

Management Report 2007

**17** Celebrating  
years  
of success and imagination



“ Orco is a multicultural real estate developer, investor and asset manager committed to generating profits by shaping sustainable urban communities, connected by Orco infrastructure, and funded by Orco or Endurance Fund financial capabilities. ”

JEAN-FRANÇOIS OTT

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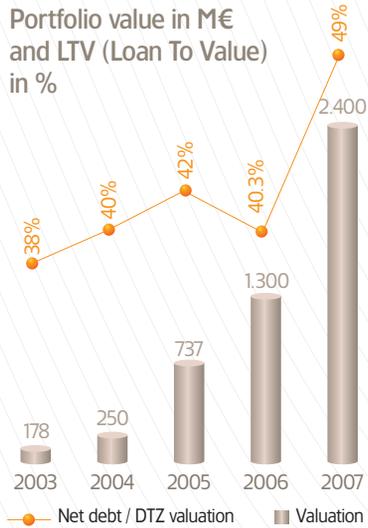
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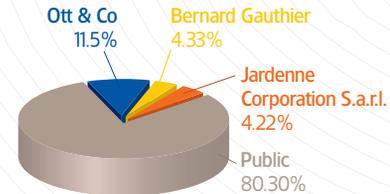
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# KEY FIGURES FOR 2007

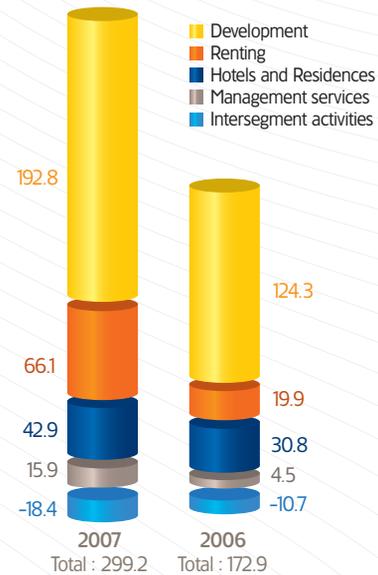
Portfolio value in M€ and LTV (Loan To Value) in %



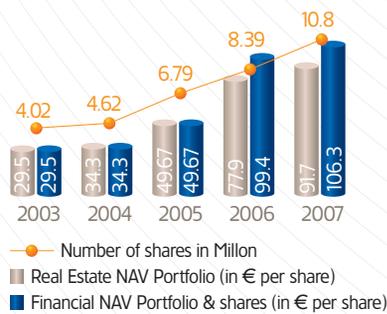
Shareholding structure (in % of capital)



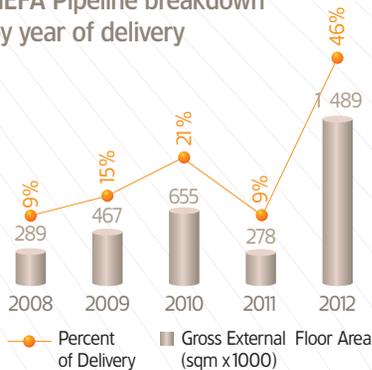
Revenue breakdown by business line in million €



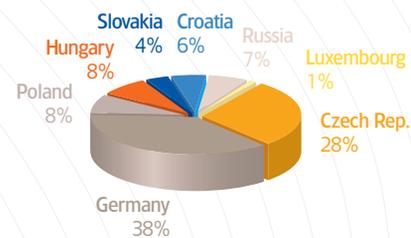
NAV (Net Asset Value) history and number of shares



GEFA Pipeline breakdown by year of delivery



Geographical portfolio breakdown in value (as of Dec. 2007)





Even in these challenging financial times, I remain supremely confident in Orco Property Group's solid position in Central Europe. Given the strong economic fundamentals of these countries and their real estate markets, Orco is well positioned to succeed in 2008. Moreover, the convergence of Eastern Europe to the West is still on its way, boosted by EU fundings.

**In 2007, Orco generated € 299 million** of turnover, the highest in its history. The group's three business lines i.e. Residential Development,

Property Investment and Asset Management, demonstrated a significant increase in profitability and clear gain in critical size.

The group obtained € 188 million in new loans during the last quarter of 2007. This proves that Orco's investments benefit from the trust of the banks which have been financing us since the inception of our activities seventeen years ago.

**Our goal in the upcoming year** is to provide the market with increased information regarding our earnings projections through 2012, continue to carefully manage our balance sheet, maintain our Loan To Value in the range of 50% and deliver what is in our existing pipeline. In addition, the cash within the company will allow us to finance the 2008 capex requirements.

**Our targets for 2008** include a turnover of € 347 million with an increasing profit, improved margins on our residential developments thanks to the buying platform, increased leasing prices on our pipeline projects and more funds for Endurance under management.

**I profoundly believe** that we will experience continued turnover growth and increased cash profits in 2008. We are solidly positioned to benefit from the increasing demand for upscale real estate as well as the demand for real estate that will meet the needs of the growing middle class. Moreover, through vehicles such as the Endurance Fund, we are well diversified and prepared to take advantage of the high levels of cash still on the market.

**Finally, we are making a permanent mark** on the Central European landscape with iconic projects such as Bubny, Wertheim, Dunaj, Zlota 44 and Vaci 1 with the best team in the region. These world class projects will elevate Prague, Berlin, Bratislava, Warsaw and Budapest to the next level on the international stage and further cement Orco Property Group's position as the premier real estate developer in Central Europe.

*“ We are solidly positioned to benefit from the increasing demand for quality real estate ”*

JEAN-FRANÇOIS OTT

# STRATEGY

**NICOLAS  
TOMMASINI**  
Senior  
Vice President –  
Strategy &  
Special Projects



*“ We control and integrate the whole process of development which allows us to create complex urban communities ”*

***What are Orco's competitive strengths? How would you explain Orco's success since 1991?***

Throughout the years, Orco has demonstrated its capacity to reinvent itself in markets undergoing radical change. From our origins as a small residential developer, today we are an urban developer and investor, integrating most of the real estate uses (housing, offices, retail etc), services (hospitality, education, health care) and now seeking to integrate infrastructure (energy, transports etc.).

We have moved upstream and downstream from development. This does not mean that we do everything by ourselves but rather we control and integrate the whole process. In turn, this allows us to do complex projects like Bubny, Hvar, Wertheim, Szczecin and Tour Signal. Mastering the whole process also allows us to keep or sell our relationship to the customer so that with one project, we extract more value!

Our key competitive strength is a unique blend between entrepreneurship on the one hand and a long-term vision of what the needs of cities and users in the 21<sup>st</sup> century are on the other. One crucial tool has been our fundraising skills, which we are now turning towards the development of Endurance, our asset management business.

***In the current challenging markets, how will Orco adapt its strategy?***

Our long-term strategic challenges are influenced by short-term conditions. We are moving forward on standardizing sustainability features for all our products, on developing mixed urban projects, services and infrastructure that we know are the challenges of the future. But we are not losing the sense of immediate client demands and today's profitability, and the roll-out will happen in phases.

In the short-term, financing conditions are indeed clearly getting more strained, but the demand for our real estate products hasn't changed, whether for retail, residential or office buildings: just see the sale of our Duisburg Pier 1 building!

Besides more opportunistic sales, we focus our investment strategy towards our expanded Endurance family of funds. This leaves more cash for Orco and in the future, should the market offer us some acquisition bargains, we have to be able to grab them as we did in Berlin a couple of years ago. When it's bad, it's good. Opportunities abound in these turbulent financial times.

€ 347 MILLION TARGET REVENUES IN 2008

€ 891 MILLION OF ACQUISITIONS IN 2007

APPROX. 3.2 MILLION SQM OF GEFA IN THE PIPELINE

3 QUESTIONS TO...

Paul Wolfenden, from DTZ,  
who values Orco's portfolio



**PAUL WOLFENDEN**  
DTZ Global Head  
of Valuations/  
Appraisals

**Which Orco's asset offers the highest potential?**

Bubny is undeniably a site with enormous potential. It requires imagination, understanding and overall thought planning. Orco has the capability to build a world class financial and life centre.

Very few companies have the overall skill base to turn Bubny into what will be massive profit. And Orco has the track record as a developer to maximise development density and to deliver buildings of quality as demanded by international occupiers.

**Do you think profit of revaluation will decline?**

Orco is fundamentally a developer of quality real estate in both residential and commercial sectors. I therefore think it is unlikely that the profitability will decline in the short and medium-term as the demand for this type of building is structurally strong in the countries in which Orco is implemented.

In terms of value, the group is on a significant potential upside. Orco is well placed to take advantage of good opportunities when others are in distress and can increasingly spread its influence to others countries by duplicating the same approach of quality development.

**What are your views on the real estate market in which Orco is implemented? Do you see yields go up?**

Germany's fundamentals in terms of real estate are positive. Rents are increasing; vacancy is falling as well as availability. Few developments take place. Eventually, a domestic lending market exists.

Investors like Central and Eastern European countries. Yields did compress, but I see them remaining stable as the demand for quality building once again is solid. Pressure on land is likely to go up. Finally, the re-emergence of German open ended funds will sustain the liquidity of the market as their investments are directed both inside and outside Germany. ■



> Orco Tower (Warsaw), an Endurance Fund asset

A PORTFOLIO VALUE OF € 2.4 BILLION AS OF DECEMBER 2007

€ 147 MILLION OF REVALUATION PROFIT IN 2007

# RESIDENTIAL DEVELOPMENT

> Klonowa Aleja (Warsaw) is a multi-family complex of high quality affordable apartments fitted to top standards. Each apartment features its own garden or balcony.



€ 192.8 MILLION OF TURNOVER IN 2007 FROM DEVELOPMENT ACTIVITIES

DELIVERED A TOTAL OF 1.503 RESIDENTIAL UNITS IN 2007

APPROX. 10.300 RESIDENTIAL UNITS IN THE PIPELINE

“ Orco is a leading residential developer in the Czech Republic, Poland, Slovakia and Germany ”



**STEVEN DAVIS**  
Senior Vice-President

**| How did Orco's residential development markets evolve?**

Our core markets (Czech Republic, Poland and Slovakia) have reached record high levels both in sales and construction deliveries. The demand for new residential units is very strong and the underlying economic conditions have remained healthy. Selling prices have increased by 20 – 40%, but construction costs have also significantly risen. The Hungarian residential market however remained very different from the rest of CEE, due to the existing high level of home ownership (above 75%), weak demand and an unfavourable tax environment. Germany is slowly maturing and in 2007 we saw some positive developments. Demand for new residential units slightly increased, backed by the improved overall economic environment.

**| What are Orco's competitive strengths in residential development?**

Orco's offer is focused on the mid and high range market segments. Therefore, we build our competitive advantages in those areas which are relevant to our target clientele: quality of the products, high level of customer service and sustainable development. We constantly challenge our architects and suppliers with the aim to upgrade the standards of our home products. We are quite unique in offering full mortgage- service and individualized after-sale care (such as property management for buyers of investment homes).

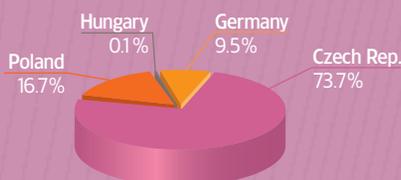
**| What were Orco's main achievements in 2007?**

2007 was a great year for the residential development division. We achieved the highest turnover to date (€ 192.8 million) and delivered more than 1.500 units. In addition, FPC sales were above expectations (894 contracts), putting us in a very comfortable position for the year to come. According to our strategy, in 2007 we managed to strengthen our presence in secondary cities. The land acquisition in Szczecin, Poland was an important milestone.

**| What is the outlook for 2008?**

We will focus heavily on sales of forward purchase contracts, as fewer units will be delivered in 2008 (approx. 900), but the 2009 outlook is strong. In Germany, the sales in Fehrbelliner, our key residential project in Berlin will most probably continue the positive trend set observed in 2007. Mortgages are still easily available in our markets, despite the more difficult global economic environment. Banks still offer home financing for about 5% in the Czech Republic, although our clients might now have to put down 15–25% equity, compared to the minimum levels we saw in 2007. To conclude, the outlook for residential development in 2008 is very positive, driven by the strong and healthy demand existing in our core markets. ■

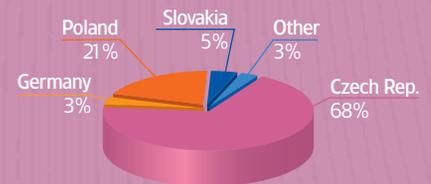
**GEOGRAPHICAL BREAKDOWN OF 2007 RESIDENTIAL UNITS DELIVERIES**



**COST SAVINGS ON SELECTED COMMODITIES**



**GEOGRAPHICAL BREAKDOWN OF THE RESIDENTIAL PIPELINE**



Note: Other include RU and HU

# RESIDENTIAL DEVELOPMENT

**SUBODH  
KUMAR**

European  
Procurement &  
Logistics Director



“ *As Orco is a margin-driven business, stabilizing the average construction price per sqm is crucial* ”

**| How does the Orco Buying Platform work at Group level?**

OBP is a synergy of all procurement activities, operating across all business lines in all Orco offices. We work at both the global and local levels with our suppliers. In construction and development for instance, the Orco project team sets up the quality and technical standards for each commodity and the buying platform searches for the best rates possible. We approach the suppliers and negotiate special Orco price lists with them, that will apply globally. We invite up to five short-listed suppliers for an open bidding process. By creating this type of open competition, we manage to push the prices down and run a transparent procurement process.

**| What are the main achievements in 2007?**

Considering the fact that the OBP team was only set up in June 2007, we managed to save € 1.5 million on a total deal value of € 15 million (value added of OBP).

We secured several global deals with suppliers of elevators, concrete, electricity, sanitation, flooring, tiling, cables and windows. As an example, we succeeded to buy electricity for the Czech investment portfolio at a price comparable to the best deals on the commodity stock market.

**| What are your expectations for 2008?**

As Orco is a margin-driven business, stabilizing the average construction price per sqm is crucial. Our goal and challenge at OBP is to decrease this average cost by 2-3 % for the projects to be developed in the next two years. ■

**LUCIA  
SVECOVA**

Slovakia Country  
Manager



“ *In Bratislava, we have 500 apartments* ”

**| What is the potential for a residential development market in Bratislava?**

There are 15.000 apartments built yearly in Slovakia, while statistics demonstrate that there is a demand for 550.000 units. The highest demand for the residential projects is in Bratislava.

According to the National Bank of Slovakia, the selling

prices of new residential projects doubled in the last 5 years. Only in Bratislava the prices increased by 20% in 2007.

**| What is Orco's approach to this market?**

We currently have three residential projects at different stages of planning & development, with a total of 500 apartments in the pipeline. Parkville (92 apartments in

“ Sustainability encourages higher residual value of the properties ”



**DOUGLAS NOBLE**  
Poland Country  
Manager

**| What is the market situation?**

Sustainability is one of today's new catchphrases. Developers who desire success over the longer term implement these principles. End users and investors now value sustainable qualities more than ever before. At the same time, government legislation is becoming more stringent to force the hand of developers to practice sustainability.

**| What are the extra costs of sustainability?**

Extra costs do exist, but can only truly be measured on a project specific basis. For a typical affordable residential development, we currently experience a cost premium of approximately 8% in implementing sustainable solutions such as increased insulation, rainwater harvesting, and exploitation of renewable energy sources. The upside is reduced energy

consumption and running costs, as well as the increased residual value of the property.

**| What did Orco do in 2007?**

We have significantly developed awareness of sustainable development in the Group to the extent that we are 'living green'. We provide training and continual learning opportunities to educate the team on sustainable issues. We have implemented a Sustainable Platform across all countries. We have started to integrate sustainable solutions in selected projects (Klonowa Aleja, Szosa Polska), where we aim to create between 20% and 50% reductions of energy consumption. Our efforts in Poland this year brought us the "Innovative Investor of the Year 2007" award, recognizing Orco's leading position in sustainable development. ■

in the pipeline ”

10 villas), for instance, was the most expensive and luxurious project in Bratislava when we opened the sales in autumn 2006, with an average price of € 3.134/sqm. Since then, sales performed very well and we were able to increase the price by 8%.

**| What are the main challenges ahead?**

Our main challenge is to make the most of the great

opportunity offered by this strong market demand. In June 2008 we are preparing to launch the apartment sales for City Gate. With this project, we will offer three luxury design styles (minimalist, cosmopolitan and metropolitan) for an estimated selling price of € 7.000/sqm. It will be a unique concept in the very heart of this historical city and the most expensive residential project in Bratislava. ■

# COMMERCIAL PROPERTIES

> In Düsseldorf, Sky Office will be a modern, first class business building of 89 m high, and 37,000 sqm of gross floor space distributed over 23 floors. The building is 55% preleased.



€ 66.1 MILLION OF RENTING REVENUE IN 2007, UP 233% VS. 2006

AVERAGE PORTFOLIO OCCUPANCY OF 88% (EXCL. GSG)

A TOTAL RENTABLE AREA OF APPROX. 1.1 MILLION SQM

“ The group generated a rental income of €66.1 M in 2007, an increase of 233% over the previous year ”



**ALES VOBRUBA**  
Senior Vice-President

**| What is Orco's strategy as a property investor?**

Orco's strategy is to build a prime portfolio of assets that can generate top market rents and that can sustain and increase their value irrespective of the market conditions. In order to build such a prime portfolio, we take an opportunistic approach by buying buildings with value growth potential; usually assets which are well located, but in poor shape or poorly managed. Once we acquire them, we redevelop the buildings into class A assets, meant to attract prestigious businesses as tenants. At the same time, we are focusing on diversifying risks and on balancing our investment portfolio across the regions and sectors.

**| How did Orco investment portfolio change in 2007?**

We became the market leader in Berlin, we strengthened our position in the Czech Republic, through several acquisitions to be redeveloped, such as Hradcanska and Vysočany Gate in Prague. We also increased our exposure to the fast-growing Russian market by purchasing an 80% stake in Molcom, a logistics business in the Moscow area. Other important acquisitions in line with our strategy were City Gate and Dunaj buildings in Bratislava and Szervita of-

fice building in Budapest. In addition, in 2007 we made significant progress in developing our property portfolio and land bank. We have moved forward in the concept for Bubny, and we have started construction works of Radio Free Europe, Na Porici and Paris Department Store.

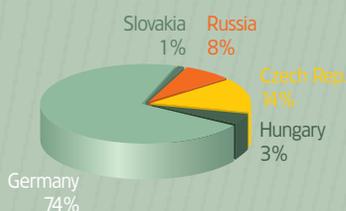
**| How did the credit crunch impact Orco projects?**

Our existing projects under development have not been influenced by the credit crunch, as we managed to secure loans from local banks without any difficulty. As of year end, we had € 336 million of undrawn committed loans. .

**| What is the outlook for 2008?**

Despite the sub-prime crisis in the US, no significant change in the real estate market fundamentals is well visible in the CEE region. We expect rental growth in the region, which will lead to further value growth especially on class A assets, despite the perceived yield stagnation. Concerning the financing side, we are aware of the difficult situation on the capital markets and we are considering selling certain mature assets to raise new equity to finance new acquisitions. ■

**NET RENTABLE AREA BY COUNTRY**



**PORTFOLIO YIELD RANGES BY COUNTRY (applied by DTZ as at Dec 07)**

Czech Republic	5.50% - 6.50%
Germany	5.25% - 8.25%
Hungary	6% - 7.75%
Luxembourg	6.15%

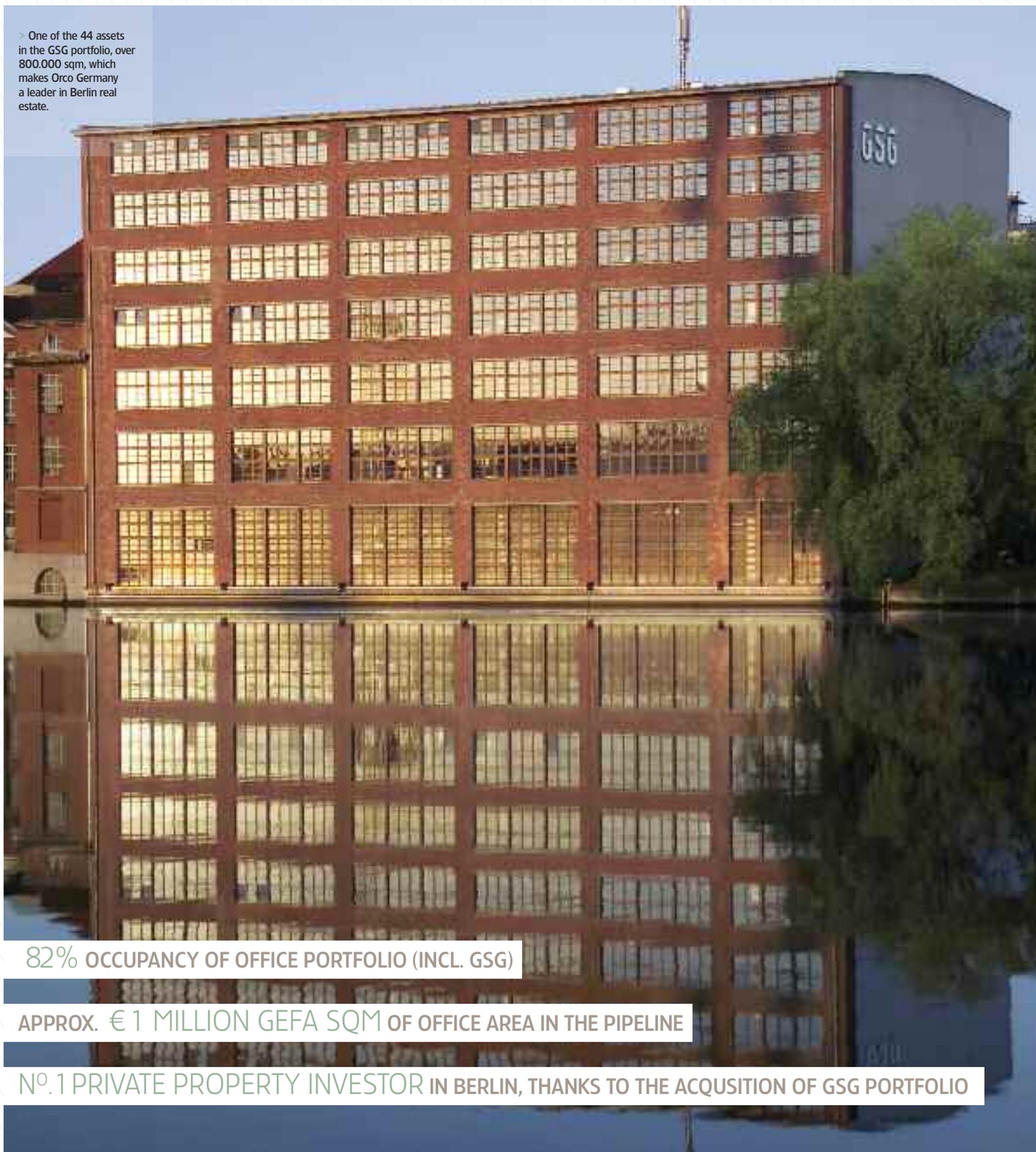
**NET RENTABLE AREA BY ASSET TYPE**



COMMERCIAL PROPERTIES

# OFFICES

> One of the 44 assets in the GSG portfolio, over 800.000 sqm, which makes Orco Germany a leader in Berlin real estate.



82% OCCUPANCY OF OFFICE PORTFOLIO (INCL. GSG)

APPROX. € 1 MILLION GEFA SQM OF OFFICE AREA IN THE PIPELINE

Nº.1 PRIVATE PROPERTY INVESTOR IN BERLIN, THANKS TO THE ACQUISITION OF GSG PORTFOLIO

**JEFF  
ALSON**

Investment  
Acquisition  
Director CEE



“ *The office market fundamentals are excellent across the countries where Orco is present* ”



**STACYE  
SCRUGGS**

Director  
Strategic  
Projects GSG

**What are the office market fundamentals across the countries where Orco is present?**

**J.A.:** In CEE markets, demand is strong, with visible upward potential for rent increase, particularly in Warsaw. Yields are stable and we expect them to remain so, particularly for A class buildings or those with an upside from asset management.

**S.Sc.:** In 2007 the German office market had its best performance since 2000. Demand is strong, top and average rents are rising and vacancy rates are falling across all major German cities. As the employment rate keeps increasing, more space is needed and there is little office development ongoing. Accordingly, we expect the German market fundamentals to remain healthy in 2008.

**What about the new leases signed in 2007?**

**J.A.:** Overall occupancy remained high, operating costs were reduced and average rents of selected assets increased. With the new Endurance Fund assets, the leasing team demonstrated its full potential. Orco Tower in Warsaw reached full occupancy at year end (vs. 30% in December 2006), while new rents reached € 22-24 per sqm (vs. € 13 per sqm the previous year). With Arena Corner, Orco's leasing team secured maybe the largest contract of the year in Budapest for a total of 8.000 sqm with Vodafone.

**S.Sc.:** In Germany, the most important new leases were concentrated on new project developments, such as Sky

Office in Dusseldorf. This landmark project of 33.000 sqm was 30% pre-leased to McKinsey well before construction started, and another 25% was pre-leased to Lovell's, a major law firm. In Berlin, the best leasing performing area was around Leipziger Platz (with deals such as Ministergarten), strengthening the positive prospects for Orco's next flagship development in the area.

**What was the rationale for GSG's acquisition?**

**S.Sc.:** There is only one GSG, and there is no comparable portfolio like it in Berlin nor Germany. By acquiring this portfolio, Orco gained approx. 825.000 sqm of rentable space in 44 properties throughout the city, and thus, became the largest private provider of commercial space in the market. The condition of GSG properties – purchased for less than a quarter of their reinstatement value – is exceptional. Our space is multifunctional and we can satisfy almost any type of user demand (all sizes, all specifications, all branches of business). No one else can offer that in Berlin.

**What is the potential of the GSG portfolio?**

**S.Sc.:** On acquisition, the portfolio had a 32% vacancy, the average rent was little over € 4/sqm and the leasing team consisted of two employees. Since Orco took over GSG, we have restructured the company, replaced the management, renegotiated all service contracts and secured cost savings of up to 60%. We have strengthened the leasing team, which is now actively marketing the properties to new tenants. We are confident that we shall see even better results in 2008. ■

> A landmark building in downtown Budapest, VÁCI 1 will be the most luxurious building at the best retail location, with 11.000 sqm. Construction is planned to start in 2008.



91% OCCUPANCY OF EXISTING RETAIL PORTFOLIO

A STRONG EUROPEAN PIPELINE OF PRIME RETAIL AREA

“ *The large retailers, both internationally and locally, are very excited by our planned retail portfolio* ”



**IAIN  
SELLERS**  
Hungary  
Country Manager

**| *What are the needs of big retail brands?***

The most important needs for retailers and retail brands are location and the quality of the real estate. As retailers are increasingly becoming cross border enterprises, other factors are becoming important to them such as having trust in their landlord, lowering utility costs and lease terms. As a developer who keeps and manages it's developments after opening, Orco is well placed to offer retailers the comfort of letting them get to know and trust their landlord. Retailers appreciate our sustainable development approach which will help them reduce their energy costs.

**| *What is Orco's vision for the retail sector?***

Our vision for the retail sector is to provide exceptional retail properties in Central Europe's premier cities. We have acquired landmark buildings in prime downtown locations in principal cities including Budapest, Bratislava and Berlin. These properties are being redesigned by renowned architects and will offer incomparable retail space for the world's top brands. We are also developing remarkable new retail properties in prime locations in Prague and Warsaw.

**| *What are the first projects to be delivered?***

Scheduled for completion in Q4 2008, Paris Department Store in Budapest will provide 2.75 sqm GLA of retail space with 3.000 sqm of offices above. Citygate in Bratislava will provide 4.600 sqm GLA of retail space with

luxury apartments above it and will be completed in Q4 2008. Vaci 1 in Budapest, a premium shopping gallery of over 11.000 sqm GLA retail space and 6.500 sqm of common and events space is due to be completed in Q4 2009. Also in Q4 2009 we shall finalize redevelopment works of Dunaj in Bratislava, providing over 4.000 sqm GLA of retail space with offices above. Other projects to follow include Haus Cumberland in Berlin, Bubny in Prague, Zlota 44 in Warsaw and Szervita Square in Budapest.

**| *How did the big retailers perceive Orco's offer?***

The large retailers, both internationally and locally, are very excited by our planned retail portfolio. Cross border retailers have also expressed their desire to be part of Orco's retail vision because of our proven track record in the cities in which we operate, the fact that we will manage the buildings after opening and that we can offer a standard lease contract across different countries.

**| *What are your expectations for 2008?***

My expectations for 2008 are that it will be a very busy year as leases are signed for the first projects to open in 2008 and 2009. I also expect further retail development and investment opportunities to arise which will increase our planned retail portfolio.

I also believe that Orco will be recognized as a key regional niche retail player in 2008. ■

# LAND BANK

> Bubny (Prague) is a true showcase of the group's real estate vision. Orco intends to build on the 27 ha site a "city within a city", the new place to be in Central Europe.



A TOTAL LAND BANK VALUE OF € 443 MILLION AS OF DECEMBER 2007

LAND BANK BY VALUE: CZECH REPUBLIC (52%), GERMANY (27%), RUSSIA (13%) AND POLAND (8%)

“ *Bubny will change the face and the perception of the city of Prague* ”



**NICK  
WARING**  
Development  
Director

**| What does Bubny land bank mean for Orco?**

Bubny gives us 10 to 15 years of mixed use development in Central Prague. The project will change the face and the perception of the city. It will offer to the Czech Republic a unique opportunity to open its border to international companies attracted by a highly skilled and educated workforce, and a tax friendly environment. Thanks to the well known iconic architects designing the landscape, Bubny will provide an exceptional living space.

Our scheme is looking to improve upon similar large developments like Canary Wharf, which until recently lived during the week but shut down during the weekend.

**| How do you position this strategic project?**

The project is mixed use - its different land uses include hospital, university, retail, hospitality, residential and office. Our goal is to create a 7 day a week living organism with a regional shopping centre and attractions far beyond those offered in other retail developments in the Czech Republic.

The demand for hotels, both luxury and mid-range, will be created by tourism and visitors on business trips to the

office buildings. This demand will be reinforced by the strong connection with the airport via the proposed rail link through the site and train station integrated into the retail mall at the South of the site.

With regard to the residential aspect of the site, we aim to market to a cross section of individuals, small studios to top floor penthouses.

**| Such a project needs also a sustainability vision?**

In addition to the above, Orco is looking at the feasibility of a minimal carbon development. We are currently undertaking an analysis of sustainable energy sources for the development and looking into the possibility of utilizing the bio-degradable waste generated by the properties on the development as an energy source.

**| What are the main challenges and opportunities ahead?**

At present Orco is focusing on density maximization by campaigning the government and authorities. Dealing with public bodies can be a long process and achieving our goal within the shortest time frame is important for adding further value to our site as soon as possible. We are also working extremely hard on driving the project through the permitting process in the shortest period of time and maximizing infrastructure funding. ■

**BUBNY LAND BANK (PRAGUE)**

Date of acquisition	August 06
Acquisition price	€ 42 million
Value as of Dec. 2007	€ 95 million
Plot size	27 ha
Buildable area	from 700.000 sqm up to 1.2 million sqm

# LAND BANK

► Leipziger Platz, generally referred to as the "Wertheim site", will be designed by the Berlin-based architectural firm Kleihues + Kleihues.



COMPLETED SEVERAL LAND BANK ACQUISITIONS FOR € 171 MILLION IN 2007

2007 LAND BANK ACQUISITIONS OF MORE THAN 25 HECTARES

“ *Leipziger Platz will become the most desirable address for business, retail and residential space in Berlin* ”



**RAINER BORMANN**  
CEO for  
Orco Germany

**| What is the history of this site?**

The history of Leipziger Platz goes back for more than 250 years. It was created in 1732 as an imposing plaza statue, representing an urban entrance to the baroque Berlin.

With the beginning of the 19<sup>th</sup> century and the massive building boom, Leipziger Platz was redeveloped and became the symbol of a fascinating global city: subways, street cars, buses and long-distance railways brought tens of thousands of people into the heart of the city. Nighttime brought a sea of bustling illuminated advertisements.

But, after the Second World War, the site was abandoned, scarring Berlin's city centre. Finally, in Spring 2007, Leipziger Platz was bought for € 75 million by Orco Germany.

**| What is Orco's vision for it?**

We will create a new and vibrant urban centre which will base itself on its past and at the same time embody a completely new identity. We intend to reunite the old city centres of Berlin and position Leipziger Platz as the most desirable business address. We would like to develop a new building complex with an approximate area of 100.000 sqm of mixed use space (office, retail, hospitality and residential).

**| How much progress has been made since acquisition?**

Orco Germany acquired the site in Spring 2007. Since then, we have convinced the city to reopen the master-plan process. The project attracted internationally renowned architects in the tendering process. Following the tender, Kleihues+Kleihues was appointed as master planner.

**| How do you intend to market this project?**

We started promoting the site well before construction is set to start (scheduled for 2009). We offered it for interim use to selected third parties, such as Cavallia or Salto Natale. Through high-impact advertising, we intend to increase public awareness and position the site as the new heart of Berlin. Via Orco Group's retail initiative we will start marketing the project to the big retail brands. In addition, we are working on a strong "living theme" branding, meant to attract high end residential clients.

**| What will this project mean for Berlin?**

In the immediate vicinity of central government institutions, located on the major Berlin east/west axis, the urban rehabilitation of the former Wertheim site will be seen as one of the greatest and most demanding architectural challenges of the new Berlin. ■

**LEIPZIGER PLATZ LAND BANK (BERLIN)**

Date of acquisition	Spring 2007
Acquisition price	€ 75 million
Value as of Dec. 2007	€ 98.5 million
Plot size	2 ha
Buildable area	100.000 to 120.000 sqm

# FUND MANAGEMENT

Arena Corner (Budapest) is a class A building of three interconnected towers. A leasable area of approx. 28.000 sqm offers high-quality office space, located in a dynamically growing fringe area.



€ 7.6 MILLION REVENUE GENERATED BY ENDURANCE FUND IN 2007

€ 485 MILLION OF COMMITTED CAPITAL

A TOTAL PORTFOLIO VALUE OF € 635 MILLION

“ *The Endurance Fund represents one of the strategic pillars of Orco* ”



**DR. CHRISTOPH MANTHE**

Head of the  
Endurance  
Real Estate Fund

**| What is the Endurance Fund?**

Managed by Orco, the Endurance Fund is a Luxembourg Closed End Umbrella FCP. This flexible structure allows us to launch new sub-funds as and when we wish to do so and there are presently six sub-funds in operation. The sub-funds are asset class specific and are generally geographically diversified throughout the region.

We started strong in 2005 with our first sub-fund, Office I, which focused on Office and Retail assets primarily in Central Europe, with a diverse group of investors for a total equity of € 150 million. This sub-fund is now fully invested.

**| How important is it for Orco?**

The Endurance Fund represents one of the strategic pillars of Orco. It is a platform for institutional investors interested in getting long-term exposure to CEE real estate markets. By developing this business line, Orco is able to leverage its unique expertise, grow a new revenue stream and reach critical mass as an asset manager in CEE markets more quickly.

**| How much progress was made in 2007?**

2007 was a very positive year for the Endurance Fund. Equity under management rose from € 200 million in 2006 to € 475 million. We formally closed our Residential Sub-fund and are now in the process of investing the € 219 mil-

lion equity raised. December 2007 also saw the launch of our value added Office II fund with a first commitment of 55 million. We also formally launched our Logistics Light Industrial sub-fund which is an added value fund with projected IRR returns of 14% and has a broad geographic focus throughout the CEE region. Finally we launched our Healthcare sub-fund. Uniquely for our strategy, this sub-fund is geographic specific, concentrating on Germany where demographic conditions, market demand, and our existing framework place us in an excellent position. This specialized sub-fund has a projected IRR of 20%.

**| What are the main challenges ahead?**

The main challenge affecting the markets unilaterally stems from the fall out from the U.S. sub-prime issues and the perception of the real estate markets. We see this challenge as a great opportunity. We principally operate within markets which have been well insulated from the sub-prime situation. We anticipate a growing shift away from dollar denominated funds, and sustained interest in the emerging markets in which we invest. We are traditionally not as heavily leveraged as other opportunistic and/or value added funds and are thus not as susceptible to the changing conditions as many of our competitors. We are thus well placed to benefit from the recent market volatility. ■

**ENDURANCE SUB-FUNDS (DEC 2007)**

Sub-fund name	Founded	Target capital	Committed capital	Target portfolio value	Portfolio value (Dec. 07)
Office I	2005	€ 150 million	€ 150 million	€ 750 million	€ 450 million
Residential	2006	€ 200 million	€ 219 million	€ 600 million	€ 102.5 million
Hospitality	2007	€ 250 million	€ 55.8 million	€ 750 million	€ 82.5 million
Office II	2007	€ 150 million	€ 55 million	€ 500 million	-
Industrial & Logistic	Jan. 2008	€ 200 million	in progress	€ 670 million	-
Health Care	Jan. 2008	€ 150 million	in progress	€ 500 million	-

# HOSPITALITY

> Adriana Marina (Hvar island, Croatia) has been completely renovated and reconceptualized as a stylish luxury hotel and spa.



€ 42.9 MILLION OF HOSPITALITY REVENUE IN 2007

GRAND OPENING OF ADRIANA, HVAR MARINA HOTEL & SPA IN HVAR, CROATIA IN JUNE 07

**DRAGAN LAZUKIĆ**

Regional Director for Croatia and SE Europe



“Once the entire existing portfolio is refurbished, we estimate to generate about €50M of yearly revenues”



**JACQUES BOURGEOIS**

CEO for Suncani Hvar Hotels

**| What is Suncani Hvar?**

**J.B.:** Located on the island of Hvar, on the Croatian Adriatic coast, Suncani Hvar is a company owning a total of 10 hotels. From the existing capacity of 1.200 rooms, 445 rooms (ie 3 hotels) have already been completely rebuilt and redesigned at the level of 4-star luxury. Suncani Hvar is also a partnership between Orco Property Group and the Croatian Privatization Fund. Orco owns a stake of 48% in Suncani Hvar, but is in charge of running operations and holds the majority on the Board.

**| What were the main achievements of 2007?**

**J.B.:** For sure, the delivery of refurbishment works at the Amfora and Adriana hotels. Although it only opened in June, the Adriana hotel had reached an ADR of € 280 and an occupancy rate of 85% in the month of August. In 2007 we also made great progress in setting up a management and operations team which gives us confidence to bring Orco's vision for Suncani Hvar to life. According to our recent survey, 81% of our guests now want to return to our hotels versus 51% in 2005. Furthermore employee satisfaction is 80% now versus 50% in 2005.

**| What is Orco's vision for Suncani Hvar?**

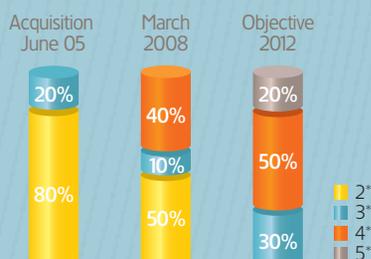
**D.L.:** We position Suncani Hvar as the best holiday destination from Venice to Athens. In fact, Hvar island was selected as one of the top worldwide destinations in 2007 by the New York Times and our hotel Adriana was specifically mentioned. In the future we intend to also develop and sell luxury holiday villas to our international clientele and package that with property management services as well.

**| What is the outlook for the coming years?**

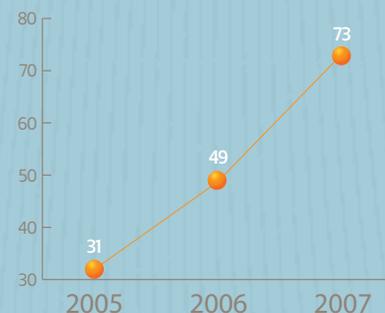
**D.L.:** We still have a lot of refurbishment work to complete, in order to meet our goal of 1.450 hotel rooms. Once the entire existing portfolio has been refurbished, we estimate generation of about € 50 million in yearly revenues after having spent € 150 million capex.

Our objective is to expand our presence to other islands and introduce the development and sale of luxury holiday villas. We are currently considering listing the company on the primary market at the Zagreb Stock Exchange and realizing a capital increase. ■

**SUNCANI HVAR - ROOM CATEGORY PROGRESSION**



**SUNCANI HVAR ADR (AVERAGE DAILY RATE IN €)**



**ARNAUD BRICOUT**

Vice-President  
Corporate Finance



“ During the first half of 2007, we were able to secure a strong cash position ”



**SÉVERINE FARJON**

Deputy for Corporate Finance and Head of Investors Relations

**Orco is a fast growing company. What is your financing strategy?**

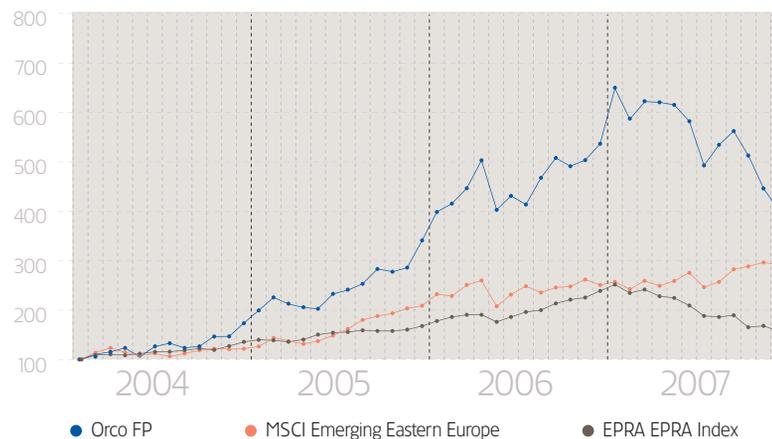
**A.B.:** We have several objectives: to ensure enough capital on a timely basis to run the operations, to maintain a loan to value ratio not higher than 50%, to minimize the cost of debt and to always bring attractive offers to the equity and debt markets. In addition to financing

via the capital markets, we are also very active in bank financing. We have built up long-term relationships with a large sample of banks since we started our operations 17 years ago in the eight countries in which the group is doing business.

**Why is Orco Property Group now listed on four stock exchanges?**

**S.F.:** After Paris in 2000, we also decided to list the stock on the Prague Stock Exchange in 2005. Warsaw and Budapest

## ORCO vs MSCI EM Eastern Europe and EPRA Europe Index



**RAISED € 450 MILLION IN 2007 ON CAPITAL MARKETS**

**COVERED BY 10 EQUITY ANALYSTS**

> Zlota 44 (Warsaw): a luxury residential project of 251 apartments to be delivered in 2010.

listings followed in June 2007. The multiple listing has two objectives: easier access to our stock for local institutional and retail investors and increased visibility of our brand.

**How would you comment on the share price performance in 2007?**

**S.F.:** The share price performance reflects the market conditions which significantly deteriorated in 2007 linked to the subprime crisis in the United States. On the medium-term we remain confident in Orco's share price evolution.

**Dividends**

Detachment date:  
April 25<sup>th</sup> 2008



**What were the team's main achievements in 2007?**

**A.B.:** During the first half of 2007, we were able to secure a strong cash position for the group. We raised € 175 million through a bond with warrants attached in March and € 172.5 million in June through a capital increase. The low cost of the coupon of this bond helped the cost of debt of the group to remain below 5% at year end. We were also successful in raising the first € 100 million bonds with warrants for our German subsidiary and in listing the stock to the prime segment of the Frankfurt Stock Exchange.

Concerning investor relations activities, in 2007 our team was strengthened by adding two new members and we were thus able to attend more investor events than in the past.

**What will the dividend proposed to the shareholders be?**

**S.F.:** The dividend which will be distributed for 2007 amounts to € 1.4 per share. This is a 40% increase. The shareholders may opt for a payment in cash or shares.

**What are the main challenges for the team in 2008?**

**A.B.:** We will work on raising capital for Suncani Hvar in order to finance its pipeline. We will also work on the restructuring of the Warrants.

**ORCO'S FIRST INVESTOR DAY IN PRAGUE**

On the 22<sup>nd</sup> and 23<sup>rd</sup> of November, Orco held its first Analyst & Investor Day. The purpose of the event was for investors to be able to meet up with Orco's management team and key operational people, to get a better understanding of the group's strategy and visit some of Orco's representative projects in the city in which the company was founded. The event was well attended;

The main financial institutions were present, notably: Citigroup, Morgan Stanley, UBS, ABN AMRO, ING,

Credit Suisse, KBC, Erste, CAIB, Deutsche Bank and CIC Credit Mutuel.

**BELL RINGING AT THE WARSAW AND BUDAPEST STOCK EXCHANGES**

On the 21<sup>st</sup> of June, Orco was officially listed on the Warsaw and Budapest Stock Exchanges. A symbolic « Bell ringing » ceremony took place, tolling simultaneously at both the Warsaw and Budapest Stock Exchanges, marking the announcement of the successful fund raising offer proposed by Orco.

Douglas Noble and Iain Sellers, the



Country Managers for Warsaw and Budapest, had the honour of ringing these bells which were once used to signal the start of trading.

## LUC LEROI

Vice  
President  
and Chief  
Financial  
Officer



“ Orco ended 2007 with €258 million cash and cash equivalents ”

### How do you explain the increase of Orco's turnover by 73%?

The growth is attributable to all our business lines. Revenues from the residential development activities were € 192.7 million compared to € 124.3 million in 2006. Rental revenues were € 66 million (€ 19.8 million in 2006) thanks notably to the two main 2007 acquisitions, Molcom (Russia) and GSG (Berlin). Hospitality revenues were € 42.9 million in 2007 (€ 30.8 million in 2006). Suncani Hvar contributed € 12.5 million to this total (€ 9.6 million in 2006). Finally, the fees generated by the Endurance Funds significantly increased to € 7.6 million (€ 4.5 million in 2006) showing the growth and strength of this activity. This strong reve-

nue increase was reflected in the group's operating profitability measured by the adjusted EBITDA. From € 5.6 million in 2006, 2007 adjusted EBITDA jumped to € 66 million, benefiting from a positive contribution of all the business lines.

### How would you describe Orco's financial situation in December 2007?

The loan to value was 49% including GSG, a more leveraged acquisition. The cash cost of debt was 4,84%. The proportion of fixed loans was 80%.

Orco closed year end 2007 with € 258 million cash and cash equivalents. This amount coupled with the proceeds from the disposals realized in late 2007 and the ones to come to 2008 give Orco's management a high level of confidence in its ability to finance the 2008 capex without any recourse to the equity or bond market.

### What are the main contributors of the € 147 million of profit revaluation?

This revaluation profit only includes the revaluation of investment properties and the land bank. On-going

## P&L HIGHLIGHTS

in K €	2007	2006
Revenue	299 229	172 908
Revaluation profit	147 376	145 901
Operating result	177 104	134 248
Net profit	87 508	96 699

## ADJUSTED EBITDA

in K €	2007	2006
Development	19 564	-894
Renting	32 121	6 081
Hotels & residences	7 324	1 571
Management services	13 355	2 271
Intersegment activities	-6 256	-3 435
<b>Total</b>	<b>66 107</b>	<b>5 594</b>

developments, properties under construction (both valued at cost) and hotels are excluded from this calculation. All the countries in which the group is operating saw its real estate value increase in 2007.

Among the main contributors to this revaluation profit, it is worth mentioning our German assets: GSG for € 28.2 million, Leipziger Platz (Wertheim) for € 19.5 million and Cumberland Haus for € 16 million. The value of our Czech assets also rose, in particular our 27 ha land bank Bubny for € 7.9 million and Na Porici for € 5.5 million.

***This year, Orco offers two methods for calculating NAV. What is the reason for this new communication?***

The first calculation takes into account our listed participation in the share price of Orco Germany and Suncani Hvar. This method conveys more volatility and reflects a financial approach of Net Asset Value. The second, solely based on the portfolio valuation, gives the real estate approach of the Net Asset Value and shows the value created by the active asset management realized by our teams on a yearly basis. The NAV amounts are € 106.3/share for the financial approach and € 91.7/share for the real estate approach. ■

“ Listed in four countries, Orco follows the local corporate governance rules and recommendations applicable in each country ”



**GILLES KOLIFRATH**  
Group General Counsel

***What were the main achievements of 2007?***

The 2007 main achievements were:

- the establishment of the Director's Corporate Governance Guide which focuses on transparency improvement, conflict of interest prevention, reporting quality, management control through various committees, independent Director decisions and safeguards for shareholders' interest,

- following up on local regulations regarding corporate governance, given Orco's listings in Warsaw and Budapest,
- recruiting a General Counsel and appointing him to the Executive Committee in order to set up the Legal function for the group.

***What are the main challenges ahead?***

Orco will communicate this year throughout the group, the values held by the Director's Corporate Governance Guide and train its management to strengthen Orco's ethics and corporate governance culture.

Orco will also assess itself to better communicate its corporate governance to investors by giving them relevant and necessary information on its website. Finally Orco has decided to reinforce its legal teams throughout the year to improve its legal set up and strengthen its business development. ■

**BALANCE SHEET HIGHLIGHTS**

in K €	2007	2006
Total assets	2.943.263	1.480.354
Total debt	1.479.752	651.330
Cost of debt	4.84%	4.34%
Loan to value	49%	40%



**BARRY  
D. COLEMAN**  
Group Director of  
Human Resources

“ *Human Resources became a pro-active function, fully aligned with Orco's needs and strategy* ”



**| How would you describe a typical "Orco employee"?**

Orco employees have an entrepreneurial profile. They are creative people, who are willing to take risks and who put their own personal reputation and self - esteem into their job.

**| What does Orco offer as an employer?**

We also offer a proactive and dynamic working environment, where our employees can constantly learn and have opportunities to grow professionally.

We offer also the opportunity to work closely with an outstanding management team. From the beginning, employees at all levels have relationships and access to senior management. I would say that Orco is not only a job, it is also an identity.

**| What were the main achievements in the "people" area in 2007?**

From an HR perspective, 2007 was a year of transforma-

tion. From a supporting role, Human Resources became a pro-active function, fully aligned with Orco's needs and strategy. Our HR team focused on gaining control of the company's growth and maximizing the efficiency of the main HR processes.

**| What are the main "people" challenges in the coming year?**

2008 will be a year of professional development. Alongside to the foreign language program - today the largest one - Orco will put in place several management training programs including sales, leadership, time management and financial management skills.

It is also our intention to improve the people mobility program, to relocate some of our best talents to other countries in order to speed up the learning process across the group. ■





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