MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Prologis European Logistics Fund FCP-FIS ratings to A3; stable outlook

Global Credit Research - 25 Feb 2018

London, 25 February 2018 -- Moody's Investors Service ("Moody's") has today upgraded the long-term issuer rating of Prologis European Logistics Fund FCP-FIS (PELF) to A3 from Baa1. At the same time, Moody's upgraded the rating of PELF's EUR5 billion medium-term note (MTN) programme issued under Prologis International Funding II S.A. to (P)A3 from (P)Baa1. Moody's has also changed the outlook to stable from positive.

A complete list of rating actions can be found at the end of this press release.

RATINGS RATIONALE

"The upgrade follows our expectation that PELF will now maintain leverage and financial policies in line with an A3 rating, aided by a favourable European macroeconomic environment and very strong logistic property market fundamentals" says Ramzi Kattan, a Moody's Vice President -- Senior Analyst, and lead analyst for PELF.

The upgrade reflects PELF's improved business profile, stronger credit metrics, and a more conservative financial policy following the EUR3.1 billion Prologis Targeted Europe Logistics Fund (PTELF) combination announced on 17 October 2017. The combination has strengthened PELF's leading position as the largest pan-European prime logistics platform with a EUR8.5 billion portfolio spread across 12 countries and generating EUR521 million in annual rent. The top four countries account for 69% of PELF's assets by value — 20.4% in Germany, 20.2% in the UK 15.9% in France, and 12.5% in the Netherlands.

The upgrade also reflect PELF's improved credit metrics with leverage, as measured by Moody's adjusted gross debt to assets, at 23.6% as of 31 December 2017 compared to 32.9% the previous year. The upgrade was further supported by PELF's recently revised and more conservative financial policy. PELF now aims to maintain a Loan-to-Value (LTV) target in the 30%-35% range replacing the previous policy of maintaining LTV below 40%.

PELF's A3 senior unsecured rating reflects the fund's strong franchise, significant scale and well-diversified presence in the prime European logistics sector. The rating is further supported by the fund's (1) stable cash flow from high quality assets with a 96.6% occupancy level, moderate leverage and strong 5.5x fixed-charge coverage; and (2) a largely unencumbered asset base of 78%. A favourable operating environment for European logistics will sustain the fund's cash flow and asset value. These positive rating factors are counterbalanced by the fund's (1) exposure to a cyclical sector; (2) 26% exposure to CEE and Southern Europe, which present higher growth opportunities but with higher volatility than the more established Western European markets.

RATING OUTLOOK

The stable outlook reflects our view that the fund will continue to generate stable cash flow, and maintain good liquidity and solid debt metrics while maintaining high occupancy levels and a balanced growth strategy. The outlook also reflects the favourable operating environment for the European logistics sector.

Factors that Could Lead to an Upgrade

• If the fund continues to demonstrate solid execution and prudent financial policies through real estate cycles without significant erosion of current strength in leverage, interest coverage, debt maturity profile, or liquidity

• If leverage, as measured by Moody's-adjusted total gross debt/gross assets, is sustained towards 25%, alongside financial policies that support the lower leverage

• If there is continued commitment and a track record of (1) keeping net debt/EBITDA below 5.0x and (2) Moody's-adjusted fixed charge coverage above 5x and (3) unencumbered assets above 80%

Factors that Could Lead to a Downgrade

• If Moody's-adjusted total gross debt/gross assets is sustained above 35%, or net debt/EBITDA persists well above 7x, or if the fixed charge coverage ratio falls below 3.5x

• If there is a broad deterioration in the macroeconomic environment or the property markets, leading to weaker operating performance

• If the fund does not maintain substantial liquidity buffers via undrawn revolving credit facilities (RCFs) and equity commitments, and sustains unencumbered assets/total assets above 70%

• If the fund does not maintain a long-dated and well-staggered debt maturity profile, including addressing refinancing needs well ahead of their maturities

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

LIST OF AFFECTED RATINGS

Upgrades:

..Issuer: Prologis European Logistics Fund FCP-FIS

.... Issuer Rating, Upgraded to A3 from Baa1

..Issuer: Prologis International Funding II S.A.

....BACKED Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa1

....BACKED Senior Unsecured Regular Bond/Debenture, Upgraded to A3 from Baa1

Outlook Actions:

..Issuer: Prologis European Logistics Fund FCP-FIS

....Outlook, Changed To Stable From Positive

..Issuer: Prologis International Funding II S.A.

....Outlook, Changed To Stable From Positive

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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