



## EARNINGS RELEASE – Full Year 2010

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### ERC Announces Consolidated Results for Full Year 2010

Egypt's leading master developer reports consolidated revenue of EGP 14.9 million and consolidated earnings before tax of EGP (7.8) million in 2010, compared to EGP 25.8 million and EGP 3.9 million, respectively, for the adjusted previous year.

#### Full Year 2010 Consolidated Financial and Operational Highlights

- Revenues of EGP 14.9 million vs. EGP 25.8 million in 2009
- Gross Profit of EGP (5.8) million vs. EGP 12.1 million in 2009
- Gross Profit Margin of (38.82)% vs. 46.96% for 2009
- Operating Profit of EGP (35.1) million; vs. EGP (17.8) million for 2009
- Operating Profit Margin of (234.96) % vs. (69.06)% for 2009
- Earnings Before Tax of EGP (7.8) million; vs. 3.9 million for 2009
- Earnings Before Tax Margin (52.60)% vs. 15.08% for 2009
- Earnings per share (EPS) of EGP (0.004); vs. 0.004 for 2009
- At the end of 2010 and into the beginning of 2011, ERC booked over USD 20 million in reservations through a pre-launch sales drive for Sawari Marina properties, significantly exceeding its best-case scenario projections. To date, only 6% of the bookings were cancelled.
- Community management fees from key sub-developers to be collected in the near future converting an EGP 7 million quarterly burden on ERC into equivalent revenues.
- Substantial progress on Phase III master planning efforts and delivery of Sawari Marina development plan and designs.

#### Commenting on the Company's operational achievements in 2010, CEO Mohamed Kamel said:

2010 was the year during which the right foundation was created to carry the company for the next decade. In addition, Egyptian Resorts Company achieved key operational milestones that will leave ERC in strong market and financial positions when fallout from the Egyptian Revolution of 25 January 2011 finally settles. In short, the management promised and delivered on its promises.

#### 1. Management's Operating Priorities:

- Human Capital: ERC depends on a relatively small team of professionals (less than 200 people) and had to ensure that its HR investments were competitive and rewarding to optimize the company's performance and maximize sustainable shareholder returns. We hired Hay Group and implemented a large scale restructuring plan that started with strategy identification, followed by operating model and organizational structure design that takes into consideration multiple simultaneous projects, developing a regionally competitive compensation and performance/reward framework, setting the implementation plan and finally implementing the recommendations.

The work also included a review of our board of director's governance framework and implementation included reducing our board members from 13 to 11.

During the course of the year, ERC hired about 50 new professionals and executives for vacant positions and as replacement hires.

- Resort Development and Infrastructure: the highly anticipated opening of the Arrival's Piazza was one of the 2010 highlights that took visitors' breath away and hosted multiple events with its 15,000-person capacity on almost a weekly basis during the resort's peak season.

ERC completed its state-of-the-art fiber optics network design for Phases I and II, which will be used as a communications network as well as a fully-automated utilities management cable. The first phase of its implementation was completed in February 2011 and sub-developers are now being connected to the network.

In addition, we made steady progress on expanding the resort's infrastructure and utilities capacity, applying for an electricity distribution license as part of our strategy to build-out our recurring revenue streams. The license will clear the path for the construction of a 70 MVA (Megavolt Ampere) substation, on which the construction commencement has been postponed to 2012 as part of our cost cutting strategy. Once we begin, the substation will take 18-24 months to complete and is projected to meet the power requirements of Sahl Hasheesh for at least a decade.

- The Old Town and Public Beach: ERC was committed in supporting Sahl Hasheesh Company (SHC), its 69.4% owned subsidiary, complete and launch the Old Town – the commercial core and entertainment hub of Phase I in Sahl Hasheesh. SHC commissioned Jones Lang LaSalle (JLL), the leading global commercial real estate advisory firm, to deliver a complete feasibility and launch plan. The Old Town started receiving tenants and the first store opened in January 2011. In addition, the company is in talks with JLL, amongst others, to serve as ERC's exclusive leasing agent bringing on board the right tenant mix.

ERC is also in talks with several international beach operators, the first of which is expected to sign a beach management contract within the first half of 2011.

## **2. Management's Strategic Priorities:**

- Community Management: our community management model has been fully built and the company has already signed on all major sub-developers to its community management agreement. As a consequence, roll-out will begin during 2011. Although, this represents a new, yet small, revenue stream for ERC in the future, it is a critical step in reducing community cost burdens and expenditures incurred in running the resort by sharing it amongst ERC and its sub-developers.
- Marina: in April 2010, ERC signed a co-development agreement with Orascom Development and Management to develop and bring to market the Sawari Marina, a 2.5 million square meter luxury development on prime land at Sahl Hasheesh.

Simultaneously, Orascom Development Holding, through one of its investment companies, acquired a 4.5% equity stake in ERC, underlining its confidence in ERC's long-term prospects.

As a book-end to the start of the year, we closed 2010 with a robust pre-sales soft launch of the Sawari Marina properties, in which we booked over USD 20 million in reservations. Going into 2011, we realize that the January 25 revolution will have a negative short-term impact on sales and may result in more than the 6% cancellations recorded to date. Despite this fact, the company is committed to finalizing all its licenses and beginning light dredging works to stay ahead of the demand curve.

- **Phase III Planning:** early in 2010, we partnered with WATG (Irvine) as lead master planner for Phase III of the Sahl Hasheesh Resort Community. WATG is a master-planning firm with a six-decade-long track record that has seen it consult on master development plans for hospitality, leisure and entertainment destinations in 160 countries and territories. Phase III at Sahl Hasheesh encompasses the resort's remaining 28 million square meters (contractually 20 million m<sup>2</sup> and measuring 28 million m<sup>2</sup>) of land and will see Sahl Hasheesh transform from a young resort town into a thriving city, complete with schools, hospitals, office buildings, and an array of small- and medium-sized enterprises.

To complement WATG's work and to set an example for master planning in Egypt, ERC hired the following international and local consultants in their respective fields:

-	AECOM	(UK)	Market Analysis and Feasibility
-	AAW	(EGYPT)	Specialist Infrastructure Engineer and Local Master Planner
-	EDSA	(USA)	Landscaping
-	Davis Langdon	(UK / EGYPT)	Cost Analysis
-	Mobility in Chain	(ITALY)	Roads, Traffic, Transport and Mobility
-	Buro Happold	(UK)	Waterways and Lakes Engineer
-	Environics	(EGYPT)	Environmental / EIA Consultant
-	XCO2 Energy	(UK)	Sustainability

- **New Strategic Ventures:** the ERC board of directors gave a green light to proceed with contract negotiations with the Hurgada Environmental Protection and Conservation Association (HEPCA) – [www.hepca.com](http://www.hepca.com) - to construct a world class marine research center at Sahl Hasheesh in cooperation with the Italian government. This center will include 16 professors in addition to 40-50 Egyptian and foreign volunteers.

ERC is particularly proud of this potential partnership that aims to protect the local marine environment and spread knowledge on sustainable conservation efforts throughout the Red Sea coast.

- **Other Business:** I am pleased to report that we now have four luxury hotels open for business at Sahl Hasheesh resulting in a total number of operational hotel rooms in the resort of over 1,500.

In the fourth quarter, we ramped up our marketing efforts in response to demand from our sub-developers, with a strategic campaign promoting Sahl Hasheesh in high-profile international travel magazines and travel industry publications targeting the wholesale trade. Throughout, we are positioned as the top choice for both national and global holiday makers and seekers of second homes.

We have managed to collect EGP 136.1 million worth of Accounts Receivables in 2010 after solving many of the problems facing our sub-developers at Sahl Hasheesh. We have also resolved most of the design violations in the villa zone, 12 in total, as 7 villas have been demolished, agreements have been reached to rectify 3 villas and negotiations are taking place to resolve the remaining 2 violations.

### **Disclosure of Recent Material Events**

On 11 April 2011, ERC received a letter from the Tourism Development Authority (TDA) withdrawing its approval for the allocation of Phase III – contractually 20 million m<sup>2</sup> and measuring 28 million m<sup>2</sup> to the back of phases I and II due to “ERC not complying with the TDA’s requirements and controls.”

The initial land allocation agreement with TDA clearly states that in the event the developer is in default, the TDA is required to notify the developer of such default and grant the developer a 6-month period to rectify such default. ERC did not receive a default notice from the TDA. As a consequence, ERC will submit a formal complaint to the TDA requesting reconsideration of its decision in relation to the phase III allocation approval. In the event the TDA rejects the complaint, ERC will resort to the Dispute Settlement Committee and the Administrative Court to defend its legal rights and that of its shareholders and to nullify the administrative decree of the TDA which withdrew TDA approval for the allocation of Phase III to ERC.

We also note that ERC has already settled 27% of the value of Phase III as per the TDA requirements (USD 7.57 million) as of 31 December 2010. In addition, ERC has incurred and fully settled rent expenses for Phase III amounting to USD 1,327,561 and has committed 12 different consultants at a total approximate cost of USD 6.8 million, most of which has already been settled.

### **In 2011**

The coming year will undoubtedly prove to be challenging. The events of January 25 have undoubtedly caused a general slowdown affecting all sectors of the economy. Tourism arrivals have been negatively affected and we have already witnessed almost a 46% decrease year-on-year in the first quarter of 2011. Although we expect this phenomenon to be short-lived, lasting through the fall of this year, the pickup of tourist arrival figures will be the main leading indicator for tourism-based investment – our primary source of revenue. As a result, ERC expects no more than one land plot sale, low-to-no new reservations in the coming months at the Sawari Marina development, and a significant reduction in the consumption of utilities, and hence utilities revenue, by existing operators. Despite the slowdown, many sub-developers are pushing through with their development plans to complete their hospitality developments in anticipation of a strong recovery in 2012.

Accordingly, our focus in 2011 will be the continued development of our base of strategic assets as we lay a foundation to support growth in anticipation of a 2012 that will probably be marked by a strong uptick in economic growth, a return of consumer confidence (promoting sales at our Sawari Marina as well as at key sub-developer projects), and a surge in the number of tourist arrivals.

In the year ahead, we will focus on planning and contracting for strategic commercial and residential properties in the Old Town, which we will aim to bring to life with a pipeline of amenities including designer retail, fine dining, and vibrant nightlife as well as spas, cinemas, and children’s play areas, all situated along the picturesque waterfront promenade, and Sawari Marina.

With low levels of tourism projected throughout the first half of the year, we have trimmed our operating budget and that of our subsidiary Sahl Hasheesh Company accordingly, but not to the point that would constrict our ability to capitalize on a recovery in tourism early next year or even the second half of this year.

In my view, our achievements in 2010 are exactly what the company needed; to set up the structure that can handle multiple projects and multiple revenue streams, and an operating and commercial foundation that can ensure medium-to-long term sustainable revenue and income streams.

On the one hand, our operational performance in 2010 is definitely representative of the operational performance that can be expected from ERC into the future. On the other hand, our commercial performance beyond 2011 will definitely receive a significant boost given the strategic alliances and ground work completed in 2010.

Although 2011 will pose a unique set of challenges for all companies operating in Egypt's tourism sector, we believe ERC has set itself on a both a short- and long-term path that will see the company emerge in an even stronger position relative to competitors.

Our priority remains the protection of the investments of our shareholders and sub-developers, while our operational strategy is geared towards attaining the highest possible return on shareholder capital in the long run.

**Mohamed Kamel**

Chief Executive Officer

**An Important Note:**

Management encourages investors not to analyze Egyptian Resorts Company by scrutinizing quarterly sales figures as they would manufacturing or other real estate firms. ERC is a master developer of mega resort communities and unlike other developers, focuses on the macro development infrastructure and land plot sales. The timing of land sales (which tend to be large, strategic plots) to value-adding developers is a function of market conditions and management / board strategy at any given moment. ERC targets a healthy pace of land release from its bank so as to preserve both ERC valuations and the returns on investments of our sub-developers. A more traditional quarter-by-quarter analysis will be appropriate only for the analysis of recurring revenue streams as these mature in the years ahead.

**About ERC**

Egyptian Resorts Company S.A.E. (EGX: EGTS.CA) is a master developer of international standard resort communities on a fully-integrated management basis. The company is incorporated in Egypt and headquartered in Cairo. Egyptian Resorts Company acquires broad land holdings suitable for premium mega resort development at nominal value. The company then creates a master plan in partnership with global architectural and urban planning firms, builds state-of-the-art infrastructure, implements design guidelines and community management rules and regulations, and then on-sells individual pre-designated plots to sub-developers and investors whose primary businesses are hotel ownership, operation and management, as well as luxury resort and residential real estate development. ERC is developing multiple recurring revenue streams that include the supply of utilities (water, electricity, communications) through its project partners, as well as community management and maintenance fees and revenues generated by Sahl Hasheesh Company.

## Capital Structure

Authorized Capital EGP 2,000,000,000  
Issued and Paid-In Capital EGP 1,050,000,000 (1,050,000,000 shares @ EGP 1.00 / share)

### Shareholder Structure

Misr Insurance	15.00%
KATO Investment	11.96%
Rowad Tourism Company	10.00%
First Arabian Company	10.00%
Al Ahly Capital Holding	8.99%
Orascom Development Holding	4.50%
Other long-term investors	7.64%
Free Float	31.91%

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