PROLOGIS EUROPEAN PROPERTIES FOURTH QUARTER AND YEAR END 2006 FINANCIAL RESULTS

Moderator: Jennifer van der Eem
February 6, 2007
10:00 a.m. CT

Operator: Good afternoon, my name is Connie and I'll be your conference facilitator today. I would like to welcome everyone to the ProLogis European Properties fourth quarter 2006 financial results conference call. Today's call is being recorded.

All lines are currently in a listen only mode to prevent any background noise. After the speaker's presentation, there will be a question and answer session. If you wish to ask a question during the session, simply press star one on your touch-tone keypad. The questions will be taken in the order in which they are received.

At this time, I'd like to turn the conference over to Miss Jennifer van der Eem, Vice President of Investor Relations with ProLogis European Properties. Please go ahead.

Jennifer van der Eem: Thank you, Connie. Good afternoon everyone and welcome to our fourth quarter and year end 2006 conference call.

This afternoon, we'll hear first from Robert Watson, CEO, to comment on the overall market conditions and outlook, Peter Cassells, CFO, who will cover financial performance and then, Ralf Wessel, Head of Asset Management, who will talk about operating performance and leasing activity.

Before we get underway, I'd like to state that this conference call will contain forward looking statements. These statements are based on current expectations, estimates and projections about the market and the industry in which ProLogis European Properties operates, as well as management's belief and assumptions. Forward looking statements are not guarantees of performance and actual operating results may be affected by a variety of factors. At the end of the presentation, we will be happy to take your questions.

Robert, please begin.

Robert Watson: Thank you, Jennifer, and good afternoon everyone.

We are pleased to be reporting a strong set of results in what has been a very active year for ProLogis European Properties. Our adjusted net asset value, which we feel best demonstrates our performance, was 13 euro 97 cents per unit at the end of the 2006, an increase of 15.5 percent for the year. We distributed 20 cents per unit in the fourth quarter implying a dividend yield of 5.3 percent based on the December 29th share price of 15 euros.

Peter Cassells will go into more detail shortly concerning our overall financial results, however, our results do reflect the high quality of the largest and most modern Pan-European logistics platform which is 97 percent occupied by major global and regional users of distribution facilities on long term leases which today have over seven years to average expiry.

The biggest event of the year for ProLogis European Properties was the successful completion of the IPO on Euronext Amsterdam. In an unpredictable public market, we were extremely pleased to be able to launch the largest ever Pan-European real estate IPO with a premium to NAV. The IPO proceeds totalled 715 million euros bringing our equity market cap to more than 2.7 billion and total capitalisation to over 4.4 billion. The share price at close of market yesterday was 16 euros 45 cents, a 14 percent increase on the listing price of 14.35 giving an equity market cap of 3.1 billion.

In terms of growth, we have announced the 29 million euro acquisition of the fully leased 43,400 square metre distribution centre located in the city of Blois along the A10 Paris Bordeaux Motorway just south of Orleans, France. Additionally, we have announced the lease renewal and expansion at ProLogis Park Piotrków in central Poland for Unilever.

Further growth will come from the acquisition of 200 million euros of newly constructed and leased distribution facilities across Europe which have been developed by ProLogis. The contribution process for these assets has begun and we anticipate completing this process no later than October 2007. These assets will be contributed at 95 percent of gross open market value.

We are highly optimistic about the future growth for ProLogis European Properties through our opportunity to make major investments in all of the ProLogis private equity funds and joint ventures which will be established in Europe. ProLogis has a significant existing pipeline of $2 billion US dollars and some 3,200 acres of land either owned or under control in Europe. This pipeline and future development on the land are an unparalleled investment opportunity.

As you are aware, ProLogis European Properties is externally managed by ProLogis which has over 260 associates across Europe providing us with the highest quality real estate marketing and management expertise. This gives us exclusive access to a platform of global and regional customers which results in the outstanding occupancy we have always maintained and the growth opportunity arising from the pipeline of assets being developed by ProLogis.

Turning to the European markets on which Ralf Wessel will provide further detail, we continue to see strong demand from occupiers across all markets with the UK and central Europe leading the way. Of note, the bulk of our leasing activity has occurred in France where we have increased occupancy by 90 basis points since June 30th, 2006.

In terms of expanding our investor base, we are currently building an outstanding investor relations program which will enhance our relationships with both existing and perspective investors. We expect this effort to result in greater understanding of our business and its prospects for the future and therefore, enhanced investor demand.

We are very pleased with the progress we made in 2006. Looking forward to 2007 and beyond, we see strong fundamentals in the markets and the customers to which we lease. We're excited about acquiring the 200 million portfolio and making investments in the funds and joint ventures expected to be sponsored by ProLogis.

Now let me hand over to Peter to cover the financials.

Peter Cassells: Thanks, Robert, and good afternoon.

For the fourth quarter of 2006, we had 19 cents of adjusted earnings per unit with reported earnings per unit of 30 cents. Adjusted earnings is our preferred measure of underlying profitability and is based primarily on our IFRS earnings excluding the impact of periodic portfolio evaluations, results of disposals and related tax impacts, distribution to preferred unit holders and certain one time events. For the full year, adjusted earnings were up 6.8 percent to 79 cents driven largely by the addition of 19 buildings from the ProLogis pipeline early in 2006 plus the complete year’s contribution to income from 35 buildings acquired throughout 2005.

Reported earnings for the year were up almost 64 percent to 2 euros 49 cents per unit from 1 euro 52 as a result of a substantial revaluation of the portfolios stemming from further yield compression across Europe.

Currently, ProLogis European Properties has 2 billion euros of debt of which 1.3 billion is fixed rate CMBS facilities with the remainder drawn from floating rate facilities. The weighted average cost of debt currently is 4.7 percent. This has remained consistent since 2005 despite a net increasing interest rate environment and we are working on our financing strategy to further reduce this. Based on the current balance sheet, we have the capacity to borrow approximately 680 million euros which we will use to finance the acquisition of the 200 million ProLogis portfolio and make investments in ProLogis sponsored private equity funds and joint ventures.

As with our earnings, we use an adjusted net asset value to more realistically reflect the underlying value of ProLogis European Properties. Adjusted net asset value ignores the impact of deferred tax provisions and purchases costs associated with the revaluation of the portfolio. As mentioned by Robert, our adjusted net asset value at the end of the year was 13 euros 97 cents, up 15.5 percent since the end of 2005. Again, mainly as the result of the revaluation of the buildings which alone added 415 million euros to the portfolio. In addition, 21 buildings covering over 480,000 square metres were acquired at a cost of 370 million euros. By the end of 2006, the real estate portfolio had an open market value of 4.2 billion euros compared with 3.5 billion 12 months ago.

More notably, if we look at the same store portfolio, which represents almost three-quarters of the properties owned, we see 11.4 percent increase in value.

The gross yield on the portfolio at the end of the year was 7.3 percent compared with 8.2 percent one year ago. The latest revaluation of half the portfolio at the end of 2006 delivered a 2.2 percent increase over the second half of the year. In terms of annualised rental income levels, the portfolio currently generates almost 308 million of passing rent as of the end of 2006, up 8.3 percent from 284 million at the end of 2005.

For the quarter, actual revenue and property income increased by 8.8 percent compared to the same period in 2005. For the year as a whole, revenue and property income was up 11.7 percent to 291 million. With the constant level of costs associated with rental activities, net rental income has demonstrated a similar growth pattern, increasing by 11.5 percent.

Year to date fund expenses of 46 million euros include 35 million euros of one time costs associated with the completion of the IPO. Other operating expenses are very much in line with those incurred in 2005 at approximately four percent of net rental income.

With that, let me hand you over to Ralf to discuss operations and the European markets in which we compete.

Ralf Wessel: Thank you, Peter.

We've had a busy year from an operational point of view with increasing demand for space. This has resulted in a maintained occupancy rate of 97 percent. Over the year, the operational team closed over 80 leases covering some 289,000 square metres. Following this activity, the average lease length of the portfolio is 7.1 years. We have 629 leases in 11 countries. ProLogis European Properties continues to have an extremely well diversified rent roll and in fact, the largest customer only accounts for 6.2 percent of the annualised rental income.

In general, rental levels across Europe have remained relatively flat with yield compression offsetting rising construction costs. Clearly, there have been regional differences.

As Robert mentioned, we have external growth opportunities for the portfolio. However, there is also growth potential within the current portfolio such as the redevelopment opportunities and extension of existing buildings. For example, we are currently redeveloping a property near Milan. With the growth opportunities and the quality of the portfolio, the operational team is confident that we maintain the higher rate of occupation and grow the portfolio income.

Now, let me move on to cover the major markets in more detail. I'd like to start with southern Europe. France remains a key market for pan-European logistics. We have 29 percent of our assets by value or 38 percent by area in France. In general, we have seen growing demand for space in the French markets, especially in Paris where there is a shortage of suitable facilities. Our lease activities for the year totalled some 128,000 square metres. We continue to see further yield compression although at a slower pace than the last few years. We also see rents bottoming out in this market and expect rental rate growth to return.

In southern Europe, Spain is a very dynamic market, characterised by a shortage of supply of land and properties. Spain has experienced rental growth and strong yield compression. Clearly, Madrid and Barcelona are the main logistic hubs and this is where we have our critical mass. We are virtually fully occupied in our Spanish portfolio.

The next region I'd like to discuss is the UK. Traditionally, the UK is a strong, stable market typified by long leases and our portfolio is no exception to that. We are currently fully leased with an average lease length of 10.5 years. As such, the focus is on maximising the rent review opportunities that occur. The team was able to achieve a compounded average annual rental growth of 2.75 percent over the 13 rental reviews it concluded since 2003 and this was accomplished in a market where experts were of the opinion that rental levels were flat. Generally, yields in the UK have experienced strong downward pressure for a number of years. However, we believe the pace of yield compression has slowed as the yield premium over long term interest rates has narrowed. With this in mind and with the aforementioned increased construction costs combined with a healthy demand, we are confident that income will grow.

The next region to discuss is northern Europe, most notably in northern Europe, the German economy is picking up. Markets rent have bottomed out and appear ready to grow. A similar pattern can be seen in the Netherlands and Belgium. All markets in northern Europe have benefited from globalisation and increasing trade with Asia. With growing port activity and the importance of Rotterdam, Hamburg, and Antwerp as main European ports, this region can expect to see growing demand. Clearly, our assets in this region will benefit from this.

The CE region continues to gain importance in the international landscape. In particular, Poland has a strong position as the sixth largest member of the European Union and geographically, it commands a strategic location on the expanding transit route to the east. Most transportation of goods in this market is done by route and we have seen significant investments in the motorway network. Also, significant growth in retail sales and activity is driving distribution facility demand. Our portfolio in Poland has a 99.3 per cent occupation rate. Nevertheless, leasing activity involved more than 51,000 square metre in 2006 as we renewed and expanded the Unilever lease at ProLogis Park, Piotrków.

We also keep a close eye on Hungary where customers activities have increased now that the political situation has stabilised. However and even though Hungary has traditionally been ancillary to our customer's requirement, our customers have signed leases and expanded by an additional 32,000 square metres. They have found that they can efficiently serve multiple countries from Hungary.

Generally, we see central Europe as a growing region where we have noticed the sharpest yield compression. Going forward, we expect that Poland will continue to lead the way in terms of demand.

In conclusion, we are pleased with the operating performance we achieved this year. We aim to maintain the portfolio occupancy at a high level and maximise the results from this outstanding pan-European platform.

With that, let me hand back to Robert.

Robert Watson: Thanks, Ralf.

Just to summarise, we are very excited about the opportunities we have to maximise our leadership position in Europe. We believe our expertise, strong balance sheet and existing business model will generate growing levels of returns for our investors. Thank you and we're now ready to take questions, Operator.

Operator: Our question and answer session will be conducted electronically. If you would like to ask a question of our speakers, please press the star key followed by the digit one on your touch-tone telephone. Once again, that is star one to ask a question. We will pause for just a moment to assemble our roster.

And we'll take our first question from John Perry from Deutsche Bank.

John Perry: Hi. Ralf, you mentioned the significant redevelopment potential within your portfolio. Could you quantify that a bit both in terms of what kind of volumes you think you can do an annual basis and the returns you would expect?

Ralf Wessel: Yes, of course. What we see and the Unilever example is a good example, we've seen quite some interest and demand from existing customers that would like to extend their facilities and we expect that going forward that will continue to go in the same matter. When I talk about redevelopment, we are currently redeveloping a portfolio that has increased in the size of 30 percent through the previous situation, so from 22,000 square metres to 35 in Italy. That sort of happens on an occasional basis. Going forward, expect to carry on with that.

Robert Watson: Yes, John, I think the – and thanks for calling, John. The opportunity will be in multiple locations where we have developed – where ProLogis has developed a building with the idea that the customer would expand. We have in the past seen that two or three times a year. The big redevelopment opportunity we have, as we have mentioned in the past, would be the Garonor project in France and that could be a significant opportunity for us going forward.

Operator: And we'll go next to Boudewijn Schoon.

Boudewijn Schoon: Thank you and yes, it's a difficult name to pronounce. No problem. I have a number of questions. I think around four. First of all, you mentioned the disposals in this current year and comparison to historic costs, could you give the gain over latest valuation of those disposals?

Peter Cassells: Hi, Boudewijn, it's Peter here. Thanks for calling. The disposals – the most notable disposal during 2006 was the disposal of six buildings in France in July and they had just been revalued as part of the process for taking ProLogis European Properties public in September. And the gross proceeds generated by that sale were seven percent in excess of those June valuations.

Robert Watson: And the amount of sale was 72 million euro.

Peter Cassells: 72 million euro. With – so the valuation at June was about 67 million euros.

Operator: And we'll take our next question from Martin Allen from Morgan Stanley.

Martin Allen: Hello. I wonder whether you could give me any colour on the establishment raising of capital for funding of property for both your UK sterling denominated and European euro denominated funds.

Robert Watson: Could you clarify the question for me?

Martin Allen: Well, my understanding is you are planning to raise sort of funds going forward and looking to know a bit about how much you're looking to raise, timing, all the proceeds….

Robert Watson: Well, actually, ProLogis, the global REIT will be the one that is raising funds. As Peter mentioned, we will be using our debt capacity to invest in those funds in the future for ProLogis – with ProLogis. We have the exclusive right to invest at least 30 percent of the equity in any of those funds and as I mentioned earlier, right now, ProLogis has a 2 billion euro pipeline in place with another 3,200 acres on which to develop property. So our investment will first come from that 680 million that we have.

Martin Allen: And then, they've obviously got this pipeline, but where are they in terms of actually creating the actual funds?

Robert Watson: Well, we can't – I can't comment on that because I'm not raising it. Our company is not raising it, ProLogis is and we would expect as they have stated in their business profile, they recycle capital and they develop properties and recycle that capital by forming private equity funds and contributing those assets to a private equity fund and we expect them to be doing that in due course here in Europe.

Operator: Thank you. And we'll go next to Boudewijn Schoon from Kempen.

Boudewijn Schoon: Thank you. One other question. There was this article in ‘Property Week' and I know this is ProLogis and this is not ProLogis European Properties, regarding an acquisition of ProLogis of property developer Parkridge Group. They had a 1.25 billion industrial development program. Now, you already communicated at the IPO the pipeline of ProLogis itself and the fact that this provides you with the opportunity to invest going forward through that 30 percent equity stake. Does this potentially increase the acquisition volumes going forward for ProLogis European Properties?

Robert Watson: Boudewijn, I'm sorry, but company policy won't – doesn't allow me to comment on rumours in the market.

Operator: And we'll go next to Martin Allen from Morgan Stanley.

Martin Allen: Yes, sorry. I don't – I haven't actually finished on my previous series of questions.

Robert Watson: That's all right.

Martin Allen: Have you had any discussions with ProLogis about any future funds?

Robert Watson: Well, we certainly, again, feel that their intent is to form future funds and as I say, we would expect, given the level of their pipeline that they have in place that they would be doing that in due course.

Operator: And once again if you would like to ask a question, it is star one. And we'll take a question from Martin Allen from Morgan Stanley.

Robert Watson: Yes, Operator, just …

Martin Allen: I got cut off again.

Robert Watson: OK. And Martin, let me just tell the operator to let you ask your questions. Go ahead and ask them, how many you have, that's fine.

Martin Allen: That's very kind. How would you – on an ongoing basis, how would you plan to communicate with investors in your sort of progress on co-investing with ProLogis' fund in Europe?

Robert Watson: We will be press releasing as we take contributions from ProLogis just as we press released the acquisition of the property in Blois as we did the renewal and expansion of the building – Unilever for Piotrków And we would expect the pace of those press releases to pick up.

Martin Allen: I mean I guess for most companies their acquisition program is obviously quite a key sort of part of the way people actually model the company and a lot of companies will give some kind of guidance to investors as to the rough quantum and timing of planned acquisitions. Is that something you're comfortable …

Robert Watson: Yes. I guess what I would say, Martin, is first of all what we have said between now and October, we expect to have a contribution of 200 million.

Martin Allen: Right.

Robert Watson: So that is – right away, that's the biggest part of our activity and then, as we have the opportunity to invest in the ProLogis fund, we will certainly tell the market what that investment will be and what our subscription will be in those investments.

Martin Allen: But that will be sort of announced after the fact, you're not going to give any kind of advance indication on that?

Robert Watson: Yes. I – we can't do that until we're notified by ProLogis what the fund is going to be.

Martin Allen: OK. That's great. Thanks.

Operator: And we'll go next to Boudewijn Schoon from Kempen.

Robert Watson: OK. And in the same manner, Boudewijn, we will let you ask your questions.

Boudewijn Schoon: All right. Thank you. Thank you very much. One last actually. You hinted on the fact that the spread between 10 year rates and the yields is narrowing, but rents are picking up, rental growth here and there throughout Europe. Could you give any statement or not so much a statement, but what you're feeling regarding residual yield compression on our portfolio of ProLogis for 2007? If that's possible.

Ralf Wessel: Sure. Hi. It's Ralf Wessel.

Boudewijn Schoon: Hi, Ralf.

Ralf Wessel: What we said is actually that in the UK, we've seen investment yields and the interest – the long term interest rates that particular gap been narrowing and not necessarily on the continent, this is typically for the UK market.

Boudewijn Schoon: All right.

Ralf Wessel: What it does to the residual yield for 2007, where we think yields – what we've seen with yields, they have been compressing aggressively over the last three years. In the UK, something like a decline of 200 basis points. If you see where the bond yields are today, we don't expect that there will be much more room for further yield compression. Definitely in our vision, the pace of yield compression will slow down for 2007 in terms of residuals. The best guesstimate that I can give would be flat.

Boudewijn Schoon: All right. All right.

Ralf Wessel: Thank you.

Boudewijn Schoon: That was it. Thank you very much.

Robert Watson: OK.

Operator: And we have no further questions at this time.

Robert Watson: OK. We'd like to thank, everyone, for joining in our conference call. Appreciate the effort and we look forward to talking to you, again, and reporting our results in the next quarter.

Operator: Thank you. This conference call will be available for replay beginning today at eight o'clock PM Central European Time through midnight Central European Time on February 20th, 2007. To access this replay, you may dial 0800-028-8204 UK toll free or 1-719-457-0820 internationally or 888-203-1112 US toll free. The replay pass code is 4530895. Again, that replay pass code is 4530895. Thank you. You may now disconnect.

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