

CHAIRMAN'S OVERVIEW

MAJOR TURNAROUND

During 2013, BGP turned a significant corner in our quest to return value to shareholders.

When BGP was spun off as a separate entity in 2009, negative equity stood at more than €600 million. By the end of 2012 the company had moved into the black, with shareholders' and equity reserves totalling €390 million. This was a turnaround in BGP's fortunes of almost €1 billion in three years.



Rod McGeoch, Chairman
BGP Holdings PLC

Meeting the challenge: When we started on our campaign to retrieve value from the portfolios, the task was challenging. The European market was reeling from the global financial crisis (GFC). European countries faced a prolonged sovereign debt and banking crisis, weak economic growth and rising unemployment.

From the outset, BGP's board and managers set clear goals: discarding non-performing assets; paying down debt; refinancing; and intensively managing assets for improved value, focusing on the multi-family residential sector in Germany, seen as the lowest-risk location.

Positive results: We are encouraged by the results, particularly over the past year. By focusing on our German residential portfolio, BGP has achieved a significant increase in asset values. The increase has been supported by better asset management. This has cut vacancy rates and raised rental yields in key residential portfolios.

The improvement in debt market liquidity enabled BGP to refinance two-thirds of the residential portfolio in recent months. This was achieved through the Monnet Finance €406 million, five-year, commercial mortgage-backed security (CMBS), arranged through Deutsche Bank.

Largest hurdle cleared: By securing this finance we have cleared BGP's biggest hurdle and we can continue to work towards our ultimate financial goals. Although the macro-economic outlook in Europe remains fragile, we are optimistic that BGP can continue to increase in value, supported by the work of our keen and capable residential asset management teams.

Over the coming year we will consult with shareholders about the most favourable exit strategy options. BGP's board and managers remain absolutely committed to our goal of returning value to shareholders.

And in recording the turnaround BGP has achieved, I would like to express appreciation to our small, dedicated staff led by Managing Director Mark Dunstan for the vital part they have played in advancing BGP's fortunes.

Rod McGeoch, AO

Chairman
BGP Holdings PLC

MANAGING DIRECTOR'S REPORT

ACHIEVING PROGRESS

During the year, as well as securing the most important refinancing deal for BGP, we further rationalised through sales of parts of the portfolios. The goal of these sales, as of others to date, was to pay down debt and produce unencumbered assets for future sale. The disposals also helped fund targeted capital investment in the residential portfolios.

As outlined above by the Chairman, the CMBS issue has completed a major stage of the turnaround we began in 2009.



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

Increased flexibility: The deal has provided flexibility for our future dealings with the portfolios because assets will be available with financing in place for years ahead. This will increase the range of potential buyers. BGP will be able to pursue various options, including the sale of assets, portfolios or even the whole company.

BGP completed the €406 million refinancing of the Quokka portfolio on 2 September through the issuing vehicle Monnet Finance Limited. The refinanced portfolios represent two thirds of BGP's gross residential assets and over half of the company's net assets.

The transaction encompassed various Note tranches:

- **Class A:** €289.4 million priced at 192 bps over three-month Euribor
- **Class B:** €57.7 million priced at 326 bps over three-month Euribor
- **Class C:** €38.6 million priced at 550 bps over three-month Euribor, and
- **Class D:** €20.4 million – 4.96% annual coupon.

The blended cost of debt is Euribor + 248 bps. The issue was swapped at a rate of 1.43%. This gives a fixed-rate, all-in cost of 3.91% until maturity in November 2018. The CMBS issue is listed on the Irish Stock Exchange.

Deutsche Bank arranged the issue, with JP Morgan as co-lead. Final loan-to-value ratio was 63.9%.

Complying with the CRD: BGP Investment will retain the €20.4 million Class D Notes in line with Article 122A of the European Union 5% "skin in the game" Capital Requirements Directive (CRD).

The Minotaurus portfolio was included in the Quokka refinancing, but for technical reasons acceded to the financing only in late September 2013.

Early in 2013, parts of the Oxford JV–Candlepower portfolio were prepared for sale. Assets valued at €2.1 million were notarised in January and we signed a Letter of Intent for a further €7.4 million in February. These sales brought the outstanding loan down to about €4 million.

In June we sold further assets worth €3.46 million within the portfolio to an institutional buyer. We signed a Letter of Intent for the sale of further assets worth €7.44 million to a local investor.

The final €5.1 million bloc sale closed in August. Proceeds repaid the last of the Corealcredit debt.

On completion these transactions left the Oxford JV–Candlepower portfolio free from debt, with the remaining unencumbered assets worth €23.4 million.



Retail Tegernheim

Minimising debt levels: During 2013 the Oxford-BGP JV also disposed of assets within the Promontoria portfolio. A sale worth €67.7 million to the recently listed LEG Immobilien closed in May.

The Promontoria portfolio thus became almost debt-free, with only €1.3 million still outstanding. However, the unsold assets within the portfolio, valued at €24 million, are still cross-collateralised with the Jade financing. In early October, a further Letter of Intent was signed for the remainder of this portfolio.

We took steps to consolidate the HBI portfolio. We sold the asset at St Priest in France for €1 million in February 2013. Settlement of the sale of the Vitrolles asset for €3.3 million was achieved in mid-September. Proceeds of both sales were used to reduce debt.

In The Netherlands we sold the HBI asset at Bombaystraat for €1.49 million. At the time of reporting the Schoonenbeek and Emmen asset sales remained under discussion for a combined amount of over €2 million. A private equity consortium is currently in negotiation with our lenders to acquire the HBI Netherlands loan. We completed the sale of the HBI Sweden assets to Estancia Fastigheter in April.

Future steps: Refinancing and asset sales have placed the remaining BGP portfolios in a more favourable position to pursue options for returning capital, in line with our goal from the outset of securing a return for shareholders.

Mark Dunstan

Managing Director
BGP Investment s.à.r.l.

HBI Light Industrial – The Netherlands





Annenhöfe residential, Berlin



Karlsruhe residential

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