogis has an ownership interest and the development of industrial distribution facilities by ProLogis, ProLogis Development Services or the Kingspark entities on a fee basis for third parties in the United States, Mexico and Europe; the development activities of ProLogis, ProLogis Development Services and the Kingspark entities are considered to be individual operating segments having similar economic characteristics which are combined within the reportable segment based upon geographic location; and

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- o Temperature-controlled distribution operations represents the operation of a temperature-controlled distribution and logistics network through investments in unconsolidated entities in the United States (ProLogis Logistics) and Europe (Frigoscandia S.A.); each company's operating facilities are considered to be individual operating segments having similar economic characteristics which are combined within the reportable segment based upon geographic location. See Note 4.

Reconciliations of the three reportable segments': (i) income from external customers to ProLogis' total income; (ii) net operating income from external customers to ProLogis' earnings from operations (ProLogis' chief operating decision makers rely primarily on net operating income to make decisions about allocating resources and assessing segment performance); and (iii) assets to ProLogis' total assets are as follows (in thousands):

	YEAR ENDED DECEMBER	
	2000	1999
Income:		
Property operations:		
United States(1) .....	\$ 476,098	\$ 457,592
Mexico .....	15,504	10,503
Europe(2) .....	27,771	16,045
Total property operations segment .....	519,373	484,140
CDFS business:		
United States(3) .....	58,812	28,861
Mexico .....	1,517	--
Europe(4)(5) .....	61,569	41,673
Total CDFS business segment .....	121,898	70,534
Temperature-controlled distribution operations:		
North America(6) .....	11,950	10,791
Europe(7) .....	(20,298)	(4,364)
Total temperature-controlled distribution operations segment .....	(8,348)	6,427
Reconciling items:		

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Interest income .....	7,267	6,369
Income from unconsolidated entities .....	3,331	(78)
	-----	-----
Total reconciling items .....	10,598	6,291
	-----	-----
Total income .....	\$ 643,521	\$ 567,392
	=====	=====
Net operating income:		
Property operations:		
United States(1) .....	\$ 448,074	\$ 424,633
Mexico .....	15,093	10,569
Europe(2) .....	29,029	15,437
	-----	-----
Total property operations segment .....	492,196	450,639
	-----	-----
CDFS business:		
United States(3) .....	58,812	28,861
Mexico .....	1,517	--
Europe(4) (5) .....	61,569	41,673
	-----	-----
Total CDFS business segment .....	121,898	70,534
	-----	-----
Temperature-controlled distribution operations:		
North America(6) .....	11,950	10,791
Europe(7) .....	(20,298)	(4,364)
	-----	-----
Total temperature-controlled distribution operations segment .....	(8,348)	6,427
	-----	-----
Reconciling items:		
Interest income .....	7,267	6,369
Income from unconsolidated entities .....	3,331	(78)
General and administrative expense .....	(44,954)	(38,284)
Depreciation and amortization .....	(151,483)	(152,447)
Interest expense .....	(172,191)	(170,746)
Interest rate hedge expense .....	--	(945)
Other expenses .....	(5,909)	(4,920)
	-----	-----
Total reconciling items .....	(363,939)	(361,051)
	-----	-----
Earnings from operations .....	\$ 241,807	\$ 166,549
	=====	=====

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	DECEMBER 31,		
	2000	1999	
	-----	-----	-----
Property operations:			
United States(8) .....	\$3,887,601	\$4,017,702	\$3
Mexico .....	113,538	178,253	
Europe(8) .....	308,457	387,362	
	-----	-----	-----
Total property operations segment .....	4,309,596	4,583,317	3
	-----	-----	-----

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CDFS business:			
United States .....	304,697	210,088	
Mexico .....	26,288	13,249	
Europe(8) .....	637,207	432,455	
	-----	-----	
Total CDFS business segment .....	968,192	655,792	
	-----	-----	
Temperature controlled distribution operations:			
North America(8) .....	231,053	192,607	
Europe(8) .....	191,981	214,008	
	-----	-----	
Total temperature controlled distribution operations segment .....	423,034	406,615	
	-----	-----	
Reconciling items:			
Investments in unconsolidated entities .....	70,807	2,442	
Cash .....	57,870	69,338	
Accounts and notes receivable .....	43,040	31,084	
Other assets .....	73,795	99,452	
	-----	-----	
Total reconciling items .....	245,512	202,316	
	-----	-----	
Total assets .....	\$5,946,334	\$5,848,040	\$4
	=====	=====	==

- 
- (1) In addition to the operations of ProLogis that are reported on a consolidated basis, includes amounts recognized under the equity method related to ProLogis' investment in ProLogis California, ProLogis North American Properties Fund I and ProLogis Principal in 2000 and ProLogis California in 1999. See Note 4 for summarized financial information of ProLogis California, ProLogis North American Properties Fund I and ProLogis Principal.
  
  - (2) In addition to the operations of ProLogis that are reported on a consolidated basis, includes amounts recognized under the equity method related to ProLogis' investment in ProLogis European Properties Fund (including net foreign currency exchange gains of \$2.3 million) and ProLogis European Properties S.a.r.l. (including net foreign currency exchange gains of \$2.4 million) in 2000 and ProLogis European Properties Fund (including net foreign currency gains of \$0.3 million) in 1999. In 1999, also includes ProLogis' investment in Garonor Holdings (including a \$13.0 million net foreign currency exchange loss). See Note 4 for summarized financial information of ProLogis European Properties Fund and for a discussion of Garonor Holdings.
  
  - (3) In 2000, includes \$3.3 million, \$24.5 million and \$1.6 million of net gains recognized by ProLogis related to the disposition of facilities to ProLogis California, ProLogis North American Properties Fund I and ProLogis Principal, respectively. See Note 4.
  
  - (4) Includes amounts recognized under the equity method related to ProLogis' investment in the Kingspark entities in 2000, 1999 and 1998 (including \$0.3 million of net foreign currency exchange gains in 2000 and \$1.5 million and \$0.9 million of net foreign currency exchange losses in 1999 and 1998, respectively). See Note 4 for summarized financial information of the Kingspark entities.
  
  - (5) Includes \$13.7 million and \$17.3 million of net gains recognized by ProLogis related to the disposition of facilities to ProLogis European



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Properties Fund in 2000 and 1999, respectively. In addition, includes \$4.3 million and \$4.5 million of net gains recognized under the equity method related to the Kingspark entities' disposition of facilities to ProLogis European Properties Fund in 2000 and 1999, respectively. See Note 4.

- (6) Represents amounts recognized under the equity method related to ProLogis' investment in ProLogis Logistics. See Note 4 for summarized financial information of ProLogis Logistics.
- (7) Represents amounts recognized under the equity method related to ProLogis' investment in Frigoscandia S.A. (including \$0.8 million, \$1.3 million and \$11.4 million of net foreign currency exchange losses in 2000, 1999 and 1998, respectively). See Note 4 for summarized financial information of Frigoscandia S.A.
- (8) Amounts include investments in unconsolidated entities accounted for under the equity method. See also Note 4 for summarized financial information of the unconsolidated entities as of and for the year ended December 31, 2000.

### 11. MERGER WITH MERIDIAN

On March 30, 1999, Meridian Industrial Trust, Inc. ("Meridian"), a publicly traded REIT that owned industrial distribution facilities in the United States, was merged with and into ProLogis. In accordance with the terms of the Agreement and Plan of Merger dated as of November 16, 1998, as amended (the "Merger Agreement"), the approximately 33.8 million outstanding shares of Meridian common stock were exchanged (on a 1.1 for one basis) into approximately 37.2 million ProLogis Common Shares. In addition, the holders of Meridian common stock received \$2.00 in cash per outstanding share, approximately \$67.6 million in total.

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The holders of Meridian's Series D cumulative redeemable preferred stock received a new series of ProLogis cumulative redeemable preferred shares, Series E preferred shares, on a one for one basis. The Series E preferred shares have an 8.75% annual dividend rate (\$2.1875 per share) and an aggregate liquidation value of \$50.0 million. The total purchase price of Meridian was approximately \$1.54 billion, which included the assumption of the outstanding debt and liabilities of Meridian as of March 30, 1999 and the issuance of approximately 1.1 million stock options each to acquire 1.1 ProLogis Common Shares and \$2.00 in cash. The assets acquired from Meridian included approximately \$1.42 billion of real estate assets, an interest in a temperature-controlled distribution business of \$28.7 million and cash and other assets aggregating \$72.3 million. The transaction was structured as a tax-free merger and was accounted for under the purchase method.

The following summarized pro forma unaudited information represents the combined historical operating results of ProLogis and Meridian with the appropriate purchase accounting adjustments, assuming the merger with Meridian had occurred on January 1, 1998. The pro forma financial information presented is not necessarily indicative of what ProLogis' actual operating results would have been had ProLogis and Meridian constituted a single entity during such periods (in thousands, except per share amounts):

YEAR ENDED  
DECEMBER 31,

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	1999	1998
Rental income .....	\$ 525,340	\$ 464,034
Earnings from operations .....	\$ 170,681	\$ 124,928
Earnings attributable to Common Shares before cumulative .....	\$ 136,461	\$ 78,847
effect of accounting change		
Net earnings attributable to Common Shares .....	\$ 135,021	\$ 78,847
Weighted average Common Shares outstanding:		
Basic .....	160,705	155,923
Diluted .....	161,044	156,680
Basic per share net earnings attributable to Common Shares .....	\$ 0.85	\$ 0.51
before cumulative effect of accounting change		
Cumulative effect of accounting change .....	(0.01)	--
Basic per share net earnings attributable to Common Shares .....	\$ 0.84	\$ 0.51
Diluted per share net earnings attributable to Common Shares .....	\$ 0.85	\$ 0.50
before cumulative effect of accounting change		
Cumulative effect of accounting change .....	(0.01)	--
Diluted per share net earnings attributable to Common Shares .....	\$ 0.84	\$ 0.50

12. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash investing and financing activities for the years ended December 31, 2000, 1999 and 1998 are as follows:

- o In connection with ProLogis' contribution of 50.1% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund discussed in Note 4, ProLogis received an equity interest in ProLogis European Properties Fund of approximately \$78.0 million. ProLogis European Properties S.a.r.l. had total assets of \$403.9 million and total liabilities of \$248.1 million. ProLogis has recognized its investment in the remaining 49.9% of the common stock under the equity method since January 7, 2000. On January 7, 2001, ProLogis contributed the remaining 49.9% of the common stock to ProLogis European Properties Fund for an additional equity interest. See Note 4.
- o ProLogis received \$11.4 million, \$13.8 million, \$18.6 million and \$0.6 million of the proceeds from its disposition of facilities to ProLogis European Properties Fund, ProLogis California, ProLogis North American Properties Fund I and ProLogis Principal, respectively, in the form of an equity interest in these entities during 2000. Additionally, ProLogis received \$13.2 million of the proceeds from its disposition of facilities to ProLogis Principal in the form of a note receivable during 2000. ProLogis received \$148.2 million and \$23.4 million of the proceeds from its disposition of facilities to ProLogis California and ProLogis European Properties Fund, respectively, in the form of an equity interest in these entities during 1999.
- o ProLogis received \$2.1 million of the proceeds from its disposition of facilities to third parties in the form of notes receivable during 2000.

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- o In connection with the agreement for the acquisition of the Kingspark entities discussed in Note 4, ProLogis issued 602,000 Common Shares in 2000 valued at \$11.9 million.

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- o In connection with the merger with Meridian in 1999 discussed in Note 11, ProLogis issued approximately 37.2 million Common Shares and 2.0 million Series E preferred shares, assumed approximately 1.1 million stock options and assumed outstanding debt and liabilities of Meridian for an aggregate purchase price of approximately \$1.54 billion in exchange for the assets of Meridian (including cash balances acquired of \$49.0 million).
- o Series B cumulative convertible redeemable preferred shares aggregating \$19,115,000, \$12,922,000 and \$11,568,000 were converted into Common Shares in 2000, 1999 and 1998, respectively.
- o Net foreign currency translation adjustments of \$(24,003,000), \$(9,788,000) and \$86,000 were recognized in 2000, 1999 and 1998, respectively.
- o Limited partnership units aggregating \$8,169,000 (total minority interest of \$13,905,000 less \$5,736,000 representing amounts due to ProLogis by the holder of the units), \$205,000 and \$302,000 were converted into Common Shares in 2000, 1999 and 1998, respectively.
- o Mortgage notes in the amount \$39.8 million were assumed in connection with the acquisition of real estate in 1998.
- o Employee share purchase notes in the amount of \$1,796,000 were retired in 1998. See Note 13.

### 13. LONG-TERM COMPENSATION

#### Long-Term Incentive Plan and Share Option Plan for Outside Trustees

ProLogis has a long-term incentive plan (the "Incentive Plan"), which includes an employee share purchase plan, a stock option plan, a restricted share unit plan and a performance share plan. No more than 14,600,000 Common Shares in the aggregate may be awarded under the Incentive Plan and no individual may be granted awards with respect to more than 500,000 Common Shares in any one-year period. The Incentive Plan has a 10-year term. Additionally, ProLogis has 500,000 Common Shares authorized for issuance under its Share Option Plan for Outside Trustees (the "Outside Trustees Plan"). As of December 31, 2000, 4,382,000 Common Shares remain to be issued under the Incentive Plan and 406,000 Common Shares remain to be issued under the Outside Trustees Plan.

#### Employee Share Purchase Plan

Under the employee share purchase plan certain employees of ProLogis purchased 1,356,834 Common Shares on September 8, 1997 at a price of \$21.21875 per share. ProLogis financed 95% of the total purchase price through ten-year, recourse notes to the participants aggregating \$27.3 million. The loans, which have been recognized as a deduction from shareholders' equity, bear interest at the lower of ProLogis' annual dividend yield on Common Shares or 6% per annum. The loans are secured by the Common Shares purchased. For each Common Share purchased, participants were granted two options to purchase Common Shares at a price of \$21.21875. As of December 31, 2000, there were 930,807 Common Shares

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securing the employee share purchase notes. The outstanding notes receivable at December 31, 2000 of \$18,556,000 include \$16,314,000 due from officers of ProLogis.

### Stock Options

ProLogis has granted stock options under the Incentive Plan and the Outside Trustees Plan. Stock options outstanding as of December 31, 2000 are as follows:

	NUMBER OF OPTIONS	EXERCISE PRICE (1)	EXPIRATION DATE	WEIGHTED AVERAGE REMAINING LIFE
	-----	-----	-----	-----
Outside Trustees Plan(2)...	84,000	\$17.50-\$ 25.00	2001-2010	6.8 years
Employee stock purchase plan(3).....	1,923,874	\$21.21875	2007	6.7 years
Stock option plan(2) (3):				
1997 awards.....	234,701	\$21.21875-\$23.96875	2007	6.7 years
1998 awards.....	1,217,610	\$20.9375-\$ 24.625	2008	7.8 years
1999 awards.....	1,265,689	\$17.1875-\$19.71875	2009	8.7 years
2000 awards.....	1,251,045	\$20.0625-\$ 24.25	2010	9.7 years
Meridian options(4).....	359,724	\$16.375-\$ 23.9375	2004	3.2 years
Options sold to unconsolidated entities(2).....	1,383,963	\$18.625-\$ 24.5625	2008-2010	8.6 years
Total.....	7,720,606	=====		

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(1) Exercise price was equal to the average of the high and low market price on the date of grant.

(2) The holders are awarded dividend equivalent units each year of the plan, except for holders of 24,000 options issued under the Outside Trustees Plan prior to 1999.

(3) Graded vesting at various rates over periods from one to 10 years, subject to certain conditions.

(4) Options are fully exercisable. Options issued to holders of Meridian options are exercisable into 1.1 Common Shares, plus \$2.00. See Note 11.

The weighted average fair value of the stock options issued under the Incentive Plan to ProLogis' employees, issued under the Outside Trustees Plan and sold to unconsolidated entities during 2000 was \$3.41 per option (excluding the value of the DEUs to be earned). The activity with respect to ProLogis' stock option plans for the years ended December 31, 2000, 1999 and 1998 is presented below.

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	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS EXERCISABLE
Balance at December 31, 1997 .....	3,103,291	\$ 21.21	1,129,448
Granted/Sold .....	2,011,392	21.17	870,787
Exercised .....	--	--	--
Forfeited .....	(251,473)	21.22	--
Balance at December 31, 1998 .....	4,863,210	21.19	2,000,235
Granted/Sold .....	2,066,133	20.41	458,204
Issued in merger with Meridian (Note 11) ..	1,025,850	20.13	1,025,850
Exercised .....	(4,000)	15.50	(4,000)
Forfeited .....	(487,985)	21.02	--
Balance at December 31, 1999 .....	7,463,208	20.37	3,480,289
Granted/Sold .....	1,702,028	23.94	--
Exercised .....	(744,171)	19.80	(744,171)
Forfeited .....	(700,459)	20.55	--
Balance at December 31, 2000 .....	7,720,606	\$ 21.11	2,736,118

ProLogis did not recognize compensation expense in 2000, 1999 or 1998 related to stock options granted as the exercise price of all options granted was equal to the average of the high and low market price on the date of grant. Had compensation expense for these plans been determined using an option valuation model as provided in SFAS No. 123, ProLogis net earnings attributable to Common Shares and net earnings per Common Share would change as follows:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Net earnings attributable to Common Shares:			
As reported .....	\$ 157,715	\$ 123,999	\$ 62,231
Pro forma .....	154,857	121,767	60,805
Basic and diluted net earnings per Common Share:			
As reported-- basic and diluted .....	\$ 0.96	\$ 0.81	\$ 0.51
Pro forma-- basic .....	0.95	0.80	0.50
Pro forma-- diluted .....	0.94	0.80	0.50

Since stock options vest over several years and additional grants are likely to be made in future years, the pro forma compensation cost may not be representative of that to be expected in future years.

The pro forma amounts above were calculated using the Black-Scholes model and the following assumptions:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998

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	-----	-----	-----
Risk-free interest rate .....	4.99%	6.58%	4.74%
Forecasted dividend yield .....	5.65%	6.10%	7.36%
Volatility .....	22.28%	23.01%	27.37%
Weighted average option life ..	6.25 years	6.25 years	6.75 years

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### Restricted Share Units ("RSUs")

RSUs in the form of Common Shares are awarded at a rate of one Common Share per RSU from time to time to employees of ProLogis. The RSUs are valued on the award date based upon the market price of the Common Shares on that date. ProLogis recognizes the value of the RSUs awarded over the applicable vesting period as compensation expense. As of December 31, 2000, there were 587,500 RSUs outstanding at a total value of \$12.6 million, of which \$4.4 million has been expensed. As of December 31, 2000, 166,250 of the outstanding RSUs are vested. The remaining RSUs will vest as follows:

2001.....	76,875
2002.....	116,875
2003.....	46,300
2004.....	41,875
2005.....	55,575
2006 and thereafter..	83,750
	-----
Total.....	421,250
	=====

### Performance Share Plan

Under the performance share plan certain employees are awarded Common Shares if performance criteria is met. On December 31, 2000, 174,675 Common Shares valued at \$3.9 million were awarded under the plan, based upon the criteria established for 2000. The entire award will vest on December 31, 2002. ProLogis will recognize the related compensation expense over the two-year vesting period beginning January 1, 2001.

### Dividend Equivalent Units ("DEUs")

DEUs in the form of Common Shares are awarded at a rate of one Common Share per DEU on December 31st of each year that the underlying stock options, RSUs or performance shares are outstanding. The DEUs vest to the same extent the underlying award vests. The DEUs are valued on the award date based upon the market price of the Common Shares on that date and ProLogis recognizes that value as compensation expense over the underlying vesting period of the related award. Of the total RSUs outstanding, 167,500 RSUs do not earn DEUs but rather earn dividends at ProLogis' current Common Share distribution rate. As of December 31, 2000, there were 492,319 DEUs outstanding, of which 53,501 were vested. The DEUs outstanding have a total value of \$10.5 million, of which \$2.8 million has been expensed as of December 31, 2000.

### 401(k) Savings Plan and Trust

ProLogis has a 401(k) Savings Plan and Trust ("401(k) Plan"), that provides

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for matching employer contributions in Common Shares of 50 cents for every dollar contributed by an employee, up to 6% of the employees' annual compensation (within the statutory compensation limit). The vesting of contributed Common Shares is based on the employees' years of service, with 20% vesting each year of service, over a five-year period. Through December 31, 2000, no Common Shares have been issued under the 401(k) Plan as all matching contributions have been made with Common Shares purchased in the public market. A total of 190,000 Common Shares have been authorized for issuance under the 401(k) Plan.

### Nonqualified Savings Plan

Effective January 1, 1998, ProLogis established the Nonqualified Savings Plan to provide benefits for a select group of management. 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. ProLogis will match the lesser of (a) 50% of the sum of deferrals under both the 401(k) Plan and this plan, and (b) 3% of total compensation up to certain levels. The matching account will vest in the same manner as the 401(k) Plan.

### Warrants

During 1998, warrants were exercised into 11,764 Common Shares at an exercise price of \$10.00. There were no outstanding warrants as of December 31, 2000.

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### 14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED):

Selected quarterly financial data (in thousands, except for per share amounts) for 2000 and 1999 is as follows:

	THREE MONTHS ENDED,			
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
	-----	-----	-----	-----
2000:				
Rental income .....	\$ 120,809	\$ 119,696	\$ 121,519	\$
	=====	=====	=====	=====
Earnings from operations .....	\$ 62,526	\$ 52,612	\$ 67,194	\$
Minority interest share in earnings .....	1,654	1,435	1,228	
Gain (loss) on disposition of real estate .....	5,108	(4,801)	702	
Foreign currency exchange gains (losses), net .....	(6,520)	(11,929)	(1,929)	
Total income taxes .....	117	708	2,000	
	-----	-----	-----	-----
Net earnings .....	59,343	33,739	62,739	
Less preferred share dividends .....	14,405	14,150	14,120	
	-----	-----	-----	-----
Net earnings attributable to Common Shares .....	\$ 44,938	\$ 19,589	\$ 48,619	\$

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Basic net earnings attributable to Common Shares .....	\$ 0.28	\$ 0.12	\$ 0.30	\$
Diluted net earnings attributable to Common Shares .....	\$ 0.28	\$ 0.12	\$ 0.29	\$
1999:				
Rental income .....	\$ 97,161	\$ 131,251	\$ 135,503	\$
Earnings from operations .....	\$ 25,046	\$ 33,290	\$ 58,674	\$
Minority interest share in earnings .....	1,169	1,434	1,139	
Gain on disposition of real estate .....	715	--	25,643	
Foreign currency exchange gains (losses), net .....	(8,283)	(4,012)	5,830	
Total income taxes .....	374	585	534	
Earnings before cumulative effect in accounting change .....	15,935	27,259	88,474	
Cumulative effect of accounting change .....	1,440	--	--	
Net earnings .....	14,495	27,259	88,474	
Less preferred share dividends .....	13,445	14,493	14,453	
Net earnings attributable to Common Shares .....	\$ 1,050	\$ 12,766	\$ 74,021	\$
Per Common Share:				
Basic net earnings attributable to Common Shares before cumulative effect of accounting change .....	\$ 0.02	\$ 0.08	\$ 0.46	\$
Cumulative effect of accounting change .....	(0.01)	--	--	
Basic net earnings attributable to Common Shares .....	\$ 0.01	\$ 0.08	\$ 0.46	\$
Diluted earnings attributable to Common Shares before cumulative effect of accounting change .....	\$ 0.02	\$ 0.08	\$ 0.44	\$
Cumulative effect of accounting change .....	(0.01)	--	--	
Diluted net earnings attributable to Common Shares .....	\$ 0.01	\$ 0.08	\$ 0.44	\$

15. RELATED PARTY TRANSACTIONS:



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ProLogis leases space to Security Capital and certain of its affiliates on market terms that management believes are no less favorable to ProLogis than those that could be obtained with unaffiliated third parties.

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ProLogis' rental income related to these leases were \$757,000, \$756,000 and \$717,000 for the years ended December 31, 2000, 1999 and 1998, respectively. As of December 31, 2000, 109,804 square feet were leased to related parties. The annualized rental revenues for these leases are \$763,000.

On September 8, 1997, ProLogis and Security Capital entered into an administrative services agreement (the "ASA"). Under the ASA, Security Capital provided ProLogis with certain administrative and other services as determined by ProLogis (certain services originally provided under the ASA were transferred to ProLogis employees). ProLogis' fees under the ASA were \$2.5 million, \$3.5 million and \$3.7 million for 2000, 1999 and 1998, respectively. Of these fees, \$0.4 million, \$0.6 million and \$0.7 million were capitalized in 2000, 1999 and 1998, respectively. ProLogis recognizes the ASA fees related to property management activities as a component of rental expenses. ProLogis began transitioning these functions from Security Capital during 2000 and, as of December 31, 2000, ProLogis had assumed substantially all of the functions previously provided by Security Capital. The ASA expired on December 31, 2000. Security Capital is continuing to provide the services not yet assumed by ProLogis under a month-to-month agreement until the transition is completed.

During 2000, ProLogis paid investment advisory fees of \$104,000 to Security Capital Markets Group Incorporated, a registered broker-dealer subsidiary of Security Capital, related to additional equity contributed by NYSCRF to ProLogis California during 2000 (see Note 4). During 1999, ProLogis paid investment advisory fees to Security Capital Markets Group aggregating \$15.6 million. The fees were incurred in connection with the merger with Meridian (\$1.54 billion purchase price -- see Note 11), the formation of ProLogis California which generated \$148.2 million of outside equity capital to ProLogis (see Note 4) and the formation of the ProLogis European Properties Fund (the currency equivalent of over \$1 billion as of December 31, 1999 of third party capital invested or committed -- see Note 4).

ProLogis has invested in the non-voting preferred stock of certain entities that have ownership interests in companies that produce income that is not REIT qualifying income (i.e., rental income and mortgage interest income) under the Code. The voting common stock of these companies was held by four entities in which ProLogis did not have an ownership interest. ProLogis' largest shareholder, Security Capital, had a non-controlling ownership interest in two of these entities. During 2000, certain amendments to the Code were passed that were to be effective in January 2001. The Code, as amended in 2001, would allow for ProLogis to have a voting ownership interest in these entities; however, many of the states in which ProLogis operates had not amended their income tax laws governing REITs to coincide with the amendments made to the Code. For ProLogis to continue to qualify as a REIT under applicable state income tax laws, the non-voting preferred stock ownership structure had to continue after the Code amendments took effect in January 2001.

In anticipation of the changes in the Code, ProLogis began negotiating purchase agreements with the owners of the voting common stock in three of the entities. Rather than postpone the completion of these purchases pending changes to the state income tax laws governing REITs, the purchase of the voting common stock of each entity was completed with the voting interest in these entities acquired by Mr. K. Dane Brooksher, ProLogis' chairman and chief executive

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officer. The transactions through which Mr. Brooksher became an owner in these entities are further discussed below.

On January 5, 2001, a newly formed limited liability company, Kingspark LLC, of which Mr. Brooksher, ProLogis' chairman, is the voting member and ProLogis is the non-voting member, acquired the ordinary shares of Kingspark S.A. (an entity in which ProLogis owns all of the non-voting preferred stock) from Kingspark Holdings LLC (a limited liability company in which unrelated third parties owned 100% of the voting interests and Security Capital owned 100% of the non-voting interests) for approximately \$8.1 million. Mr. Brooksher's \$40,557 capital contribution to the newly formed limited liability company was loaned to Mr. Brooksher by ProLogis, which recourse loan is payable on January 5, 2006 and bears interest at an annual rate of 8%. ProLogis owns 95% of the membership interests (all non-voting) and Mr. Brooksher owns 5% of the membership interests (all voting) of Kingspark LLC and Mr. Brooksher is its managing member. Mr. Brooksher may transfer his membership interest, subject to certain conditions, including the approval of ProLogis. There are no provisions that give ProLogis the right to acquire Mr. Brooksher's membership interest. Mr. Brooksher will not receive any compensation in connection with being the managing member. His membership interest entitles him to dividends equal to 5% of the net cash flow of Kingspark LLC, as defined, if any. ProLogis structured the transaction in the manner described above to enable ProLogis to continue to qualify as a REIT under applicable state income tax laws.

Also on January 5, 2001, a newly formed limited liability company of which Mr. Brooksher is the voting member and ProLogis is the non-voting member, acquired the common shares of Frigoscandia S.A. and ProLogis Logistics (both entities in which

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ProLogis owns all of the non-voting preferred stock) for an aggregate of approximately \$3.3 million. The common shares of Frigoscandia S.A. were owned by a limited liability company in which unrelated third parties owned 100% of the voting interests and Security Capital owned 100% of the non-voting interests. The common shares of ProLogis Logistics were owned by a limited liability company in which unrelated third parties owned all of the membership interest. Mr. Brooksher contributed \$50,000 to the capital of the newly formed limited liability company. ProLogis owns 89% of the membership interests (all non-voting) and Mr. Brooksher owns 11% of the membership interests (all voting) of CSI/Frigo LLC. Mr. Brooksher is the managing member of CSI/Frigo LLC. Additionally, ProLogis has a note agreement with CSI/Frigo LLC that allows ProLogis to participate in its earnings such that ProLogis will recognize 95% of the earnings of CSI/Frigo LLC. Mr. Brooksher may transfer his membership interest, subject to certain conditions, including the approval of ProLogis. There are no provisions that give ProLogis the right to acquire Mr. Brooksher's membership interest. Mr. Brooksher will not receive any compensation in connection with being the managing member. Mr. Brooksher's membership interest and the provisions of the participating note entitle him to dividends equal to 5% of the net cash flow of CSI/Frigo LLC, as defined, if any. ProLogis structured the transaction in the manner described above to enable ProLogis to continue to qualify as a REIT under applicable state income tax laws.

As a result of the foregoing transactions, Mr. Brooksher has an effective 0.04% interest in the earnings of ProLogis Logistics, an effective 0.25% interest in the earnings of Frigoscandia S.A. and an effective 0.25% interest in the earnings of Kingspark S.A. Mr. Brooksher receives no compensation in connection with his interest in these companies.

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In 2000, ProLogis invested in two technology companies whose income was not REIT qualifying income under the Code (amendments to the Code and state income tax laws governing REITs were not in effect at this time). These investments were structured whereby ProLogis would have only a non-voting preferred stock ownership interest. To complete the transactions, Mr. Brooksher acquired the voting ownership interest in each entity. These investments are discussed below.

In July 2000, ProLogis acquired an indirect interest in Vizional Technologies. In order to facilitate the acquisition, ProLogis acquired all of the non-voting preferred stock of GoProLogis, representing a 98% interest in the earnings of GoProLogis. GoProLogis holds the direct investment in Vizional Technologies. Mr. Brooksher acquired all of the voting common stock of GoProLogis, representing a 2% interest in the earnings of GoProLogis and is entitled to receive dividends equal to 2% of the net cash flow of GoProLogis, as defined, if any. Mr. Brooksher contributed a \$1.1 million recourse promissory note to GoProLogis in exchange for his interest in the entity, which note is payable on July 18, 2005 and bears interest at an annual rate of 8%. Mr. Brooksher is not restricted from transferring his ownership interest in GoProLogis and ProLogis does not have the right to acquire Mr. Brooksher's ownership interest in 2000. However, beginning in 2001, an option agreement does allow ProLogis to acquire Mr. Brooksher's ownership interest. GoProLogis invested \$25.0 million in the preferred stock of Vizional Technologies. GoProLogis also received \$30.4 million of preferred stock of Vizional Technologies under a license agreement for the non-exclusive use of the ProLogis Operating System(TM) over a five-year period. ProLogis structured the transaction in the manner described above to enable ProLogis to continue to qualify as a REIT under applicable state income tax laws.

In September 2000, ProLogis acquired an indirect interest in PhatPipe. In order to facilitate the acquisition, ProLogis acquired all of the non-voting preferred stock of ProLogis PhatPipe, representing a 98% interest in the earnings of ProLogis PhatPipe. ProLogis PhatPipe holds the direct investment in PhatPipe. Mr. Brooksher acquired all of the voting common stock of ProLogis PhatPipe, representing a 2% interest in the earnings of ProLogis PhatPipe and is entitled to receive dividends equal to 2% of the net cash flow of ProLogis PhatPipe, as defined, if any. Mr. Brooksher contributed an aggregate of \$122,449 principal amount of recourse promissory notes to ProLogis PhatPipe in exchange for his interest in the entity. A promissory note with the principal amount of \$71,429 is due September 20, 2005 and a promissory note with the principal amount of \$51,020 is due January 4, 2006. Both notes bear interest at an annual rate of 8%. Mr. Brooksher is not restricted from transferring his ownership interest in ProLogis PhatPipe and ProLogis does not have the right to acquire Mr. Brooksher's ownership interest in 2000. However, beginning in 2001, an option agreement does allow ProLogis to acquire Mr. Brooksher's ownership interest. ProLogis PhatPipe invested \$3.5 million in the preferred stock of PhatPipe, Inc. and has committed to fund a total of \$8.0 million in ProLogis PhatPipe by March 31, 2001 pursuant to the terms of a stock purchase agreement. ProLogis PhatPipe also received \$3.5 million of preferred stock of PhatPipe, Inc. under a license agreement for the non-exclusive use of the ProLogis Operating System(TM) over a three-year period. ProLogis structured the transaction in the manner described above to enable ProLogis to continue to qualify as a REIT under applicable state income tax laws.

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### Fair Value of Financial Instruments

The following estimates of the fair value of financial instruments have been determined by ProLogis using available market information and valuation methodologies believed 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 ProLogis would realize upon disposition.

As of December 31, 2000 and 1999, the carrying amounts of certain financial instruments employed by ProLogis, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses were representative of their fair values because of the short-term maturity of these instruments. Similarly, the carrying values of the lines of credit balances approximate fair value as of those dates since the interest rate fluctuates based on published market rates. As of December 31, 2000 and 1999, the fair values of the senior unsecured debt and the secured debt (including mortgage notes, assessment bonds and securitized debt) 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 for debt with similar terms and maturities. The differences in the fair value of ProLogis' senior unsecured debt and secured debt from the carrying value in the table below are the result of differences in the interest rates available to ProLogis as of December 31, 2000 and 1999, from the interest rates in effect at the dates of issuance. The senior unsecured debt and many of the secured debt issues contain pre-payment penalties or yield maintenance provisions which would make the cost of refinancing exceed the benefit of refinancing at the lower rates.

As of December 31, 2000 and 1999, the fair value of ProLogis' derivative financial instruments are the amounts at which they could be settled, based on quoted market prices or estimates obtained from brokers or dealers.

The following table reflects the carrying amount and estimated fair value of ProLogis' financial instruments (in thousands):

	DECEMBER 31,			
	2000		1999	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	
Balance sheet financial instruments:				
Senior unsecured debt .....	\$ 1,699,989	\$ 1,703,737	\$ 1,729,630	\$
Secured debt .....	\$ 537,925	\$ 543,967	\$ 565,776	\$
Derivative financial instruments:				
Foreign currency put option				
contracts .....	\$ 446	\$ 446	\$ 628	\$
Interest rate swap agreements .....	\$ --	\$ --	\$ --	\$

### Derivative Financial Instruments

ProLogis uses derivative financial instruments as hedges to manage well-defined risk associated with interest and foreign currency rate fluctuations on existing or anticipated obligations and transactions. ProLogis does not use derivative financial instruments for trading purposes.

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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 rates). The use of derivative financial instruments allows ProLogis 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 ProLogis' income 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. ProLogis does not obtain collateral to support financial instruments subject to credit risk but monitors the credit standing of counterparties. ProLogis does not anticipate non-performance by any of the counterparties to its derivative contracts. Should a counterparty fail to perform, however, ProLogis would incur a financial loss to the extent of the positive fair market value of the derivative instruments, if any.

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The following table summarizes the activity in derivative financial instruments for the years ended December 31, 2000 and 1999 (in millions):

	INTEREST RATE CONTRACTS	INTEREST RATE SWAP AGREEMENTS	FOREIGN CURRENCY PU OPTIONS (1)
	-----	-----	-----
Notional amounts as of December 31, 1998 ..	\$ 75.0	\$ 75.0	\$
New contracts .....	--	169.9 (2)	27
Matured or expired contracts .....	--	--	(3)
Terminated contracts .....	(75.0)	(75.0)	
	-----	-----	-----
Notional amounts as of December 31, 1999 ..	\$ --	\$ 169.9	\$ 23
New contracts .....	--	--	55
Matured or expired contracts .....	--	--	(34)
Contracts transferred .....	--	(169.9) (2)	
	-----	-----	-----
Notional amounts as of December 31, 2000 ..	\$ --	\$ --	\$ 43
	=====	=====	=====

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(1) ProLogis entered into foreign currency put option contracts during 2000 and 1999 related to its operations in Europe. The put option contracts provide ProLogis with the option to exchange euros for U.S. dollars at a fixed exchange rate such that if the euro were to depreciate against the U.S. dollar to predetermined levels as set by the contracts, ProLogis could exercise its options and mitigate its foreign currency exchange losses. The notional amounts of the put option contracts represent the U.S. dollar equivalent related to the put option contracts with notional amounts of 47.1 million euros and 23.0 million euros as of December 31, 2000 and 1999, respectively. The outstanding contracts do not qualify for hedge accounting treatment and were marked to market through income as of December 31, 2000 and 1999. ProLogis recognized aggregate income of \$627,000 in 2000 and aggregate expense of \$92,000 in 1999 on the put option contracts including mark to market expense of \$854,000 in 2000 and \$47,000 in 1999. See Note 1.

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(2) Represents interest rate swap agreements related to debt of ProLogis European Properties S.a.r.l. See Note 4.

17. COMMITMENTS AND CONTINGENCIES:

Environmental Matters

All of the facilities acquired by ProLogis have been subjected to environmental reviews by ProLogis or predecessor owners. While some of these assessments have led to further investigation and sampling, none of the environmental assessments has revealed, nor is ProLogis aware of any environmental liability (including asbestos related liability) that ProLogis believes would have a material adverse effect on ProLogis' business, financial condition or results of operations.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROLOGIS TRUST

By: /s/ EDWARD S. NEKRITZ

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Edward S. Nekritz  
Senior Vice President and Secretary

Date: April 5, 2002

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INDEX TO EXHIBITS

Certain of the following documents are filed herewith. Certain other of the following documents have been previously filed with the Securities and Exchange Commission and, pursuant to Rule 12b-32, are incorporated herein by reference.

Exhibit Number	Description
3.1	-- Articles of Amendment and Restatement of Declaration of Trust of ProLogis to exhibit 4.1 to ProLogis' quarterly report on Form 10-Q for the quarter ended June 30, 1999.
3.2	-- Amended and Restated Bylaws of ProLogis (incorporated by reference to exhibit 4.1 to ProLogis' quarterly report on Form 10-Q for the quarter ended June 30, 1999).
4.1	-- Rights Agreement, dated as of December 31, 1993, between ProLogis and S Company, as Rights Agent, including form of Rights Certificate (incorporated by reference to exhibit 4.1 to ProLogis' quarterly report on Form 10-Q for the quarter ended June 30, 1999).

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- 4.4 to ProLogis' registration statement No. 33-78080).
- 4.2 -- First Amendment to Rights Amendment, dated as of February 15, 1995, between Bank and Trust Company and The First National Bank of Boston, as success (incorporated by reference to exhibit 3.1 to ProLogis' Form 10-Q for the 1995).
- 4.3 -- Second Amendment to Rights agreement, dated as of June 22, 1995, between and Trust Company and The First National Bank of Boston (incorporated by ProLogis' Form 10-Q for the quarter ended September 30, 1995).
- 4.4 -- Third Amendment to Rights Agreement, dated as of October 11, 2001, among Bank and Equiserve Trust Company, N.A. (incorporated by reference to exhibit 10-Q for the quarter ended September 30, 2001).
- 4.5 -- Form of share certificate for Common Shares of Beneficial Interest of ProLogis (reference to exhibit 4.4 to ProLogis' registration statement No. 33-733).
- 4.6 -- ProLogis Trust Employee Share Purchase plan, as amended and restated (incorporated by reference to exhibit 4.7 to ProLogis' Form S-8, dated September 27, 2001).
- 4.7 -- Form of share certificate for Series A Cumulative Redeemable Preferred Shares of Beneficial Interest of ProLogis (incorporated by reference to exhibit 4.7 to ProLogis' registration statement relating to such shares).
- 4.8 -- 8.72% Note due March 1, 2009 (incorporated by reference to exhibit 4.7 to ProLogis' registration statement relating to such shares for the year ended December 31, 1994).
- 4.9 -- Form of share certificate for Series B Cumulative Convertible Redeemable Preferred Shares of Beneficial Interest of ProLogis (incorporated by reference to exhibit 4.9 to ProLogis' registration statement relating to such shares).
- 4.10 -- Form of share certificate for Series C Cumulative Redeemable Preferred Shares of Beneficial Interest of ProLogis (incorporated by reference to exhibit 4.8 to ProLogis' Form 10-Q for the year ended December 31, 1996).
- 4.11 -- 9.34% Note due March 1, 2015 (incorporated by reference to exhibit 4.8 to ProLogis' registration statement relating to such shares for the year ended December 31, 1994).
- 4.12 -- 7.875% Note due May 15, 2009 (incorporated by reference to exhibit 4.4 to ProLogis' Form 10-Q for the quarter ended May 9, 1995).
- 4.13 -- 7.30% Note due May 15, 2001 (incorporated by reference to exhibit 4.3 to ProLogis' Form 10-Q for the quarter ended May 9, 1995).
- 4.14 -- 7.25% Note due May 15, 2000 (incorporated by reference to exhibit 4.2 to ProLogis' Form 10-Q for the quarter ended May 9, 1995).
- 4.15 -- 7.125% Note due May 15, 1998 (incorporated by reference to exhibit 4.1 to ProLogis' Form 10-Q for the quarter ended May 9, 1995).
- 4.16 -- 7.25% Note due May 15, 2002 (incorporated by reference to exhibit 4.1 to ProLogis' Form 10-Q for the quarter ended June 30, 1996).

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Number	Description
4.17	-- 7.95% Note due May 15, 2008 (incorporated by reference to exhibit 4.2 to ProLogis' Form 10-K for the quarter ended June 30, 1996).
4.18	-- 8.65% Note due May 15, 2016 (incorporated by reference to exhibit 4.3 to ProLogis' Form 10-K for the quarter ended June 30, 1996).
4.19	-- 7.81% Medium-Term Notes, Series A, due February 1, 2015 (incorporated by reference to ProLogis' Form 10-K for the year ended December 31, 1996).
4.20	-- Indenture, dated as of March 1, 1995, between ProLogis and State Street Trustee (incorporated by reference to exhibit 4.9 to ProLogis' Form 10-K for the year ended December 31, 1994).
4.21	-- Collateral Trust Indenture, dated as of July 22, 1993, between Krauss/Schwartz Properties, Ltd. and NationsBank of Virginia, N.A., as Trustee (incorporated by reference to exhibit 4.10 to ProLogis' Form 10-K for the year ended December 31, 1994).
4.22	-- First Supplement Collateral Trust Indenture, dated as of October 28, 1993, between Krauss/Schwartz Properties, Ltd., and NationsBank of Virginia, N.A., as Trustee (incorporated by reference to exhibit 10.6 to ProLogis' Form 10-Q for the quarter ended September 30, 1994).
4.23	-- Form of share certificate for Series D Cumulative Redeemable Preferred Stock of ProLogis (incorporated by reference to exhibit 4.21 of ProLogis' Registration Statement No. 69001).
4.24	-- Form of share certificate for Series E Cumulative Redeemable Preferred Stock of ProLogis (incorporated by reference to exhibit 4.22 of ProLogis' Registration Statement No. 69001).
4.25	-- 7.625% Note due July 1, 2017 (incorporated by reference to exhibit 4.25 to ProLogis' Form 10-K for the year ended December 31, 1997).
4.26	-- Form of 7.05% Promissory Note due July 15, 2006 (incorporated by reference to exhibit 4.26 to ProLogis' Form 10-K for the year ended December 31, 1999).
4.27	-- 7.00% Promissory Note due October 1, 2003 (incorporated by reference to exhibit 4.27 to ProLogis' Form 10-K for the year ended December 31, 1999).
4.28	-- Form of 6.70% Promissory Note due April 15, 2004 (incorporated by reference to exhibit 4.28 to ProLogis' Form 10-K for the year ended December 31, 1999).
4.29	-- Form of 7.10% Promissory Note due April 15, 2008 (incorporated by reference to exhibit 4.29 to ProLogis' Form 10-K for the year ended December 31, 1999).
10.1	-- Agreement of Limited Partnership of ProLogis Limited Partnership-I, dated as of February 15, 1994, by and among ProLogis, as general partner, and the limited partners set forth in Schedule 10.1 (incorporated by reference to exhibit 10.4 to ProLogis' Registration Statement No. 33001).
10.2	-- Amended and Restated Agreement of Limited Partnership of ProLogis Limited Partnership, dated as of February 15, 1994, among ProLogis as general partner, and the limited partners set forth in Schedule 10.2 (incorporated by reference to exhibit 10.12 to ProLogis' Registration Statement No. 33001).
10.3	-- Third Amended and Restated Investor Agreement, dated as of September 9, 1997, between ProLogis and SC Group Incorporated (incorporated by reference to exhibit 10.3 to Section 10.3 of ProLogis' Form 10-Q for the quarter ended September 30, 1997).
10.4	-- Form of Indemnification Agreement entered into between ProLogis and its subsidiaries.



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officers (incorporated by reference to exhibit 10.16 to ProLogis' Registration Statement No. 333-73382).

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|------|----|--|
| 10.5 | -- | Indemnification Agreement between ProLogis and each of its independent directors (incorporated by reference to exhibit 10.16 to ProLogis' Form 10-K for the year ended December 31, 1998). |
| 10.6 | -- | Declaration of Trust for the benefit of ProLogis' independent Trustees (incorporated by reference to exhibit 10.17 to ProLogis' Form 10-K for the year ended December 31, 1998).           |

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Exhibit Number -----	Description -----	
10.7	--	Share Option Plan for Outside Trustees (incorporated by reference to exhibit 10.7 to ProLogis' Form 10-Q for the quarter ended June 30, 1994).
10.8	--	1999 Dividend Reinvestment and Share Purchase Plan (incorporated by reference to exhibit 10.8 to ProLogis' Form 10-Q for the quarter ended June 30, 1994, contained in Registration Statement No. 333-75893).
10.9	--	Amended and Restated Agreement of Limited Partnership of ProLogis Limited Partnership of October 28, 1994, by and among ProLogis, as general partner, and the other partners therein (incorporated by reference to exhibit 10.3 to ProLogis' Form 10-Q for the quarter ended September 30, 1994).
10.10	--	Amended and Restated Agreement of Limited Partnership of ProLogis Limited Partnership of October 28, 1994, by and among ProLogis IV, Inc., as general partner, and the other partners set forth therein (incorporated by reference to exhibit 10.4 to ProLogis' Form 10-Q for the quarter ended September 30, 1994).
10.11	--	Option Agreement and Consent, dated October 24, 1994, by and between ProLogis and Prudential Insurance Company (incorporated by reference to exhibit 10.7 to ProLogis' Form 10-Q for the quarter ended September 30, 1994).
10.12	--	Form of Secured Promissory Note and Pledge Agreement relating to Shares of ProLogis (incorporated by reference to exhibit 10.17 to ProLogis' Form 10-K for the year ended December 31, 1998).
10.13	--	Loan Agreement, dated as of December 23, 1998, between ProLogis and Prudential Insurance Company (incorporated by reference to exhibit 10.19 to ProLogis' Form 10-K for the year ended December 31, 1998).
10.14	--	Tranche A Promissory Note, dated as of February 22, 1999, between ProLogis and Annuity Association of America (incorporated by reference to exhibit 10.14 to ProLogis' Form 10-K for the year ended December 31, 1998).
10.15	--	Tranche B Promissory Note, dated as of February 22, 1999, between ProLogis and Annuity Association of America (incorporated by reference to exhibit 10.15 to ProLogis' Form 10-K for the year ended December 31, 1998).
10.16	--	Stock Purchase Agreement among Meridian, Harris Trust & Savings Bank, a Pennsylvania corporation, Pension Trust, and OTR, on behalf of and as nominee for the State Teachers' Association of Pennsylvania dated as of December 29, 1995 (incorporated by reference to Meridian's Form 10-K for the year ended December 31, 1995, 333-00018).
10.17	--	Amended and Restated Loan Administration Agreement between The Prudential Insurance Company of America and ProLogis (incorporated by reference to exhibit 10.17 to ProLogis' Form 10-K for the year ended December 31, 1998).

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America and Meridian, IndTennco Limited Partnership, Metro-Sierra Limited Partnership, Metro-Sierra Limited Partnership/Alabama Limited Partnership, dated as of February 23, 1996 (incorporated by reference to exhibit 10.24 to Meridian's Form 10-K for the year ended December 31, 1997).

10.18 -- Note Purchase Agreement among Meridian and The Travelers Insurance Company, The Travelers Insurance Services Automobile Association (I/N/O SALKELD & CO.), The Variable Annuity Insurance Company of the United States Life Insurance Company in the City of New York, All American Life Insurance Company, The Old Line Life Insurance Company of America, The Lincoln National Life Insurance Company, Lincoln Life & Annuity Company of New York, First Penn-Pennsylvania Life Insurance Company (I/N/O CUDD & CO), Lincoln National Health & Casualty Insurance Company of New York, Lincoln National Life Insurance Company "B" (I/N/O GERLACH & CO), sons of Norway (I/N/O VAR & CO), Aid Life Insurance Company (I/N/O NIMER & CO), Metropolitan Life Insurance Company, National Life Insurance Company of the Southwest, Keyport Life Insurance Company (I/N/O Keyport Life Insurance Company (I/N/O HARE & CO), and Pan-American Life Insurance Company, dated December 15, 1997 (incorporated by reference to exhibit 10.66 to Meridian's Form 10-K for the year ended December 31, 1997).

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Exhibit Number	Description
10.19	-- Credit Agreement among ProLogis Trust, NationsBank, N.A., Commerzbank Aktiengesellschaft, New York Branch, Chase Bank of Texas, National Association and Lenders Named Herein, dated December 15, 1999 (incorporated by reference to exhibit 10.1 to ProLogis' Form 8-K dated December 15, 1999).
10.20	-- Credit Agreement among ProLogis Trust, as Borrower and Guarantor, ProLogis Trust, Inc., as Borrower, ProLogis Development Services Incorporated, as Administrative Agent, Commerzbank Aktiengesellschaft, New York Branch, Chase Bank of Texas, National Association, as Documentation Agent, First National Bank of Dallas, Societe Generale, Southwest Agency, as Managing Agents and the Lenders Named Herein, dated June 6, 2000 (incorporated by reference to exhibit 10.2 to ProLogis' Form 10-Q for the year ended June 30, 2000).
10.21	-- Mortgage Note dated as of March 29, 1999 between ProLogis Trust and ProLogis Trust, Inc. (incorporated by reference to exhibit 10.1 to ProLogis' Form 10-K for the year ended December 31, 1999).
10.22	-- Agreement of Limited Partnership of Meridian Realty Partners, L.P. (incorporated by reference to exhibit 99.1 to ProLogis' Registration Statement No. 333-86081).
10.23	-- ProLogis Trust 1997 Long-Term Incentive Plan (as Amended and Restated Effective July 1, 2000) (incorporated by reference to exhibit 10.1 to ProLogis' Form 10-Q for the year ended June 30, 2000).
10.24	-- Multi-Currency Revolving Credit Facility Agreement among PLD Europe Finance B.V. as Original Borrowers, ProLogis Trust as guarantor, ABN AMRO Bank N.V. as Co-Arranger, Societe Generale as Co-Arranger, ABN AMRO Bank N.S. as Agent and Issuing Bank, dated December 17, 1999 (incorporated by reference to exhibit 10.24 to ProLogis' Form 10-K for the year ended December 31, 1999).
10.25	-- Form of Executive Protection Agreements entered into between ProLogis Trust and Irving F. Lyons III, dated as of June 24, 1999. (incorporated by reference to exhibit 10.25 to ProLogis' Form 10-K for the year ended December 31, 1999).
10.26	-- Form of Executive Protection Agreements entered into between ProLogis Trust and Jeffrey H. Schwartz, Robert J. Watson and John W. Seiple, dated as of June 24, 1999. (incorporated by reference to exhibit 10.26 to ProLogis' Form 10-K for the year ended December 31, 1999).

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		reference to exhibit 10.26 to ProLogis' Form 10-K for the year ended De
10.27	--	Special Equity Agreement between ProLogis and K. Dane Brooksher, dated
12.1*	--	Statement re: Computation of Ratio of Earnings to Fixed Charges.
12.2*	--	Statement re: Computation of Ratio of Earnings to Combined Fixed Charge Dividends.
21.1*	--	Subsidiaries of ProLogis.
23.1	--	Consent of Arthur Andersen LLP.
23.2	--	Consent of KPMG-- Stockholm, Sweden.
23.3*	--	Report of KPMG-- Stockholm, Sweden.
23.4	--	Consent of KPMG-- New York, New York.
23.5*	--	Report of KPMG-- New York, New York.
24.1*	--	Power of Attorney.
99.1	--	Limited Liability Company Agreement of Kingspark LLC dated as of Januar
99.2	--	Promissory Note from Kingspark LLC to ProLogis dated January 5, 2001.
99.3	--	Promissory Note from K. Dane Brooksher to ProLogis dated January 5, 200
99.4	--	Purchase and Sale Agreement, dated as of January 2, 2001, among Kingspa Holdings LLC and Kingspark LLC.
99.5	--	Limited Liability Company Agreement of CSI/Frigo LLC dated as of Januar

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Exhibit Number	Description
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99.6	-- Promissory Note from CSI/Frigo LLC to ProLogis dated January 5, 2001.
99.7	-- Purchase and Sale Agreement, dated as of January 2, 2001 among ProLogi Services Incorporated, SCI Logistics Holdings LLC and CSI/Frigo LLC.
99.8	-- Promissory Note from K. Dane Brooksher GoProLogis Incorporated. dat
99.9	-- Option Agreement dated as of July 18, 2000 among GoProLogis Incorporat Brooksher and ProLogis.
99.10	-- Promissory Note from K. Dane Brooksher to ProLogis Broadband (1) Inc dated September 20, 2000.
99.11	-- Promissory Note from K. Dane Brooksher to ProLogis Broadband (1) Inc

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dated January 4, 2001.

99.12 -- Option Agreement dated as of September 20, 2000 among ProLogis Br  
Incorporated, K. Dane Brooksher and ProLogis.

99.13 -- Letter dated April 3, 2002 to the United States Securities and Exchange  
related to audit performed by Arthur Andersen LLP

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\* Previously filed.