MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns (P)Baa3 to PEPF II's MTN programme and changes outlook to positive

Global Credit Research - 14 Oct 2013

London, 14 October 2013 -- Moody's Investors Service has today assigned a provisional backed (P)Baa3 long-term rating to a new EUR5.0 billion medium-term note (MTN) programme with notes to be issued by Prologis International Funding II S.A. ("Funding II"), a wholly owned subsidiary of ProLogis European Properties Fund II ("PEPF II") and guaranteed by Prologis Management II S.a.r.l. ("Management II") acting in its own name and on behalf of PEPF II. Concurrently, Moody's has affirmed PEPF II's Baa3 long-term issuer rating and the Baa3 rating of the USD300 million 4.875% backed senior unsecured notes due 2020, issued by Funding II and guaranteed by Management II, acting in its own name and on behalf of PEPF II. The outlook on all ratings has changed to positive from stable.

Moody's assigns provisional ratings to MTN programmes to better capture the contingent nature of a programme rating. Definitive backed senior unsecured long-term ratings will be provided to the notes issued from the programme, assuming that the notes are neither credit- or index-linked issuances, or otherwise representing an obligation with variable promise.

RATINGS RATIONALE

"Today's outlook change to positive is driven by PEPF II's steady financial performance, management's decision to move to a largely unsecured financing structure and an improving liquidity profile", says Lynn Valkenaar, a Moody's Vice President -- Senior Analyst and lead analyst for PEPF II. "We also factor into the outlook our view that tenant demand in the European distribution warehousing property sector is improving."

PEPF II's Baa3 rating is underpinned by the fund's (1) strong brand name which attracts high quality tenants, (2) broadly diversified presence in the European distribution warehousing market, with a high-quality portfolio of assets that occupy prime locations; (3) lower business risk profile than similarly rated peers as the fund bears no development risk; (4) solid credit metrics as at year-end 2012 and for the last 12 months to 30 June 2013. These metrics include estimated effective leverage, as measured by adjusted total debt/gross assets, of 42.7% and 41.6%, respectively; and estimated fixed charge coverage, as measured by adjusted EBITDA/fixed charges, of 2.8x and 3.2x, respectively, and expected to remain in excess of 2.5x. All financial metrics are as adjusted by Moody's; and (5) the improving trend in tenant demand across European trade routes for distribution warehousing facilities.

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 30% of annual rental income as at 30 June 2013 -- which presents high-growth opportunities but with higher volatility than the more established western European regions in which the fund operates.

The (P)Baa3 rating for the EUR5.0 billion MTN programme, to be issued by PEPF II's wholly-owned subsidiary Prologis Funding II S.A., reflects that the notes to be issued under the programme will be irrevocably and unconditionally guaranteed by Prologis Management II in its own right and on behalf of PEPF II as credit substitution for payment on a full and timely basis. These notes will represent senior unsecured obligations of the issuer and rank pari passu with all other unsecured and unsubordinated debts of the issuer. The notes will 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 facilities and guarantees by the guarantor of indebtedness of its subsidiaries. However, these notes will be effectively subordinated to any of the guarantor's or its subsidiaries current and future indebtedness that is both secured and unsubordinated to the extent of the assets securing such indebtedness.

RATIONALE FOR POSITIVE OUTLOOK

The positive rating outlook reflects PEPF II's steady financial performance as the company executes on its strategy. The outlook also assumes that PEPF II's liquidity will continue improving as the company extends its average debt maturity such that (1) committed cash inflows exceed outflows for at least 12 months on a sustainable basis; and (2) the ratio of secured debt/gross assets falls to and remains below 20% over the next 12 to 18 months. In addition, Moody's believes the underlying factors that support tenant demand in the European distribution warehousing property sector have improved.

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 cover remains sustainably above 2.5x; and (3) secured debt/gross assets falls to and remains 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) effective leverage rises above 50% for a sustainable 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 the capital structure as per the fund's presented plans.

The principal methodology used in these ratings 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 this methodology.

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 EUR3.02 billion at 30 June 2013. The large US REIT, Prologis L.P. (Baa2, positive) is the fund's external manager and held 33.1% of the funds units at 30 June 2013.

REGULATORY DISCLOSURES

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.

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

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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