

**ProLogis European Properties**  
**Presenters: Gordon Keiser, Peter Cassells, Simon Nelson, Ralf Wessel**  
**Thursday 24<sup>th</sup> July 2008**  
**16h00 BST**

**Operator:** Good afternoon. My name is Isabel and I will be your conference facilitator today. I would like to welcome everyone to ProLogis European Properties Second Quarter and Half Year 2008 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 speakers' presentation there will be a question and answer session. If you wish to ask a question during the session simply press \*1 on your telephone keypad. The questions will be taken in the order in which they are received. At this time I would like to turn the conference over to Jennifer van der Eem, Vice President of Investor Relations with ProLogis European Properties. Please go ahead.

**Jennifer van der Eem:** Thank you Isabel, good afternoon. 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 beliefs and assumptions. Forward-looking statements are not guarantees of performance and actual operating results may be affected by a variety of factors. Gordon Keiser, CEO will give an overview on the performance and outlook; and Peter Cassells, CFO will cover financial performance; followed by Simon Nelson, incoming Head of Asset Management talking about half year valuations; and then finally Ralf Wessel, current Head of Asset Management will talk about operating performance and leasing activity. At the end of the presentation we will be happy to take your questions from either the call or online. Gordon, please begin.

**Gordon Keiser:** Thank you and good afternoon everyone. Before we begin I would like to introduce Simon Nelson who will become our Head of Asset Management from 1<sup>st</sup> August taking over from Ralf Wessel who is moving on to become Managing Director of Global Investment Management for ProLogis. We appreciate Ralf's contribution during the past two years and wish him success in his new role. Simon joined ProLogis from DTZ in 2001 initially to take responsibility for acquisitions in Southern Europe. Subsequently Simon has been responsible for European acquisitions and dispositions and importantly the coordination of portfolio valuations making him ideally placed to take on his new role within PEPR.

Turning to the results. We're pleased to report today that PEPR has once again shown solid operational performance in the first half of 2008 maintaining its industry leading occupancy levels despite a couple of tenant defaults which I will update you on shortly. We completed a total of 42 lease transactions covering over 245,000m<sup>2</sup> during the first half and continue to see good occupier demand throughout our European markets driven primarily by the optimisation of supply chains and global trade. As a result of the gearing up of our investment in PEP Fund II through redeploying sales proceeds from the Garonor disposition last year and also due to the impact of the weaker pound on our UK property income, EPRA earnings per unit for the first half of the year decreased €0.04 to €0.36 compared to the previous year. EPRA net asset value per unit decrease €0.70 to €12.03 from 31 December based on the revaluation of the directly owned portfolio and the related currency impact which I'll comment on briefly and Simon will discuss further. Overall the net market value of PEPR's directly owned portfolio decreased 2.6% in the revaluation and a total of 4.8% including currency movements, almost all of which movements occurred and were recognised in the first quarter.

As a result of our regular semi-annual business review process we re-examined our 2008 guidance. Given the fluctuations in the currency markets with sterling weakening against the euro by 10% in the first six months of this year alone, combined with challenging conditions in the property and financial markets we've made the decision to revise our 2008 distribution guidance to a range of €0.76 to €0.80 per unit

from the initial guidance range of €0.80 to €0.86 per unit. For the second quarter we're pleased to be able to distribute €0.18 per unit taking our total distributions for the first half of the year to €0.38 per unit.

PEPR nevertheless continues to target a 6-6.5% cash return on its investment in PEP Fund II for the year and will continue or will benefit from the higher yield on properties now being acquired by PEP Fund II. During the second quarter PEPR invested a further €70 million of PEP Fund II taking our total investment to date to €295 million. Also during the second quarter PEP Fund II acquired 23 distribution facilities from ProLogis covering over 590,000m<sup>2</sup> in ten European countries with third party appraisal value totalling €364 million representing a 6.9% yield on investment. The combined portfolio of PEPR and PEP Fund II at the end of June comprises a total of 340 distribution facilities across 12 European countries and is 97.9% let. Ralf and Simon will address our active portfolio management in the second quarter in which 22 lease transactions were executed and a couple of disposals completed, but I wanted to comment on our releasing efforts for those distribution facilities held by three of PEPR's customers who went into default in the second quarter. Our 26,000m<sup>2</sup> building in France has already been released. The 20,600m<sup>2</sup> building in Italy is in advance negotiations and marketing has begun for the third 24,000m<sup>2</sup> building in the UK which has already received a number of showings. I did want to comment that we don't see the three bankruptcies of the beginning of a trend as our overall customer receivables have not changed to any degree since the start of the year and we're able to move promptly to address the vacated space in these instances.

Before I finish I would like to give a more general outlook on the state of the logistics market in 2008. While global trade growth is expected to slow in the second half of the year from the 15% year on year growth in the last few years we anticipate that the continued expansion of world trade will still be a driver of our business along with growth in the domestic markets of the developing economies in Central Europe and even further east and from a macro standpoint elements are in place for future rent growth once economies rebound and I'll go through several. There's been a slowdown in new supply related to among other factors the current disruption in the credit markets. In most distribution markets there is

minimal oversupply, in other words general well-let conditions exist and finally increased construction costs and likely higher financing costs should impact pricing as well.

With that let me hand it over to Peter to discuss the financial results in more detail.

**Peter Cassells:** Thank you Gordon. IFRS results for the six months of 2008 were down significantly from a profit last year of €121.9 million to a loss this year of €31.8 million due almost exclusively to the impact of the half year property revaluations. IFRS earnings for the first half of the year contain €122.2 million of non-cash revaluation losses following the semi-annual review of PEPR's entire wholly owned portfolio. The corresponding adjustment last year was a gain of €49.9 million. Once you strip out these and other non-cash adjustments from our IFRS results to arrive at our EPRA defined earnings you'll see a more consistent set of results for both the quarter and half year ended in June 2008.

EPRA earnings for the quarter were €34.6 million compared to €36.2 million for Q2 last year. On a per unit basis this is equivalent to a drop of just €0.01 from €0.19 to €0.18 per unit. It's worth noting that the IFRS and EPRA earnings for Q2 last year included an exceptionally large lease termination receipt of some €6 million or €0.03 per unit. Additionally UK sourced rental income has been badly affected in 2008 by the weakening in sterling since late last year. For the six months to June '08 EPRA earnings were €69.1 million down €8 million from €77.1 million last year. Again on a per unit basis this is equivalent to a drop of €0.04 from €0.40 to €0.36 with €0.03 from the lease termination receipt again accounting for a large part of this drop. Reconciliations of IFRS to EPRA earnings for both the quarter and half year periods are shown on page 11 of today's Q2 release.

As Gordon mentioned earlier we'll pay a dividend of €0.18 per unit or €35.4 million in total for Q2 2008. This was €0.05 below that for the corresponding period last year. Of the difference again €0.03 is attributable to a lease termination penalty with the remainder the net effect of less rental income for the quarter offset by dividend income received from PEP Fund II. The Q2 distribution will be paid on 5<sup>th</sup> August next. Our combined Q1 and Q2 distributions of €0.38 per unit is equivalent to an annualised

dividend yield of 8.4% based on the quarter end closing price of €9.07 per unit and takes total dividends to investors to €72.8 million for the year to date. This level of distribution has been achieved despite a number of negative impacts to current year earnings such as a weaker pound, less exceptional income items this year and a number of bad debt provisions. It does however continue to demonstrate the stable nature of the cash flow we generate from the high quality portfolio which is geographically diversified and now being further supplemented by an ever growing dividend from PEP Fund II. It's worth confirming at this point that under the managed regulations we are required to distribute substantially all of our operational cash flow retaining a portion to cover capital expenditures and certain other obligations. A reconciliation between IFRS earnings and distributable cash flow for both the quarter and six month periods are contained on page 16 and 17 again of today's Q2 release.

In terms of specific line items in our income statement let me take you through some of the more significant elements. Rental income has fallen €11.3 million from €158.5 million to €147.2 million or 7%. The disposal of the Garonor portfolio in the third quarter of 2007 accounted for €11.4 million of the decline partially offset by €3.5 million of rents received from 16 properties acquired in 2007. Additionally the continued weakness of sterling has resulted in a reduction of UK rental income when measured in euro by €3.9 million for the six months.

Looking at our same store portfolio which accounts for approximately 93% of the total portfolio rental income was down 2.3% due to some rental rate decline in three of the four regions and a drop in occupancy from 97.5% to 96.9%.

Other property income is where we recognise the €6 million lease termination receipt in 2007. We have had some minor lease termination receipts this year but not to the same extent as last year.

In cost of rental activities we report property management fees payable to ProLogis as well as ground rent charges and other non-recoverable costs associated with managing the properties. While savings have been made in property management fees for the six months due to the reduction in the value of the

portfolio we have made provisions of €2.8 million for those bad debts mentioned earlier by Gordon. This represents less than 1% of our annualised rental income. Fund expenses are down significantly for the six months of 2008 compared to last year when we had recorded a provision for an incentive fee payment to ProLogis of €4.5 million. As a result of fair value adjustments recoded in the fourth quarter of '07 we reversed this provision.

At the end of 2008 we disposed of a piece of land at Zaandam in the Netherlands. This resulted in a profit on disposal of €1.9 million which has been included in distributions for the quarter. In dividends for the first half of 2007 by comparison we included €4.9 million from previously escrowed disposal proceeds.

Simon will talk more about the valuations later but the outcome of the June revaluation of the entire directly owned portfolio has as I said earlier resulted in a net fair value loss of approximately €122.2 million being recorded for the first half of the year. Although sterling did not weaken further during the second quarter a 10% decline versus the euro in the opening quarter of the year resulted in an €87.9 million unrealised currency loss for the portfolio in Q1. €10.3 million of this was recorded in the income statement for the first quarter with the balance reflected in the CTA element of equity. Our investment in PEP Fund II has generated a first half year dividend of €5.3 million representing a 6% cash on cash return as Gordon mentioned. This is ahead of our projections for this stage of the equity commitment period and well on target to achieve our expected income return of between 6.5-7% on average on a longer term horizon.

Additionally we have recorded a further €2.6 million fair value adjustment on the investment in PEP Fund II for the quarter to take our year to date provision to €9.7 million. This €9.7 million provision can be broken down between our share of operating profits of PEP Fund II to €5.1 million; purchases costs on the 50 properties acquired during the first half of the year – that's about €7.5 million; revaluation losses less the deferred tax impacts on the portfolio in Fund II – that was €11.4 million; and the currency effects of the re-measurement of its UK portfolio – that was €6.2 million less an €11 million provision we made at the end of 2007.

Our finance expenses for the half year have increased 1.9% since last year from €53.5 million to €54.5 million. As well as pure interest expense this line item also captures realised and unrealised foreign exchange movements and a charge for the amortisation of debt raising costs. Interest expense alone showed a marginal increase to €51.5 million for the six months compared to €49.4 million last year. Although our debt levels are on a par with the same period last year this increase can be attributed to interest rate increases in both the UK and the Eurozone in the last 12 months partially offset by the weaker pound over the same period. Our average interest rate for the second quarter has remained constant with that of the first quarter at 5.2%. Amortisation charges, the final element included in finance expense, have decreased since last year from €4.6 million to €3.2 million as a result of the redemption of two CMBS issuances in the second half of 2007.

The current income tax charge for the half year of €9.8 million is almost 25% lower than the comparable period last year due in part to the lower level and overall mix of taxable income in the current year. The effective tax rate for the six months on PEPR's estimated taxable income is 11.9% and slightly lower than that of the 14% for the same period last year. As previously forecasted we expect the effective tax rate for 2008 to be around 10%.

Looking at our capital structure our balance sheet remains in good shape with loan to value levels at 48.3% at the end of June up from 43.3% at the end of December '07 but well within our management regulation limit of 60%. In addition last year's debt refinancing has increased our level of fixed rate debt to 65.5% thereby reducing expense volatility going forward. Our average debt maturity based on earliest repayment date is over three years from today. As of the end of June the €300 million revolving loan which is part of our €900 million senior unsecured facility plus the bulk of our €131 million of cash balances provides us with immediately available liquidity to continue to invest in PEP Fund II.

Turning briefly to net asset values for the moment, our EPRA adjusted NAV at the end of June was €12.03 or €0.70 per unit lower than at the end of December due to the portfolio devaluation and the impact of weakening sterling during the first half of this year. As mentioned earlier by Gordon we have

reviewed our forecasts for the remainder of the year in the light of current market conditions namely the continued weakness in sterling relative to our original assumptions. With this in mind we feel it's appropriate to revise our dividend guidance for the year to be between €0.76 and €0.80 per unit down from the €0.80 to €0.86 per unit range provided six months ago.

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

**Simon Nelson:** Thank you Peter. As we've all read in the press, asset valuations in the UK in particular continue to reflect weak financial markets and an overall economic slowdown. With investment transaction volumes declining since the third quarter of last year there have been very few market transactions to verify current valuation sentiment. The value of our UK properties fell by 8.5% to €632 million from €691 million at the end of December 2007. This result was further impacted by the weakening of sterling such that total UK values decreased in euro terms by 16.9% to €803 million from €966 million at the end of 2007. The gross yield on the UK assets increased by 40 basis points to 7.3% from 6.9% at the year end.

Valuation movements in other countries were more muted with the continental portfolio showing a modest overall decline of 1.1% to €3.142 billion from €3.176 billion at the end of 2007. We saw slight valuation increases in Poland, the Netherlands and Spain more than offset by devaluations in France, Italy, the Czech Republic, Hungary and Germany. The gross yield of the directly owned continental portfolio at 30<sup>th</sup> June 2008 increased to 7.3%, a 6.9% net yield from 7.1% or 6.7% net yield at the year end.

Looking at our valuation yields versus transactions that we are seeing in the market as well as yields reported in market research by commentators such as CBRE, Jones Lang LaSalle and King Sturge we feel comfortable with these figures and in fact believe our values remain relatively conservative. Furthermore we do anticipate that a stabilisation or softening of market yields will result in upward pressure on rents particularly given increasing construction prices. We are still seeing good overall

occupier demand, Ralf will talk more about this in a moment and the disappearance of cash constrained developers is also reducing supply in the market.

Just after the close of the quarter we completed the sale of Zibido DC1, a 13,000m<sup>2</sup> facility near Milan to a company called Finlema, an Italian manufacturer of personal hygiene products. The gross consideration of €6.4 million showed a 14% premium to the December 2007 valuation. The facility was built in 1970 and acquired as part of a portfolio of Italian properties in 2002. The age, smaller size and standalone nature of this building meant that it was not consistent with our strategy to own large, modern distribution facilities and its disposal demonstrates our ability to continue to optimise portfolio value in a more difficult investment market.

On 30<sup>th</sup> June 2008 PEPR sold 23,300m<sup>2</sup> of land in Zaandam, north of Amsterdam for a gross consideration of €4.6 million, a slight premium to the December 2007 valuation. The purchaser is a Dutch light industrial developer. The land originally contained a 15,500m<sup>2</sup> building which was destroyed by fire in 2003. Following the insurance settlement and extensive review of redevelopment possibilities the site was not suitable for long term logistics use and the decision was taken to sell the asset.

Now let me hand over to Ralf to discuss our investment in PEP Fund II and our outlook on the markets.

**Ralf Wessel:** Thank you Simon. The ProLogis Real Estate team has maintained leasing momentum in the second quarter concluding 22 leases covering just under 139,000m<sup>2</sup>. Eleven of these were new leases covering 105,000m<sup>2</sup> mainly with existing customers such as Fiege and Iron Mountain. Six leases were renewed for 18,500m<sup>2</sup> including a 14 year 4,000m<sup>2</sup> lease for Nippon in the Netherlands and five leases were expanded for an additional 15,000m<sup>2</sup>. Despite this momentum portfolio occupancy has decreased slightly to 97.1% primarily related to a customer bankruptcy in the UK. A family run third party logistics company went into administration in April 2008. The two year old 24,000m<sup>2</sup> distribution centre they had been occupying in Wakefield has now been returned to us and we've begun marketing the building.

Following the additions in PEP Fund II the combined portfolio of PEPR and PEP Fund II at the end of June comprises 340 distribution facilities covering under 7.5 million m<sup>2</sup> across twelve European countries with an estimated open market value of €5.6 billion. The risk profile of both portfolios is highly attractive producing a combined occupancy level of 97.9%, a diversified customer base and just under seven years to lease expiry on average.

In terms of market outlook the continued deterioration in the financial and real estate market is having an uneven economic impact across countries. Those countries that rely on capital markets for financing have been hit harder, especially the UK and Spain but other Western European markets are beginning to feel the impact as well. Central European markets appear to be the only markets that have been insulated and as a result the yield spreads between the UK and Central Europe are at record low levels.

Europe's largest ports in Amsterdam, Rotterdam and Hamburg are bumping up against capacity constraints and the smaller ports in France, Spain, Poland and the UK are now being expanded offering new opportunities for logistics development.

Looking now at the markets in more detail starting with Southern Europe. The global credit crisis now appears to be influencing France's commercial property markets, however we believe the market's new focus is on build-to-suit facilities with 9-12 year lease terms which will help to maintain supply-demand stability during this period of uncertainty. Rents were relatively unchanged across the board and rental differences across the country largely reflect the variances in land prices. Investment yields in France have held up in line with other parts of Western Europe but have recently started to expand.

Occupier demand in Italy is focused on prime well-located facilities which has stimulated growth of new logistic areas such as Novara, west of Milan and the Piacenza region to the south. Rental levels and yields have both stabilised in recent months although they may increase slightly during the rest of the

year. PEPR remains 100% let in Italy with the first lease break not until 2010 and over six years on average to lease expiry.

After contributing to a ten year residential and commercial property boom and serving as one of the main drivers of economic growth Spain's formally flexible bank credit environment has now left the country exposed to the global financial crisis, however as previously reported client leasing market conditions in both Madrid and Barcelona continue to put upward pressure on prime rents.

Moving on to the UK, demand for UK warehouses is slow and there are some concerns that ongoing global economic uncertainty may impact demand over the course of the year. Furthermore the yield explosion over the past year has resulted in a sharp drop in property values. Whilst there remains a mismatch in buyer and seller views on pricing, interest in the market has a growing number of investors viewing the UK as being increasingly attractively priced.

Moving on to Northern Europe, activity in Northern Europe continues to be driven by its infrastructure and good economic performance. Germany is a particular beneficiary of the positive trend of world trade with its position into the geographic centre of the enlarged European Union. This has enabled Germany to become one of the major logistic centres and the East-West link in particular will increase its importance.

Demand continues to be strong for modern warehouse facilities in the prime logistic hubs particularly Frankfurt and Hamburg where there's limited availability. Rents have stabilised and prime yields are expected to remain flat.

The Belgian and Netherlands logistic markets remain a core logistic hub in Western Europe with the Dutch markets benefiting from increased economic activity. Demand for large logistic facilities continues to grow due to the consolidation within the logistics sector. The scarcity of land and high quality products in prime locations should lead to improving rental levels in the second half of 2008.

The Swedish market is characterised by a high level of owner occupation estimated to be two-thirds of the stock. Demand for logistics space is good bolstered by a strong economy and rental levels are expected to be relatively stable.

Last but not least the Central European markets remain relatively insulated from the global credit crisis and rents have stabilised and are beginning to rise in Poland, the Czech Republic and Hungary. The Czech Republic has seen soaring construction volumes during the last three years including locations outside of Prague traditionally the most important logistics hub. However speculation developments have increased significantly, prime yields have softened slightly since the first time since 2001 and rents remain stable.

Demand for prime logistic space in Hungary is expected to increase as the country benefits from the enlargement of the European Union and the new emerging markets further east. Budapest remains the most important market and rental levels are expecting to edge slightly upwards.

Poland is the most developed warehouse within the Central European market and demand for distribution space continues to grow across all regions, not just only Warsaw. The Polish market has performed exceptionally well with significant increases of supply offset by robust levels of demand with little erosion in the overall occupancy rates. Demand for warehousing space is expected to continue to grow as customers upgrade to modern facilities as well as continued outsourcing to third party logistics providers.

Slovakia has established itself as a preferred location for global manufacturers in the automotive industry with many car producers such as Volkswagen, Kia and Peugeot Citroën having their production plants there. Rental levels have stabilised and may increase slightly by the year end.

With that let me hand back to Gordon.

**Gordon Keiser:** Thanks Ralf. Despite what has been a challenging environment we nevertheless remain confident that the strength of our business model, our customer relationships and our state-of-the-art portfolio will enable us to benefit not only from the continuing reconfiguration of supply chains but from the ultimate turnaround in the economies.

Now with that I'll open it up for questions.

**Operator:** Our question and answer session will be conducted electronically. If you would like to ask a question to our speakers please press the \* key followed by the digit 1 on your touchtone telephone. Once again that is \*1 to ask a question. We will pause for just a moment to assemble the queue.

Our first question comes from Tom Gibney from JP Morgan.

**Tom Gibney, JP Morgan:** Hi there, just a few questions from me. The general outlook for rents per square metre seems to be relatively positive but in your same store portfolio overview in your report you've got rents per square metre in the Northern and the Central divisions going down 2% and 11%. I just wonder if you could take us through what lies behind them? Then secondly just on the occupancy rate also if you could just take us through why it's down in the UK and Northern regions? I'll let you answer that and then I'll do my other questions after.

**Gordon Keiser:** OK, thanks. Let me comment first on the same store rents. Obviously that represents over 90% of our portfolio and in those Peter, is that where we saw vacancies from...

**Peter Cassells:** I'll let Simon answer that question.

**Simon Nelson:** I think I can comment specifically on I think it was Poland that you mentioned. If you look also at the relation to open market rental values, ERVs, you will see that we're actually burning off a substantial part of the over-rented portion of the portfolio. We've been doing a lot of releasing activity in Poland and as we've rolled the rents back to market that does inevitably produce a reduction in rent, the fact it means that we're coming back to a market level of rent means that we can be increasingly confident about the situation going forward.

**Tom Gibney, JP Morgan:** So market rents have fallen due to this pre-pricing gradually, ok. Is that the same in the northern region?

**Simon Nelson:** Sorry, market rents are actually rising. We are rolling our rents back to market in those areas where we have been over-rented in the past. It's a similar story in the northern region, correct. You also asked about the UK portfolio, we did mention that we had one situation where a tenant went into default, this was the unit in Wakefield which represented 3% of our UK portfolio which is why you can see occupancy dropping off from 100% to 97% in this last quarter. We actually obtained vacant possession of the building just in June and this is the unit that we are currently remarketing and getting some interest in the market for.

**Tom Gibney, JP Morgan:** Thank you. Just secondly, just given the continuing credit market weakness I was wondering if you could just let us know whether you're still committed to the refinancing of your CMBS debt with unsecured bonds and loans? Then lastly I'm just sort of looking at your revision of your guidance by 5-7% down. Obviously that seems to be a revision to actually your expected cash flow and I can see that the currency movements in the sterling exchange rate has changed quite a bit and that would explain certainly a bit of it but the remainder, I'm just sort of wondering how...is it just that the renewals are re-pricing to lower market rates or is it that over-renting coming off? I'm just wondering when a lot of your portfolio is already contracted in, your cash flows are contracted that weaker market conditions are feeding through to weaker cash flow over the year.

**Gordon Keiser:** I'll take certainly the first part on the credit markets and we are still committed to a switch from the secured strategy to unsecured. Now the next CMBS maturity is July '09. The unsecured market today as you well know is not particularly friendly and it's very pricey. There are other versions of the unsecured market: there's the private placement market, there are bank term loans but whatever form we're committed to it and hopefully at a lower cost than what you had looked at on screen today if you were looking up ProLogis European Properties' €500 million facility. So we've got a year out there or so but we're still committed to that strategy and we're thinking about it too with all the various options that we have.

Onto the reduction of the guidance by I guess as you mentioned 5-7%, actually 6% if you take the midpoint. We feel confident that it's there, we are at a little lower occupancy than we were in the first half. We are going to get continued increasing dividends from PEP Fund II to offset some of that. We have built in obviously the lower exchange rate in converting our sterling rents to euro and we think we're being conservative as well.

**Peter Cassells:** Just to add to that Gordon we expect to have some improvements in the level of capital expenditure that we were forecasting almost 6,-7 months ago for the whole of 2008 which obviously is a positive. We also expect the tax rate to be in the same range that we gave initially up about 10% which is lower than where it is right now. Traditionally in the first half of the year and the first quarter has typically seen a higher tax rate because of adjustments to prior year tax returns and also the way the tax charges are booked on a level basis throughout the year. So we do see some positives going forward to outweigh some of the negatives from the rental income side.

**Tom Gibney, JP Morgan:** OK, thanks very much.

**Operator:** Boudewijn Schoon from Kempen has our next question. Please go ahead.

**Boudewijn Schoon, Kempen:** Thank you very much. I had a question on the valuations on the continent. Ralf already suggested some softening of yields on the continent, markets like France and others. For the second half of the year we have seen a lot of yield expansion for office portfolios coming in the interim results. What is your outlook as far as yield development for the continental portfolio?

**Simon Nelson:** I really would differentiate between the sectors in terms of logistics and offices. It is very true that the office sector is suffering. This is partly because of investor sentiment towards the much greater volatility that we typically see in office rents. I don't think logistics rents move to the same extent. As we've already said we see a number of reasons why we think there's going to be upward pressure on logistics rents in the short to medium term so I would very much distinguish between what you see and read about the office sector and what you see about logistics.

**Boudewijn Schoon, Kempen:** Maybe another question, it's already brought up actually, I'm not sure if you answered this part. Regarding the refinancing, if you were to make an estimate of the lending margin for the company, if you were to refinance today on a normal bank loan what would that be in your...?

**Gordon Keiser:** When you talk about a normal bank loan you talk about maturities. If you're looking at a pure bank facility and let's say that's a three year facility term loan, I would think you'd certainly be talking somewhere in the 150 range over Euribor for that maturity. Again as you know it's a different market from the debt capital markets where it's primarily in our case a fixed rate market. Longer term our 500 million for debt capital markets issuance last October was a seven year. That market is extremely volatile. It opened up again in April and closed...when I say opened spreads narrowed considerably, now they've widened again but if we were doing something today I would certainly look more closely at either in an unsecured basis the term loan market or the private placement market which are less affected by major swings in CDS and really the sensitivity to the overall financial markets and what's happening to bank write-downs, but getting back to the point of your question in a floating rate basis it would probably be in 150 over Euribor range.

**Boudewijn Schoon, Kempen:** OK, thank you very much.

**Operator:** We will now move to Rogier Quirijns from RBS.

**Rogier Quirijns, RBS:** Hi, good afternoon, this is Roger. I've got one question on your outlook, actually I think that after the end of the first quarter it was already pretty clear especially if you look at the pound-euro that the direct income would become quite under pressure and if you look at your June road show you were still very confident on the €0.80 at least, so my question is why haven't you been communicating that earlier to the market that you kind of guided downwards your cash flow per share?

**Gordon Keiser:** Let me...Peter will comment as well. We did a complete I guess re-forecast, looking at every element of accounting plus we didn't have the benefit of a couple of things going on like the bankruptcies took place in June so that among other things triggered a complete revision. I will say our guidance of €0.76 to €0.80, it's still possible to hit the €0.80 but we wanted to be conservative there and frankly it's a result of our revisiting the whole year in the last couple of weeks.

**Rogier Quirijns, RBS:** OK. Looking at the French portfolio, the CCI index could come in at around 8% again this year. Is that something you can still pass on to all your tenants over there or is that getting more difficult?

**Simon Nelson:** This is Simon. Yes, contractually we can pass it on. We are increasingly choosing to discuss with our occupiers ways of finding a mutually beneficial arrangement where perhaps we only pass on only part of that increase in exchange for extending leases and waiving future lease breaks. We are passing it on where we can but we are clearly looking at other ways of adding long term value should the additional 8% increase and you're right, the first quarter index was published very recently at just over 8% I believe should that be beginning to take rents significantly above market levels.

**Rogier Quirijns, RBS:** My last question would be more related to the sustainability of the dividend yield going forward. Currently you see on PEPR II acquisitions pretty low net yields comparable to the existing portfolio. What can we expect from ProLogis adding higher yields towards PEPR II from the developments to at least keep the cash flow where it is. What's your view on that one?

**Peter Cassells:** The obligation is on ProLogis to transfer all its stabilised warehouses completed in Europe to PEP Fund II as long as it meets a number of criteria and they will be transferred at market and if market sees further expansion in the cap rates that will be where those transfers will happen and that will obviously be an incremental benefit to any investor in PEP Fund II like ourselves.

**Gordon Keiser:** As you know we just reported that the second quarter yields were 6.9% so if there were some further movement in cap rates as Peter mentioned then PEP Fund II would be purchasing at those rates.

**Rogier Quirijns, RBS:** Have you seen in the market for instance better deals outside ProLogis or can you tell us anything about that because I assume you're also looking for other portfolios in the market or is it only ProLogis that you're looking for for PEPR II?

**Gordon Keiser:** Let me address that from PEPR's standpoint. When PEPR went put like the whole thing it was set up for PEP Fund II really to be the active acquirer. There's nothing that prevents PEPR from doing it, the way it was set out with committed resources and based on three year equity commitments from PEP Fund II, that was the logical buyer because they had the committed equity and that was the way it was addressed to PEP Fund II as well as what we had always discussed with PEPR. Now in terms of actual opportunities out there we are looking at some others, Simon who has been head of our acquisition programme in Europe can comment on that.

**Simon Nelson:** Just to confirm that PEP Fund II has been making third party acquisitions in the open market since the beginning of this year and is very much continuing to do so and I know that the fund is looking at various opportunities in the markets at the moment.

**Rogier Quirijns, RBS:** Is there any difference in yields then between the ProLogis yield and the yields you get in the open market?

**Simon Nelson:** No when the acquisitions are of buildings that are of the same standard and quality as the ProLogis developed assets.

**Rogier Quirijns, RBS:** OK.

**Ralf Wessel:** It's Ralf, hi. To elaborate on what Simon just said what we have been doing in respect of the capital deployment of PEP Fund II and Simon has done that actually in scanning the marketing in the right ways, keeping a lot of the gunpowder dry that was allocated for third party acquisitions given the fact that we expect that there could be quite some opportunistic buys to be realised over the next 24 months.

**Rogier Quirijns, RBS:** Maybe you can make use of some forced sellers like we have seen when you bought two shopping malls at 60% yield.

**Ralf Wessel:** When we set up the strategy for PEPR to invest in PEP II one of the things of PEP II is obviously (1) that it takes the developments from ProLogis at valuation which typically tends to be on the conservative side especially when you look at 12 months ago. If you see what's happening today by the fact that Simon kept his gunpowder dry is that he's in a very strong position being relatively cash rich to take benefit of a lot of real estate owners who've got liquidity problems and going forward I would say that you can expect some very accretive acquisitions coming from that angle.

**Rogier Quirijns, RBS:** OK, thanks.

**Operator:** We will now move to Rick Tercoort from Rabo Securities.  
Please go ahead.

**Rick Tercoort, Rabo Securities:** Yes, good afternoon, just two questions from my side regarding the same store portfolio overview. If you look going forward the first question is: what percentage of the leases in terms of rental income will expire or have a break option in the next 12 months? Then the second question, could you quantify how much is also rented of these leases if you mark to market what we're looking at?

**Peter Cassells:** Just in terms of lease maturities and lease breaks, we include a table on page 23 of today's press release but if you look on that page you will see that over the next two years, the remaining part of '08 and '09 we have about €60 million of our annualised rent or just over 21% of our total annualised rent basically subject to a lease break over that period and in terms of a lease expiry it's a lot lower, it's just under 10% in terms of annualised rental income. Typically we tend to see fairly high retention rates of between 60-70% so we're fairly confident that as we go into Q3 and Q4 you'll see a lot of these leases that were subject to break have gone through that break period and are into the next piece of the lease there. In fact we know we have already 12 leases that are due with lease breaks coming up soon with six month notice periods and only one of them, a 5,000m<sup>2</sup> building has actually notified us of an intention to break, so the other 11 as far as we're aware today have no intention of breaking their lease contract with us.

**Gordon Keiser:** Further you mentioned same store sales, you would think that even though this is for the entire directly owned portfolio that near term maturities would all be in the same store portfolio as the properties acquired afterwards, that is the last ones that were acquired by PEPR directly probably had longer term leases maturing in the second part of '08 and '09.

**Rick Tercoort, Rabo Securities:** Could you quantify if these leases expire in the next two years if they are over-rented and if so what kind of percentage of mark-down do you expect to make on average?

**Simon Nelson:** I don't have a number for that group of leases but if you look at the numbers for the overall portfolio, the over-rented element is now less than 3% above current market rent and as we see underlying market rents rising even by the time these leases are rolling we think that will be reducing even further so I don't think it's going to be a significant amount.

**Rick Tercoort, Rabo Securities:** Because you would expect that of course depending on when the leases were signed that most of the offer rental leases will probably be maturing first then.

**Gordon Keiser:** It depends when and where you are in that process because indexation would have obviously increased the rent on a number of the longer ones but it's a mixed bag. We just don't have that number right in front of us right now on the maturing ones.

**Rick Tercoort, Rabo Securities:** OK, thank you.

**Operator:** As a reminder if you would like to ask a question please press  
\*1. We will move to Cedrik Lachance from Green Street Advisors.

**Cedrik Lachance, Green Street Advisors:** Thank you. Just a follow-up on the debt question Gordon, you gave the spread on floating rate debt. If you were to finance unsecured today could you give us an idea, a ballpark in terms of the total cost that you would be expecting to receive?

**Gordon Keiser:** If we were going to the debt capital markets today and again I would caution the volatility is so great that if we'd done it literally two months ago at the beginning of May when ProLogis issued it would be 100 basis points difference, but the secondaries on PEPR's bonds are trading at pretty wide levels, 300 and 400. If we were to do it today you'd think that on a fixed rate basis

you'd be paying in excess of 8%. Fortunately we don't have to do it today and fortunately there are other options out there where we feel we can even if it were done today be in a better position than that rate. I think certainly we would expect the debt capital markets to be a little better in 12 months' time.

**Cedrik Lachance, Green Street Advisors:** What would be the pricing on those other options?

**Gordon Keiser:** As I said you can go to different maturities. Realistically probably if you did a three year bank term loan unsecured, sort of like what we have is a portion of the 900 million facility, that one was done at 65 over Euribor, let's say it's widened out, I mentioned 150 with the swap rate over three years, you're talking about something in the sixes, so if it's a period of stress again in the markets we'll try not to go into the most stressed portion of that which today obviously other than CMBS which is something that we're not contemplating right now but in the true debt capital markets there still is a tremendous amount of widening. Look at ProLogis spreads themselves, they issued in April or actually May at 290, it tightened to 250 and now it's trading in the 350 range and that's a tenure. But it's extremely volatile based on the latest input from whatever happens to the next financial institution.

**Cedrik Lachance, Green Street Advisors:** OK. Your loan to value ratio has increased to 48%...

**Gordon Keiser:** One comment on the 48%, obviously that includes the full draw-down we did on the 300 million term loan, we drew down cash. We're sitting on 130 million cash. If you factor that in and say it's acquiring PEP Fund II assets, that is the free cash of that 130 then the effective leverage will be a little lower than 48%, probably in the 47% range, I know that's not a whole lot of difference but anyway, that's sort of where we are today.

**Cedrik Lachance, Green Street Advisors:** OK, so during the direction of my question which is if you were to fully fund your commitment to PEP II would you exceed your 60% leverage covenant at this point?

**Gordon Keiser:** No. We look at that regularly, we look at all of our covenants regularly and no we would not.

**Cedrik Lachance, Green Street Advisors:** Final question since you had three 3PLs getting into trouble in the past quarter what are the underlying trends there for the 3PL companies and what would you say is the strength of credit at this point?

**Gordon Keiser:** First of all then I'll turn it over to Ralf and Simon but those were three local 3PLs, not in our top 20 but we don't see any of the larger ones requesting us to take back space, but Simon and Ralf, go ahead.

**Simon Nelson:** I think the only thing I would add to that is that our bad debt provisions are the same as where they were six months ago. We're not seeing any other incidents and this is something clearly that we follow on a weekly basis. Those three companies were as Gordon mentioned smaller privately owned companies. The majority of our customers tend to be the much larger multinationals so I don't think I can add much more than that.

**Ralf Wessel:** To add to you Simon, hi Cedrik, it's Ralf confirming what both gentlemen just said, Simon and I, we see good acquisitions opportunities, certainly the larger ones. There's still a lot of consolidation going on within the logistic operation world and we see quite a few of our regular customers actually growing their space needs within ProLogis and from that angle there's actually quite an expansion drift going on as well, so we feel pretty comfortable with where we are with our customer base.

**Cedrik Lachance, Green Street Advisors:** OK, thank you very much.

**Operator:** Tom Gibney from JP Morgan has our next question.

**Tom Gibney, JP Morgan:** Hi there, just one more question please. We're talking about how you've kept your powder dry with respect to the possibility for more acquisitions in the coming months or coming quarters, I'm just wondering what sort of percentage of your portfolio that you'd be looking to acquire or maybe if you could say if it's the low hundred millions and how also you might be financing that because obviously you've got this commitment to invest in the PEP Fund II to fund as well and that was intended to be funded with debt. I'm just wondering what are the magnitude and financing options around that?

**Gordon Keiser:** First of all let me mention that in these acquisitions we're talking about really would be targeted to PEP Fund II and not PEPR, that's the way it's set out for PEPR and then to invest in PEP Fund II. In PEP Fund II they'd be funded just like purchases of ProLogis' assets with a line of credit initially leading to secured debt and there's still an active German mortgage market out there and PEPR was a private fund, access to the CMBS market as well as the German bank mortgage market. The fund raised market back in 2004 and 2005 when we financed the Central European portfolio, the 151 million is still on PEPR's books so that's a very active secured market right now and now widened out like if you actually tried to do a CMBS issuance today.

**Tom Gibney, JP Morgan:** OK, thank you.

**Operator:** As we have no further questions I would like to hand the call back to your hosts today for any additional remarks.

**Gordon Keiser:** Thanks everyone and...we have one question here, it came through our email. Do any of your bank credit facilities have covenants that prevent access to funds in the event of further falls in asset values?

Well, our €900 million facility does have a loan to value covenant, it has other covenants and it would take a pretty substantial fall in asset value for that to take place, much more than where we are today. Even

with the reduction in value we're still in the low 50% range so to answer your questions, yes, there are covenants as any bank line would have but we're well within them right now. In terms of step up in interest cost, like many facilities their grid pricing with slight step-ups depending on the ratings and these are minor steps like 10 basis points. So that was one of the questions.

How do you plan to refinance the 2000 maturing debt?

We touched on that a little bit but at this point we still expect to use unsecured debt and we'll look at the markets. If the overall debt capital markets have turned around and certainly we'll look there, there's the bank term loan market and then the private placement market all of which are open to varying degrees and for varying maturities so that's our thoughts right now.

So with that I would like to thank everyone for joining us today. We've probably had more questions today than any of the other calls in the past couple of years and that's good, it shows interest. We'll be talking to many of you in the interim but we'll also be back together in three months. With that thanks everyone.

**Operator:** Thank you for participating in today's call. This conference call will be available for replay beginning today at 8 p.m. Central European Time through midnight Central European Time on 7<sup>th</sup> August 2008. Details on how to access the replay are available on the ProLogis European Properties website, [www.prologis-ep.com](http://www.prologis-ep.com). Thank you, you may now disconnect.