

## How we're acting to retrieve value for BGP shareholders

June 2010

### CLEAR GOALS

Our firm objective is to realise maximum value from the properties in BGP Holdings' European portfolio. Over the next few years any surplus we achieve will be distributed to BGP shareholders.

The challenge to date has been on two fronts. Firstly, the global financial crisis significantly reduced the market value of property across Europe. Economic recovery has been gradual, uneven and uncertain. Secondly, we are actively working to deal with legacy issues flowing from the acquisition, financing and management of BGP's portfolio.

The recent changes have been positive. A leading property asset manager, Internos, now handles the retail and light industrial portfolios. BGP fully controls the asset management of the residential properties. These steps ensure rigorous oversight as we prepare for the most advantageous sales we can secure.

We are implementing a strategic program of divestment. The crucial first step is managing the assets for value by restructuring and refinancing as required. As detailed in this report, we have already disposed of the properties that had the least prospective value. We plan to sell more over the next six months.



Residential and commercial assets in Berlin

In the best interests of shareholders, the timing of future disposals must remain flexible to target optimum results. We will continue to take market trends and economic conditions into account as we plan the forward sales program. We will not relent in our quest for shareholder value.

- Rod McGeoch, AM, Chairman, BGP Holdings
- Mark Dunstan, Managing Director, BGP Holdings

### STRONG LEADERSHIP

The BGP Holdings Board has been strengthened by the appointment of Rod McGeoch as Chairman.

Among his many international sports marketing activities, Rod is best known for his leadership of Olympic bids by Sydney for the 2000 event and Athens for 2004. He was invited by the British Government to advise on London's chances of hosting the 2012 Olympic Games, and recommended that the city bid.

Rod is a leading company director, a former national chairman of top Australian commercial law firm Corrs Chambers Westgarth, and a former president of the Law Society of New South Wales. He is a board member of major public companies including Telecom NZ and Ramsay Health Care, and chairs Sky City Entertainment. He has significant property experience through his law practice and as a director of companies such as Australian Growth Properties.

BGP Board members have extensive business experience and knowledge of European property investment. The Board of BGP Holdings comprises Chairman Rod McGeoch and Non-executive Directors Ruth Agius Sciciuna Buttigieg and Francis J Vassallo. The Board members of BGP Investment are Non-executive Directors Nicolas Comes, Yves Elsen and Rod McGeoch. Managing Director Mark Dunstan is a member of both Boards.

All of the Directors except Rod McGeoch were profiled in the BGP Holdings Information Memorandum ([www.bgp-investment.eu/investor\\_info.html](http://www.bgp-investment.eu/investor_info.html)) sent to shareholders in August 2009. Rod was appointed Chairman of BGP Holdings in November 2009.

BGP's Directors are firmly committed to achieving the best possible returns for shareholders and have set clear and purposeful strategies for the disposal process.

## POSITIVE STEPS

Over the past six months, BGP has taken decisive steps to consolidate the portfolio by restructuring, opening productive negotiations with our banks and disposing of under-performing assets.

Specialised property investment and management company Internos now manages our retail and light industrial portfolio. Internos, recognised for its leading

expertise in European property, acquired GPT Halverton in December 2009 and retained key staff members to ensure smooth continuity of service.

BGP Investment formed BGP Asset Management to safeguard the handling of the residential asset management function previously performed by GPT Halverton. This aligns all residential property matters with BGP's central goals. The change is significant for BGP shareholders because the residential portfolio, with active and effective asset management, provides the best potential for future returns from sales.

These key steps mean that all of BGP's European property assets are being actively managed to cut costs and raise income and value in preparation for timely sale.

BGP Asset Management has achieved economies in its own business. With the move to office space costing 30 per cent less and a reduction in staff numbers, the operation is now breaking even.

BGP established its own IT platform in February 2010, aiding efficiency and clarity of information flow. We have resolved all legacy data issues.

## FIRST DISPOSALS

BGP has disposed of the assets in the worst financial condition, those that carried the risk of litigation or loss of reputation for the company.

Properties divested over the past six months include the residential portfolios Böhnke, Immowest and Franz 2 and 3, and the HBI light industrial portfolio in Germany.

Corestate, a Swiss private equity firm, acquired the Böhnke and Immowest portfolios, due to complete by the end of June 2010. Franz 2 and 3 were acquired by investors close to our financing bank.

BGP is negotiating the sale or restructuring of further residential portfolios with their financing banks, with the goal of completion after mid-year.

Hansteen, a listed UK investment company, acquired HBI Germany at the end of March 2010 for €300 million. Hansteen assumed all outstanding debt on the portfolio and met transaction costs. Although BGP did not achieve an economic return, the sale enabled management to refocus on portfolios with higher potential.

We are now preparing further portfolios for opportune sale in the most favourable future market conditions.



*Residential assets in Berlin – good turnaround prospects*



# FORWARD PLAN

Over the second half of 2010, BGP plans to continue the program of asset sales.

We will target portfolios that carry too much debt for effective turnaround or those that promise only a low return from required capital expenditure.

Potential sales include outlying retail assets in Spain and Germany as well as light industrial assets in France and Denmark. Their total estimated book value is approximately €250 million but debt levels are extremely high, sometimes above the asset value.

Negotiating with our banking partners will be pivotal to our success as we seek to restructure debt and add flexibility to the portfolio structure. Individual asset sales can be complex when an underperforming asset has been cross-collateralised with stronger assets. In other cases a bank can forestall a sale by calling in the loan, deterring potential purchasers when the real estate market is starved of credit.

For these reasons, the timing of future sales will be partly guided by the results of our negotiations with the banks.

## FUTURE PROSPECTS

BGP is further consolidating the remaining portfolio in preparation for sale according to economic and market conditions.

In seeking maximum value for shareholders, time is on our side. The designated turnaround portfolios are already benefiting from increased management attention. As well, macroeconomic indicators point to slow and steady recovery in Germany, our key market, and a gradual return to normal credit availability.

In Europe overall, the current economic outlook is neutral. Unemployment remains high but the trend is down. Inflation remains at historic lows. Although the value of the Euro has fallen by nearly 10 per cent because of European sovereign debt issues, we do not expect a significant change to the current portfolio valuations, which were set conservatively in 2009.



*Residential assets in Berlin*

In these conditions, buyers will slowly return to wholesale real estate markets and this will improve liquidity. Real estate prices should increase as economic recovery lowers vacancy rates and raises nominal rents.

The Board has therefore decided that the portfolios with the highest potential future value should be the last to be sold. A steady and orderly disposal program should bring the best returns to shareholders.

Towards the end of 2010, BGP will report again to shareholders on further progress.



*Retail assets in Mitterfels, Bavaria*

# FIND OUT MORE

## How to contact BGP for further information

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Retail assets near Vilsbiburg, Bavaria