Rating Action: Moody's assigns definitive Baa3 ratings to Prologis European Properties Fund II FCP-FIS, stable outlook

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London, 28 January 2013 -- Moody's Investors Service has today assigned a definitive Baa3 long-term issuer rating to Prologis European Properties Fund II FCP-FIS ("PEPF II" or "the Guarantor"), a fond commun de placement (FCP-FIS) that invests solely in prime distribution warehousing facilities. Concurrently, Moody's has assigned a definitive Baa3 backed instrument rating to the $300 million of 4.875% backed senior unsecured notes maturing in 2020, issued by Prologis International Funding II S.A. ("the Issuer"), a wholly owned subsidiary of, and fully guaranteed by PEPF II. The definitive ratings are in line with the previously assigned provisional ratings. The outlook on the ratings is stable.

RATINGS RATIONALE

PEPF II's Baa3 rating is underpinned by the fund's (1) broadly diversified presence in the European distribution warehousing market with a high quality portfolio of assets that occupy prime locations; (2) lower business risk profile than similarly rated peers as the fund bears no development risk; and (3) solid credit metrics as at year-end 2011 and for the last 12 months to 30 September 2012. These metrics include estimated effective leverage, as measured by adjusted total debt/gross assets, of 40.8% and 41.2%, respectively; and estimated fixed charge coverage, as measured by adjusted EBITDA/fixed charges, at 3.0x and 3.2x respectively, and expected to remain in excess of 2.5x in the medium term. All financial metrics are as adjusted by Moody's.

PEPF II's rating is constrained by the fund's (1) high proportion of secured debt and encumbered assets, which limits its financial flexibility, although Moody's acknowledges management's intention to move to a largely unsecured financing structure over time; (2) exposure to the cyclicality of the distribution warehouse property sector; and (3) sizable exposure to the Central and Eastern Europe region, estimated at 31% by value and 32% of annual rental income as at 30 September 2012, which presents high growth opportunities but with higher volatility than the more established western European regions in which the fund operates.

Moody's also factors into PEPF II's ratings its cautious outlook for European logistics property over the foreseeable future. Tenant demand is related to economic growth as well as the growth in world trade, both of which are expected to remain below long-term averages in 2012 and 2013. Therefore, there is at present considerable uncertainty surrounding tenant demand. On the other hand, large consumers of distribution warehousing are seeking to consolidate into bigger, modern facilities such as those offered by PEPF II. As a result, Moody's expects that PEPF II will continue to experience downward pressure on rents in some locations, but benefit from rental growth in others, as in 2012.

PEPF II's liquidity profile has strengthened since the provisional issuer rating was first assigned in September 2012 and is now adequate for an investment grade real estate issuer. The fund's strong cash flow generation and committed credit facilities cover cash outflows for more than a year looking forward. The fund achieved this by extending its debt maturity profile via the successful issuance of $300 million of bonds due in 2020 and the recast of its revolving credit facility extending the maturity to 2016 from 2013. In addition, the fund's pool of unencumbered assets provides a source of alternative liquidity. The bond issuance has also served to reduce the proportion of PEPF II's debt that is secured such that Moody's expects the secured debt/gross assets ratio to have fallen to less than 30% in the fourth quarter of 2012 from approximately 35% in the previous quarter. Management's target is to reduce this ratio to below 25%.

The Baa3 instrument rating for the $300 million senior unsecured notes reflects that the notes issued by PEPF II's wholly-owned subsidiary, Prologis International Funding II S.A., are fully and unconditionally guaranteed by PEPF II as credit substitution for payment on a full and timely basis. The notes represent senior unsecured obligations of the issuer and rank pari passu with all other unsecured and unsubordinated debts of the issuer. The notes rank pari passu in right of payment with all of the Guarantor's current and future unsecured and unsubordinated indebtedness, including borrowings by the Guarantor under the fund's existing senior term loan and senior revolving credit facility and guarantees by the Guarantor of indebtedness of its subsidiaries. However, the notes are effectively subordinated to any of the Guarantor's current and future indebtedness that is both secured and unsubordinated to the extent of the assets securing such indebtedness and all of the secured and unsecured indebtedness and other liabilities of its subsidiaries, other than the issuer.

The stable outlook on the ratings reflects Moody's expectation that PEPF II's liquidity will remain adequate on a forward-looking basis of at least 12 months at all times, with secured debt/gross assets falling to around 25%. Furthermore, the outlook also reflects that headroom under all covenants is ample and Moody's expectation that PEPF II's performance will remain in line with the rating.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward pressure on the rating could arise if (1) PEPF II's effective leverage remains materially below 45%; (2) its fixed charge coverage remains sustainably above 2.5x; and (3) its secured debt/total assets falls to sustainably below 20%.

Conversely, negative pressure on the rating could occur if (1) PEPF II's earnings deteriorate such that its fixed charge coverage trends below 2.0x; or (2) its effective leverage rises above 50% for a sustained period. Negative pressure on the rating could also arise if any liquidity challenges develop or are not adequately addressed, or PEPF II does not lower the proportion of secured debt in its capital structure as per the fund's presented plans.

Prologis European Properties Fund II FCP-FIS was established in Luxembourg in 2007 as a fond commun de placement (FCP-FIS) that invests solely in prime distribution warehousing facilities. It reported total assets of EUR3.04 billion reported at 30 September 2012. The large US REIT, Prologis LP (Baa2, stable) is the fund's external manager and held 29.7% of the fund's units at 30 September 2012.

PRINCIPAL METHODOLOGY

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

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

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