PROLOGIS TRUST
Form 10-Q/A
April 15, 2002

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

FORM 10-Q/A #2

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

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 01-12846

PROLOGIS TRUST
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	74-2604728 (I.R.S. EMPLOYER IDENTIFICATION NO.)
14100 EAST 35TH PLACE, AURORA, COLORADO (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	80011 (ZIP CODE)

(303) 375-9292
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

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 for the past 90 days.

Yes [X] No [ ]

The number of shares outstanding of the Registrant's common stock as of August 9, 2001 was 174,251,253.

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CONSOLIDATED CONDENSED BALANCE SHEETS

	JUNE 30, 2001 (UNAUDITED)	DECEMBER 31, 2000 (AUDITED)
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
Real estate	$4,552,088	$4,689,492
Less accumulated depreciation	532,036	476,982
	4,020,052	4,212,510
Investments in and advances to unconsolidated entities	1,283,822	1,453,148
Cash and cash equivalents	53,239	57,870
Accounts and notes receivable	37,729	50,856
Other assets	192,596	171,950
Total assets	$5,587,438	$5,946,334

LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Lines of credit	$ 306,086	$ 439,822
Senior unsecured debt	1,670,184	1,699,989
Mortgage notes and other secured debt	540,722	537,925
Accounts payable and accrued expenses	117,512	107,494
Construction payable	20,312	40,925
Distributions and dividends payable	729	57,739
Other liabilities	105,257	88,439
Total liabilities	2,760,802	2,972,333
Minority interest	46,106	46,630
Shareholders' equity:		
Series A Preferred Shares; $0.01 par value; 5,400,000 shares issued and outstanding at December 31, 2000; stated liquidation preference of $25.00 per share	--	135,000
Series B Preferred Shares; $0.01 par value; 6,256,100 shares issued and outstanding at December 31, 2000; 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 June 30, 2001 and December 31, 2000; stated liquidation preference of $50.00 per share	100,000	100,000
Series D Preferred Shares; $0.01 par value; 10,000,000 shares issued and outstanding at June 30, 2001 and December 31, 2000; stated liquidation preference of $25.00 per share	250,000	250,000
Series E Preferred Shares; $0.01 par value; 2,000,000 shares issued and outstanding at June 30, 2001 and December 31, 2000; stated liquidation preference of $25.00 per share	50,000	50,000
Common shares of beneficial interest; $0.01 par value; 174,085,313 shares issued and outstanding at June 30, 2001 and 165,287,358 shares issued and outstanding at December 31, 2000	1,741	1,653
Additional paid-in capital	2,918,031	2,740,136
Employee share purchase notes	(17,703)	(18,556)
Accumulated other comprehensive income	(96,398)	(33,768)
Distributions in excess of net earnings	(425,141)	(453,497)
Total shareholders' equity	2,780,530	2,927,371
Total liabilities and shareholders' equity	$5,587,438	$5,946,334

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

PROLOGIS TRUST

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,

	2001	2000	2001	2000
	(UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)			
Income:				
Rental income	$117,147	$119,696	$236,391	$240,505
Other real estate income	29,081	27,289	60,205	46,234
Income from unconsolidated entities	4,778	4,022	12,935	25,389
Interest	1,483	2,349	2,607	4,220
Total income	152,489	153,356	312,138	316,348
Expenses:				
Rental expenses, net of recoveries of $23,888 and $48,752 for the three and six months in 2001, respectively, and $22,575 and $45,737 for the three and six months in 2000, respectively, and including amounts paid to affiliate of $174 for the six months in 2001 and $319 and $625 for the three and six months in 2000, respectively	6,920	7,584	13,682	14,131
General and administrative, including amounts paid to affiliate of $170 for the six months in 2001 and $243 and $467 for the three and six months in 2000, respectively	12,694	11,281	27,111	22,522
Depreciation and amortization	32,503	37,591	70,363	77,065
Interest	40,644	42,856	82,166	84,842
Other	749	1,432	1,992	2,650
Total expenses	93,510	100,744	195,314	201,210
Earnings before minority interest	58,979	52,612	116,824	115,138
Minority interest share in earnings	1,458	1,435	2,834	3,089
Earnings before gain (loss) on disposition of real estate and foreign currency exchange losses	57,521	51,177	113,990	112,049
Gain (loss) on disposition of real estate	(1,427)	(4,801)	(2,625)	307
Foreign currency exchange gains (losses), net	1,652	(11,929)	4,309	(18,449)
Earnings before income taxes	57,746	34,447	115,674	93,907
Income taxes:				
Current income tax expense	329	541	1,909	658
Deferred income tax expense	3,346	167	4,255	167
Total income taxes	3,675	708	6,164	825
Net earnings	54,071	33,739	109,510	93,082
Less preferred share dividends	9,519	14,150	20,951	28,555
Net earnings attributable to Common Shares	44,552	19,589	88,559	64,527
Other comprehensive income:				
Foreign currency translation adjustments	(19,946)	11,224	(62,630)	(11,350)
Comprehensive income	$ 24,606	$ 30,813	$ 25,929	$ 53,177
Weighted average Common Shares outstanding -- Basic	173,913	163,148	170,624	162,644
Weighted average Common Shares outstanding -- Diluted	174,696	163,730	174,563	163,370

Per Common Share:				
Basic net earnings attributable to Common Shares	$ 0.26	$ 0.12	$ 0.52	$ 0.40
Diluted net earnings attributable to Common Shares	$ 0.26	$ 0.12	$ 0.51	$ 0.39
Distributions	$ 0.345	$ 0.335	$ 0.690	$ 0.670

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

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	(UNAUDITED) (IN THOUSANDS)	
Operating activities:		
Net earnings	$ 109,510	$ 93,082
Minority interest share in earnings	2,834	3,089
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	70,363	77,065
(Gain) loss on disposition of real estate	2,625	(307)
Straight-lined rents	(3,385)	(3,690)
Amortization of deferred loan costs	2,357	2,020
Stock-based compensation	3,385	1,325
Income from unconsolidated entities	(5,781)	(19,940)
Foreign currency exchange (gains) losses, net	(5,642)	13,687
Deferred income tax expense	4,255	167
Increase in accounts receivable and other assets	(19,561)	(22,530)
Increase in accounts payable, accrued expenses and other liabilities	28,286	45,395
Net cash provided by operating activities	189,246	189,363
Investing activities:		
Real estate investments	(395,954)	(304,848)
Tenant improvements and lease commissions on previously leased space	(9,702)	(10,821)
Recurring capital expenditures	(12,979)	(12,762)
Proceeds from dispositions of real estate	475,812	242,798
Net (advances to) amounts received from unconsolidated entities	170,167	(48,524)
Proceeds from repayment of note receivable	7,500	--
Cash balances contributed as part of ProLogis European Properties S.a.r.l.	--	(17,968)

Net cash provided by (used in) investing activities	234,844	(152,125)
Financing activities:		
Proceeds from exercised options and dividend reinvestment and share purchase plans	27,034	10,628
Repurchase of Common Shares	(7,146)	--
Redemption of Series A preferred shares	(135,000)	--
Redemption of Series B convertible preferred shares	(4,583)	--
Debt issuance and other transaction costs incurred	--	(4,212)
Distributions paid on Common Shares	(117,213)	(109,037)
Distributions paid to minority interest holders	(3,496)	(3,728)
Distributions paid on preferred shares	(20,951)	(28,555)
Principal payments on senior unsecured debt	(30,000)	(30,000)
Principal payments received on employee share purchase notes	853	2,076
Proceeds from settlement of derivative financial instruments	106	366
Proceeds from lines of credit	579,509	465,829
Payments on lines of credit	(713,245)	(302,250)
Regularly scheduled principal payments on mortgage notes	(3,839)	(3,597)
Principal prepayments on mortgage notes	(750)	(750)
Net cash used in financing activities	(428,721)	(3,230)
Net increase (decrease) in cash and cash equivalents	(4,631)	34,008
Cash and cash equivalents, beginning of period	57,870	69,338
Cash and cash equivalents, end of period	$ 53,239	$ 103,346

See Note 9 for information on non-cash investing and financing activities.

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

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2001
(UNAUDITED)

1. GENERAL:

BUSINESS

ProLogis Trust (collectively with its consolidated subsidiaries and partnerships "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 8.

PRINCIPLES OF FINANCIAL PRESENTATION

The consolidated condensed financial statements of ProLogis as of June 30, 2001 and for the three and six months ended June 30, 2001 and 2000 are unaudited and, pursuant to the rules of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements have been omitted. While management of ProLogis believes that the disclosures presented are adequate, these interim consolidated condensed financial statements should be read in conjunction with ProLogis' December 31, 2000 audited consolidated financial statements contained in ProLogis' 2000 Annual Report on Form 10-K, as amended.

In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of ProLogis' consolidated financial position and results of operations for the interim periods. The consolidated results of operations for the three and six months ended June 30, 2001 and 2000 are not necessarily indicative of the results to be expected for the entire year. Certain of the 2000 amounts have been reclassified to conform to the 2001 financial statement presentation.

The preparation of consolidated condensed financial statements in conformity with United States generally 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 at the date of the consolidated condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets" were issued on June 30, 2001. Both standards are effective for fiscal years beginning after December 15, 2001. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. SFAS No. 142 provides that goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based-test (the impairment guidance in existing rules for equity method goodwill will continue to apply). Also, under SFAS No. 142, the rules concerning the recognition of acquired intangible assets other than goodwill have changed. However, intangible assets will continue to be amortized over their useful lives. Management is still evaluating the effects these standards will have, if any, on ProLogis' consolidated financial position, results of operations or financial statement disclosures. For the six months ended June 30, 2001 and 2000, ProLogis recognized amortization expense related to recognized goodwill of $0.3 million and $1.6 million, respectively, as a component of "Depreciation and Amortization" in its Consolidated Condensed Statements of Earnings and Comprehensive Income".

INTEREST EXPENSE

Interest expense was $82.2 million and $84.8 million for the six months in 2001 and 2000, respectively, which is net of capitalized interest of $12.4 million and $8.4 million, respectively. Amortization of deferred loan costs included in interest expense was $2.4 million and $2.0 million for the six months in 2001 and 2000, respectively. Total interest paid in cash on all outstanding debt was $92.7 million and $83.8 million during 2001 and 2000, respectively.

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. All derivative financial instruments are accounted for at fair value with changes in fair value recognized immediately in accumulated other comprehensive income or income.

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. ProLogis' only derivative financial instruments in effect at June 30, 2001 were foreign currency put option contracts that were marked to market through income in 2000 because they did not qualify for hedge accounting treatment at that time. Under SFAS No. 133, these contracts also do not qualify for hedge accounting treatment. Consequently, ProLogis has continued to mark these contracts to market through income during the six months ended June 30, 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.

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.

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 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 remeasured 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):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Gains (losses) from the remeasurement of third party debt and remeasurement and settlement of intercompany debt, net....................	$2,112	$(11,984)	$3,984	$(19,008)
Mark to market gains on foreign currency put option contracts(1).........................	50	(86)	1,062	416
Gains (losses) from the settlement of foreign currency put option contracts, net(1)........	(326)	143	(581)	178
Other losses, net.............................	(184)	(2)	(156)	(35)
	$1,652	$(11,929)	$4,309	$(18,449)

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(1) Upon settlement, the mark to market adjustments are reversed and the total realized gain or loss is recognized.

2. AMENDED QUARTERLY REPORT ON FORM 10-Q/A #1

ProLogis' Quarterly Report on Form 10-Q for the period ended June 30, 2001 originally filed on August 10, 2001 included the financial position and results of operations of ProLogis' subsidiary, Kingspark Holding S.A. and subsidiaries ("Kingspark S.A."), in its unaudited consolidated condensed financial statements on a consolidated basis. Until January 5, 2001, ProLogis owned only the non-voting preferred stock of Kingspark S.A. and reported its investment in Kingspark S.A. under the equity method. On that date, ProLogis acquired 95% of the membership interest (all non-voting) in Kingspark LLC, which acquired the voting common stock of Kingspark S.A. After the change in the ownership structure, ProLogis believed it had control of Kingspark S.A. and began consolidating it in its financial statements along with its other majority-owned and controlled subsidiaries and partnerships. After reconsideration of the facts underlying its ownership position, ProLogis determined it did not have control of Kingspark S.A., as it held no voting interest, and therefore, consolidation was deemed inappropriate. Therefore, ProLogis has amended its unaudited consolidated condensed financial statements as of and for the six months ended June 30, 2001 included in this Form 10-Q/A #1 to reflect its investment in Kingspark S.A. on the equity method, consistent with its reporting of this investment prior to January 5, 2001. Further, ProLogis has amended its unaudited consolidated condensed financial statements as of and for the three and six months ended June 30, 2001 included in this Form 10-Q/A #1 to reflect its investments in two other entities, whose sole purpose is to hold preferred stock in technology companies, under the equity method. ProLogis began consolidating these entities in 2001, but as with Kingspark S.A., subsequently determined that its ownership interest did not give it control. These changes in reporting have no effect on ProLogis' shareholders equity as of June 30, 2001 or its net earnings attributable to Common Shares, net earnings attributable to Common Shares per share or comprehensive income for the three and six months ended June 30, 2001. These changes in reporting did result in changes in certain financial statement amounts. The most significant of which are as follows (in thousands):

	JUNE 30, 2001	
	AS AMENDED	PREVIOUSLY REPORTED
Real estate...	$4,552,008	$4,905,991
Investments in and advances to unconsolidated entities......	$1,283,822	$ 812,451

	THREE MONTHS ENDED JUNE 30, 2001		SIX MONTHS ENDED JUNE 30, 2001	
	AS AMENDED	PREVIOUSLY REPORTED	AS AMENDED	PREVIOUSLY REPORTED
Other real estate income.....................	$29,081	$32,560	$60,205	$75,414
Income from unconsolidated entities...........	$ 4,778	$11,349	$12,935	$ 9,305
Loss on investment...........................	$ --	$ 7,456	$ --	$ 7,456

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):

	JUNE 30, 2001	DECEMBER 31, 2000
Operating facilities:		
Improved land..	$ 631,226(1)	$ 648,950(1)
Buildings and improvements...........................	3,510,229(1)	3,619,543(1)
	4,141,455	4,268,493
Facilities under development (including cost of land)...	125,824(2)(3)	186,020(2)
Land held for development.............................	174,325(4)	187,405(4)
Capitalized preacquisition costs.......................	110,484(5)	47,574(5)
Total real estate...........................	4,552,088	4,689,492
Less accumulated depreciation..........................	532,036	476,982
Net real estate.............................	$4,020,052	$4,212,510

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(1) As of June 30, 2001 and December 31, 2000, ProLogis had 1,214 and 1,244 operating facilities, respectively, consisting of 123,719,000 and 126,275,000 square feet, respectively.

(2) Facilities under development consist of 50 facilities aggregating 10,706,000 square feet as of June 30, 2001 and 41 facilities aggregating 8,711,000 square feet as of December 31, 2000.

(3) In addition to the June 30, 2001 construction payable of $20.3 million, ProLogis had unfunded commitments on its contracts for facilities under construction totaling $197.6 million.

(4) Land held for future development consists of 1,968 acres as of June 30, 2001 and 2,047 acres as of December 31, 2000.

(5) Capitalized preacquisition costs include $97.7 million and $32.5 million of funds on deposit with title companies as of June 30, 2001 and December 31, 2000, respectively.

ProLogis' operating facilities, facilities under development and land held for future development are located in North America (the United States and Mexico) and eight countries in Europe. No individual market represents more than 10% of ProLogis' real estate assets. In July 2001, ProLogis acquired land for future development in Japan.

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 June 30, 2001, minimum lease payments on leases with lease periods greater than one year are as follows (in thousands):

Remainder of 2001	$ 217,795
2002	373,573
2003	291,310
2004	207,957
2005	144,262
2006 and thereafter	276,157
	$1,511,054

ProLogis' largest customer (based on rental income) accounted for 1.6% of ProLogis' rental income (on an annualized basis) for the six months ended June 30, 2001. The annualized base rent for ProLogis' 25 largest customers (based on rental income) accounted for 13.3% of ProLogis' rental income (on an annualized basis) for the six months ended June 30, 2001.

4. UNCONSOLIDATED ENTITIES:

INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED ENTITIES

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

	JUNE 30, 2001	DECEMBER 31, 2000
Temperature-controlled distribution companies:		
CSI/Frigo LLC(1)	$ 2,544	$ --
ProLogis Logistics(1)(2)	125,705	231,053
Frigoscandia S.A.(1)(3)	180,906	191,981
	309,155	423,034
Distribution real estate entities:		
ProLogis California(4)	119,752	132,243
ProLogis North American Properties Fund I(5)	44,723	10,369
ProLogis North American Properties Fund II(6)	9,051	13,408
ProLogis North American Properties Fund III(7)	6,837	--
ProLogis European Properties Fund(8)	216,643	147,938
ProLogis European Properties S.a.r.l.(8)	--	84,767
	397,006	388,725
CDFS business:		
Kingspark LLC(9)	8,202	--
Kingspark S.A.(9)	509,200	570,582
	517,402	570,582

	JUNE 30, 2001	DECEMBER 31, 2000
Insight(10)	2,459	2,470
ProLogis Equipment Services(11)	1,616	450
GoProLogis(12)	56,184	56,315
ProLogis Phatpipe(13)	--	11,572
Total	$1,283,822	$1,453,148

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(1) CSI/Frigo LLC, a limited liability company, owns 100% of the voting common stock of both ProLogis Logistics Services Incorporated ("ProLogis Logistics") and Frigoscandia Holding S.A. ("Frigoscandia S.A.). ProLogis directly owns all of the non-voting preferred stock of both ProLogis Logistics and Frigoscandia S.A. representing a 95% interest in the earnings of these entities.

ProLogis owns 89% of the membership interests (all non-voting) in CSI/Frigo LLC and K. Dane Brooksher, ProLogis' chairman and chief executive officer, owns the remaining 11% of the membership interests (all voting) and is the managing member. ProLogis has a note agreement with CSI/Frigo LLC that allows ProLogis to participate in its earnings such that ProLogis recognizes 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 compensation in connection with being the managing member. Mr. Brooksher invested $50,000 in CSI/Frigo LLC. Mr. Brooksher's membership interests and the terms of the participating note entitle him to receive dividends equal to 5% of the net cash flow of CSI/Frigo LLC, as defined, if any. ProLogis' ownership interests in CSI/Frigo LLC, ProLogis Logistics and Frigoscandia S.A. do not result in ProLogis having ownership of or control of the voting common stock or voting membership interests of these entities; therefore, they are not consolidated in ProLogis' condensed financial statements. See Note 10.

Prior to January 5, 2001, the common stock of ProLogis Logistics was owned by unrelated third parties and the common stock of Frigoscandia S.A. was owned by a limited liability company in which unrelated third parties owned 100% of the voting interests and Security Capital Group Incorporated ("Security Capital"), ProLogis' largest shareholder, owned 100% of the non-voting interests. On January 5, 2001, the common stock of both ProLogis Logistics and Frigoscandia S.A. was acquired by CSI/Frigo LLC for an aggregate purchase price of $3.3 million.

(2) ProLogis Logistics owns 100% of CS Integrated LLC ("CSI"), a temperature-controlled distribution company operating in the United States. As of June 30, 2001, CSI owned or operated under lease agreements facilities aggregating 178.4 million cubic feet (including 35.5 million cubic feet of dry distribution space located in temperature-controlled facilities).

(3) Frigoscandia S.A., through its wholly owned subsidiaries, owns 100% of Frigoscandia AB, a temperature-controlled distribution company operating in ten countries in Europe. As of June 30, 2001, Frigoscandia AB owned or operated under lease agreements facilities aggregating 155.9 million cubic feet.

(4) ProLogis California I LLC ("ProLogis California") owned 79 operating facilities aggregating 13.1 million square feet as of June 30, 2001, all located in the Los Angeles/Orange County market. ProLogis had a 50% ownership interest in ProLogis California as of June 30, 2001.

(5) ProLogis North American Properties Fund I LLC owned 36 operating facilities aggregating 9.0 million square feet as of June 30, 2001 in 16 markets (including three operating facilities contributed to ProLogis North American Properties Fund I for an additional equity interest of $34.1 million in January 2001). The January contribution increased the combined ownership interests of ProLogis and ProLogis Development Services in ProLogis North American Properties Fund I to 41.3% from 20%.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

(6) ProLogis Iowa LLC ("ProLogis Principal") was formed on June 30, 2000, as a limited liability company whose members were ProLogis with 20% of the membership interests and Principal Financial Group with 80% of the membership interests. ProLogis Principal owned three operating facilities, all acquired from ProLogis, aggregating 440,000 square feet. On March 27, 2001, First Islamic Investment Bank E.C. acquired the membership interest held by Principal Financial Group. Also on that date, this entity, under the name ProLogis First US Properties LP ("ProLogis North American Properties Fund II") acquired 24 additional operating facilities aggregating 4.0 million square feet from ProLogis and ProLogis Development Services, bringing its total portfolio to 27 operating facilities aggregating 4.5 million square feet in 12 markets as of June 30, 2001.

(7) ProLogis Second US Properties LP ("ProLogis North American Properties Fund III") was formed on June 15, 2001, as a limited liability company whose members are ProLogis and ProLogis Development Services Incorporated ("ProLogis Development Services") with a combined 20% membership interest and First Islamic Investment Bank E. C. with 80% of the membership interests. This entity acquired 34 operating facilities aggregating 4.4 million square feet in 16 markets from ProLogis and ProLogis Development Services in June 2001. ProLogis Development Services is a consolidated taxable subsidiary of ProLogis that engages in CDFS business activities in North America.

(8) ProLogis European Properties Fund owned 114 operating facilities aggregating 17.0 million square feet in 17 markets as of June 30, 2001, including facilities owned by ProLogis European Properties S.a.r.l. 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 had contributed 50.1% of the common stock of this entity to ProLogis European Properties Fund on January 7, 2000. As of June 30, 2001, ProLogis European Properties Fund, in which ProLogis had a 39.7% ownership, owned 100% of ProLogis European Properties S.a.r.l. ProLogis recognized a gain of $0.5 million related to the January 2001 transaction (total gain of $9.8 million net of $9.3 million which does not qualify for current income recognition due to ProLogis' continuing ownership in ProLogis European Properties Fund).

(9) ProLogis directly owns all of the non-voting preferred stock of Kingspark S.A., representing a 95% interest in its earnings. Kingspark LLC, a limited liability company owns 100% of the voting common stock of Kingspark S.A. ProLogis owns 95% of the membership interests (all non-voting) in Kingspark LLC and K. Dane Brooksher, ProLogis' chairman and chief executive officer, owns the remaining 5% of the membership interests (all voting) and is the 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 interests. Mr. Brooksher does not receive compensation in connection with being the managing member. Mr. Brooksher invested $40,557 in Kingspark LLC which was loaned to him by ProLogis. The recourse loan is payable on January 5, 2006 and bears interest at an annual rate of 8.0%. Mr. Brooksher's membership interests entitle him to receive dividends equal to 5% of the net cash flow of Kingspark LLC, as defined, if any. Neither ProLogis' ownership interests in Kingspark LLC and Kingspark S.A., nor its loan to Mr. Brooksher, result in ProLogis having ownership of or control of the voting common stock or voting membership interests of these entities; therefore, they are not consolidated in ProLogis' financial statements. See

Note 10.

Prior to January 5, 2001, the 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, ProLogis' largest shareholder, owned 100% of the non-voting interests. On January 5, 2001, the common stock of Kingspark S.A. was acquired by Kingspark LLC for $8.1 million.

(10) Investment represents ProLogis Development Services' equity 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 June 30, 2001.

(11) Investment represents ProLogis Development Services' equity investment in 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% ownership interest in ProLogis Equipment Services as of June 30, 2001.

(12) ProLogis owns 100% of the non-voting preferred stock ($25.0 million of cash invested and $30.4 million of preferred stock received under a license fee agreement) of GoProLogis Incorporated ("GoProLogis") that 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. The income related to the license agreement was deferred at the inception of the agreement in 2000 and was being recognized over the five-year term of the agreement. ProLogis accounts for its investment in GoProLogis under the equity method. GoProLogis has not received any dividends from its preferred stock investment in Vizional Technologies since the investment was made in 2000. As of June 30, 2001, ProLogis had deferred $24.7 million of income related to the license fee agreement. ProLogis' net investment in GoProLogis was $31.6 million as of June 30, 2001 ($55.4 million of non-cumulative preferred stock and $0.9 million of additional costs offset by $24.7 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 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 8.0%. Mr. Brooksher is not restricted from transferring his ownership interest in

GoProLogis but ProLogis does have an option to acquire his interest beginning in 2001 at a price equal to the principal amount plus accrued interest under the promissory note. See Note 10.

(13) ProLogis owns 100% of the non-voting preferred stock ($6.0 million of cash invested and $6.0 million of preferred stock received under a license fee agreement) of ProLogis Broadband (1) Incorporated ("ProLogis PhatPipe") that has invested $6.0 million in the non-cumulative preferred stock of PhatPipe, Inc. ("PhatPipe"), a real estate technology company. ProLogis PhatPipe also received $6.0 million of non-cumulative preferred stock of PhatPipe and a receivable for $2.0 million, both under a license agreement for the non-exclusive use of the ProLogis Operating System(TM) over a three-year period. Investment amount also includes $50,000 of other costs associated with this investment. The income related to the license agreement was deferred at the inception of the agreement in 2000 and was being recognized over the three-year term of the agreement. This investment was made on September 20, 2000. ProLogis accounts for its investment in ProLogis PhatPipe under the equity method and its carrying value at June 30, 2001 was zero after ProLogis recognized its share of an impairment adjustment recorded by ProLogis PhatPipe related to its investment in PhatPipe. ProLogis PhatPipe has not received any dividends from its preferred stock investment in PhatPipe since the investment was made in 2000. ProLogis' investment in the non-voting preferred stock of ProLogis PhatPipe represents a 98% interest in its earnings. The voting interest of ProLogis PhatPipe 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 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 8.0%. Mr. Brooksher is not restricted from transferring his ownership interest in ProLogis PhatPipe but ProLogis does have an option to acquire his interest beginning in 2001 at a price equal to the principal amount plus accrued interest under the promissory notes. See Note 10.

ProLogis' net equity investment in ProLogis PhatPipe was $7.5 million in the second quarter of 2001 (net of $6.6 million of income related to the license fee agreement that had been deferred) when ProLogis, through its investment in ProLogis PhatPipe, recognized its share of an impairment adjustment of $7.5 million, representing the write-down of ProLogis PhatPipe's entire net investment in PhatPipe.

INCOME (LOSS) FROM UNCONSOLIDATED ENTITIES

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

	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,

	2001	2000	2001	2000
Temperature-controlled distribution companies:				
CSI/Frigo LLC(1)	$ (283)	$ --	$ (793)	$ --
ProLogis Logistics(2)	(870)	3,000	(2,600)	5,871
Frigoscandia S.A.(2)	(2,763)	(3,377)	(9,995)	(5,051)
	(3,916)	(377)	(13,388)	820
Distribution real estate entities:				
ProLogis California(3)	4,052	2,955	7,119	6,054
ProLogis North American Properties Fund I(4)	1,242	--	2,594	--
ProLogis North American Properties Fund II(5)	565	--	906	--
ProLogis North American Properties Fund III(6)	40	--	40	--
ProLogis European Properties Fund(7)	6,449	(3,012)	6,851	4,312
ProLogis European Properties S.a.r.l.(8)	--	(52)	36	4,875
	12,348	(109)	17,546	15,241
Kingspark S.A.(9)	2,436	4,510	12,689	9,330
Insight	--	(2)	(10)	(2)
ProLogis Equipment Services	(155)	--	(155)	--
GoProLogis(10)	1,521	--	3,042	--
ProLogis PhatPipe(11)	(7,456)	--	(6,789)	--
	$ 4,778	$ 4,022	$ 12,935	$25,389

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(1) CSI/Frigo LLC recognizes its share of the losses of ProLogis Logistics and Frigoscandia S.A. under the equity method. Amounts represent ProLogis' share of the losses of CSI/Frigo LLC for the periods presented.

(2) Represents ProLogis' share of the losses of ProLogis Logistics and Frigoscandia S.A. recognized under the equity method based on its ownership of the preferred stock of each entity.

(3) Income includes management, leasing and development fees of $908,000 and $1,574,000 for the three and six months ended June 30, 2001, respectively, and $617,000 and $1,282,000 for the three and six months ended June 30, 2000, respectively. ProLogis has had a 50% ownership interest in ProLogis California since its inception.

(4) ProLogis North American Properties Fund I was formed on June 30, 2000. Income includes management fees of $616,000 and $1,128,000 for the three and six months ended June 30, 2001, respectively. ProLogis and ProLogis Development Services had a combined 41.3% ownership interest in ProLogis North American Properties Fund I as of June 30, 2001.

(5) ProLogis North American Properties Fund II was originally formed as ProLogis Principal on June 30, 2000. Income includes management fees of

$501,000 and $546,000 for the three and six months ended June 30, 2001, respectively. ProLogis and ProLogis Development Services have had a combined 20% ownership interest in ProLogis North American Properties Fund II since its inception.

(6) ProLogis North American Properties Fund III was formed on June 15, 2001. ProLogis and ProLogis Development Services had a combined 20% ownership interest in ProLogis North American Properties Fund III as of June 30, 2001.

(7) Income or loss includes management fees of $1,782,000 and $3,504,000 for the three and six months ended June 30, 2001, respectively, and $1,162,000 and $2,304,000 for the three and six months ended June 30, 2000, respectively. ProLogis had a 39.7% ownership interest in ProLogis European Properties Fund as of June 30, 2001.

(8) Represents income from ProLogis' investment in 49.9% of the common stock of ProLogis European Properties S.a.r.l. in 2000 for the period from January 7, 2000 to June 30, 2000 and in 2001 for the period from January 1, 2001 to January 6, 2001.

(9) Represents ProLogis' share of the earnings of Kingspark LLC and Kingspark S.A. recognized under the equity method based on its ownership of each entity.

(10) Represents ProLogis' share of the income of GoProLogis, primarily license fees earned for the non-exclusive use of the ProLogis Operating System(TM) under license agreements entered into in the third quarter of 2000.

(11) Represents ProLogis' share of the losses of ProLogis PhatPipe, primarily due to the write-down of ProLogis PhatPipe's investment in PhatPipe.

TEMPERATURE-CONTROLLED DISTRIBUTION COMPANIES

ProLogis' total investment in its temperature-controlled distribution companies as of June 30, 2001 consisted of (in millions of U.S. dollars):

	CSI/FRIGO LLC	PROLOGIS LOGISTICS(1)	FRIGOSCANDIA S.A.(2)
Equity interest	$ 0.4	$135.8	$ 17.7
Notes receivable	3.1	--	210.4
Other receivables	(0.1)	5.2	37.8
ProLogis' share of the earnings of the entity	(0.9)	(15.3)	(85.0)
Total	$ 2.5	$125.7	$180.9

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(1) On January 2, 2001, ProLogis Logistics borrowed $125.0 million under ProLogis' $475.0 million unsecured credit agreement as a designated subsidiary borrower. The proceeds from this borrowing were

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

used to repay $125.0 million of the outstanding notes and accrued interest due to ProLogis. The remaining amounts due to ProLogis were converted to preferred stock on January 2, 2001. Additionally, ProLogis Logistics had $90.0 million of direct borrowings outstanding under a credit agreement as of June 30, 2001 that have been guaranteed by ProLogis.

(2) As of June 30, 2001, Frigoscandia AB had a 185.0 million euro credit agreement under which the currency equivalent of approximately $157.9 million was outstanding. All of the borrowings outstanding have been guaranteed by ProLogis. The agreement expires on September 28, 2001 and contains a provision to extend the due date until December 28, 2001, at ProLogis' option.

DISTRIBUTION REAL ESTATE ENTITIES

ProLogis' total investment in its distribution real estate entities as of June 30, 2001 consisted of (in millions of U.S. dollars):

	PROLOGIS CALIFORNIA	PROLOGIS NORTH AMERICAN PROPERTIES FUND I	PROLOGIS NORTH AMERICAN PROPERTIES FUND II	PROLOGIS NORTH AMERICAN PROPERTIES FUND III(1)
Equity interest	$160.6	$52.6	$14.3	$11.7
Distributions	(32.2)	(3.5)	(0.7)	--
ProLogis' share of the earnings of the entity, excluding fees earned	17.8	1.6	0.1	0.1
Subtotal	146.2	50.7	13.7	11.8
Adjustments to carrying value(3)	(28.1)	(9.5)	(6.6)	(5.8)
Other (including acquisitions costs), net	1.5	2.4	1.3	0.8
Subtotal	119.6	43.6	8.4	6.8
Other receivables	0.2	1.1	0.7	--
Total	$119.8	$44.7	$ 9.1	$ 6.8

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(1) As of June 30, 2001, ProLogis North American Properties Fund III had $150.0 million of short-term borrowings outstanding under an agreement that matures on September 13, 2001. The agreement provides for a 45-day extension at ProLogis North American Properties Fund III's option. ProLogis North American Properties Fund III intends to obtain permanent secured financing which will be used to repay these short-term borrowings. ProLogis has guaranteed the entire amount outstanding.

(2) Third parties (19 institutional investors) have invested 414.7 million euros (the currency equivalent of approximately $355.7 million as of June 30, 2001) in ProLogis European Properties Fund and have committed to fund an additional 645.6 million euros (the currency equivalent of approximately $553.9 million as of June 30, 2001) through 2002. ProLogis has also entered into a subscription agreement to make additional capital contributions of

82.2 million euros (the currency equivalent of approximately $72.4 million as of June 30, 2001) through 2002.

As of June 30, 2001, 39.0 million euros and 17.0 million pound sterling were outstanding on ProLogis European Properties Fund's 400.0 million euro multi-currency, secured, revolving credit facility (the currency equivalent of approximately $57.2 million as of June 30, 2001), all of which has been guaranteed by ProLogis.

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

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"). ProLogis had the following investments in Kingspark S.A. and Kingspark LLC accounted under the equity method as of June 30, 2001:

- Investment in 100% of the non-voting preferred stock of Kingspark S.A. and in 95% of the membership interests (all non-voting) of Kingspark LLC, which owns the voting common stock of Kingspark S.A. These combined investments entitle ProLogis to recognize 99.75% of the combined earnings of these entities.

- 153.5 million pound sterling (the currency equivalent of approximately $215.2 million as of June 30, 2001) outstanding on an unsecured revolving loan facility from ProLogis to Kingspark S.A.; interest at 6.3% per annum for borrowings outstanding at June 30, 2001; due on demand;

- $130.9 million unsecured note from Kingspark S.A.; interest at 5.0% per annum; due on demand; and

- 85.6 million pound sterling (the currency equivalent of approximately $120.0 million as of June 30, 2001) mortgage note from Kingspark S.A.; secured by land parcels and facilities under development; interest at 7.5% per annum; due on demand.

As of June 30, 2001, Kingspark S.A. had 1.2 million square feet of operating facilities at an investment of $105.6 million and 0.7 million square feet of facilities under development with a total budgeted cost of $72.1 million. Additionally, as of June 30, 2001, Kingspark S.A. owned 236 acres of land and controlled 2,025 acres of land through purchase options, letters of intent or contingent contracts. The land owned and controlled by Kingspark S.A. has the capacity for the future development of approximately 32.7 million square feet of facilities.

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 $21.0 million as of June 30, 2001) and has been guaranteed by ProLogis. As of June 30, 2001, no borrowings were outstanding on the line of credit. However, as of June 30, 2001, ProLogis Kingspark had the currency equivalent of approximately $7.1 million of letters of credit outstanding that reduce the amount of available borrowings on the line of credit.

PROLOGIS TRUST

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

SUMMARIZED FINANCIAL INFORMATION

Summarized financial information for ProLogis' unconsolidated entities as of and for the six months ended June 30, 2001 is presented below (in millions of U.S. dollars). The information presented is for the entire entity.

	PROLOGIS LOGISTICS(1)	FRIGOSCANDIA S.A.(1)	PROLOGIS CALIFORNIA(2)	PROLOGIS NORTH AMERICAN PROPERTIES FUND I(3)	PROLOGIS NORTH AMERICAN PROPERTIES FUND II(4)	P F
Total assets..........	$376.9	$449.1	$592.5	$440.3	$237.8	
Total liabilities(6)......	$255.3	$523.3	$300.0	$319.0	$169.0	
Minority interest.....	$ --	$ 0.3	$ --	$ --	$ --	
Equity................	$121.6	$(74.5)	$292.5	$121.3	$ 68.8	
Revenues..............	$155.5	$184.0	$ 33.9	$ 22.0	$ 7.8	
Net earnings (loss)(7)...........	$ (2.7)	$(16.4)	$ 10.4	$ 3.2	$ 0.2	

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(1) ProLogis had an ownership interest in excess of 99% in each entity as of June 30, 2001.

(2) ProLogis had a 50% ownership interest in this entity as of June 30, 2001.

(3) ProLogis and ProLogis Development Services had a combined 41.3% ownership interest in this entity as of June 30, 2001.

(4) ProLogis and ProLogis Development Services had a combined 20.0% ownership interest in each entity as of June 30, 2001.

(5) ProLogis had a 39.7% ownership interest in this entity as of June 30, 2001. Includes the ProLogis European Properties S.a.r.l. which is wholly owned by ProLogis European Properties Fund as of June 30, 2001.

(6) Includes amounts due to ProLogis of $5.2 million from ProLogis Logistics, $248.3 million from Frigoscandia S.A., $0.2 million from ProLogis California, $1.1 million from ProLogis North American Properties Fund I, $0.7 million for ProLogis North American Properties Fund II, $4.0 million from ProLogis European Properties Fund and $481.7 million from Kingspark S.A. Includes loans due to third parties (including accrued interest) of $217.7 million for ProLogis Logistics, $160.8 million for Frigoscandia S.A., $294.9 million for ProLogis California, $233.6 million for ProLogis North American Properties Fund I, $165.0 million for ProLogis North American Properties Fund II, $150.0 million for ProLogis North American Properties Fund III and $383.7 million for ProLogis European Properties Fund.

(7) 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 Condensed Statements of Earnings and Comprehensive Income as "Income from unconsolidated entities." The net earnings (loss) of each entity includes interest expense on amounts due to ProLogis, as applicable. Includes net foreign currency exchange losses of $0.6 million for Frigoscandia S.A., $5.5 million for ProLogis European Properties Fund and $8.9 million for Kingspark S.A.

5. SHAREHOLDERS' EQUITY:

During the six months ended June 30, 2001, ProLogis generated net proceeds of $27.0 million from the issuance of 1,220,000 common shares of beneficial interest, $0.01 par value ("Common Shares") under its 1999 Dividend Reinvestment and Share Purchase Plan and issued 68,000 Common Shares upon the exercise of stock options.

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. As of June 30, 2001, 345,100 Common Shares had been repurchased at a total cost of $7.1 million.

ProLogis called for the redemption of all of its outstanding Series B cumulative convertible redeemable preferred shares ("Series B preferred shares") as of March 20, 2001. Subsequent to the call for redemption on February 12, 2001, 5,908,971 Series B preferred shares were converted into 7,575,301 Common Shares. The remaining 183,302 Series B preferred shares outstanding on March 20, 2001 were redeemed 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 share.

On March 30, 2001, ProLogis called for the redemption of its outstanding Series A cumulative redeemable preferred shares of beneficial interest at the price of $25.00 per share, plus $0.2481 in accrued and unpaid dividends, for an aggregate redemption price of $25.2481 per share (the "Redemption Price"). The shares were redeemed on May 8, 2001 at a total cost of $136.3 million.

6. DISTRIBUTIONS AND DIVIDENDS:

COMMON DISTRIBUTIONS

On February 23, 2001 and May 25, 2001, ProLogis paid a quarterly distribution of $0.345 per Common Share to shareholders of record on February 9, 2001 and May 14, 2001, respectively. The distribution level for 2001 was set by ProLogis' Board of Trustees in December 2000 at $1.38 per Common Share.

PREFERRED DIVIDENDS

The annual dividend rates on ProLogis' preferred shares are $4.27 per Series C cumulative redeemable preferred share, $1.98 per Series D cumulative redeemable preferred share and $2.1875 per Series E cumulative redeemable preferred share.

On January 31, 2001 and April 30, 2001, ProLogis paid quarterly dividends of $0.5469 per Series E cumulative redeemable preferred share. On March 30, 2001, ProLogis paid quarterly dividends of $0.5875 per Series A cumulative redeemable preferred share. On March 30, 2001 and June 29, 2001, ProLogis paid quarterly dividends of $1.0675 per Series C cumulative redeemable preferred share and $0.495 per Series D cumulative redeemable preferred share.

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.

7. 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 periods indicated (in thousands, except per share amounts) is as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Net earnings attributable to Common Shares	$ 44,552	$ 19,589	$ 88,559	$ 64,527
Add: Series B preferred share dividends	--	--	81	--
Adjusted net earnings attributable to Common Shares	$ 44,552	$ 19,589	$ 88,640	$ 64,527
Weighted average Common Shares outstanding -- Basic	173,913	163,148	170,624	162,644
Incremental weighted average effect of common share equivalents and contingently issuable shares	783	582	825	726
Weighted average Series B preferred shares	--	--	3,114	--
Adjusted weighted average Common Shares outstanding -- Diluted	174,696	163,730	174,563	163,370
Per share net earnings attributable to Common Shares:				
Basic	$ 0.26	$ 0.12	$ 0.52	$ 0.40
Diluted	$ 0.26	$ 0.12	$ 0.51	$ 0.39

For the periods indicated, the following weighted average convertible securities were not included in the calculation of diluted per share net earnings attributable to Common Shares as the effect, on an as-converted basis, was antidilutive (in thousands):

	THREE MONTHS ENDED JUNE 30, 2001	THREE MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2000
Series B preferred shares	--	8,543	--	8,755
Limited partnership units	5,088	5,558	5,088	5,573

8. BUSINESS SEGMENTS:

ProLogis has three reportable business segments:

- 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, ProLogis North American Properties Fund II and ProLogis North American Properties Fund III -- See Note 3), Mexico and Europe (portions of which are owned through ProLogis European Properties Fund and ProLogis European Properties S.a.r.l. -- 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;

- CDFS business represents the development of industrial distribution facilities by ProLogis and Kingspark S.A. (which is not consolidated in ProLogis' Financial Statements) in the United States, Mexico and Europe (see Note 4) that 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 and Kingspark S.A. on a fee basis for third parties in the United States, Mexico and Europe; the development activities of ProLogis and Kingspark S.A. are considered to be individual operating segments having similar economic characteristics which are combined within the reportable segment based upon geographic location; and

- 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.). The operations of these entities are considered to be one operating segment. 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 before minority interest (ProLogis' chief operating decision makers rely primarily on net operating income and related measures to make decisions about allocating resources and assessing segment performance); and (iii) assets to ProLogis' total assets are as follows (in thousands):

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Income:		
Property operations:		
United States(1)	$ 236,087	$ 238,173
Mexico	8,912	6,933
Europe(2)	8,938	10,641
Total property operations segment	253,937	255,747
CDFS business:		
United States(3)	52,062	38,239
Mexico	(10)	1,284
Europe(4)(5)	20,841	16,038
Total CDFS business segment	72,893	55,561
Temperature-controlled distribution operations:		
United States(6)	(2,620)	5,871
Europe(7)	(10,768)	(5,051)
Total temperature-controlled distribution operations segment	(13,388)	820
Reconciling items:		
Interest income	2,607	4,220
Income (loss) from unconsolidated entities	(3,911)	--
Total reconciling items	(1,304)	4,220
Total income	$ 312,138	$ 316,348

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Net operating income:		
Property operations:		
United States(1)	$ 222,799	$ 223,464
Mexico	9,067	6,763
Europe(2)	8,389	11,388
Total property operations segment	240,255	241,615

CDFS business:		
United States(3)	50,247	36,659
Mexico	(84)	1,268
Europe(4)(5)	20,742	15,907
Total CDFS business segment	70,905	53,834
Temperature-controlled distribution operations:		
United States(6)	(2,620)	5,871
Europe(7)	(10,768)	(5,051)
Total temperature-controlled distribution operations segment	(13,388)	820
Reconciling items:		
Interest income	2,607	4,220
Income (loss) from unconsolidated entities	(3,911)	(2)
General and administrative expense	(27,111)	(22,522)
Depreciation and amortization	(70,363)	(77,065)
Interest expense	(82,166)	(84,842)
Other	(4)	(920)
Total reconciling items	(180,948)	(181,131)
Earnings before minority interest	$ 116,824	$ 115,138

	JUNE 30, 2001	DECEMBER 31, 2000
Assets:		
Property operations:		
United States(8)	$3,781,849	$3,887,601
Mexico	121,790	113,538
Europe	293,512	308,457
Total property operations segment	4,197,151	4,309,596
CDFS business:		
United States	201,272	304,697
Mexico	33,995	26,288
Europe(8)	658,348	637,207
Total CDFS business segment	893,615	968,192
Temperature-controlled distribution operations:		
United States(8)	127,341	231,053
Europe(8)	181,814	191,981
Total temperature-controlled distribution operations segment	309,155	423,034

Reconciling items:		
Investment in and advances to unconsolidated entities	60,260	70,807
Cash	53,239	57,870
Accounts and notes receivable	27,505	43,040
Other assets	46,513	73,795
Total reconciling items	187,517	245,512
Total assets	$5,587,438	$5,946,334

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(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, ProLogis North American Properties Fund II and ProLogis North American Properties Fund III in 2001 and ProLogis California in 2000. See Note 3 for summarized financial information of ProLogis California, ProLogis North American Properties Fund I, ProLogis North American Properties Fund II and ProLogis North American Properties Fund III.

(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 in 2001 and net foreign currency losses of $2.6 million in 2000) and ProLogis European Properties S.a.r.l. (including net foreign currency exchange gains of $1.5 million in 2000). See Note 4 for summarized financial information of ProLogis European Properties Fund.

(3) In 2001, includes $20.8 million and $67.4 million of net gains recognized by ProLogis related to the disposition of facilities to ProLogis North American Properties Fund II and ProLogis North American Properties Fund III, respectively.

(4) Includes amounts recognized under the equity method related to ProLogis' investment in Kingspark S.A. (including $8.9 million of foreign currency exchange losses and $0.5 million of net foreign currency exchange gains in 2001 and 2000, respectively). See Note 4.

(5) Includes $6.4 million and $5.3 million of net gains recognized by ProLogis related to the disposition of facilities to ProLogis European Properties Fund in 2001 and 2000, respectively. In addition, includes $10.7 million and $0.8 million of net gains recognized under the equity method related to the disposition of facilities to ProLogis European Properties Fund by the Kingspark entities in 2001 and 2000, respectively.

(6) Represents amounts recognized under the equity method related to ProLogis' investments in ProLogis Logistics in 2001 and 2000 and CSI/Frigo LLC in 2001. CSI/Frigo LLC recognizes income under the equity method based on its common stock investment in ProLogis Logistics. See Note 3 for summarized financial information of ProLogis Logistics.

(7) Represents amounts recognized under the equity method related to ProLogis' investments in Frigoscandia S.A. (including $0.6 million of net foreign currency exchange losses in 2001 and $1.7 million of net foreign exchange gains in 2000) and CSI/Frigo LLC in 2001. CSI/Frigo LLC recognizes income under the equity method based on its common stock investment in Frigoscandia S.A. See Note 3 for summarized financial information of Frigoscandia S.A.

(8) Amounts include investments in unconsolidated entities accounted for under the equity method. See Note 4 for summarized financial information of these unconsolidated entities as of and for the six months ended June 30, 2001.

9. SUPPLEMENTAL CASH FLOW INFORMATION:

Non-cash investing and financing activities for the six months ended June 30, 2001, and 2000 are as follows:

- In 2001, ProLogis contributed its 49.9% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund for an additional equity interest in ProLogis European Properties Fund of $83.0 million. In 2000, in connection with ProLogis' initial contribution of 50.1% of the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund, 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 recognized its investment in the remaining 49.9% of the common stock under the equity method from January 7, 2000 through January 6, 2001. See Note 3.

- ProLogis received $4.2 million, $34.1 million, $13.7 million and $11.7 million of the proceeds from its disposition of facilities to ProLogis European Properties Fund, ProLogis North American Properties Fund I, ProLogis North American Properties Fund II and ProLogis North American Properties Fund III, respectively, in the form of an equity interest in these entities during 2001. ProLogis received $4.4 million, $13.8 million, $14.8 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 in the form of an equity interest during 2000.

- ProLogis received $4.2 million of the proceeds from its disposition of facilities to ProLogis European Properties Fund in the form of a note receivable during 2001. ProLogis received $15.6 million, $44.6 million and $13.2 million of the proceeds from its disposition of facilities to ProLogis European Properties Fund, ProLogis North American Properties Fund I and ProLogis Principal, respectively, in the form of notes receivable from these entities during 2000.

- ProLogis received $10.8 million and $7.7 million of the proceeds from its disposition of facilities to a third parties in the form of notes receivable in 2001 and 2000, respectively.

- In connection with the acquisition of a facility, ProLogis assumed a $7.7 million mortgage note in 2001.

- In connection with the agreement for the acquisition of Kingspark S.A., ProLogis issued approximately 67,000 and 201,000 Common Shares valued at $1.5 million and $3.9 million, respectively, in 2001 and 2000, respectively.

- Series B preferred shares aggregating $151.8 million and $1.0 million were converted into Common Shares in 2001 and 2000, respectively.

- Net foreign currency translation adjustments of $(62,630,000) and $(11,350,000) were recognized in 2001 and 2000, respectively.

10. RELATED PARTY TRANSACTIONS:

TRANSACTIONS WITH CHIEF EXECUTIVE OFFICER AND CHAIRMAN

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 Internal Revenue Code of 1986, as amended (the "Code"). Therefore, the voting common stock of these companies was held by third parties including entities in which Security Capital, ProLogis' largest shareholder, held non-voting interests. The Code, as amended in 2001, allows for ProLogis to have a voting ownership interest in these entities. ProLogis began negotiations to acquire the voting ownership interests in these entities during 2000. Before the acquisitions were completed it was determined that the state income tax laws governing REITs were not all going to be changed to coincide with the amendments to the Code. Therefore, K. Dane Brooksher, ProLogis' chairman and chief executive officer acquired the voting ownership interests in Frigoscandia S.A., ProLogis Logistics and Kingspark S.A. from the third parties and Security Capital. See Note 4.

Mr. Brooksher's voting ownership interests in the entities in which ProLogis has only non-voting ownership interests are:

- Kingspark LLC, a limited liability company formed on January 5, 2001, acquired the voting common stock of Kingspark S.A. (an entity in which ProLogis owns all of the non-voting preferred stock) for $8.1 million. ProLogis funded the entire purchase price either directly or through loans to Kingspark LLC or Mr. Brooksher. The ProLogis loan to Kingspark LLC is in the principal amount of $7.3 million, is due January 5, 2006 and bears interest at an annual rate of 8.0%. 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 him by ProLogis, which recourse loan is payable on January 5, 2006 and bears interest at an annual rate of 8%. Mr. Brooksher's membership interest entitles him to receive dividends equal to 5% of the net cash flow of Kingspark LLC, as defined, if any. Mr. Brooksher is the managing member and he 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 compensation in connection with being the managing member. See Note 4.

- CSI/Frigo LLC, a limited liability company formed on January 5, 2001, acquired the voting common stock of Frigoscandia S.A. and ProLogis Logistics (both entities in which ProLogis owns all of the non-voting preferred stock) for $3.3 million. ProLogis loaned $2.9 million to CSI/Frigo LLC, which loan is due January 5, 2011 and bears interest at an annual rate of 8.0%. ProLogis also made a capital contribution to CSI/Frigo LLC in the amount of $404,545 and Mr. Brooksher made a $50,000 capital contribution to CSI/Frigo LLC. Mr. Brooksher's membership interests (after considering the terms of the participating note from CSI/Frigo LLC to ProLogis) entitles him to receive dividends equal to 5%

of the net cash flow of CSI/Frigo LLC, as defined, if any. Mr. Brooksher is the managing member and he 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 compensation in connection with being the managing member.

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.

In 2000, ProLogis invested in GoProLogis and ProLogis PhatPipe, whose income is 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 as noted below.

- GoProLogis owns preferred stock in Vizional Technologies. Mr. Brooksher owns all of the voting common stock of GoProLogis, representing a 2% interest in the earnings of GoProLogis and he is entitled to receive dividends equal to 2% of the net cash flow of GoProLogis, as defined, if any. ProLogis owns all of the non-voting preferred stock of GoProLogis, representing a 98% interest in the earnings of GoProLogis and ProLogis is entitled to receive dividends equal to the remaining 98% of net cash flow, 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 8.0%. Mr. Brooksher is not restricted from transferring his ownership interest in GoProLogis and ProLogis has the right to acquire Mr. Brooksher's ownership interest beginning in 2001 for a price equal to the outstanding principal amount of the promissory note plus accrued and unpaid interest. See Note 4.

- ProLogis PhatPipe owns preferred stock in PhatPipe. Mr. Brooksher owns all of the voting common stock of ProLogis PhatPipe, representing a 2% interest in the earnings of ProLogis PhatPipe and he is entitled to receive dividends equal to 2% of the net cash flow of GoProLogis, as defined, if any. ProLogis owns all of the non-voting preferred stock of ProLogis PhatPipe, representing a 98% interest in the earnings of ProLogis PhatPipe and ProLogis is entitled to receive dividends equal to the remaining 98% of net cash flow, as defined, if any. Mr. Brooksher contributed recourse promissory notes with the aggregate principal amount of $122,449 to ProLogis PhatPipe in exchange for his interest in the entity, which note is payable on September 20, 2005 ($71,429 principal amount) and January 4, 2006 ($51,020 principal amount). Both notes bear interest at an annual rate of 8.0%. Mr. Brooksher is not restricted from transferring his ownership interest in ProLogis PhatPipe and ProLogis has the right to acquire Mr. Brooksher's ownership interest beginning in 2001 for a price equal to the outstanding aggregate principal amount of the promissory notes plus accrued and unpaid interest. See Note 4.

As of June 30, 2001, ProLogis had other loans outstanding from Mr.

Brooksher with an aggregate principal amount of $2,100,000. Of these, $1,863,000 was loaned to Mr. Brooksher under ProLogis' employee share purchase plan.

11. 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.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees and Shareholders of ProLogis Trust:

We have reviewed the accompanying consolidated condensed balance sheets of ProLogis Trust and subsidiaries as of June 30, 2001, and the related consolidated condensed statements of earnings and comprehensive income for the three and six months ended June 30, 2001 and 2000 and the consolidated condensed statements of cash flows for the six months ended June 30, 2001 and 2000. These financial statements are the responsibility of the Trust's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of ProLogis Trust and subsidiaries as of December 31, 2000, and in our report dated March 15, 2001, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet as of December 31, 2000, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ARTHUR ANDERSEN LLP

Chicago, Illinois
August 10, 2001
(except with respect to
Note 2 as to which the
date is April 3, 2002)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

OF OPERATIONS

The following discussion should be read in conjunction with ProLogis' Consolidated Condensed Financial Statements and the notes thereto included in Item 1 of this report. See also ProLogis' 2000 Annual Report on Form 10-K, as amended.

The statements contained in this discussion that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates and projections about the industry and markets in which ProLogis operates, management's beliefs, and assumptions made by management. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Factors which may affect outcomes and results include: (i) changes in general economic conditions in ProLogis' markets that could adversely affect demand for ProLogis' facilities and the creditworthiness of ProLogis' customers, (ii) changes in financial markets, interest rates and foreign currency exchange rates that could adversely affect ProLogis' cost of capital and its ability to meet its financial needs and obligations, (iii) increased or unanticipated competition for distribution facilities in ProLogis' target market cities; and (iv) those factors discussed in ProLogis' 2000 Annual Report on Form 10-K, as amended.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2001 AND 2000

ProLogis' net earnings attributable to Common Shares were $88.6 million for the six months ended June 30, 2001 as compared to $64.5 million for the same period in 2000. For the six months ended June 30, 2001, basic and diluted per share net earnings attributable to Common Shares were $0.52 and $0.51 per share, respectively. Basic and diluted per share net earnings attributable to Common Shares were $0.40 and $0.39 per share, respectively, for the same period in 2000.

The CDFS business segment provides capital for ProLogis to redeploy into its development activities in addition to generating profits that contribute to ProLogis' total income. ProLogis' net operating income from this segment increased by $17.1 million in 2001 over 2000, primarily the result of the number of dispositions of facilities developed by ProLogis to entities in which ProLogis maintains an ownership interest, such as ProLogis North American Properties Fund II, ProLogis North American Properties Fund III and ProLogis European Properties Fund, as well as to third parties. ProLogis' property operations segment net operating income was $240.2 million for 2001 and $241.6 million for 2000. This operating segment's net income includes rental income and net rental expenses from facilities directly owned by ProLogis and also its share of the income of its unconsolidated entities that engage in property operations segment activities. Income from ProLogis' temperature-controlled distribution operations decreased in 2001 from 2000 by $14.2 million. See "-- Property Operations", "-- CDFS Business" and "-- Temperature-Controlled Distribution Operations".

PROPERTY OPERATIONS

ProLogis owned or had ownership interests in the following operating facilities as of the dates indicated (square footage in thousands):

	JUNE 30,			
	2001		2000	
	NUMBER	SQUARE FOOTAGE	NUMBER	SQUARE FOOTAGE
Direct ownership(1)	1,214	123,719	1,249	126,723
ProLogis California(2)	79	13,052	79	12,494
ProLogis North American Properties Fund I(1)(3)	36	8,963	17	3,836
ProLogis North American Properties Fund II(1)(4)	27	4,477	3	440
ProLogis North American Properties Fund III(1)(5)	34	4,380	--	--
ProLogis European Properties Fund and ProLogis European Properties S.a.r.l.(6)	114	17,028	90	11,707
	1,504	171,619	1,438	155,200

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(1) Includes operating facilities owned by ProLogis and its consolidated entities. The decrease in 2001 from 2000 is primarily the result of the formation of certain of ProLogis' distribution real estate entities beginning in June 2000 whose entire portfolios consist of operating facilities that were previously directly owned by ProLogis.

(2) ProLogis has had a 50% ownership interest in ProLogis California since its inception. See Note 3 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

(3) ProLogis had a 41.3% ownership interest in ProLogis North American Properties Fund I as of June 30, 2001. This entity was formed on June 30, 2000. All operating facilities owned by this entity were previously directly owned by ProLogis. See Note 3 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

(4) ProLogis had a 20% ownership interest in ProLogis North American Properties Fund II as of June 30, 2001. This entity was originally formed on June 30, 2000. All operating facilities owned by this entity were previously directly owned by ProLogis. See Note 3 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

(5) ProLogis had a 20.0% ownership interest in ProLogis North American Properties Fund III as of June 30, 2001. This entity was formed in June 2001 with the acquisition of 34 operating facilities from ProLogis. See Note 3 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

(6) As of June 30, 2001, ProLogis' ownership interest in ProLogis European Properties Fund is 39.7%. As of June 30, 2000, ProLogis had a 42.1% ownership interest in the ProLogis European Properties Fund. Includes facilities owned by ProLogis European Properties S.a.r.l. in which ProLogis

had a direct 49.9% ownership interest as of June 30, 2000. See Note 4 to ProLogis' Consolidated Condensed Financial Statements in Item 1.

ProLogis' property operations segment income consists of the: (i) net operating income from the operating facilities that are owned by ProLogis directly or through its consolidated entities, and (ii) the income recognized by ProLogis under the equity method from its investments in unconsolidated entities engaged in property operations. See Note 8 to ProLogis' Consolidated Condensed Financial Statements in Item 1. The amounts recognized under the equity method are based on the net earnings of each unconsolidated entity and include: interest income and interest expense, depreciation and amortization expenses, general and administrative expenses, income taxes and foreign currency exchange gains and losses

(with respect to ProLogis European Properties Fund and ProLogis European Properties S.a.r.l.). ProLogis' net operating income from the property operations segment was as follows (in thousands):

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Facilities directly owned by ProLogis and its consolidated entities:		
Rental income	$236,391	$240,505
Property operating expenses	13,682	14,131
Net operating income(1)	222,709	226,374
Income from the ProLogis California	7,119	6,054
Income from ProLogis North American Properties Fund I(2)	2,594	--
Income from ProLogis North American Properties Fund II(2)	906	--
Income from ProLogis North American Properties Fund III(3)	40	--
Income from ProLogis European Properties Fund(4)	6,851	4,312
Income from ProLogis European Properties S.a.r.l.(4)	36	4,875
Total property operations segment	$240,255	$241,615

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(1) The fluctuations in rental expenses between years is primarily the result of the changes in the composition of the directly owned facilities in each year in addition to increased rental expense recoveries (as a percentage of total rental expenses) in each year. Rental expenses, before recoveries from tenants, were 26.4% of rental income in 2001 and 24.9% rental income for 2000. Rental expenses, after recoveries from tenants, were 5.8% of rental income in 2001 and 5.9% of rental income in 2000. Total rental expense recoveries were 78.1% and 76.4% of total rental expenses in 2001 and 2000, respectively. The increase in rental expense recoveries as a percentage of total rental expenses reflects ProLogis' emphasis on on-site property management teams and the effectiveness of the ProLogis Operating System(TM).

(2) ProLogis North American Properties Fund I and ProLogis North American Properties Fund II began operations on June 30, 2000.

(3) ProLogis North American Properties Fund III began operations on June 15, 2001.

(4) In 2001, ProLogis' share of the income of ProLogis European Properties Fund includes net foreign currency gains of $2.3 million. In 2000, ProLogis' share of the income of ProLogis European Properties Fund and ProLogis European Properties S.a.r.l. includes net foreign currency losses of $0.7 million and net foreign currency gains of $0.8 million, respectively. Excluding net foreign currency exchange gains and losses, ProLogis' share of the income of ProLogis European Properties Fund would have been $4.6 million and $5.0 million for 2001 and 2000, respectively. Excluding net foreign currency exchange gains and losses, ProLogis' share of the income of ProLogis European Properties S.a.r.l. would have been $4.1 million for 2000. ProLogis' combined share of the income of ProLogis European Properties Fund and ProLogis European Properties S.a.r.l. decreased in 2001 from 2000 primarily due to higher interest expense in 2001 as the use of debt proceeds to fund acquisitions increased in the second half of 2000 and in 2001. ProLogis recognized income under the equity method related to ProLogis European Properties S.a.r.l. in 2001 for only six days.

The operating facilities in ProLogis' portfolio are classified as either stable or pre-stable facilities. Stabilized operating facilities are those facilities where the capital improvements, repositioning and management and marketing programs have been in effect for a sufficient period of time (generally 12 months) to achieve a stabilized occupancy (typically 93%, but ranging from 90% to 95%, depending on the submarket and product type). Pre-stable facilities are generally newly developed or acquired facilities that are usually underleased at the time they are completed or acquired. ProLogis, utilizing its ProLogis Operating System(TM), has been successful in increasing occupancies on such facilities during their initial months of operation. ProLogis' stabilized operating facilities (facilities owned by ProLogis and its consolidated and unconsolidated

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entities) were 94.0% occupied and 95.0% leased as of June 30, 2001. ProLogis' stabilized occupancy levels have decreased slightly during the first six months of 2001 (95.4% occupied and 96.2% leased as of December 31, 2000). ProLogis believes that economic conditions in North America have led to a slowing in customer leasing decisions and in the absorption of new facilities in the market. However, ProLogis believes that it will benefit from the ProLogis Operating System(TM) during this period, as it has allowed ProLogis to build a strong local market presence and develop strong customer relationships.

The average increase in rental rates for both new and renewed leases on previously leased space (20.3 million square feet) for all facilities including those owned by ProLogis' consolidated and unconsolidated entities during 2001 was 18.3% (up from 15.5% for all of 2000). During the six months ended June 30, 2001, the net operating income (rental income less net rental expenses) generated by ProLogis' "same store" portfolio of operating facilities (facilities owned by ProLogis and its consolidated and unconsolidated entities that were in operation throughout both six month periods in 2001 and 2000) increased by 2.81% over the same period in 2000 (as compared to an increase of 6.89% during the six months ended June 30, 2000 as compared to the same period, in 1999). The population of same-store facilities has a greater percentage of stabilized facilities in 2001 than in 2000. Stabilized facilities have generally already reached an occupancy level of 93%, resulting in fewer opportunities for these facilities to generate net operating income growth from occupancy increases.

CDFS BUSINESS

Net operating income from ProLogis' CDFS business segment consists primarily of: (i) profits from the disposition of land parcels and facilities that were developed by ProLogis and disposed of to customers or to entities in which ProLogis has an ownership interest; (ii) development fees earned by ProLogis; and (iii) income recognized under the equity method from ProLogis' investment in Kingspark S.A. Kingspark S.A. engages in CDFS business activities in the United Kingdom similar to those activities performed directly by ProLogis in other locations. ProLogis recognizes 99.75% of the net earnings of Kingspark S.A. under the equity method that includes: interest income and interest expense (net of capitalized amounts), general and administrative expense (net of capitalized amounts), income taxes and foreign currency exchange gains and losses.

The CDFS business segment operations increased in volume for the six months in 2001 over the same period in 2000; consequently, ProLogis' income from this segment has increased in 2001 over 2000. The CDFS business segment's net operating income is comprised of the following (in thousands):

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Net gains on disposition of land parcels and facilities developed(1)	$56,081	$43,187
Development fees and other, net	1,830	2,042
Income from Kingspark S.A.(2)(3)	12,689	9,330
Miscellaneous income	2,294	1,005
Other expenses(4)	(1,989)	(1,730)
	$70,905	$53,834

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(1) Represents gains from the disposition of land parcels and facilities developed as follows:

- 2001: 138 acres; 8.9 million square feet; $452.9 million of proceeds, and

- 2000: 158 acres; 5.9 million square feet; $268.2 million of proceeds.

(2) The Kingspark entities' income in 2001 includes:

- Gains from the disposition of facilities developed (1.4 million square feet; $141.4 million of proceeds; net gains of $12.1 million);

- Development fees and other miscellaneous net income of $6.4 million;

- Deferred and current income tax benefit of $1.0 million; and

- Foreign currency exchange losses of $8.9 million.

(3) Kingspark S.A. and its subsidiaries' income in 2000 includes:

- Gains from the disposition of land parcels and facilities developed (11 acres; 0.4 million square feet; $38.8 million of proceeds; net gains of $5.9 million);

- Development fees and other miscellaneous net income of $2.5 million;

- Deferred and current income tax expense of $1.9 million; and

- Foreign currency exchange gains of $0.5 million.

(4) Includes land holding costs of $1.1 million in 2001 and $0.7 million in 2000 and the write-off of previously capitalized pursuit costs related to potential CDFS business segment projects of $0.9 million in 2001 and $1.0 million in 2000.

TEMPERATURE-CONTROLLED DISTRIBUTION OPERATIONS

ProLogis recognizes net operating income from the temperature-controlled distribution operations segment of its business under the equity method. ProLogis' share of the total income or loss of CSI/Frigo LLC, ProLogis Logistics and Frigoscandia S.A. was as follows (in thousands) (see Notes 4 and 8 to ProLogis' Consolidated Condensed Financial Statements in Item 1):

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Loss from CSI/Frigo LLC....................................	$ (793)	$ --
Income (loss) from ProLogis Logistics......................	$ (2,600)	$ 5,871
Loss from Frigoscandia S.A.	(9,995)	(5,051)
Total temperature-controlled distribution operations segment..	$(13,388)	$ 820

Amounts recognized under the equity method from CSI/Frigo LLC include ProLogis' share of this entity's share of the income or loss of ProLogis Logistics and Frigoscandia S.A. Amounts recognized under the equity method for ProLogis Logistics and Frigoscandia S.A. include interest income and interest expense, depreciation and amortization expense, general and administrative expense, income taxes and foreign currency exchange gains and losses (with respect to Frigoscandia). ProLogis recognizes in excess of 99% the net earnings of each entity in 2001 as compared to 95% in 2000.

CSI's operating capacity was comparable in both six-month periods. The decrease in ProLogis' share of ProLogis Logistics' net earnings from 2000 to 2001 of $8.5 million is attributable to: (i) higher interest expense as a result of increasing external debt by $125.0 million, and (ii) a decrease in operating income as a result of lower occupancy levels in certain markets in 2001. The proceeds from the borrowings of ProLogis Logistics were used to repay $125.0 million of outstanding notes and accrued interest due to ProLogis. See "-- Liquidity and Capital Resources -- Credit Facilities".

Frigoscandia's operating capacity was comparable in both six-month periods with the exception of the disposition in May 2001 of the directly owned German facilities. ProLogis' share of Frigoscandia S.A.'s net losses includes net foreign currency exchange losses of $0.6 million and $1.7 million in 2001 and 2000, respectively. Excluding these foreign currency exchange losses, ProLogis recognized $6.0 million less income under the equity method in 2001 than it recognized in 2000 from its investment in Frigoscandia S.A. The increase in Frigoscandia S.A.'s net loss in 2001 from the loss recognized in 2000 is attributable to: (i) lower occupancy levels, principally the result of the reduction in inventories of beef and pork products by the German and French governments, and (ii) a loss recognized on the disposal of Frigoscandia's directly-owned facilities located in Germany of approximately $2.4 million. The disposition of the directly owned German facilities was completed as the mix of facilities and customers no longer met ProLogis' strategic objective in this business segment, which is to concentrate on the distribution and logistics part of the supply chain rather

than on storage. ProLogis is continuing to evaluate its temperature-controlled distribution operations in light of this strategic objective.

ProLogis believes that the factors that contributed to the decline in operating performance of Frigoscandia are temporary and can be partially mitigated in the short-term by reductions in general and administrative costs and other operating costs. However, there is no assurance that these factors are temporary or that some or all of these factors will not continue past 2001. ProLogis and Frigoscandia are currently monitoring the recent outbreak of foot and mouth disease in Europe. At this time, the effect (positive or negative), if any, on the demand for temperature-controlled distribution services and the related transportation services offered by Frigoscandia cannot be determined.

OTHER INCOME AND EXPENSE ITEMS

INCOME (LOSS) FROM UNCONSOLIDATED ENTITIES

Income (loss) from unconsolidated entities that is not directly attributable to any of ProLogis' three business segments was a loss of $3.9 million for the six months ended June 30, 2001. See Note 8 to ProLogis' Consolidated Condensed Financial Statements in Item 1. This amount is made up of the following:

- ProLogis PhatPipe: a loss of $6.8 million ($0.7 million of income recognized in the first quarter and a loss of $7.5 million recognized in the second quarter); the loss represents ProLogis' share of ProLogis PhatPipe's impairment charge resulting from the write-down of its preferred stock investment in PhatPipe, offset by $0.7 million of license fee income recognized under an agreement for the non-exclusive use of the ProLogis Operating System(TM); no additional license fee income will be recognized by ProLogis PhatPipe;

- GoProLogis: income of $3.0 million represents ProLogis' share of GoProLogis' income, primarily license fee income recognized under an agreement for the non-exclusive use of the ProLogis Operating System(TM) ($1.5 million of income recognized in each of the first and second quarters); GoProLogis does not expect that it will continue to recognize license fee income from Vizional Technologies after the second quarter of 2001;

- ProLogis Equipment Services: a loss of $155,000 (all recognized in the second quarter); and

- Insight: a loss of $10,000 (all recognized in the first quarter).

INTEREST EXPENSE

Interest expense is a function of the level of borrowings outstanding offset by interest capitalization with respect to development activities. Interest expense was $82.2 million in 2001 and $84.8 million in 2000. Capitalized interest was $12.4 million in 2001 and $8.4 million in 2000. Capitalized interest levels are reflective of ProLogis' cost of funds and the level of development activity in each year.

GAIN (LOSS) ON DISPOSITION OF REAL ESTATE

Gain (loss) on disposition of real estate represents the net gains or losses from the disposition of operating facilities that were acquired or developed within the property operations segment. Generally, ProLogis disposes of facilities in the property operations segment because such facilities are considered to be non-strategic facilities or to complement the portfolio of developed facilities that are acquired by entities in which ProLogis maintains an ownership interest. Non-strategic facilities are assets located in markets or submarkets that are no longer considered target markets as well as assets that were acquired as part of previous portfolio acquisitions that are not consistent with ProLogis' core portfolio based on the asset's size or configuration.

Property operations segment dispositions were as follows:

- 2001: 2.3 million square feet; $95.2 million of proceeds; net loss of $3.2 million (offset by a gain of $0.5 million recognized upon the contribution of ProLogis' 49.9% investment in the common stock of ProLogis European Properties S.a.r.l. to ProLogis European Properties Fund), and

- 2000: 2.5 million square feet; $98.5 million of proceeds; net gains of $0.3 million.

FOREIGN CURRENCY EXCHANGE LOSSES

ProLogis recognized net foreign currency exchange gains of $4.3 million and foreign currency exchange losses of $18.4 million for 2001 and 2000, respectively. Foreign currency exchange gains and losses are primarily the result of the remeasurement and settlement of intercompany debt and the remeasurement of third party debt of ProLogis' foreign subsidiaries. Fluctuations in the foreign currency exchange gains and losses recognized in each period are a product of movements in certain foreign currency exchange rates, primarily the euro and the pound sterling and the level of intercompany and third party debt outstanding that is denominated in currencies other than the U.S. dollar. In 2000, the euro and pound sterling currencies both devalued against the U.S. dollar which resulted in losses to ProLogis to the extent that it had made loans denominated in those currencies.

INCOME TAXES

ProLogis is taxed as a REIT for federal income tax purposes and is not required to pay federal income taxes if minimum distribution and income, asset and shareholder tests are met. ProLogis Development Services is not a qualified REIT subsidiary for tax purposes. Also, the foreign countries in which ProLogis operates do not recognize REITs under their respective tax laws. Accordingly, ProLogis recognizes income taxes as appropriate and in accordance with GAAP with respect to the taxable earnings of ProLogis Development Services and its foreign subsidiaries.

Current income tax expense recognized in 2001 and 2000 was $1.9 million and $0.7 million respectively. Current income tax expense is higher in 2001 primarily due to the increased level of income recognized by ProLogis' taxable subsidiaries in the CDFS business segment. Deferred income tax expense was $4.2 million and $0.2 million in 2001 and 2000, respectively. ProLogis' deferred tax component of total income taxes is a function of each year's temporary differences (items that are treated differently for tax purposes than for book purposes) as well as the need for a deferred tax valuation allowance to adjust certain deferred tax assets (primarily deferred tax assets created by tax net operating losses) to their estimated realizable value.

THREE MONTHS ENDED JUNE 30, 2001 AND 2000

The changes in net earnings attributable to Common Shares and its components for the three months ended June 30, 2001 compared to the three months ended June 30, 2000 are similar to the changes for the six month periods ended on the same dates and the three-month period changes are attributable to the same reasons discussed under "-- Six Months Ended June 20, 2001 and 2000" except as specifically discussed under "-- Income (Loss) from Unconsolidated Entities".

ENVIRONMENTAL MATTERS

ProLogis has not experienced any environmental condition on its facilities, which materially adversely affected its results of operations or financial position nor is ProLogis aware of any environmental liability that ProLogis believes would have a material adverse effect on its business, financial condition or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

ProLogis considers its liquidity and ability to generate cash from operations as well as its financing capabilities (including proceeds from the disposition of facilities) to be adequate and ProLogis expects to be able to continue to meet its anticipated development, acquisition, operating and debt service needs as well as its shareholder distribution requirements.

ProLogis' future investing activities are expected to consist of: (i) acquisitions of existing facilities in key distribution markets in the property operations segment; (ii) the acquisition of land for future development

and the development of distribution facilities in the CDFS business segment for future disposition to entities in which ProLogis maintains an ownership interest or to third parties; and (iii) to a limited extent, certain temperature-controlled distribution facility expansions and investments in additional temperature-controlled distribution facilities. Temperature-controlled investments will be made as deemed necessary to achieve strategic objectives with respect to targeted markets in the United States or to address specific customer needs in the United States and Europe. ProLogis' future investing activities are expected to be primarily funded with:

- cash generated by operations;

- the proceeds from the disposition of facilities developed by ProLogis to third parties;

- the proceeds from the disposition of facilities to entities in which ProLogis maintains an ownership interest, such as ProLogis European Properties Fund or other real estate distribution entities that may be formed in the future; and

- utilization of ProLogis' revolving credit facilities.

In July 2001, ProLogis acquired a land parcel for the development of a 196,000 square feet facility in Tokyo, Japan. This facility, which has been leased under a 20-year agreement and is expected to be completed in 2002, represents ProLogis' first investment in Japan. ProLogis' investment strategy in Japan is to only develop facilities under pre-lease arrangements.

In the short-term, borrowings on and subsequent repayments of ProLogis' unsecured revolving credit facilities will provide ProLogis with adequate liquidity and financial flexibility to efficiently respond to market opportunities. As of August 9, 2001, on a combined basis, ProLogis had approximately $369.6 million of short-term borrowing capacity available under its U.S. dollar denominated and multi-currency unsecured revolving credit facilities (see "-- Credit Facilities"). ProLogis will continue to evaluate the public debt markets with the objective of reducing its short-term borrowings and extending debt maturities on favorable terms.

CASH OPERATING ACTIVITIES

Net cash provided by operating activities for the six months ended June 30, 2001 was $189.2 million and $189.4 million, respectively. See "-- Results of Operations -- Property Operations". Cash provided by operating activities exceeded the cash distributions paid on Common Shares in 2001 and 2000. See ProLogis's Consolidated Condensed Statements of Cash Flows in Item 1.

CASH INVESTING AND CASH FINANCING ACTIVITIES

In 2001, ProLogis' investing activities provided net cash of $234.8 million and financing activities used net cash of $428.7 million. Proceeds received from the dispositions of real estate and the repayments of loans by and distributions received from ProLogis' unconsolidated entities were used to fund real estate investments and repay borrowings on ProLogis' lines of credit. In 2000, ProLogis used net cash of $152.1 million in its investing activities and $3.2 million in its financing activities. Investing activities in 2000 were primarily funded by lines of credit borrowings and proceeds from dispositions of real estate. See ProLogis' Consolidated Condensed Statements of Cash Flows in Item 1.

CREDIT FACILITIES

As of June 30, 2001, ProLogis' combined direct borrowings on its lines of credit were $306.1 million (a combined $100.0 million borrowed under its $475.0 million revolving line of credit and $60.0 million discretionary line of credit) and $206.1 million under its 325.0 million euro revolving line of credit. ProLogis was in compliance with all covenants contained in its credit agreements as of June 30, 2001.

ProLogis Logistics and ProLogis Development Services may also borrow under the $475.0 million credit agreement, with such borrowings guaranteed by ProLogis. As of June 30, 2001, ProLogis Logistics, an unconsolidated entity, had borrowed $125.0 million under the credit agreement and ProLogis Development Services had no borrowings under the credit agreement.

COMMITMENTS

As of June 30, 2001, ProLogis had letters of intent or contingent contracts, subject to ProLogis' final due diligence, for the acquisition of 2.0 million square feet of operating facilities at an estimated acquisition cost of $80.2 million. The foregoing transactions are subject to a number of conditions, and ProLogis cannot predict with certainty that they will be consummated. ProLogis has sufficient funds escrowed as the result of tax-deferred exchange transactions to acquire these assets. In addition, as of June 30, 2001, ProLogis had $315.5 million of budgeted development costs for developments in process, of which $197.6 million was unfunded.

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. As of June 30, 2001, 345,100 Common Shares had been repurchased at a total cost of $7.1 million.

ProLogis has entered into a subscription agreement to make additional capital contributions to ProLogis European Properties Fund of 82.2 million euros (the currency equivalent of approximately $72.4 million as of June 30, 2001) through 2002.

As of June 30, 2001, ProLogis Logistics had $90.0 million of direct borrowings outstanding under a credit agreement that has been guaranteed by ProLogis.

As of June 30, 2001, Frigoscandia AB had a 185.0 million euro credit agreement under which the currency equivalent of approximately $157.9 million was outstanding. All of the borrowings outstanding have been guaranteed by ProLogis. The agreement expires on September 28, 2001 and contains a provision to extend the due date until December 28, 2001, at ProLogis' option.

As of June 30, 2001, ProLogis North American Properties Fund III had $150.0 million of short-term borrowings outstanding under an agreement that matures on September 13, 2001. The agreement provides for a 45-day extension at ProLogis North American Properties Fund III's option. ProLogis North American Properties Fund III intends to obtain permanent secured financing which will be used to repay these short-term borrowings. ProLogis has guaranteed the entire amount outstanding.

As of June 30, 2001, 39.0 million euros and 17.0 million pound sterling were outstanding on ProLogis European Properties Fund's 400.0 million euro multi-currency, secured, revolving credit facility (the currency equivalent of approximately $57.2 million as of June 30, 2001), all of which has guaranteed by ProLogis.

ProLogis Kingspark has a line of credit agreement with a bank in the United Kingdom that has been guaranteed by ProLogis and provides for borrowings of up to 15.0 million pounds sterling (the currency equivalent of approximately $21.0 million as of June 30, 2001). As of June 30, 2001, no borrowings were outstanding on the line of credit. However, ProLogis Kingspark had the currency equivalent of approximately $7.1 million of letters of credit outstanding that reduce the amount of available borrowings on the line of credit.

ProLogis has guaranteed a 110.0 million French franc (the currency equivalent of approximately $14.4 million as of June 30, 2001) unsecured loan outstanding of ProLogis European Properties S.a.r.l. ProLogis European Properties S.a.r.l. made a principal payment of 80.0 million French francs in July 2001.

DISTRIBUTION AND DIVIDEND REQUIREMENTS

ProLogis' current distribution policy is to pay quarterly distributions to shareholders based upon what it considers to be a reasonable percentage of cash flow and at the level that will allow ProLogis to continue to qualify as a REIT for tax purposes. Because depreciation is a non-cash expense, cash flow typically will be greater than earnings from operations and net earnings. Therefore, annual distributions are expected to be consistently higher than annual earnings.

On February 23, 2001 and May 25, 2001, ProLogis paid a quarterly distribution of $0.345 per Common Share to shareholders of record on February 9, 2001 and May 14, 2001, respectively. The distribution level for 2001 was set by ProLogis' Board of Trustees in December 2000 at $1.38 per Common Share.

The annual dividend rates on ProLogis' preferred shares are $4.27 per Series C cumulative redeemable preferred share, $1.98 per Series D cumulative redeemable preferred share and $2.1875 per Series E cumulative redeemable preferred share.

On January 31, 2001 and April 30, 2001, ProLogis paid quarterly dividends of $0.5469 per Series E cumulative redeemable preferred share. On March 30, 2001, ProLogis paid quarterly dividends of $0.5875 per Series A cumulative redeemable preferred share. On March 30, 2001 and June 29, 3001, ProLogis paid quarterly dividends of $1.0675 per Series C cumulative redeemable preferred share and $0.495 per Series D cumulative redeemable preferred share.

Pursuant to the terms of its preferred shares, ProLogis is restricted from declaring or paying any distribution with respect to the Common Shares unless and until all cumulative dividends with respect to the Preferred Shares have been paid and sufficient funds have been set aside for dividends for the then current dividend period with respect to the preferred shares.

FUNDS FROM OPERATIONS

Funds from operations attributable to Common Shares increased $14.5 million to $196.1 million for 2001 from $181.6 million for 2000.

Funds from operations does not represent net income or cash from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, which is presented in the Consolidated Condensed Statements of Cash Flows in Item 1. Funds from operations should not be considered as an alternative to net income as an indicator of ProLogis' operating performance or as an alternative to cash flows from operating, investing or financing activities as a measure of liquidity. Additionally, the funds from operations measure presented by ProLogis will not necessarily be comparable to similarly titled measures of other REITs. ProLogis considers funds from operations to be a useful supplemental measure of comparative period operating performance and as a supplemental measure to provide management, financial analysts, potential investors and shareholders with an indication of ProLogis' ability to fund its capital expenditures and investment activities and to fund other cash needs.

Funds from operations is defined by the National Association of Real Estate Investment Trusts ("NAREIT") generally as net income (computed in accordance with GAAP), excluding real estate related depreciation and amortization, gains and losses from sales of properties, except those gains and losses from sales of properties upon completion or stabilization under pre-sale agreements and after adjustments for unconsolidated entities to reflect their funds from operations on the same basis. ProLogis includes gains and losses from the disposition of its CDFS business segment assets in funds from operations.

Funds from operations, as used by ProLogis, is modified from the NAREIT definition. ProLogis' funds from operations measure does not include: (i) deferred income tax benefits and deferred income tax expenses of ProLogis' taxable subsidiaries; (ii) foreign currency exchange gains and losses resulting from debt transactions between ProLogis and its consolidated and unconsolidated entities; (iii) foreign currency exchange gains and losses from the remeasurement (based on current foreign currency exchange rates) of third party debt of ProLogis' foreign consolidated and unconsolidated entities; and (iv) mark to market adjustments related to derivative financial instruments utilized to manage ProLogis' foreign currency risks. These adjustments to the NAREIT definition are made to reflect ProLogis' funds from operations on a comparable basis with the other REITs that do not engage in the types of transactions that give rise to these items.

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Funds from operations is as follows (in thousands):

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
Net earnings attributable to Common Shares.................	$ 88,559	$ 64,527
Add (Deduct):		
Real estate related depreciation and amortization......	67,299	75,057
Gain (loss) on disposition of non-CDFS business segment assets..	2,625	(307)
Foreign currency exchange (gains) losses, net..........	(5,044)	18,592
Deferred income tax expense............................	4,254	167
ProLogis' share of reconciling items of unconsolidated entities		
Real estate related depreciation and amortization....	34,049	28,535
Loss on disposition of non-CDFS business segment assets...	2,426	26
Foreign currency exchange (gains) losses, net........	8,294	(1,971)
Deferred income tax expense benefit.................	(6,343)	(3,064)
Funds from operations attributable to Common Shares.........	$196,119	$181,562

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2001, no significant change had occurred in ProLogis' interest rate risk or foreign currency risk as discussed in ProLogis' 2000 Annual Report on Form 10-K.

PART II

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITIES HOLDERS

At a meeting on May 17, 2001, the shareholders of ProLogis elected the following Trustees to office (of the total 173,736,419 Common Shares outstanding on the record date of April 3, 2001, 152,000,189 Common Shares were voted at the meeting):

- 151,628,484 Common Shares were voted for the election of Mr. C. Ronald Blankenship as a Class II Trustee to serve until the annual meeting of shareholders in the year 2004, 371,705 Common Shares voted against;

- 151,649,679 Common Shares were voted for the election of Mr. Stephen L. Feinberg as a Class II Trustee to serve until the annual meeting of shareholders in the year 2004, 350,510 Common Shares voted against;

- 151,648,334 Common Shares were voted for the election of Mr. Donald P. Jacobs as a Class II Trustee to serve until the annual meeting of shareholders in the year 2004, 351,855 Common Shares voted against; and

- 151,652,546 Common Shares were voted for the election of Mr. J. Andre Teixeira as a Class II Trustee to serve until the annual meeting of shareholders in the year 2004, 347,643 Common Shares voted against.

In addition, at the May 17, 2001 meeting, ProLogis' shareholders approved and adopted the ProLogis Trust Employee Share Purchase Plan. There were 147,323,467 Common Shares in favor, 4,548,877 Common Shares against, 126,561 Common Shares abstaining from the proposal and Broker non-votes aggregated 1,284 Common Shares.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

12.1 Computation of Ratio of Earnings to Fixed Charges
12.2 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends
15.1 Letter from Arthur Andersen LLP regarding unaudited financial information dated April 3, 2002
99.1 Letter dated April 3, 2002 to the United States Securities and Exchange Commission related to the review performed by Arthur Andersen LLP

(b) Reports on Form 8-K:

DATE	ITEMS REPORTED	FINANCIAL STATEMENTS
None		

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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/ WALTER C. RAKOWICH

Walter C. Rakowich
Managing Director and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ LUKE A. LANDS

Luke A. Lands
Senior Vice President and Controller

By: /s/ SHARI J. JONES

Shari J. Jones
Vice President
(Principal Accounting Officer)

Date: April 15, 2002

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INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
12.1	Computation of Ratio of Earnings to Fixed Charges (incorporated by reference to the Quarterly Report on Form 10-Q/A #1 filed April 5, 2002)
12.2	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends (incorporated by reference to the Quarterly Report on Form 10-Q/A #1 filed April 5, 2002)
15.1	Letter from Arthur Andersen LLP regarding unaudited financial information dated April 3, 2002 (incorporated by reference to the Quarterly Report on Form 10-Q/A #1 filed April 5, 2002)
99.1	Letter dated April 3, 2002 to the United States Securities and Exchange Commission related to the review performed by Arthur Andersen LLP (incorporated by reference to the Quarterly Report on Form 10-Q/A #1 filed April 5, 2002)