



**First quarter 2011 financial results conference call.
Thursday 28 April 2011**

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 Jen, good afternoon everyone and welcome to today's results call.

Before I go into any detail on the results themselves, I would like to start by reconfirming our position regarding ProLogis' tender offer. On Thursday 21st April, ProLogis published a tender offer document relating to its mandatory public offer of €6.10 in cash per ordinary unit and a bid also at €6.10 in cash per convertible preferred unit. The offer period began on 22nd April and will end on 6th May, unless extended by ProLogis or in accordance with applicable Luxembourg law.

In recent days we have received a number of enquiries seeking clarification on the status of offers for the company. At this point, and in order to help clear up any confusion that may have arisen, I'd like to clarify that, to date, we have not been approached by any other party in relation to any offer to acquire units in PEPR.

As required by Luxembourg regulations, ProLogis Management S.à r.l, acting in its capacity as the Management Company and in accordance with PEPR's Management Regulations, is reviewing the offer document and will publish a reasoned opinion in due course. I would like to take the opportunity to reaffirm our commitment to act in the best interests of PEPR as a whole and all unitholders. As such, we are seeking the advice and guidance of the independent members of the PEPR Board and have appointed Deutsche Bank as independent financial advisor to assist in this

task. Together we will explore all viable value enhancing options for our unitholders.

As you will no doubt understand, while we are happy to answer any questions on process, we cannot comment on the offer itself ahead of the publication of our reasoned opinion. In the meantime, the tender offer document is available to download on the ProLogis website should you require any more detail. We're well aware of the offer timetable and the need for investors to have time to formulate their decision before the end of next week. We shall therefore publish our reasoned opinion as soon as practical.

And now, let me turn to the main focus of our call today, PEPR's first quarter results of 2011.

Firstly, I am pleased to report that we have maintained a steady operating performance over the first three months of the year and delivered financial results firmly within our 2011 guidance. EPRA earnings and distributable cash flow are both at €0.10 per ordinary unit. In addition, we have improved EPRA NAV to €6.37 per ordinary unit compared to €6.32 at the end of the year driven by our continued retention of earnings, partially offset by the deterioration of sterling against the euro during the quarter. Our IFRS NAV increased €0.10 since the year end to €5.72 given the additional boost from the mark-to-market of our cash flow hedges.

We also continue to move in the right direction with regard to our capital structure and overall credit profile. During the first quarter we reduced our loan-to-value to 52.6% from 53% and since then we have reduced it even further, to 51.5%, thanks to the early repayment of a €51 million secured debt facility, originally scheduled to mature in October 2014. With no debt maturing until late 2012 and our continued focus on reducing outstanding debt, we are confident in our ability to regain an investment grade credit rating.

Moving on to our operational performance for the quarter, PEPR has once again exceeded the market average in terms of occupancy and maintained the strong leasing activity seen throughout 2010. Over the first three months of this year, we signed 48 lease transactions covering over 388,000 square metres and including 127,000 square metres of new or expanded leases. At 93.2%, our portfolio occupancy remains in line with our expectations and well above market average, even after a small decline since year end. We still expect average occupancy for 2011 to be in the 93% - 94% range, in line with 2010 levels.

I would like to touch briefly now on the outlook for the remainder of the year - overall the steady recovery in the European logistics market continues, despite concerns over sovereign debt and the potential impact on global supply chains of the recent earthquake and tsunami in Japan. However, there is continued evidence of varying rates of recovery across Europe, with Germany, France and Central Europe benefitting more from the global recovery while the UK is still feeling the impact of its

austerity measures.

From a high level viewpoint, occupier demand remains relatively strong as demonstrated by the level of our own new and expanded leasing volumes. New supply remains limited to build-to-suit projects, with a small amount of speculative development. As a result, markets values and rental levels are expected to remain flat in the near term with modest rental growth in prime markets expected in the latter part of this year.

The recovery of the European logistics investment market remains on track, although as we've seen over the past 18 months, investor demand remains focused on prime, long leased assets with strong covenant occupiers.

With that, let me hand you over to David.

David Doyle: Thank you Peter. I am pleased to say that we have reported results today that are comfortably in line with our full year 2011 EPRA earnings guidance of €0.37 to €0.42 cents per ordinary unit, which we are also reiterating today.

We have reported IFRS profits of €12 million for the first quarter compared to €17 million in the comparable period. The main drivers of the decline are the non-recurring receipt of insurance claims in the prior period, the impact of our extensive leasing activity on rental income and a larger unrealised adjustment to property fair value movements in the quarter. These declines were partially offset by improvements in finance and tax expense. More on these in a moment.

EPRA earnings for the quarter, which seeks to provide a better indicator of our underlying performance, increased by 1.8% to €19.4 million, as savings in finance and tax costs more than offset the decline in underlying revenues.

Reconciliations between IFRS and EPRA figures are provided in today's results release. Turning then to a review of the major components of our first quarter's results.

Total revenue declined by €4 million to €60 million, primarily due to the one-off receipt of €2.6 million following the finalisation of insurance and legal claims in 2010 and a €2 million impact of slightly lower occupancy and lower rental levels, partially offset by a €700,000 improvement in income when our UK and Swedish sourced rents are measured in euro. As previously mentioned, we expect like-for-like rental income to continue to come under pressure during 2011 as a result of rolling leases back to market over the past year or so.

Turning to expenses. Overall operating expenses remained broadly flat between the two periods at

just over €9 million. A €300,000 increase in other property rental expenses, principally due to higher bad debts and lower occupancy was offset by a €500,000 reduction in other fund expenses due to the write-off of costs associated with the previously contemplated second equity raise in 2010. In overall terms, our Q1 result represents a more appropriate run rate for expenses rather than either 2009 or 2010 which included a number of non-recurring items.

Whilst no portfolio revaluations were carried out in the first quarter, PEPR incurred a technical €5.3 million gross valuation loss on property related to capital expenditure and rent levelling adjustments incurred during the quarter. These items impact the historical cost property values but then need to be reversed out as the IFRS market value for property has not changed. Of course in real life, these expenditures do add value which should be reflected over time in future revaluations.

Moving on to finance expense. Overall, this decreased by 4% to €25 million from €26 million in Q1 2010. Within that, our pure interest expense decreased by €800,000 to €22 million, primarily as a result of our deleveraging initiatives. In broad terms, our Q1 interest expense is some €2½ million lower than in 2010 due to lower levels of debt and that is offset by €1.8 million of higher interest as our average interest rate increased to 5.6% compared to 5.2% in the same period last year. You may recall that we consciously chose to swap all of our debt facilities agreed in 2009 and 2010 into fixed rate exposures, thereby reducing interest rate volatility. Whilst modestly dilutive in the near term, we believe base rates could increase quickly if inflationary pressures come to bear.

Finance expense decreased by a further €1 million due to lower amortisation costs in 2011 given the accelerated amortisation charges incurred in the prior period relating to the early repayment of the first tranche of the senior unsecured credit facility and the reduction in the revolving portion of that facility. This improvement was offset by higher net foreign currency losses.

Finally on the income statement, we recorded a net tax charge for the quarter of €9 million, a €2 million decrease from the €11 million charge in the comparable period. Most of this decrease is due to a reduction in the current income tax expense reflecting lower taxable profits and ongoing benefits from the implementation of additional tax planning initiatives in 2010. This current income tax expense represents an effective tax rate of 17.8% for the quarter, using EPRA earnings as a proxy for taxable income, down from the 23.6% reported for the same period last year.

While we will continue to pursue strategies to manage our future tax expense, we expect our full year 2011 current income tax charge and effective tax rate to increase compared to 2010 given the level of one-off benefits achieved last year. Our Q1 result is indicative of how we anticipate the rest of the year playing out.

In terms of the Balance Sheet, we continue to focus on deleveraging and a return to an investment

grade credit rating. Our loan-to-value ratio at the end of March was 52.6% compared to 53.7% at Q1 2010. As Peter mentioned, we have subsequent to quarter end repaid a €51 million Helaba loan further reducing refinancing risk and releasing €97 million of assets to the unsecured asset pool and further lowering LTV to 51.5%, all consistent with our objective of reducing LTV towards Moody's target leverage of below 50%.

The Helaba loan was one of our more expensive pieces of debt, with an average interest rate of 5.7% and whilst the repayment resulted in some early breakage costs, we benefited from the crystallisation of gains on the associated interest rate swaps. Even allowing for the acceleration of amortisation of borrowing costs which we will report as part of our second quarter results, we anticipate this repayment strategy being accretive to earnings in 2011 and solidly accretive in 2012 through 2014. We will continue to intelligently review the most efficient way to utilise our retained earnings to delever the business and smooth future debt maturities.

Finally, let me comment briefly on our credit rating metrics. You all know that for a number of quarters now we have continuously and consistently stressed the importance we attach to returning to an investment grade credit rating. This would generate significant savings on our interest costs and improve our financial flexibility through further access to the unsecured debt markets. As at 31 March 2011, we estimate Moody's LTV metric at 53.3% markedly down from 55.7% at 31 December and further reducing to 52.8% post the Helaba loan repayment.

Since we last reported to you, we have had confirmation that Moody's will use total assets as the denominator in their LTV calculation rather than just real estate assets. This represents 2.1% of the 2.4% reduction in the metric between December and March.

We also estimate Moody's fixed charge coverage ratio to have held firm at 2.1 times.

So with that positive news, let me hand you over to Simon to cover our operational achievements and provide a market outlook.

Simon Nelson: Thank you David. Last quarter I spoke about the encouraging level of new leases signed during the last three months of last year, but also of the stop/start nature of the current recovery in the markets. The activity in our portfolio during the first quarter of this year has continued to bear out both of those trends – on the one hand, leasing activity remains strong, with a good level of new leases across a variety of markets, but on the other hand, we have lost a bit of occupancy as a result of leases rolling after year end, and with the impact of the defaults we mentioned last quarter.

The overall leasing volume of nearly 390,000 square metres compares to the 450,000 square

metres in the first quarter of last year and reflects the slightly lower level of leases rolling, together with an easing of our previous policy of agreeing early renewals. 20 of the 48 transactions represent renewals on over 260,000 square metres of space, including major customers such as Geodis, H&M, Schenker and Wincanton.

This represents a retention rate of 60% by rental value or 67% by surface area, which is again in line with our typical 60 - 65% long term average.

There were also 24 new leases signed on nearly 90,000 square metres, which included new deals with Samsung at our park in Poznan, Poland, on 11,500 square metres and with a global luxury fashion label on 10,500 square metres in Piacenza, Italy, with an option on future expansion space.

In addition, the expansion deals signed this quarter included one noteworthy transaction in Mitry Mory, near Roissy airport in Paris, where we structured a staggered, multi-building deal with our customer Eurodep, a pharmaceutical storage and distribution company. We were able to grow the customer's leased space from 17,000 to 34,000 square metres in the same building while finding them a short-term sub tenant on one unit for an interim period while the transfer of their business took place. In addition, we agreed terms on a second nearby building for a further expansion at the end of this year, when they will replace another customer who we know to be leaving, ensuring a seamless re-leasing of a further 20,000 square metres of space for this time next year.

Looking at this quarter's activity overall, there are three pieces of analysis that I think are perhaps interesting to note:

- Firstly, 57% of the total leasing was in Southern Europe, predominantly in France, through a high level of retention in our core locations. We did however sign fairly significant leases in Italy and Spain, showing that activity continues even in these more challenging markets.
- Secondly, the like for like rental growth on all of the new leases signed was -4.8%, compared to the previous in-place rents on the buildings concerned. This compares to -9.2%, -9.7% and -7.7% for the previous three quarters and -11% for the same period last year. This confirms our belief that we passed the turning point in the rental cycle early last year. Interestingly, closer analysis of these numbers also confirms our view that some markets are set to break back into positive rental growth territory in the not too distant future. The deals we signed in Northern Europe, Southern Europe and the UK in this last quarter showed on average between only 1 and 2% rental decline in all three of these regions. As we have been suggesting on previous calls, the overhang in supply of modern space has gradually been absorbed and we are still seeing only very limited new construction.

- Thirdly, our leasing this quarter included around 12,000 square metres of new month to month leases, taking the total amount of such leases to just over 50,000 square metres, or 1% of the total portfolio. Overall, the average length to next break of the contracts signed this quarter remains relatively short, at just over two and half years. As discussed on previous calls, this allows us the opportunity to benefit from the potential upside from any improvement in market rents over the coming couple of years, rather than locking into lower rents for longer periods at the bottom of the rental cycle.

Our occupancy declined slightly, as forecast, to 93.2% from the 94.5% reached at year end. Among the buildings influencing this movement are the recent bankruptcy in the UK, the building in Germany on which we received a significant surrender premium in the fourth quarter, and ordinary course of business move-outs in some of our core markets such as Hamburg, Lyon, Moerdijk, Schiphol, Daventry and Paris. As a result we do not have any particular concerns about the re-letting prospects for these assets. Operationally, therefore, we remain comfortable with our previous guidance around occupancy in the 93-94% range over the duration of this year. Though, as I say, this may fluctuate to some extent.

Looking briefly at more general market trends, we see sustained investor interest in the logistics sector, but transaction volumes are being held back somewhat by a lack of available product and a continued concentration around the prime end of the sector. The cap rate compression that we saw over the past few months has decelerated as a result. As we noted at our portfolio revaluation in December, market yields overall are once again back in line with the 10 year average.

There is however an increasing flow of deals coming to the market which could potentially lead to higher volumes during the course of this quarter. Activity remains focused on Western Europe, in Germany and France in particular, the Nordics and the UK.

On the occupier side, customer confidence continues to improve on the back of the strong performance of last year. There is a chance however that activity will still continue to fluctuate to a certain degree – back to the stop/start nature of the recovery that we have mentioned previously – as the result of a number of factors. The pent-up demand from projects that were temporarily shelved during the crisis may well have largely been satisfied through the higher than anticipated level of activity seen in the latter part of last year. Inventory restocking after the downturn may also have largely worked its way through the system. GDP growth rates have slowed slightly since the rebound of last year. And finally, an absence of alternative available modern supply may temper leasing volumes in some markets. However, we should not lose sight of the fact that transaction volumes have recovered to a level close to their long term average and the flight to quality in terms of modern, well located buildings is set to continue.

With that, let me hand back to Peter.

Peter Cassells: Thank you Simon, before we open it up to questions, let me just reiterate a few key points:

- Firstly, our financial results are in line with our guidance for the year, which we have reconfirmed today
- We have successfully maintained our focus on leasing activity and above market occupancy, in line with our management objectives for 2011, and last but not least
- We continue to reduce outstanding debt in an efficient manner and are making steady progress towards regaining an investment grade credit rating.

Finally, I'd just like to remind you that we are not in a position to comment on ProLogis' tender offer until the publication of our reasoned opinion. Therefore, please restrict your questions to the usual results topics. With that let me open it up for questions.

Operator: Your first question today comes from Boudewijn Schoon from Kempen. Please ask your question

Question 1: Boudewijn Schoon, Kempen & Co.

Good afternoon. I have only one question. You mentioned the paying down debt optimistically and well, being smart about it so that you can reduce the cost of debt. Can you give a little bit more guidance just excluding then the impact of potential return on investment grade, what that would mean with the average cost of debt over the next, well say, 2011, 2012, maybe 2013?

Answer: David Doyle

Hi, Boudewijn, it's David. Yes, good question. The average interest rate that we've reported for the first quarter of 5.6% is, given that we've, you know, pretty much got the facilities in place for a period of time now, that is as good a number as you might want to work with, certainly for the remainder of this year and into next. As we look out further beyond that then we will have the... and as you know there's no debt maturities until the end of 2012, but the next thing that will potentially result in a move in that will be the ultimate repayment of the term loan which is at a relatively lower interest rate, but you know, that's not through until the end of 2012.

Boudewijn Schoon: Okay, thank you.

Peter Cassells: Well, thank you all for joining us today. Jen, we've no questions online? No, no questions. We look forward to speaking to you all again in the next quarter. Thank you.

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