

How we're acting to retrieve value for BGP shareholders

October 2011

CHAIRMAN'S OVERVIEW

FACING CHALLENGES

BGP is dealing with challenging circumstances as we progress towards our firm goal of producing returns for shareholders.

Political upheavals have continued. Even as the world struggled to emerge fully from the Global Financial Crisis, economic stability was being threatened again by political turmoil in the Middle East and Africa, by natural and nuclear disasters in Japan, and by the sovereign debt crisis in Greece, Ireland and Portugal that could yet envelop more EU member states.



*Rod McGeoch, Chairman
BGP Holdings PLC*

Sticking to our plan

Turbulent events threaten the health of world financial systems and test our resolve in achieving BGP's commercial goals. The strategic plan we announced in 2009 was to:

- dispose of portfolios with negative equity
- stabilise weaker portfolios and streamline corporate processes, and
- turn around remaining assets for disposal in three to five years.

We hold fast to our original objectives, but the ambitious timetable we set in 2009, for disposal of the portfolio by 2012, cannot be achieved in the economic environment that has evolved since then.

We estimate that holding assets for eventual sale into an improving market will mean that disposal will not be completed until 2015. We consulted key shareholders, who strongly agreed with the revised timing.



Star Alpha asset, HBI Light Industrial, Netherlands

Diligent portfolio management

In the meantime, we are actively managing the remaining portfolio in preparation for sale in due course. We successfully negotiated with our bankers to restructure debt on two unsold portfolios. With credit in short supply and the banks under additional pressure, our careful management of banking relationships remains crucial to the ultimate success of our strategy.

Adept management of legacy issues also remains important. Our major compliance project, now nearing completion, reinforces confidence in our financial structure and increases our knowledge of the tax and regulatory risks that BGP must manage.

Improving residential performance

We improved the performance and prospects of our residential portfolio – over half of our total property assets – by selling a majority share in the asset management company to its managers. This has given the managers a vested interest in cutting costs and managing well. It has also created a structure that will remain viable as the assets are gradually sold down in coming years under our business plan.

Overall, BGP has worked hard to achieve a level of financial independence and stability that should enable us to steadily improve our assets without relying too greatly on economic recovery. Already, by disposing of the most encumbered assets, we have substantially improved the net asset value of the company.



Nobelring-Skyhaus Residential asset, Hanover, Germany



Smart Business Park, HBI Light Industrial, Netherlands

Better assets will sell for more

We serve shareholders best by controlling those aspects that are in our power. Naturally, we do not control the absolute value of our assets in an unfavourable market that lacks liquidity. However, we are energetically improving the value of our assets relative to the market.

Over the coming months we plan to keep shareholders fully informed by further improving our communications. We will continue direct consultations with BGP's larger shareholders and we will upgrade BGP's website for maximum clarity and transparency of information.

Fighting through tough conditions

Tough conditions will continue in the short term. For the remainder of 2011 and into 2012 we foresee:

- continuing low investor confidence, particularly in equities
- critically short credit supply caused by sovereign debt overhang
- low capital availability for many banks, and
- little or no economic growth in Europe, with unemployment staying high.

BGP will stay true to the sound strategy we have set, remaining patient as we diligently work towards achieving returns from BGP's portfolio.

- Rod Mc Geoch, AM,
Chairman, BGP Holdings PLC

STAYING THE COURSE

Recent months have been busy as we consolidated and strengthened the remaining BGP portfolios and informed major institutional investors about the evolution of our strategy.



Mark Dunstan, Managing Director
BGP Investment s.à.r.l.

Disposals executed and planned

In June we completed the disposal of the Heron Spanish retail asset and the Berlin Cash & Carry centre. We prepared Bavarian retail asset Kelheim for sale following an offer from a well known European investor.

We are preparing Cologne Technology Park for sale, with a preliminary study being carried out by Ernst & Young. BGP is a minority participant in a fund, not the direct owner of the real estate, so an M&A approach may help realize the full value of our investment.

The €15 million Otto 3 Residential portfolio will soon be for sale. This will be a useful pricing exercise in a largely untested market in the Braunschweig area.

Recent restructuring

After two years of discussions with Nord/LB we have agreed on the restructuring of the Otto 2 assets, opening the way for asset sales to reduce debt. Discussions have also successfully concluded with ING over the €75 million ImmoWest portfolio, with a further debt restructuring signed in October.

HBI France and Denmark are now at around debt value after good asset management and judicious non-core asset sales. Further sales, restructuring and refinancing should further improve these portfolios.

BGP is negotiating with Unicredit and ING over the HBI Netherlands portfolio, which the latest valuation has placed in breach of its banking covenants. We are seeking a waiver of the breach and we are planning capital expenditure and leasing incentives to improve the portfolio.

Compliance and litigation

Our major compliance review with our accounting advisers is nearing completion. The review will strongly assist BGP's risk management and tax and regulatory compliance.

Legal action over the CRE loan was settled to our full satisfaction. Litigation continues over legacy property management matters. Previous damages from a court case won by BGP are still to be recovered, but we remain confident we will succeed in this.

Oxford joint venture

We are still negotiating to refinance the €85 million Candlepower portfolio. This is the last condition precedent to achieving the JV split with our partner Oxford. Existing lenders have extended our credit by six months, allowing more time to refinance.

B&B shares in BGP

BGP has formally notified Babcock & Brown that conditions have been met for the exercise of its put option for 50 per cent of BGP Investment to BGP Holdings Europe. This follows clearance for the procedure from BGP's banks and our German tax adviser. Babcock & Brown is now exercising this option, which will take it out of BGP's share register.



Hammerholmen HBI Light Industrial, Denmark



Vlaardingen asset, HBI Light Industrial, Netherlands

Sale of BGP Asset Management

We have completed the partial sale of BGP Asset Management to its management, with Mark Dunstan appointed to the Board of the company. We are negotiating a further agreement covering services to be rendered on legacy issues.

Investor relations

In August 2011, BGP directors visited representatives of our top 15 institutional investors in Sydney, Melbourne, Hong Kong and Singapore (collectively owning 50 per cent of shares in BGP Holdings), as well as the Trust Company and Link Management Services. We presented the investors with an activity update and received their opinions on key issues.

The shareholders were positive and approved management proposals to:

- extend the period for disposing of BGP assets to 2015
- continue to improve the value of the portfolios by selective reinvestment, and
- seek to simplify the capital structure of the BGP Group.

Next steps

BGP will continue to professionally manage the portfolios to further consolidate and improve our assets in preparation for sale when the market improves sufficiently.

We will report on further progress in the next issue of *BGP News*.

- Mark Dunstan,
Managing Director, BGP Investment s.à.r.l.

FIND OUT MORE

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