

PROLOGIS EUROPEAN PROPERTIES FIRST QUARTER 2007 FINANCIAL RESULTS

Moderator: Jennifer van der Eem
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10:00 a.m. CET

Operator: Good morning. My name is Dervla and I'll be your conference facilitator today. I would like to welcome everyone to ProLogis European Properties First Quarter 2007 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'd like to ask a question during the session, simply press star one on your telephone keypad. The questions will be taken in order in which they are received.

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

Jennifer van der Eem: Thank you Dervla. Good morning and welcome to our First Quarter 2007 conference call. This morning we'll hear first from Robert Watson, CEO to comment on the overall market conditions and outlook. Peter Cassells, CFO, will cover financial performance and then Ralf Wessel, Head of Asset Management 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 beliefs 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 from both the call and the webcast; Robert, please begin.

Robert Watson: Thank you Jennifer. First of all I would like to apologise for those of you who are listening on a webcast later after this call because they were unable to dial in on the UK number. We apologise for the technical difficulties that the service we subscribe to has encountered and we would like to invite all of you that would like to ask questions that haven't been answered on this webcast to call

Jennifer van der Eem and we will get right back to you concerning your questions. With that, let me get started.

Thank you and good morning everyone. We're delighted to be reporting another set of strong results for the first quarter of 2007 with adjusted earnings up 10.5% and rental income up 5.2%. Our adjusted net asset value per unit has remained stable at €13.94. We made a total distribution to unit holders of €0.22 cents per unit for the quarter including 3 cents per unit from the release of escrow funds arising out of the sale of assets in 2003.

Peter Cassells will go into more detail on our financial results in a moment. However, these results reflect our continued focus on active asset management and the strength of our high quality pan European logistics platform. Ralf Wessel will speak about our markets and leasing activity directly, but we are pleased to report that the portfolio remains very well leased at 96.5% occupancy. The portfolio continues to exhibit an average lease term of over 7 years to lease expiry. Given our occupancy lease profile, the quality of the portfolio and the favourable leasing market, we're confident that we can continue to generate improving cash flows for our unit holders.

As announced previously, ProLogis European Properties completed the acquisition of 14 newly constructed and leased distribution facilities from ProLogis for just over €200million and yielding 6.7%.

These buildings were fully leased and operating and were accretive to earnings at acquisition. We're in the process of finalising the acquisition of an additional facility directly from ProLogis prior to the end of the second quarter to complete the portfolio acquisition as agreed with ProLogis at IPO. Ralf Wessel will give you more detail on this portfolio later but we are pleased to execute this strategic milestone of our growth plan ahead of target.

As we've discussed in the past, ProLogis European Properties will grow in the future mainly through investment in private equity funds and joint ventures sponsored by ProLogis in Europe. Importantly for ProLogis European Properties, ProLogis has continued to build its presence in Europe, both through its organic development pipeline and through acquisitions. In the first quarter ProLogis announced the acquisition and merger of Parkridge, a significant competitor, active in the UK and continental Europe. At the end of March, ProLogis' existing European pipeline contained US\$2.7 billion of properties and a land bank of some 5,300 acres. When the IPO for ProLogis European Properties was announced, the ProLogis pipeline of European facilities had a total investment value of approximately US\$1.45 billion. This increased opportunity for ProLogis European Properties is significant for our future growth. Although it's our policy not to comment on potential, timing, size or terms of new funds, as we stated in our Annual Report 2006, we expect to invest in a ProLogis sponsored private equity fund prior to the end of 2007.

Ralf will comment in more detail on our individual markets overall. However, the favourable economic climate in continental Europe, the enlargement of the EU, strong global trade growth along with continuing efforts by our customers to build more efficient and cost effective supply chains, has led to continued demand for warehouse space in Europe. We see strong occupier demand in our major markets. Additionally although we still believe there's some yield compression to occur in continental Europe we believe a slowing in the rate of yield compression allows us to anticipate a return to rental rate growth in the majority of these markets.

In terms of investor relations we continue to build a comprehensive programme to create and maintain strong relationships with existing and prospective unit holders. In this regard we have sent out our first Annual Report; have held numerous meetings and calls with current and potential unit holders and presented at a number of industry events.

We're pleased with the progress made and the level of business activity achieved in the first three months of the year. We'll continue to focus on maximising returns for unit holders from the portfolio and look forward to growing the business further through investment and new ProLogis private equity funds.

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

Peter Cassells: Thanks Robert and good morning. Before I begin, let me point out that we are comparing our Q1 performance with Q4 2006, as there are no published figures for the first quarter of 2006. Going forward we will continue to compare adjacent quarters until Q3 where we have corresponding publicly available data for Q3 2006.

For the first quarter 2007 we reported adjusted earnings of 21 cents per unit, up 10.5% from Q4 2006 or 19 cents per unit, primarily due to the increase in rental income this quarter. Adjusted earnings per unit is our preferred measure of underlying profitability as it excludes the impact of periodic portfolio evaluations, property disposals and non recurring events.

IFRS earnings for Q1 show a decrease to €0.22 per unit from €0.30 for Q4 2006, due in large part to the timing of our portfolio revaluations which take place mid-year and at year end.

As mentioned, rental income has increased for the first quarter, up 5.2% to €77 million. This growth is a result of the settlement of a number of rent reviews particularly in the UK; new leases on recently developed buildings within our portfolio; one week's rental income from the newly acquired portfolio as well as the ending of a number of rent incentives. The slight decrease in occupancy levels from 96.9% at year end to 96.5% currently will not have a significant impact on rental income for the year.

Operating expenses excluding the impact of €795,000 of IPO expenses recorded in Q4 2006 have remained flat at €10 million for the first quarter 2007. The majority of operating expenses relate to fees paid to ProLogis as our external manager and are directly correlated to portfolio value.

Finance expense which comprises interest cost, realised and unrealised currency effects for the quarter as well as an amortisation charge on debt raising costs showed a 13.4% decrease from €26.2 million in Q4 to €22.7 million in Q1 2007. Interest cost, the largest component of this item, amounted to €23.9 million for Q1 identical to the cost incurred in Q4 last year.

Income tax expense has increased for the quarter from €3.3 million to €5.8 million. This is due in part to the receipt of a number of final tax assessments from prior years and the manner in which we record a tax charge each month based on estimated taxable income for the year. We expect the tax charge for the year to remain in line with that of 2006.

We also reported a deferred tax credit of €12.3 million for the quarter reducing our overall deferred tax liability from €192.8 million to €180.4 million. Capital expenditure and weaker sterling during the quarter has reduced the unrealised gain on which the deferred tax provision is calculated. In addition some of the tax rates applied to the estimated capital gains have been reduced in 2007.

Net debt at the end of March was €2 billion of which €1.3 billion is under our fixed rate CMBS program with the balance from floating rate facilities. €173 million of debt was drawn from our floating rate facility to finance the 14 properties acquired from ProLogis. The remaining consideration was paid by issuing new units to ProLogis. The increase in European interest rates has led to a marginal increase in our weighted average interest rate cost to 4.8% from 4.7% in 2006. We are actively investigating options to reduce our average cost of debt while enhancing our balance sheet strength in order to secure the capacity to invest in future ProLogis private equity funds.

Our adjusted net asset value per unit, again our preferred measure to indicate underlying value was €13.94 at the end of March. The adjusted net asset value per unit figures are impacted by the additional units issued to ProLogis as part payment for the 14 properties acquired. With no portfolio revaluation in Q1 the overall adjusted net asset value increased only marginally.

At the end of March the portfolio had an increased open market value of €4.4 billion compared to €4.2 billion at the end of December, reflecting primarily the portfolio acquisition referred to previously. The gross yield on portfolio at the end of March was 7.3%, a marginal increase on that reported at the end of 2006.

Distributable cash flow increased 13.2% for the quarter to €42.3 million from €37.3 million for Q4. As mentioned previously €4.8 million or 3 cents per unit of the increase relates to monies released from escrow as a final receipt from the sale of 13 assets in 2003. This has enabled us to pay out 22 cents per unit as a Q1 distribution. Excluding the one-off element, our implied dividend yield is 5% based on the closing price of €15.55 at the end of March.

Overall our balance sheet remains strong providing us with the basis to raise in excess of €600 million to be invested in ProLogis private equity funds, while remaining within our leverage limits. In addition income growth generated from our portfolio continues to underpin our ability to generate stable cash flows.

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

Ralf Wessel: Thank you Peter. The acquisition of 14 distribution facilities, comprising 285,000 square metres from ProLogis enhances our existing portfolio. It completes certain parks and substantially increases our critical mass in some of the prime markets in Europe especially Belgium, Germany and Spain. In addition we further enhanced our customer market share through the addition of new customers.

The two assets acquired in Belgium more than doubles our existing portfolio from 43,000 square metres to over 98,000 square metres.

We've added some 100 000 square metres to our German portfolio in the markets of Frankfurt, Hamburg and Hanover. These assets are let to a variety of logistics firms.

The three facilities in Prague covering 30,000 square metres complement the nine existing assets in ProLogis Park Prague. The same principle applies at the Piotrków building in Poland which will complement two existing facilities in that park.

The three facilities in France covering some 63,000 square metres are adjacent to two existing properties at the Port of Le Havre. The buildings are let to Gefco and Schenker amongst others.

The 27,000 square metre Spanish facility is in a prime location south west of Barcelona. The building design incorporates development techniques such as solar panels installed as part of ProLogis global sustainable initiative.

All these facilities are strategically located along major motorways with access to ports and airports.

Leasing activity has been brisk over the quarter with ProLogis team concluding over 30 lease transactions over 135,000 square metres. This comprised 12 lease renewals over 19,000 square metres; 94,000 square metres in 14 new leases and seven lease expansions for circa 22,000 square metres. Following this activity we have now over 650 leases with 417 customers and a healthy portfolio occupancy level of 96.5%. The average lease length of the portfolio is over 7 years.

Overall all our markets continue to show yield compression, although at a slower rate, and therefore we anticipate the return of rental growth on the back of increasing land prices and construction costs. We've already seen this occurring in our portfolio in the UK and Spain.

There have clearly been some regional variations and let me move on to cover the major markets in more detail.

Let's first look at southern Europe. France continues to be a major pan-European logistics market with Paris a key sub-market and demand has been improving. ProLogis European Properties has 29% of its assets by value in France.

In Italy we've recently completed a 25,000 square metre re-development near Milan. The facility has been handed over to CEVA, previously TNT, and our largest customer in the portfolio. With this lease, Italy is now 100% occupied. Spain is also virtually 100% leased following a number of transactions at Sant Boi in Barcelona including a 20,000 square metre lease to a Spanish consumer company.

The UK remains a strong market with low yields relating to the favourable lease structure there. A quarter of our portfolio by value is located in the UK. We are currently 100% leased with an average lease length of 10.3 years. As such we focus on maximising opportunities as they occur. We are pleased to agree a 23,000 square metre lease with Keystone Distribution in the South East. This 20-year lease will commence at the end of the completion of the redevelopment of this facility which is scheduled for the second half of 2007.

Let's focus on Northern Europe. Germany is becoming the geographical centre of the enlarged European Union given the shift eastwards. This has had a positive effect on demand. As such we were pleased to increase our German assets from 6% to 8% by portfolio value.

The demand in the Belgian and Dutch markets have been improving in response to the increased economic activity. As mentioned previously the portfolio acquisition has doubled our presence in Belgium

and we've had some leasing success. Both events improved our occupancy rate to 87% from 52% previously.

Yields in Central Europe have been converging with Western levels over the past year. However, demand for industrial space remains robust and we are pleased to have added 43,000 square metres to our portfolio.

The Czech Republic remains one of the most dynamic markets and the operational team leased an additional 12,000 square metres to two of our customers in ProLogis Park Prague.

Poland is also a very dynamic market, being the largest economy in Central and Eastern Europe. Demand in the Polish market increased significantly in 2006 as a result of the growing economy and increased inflow of goods from West to East. We've also seen significant rise in the numbers of leases signed outside the main market of Warsaw.

The Hungarian market is becoming more stable. Demand for prime modern warehouse space is growing and we believe that Hungary has the potential to become a regional hub for the South East of Europe.

Given all these market dynamics the quality of the portfolio and the expertise of the ProLogis operation team we are confident we can maintain a high level of portfolio occupancy and grow income.

With that, let me hand back to Robert.

Robert Watson: Thank you Ralf. In summary we're pleased with the first quarter and the way our business is performing. We have reported strong results for the quarter, met a significant milestone in acquiring the ProLogis portfolio and believe that we are well positioned to capitalise on favourable market conditions.

With that, operator, I would like to open it up for questions.

Operator: Our question and answer session will be conducted electronically. If you'd like to ask a question of our speakers, please press the star key followed by the digit 1 on your touchtone telephone. Once again, that is star one to ask a question. We will pause for just a moment to assemble our roster.

And our first question comes from Boudewijn Schoon from Kempen. Please go ahead.

Boudewijn Schoon: Good morning, this is Boudewijn Schoon from Kempen & Co. I had a question on the financing costs; they decreased as you stated. You indicated that the interest cost was however the same as in the last quarter of 2006 around €23 million. Could you elaborate a little bit on the €22.7 million of financing expense in the P&L over the first quarter?

Peter Cassells: Yes, the financing expense in the first quarter as with other quarters also include a charge for amortisation which is around €3 million in each of the last two quarters. And also the impact of currency movements during the quarter, in the first quarter 2007, we had about a €4 million positive currency impact of flow through that line item. So that was why with the quarter on quarter the reduction is mainly down to currency impact and the sterling that we have on our books.

Boudewijn Schoon: So I should also add amortisation in the Q1 but that's more than offset by the currency impact of €4 million; that's the main positive impact on the finance expense, I understand?

Peter Cassells: Correct and the currency impact in Q4 was about €800,000. So the big difference in Q1 versus Q4 was the currency.

Boudewijn Schoon: Ok, very good, thank you. You also indicated something on deferred tax expenses. That was also due to currencies I understand?

Peter Cassells: A part of that was due to currency given that our deferred tax is calculated on the gains made on properties from contribution dates up to today's value, and with that dropping in the last quarter we've had a saving on the deferred tax liability. But there are also other elements which are to do with the tax rates as well.

Boudewijn Schoon: Ok, so that means the value of the UK assets in Euro decreased because of the decline of the sterling, or the slight decline of the sterling.

Peter Cassells: That's correct.

Boudewijn Schoon: Ok and maybe a last question: Do you include any P&L provision for the incentive fee and the accumulated liability on that incentive fee calculation?

Peter Cassells: To date we have not. We have looked at the calculation and it's not in the money from that respects, so no accrual has been made to date.

Boudewijn Schoon: Ok, would you otherwise have made a provision in the P&L?

Peter Cassells: Correct, yes it will be similar to any other accounting provision. We will make that a provision in the income statements.

Boudewijn Schoon: Ok. Thank you no further questions so far.

Operator: Thank you. Once again if you would like to ask a question please press *1 on your telephone keypad now. There appear to be no further audio questions at this time.

Jennifer van der Eem: We have no questions on the website either.

Robert Watson: All right. With that I would like to thank you for participating in today's ProLogis European Properties call. We look forward to speaking to all of you in the next quarter and again, in the event that you are listening to this on the webcast and you could not get on the phone line earlier because of the technical difficulties with our phone call, please feel free to call Jennifer van der Eem or any of us and we'll get right back to you. Thank you very much.

Operator: That concludes the conference today, ladies and gentlemen. Thank you for your participation; you may now disconnect.