# ORCO Germany - Q3 2012

Interim Report as of 30 September 2012

# 1. Group overview

## 1.1. Business and Group structure

### 1.1.1. Description of business model

ORCO Germany S.A. (the “Company”, and together with its subsidiaries, hereafter ”the Group”) is a real estate group founded in 2004 with a portfolio located in Germany and mainly in Berlin. It invests in, manages, develops and leases out commercial properties.

### 1.1.2. Group structure

ORCO Germany S.A. is a real estate company that has its registered seat in the Grand-Duchy of Luxembourg and that is listed on the Prime Standard of the Regulated Market of Frankfurt Stock Exchange. The ORCO Germany Group, which operates under the uniformly registered trademark ORCO Germany, has been pursuing its activities in Germany since 2004.

ORCO Germany S.A. is a subsidiary of ORCO Property Group. Established in 1991, ORCO Property Group has its registered seat in the Grand-Duchy of Luxembourg and is listed on the NYSE Euronext, Paris, Prague, and Warsaw stock exchanges. It operates primarily in the Czech Republic, Hungary, Poland, Russia, Croatia, the Slovak Republic and Germany.

ORCO Germany is listed on the Open Market of the Frankfurt Stock Exchange since 2006. It was transferred to the Prime Standard of the Frankfurt Stock Exchange on 13 November 2007.

### 1.1.3. Group strategy

End of 2008, ORCO Germany has started its transition from an expanding cash-requiring developer/investor active in most German regions into a Berlin focused investor capable of seizing development opportunities. In 2009 the restructuring efforts initiated by the closing of branches were expanded to the headquarters and in 2010 to the core business of ORCO-GSG. The organisational restructuring of the Group has been completed in 2011 with the vertical integration of the company both:

- with its main subsidiary ORCO-GSG on key execution functions such as operational finance, leasing, property management etc…
- with its mother company ORCO Property Group for all corporate functions (finance, consolidation, legal, HR, etc. ) and top management located in Paris.

Going forward, the Group focuses on asset managing its commercial investments with a geographic focus on Berlin where it enjoys a strong positioning. Additional services to tenants like the high-speed network and IT services “Hofnetz” are continuously expanded, thus producing additional income. Non-core assets not adhering any strategic importance will further be disposed of and opportunities, mainly in our key business park segment, will be seized based upon a case by case study.

## 1.2. Business segments

### Property Investments

Property Investments (previously named Asset Management) is the core segment of ORCO Germany and comprises investments in commercial properties, in particular through acquisition and asset management of rental properties and property portfolios. As part of its core segment, ORCO Germany is focused on the long-term value creation and generation of cash-flows of these properties.

The investment portfolio comprises 839,018 sqm of lettable area.

With the acquisition of GSG in 2007, ORCO Germany became one of the largest owners of commercial real estate in Berlin. ORCO-GSG is the backbone of ORCO Germany's investment activities with around 806,573 sqm of total lettable area. By the end of September 2012 ORCO Germany's total lettable area comprised besides the ORCO-GSG properties the property Gebauer Höfe.

### Development

The Development segment deals with the development of predominant commercial projects. This includes property acquisition, planning and obtaining building rights, project implementation and sale/rental of the realised projects to investors and tenants.

Development activities have mainly been concentrated on the markets of Berlin and North Rhine-Westphalia. With the subsequently signed sale of Sky Office in Düsseldorf ORCO Germany focuses now only on Berlin.

Following ORCO Germany's decision to focus on Property Investments, the Development business line has been progressively ran-down.

While the Development segment comprises premium assets like Sky Office in Düsseldorf and Hochwald in Kleinmachnow near Berlin, the development activity mostly focuses on developing or redeveloping ORCO-GSG land or properties as well as Gebauer Höfe which are classified as investment properties. After the reporting date, the assets Sky Office and Hochwald sales contracts have been signed.

# 2. Group earnings performance

## 2.1. Key figures

| | September 2012 | September 2011 | change |
|---|---|---|---|
| **Revenues** (in k €) | 48,618 | 47,204 | 1,414 |
| **Operating Result** (in k €) | -3,127 | 44,295 | (47,422) |
| **Net profit attributable to the Equity holders of the Company** (in k €) | -24,566 | 16,400 | (40,966) |
| **Adjusted EBITDA** (in k €) | 22,623 | 21,770 | 853 |

| | 30 September 2012 | 31 December 2011 | change |
|---|---|---|---|
| **Total Assets** (in k €) | 748,929 | 796,235 | (47,306) |
| **Equity** (in k €) | 152,530 | 69,810 | 82,720 |
| **Liabilities** (in k €) | 596,399 | 726,425 | (130,026) |

## 2.2. Overview of major events in the first nine months 2012

- Increase in equity of EUR 82.8 million stemming from the bond restructuring and the resulting gross capital increase of EUR 109.1 million subscribed by ORCO Property Group in exchange of 84.5% of the bonds it acquired.

- The Sky Office building sale contract signed on the 17th of October to Allianz for EUR 117 million has an expected closing on the 30th of November 2012.

- ORCO-GSG signed a new loan agreement regarding the refinancing with a club of German banks. Management expects signing and closing of the refinancing in Q4 2012.

- The net result of -EUR 24.6 million decreased by EUR 41.0 million compared to +EUR 16.4 million on the 30th of September 2011 and was mainly determined by impairments taken on the Sky Office building (-EUR 26.8 million, compared to the –EUR 13.6 million of September 2012) adjusted according to the signed sale contract to Allianz, and a provision set up during 2012 for a potential litigation regarding the neighbourhood agreement in terms of the past executed sale of Leipziger Platz (-EUR 4.0 million).

- Year on year ORCO-GSG managed to increase the average commercial net rent from 4.98 EUR per sqm to 5.12 EUR per sqm and raised the overall occupancy rate from 77.0% in September 2011 to 79.5% thus increasing total revenues YoY by EUR 0.8 million or 2.1%.

- Interest expenses YoY decreased by 21.0% or EUR 5.2 million as a consequence of loan redemptions upon sales of non-strategic assets, partial loan repayments on the ORCO-GSG loan and the maturity of ORCO-GSG 's swap closed in an environment of even higher interest rates.

- Progress on disposals of non-strategic assets, like Ackerstrasse 93, Elb-Office and Skalitzerstrasse, while fair values were already adjusted almost in line in 2011.

## 2.3. Market overview

In Germany, the investment market in the first nine months 2012 registered a total investment volume of EUR 14.5 billion, 14% down compared to the same period in 2011. Despite the total YoY decrease, the investment volume associated to office properties increased from EUR 5.6 billion to EUR 6.7 billion. Investors primarily focused on the top 5 investment centres in Germany with a share of almost 72% or EUR 5.1 billion. Out of the 5 top investment locations in Berlin and in Dusseldorf prime yields on core assets of 5.10% were recorded outperforming locations like Munich, Hamburg and Frankfurt. On account of the fact that Germany is considered to be one of the most secure investment locations worldwide the demand for commercial properties will remain on a high level as well for the fourth quarter 2012.[1]

Office market fundamentals are persistently strong especially driven by some major lease ups with a cumulated take up reaching 490,000 sqm exceeding the ten year's average by more than 50%. It is expected that the take up for the full year 2012 will be above the previous year's take up of 557.000 sqm. Prime office rents based upon the major leases recorded until end of September 2012 are considered to increase to 22,25 EUR per sqm until year end topping the past 1,5 years by 0.25 EUR per sqm.

[1] according to source www.cbre.de: CBRE "Germany Investment Quarterly Q.3 2012"

The Berlin office market showed a vacancy rate of 7.6% by the end of September 2012 (on the same period of 2011 - 8.4%) while a further decreasing vacancy rate is expected on the mid- term basis that the demand on office spaces remain stable and the construction activities on new office spaces remain restrained. [2]

## 2.4. Turnover

The total turnover in the first nine months 2012 amounted to EUR 48.6 million compared to EUR 47.2 million recognized in the corresponding period 2011. Rents generated on the ORCO-GSG portfolio represented the main part of commercial investment revenues (93.3%). Repeatedly ORCO-GSG could overcompensate major move outs by acquiring new tenants and consequently improve rental revenues.

| REVENUES (in k €) | | | |
|---|---|---|---|
| | **September 2012** | **September 2011** | **% change** |
| Commercial Investment Properties | 41 718 | 41 129 | 1.4% |
| therof total GSG | 38 908 | 38 034 | 2.3% |
| *therof rental income GSG* | *33 556* | *32 475* | *3.3%* |
| Development | 6 900 | 6 075 | 13.6% |
| **TOTAL** | **48,618** | **47,204** | **3.0%** |

### 2.4.1. Property Investments Segment

ORCO Germany's Property Investments business line recognized increased revenues of EUR 41.7 million up EUR 0.6 million from EUR 41.1 million YoY thanks to ORCO-GSG's operational performance overcompensating decreasing leasing income due to the accomplished sales of non-strategic assets.

ORCO-GSG's Berlin business parks revenues increased YoY by 2.1% to EUR 38.9 million including service charges to tenants (vs. EUR 38.1 million by September 2011). Therein the rental income of ORCO-GSG increased by 3.3%. According to the strategy to dispose of non-cash generating assets, ORCO GSG's share of total revenues represented 80.0 %.

Like-for-like (i.e. excluding the effects of the asset sales) the increase recorded in rental income by ORCO-GSG was higher at 4.2%.

The increase of rental income of ORCO-GSG was driven by a significant increase of the average commercial net rental income per sqm of 2.2% (from EUR 5.01 in December 2011 to EUR 5.12 in September 2012) in addition to a commercial occupancy rate increase recognized of 2.1% to 79.9% in September 2012. For both KPIs these numbers are on an all-time high.

In 2012 service spaces part of the current area leased have been included for the first time as leased areas. Previously they were only included in the total lettable area, decreasing the actual occupancy rate. As a consequence, 7.200 sqm or 0.89% of total leasable area positively impacted the occupancy rate as one off effect. 6.396 sqm of the total service spaces attributed to the commercial occupancy increase.

The eastern asset performed especially well over the first nine months 2012. Among the five top performing assets the two eastern assets Döbelnerstrasse and Plauenerstrasse recorded outstanding results with associated positive prospects expected for the remaining months of 2012.

[2] according to source www.dtz.de:"Property Times Berlin Q3 2012"

Hence the top performing asset in the first nine months 2012 was the asset Döbelnerstrasse in Berlin-Hellersdorf in the region east with a net-take up recorded of 2,519 sqm (excluding the one-off effect on service space the net take up would be at 1,986 sqm). Main contributor to the net-take up was a new contract signed with a medical supply store comprising approximately 1,407 sqm. The commercial occupancy rate thus increased by almost 12.4% from 69.3% (end of 2011) to 81.7% in September 2012.

Second best performing asset Plauenerstrasse in Berlin-Lichtenberg was as well located in the eastern parts of Berlin with a commercial net-take up achieved of 1,731 sqm increasing the commercial occupancy rate consequently from 49.6% at the end of 2011 to 52.5% over the nine months 2012.

Third and fourth best performer were to be found in the western parts of Berlin. There the asset Reichenbergstrasse in Berlin-Friedrichshain recorded a net-take up of 1,495 sqm (1,404 sqm excluding the one-off effect on service space) while on the asset Gustav-Meyer-Allee 25 additional 1,166 sqm (or 961 sqm excluding the one-off effect on service space) could be leased out increasing the occupancy rate from 96.1% to 97.6%.

On the western asset Wilhelm von Siemensstrasse thanks to fostered leasing activities a net-take up of 951 sqm (without one-off effect on service space 951 sqm) could be recognized driving up the occupancy rate on commercial spaces from 68.5% to 74.2%.

The overall net-take up is expected to further benefit from already signed contracts in the first nine months 2012 becoming effective in the fourth quarter 2012.

| | 2012<br>30.09. | 2011<br>31.12. | 2011<br>30.09. | 2010<br>31.12. | 2009<br>31.12. | 2008<br>31.12. | 2007<br>Takeover<br>30.06. |
|---|---|---|---|---|---|---|---|
| **Net commercial rents (€/sqm)** | 5,12 | 5,01 | 4,98 | 4,86 | 4,80 | 4,66 | 4,49 |
| **Commercial occupancy rate (%)** | 79,9% | 78,0% | 77,0% | 77,2% | 76,0% | 73,5% | 68,8% |
| **Total occupancy rate - all uses (%)** | 79,5% | 77,8% | 77,0% | 77,2% | 76,2% | 74,6% | 70,5% |

In the first nine months 2012 ORCO-GSG transferred two assets and three land plots in Berlin - out of them four were sold in 2011. The biggest transfers were the disposal of the residential unit Bergfried- / Ritterstrasse in Berlin-Kreuzberg at a sales price of EUR 3.7 million and the small commercial property Kurfürstenstrasse 13-14 for EUR 2.4 million.
Respective book values were already updated according to the achieved sales prices by year end 2011.

Furthermore three minor land plots in Ackerstrasse 81, Ackerstrasse 83-84 and Geneststrasse, which were not determined for further developments, were transferred involving sales revenues of EUR 1.0 million.

Sales of a land plot Kurfürstenstrasse 11 (sales price of EUR 0.6 million) and the asset Ackerstrasse 93 (sales price of EUR 1.9 million) were contracted in the first nine months 2012 with final transfers aimed at in the fourth quarter 2012.

For all sold assets the sales prices remained at least 20% above the latest valuation (disclosed before the respective sale has been signed). For the land plots the sales prices have been more than 100% above the according valuation.

### 2.4.2. Development Segment

**Revenues increased compared to previous year's revenues and represented 14.2% of total revenues**

The development revenues amounted to EUR 6.9 million in the first nine months 2012 in comparison to EUR 6.1 million in the respective period 2011.

As at 30 September 2012 the development portfolio revenues primarily included rents from the project Sky Office in Düsseldorf representing revenues of EUR 5.6 million and an occupancy rate of 88%. The Sky Office building was sold after the reporting date on 17th of October 2012. Additional revenues of EUR 1.3 million resulted from transfers executed on plots of land sold on the Hochwald project. The Company expects that all sales with regard to the Hochwald project will be accomplished until end of 2012 accompanied by final transfers processed to the purchasers until end of the first quarter 2013 positively impacting cash balances since no loan is applicable anymore.

## 2.5. Net result from Fair value adjustments on investment properties

In the first nine months 2012, the Company noted a net result from fair value adjustments of +EUR 5.3 million exceeding YoY the pre-year's net result of +EUR 4.0 million.

Fair values gains related to ORCO-GSG properties (EUR 4.3 million) including Wupperstrasse were up primarily driven by a better performance recognized.

The main contributors to the recorded total fair value gains (+9.1 million) were Gebauer Höfe (+EUR 1.0 million) followed by the ORCO-GSG properties Helmholtzstrasse (+EUR 0.9 million), Reuchlinstrasse (+EUR 0.7 million), Schlesischestrasse (+EUR 0.5 million), Pankstrasse (+EUR 0.5 million) and Döbelnerstrasse (+EUR 0.4 million).

Successfully contracted sales above respective fair values with final transfers after the reporting period like Kurfürstenstrasse 11 (+EUR 0.4 million) and Ackerstrasse 93 (+EUR 0.4 million) contributed to this positive result.

Valuation losses of EUR 3.8 million were mainly recognized on Wolfenerstr 32-34 (EUR 0.8 million), Lobeckstrasse (EUR 0.7 million), Plauenerstrasse (EUR 0.6 million) and Wupperstrasse 9 (EUR 0.5 million) .

## 2.6. Adjusted EBITDA

Over the first nine months 2012 the adjusted EBITDA was +EUR 22.6 million, up 3.9% from +EUR 21.8 million in the corresponding period of the previous year.

The two business lines of ORCO Germany contributed as follows:

- The adjusted EBITDA of the Property Investments segment, mainly consisting of ORCO-GSG, slightly increased YoY by EUR 0.2 million respectively 3.7% to EUR 21.7 million compared to EUR 21.5 million in September 2011. Mainly higher revenues achieved on the ORCO-GSG portfolio (+EUR 0.8 million) were counterbalanced by higher expenditures recognized for the refurbishment and maintenance of spaces (-EUR 0.6 million).
- The adjusted EBITDA of the development segment increased by EUR 0.6 million to +EUR 0.9 million compared to +EUR 0.3 million as at the third quarter 2011, mainly as the result of the Sky Office contribution to the result by higher rental revenues and of the sale of plots of land on the project Hochwald.

## 2.7. Amortization, impairments and provisions

In the first nine months 2012 amortization, impairments and provisions negatively impacted the P&L by -EUR 31.2 million in comparison to +EUR 6.3 million recorded in the corresponding period 2011 and mainly originated from impairments taken on Sky Office (-EUR 26.8 million) and a provision set up for potential litigation on the neighbourhood agreement on Leipziger Platz following the sale finalized in 2012 (-EUR 4.0 million), which were to some extent mitigated by releases of provisions linked to previous year's residential development sales in single entities dealing with subsequent guarantee items (+EUR 0.4 million).

## 2.8. Net gain/loss on disposal of assets

In line with ORCO Germany's strategy to dispose of non-strategic assets and focus on commercial assets ORCO Germany sold in the first nine months 2012 non-core assets with sales revenues of EUR 4.1 million and transferred non-core assets with sales revenues of EUR 20.9 million ending up in a reduction in debt. All sales have been conducted at least 20% above their fair values recognized by end of 2011.

| Asset disposal | Description | Date of Sale | Date of transfer | Sales price (m. €) |
|---|---|---|---|---|
| Kurfürstendamm 102 | office in Berlin | 05.08.2011 | 16.02.2012 | 6,3 |
| Kurfürstenstrasse 13,14 | GSG office in Berlin | 01.09.2011 | 01.03.2012 | 2,4 |
| Hüttenstrasse | office in Düsseldorf | 29.09.2011 | 22.06.2012 | 6,1 |
| Bergfried-Ritterstraße | residential GSG asset in Berlin | 08.11.2011 | 01.02.2012 | 3,7 |
| Ackerstraße 83-84 | GSG plot in Berlin | 29.12.2011 | 06.03.2012 | 0,6 |
| Ackerstraße 81 | GSG plot in Berlin | 14.03.2012 | 01.05.2012 | 0,2 |
| Geneststraße 6 | part of land of Geneststraße 5 | 20.08.2009 | 24.03.2012 | 0,2 |
| Kurfürstenstrasse 11 | GSG plot in Berlin | 25.06.2012 | expected Dec12 | 0,6 |
| Elb-Office | land plot in Hamburg | 17.07.2012 | 08.09.2012 | 1,5 |
| Ackerstrasse 93 | GSG asset in Berlin | 09.08.2012 | 26.10.2012 | 1,9 |
| Skalitzerstraße 127/128 | GSG plot in Berlin | 16.11.2012 | expected Q.1 2013 | 1,5 |
| Sold in 2012 | | | | 4,1 |
| Transferred until end of Sept. 2012 | | | | 20,9 |
| Sold after the reporting date | | | | 1,5 |

Over the first nine months 2012 the Company registered a net result on the disposal of assets totalling +EUR 0.2 million while the previous year's gains were primarily determined by the sale of ORCO Leipziger Platz GmbH, holding the Wertheim project on Leipziger Platz in Berlin positively impacting the P&L YoY by EUR 11.6 million .

## 2.9. Operating result

The reporting period closed with a negative cumulated operating result of EUR 3.1 million vs. a positive result of EUR 44.3 million in the corresponding period 2011.

The cumulated operating result was essentially composed of:

- Fair value gains amounting to +EUR 5.3 million mainly registered on the better performing ORCO-GSG portfolio (+EUR 4.3 million)
- Net result on disposal of assets amounting to +EUR 0.2 million, where fair values were mostly already adjusted to the sales prices contracted in 2011
- Other operating income of +EUR 1.8 million consisting primarily of one off effects like the reversal of provisions/ liabilities referring to former years. In the first 9 months of 2011 the other operating income was at +EUR 12.3 million thanks to the sale of Leipziger Platz.
- Impairments, amortisation and provisions amounted to -EUR 31.2 million mainly driven by impairments taken on the Sky Office building (-EUR 26.8 million) and a provision set up for the neighbourhood agreement on Leipziger Platz following to finalized sale (-EUR 4.0 million). In the first 9 months of 2011 this line was at +EUR 6.3 million. Together with the before mentioned change on other income these two lines, which reflect extraordinary transactions, a significantly reduced operating result.
- Salaries and employee benefits increased YoY from -EUR 4.8 million to -EUR 5.1 million over the first nine months 2012. Lower costs recorded on the run down entities driven by previously initiated restructuring measures were principally overcompensated by an acceleration of leasing activities accompanied by higher performance related expenditures recorded for the successful lease out of spaces. Furthermore the increase in salaries mainly stemmed from Management consulting services which were reallocated from consultancy costs to salaries in 2012 for the first time.
- Other operating expenses increased from -EUR 21.0 million as at September 2011 to -EUR 21.5 million as at September 2012 mainly due to higher costs recorded for utility supplies (-EUR 0.7 million) based upon increased lease outs and price adjustments launched by suppliers, administration costs (-EUR 0.8 million) mainly linked to the finalization of planning works for tenant build outs on Sky Office and increased property management costs (-EUR 0.9 million).

| k € | Sep 2012 | Sep 2011 | Variance |
|---|---|---|---|
| Leases and rents | (355) | (387) | 33 |
| Building Maintenance and Utilities Supplies | (4.005) | (3.857) | (148) |
| Communication and IT Maintenance | (762) | (411) | (351) |
| Utilities Supplies | (9.290) | (8.637) | (653) |
| Commissions, fees, consultancy, audit | (2.727) | (3.632) | 905 |
| Insurance | (597) | (670) | 73 |
| Cars expenses and car leases | (50) | (68) | 17 |
| Travel Expenses and representation costs | (65) | (116) | 51 |
| Advertising and Marketing | (400) | (554) | 154 |
| Administration Costs | (1.615) | (852) | (764) |
| Taxes other than income tax | (1.495) | (1.993) | 498 |
| Other operating expenses | (110) | 220 | (329) |
| **Total other operating Expenses** | **(21.472)** | **(20.957)** | **(515)** |

## 2.10. Financial result

The net financial result amounted to -EUR 17.4 million compared to -EUR 22.2 million YoY.

The financial result comprised interest expenses of –EUR 19.5 million (versus -EUR 24.8 million YoY), interest income of +EUR 1.5 million (versus EUR 1.5 million YoY) and other net financial results of +EUR 0.7 million (versus+ EUR 1.0 million YoY).

The **interest expenses** over the first nine months 2012 of -EUR 19.6 million decreased by EUR 5.2 million. The two major drivers have been (i) the successful Company bonds' restructuring (EUR 2.3 million) and (ii) lower interest expenses recorded on the ORCO-GSG loan (+EUR 1.5 million).

The **other net financial result** amounted to +EUR 0.7 million (vs. +EUR 1.0 million YoY) and mainly consisted of:

- Other finance charges (-EUR 2.1 million versus -EUR 1.4 million YoY) mainly linked to advisory services related to the refinancing of the ORCO-GSG loan amounting to -EUR 1.4 million, and expenses linked to the bond restructuring of -EUR 0.3 million .
- Gains on trading investments (EUR 2.7 million versus EUR 2.6 million YoY) resulting mainly from the gains on revaluation of interest rate on derivatives on ORCO-GSG for +EUR 4.6 million and on Gebauer Höfe (+EUR 0.3 million) while notifying valuation losses for embedded derivative on bonds (-EUR 2.2 million).

## 2.11. Income Taxes

Total income taxes amounting to -EUR 4.0 million (-EUR 5.7 million YoY) were composed of current income taxes of -EUR 2.4 million and deferred taxes of -EUR 1.6 million.

Deferred taxes represent mainly the impact of revaluation differences between local GAAP and IFRS on tax calculation not leading to payments or reimbursements.

## 2.12. Net result

ORCO Germany closed the third quarter ended 30 September 2012 with a net loss of EUR 24.6 million compared to a net gain of EUR 16.4 million in the corresponding 2011 period.

## 3. Outlook and essential subsequent events

On the 4th of October 2012 the nominal OG bond debt (EUR 129 million including interest and redemption premium) was reduced to a residual amount of EUR 41,912 by the issuance of New Notes by ORCO Property Group. Approximately 84.5% of the ORCO Germany bonds were converted into ORCO Property Group issued bonds convertible into shares. After the reporting date, the remaining 15.5% of ORCO Germany bonds held by OPG was converted into New Notes issued by ORCO Property Group. OPG will then equitize the remaining 15.5% of OG bonds into OG capital.

After the reporting date the Company achieved further progress on following key issues:

- On 17th of October 2012 the Company successfully finalized its efforts on the disposal of the unique landmark building Sky Office in Düsseldorf by signing a sales contract with a final closing date aimed to be in the fourth quarter 2012.

- On18th of October 2012 a club of five German banks confirmed in written statements to ORCO-GSG a subsidiary of ORCO Germany S.A., their approval and willingness to deal with the refinancing of the ORCO-GSG loan, where since the 4th of September 2012 a fourth standstill agreement with The Royal Bank of Scotland plc is applicable expiring by end of 2012. On the reporting date the loan amounted to EUR 284.5 million. The Company intends to contract EUR 270 million from the club of financing banks. The remaining will be granted by ORCO-GSG's parent company ORCO Germany.

- On 16th of November 2012 the Company managed to close the sale on Skalitzerstrasse 127/128 at a sales price of EUR 1.45 million with a final transfer aimed at in the first quarter 2013.

For the fourth quarter 2012 the Company's top priorities remain to close the Sky Office sale and to finalize the ORCO-GSG loan refinancing while further improving the operational performance of its portfolio.
Furthermore ORCO-GSG is examining development potentials on existing assets with the aim to extract further value through additional space addition or conversion.

# 4. Consolidated financial statements

## 4.1 Profit & Loss Statement as at 30 September 2012

| | 9 months 2012 | 9 months 2011 |
|---|---|---|
| **Revenue** | 48,618 | **47,204** |
| *Sale of goods* | 1,288 | *285* |
| *Rent* | 40,617 | *39,649* |
| *Services* | 6,713 | *7,270* |
| Net gain / (loss) from fair value adjustments on investment property | 5,275 | 3,977 |
| Other operating income | 1,771 | 358 |
| Net result on disposal of assets | 162 | 12,264 |
| Cost of goods sold | (1,141) | (65) |
| Employee benefits | (5,147) | (4,771) |
| Amortisation, impairments and provisions | (31,192) | 6,285 |
| Other operating expenses | (21,472) | (20,957) |
| **Operating result** | **(3,127)** | **44,295** |
| Interest expenses | (19,549) | (24,750) |
| Interest income | 1,484 | 1,514 |
| Other net financial results | 658 | 1,023 |
| **Financial result** | (17,407) | **(22,213)** |
| **Profit/(loss) before income taxes** | **(20,533)** | **22,082** |
| Income taxes | (4,038) | (5,680) |
| **Net profit / (loss) for the period** | **(24,572)** | **16,402** |
| **Total profit/(loss) attributable to:** | | |
| Non controlling interests | (6) | (2) |
| **Owners of the Company** | **(24,565)** | **16,400** |

## 4.2 Balance Sheet as at 30 September 2012

| ASSETS | 30 September 2012 | 31 December 2011 |
| --- | --- | --- |
| **NON-CURRENT ASSETS** | 576,856 | 573,946 |
| **Intangible assets** | 50,119 | 50,522 |
| **Investment property** | 494,122 | 491,989 |
| **Property, plant and equipment** | 4,992 | 5,168 |
| Hotels and owner occupied buildings | 2,897 | 2,911 |
| Fixtures and fittings | 2,095 | 2,257 |
| **Financial assets at fair value through profit or** | 171 | 1,216 |
| **Non current loans and receivables** | 27,453 | 25,051 |
| **Deferred tax assets** | - | - |
| **CURRENT ASSETS** | 172,073 | 222,289 |
| Inventories | 121,616 | 144,269 |
| Trade receivables | 18,475 | 21,931 |
| Other current assets | 23,099 | 21,776 |
| Current financial assets | 28 | 27 |
| Cash and cash equivalents | 6,354 | 14,797 |
| Assets held for sale | 2,500 | 19,489 |
| **TOTAL** | 748,929 | 796,235 |

| EQUITY & LIABILITIES | 30 September 2012 | 31 December 2011 |
| --- | --- | --- |
| **EQUITY** | 152,530 | 69,810 |
| **Equity attributable to owners of the Company** | 152,981 | 69,598 |
| **Non controlling interests** | (451) | 212 |
| **LIABILITIES** | 596,399 | 726,425 |
| **Non-current liabilities** | 165,695 | 136,384 |
| Bonds | 20,000 | - |
| Financial debts | 41,046 | 37,878 |
| Provisions & other long term liabilities | 14,049 | 10,207 |
| Deferred tax liabilities | 90,599 | 88,299 |
| **Current liabilities** | 430,704 | 590,040 |
| Current bonds | - | 97,777 |
| Financial debts | 377,159 | 398,860 |
| Trade payables | 6,158 | 4,465 |
| Advance payments | 21,565 | 20,097 |
| Derivative instruments | 2,168 | 29,842 |
| Other current liabilities | 23,654 | 28,255 |
| Liabilities linked to assets held for sale | - | 10,745 |
| **TOTAL** | 748,929 | 796,235 |

# 5. Notes to the consolidated financial statements

## 5.1. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with international financial reporting standards (IFRS) as adopted by the European Union. The accounting policies for the quarterly report have been consistently applied by the Group's entities and are consistent with those used in the previous year except for the application of the revised and new standards and interpretations effective as of 1 January 2012. The application of those amendments and interpretations did not result in substantial changes to the Group's accounting policies. A detailed description of the accounting policies will be included in the notes to the financial statement for 2012.

The quarterly report has been established according to IAS 34.

## 5.2. Segment reporting

The Investment Committee is the responsible body making decisions for all acquisitions and disposals of projects. The Investment Committee assesses the performance of the operating segments based on a measure of adjusted earnings before interests, tax, depreciation and amortization ("adjusted EBITDA" as defined below). Corporate expenses are allocated on the basis of the revenue realized by each activity.

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.

The Group structure lies on two main activities to which the Investment Committee is allocating the Group investment capacity on the basis of the strategy defined by the Board of Directors. On the one hand, the Group is investing in land bank or assets for development and effectively developing them once the project presented is satisfactorily approved by the Investment Committee. Once the asset is developed it can be either sold to a third party or kept in the Group own portfolio for value accretion. On the other hand, the Group is actively investing in and managing its own or third parties real estate assets for operational profitability and value appreciation. These two business lines are the segments by which the operations are analyzed.

These two segments or business lines can be defined as following:

- Development business line covers all real estate assets under construction or designated as a future development in order to be sold to a third party or to be transferred to the asset management line once completed;
- Property Investments business line (formerly called Asset Management) covers all real estate assets operated (as hotels and logistic parks) and rented out assets or that will be so without any major refurbishment.

The level of indebtedness in front of each asset in order to finance projects and operations is decided by the Investment Committee and the Board of Directors above certain thresholds. The funds allocation after draw dawn is independent from the asset pledged or leveraged. Since the segmentation by business line of the finance debt based on the pledged project is not representative of operational cash allocation, this information is not disclosed as non-relevant.

In order to maintain the accuracy of segment reporting the methodology has been revised in 2011 by allocating revenue and costs at the project level instead of the special purpose vehicles ("SPV") level. As a result of the Group restructuring, multi-project SPVs related to both Development and Property Investments are now more frequent. Before this restructuring, the allocation to segments was based on the SPV activity as they were mainly mono-segment. A project is defined as an Investment property, a hotel, owner occupied building or real estate inventory asset.

| **Profit & Loss 30 September 2012** | **Development** | **Property Investments** | **TOTAL** |
|---|---|---|---|
| **Revenue** | **6,900** | **41,718** | **48,618** |
| Net gain or loss from fair value adjustments on investment property | 360 | 4,915 | **5,275** |
| Cost of goods sold | (1,133) | (8) | **(1,141)** |
| Amortisation, impairments and provisions | (30,679) | (513) | **(31,192)** |
| Other operating results | (4,898) | (19,794) | **(24,692)** |
| **Operating Result** | **(29,450)** | **26,318** | **(3,132)** |
| Net gain or loss from fair value adjustments on investment property | (360) | (4,915) | **(5,275)** |
| Amortisation, impairments and provisions | 30,679 | 513 | **31,192** |
| Past valuation on goods sold | | | |
| Net result on disposal of assets | 49 | (211) | **(162)** |
| **Adjusted EBITDA** | **918** | **21,705** | **22,623** |

## 6. Earnings per share

| | **30 September 2012** | **30 September 2011** |
|---|---|---|
| **At the beginning of the period** | **46,871,333** | **48,771,333** |
| Shares issued | 48,771,333 | 48,771,333 |
| Treasury shares | (1,900,000) | - |
| **Weighted average movements** | **1,679,519** | **-** |
| Issue of new shares | 1,679,519 | - |
| **Weighted average outstanding shares for the purpose of calculating the basic earnings per share** | **48,550,852** | **48,771,333** |
| **Dilutive potential ordinary shares** | **-** | **-** |
| Shares to be issued as repayment of the bonds acquired by OPG | - | - |
| **Weighted average outstanding shares for the purpose of calculating the diluted earnings per share** | **48,550,852** | **48,771,333** |
| **Net profit/(loss) attributable to the Equity holders of the Company** | **(24,572)** | **16,400** |
| **Effect of assumed conversions / exercises** | **3,458** | **-** |
| 85% of the interests expenses on the company's bonds | 3,458 | |
| **Net profit /(loss) attributable to the Equity holders of the Company after assumed conversions / exercises** | **(21,113)** | **16,400** |
| Basic earnings in EUR per share | (0.51) | 0.34 |
| Diluted earnings in EUR per share | (0.43) | 0.34 |

## 7. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk including price risk but also credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group financial performance. The Group uses financial instruments to mitigate certain risk exposures.

Risk management, being formalized, is carried out by the Group's Chief Financial Officer (CFO) and his team. As a result of the current restructuring, the policies are under review for approval by the Board of Directors. The Group's CFO identifies, evaluates and mitigates financial risks in close co-operation with the Group's operating units. The Board of Directors will provide principles for overall risk management, as well as policies covering specific areas, such as interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

At the end of September 2012, current financial liabilities (<1 year and including the liabilities linked to the assets held for sales) amount to EUR 377 million decreasing by EUR 131 million due to the successful conversion of OG Bonds and the repayment for EUR 33 Million of loan of which EUR 13 million upon sales.

A club of five German banks confirmed on the 18th October 2012 the main terms and conditions for granting EUR 270 Million to GSG, OG's fully consolidated subsidiary. Signature of the new loan agreement is expected in the coming days while closing is expected to take place in December of this year.