



Press release – November 27, 2008

## Orco Property Group - 9 months accounts 2008

Adaptation to market evolutions

Focus on core business and core cities

Cost reduction plan implemented

Re-underwriting of all projects

The board of directors has approved the nine months unaudited accounts.

### I) Profit & Loss Statement

	September 2008	September 2007	June 2008
<b>Revenue</b>	<b>225,591</b>	<b>213,334</b>	<b>113,242</b>
Net gain from fair value adjustments on investment property	61,902	96,288	61,067
Other operating income	723	1,305	3,075
Net gain on disposal of assets	13,011	51	10,082
Cost of goods sold	-90,244	-118,439	-33,277
Employee benefits	-46,798	-34,176	-26,089
Amortization, impairments and provisions	-47,845	-12,213	-48,370
Other operating expenses	-72,337	-36,806	-49,206
<b>Operating result</b>	<b>44,003</b>	<b>109,344</b>	<b>30,524</b>
Interest expenses	-61,266	-36,967	-41,596
Interest income	7,761	5,185	6,452
Foreign exchange result	-6,209	-2,547	-8,034
Other net financial results	-4,338	-471	13,326
<b>Financial result</b>	<b>-64,052</b>	<b>-34,800</b>	<b>-29,852</b>
<b>Profit before income taxes</b>	<b>-20,049</b>	<b>74,544</b>	<b>672</b>
Income taxes	-5,976	5,375	-5,550
<b>Net profit/(loss)</b>	<b>-26,025</b>	<b>79,919</b>	<b>-4,878</b>
Attributable to minority interests	3,760	11,490	9,236
<b>Attributable to the Group</b>	<b>-29,785</b>	<b>68,429</b>	<b>-14,114</b>

## **A) Turnover**

The turnover amounts to € 226 Million compared to € 113 Million as of June 2008. The main increases come from the residential development with € 69 Million contribution over the quarter, followed by the hospitality with €17 Million (high season).

<b>September 2008 ('000)</b>	<b>Development</b>	<b>Mgt services</b>	<b>Hospitality</b>	<b>Leasing</b>	<b>Inter-segment</b>	<b>TOTAL</b>
Czech republic	41,186	3,564	6,823	16,395	-3,807	<b>64,161</b>
Germany	19,540			41,756	-1,043	<b>60,253</b>
Poland	24,228		4,223		-33	<b>28,418</b>
Croatia	313		16,974		-215	<b>17,072</b>
Hungary	25,482		1,366	4,303	-58	<b>31,093</b>
Slovakia	665	22	388		-6	<b>1,069</b>
Russia	550		2,939	17,650	-437	<b>20,702</b>
Luxembourg		8,192	86	1,446	-184	<b>9,540</b>
Inter-segment	-133	-730	-46	-114	-5,694	<b>-6,717</b>
<b>TOTAL</b>	<b>111,831</b>	<b>11,048</b>	<b>32,753</b>	<b>81,436</b>	<b>-11,477</b>	<b>225,591</b>

## **Development**

The deliveries are in line with management's anticipations, as the turnover was largely secured by FPCs signed a year ago. The turnover amounts to €112 Million. 504 units were sold over the period. The backlog amounts to 849 units.

In the Czech Republic, 246 units were sold over the past nine months. 22 units were sold in Germany equally split between Frankfurt and Hamburg. 236 units were delivered in Poland.

The deliveries of the first high end project in Slovakia (Koliba) started in November and will be continued till completion at a safe rythm.

The disposal of avenue Gardens is included in the turnover of Q3 2008 for €24 Million (€16 Million net of loan repayment).

## **Outlook 2009**

We have not registered any major slow down of the activity in the Czech Republic while Slovakia and Poland are facing tougher market conditions. The conditions would tend to improve in November compared to September and October. In Poland, the middle class segment is slightly recovering. The high end market is at a standstill.

## **Leasing**

Occupancy rates remain stable, the revenues amount to €81,4 Million, in line with the annual target of €105 Million.

On the letting news side, 19% of Vaci One is covered by head of terms and pre leases. Final negotiations are being conducted today to reach 32% by year end, 15 months before completion.

A total of 1800 new sqm have been signed in Sky Office (Dusseldorf) between june and november, bringing the total pre-lease, a year ahead delivery, at 60%.

No default in payment for the moment has been registered either any early termination clause has been activated by our tenants. The highly spread of the tenant basis is protecting the company in this difficult environment.

### **Management services**

The turnover amounts to €11 Million, much below our estimate. The fund raising market has severely slowed down and accordingly the teams have had only very limited success in raising cash for the past nine months.

The residential fund has slowed down investments as institutional investors have temporary put a halt to their investment decision. For these two reasons, the placement fees as well as the transactions fees are significantly below our estimations. Orco remains committed to this business in Central Europe anyhow.

### **Hospitality**

The turnover stands at €32,8 Million vs €32,2 Million last year. 50% of the Central European portfolio has been sold to AIG and therefore is no longer fully integrated. This is partially compensated by the opening of Pokrovka in Moscow (€2,9 Million) and the full contribution of Adriana and Amfora on Hvar.

The summer slowdown in European travel later in the year has resulted in hotels in general in these cities achieving results some 10% to 15% below 2007 performance. This underperformance was not, however, felt in Warsaw and Moscow. Rates and occupancy have remained robust so far in 2008, although prudence would suggest that these two cities cannot escape a more widespread and deeper economic decline in the months to come.

Croatian tourism experienced a weaker summer season in 2008 than anticipated and realised rates and occupancies were below budget. As the level of discretionary spending in the key feeder markets to Hvar is not likely to improve in 2009, sales are expected to be stable with the Amfora making a full year contribution for the first time. In anticipation of this trading projection a full restructuring plan including cost reductions and asset disposals is currently being implemented in Suncani Hvar.

### **Revision of annual turnover target**

Management is reviewing its 2008 turnover target to €300 Million, down from €343 Million. Two main reasons: i) commercial development sales stand below target for €38 Million, €12 Million of which is secured turnover, to be delivered and booked in 2009 (contracted office sales in Berlin), the balance being unsecured and ii) low level of commissions from Endurance Fund.

### **B) EBITDA**

The adjusted EBITDA amounts to €63,5 Million vs €29,6 Million over the same period in 2007.

The increase to €18 Million (vs 10 Million in June 08) of the EBITDA excluding disposal of assets during the last three months confirms the positive trend anticipated in June. The operating profitability of residential development improved as the biggest development projects of 2008 are being booked and recognized in Q3 & Q4 with an average margin of 20 to 25% for the main contributors.

The disposal program contributed for €45 Million cash in the EBITDA, €13 Million correspond to the net gain of the disposal price when compared to the last booked valuation and €32 Million correspond to the cumulative profits of revaluation booked since acquisition.

### **C) The group has settled a cost cutting program which effects are yet not visible on Q3**

The increase in operating expenses of €36 Million when compared to September 2007 is linked to the full integration over the period of GSG (€19,7 Million vs €5 Million as of sept 07) and Orco Molcom (€13 Million vs €6,5 Million as of sept 07). Excluding these perimeter modifications, operating expenses were stabilized.

The group settled a cost cutting program which effects are yet not visible in third quarter accounts. It concerns staff reduction, closing offices in secondary cities, overhead costs reduction.

Four priorities have been implemented:

- 1) reduction of the launch of new projects, resulting into a downsizing of the project management teams (& capex, see paragraph below)
- 2) reduction of property management teams as a result of planned asset sales
- 3) simplification of group management structure and downscale support functions
- 4) in depth monitoring of marketing, consulting & travel expenses.

The combination effect of these four actions will lead into a 25% reduction of operating expenses in 2009 ie a saving of €30 Million.

### **D) Disposal program as at November 2008 : transactions realized at 96% of DTZ valuation**

OPG sold for €157 Million of assets at 96 % of DTZ value. The three last recent transactions were done in Budapest (Revay and Andrassy 70), in Berlin (two buildings) and in Prague (office portfolio of Vinohrady). These three prime locations in which Orco chose to invest long ago -Vinohrady in Prague, Andrassy Avenue in Budapest, Mitte in Berlin- showed good liquidity.

But, very few transactions have been closed on the institutional market, as institutional investors are credit sensitive. The transactions realized in their vast majority were done with private investors. The cash proceeds (net of financing & taxes) of the transactions amount to €78 Million.

### **E) Net Asset Value**

The fair value adjustments and the impairments correspond to those booked as of June 30th, on the basis of a full review of the portfolio performed by the management and DTZ at this date: the net gains on fair value adjustments reached €61 Million, and the group recognized total impairments on projects of €41 Million. For more details, please refer to first half financial report.

A complete revaluation of the portfolio is in progress for year end valuation and therefore, the management does not release for this period any calculation of the net asset value.

## **II) 2009 overview : Orco Property Group adapts to market evolution**

### **A) A complete re-underwriting of the projects**

The company has been re-underwriting all the ongoing and projected developments to adapt to market evolutions. Four principles are driving the decisions:

- 1) All the new projects including land bank which are not financed are postponed. The only greenlighted capex in this respect are those related to permitting.
- 2) Authorized capex concern those necessary to deliver a building which would safely generate revenues in 2009 or early 2010.
- 3) On going developments: a case by case approach.
- 4) The start of any new project requests a minimum level of pre sales or pre lease enabling the necessary financing. No speculative development will be conducted.

### **B) Taking into account these new rules, the capital expenditures for 2009 will be reduced to € 300 Million.**

This capex will be financed by secured financing lines (€ 194 Million). The balance should be financed by own means (operational cash flow, sale of assets).

### **C) 2009 annual turnover bracket targets**

The group forecasts a minimum annual turnover of €277 Million secured by rents for €10 Million, contracted residential development sales for €118 Million, conservative hospitality turnover for €41 Million and management commissions for €8,5 Million.

Unsecured sales, at the date of this press release, can positively drive this target to €391 Million: i) uncontracted residential developments for €52 Million, half of which in Poland linked to sales of middle class projects and ii) commercial & office development sales for €62 Million.

### **C) Financing**

#### **Q3 accounts**

The net interest expense was €53,5 Million, including €21 Million of non cash amortization of repayment premiums and embedded derivatives. The net cash interest paid was €32,5 Million.

#### **Debt**

The maturing debt over the course of 2009 amounts to €208 Million, representing 14% of the total net debt. Out of this amount, €188 Million need to be refinanced. The balance is constituted by development loans to be paid back through sales.

It is the strategy of the management to turn short term loans into longer maturity ones. The company is working on the global restructuring of its debt. The management anticipates that considering the ongoing discussions with banks, the financings should be prolonged after increase of the equity portion in each project.

**Balance Sheet in €K as at September 30<sup>th</sup> 2008**

<b>Assets</b>		
	<b>September 2008</b>	<b>December 2007</b>
<b>NON-CURRENT ASSETS</b>	<b>2,136,399</b>	<b>2,147,468</b>
Intangible assets	58,813	67,016
Investment property	1,407,944	1,564,947
Property, plant and equipment	520,083	419,575
Hotels and own-occupied buildings	304,370	294,170
Fixtures and fittings and other equipments	21,343	21,036
Properties under development	194,370	104,369
Financial assets at fair value through profit & loss	136,667	82,182
Deferred tax assets	12,892	13,748
<b>CURRENT ASSETS</b>	<b>853,335</b>	<b>795,795</b>
Inventories	616,082	323,699
Trade receivables	39,610	64,891
Other receivables	74,915	115,610
Derivative instruments	10,422	22,396
Current financial assets	8,800	11,222
Cash and cash equivalents	103,506	257,977
<b>TOTAL</b>	<b>2,989,734</b>	<b>2,943,263</b>
<b>Equity and liabilities</b>		
	<b>September 2008</b>	<b>December 2007</b>
<b>EQUITY</b>	<b>915,506</b>	<b>939,835</b>
Shareholders'equity	711,491	736,012
Minority interests	204,015	203,823
<b>LIABILITIES</b>	<b>2,074,228</b>	<b>2,003,428</b>
<b>Non-current liabilities</b>	<b>1,537,454</b>	<b>1,587,783</b>
Bonds	441,272	472,812
Financial debts	810,278	831,724
Provisions & other long term liabilities	31,073	18,154
Derivative instruments	21,061	21,153
<b>Deferred tax liabilities</b>	<b>233,770</b>	<b>243,940</b>
<b>Current liabilities</b>	<b>536,774</b>	<b>415,645</b>
Financial debt	318,186	175,216
Trade payables	60,506	50,220
Advance payments	97,453	101,678
Derivative instruments	6,337	4,872
Other current liabilities	54,292	83,659
<b>TOTAL</b>	<b>2,989,734</b>	<b>2,943,263</b>

For additional information, please, visit: [www.orcogroup.com](http://www.orcogroup.com) , or contact:

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**Orco Property Group** is a leading investor, developer and asset manager in the Central European real estate and hospitality market, currently managing assets of approximately EUR 2, 5 billion. Operating in Central Europe since 1991, Orco Property Group is a public company, based in Luxembourg, and listed on the NYSE Euronext, Prague, Warsaw and Budapest Stock Exchanges. Orco Property Group operates in a number of countries including, mainly, the Czech Republic, Hungary, Poland, Russia, Croatia, Germany and Slovakia. Orco Property Group is continually analysing investment into new territories.

Orco Property Group is also sponsor of The Endurance Real Estate Fund, a Luxembourg-regulated closed-end mutual fund (*fonds commun de placement - fonds d'investissement spécialisé*) organised as an umbrella fund with six sub-funds focused on real estate acquisitions on office and retail, residential, industrial & logistic, and Health Care markets.