

SELECTING THE BEST OPTION TO MAXIMISE POTENTIAL RETURNS

BGP Investment s.à.r.l. continues to follow the strategy set by the Board and implemented by the executive over the past six years.



Rod McGeoch, AO, Chairman
BGP Holdings PLC

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Berlin assets

The company is in outstanding shape and has the potential to achieve maximum value through the dual-track process we are applying to produce a sale or execute an Initial Public Offering (IPO).

We have worked effectively to restructure the portfolios, dispose of poorly performing assets, refinance to advantage, acquire additional valuable assets and streamline business processes, all with the clear goal of continuing to increase shareholder value.

We are considering various exit processes as we seek to gain the highest possible price for the company in order to return liquidity to shareholders.

Optimism tempered with due caution

Although a beneficial sale or float looks prospective, we must continue to issue a note of caution. The process is not complete, and in a transaction of such complexity there are always risks. We diligently target optimal results but we cannot guarantee their achievement.

We initially considered an IPO through a potential listing on the Frankfurt Stock Exchange. The Board and executives investigated this option thoroughly and sought the advice of our investment banks. In the end, as with many other IPO candidates at that time, we decided to postpone the option because of several factors. They included high market volatility, rising German interest rates, concerns about global

growth and the uncertainty then prevailing about whether Greece might withdraw from the Eurozone.

A further factor was that BGP, since 2009, has not issued a dividend to shareholders. Instead, we have reinvested surpluses to further strengthen the portfolios and pay down debt. As a result, a float is more difficult without a record of returns that would encourage the purchase of shares in an IPO.

Before the postponement of the IPO, BGP produced a prospectus and appointed two leading investment banks to lead the transaction.

In the first quarter of 2016, the Board will consider whether to resume the IPO process.

Discussions with bidders to purchase the company proceeded through 2015 until October, when the process was suspended. The Board assessed that the bids to that time were undervaluing the company.

Improving signs in German residential property

Activity in the European property markets during the second half of 2015 provided cause for optimism. For example, a significant volume of mergers and acquisitions took place in the German Multifamily residential market. The BGP Board believes that further consolidation in that sector of the market will support renewed inquiries from companies interested in acquiring BGP Investment.

The BGP Board is therefore proceeding prudently as we seek to secure the result that will provide shareholders with the best available return on their investment. Financial results to be announced in the first quarter of 2016 will help the Board to determine the best direction to take. The results should support continued interest among potential buyers of BGP Investment.

We remain optimistic that a revived sale process, early in 2016, has the potential to produce a good result for shareholders and we will continue to pursue all avenues to produce a satisfactory outcome.

– **Rod McGeoch, AO**
Chairman
BGP Holdings PLC

CONSOLIDATING THE PORTFOLIOS FOR A SUCCESSFUL SALE OR FLOAT



Mark Dunstan, Managing Director
BGP Holdings PLC

During the second half of calendar 2015, we took concrete steps to further consolidate the value of the portfolios and streamline the administration of the company.



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Simultaneously, as the Chairman has outlined above, we continued discussions and negotiations with potential buyers and took expert advice on the potential to float the company.

Securing the best finance deals continued to bear fruit during 2014–15. We refinanced the Bundaberg portfolio at the end of 2014 through a seven-year loan at the beneficial effective interest rate of 1.96 per cent.

As well, we are currently refinancing the larger Monnet part of the portfolio, valued at EUR 720 million (AUD 1.1 billion), taking advantage of historically low long-term interest rates.

The discount that we negotiated to repurchase the bank loan for the troubled Otto portfolio enabled us to spend more capital on improving the assets, as the portfolio had been effectively cash-trapped by the former lender.

Overall, we have reduced BGP's loan-to-value ratio to 43 per cent, a conservative figure that is below peer-group levels. This compares to a loan-to-value ratio of over 90 per cent at the time we commenced the turnaround in BGP's fortunes in 2009. Recent valuations have brought BGP Investment's estimated net asset value (NAV) to nearly EUR 650 million, a turnaround of approximately AUD 1 billion at today's exchange rate since the spinoff of BGP in late 2009.

BGP is now a uniquely positioned German residential real estate company with scope for further development. Additional improvements in shareholder value should flow from factors including rent increases and reduced vacancy rates.

Sales of less productive assets

We sold the light industrial portfolio, HBI Denmark, to Hansteen and sold several HBI France assets. We sold German retail properties to a US institutional investor, leaving just one shopping centre in our portfolio. After disposing of our joint venture with Oxford in 2015, we are liquidating the companies involved.

Management focus

Streamlining of BGP's administration has been central to our success in building the value of the portfolios and of the company as a whole. In 2015 we achieved full operational integration.

Under the umbrella of the group, we now have separate subsidiaries for property management, letting services, and facilities management. By replacing third-party services with our own brand, we have increased operational efficiency and built a performing management team. The group is now flexible and scalable.

The improved quality of asset management has been essential to our success to date. The vacancy rate of our residential properties has fallen to just under seven per cent.

The greater manageability of the integrated BGP platform increases the attractiveness of the group to potential private equity buyers.

In addition to restructuring for highest efficiency, we added to the visibility and marketability of BGP Investment by implementing a major rebranding program.

BGP Investment continues to grow stronger

Guided by a sound Board strategy and following years of hard work by a group of dedicated property and financial executives, BGP is developing in a highly positive way.

The shareholders' equity and reserves of the BGP group have grown strongly from EUR 467 million (AUD 718 million) at the end of 2013 to EUR 528 million (AUD 812 million) at the end of 2014, and the upward trend in the company's fortunes continues. Audited results are expected at the end of the first quarter of 2016.

We can potentially pursue three main options early in 2016 as we seek to maximise and realise shareholder value in BGP Investment.

We could consider seeking the sale of individual assets within the portfolios. However, we do not believe that this would be likely to produce the best overall return for shareholders. The whole of BGP Investment is, in our estimation, worth more than the sum of the separate assets.

Instead, the company will continue the dual-track approach of seeking a trade sale while also considering prospects for a successful IPO.

After further beneficial refinancing of parts of the portfolio in 2016, we believe that we will be in a more advantageous position to secure a trade sale.

– **Mark Dunstan**
Managing Director
BGP Holdings PLC





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