

How we're acting to retrieve value for BGP shareholders

March 2011

CHAIRMAN'S OVERVIEW

ON TRACK

BGP's activities during the second half of 2010 and early 2011 further improved our business prospects.

We remain firmly on track in applying the Board's clear strategy for achieving returns for shareholders as soon as market conditions allow.

Under our plan, as announced in *BGP News* in June 2010, we are:

- improving our real estate asset management
- restructuring finance on the most favourable terms possible, and
- undertaking a strategic program of property divestment.

Monitoring the market

We are fulfilling the plan realistically and with due caution, continuously taking account of economic conditions and the state of the European property market.

Over the past six months, BGP's better asset management, successful bank negotiations and an improving economic climate combined to create a positive outlook for the remainder of 2011, although challenges remain.



Retail centre in Adelsdorg, Germany

Navigating hazards

The European and world economies face continuing uncertainty with the Euro falling in recent months, the risk of inflation looming in Europe, and political turmoil erupting in the Middle East.

BGP is diligently seeking returns for shareholders. The company will adapt to changing conditions and meet emerging challenges as we continue along the best path to optimum results.



– Rod Mc Geoch, AM,
Chairman, BGP Holdings

MANAGING DIRECTOR'S REPORT

FORWARD STEPS

The European property market became cautiously optimistic in recent months. Most market observers detected improved investor confidence. Bank lending volumes increased.

In property market activity, the focus remains on prime assets. During 2011 there should be a flow-on effect to related asset classes, although to date there have been few major transactions to support this expectation.

Inflation a threat

Interest rates in Euros are a concern to the market. Because of the economic weakness of many EU member countries, short-term interest rates are being held artificially low to encourage growth, contributing to the fall in the relative value of the Euro in recent months.

The drop in the Euro, although assisting German and other exporters, threatens to import inflation with the rise in the price of commodities, particularly oil.

Political turmoil in the Middle East could accelerate the trend to inflation. Already, the market's anticipation of inflation shows in rising medium-term bond and swap rates. This could further complicate the refinancing of European real estate portfolios in the near future.



Retail centre in Bindlach, Germany

Challenges remain

Credit spreads are unlikely to fall in the foreseeable future. Banks are holding out for maximum margins in current transactions because of:

- their increased regulatory capital requirements
- conservative bank credit committees
- limited credit supply, and
- the overhanging sovereign debt crisis.

Stabilising the portfolio

In 2010 we disposed of all but the last couple of assets that were too deeply impaired for timely turnaround. With those decks cleared, we turned our attention over the past six months to stabilising the assets, largely residential and light industrial, that have the potential to provide worthwhile returns.

We negotiated extended loans for our HBI French and Danish light industrial assets, and appointed local asset managers to improve occupancy rates and capex supervision.

Obtaining bank waivers for our Dutch light industrial assets and two German residential portfolios enabled us to concentrate on improving yields from those assets.

In the small HBI Swedish portfolio, our asset manager Hestia, which also manages the Danish assets, achieved the notable result of a 19 per cent increase in asset value.

Our focused asset and property management of core

residential assets is paying off. We refinanced to 2014 through Berlin Hyp Bank the Idealwert residential portfolio worth €180 million. Bank financing of the Denmark and France light industrial portfolios was rolled over for another year. Negotiations are progressing well on refinancing other parts of the residential portfolio.

Disposals under way

Economic conditions are likely to remain challenging. Deciding when to market our properties to achieve the best possible prices will remain one of our prime responsibilities.

During the second half of 2010 and in early 2011, we continued to implement the marketing program.

In mid January 2011 we exchanged contracts on the €30 million sale of the ST Bau portfolio of retail assets in south Germany and obtained a Letter of Intent for the purchase of a Berlin cash and carry asset for some €20 million. We will use funds from these sales to repay debt and to create an escrow pool to cover future contracted investment management fees.

We are optimistic that the sale of Heron, an excessively indebted Spanish retail asset with a book value of about €80 million, will soon be closed for a nominal sum. The sale will staunch further leakage of asset management fees and will free more management attention for properties with prospects of a return.



Retail centre in Bernburg, Germany

Residential restructuring

We have reached preliminary agreement with two banks, ING and Nord LB, to restructure the debt on two distressed residential portfolios, ImmoWest and Otto 2. Although the properties are unlikely to produce equity on future sale, the restructuring will add diversification and critical mass to assist a future, larger, residential portfolio sale. The new financing arrangement is a tangible business achievement for BGP Asset Management

(BGPAM), our Munich-based asset management arm.

BGPAM has been highly successful. The business was making significant losses when we acquired it in November 2009. The turnaround since then has enabled us to reduce asset management fees on the residential portfolio by 25 per cent and the company is actively repaying its initial capital.

As well, BGPAM has achieved a reduction in vacancy from 9.4 per cent to 7.8 per cent during 2010, a substantial achievement in such a short time.

Litigation vital

A portfolio as large as BGP's must undertake and respond to legal actions. This is a basic duty of any company but is especially vital for BGP because litigation presents a serious risk to our limited resources and potentially threatens the achievement of our financial goals on behalf of shareholders. We therefore devote substantial attention to managing this risk by energetically prosecuting or vigorously defending the legal actions in which BGP is involved.

We recently settled actions we initiated against third parties for just under €3 million. We won one case at first instance for some €200,000. We have settled further actions of about €1 million by others against our companies.

We are suing to recover a €1 million unpaid loan from a subsidiary of Colonia Real Estate, a listed German company. We have taken legal action against the Barg group, a former property management company, over matters relating to the mismanagement of our residential portfolio before the *in specie* dividend in 2009.

Next challenges

In order to benefit most from improving conditions for our future sales, we will continue to actively manage the risks that face our business. For example, we are dealing with significant legacy tax issues and we are beginning the task of corporate restructuring in Germany.

We intend to tackle these challenges with the same energy we applied to our asset management project in 2010. We will then set a timetable for the sale of our larger portfolios, which have the potential to produce worthwhile returns to our shareholders.

We will report again on our progress in the next issue of *BGP News* in mid 2011.

– Mark Dunstan,
Managing Director, BGP Holdings



BGP

The Board of BGP Holdings

Chairman

Rod McGeoch

Directors

Ruth Agius Sciciuna Buttigieg

Mark Dunstan

Francis J Vassallo

The Board of BGP Investment

Directors

Nicolas Comes

Mark Dunstan

Yves Elsen

Rod McGeoch



Ehrenfriedersdorf, Germany

FIND OUT MORE

BGP Holdings Information Line

Tel: 1800 115 044 (within Australia)

Tel: + 612 8280 7058 (outside Australia)

Link Market Services

Level 12, 680 George Street

Sydney NSW 2000

Australia

BGP Investment

NEW OFFICE ADDRESS

6 rue Jean Monnet

L-2180, Luxembourg

Tel: (+352) 2675 4100

Fax: (+352) 2675 4105

Web: www.bgp-investment.eu

Email: info@bgp-investment.com



Retail centre Landau, Germany