



***ProLogis European Properties  
Investor Call Webcast***

***Presenters: Gordon Keiser, Peter Cassells, Simon Nelson  
Monday 22 December 2008***

**Operator:**

Thank you for standing by and welcome to the ProLogis Investor Call. At this time all participants are in a listen-only mode. There will be a Presentation followed by a question and answer session, at which time if you wish to ask a question you will need to press \*1 on your telephone. I must advise you that this Conference is being recorded today, Monday 22 December 2008.

I would now like hand the conference over to your speaker today, Jennifer van der Eem. Please go ahead.

**Jennifer van der Eem:** Thank you Tony. Good afternoon. Before we get under way I would 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 operate, 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 please begin.

**Gordon Keiser:** Good afternoon and thank you for joining us today. Over the past two months, we have been asked by many of you to have a call for all investors as soon as we have made some progress on our liquidity initiatives and I certainly believe we are at that point.

We announced on Friday the agreement to sell two thirds of our investments in ProLogis European Properties II or PEP Fund II, which reduces our cash commitments over the next 18 months by €348 million and provides €43 million in proceeds. A swing in cashflow of almost €400 million. This pricing was arrived at

after careful third party investigation that takes into account the flexibility options that allow PEPR to maximise value.

We have also retained M3 Capital Partners to market our remaining one third stake in PEP Fund II. A sale of the remaining interest would reduce the ongoing cash commitment by another €174 million and generate additional sales proceeds. We believe that there should be real interest from third parties for these units based on preliminary responses to date.

Now, regarding the agreement to sell the two thirds to ProLogis. PEPR may select one of two options during the marketing period. Option one, if the marketing process produces demand for a larger than one third stake for a price higher than ProLogis paid for the two thirds stake, then ProLogis has agreed to either sell the additional units to the investor and pay over the incremental net proceeds to PEPR. Or to pay PEPR the incremental higher price for the additional units so that PEPR receives the benefit of the marketing process on those units sold to ProLogis.

Now option two, and this is particularly if the marketing process for the one third has not resulted in demand for more than one third. PEPR has the option for twelve months to repurchase units so that we have the additional flexibility and in the event the Board believes that PEPR has the resources to meet the continuing commitments to PEP Fund II and valuations have stabilised or are increasing.

And now turning to the liquidity and debt refinance initiatives we have underway. We will suspend future dividend payments, including the Q4 2008 dividend, we would ordinarily have paid in early February next year, to preserve cash and as a condition from our bank group, to amend the net worth covenant of €900 million Credit Facility.

We have received approval from our Agent Banks, Bank of America as the Administrative Agent and RBS for a reduction of the net worth covenant. The request has been forwarded to all the remaining banks and response to date has been very encouraging and we expect the amendment to be approved by the requisite 50% this week.

The amendment is necessary to address, first potential portfolio valuation reductions going forward, and second, the write off of a portion of the investment in PEP Fund II

assuming the sale of two thirds or more. Given the other deleveraging initiatives and our continued strong occupancy level, we are still at 98% occupancy, we do not feel it necessary to amend any of the other covenants.

From a current liquidity standpoint, we had €76 million of cash on the balance sheet at the end of November and the €300 million line of credit that is part of the €900 million facility remains untouched.

Our first maturity is the €336 million CMBS due in July 2009 which had a loan to value of 52% based on the September book value. We have recently received two term sheets from mortgage banks for over half that amount and we are attempting to put a club group together to commit in the first quarter of 2009. However, even if we couldn't get a financing commitment by the July 2009 maturity date, we believe that the combination of the €300 million availability again undrawn today, the PEP II sales proceeds and cash from the dividend suspension, will be more than sufficient to repay the debt at maturity.

And something that I wanted to repeat from the Press Release. I think it is important in relation to the 2010 maturities. In 2010, €699 million of secured debt is due to mature, including €151 million secured bank loan due in March and two CMBS issuances totalling €548 million maturing in May. The related loan to value for these three on the aggregate is 49% based on 30 September 2008 book value. If the remaining one third interest in PEP Fund II is sold, and refinancing of the July 2009 maturity is achieved either from third parties or by using the available €300 million revolver, then the LTV of the 2010 secured debt could be reduced between 30-40%, again based on September book values, by applying first cashflow from the suspension of the dividends through respective maturities of the three issuances, sales proceeds from the disposition of the two thirds or more of PEP Fund II to ProLogis and others. And three, property disposition proceeds of approximately €100 million. Now the lower end of the LTV range, the 30% assumes property disposition and Simon can comment on that, on our progress there, later. The point is that even if there are continued revaluations downwards, we still should have relatively modest LTV's on these portfolios, should be under 50% at the time that they mature.

Finally in 2010, the three year tranches, €600 million of the €900 million unsecured Credit Facility, of which €300 million is outstanding. Mentioned the €300 million is available under the line but not drawn. They mature in December. So two years from now. PEPR has informed its banks that it intends to request a maturity extension on all or a portion of these prior to the December 10 maturity. Hopefully we can get a good response when we make the formal request.

So to summarise, we are actively implementing a plan to address our concerns and our investor concerns about liquidity and upcoming debt maturities. We will sell two thirds of our current investment in PEP Fund II, and more importantly, eliminate the €348 million future commitment to invest. We have retained flexibility in the sale agreement, to ensure that we maximise value. We are marketing our remaining one third interest to further reduce our future commitments. We have suspended dividends for the foreseeable future, again improving liquidity and reducing outstanding debt. And we are making good progress with our debt refinancing initiatives, particularly the 2009 maturity. And hopefully we will have more to report on these in the first quarter.

So thank you and now Peter Cassells, Simon Nelson and I are happy to take your questions. Operator.

**Operator:** We will now begin the question and answer session. If you wish to ask a question, please press \*1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key.

Your first question comes from Boudewijn Schoon of Kempen. Please ask your question.

**Question 1 : Boudewijn Schoon – Kempen:** Hi good afternoon. My question are actually, my questions are several. To start, with the remaining one third in the PEP Fund II, which is still on the books, will you write down this equity stake by year end '08 before any sale takes place?

**Peter Cassells :** Well, it's Peter here, Boudewijn. We haven't nailed on all the aspects of that at this stage, but given that we are in a marketing phase, and we will be closing the books early in January in order to run our first set of numbers, the

likelihood is that we will write it also down to the same value that we have obtained from the ProLogis transaction.

**Further Question, Boudewijn Schoon:** Right, thank you. What kind of buyers do you expect for the equity stakes? Or the remaining equity stake or potential future asset sales which you also commented on?

**Gordon Keiser :** I'll first Boudewijn, I will mention the potential buyers for our stake and the one third remaining stake. Obviously you have PEP Fund II investors are logical investors. Some PEPR investors, original private equity investors, could be logical ones. So many of these have been contacted. And then there is a whole range of private equity investors, M3 Capital are approaching those. On the second part, regarding asset dispositions, Simon, you want to comment?

**Simon Nelson:** Yes Boudewijn, I am afraid I won't be able to say too much more than I said on recent calls. There are equity investors and specialist or specialist investors together with low leverage purchasers who are still looking at the asset investment market. The German funds are, yes there is a chance that the German funds will be back again in the first quarter of next year. We have ongoing discussions as we have had. We are making progress and we are confident of having something to announce during the first quarter of next year. So yes there are asset buyers out there.

**Further question, Boudewijn Schoon:** Thank you. Regarding the payout, the distribution of earnings. What would be a target loan to value for the company for it to resume paying a dividend?

**Gordon Keiser :** Boudewijn, there are some conditions which we have not disclosed yet, they are in the, assuming the amendment, the net worth covenant amendment is done, I think it is basically done. That outline, when dividends would be permitted. Basically have to achieve certain conditions, basically just net worth conditions in the agreement. So if you are there then you are permitted. So it is you know, again it is a condition under the agreement with the banks.

**Further question, Boudewijn Schoon:** Alright. Can you give a very rough indication to investors?

**Gordon Keiser :** Well you know, I would hesitate to do that. But I don't think it is going to be 2009. Let's start with that, but it will be sometime after that.

**Further question, Boudewijn Schoon:** Another question regarding the future of the company. Suppose you resume paying out a dividend, are you again planning to pay out 100% of distributable earnings or will you be amortising debt more in the future?

**Peter Cassells :** The expectation, Boudewijn, is that we will resume paying debt at the same pace that we had been, paying dividends, I beg your pardon, at the same pace as before. We will evaluate that at the time.

**Gordon Keiser :** And again it obviously makes a difference if you refinance those 2010 maturities and then you know you are less likely to still be amortising those. So I think that is one of the key pieces in there.

**Further question, Boudewijn Schoon:** And for the longer term for PEPR, well if we pass these obstacles, which are still of course to be taken, what will PEPR turn into? Will it be a passive fund managing and working the assets in its portfolio or would you in the future again buy potentially equity stakes in PEP funds?

**Gordon Keiser :** Well I think, you know once we get through, as you mentioned the hurdles, the debt maturities, certainly everything is open again, I mean we will be, even assuming lower valuations, we will still be fairly modestly leveraged company and have the ability to invest in other ProLogis funds if there are those, based on the resources we have. Or conceivably in third party acquisitions. I think it will be limited from that standpoint, but again we should, if we get through this with the refinance initiatives, we should be in a decent position to be able to invest again. So I wouldn't look at it as being just a purely passive fund holding onto those assets that we have right now.

**Further question, Boudewijn Schoon:** Okay. And talking about really the longer term, what would then be your own target LTV or interest cover ratio?

**Peter Cassells :** Boudewijn, the limits that exist in terms of leverage that we have implied in our regulations of 60% of our total portfolio real estate and any of those third party investments that we have, such as the one in there, the second European fund. So those rules would not change. The case of where we are in relation to them at any given time. We never promised to be bumping up to 59% and we would feel very uncomfortable in the high 50's.

**Gordon Keiser:** I agree with that Peter, we would like to be sort of in the, you know, no more than the low to mid 50's.

**Boudewijn Schoon:** Okay. Well thank you for answering.

**Operator:** Your next question comes from Ruud van Maanen of Rabo. Please ask your question.

**Question 2 : Ruud van Maanen – Rabo :** Hello. Thank you for the story.

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The planned marketing period for the one third of the stake. Was it until the end of January, did I hear that correct?

**Peter Cassells :** That is correct. I mean effectively the 5<sup>th</sup> February is the drop dead date for termination of that marketing and basically the transaction to happen.

**Further Question, Ruud van Maanen:** Okay, then I have a question about the 20% stake sold. Assuming the €43 million proceeds from PLD, the dividend of Q4, is it included or excluded? Do we have to take that out?

**Peter Cassells :** That is excluded so far. So that would be an additional piece of cashflow to PEPR come early February. So approximately five million or so would be the expected dividend from Fund II for the quarter.

**Further question, Ruud van Maanen:** Okay, then does the impairment on PEP II lead to certain tax benefits?

**Peter Cassells :** No, unfortunately the situation, both PEPR and the way the structures of investment Fund II is in a tax neutral structure.

**Further Question, Ruud van Maanen:** Okay, then in your Press Release you said that the banks, you have requested extension of the unsecured credit facilities. Have there already been some responses of the banks?

**Gordon Keiser :** We actually, you are talking about the, what we have said is that we have advised that we will request it at some point. We haven't actually made the request. What we wanted to do is get this network covenant completed by year end, finalised because of the write down of the investment PEP Fund II and potential downward valuations here in December, because we are also at our six month valuation period. So that was the critical piece to get done and then we will turn to the extension, hopefully in the first half of 2009, but in a major bank meeting we did mention that this was what we had intended to do and just to so it will be notice for them.

**Further question, Ruud van Maanen:** Okay. Then you had already requested amendments for increase in credit line. What, is there a plan when the amendment is not approved by the banks?

**Gordon Keiser :** Well you know, as I said it just requires a 50%. And we are pretty far along right now. I mean as I say, we should have it done this week in terms of the 50%. However on an extension. Each bank makes its own decision on an extension. So we are not asking for 100% approval, what we will ask for is that for those who are interested, we will have a pricing change effective at the time. I mean if we extend in December, next whenever the extension period, we will have a different pricing. So that one is not, there is no plan of any particular percentage to get it done, it is what every bank decides it wants to do, and we will be strongly encouraging them to extend. Because every one of the banks who is in the three year maturity is also in the five year maturity and pro rata each tranche. So they are already in the five year maturity anyway.

**Ruud van Maanen:** Okay, that was my questions for now thank you.

**Operator:** Your next question comes from Boudewijn Schoon – Kempen.

**Question 3 : Boudewijn Schoon – Kempen:** Hello again. I think I forget one question because regarding the refinancing in '09. I previously noted that you had received preliminary term sheets from two banks regarding the refinancing. And I quickly read term sheets this time in the Press Release. I mean have there been more committed by these committed term sheets, that if you draw that you get those two?

**Answer:** No they are really subject to, I mean they address the full amount, but each of them has a limit on what they want to participate in, whether it is 25% or 30% of the total amount. So you need to put three of these together. We are working on two others. There may be a four bank group or it could be a three bank group. And we will be working with two others. We have meeting schedules coming up in the first quarter. Hopefully the idea is to get, first conform all the term sheets and get them to a point where they can commit on their own balance sheet without depending on some other market, such as the pfandbrief market being available. So that is the direction we are headed right now, although, as I have said, the good news now is that even if we didn't get a commitment, we can still keep working on it past July 2009 because we can just pay it off with the revolver plus the cash we have on hand.

**Further question, Boudewijn Schoon:** Okay, so the two banks, they still have to also confirm that they can take it for example on their own balance. Okay, thank you.

**Operator:** Your next question comes from Tom Gibney, JP Morgan. Please ask your question.

**Question 4 : Tom Gibney – JP Morgan:** Hi. Good afternoon. On the, I just wanted to see if you were able to disclose the covenants on your bank facilities? Are there any LTV covenants or interest coverage covenants that we should be aware of?

**Gordon Keiser:** Yeah there are, and particularly, Peter disclosed those previously. But there are leverage covenants and debts of risk coverage covenants. Interestingly on the debt service coverage covenants we have plenty of room, again because we have first of all modest leverage, you know 50% and we are 98%

occupied so there is no question on the issue on coverage. On the leverage covenants, we looked at those you know in exhausting fashion when we were deciding what to present to the banks and we, given the initiatives that we have, again the suspension of the dividend for a while and the elimination of the commitment to PEP Fund II, we feel that we did not at this point need to amend any leverage covenants. But there are leverage covenants.

**Further question, Tom Gibney:** What are they? Are they similar to your two management regulations?

**Gordon Keiser:** Yeah, it is a 60% leverage, but you have the ability of 65% for a while, that sort of thing.

**Further question, Tom Gibney:** Okay, and what is the interest coverage covenant?

**Gordon Keiser:** Peter, correct me, is it 1.5?

**Peter Cassells:** Correct, it is 1.5.

**Further Question, Tom Gibney:** Okay great. Thank you. And also on the July '09 refinancing, what, how will the structure actually be done if you refinance it? Will they become part of the existing CMBS programme, just taking over security of those assets or will you be pledging some of your currently unencumbered assets in order to get that refinancing and then put that into the CMBS to lower the leverage there?

**Gordon Keiser:** The plan right now is just to use the properties that are in that existing portfolio. I mean we, from a process standpoint, we actually pay it off, pay off the CMBS and replace them with new lenders on the same properties. There may be a property or two that would go in or come out, depending on what the new lenders, I mean sometimes the lenders will say, we don't want that property in there or we want this other one. But it will be substantially the same pool.

**Tom Gibney:** Okay thank you.

**Operator:** Your next question comes from Miriam Wijnands of Fortis Bank. Please ask your question

**Question 5: Miriam Wijnands of Fortis Bank:** Hello. Thank you. I have a question, could you confirm to the dividend payment. Does it include both Q8 and 2009, the €130 to €150 million?

**Peter Cassells:** No that is a twelve month number for 2009.

**Miriam Wijnands:** Oh great thank you.

**Operator:** Once again if you wish to ask a question, please press \*1 on your telephone and wait for your name to be announced.

**Question 6:**

**Jennifer van der Eem:** We do actually have a question on the webcast if we have time to take that before any other calls on the phones, which is from Bas van Zelm who has asked, how have you and ProLogis come up with a price of €43 million for the two thirds stake at a reflected discount to current book value? Have there been negotiations with other parties for this two thirds stake before agreeing with a related party like ProLogis and what is the best option for PEPR?

**Peter Cassells :** There have been other discussions with other parties owning shares in Fund II, but also we have taken this to investment bankers and we have been essentially given a range of prices and this is at the keen end of the range and has been accepted by the Board as a good price at which to value the current two thirds share in Fund II. And as I said earlier on, this is a floor price based on demand that we expect to see for the remaining on third during the marketing process.

**Gordon Keiser:** I would comment that one of the things it is easy to look at is the existing investment. The real issue for a new investor coming into this is the remaining commitment. So you have to look at that being 100% and then whatever discount on the existing investment and so that is how we derived and how a real investor when they come in. They are not looking at the discount on the existing,

they are looking at the combination of what they are getting to date and the future commitment. So that is how the 70% was derived.

**Question 7:**

**Jennifer van der Eem:** And another call from the webcast is actually from Adarsh Mann, who says, any response from the banks about your request regarding credit securities? I think he means the covenant change.

**Gordon Keiser:** If that is the question, the one covenant change we have requested and that was as I said. We not only have the Agent Banks approved what a number of other banks have approved and we are close to getting the 50% and as I said, I expect it this week.

**Jennifer van der Eem:** Tony are there any questions from the phone lines?

**Operator, Tony:** There are no questions at this time. Once again, if anybody wishes to ask a question, please press \*1 on your telephone keypad.

**Question 8:**

**Jennifer van der Eem:** Okay, I have one more from the webcast at the moment, which again is from Bas van Zelm. He says, why are PEPR going forward, referring to its relatively moderate leverage in the future, to do third party investments as mentioned in the call as an answer to a previous question. This would be contrary to the strategy set out in the IPO and not inline with earlier statements?

**Simon Nelson:** I think we can say, we can confirm that the emphasis is going to be firmly on asset management for the near to medium term. I think third party acquisitions were mentioned a moment ago, because they have, and there has always been a possibility for doing those, but that clearly is not going to be a priority. The focus right now and this should be very clear, is asset management of the existing portfolio maintaining the existing high occupancy levels and we will see where that takes us through to the future, depending on the state of the market and opportunities that may arise, but while we would not want to rule out any future possibility, that clearly not going to be a focus in the short to medium term.

**Peter Cassells:** And just to add to that, it was never, PEPR would not look at third party acquisitions, it was always part of its plan that it would not be out of the market, but that the appropriate vehicle for those type of acquisitions would ordinarily have been the second fund, but we were never exclusively prohibited from doing so ourselves.

**Gordon Keiser:** And finally, you know we are looking at it in a period right now when we have valuations decreasing. At some point valuations will stabilise, whether that is 2009 or 2010 and valuations will increase. So you know you are going to have capacity, once you get through that refinance initiative. So long term.

**Jennifer van der Eem:** Okay Tony, anything else on the call, I have no more on the web.

**Operator, Tony:** We do have a question now. That question comes from Tonson La Tour from Rothschild. Please ask your question.

**Question 9: Tonson La Tour – Rothschild:** Good afternoon sir, Everything that you have said until now is rather gratifying considering the situation where we came from. My question is, something which I thought might have helped if, which is now being achieved had not been achieved and maybe might still be worth your consideration. Would you at some given time, consider an issuance of convertible preferred stock. By that I mean something that would give a nice yield for the preferred shareholders, but also an attractive conversion rate for the older generation shareholders and that would soothe the bank because that would of course improve your LTV ratio?

**Gordon Keiser:** The answer to your question, we actually looked at that early on and I think, you know one of the conditions we have to meet because of our Luxembourg structure, is that the combination of the actual dividends to be paid under the preferred, plus the conversion amount, that is the conversion price, has to be at least NAV. Fortunately the stock price is improving a little bit and we are narrowing the gap of the NAV so we certainly don't rule out that and we looked at it carefully and you know if the structure were different, perhaps we would have tried to do something.

**Further question, Tonson La Tour :** I did not realise that you had to do it at NAV which is obviously a bit too high to make it attractive.

**Gordon Keiser:** Yeah and again we looked at it, but you can not only use the strike price, but the actual dividends over a period of time. So the combination of those two has to equal. But it is still something we will consider going forward.

**Tonson La Tour:** Thank you Sir.

**Operator:** Your next question comes from Miriam Wijnands of Fortis Bank. Please ask your question.

**Question 10: Miriam Wijnands of Fortis Bank:** We haven't seen any additions to PEP II the last quarter. Does this mean ProLogis has any difficulties to get the criteria right as in occupancy rates and do you have any idea on that?

**Peter Cassells:** No problem from the ProLogis side. There were some transfers done to fund II in October and they are planning to complete another set of transfers in the next few days before the year end. So I don't they have a problem at that end.

**Further question, Miriam Wijnands:** Okay and could you announce your fund up to €70 million a quarter, do you have anything on the acquisition?

**Peter Cassells:** We have done 30 of that in October. That was the October equity call from Fund II. They have since called equity for the remaining part of the quarter. But we are holding fire on that one as PEPR until we work our way through the marketing process.

**Miriam Wijnands:** Okay, thank you.

**Operator:** You have no further questions at this time. Please continue.

**Jennifer van der Eem:** There are no questions on the webcast either.

**Gordon Keiser:** Well then, thanks everyone and hopefully we can have another all investor call. Well certainly we will have one at an earnings release in early February and if any other news of substance comes along, we may do another one. Thanks everyone.

**Operator:** That does conclude our conference for today. Thank you for participating. You may all disconnect.

**End**