



Second quarter and half year 2009 financial results conference call.

Thursday 23 July 2009

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Operator: Good afternoon, my name is Zarak and I'll be your conference facilitator today. I would like to welcome everyone to ProLogis European Properties second quarter and half year 2009 financial results conference call. At this time all participants are in a listen-only mode. After the speakers presentation, there will be a question and answer session. If you wish to ask a question during this session simply press *1 on your telephone keypad. I must advise you that this Conference is being recorded today. At this time I'd like to turn the conference over to Jennifer van der Eem, Vice President of Investor Relations with ProLogis European Properties. Please go ahead.

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Jennifer van der Eem: Thank you Zarak. 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.

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Peter Cassells, CEO will give an overview of general performance and outlook, then he will cover financial performance and finally Simon Nelson, Head of Asset Management, will talk about operating performance and market outlook. At the end of the presentation we'll be happy to take your questions from either the call or online. Peter please begin.

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Peter Cassells: Thank you and good afternoon everyone.

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Before I start, allow me to introduce David Doyle as the new CFO of PEPR. In welcoming David, I would like to thank Luke Lands for stepping into the role of interim CFO at the beginning of this year. We wish Luke all the best with his return to Denver. As you may have seen in the press, David was recently appointed to ProLogis Europe as the chief financial officer, coming from property services firm, Colliers CRE. He assumed his duties earlier this week and will be taking on the role of CFO for PEPR as well.

At London-based Colliers, David was responsible for finance, risk management and legal affairs as well as partnering with the Group's chief executive to develop and implement strategy, including capital raising and acquisitions. Before joining Colliers, he held roles at online banking group Egg and at Prudential, where he was head of corporate finance. David?

David Doyle: Thank you Peter and good morning everyone. This is my first week with ProLogis and I am looking forward to getting to grips with the challenges presented by this role and to helping to drive the business forward, especially in this challenging current environment. I will be transitioning with Luke over the next month or so and look forward to meeting and speaking with you all in the coming months, and with that brief word I'll hand you back to Peter.

Peter Cassells: Thank you David.

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I am pleased to be able to report that we continue to demonstrate strong business fundamentals, turning in an operational and financial performance in line with our guidance. We are fully aware of the difficulties faced by our customers in the current economic crisis but

believe we continue to provide them with the best overall service while maintaining exceptionally high levels of occupancy.

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Combined with a reduction in the amount of overdue receivables, high levels of customer retentions and no further defaults in the second quarter, we are generating the operational cash flow needed to aggressively address our refinancing needs. When you add to this the €167 million of proceeds from the successful completion of property sales by Simon and his team during the quarter, and the execution of secured financing transactions by our Treasury team, it is apparent that we have made and will continue to make significant strides in de-risking our business.

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At the beginning of this year we were faced with a total of €1.3 billion of short term debt maturities up to and including December 2010. As of today we have fully addressed this year's obligation of €336 million and reduced the 2010 maturities to approximately €800 million. In addition, we have €133 million of cash on the balance sheet at the end of June (of which €79 million is unrestricted), and €219 million of available debt under the revolving credit facility.

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Continued expansion of yields across Europe have resulted in a write-down of the portfolio value by €307 million for the six months of 2009 culminating in a loss under IFRS of €237 million or €1.24 per unit for the period. Although the asset disposals proved beneficial from a liquidity viewpoint, the pricing obtained in the context of an extremely dislocated market meant we recorded a loss under our reporting standards. In order to look at the underlying performance of the business, we strip out the effects of these transactions and arrive at EPRA earnings for the half-year of €60 million, well in line with our guidance and expectations for the

period. Simon will go into more details on the operational portfolio, asset disposals and devaluations later.

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On new financings, we can confirm that, in relation to the three-year extension to the Hypo Real Estate secured loan, all necessary approvals have been obtained and we are working through customary closing conditions. The €151 million loan that was to be repaid in March 2010 will be re-sized to €126 million as a result of a lower initial loan-to-value requirement and reduced property values. The margin on the loan is set to be increased to 250 basis points from 137 at the moment with LTV at 55 per cent and importantly the maturity extended to March 2013.

In addition, we previously disclosed that we had agreed terms on a new four-year loan facility, secured on UK assets, for £100 million on a fully-underwritten basis. This loan is with EuroHypo who acted as sole arranger, agent and underwriter and final credit committee approvals have been obtained. Critically, we have completed the outstanding conditions precedent and have issued the drawdown notice, therefore we expect to receive funding of £86 million very shortly. The final facility size was reduced from the original amount of £100 million as a result of latest valuations. Key terms here are a margin of 250 basis points over Libor, no amortisation of principal and an initial LTV of 50 per cent.

Aside from these transactions, managed amidst continued turmoil in the global financial markets and deteriorating economic fundamentals, PEPR is currently in discussions on seven additional financing transactions targeting over €650 million of commitments. We will continue to update you as appropriate on these discussions.

CMBS debt of €548 million is due for repayment in May 2010. We are hopeful of paying down this debt prior to year-end 2009 through a combination of cash flow from operations, crystallisation of hedging gains and a variety of the secured debt financings currently active.

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In terms of the unsecured debt maturing in 2010, we have two tranches (totalling €600 million) of the €900 million credit facility maturing in December. At the end of June this year, €380 million had been borrowed and with repayments currently underway post quarter-end, this balance is being reduced further. We have initiated preliminary discussion with the lead banks on extending this facility while we implement on our longer-term de-levering and debt re-financing strategy. It is our intent to repay the 2010 elements through cash from operations, excess secured debt proceeds following the repayment of the CMBS debt and other strategic initiatives, which may include the issuance of new equity.

We have also reviewed a number of other deleveraging options available and, as mentioned before, under the current structure we are prohibited from raising new equity, a fundamental option in any deleveraging strategy. Given the prolonged nature of the current downturn, we have initiated discussions with the CSSF in Luxembourg with regard to converting from an FCP to a SICAF, to enable us to raise equity if and when required. Following approval of the conversion process from the CSSF, PEPR would intend to convene an Extraordinary General Meeting this quarter to enable unitholders to vote on the transformation to a SICAF.

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Turning to the financials, we reported a loss under IFRS of €237 million for the half year to June, compared with a loss of €18 million for the comparable period last year. The 2009 result included the recognition of accounting losses resulting from the asset sales completed during the period as well as unrealised losses stemming from the mid-year revaluation of the entire portfolio.

EPRA earnings for the half year, which strips out these non-cash and one-off items, showed a more stable set of results, €60 million or €0.32 per

unit, down from €68 million or €0.36 per unit for the same period last year. The decrease in earnings can be largely attributed to the decrease in total revenue over the year, which is related to the weakening of Sterling versus the Euro, income related to customer defaults not entirely replaced in 2009 and the absence of dividends from PEP Fund II which were an element of income in 2008.

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Looking at rental income in particular, which dropped to €136.6 million for the six months of 2009 from €148.4 million last year, over half of this decline has come as a result of the continued relative weakness in the sterling exchange rate, which has reduced UK rental income by over €5 million when re-measured in our reporting currency. The results also reflect the loss of some €900 thousand of rental income relating to customer defaults last year. In addition, the first half of 2008 included higher levels of indemnified income related to leases on newly contributed buildings which largely expired over the intervening period.

Reconciliations between IFRS and EPRA figures are provided in today's press release.

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On the expense side, our cost of rental activities decreased substantially from €17.2 million to €12.3 million for the half year, mainly due to higher provisions for bad debts in 2008. In addition, we made €1.8 million of savings in property management fees for the period due to the reduction in the value of the portfolio since the middle of last year.

As you would expect, we diligently scrutinise rent receipts in these challenging times and whilst we cannot rule out further customer defaults in the future given the current environment, we can confirm that the performance of our customers to date has remained resilient. As Simon will detail, our over-60 days accounts receivable balances have reduced since the end of 2008.

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We reported a €42 million accounting loss on the sale of the properties completed in the first half of this year as we reflect the removal of these assets and their financial history from our book-keeping system. Additionally, unrealised losses, net of gains and purchasers' costs adjustments, on the revaluation of the portfolio amounted to €307 million reflecting an increase in the gross yield to 8.8 per cent from 8.0 per cent at the end of 2008.

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Moving onto finance income and costs. Our finance income for the six months to June 2009 decreased slightly to €2.2 million, as a result of lower rates of interest on deposits, offset by the receipt of a €1.3 million dividend from PEP Fund II in Q1 2009.

Overall finance expenses of €55.2 million remained in line with the first half of 2008. However, within this line item interest expense decreased by €2.6 million due to lower debt levels and a decrease in our average interest rate to 4.5% from 5.2% for the comparable period last year as we benefitted from substantial reductions in base market rates.

This decrease in interest expense was offset by a €1 million increase in unrealised foreign exchange losses and a €1.6 million increase related to the accelerated write-off of initial set-up costs of our €336 million CMBS and the amortisation of additional fees incurred in concluding the tangible net worth covenant amendment at the end of last year.

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Finally, our current income tax charge for the half year of €15.9 million represents a substantial increase over the 2008 largely due to a €4.6 million tax charge on capital gains generated on the AEW asset sale. Adjusting for this one-off tax expense, the half year 2009 current income tax expense represents an effective tax rate of 17.3% for the quarter,

using EPRA pre-tax earnings as a proxy for taxable income, compared to 12.5% for the same period last year.

IFRS net asset value has decreased 15% to €1.2 billion or €6.40 per unit from €1.4 billion or €7.38 per unit at the end of 2008, due again in large part to the mid-year revaluations. EPRA NAV per unit has similarly declined to €6.74 from €8.02.

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As commented on at the beginning of the call, our financial results for the quarter and year to date are in line with our underlying earnings guidance for 2009, with EPRA earnings expected to be between €0.55 and €0.60 per unit for the year. However, IFRS losses are now expected to be in the range of €1.50 cents to €1.70 per unit as a result of higher portfolio devaluations and accounting losses on portfolio sales.

Whilst we continue to retain operational cash flow for deleveraging purposes, we still expect to generate between €0.55 and €0.60 cents per unit as per our original guidance.

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With that let me hand you over to Simon to discuss operations and market outlook.

Simon Nelson: Thank you Peter. I am pleased to report that our ongoing focus on asset management and proactive approach to meeting our customer's requirements has enabled us to maintain industry-leading levels of occupancy in our portfolio despite continued difficulties in the market.

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During the second quarter, we completed 18 lease transactions for over 219,000m² of space. 14 of these, covering some 201,000m² were renewals with existing customers, such as DHL in the Czech Republic,

Schenker in Poland, Schneider in Spain and Difarco in Italy. In addition, four lease extensions were signed, adding 18,000m² to customer's existing warehouse space.

Over the six months to June, we therefore signed lease agreements for a total of just under 400,000m², compared to 245,000m² in the first half of 2008. As a result of these sustained levels of activity, our occupancy levels across the 232 buildings in the portfolio at the end of June, remained at the high end of our historic levels, at 96.9%.

As market conditions tighten, and as a result of our ongoing portfolio management initiatives, we continue to see a high level of customer retentions in the portfolio. Of the 19 leases with breaks or expiries during the second quarter, only five resulted in vacancies, for a total of 18,000m², equating to a retention rate of 84% in terms of rent. Of these, one customer has already been replaced by a new lease signed since quarter end for 5700m² in Prague.

Our retention rate for the first half of 2009 has therefore been over 85%, much higher than the typical long-term averages of 60-65%.

Looking forward into the second half of the year, we already know that at least 61% of the space subject to lease break or expiry will remain occupied based on agreements already in place with customers. This again will increase if the remaining leases with potential breaks also renew, although we do not expect to see such high levels as in the first half of the year.

As mentioned on previous calls, our property and asset management teams remain highly focussed on preserving occupancy, making continuous efforts to anticipate potential departures as early as possible and to manage a solution that works for both parties. We strongly believe that this is a fundamental step towards preserving value in this difficult market.

As Peter mentioned, we are also monitoring rent payment arrears closely and are working with customers where necessary to ensure that payment obligations are met. Despite the poor economic environment, we have seen no further instances of customer default in our portfolio in the second quarter and whilst monitoring all customer payments closely, currently have no particular early warnings. In fact, our arrears over 60 days have steadily decreased since the year end, reducing from €3.7 million to €3.1 million at the end of March to €2.7 million outstanding at the end of June. It is too early to draw any particular conclusions as to whether this suggests any lasting trend for the future, but it nonetheless reflects the work that the property management team has been doing in this respect.

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In January, we suggested that we would look to carry out around €200 million of asset sales during the course of the year, as part of our deleveraging plan as well as our standard asset recycling programme. During the first six months of the year we have already executed on almost all of that amount, in two portfolio sales.

The first disposal, agreed mid May, was a portfolio of nine Dutch and German assets to a fund managed by AEW Europe for €119.5 million. The price reflected a 6.4% discount to the previous December valuations. The portfolio comprises some 229,000m² of distribution warehouse space at three locations in The Netherlands and four in Germany. At the end of June we had received €92.2 million of proceeds for five of the assets and expect to receive the remainder in the third quarter once the related conditions precedent are met. This was the largest logistics investment transaction this year. These buildings are standalone assets in that they are not part of larger parks within PEPR ownership.

The second sale, which closed at the end of June, was a portfolio of five buildings in the UK for a total of £64.4 million, a price broadly in line with June valuations. The portfolio totals just under 80,000m² of space and

was sold to a fund managed by Harbert. Again, the buildings were selected for sale on the basis of their essentially standalone nature, as PEPR does not have any other assets in these locations.

It is a testament to the underlying quality of our portfolio, as well as of our teams, that we are able to execute these significant transactions in the current market environment. We have been encouraged by the level of interest that we have been able to generate and will continue to keep PEPR in a position to take advantage of other opportunities should they arrive.

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Following these two disposals and the half-year revaluation, the portfolio now comprises 232 distribution facilities, covering over 4.9 million m² across 11 countries with a net open market value of €3.0 billion. The risk profile remains defensive with a diversified high-quality customer base and just under six years to lease expiry on average.

On the half-yearly valuations, we recorded overall a further 9.3% decrease in market value between December and June, excluding portfolio disposals and currency impacts. With these factored back in, the portfolio value fell 13.0% to €3.0 billion down from €3.4 billion at the end of 2008, much of the difference essentially being the two portfolio disposals I have just described.

As mentioned previously, the valuation process remains relatively subjective due to the lack of comparable market transactions, particularly in our sector, although the level of investment activity did pick up slightly during the second quarter, especially in the UK. However, we are satisfied that these numbers are an accurate reflection of current market conditions.

As with previous valuations, the UK properties recorded a large decline, down 9.8% to £417 million excluding disposals. Since the peak of the market in June 2007, the UK portfolio has witnessed an overall aggregate

valuation decline of just over 43% in those two years in like-for-like terms. The rate of decline did slow however, compared to the second half of 2008, and the increased level of activity in the investment market recently has seen the return of competitive bidding at the very prime end of the market. The values, once adjusted for euro reporting purposes, actually show an increase of 1.3% to €492.1 million in the six months from December 2008, again excluding disposals. Over the half year the gross yield on our UK assets nonetheless increased by 90 basis points to 9.6% up from 8.7% at the end of 2008. This is now at historically high levels.

As expected, given the time lag typically seen between cycles in the UK and on the continent, the decline in value of the other European properties continued to accelerate during the first half of 2009, falling 9.2% overall to €2.5 billion, excluding disposals. Unsurprisingly, Central Europe suffered the largest decline, falling 10.5% over the six month period, whilst Southern European assets fell 9.3% and Northern Europe showed slightly greater resilience with a decline of 7.4%. The gross yield on the continental portfolio therefore increased 70 basis points to 8.6% up from 7.9% at the end of 2008.

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It is still too early to say when this fall in market values will ease, although various market commentators now suggest the UK may be at or close to the bottom while continental Europe still has some repricing to do. We do not expect property valuations to start to improve until at least the end of 2010. Although we may start to see a slowing of cap rate expansion in markets outside the UK and a return to a stabilisation of yields, we remain cautious in view of the continued downward pressure on rents, which will represent the next source of pressure on capital values.

Turning to the overall market environment, just within the past couple of months the media has begun to report positive readings of selected economic indicators. We are taking the more upbeat reports with the

proverbial pinch of salt, as we consider that the pan-European recession in the real economies will continue to have an adverse effect on our markets for the foreseeable future.

Global cargo rates, typically a lead indicator for the logistics markets, are currently showing a mixed picture. Figures for the first half of 2009 indicate that bulk seafreight appears to be recovering from the lows seen at the end of 2008, suggesting that demand for commodities is increasing, perhaps as the stock of inventory had been run down. However, volumes and rates for container freight are still drifting downwards, an indication that the flow of finished product is still hampered by low consumer demand.

Reduced demand unsurprisingly results in reduced transport activity, with the airfreight sector showing the largest declines. However the warehouse market as a whole is being affected, with take up of logistics space falling between 25-50% in western Europe compared to the first half of 2008, and by as much as 70% in Poland and the Czech Republic. This is in fact a return to the levels of leasing activity seen in 2005 or 2006, before the two exceptional years in terms of leasing volume in 2007 and 2008.

The weaker level of demand means that market vacancy rates are trending upwards across the board, although new supply has now dried up almost entirely, as anticipated. There is still a lack of finance for new construction, and the new cap rate environment means that build to suit projects now require higher rents and longer lease commitments if they are to have any chance of materialising. This continues to create a two tier market, as the owners of existing stock, or of buildings that have been developed speculatively and are still standing vacant, will be motivated to lease their buildings, at a lower rent if necessary.

To this extent we are seeing a general reduction in market rents for existing buildings which we estimate at between 5 and 10%. Part of this is through a reduction in headline rents, part is through an increase in

incentives that are provided. In this context we are relatively encouraged by our same store rental figures which are almost flat compared to 12 months ago, despite the high volume of lease renewals and renegotiations that we have accomplished during that period. Again, in situations where we have viable customers who are willing to extend their leases early, we will continue to negotiate rent reductions in return for longer residual lease lengths where it makes sense to do so, in order to preserve the longer term stability of revenues.

Investment volumes remain subdued compared to the euphoria of two years ago but there was nonetheless a slight pick-up in activity, particularly in the logistics sector which appears to remain attractive to investors. Investor demand remains focused on good quality buildings in established locations, benefitting from longer lease terms and good covenant strength, and activity will remain limited by the relative scarcity of finance.

In summary, I believe that we have continued to demonstrate our ability to manage our operations efficiently as possible while maintaining and protecting our future cashflows in a difficult market context.

- We have signed or renewed leases on 400 000m² during the last six months, compared with 245 000m² the same period last year, in a more difficult market while maintaining same store rents at an equivalent level;
- We remain highly focussed on ensuring that rents are collected in a timely manner and have reduced our outstanding arrears since December last year;
- We have demonstrated our ability to execute significant sales transactions at realistic values, again in the context of a stagnant investment market.

In doing these things we have shown that our operating portfolio is well placed to resist the current market turbulence and although talk of light at the end of the tunnel may still be premature, we will carry on working with our customers to ensure that we continue to make headway and maintain the leasing momentum that we currently have.

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With that let me hand back to Peter.

Peter Cassells: Thanks Simon. To wrap up, we continue to demonstrate our ability to successfully manage the portfolio despite the prolonged dislocation in the credit markets and deteriorating economic climate. Our underlying financial results have held up well to date and we are making good progress with our deleveraging initiatives.

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During the first half of 2009, we have

- Maintained industry-leading occupancy levels in a deteriorating occupier market;
- Agreed two portfolio disposals of €119 million in Germany and The Netherlands and £64 million in the UK, proceeds from which will be used to reduce outstanding debt;
- Made telling progress on €226 million of secured bank loans, where we are finalising conditions precedent and very close to funding;
- We have initiated active discussions targeting over €650 million plus of further debt commitments;
- We have started the process required to convert from our structure from an FCP to a SICAF, thereby widening our options to increase the capital base and address upcoming debt maturities; and finally

- Last but not least, strengthened our management team with the appointment of David Doyle

We believe that these activities put us in an increasingly secure position to successfully manage the immediate challenges in a difficult market.

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I would now like to open it up for questions.

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 the request, please press the # key.

Our first question comes from Ruud van Maanen from Rabo, please ask your question.

Question 1: Ruud van Maanen, Rabo: Hello to you all. Thank you for the Presentation. I had a question regarding the UK portfolio sale. You mentioned it was in line roughly with the June valuations. How does it compare to the year end 2008 valuations?

Simon Nelson: The answer is 15% from memory, 15% down.

Further Question: Ruud van Maanen, Rabo: Then I had a question. Have the potential debt providers that you are currently in discussion with for either extending or refinancing, is one of the topics of discussion potential equity raises that could be there? And if so what are the amounts they are looking for, LTVs that they are looking for?

Peter Cassells: No that conversation has not evolved in that way. These are secured lenders so they have access to the properties that we are giving them mortgages on. So the conversations any equity raise has not been raised.

Further Question: Ruud van Maanen, Rabo: And what are the LTV levels that they are currently comfortable with in the lending market?

Peter Cassells: These are both as I mentioned around 50% LTV.

Further Question: Ruud van Maanen, Rabo: And during the whole of the structure change that now is announced, are there any other elements that are now up for discussion or could be changed during the medium, such as shareholder position or management regulations or other things?

Peter Cassells: The structure being contemplated takes a form of a corporate entity and therefore a lot of the rights of shareholders and obligations of the Board and the General Partner are set down by law rather than by Managed Regulations. So all in all a more I guess transparent position and one with precedent.

Ruud van Maanen, Rabo: Alright those were all of my questions for now. Thank you.

Operator: Your next question comes from Jaap Kuin from RBS

Question 2: Jaap Kuin, RBS: Good afternoon. My first question is on the portfolio yields. If I look at the whole of the portfolio, basically there are two outliers which caught my attention which are Spain and Poland and for example in Poland where vacancy has increased and stock has increased. Is there any way you can explain this difference in the average of your portfolio?

Peter Cassells: You might have to repeat the question or come closer to the phone Jaap, can you do that?

Repeat question: Jaap Kuin, RBS: Sorry, it is about the published yields on the different geographies where Spain and Poland are outliers and I was wondering if you could provide some further explanation on those two countries?

Simon Nelson: If you are saying that yields in Poland are showing at a lower rate than you would expect, then that is because there is an element of vacancy in the Polish portfolio. When you factor that back in, it takes us back to let me just take a look, again a 9% gross yield which I think would be more in line with your and my expectations. Is that correct?

Jaap Kuin, RBS: Yeah that is correct.

Simon Nelson: Sorry, okay, and then in Spain we have seen significant increase in yields since the end of last year as the market readjusts and frankly there are some markets that take longer to adjust than others. And as you have rightly pointed out, Spain is perhaps one of them.

Further Question: Jaap Kuin, RBS: Okay thank you very much. And then on the re-leasing of properties, is there any additional comments you can make on the effective rent levels of the new leases versus the old leases?

Simon Nelson: Yeah, the new leases are being signed at rents that are typically again, in that 5-10% range that I mentioned. There are some that are at high levels where we are coming off leases that have been indexed very strongly in certain situations in France for example. But around 10% is the overall figure for this particular pool of leases that we have done. Interestingly looking at the lease length, again we have a relatively wide range, but on average those new leases that we are signing, have an average period of over five years to the next break. So whereas we are seeing some shorter leases being signed in areas where the market is difficult, we have also been signing eight, nine and even 10 year lease extensions in some locations.

Further Question: Jaap Kuin, RBS: Okay thank you. And then on the intention to change the legal structure of the company. As you are intending to change it to a SICAF with fixed capital, is there any indication you can give on the authorised capital of the new structure, i.e., is there any indication you can give on the possible increase in capital that will be possible under this new structure?

Peter Cassells: At this stage I would not want to comment on that. It is early days and the amount of any equity raise if needed, is depending on a number of factors, currently outside our control, such as further revaluations of the portfolio.

Further question: Jaap Kuin, RBS: Okay, thank you. And then my final question. You mentioned potential hedging gain that would additionally pay down debt. Is there any order of magnitude you can give on the size of that gain?

Peter Cassells: It was in the range from a mark-to-market point of view at the end of June about 28-29 million Euros. So that is the unrealised mark-to-market of those currency swaps embedded in the CBMB's.

Jaap Kuin: Okay thank you very much.

Operator: Your next question comes from Boudewijn Schoon from Kempen

Question 3: Boudewijn Schoon, Kempen: Thank you. Good afternoon. My question would be mainly actually on the execution risk of transferring the status into a SICAF status. I mean how do you judge the chances of being able to convert and have there been examples before of other conversions from FCP into SICAF which were positive, successful, what kind of conditions could be attached to changing the status?

Peter Cassells: A difficult set of questions to address at this stage of the process. We feel comfortable and confident that we can get the changes made. We obviously acknowledge that the share price today suffers because we do not have that option at our disposal. And so I would rather not go into too much detail right now about the chances of success or failure but leave it for later on this quarter when we come out with more news on it.

Further Question: Boudewijn Schoon, Kempen: Okay, and has there been a similar in the past, a similar conversion from FCP to SICAF that you know of?

Peter Cassells: Not that I am aware of. There are SICAV to SICAF changes that have been done under Luxembourg law and FCP's to SICAV, but never this conversation.

Further Question: Boudewijn Schoon, Kempen: Okay, no precedent, thank you. Maybe one other question on the normal level retention of clients. A lot of leases will of course expire over the next few years. There was this example for the next, second half of this year, 61% already indicated that they would continue the lease. If you received all answers from them that haven't responded yet, it would be

67% retention. Does that mean that 33% indicated that they would vacate at the end of the lease for the second half of this year?

Simon Nelson: For the Q3 numbers yes. Overall for the second half of the year, we are expecting it to be closer to 70%. But again these may not be in terms of formal notices. These forward looking projections are what we calculate from our knowledge and our discussions with customers. So these are still estimates.

Further Question: Boudewijn Schoon, Kempen: Okay, so these have not been signed or agreed as of yet. It could still increase that level?

Simon Nelson: Correct.

Further Question: Boudewijn Schoon, Kempen: Okay, and you mentioned a normal retaining rate of 70-80%, is that correct?

Simon Nelson: No I think I mentioned 60-65% as an average retention rate.

Further Question: Boudewijn Schoon, Kempen: Okay, and of course you would re-let to new tenants as well. But if you would look at normal occupancy rates for European logistical portfolio that is more mature, that has seen a few changes of tenants, it is not still the original tenant in them, what kind of a normal occupancy rate would you think could be applicable?

Simon Nelson: Well this is the mature European logistics portfolio and our occupancy rates have always been above 95%. We don't have other comparable portfolios that we can look at, not with this geographical spread. And not with this size or number of customers. So it is very difficult to make that comparison. We are the benchmark.

Further Question: Boudewijn Schoon, Kempen: Okay, on the defaults you said that you had no particular early warnings of any defaults in the portfolio, Still on the tenant Ceva, what is, I mean what could be the status there?

Answer: We are clearly in close and regular contact with Ceva. They are as you know, our largest customer by some way. All of their rents are being paid on time

as they have been. I noticed that they put out a press release a couple of days ago confirming that they had successfully carried out their debt swap, I believe. And we are in close contact with them.

Boudewijn Schoon, Kempen: Yeah okay. That's okay. No further questions, thank you very much.

Peter Cassells: Thank you Boudewijn

Operator: Your next question comes from the line of Steven Vlek from Fortis Bank. Please ask your question.

Question 4: Steven Vlek, Fortis Bank:

Yes hi, this is Steven Vlek. I have just one question which again is about the conversion. In the previous call we talked about this being Plan B. And Plan A being refinancing of debt. I wonder have things changed and what triggered that change?

Peter Cassells: It hasn't changed. It has just come up as a. Its place in the line has probably accelerated more. We set out at the beginning of the year our stall in terms of asset disposals and what we wanted to obtain and we almost achieved all of those asset disposals – **[Break in sound]**

Operator: We have lost connection. Please continue to stand by, the call will resume shortly.

Peter Cassells: Sorry we were cut off and now dialled back in again.

Repeat question: Steven Vlek, Fortis Bank: I was wondering what happened to Plan A and what triggered the change?

Peter Cassells: I don't know how much you heard so I will try and repeat myself. At the beginning of the year targeted €200 million of asset sales, which we have more-or-less accomplished right now. Secured financing was and still is our primary goal and the equity raise/restructuring is not an overnight event and we need to prudently address and allow for the time needed to do this conversion.

Further question: Steven Vlek, Fortis Bank: Okay that's clear. By my calculations, you have roughly another €2-250 million of non core assets which you could sell. How much do you aim or are you going to sell in the coming half year?

Simon Nelson: We fixed a target at the beginning of the year at €200 million as Peter said, we have pretty much executed on that. We have been encouraged by the response that we got from, particularly in the UK market, so we will look to put ourselves in a position to take advantage of that, should it be necessary, but we are not fixing targets for the next batch of sales at this point in time.

Further question: Steven Vlek, Fortis Bank: Could you elaborate a little bit more on those €2-250 million of non core assets? Where are they located?

Simon Nelson: Well there is a cross section of those throughout the markets in which we are present obviously. Some of those are in the UK and it is in the UK that we are seeing the most investment interest at the moment.

Further question: Steven Vlek, Fortis Bank: Okay so there is no clear concentration. Okay those are my questions. Thanks a lot.

Peter Cassells: Thank you Boudewijn

Operator: Your next question comes from Frauke Wohlgemuth, WestLB. Please ask your question

Question 5: Frauke Wohlgemuth, WestLB: My name is Frauke Wohlgemuth, WestLB. I have just got a short question concerning the €650 million additional commitments which you are trying to get. Do these have a loan to value ratio as well and what amount can we expect?

Peter Cassells: Yes. The facilities we are looking at and we listed seven that make up this number. They are in various stages of discussion, either terms have been agreed, terms have been received and not agreed. There are a variety of situations, but the loan to value would be in line with what I gave earlier on in the call in terms of the deals that we have just completed.

Further question: Frauke Wohlgemuth: About 50% then?

Peter Cassells: Correct

Further question: Frauke Wohlgemuth: And do you already have maturity of these commitments?

Peter Cassells: You really are jumping the gun in terms of our goal is to spread maturities over a number of years, three, four, five and six years. So you would expect to see that come through in any new deals that we do.

Frauke Wohlgemuth: OK, thank you.

Operator: Your next call comes from the line of Cedric Lachance of Green Street Advisors. Please ask your question.

Question 6: Cedric Lachance of Green Street Advisors: Just returning to the SICAF conversion. What would be the cost involved?

Peter Cassells: Hi Cedric, Peter here. The cost involved in terms of the structuring or do you mean third party advisors or what do you mean in terms of costs?

Cedric Lachance, Green Street Advisors: The advisors or any taxes you may have to pay?

Peter Cassells: The conversion itself will not have any impact on the affect of tax rated PEPR. There are costs to be incurred by PEPR and again this is subject to a number of months to go before this is fully completed in terms of the conversion, but we have estimated costs of between €2-3 million.

Further question: Cedric Lachance of Green Street Advisors: You made an interesting comment earlier when you talked about the SICIAF and you talked about corporate byelaws. And it seemed to give the indication that shareholders may have more say in the future in company. Can you give us a sense of the changes in

there and the ability of shareholders to vote potentially on some various Board measures?

Peter Cassells: Well the SICAF will take the form of an SCA, a corporate entity in Luxembourg which is governed by Luxembourg law and therefore those rules are well known within that environment. The current Management Regulations are a set of negotiated terms over the last number of years that culminated in the IPO set of Management Regulations. So the structure of the future company and its Articles of Incorporation are a much more transparent from an investor point of view.

Further question: Cedric Lachance of Green Street Advisors: I guess there is a question more directly. Can PLD be replaced as a manager of the entity under those new byelaws?

Peter Cassells: They can, just like they are today under the Management Regulations. There are steps to go through in both situations and we are mirroring those in the new structure.

Further question: Cedric Lachance of Green Street Advisors: Returning to taxes and in this case the annual cash taxes you are paying. What explains the constant growth of that number in recent years and what is being done to mitigate it?

Peter Cassells: One of the overriding factors of the last number of years is the use of tax losses carried forward from the date of development of these buildings up until leasing. These companies were generating tax losses from cost of construction, financing costs and other elements of the business. They have been availed of to a large degree in the last couple of years and are dwindling for want of a better term. We are constantly looking at ways to improve the tax rate. And I think it is still a fairly favourable tax rate when you compare it with the local corporate tax rate in any of the jurisdictions where we have assets. And don't forget that the assets are held in local jurisdictions that are fully taxable. So if you compare that to the average rate we use at the end of the year, any quarter, we have already put sufficient or at least some elements of efficient tax structuring in place.

Further question: Cedric Lachance of Green Street Advisors: I noticed that the leverage covenant on your unsecured debt facility, creeping quickly towards

60%, is that something you can address in the near term? Is it part of the reasons why you need to raise equity? Or do you feel that there is enough headroom here that you won't have to address that covenant?

Peter Cassells: There is enough headroom. We don't forget that covenant, of course it is one of the ones we are looking at constantly as well as the unencumbered LTV test. And as we mentioned on the call, we are in discussions with the lead banks under that facility. And you can imagine yourself, the number of items on the table for those discussions, that being one of them.

Further question: Cedric Lachance of Green Street Advisors: And when you think about this €650 million additional secured debt, that is obviously being discussed with your bank in terms of not reaching any unencumbered or interest covered ratios?

Peter Cassells: Sorry, could you repeat that question?

Repeat Question: Cedric Lachance of Green Street Advisors: It seems if you had another €650 million of secured debt over time, which seems to be the target, you may be very close to breaching some of the other bank line covenant in regards to unencumbered debts so I would imagine you are trying to relax those provisions as well?

Peter Cassells: Well we are trying to relax and balance those at the same time. Don't forget we already have €540 million of secured financing right now in the CMBS and so it goes back to your question just before. It is the same test we are focused on to ensure that we don't breach it and that we take steps to amend or redo it in our discussions with those lead banks.

Further question: Cedric Lachance of Green Street Advisors: And maybe just one last question. In regards to the £64 million of dispositions in the UK, what was the net initial yield on that transaction?

Simon Nelson: The net initial yield to the purchaser we calculate around 8.8%

Cedric Lachance: Right, thank you very much.

Peter Cassells: Thank you Cedric

Operator: You have a question from Archie van Riemsdijk from Dow Jones. Please ask your question.

Question 7: Archie van Riemsdijk, Dow Jones: Yes hello. Archie van Riemsdijk. I have one question on your statements about the activity in the logistic markets. I did not exactly get the numbers, what you said the activity was back to the level of 2005. Could you repeat that?

Simon Nelson: Yes, in terms of take up or leasing transactions, volume of leasing transactions in the markets. Typically again, I generalised to some extent across the European markets, but the volumes that we are seeing in the first half of this year are back to levels we had in 2005/2006. So although it is a significant drop from the big volume years of the last two years, it is back to a more normalised level of transactional activity.

Further question: Archie van Riemsdijk, Dow Jones: Okay, and how big is the drop compared to first half of last year or the previous two years?

Simon Nelson: Well again it is quite a wide range across the markets. I put it into two figures, it is really 25-50% across the Western European markets and 60-75% in Central Europe. So there has been a bigger drop in Central Europe.

Archie van Riemsdijk: Okay, thank you very much.

Operator: There are no further questions on the phone line. Are there questions on the webcast?

Webcast operator: We have three questions from **Mike Gallagher of Aviva**. The first one is what are the conditions precedent to which proposed loan agreements are subject to?

Peter Cassells: Hi Mike. They mostly relate to the Hypo extension and they concern permits in Poland and the execution version of Polish security documents

that are being put in place this week. So without going into too much detail, it is becoming a time consuming process, but we are near the end of that.

Webcast operator for Mike Gallagher of Aviva: The second question is, what are the financial implications of a change in status to SICAF, for example, tax?

Peter Cassells: The conversion itself should not impact the effective tax rates of PEPR.

Webcast operator for Mike Gallagher of Aviva: Okay, and the final question is, what is the likely quantum of capital to be raised?

Peter Cassells: I think I answered that question earlier on, by not answering it. It depends on a number of outcomes to situations that are not under our control today.

Webcast Operator: That is all the questions from the webcast.

Operator: There are no more questions on the phone lines

Peter Cassells: Thank you all again for joining the call and we look forward to speaking to you with the outcome of our Q3 earnings in October this year. Thank you all.

End