

ProLogis European Properties
Presenters: Robert Watson, Peter Cassells, Ralf Wessel
Thursday 7th February 2008
16h00 GMT

Slide 1: Title slide

Operator: Good afternoon, my name is John and I will be your conference facilitator today. I would like to welcome everyone to ProLogis European Properties Fourth Quarter and Year End 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 question and answer 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.

Slide 2: Important notice

Jennifer van der Eem: Thank you John, 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 the 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.

Slide 3: Agenda

Robert Watson, Chief Executive Officer will give an overview of the performance and outlook; then Peter Cassells, CFO will cover financial performance; finally Ralf Wessel, 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. Robert, please begin.

Slide 4: Robert Watson – Performance and outlook

Robert Watson: Thank you Jen and good afternoon everyone. We're very pleased to be able to report today yet another exemplary set of financial and operational results for the fourth quarter and full year 2007.

Slide 5: 2007 Highlights

Our full year results are a clear reflection of the strength of our business model and an indication of the underlying stability of the industrial real estate market. Throughout the course of 2007 we have succeeded in delivering on our business plan, implementing our growth strategy through investment in ProLogis European Properties Fund II, optimised our platform by selling older assets, held our industry leading occupancy and have consistently grown returns to our unit holders. Our 11.7% increase in adjusted earnings for the year to €151.3 million enabled us to deliver to unit holders 87 euro cents distribution per unit.

Property valuations have certainly taken centre stage in Europe. I'm pleased to report today that the PEPR platform has performed for unit holders through its operating success and its geographic diversity. Our adjusted NAV of €13.81 per unit has remained broadly flat over what has been a turbulent year in the credit markets demonstrating the benefits of our high quality, well led and geographically diverse portfolio and our position as a pan-European owner in a strong and stable sector of the real estate business. We find ourselves today in sound financial shape with low gearing, secure and growing long term income streams from our state-of-the-art portfolio and growing revenue from our investment in ProLogis European Properties Fund II. We continue to see expanding demand from our global customer base and expect to continue to outperform the markets in which we operate while further increasing returns to investors. Our active management of the portfolio has enabled us to build critical mass in strategic locations throughout Europe while concentrating on proactive leasing and capital transactions as appropriate in order to capture ongoing value in our platform. Peter Cassells and Ralf Wessel will be giving you more detail on our financials and markets shortly.

As we look at a business environment today that is dominated by dislocation in the credit markets leading to asset valuation uncertainties and contraction in the amount of available credit, we're very pleased to have executed a successful move towards an unsecured financing strategy and have obtained the necessary debt financing to enable PEPR to continue to grow its operating platform as planned. Both our debt €500 million unsecured euro bond and recent

€900 million senior revolving credit facility and term loans were well received in spite of the effects of the global credit crunch, underlining the vote of confidence in our business from the global banking community. This unsecured financing strategy gives us the ability to build on the financial and operational successes of 2007 through continued investment in high quality assets across our key markets in Europe.

Slide 6: ProLogis European Properties Fund II

ProLogis European Properties' investment in PEP Fund II, a private equity fund established by ProLogis in Europe and in which PEPR holds a 30% stake, funded with the proceeds of these debt facilities allows us to take advantage of any opportunities afforded in the marketplace. In addition to investing in ProLogis' newly developed, completed and stabilised assets PEP Fund II is actively seeking opportunistic and accretive acquisitions which may come available in this time of market uncertainty. PEP Fund II at a total size of €6-7.5 billion we believe is the largest dedicated industrial acquisition fund in Europe today. PEPR has invested €133 million in PEP Fund II to date and as well has acquired 16 distribution warehouses directly in 2007 covering over 341,000 square metres for an additional €234 million allowing us to further growth PEPR's reach into the development markets of Czech Republic, Hungary, Poland and more recently Slovakia while increasing our critical mass and thereby strengthening customer relationships in the more traditional markets of Western Europe. By maintaining a well balanced portfolio with a broad geographic mix ProLogis European Properties is well positioned to respond to the opportunities presented by each individual market and take advantage of regional increases in value and rental growth.

Slide 7: Combined portfolio

The combined portfolios of ProLogis European Properties and PEP Fund II at the end of the December comprised 290 facilities covering 6.2 million square metres across 12 European countries with an estimated open market value of €5.1 billion. The risk profile of both portfolios is highly attractive producing a combined occupancy level of 97.6%, a diversified customer base and on average 5.3 years to next lease break and 7.1 years on average to lease expiry.

Slide 8: Active asset management

Further active portfolio management led to the disposal of the portfolio of non-core assets in France for €425 million generating a €38.3 million profit on disposal. The sale provided a

significant premium over book value enabling us to recycle capital into more accretive investments and bring our French platform in line with the rest of our portfolio of large, modern distribution facilities. With over 1.5 million square metres of space, France remains a key market for PEPR as we continue to see rising demand for modern logistics space particularly in the Paris region. As a result of this transaction our portfolio in France increased its average building size to 25,700 square metres, improved occupancy and decreased in average age from 10.6 to 6.5 years thereby reducing future CapEx requirements. These developments in PEPR's business leave us very well placed to take advantage of the market trends in European logistics real estate over the medium term.

For 2007 ProLogis as PEPR's external manager completed 120 lease transactions totalling 543,000 square metres, retaining our wholly owned occupancy at 97.2% and our combined portfolio occupancy at 97.6% which we believe to be industry leading.

Slide 9: Pan-European marketplace

We're also very pleased with the markets in which we compete in Europe. As the credit markets have deteriorated we have seen evidence of the lessening of competition. Competitors who rely on debt financing to enable them to build for speculative purposes are certainly being restrained. Despite the perceived slowdown in the economy we remain encouraged by current market conditions and the long term prospects for the industrial real estate sector. With the enlargement of the EU, strong global trade growth and continuing efforts by our customer to build more efficient and cost effective supply chains we see continued demand for our properties in Europe. Given the high quality of our portfolio, the experience of the ProLogis operations team and solid market dynamics we are confident we will maintain a high level of portfolio occupancy and continue to grow portfolio income.

I would now like to turn the presentation over to Peter Cassells.

Slide 10: Peter Cassells – Financial performance

Peter Cassells: Thank you Robert and good afternoon. First let me present our 2007 results after which I'd like to provide our views for 2008.

Slide 11: Earnings

For the full year '07 adjusted earnings increased 11.7% from €135 million to €151 million. On a per unit basis adjusted earnings were 79 cents, similar to that paid out in 2006. Reported IFRS earnings were down from €437 million in 2006 to €171 million in 2007 largely as a result of the significant unrealised property revaluation gains recorded last year which is why we feel adjusted earnings more accurately reflects our underlying business performance.

We are pleased to report total distribution for 2007 of 87 cents per unit which is above general market consensus. This included 5 cents associated with one-off items such as proceeds received upon the delayed release of escrowed sales proceeds and a lease termination penalty. For the fourth quarter, distribution will be 22 cents per unit up from 20 cents paid in the previous quarter and also up on the 19 cents distribution made for the corresponding fourth quarter of 2006.

Slide 12: Rental income

Now let me take you through the major components of our '07 performance. Total revenue for the year was €307 million up €17 million or 6% on last year. Underlying rental income was up 4% for the 12 months. We acquired 16 fully leased properties in 2007, the majority of which were acquired from ProLogis in March. These properties contributed approximately €11 million or 3.7% of our annual rental income. The disposal of the Garonor properties in August had the opposite effect and resulted in the loss of approximately €10 million of rental income over the latter part of the year.

Looking at our same store portfolio which accounts for approximately 84% of the total portfolio, rental income was down 1% due to some rental rate decline and a drop in occupancy from 97.7% to 97%. Overall however occupancy in the entire directly owned portfolio has increased from 96.9% at the end of '06 to 97.2% at the end of '07. Other property related income includes lease termination receipts and overall was up €5.6 million which is more than double that of 2006.

Slide 13: Operating expenses

Grouping together our operating expenses and adjusting for €35 million of IPO costs in 2006 our expenses have remained flat despite increased portfolio activity in 2007. In the nine months to September '07 we provided for an incentive fee to ProLogis of €5.2 million based on IFRS

returns generated over the period from IPO date to the end of Q3. As a result of recorded property and investment fair value adjustments in the fourth quarter of '07 we have reversed this provision.

Slide 14: Profit on disposal

On the face of the income statement for 2007 we reported a net profit on disposals of €1.2 million. This is comprised of a €4.9 million gain from the 2003 escrowed proceeds net of a €3.7 million loss on the sale of Garonor, however this reported loss is somewhat misleading as the sale of these properties allowed us to reverse €42 million in provisions previously taken for revaluation losses and purchasers' costs on these properties. The net Garonor result therefore is a €38.3 million profit for 2007 and the reversal of these provisions is recorded elsewhere in the income statement under the caption 'Fair Value Movements on Property'. We have provided a detailed analysis of the Garonor profit numbers on page 6 of today's news release. Although the sale became official in August, Q4 saw the completion of the final post purchase due diligence by the acquirer as well as a year end audit allowing us to finalise the associated disposal numbers.

Slide 15: Valuations

Ralf will talk more about the valuations later on but the outcome of the year end valuation of the entire directly owned portfolio has resulted in a net fair value loss of approximately €48 million being recorded for the fourth quarter. During the quarter this was offset by the reversal of the Garonor revaluation losses of €42 million mentioned earlier. Ignoring the reversal for the whole year the total fair value movement on property was an unrealised loss of just €1.8 million.

A new section covering fair value movement on investments has been added to the current release to report on the fair value movements associated with our investment in PEP Fund II. We received our first dividend of €1.3 million and have also taken our share of the fair value adjustment on our investment in that fund. The €25 million provision comprises an amount of €14 million as a consequence of applying IFRS principles to its accounts. The balance of €11 million is a further provision we have deemed prudent to take right now in the light of the fact that there's not been a year end revaluation of the portfolio of PEP Fund II, half of which is located in the UK.

Slide 16: Financing

Our financing costs have increased 4.9% overall year on year. As well as pure interest expense this caption is a net result of deposit income earned, realised and unrealised foreign exchange movements and a charge for the amortisation of debt raising costs. Interest expense alone increased to €95 million from €85 million last year. Aside from the movement in market interest rates during the latter part of 2006 and throughout 2007 the increased expense can be attributed to the greater use of debt over that timeframe. Late in 2006 PEPR redeemed €153 million of preferred equity entirely with debt and in March 2007 acquired over €200 million of stabilised properties from ProLogis, again primarily with debt. Although €344 million of CMBS debt was repaid in the third quarter of '07 additional borrowings were made to fund our investment in PEP Fund II during the final months of the year. Our average interest rate for the year was 5.1% compared to 4.7% last year.

Looking at our capital structure our balance sheet is in good shape with debt at 44.3% of gross property value at the end of '07, up from 43% at the end of September but less than the 44.7% at the end of last year. Right now we have approximately €515 million available under our senior unsecured facility and over €70 million of cash providing substantial liquidity to pursue our committed investments in ProLogis' new European fund. Although the debt markets are in substantial disarray we found ample sources of debt capital to refinance the debt facilities which matured in the final quarter of 2007. We have no debt maturing in 2008. The next time we are required to finance a portion of our balance sheet debt is July 2009 when 17% of today's debt matures.

Our overall tax change for the year of €18 million is substantially lower than that of last year when due to the impact of significant portfolio revaluations the deferred tax element alone had exceeded €106 million. The annual operational income tax expense increased from €14 million to €21 million this year. The 2006 operational charge however benefited from a €3 million tax refund. The average tax rate continues to be around 10% for PEPR.

Turning now to 2008 expectations we see a continuing of our solid performance and expect to deliver distribution per unit in the range of 80-86 cents per unit. We expect to see rental growth of between 2-3% during the year with occupancies remaining relatively stable. Our expense levels tend to be very predictable as a result of the in place fee structure accounting for the majority of G&A expenditure. The cash return on our investment in PEP Fund II is expected to

be in the 6-6.5% range with the cost of debt expected to remain somewhat constant between 5-5.2%. Following the disposal of the Garonor properties we also believe we will see a reduction in the CapEx spend for 2008. Overall we feel very good about our solid business, the strength of our balance sheet to finance our growth and hence our ability to achieve the expected returns for 2008.

With that I'll hand over to Ralf.

Slide 17: Ralf Wessel – Operations and market outlook

Ralf Wessel: Thank you Peter.

Slide 18: Q4 2007 leasing activity

We've had another active year from a leasing point of view with the ProLogis operation team concluding 120 lease transactions covering some 540,000 square metres. In the fourth quarter we completed 19 lease transactions covering 72,000 square metres of distribution space. Eight of these were new leases covering some 28,000 square metres. Five customers including global third party logistic providers such as Nippon and Wincanton expanded their relationship with PEPR by an additional 11,000 square metres and finally six leases were renewed covering 33,000 square metres of distribution space.

Slide 19 Directly-owned pan-European platform:

This activity has allowed us to maintain an occupancy rate of 97.2% in our directly owned portfolio and to maintain the attractive risk profile of the portfolio. The average lease length is 6.8 years to expiry and 4.8 years to the next break and our largest asset is less than 2% of the total portfolio. In addition with 389 leases in the 11 countries the rent role is also extremely well diversified. In fact the largest customer which is DHL accounts for less than 6.3% of the annualised rental income.

As Robert mentioned the main strategy for growth is our investment in ProLogis European Property Fund II which also serves as our acquisition platform for third party investment opportunities as these arise. However we also aspire to maximise the growth potential within the portfolio through proactive leasing as described previously, capital recycling through the sale of non-core buildings and redevelopment or extension opportunities.

In 2007 ProLogis on behalf of PEPR completed five redevelopments adding 38,000 square metres to the portfolio. In terms of market outlook we believe there are still positive market fundamentals across Europe despite negative valuation sentiment and challenging conditions in the credit markets. Europe is driven by positive real estate fundamentals, namely a stable business climate and strong occupier demand. The global economy is still growing even if at a slower pace supported by the strength of the emerging markets such as China. Our customers continue to reconfigure their supply chains to optimise efficiency and cost effectiveness and further driving demand for warehouse space in Europe. Obviously the credit crunch and liquidity pricing in the latter half of 2007 impacted investment and development activity across Europe as suitable debt financing became more difficult to procure.

As we've all read in the press UK property values and IPD results demonstrated negative sentiment. The impact on our UK portfolio was a downward valuation year on year of circa 10% all taken in the second half of the year. This has been offset by continuing positive outlook for the continent where we have seen an improvement in all our values across the regions. The change in value for the whole portfolio as such was less than 1% after eliminating the exchange rate effect.

If we take a closer look at our valuation yields vis-à-vis reported yields in market research by commentators such as JLL and King Sturge we feel comfortable with our recent valuation and in fact believe our values remain relatively conservative. Furthermore we anticipate that flattening yields or even in certain instances expanding yields will be the driver for rental growth. This will be supported by overall good occupier demand and the disappearance of cash constrained developers reducing the supply for our products.

Slide 20: Market outlook – Southern Europe

Let me now turn to our markets in more detail starting in Southern Europe. France continues to show good demand in key logistic markets such as Paris and we expect the return of rental growth in due course on the back of customers' interest. Even though our current occupancy dropped slightly at the year end we've recently agreed a new lease in Metz for 10 years to start this summer.

Demand for warehouse space remains strong in the northern regions of Italy with rental growth seen in key logistic markets such as Milan. PEPR is 100% let in Italy with the first lease break not until mid-2010 and our main customer is CEVA Logistics.

Spain continues to benefit from high demand and rental levels are expected to continue to grow particularly for prime logistics space. Indeed we recently leased 4,500 square metres of distribution space in ProLogis Park Alcala in Madrid. This six year lease reflects rental growth of some 6%. As a result of this deal PEPR remains virtually fully let in Spain.

Slide 21: Market outlook – UK

Let me move over to the UK. Despite market sentiment occupational demand remained strong in the UK. In fact ProLogis has recently announced that it has leased around 50,000 square metres of space in Peterborough to Willis & Gambier. It is interesting to note the strong demand from retailers for our product in the UK as compared to the continent where there is more demand from the third party logistic providers. As we are fully let in the UK with no lease breaks until mid-2009 our focus remains on upcoming rent reviews where we expect to achieve positive results.

Slide 22: Market outlook – Northern Europe

Let me talk about Northern Europe. A revitalised German economy and its location at the geographical centre of the enlarged European Union has been driving demand for prime locations in Germany. On the back of improving demand ProLogis has become very active in Germany which will benefit PEPR once the stabilised assets are contributed to ProLogis European Properties Fund II. For PEPR a new five year deal with Deutsche Post in Frankfurt amongst others means that we are now over 99% occupied in Germany.

Belgium and the Netherlands remain a core logistic hub with the Dutch market benefiting from the increased economic activity. These markets have constrained supply and so we have seen improving rental levels. Following a new 10 year lease in Vilvoorde with ALS we are now fully let in Belgium. As a snapshot at the year end our occupancy in the Netherlands dropped to 95% as a result of vacancy in part of a building in Venlo, however we are currently already under negotiation for a new lease for this particular unit.

Slide 23: Market outlook – Central Europe

Lastly let me talk about Central Europe. The Czech Republic has seen increased demand for logistics including locations outside of Prague which traditionally is the most important logistic hub for the Czech Republic. Rental declines are expected to bottom out and we may see some rental upturn in the medium term.

Hungary is in a prime location to benefit from the new emerging markets further east. Recent economic and political instability seems to have settled and the demand for modern logistics base is expected to grow. In fact leasing activity in Harbor Park in Budapest has increased our occupancy level to over 95%.

Poland dominates the Central European region given its population and the size of the economy. Demand for distribution space continues to grow across all regions in Poland narrowing the gap between Warsaw and other cities. Again our proactive leasing activity has improved our occupancy level to some 95%.

With that market overview let me hand back to Robert.

Slide 24: Robert Watson – Performance and outlook

Robert Watson: Thank you Ralf. In conclusion ProLogis European Properties is well positioned to maintain its leadership role in the industrial sector in Europe. In spite of credit conditions we have secured the necessary financing to continue our growth plan. We are able to take advantage of opportunities in the market through our investment in ProLogis European Properties Fund II. We believe the competitive market is favourable for us, as competitors will be constrained due to a reduction in credit availability and finally our exclusive relationship with ProLogis, the world leader in the global industrial sector, gives us access to best in class marketing, leasing and property management teams and global customer relationships enabling our platform to remain well leased with long term leases thereby ensuring growing distributions to our investors.

Now I'd like to open the session up for questions. I'll turn it over to you operator.

Slide 25: Q & A

Operator: Thank you Mr. Watson. Our question and answer session will be conducted electronically. If you would like to ask a question of 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 our roster.

Our first question comes from Juliana Weiss Dalton with Morgan Stanley. Please go ahead.

Juliana Weiss Dalton, Morgan Stanley: Hi, I just have a question on your distribution for 2008. You talked about 80-86 cents per share. Does that mean that relative to your adjusted earnings per share you still expect to distribute more than 100%?

Peter Cassells: We do Julia, yes.

Juliana Weiss Dalton, Morgan Stanley: You do, ok. Then the other question I had was can you just talk about how often PEP FII is re-valued?

Peter Cassells: What happens for that second fund is that properties are re-valued on their anniversaries, so properties that were contributed by ProLogis in September '07 will be first valued or re-valued in September 2008 and thereafter each year.

Robert Watson: But all assets will have a valuation no more than 12 months old.

Juliana Weiss Dalton: But am I correct in saying it will always be staggered so properties in December will be December, March-March or is it once a year all properties are re-valued?

Ralf Wessel: Hi Juliana, it's Ralf. Maybe I can shine some light on it, what actually has been agreed through the management regulations that 25% of the portfolio will be valued each quarter, i.e. the logical thing to do is to value each asset on the anniversary when it's been contributed, so the contribution round for Q1 will be valued in the next Q1 twelve months later meaning that each asset will be valued once a year. In addition to that the management obviously has got the role whenever there is a material event in the portfolio with certain assets that it has to be brought forward to the first valuation round that is on the calendar.

Juliana Weiss Dalton, Morgan Stanley: Right, so the 11 million that you took this quarter, that is purely management discretion or is that based on a revaluation?

Robert Watson: That is not based on a revaluation Juliana. Basically those were just contributed to us but what we did was we used the average revaluation number from our portfolio in the US. Now I would tell you that the attributes of those buildings are much different than our average portfolio in the UK being that their leases are on average 12 years in length and the buildings are less than a year and a half old, so I think we're being quite conservative with the number that we've put in there. We would not be surprised if they were valued that we would have maybe perhaps taken too big a charge.

Juliana Weiss Dalton: Ok. Can you just comment on what you see in terms of the UK going forward and perhaps on...although I know it's still market speculation but on the APP portfolio, the fact that that hasn't been resolved, does that not indicate that values are continuing to drop in the UK?

Robert Watson: I can't specifically comment on the APP portfolio because I guess I know what you know which is what I've read in the newspapers, but I think we've seen more particularly transactions that have occurred, for instance Brixton's acquisitions of three or four assets in the Heathrow market as well as our acquisition of three assets at Coventry from Standard Life I think would be in line with where the valuations are that we have taken into account in this reporting period and I think what's liable to happen, my view is that you're going to see perhaps more deterioration in the B and C class properties than you are in the A class properties, so I don't really look for much further change in valuation there. Ralf, would you like to add anything?

Ralf Wessel: What we've seen of course in our portfolio is a price correction if you like by some 10%. If I look at the yields that are going on in the market and there's not that much market evidence in terms of trading but all market commentators such as Jones Lang, King Sturge, DTZ have seen yields moving out by some 50 basis points. I think that counts also for airport assets at the portfolio that you've mentioned. Where they stand in terms of the sales why that's not happening, I don't know for sure. The only thing I know is that the two deals that we've seen going on in the market is the Sainsbury's sale and leaseback which was sold for I think 5.5 and 5.75 respectively which were Midlands logistic assets. So my feeling today is that a lot of the sentiment in the UK has been factored in quite rapidly and where it's going in 2008 I'm not sure but if I look over the broad band where yields are today it feels to me that close to 6%...actually above 6% where we are with PEPR, we're pretty much in a safe haven.

Juliana Weiss Dalton, Morgan Stanley: Ok. Can you just comment on rental growth in the UK?

Ralf Wessel: What we expect in the UK is further rental growth. What we've seen historically in an environment where yields were compressing and the cost bases for developing logistics and acquiring logistics was actually going up that rent levels generally were going down but our rent reviews typically demonstrated a compounded annual average growth of close to 3%, so given the fact that yields have been expanding in the UK and it's fair to say that

construction costs will tend to increase or at least stay stable and given the fact that the UK is one of the most land constrained markets in Europe, our impression is that rent levels can go only one way and that's up.

Juliana Weiss Dalton, Morgan Stanley: But you've seen 3% is what you've said.

Robert Watson: Yes.

Ralf Wessel: That's what we historically have seen and that's in an environment where yields were compressing so we hope that we will start to beat that.

Juliana Weiss Dalton, Morgan Stanley: Ok, thank you.

Operator: Our next question is from Cedric Lachance with Green Street Advisors. Please go ahead.

Cedric Lachance, Green Street Advisors: Robert, can you help me understand how the valuation process works for the properties that you acquired from ProLogis? The question is particularly pertaining to the fact that you deem it necessary to take a slight write down on the assets that you acquired in PEP FII only 2-3 months after the acquisition took place. It seems surprising to me that the entire valuation of those assets would not have reflected the changes in the market at the time you acquired them in PEP FII.

Robert Watson: Cedric, the process as you have always known it, third party appraisers get all the information on the leases. They review the property itself and write a report concerning that whole income stream and the viability of the project itself and that is the basis on which PEP Fund II is acquiring new assets from ProLogis. The judgement that was used here was in light of the fair value of all the assets that we held and judgement by our professional audit team felt that we would be prudent to take a charge...not a charge, but take a provision in line with what was seen in all those other valuations since we didn't have updated evidence to the end of December 31st on those assets. I would tell you as I just said to Juliana I think that if we had a run of valuations we would not have seen the same answer but again being prudent and in light of the overall value of the whole portfolio it didn't seem to be material and it was thought that we would be looked at as being prudent by doing so. Does that make sense?

Cedric Lachance, Green Street Advisors: It makes sense. Therefore what you're saying is that there has been further decline in pricing between September and December?

Robert Watson: No, what I'm saying I think is that all of the assets that we had acquired directly of an average age of roughly six years with average leases of eight years came up with a valuation at December 31st roughly 10% less than the last valuation that they had had. The new assets that we took into PEP Fund II we to be prudent took the same provision that was taken because of those new valuations. I'm saying that we didn't do new valuations and if we would have I think that if there was any reduction in value it would be less than the provision we took. I just don't want you to leave this discussion thinking that those assets were overpaid for. I don't think they were. I think that it was simply the difference between public market reporting and valuation of those assets.

Cedric Lachance, Green Street Advisors: Essentially the goal of that question which is if we are in a declining asset value environment what are the odds that you find yourself perhaps at the margin overpaying for some assets because of the valuation process at acquisition?

Robert Watson: I think it's the reverse. Because of the fact that our assets are valued very close to the time of contribution that we're at the very, very most margin we might be susceptible to a valuation that would be a little bit more than three days later or six months later or whatever but I don't think that's any more probably than at the margin we might have a better valuation three days later or six months later. It's very much at the margin.

Cedric Lachance, Green Street Advisors: Ok. Peter, you mentioned growth in rental income of 2-3% next year, however when we look at your same store performance over the past year we see a negative number on the rental front. What is going to drive the growth going forward?

Peter Cassells: Ralf, do you want to comment on that? It goes back to your section.

Ralf Wessel: Sure. What is driving our view on the market from that perspective is that where yields will be moving out and we've seen the evidence that they have been moving out given the fact that land prices go up, given the fact that let's say for argument's sake that construction costs stay where they are there's only one way that rents can move. At the end of

the day the yield is driving the rent level. What we've seen in the market today is that there's a very strong demand component from the retailers, think about the Marks & Spencers and the Tescos of this world. What we've also seen is a very strong demand component from internet sales such as the Amazons of this world in combination with the ingredients on one side of the equation, the cost component, strong demand and the disappearance of some of our competitors simply because there are not many developers any longer who take a bet on yield compression. We see that we are now in a position to really start pushing rent. As a token of that in 2007 we renegotiated a rent review with one of those large customers which delivered us a 6% increase in the Midlands and we are targeting to do that occasionally where that happens. Obviously we've only got the opportunity to do that once every five years on a lease so moving forward on a roll over basis it's not like we've got a huge number of these opportunities but when they are there we feel comfortable that we can push it around.

Robert Watson: I think on the continent as well Ralf we certainly believe that with the end of cap rate compression as Ralf mentioned the reduction and I mentioned in my remarks earlier the reduction in competitors and we're seeing deals that were going to another competitor that are coming back to us because they can't perform. I feel very comfortable that the combination of those events happening as well as inflation adjusted rents that we have in our lease agreements is going to work very well for us.

Cedric Lachance, Green Street Advisors: As far as specifics on the continent if you look into Central & Eastern Europe do you think we've seen the end of rent declines or do we still have to experience a little more there?

Ralf Wessel: In my view the rental levels have always got a little bit of a time gap to where the yields are. We're still seeing in the fourth quarter of '07 some yield compression in countries like the Czech Republic and Poland even though obviously there's a credit crunch do not forget there's still a lot of capital out there chasing investment deals where the supply to investment deals is limited typically for the CE markets. We've seen yields in Hungary, Czech Republic, Poland still compressing, not as aggressive and spectacular as in the past but what our view is going from West to East where the UK yields are now, France, Holland and Central Europe I think we've come to the position that they are in a stabilised environment. So given

the fact that there is a bit of a time lag we might see some further rent decline in Central Europe for the next quarter or so and then hopefully and probably the curve will start to tend upwards.

Cedric Lachance: Great, thank you very much.

Operator: As a reminder to ask a question you can do so by pressing *1. Our next question comes from George Szilagyi with OTP Bank. Please go ahead.

George Szilagyi, OTP Bank: Hello, my question would be on the indexation of rent. From your reported sales that you rental contracts are five years to break, that's the average obviously so it means that produce would be able to affect some rent increases from indexation clauses in the lease contracts. My question would be what percentage uplift would be concerning the combined portfolio? Thank you.

Ralf Wessel: What we see in France as a standard lease is typically a 3-6-9 year lease meaning that the customer can break the lease each three years. Quite often given the nature of our product we're in a position to negotiate especially on the newer kind of products 6-9 year leases like we have done in a building that is let to Redcap. The French leases have an annual index in accordance with the construction index meaning that each year on the anniversary of the lease the rent will be indexed with the index figure that's driven by the construction industry. What we've seen over the last 2-3 years is that those delivered actually quite some strong indexation. We even had a year 2006-'07, at the end of 2006 and the first half of 2007 we saw construction indexations at about 6-7%. What quite often happened in that case was that we negotiated a deal whereby a certain break option would have been waived and we only took part of that indexation through. So to answer your question going forward we expect that the construction index would not be something like 6-7% but getting close towards the CPI Index and on an anniversary of the lease that particular indexation would be incorporated in the next rent. When it comes down to the lease breaks, if a customer breaks the lease then we would be seeking to hit at least the market ERV which typically has been set by our appraisal team.

Robert Watson: Are those the end of the telephone questions operator?

Operator: At this time we have no further questions.

Robert Watson: Ok, we'll ask Jennifer, there are a few questions coming over the website that we'll answer here.

Jennifer van der Eem: The first question is: I have seen significant reductions in rental values in CEE. Where did this come from and do you expect CEE values to decrease as a result?

Ralf Wessel: Shall I take that question? The latter part of the question, do you see the values to decrease as a result? The short answer is no. We still see some yield compression and what happened over the last period is that I suppose that the references made to our income, the rent that we collect. That rent is going down gradually as leases are rolling over and as we know, we were and we still are a little bit over-rented in the CE market. Where the yields compressed in the CE over the last years the market rents went down as well and now the leases are rolling over. Those leases typically on breaks are being adjusted to market. Given the fact that we have the yield compression on the other side as well we see the values staying where they are. Given the environment where we are we feel that the rent levels, the market rent levels which is in the property overview table quoted as ERV will start to move up again and if I look at September to December the Polish market has indicated already that our approval team sees that the market ERVs are going up rather than going down and the Warsaw area is a good example of that.

Jennifer van der Eem: The next question is can provisions in previous years for the incentive fee reverse theoretically, hence is there a claw back?

Robert Watson: The incentive fee is payable, if earned, to ProLogis by PEPR, it is figured on a three year basis. The first time it's figured is from our IPO date to the end of December 2008 and then it picks up a three year period every year looking back three years, so the fee has to be in the money for the whole three year period. If it's not in the money at the end of that three year period it doesn't get paid. If they are in the money and they do get paid then that money cannot be clawed back by us, that is paid to them and they have earned it but the negative performance will then go into the next three year pay period, so in effect it will always be looked at and taken care of in the next period.

Jennifer van der Eem: Ok, third question, the expected cash returns on PEP FII has always been 6-7%. Why is this reduced to 6-6.5%?

Ralf Wessel: The way I understand this question is that what we've quoted 6-6.5% is for the year '08 and what we've always said when we subscribed to the investment in the non-listed fund is that the average cash yield will be 6.5-7% over the lifetime and given the fact that

we are at the beginning of the inception of this fund, there are two elements that play a role. One is the start-up cost and some cash management coming forward when the assets were contributed. Probably more important is the fact that we are today at a UK allocation of the assets which Robert already mentioned 12 year leases, brand new buildings about 35-40% which eventually is higher than what eventually will be the maximum percentage because there's a limitation in the investment profile of the non-listed fund of 25% in the UK. So this is all in accordance with the way we envisaged the investment would work out. We have slightly lower cash on cash yields at the beginning but over a nine year horizon we expect that the average cash on cash yield will be between 6.5-7%.

Jennifer van der Eem: Next question is can you stop acquiring equity stakes in PEP Fund II or have you fully committed to the €900 million.

Robert Watson: We are fully committed to €900 million as long as it doesn't exceed the original investment period which was 36 months from September of 2006, so yes, we are fully committed but it has to be invested in that time period.

Jennifer van der Eem: Ok. The final question from the website is any comment on the difference between NAV and market price?

Robert Watson: Oh, the market price of the shares, sorry, now I understand the question. I think the real answer to that is that all real estate has been taken down and we've come down along with the EPRA Index and point of fact have outperformed most of our peers in terms of our market pricing. We believe that over time and with us performing as we have that we should reduce that discount and move back towards our NAV and back towards our IPO price, so I think that's where we believed that we would end up.

With that I'd like to tell you we appreciate everyone being on the call today and we look forward to being back with you in three months and talk about our first quarter. Some of you we will see you in the interim. Thank you very much.

Operator: Ladies and gentlemen, 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 to midnight Central European Time on February 21st 2008. To access this replay you may dial 0800 559 3271 for the UK, 0800 911 479 for France, 0800 027 0028 for Netherlands,

866 883 4489 for the US or +44 207 806 1970 international. The replay pass code is 2430961.

Ladies and gentlemen, thank you for your participation, you may now disconnect.