ORCO Germany – Q1/2012

Interim Report as of 31 March 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 was listed on the Open Market of the Frankfurt Stock Exchange in 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 will focus 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” have been fostered, thus producing additional income. Non-core assets were disposed of and opportunities, mainly in our key business park segment, may now be seized based upon a case by case decision.

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 839,244 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 806,872 sqm of total lettable area. By the end of Q1/2012 ORCO Germany's total lettable area amounted to 839,244 sqm comprising 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.

Following ORCO Germany's decision to focus on Property Investments, the Development business line has been progressively ran-down as projects were completed and no new projects started.

The Development segment comprises premium assets like Sky Office in Düsseldorf and Hochwald in Kleinmachnow near Berlin.

2. Group earnings performance

2.1 The Stock of ORCO Germany S.A. on 31 December 2011

ISIN	LU0251710041
Market Cap	[24,970,922 EUR] (31 March 2012)
Segment	Prime Standard
Number of shares	48,771,333
Stock Exchange	Frankfurt Stock Exchange
Free float	8.1%

2.2. Key figures

	March 2012	March 2011	change
Revenues (in k €)	16,630	17,205	(575)
Operating Result (in k €)	6,909	7,604	(696)
Net profit attributable to the Equity holders of the Company (in k €)	824	2,188	(1,364)
Adjusted EBITDA (in k €)	6,811	8,027	(1,216)

	31 March 2012	31 December 2011
Total Assets (in k €)	785,704	796,234
Equity (in k €)	70,305	49,910
Liabilities (in k €)	715,399	746,324

2.3. Overview of major events in Q1/2012

- The net result of €0.8 million decreased by €1.4 million compared to €2.2 million in Q1/2011. The main drivers were lower revenues as a consequence of asset disposals executed, decreased gains realized on derivative instruments, and impairments on an equity loan given to an affiliated company.

- The operating result decreased from €7.4 million to €6.9 million mainly due to following effects:

1. Lower revenues due to assets disposals (-€0.3 million) and lower service revenues on Gebauer Höfe (-€0.2 million) mainly due to a special effect referring to previous year's revenues realized on the billing of utility costs in Q1/2011. Based upon a contractual obligation fixed with one of the tenants on Sky Office (single tenant was offered a lease free period of three months) lower rental revenues were recorded (-€0.2 million)
2. Year on year GSG managed to increase the average commercial net rent from 4.89€ per sqm to 5.10€ per sqm and raised the occupancy rate from 76.3% in March 2011 to 78.4% in March 2012 leading to increased revenues of €0.4 million or 3.2% Gains from disposal of assets decreased from €0.5 million to €0.1 million, in Q1/2011 these gains were determined by the sale of Leipziger Platz (+€0.5 million)
3. As a result of the restructuring plan salaries and social security costs year on year decreased from €1.9 million in Q1/2011 to €1.5 million in Q1/2012

2.4. Turnover

1. The total turnover Q1/2012 amounted to €16.6 million compared to €17.2 million recognized in Q1/2011. Rents generated on the ORCO-GSG portfolio represented the main part of commercial investment revenues (93.2%). Repeatedly ORCO-GSG could raise the occupancy rate as well as the net commercial rent per sqm. In comparison to December 2011 the occupancy rate on GSG assets improved by 0.6%-points to 78.4% and the net commercial rents per sqm by €0.09 to €5.10 in Q1/2012.

REVENUES (in k €)	March 2012	March 2011	% change
Commercial Investment Properties	14 685	14 932	-1.7%
therof total GSG	13 684	13 261	3.2%
therof rental income GSG	*11 084*	*10 766*	*3.0%*
Development	1 945	2 272	-14.4%
TOTAL	**16 630**	**17 204**	**-3.3%**

2.4.1. Property Investments Segment

ORCO Germany's leasing income decreased from €17.2 million in Q1/2011 to €16.6 million in 2012 due to sales of non strategic assets conducted in 2011, lower service revenues generated on Gebauer Höfe (one off effect in 2011) and rent free periods given to a single tenant of Sky Office.

ORCO-GSG's Berlin business parks revenues increased YoY by 3.2% to €13.7 million including service charges to tenants (vs. €13.3 million in Q1/2011). Therein the rental income of ORCO-GSG increased by 3.0%. According to the strategy to dispose of non cash-generating assets, ORCO GSG now represents 82.3 % of total revenues (77.1% in Q1/2011).

The increase of rental income of ORCO-GSG is based on an increase of the average commercial net rental income per sqm of 1.8% (from €5.01 in December 2011 to €5.10 in March 2012) in addition to an overall occupancy rate increase recorded of 0.6%-points from 77.8% in Q4/2011 to 78.4% by end of March 2012.

In Q1/2012 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, 7.181 sqm or 0.88% of total leasable area positively impacts the occupancy rate as one off effect. 6.468 sqm of the total service spaces attributed to commercial areas and 713 sqm to residential areas.

Including the positive one off effect total net take up on commercial spaces amounted to 4.056 sqm under a same store perspective (commercial spaces owned at 31 December 2011 and 31 March 2012).

	2012 31.03	2011 31.12	2011 31.03.	2010 31.12.	2009 31.12.	2008 31.12.	2007 Takeover 30.06.
Net commercial rents (€/sqm)	5,10	5,01	4,89	4,86	4,80	4,66	4,49
Total occupancy rate (%)	78,4%	77,8%	76,3%	77,2%	76,2%	74,6%	70,5%

In Q1/2012 ORCO-GSG transferred two assets and two landplots in Berlin - all of them were sold in 2011. The biggest transfer was the disposal of the residential unit Bergfried- / Ritterstraße in Berlin-Kreuzberg with a sales price of €3.7 million (29% above the latest valuation).
In addition the company sold the small commercial property Kurfürstenstrasse 13-14 for €1.4 million (28% above latest valuation).
Furthermore two minor land plots in Ackerstraße and Geneststraße, which were not needed for further developments, were transferred in Q1/2012 leading to revenues of €0.8 million.

2.4.2. Development Segment

Revenues declined in line with strategy and only represented 11.7% of total revenues

The development revenues amounted to €1.9 million in Q1/2012 in comparison to €2.3 million in Q1/2011.

As at 31 March 2012 the development portfolio primarily included the project Sky Office in Düsseldorf, where letting activities were fostered accompanied by partly finalized interior works for leased out spaces. The occupancy rate as of 31 March 2012 of 88% was accompanied by a gross rental income of €1.9 million and is expected further to increase by the time tenants have fully moved in and rent free periods granted have expired .

In the first quarter 2012 ORCO Germany signed three contracts with well-known companies like REWE Food Ingredients, the international consultancy Heidrick & Struggles as well as Elégance, a global fashion company. The exclusively mandated brokerage firm Jones Lang LaSalle acted as consultant. The further increase in occupancy rates as well as the quality of the tenants attracted fortified Sky Office as a unique premium building. The new leases comprised approximately 5,500 sqm of first-class office space bringing about an occupancy rate of 88%.

2.5. Net result from Fair value adjustments on Investment properties

In Q1/2012 only the part of land on the asset Geneststrasse 5-6 was re-evaluated according to the sales price contracted incurring gains of €0.1 million.

2.6. Adjusted EBITDA

In 2012 the adjusted EBITDA was €6.8 million, down 15% from €8.0 million in 2011.

The two business lines of ORCO Germany contributed as follows:

- The adjusted EBITDA of the Property Investments segment, mainly consisting of ORCO-GSG, increased by €1.4 million respectively 20.3% to €7.1 million compared to €5.9 million in 2011. The increase in total revenues of GSG (+€0.4 million) could not compensate the rental revenue losses recorded by the sale of Investment assets and lower service revenues recorded on Gebauer Höfe (in total -€0.6 million). A strong decrease in other operating costs (+€1.6 million, overhead costs included) showing the positive effects of cost reduction, overcompensated the negative effect of reduced rental revenues.

- The adjusted EBITDA of the development segment declined to -€0.3 million compared to €2.2 million in 2011. Sky Office represented the main part of the revenues (€1.7million of rent) and respectively the adjusted EBITDA contributed positively for €0.9 million whereas remaining subsidiaries dealing with guarantee items (-€0.4 million) respectively companies managing rundown business activities (-€0.6 million) negatively impacted the adjusted EBITDA.

ORCO-GSG contributed 98.5% to the adjusted EBITDA.

2.7. Amortization, impairments and provisions

No significant changes compared to the same period in 2011.

2.8 Net gain/loss on disposal of assets

In 2012 gains on disposal of assets amounted to €0.1 million versus €0.5 million in 2011.

In Q1/2012 non strategic assets of €13.1 million were transferred. As a consequence of the sales contracted in the previous year fair values were aligned to respective sales prices positively impacting the P&L already in 2011.

In Q1/2011, ORCO Immobilien GmbH, a subsidiary of ORCO Germany S.A., closed the sale of ORCO Leipziger Platz GmbH, holding the Wertheim project on Leipziger Platz in Berlin ending up in gains recorded of €0.5 million.

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**	**not yet**	**6,5**
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**	**not yet**	0,2
Geneststraße 6	**part of land of Geneststraße 5**	**20.08.2009**	**24.03.2012**	0,2
Sold until end of Q.1 2012				19,8
Transferred until end of Q.1 2012				13,1

2.9. Operating result

The reporting period closed with a positive cumulated operating result of €6.9 million vs. €7.6 million in Q1/2011.

The cumulated operating result was primarily composed of:

- Fair value gains amounting to €0.1 million
- Other operating income of €0.9 million versus €0.3 million consisting primarily of reversal of provisions referring to former years (€0.3 million) and reversal of recorded previous liabilities (€0.3 million)
- Gains on disposal of assets amounted to €0.1 million versus €0.5 million in Q1/2011
- Impairments, amortisation and provisions amounted to -€0.1 million in comparison to €0.1 million in Q1/2011

- As a result of the initiated restructuring plan salaries and social security costs decreased from €1.9 million in Q1/2011 to €1.5 million in Q1/2012
- Other operating expenses increased from €8.5 million in Q1/2011 to €8.8 million mainly due to:
  - Costs for utility supplies increased by €0.5 million to €4.7 million mainly driven by one off effects:

    electricity costs originated from 2011 which were not considered in the year end closing (€0.25 million)

    a special effect referring to a reversal of provisions in 2011(€0.2 million)

    and one substantial price increase experienced for snow and ice clearance (€0.1 million)
  - Communication and IT Maintenance costs increased by €0.2 million due to a one off effect reflected on costs belonging to 2011 and higher IT fees paid to an affiliated company for services rendered
  - Consultancy costs remained nearly on the same level of Q1/2011 amounting to €1.1 million
  - Taxes other than income taxes dropped from €0.7 in Q1/2011 by €0.2 million to €0.5 million

k €	March 2012	March 2011	Variance
Leases and rents	(118)	(132)	14
Building Maintenance and Utilities Supplies	(5,806)	(5,393)	(413)
Communication and IT Maintenance	(329)	(171)	(158)
Commissions, fees, consultancy, audit	(1,062)	(1,084)	22
Insurance	(170)	(228)	58
Cars expenses and car leases	(17)	(23)	6
Travel Expenses and representation costs	(23)	(44)	21
Advertising and Marketing	(158)	(140)	(18)
Administration Costs	(482)	(580)	98
Taxes other than income tax	(497)	(651)	155
Other operating expenses	(156)	(81)	(75)
Total other operating Expenses	**(8,818)**	**(8,526)**	**(292)**

2.10. Financial result

The net financial result amounted to -€6.3 million compared to -€3.5 million in Q1/2011.

The financial result comprised interest expenses of -€7.9 million (versus -€8.2 million in Q1/2011), interest income of +€0.5 million (versus €0.4 million in Q1/2011) and other net financial results of +€1.1 million (versus €4.3 million in Q1/2011).

The interest expenses over Q1/2012 amounted to €7.9 million to be compared to a total adjusted EBITDA of €6.9 million. It remains a management priority to achieve a full coverage of interest expenses by adjusted EBITDA.

Total financial assets amounted to €25.7 million mainly comprising the net present value of receivables maturing in 2015 for Leipziger Platz (€25.5 million).

After finalization of the project in 2015 the top up of € 30 million is foreseen as an additional part of the contracted sales price.

The other net financial result in Q1/2012 amounted to +€1.1 million (vs. +€4.3 million in Q1/2011) and was mainly driven by:

- Impairment of equity loan, considered as not substantial anymore, given to an affiliated company (losses of -€1.0 million/no effect in Q1/2011)
- Gains on trading investments (€2.1 million versus €4.4 million in Q1/2011) resulting mainly from the gains on revaluation of interest rate on derivatives on ORCO-GSG for €+2.1 million and on Gebauer Höfe (€+0.1 million). Interest swaps were accounted for at fair value and contracted to prevent fluctuations in interest rates.

2.11. Income Taxes

Total income taxes amounting to €0.2 million (-€1.9 million in Q1/2011) were composed of current income taxes of -€0.1 million and deferred taxes of +€0.3 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 Q1/2012 with a net gain of €0.8 million compared to a net gain of €2.2 million in the corresponding 2011 period.

2.13. Outlook

In April 2012 ORCO-GSG and Royal Bank of Scotland signed a standstill agreement which terminates on 15 June 2012. ORCO-GSG continues to negotiate with the existing bank and potentially interested banks in a constructive atmosphere to secure the portfolio refinancing – which remains the main management target.

Over the next quarters the equitisation of the ORCO Germany bond will be visible in the balance sheet and will lead to a significant deleveraging – as described in the subsequent closing events section.

The Company expects to be able to continue on a further improvement of its operational performance in the property business line while finalizing efforts on disposing of the unique landmark building Sky Office in Düsseldorf.

ORCO-GSG might continue to dispose assets which are not judged as of strategic importance. The scale of the disposal program depends on achieved sales prices as well as the according tax impact. Furthermore ORCO-GSG is examining development potentials on existing assets with the aim to expose and enlarge spaces which can be leased out.

3. Other reporting requirements

3.1. Subsequent closing events

OG Bonds

During April and May 2012, Orco Property Group (“OPG”), ORCO Germany’s mother company, initiated the execution of the total bond deleverage of the ORCO Germany as approved by general assembly of 7 May 2012. OPG acquired 84,5% of ORCO Germany total bond liability (bonds registered under ISIN code XS0302623953) or EUR 109 million which shall be equitized in ORCO Germany shares over the coming weeks. The remaining approximately 15% bonds not held by OPG can be then exchanged into EUR 20 million of ‘’new notes’’ to be issued by OPG, the main terms of which were described in OPG’s 18 April 2012 press release.

The conversion of the totality of OG bonds after exchange of the remaining bonds with OPG New Notes into OG shares, to be executed over the coming weeks, will reduce OG’s leverage ratio from 78% to 63%.

As a result of the operational financial restructuring, the liabilities of ORCO Germany already decreased from EUR 726.5 million as of December 2011 to a current EUR 715.4 million and the total equity rose from EUR 69.8 million to EUR 70.3 million.

GSG Loan

In April 2012 GSG Asset GmbH & Co. Verwaltungs KG, a subsidiary of ORCO Germany S.A ORCO-GSG and Royal Bank of Scotland signed a standstill agreement which terminates on 15 June 2012. The assets sales, together with the ORCO-GSG cash generation led to a reimbursement of ORCO-GSG outstanding bank debt by EUR 14 million from EUR 300 Milllion to EUR 286 million. Thanks to execution of the OG deleverage, the negotiations on the refinancing of the existing bank loan have substantially progressed and Management remains confident in successfully reimbursing the existing loan over the coming months. As a result of the financial restructuring, the liabilities of ORCO Germany already decreased from EUR 726.5 Million as of December 2011 to a current EUR 715.4 Million and the total equity rose from EUR 69.8 Million to EUR 70.3 Million.

3.2. Financial Risks Exposure

The risk situation of the company improved significantly due to the above mentioned bond restructuring which leads to a significant deleveraging.

Main risk remains the discussed refinancing of the GSG bank loan where the signing of a standstill agreement could be achieved in April 2012. ORCO-GSG continues to negotiate with the existing bank and potentially interested banks in a constructive atmosphere to secure the portfolio refinancing.

The Group’s activities are exposed 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. The Group’s CFO identifies, evaluates and mitigates financial risks in close co-operation with the Group’s operating units. The Board of Directors provides 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.