



**First Quarter 2009 financial results conference call.**  
***Tuesday 29 April 2009***

**Operator:** Good afternoon, my name is Karen and I'll be your conference facilitator today. I would like to welcome everyone to ProLogis European Properties first quarter 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, Tuesday 29 April 2009. 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.

**Jennifer van der Eem:** Thank you. 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.

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.

**Peter Cassells:** Thank you and good afternoon everyone.

We are pleased to report sustained strong operational performance for the first quarter of the year and financial results in line with guidance. In addition, we have made encouraging progress on our deleveraging initiatives with €350 million of secured financing and asset sales, all in the final stages of completion. This activity and progress is particularly satisfactory given continued turmoil in the global financial markets and deteriorating economic fundamentals.

EPRA net asset value at the end of March was €8.18 per unit, a marginal increase since the end of 2008 (€8.02) as a result of reductions in the level of our debt balances and a mild improvement in the Sterling exchange rate. IFRS and EPRA earnings for the first quarter both were €0.15 per unit compared to €0.18 per unit for the comparable period in 2008. This decrease in earnings can be largely attributed to the decrease in total revenue over the year, of which over half is related to the weakening of Sterling versus the Euro in the last twelve months. In spite of this movement in the exchange rate, we are pleased to remain on track to meet our 2009 guidance.

I would now like to turn to our progress with our deleveraging initiatives.

We continue to retain all distributable cash flow to improve liquidity. As such €30 million (or €0.16 per unit) for the first quarter has been used to repay debt under our revolving facility and part-prepay the CMBS issue we retired during the quarter.

We completed the disposal of our remaining one-third investment in PEP Fund II, receiving net proceeds of €10.6 million and eliminating the outstanding commitment to invest a further €174 million over the next 16 months. We now have no stake in or future commitment to PEP Fund II.

Also in the first quarter we arranged to prepay the €336 million CMBS, due in July 2009, three months early, thereby crystallising a cash inflow of €43 million following the unwinding of related currency and interest rate swaps. PEPR used €130 million of cash and drew down over €205 million under the revolving portion of the unsecured credit facility to repay the debt.

This repayment released €551 million of secured properties, based on year end valuations, into our unsecured asset pool and enables us to focus on the 2010 maturities. Our unsecured asset pool now sits at €2.2 billion or 65% of the total portfolio value. With a virtually fully occupied portfolio, this provides us with an extremely attractive group of properties as security to offer to potential lenders.

We have €699 million of secured debt maturing in 2010, consisting of a €151 million secured bank loan with Hypo Real Estate, due in March and two CMBS loans totalling €548 million, maturing in May.

Significant progress has been made with regard to new debt financing, we have concluded on a fully underwritten three-year extension to 2013 with Hypo Real Estate

for at least €126 million of the €151 million secured bank loan. Key terms include a margin of 250 basis points over Euribor, no amortisation of loan principle and a LTV of 55%. The historic cash flow performance of the portfolio combined with relatively low LTV levels and the ProLogis global relationship were key positives during the negotiations leading up to the agreement of the terms. The extension is still subject to final credit committee approval.

In addition, we have also agreed terms for a new four-year loan, secured on UK assets, for £100 million. As with the loan extension, this term sheet is contemplated to be on a fully-underwritten basis and is similarly subject to final credit committee approval. Key terms here are a margin of 250 basis points over Libor, again no amortisation of principle and a LTV of 50%. We anticipate receiving credit approvals for both loans during the second quarter at which point we will update the market.

Simon will talk about asset sales in a moment, but on the basis that both credit committee approvals are received, PEPR will generate approximately €350 million of cash flow from a combination of the two financings just described plus the anticipated proceeds from a portfolio sale. Proceeds from these activities, in addition to healthy operational cash flow, will be used to refinance portions of the 2010 maturities and to reduce overall leverage.

In addition, we continue to make progress on our discussions with other lenders for further secured debt packages and have recently received a preliminary term sheet for a new financing of €65 million, to be secured on German assets. We also expect to receive an additional three term sheets secured on other assets in the portfolio.

In terms of the unsecured debt maturing in 2010, we have two tranches of the €900 million credit facility maturing in December. At the end of March this year, €505 million of the total facility of €600 million maturing then had been borrowed. With repayments currently underway, is being reduced to €475 million.

As disclosed previously, we intend to request an extension for all or a portion of these December 2010 maturities once we have made further progress on current secured financing packages and asset sales.

From a current liquidity standpoint, we have €53 million of cash on the balance sheet at the end of March (of which €21 million is unrestricted), and €94.5 million of available debt under the revolving credit facility. Since then, this availability has increased to €125 million following various repayments.

Turning to the financials, as mentioned earlier the main driver behind the decrease in both IFRS and EPRA earnings is the decline in total revenue, which fell €5.6 million to €68.1 million in the first quarter as compared to Q1 2008. (€73.7 million)

Over half this decline is a result of the continued weakness in the sterling exchange rate, which has reduced UK rental income by some €3.0 million when remeasured in our reporting currency. In addition there is an amount of €600 thousand of rental income relating to space that is still vacant following customer defaults last year. We have seen a €500 thousand decline in rental income as a result of leases rolling back to market together with a slight reduction in occupancy levels.

On the expense side, our cost of rental activities decreased by €1.6 million to €6.1 million for the period, from €7.7 million in Q1 2008, mainly due to higher levels of recoveries in 2009. In addition, we made €500 thousand of savings in property management fees for the period due to the reduction in the value of the portfolio in June and December 2008.

We continue to scrutinise rent receipts in these challenging times and I can confirm that we have received over 95% of all rents invoiced to customers at the end of March for either the entire second quarter or just the month of April, depending on the region.

In addition, looking at the accounts receivable balances, we have prudently provided for over 85% of the €3.1 million currently in the over 60 day category.

Fund expenses of €2.6 million for the quarter were in line with the prior period (Q1 2008: €2.7 million).

Turning to finance income and costs. Our finance income for the quarter increased by €one million to €1.8 million. The 2009 number includes the €1.3 million dividend from PEP Fund II which represents the final dividend receipt from PEP Fund II following the disposal of our remaining stake during the quarter.

Finance costs overall increased by 8% for Q1 2009 to €28.9 million. As well as pure interest expense this line item also captures realised and unrealised foreign exchange movements and a charge for the amortisation of debt raising costs.

Interest expense increased by just €600 thousand to €25.5 million in the first quarter, partially due to the increased debt used to finance our investment in PEP Fund II

during 2008, offset by the decrease in PEPR's weighted average interest rate for the period. This decreased to 4.8% compared to 5.2% for the comparable period (5.3% for 2008) as we benefitted from substantial reductions in market base rates.

Amortisation charges related to transaction costs incurred in raising debt increased by €700 thousand for the quarter following the early redemption of the €336 million CMBS and the write-off of additional fees incurred in concluding the tangible net worth covenant amendment at the end of last year.

Finally, our current income tax charge for the quarter of €5.8 million represents a 5.5% increase over the comparable period last year largely due to the reduction in loss carry forwards available to offset the taxable income. This resulted in an effective tax rate of 19.7% for the quarter, using EPRA earnings as a proxy for taxable income, compared to 16.2% for the same quarter last year.

As commented on at the beginning of the call, our financial results for the quarter are in line with our guidance for 2009. We anticipate EPRA earnings for the year to be between €0.55 and €0.60 per unit and whilst we do not expect to pay out any dividends for 2009, we expect distributable cash flow for the year to also be between €0.55 and €0.60 per unit.

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

**Simon Nelson:** Thank you Peter. I again propose to highlight three particular areas of focus within our operating business, which we consider to be the key components in facing the challenges of the current economic environment, and these are occupancy, potential defaults and the external property market factors that may impact the performance of our portfolio.

Firstly, on occupancy, it is hard to over-estimate the importance of regular contact with customers and its impact on our portfolio. The ProLogis in-house property management teams are in constant communication with our occupiers and the customer relationship is paramount in laying the ground for the increasingly difficult and time-consuming business of lease renewals and negotiations.

This foundation has again enabled the operating portfolio to show an encouraging level of activity during the first quarter, with 16 leases being signed on space covering a total of over 178 000 square metres. 10 of these transactions were lease

renewals, with core customers such as DHL in France and the Netherlands, Nippon Express also in the Netherlands, C&A in Germany and John Lewis in the UK. The 6 new leases included repeat business with customers such as Rossmann and Setto in the Czech Republic.

At the end of March, occupancy levels across the 246 buildings in our portfolio stood at 97%, still some way above our long term average. As market conditions tighten, and as a result of the portfolio management initiatives I have already mentioned, we are again seeing a high level of retentions in the portfolio. Of the 16 leases with breaks or expiries during the quarter, only 5 resulted in vacancies, for a total of 15 500 square metres.

The retention rates for the second quarter will also remain at the high rate of 84%, with 14 out of 19 leases with breaks or expiries being renewed or continued. Further out into 2009 we intend to maintain these above average levels of retention through proactive discussions as early as possible with the customers in the building.

As Peter mentioned, we are also monitoring rent payment arrears closely and where necessary working with the customer in order to ensure that payment obligations are met. Once again, close communication is the most effective means of having an early view of situations potentially leading to default. Our arrears over 60 days have in fact decreased since the year end, reducing from €3.7 million to €3.1 million outstanding.

In addition, since the end of the quarter we have received €500 thousand from a customer who defaulted in 2008 and whose outstanding rents had been fully provided for at the end of the year.

During the first quarter of the year, there was one new event of default, on 12 700 square metres at Sant Boi in Barcelona, leased to a Spanish electronics company, again a smaller, privately owned company with whom PEPR had only one lease. Since quarter end, heads of terms have in fact already been signed to re-let this space to an adjacent occupier.

As indicated on the previous call, we do expect the incidence of default in the portfolio to increase from this current low base as the consequences of the economic downturn will inevitably make themselves felt. We currently have a total of €1.6 million of annualised rent which we consider at risk, with customers that may be close to insolvency or liquidation procedures. This is from 4 separate instances in three countries for a total of 34,000 square metres.

Turning to the overall market environment, in a general context of falling GDP on the one hand and rising unemployment on the other, it is clear that the combined financial market crisis and severe economic recession will continue to create a challenging real estate environment. Forecasts for recovery are now being pushed further forward than some observers had previously anticipated.

The slowdown in the investment markets that started in the fourth quarter last year continued into the first three months of 2009, with investment volumes down by as much as 75% compared to the same period last year in all commercial sectors. Demand remains limited to high quality buildings in established locations, benefitting from longer lease terms and good covenant strength. Deals are taking longer to complete, and the market is still largely limited to equity investors, although we are seeing bank financing returning particularly for the smaller lot sizes, as Peter has mentioned.

Although the absence of transactional evidence makes it difficult to estimate the full impact of the economic downturn on investment yields it is clear that yields will continue to soften in all markets. As has happened in previous cycles, the UK looks like it may be the first market to see some stabilisation in values – having seen cap rates rise sooner, further and faster than other markets – and the first sign of this may be seen in the increased levels of investment transactions that have been taking place in that market in the last three months. Since the quarter end we are also beginning to see renewed investment activity in our sector in continental Europe, something which had not occurred in almost six months, and we are now aware of transactions now completing on logistics buildings in a number of markets. Although it is still too early to say to what extent this is an indication of confidence returning, it is nonetheless encouraging.

On the occupier side, the macro economic context is affecting all of the markets in a very similar way. As a result, rather than going through each of the eleven countries individually, I will concentrate on the major trends that we are seeing in all of the logistics markets across Europe.

- Firstly, after the strong levels of activity in 2008, there is a clear overall slowdown in demand, with decision times increasing significantly.
- On existing buildings there is continued downward pressure on rents as the reduction in economic activity leads to a growing need to minimise operating costs. The desire to restructure leases in order to cut costs is increasingly driving occupier behaviour, particularly where there is a disparity between current and market rent. In situations where we have viable customers who are willing to extend their leases early, we are negotiating rent reductions in return for longer residual lease lengths in order to preserve the longer term stability of revenues.
- With the exception of the UK and to a lesser extent Italy, the logistics markets have not suffered from overbuilding and therefore oversupply. The pressures on rents are not therefore generally exacerbated by a significant overhang of alternative speculative space.
- With the exception of Poland, where the construction cycle continued later into the second half of 2008 and where some new deliveries are still coming through, new completions have now fallen away almost entirely across all markets, further reducing alternatives to existing accommodation.
- Demand for new build to suit construction is being dampened by the higher rents proposed on new product resulting from the higher market cap rates being applied. The cost of moving is also dissuading customers from making any radical changes.
- Some sectors are showing resilience in the downturn. While high street retailers for example are reporting weaker profits and cutting back on expansion, supermarkets (particularly in the UK) are announcing better than expected results.

Finally, on the subject of asset sales from the existing portfolio, I can confirm that we expect to make an announcement shortly about the final signature of contracts for the sale of a portfolio of assets, representing proceeds of approximately €115 million. In addition, we have other discussions at an advanced stage, with purchasers that are not subject to finance, which we also anticipate will lead to completed transactions once the due diligence process is completed.

Although these transactions are taking longer than originally planned or anticipated, like all investment activity in the market at the moment, it is a testament to the underlying quality of the portfolio that we have been able to generate this level of interest and are confident that we will be making an announcement shortly in this respect.

With that let me hand back to Peter.

**Peter Cassells:** Thanks Simon. Whilst the economic environment and real estate market outlook remains challenging, we are pleased with our sustained operational performance, our resilient financial results and the positive steps made with our deleveraging initiatives.

Since the year end

- We have kept our occupancy at industry-leading levels in a deteriorating occupier market;
- We have retained operational cash flow from the business, improving liquidity
- We are at the final stage of obtaining €235 million of new secured financing, with an additional €65 million in the near term pipeline; and
- We await final sign off on the disposal of a €115 million portfolio, mentioned by Simon, again with further disposal activity in the pipeline

These activities, combined with excellent customer relationships and our prime industrial portfolio leave us confident of successfully managing the immediate challenges in a difficult market.

I would now like to open it up for questions.

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

**Question 1 : Ruud van Maanen, Rabo** Hello everyone and thank you for the presentation. My first question is the portfolio that is now nearly being sold. Is this close to the last reported book value, the transaction price?

**Simon Nelson:** As I indicated on previous calls, we are recommending disposals where we are at, within a reasonable distance of NAV. I don't want to give the full details at this stage. If you recall from last time I said that if we were in the range of say 5-10% of latest NAV, we thought that disposals would be seen as a positive thing. So you can assume from that, that that is where we are.

**Ruud van Maanen - further question:** Alright, then my second question is the other disposals that is currently in talks with. Can you elaborate a bit on how much the volume is?

**Simon Nelson:** Yes I can. We have. Well let's step back a little bit. We are discussing various packages and the total amount of those packages is in excess of €250-300 million. From that pool of assets we are progressing negotiations on a further €50-100 million at this point in time and it is our intention to continue working through that pool of assets into the future.

**Ruud van Maanen - further question:** Alright, the other question I have is the rental contracts that have now closed in the market. It shows in one of the press releases that market rents. If you see the ERVs per square metre in your portfolio, it declines 3% quarter on quarter. Does this mean that the re-lettings have been done at the lower level?

**Simon Nelson:** The lettings have been done at a lower level than previous levels yes that is correct. We are in a situation where market rents are decreasing. And by the same token, the over rented element of the portfolio is burning off as we roll leases back to market.

**Ruud van Maanen - further question:** Okay, the last question I have is you mentioned that some tenants are in a fixed cost reduction programme with the rents of course and the downward pressure there. Can you give some colour on how much rent reduction is demanded by them in exchange of longer leases or what renegotiations are about?

**Simon Nelson:** Well once again, we will look at each individual situation on a case by case basis. We do have instances around the portfolio of customers who are paying above market rents. And again the obvious example is markets where we have had very strong indexation in recent years which has taken us to a position that is significantly above market. In those cases the reduction in rent from passing rent maybe as much as 5-10% and that is fairly typical for situations where there is a disparity between current and market rent. But again don't forget that results from indexation in France for example which was 10% last year alone. So it is simply coming back to a base where we were a couple of years ago.

**Ruud van Maanen:** 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 question is about revaluations. Can you maybe confirm your outlook for revaluations for this year?

**Simon Nelson:** I am not certain that we gave an outlook, at least not officially for revaluations this year. We have been saying that we expect Cap rates to continue to soften. I do think that the UK, which has gone a very long way in terms of Cap rates being revised, is now reaching the end of that movement in Cap rates, judging by the volume of transactions that we are seeing in the market at the moment. The continental European markets have moved. They have not moved quite as far. They may not move quite as far. But that movement is likely to continue throughout the rest of this year.

**Jaap Kuin - further question:** Okay, and maybe in conjunction with that. Given the limits on the LTV, perhaps in future the strict requirements, are there any steps being taken to facilitate possible equity issue under NAV because I have understood that that requires changes in the legal structure?

**Peter Cassells:** Yes, it is Peter here again, that would require a change in the current structure. And as I said before, we are looking at putting a process in place to do such a restructuring should we consider it to be a viable option. But it is not part of Plan A. Plan A is, as we have outlined already in the call and in previous calls, is the additional financing and asset sales.

**Jaap Kuin - further question:** Okay thank you. And about the tax rate. Going forwards, what is, because the tax rate fluctuates quite a bit, what is the tax rate we can expect going forward?

**Peter Cassells:** Yes the tax rate does fluctuate. What we have done right now is we have assessed or at least given the rates based on an absolute number that is identifiable in our press release, such as the EPRA earnings. We have not done this before. It is a tricky tax calculation to estimate on a quarter by quarter basis because looking at the face of our income statement, there are certain elements of our income that are not taxable. And there are far more of the expense items at different levels that are tax deductible. So in order to provide a consistent basis going forward, we have now based it on EPRA earnings. But we would feel comfortable within the level we are right now, of 19% based on an EPRA earnings number.

**Jaap Kuin - further question:** Okay thank you. And maybe some specifics about Spain because there is a lot of talk about the problems there and the rental levels that are really high in Spain. Is there any chance that you will give more rent reductions in Spain than you previously mentioned, 5-10%?

**Simon Nelson:** You know, there is pressure on rental values you know pretty much across the board. Spain is bizarrely a market where the market has held up to a very large extent. This is largely due to supply being very constrained in that particular market. We are seeing vacancy rates beginning to creep up across the Spanish market. The vacancy, the only vacancy that we have in that market is through the defaults that I have just mentioned. Yes the new lease is at a slightly lower rent than the old lease, but you know it is not a significantly different amount to what we are seeing in other markets.

**Jaap Kuin - further question:** Okay and then finally, could you maybe explain to me how the currencies are hedged at this moment in the income stream?

**Peter Cassells:** There are no currency hedges in place in the income stream except to the extent that we have sterling expense on debt as a partial offset against the sterling revenue from the UK leases. So similar to what we do and what we have in the balance sheet, we have a natural hedging in process with debt being about 53-55% of the level of our asset portfolio.

**Jaap Kuin:** Okay, thank you.

**Operator:** Your next question comes from Osmaan Malik from JP Morgan.

**Question 3 : Osmaan Malik – JP Morgan:** Hi there. Just a question on the extension to the financing. I just wondered what the terms are on the 126 million that you have extended and how they compare to previous terms? And then also what the terms are on the £100 million new four year secured bank loan?

**Peter Cassells:** As we mentioned in the Presentation a few minutes ago, the margins are similar in both. 250 basis points over the respective Euribor or Libor base rates. For the Hypo Real Estate, that is coming from 137 basis point margin right now. The Hypo Real Estate had been at a 60-65% LTV level and that is as you can imagine in today's environment, has been curtailed somewhat and it is now at 55% going in LTV. And what is important as well is that there is no amortisation on this loan principal over the three years. And on the Hypo one just to point out as well, that the extension will start in March 2010 for a three year period, although we would hope to close on this whole transaction shortly. On the £100 million deal, it is a slightly lower LTV at 50%, again no amortisation. And as I mentioned, 250 basis points over Libor.

**Osmaan Malik - further question:** Okay, so I may have missed that slide. Did you say Hypo is Hypo extending, the deal at another bank?

**Peter Cassells:** Say that again?

**Osmaan Malik** – further question: I may have missed this in the Presentation, but is it the same bank, is it Hypo extending?

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

**Osmaan Malik** – further question: And on the £100 million, are these existing banks?

**Peter Cassells:** They are a very reputable bank who have, we have been in conversations with over the last number of weeks. And we feel confident about this deal closing shortly.

**Osmaan Malik** – further question: Okay, and they currently provide you financing elsewhere?

**Peter Cassells:** No they do not. No it is a new bank.

**Osmaan Malik** – further question: Okay, is there any? Have you made any progress on the syndicated loan, December 2010 in terms of extending the financing?

**Peter Cassells:** We have had preliminary meetings with the lead banks. They are waiting to see progress on the other initiatives that we have underway. They are very positive about the extent of our forecasted unsecured property portfolio, because we may end up offering some security on the extended piece of the debt. But in today's environment we will expect some of those banks, even upon request extension to want to exit that level of exposure. So conversations have started. We are focused on the nearer term maturities in 2010 and as a number of other observers, they are waiting to see the closure on a number of transactions that we have just outlined today.

**Osmaan Malik:** Okay, thank you very much.

**Operator:** We have one question on the webcast which is from James Wilkinson.

**Question 4 : From James Wilkinson**

Outside of the UK, what proportion of your leases allow for rents to decrease if indexation turns negative? I am particularly thinking about the French construction cost index. Thank you.

**Simon Nelson:** I am afraid I don't have a precise percentage. The vast majority are upwards only. I know there are one or two exceptions, but this is really very much the exception rather than the rule.

**Operator:** There is one question on the phone line. It is from Tom Gibney from JP Morgan.

**Question 5 : Tom Gibney – JP Morgan:** Hi there, I just wondered if perhaps you had any conversations with your CMBS holders ahead of the refinancing date next year?

**Peter Cassells:** We have not Tom. But we have that notion that part of our plan in addressing the 2010 maturities in parallel with other initiatives right now.

**Tom Gibney:** Okay, great. Thank you.

**Operator:** There are no further questions

**Peter Cassells**

Thank you very much for joining the call today. We look forward to speaking to you all again when we have our call for Q2 or at the AGM of PEPR which is scheduled for the end of May. Thank you all.

**End**