ORCO
PROPERTY GROUP

30 November 2013 Press Release

Orco Property Group

Exceptional impairments and provisions result in Heavy loss

Q3 2013 financial information

Q3 2013 financial highlights

- Revenue YTD has increased by EUR 4 Million to EUR 108 Million year-on-year driven by increase of revenues in Berlin and in Hvar and the sale of the Unibail Rodamco JV plot in Bubny.

- EBITDA increased by EUR 1 Million year-on-year due to improving performance of Berlin rental assets, operational successes of Suncani Hvar and decreasing corporate operating expenses compensating the disappearing Endurance Fund management fees.

- The improved operational performance is undermined by risks accumulating on major projects and assets. The Board of Directors decided to recognize EUR 146 Million of additional impairments (out of which EUR 26 Million of impairment on long term receivables) and negative changes in values compared to the June 2013 valuation review. Main amounts have been recorded on Zlota 44 for EUR 74 Million (in order to reflect the construction and financing costs risks) and on the Sunčani Hvar portfolio for EUR 44 Million (EUR 24 Million group share, in order to reflect risks on the going concern on these activities). Additionally to the impairment on inventories and negative changes in value, provisions of EUR 16 M have been recognized in order to cover the risks estimated by the Board of directors linked to the potential call of corporate guarantees and approved restructuring.

  Those losses have not materialized but the valuation reflects the cumulating risks about which the Board of Directors is currently implementing mitigating measures. In particular, an increase in capital of its subsidiary Orco Germany S.A. ('OG') of up to EUR 100 Million has been decided, out of which EUR 54 Million have been committed. Such funds are to be used to reimburse OG debt to the Company amounting to EUR 12 Million and possibly realise investments into some of the Company assets.

- The Operating result (a loss of EUR 106 Million compared to a loss of EUR 12 Million over the first 9 months of 2012) is significantly impacted by impairments of inventories (Zlota, Benice), valuation losses on Suncani Hvar premises and provisions for risks of guarantee call and restructuring. Other operating losses improved by EUR 6 Million thanks to improvements operational efficiency and control of operational expenses. The decrease is resulting also from the Sky Office disposal in 2012 (EUR 2.9 Million).

- In order to reflect longer than expected collection of receivables related to past sales of Molcom and Leipziger Platz higher credit and litigation risk margin have been integrated into the net present value inducing impairments of EUR 26 Million.

- Interest expenses significantly decreased mainly as a result of GSG refinancing and the capitalization of the Safeguard bonds end of 2012.

- Financial result is also negatively influenced by the losses on foreign exchanges differences and impairments on receivables partially compensated by the result on the buy-back of the loans financing the Vaci 188 and Vaci 190 office buildings in Budapest at a fraction of their nominal value for EUR 1 Million, generating a EUR 15 Million financial gain.

Key recent events

- On 26 July 2013, the Board of Directors approved a reserved capital increase by 6,666,667 new OPG shares at a price of EUR 2.25 per share, raising a total of EUR 15 Million for the Group, subscribed by the Company largest shareholders, namely Gamala Limited, Kingstown Capital Management, LP, Alchemy Special Opportunities Fund II L.P. and Stationway Properties Limited. The new shares were issued on 28 August 2013 and OPG's share capital has increased from EUR 215,681,924 represented by 107,840,962 shares to EUR 229,015,258 represented by 114,507,629 shares.

- On 9 July 2013, representatives of the Republic of Croatia and the Company agreed on a roadmap for the financial and operational recovery of Sunčani Hvar d.d. Pursuant to the agreed roadmap, the parties have temporarily suspended arbitration proceedings. The deadline for all the elements of the road map to be agreed on was set at the 22 November 2013. As of today, no written agreement was entered into between the Company and the Republic of Croatia with respect to the implementation of the Suncani Hvar d.d. restructuring. Despite recent meetings with the representatives of the Croatian Government, there is a major risk on the going concern of Suncani Hvar d.d. as the extension on Suncani Hvar d.d. loans (EUR 53 Million) until December 2013 was signed with the banks under the condition of reaching an agreement with the Republic of Croatia on the long term restructuring.

- The Group is in advanced talks for concluding the refinancing of Gebauer Höfe in Berlin and Bubny or Bubenska in Prague. However, major discrepancies still exist between the Group and bank's position for the refinancing of the Budapest rental assets.

- Following the opening of a marketing suite and show apartments in Zlota 44 Warsaw tower in mid-September, the Group announced the re-opening of its sales process.

Unaudited Profit and Loss Statement

	9 months 2013	9 months 2012 restated
Revenue	107,785	**104,031**
Net gain / (loss) from fair value adjustments on investment property	(3,342)	(4,471)
Other operating income	1,117	5,931
Net result on disposal of assets	675	1,229
Cost of goods sold	(26,129)	(21,611)
Employee benefits	(17,674)	(18,492)
Amortisation, impairments and provisions	(134,177)	(38,602)
Operating expenses	(34,230)	(39,911)
Operating result	**(105,976)**	**(11,896)**
Interest expenses	(27,496)	(53,773)
Interest income	5,624	2,933
Foreign exchange result	(4,119)	10,158
Other net financial results	(9,772)	26,293
Financial result	**(35,764)**	**(14,389)**
Share of profit or loss of joint ventures accounted for using the equiy method	**(122)**	**179**
Profit/(loss) before income taxes	**(141,861)**	**(26,106)**
Income taxes	127	(6,556)
Profit from continuing operations	**(141,734)**	**(32,661)**
Profit / (loss) after tax from discountinued operations	**(683)**	(996)
Net profit / (loss) for the period	**(142,417)**	**(33,657)**
Total profit/(loss) attributable to:		
Non controlling interests	(25,691)	668
Owners of the Company	**(116,726)**	**(34,326)**

The 2012 Income Statement was restated to comply with an amended presentation of the Joint Ventures contributions, in line with the IFRS 11 & 19 transition measures and as detailed in Note 6, and Office Sub-fund, as detailed in the 2012 Financial Statements (Note 2.1.3.4).

All the comparatives figures presented in this document are restated, except if indicated otherwise.

1 Revenue by segment

	Development	Property Investments	Total
YTD Revenue			
As at September 2013	29,306	78,478	107,784
As at September 2012 (restated)	26,641	77,390	104,031
Variation	**2,665**	**1,088**	**3,753**

The total revenue over the first nine months of 2013 slightly increased by EUR 3.8 Million to EUR 107.8 Million YoY (+3.6%), despite the absence of the commercial revenues of Sky Office and Radio Free Europe for EUR 7.8 Million and the decrease of the Endurance management fees for EUR 1.3 Million.

1.1 Property Investments

The Property Investments' revenue has increased by EUR 1.1 Million (+1.4 %) year-on-year, driven by EUR 1.5 Million increase (+8%) of revenue on the hospitality activity, EUR 0.7 Million (+1.3%) on the rental portfolio which more than compensated the decrease of EUR 1.2 Million (-28%) of management services.

- **Rental portfolio**

Over 9 months 2013, revenue increased by EUR 0.7 Million to EUR 55.6 Million, led by a EUR 2.6 Million increase of the revenue generated by the Berlin portfolio (+6.2% year on year, despite assets sales) which more than compensated the impact of the disposal of the Radio Free Europe in Q2 2012 (EUR 2.2 Million revenue in 2012).

Year on year, excluding the disposal of Radio Free Europe in Q2 2012, the occupancy rate of the total portfolio increased by 140 bps up to 78.5% or a net take up of 15,480 SQM. Average rent went up to 5.33 EUR/SQM (+3% YoY). The main driver of this improvement is the strong performance of the Berlin portfolio which delivers the results of the Group's strategic focus on key locations. Average rent on the Berlin portfolio increases by 12% YoY up to 5.01 EUR/SQM and occupancy rate improved by 250 bps (net take up of 20,928 SQM).

Quarter on quarter, the occupancy rate of the Berlin portfolio increased by 40 bps. Main contributors to the improvement are mainly located in the Kreuzberg area including two contracts signed in Zossener Straße 55-58 and Lobeckstraße 36-40 for a total of 1,965 SQM with rent above EUR 6. The Group achieved a gross take up of 6,411 SQM in the west part with average rent 5.58 EUR/SQM during Q3 2013.

	Headline rent / SQM				Average rent / SQM			
Portfolio	S-13	J-13	M-13	S-12	S-13	J-13	M-13	S-12
Prague, Czech Republic	5,02	5,18	5,13	5,01	5,40	5,57	5,46	5,51
Budapest, Hungary	25,70	29,33	29,98	23,01	23,47	22,73	26,92	19,06
Warsaw, Poland	4,01	2,73	2,71	2,89	4,37	2,94	2,91	3,17
Bratislava, Slovakia	6,34	6,43	6,05	6,53	5,20	4,15	5,03	5,60
Capellen, Luxembourg	19,25	18,89	18,73	18,57	22,68	22,25	23,57	21,98
CE Portfolio	6,75	6,21	6,16	5,96	6,93	6,41	6,47	6,19
West Berlin, Germany	5,65	5,60	5,55	5,42	5,58	5,49	5,48	5,41
East Berlin, Germany	4,41	4,50	4,50	4,50	3,97	4,04	4,04	4,09
Xberg / Mitte Berlin, Germany	6,33	6,22	6,08	5,86	5,81	5,83	5,70	5,74
Non Core Berlin, Germany	2,53	2,53	2,53	2,53	2,53	2,53	2,53	2,53
Berlin Portfolio	5,25	5,22	5,17	5,06	5,01	4,99	4,96	4,95
Total Portfolio	5,47	5,38	5,33	5,20	5,33	5,25	5,23	5,18

	Occupancy Headline area				Occupancy Total areas				Headline	Total
Portfolio	S-13	J-13	M-13	S-12	S-13	J-13	M-13	S-12	area	area
Prague, Czech Republic	92,0%	89,2%	88,5%	87,1%	86,9%	83,4%	81,7%	78,5%	81 218	128 916
Budapest, Hungary	16,7%	10,4%	10,3%	10,3%	18,0%	13,4%	11,6%	11,2%	30 241	39 126
Warsaw, Poland	28,0%	85,7%	85,7%	85,7%	27,7%	81,9%	81,9%	81,9%	31 849	36 598
Bratislava, Slovakia	76,4%	83,3%	77,5%	76,3%	51,1%	53,9%	53,4%	53,2%	3 328	8 220
Capellen, Luxembourg	94,0%	100,0%	100,0%	90,7%	90,2%	95,6%	95,6%	86,3%	7 023	7 695
CE Portfolio	63,7%	72,1%	71,5%	70,8%	63,7%	69,8%	68,6%	66,3%	153 659	220 556
West Berlin, Germany	91,9%	92,1%	91,9%	90,0%	89,8%	89,8%	89,4%	88,4%	323 535	362 355
East Berlin, Germany	63,2%	63,2%	61,7%	60,3%	63,1%	63,1%	61,8%	60,3%	213 099	262 785
Xberg / Mitte Berlin, Germany	97,0%	95,0%	95,0%	90,4%	92,1%	90,4%	89,8%	86,8%	130 512	159 964
Non Core Berlin, Germany	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	52 000	52 000
Berlin Portfolio	84,9%	84,6%	84,1%	82,0%	82,5%	82,1%	81,5%	80,0%	719 145	837 104
Total Portfolio	81,2%	82,4%	81,8%	80,0%	78,5%	79,6%	78,8%	77,1%	872 804	1 057 660

* Like for like basis, therefore disposals and reclasified assets are not included

Year on year, in Central Europe, the rental portfolio demonstrated progress in all key locations except in Poland and Slovakia. Total occupancy decreased by 260 bps down to 63.7%, as a consequence of the departure of two anchor tenants of the Polish logistic platform (-20,216 SQM) in Q3 2013. It was partly compensated by a lease up of 5,110 SQM on the Stříbro logistic platform in Q3 2013.

In Budapest, occupancy increased up to 18.0%, driven by the moving in of the first tenants in Vaci 188 (net take up of 1,680 SQM in Q3 2013). Average rent increased by 230 bps up to 23.47 EUR/SQM mainly through the Vaci 1 step-up rent. But the market remain challenging

- **Hospitality portfolio**

The hospitality[1] revenue rose by EUR 1.5 Million (+8.1 % year on year) to EUR 20.0 million, a performance triggered by outperforming season at Sunčani Hvar hotels which recorded a revenue of EUR 18.0 Million (+EUR 1.6 Million year on year). The performance of SHH Hotel portfolio is mainly driven by a good revenue management with an improved Average Daily Rate (ADR) of EUR 131.5 (+6.6% year on year) and a Revenue Per Available Room (RevPAR) of EUR 93.2 (+8.8% year on year) meanwhile the number of nights sold remained stable. Revenue from Food and Beverage is also increasing by 7.6% as a consequence of specific efforts of the Group to improve this part of operations.

1.2 Development

- **Commercial**

The commercial revenue improved significantly and rose by EUR 13.1 Million up to EUR 20.2 Million, as an effect of the sale of plot in Bubny area in Q2 2013 which more than compensated the impact of the sale of Sky Office building in December 2012, which contributed by EUR 5.6 million to the 9 months 2012 revenue.

- **Residential**

Residential development sales have decreased from EUR 16.6 Million over 9 months 2012 down to EUR 9.0 Million over the same period in 2013, revenues from the recently completed project V Mezihori will start being recognized in Q4 2013 with first deliveries.

The main drivers of 2013 revenue are Koliba – Parkville in Bratislava (EUR 3.2 Million), Benice (EUR 1.5 Million) and Mostecka in Prague (EUR 1.2 Million) and Klonowa Aleja in Warsaw (EUR 1.1 Million). In Germany, the ongoing conversion project on Naunynstrasse in Berlin is currently under construction with expected first deliveries in H2 2014 while 58% of the units have been pre-sold as of end of November.

In Central Europe and Germany, 38 units have been delivered (11 in the Czech Republic, 11 in Slovakia and 16 in Poland) over the first 9 months of 2013 or close to 57% of opening inventory of completed units[2]. As to completed projects (including Mezihori after occupancy obtained end of August 2013), the total backlog is made of 173 completed residential units excluding the joint venture of Kosik[3], for total expected sales of EUR 24.2 Million. 119 out of the remaining completed units are covered by a future purchase or a reservation contract. As of end of November, V Mezihori's pre-sales reached 83%, and construction was completed in September 2013 with first deliveries to clients occurring at the end of October 2013 (currently 8% delivered).

[1] As a result of the change in method detailed in Note 6 of the June 2013 Interim Consolidated Financial Statements, the Hospitality revenue now only encompasses the revenue of the Pachtuv Palac hotel in Prague owned at 100% by OPG and the Suncani Hvar portfolio.

2 Opening inventory of completed units excludes Kosik now consolidated under equity method and Sunny house converted into a rental asset

[3] Residential inventories do not include the units of the Kosik's joint venture which revenue is now presented under the equity method.

For projects under construction, namely Benice and Zlota 44 in Central Europe and Naunynstrasse 68 in Berlin, total backlog amounts to 316 units of which 76 are covered by a future purchase or a reservation contract. This includes 266 units in Poland (63 contracted) and 28 in the Czech Republic (4 units contracted) and 22 units in Berlin (13 units contracted).

In Poland, the kick-off of the sales re-opening occurred mid of September as planned. In Germany, the Group pursues the planned conversion of the asset of Naunynstrasse 68 in the Kreuzberg area of Berlin with first revenue expected at the end of Q3 2014 and decided to initiate the conversion of a second asset in Kreuzberg, Oranienstraße 10 / 11, 19 units are planned for sales.

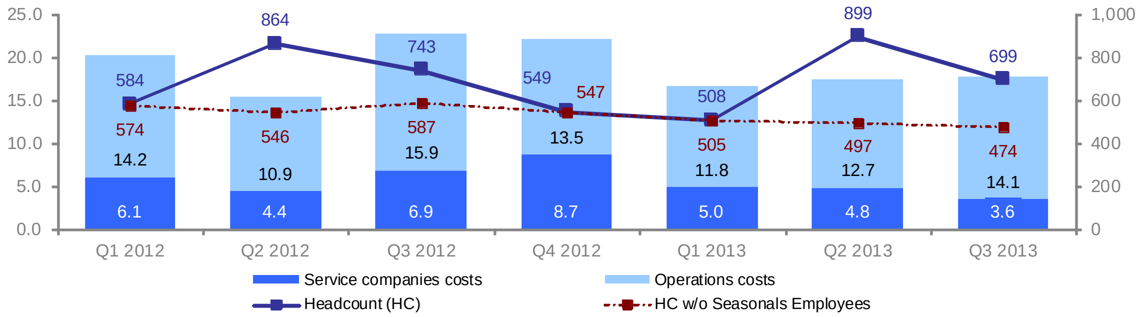
In mid-October 2013, pre-sales of the last phase of the Kosik project were launched with start of construction planned for Spring 2014. As of the end of November, 24% of the units of the first sub-phase are pre-sold. Completion of this sub-phase is scheduled for Q4 2015. The two sub-phases with 153 and 80 units respectively are the last extension of the Kosik program on which the Group successfully commercialized phases Kosik I, II and IIIa.

2 Operating expenses

The operating expenses including employee benefits are decreasing year-on-year by 11.1 % or EUR 6.5 Million to EUR 51.9 Million.

The Group's Management started restructuring and costs reduction of the service companies which, combined with the decrease of consultancy fees related to the bonds and loans restructuring, explain the lowest level of Services costs registered over 3 months (EUR 3.6 Million) since 2010. Year on year, the shared service costs decreased by EUR 3.7 Million to EUR 13.4 million mainly driven by the reduction of salaries (EUR 1.8 Million) and consultancy fees (EUR 1.7 Million).

The operational costs decreased by EUR 2.4 Million to EUR 38.5 Million mainly driven by the control of the Utilities costs and the decrease of refurbishment costs in GSG in 2013 leading to a decrease by EUR 1.2 Million compared to Q3 2012. Furthermore, IT and communication costs have been reduced by EUR 0.3 Million YoY.



The chart above discloses the development of number of active headcount (total headcount less long-term sick leave and maternity leave).

3 Adjusted EBITDA[4]

The adjusted EBITDA amounts to EUR 30.9 Million as of end of September 2013 to be compared with EUR 29.9 Million over the same period in 2012.

	Development	Property Investments	TOTAL
Operating Result - 9m 2013	**(93,361)**	**(12,616)**	**(105,977)**
Net gain or loss from fair value adjustments on investment property	1,228	2,115	3,343
Amortisation, impairments and provisions	90,649	43,529	134,178
Net result on disposal of assets	(570)	(105)	(675)
Adjusted EBITDA - 9m 2013	**(2,054)**	**32,923**	**30,869**
Adjusted EBITDA - 9m 2012 (restated)	**(4,083)**	**34,019**	**29,936**
Variation YoY	**2,029**	**(1,096)**	**933**

In the Property Investments business line, the absence of the Radio Free Europe rental asset sold in H1 2012 (EUR -1.8 million), the decrease of the Endurance Sub-Funds management fees (EUR -1.3 Million) and the absence of exceptional VAT pay-back (EUR -2.5 Million), are partially compensated by the EBITDA improvements of the Berlin (EUR 3.7 Million) and Hvar (EUR 1.4 Million) activities.

Despite the absence of rental revenue from Sky Office (EUR 2.3 Million), sold in December 2012, the Development EBITDA, driven by the positive impact of the Bubny transaction with Unibail (EUR 1.6 Million), has improved by EUR 2.0 Million YoY.

4 Net gain or loss on the sale of assets

Over the third quarter of the year 2013, the Group did not recognize any significant sale of Investment Property, Hotel or Owner-occupied building.

[4] The adjusted EBITDA is the recurring operational cash result calculated by deduction from the operating result of non-cash items and non-recurring items (Net gain or loss on fair value adjustments – Amortization, impairments and provisions – 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.

5 Valuation adjustments and impairments

On top of the EUR -0.6 Million impairments and fair value adjustments recognized at end of June 2013, the Group recognized EUR 113.7 Million of impairments on Inventories and EUR 11.8 Million of losses in Fair Value, including EUR 73.8 Million of impairments on Zlota 44, EUR 40.2 Million on our Hvar portfolio, losses in Fair Value of EUR 3.3 Million on Dunaj in Slovakia and EUR 2.3 Million on Hvar assets. Zlota 44 has been impaired by EUR 73.8 Million in order to reflect the construction and financing costs risks; commercialization is ongoing in a difficult context but major decisions are taken on the project management in order to reduce corporate risks. The Sunčani Hvar portfolio has been impaired by EUR 24 Million Group share (44 Million before minority interests) in order to reflect risks on the going concern on these activities due to the refinancing situation, the value of the real estate assets of Suncani Hvar has been decreased to generate a net asset value of zero on that entity. In both cases, the losses have not materialized but the valuation reflects the cumulating risks about which the Board of Directors is currently working on mitigating measures.

The impact of fair value and impairments on real estate assets as of September 2013 are detailed by country as follows:

	9 months to September 2013			6 months to June 2013	9 months to September 2012		
	Revaluation	Impairment	Total		Revaluation	Impairment	Total
Germany	15,841	116	**15,957**	**15,880**	5,275	(24,240)	**(18,965)**
Czech Republic	(3,876)	(2,861)	**(6,738)**	**(6,936)**	690	(3,084)	**(2,395)**
Poland	152	(73,798)	**(73,646)**	**108**	(1,268)	(842)	**(2,110)**
Hungary	(7,878)	-	**(7,878)**	**(7,895)**	(8,923)	-	**(8,923)**
Slovakia	(5,620)	192	**(5,428)**	**(2,128)**	(778)	(2,080)	**(2,858)**
Luxembourg	360	-	**360**	**360**	537	-	**537**
Croatia	(2,321)	(40,214)	**(42,535)**	**(16)**	(4)	642	**639**
Total	(3,342)	(116,565)	**(119,908)**	**(627)**	(4,471)	(29,604)	**(34,075)**

6 Financial Result

6.1 Interests

The interest expenses are the driver of the strong improvement of the financial result, decreasing by EUR 26.3 Million. The Bonds' interest expenses dropped to EUR 6.4 Million compared to EUR 25.6 Million as of Q3 2012. The Bank loan interest expenses decreased by EUR 7.0 Million to EUR 21.1 Million YoY, mainly as a result of the refinancing of GSG and the repayment of loans upon sale of assets. Excluding the New Notes non-cash interests amounted to EUR 5.3 Million, the bank interest expenses would have decreased to EUR 22.5 Million. Penalty interests related to SHH loans recognized during the first half of 2013 (EUR 1.3 Million) were reversed in line with extension signed in Q3 2013.

The net bank and bonds interest for the first 9 months of 2013 amounts to EUR 20.5 Million (compared to an adjusted EBITDA contribution of EUR 32.9 Million) for the Property investment activity and EUR 0.6 Million (compared to an adjusted EBITDA negative contribution of EUR 2.1 Million) for the Development activity.

6.2 Foreign exchange differences

Over 2013, most Central European currencies weakened against the Euro resulting in a EUR 4.2 Million loss compared to a gain of EUR 10.1 Million over the same period in 2012. The main contributors are the liabilities related to the Vaci I and Suncani HVAR.

6.3 Other net financial results

Other net financial results amounting to EUR -9.8 Million are essentially related to the one-off gains on bank loans buy-backs in Hungary for EUR 14.9 Million and on the other hand impairments recognised on receivables related to sold assets Molcom and Leipziger Platz for EUR -26.4 Million. The two last impairments correspond respectively to 50% and 20% of the face value of the receivables as a result of the anticipated difficulties the Group will face for their collection.

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