ORCO
PROPERTY GROUP

28 August 2014 Press Release

Release of H1 2014 financial information

The Group achieved significant deleveraging

Challenges remain due to high leverage and low level of recurring cash flow

Net loss of EUR 63 Million

Key recent events

- The Board of Directors approved the publication of ORCO PROPERTY GROUP ("the Company") financial information under the going concern assumption, particularly as a result of the outcome on the sale of Zlota 44 project.

- Zlota 44: On 1 April 2014, the Company received a termination notice concerning the facility agreement on its Zlota 44 development project in Warsaw. The notice was served by the financing bank and called for the repayment within 30 days of the outstanding loans of PLN 170.1 Million and EUR 19.6 Million, excluding interests to be accrued until the effective date of payment. The loan was secured mainly by the pledges on the project and corporate guarantees provided by the Company. The Company concluded on 17 April 2014 an agreement with Bank PEKAO to acquire the loan receivables and collateral related to the Zlota 44 project. Given the high level of securities granted by the Group, no discount was achieved.

  The acquisition of the loan by the Company did prevent bankruptcy of Zlota 44 project and allowed to the Company to proceed with an appropriate sale of the project. On 27 August 2014, the Company entered into an agreement concerning a disposal of its stakes in the Zlota 44 project. The transaction with a subsidiary of international consortium of AMSTAR and BBI Development is comprised of the disposal of shares that the Company held in the Zlota 44 project entity as well as of the disposal of loan receivables the Company acquired. The aggregate gross transaction price is EUR 63 Million in cash; partially payable upon completion of transfers and partially deferred upon the realization of certain conditions relating to the construction of the tower.

  With the acquisition of the bank loan, the Group invested in the project more than EUR 130 Million cash. Upon the sale of the entity holding the project and subject to final claims on construction, the total cash loss for the Company amounts to some EUR 80 Million.

  After the sale of Zlota 44, the GAV will be reduced to EUR 318 Million and the interest bearing liabilities would be limited to EUR 167 Million. The immediate cash sale proceeds are limited to EUR 50 Million out of which EUR 7 Million could be called by the buyers as a guarantee on construction claims. The remaining net proceeds will be allocated to the coverage of significant historical legacy issues such as the corporate guarantee called on the Hungarian assets, the deleverage of Bubny and Bubenska non-income generating assets, the repayment of the loan granted by GSG GROUP and the New Notes debt service. Even though the LTV has been reduced, the level of revenues is not sufficient to support the debt service of the Group on a long term basis. The management is engaged in establishing a viable long term business plan, determining those assets to hold and those to divest. In particular, the team will identify those projects that will form the core of the Group going forward and into which further investment, both in terms of time and money, will be made. Should the sale of assets not be sufficient, further equity resources will be required.

- 'New Notes' registered under ISIN code XS0820547742: The Company received on 27 August a request to convene a general meeting of bondholders in order to submit to their approval some amended terms of the 'New Notes' issued in October 2012. As that bondholder holds more than 10% of the 'New Notes', the Company will convene the meeting within regulatory and legal delays. Such new terms would only be valid after approval by that general meeting and, subsequently, acceptance by the Company. At the end of August, after the payment of interests and cash sweep on the partial sale of Stribro project, the principal and accrued PIK interests amount to EUR 79 Million. After review and consultancy with its legal adviser, the Company will communicate on the proposed terms.

- Change in the management: On 18 March 2014, the Board of Directors decided to terminate the highly intricate net of executive contracts of Jean-François Ott, Nicolas Tommasini, Aleš Vobruba and Brad Taylor and agreed to comply with their termination packages. The change termination of former executive management resulted in the extraordinary expenses of EUR 12.3 Million, of which EUR 6.5 Million was paid in kind. The expenses are fully recognized under the employee benefits of the first quarter of 2014. Furthermore, an indemnity payment was agreed with the management of the former Group subsidiary GSG Group. This was paid by GSG Group directly and included cash payment of EUR 1.15 Million and transfer of Hakeburg property in Berlin at the net assets value of EUR 1.9 Million. Following the change, the Board has appointed Tomáš Salajka as the CEO and Jiří Dedera as the Managing Director of the Company.

- Change in the Board of Directors: An extraordinary general meeting of shareholders held on 8 April 2014 acknowledged the resignation of Mr. Jean-Francois Ott from the Board of Directors of the Company as of 27 March 2014. The Meeting resolved to approve the appointment of Mr. Tomáš Salajka to the Board of Directors. As such, the Board of Directors of the Company is now comprised of five members: Jiri Dedera, Edward Hughes, Tomáš Salajka, Radovan Vítek and Guy Wallier.

- Loss of control over GSG GROUP (formerly ORCO Germany S.A.) and sale of some shares: During March and April 2014, capital increases in GSG GROUP were subscribed in cash for a total of EUR 51 Million by Stationway Properties Limited, an entity affiliated with Mr. Jean-Francois Ott, and by two other shareholders of the Company (Alchemy Special Opportunities Fund II LP and Société Générale). Capital increases in GSG GROUP without participation of the Company resulted in a decrease of its shareholding below 50% and, together with a change in GSG GROUP Board of Directors and management, led to a loss of control of the Company over GSG Group.

  On 28 April 2014, the Company entered into an agreement concerning disposal of 108 Million of the shares it held in GSG GROUP. The sales price totaled to EUR 55 Million. The completion of the disposal of the GSG GROUP shares was subject to certain conditions, including among others the approval of the Paris Commercial Court which was granted to the Company on 2 June 2014. The purchase price was used to pay for the acquisition of the loan receivables and collateral related to the Zlota 44 project. Following this disposal, the remaining shareholding of the Company in GSG GROUP amounts to 81.6 Million shares held directly and 11.5 Million shares held through a stake in an intermediate holding company.

- Partnership with GSG GROUP on Hospitality Invest portfolio ('HI'): Over Q2 2014, GSG GROUP acquired a 50% share in Hospitality JV from AIG and joined the partnership agreement with the Company. Subsequently, in exchange for a modified cash waterfall between GSG GROUP and the Company, GSG GROUP agreed to invest EUR 10.5 Million into HI that was further used for a partial repayment of the short term bank financing. As a result, the Company and GSG GROUP jointly achieved the extension by one year of the remaining bank financing of EUR 62 Million.

- Portfolio debt restructuring with Crédit Agricole CIB ("Crédit Agricole"): The transaction relates to three assets pledged as security for loans provided by Crédit Agricole: Bubenská commercial building in Prague, Hlubočky production plant near Olomouc, and Dunaj department store in Bratislava. As a result, the Company transferred the ownership of Hlubočky and Dunaj, together with related debt, to Crédit Agricole. The Group made a down payment of EUR 2 Million, retained the ownership of Bubenská 1 with a remaing liability of EUR 9 Million and extended maturity over the next 3 years.

- Refinancing of Capellen office building in Luxembourg: The asset was pledged as a security for a EUR 18.7 million bank loan in default, originally granted by BGL BNP PARIBAS and fully covered by a corporate guarantee. The Company managed to obtain a stable and amortized financing maturing in 2027. New refinancing terms include lowered interest rate and an up-front loan repayment of EUR 2 million, allowing the Company to hold and manage this income generating asset on a long term basis.

- Disposal of a significant number of Suncani Hvar ('SHH') shares and receivables for EUR 2 Million: Beginning of 2014, SHH initiated a pre-bankruptcy procedure. Since no progress was achieved in a dialogue with the state authorities of the Republic of Croatia, the Board of Directors decided to reduce the Group exposure to SHH. The arbitration for damages caused to the Group by breaches of various obligations by the Republic of Croatia related to SHH investment is still ongoing.

- Hungarian assets in pre-bankruptcy: After the opening of insolvency reorganization proceedings on Hungarian subsidiaries holding Paris department store, Vaci 1 and Szervita assets, the Company entered into negotiations with the creditors on the restructuring plan. The chances to reach an agreement with the creditors are remote now and the assets will most likely be taken over by the financing banks while the Company will have to cover a payment of approximately EUR 9 Million of corporate guarantees. The potential call of the guarantees has been recognized in the financial position of the Company by accruing a provision while the companies holding the assets pledged in favor of the financing bank have been deconsolidated.

- Decrease of the corporate capital of the Company: The extraordinary general meeting held on 8 April 2014 resolved to approve the decrease of the corporate capital of the Company from the amount of EUR 229.0 Million to EUR 114.5 Million without cancellation of shares, by decreasing the accounting par value of the existing shares from EUR 2.00 to EUR 1.00 per share. The extraordinary general meeting held on 28 May 2014 in Luxembourg approved the decrease of the corporate capital of the Company from EUR 114.5 Million to EUR 11.5 Million without cancellation of shares, by decreasing the accounting par value of the existing shares from EUR 1.00 to EUR 0.10 per share. As such, the corporate capital of the Company amounts to EUR 11,450,762.90 since 28 May 2014. The Extraordinary Meeting approved resolutions to modify, renew and replace the existing authorized share capital and to set it to an amount of EUR 20 Million for a period of 5 years from 28 May 2014, which would authorize the issuance of up to 200 Million new ordinary shares.

H1 2014 Financial highlights

Over the first half of 2014, significant group of activities (both investment properties and hotels) were excluded from the scope of consolidation. These activities contribute to the Company results until the date of loss of control and are presented as discontinued operations. As requested by IFRS and to provide a more reliable view on the development of the Company activities, the consolidated income statement is presented excluding discontinued operations of which net impact is disclosed on separate line. All the comments on the Company financial performance in the communication refer to continuing operations only.

The H1 financial information does not integrate the result of the sale of ZLOTA 44 project closed end of August. The closing of the sale of Zlota 44 will result in a partial reversal of impairment of EUR 47 Million in the income statement of Q3 2014 (EUR 121 Million of impairment were recognized in 2013 based on independent expert valuation report).

- Revenue decreased year on year to EUR 16.8 Million for the first half of 2014 compared to EUR 36.6 Million over the same period in 2013 (-54% y-o-y). This decrease comes primarily from the Development business line with the sale of Bubny retail land plot in April 2013.
- The loss in fair value adjustments on investment properties and the impairments of development assets recognized in the income statement correspond to a net loss of EUR 2.3 Million compared to a net loss of EUR 16.5 Million over H1 2013. A provision of EUR 9.0 Million has been created for the corporate guarantee provided by the Company to the bank financing the Hungarian assets which entered pre-bankruptcy proceedings.
- The adjusted EBITDA amounts to EUR -1.3 Million as at 30 June 2014 compared to EUR 1.9 Million in June 2013. The negative evolution of the Adjusted EBITDA is reflecting decreased activity mainly in the Development business line.
- The financial result deteriorated from a gain of EUR 2.2 Million to a loss EUR 36.5 Million as at 30 June 2014 which is caused primarily by the losses recognized upon deconsolidation and disposal of GSG GROUP shares in the amount of EUR 34.8 Million and negative revaluation of the Profit Participation Loan provided to the Hospitality JV in the amount of EUR 9.7 Million. These losses were partially compensated by a gain from deconsolidation of the Hungarian assets of EUR 26.0 Million as a result of derecognition of assets and liabilities with negative net asset value.
- The net loss attributable to the owners of the Company in the amount of EUR 63.0 Million (profit of EUR 7.0 Million over H1 2013) has been mainly driven by the negative financial result of EUR 36.5 Million.
- GAV decreased from EUR 1,035 Million down to EUR 348 Million. The decrease is mainly due to the loss of control on GSG Group and hospitality activities. After the sale of Zlota 44, the GAV is reduced to EUR 318 Million.
- The LTV ratio as at the end of June has been influenced by deconsolidation of leveraged assets and the refinancing negotiations. As a result, the LTV ratio decreased compared to 31 December 2013 from 58.7 % to 58.0 % as at 30 June 2014. After the sale of Zlota 44, the interest bearing liabilities would be limited to EUR 166.5 Million.
- The EPRA Net Asset Value per share as of 30 June 2014 is EUR 0.93 compared to EUR 1.92 as at 31 December 2013. Over the first half of 2014 the consolidated equity decreased by EUR 72.0 Million. After the sale of Zlota 44, the EPRA Net Asset Value per share as of 30 June 2014 is EUR 1.31.

Condensed Consolidated Financial Information together with the auditors' limited review report will be made available this evening on:

http://www.orcogroup.com/investors/financial-documentation/half-year-documents

For more information,
visit our Shareholders corner
on www.orcogroup.com, or contact:
Yves Désiront +352 26 47 67 49
or at investors@orcogroup.com