

RETURNS IN PROSPECT

THE BUSINESS STRATEGY FOR BGP INVESTMENT THAT WE DEVELOPED FIVE YEARS AGO, WITH THE CLEAR GOAL OF RETURNING VALUE TO SHAREHOLDERS, CONTINUES TO BEAR FRUIT.



Rod McGeoch, Chairman
BGP Holdings PLC

OCTOBER 2014



Resi 20 Residential portfolio, Berlin

Under that plan, we have disposed of unproductive assets, refinanced portfolios to advantage, improved our asset management, streamlined our corporate processes and paid down debt when possible.

After selling most of our industrial and commercial assets we have focused on retaining and improving our well regarded German residential properties. The apartments we own in Berlin and other cities are providing sound rental income and we believe that they have potential to produce higher returns and to rise further in value.

Profit and reserves up: I announced at BGP's annual general meeting in September 2014 a consolidated net profit of €76 million as well as growth in shareholders' equity and reserves to €467 million.

I would like to thank BGP's directors and executives for their skilled and diligent work in achieving such good results to date. Given the heavily indebted company that BGP was when we set out, this represents a remarkable turnaround.

BGP's loan-to-value ratio, which was 91 per cent five years ago, is now down to the acceptable level of 62 per cent.

Managing assets well: Better asset management has been a crucial aspect of BGP's financial turnaround. The vacancy rate in our residential portfolio has fallen from 10.0 per cent to 7.6 per cent over the past three years.

At the same time, rent levels have risen and we have reduced rent arrears. We have made judicious capital investments and conducted tactical sales of some smaller properties in areas where demand was not strong.

A key part of our business strategy is strengthening and integrating BGP's corporate structure. We are building a vertically integrated real estate group by bringing our asset management company back into the group and by acquiring property and facility managers.

As a result, BGP's management processes work more smoothly, with better communication throughout the organisation. As well, we are reducing costs and improving the efficiency of our property management.

A stronger company: Implementing these changes has meant that BGP now carries more weight in the European real estate sector, with the internalisation and integration of fund management, asset management and property management.

We promised in 2010 that we would do our utmost to turn the company around and seek to return maximum value to shareholders as soon as we could. Five years on, we believe that the company has regained good health and has a promising future.

Completing our mission: In clear view now are the next steps. We have engaged the leading investment bank Lazard to advise on the most efficient and practical means of realising the value of BGP's assets. That includes opportunities through a new stock exchange listing or a trade sale.

Up to now, shareholders have held a non-transferable security. If we exit through a trade sale, our plan is to distribute the cash to shareholders. Should we float the company, we will in effect swap each present security for a listed share, which shareholders would be able to hold or sell, as with any listed share.

The Board and executives of BGP are extremely proud of the results to date. Challenges abounded when we started out and they have continued to test us. We were working in the aftermath of the GFC; there was a bank credit shortage; real estate markets lacked liquidity; and the European sovereign debt crisis continued. These factors added to the legacy that we inherited from the ill-fated joint venture.

Dealing with such difficulties successfully and staying resolutely on course has been an outstanding achievement by the BGP team and I congratulate them.

As we consider potential exit strategies, seeking the plan that will benefit shareholders most, we look forward to completing our mission.

– Rod McGeoch, AO
Chairman BGP Holdings PLC

VALUE ON TARGET

WE HAVE FURTHER REFINED BGP'S BUSINESS STRATEGY OVER THE PAST YEAR, SHARPENING OUR FOCUS ON THE COMPANY'S RESIDENTIAL PORTFOLIO IN GERMANY. THESE ARE SOLID ASSETS EXPERIENCING STABLE RENTAL DEMAND WITHIN AN ECONOMY THAT IS SEEN AROUND THE WORLD AS A SAFE HAVEN.



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



Otto 4 Residential portfolio, Rendsburg

We have painstakingly improved the efficient operation and value of our German residential portfolio, which now comprises around 17,000 units in cities including Berlin, Kiel and Cologne.

For the BGP portfolio, Germany offers the greatest present value and future potential. The positive outlook for German residential real estate is built on strong foundations: substantial economic growth, rising disposable income and continuing affordability.

Robust German residential: BGP's German residential assets are in growth regions with favourable population trends. The portfolio includes a high proportion of smaller apartments. This is an area in which demand is expected to grow strongly in coming decades as new supply of comparable apartments will be limited.

BGP's balance sheet is healthy and our debt maturity profile, at an average of 5.2 years, is conservative. We have the potential to further reduce interest costs and our present loan-to-value ratio (LTV) is in line with German competitors.

In all of these ways, BGP's decision to transform the portfolio to become a German "pure play" residential investor and manager has contributed to the achievement of the company's central goal: returning value to shareholders.

Further disposals: As part of the process of consolidating the residential portfolio, we sold the HBI Netherlands light industrial portfolio, comprising 41 assets across the Netherlands, mainly in the Randstad area. Hansteen Holdings bought the portfolio for over €100 million. The now redundant Lancelot Land BV will be wound up in 2015.

Within the HBI France light industrial portfolio, we recently sold an asset at Ennery for €2.7 million, with proceeds paid to the lender. We are discussing with the bank the potential sale of the remaining HBI France assets, valued at some €25 million, in a single transaction.

For the HBI Denmark light industrial portfolio, we have agreed in principle with UK-based investor to transfer the SPV for a nominal amount.

In July we sold retail assets in Rottenburg and Moosburg, Germany, for a total of €15.9 million. Sales of the remainder of the portfolio are progressing, with a bid of €2.5 million received for assets formerly expected to fetch only a nominal amount.

We have agreed to sell the remaining assets in the Oxford JV for over €200 million. BGP is due to receive the net proceeds, in December 2014.

We have signed an agreement for the sale of the MKV retail asset for an amount above valuation, in a transaction that produced proceeds of over €27 million for BGP.

We are continuing the process of refinancing, for the benefit of the portfolio. In July, we completed the refinancing of our Franz 1 portfolio through the Berliner Volksbank. At the time of reporting, we are negotiating with two banks for the best possible terms in refinancing the €230 million Bundaberg residential portfolio.

Vertically integrating: Actions to re-integrate asset management into the company included an agreement between BGP Investment and BGP Asset Management under which BGP Investment regains 100 % control of the asset management company.

In another step towards vertical integration, BGP Investment agreed to purchase the remainder of a facility management company in which it previously held a 28% share.

To further streamline the operation of BGP we engaged Ernst & Young to evaluate our current finance functions. The firm will advise on improvements in processes, systems and resourcing. This will bring our finance functions to a higher level.

In our continuing quest for maximum efficiency, we are preparing to transfer property management contracts from the previous property manager to our own PentaProperty.

AGM news positive: We held the annual general meeting of BGP Holdings in Malta on 29 July. Our mail-out of proceedings at the AGM produced an increase in visits to our website and many inquiries. A positive article on BGP's progress to date appeared in *The Australian* newspaper on 5 September.

In co-operation with our advisor Lazard, we conducted a round of institutional investor consultations commencing in July 2014. These provided us with a better understanding of key investors' preferences and objectives as we prepare our final exit strategy.

Depending on our exit strategy, BGP might need to create a structure that complies with the Alternative Investment Fund Management Directive (AIFMD). We have drafted the required policies and procedures in risk and portfolio management, compliance, internal audit and governance. We are now positioned to apply for an AIFMD licence at short notice should we need it.

Active investment approach: To sum up our progress, BGP Investment will remain an active investor until completion of our mission, potentially in 2015. We will continue to stabilise and improve our assets and seek to optimise cash flows. We intend to maximise potential returns from the portfolio by targeting growth in rents and market value.

We will focus on the residential portfolio, which is bolstered by strong demand, good locations and the improvement potential that our German assets hold.

All of our efforts thus coalesce in building a portfolio of assets that is strong, well financed, professionally managed and integrated to produce the greatest possible return through a potential sale or listing of BGP in the near future.

– Mark Dunstan

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



Bavarian Retail – Kelheim shopping centre



HBI France portfolio: St. Ouen

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