Fourth Quarter and Year End 2009 Financial Results Transcript
Thursday 11 February 2010

Jennifer van der Eem: 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, David Doyle, CFO, 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. The progress that PEPR has made over the past year is significant. I'm delighted to be representing a company today that is on a firmer financial footing, with a much healthier balance sheet and a considerably enhanced market position than 12 months ago. This time last year we were facing the need to address important refinancing issues on both our 2009 and 2010 debt maturities. We have now taken care of all these maturities, paying down a large amount of our debt in the process and today effectively no outstanding debt maturities until the end of 2012.

We need only look at the long list of our achievements in 2009 to see how far we have come. PEPR attracted a sizeable share of all commercial real estate lending transactions completed in Europe in 2009 and our recently

announced €300 million syndicated loan, which funded since year-end, is perhaps one of the largest pan-European syndicated real estate loans closed since the onset of unprecedented turmoil in the financial markets nearly two years go. The level of success achieved is also testament to the quality and defensive nature of the asset class and the focus and efforts of the management company in a tight and conservative lending market.

Without going into too much detail, let me quickly remind you of the key financial milestones for PEPR last year. In terms of refinancing, we were able to close on seven loan agreements, raising €672 million of new debt. Suffice to say we started the year with €1.3 billion of debt due to be refinanced or repaid in the near term. We have now done 95% of that, including completing over €800 million of new or extended debt financing. The details of which are amply covered in previous press releases and reiterated in today's results release. The motivation of certain major banks to transact with us reflects both their confidence in PEPR's business model and in the industrial real estate sector as an asset class.

One of our other deleveraging activities included our sale of the final share of our investment in PEP Fund II relieving us of a further investment obligation of €522 million. In addition, PEPR successfully carried out two separate portfolio disposals totalling approximately €189 million, at prices close to their NAV at the time. We also issued preferred equity, raising €61 million of capital at net asset value, contributing to a significant reduction in our debt balances at the end of 2009. We successfully renegotiated our covenants and now have a comfortable €227 million of headroom under our net worth test and, importantly, remain compliant with all other covenant tests.

On the subject of debt maturities, we will repay the outstanding €73 million of CMBS debt, freeing up to €200 million of properties to the unencumbered asset pool. This repayment represents the final chapter in series of five CMBS deals that have provided extremely cost-effective

funding over much of the last decade. This repayment will be sourced from cash on hand and operational cash flow and is expected to reduce the loan-to-value of the company to around 53% from 55% currently. At that time, the unencumbered asset pool is expected to amount to €1.3 billion, or roughly 44% of the total portfolio.

Another major accomplishment in 2009, and one that must not be overlooked amidst our efforts to solve the liquidity issues, was our ability to maintain consistently high, and indeed industry leading, occupancy levels during one of the toughest markets in recent history. We are now over 96% leased, which is a clear demonstration of the strength of our operational platform. Over the course of the year we leased almost 950,000 square metres of distribution space - our most active year on record.

While there has been a general slow-down in cap rate expansion recently, we have seen specific valuations on the increase again and we are now confident that the period of marked decline in values is at an end.

We are now well capitalised, with sufficiently long-dated debt maturities for us to be able to focus our efforts on running the business without immediate financial market distractions. In the short term, we have a sizable amount of space to release in 2010 which Simon will address later. As we proved in 2009, we are fully capable of doing this - this is our job and we do it well. We are, indeed, the market leaders, but with Europe's economic recovery still at an early stage, we are seeing further pressure on rents as customers and tenants are constantly looking for better deals while rationalising and/or downsizing their businesses. We anticipate that it may take at least a year until excess supply is absorbed in some markets and a sense of normality returns to rental rates.

Last year, the focus was on paying down our debt and restructuring the debt maturity profile of the business. While we recognise that we have now a large debt maturity in 2014, we firmly believe this can be managed

effectively, and therefore we can afford to be even more strategic going forward.

Now that we stand firmly on the front foot, our financial objectives for PEPR for 2010 and 2011 will be to seek a return to an investment grade rating and, closely aligned to that, to explore the possibilities of the unsecured debt market in order to address some of those future debt maturities; while at the same time retaining the flexibility to issue a further tranche of preferred equity should it be necessary to do so.

On the operational front, we will strive to increase the NAV of our business through asset management initiatives in order to deliver long term returns. The portfolio, with an average age of just over eight years is still considered very young and, we believe will continue to retain its attractiveness to those occupiers looking to modernise and rationalise their supply chains. Keeping the portfolio as fully occupied as possible maximises the value and ultimately the returns on our assets. In addition, where there are other opportunities to add value through minor redevelopments, these will be explored.

As previously announced, the Board and management of PEPR will shortly be embarking on a process to modernise the corporate governance structure. These changes will include the removal of the cap on voting rights; the lowering of the threshold to propose items for the agenda of any general meetings from 20% to 3% and a board on which only independent board members may vote on ProLogis related issues. We also intend to investigate the opportunity to convert our legal structure from an FCP to a SICAF once appropriate changes have been made to Luxembourg law.

Our operational priority for 2010 is to ensure we benefit from whatever improvements occur in such demand and will continue to drive cash flow from the portfolio through proactive asset management and exemplary customer service.

With that let me hand over to David

David Doyle: Thank you Peter. I am pleased to say that we have reported results today that are in line with our 2009 guidance. Before I go into the details, I'd just like to clarify that for this call I intend to stick to the full year numbers rather than go though the fourth quarter figures in detail as well. We will of course be happy to answer any questions you may have on the quarterly numbers at the end of the call.

We have reported an IFRS loss of €311 million for 2009, compared with guidance of a loss in the range of €286 to €324 million and a loss of €578 million for 2008. The main reasons for the improvement in 2009 are the €282 million of losses associated with our investment and disposal of PEPF II recorded in 2008 and a slowdown in portfolio value declines in 2009. Offsetting these improvements are a series of non-recurring 2009 charges including the €43 million loss on property disposals, €10 million of early interest rate swap termination fees related to the CMBS repayments and the write-off of €3 million of fees associated with the proposed SICAF conversion.

I will return to each of these items in a few moments, but if you were to strip them out and look at the pro forma operational result, pre-tax IFRS earnings for the year of €133 million were in line with the €137 million reported in 2008.

EPRA earnings for the year, which seeks to provide a better indicator of our underlying performance, decreased by 19% to €104 million from €128 million in 2008. Our guidance for the year was €105 to €114 million. The main drivers of the year-on-year decline are an aggregate €27 million decrease in rental income, the €10 million CMBS swap termination costs and the loss of €16 million of dividends from PEPF II which is an add back to EPRA earnings in our 2008 results. To the positive, PEPR benefitted

significantly in 2009 from €4 million of lower operational expenses and €16 million of lower finance costs.

Reconciliations between IFRS and EPRA figures are provided in today's press release. Turning then to a review of the major components of our annual IFRS consolidated income statement.

The €27 million decline in rental income for 2009 to €265 million, primarily resulted from the loss of €9 million of rental income from the 14 properties sold this year and a €7 million shortfall from UK sourced income when measured in Euros. In addition, as I reported last quarter, the 2008 numbers benefit from a €9 million non-recurring adjustment relating to rental income originally agreed when the properties were acquired but ultimately only settled that year. The impact of lower rental levels and slightly lower occupancy was, in overall terms, fairly immaterial in 2009. Looking forward into 2010 however, we do expect rental income to come under pressure from these factors.

Turning to expenses. Our total property related expenses decreased 18% to €26 million for the year, primarily due to savings of over €3.5 million in property management fees related to the reduction in portfolio value since last year and lower levels of bad debt expenses in 2009.

Fund expenses increased by €2 million to €14 million, primarily due to the write-off of €3 million of costs associated with the proposed legal structure conversion, offset by a €1 million decrease in fund management fees paid to ProLogis as these are again directly correlated to portfolio value. In addition, 2008 included a €1 million non-reclaimable VAT expense, so in net terms expenses were up €1 million year-on-year.

Property and fund related expenses as a whole should remain relatively flat in 2010 given the increasing stability in property values.

As we reported previously, we have recorded a €43 million accounting loss on the sale of the two property portfolios sold in the first half of this year. These disposals generated €189 million of proceeds.

Total property fair value movements for 2009 resulted in a net loss of €445 million, reflecting the independent portfolio valuations completed through the year. As Simon will discuss these in a moment I don't intend to dwell on them here.

Turning to finance income and costs. Our finance income for year decreased to €2 million from €5 million in 2008, reflecting both the lower level of cash on deposit as we repaid debt and the lower interest rates available in 2009. These declines were partially offset by the €1 million dividend receipt from PEPF II in the first quarter of this year.

Overall, finance expenses decreased by €8 million or 7% to €108 million from €116 million in 2008. Within that our pure interest expense decreased by €12 million to €96 million. We repaid and rescheduled substantial levels of debt in 2009 as well as benefitting from the substantial reductions in base rates across Europe. In round numbers, our 2009 interest expense is some €7 million lower than in 2008 due to lower levels of debt and €15 million lower due to a lower average interest rate of 4.6% compared to 5.3% in 2008.

Offsetting these benefits is the €10 million early termination fee on the interest rate swaps associated with the CMBS debt prepaid during the year. These fees were incurred in order to release assets into unencumbered pools and thus facilitate the closing of new secured debt facilities.

Whilst not reflected in the income statement, it should be remembered that in cash flow terms, the €10 million charge was substantially more than offset by some €78 million of gains on currency swaps that became

available to PEPR on the unwinds. You can see this benefit reflected in the statement of cash flows.

This substantial decrease in interest expense was partially offset by a €4 million increase in amortisation costs including €1.1 million of accelerated amortisation on the prepaid CMBS, the set-up costs of the new debt financing concluded during the year and the amortisation of additional fees incurred in amending the tangible net worth covenant in December 2008 and September 2009.

Looking forward, we do expect interest costs to increase in 2010, not least due to the 175 basis point increase in the coupon on our €500 million Eurobond, to 7.625%. As we discussed in the Q3 call, this increase came into effect as a result of Moody's downgrade of PEPR to Ba1 in June, and remains in place until we return to an investment grade credit and even then would only become effective on our annual interest payment date in October. As Peter has already commented, returning PEPR to investment grade is a management priority for 2010.

In addition, our average interest rate will be impacted by the fixed rates achieved on new debt facilities of between four to six percent and the expectation that a higher proportion of our debt will be at fixed rates of interest in the future. Whilst dilutive in the near term, we believe base rates could increase quickly if inflationary pressures come to bear and as you all know we have consciously chosen to swap all of our new facilities into fixed rate exposures.

Finally on the income statement, we recorded a net tax benefit for the year of €58 million, an 18% increase on the €49 million benefit in 2008. This breaks down into a €17 million increase in deferred tax benefit which is primarily driven by the portfolio devaluations, offset by an €8 million increase in the current income tax charge. This increase in the current income tax charge is in itself largely due to a €5.7 million capital gains tax charge related to the first half asset sales.

Adjusting for this one-off tax expense, the 2009 current income tax expense has risen by €2.2 million and reflects the absorption of tax loss availability across various jurisdictions together with lower levels of interest deductibility as loans at asset owning company level are repaid. This represents an effective tax rate of 19.9% for the period, using EPRA pre-tax earnings as a proxy for taxable income, compared to 15.4% for 2008. Looking forward we will continue to pursue strategies to manage our tax expense and anticipate a slightly lower income tax charge in 2010.

Before I move onto guidance for this year, I'd just like to take a moment to look at our capital structure. Our balance sheet is in a significantly stronger position than a year ago following the substantial refinancing activities and deleveraging achieved through dividend retention, asset sales and the convertible preferred equity raise. We remained in compliance with all our debt covenants throughout the year and expect to continue to do so. Our loan-to-value ratio at the end of 2009 was 55%. We expect this to decline further towards our target leverage rate of the low to mid 50% as we continue to use distributable cash flow to reduce outstanding debt.

Finally, turning to guidance for 2010, we expect EPRA earnings between €0.45 and €0.50 per ordinary unit, reflecting the anticipated increase in PEPR's finance costs, the preferred dividend payments and our assumptions around further rental decline and stable occupancy levels for the year.

As usual, distributable cash flow to ordinary unitholders is forecast to be in the same range of €0.45 and €0.50 per ordinary unit. As I'm sure you know the terms of PEPR's €900 million unsecured credit facility currently prohibit cash distributions to ordinary unitholders. As a result, we are not forecasting paying ordinary dividends in 2010, although we intend to revert to paying an ordinary dividend as soon as it is prudent to do so and when permitted under the terms of the facility.

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

Simon Nelson: Thank you David. The fourth quarter of each year tends to be one of the busiest from a leasing perspective with a number of leases breaking or maturing in December. 2009 proved no different, with a total of 31 transactions completed on over 331,000 square metres of space during the last quarter. For the year as a whole, this took our total to nearly 950,000 square metres of leasing transactions, which is over 40% more than achieved in 2008.

Our retention rates remained high, and ended at 76% for the year. Even given the inertia that typically characterises markets in a downturn, as occupiers put expansion plans on hold, this is significantly higher than the historical trend of 60-65% and is a testament to the continued hard work and perseverance of the leasing teams in the field. As the general economic turmoil eases and the markets free up again in 2010, we do not expect retention rates necessarily to remain at this level, with a return towards the historical average being more likely.

That said, looking at the 36 breaks or expiries covering 337,000 square metres we had at the end of 2009 and have in the first quarter of this year, we have already agreed terms with 60% of those customers with another 107,000 square metres of space being signed since year end.

Given the high level of retentions last year, it is therefore unsurprising that around 80% of our Q4 activity related to lease renewals - 26 leases were renewed on some 280,000 square metres of space - with the remainder predominantly made up of new leases, as few customers were choosing to expand their space requirements during the year.

We signed three new lease contracts during the quarter on over 47,000 square metres of space. The largest of these was in fact part of the

largest leasing transaction in the Spanish market this year, where we signed nearly 27,000 square metres with Carreras, a Spanish 3PL at our building in Penedès, Barcelona.

Overall, the 31 leases signed in the quarter, showed an 8.5% decrease in passing rent. This remains towards the low end of the range of rental value movements that we are seeing in various markets, which vary from 5% or less in northern or western European locations that are not unduly affected by oversupply, to 15-20% in markets in central Europe which continue to trend downwards in many cases.

In spite of this, the same store rental figures for the portfolio as a whole decreased by just 1.2% compared to this time last year, as a result of rent increases or indexation elsewhere in the portfolio offsetting the slight increase in vacancy.

On the subject of indexation, the French cost of construction index published last week again showed a negative adjustment for its third quarter value of -5.7% year-on-year. As I mentioned on the last call, this is the logical flipside of the steep increases seen in recent years. Once again, however, the lease structuring that we have been carrying out on the French portfolio over the past few years, with collars and caps on indexation, means that the impact of this is greatly reduced, to the extent that there will in fact be a slight increase in our rental income for the quarter to which the new index will apply, given the minimum indexation clauses in place. We have this kind of arrangement in more than 60% of our leases in France and will continue to structure leases in this way for as long as we see a risk of low or negative inflation.

As anticipated in our third quarter numbers, three customers did ultimately go into default on their leases during the last quarter of the year, on just under 40,000 square metres in France, Spain and the UK. As with previous customer defaults, all were smaller companies, with PEPR's exposure limited to a single lease. Looking back over the entire year, the

level of defaults was therefore limited to 9 instances (out of 208 customers), significantly below the amount budgeted at the beginning of the year. Looking ahead, we currently have two customers on the watchlist, for a total of 12,000 square metres and €720,000 of annualised rent.

In terms of rent payments, we continue to monitor our accounts receivable extremely closely. Arrears over 60 days now stand at €2.3 million; this again is down from the third quarter and is a significant reduction from the €3.4 million reported one year ago. Again, although this is clearly encouraging, we are not going to get complacent or draw any lasting conclusion from this number and will remain highly focussed on working with customers to ensure that payment obligations continue to be met.

Turning to valuations, as part of the convertible preferred equity raise, we completed a full independent revaluation as at 30 September as well as the usual mid end valuation, giving us two points of reference. The movement between the two three-month periods shows a distinct slowdown in value declines for the continental European markets and a sharp upwards correction for the UK in the fourth quarter.

Overall, we recorded a 4.5% decline in market value between June and September and remained broadly flat in the fourth quarter, if you exclude currency impacts. These decreases mean that we have recorded a 13.4% fall in portfolio values for the full year, excluding disposals and currency. With these factored back in, the portfolio value fell 5.2% to €2.8 billion from €3.0 billion at the end of June 2009 or 12.4% over the full year.

I think it's worth spending just a moment on the market conditions we have experienced in 2009 and the way we see things evolving in the coming year, as I do believe that we will look back on the second half of 2009 as a turning point in the current cycle, or at least as the end of the

period of sustained decline in market values that started two and a half years ago.

Investment transactions in the European logistics sector fell to around €6 billion in 2009, just half the volume seen in 2008 and only around 25% of the heady levels of 2007. However, the low point was reached in the first quarter of last year and volume of investment increased steadily as the year progressed and as investor confidence returned. With some moderate improvement in the availability of bank financing, there is now growing evidence that the market is returning for both prime and mid-range properties, though demand remains concentrated in the traditional core locations. Furthermore, the amount of capital looking at entering the market is still increasing, with the UK retail funds and German open-ended funds in particular seeing significant inflows during the last three months.

The UK once again led the way in this capital market recovery with a sizeable bounce in cap rates, which at the very prime end of the market have now reduced by up to 175 basis points since just before the summer, with transactions currently being rumoured at rates as low as 6%. Cap rates in Western Europe were already stabilising going into Q4, and we are already seeing improvements at the prime end of these markets.

Towards year end we also saw the first investment activity take place in central Europe after over a year of vacuum, signalling a beginning of stabilisation of yields in those markets as well.

Coming back to our values in more detail starting with the UK, our portfolio value was essentially flat between the June and September valuations and showed a marked increase of 5.5% to £439.2 million at the end of the year. The minor strengthening of the sterling exchange rate has further improved the valuation result in our euro denominated accounts.

As expected, given the usual time lag between cycles in the UK and on the continent, the decline in value of our continental properties continued during the second half of 2009, although we experienced a slowdown in the rate of decline in the fourth quarter.

Our Northern European portfolio value declined 3.3% from June to September and a further 2.0% to December, reflecting the continued upwards yield shift of around 20 basis points and the slight increase in portfolio vacancy during the second half of the year.

While overall take-up in the German market remained relatively strong, down less than 10% on the previous year at around 3¼ million square metres, nearly 50% of this was accounted for by owner occupiers. The leasing market was therefore down by around 35% compared to 2008. Although market rents decreased by around 6% over the year, rents for build to suit projects are now increasing giving the scarcity of developers.

A fall in take-up of 20% in 2009 resulted in pockets of oversupply in some markets in the Netherlands, but increased confidence about near-term economic conditions and the relatively low levels of current unemployment in the northern European countries means that these markets are expected to show resilience and any sustained increase in demand could quickly absorb the vacant space.

Our Southern European assets showed a similar movement, falling 3.3% from June to September 2009 and a further 2.0% to December as a result of lower market rental values during that period.

France saw take-up fall by 15% to around 1.3 million square metres, although there was a modest increase in leasing activity in the last quarter. Along with many European economies, France's economic performance in 2009 was the weakest since the last world war, but industrial output was increasing again at the highest rate in 10 years by the year-end, and we are beginning to see an improvement in customer

confidence and a reduction in shadow space in our buildings. Prime investment yields moved above 8% as transaction activity dropped significantly in the first part of the year, but by year end this was picking up again and we expect to see evidence of cap rate compression at the top end of the market coming through very soon.

Italy had a year of two halves, with no deals at all in the logistics sector during the first six months, but transactions later in the year bringing investment volumes up to 50% of 2008 levels, albeit at a low amount of €200 million. The leasing market remains relatively soft, with pockets of vacancy in some locations.

Spain has seen some of the biggest rental declines over the year, with a fall of around 20% in some locations around Madrid, where there is significant vacancy. Investment transactions were limited to only €80 million during 2009, a reflection of the country's well-documented economic and financial difficulties.

The Central and Eastern European markets have suffered the most during 2009. Take-up across the region was down by a third to around 1 million square metres, with market rents falling by 15-20% in some areas. Poland still suffers from oversupply in a number of markets, and investment activity across the entire region fell to only €175 million, almost all of which was in three fairly atypical large sale and leaseback deals.

Unsurprisingly, therefore, our Central European assets suffered the largest valuation decline within the portfolio, falling 7½% in the third quarter and an additional 2.3% to the end of the year.

Overall the gross yield on the combined portfolio in the December valuations therefore increased 40 basis points to 9.1%, representing an 8.7% net initial yield or cap rate. As we have done all the way through the downturn of the last couple of years, we have consciously and conscientiously ensured that our assets are fairly marked to current

market values, something that we have demonstrated during the last year in our ability to sell assets in a difficult and falling market at minimal discount to previous NAV. That said, I do believe that an 8.7% cap rate on a portfolio of this quality is beginning to look mean and that many market yields in continental Europe are now at a level that is some way above what we would expect to see as a long term average.

Nonetheless, we still remain cautious for this year about market rental levels which are likely to continue to soften, albeit at a reduced rate. Until there is tangible proof that the improved confidence we are seeing in economic forecasts is translating into a real increase in activity, we are likely to see only a sluggish recovery. However, once the upturn in demand is there, which could happen during the course of this year, we will see a number of markets moving quite quickly to a situation of undersupply and may be surprised at the rate at which rents could recover.

This time last year I mentioned some of the factors on which we were going to concentrate during 2009 in order to influence our operational activity and performance in what we saw as a very difficult year.

Firstly, the focus on occupancy, given the extreme turmoil of the markets at the time. We subsequently signed 88 contracts on nearly 950,000 square metres of space, including 19 new deals on vacant space for 177,000 square metres.

Secondly, the focus on the recovery of receivables and arrears, again given the fear of rampant distress in the corporate sector at the time. We have reduced our arrears by one third compared since then and have seen defaults limited to less than 1.5% of the total annual rent.

Having delivered on these objectives during the most difficult economic and financial circumstances in the last fifty years, it is our firm intention to continue to do so as the markets move towards recovery.

With that let me hand back to Peter.

Peter Cassells: Thank you Simon.

Let me finish by reiterating our achievements in 2009 and highlighting our areas of focus for 2010. Last year's activity was dominated by the successful measures we have taken to reduce or refinance our debt. We have successful refinanced or repaid 95% of the €1.3 billion of debt that was due in 2009 and 2010 and have the liquidity available to address the rest. As a result, we have addressed all maturities to the end of 2012 and have more than adequate headroom on all covenants.

At the same time, and despite the challenging market conditions we completed a record number of leasing transactions – 950,000 square metres – delivering a sustained high occupancy rate of over 96%.

Looking forward, we remain cautious with regard to net occupier demand and short-term rental declines in 2010 but see scope for improvement beyond then as the forecast economic recovery filters through to occupier demand. Driving occupancy will remain our key priority for 2010. At the same time we will focus on a return to an investment grade rating which will provide material financial benefits and focus on returning to paying ordinary dividend when prudent and practical to do so.

One again apologies for technical difficulties during the call and hope the presentation wasn't too disrupted. With that let me open it up for questions.

Question: Ruud van Maanen, Rabo Securities: Hello everyone and thank you for the Presentation. I had some questions regarding Q4 one-offs that might be in there in the financial costs, maybe in the taxes and general costs. Could you please comment on that?

Answer: David Doyle: I think the prime cut off cost in Q4 is the write offs on the various professional and advisory fees that we incurred as a result of the work towards the legal conversation. That is the prime factor. There is also a little bit of additional tax expense as we work our way through the final Quarter and it is not really Q4 related, it is more truing up numbers as we work our way through the course of the year so that delivered a little bit more tax expense that has it fed its way into the Q4 numbers. But the primary number is that write off of the €3.3 million

Further Question: Ruud van Maanen, Rabo Securities: And the financing cost for the repayment of the CMBS, did that have any one-offs?

Answer: David Doyle: Yes there is the €10 million charge that I referenced earlier in the discussion as to the early repayment of the CMBS swaps.

Further Question: Ruud van Maanen, Rabo Securities: And that was fully in Q4?

Further answer: Peter Cassells : No, largely in Q4. A large chunk of that Ruud was related to the early termination of the debt of a lot of the assets that we re-secured subsequently. But the bulk of it would have been in Q4.

Further Question: Ruud van Maanen, Rabo Securities: And then regarding the effective tax rates that have moved up excluding the one-offs. If you look at Q4 that has moved even beyond the 19.9%. I heard a quick explanation what it was about, what happened, a little bit too fast for me. Can you give some more background on that?

Answer: David Doyle: As I said, my only question is you work your way forward to the end of the year that you start to go back and have a look through and threw some numbers up. So we found a little bit more tax, it is across a variety of regions. I think the main thing is that

we have got some plans in place to continue to address that tax expense number. And as I commented, that we believe that the tax number in 2010 will come down a little bit in absolute terms from where it was in 2009. And I would also add that that percentage that we have referenced with perhaps being a fractionally unkind to ourselves, in that that percentage includes the €10 million of CMBS charge. And of course if you were to strip back that one off charge, then the effective tax rate would be somewhat lower.

Further Question: Ruud van Maanen, Rabo Securities: Okay but I hear some several countries, but I don't really understand where it comes from. Some plans in place for lowering the rate from 19.9% slightly, is that to 18 or 19% level. Do you expect it is going to drop even more?

Answer: I contemplated providing some sort of guidance on effective tax rate. But in actual fact, it is one of those average numbers that as a result of being an average is actually a meaningless number. Because we are talking about so many European jurisdictions with so many different tax rules, that it just becomes in actual fact misleading. And that is why in the comments I made earlier, I referenced a slightly lower absolute number. Without belabouring the point, there are broadly three areas where our tax charges come from. It is the way in which we are able to utilise tax losses. It is the interest deductions which we are able to generate at an asset owning company level as we push debt down into the asset owning companies. And it is through tax depreciation and so we are constantly working those three variables and looking to find opportunities on a multi-jurisdictional basis to minimise those three factors that broadly make up the tax charge.

Further Question: Ruud van Maanen, Rabo Securities: And actually being an FCP, your structure to avoid tax as much as you can, is there still a benefit from being FCP to being a normal company? What

would have been the tax rate or is there no change to that related to this situation?

Answer: Peter Cassells: I guess looking back over time, I mean the only reference point you can have is if you were a company owning all these assets directly and I firmly believe the tax rate would be higher. If you look at the operational tax rate at any one of the 11 countries and you combined them. Also the FCP provides you with an efficient way of paying dividends when we return to do so where there are no deductions for withholding taxes. And that is one of the added benefits of this structure.

Further Question: Ruud van Maanen, Rabo Securities: Okay and because there are also still some repayments of CMBS in Q1 and Q2. Are there some one-offs expected already for Q1 and Q2?

Answer: Peter Cassells: No, they have been taken.

Further Question: Ruud van Maanen, Rabo Securities: Okay and I believe in Spain there has been a large contract closed recently, which is quite favourable in these markets. I understand that this was also related to a buying off or an early termination of a previous contract. Can we expect a one-off positive from the buying of this contract or was this part of the deal for the new one?

Answer: Simon Nelson: It was actually part of a wider deal that involved a extension on a separate lease of a building nearby in the same sub market. So the early termination on the lease one building was effectively traded for a longer lease in another building which was pushing up the lease break on another 42,000 square metres of space in the same market.

Further Question: Ruud van Maanen, Rabo Securities: Okay and then I had a question related to the EPRA earnings per unit, if I look at

the Q3 press releases for the first 9 months. It stated 46 cents per unit, adding 5 cents for the last Quarter, I come to 51. But the Press Release said for the full year 54. Is this difference relate to in any way into the convertible preferred units or is there a different explanation?

Answer: Peter Cassells: It is more down to the reversal of the one time costs that you see that we took out of the EPRA earnings. So we get to 54 cents overall for the year which is what David reported earlier on for EPRA.

Further Question: Ruud van Maanen, Rabo Securities: Okay, you say there is one key element for 2010, is to get investment rate on the bond back. What kind of measures do you expect to take for this?

Answer: Peter Cassells: Well in fact, we are going into too much of the methodology of Moody's, as I am sure you are quite aware of, PEPR's underlying business model is still rated as investment grade by Moody's. That concern last year, and they made it clear when they reported in June, was over the execution of the many debt transactions we had underway at the time. And therefore they didn't feel comfortable leaving us at the level with that set of execution risk out there and the size of the debt maturities. Now you roll forward 6-7 months from there, you see we have done everything that gave them concern. In fact a number of the measures that they rate us against, we can report a more favourable position. And I believe that we have done all that is necessary to get to an investment grade rating. But that remains to be seen when we make the presentation to them very shortly.

Further Question: Ruud van Maanen, Rabo Securities: Okay and then my last question talks about the retention rate which is currently pretty high, getting back to a historical level. Can you remind me again what level the historical level is?

Answer: Simon Nelson: We have always said 60-65% is a normalised long-term average.

Ruud van Maanen: Alright those were my questions. Thank you.

Question: Jaap Kuin, RBS: Good afternoon. My first question is more a general question for you Peter. Could you maybe provide us with your thoughts on the strategic possibilities for the PEPR, for example, portfolio expansion taking into account the stabilised company in the medium to long-term.

Answer: Peter Cassells : Yes, you are right. We have a stabilised asset portfolio which was very carefully managed last year. Obviously the concentration from the balance sheet side was on the debt maturities and now the primary focus in 2010 is back to the leasing obligations that we have facing us, or the re-leasing obligations. We are set up as a stabilised business that would ordinarily be paying dividends. We are blocked from it right now, but we intend to address that. There are all these opportunities for asset management initiatives and we have historically recycled assets from the portfolio and we will probably continue to do so when the time is right. Last year we upped the target of disposals and met that quite comfortably even within the first six months of the year. And we will be looking at our portfolio on a long-term basis, we have now seen stabilisation in the NAV of the business or the valuations of the properties. We believe there is an element of growth still in our share price to get closer to NAV or to reduce the discount of which we are at today. And we believe that NAV itself will start to grow over the next couple of years as the valuation declines that we have seen in the last 2½ years reverse.

Further question: Jaap Kuin, RBS: Thank you and maybe going on about the dividends. In combination to that, what would be your target loan-to-value level and what does it say to me about the possibility of more preferred equity raised?

Answer: David Doyle: I think I included in my comments that we would look into a 50-55, low 50's as a target leverage. In terms of our thinking about the potential of a further equity raise, I think the first thing is obviously to reflect on the huge amount that was achieved in the course of 2009 and we successfully closed every debt facility deal that we were working on. So we will continue to evaluate the trade offs of a further equity raise which is broadly you know further reducing our leverage versus the earnings dilution that would likely result on the coupon on the preferred relative to the existing debt that we would retire on receipt of the cash and the impact on the interest coverage ratios. We have already talked about the importance we attach to returning to an investment grade rating. And certainly that impact on interest cover ratio of the coupon on the deferred would be something which we are taking into consideration and balancing out as against the pros and cons that we are continuing to look at and indeed will be discussing it again with the Board in the near future.

Further question: Jaap Kuin, RBS: Okay, Thank you. And then about your unsecured credit facilities, what is exactly the amount outstanding at this moment that needs to be redeemed to actually get rid of the covenants?

Answer: Peter Cassells: Well the remained debt maturity on that facility is about €267 million for December 2012. So in terms of removing the block or removing the prohibition on dividends that would be due, if it was paid off in its entirety. To renegotiate the terms that are prohibiting the dividend payment and you have seen from last year how we have been able to negotiate with the set of banks. Or to raise the supplemental amount of equity that was stepped down as a limit when we renegotiated the terms last year. So in detail, €200 million minimum equity raise, we have done €61 million. And if we did another €140 million lets say, that would allow us to return to paying dividends albeit still restricted to 50% of our distributable cashflow. So we are evaluating those different

measures and the different trade-offs between them as to what will be most beneficial in the long-term and that is where we are today.

Further question: Jaap Kuin, RBS: Okay thank you. And then on your outlook for next year, can I ask what is your projected average interest rate on that outlook and what exactly have you assumed for the pound/euro exchange rates?

Answer: Peter Cassells: I will reverse that and let David talk about the interest rate. But the exchange rate we have factored into the model is 0.85, so 85 pence to the Euro. And I think we alluded to the interest rates that we have on our fixed rates. So between 4 and 6% is where we have the bulk of the secured debt. Don't forget we have the additional margin on the €500 million Eurobond that comes in at 7.625% quite expensive which is why you see we want to return to investment grade. And then we have floating rate debts with 270 basis points on the 2012 revolver. So you have the mix of those rates.

Further question: Jaap Kuin, RBS: But do you think that on average, can you give me a number on the combined average?

Answer: Peter Cassells: There is only one small variable in there which is where you see the variable rate on the revolver for 2010 and I don't have a weighted average rate in front of me of those three pieces, but it a the smallest piece of all three so it has the least impact. The important one to look at again is how you measure the interest rate on the 500 million bond beyond October next year and that is what we are also focusing on.

Further question: Jaap Kuin, RBS: But the current you are assuming the higher interest rate on the Eurobond?

Answer: Peter Cassells: We have to until 23 October. It is a one year interest period. And once we got the downgrade last year, the higher

interest rate kicked in from 23 October '09 until 23 October 2010. So that is a big drag on that number.

Further question: Jaap Kuin, RBS: Okay, that is clear. And again maybe you can repeat the amount of cash you received on the unwind of the CMBS? I didn't get that.

Answer: Peter Cassells: On the unwind of the CMBS over the last let's say 10 months, it is over €70 million in terms of the currency swaps that were in place that we terminated early. You remember a sizeable portion of the CMBS secured debt on UK assets when the exchange rate was somewhere in the 60s. So 60-65 pence to the Euro and they were all cashed out anywhere between 85-90 pence to the Euro. So that is where that money came in as a cash inflow. And then on the other side we had to terminate the interest rate swaps that were also part of the same CMBS's and they cost us about €10 million throughout 2009 with the bulk being at the latter end.

Further question: Jaap Kuin, RBS: Netting that is around 60 million?

Answer: Peter Cassells: Yes, from an accounting point of view this is maybe the pessimistic accountant talking, but the €10 million went through the income statement, but the €70 million went through equity. So it didn't hit the income statement. But both came, they were real cash numbers and both have, you can see them on our cashflow statement.

Further question: Jaap Kuin, RBS: Then my final question is during the last call and Press Release you mentioned something about signing contracts for solar panels on the roof of your buildings. Is there anything you can update on that in terms of rent expectation? Is it significant or can we ignore this for the coming year?

Answer: Simon Nelson: The Spanish deal is progressing as expected. The second phase of the rollout is predominantly in Germany.

And you may know that Germany changed their feed-in-tariffs about 10 days ago, which means that there is a certain amount of recalculation on all of that. So it is up in the air for the time being. So I would not focus on that just yet.

Jaap Kuin: Okay, thank you very much, those were my questions.

Question: Boudewijn Schoon, Kempen & Co: Good afternoon all. I have a few questions. First of all you already touched upon the dividend and the options you have to start paying dividend again. I now assume, I mean is it fair to assume that chances are I mean big that you will restart paying a dividend as from 2011?

Answer: David Doyle: It would be our ambition all things being equal that at some stage in 2011 we might be in a position to contemplate doing so. But that is you know very much a forward looking view. And there is a lot that can happen between then and now. And it is also clearly a discussion that needs to be had with the Board in the ensuing 12 plus months.

Further Question: Boudewijn Schoon, Kempen & Co: Okay, and how do large shareholders feel that? I mean how much do they value the dividend?

Answer: David Doyle: I think if you look at the, almost the raisen d'etre of the business, it is to manage a relatively stable book of business exceptionally well to deliver both growth in value and a flow of income stream. We have clearly had to take some actions over the course of the last 18 months to address all the implications of the global financial crisis. We have talked about that a huge amount and the successes we have had through the course of 2009 in addressing that. I think we, the Board and our shareholders would like to get to a place that is repaying dividends as soon as it is sensible and prudent to do so.

Further Question: Boudewijn Schoon, Kempen & Co: Okay, but it is still, I mean I hear from the other conditions you mentioned, it is well maybe just a bit more than 50% chance that you will start in 2011 or is that difficult to quantify?

Answer: David Doyle: I am not going to put any percentage terms to it at all. I think it is too far out and there are too many things to happen as yet. Again it is one step at a time. We took a huge leap in deleveraging the balance sheet in 2009 and addressed further maturities, there is a variety of things all to play out as yet. So one step at a time.

Further Question: Boudewijn Schoon, Kempen & Co: Okay, it was mentioned and perhaps my question maybe you can elaborate on this and I think Peter should answer I guess. You mentioned the SICAF status. I mean that previously was a means to come to the market by issuing common equity. To what extent indeed is it still on the agenda? You mentioned changes in Luxembourg legislation. Could you elaborate there?

Answer: Peter Cassells: Surely. There are probably two elements to it. One is the modernisation of the corporate governance. That is the step that we can take without waiting for a conversion to a SICAF. And we have put steps in motion and we will be approaching all investors in the run up to the AGM this year with the proposal to amend the management regulations as we proposed, as we talked about at length last year. So that is one thing we are definitely on track to do. The second which is the conversation to SICAF, is to some degree out of our hands. There are certain types of Luxembourg legal entities that we cannot become until the Luxembourg law changes. Those law changes are not envisaged until the first half of 2011. And at that stage we will evaluate whether we will make the change from FCP to SICAF. So again it is a little early to say right now, but you separate the two objectives; the corporate governance first and then seeing how the law change in Luxembourg. We will then evaluate the SICAF conversation at the end.

Further Question: Boudewijn Schoon, Kempen & Co: Okay. And these law changes, are they, I mean I really didn't look at them in specific before. I thought they were not that relevant. But that is a new factor to take into account to have?

Answer: Peter Cassells: Well not to say they are not that relevant. They are, to us they are important. They are not huge changes in the Luxembourg law and we already have been in conversations with various working parties who are advisers to the law changes to do with the new UCITS rules. And they believe that the changes that we require are not substantial to the law. And therefore should be possible to be processed at the time that the Luxembourg Parliament approves the changes to its laws to reflect the current changes in European regulations.

Further Question: Boudewijn Schoon, Kempen & Co: Okay fair enough. And as far as discussions with shareholders on the change to SICAF has anything changed there? Are they more willing to allowing SICAF or is that a topic on the discussion?

Answer: Peter Cassells: I don't think there was ever disquiet about the conversion itself to be very honest. I think the conversion to SICAF will be looked upon as favourably as it was last year. There are other issues as you recall that led to the postponement.

Further Question: Boudewijn Schoon, Kempen & Co: Alright, so the chances of them blocking a SICAF conversion now would be less if you can comment on that?

Answer: Peter Cassells: I would rather not for obvious reasons, but I believe we are in a far stronger position all of us than we were six months ago or nine months ago. There are many things that are on our table this year and that is definitely one of them.

Further Question: Boudewijn Schoon, Kempen & Co: Alright very good. And as a follow on question, would it also imply that the preferred unit would then be bought back?

Answer: Peter Cassells: Not automatically. I mean there is a provision in there for them to be converted, at a premium, should PEPR convert SICAF within 24 months of last December. So it is not a forgone conclusion, but the possibility exists.

Further Question: Boudewijn Schoon, Kempen & Co: Okay and maybe a last question on the portfolio. It was said that 2010 is still going to be a difficult year. As far, you had a -1.2 in like-for-like rent, plus -1 as a result of occupancy decline. Can you quantify what you expect for 2010 as far as decline on a like-for-like basis?

Answer: Simon Nelson: It is very difficult to project rental values could start to move in the opposite direction sooner than anticipated. One of the things that I have talked about on previous calls is the total absence of new supply being put into the markets. Development activity and new construction stopped pretty much 18 months ago. And we are now really in a situation where the over supply, there are just pockets of over supply in certain markets which were overbuilt around Europe. And any uptick in demand is likely to absorb existing space in the majority of markets which could, as I say surprise us all in terms of the way rents are coming back. We are not expecting significant difference from the sort of variation that we had in 2009.

Boudewijn Schoon: Okay that is something. Alright, well thank you very much.

Operator: There are no further questions on the phones. I will now hand the call back to you Mr Cassells to see if we have any questions from the online webcast?

Peter Cassells: We don't have any questions from the online webcast. So thank you all again for joining the call. Once again, apologies for the disruption mid call. And we look forward to speaking to you all again in April.

- End -