

CHAIRMAN'S OVERVIEW

FACING HEADWINDS

AT BGP, THE BOARD AND MANAGEMENT REMAIN RESOLUTELY COMMITTED TO THE COMPANY'S DECLARED FINANCIAL GOAL – PRODUCING A SURPLUS FOR SHAREHOLDERS – AND I REMAIN CONFIDENT OF ULTIMATELY ACHIEVING THIS OUTCOME.



*Rod McGeoch, Chairman
BGP Holdings PLC*



Cologne Technology Park

From the outset we have had to confront the global financial crisis as well as carrying excessive inherited debt.

The challenges continue, particularly with the recent marked fluctuations in European financial and property markets. BGP is devising and applying the tactics required for these conditions.

The volatility in Europe reflects continuing uncertainty over the possibility of Greece's exit from the common European currency. The effects of such a dramatic change would spill over into the other Eurozone (EZ) countries. Underlying concern also continues about sovereign debt in other European countries including Spain and Portugal.

Dealing with current conditions

An exit from the EZ by Greece would add to the present uncertainties.

Some commentators, especially in the UK, even predict the potential unravelling of the Euro as a direct result of the current financial crisis. To some extent the view of those UK observers could become a self-fulfilling prophecy, as the City has a major influence on market sentiment across the EZ.

The European financial crisis is many-faceted. Outcomes are difficult to predict, but some aspects are clear. Even after the latest financial bailout, Greece will not be able to service its debt. The three countries that have been bailed out – Greece,

Ireland and Portugal – have all been pushed into deep recession through the austerity imposed by the EZ and the International Monetary Fund.

The EZ as a whole is experiencing little growth. It is weighed down by the troubled southern European economies. In turn, the low growth is depressing equity markets. Interest rates are at record lows and banks have not made adequate provision against the risk of a second recession.

Working diligently to reduce risk

For BGP, all of these troubling trends combine to add to our difficulties in refinancing properties. The banks have limited capacity to support those of our major portfolios that are due to be refinanced over the next 18 months.

In seeking to convince banks to finance our assets, BGP is handicapped by legacy issues and by the previous insolvency of several subsidiaries. As our loans mature, we do not expect the banks to be enthusiastic about rolling those loans over.

In present conditions in Europe, the securitisation market, which provides half of BGP's financing, remains effectively closed. By themselves, the banks do not have the lending capacity – that is, the capital – to stand in for the securitisation market and provide the finance needed.

However, we believe that our actions to date have lifted our credibility levels with the Banks and most have recognised we have significantly improved the financial wellbeing of BGP.

Reducing debt as we stay on target

The pressures from Banks for repayment continue to place several of BGP's portfolios at risk as due dates approach. Our management are working actively with leading banks to reduce that risk.

While we await more favourable conditions to continue with our disposal program, we are concentrating on improving our assets for timely sale in due course. We are allocating excess income from the portfolios to reduce debt as we seek to progress towards our planned destination – the achievement of a surplus for distribution to shareholders.

– Rod McGeoch
Chairman, BGP Holdings

CAUTIOUS PROGRESS

A FURTHER SIGNIFICANT STEP IN BGP'S FORWARD PROGRESS TOOK PLACE ON 2 JANUARY 2012, WHEN BABCOCK & BROWN FORMALLY LEFT THE BGP STRUCTURE THROUGH THE EXERCISE OF THE PUT OPTION AGREED AT THE TIME OF THE IN SPECIE DIVIDEND.



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

Over recent months, BGP has been operating in a market extremely hostile to transactions. The difficulty is caused by the shortage of credit for buyers and by the highly volatile debt and equity markets resulting from the European sovereign debt crisis.

Several of BGP's planned transactions have been cancelled or delayed. Immowest, a troubled residential portfolio in northern Germany, filed for insolvency after protracted negotiations with the bank broke down in April.



The Nobelring redevelopment in the Candlepower portfolio.

BGP Asset Management closes a significant deal

In more positive news, BGP sold 75 per cent of its interest in the Otto 3 portfolio, returning nearly €1.5 million to the company in net proceeds. BGP retains a 25 per cent holding in the new partnership. BGP Asset Management (BGPAM) continues as asset manager of the portfolio.

Closing this deal in such a difficult environment was a major achievement for BGPAM.

In May BGP sold a further €8 million of light industrial (HBI) assets in the Lyon area of France. No equity was returned because remaining levels of debt still exceeded the valuation of the portfolio.

Deals being further negotiated

A bank withdrew an offer to refinance an €80 million residential portfolio in Lower Saxony. We reached agreement with existing lenders for a further extension of the six months' standstill they provided on current financing.

We have sold assets worth almost €30 million to date in 2012, and used the proceeds to further reduce debt.

The HBI Netherlands portfolio remains troubled. The most recent valuation, at €147 million, is well below the debt level of €172 million. The low valuation was influenced by the sale of another distressed Dutch portfolio for half of its face value. This implied a lower value for the HBI portfolio.

The banks appointed a broker to prepare marketing documents for the intended sale of the banks' loan to HBI. However, BGP is convinced that this is an inauspicious time to be effectively placing the entire HBI portfolio on the market.

Accordingly, BGP has reiterated its proposal for a controlled sale, asset by asset, as the option that will most greatly benefit all parties. The banks are expected to consider the proposal when they receive the broker's opinion on the price likely to be achieved for the sale of the banks' loan.

In Germany, retail assets that BGP had previously offered for sale have been withdrawn because of poor liquidity in the market. BGP will cautiously test the market again, probably after the European summer.

Facing a major challenge in Sweden

For HBI Sweden, the lending bank has stated that it is not willing to refinance the loan after it matures in July 2012. Other banks approached have declined any financing, or have insisted on a loan-to-value (LTV) ratio that is not within HBI Sweden's reach. With a 90-per-cent LTV, this will be a difficult portfolio to save.

Nevertheless, we have requested a six-month extension on the existing loan and we will continue to explore all possibilities to retrieve value from HBI Sweden.

Negotiating to contain BGP's overheads

In renewing the lease of BGP's head office premises, we negotiated an improved deal that will save the company money over the lease period.

We have secured a price per metre that is some 10 per cent lower than the current rate. The owner has also committed to continuing a renovation program and will assume responsibility for reception and for the security of the premises.

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



Herrenhausen residential, Candlepower portfolio.



Jade portfolio residential units in Wilhelmshaven, Germany.

FIND OUT MORE

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