



Second Quarter and Half Year 2010 Financial Results Transcript
Thursday 22 July 2010

Jennifer Crooke: 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: Good morning everyone and welcome to PEPR's second quarter results call. After a very active 2009 and early 2010, during which we successfully worked through a deleveraging and refinancing plan, we continue to focus on our core business of managing the portfolio.

We are pleased to report that we have once again achieved steady operating and financial results during what remains a challenging market environment. These results are testament to the quality of PEPR's pan-European portfolio, established customer relationships and the expertise of our management teams, who continue to manage the portfolio to highest standards.

The first half of the year was dominated by significant leasing activity as we continue to prioritise portfolio occupancy. In the first six months we completed 700,000 square metres of lease transactions compared to 400,000 square metres in 2009. As a result, we can report occupancy levels of 93.7% at the end of Q2, maintaining this measure above industry averages. At the same time, we have removed some of the risks surrounding future lease expiries, especially in weaker markets.

Continued uncertainty over the pace and scale of economic recovery in Europe as well as the introduction of austerity measures has nevertheless hindered improvements in occupier market conditions with a knock-on impact on both demand for space and rental levels. We believe that the patchy economic recovery will gradually but ultimately lead to an absorption of existing vacancy. That being said however, we do not anticipate a material improvement in market conditions across the greater region for the remainder of this year.

Despite these challenges, we can report a slight increase of 2% in EPRA net asset value per ordinary unit to €6.27 since the end of 2009. This is due to the stabilisation of property values, particularly in the UK, combined with the strengthening of sterling in the first half of the year and the continued retention of earnings. Simon will talk in more detail later about valuations and the overall performance of the portfolio.

With the stabilisation of values and our continued deleveraging, we have improved our loan to value ratio, to 53.3% at the end of June from 53.7% in March and 55% at the end of 2009. These efforts include the final repayment of €54 million of CMBS debt in May. At the same time, the release of properties from the CMBS pool has resulted in the enlargement of the unencumbered asset pool to €1.2 billion, providing a solid base for our unsecured lenders. Since the end of the quarter, we have further reduced our LTV to below 53% and during the second half of 2010 we will strive for further improvements in this area. In terms of upcoming debt maturities, we have no substantial debt repayment obligations until December 2012, almost two and half years from now.

In the short term, we are working on the terms of a new three-year working capital facility to replace the revolver which comes to an end in December this year. More details will be provided upon closing.

The investment markets saw improved activity levels in the early part of the year, resulting in a marked reduction in prime yields, although transaction volumes remain at relatively low levels and maybe susceptible to further economic slowdown. At the same time, occupational markets are soft with limited net new demand for distribution space. Market activity continues to be dominated by consolidation as companies work through the reconfiguration and cost efficiencies in their supply chains. As owners of a relatively young, high quality portfolio, this provides us with opportunities

notwithstanding that customers continue to put pressure on net effective rents, especially in areas with excess existing stock. Consequently, in respect of occupancy levels and rental income, we are cautious in our outlook moving into the second half of the year. We anticipate somewhat of an improvement in these measures by the end of the year but in the meantime, we remain guarded. On the positive side, we have been encouraged by a general stabilisation in rents and incentives in a number of the core European markets as well as the level of enquiries that come to our attention. It's important that we remain well placed to capture the benefits of what improvements may occur in occupier demand and will continue to work with our customers to find sustainable and cost efficient solutions for them.

Turning for a moment to the financial results, our reported earnings for Q2 and year-to-date are broadly in line with our expectations. However, due to the slowdown in the pace of recovery in Europe and continued sluggishness in the markets generally, which will impact our portfolio performance in the second half of the year more than previously anticipated, we are revising our full-year guidance to between €40 and €44 cents per ordinary unit. David will take you through the financial results in more detail in a moment plus provide you with more colour on the revised guidance.

Before handing over to David, and in reference to the outcome of our recent AGM at which we made a number of proposals to enhance our corporate governance, it was disappointing that these proposals were rejected given that they had been the subject of extensive consultation with investors during the last year or so.

Nevertheless, we will continue to focus on optimising long-term investment value for our unit holders through maintaining industry-leading management services and high levels of occupancy in what remains a difficult market.

With that, let me hand you over to David....

David Doyle: Thank you Peter and good afternoon everyone. My intention is to cover the key second quarter figures fairly briefly and go into further detail on the half year numbers. We will of course be happy to answer any questions you have on the detailed quarterly numbers at the end of the call.

We reported an IFRS loss of €10 million, or seven euro cents per unit, for the second quarter compared to a €267 million loss in the comparable period. The improvement primarily stems from the significantly lower portfolio devaluations recorded in 2010 and the €43 million loss on portfolio sales in the prior period, partially offset by a €50 million reduction in deferred tax benefits associated with the devaluations. In addition we have seen an €8 million decline in rental income during the quarter resulting from last year's portfolio sales, the marginal decline in occupancy and lower market rents as leases roll back to market.

EPRA earnings for the quarter, which seeks to provide a better indicator of our underlying performance, decreased to €23 million from €31 million in the prior period. The main drivers for the decline include the loss in rental income I have just mentioned and a €1.3 million non-recurring charge resulting from a reassessment of our ability to recover service charges dating back over a number of years, offset by a €1 million reduction in the income tax charge. EPRA earnings for ordinary unit holders for this quarter are further impacted by the €1.6 million preferred dividend, taking EPRA earnings per ordinary unit to 11 cents compared to 16 cents for Q2 2009.

Reconciliations between IFRS and EPRA earnings are provided in today's news release.

Turning then to the half year figures. IFRS earnings increased substantially to €12 million compared to a €237 million loss in 2009, with the main reasons for the increase being similar to those for the second quarter.

EPRA earnings for the six months decreased to €44 million from €60 million in the prior period, primarily due to a €14 million decline in rental income, €2 million of higher operating expenses and a €2 million increase in tax charges, partially offset by a €2 million reduction in net finance costs. The €3.2 million preferred dividend further reduces EPRA earnings for ordinary unit holders to 21 cents per unit compared to 32 cents for 2009.

Moving on then to review the major components of our half year results, starting with rental income.

The €14 million decline in rental income from €136 million to €122 million, primarily resulted from the loss of €9 million of rental income from last year's portfolio sales together with a €7 million impact of slightly lower occupancy and lower rental levels, partially offset by a €1 million increase in UK sourced income when measured in euros. As previously mentioned, we expect rental income to continue under pressure during 2010 as markets take longer to stabilise.

Partially offsetting these declines, and included within other property income, is the €2.6 million one off receipt relating to the finalisation of insurance and legal claims we reported in the first quarter.

Turning to expenses. Our total property related expenses increased by some €2 million between the two periods to €14 million. As anticipated, property management fees improved by €1 million as a result of the reduction in portfolio values and asset sales since Q2 2009. This was offset by a €3 million increase in other property rental expenses, mainly related to the €1.3 million non-recurring service charge item I have already mentioned and the fact that we recovered unusually high levels of rental expenses in the first half of 2009.

Fund expenses increased marginally between the periods to €6 million, primarily due to the write-off of €½ million of costs associated with a potential second preferred equity raise as reported in the first quarter. As I have outlined in previous calls, excluding the non-recurrings, property and fund expenses as a whole should remain relatively flat in 2010 given the increased stability in property values.

Total property fair value movements for the half year resulted in a net loss of €37 million, reflecting the independent portfolio valuations completed in June. As Simon will discuss these in a moment I don't intend to dwell on them here.

Moving on to net finance costs, starting with finance income. As mentioned on our last earnings call, the key driver for the reduction in finance income stems from the €1.3 million PEPF II dividend received in the prior period and lower levels of cash on deposit in 2010 as we repay debt.

Total finance expense decreased by 8% to €51 million from €55 million in the first half of last year. Within that, our pure interest expense decreased by €4½ million to

€45 million primarily due to costs associated with the early retirement of CMBS debt in 2009. Interestingly, the benefit of the €260 million reduction in outstanding debt between the two periods has been almost exactly offset by the increase in our weighted average cost of debt from 4.5% to 5.4% over the same time frame.

This decrease in interest expense was partially offset by a €0.7 million increase in amortisation costs due to the accelerated amortisation charges related to the early repayment of the first tranche of our unsecured facility and the reduction in the revolving portion of that facility as we reported last quarter.

Finally on the income statement, we recorded a net tax charge for the six months of €6 million compared to a €45 million benefit in the half year 2009, with the majority of the movement due to a €58 million reduction in the deferred income tax benefit due to the lower level of portfolio devaluation this year, the impact of the 2009 disposals and the fact that 2009 benefitted from higher levels of tax loss recognition.

The charge for current income tax has decreased by €7 million to €9 million between the two periods, primarily due to a €4.6 million of capital gains tax on portfolio sales in the prior period, lower rental income and the introduction of tax strategies and initiatives as foreshadowed in my comments on our Q1 earnings call. As a result, the effective tax rate using EPRA earnings as a proxy for taxable income is 17.0% for the six months, down from the 17.3% for half year 2009 after adjusting for the capital gains tax associated with the disposals. I would re-iterate the guidance provided on past calls that we expect the full year current income tax charge to be slightly lower than the underlying charge incurred in 2009.

Turning then to the Balance Sheet, which is in a significantly stronger position than eighteen months ago following the extremely successful and substantial refinancing and deleveraging initiatives achieved throughout that period. We now have €1.6 billion of outstanding debt, with our loan-to-value ratio at the end of June at 53.3% and 52.2% if you were to net the €33 million of cash on the balance sheet. As you know, for the time being it is our intention to continue to retain earnings, which will further reduce our leverage to below 50%.

IFRS NAV per ordinary unit increased to €5.99 at 30 June 2010, compared to €5.97 at 31 December 2009. This increase is a result of the continued retention of earnings

and the positive impact of sterling's appreciation against the euro on the cumulative currency translation reserve, partially offset by the €3.2 million of preferred dividend distributions and increases in hedging provisions as a flattening yield curve has resulted in PEPR's interest rate hedges being out-of-the-money.

EPRA NAV per ordinary unit, which makes adjustments for hedging instruments and deferred tax movements, increased to €6.27 at 30 June 2010, compared to €6.15 at 31 December 2009.

Let me now turn to our revised guidance for 2010. We have reduced our EPRA earnings and distributable cash flow guidance for the full year to be between €0.40 and €0.44 cents per ordinary unit, compared to our original guidance of between €0.45 and €0.50 per ordinary unit. The decrease results from our view that the pace of market recovery will be slower than we had previously anticipated with the direct consequence of lower NOI in the second half. This accounts for a three to four cents of the reduction in our guidance. In addition, we had previously assumed a return to an investment grade rating prior to October this year which now appears increasingly unlikely. This accounts for a further one cent reduction in our guidance.

Whilst mentioning ratings, let me update you briefly on where we are. Returning to investment grade as soon as possible remains a key management objective. This is not because we see the investment grade "badge" as an end unto itself, but really because of the direct financial benefit and the ongoing debt capital markets optionality and therefore financial flexibility that it unlocks. The re pricing of the Eurobond alone results in a €9 million annualised saving on our interest costs. As an investment grade credit we would also intend to return to the unsecured debt markets with a medium term issuance and further spread out our maturity buckets. That would also facilitate us removing the dividend blocker on the unsecured debt facility.

To re-iterate Moody's guidance, they are looking for PEPR to be sustainably below 50% leverage and a 2.2x interest coverage ratio – both measures calculated to their own methodology which is substantially more arduous than conventional calculation methods. To give you a sense of these metrics, at 30 June we were at 56.5% leverage and 2.1 x interest coverage versus 53.3% and 2.3 x on conventional metrics.

Disappointingly we have, as yet not been able to make the progress we had hoped for in securing the upgrade, despite PEPR being in a materially stronger financial position than when it was originally downgraded in 2009. We know that with the passage of time and further retention of earnings we will get there, but we remain anxious to accelerate that process – if not by the October 2010 annual reset date on the Eurobond, then prior to the 2011 reset. Accordingly we continue to engage with Moody's and examine a range of options to deliver that outcome. Clearly, in exploring those options we will be absolutely driven by making the best long term value decisions for the fund.

With those comments, let me hand you over to Simon.

Simon Nelson: Thank you David. Once again, we have completed a significant amount of leasing activity during the second quarter with 31 leases signed on some 250,000 square metres of space, in what remains a soft occupational market. This takes the total for the first half year to 62 transactions on over 700,000 square metres, approaching twice the volume in the comparable period in 2009.

Nonetheless, our occupancy rate has declined slightly to 93.7%. As I have suggested on previous calls, our retention rates reached record levels last year as occupiers waited for better visibility of which way the markets were going. This year we expected our retention rates to return to more typical levels of around 60-65%, and indeed we have retained 68% of our leases rolling in Q2 and 65% of leases rolling year to date. This number is clearly higher if we include the leases rolling at future dates that we have also secured during this quarter. We have however seen something of a pause in new activity during the second quarter, attributable to a variety of factors with which we are all familiar from newspaper headlines over the past couple of months.

As a result, we maintain the caution we have previously expressed about the markets doing anything more than bumping along at the level they reached at the beginning of this year. Although we do not expect any significant further decline in market rents from their current levels, and indeed we see evidence of strengthening in some markets, neither do we expect any significant improvement before next year, given that recovery remains fragile.

Looking forward to the second half of the year, we anticipate the retention rate to come out around the lower end of our 60-65% range. We also expect occupancy to remain under pressure through to the fourth quarter of this year.

Of the contracts signed in the second quarter, five were new leases on a total of around 42,000 square metres, including deals with Proctor & Gamble in Poland and NYK Logistics in Germany. A further eight transactions were lease expansions with existing customers, predominantly third party logistics companies, increasing their distribution space by a total of around 10,000 square metres.

The other 18 transactions, on 198,000 square metres, related to lease renewals with customers such as Bertelsmann and Carrefour in Poland, DHL in the Czech Republic and Geodis in Hungary and France.

Of these renewals, around 78 000m² relate to early renewals of leases with break or expiry dates beyond the end of this year. As we have consistently stated, we are managing the portfolio to maximise occupancy during the continued challenging market conditions. Therefore, in situations where we have a viable and desirable long-term customer in a market where we do not currently feel it advisable to take leasing risk in the coming year or two, we are if appropriate agreeing early renewals and extending the lease lengths in instances where customers come to us for such a deal. So although these transactions do not immediately help our occupancy or NOI, they are securing the stability of our revenues over the coming years. Our appetite for these early deals will diminish as the various leasing markets stabilise further and when appropriate we may choose to take the future risk in order to be able to drive rents in a positive direction again.

Overall, the 31 leases signed in the quarter showed a 7.7% decrease compared to the previous rent in place on these assets. This roll-down is lower than that seen in the first quarter (11%) and remains at the lower end of market movements over the duration of these leases. Remember, that the previous rents were often fixed at the height of the market in 2007. As a result of this, and following the adjustments in the June valuations, the over-rented component of our portfolio has reduced further to about 3½% from around 5% at 31st March and over 8% at the end of 2009.

The same-store annualised rental figure for the portfolio as a whole decreased by 7.9% compared to June last year. This reflects the increased level of vacancy in the portfolio and the roll-downs in rent that I have just mentioned. I would also point out that this is an annualised number which is therefore reduced by the incentives that may be in place on the leases renewed or signed during the first part of this year.

During the quarter, two customers defaulted on their leases, on just over 7,000 square metres of space in Hungary and Poland. Both customers are smaller companies, with PEPR's exposure limited to a single lease and the annualised rent for both leases is less than €200,000. This brings our total level of defaults in the portfolio so far this year to €1.25m on an annual basis, which is significantly lower than budgeted.

Turning to portfolio valuations, we completed our full independent revaluation as at 30th June 2010, with the overall value of the portfolio showing a fall of 1.1% excluding currency impacts. Interestingly, the valuation movement of all four regions was contained within a narrow band of plus or minus 2% compared to the year end. Values are therefore now stabilising across all markets and, as we suggested last quarter, we are likely to look back on the fourth quarter of last year as the end of the period of sustained decline in market values that started nearly three years ago.

After the very strong rebound in values in the UK in the latter part of 2009 we saw market yields stabilising this year. Our UK portfolio showed a 1.2% increase in values since December 2009, with the strengthening of the sterling exchange rate further improving the result in our euro denominated accounts to +8.4%.

Continental European assets recorded an overall valuation decline of 1.7% excluding movements in foreign exchange. Property values in Northern and Central Europe both fell by around 2%, whilst Southern Europe saw a more modest decline of 1.4%. The reduction in yields across most markets did not totally offset the softening of rental values, higher level of vacancy and a re pricing of shorter dated income across the portfolio. In addition, valuations in the Czech Republic included a one-off gain related to a review and harmonisation of the treatment of purchasers' costs to be in line with standard market practise.

The activity in the investment market that we highlighted last quarter was confirmed in the transactions that have come through in the past few months. However, deal volume remains fairly thin and is still limited to core logistics opportunities with long lease lengths, which themselves are scarce, given the almost total absence of new product coming through the development pipeline. As a result, the deals taking place have provided evidence of noticeable cap rate compression, with prime yields in France having fallen 75 -100bps since last autumn to a level around the low 7% range, and deals in Germany confirming that the market there is now back below 7% for the best investment properties. However, there is still limited demand for shorter lease lengths or older or less well located buildings. It is likely that activity in that part of the market will not start to come through until prime product dries up or vendors' pricing expectations soften sufficiently to tempt investors further up the risk curve.

Although investment transaction volumes have increased across the board, and in particular are more than double the low levels of early 2009 in Central Europe, some of the factors that drove the recovery in the capital markets may now be easing off; there is less pressure on unit funds to invest as inflows into the retail funds have fallen back from the high levels of the first three months of this year, and the UK market in particular has paused for breath following the strong recovery in values last year. This, again coupled with uncertainty at macro-economic level, may mean that activity remains at a relatively low level for a while longer and consequently we do not expect any significant variation in market values one way or another over the rest of the year.

On the occupier side, I shall again reiterate the major trends that we are seeing across the European markets:

- There remains limited net new demand from occupiers given the continued uncertainty of the pace and scale of the economic recovery in Europe. Customer sentiment paints a mixed picture for the second half of 2010 and firm commitments to additional space or capital expenditure has slowed since the first quarter.
- The market today is still largely driven by companies looking to upgrade space, cut costs and take advantage of current market conditions in order to obtain supply chain efficiencies.
- There is some positive news coming from increases in sea freight and airfreight cargo volumes, which both picked up strongly from the low levels at the end of

last year.

- Market occupancy rates remain between 90% - 92% in Western Europe, 84% in the UK and between 81 and 84% in the Central European markets where PEPR has assets.
- Finally, the rate of rental decline appears to have slowed during the second quarter with stability in the level of rent and concessions in most markets. Incentives remain relatively high at 6 -12 months for a new five or six year lease commitment, and around one month per year for a lease renewal.

Again, we remain cautious about market rental levels for the remainder of this year. Until there is tangible proof that the positive market and economic forecasts are translating into a real increase in activity, we are likely to see only a sluggish recovery.

So how does this affect the view of our portfolio?

- Once again, we have high quality assets in good locations, managed by a highly focused operating platform.
- We have already accomplished over 700 000m² of leasing in the portfolio this year, which is already 75% of the amount we signed in the whole of 2009, itself a record year.
- Our occupancy rate has slipped but remains ahead of market levels. Although it is likely to remain under pressure in the short term, we expect it to pick up again towards the back end of the year and remain resilient into 2011, given the amount of deals we are already securing for next year's rolling leases.
- Our leased % today is just above 94%, given some future lease starts.
- Our annualised rent numbers should start to pick up again once rent incentives burn off.
- Our over-rentedness is back down to 3.5%, at a point in time where rental values have largely stabilised.
- Finally, we are making progress in pushing out our average number of years to next lease break on the portfolio, which has increased from 3.2 years in December to 3.4 today, despite the passing of 6 months in the meantime. This is important in terms of liquidity and financing of our assets.

As David and Peter have mentioned, this uncertain market outlook has led us to revise our forecasts for the remainder of the year. However, we continue to believe

that we have the strongest platforms in Europe with a proven track record of delivering results even in challenging market conditions. In addition, the supply side of the equation remains muted which will lead to a gradual absorption of available, modern supply as demand picks up, likely towards the end of 2010 or beginning of 2011. Our priority remains to continue the high levels of leasing, maintain occupancy and ensure we benefit from improvements in occupier demand as this starts to come through.

With that, let me hand back to Peter.

Peter Cassells: Thank you, Simon. Before we take questions, let me reiterate a few key points from today's call.

- After a number of years of declining values, we have now seen stability return to the value of our portfolio;
- Our next significant debt maturity is December 2012 and we continue on our path to reduce leverage and in the meantime look to execute on a new three-year working capital facility;
- We have taken the opportunity to revise expectations regarding 2010 earnings as we realistically factor-in the sluggishness of the economic recovery and the challenges that face us for the remainder of the year. That said this is expected to be more pause than anything long term; and finally
- Although the leasing markets remain soft, we continue to execute on a high level of leasing volume and remain absolutely focused on returning to our long term levels of occupancy, and distributable cash flows.

With that, let me open up for questions.

Question 1: Jean-Yves Devloo, ING: Hello, good morning. My first question is on the improvement of the corporate governance structure. After the recent disappointment during the last AGM, what is your next move in order to tackle certain problems?

Answer: Peter Cassells: Hi Jean-Yves, Peter Cassells here. We have always had open lines of communication with our investors and although we are focusing on the portfolio for the moment and dealing with the uncertainty in the marketplace, we

will be revisiting these guidance recommendations and proposals made by the Management Company and the Board with a view to next year's AGM.

Further Question: Jean-Yves Devloo, ING: What are you planning to improve in order to be able to convince investors?

Answer: Peter Cassells: I think if you judge by the voting and the response to the initiatives proposed already this year, there are not a lot of additional changes to make. And again it is too early to say at this stage what those changes will be, but we are talking to our investors.

Further Question: Jean-Yves Devloo, ING: Then my following question, do you have an update in how Luxembourg is doing in the implementation of the UCITS Directive?

Answer: Peter Cassells: That is going ahead according to a plan, again is not being driven by us obviously. I have learnt recently that our initiative to assist our proposed additional flexibility in the Luxembourg law in terms of allowing FCPs to convert to SICAFs has been broadly accepted and it has been pushed through the process of appropriate legal changes. Again it will take time. We cannot force the timing of this, as I said before on earlier calls, but we are feeling optimistic about that.

Further Question: Jean-Yves Devloo, ING: And then I also had a question, I was looking at ProLogis and I learned that they are starting to do some fee developments in Europe. Is there any clarification on whether PEPR might take some of those finished assets on their balance sheet or is it more like the strategy of ProLogis to keep those developed assets on its own balance sheet?

Answer: Simon Nelson: PEPR currently is not actively looking to acquire additional assets. I can't speak for PLD, what their intentions are, but from the PEPR perspectives, we are, although acquisition is one of the potential uses of available cash that we could consider over the coming months, it is not at all a priority for us at the current time.

Jean-Yves Devloo, ING: Thank you those were my questions.

Question 2: Ruud van Maanen, ABN AMRO: Hello everyone. My question is that, could you give me some more colour on the range of options that you review, in order to get back to the leverage below 50% loan to value?

Answer: David Doyle: Good morning Ruud it is David. You know the basic metrics and I think we talked in the past, there is some elements around the Moody's methodology which we continue to discuss with Moody's. So for example, they only weight the preferred equity as 25% equity and consider 75% of it debt. They are going through an internal methodology reassessment themselves and so there is some possibility, I would not give it any more credit than that, but there is some possibility that their own methodology may change and we therefore might get a pick up through their own revisions to their methodologies and counting more of that preferred equity as equity rather than debt. The other options you know they are all centred around, what can we do to accelerate reducing leverage or building the asset base. You know clearly Simon's comment, in his comments that we don't anticipate there to be much coming through in the way of further revaluations, positive revaluations of a material context in the next short term at least. And equally we are not active in the market for other acquisitions or disposals. So it comes down to continuing to look in the fine lines and to, when we have got more to comment, we will certainly be ready to let you know.

Ruud van Maanen, ABN AMRO: Right, thank you very much.

Question 3: Boudewijn Schoon, Kempen: Good afternoon. It is more about the revised outlook to start with. If I look at the adjustments in rental levels or reviews, of course the downward adjustment has diminished or went to 7.7% something like that. So if you state that a large part is due to the occupancy market remaining weak, can I conclude that it is mostly the fact that occupancy on the portfolio stays low, and it is really a case of rental values declining more than expected?

Answer: Simon Nelson: Boudewijn hi it's Simon. On that 7.7% annualised rental decline, I think it is important to understand that obviously the annualised rent is a snapshot of the rents receivable on the date of June 30. Almost 5% out of that 7.7% is actually represented by rent-frees or incentives that are in place on 30 June but which will burn off very rapidly over the coming months. So that

7.7% decline will be significantly reduced very shortly. So there is an element of market rental decline obviously as we roll the rents back to market, but the larger driver of that number is actually the fact that you know it is the flip side of the positive actions that we have taken in terms of renewing and extending the leases in order to maintain occupancy. So the future pressure is not going to be driven so much by the threat of greater vacancy, because we have a very clear idea of where we are going.

Further Question: Boudewijn Schoon, Kempen: Okay, just to summarise, can I then conclude that the fact that you lowered the earnings outlook is in essence mostly because you have renewed much more leases than you anticipated so far and expected to renew much more in the second half?

Answer: David Doyle: Boudewijn, It's David. I think it is a blend of both rental levels and occupancy and as Simon said in his comments, we do anticipate that occupancy will remain under pressure through the third quarter before improving into the last. So it is a blend of the two.

Further Question: Boudewijn Schoon, Kempen: Okay thank you. And well maybe a second question. Based on your own current outlook, how do you expect the ratios for investment grades to be met in 2011? You are saying it is not going to happen this year. How do you see the opportunity to get to investment grade at the next testing date, I think it is October 2011?

Answer: David Doyle: Yes and as I said in my comments, you know it is for the reasons of the direct impact that it has on our financial performance and for the financial flexibility that it provides, it is a key focus that we have. And apropos the earlier question as well, we are continuing to work our way through a range of potential options to get us there. Nothing I want to elaborate on at this stage, but you know certainly we are very focused on it.

Boudewijn Schoon, Kempen: Okay, fair enough. Alright, thank you.

Question 4: Jaap Kuin, RBS: Hi it's Jaap Kuin, RBS. A number of my questions are already answered. But maybe can you detail the amount of rent free which is given on the for example 5 or 10 year contracts?

Answer: Simon Nelson: Hi it's Simon. I will take that one. On a renewal, we are typically seeing one month per year of lease renewed and for a new lease where we have to bring a, or where we are bringing a new customer into vacant space, incentives are slightly higher than that and will typically be six months to twelve months for a 5-10 year lease commitment.

Further question: Jaap Kuin, RBS: Okay thank you. And maybe looking at the geographical dispersion of the portfolio and actually North West Europe doing worse than for example South of Europe, in which geography do you expect the most problems going forward?

Answer: Simon Nelson: Northern Europe and actually it is particularly in Holland which is something of a surprise, is suffering from increasing vacancy at the moment and that is a function of the rolling leases that happen to be arising in that particular market. There is a fair amount of over supply in some sub markets in Holland and that is something that we are affected by. So that is one of the priorities that we have at the moment. Otherwise the geographical spread of our portfolio is such that we have a very good exposure to the various European markets and I don't think there is any particular region I would single out as a particular issue at the moment.

Further question: Jaap Kuin, RBS: And are you confident for example, in Central and Eastern Europe, where maybe especially in Poland there is a very high market vacancy, that you will be able to maintain your relatively high occupancy?

Answer: Simon Nelson: Yeah there is currently over supply in the Polish market as I have talked about on previous calls. The uptick in demand that has happened during the course of this year has also been very much evidenced in the Central European markets. Actually in Central Europe, the retailers are expanding quite significantly at the moment. Electronics and manufacturing are also showing improved levels of demand. Hungary obviously remains very quiet for again macro economic reasons. But although there is still significant availability in Poland and particularly because of the level of over supply in that market, there is an encouraging level of activity. So Poland although there is pressure on rents, it is not as if the market is totally quiet. That is not the case.

Further question: Jaap Kuin, RBS: Okay, thank you very much. And then one other thing. I missed the breakdown of the lowering of the guidance. I caught 1 cent on the rating upgrade not going ahead, but the other components I missed, can you maybe repeat that?

Answer: David Doyle: Sure, just to reiterate that, it was as you rightly said, we having assumed in our previous guidance that we would return to investment grade by October, not getting there, represents 1 cent of reduction in guidance. And then the slowdown in activity in the second half relative to what we had previously assumed, driving through to NOI represents another 3-4 cents of reduced guidance.

Jaap Kuin, RBS: Okay clear. Okay, thank you very much.

Question 5: Archie Van Riemsdijk, Dow Jones: Yes hello, Archie Van Riemsdijk of Dow Jones. I was interested in your comments on the, well that there is more demand in the market for new and upmarket property and less demand for the older property. Could you maybe give some colour on that and maybe also say what percentage of PEPR share property is considered less attractive?

Answer: Simon Nelson: We consider, and again this is something I have said explicitly on previous calls, we consider very much that PEPR's portfolio is right up there amongst the prime assets. My comments related more to lease length and I was talking I believe about the investment markets where there is strong demand for core product. And one of the criteria of a prime investment today clearly is lease length. However good the quality of the building and however good the location that building may be situated, if there are shorter leases then there is less investment demand for that investment. That was the message the valuers are putting across. And that is why we are particularly focused on continually extending the leases that we have in place in order to maintain the PEPR portfolio within that category as far as possible.

Archie Van Riemsdijk, Dow Jones Okay, thank you very much.

Webcast Operator: There are no further questions.

Closing comments: Peter Cassells: We have no further questions on the internet either, so with that, thank you for joining us today. We look forward to speaking to you all again in October when we release the Q3 numbers for PEPR. Thank you all.

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