



Press Release

20 May 2010

**Orco Property Group - First quarter 2010 results  
Towards the implementation of its “sauvegarde plan”**

**Key recent events:**

- On May 19th, the Paris Commercial Court approved the Company's Safeguard plan
- Capital increases of 3.1 million new shares for a total consideration of EUR 16.2 million
- General Shareholder Meeting held on 26 April 2010 renewed the mandate of the current Board of Directors for another two years
- Orco Germany sold assets in Q1 for EUR 22 million and signed sales of commercial developments with H2Office (EUR 34 million) and healthcare developments (EUR 40 million), to be recognized in revenues in Q2 2010
- Zlota: Appeal court cleared the zoning permit. Decision on building permit - which remains suspended - expected in June 2010. Construction pre-tender launched.

**Quarter financial highlights:**

- Revenues amount to EUR 51.5 million against EUR 54.8 million in Q1 2009
- Stable Commercial Investment Properties revenues at EUR 29.1 million
- Decrease of operational costs by 12% year on year
- Adjusted EBITDA at EUR 8.0 million, a year on year increase of 42%
- Financial expenses at EUR 25.7 million compared to EUR 58.0 million in Q1 2009
- Net loss at EUR 15.6 million compared to a loss of EUR 45.7 million in Q1 2009
- Refinanced projects amount to EUR 43 million

### Q1 2010 real estate market update:

- Average yields and rents of Prague and Berlin office markets remained stable in Q1 2010
- Investment activity in the CEE region is picking up with transactions amounting to an estimated total of EUR 600 million in Q1 2010, mainly in capital cities (source: CBRE)
- Residential sales in Prague and Warsaw are also picking up, while prices have stabilized
- The 2010 outlook for Prague, Warsaw and Berlin remain positive

### I. Unaudited Profit and Loss Statement :

	3 months 2010	3 months 2009	Q4 2009
<b>Revenue</b>	<b>51 484</b>	<b>54 847</b>	<b>64 688</b>
Net loss from fair value adjustments	0	-5 766	-24 316
Other operating income	622	3 791	-48
Net gain/(loss) on disposal of assets	121	-1 030	95
Cost of goods sold	-17 465	-20 484	-30 465
Employee benefits	-10 327	-11 765	-13 736
Amortisation, impairments and provisions	-2 692	-2 116	16 697
Other operating expenses	-16 723	-18 842	-18 632
<b>Operating result</b>	<b>5 020</b>	<b>-1 365</b>	<b>-5 716</b>
Interest expenses	-25 027	-21 560	-25 120
Interest income	1 616	3 395	1 793
Foreign exchange result	4 750	-17 965	-516
Other net financial results	-7 030	-21 906	-9 540
<b>Financial result</b>	<b>-25 691</b>	<b>-58 036</b>	<b>-33 383</b>
<b>Loss before income taxes</b>	<b>-20 671</b>	<b>-59 401</b>	<b>-39 099</b>
Income taxes	-294	2 202	-17 029
<b>Net loss for the year</b>	<b>-20 965</b>	<b>-57 199</b>	<b>-56 129</b>
<b>Total loss attributable to:</b>			
non controlling interests	-5 366	11 470	-6 782
<b>Group Share</b>	<b>-15 599</b>	<b>-45 729</b>	<b>-49 346</b>

Revenues decreased by 6% to EUR 51.5 million from EUR 54.8 million over the same period in 2009. This decrease by EUR 3.3 million is more than compensated by a decrease in cost of goods sold, in employee benefits and in other operating expenses for EUR 6.6 million and the absence of valuation losses. Operating result excluding any reevaluation or amortization, impairments and provisions improves from EUR 6.5 million in Q1 2009 to EUR 7.7 million in Q1 2010.

The improvement of the operating performance and the financial result over the first quarter allowed reducing the loss from EUR 45.7 million in Q1 2009 to EUR 15.6 million in Q1 2010.

## A. Revenues by segment

Revenues in Commercial Investment properties decreased by EUR 0.6 million mainly as a result of asset sales and some major tenant leaving office buildings partially compensated by improved currency rates and buildings delivered end of 2009. Development revenues decrease by EUR 2.7 million while Commercial Investment Properties revenues are stable.

in EUR million	Development	Commercial Investment Properties	TOTAL
Revenue Q1 2010	22,4	29,1	51,5
Revenue Q1 2009	25,1	29,7	54,8
Variation YoY	-2,7	-0,6	-3,3

### Methodology changes:

As a result of the Group reorganization in two business lines the segment reporting methodology has been reviewed with the main changes being:

- No more intersegment revenues: the holding and services companies' intra-group revenues are eliminated as they do not constitute a business line as such or cannot be included in one of the two business lines.
- Holding and service companies operating expenses: they are allocated to the segment on proportionate basis resulting from a weighted average of the segment revenues and the real estate segment assets.

#### a. Development business line

##### ▪ Residential developments

The residential development sales have decreased from EUR 24.1 million over the first quarter of 2009 to EUR 19.6 million in 2010. Over the first three months of 2009, 125 units have been delivered compared to 107 (95 excluding Germany) over the same period in 2009.

Besides the volatility inherent to quarterly development deliveries, this drop in sales is mainly due to the group strategic decision of refocusing residential developments on the capital cities of Prague and Warsaw.

In Q1 2010, main developments contributing to the revenues are Kotic for EUR 2.1 million, Nove Dvory for EUR 1.7 million and Benice for EUR 1.5 million in the Czech Republic and Klonowa Aleja for EUR 8.7 million, Feliz Residence for EUR 2.8 million and Mokotowska for EUR 0.6 million in Poland.

The backlog on projects either finalized or under construction amounts to 1,076 units including an orders backlog (units covered by a future purchase or a reservation contract) of 200 units:

- 514 units in the Czech Republic including an order backlog of 55 units,
- 495 units in Poland including an order backlog of 145 units,
- 67 units in Slovakia including an order backlog of 3 units.

In 2010 the Company opened for sale three new residential projects in Prague: Mostecka project (56 units), Americka 11 (14 units) and Benice 1B (38 units). Presales are progressing well, Mostecka being already 20% pre-sold and 7% of Americka 11 as of April 2010. All projects are positioned as shell and core. Benice 1B has already been completed as shell and core and is ready for final furnishing based on client individual demands.

Americka 11 received recently its occupancy permit, while refurbishment works on Mostecka are expected to start in the summer 2010 and to be completed by year end. Residential sales on already completed projects in Prague and Warsaw have been picking up in 2010, without decreasing the selling prices. As an example, Klonowa Aleja in Warsaw (284 units) has reached an average of 10 units sold monthly compared to an average of 5 over the 2009 fourth quarter.

In March 2010 the Appeal court cleared the zoning permit of Zlota 44, the 55 floors tower residential project in Warsaw. The next court hearing on the building permit is scheduled on 24<sup>th</sup> June 2010. Meanwhile Orco has been making progress towards the final financing structure with the existing financing bank. The tender for a new general contractor is on-going. Sales are currently on hold and should reopen after recommencement of construction works.

Other projects ready to start construction in 2010 include Mezihori (142 units), Kosik 3b (200 units), Vavrenova (86 units) and U hranic (140 units). They will be reviewed by the Investment Committee over the coming months depending on demand and rescheduling of specifications.

As of March 2010, the inventories include 470 completed residential units (Poland 187 units, Czech Republic 219 units, Slovakia 64 units), in total value of EUR 106 million with a remaining bank debt of EUR 34.6 million.

The Group continues preparing permit applications for new developments to be launched in 2011 and 2012.

The residential development pipeline (excluding plotting programs) has a potential of more than 500,000 sqm to be developed over the next 10-15 years.

#### ▪ **Commercial developments**

During the first quarter of 2010, the commercial development revenues reached EUR 2.8 million compared to EUR 1.1 million in Q1 2009. Main contributors are Sky Office for EUR 1.3 million and the Healthcare projects located in Germany for EUR 0.7 million while rental income is generated by tenants moving in before the actual sale of the asset.

Three German healthcare assets (Gütersloh, Rostock and Oranienburg), as well as one healthcare asset currently under construction in Berlin have been contracted for an amount of EUR 40.0 million compared to bank liabilities of around EUR 28,4 million. H2 Office development in Duisburg has been contracted for EUR 32.4 million, while the bank liabilities reached EUR 28 million. Both sales will be recognized in revenues in the second quarter 2010.

Construction works on Vaci 1, the retail emporium in downtown Budapest, are on schedule. Delivery is expected for spring 2011. Since the beginning of the year, the Company has been able to sign 5 letters of intent with potential tenants, meaning that the asset is now 33% pre-leased (3,650 sqm out of 11,000 sqm).

Together with Vaci 1, Bubny project in Prague, with a potential of 800 000 gross sqm to be developed, remains clearly the Group's top priority. The project team currently focuses on the permitting process, expecting a new master plan in 2011. Meanwhile the Company is making significant progress on potential joint ventures negotiations for selected plots and on plots sales.

#### **b. Commercial Investment Properties business line**

Revenues from the Commercial Investment Properties business line include revenues from rental assets, hospitality and asset management (Endurance Fund). In Q1 2010, the revenues generated by this business line reached EUR 29.1 Million (vs. EUR 29.6 Million in Q1 2009).

- Rental and asset management

Rental and asset management revenues are almost stable year on year from EUR 26.5 million in March 2009 to EUR 25.7 million in March 2010.

As of March 2010, the rental portfolio had a total net leasable area of approx. 1.2 million sqm. Despite the disposal of several German assets, Orco's rental portfolio in this country still represents 70% of the total Group leasable area.

The occupancy rate of the rental portfolio reached 73.9% as of March 2010 compared to 76.6% in December 2009. The drop in occupancy was driven by the termination of some important leases (such as Ceska Sportelna in Bubenska/ Vltavska) and a lower occupancy rate in the Molcom logistics park in Moscow. The occupancy by sector was 65.3% on office (excluding GSG) and 76,3 % on logistics.

GSG in Berlin, with a total NLA of approx. 800K sqm, contributed with EUR 10.1 million revenue in the first three months of 2010. Occupancy rate increased to 76.83% vs. 76.18% as of December 2009 and average rent remained stable at EUR 5.6 per sqm.

- Hospitality

As a usual trend year on year, the first quarter has been very difficult for all the markets, with an overall slow down of tourism from the key feeder markets. MaMaison Hotels and Residences Q1 2010 results follow this trend and have been affected by the slow recovery of the economy and an overall depressed atmosphere. The strong winter also had a negative impact on tourism.

Although, turnover showed a slight decrease (EUR 3.3 million in Q1 2010 vs EUR 3.1 million in Q1 2009), the drop in NOP by 41.8% from EUR 0.8 million in Q1 2009 to EUR 0.5 million in Q1 2010 is mainly explained by increased efforts on sales and marketing. As for Suncani Hvar portfolio in Croatia the season has not yet started.

## **B. Adjusted EBITDA**

The adjusted EBITDA amounts to EUR 8.0 million compared to EUR 5.6 million as at March 2009, representing an increase of 42%. Despite a slight decrease of the revenues by 6% year on year, the operational performance is still growing (15.6% margin on EBITDA in March 2010 vs 10.2% in March 2009) as a result of the cost reduction plan with employee benefits and other operating expenses decreasing by 12%, year on year.

Historically, the operational performance in Q1 is negatively influenced by the low revenues in the central European hospitality portfolio (part of Commercial Investment Properties) and the absence of revenues from Hvar where most revenues are generated during the summer season.

In EUR million

	Development	Commercial Investment Properties	TOTAL
<b>Operating result</b>	<b>-247</b>	<b>5,267</b>	<b>5,020</b>
Net gain/(loss) from fair value adjustments on investment property	0	0	0
Amortisation, impairments and provisions	486	2,205	2,691
Past valuation on goods sold	383	0	383
Net gain/(loss) on abandoned developments	0	0	0
Net gain/(loss) on disposal of assets	-85	-36	-121
Stock options and warrants	0	0	0
<b>Adjusted EBITDA Q1 2010</b>	<b>537</b>	<b>7,436</b>	<b>7,973</b>
<b>Adjusted EBITDA Q1 2009</b>	<b>-1,717</b>	<b>7,322</b>	<b>5,604</b>
<b>Variation</b>	<b>2,254</b>	<b>114</b>	<b>2,369</b>

Adjusted EBITDA is the recurring operational cash result calculated by deduction from the operating result of non-cash elements and non recurring elements (Net gain or loss on fair value adjustments – Amortisation, impairments and provisions – Correction of costs of goods sold being the reversal of past non cash valuation adjustments and impairments – Net gain or loss on the sale of abandoned developments – Net gain or loss on disposal of assets) and the net results on sale of assets or subsidiaries.

### C. Valuation adjustments and impairments

No new valuation adjustments and impairments on real estate assets were recorded over the first quarter.

### D. Net gain or loss on the sale of assets

It is the Group strategy to proceed on an orderly strategic asset disposal program over 2010, and Orco has benefited from the Safeguard Procedure to avoid sale of assets at distressed prices.

In Q1 2010, EUR 21.7 million asset sales have been recognized in profit and loss statement, mainly in Germany with Helberger in Frankfurt for EUR 11.0 million, Wasserstrasse in the Ruhr Region for EUR 8.2 million and Genestrass in Berlin for EUR 1.9 million, generating net accounting profit of EUR 0.1 million and net cash inflow of EUR 5.7 million.

Following the closing of Q1 2010 accounts, the Group completed the disposal of Kurfürstendamm 103-104 in Berlin for EUR 8.1 million (with a bank loan of EUR 4.8 Million), reflecting the dynamics of the German investment market.

### E. Financial Result

Out of a total of gross interest expenses of EUR 25.0 million, interests on bonds account for EUR 10.4 million (EUR 9.5 million in 2009) out of which :

- EUR 8.5 million on the Company bonds restructured by the Safeguard plan. The restructured schedule of amortization for interests and nominal is available on Chapter V of this press release.
- EUR 1.9 million relating to Orco Germany bond (EUR 1.9 million in 2009).

As a result of the Safeguard Procedure, the accrued interests on OPG bonds amount to EUR 20.4 million in our Balance Sheet, compared to EUR 8.0 million as at March 2009. Those due interests will accrue the nominal of each bond and be payable as per the schedule available on Chapter 5.

The increase of interest expenses is also the consequence of the effective bonds interests and the non capitalisation of interests on projects on hold as Zlota (EUR 0.7 million) or on building offices finalized such as Sky Office (EUR 1.0 million).

The net interest expenses in Q1 2010 amount to EUR 23.4 million to be compared to a total Adjusted EBITDA of EUR 8.0 million:

- Bank loan interests on rental properties amount to EUR 6.9 million with an adjusted EBITDA contribution of EUR 9.7 million.
- Bank loan interests on hospitality properties amount to EUR 1.9 million with an adjusted EBITDA contribution of EUR -2.0 million.
- On hold and finalized projects Bank loan interests at EUR 5.8 million (German projects sold or to be sold 2.8m, Zlota 44 0.7m)
- Interest income amount to EUR 1.6 million.

It is a management priority to achieve a full coverage of interest expenses by adjusted EBITDA. Three main elements of its Safeguard plan are set to achieve such coverage:

- Adapting bonds debt service to the structure of revenues is a key part of the adopted Safeguard plan. The EUR 23 million net interest expenses include EUR 9.5 million of interests on the bonds of that are restructured by the Safeguard plan.
- Relaunch frozen projects such as Zlota 44, start delayed but 'ready to go' projects such as Mezihori and sell or develop the land bank once zoning is obtained. Those projects and assets' financing generate EUR 5.8 million of interests in Q1 2010.
- Selling cash flow negative assets (ie which produce more interests expenses than EBITDA). It has particularly started in Germany with the sale of assets such as Helberger or Wasserstrasse.

The financial result shows a loss of EUR 25.7 million compared to a loss of EUR 58.0 million over the first three months of 2009. The financial result has been positively influenced by the improvement of the foreign exchange result with a gain of EUR 4.8 million in 2010, compared to a loss of EUR 18.0 million in 2009. This trend should remain with the continuing strengthening of the rouble, the dollar and CEE currencies towards the euro.

Other net financial results essentially relate to interest rate swaps at fair value through profit and loss.

	31 March 2010	31 March 2009
Change in fair value and realised result on derivative instruments	-4,568	-8,644
Change in fair value and realised result on other financial assets	-38	-10,153
Other net finance charges	-2,425	-3,109
<b>Total</b>	<b>-7,030</b>	<b>-21,906</b>

## F. Income taxes

The income taxes amount to EUR 0.3 million.

## II. Unaudited consolidated interim balance sheet

Assets		
	31 March 2010	31 December 2009
<b>NON-CURRENT ASSETS</b>	<b>1,409,794</b>	<b>1,392,979</b>
Intangible assets	48,682	48,903
Investment property	1,082,768	1,072,304
Property, plant and equipment	242,849	235,677
Hotels and own-occupied buildings	222,981	215,393
Fixtures and fittings and other equipments	19,868	20,284
Financial assets at fair value through profit or loss	32,238	32,353
Deferred tax assets	3,257	3,742
<b>CURRENT ASSETS</b>	<b>621,955</b>	<b>630,554</b>
Inventories	479,304	482,605
Trade receivables	31,979	31,379
Other current assets	60,867	56,347
Derivative instruments	1,024	2,695
Current financial assets	317	488
Cash and cash equivalents	48,464	57,040
<b>ASSETS HELD FOR SALE</b>	<b>29,805</b>	<b>48,930</b>
<b>TOTAL</b>	<b>2,061,554</b>	<b>2,072,463</b>
Equity and liabilities		
	31 March 2010	31 December 2009
<b>EQUITY</b>	<b>95,791</b>	<b>104,730</b>
Equity attributable to owners of the Company	51,078	56,577
Non controlling interests	44,713	48,153
<b>LIABILITIES</b>	<b>1,965,763</b>	<b>1,967,733</b>
<b>Non-current liabilities</b>	<b>1,031,095</b>	<b>1,021,463</b>
Bonds	415,901	409,397
Financial debts	486,087	484,634
Provisions & other long term liabilities	18,153	16,918
Derivative instruments	9,929	9,289
Deferred tax liabilities	101,025	101,225
<b>Current liabilities</b>	<b>899,019</b>	<b>894,819</b>
Current bonds	60,337	59,219
Financial debts	596,370	595,776
Trade payables	32,842	33,480
Advance payments	45,195	53,212
Derivative instruments	49,314	44,380
Other current liabilities	114,961	108,752
<b>Liabilities held for sale</b>	<b>35,649</b>	<b>51,451</b>
<b>TOTAL</b>	<b>2,061,554</b>	<b>2,072,463</b>

### III. Changes in equity and shareholding structure

In April 2010 Orco completed three capital increases for a total equity amount of EUR 16.2 million. The new investors are professional investment funds, such as Axa Investment Managers, Neptune Invest, Alandia Investissements, Lansdowne Capital, Hillgrove Investments Group and Finplat. The Company issued a total of 3,110,000 new shares, priced at EUR 5.61 (for the first round) and EUR 5.00 (for the 2<sup>nd</sup> and 3rd rounds). The price/share in the 2nd and 3rd round reflects the fact that the new shares will remain in the form of registered shares until a prospectus is approved by the CSSF. The Company commits to undertake the necessary steps so that the new shares can be admitted for trading on Euronext Paris, Prague Stock Exchange, Warsaw Stock Exchange and Budapest Stock Exchange.

To the best of Company's knowledge, the table below outlines the shareholding structure as of April 2010:

Shareholders	Number of shares	% of Capital	% Voting rights
Lansdowne Capital	1 000 000	7,12%	7,12%
Axa Investment Managers	874 835	6,22%	6,22%
Millenius	847 600	6,03%	6,03%
Neptune Invest S.à.r.l	740 000	5,27%	5,27%
Hillgrove Investments Group	300 000	2,13%	2,13%
FINPLAT SA	300 000	2,13%	2,13%
Clannathone	227 000	1,62%	1,62%
Ott&Co S.A	176 343	1,23%	1,23%
Bugle	30 000	0,21%	0,21%
Treasury shares	9 101	0,06%	0,06% (suspended)
Other	9 548 987	67,97%	67,97%
<b>Total</b>	<b>14 053 866</b>	<b>100%</b>	<b>100%</b>

### IV. Bank financing

As of March 2010, bank debt amounts to EUR 1.1 billion, with 62% of the bank loans financing income producing commercial assets. The GSG loan, which represents 27% of the total bank debt, is secured until June 2012.

In 2010 Orco continued to successfully renegotiate/extend bank loans related to its core projects:

- Mostecká, financed with EUR 7.8 million loan; the loan has been turned over from the bridge financing to the development financing maturing in December 2011
- Bubenská/ Vltavska, financed with EUR 19.0 million loan; extension till 2013
- OD Dunaj Bratislava, financed with EUR 13.1 million loan; extension till 2013
- Sky Office, equity bridge prolongation in amount of EUR 4.3 million

During Q1 2010, the Company repaid partially or fully several bank loan principals related to various residential projects (Klonowa Aleja EUR 5.6 million, Kosik EUR 2.5 million, Benice EUR 1.7 million) and disposed commercial assets (Helberger EUR 8.5 million, Wasserstraße EUR 7 million). Other loans related to the most recent sales (such as H2O Office, Ku-dam 103/104, German healthcare assets) and to residential projects where construction works have been completed (such as Feliz Residence) are expected to be repaid on schedule.

The Safeguard Procedure was positive by spurring a 'conciliation process' for restructuring bank loans. The partnership of the Company with its local financing banks has been confirmed by the 92% approval of the Safeguard plan by banks benefiting from the Company guarantee.

## V. Update on the Sauvegarde Procedure

On 25 March 2010 the Paris Commercial Court extended for the second time Orco's Safeguard observation period, until 25<sup>th</sup> June 2010.

The Safeguard plan was circularized to creditors on March 31 2010. A majority of 57.42% of creditors were in favour of the proposed plan.

On 19 May 2010, the Court approved the Company's 'plan de sauvegarde'. This plan combines a strategic and operational restructuring plan, summarized in the Company's 2009 management report, and a debt rescheduling plan. The rescheduling plan aims to repay 100% of the admitted claims, including nominal, accrued interests, and interests to accrue during the safeguard plan, over ten years as per the schedule below, with effect from 17 May 2011. This repayment schedule is consistent with the Group's business plan and reflects the necessity for the Group to invest in its development projects and assets.

Year	1	2	3	4	5
% of the total liability	2%	5%	5%	5%	5%

  

Year	6	7	8	9	10
% of the total liability	5%	10%	14%	20%	29%

The rescheduling of the existing bond debt will lead to the derecognition of the existing amortized value and accrued interests amounting to EUR 406 million as at March 2010. The counterpart is the recognition of the market value of the new termed out bond liability. The new debt will be substantially lower with the difference between the two values recognized as a gain this year and will result into an improved loan to value ratio. Until the end of the Safeguard plan, the difference between the market value on the repaid amount will accrue through the income statement on the basis of the effective interest rate method.

The Court appointed Maître Laurent le Guernevé as "Commissaire à l'exécution du plan" in charge of overseeing the performance of the safeguard plan by the Company. Maître Le Guernevé will more specifically be in charge of distributing among the Company's creditors the amounts that are due to them under the safeguard plan.

The judgement approving the Safeguard plan ended the observation period opened in 25 March 2009 and allows the Company to carry out its activity as it did prior to the opening of the safeguard procedure.

## VI. Outlook:

- Achieve between EUR 280 and 300 million of revenues in 2010 depending on the timing in the sale of commercial developments and the delivery of residential developments. This estimate includes EUR 72 million of revenues on the sale of healthcare and H2Office commercial developments in Germany
- Implement the ten year business plan, as approved by the Court
- Continue debt restructuring efforts by stimulating conversion of bonds into shares, where possible
- Complete scheduled increase of stake in Orco Germany to 65% as a first stage towards a simplification of the Group structure and further integration into Orco Property Group S.A.
- Further implement 2<sup>nd</sup> phase cost restructuring program leading to increased operational performance

**Message from Mr. Jean-François Ott, CEO of Orco Property Group**

“With the strong backing of our shareholders and of a majority of our creditors, I am very confident on the serene implementation of the Company’s Safeguard plan that the Court just approved. We have the assets, the land bank, the team and the know how to deliver progress as early as this year”

**For more information, visit our Shareholder corner on  
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