



**Orco Property Group  
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**Management Report as at 31 December 2010**

15 April 2011

1. Message from the management .....	3
2. Market environment.....	6
2.1 Main macro-drivers: a transitional year .....	6
2.2. Selected market focus .....	8
3. Group strategy and objectives.....	15
3.1 Implementation of the safeguard plan.....	15
3.2 Strategy update and 2011 outlook.....	17
4. 2010 and post-closing key events .....	18
4.1 Capital increases by 3.1 Million new shares for a total equity amount of EUR 16.2 Million and their legal challenge .....	18
4.2 Renewed mandates for the Board of Directors .....	19
4.3 Vaci 1: Top up (structural completion) in October 2010.....	19
4.4 Zlota 44 building permit revalidated.....	19
4.5 Leipziger Platz sale and profit sharing.....	20
4.6 Restructuring of AIG shareholder loan.....	20
4.7 Dispute with Croatian Privatization Fund (“CPF”) .....	20
4.8 Asset and commercial developments disposals .....	21
4.9 Signing of JV agreement in Rubín project, Moscow .....	22
4.10 Acquisition of treasury shares.....	22
5. Gross Asset Value and NAV .....	22
5.1 Development .....	24
5.2 Asset Management.....	33
5.3 Liabilities and financial profile .....	47
5.4 Net Asset Value .....	51
6. Full year 2010 financial results.....	52
6.1 Consolidated income statement .....	53
6.2 Balance sheet .....	62
6.3. Cash flow statement.....	64
6.4 Annual statutory financial status.....	65
7. Potential risks.....	65
7.1 Risks associated with the implementation of the Safeguard plan.....	65
7.2 Risks associated with real estate and financial markets.....	66
8. Human resources.....	67
9. Corporate governance .....	67
9.1 Overview and recent developments .....	67



9.2 Board of Directors.....	68
9.3 Management of the Group (Executive Committee).....	72
9.4 Remuneration and benefits .....	74
10. Shareholding .....	75
10.1 Amount of share capital .....	75
10.2 Shareholding structure .....	75
10.3 Stock subscription rights.....	81
10.4 Authorized capital not issued.....	81
10.5 Transactions commitments on treasury shares .....	81
11. Stock market performance .....	82
11.1 Shares of the Company .....	82
11.2. Other financial instruments of Orco Property Group .....	83
12. Corporate Responsibility .....	84
13. Other reporting requirements .....	84



ORCO Property Group ('the Group' or 'ORCO') is a real estate investor and developer established in Central and Eastern Europe since 1991, currently owning and managing assets of approximately EUR 1.7 Billion. The Group has a strong local presence in its main markets, namely Prague, Berlin, Warsaw as well as offices in Budapest, Moscow and Hvar (Croatia).

## 1. Message from the management

**Jean-François Ott, President and CEO**

Dear Shareholders,

Dear Shareholders,

The results of 2010 coupled with our initial achievements this year do validate our strategy of safeguarding and developing 'high potential' assets and developments.

The outcome is a historically high revenues at EUR 315 million, and improved profitability with an operating result at EUR 51 million.

Our NAV<sup>1</sup> increased to EUR 28.6, an increase of EUR 20.4, or EUR 3.5 per share intrinsic (without bonds). This clearly indicates that our strategy delivers results and generates value.

While we kept the paramount effort of financing our land bank and non refurbished assets at an expensive 'interest charge' costs<sup>2</sup>, we have a springboard for the future with the improving prospects in our key markets of Prague, Berlin and Warsaw that allow us to either sell those assets or (re)develop them either on our own or in partnerships like on the Bubny and Leipziger lands<sup>3</sup>.

Indeed, what we did in 2010 with those two land plots is an example point. They were previously deemed as 'problematic' as among the strongest negative contributors to the bottom line, and in 2010 they have created EUR 70 Million of value, while being deleveraged by EUR 74 million and generating EUR 24 million of cash.

I am fundamentally committed to continue deleveraging and rationalizing the Group, most particularly our holding companies Orco Property Group and Orco Germany. With the nearing maturity of its bond issue in April 2012 and a challenging refinancing of its key GSG Berlin assets by May 2012, I remain particularly proactive and attentive to preserve the major potential of value creation of Orco Germany by improving its balance sheet.

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<sup>1</sup> See point 5.4 of this report for the definition

<sup>2</sup> Generating costs and no revenues, especially when leveraged with the interests charge

<sup>3</sup> On Leipziger, we sold the project but keeping a developer exposure, with a complement of development remuneration of up to EUR 10 Million, and a profit share at completion of EUR 30 Million.



Lastly, I remain keen to further accelerate the optimization of Orco into separately run businesses, whether development, rental properties and hospitality, which are managed under fundamentally different business models. In 2011, Orco is 20 years old and I see an improved environment which will accelerate value creation for our shareholders, thanks to our track record and a high potential portfolio and pipe-line.

JEAN-FRANÇOIS OTT  
President and CEO

### **Nicolas Tommasini, CFO and Deputy CEO**

Dear Shareholders,

During 2010, we progressed over the main modules of our restructuring while focusing on assets value creation.

- ***Increase profitability***

The Company has bounced back to profitability, posting a net profit of EUR 233 Million over 2010. Excluding Group bonds effect<sup>4</sup>, the net loss stands at EUR -5 Million, which also excludes the EUR 69 Million additional value creation on the Bubny land development.

Adjusted EBITDA<sup>5</sup> increased to EUR 37 Million. The increase will continue with the development of our land bank and the intensive asset management of our rental portfolio. The further restructuring of our portfolio, including the sale of non strategic assets and of finished residential or commercial developments will decrease our interest expenses allowing to reach the objective of coverage by the Adjusted EBITDA. The operating result, reflecting profitability and value creation for our investment properties increased to a profit of EUR 51 Million from a loss of EUR 254 Million.

Besides assets' performance, the increased profitability also results from the constant reduction of both our overhead and management costs. Over 2010, consolidated operating expenses<sup>6</sup> decreased by EUR 6.0 Million or 4% despite increased revenues. The Group overheads, excluding assets direct operating costs and run down Orco Germany expenses, decreased by EUR 7.7 Million or 24%. This restructuring process has been made possible by reducing the number of projects alive. The stabilization of the company in 2011 will be accelerated with the sharp lowering of nonrecurring costs linked to the Safeguard and restructuring.

- ***Deleverage our balance sheet***

Our LTV<sup>7</sup> decreased sharply to 68% (and without bonds to 54%). Indeed, over 2010, the Group managed to decrease the total financial liabilities by EUR 364 Million. Besides the lower value of

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<sup>4</sup> Excluding the gain from the termed out bonds and the related non cash IFRS interests

<sup>5</sup> See point 6.1 of this report for the definition

<sup>6</sup> See point 6.1 of this report for the definition

<sup>7</sup> See point 5.3 of this report for the definition



the termed out bonds and the repayments upon assets sales for around EUR 140 Million, EUR 250 million of loans renegotiations were achieved allowing a decrease of short term financial liabilities by EUR 232 Million, showing an improved risk profile for the Group. Nevertheless, the long term financing of the Group is still a major focus particularly with the spring 2012 maturities in Orco Germany.

A tight cash management control allowed an improved net cash position (cash position after taking into account trade receivables, trade payables and advance payments) as a result of sustained development sales activities (EUR 183 Million revenues) with payment of related construction payables, disposal of non-core assets (EUR 38 Million free cash), strict cost control (EUR 6 Million savings in operating expenses), capital increase (EUR 16 Million fresh equity) and successful refinancing of bank debt (EUR 250 Million renegotiated bank loans) while continuing with careful investments on existing developments and assets (EUR 34 Million).

- ***Think value***

While in 2009 the Group was set and successfully achieved preservation of value by postponing assets sales, in 2010 we have created value through reinvestment (EUR 34 million capex) and selected sales. Indeed, the current market environment has turned out present new opportunities which have led us to balance our our previously two main objectives of cash recollection (for ex on residential sales to the expenses of value creation or margins), profitability improvement and the value creation or preservation (such as prime located commercial assets or land bank).

While projects on undeveloped assets were frozen during the crisis, it is now a priority to extract the value of the land bank and projects under construction which were in 2010 the main source our value creation for our shareholders with Leipziger milestones (permit, preleases) which allowed a superior selling price or Bubny start of master plan changes request process (allowing the sale of plot and refinancing). This should continue over the coming years with the investments being financed by the sale of mature assets or the conclusion of joint venture agreements. More ambitious investment projects may also be supported by capital increases.

- ***Transparency and readability***

We remain committed to enhance the readability of our Group through the separation between asset management and development business lines, and within these segments separately organize and report the various segments : hospitality versus commercial assets (now fully reporting under EPRA standards), residential development separated from commercial development and land development<sup>8</sup>. In parallel we shall continue our vertical integration of various Group countries by strengthening our single Paris headquarters with operational management functions, notably with the recruitment of a Development Managing Director and a Secretary General.

Nicolas Tommasini  
CFO and Deputy CEO

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<sup>8</sup> the accounting policies have been extended to integrate the new activity of land development leading to a transfer of the Bubny land development to inventories and therefore no recognition of any revaluation profit creation (which would have otherwise amounted to EUR 69 million).

See the Group consolidated annual accounts in note 2.6 for detailed accounting policy on transfer from Investment Properties to Inventories.

## 2. Market environment

### 2.1 Main macro-drivers: a transitional year

- **Global macro-economic conditions** (mainly GDP growth) : impact office and retail take-up and rents, retail turn-over, purchasing power and fundamental demand for housing;
- **Interest rates and inflation expectations** : influence the ability of both private and corporate buyers to get affordable financing and give indications of real estate spreads and risk premiums ;
- **Forex movements** : impact revenues and costs of corporations as well as relative attractiveness of countries in terms of investment or tourism;
- **Cross-border investment activities** : main source of liquidity for retail and office markets and pricing.

#### 2.1.1 Global macro-economic conditions

**Germany** is currently the main engine of Eurozone growth with a real GDP growth in 2010 of 2 % and expectations for 2011 between 2% and 2.5 % (*Source: Eurostat*).

In its current economic report, Investitionsbank Berlin (IBB) assumes that Berlin's economic recovery will still gather pace in 2011. The Investitionsbank Berlin forecasts economic growth (after -0.7% in 2009) of 3.0% GDP in 2010. As Berlin was less affected from the worldwide downturn the capital could, in contrast to the general economic development in Germany, surmount the 2008 level from before the economic crisis.

**2009 – 2012 CEE Historic and prospective GDP growth**  
(source ERSTE Bank)

GDP growth (%)	2009	2010f	2011f	2012f
Austria	-3.9	2.0	2.2	2.0
Croatia	-5.8	-1.6	1.0	2.2
Czech Republic	-4.0	2.3	1.9	2.5
Hungary	-6.7	1.2	2.8	3.5
Poland	1.8	3.3	3.7	4.4
Romania	-7.1	-2.1	1.2	2.3
Turkey	-4.7	7.6	4.7	5.3
Serbia	-3.1	1.6	3.0	3.8
Ukraine	-15.1	4.3	4.5	6.0

**Poland** fared well during the crisis being the only country that was able to maintain positive growth in 2009. The Group believes that with a solid manufacturing sector, increasing services activity, a population of 38.2 million inhabitants coupled with a strong diaspora, Poland is best positioned to be the main growth contributor in CEE.

**Czech Republic** is forecast to grow at a fairly good level between 2% and 2.5% over the next two years confirming the catch-up potential of the country and narrowing the gap to other EU members.

**Hungary** gives a more balanced picture with uncertainty due to the impact of new fiscal measures and political uncertainty. However, the Group is convinced that this uncertainty should be resolved over the course of 2011- beginning 2012 and GDP should resume at a 1.5% - 2% pace.



### 2.1.2 Interest rates and inflation expectations

Eurozone interest rates remained in 2010 at historic low levels. Recent concerns about inflation triggered questions about rates hikes by ECB. However, on the middle term, hikes should remain moderate (if any) as the ECB does not want to jeopardize the economic recovery and can revert to other instruments to contain price growth and foster growth and employment.

Polish, Czech and Hungarian central banks are also closely monitoring inflation but with less intensity and worries as ECB. Interest rates increases if any will be moderate.

In conclusion, interest rates should remain around current level and have very limited impacts on yields and ability of corporations or individuals to get financings.

Movements in yields are more likely to be determined by local real estate considerations as a consequence of widening gap between prime and secondary assets.

### 2.1.3 FOREX movements

Due to the relative growth of CEE countries versus Eurozone, CEE currencies versus Euro appreciated in 2010 and will continue to do so over 2011.

Currency/EUR (avg.)	2009	2010f	2011f	2012f
Croatia	7.34	7.29	7.32	7.28
Czech Republic	26.4	25.3	24.4	23.7
Hungary	281	275	273	268
Poland	4.30	3.93	3.58	3.35
Romania	4.24	4.21	4.14	3.91
Serbia	94.0	103.1	112.0	115.0
Turkey	2.16	1.99	2.14	2.02
Ukraine	11.34	10.51	10.3	9.6

### 2.1.4 Cross-border investment activities

After the low levels during 2009, 2010 recorded an increase of cross-border CE investment activities by 90% to reach EUR 5 billion mainly concentrated in Poland and Russia (74% of global amount) and on the office sector (46% of global amount) (Source : CBRE).

#### 2011 Outlook and onwards

- (i) Investment reverting to long-term sustainable trend of EUR 5-7 billion/year;
- (ii) Increased segmentation/differentiation between sizeable grade-A properties attracting international buyers and smaller properties whose liquidity will be fuelled by more local and smaller buyers;
- (iii) Focus on rental growth rather than massive yield compression. The current risk premium/spread between 10-Y government bonds and prime yields is seen as acceptable. Therefore, given the current low pipeline of projects, increased vacancy and increased activity, rental growth would be the main capital value driver in 2011-2012.



As far as German-open ended funds are concerned, they will remain of course major players in the market but with however a decreasing share and activity due to the regulatory changes impacting their activity.

As a conclusion, the Group anticipates for 2011:

- Continued recovery with robust macro-drivers (in particular GDP) coupled with small to moderate increase of interest rates (without impact on risk premium or yields) and continued appreciation of CEE currencies;
- Transitional year with increased investment activity reverting to historical levels, stable (high probability) or slightly declining yields (low probability) and a gradual recovery of the letting markets;
- 2011 will lay the foundations for 2012 that could then be the tipping point as office and residential take-up and demand revert to their pre-crisis levels, rental growth accelerates, developers with cleaned balance sheets resume projects, liquidity returns and yield compress.

## **2.2. Selected market focus**

*NB: notions such as “prime yields” and/or “prime rents” have to be considered with caution as they correspond to very specific products and market conditions and only apply to a limited number of assets. Taking these numbers as absolute indicators may cause distorted or biased interpretations. That’s why the Group prefers to refer to brackets corresponding to market segments rather than relying on an absolute number. For more details on how “prime yields” and “prime rents” are defined, please refer to the corresponding footnotes of brokerage studies.*

### **2.2.1 Berlin Office market**

#### **Historical perspective**

Take-up in the office-market area of Berlin in 2010 with 510,000 sqm, exceeds the respective previous year figure’s by 24% or 100.000 sqm. Still, year-on-year, the vacancy rate increased by 0.3% to 9.8% or by 1.73 million sqm. The achievable prime rent in Berlin increased by 5% to € 21.00 per sqm/month.

#### **Prognosis**

In 2011 the office market is unlikely to reach the extraordinary take-up level of 2010. The limited future office space supply and the reduced level of premium office space makes further increases in prime rents likely. The office vacancy rate is expected to stabilize or even reduce. The Group believes in the short, mid and long term attractiveness of Berlin in particular once the key infrastructural project, the new international airport in Schönefeld will start operating in 2011/2012.

### **2.2.2 Prague Office market**

With a population of 1.2 million (greater metropolitan area) and a total stock of ca 2,750,000 sqm (source JLL Quarterly Report Q3 2010), Prague office market has a catch-up potential in comparison to its European peers where the average lies at 3.5-4 sqm/capita. In comparison, Düsseldorf with roughly the same number of inhabitants, has a total stock of 7.75 Million of sqm (Source Trombello Colliers).

#### **Historical perspective**

In 2008, Prague was hit by the crisis which resulted in an adaptation rather than a fundamental shift in the market. On the contrary to previous crisis, the recession was mainly due to financial

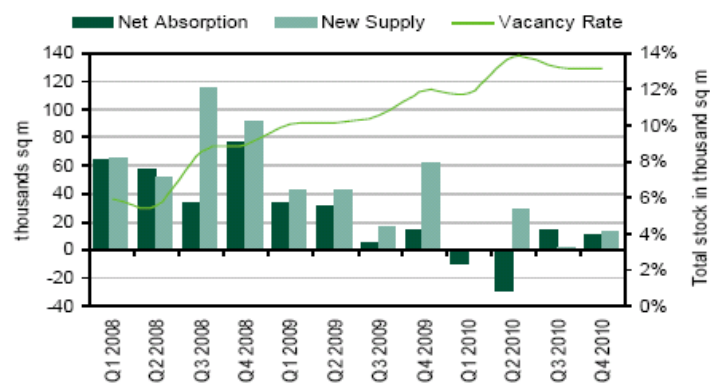


causes and overheated prices rather than a fundamental and structural excess of offer over demand. Therefore:

- Take-up decreased while several newly completed project arrived on the market resulting in a negative net absorption and increased vacancy that however stayed at manageable levels;
- Pressure on rents and incentives;
- Yields adapted to new market environment and moved upwards;
- Speculative developments stopped or postponed;
- Tenants started to look for cheaper and more flexible premises. This resulted in a change in structure of demand: second-hand fared better than grade-A as tenants tend to renegotiate rather than move to new premises and get cheaper spaces.

### Net Absorption vs Completions

Source : CBRE Prague Offices Q4 2010 Year-end summary



Source: CB Richard Ellis, PRF

### In 2010 :

- New supply hit a minimum – 41,794 sqm - 80% less YoY;
- Negative net absorption of 16,400 sqm
- 214,000 sqm leased with increased share of secondary take-up up to 42% (vs 33%)
- Prime rental levels stable at € 19 – 21.0 /sqm/month for grade-A and approx. € 1.5-€ 3 below the above mentioned ranges for second-hand;
- Vacancy increased to 13.1% up from 11.8% in 2009.

**Share of take-up: prime vs secondary**  
 Source : CBRE “Prague Office Market View”

**Annual Take-up**



**2011 Outlook and onwards:**

Period	Second-hand market (50% of current vacancy)	Prime (50% of current vacancy)
<b>2011-2012</b>	<ul style="list-style-type: none"> <li>▪ Stable take-up</li> <li>▪ High share of renegotiations with <b>increased pressure on rents and incentives</b></li> <li>▪ Stable yields</li> </ul>	<ul style="list-style-type: none"> <li>▪ Gradual recovery of take-up of the vacant grade-A stock. <b>Almost all grade-A vacancy is concentrated on 9 buildings</b></li> <li>▪ <b>Stable/Increasing prime rents</b> due to the relative scarcity of space</li> <li>▪ International companies as main drivers of take-up</li> <li>▪ <b>Stable/Decreasing yields</b></li> </ul>
<b>2013-2015</b>	<ul style="list-style-type: none"> <li>• <b>Activity reverses to historical patterns</b></li> <li>▪ Decrease of share in take-up</li> <li>▪ Companies more prone to move to newer premises</li> <li>▪ Stable/decreasing rents due to lower quality vs Grade-A</li> <li>▪ Less appetite from investors</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Increase of (i) available space coupled with increasing demand for grade-A (ii) increase in rents</b></li> <li>▪ <b>Increased liquidity due to new supply of investment grade products</b></li> <li>▪ Yield compression</li> </ul>

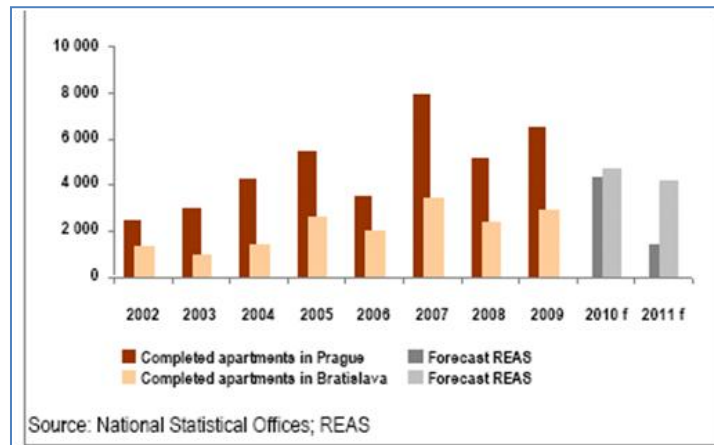
### 2.2.3 Residential Market Prague

- Historical perspective

Developers took time to adapt their pipeline to the recession (or had previous commitments) and did so only by Q4 2009. As on the other hand, buyers were cautious, affordability low and developers reluctantly accepted price decreases, the gap between supply and demand widened and stock of unsold units soared.

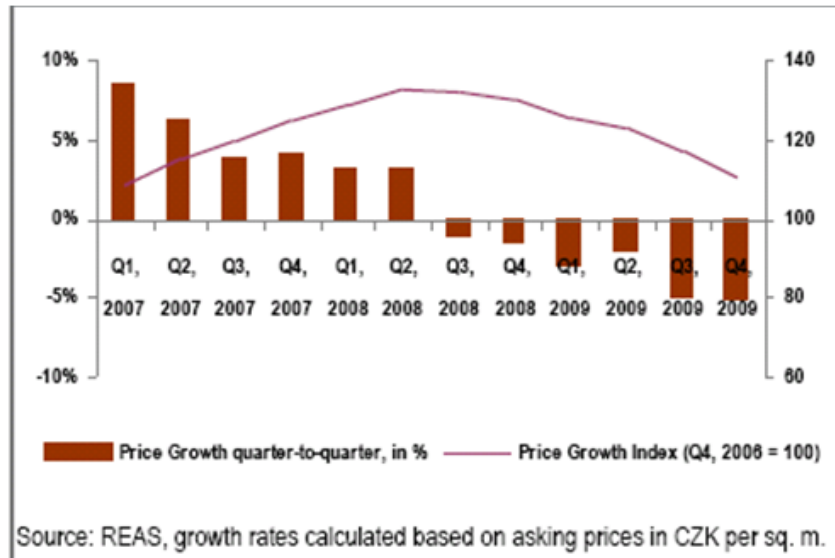
#### Dwellings completions in Prague and Bratislava 2002-2011(f)

Source : REAS Consulting- JLL March 2010



### Price growth Quarter by Quarter Prague 2007-2009

Source : REAS Consulting- JLL March 2010



### 2011 Outlook and onwards

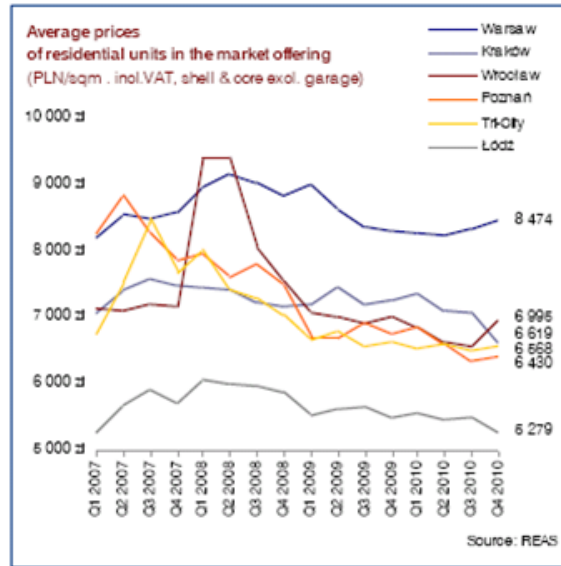
- 2011 will not be a booming year but rather a stabilization year, when excess supply will be absorbed either by a new appetite of buyers or by additional – modest- price decreases. Orco believes that the current level of prices and pipeline has finally reached equilibrium to drive unsold units stock down in 2011;
- It is worth noting that high-end segment will lag a little bit behind the middle-class segment. In fact, a big chunk of the unsold units is composed of high-end products that are less sensitive to an uptick of demand. Recovery on the high-end sector should then occur at the beginning of 2012.

### 2.2.4 Residential Market Warsaw

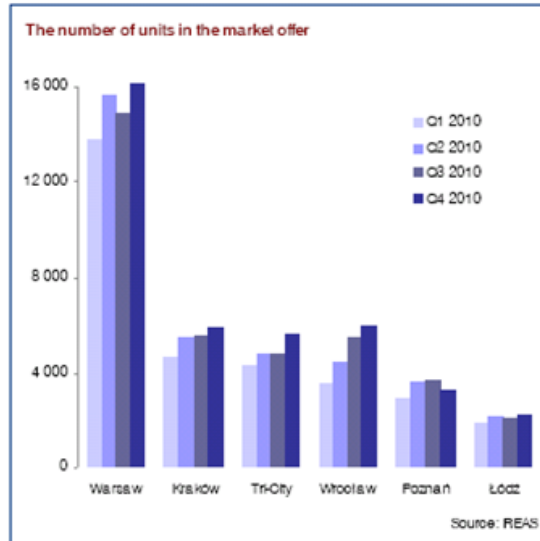
#### Historical perspective

*NB: the analysis below does not apply to the “Zlota 44” project, which is a very specific and iconic project. Therefore the drivers of the demand for this project (location, prestige, architectural excellence, features) differ fundamentally.*

On the contrary to Prague, Warsaw residential market recorded a return to more normal conditions as soon as 2010. As REAS Real Advisors points out (Source : REAS Report : Residential Market Report Q4 2010) : the return was “ visible in all key market phenomena: mechanisms of granting mortgages, the scale of supply, as well as the demand demonstrating itself both in the behavior of purchasers and the transactions made”.



**Number of unsold units in major Polish Cities 2010**  
Source : REAS Report : Residential Market Report Q4 2010



## 2011 outlook and onwards

As supply and demand stabilized in 2010, Polish residential market and in particular Warsaw is expected to return to a normal pattern with maybe still a consolidation phase in the market for the first half of 2011.

### 2.2.5 Retail market in Budapest

#### 2005-2012 Retail sales Growth in Hungary

Source : Colliers Hungary, Focus Economics



## Historical perspective

Retail sales were severely hit by the crisis and modestly bounced back in 2010. 2011-2012 should be in positive territory with 2-3% yearly growth.

As a consequence of the slowdown of sales and other financial problems, developers scaled back development plans. Only one new center opened in 2010: Corvin Center of 34,500 sqm GLA. Very few completions are forecast in downtown Budapest :

- Orco's Vaci 1;
- CET along the Danube (12,000 sqm GLA) delivery Q3 2011;
- Europeum on Blaha Lujza (6,000 sqm) delivery Q2 2011.

## 2011 Outlook and onwards

- As the market remains challenging and products scare, retailers wishing to develop/or relocate are very picky on the choice of the location and tend to favor safe bets in particular Vaci Utca or Andrassy Utca that guarantee sufficient footfall and visibility;
- Facial rents should stay around current levels while incentives should put pressure on economic rents

Given the premium given to location, the gap between prime properties and secondary location will widen.



### **2.2.6 Office market in Düsseldorf**

Düsseldorf holds a very strong position in the real estate landscape in Germany both in terms of users and corporations and for real estate investors.

*NB: in the particular case of Düsseldorf, it is meaningful to refer here to "prime rents" as the asset Orco owns (ie "Sky Office") fits perfectly within this definition.*

#### **Historical perspective** (Source : Trombello-Colliers) :

Düsseldorf was not spared by the global financial crisis, but whereas most of European cities showed only signs of recovery in 2010, Düsseldorf recorded a solid year with:

- Increased take-up of 89% YoY to 340,000 sqm back to 2008 level (371,000 sqm) and 75% from the peak in 2007;
- Resilience of both prime and average rent to respectively EUR 23.0 and EUR 14.3 sqm/month vs EUR 22.0 and EUR 13.7 in 2007;
- Slight increase of vacancy to 11.5%;
- Investment of EUR 1.35 Billion up 56% vs 2009 and 2008;
- On qualitative side: a majority of IT and consulting take-up (52%);
- On the letting side : a solid number of transactions above 5,000 sqm : 8 closed in 2010 for a 43% share of all the take-up;
- On the investment side: again high significance of selected few assets: the five biggest deals in 2010 represent 50% of the whole transaction volume.

#### **2011 outlook and onwards**

- The good trend recorded in 2010 should keep on, so Orco anticipates a very good letting year (ca 350,000 sqm) as well as increased investment activity;
- Prime rent should stay at around EUR 23-24 /sqm/month

## **3. Group strategy and objectives**

### ***3.1 Implementation of the safeguard plan***

By judgment of the *Tribunal de Commerce de Paris* (the "Court") dated 25 March 2009 and pursuant to the European Regulation n°1346/2000 and articles L.620-1 *et seq.* of the French Commercial Code, the Company was placed under a Safeguard Procedure (*Procédure de Sauvegarde*) in Paris, France, where the Company's center of main interests was found by the Court to be located, for an initial "observation period" of six months, which was later extended twice until 25 June 2010. During this observation period, the Company was entitled to continue its activities without paying the liabilities it incurred prior to the judgment opening the procedure, but any liability incurred after the judgment opening the procedure (i.e. 25 March 2009) had to be paid by the Company as and when it fell due. Under the protection of the Safeguard Procedure, the Company made significant progress in implementing its strategic conversion and financial restructuring plan. The second extension was granted by the Court to allow the Company to finalize its Safeguard plan and communicate it to the creditors. The Safeguard plan was circularized to creditors on 31 March 2010. The details of the Safeguard plan were published in the management report accompanying the 2009 consolidated financial statements.



### 3.1.1 Approval of Safeguard plan

On 19 May 2010, the Court approved the Company's Safeguard plan. This plan combines a strategic and operational restructuring and a debt rescheduling plan. The rescheduling plan aims at repaying 100% of the admitted claims (including nominal, accrued interests, and interests to accrue during the Safeguard plan) over ten years as per the schedule below, with effect from 30 April 2011 and with a first repayment on 30 April 2011. This repayment schedule is consistent with the Company's business plan and reflects the necessity for the Group to invest in its current development projects, land bank and assets so as to generate the future cash flows allowing the repayment of all liabilities.

Year	2011	2012	2013	2014	2015
% of the total liability	2%	5%	5%	5%	5%

Year	2016	2017	2018	2019	2020
% of the total liability	5%	10%	14%	20%	29%

The Court appointed Maître Laurent le Guernevé as "*Commissaire à l'exécution du plan*" in charge of overseeing the performance in the implementation of the Safeguard plan by the Company. Maître Le Guernevé will more specifically be in charge of distributing among the Company's creditors the amounts that are due to them under the Safeguard plan. The judgment approving the Safeguard plan ended the observation period opened on 25 March 2009.

### 3.1.2 Impact of the Safeguard plan approval on financial statements

In line with IFRS standards, the rescheduling of the existing bond debt led to the de-recognition of the existing amortized value and accrued interests amounting to EUR 406.0 Million as at 19 May 2010. The counterpart is the recognition of the market value of the new termed out liability.

As a result of the high effective interest rate applicable to the Company (23.1%, as determined in a report established by Grant Thornton – an external valuator), the fair value as at 19 May 2010 of the bonds held by third parties amounts to EUR 136.4 Million, with the difference of EUR 269.6 Million being recognized as a one-off gain.

Until the end of the Safeguard plan, the difference between the market value and the amount to be repaid will accrue through the income statement on the basis of the effective interest rate method. The interest expense of each period (30 April to 30 April) corresponds to the effective interest of 23.1% applied to the bonds' amortized value after repayment. This amount of interest will increase the value of the bonds on the balance on which the interest will be calculated the next period. The interest expense is therefore set to increase each year. On that basis, the Safeguard rescheduling is set to increase from EUR 30.8 Million (if no Safeguard rescheduling) to EUR 34.4 Million over 2011 and EUR 38.5 Million over 2012 (if the amount of bonds in circulation remains the same).

The future interest expenses (based on the value as at 19 May 2010 and bonds held by third parties as at December 2010) that will be accrued on OPG bonds from 2010 to 2020 are presented in the table below (in EUR Million):

Interests expenses	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
OPG Bonds	18,1	33,3	37,3	40,8	43,4	46,7	51,5	53,0	49,7	39,0	12,1	424,9





### **3.1.3 Progress made in the implementation of the Safeguard plan**

The Company has started the implementation of the Safeguard plan and has been presenting the balance sheet and treasury position in line with Court requirements, in order to confirm its ability to respect the approved debt repayment calendar.

The Safeguard plan includes potential exercise of guarantees by banks financing assets located in special purpose vehicles where applicable. As of the date of publication of this management report no such guarantees have been exercised reducing the amount of the first installment.

As of December 2010, no cash repayment has been made pursuant to the Safeguard plan. The first installment of EUR 8.2 Million is to take place on 30 April 2011, according to the approved Safeguard plan. The cash position as of year-end and the cash generated with the Q1 2011 transactions should allow the Company to cover the first installment.

### **3.1.4 Third party opposition to the judgment approving the Safeguard plan**

On 10 June 2010, a third party filed an opposition with the Commercial Court of Paris regarding the 19 May 2010 judgment approving the Company's Safeguard plan.

This third party opposition was filed by Maitre François Kopf attorney for bondholder representative for the "OBSAR 2012"(ISIN FR0010249599), "convertible 2013" (ISIN FR0010333302), and "OBSAR 2014" (ISIN XS0291838992 and XS029184062). This third party opposition contests the maximum bond liability to be reimbursed within the Safeguard plan.

As long as the Court has not rendered a decision on the third party opposition, the underlying judgment approving the Safeguard plan is fully effective.

The Court hearing was deferred until May 2011. If the creditors are successful in challenging the Safeguard plan, the Court may determine to put the Company in a rehabilitation or judicial liquidation proceeding. A rehabilitation proceeding or judicial liquidation may materially adversely affect the Group's business, financial condition, results of operations or prospects. The Company sees the risk of this opposition being accepted as remote.

## **3.2 Strategy update and 2011 outlook**

The Group's strategic objectives for its assets are :

- in the short term, to sell completed residential projects in order to generate cash (Klonowa, Mostecka, etc.);
- to implement the strategies of land development (Bubny, Benice, Nupaky, etc.) which are less capital intensive than integrated property development
- to take advantage of the progressive recovery in the institutional property markets to sell non-strategic or mature assets (like healthcare or H2 Office in 2010, Sky and possibly RFE in 2011)
- to maintain investment on assets with high appreciation potential, even if cash flow negative (like Vaci, Bubenska, Dunaj etc. ) to undertake the investments required for value creation of development projects and investment assets (Zlota, Bubny, Benice etc.)
- to acquire assets where the company has competitive advantages (ex business parks in Berlin or strategically located land in its core CEE countries)

The shift towards a more stable Group increasingly anchored on its investment properties shall continue, including future acquisitions. The development division, which may be carved out, shall



focus on specific major urban land mixed developments, while hospitality shall find new sources of financing for its growth.

The Group corporate strategy remains :

- to accelerate the separation and lisibility between businesses
- to continue deleverage of the Group (which came down from 84 to 67% in 2010) and particularly Germany
- to position the Group for further growth, while providing superior shareholder returns
- to centralize corporate management functions in Paris office

In 2011, the delivery of Vaci 1 in Budapest is expected, continued progress in construction and sales of Zlota 44 project, additional asset disposals (including Sky Office in Dusseldorf), launch of selected residential projects (Benice), and the ground-breaking of Bubny project (first phase) together with JV partners.

## 4. 2010 and post-closing key events

### **4.1 Capital increases by 3.1 Million new shares for a total equity amount of EUR 16.2 Million and their legal challenge**

In April 2010 the Company completed three different capital increases for a total equity amount of EUR 16.2 Million. The new investors are professional investment funds, such as Axa Investment Managers, Neptune Invest, Alandia Investissements, Lansdowne Capital, Hillgrove Investments Group Limited and Finplat. A total of 3,110,000 new ordinary shares has been issued, priced at EUR 5.61 (for the first capital increase– 1,090,000 shares) and EUR 5.00 (for the second and third capital increases– 1,420,000 and 600,000 respectively). The price per share in the second and third capital increases reflects the fact that the new shares were not immediately admitted to trading and have remained recorded, as nominee account ("*compte nominatif pur*") in the register until approval of the prospectus by the *Commission de Surveillance du Secteur Financier* ("CSSF") in Luxembourg and their admission for trading on the regulated markets of NYSE Euronext in Paris, the Prague Stock Exchange, the Warsaw Stock Exchange and the Budapest Stock Exchange.

On 24 January 2011, the CSSF approved the prospectus for the new shares issued in the second and third capital increases. The prospectus has been duly passported with the French *Autorité des marchés financiers* on 25 January 2011. Consequently, the Company applied for listing the corresponding shares for trading on the regulated markets of NYSE Euronext in Paris, the Prague Stock Exchange, the Warsaw Stock Exchange and the Budapest Stock Exchange. As of the publication of this report, all four above-mentioned stock exchanges admitted the 2,020,000 ordinary shares of the Company for trading.

The April 2010 capital increases were legally challenged by certain shareholders. Some Company's minority shareholders acting in concert, Millenius Investments S.A., Clannathone Stern S.A. and Bugle Investments Ltd introduced claims against the Company and its new shareholders with the aim to cancel the capital increases.

On 22 February 2011 the Company announced that a settlement agreement was reached by Orco Property Group and Millenius, Fideicom and Bugle (collectively 'the Parties'). As a result,



the parties have agreed to end the legal claims which aimed to cancel the resolutions adopted by the General Assembly of 8 July, 2010 and the capital increases of 6, 8 and 14 April, 2010. Millenius, Fideicom, and Bugle have formally and irrevocably agreed to withdraw from all legal proceedings and abandon the positions they took during the course of these proceedings. Orco Property Group has accepted their withdrawal and abandonment without reservation.

#### ***4.2 Renewed mandates for the Board of Directors***

On the General Assembly held on 26 April 2010 in Capellen, Luxembourg, where approximately 43% of the shareholders' voting rights were present and/or represented, the shareholders confirmed their confidence in the Company's Board of Directors, by renewing the mandate of all its members for another three years. As such, the following members of the Board of Directors were re-appointed: Jean-François Ott (chairman), Ales Vobruba, Silvano Pedretti, Bernard Kleiner, Nicolas Tommasini, Alexis Juan, Robert Couke, Guy Wallier, Ott&Co, S.P.M.B., Prosperita and Geofin.

On 19 May 2010 S.P.M.B., a Czech legal entity represented by Ms. Eva Janečková, acting as its permanent legal representative, announced to the Company its resignation from the Board of Directors. S.P.M.B. was elected to the Company's Board of Directors by the General Assembly held on 8 July 2009. The Board of Directors of the Company acknowledged resignation of S.P.M.B during its meeting of 20 May 2010.

#### ***4.3 Vaci 1: Top up (structural completion) in October 2010***

The Vaci 1 department store project, or the former Budapest Stock Exchange building located on the main highstreet square of Budapest, with an entire area of 22,737 sqm GFA and 11,378 sqm GLA has been structurally completed in October 2010. The planned delivery of this retail emporium is expected to occur in September 2011.

The project is 45% pre-leased or under advanced negotiations with internationally renowned retail chains and brands. As part of the signed agreements, a total area of 2,423 sqm was already pre-let to restaurant operators and other tenants providing catering services.

#### ***4.4 Złota 44 building permit revalidated***

On 15 March 2010, the Supreme Administrative Court ruled that the zoning permit was valid, thus preventing further appeals regarding zoning. In October 2010 the Governor of the Mazovian Voivodship has confirmed the validity and effectiveness of the building permit for Złota 44 apartments' project in the center of Warsaw. In early December 2010, the Group finalized the general contractor tender by appointing Inso/Consortio Cooperative Costruzioni (CCC) consortium to complete the development of the luxury residential tower Złota 44 designed by Daniel Libeskind. The global construction costs following the new tender have decreased by 19% compared to the previous contract, i.e. a cost reduction of almost PLN 80 Million.

Negotiations on extension of the existing loan facility have been finalized in early 2011 with the signature of a detailed terms sheet. Sales were reopened in December 2010 at the same prices as in 2008. At the end of December 2010, the project was 75.8% pre-sold in terms of total area.

Constructions works were re-launched in January 2011. While the one year long unfortunate administrative and legal delays have made it very challenging, the Group will do its utmost to complete the project as shell and core for the EURO 2012 championship which will take place in Poland.



#### ***4.5 Leipziger Platz sale and profit sharing***

The land plot at Leipziger Platz embodies the last undeveloped piece of land at the gateway between east and west in the very centre of Berlin, in the immediate vicinity of the Brandenburg Gate. Orco Germany S.A. ("Orco Germany", together with its controlled subsidiaries), held at 59% by the Company, has owned this 2ha site since 2007, when it was purchased for EUR 75.0 Million and valued as at December 2009 by DTZ at EUR 84 Million.

In November 2010, ORCO Germany confirmed that it would sell the project to High Gain House Investments GmbH (HGHI), a local developer, while remaining involved in the development of the plot into a mixed project made of a shopping centre, offices and residential units for a total of 72,600 sqm NLA. On 31 January 2011, the transaction has been closed for a net sales price of EUR 89 Million (for the first three instalments), plus an additional payment of EUR 30 Million payable after finalization of the project.

The transaction is executed in several instalments. The first part of the sales price of EUR 67 Million has been paid in January 2011 and has been solely used to repay the bank debt for the project. Part of the second instalment has been paid in February 2011 according to contract. A third part is deferred to cover for project development responsibilities and risks overtaken by ORCO for a maximum amount of EUR 10 Million. The last additional payment will become due after finalization of the project, expected in 2014. As the transaction was completed after year-end, it will be accounted in Q1 2011 accounts, as an asset sale (not included in turn-over). The total development costs are estimated at approx. EUR 400 Million. More than 85% of the commercial space has already been pre-leased. Excavation works began end of January 2011.

#### ***4.6 Restructuring of AIG shareholder loan***

In July 2010, the Company reached an agreement with AIG Global Real Estate Europe ('AIG') and Erste Bank for the restructuring of the shareholder loans granted to its Central European hospitality joint venture and the long term bank financing. The Company recovered upfront EUR 6.7 Million cash and secured increased priority payments of future free cash flows, while Hospitality Invest S.A. is fully recapitalized and the long term bank loan secured.

#### ***4.7 Dispute with Croatian Privatization Fund ("CPF")***

In 2005, the Company entered into a Shareholders' Agreement with the Croatian Privatization Fund ("CPF") regarding the formerly state owned company Suncani Hvar dd.

In sharp contrast to the Group's financial (approximately EUR 60 Million) and managerial commitment, the CPF repeatedly breached many of its contractual obligations, notably with respect to solving ownership issues that were inherited from the former communist regime, participating in Supervisory Board decisions, or simply meeting with the Company representatives. As a result, the CPF's conduct blocked both the necessary restructuring and the development of Suncani Hvar dd.

On 12 July 2010, slightly before the expiration date of the agreement, the CPF sent a formal letter improperly alleging that ORCO breached the terms of the agreement and that as such, the CPF was entitled to unilaterally terminate it. At the same time, the CPF then launched a widespread media campaign against both ORCO and Suncani Hvar dd.



On 6 January 2011 the Company filed a Notice of Dispute with the Croatian Prime Minister's office as a first step of an international arbitration pursuant to the Belgo/Luxembourg-Croatia and France-Croatia bilateral treaties.

On 15 March 2011 an announcement was made that the major shareholders of the company Sunčani Hvar, ORCO Property Group 55.6% and Croatian Privatization Fund 32%, reached an agreement on resolving the above-mentioned outstanding issues and agreed on future cooperation.

The parties have agreed to convene a General Meeting of Shareholders in April 2011 in order to reduce the indebtedness of the Company by HRK 41.21 Million by swapping parts of the existing shareholders loans into the Company's equity and to release a total amount of HRK 22.2 Million liability in shareholder loans interest, which the two major shareholders have agreed to write-off.

In addition, in order to resolve shareholders' disputes from the past, an independent body "Expert Group" will be established. At the same time, the CPF has committed to tackle all unresolved ownership disputes within the next 12 months.

Furthermore, a framework for the joint assistance of the Company has been agreed, ensuring the continuation of its business, which sees the CPF matching Orco's shareholder loan by providing a new loan to the Company in the amount of 19.9 Million HRK.

#### ***4.8 Asset and commercial developments disposals***

Throughout the year 2010, EUR 192 Million of asset disposals and commercial development sales have been realized across the Group.

Asset disposals: 9 buildings in Germany and Czech Republic, some residential apartments in Prague have been sold and transferred for a total amount of EUR 70 Million (with average sales prices in line with DTZ valuation).

After accounts closing, only Wertheim was completed as described in note 4.5 of this management report.

Commercial development sales: a total of six commercial projects in Germany, one in Warsaw (Peugeot) and three in Prague (Vysocany Gate, Rudna II and Bubny North East Corner) have been sold from inventory in 2010, generating revenues in amount of EUR 121 Million and EUR 13 Million gross margin.

For more details on asset and commercial developments disposals, please refer to section 5 of this report.



#### **4.9 Signing of JV agreement in Rubin project, Moscow**

In December 2010 the Company reached an agreement to gain 10% ownership in Rubin retail project in Moscow in exchange of a \$25 Million advance payment signed back in 2008. Rubin is a large scale retail asset with a Net Leasable Area of 55,385 sqm which was completed at the end of 2009. The asset is almost fully occupied by international retail brands such Auchan. The total value of Rubin project as of December 2010 reached EUR 175 Million, based on DTZ valuation report.

#### **4.10 Acquisition of treasury shares**

By a letter dated February 21, 2011, Orco Property Group received an official notification from Office II Invest S.A., a société anonyme, indirectly owned by Orco Property Group, incorporated under Luxembourg law, with registered office at 38, Parc d'Activités Capellen, L- 8308 Capellen, Grand Duchy of Luxembourg, registered with the Register of Commerce and Companies under number B 141.198 and whose economic beneficiary is Orco Property Group, according to which Office II Invest S.A. holds directly 624,425 ordinary shares (ISIN LU0122624777) of Orco Property Group, equal to 4,4% of the total voting rights in Orco Property Group. Since Office II Invest S.A. is indirectly owned by Orco Property Group, the voting rights attached to 624,425 shares held by Office II Invest are suspended.

### **5. Gross Asset Value and NAV**

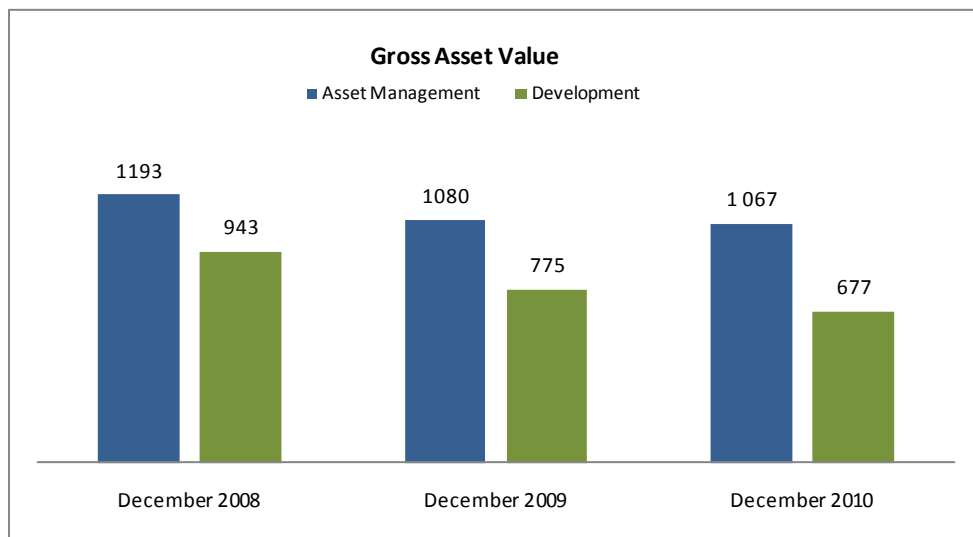
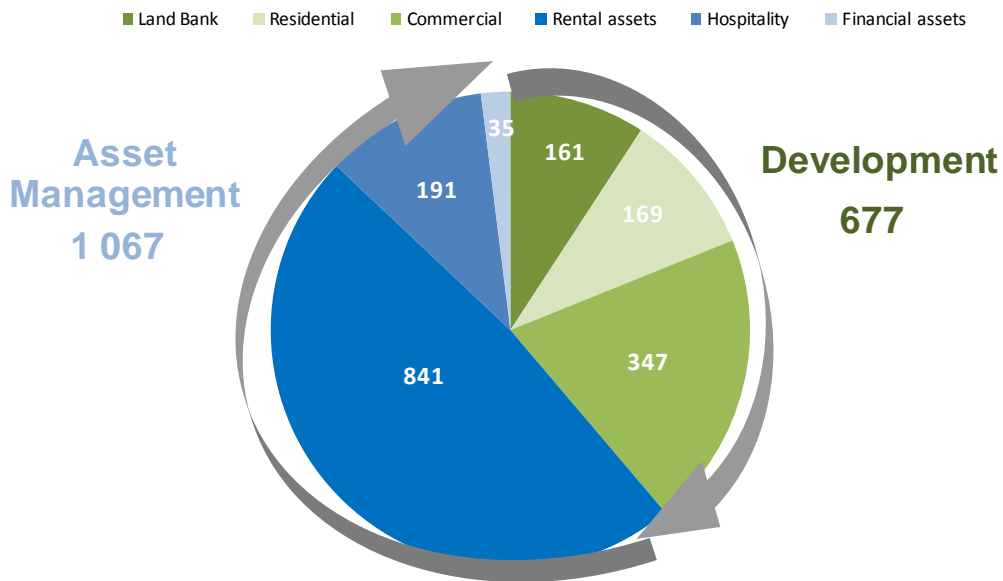
The Gross Asset Value ("GAV") corresponds to the sum of fair value of all real estate assets held by the Group on the basis of the consolidation scope and real estate financial investments (being shares in real estate funds, loans to third parties active in real estate or shares in non consolidated real estate companies). The GAV calculation has been modified in 2010 in order to integrate the real estate financial investments with an impact on 2010 GAV of EUR 35 Million and EUR 40 Million increase of the 2009 GAV.

The IFRS balance sheet only integrates the investment properties at their fair value. The GAV is at least once a year (generally at December closing) determined on the basis of a valuation report established by an independent expert.

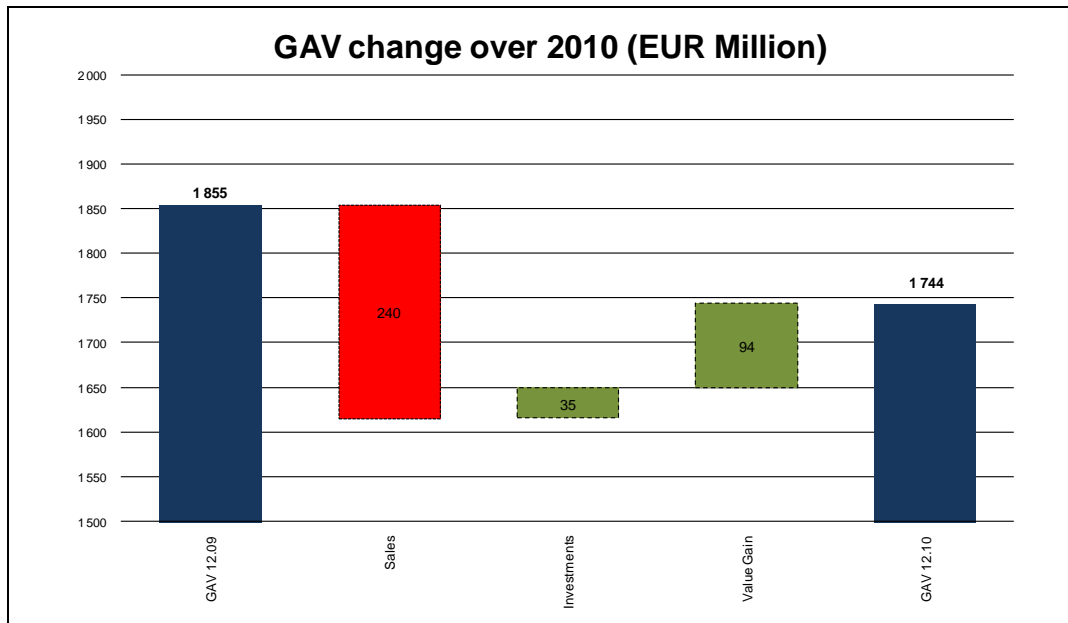
As of December 2010, on the basis of a review of the real estate portfolio by DTZ (an independent real estate consultancy firm) and the fair value of the real estate financial investments the GAV went from EUR 1,855 Million as of December 2009 down to EUR 1,744 Million. The GAV breaks down to 61% for properties under Asset management and 39% of projects and land bank for the Development business line.

The Group sold in 2010 or closed sales agreements with expected closing in 2011 for EUR 121 Million of commercial developments and EUR 185 Million of real estate assets (rental buildings and land plots), 10% above December 2009 fair value.

## GAV by Business Line as of Dec 2010 (EUR Million)



This year on year variation results from the exit of properties consequently to asset and development sales amounting to EUR 240 Million, additional investment in projects under construction and permitting of land bank amounting to EUR 35 Million and a net positive change in market value for EUR 94 Million. GAV as of December 2009 changed due to new asset allocation among Asset Management and Development categories and the incorporation of EUR 40 Million of financial assets.



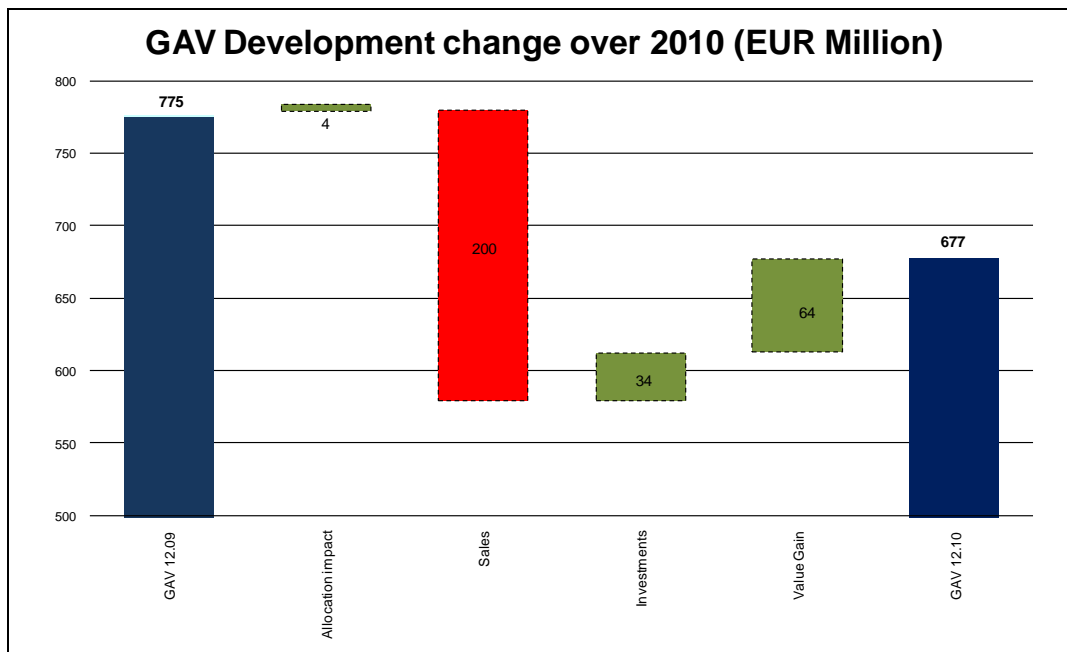
## 5.1 Development

The Group's development portfolio consists of land bank, real estate properties designated as future development, residential and commercial developments to be sold or transferred to the Asset Management business line.

As of December 2010, the Group's development GAV amounts to EUR 677 Million (51% commercial developments, 25% of residential developments under construction, 24% of land bank). Czech and Polish projects represent respectively 34% and 15% of the development GAV while Germany still represents 39%.

The total value of the Development business line, corrected from sales and cash investments appreciated by EUR 64 Million during 2010, mainly driven by the strong value creation of the Group key land development Bubny with the sale of the north east corner demonstrating the potential value of the whole area.





### 5.1.1 Commercial developments

The commercial development portfolio consists of properties that the Company has developed or is developing across CEE region to keep and manage or sell. The ongoing and finished projects are office, retail or mixed-use projects but also land plots for which the Group acts as a land developer.

Throughout 2010, the Company worked on finalizing the construction of Vaci 1 while focusing on sales of completed commercial projects. The Group key land development Bubny is now categorized as a commercial development with the start of the master plan modification process after the official support of the municipality of Prague 7.

The GAV of commercial developments decreased to EUR 347 Million in December 2010 from EUR 373 Million in December 2009. The variation is due to:

- EUR 107 Million decrease due to sales closed over 2010.
- EUR 63 Million of net increase in market value.
- EUR 18 Million investments.



### Sales closed during 2010

The Group managed to sell several commercial properties with significant gross margins despite difficult market conditions.

Asset disposal	Description	Kind of deal	Date of Sale	Date of transfer	Sales price EUR Million	DTZ Value (31.12.2009) EUR Million	Variation Sales price vs DTZ	Loan balance at date of sales incl. Swap Costs EUR Million
Closed Transactions								
H20	Office development in Duisburg	asset	30/03/2010	01/06/2010	32,5	29	12,1%	24,8
German Healthcare assets (Health Care development)		share	Q2 2010	Q2 2010	40,5	38,6	4,9%	27,9
Minister Garten	Office	asset	27/03/2007	Q4 2010	11,1	11,2	-0,9%	0,0
Vysocany Gate	Office building in Prague	asset	29/11/2010	29/11/2010	19,8	21,2	-6,6%	0,0
North East Corner	Land close to the center of Prague, part of the Bubny plot	asset	29/11/2010	30/11/2010	7,9	1,9	315,8%	0,0
Rudna II	2 logistics halls at the edge of Prague	asset	13/08/2010	17/08/2010	5,5	4,7	17,0%	0,0
Peugeot Show room	Logistic building in Varsaw	asset	Q4 2010	Q4 2010	3,9	3,7	5,4%	0,0
<b>Transferred in 2010</b>					<b>121,2</b>	<b>110,3</b>	<b>9,9%</b>	<b>52,7</b>

(\*) including the plots of Trudering for EUR 1,9 Million

- H2 Office: the Project located in the inner harbour of Duisburg, Germany, comprises the second phase of the complete H2 project (phase 1 was finished and sold before the acquisition of Viterra by Orco Germany). This second phase was sold and transferred in Q2 2010 at a price of EUR 33 Million; this is 12% above the valuation estimated as at December 2009. An earn out is to be cashed in by end of 2011 depending of the level of occupancy achieved.
- German Healthcare assets is a portfolio of nursing homes acquired and re developed by the Group, located in the cities of Gütersloh, Oranienburg, Rostock, Munich, and Berlin. The assets were leased to experienced operators. The sale of these assets was completed in Q3 2010 as part of a portfolio deal. The selling price was EUR 40.5 Million; this is 4.9% higher than the market value estimated end of December 2009.
- Peugeot asset is a car showroom and repair centre of 4,030 sqm in a prime Warsaw location. It is leased to Peugeot Polska, for a fixed term of 10 years with possibility to extend for a further 10 years. The asset was sold for EUR 3.9 Million.
- Rudna II was sold in August 2010 and was composed of two logistic halls, 5 km west of Prague. Rudna Business Park on highway D5 is a multi-use industrial park with 150,000 sqm of leasable area spread over 15 buildings. At the time of the transaction the unit was let to 3 separate tenants on leases that expire between 2012 and 2014. The industrial hall comprises 10,755 sqm. The asset was sold for EUR 5.5 Million.
- Vysocany Gate is a class A office building of 12,000 sqm in Prague 9, Czech Republic. The location is well connected and the nearby area hosts new residential and commercial developments, as well as significant infrastructure such as the Sazka Arena. The project was constructed according to high specifications between Q3 2007 and Q2 2009. Vysocany Gate was sold in Q4 2010 to Skanska Property at a value of EUR 19.8 Million.
- North East Corner (NEC) : a 10,000 sqm part of project Bubny was sold at a price of EUR 7.9 Million to Skanska Property as part of the Bubny land development.
- Ministergarten is an office development in Berlin sold in 2007 and finally transferred to SFO in 2010 after payment of a final part of the selling price.



### Ongoing projects

As of year-end 2010, the Group is actively developing commercial projects in Germany, Russia, Hungary and Czech Republic.

Projects held in portfolio December 2010	Location	Asset type	Total area sqm	Construction completion	Total Capex 2010 EUR Million	Total Capex 2009 EUR Million	Reversion Potential
Sky Office	Dusseldorf	Office	33 142	2010	0,4	47,4	41%
Radischevskaya	Moscow	Office	1 852	Q3 2009	0	0,5	NA
Vaci I	Budapest	Retail	22 737	Q3 2011	13,8	4,3	4%
Bubny	Prague	Mixte	239 585	2020	3,3	1,6	
<b>TOTAL</b>			<b>297 316</b>		<b>17,5</b>	<b>53,8</b>	

- Sky Office is an 89-metre-high office tower located in Düsseldorf, Germany. This high end office building developed by the Group is Düsseldorf's dominant landmark. It is well connected and offers high level specifications to anchor tenants comprising McKinsey or Lovells. The property has a Net Leasable Area of 33,142 sqm across 23 floors and is currently 71% let. The average rental income for the rented space stands at 21.03 €/sqm. The Group is actively working on the sale and leasing the asset. Market value of the asset increased from EUR 135 Million in December 2009 to EUR 137.8 Million in December 2010 as a result of the improved occupancy of the asset.
- Radischevskaya office building located downtown Moscow, Russia, benefits from good transport links both for pedestrians and private car owners. The accommodation within the Property is over 4 levels. The building was constructed at the beginning of the 19th Century. In 2008, the Group started refurbishment works which were concluded in Q3 2009. The Property offers Net Leasable Area of 1,852 sqm, mainly office space. Market value of the asset increased from EUR 10.5 Million as of December 2009 up to EUR 11.2 Million as of December 2010.
- Vaci 1 (former Budapest Stock Exchange) is located at the corner of the busiest shopping street of Budapest. The Group contracted the French architect Christian Biecher to redesign this iconic building of Budapest into a multi-level fashion and gourmet Emporium meant to become an anchor for the city's main shopping district. The works began in the spring of 2008. After having been put on hold in April 2009, it restarted in November 2009. Located on the main high street square of Budapest, with an entire area of 22,737 sqm GFA and 11,378 sqm GLA, the Group will deliver the building in September 2011 while it finalized at 85% in March 2011. The project is currently 75.8% pre-leased or under advanced negotiations with internationally renowned retail chains and brands. As at December 2009, the fair value of the building was set at EUR 40.1 Million and at EUR 45.4 Million as at December 2010. Management believes in the very high potential of value accretion of this property after its opening and once rent increases can occur over the midterm.

- Bubny : the Project, transferred from the land bank portfolio to inventories, is a key mixed use land development with the start of the master plan modification process after the official support of the municipality of Prague 7. The Group is currently actively working on the master plan in order to be able to start concrete marketing of the plots and developments with a view to introduce the demand by the end of the first half of 2011. Located in Central Prague, the asset has a total area of 24 ha after the recent disposal of the North East Corner sold to Skanska for a future office development. As reflected in the approved Safeguard plan in 2010, the Company changed its development strategy which is now refocused around two main activities:
  - o Land development which consists in obtaining zoning permits on parcels and sell them once buildable. This activity has a shorter development process than the traditional real estate development and allows better margins on costs.
  - o Residential and commercial development projects realized in joint ventures. In that purpose significant progress was made in terms of land permitting and partnerships. Partnerships are now being sealed on the development of a retail scheme on a surface of 3 ha in Bubny.

The sale of the North East Corner (NEC), together with a term-sheet outlining the basis for a partnership on the development of a commercial centre signed early 2011 with a leading retail developer and operator, gave a sound basis to our independent expert estimate of the current fair value of the Project at a price of EUR 144 Million as of December 2010 to be compared with a market value of EUR 75 Million as of December 2009 with NEC included. This strong re valuation reflects the difficulty to value unique assets in absence of a meaningful amount of peer transactions and the conservative approach of the Group and its independent expert in each valuation process.

### **5.1.2 Residential development**

The Group residential developments are aimed at the middle and upper market segments in Prague, Warsaw and Bratislava. Given the difficult market conditions in 2009 and 2010, the Group refocused its strategy on key large projects such as Zlota 44 in Warsaw and Benice in Prague.

The decrease of EUR 66 Million year on year (December 2010 GAV amounting to EUR 169 Million compared to December 2009 EUR 235 Million) is driven by:

- EUR 53 Million decrease due to sales closed over 2010.
- EUR 19 Million of net decrease in market value.
- EUR 6 Million of investments.



### Projects finalized before 2010

The portfolio of projects which are contributing to the 2010 residential revenues is essentially made of 9 projects, most of them being completed in terms of construction in 2009.

Projects completed before 2010	Location	Asset type	Total Area sqm	% of unsold sqm	Market Value Dec 10 EUR Million
Feliz Residence	Warsaw	Apartments	4 619	34%	4,0
Mokotowska	Warsaw	Apartments	1 799	28%	2,8
Kosik*	Prague	Apartments	66 118	12%	9,1
Radotin	Prague 5	Land plots	19 718	43%	1,0
Citadella (Nove Dvory)	Prague 4	Apartments	7 693	18%	2,7
Michele	Miche - Prague 4	Apartments	3 954	9%	0,7
Plachta 3	Hradec Kralove	Apartments	5 727	19%	1,5
Le Mont	Špindlerův Mlýn	Apartments	4 048	20%	1,3
Parkville	Koliba / Bratislava	Apartments	10 894	59%	17,3
<b>TOTAL</b>			<b>124 570</b>	<b>23%</b>	<b>40,4</b>

\* The Group owns 50% of Kosic. The market value indicated is the market value of the 50% share of the Group.

- Feliz Residence: the Property is located in Ochota district of Warsaw. The development comprises a multi-family residential scheme inclusive of 40 apartments (4,434 sqm sellable area) and basement car parking for 44 parking spaces. The 4 storey buildings are finished to a high specification and incorporate intelligent and energy saving solutions. As of December 2010, 66% of the Project was sold.
- Mokotowska 59: the Property comprises a site of 722 sqm, located in the Śródmieście district of Warsaw, one of the City's most prestigious and prominent locations. This seven-floor building was previously used as a printing factory facility before being extended and offered a complete refurbishment. The Group changed the Property into a building comprising 14 luxurious apartments with high level features. The project is 72% sold as of December 2010.
- Kosik : the development is located in the south-east of Prague approximately 8km from Prague city centre, on the border of the areas Prague 15 and Prague 11. The Property is located adjacent to the street K Horkam in a predominantly residential area. Kosik is currently on its third phase (out of four) of a joint venture contracted with GE dedicated to the development of the site into an all inclusive residential area featuring commercial units, play grounds and sport facilities. The value indicated represents the market value of the remaining units which is owned by the Group at 50%. As end of December 2010, 88% of the apartments were sold.
- Radotin: the allotments are located in a pristine and tranquil part of Prague 5, neighboring a pleasant quarter of residential villas. The convenient location on the southern hill-side offers beautiful views of the area, including the Zbraslav Chateau and the Vltava River. There are numerous family houses in the area as well as a number of new luxurious developments next to the subject site. 19,718 sqm of land plots are currently commercialized. As of December 2010, 57% of the Project is sold.
- Citadella (Nove Dvory): the Property is located approximately 4 km from Prague city centre, in the predominantly residential area of Prague 4. There is also a large green



coverage in the site vicinity. Construction commenced in Q3 2007 and was finalized in 2009. This is a single 13 storey building, with an additional two underground levels for car parking. The completed project comprises 8,700 sq m of sellable area inclusive of 100 apartments and 100 car parking spaces, as well as terrace and cellar space. As of December 2010, 82% of the residential areas were sold.

- Tyrsuv Vrch (Michle): the Property is located in the north of the Michle district, in Prague 4. The site is approximately 3km from Prague city centre, in predominantly residential vicinity. The building has undergone redevelopment. It comprises 49 apartments, and 58 car parking spaces. The total net area of the scheme (including cellar space) is 3,954 sqm. As of December 2010, 91% of the residential areas were sold.
- Plachta 3: the scheme comprises a large residential development, approximately 2.5 km south-east of Hradec Králové city centre and 120 km east of Prague. The scheme is in close proximity to the residential area of Malsovice and the Futurum Shopping Centre is a short walk from the site. The development comprises a total of four phases. Phase III was completed in Q4 2009 and accommodates 89 apartments. The scheme also incorporates 48 parking spaces and 78 cellar/storage areas. As of December 2010, 15 apartments remain unsold.
- Le Mont: the Project Bedrichov is located in Spindleruv Mlyn, the Czech Republic's most affluent ski resort located ca 2.5 hours' drive from Prague. The ski slopes and the city centre are at walking distance from the Property. This Property is comprised of two 9 storeys (plus attic) apartment buildings with a total gross external floor area of approximately 4,800 sq m. Both buildings are currently used as budget accommodation for tourists visiting the location, in both the summer and winter seasons. The project has delivered ca. 4,048 sq m of apartments for mid to high end customers, in total 70 flats. As of December 2010, 80% of the residential area was sold.
- Parkville: the project is located on the Koliba hill on the North edge of Bratislava on an area of 14,300 sqm. The location benefits from excellent views of the city. The Project offers the best of contemporary residential architecture and aims at mid to high end customers. The Project consists of 10 residential buildings with 91 flats, 157 parking spaces. Construction finished in December 2008 and is 41% sold as of December 2010.

### **Projects finalized in 2010**

During 2010, construction works were finalized on two residential projects located in Poland and Czech Republic, representing a total of 298 units.

Projects completed in 2010	Location	Asset type	Total Area sqm	Sold sqm	% of unsold sqm	Market Value Dec 10 EUR Million
America 11	Prague 2	Apartments	828	122	85%	2,3
Klonow a Aleja	Warsaw	Apartments	18 311	10 224	44%	15,2
<b>TOTAL</b>			<b>19 139</b>	<b>10 346</b>	<b>46%</b>	<b>17,5</b>

- America 11 : the Property is located in the heart of the Vinohrady district, one of the city's most desirable residential areas. The Property is constructed over 6 storeys including an attic floor and an additional basement level for storage purposes and comprises 14 apartments. The Property is sold as shell and core. Construction works were finalized during the second half of 2010. As of December 2010, 15% of the residential area is sold.



- Klonowa Aleja : the Property is located in the Targówek district of Warsaw, Poland. The site is developed with a residential scheme that was completed at the beginning of the year 2010 near the park Leśny Bródno. All the amenities required for a comfortable life are within reach. The development comprises 284 apartments as well as retail accommodation and underground car parking facilities (402 parking spaces). The buildings incorporate new power saving and environmental friendly solutions. As of December 2010, 56% of the residential areas are sold.

### **Projects under construction**

As of December 2010, construction works were in progress on the following residential developments: Benice 1B, Mostecka and Zlota 44.

Projects under construction	Location	Asset type	Total Area sqm	% of Pre-sold sqm	Market Value Dec 10 EUR Million
Benice 1 B	Prague	Houses	7 393	4%	8,7
Mostecka	Prague	Apartments	3 170	5%	13,1
Zlota 44	Warsaw	Apartments	37 903	24%	56,8
<b>TOTAL</b>			<b>48 466</b>	<b>20%</b>	<b>78,6</b>

- Benice 1B : the Project Benice is a large scale residential development located in the south east of Prague, Czech Republic, in the city-section Benice about 15 kilometres from the city center. The project is located on a 66.2 ha plot divided into phases. After the completion of the commercialization of part A of the first phase during Q3 2010, the Group is now marketing part B. The neighborhood is made of other luxurious residential housing. Phase 1B will comprises 32 semi-attached and detached houses constructed to a shell and core specification with gardens and commercial units.
- Mostecka : the development site is located at Mostecka Street 21, approximately 150 m from Charles Bridge and in close proximity to Malostranske Square. The development is mixed use with ground floors and inner courtyard being designated for retail and commercial space. In Mala Strana, Prague 1 neighborhood buildings comprise retails, restaurants on ground floor and residential or hotel premises above. The Group redeveloped the Property into a high end residential property with a very unique location. The 55 apartments are marketed as shell and core. As of December 2010, 5% of the Project was under presale contracts.
- Zlota 44 is a luxury residential tower located in downtown Warsaw. The first project designed by internationally acclaimed architect Daniel Libeskind in Poland is an outstanding 192 m (630 ft) high, 54-storey shining high-rise in the very heart of Warsaw. In addition to 251 luxury apartments it incorporates a retail area, an amenity floor and secure parking. Zlota 44 is now perceived in Poland as an iconic development project of Warsaw, meant to reshape the skyline of the capital city of the strongest growing economy in Central Europe. Each apartment is created as a true 'living' space, capable of adapting to the needs of its inhabitants. Construction works on Zlota 44 residential tower in Warsaw were suspended in summer 2009, due to claims on both zoning and building permits. In October 2010 the Governor of the Mazovian Voivodship has confirmed the validity and effectiveness of the building permit. The construction restarted in January 2011 (please refer to chapter 4 for details) at a construction price negotiated 19% or PLN 79 Million down compared to the initial contract. At the end of December 2010, the project was 24% pre-sold in terms of total area. The commercialization of the unsold units has now re started.



### 5.1.3 Land bank and assimilated

The total GAV of the land bank and assimilated (including empty buildings and land plots to develop or redevelop classified in the IFRS financial information under investment properties or inventories), decreased from EUR 283 Million in December 2009 down to EUR 161 Million. This can be explained by the new status of Bubny, formerly a land bank and now categorized as commercial development and by asset sales. On a like-for-like basis, the value of the land bank and assimilated of the Group is stable at a level of EUR 161 Million as of December 2010 (versus EUR 171 Million as of December 2009)

This decrease of EUR 10 Million year on year is driven by:

- EUR 40 Million decrease due to sales closed over 2010.
- EUR 20 Million of net increase in market value.
- EUR 10 Million of investments.

As of December 2010, the Group held some 3.6 Million sqm of land plots (0.4 Million sqm are zoned and 3.3 Million sqm are unzoned) in its land bank and assimilated which development constitutes one of the main leverage of its 10 years business plan. Land is considered zoned when there is a valid building or planning permit, or when existing master/urban plan allows construction in line with the Group intentions. Land is considered unzoned when there is no master/urban plan in place or when it needs to be changed.

Land Bank	as of December 31, 2010	Area (sqm)
Czech Republic	zoned	123 926
	unzoned	1 488 560
Poland	zoned	194 164
	unzoned	253 461
Russia	zoned	0
	unzoned	1 454 837
Germany	zoned	55 929
	unzoned	0
Croatia	zoned	0
	unzoned	36 579
Total	zoned	374 019
	unzoned	3 233 437
<b>Grand Total</b>	<b>zoned &amp; unzoned</b>	<b>3 607 456</b>

In the Czech Republic, besides several zoned projects (Kamelie in Prague 8, U hranic and Kosik 3b in Prague 10, Vavrenova in Prague 4) the Group owns a number of unzoned sites with great potential. The Company is now working on the zoning on Benice (phases 2-5), a plot of 62.4 ha located in the south of Prague.



### **Land bank and assimilated disposal**

Asset disposal	Description	Kind of deal	Date of Sale	Date of transfer	Sales price EUR Million	DTZ Value (31.12.2009) EUR Million	Variation Sales price vs DTZ	Loan balance at date of sales incl. Swap Costs EUR Million
<b>Closed Transactions</b>								
Cumberland	empty mixed use building in Berlin	asset	09/07/2010	25/08/2010	28,7	28,0	2,5%	20,0
<b>Transferred in 2010</b>					28,7	28,0	2,5%	20,0
Leipziger Platz	plot	Land bank	Q4 2010	Q1 2011	112,7	84,3	33,7%	66,0
Ostrava Na Frantisku	plot	Land bank	Q1 2010	Q1 2011	1,5	1,5	0,0%	0,0
Byalistock	plot	Land Bank	Q4 2010	Q1 2011	2,1	2,0	5,0%	0,0
<b>Not transferred in 2010</b>					116,3	87,8	32,5%	66,0

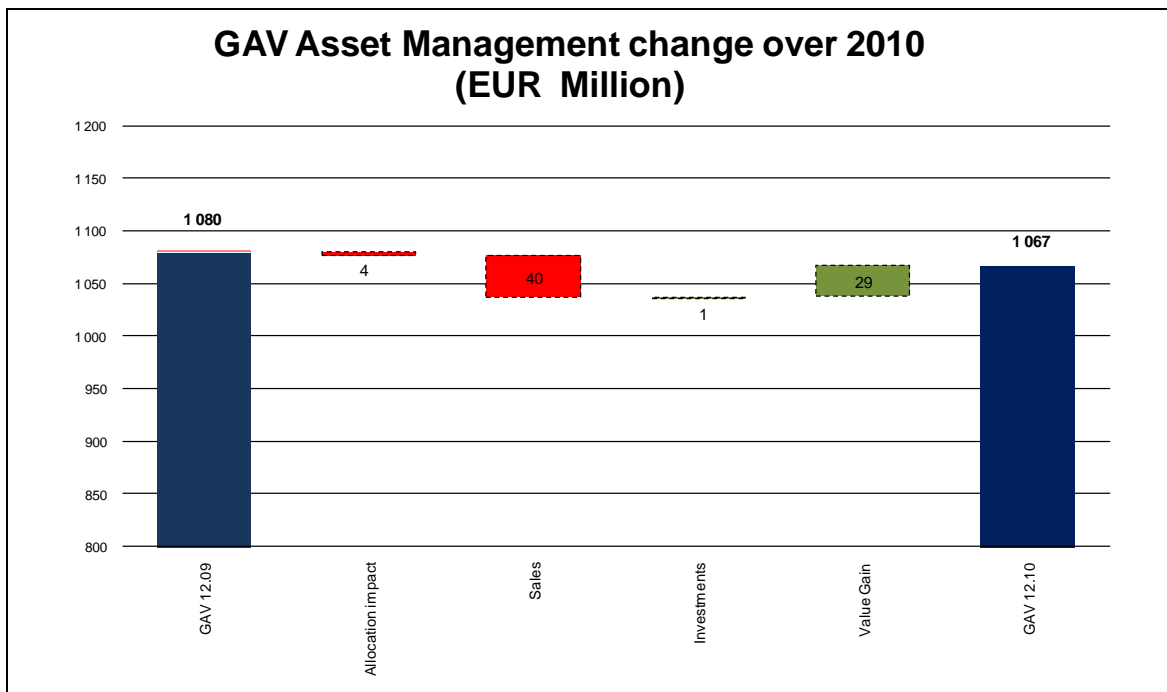
The Group decided to not develop and sold Cumberland Palace, located on the Kurfürstendamm in Berlin.

The land plot at Leipziger Platz embodies the last undeveloped piece of land at the gateway between east and west in the centre of Berlin. ORCO Germany purchased the 20,600 sqm plot in 2007 for EUR 75 Million. The site is zoned for a mixed area of 72,600 sqm (retail, office and residential space). The sale of Leipziger Platz by Orco Germany was signed before the end of 2010 as described in point 4.5.

### **5.2 Asset Management**

The Group Asset Management business line (formerly named 'Commercial Investment Properties') is comprised of rental assets, hospitality assets and Endurance real estate fund management (generating income from management fees as fund manager). Asset management gross asset value includes financial assets for an amount of EUR 40 Million as of December 2009 and EUR 35 Million as of December 2010.

As of December 2010, the GAV of the Group asset management represented EUR 1,067 Million in value (79% for rental assets, 18% for hospitality assets and 3% of financial assets). Corrected from sales of assets and investments, the fair value of the Asset Management portfolio has increased by EUR 29 Million.



### 5.2.1 The rental assets

The Group rental portfolio encompasses assets focusing on commercial buildings. As of December 2010, the rental assets' value is estimated at EUR 841 Million. In December 2009 the GAV of rental assets amounted to EUR 849 Million. The EUR 8 Million change is split in:

- EUR 40 Million decrease due to disposals of assets closed over 2010;
- EUR 1 Million of investment;
- EUR 31 Million of positive net change in market value.

#### **Operational performance**

Over the year 2010, the letting activity has been challenging due to a still weak economic context in Central Europe, particularly in Budapest. The demand for office or retail space remains low in comparison with previous years but is now stable or increasing on our main markets such as in Budapest or Berlin. Landlords are still under pressure to provide incentives in order to attract new tenants and prevent current tenant from leaving, particularly in non central locations. On the other hand supply of new rental space is historically low as fewer new projects were launched in the past years in the capital cities of Central Europe. As a result, vacancy should now remain stable or decrease depending on the ability of those cities to attract new activities.

During the first six months of 2010, the performance of the rental portfolio was negatively impacted by the expiration of several important leases in Central Europe, such as Ceska sporitelna in Bubenska, Prague (28,000 sqm office building, released as of January 2010), Budapest Bank (14,000 sqm office building, released by the main tenant in July 2010), Stribro Industrial Park (22,400 sqm released in June 2010). The process of reletting those assets is slowed down by the current status of the market; however the Group is confident in their fundamental attractiveness.



Investment properties in Central Europe experienced a decrease of occupancy since June 2010 from 71.8% down to 63.7% as of December 2010. This is explained by the sale of fully occupied asset like Jeremiasova and that June figures still included Stribro Industrial Park and the building of Budapest bank as fully leased. On a like-for-like basis, occupancy of the portfolio in central Europe improved from 57.2% in June 2010 to 63.2% in December 2010. The main drivers of this increase are to be found in Czech Republic with Bubenska and Stribro Industrial Park reaching respectively 37.1% (versus 24.1% in June 2010) and 37.6% (versus 0% in June 2010). In Slovakia, new tenants entered in the retail complex of Dunaj improving the attractiveness of an asset despite a still very high vacancy level.

In Prague, the letting activity in Hradcanska suffered from the heavy construction works on the neighbouring Blanka tunnel but occupancy improved from 33.6% in June 2010 up to 40% as of December 2010. Meanwhile the occupancy rate of Palace Archa (Na Porici) remained stable at a level of 54.7% over the second half of the year 2010. Management considers there are good prospects for net take up over the year 2011.

In Budapest, Paris Department Store will benefit from the extension of Alexandra Bookstore and the arrival of a high-end restaurant at the beginning of 2011.

In Russia, the occupancy rate of the newly extended Molcom warehouse site is at a level of 83% as of December 2010 with previously existing warehouse reaching full potential with an occupancy rate of 94%. The departure of two significant accounts during Q1 and Q2 2010 has been quickly replaced during the second half of the year confirming the excellent attractiveness of the asset. Current change to a new billing system and increasing range of services offered during 2010 should further improve the profitability of the asset.

The GSG portfolio's occupancy rate increased only marginally over the year 2010 from 76.5% in Q1 2010 up to 77.2% as of December 2010. The western part of the portfolio is now almost fully leased. The assets located in the eastern part of Berlin are suffering from a challenging market but represents the best upside potential of the portfolio. Current focus on this part of the portfolio allowed eastern assets to perform the best in terms of net take up with 8,000 sqm newly let over 2010.

### Asset disposals

Asset disposal	Description	Kind of deal	Date of Sale	Date of transfer	Sales price EUR Million	DTZ Value (31.12.2009) EUR Million	Variation Sales price vs DTZ	Loan balance at date of sales incl. Swap Costs EUR Million
Wasserstrasse	Office Asset in Duesseldorf	asset	23/12/2009	30/03/2010	8,2	8,4	-2.4%	7,0
Geneststrasse 6	GSG Asset	asset	01/02/2010	29/02/2010	1,8	1,7	8.6%	1,1
Kurfuerstendamm 103/104	Asset in Berlin	asset	29/03/2010	21/05/2010	8,0	8,2	-2.4%	4,8
Vinohrady	Appartments	fractional sales	Q4 2010	Q4 2010	3,3	3,0	8.4%	0,0
Max-Planck Strasse	Office Asset in Koeln	asset	10/05/2010	Q3 2010	5,5	5,8	-5.2%	3,0
Brunnenstrasse 27	Asset in Berlin mixte use	asset	07/05/2010	Q3 2010	1,7	1,4	21.4%	1,1
Helberger	Office Asset in Frankfurt	asset	14/12/2009	01/02/2010	11,0	11,0	0.0%	8,5
Luetticherstrasse 49	Residential Asset in Berlin	asset	04/03/2010	30/06/2010	1,0	1,0	0.0%	0,9
Jeremesiova	Office and warehouse in prague 5	asset	01/12/2010	01/12/2010	2,5	2,7	-7.4%	2,1
Transferred in 2010					43,0	43,2	-0.5%	28,5
Szenita	Office+car parking	asset	Q4 2010	Q1 2011	15,0	10,1	48.5%	10,2
Café Placja	Store	asset	Q4 2010	Q1 2011	0,6	0,6	0.0%	0,0
Not transferred in 2010					15,6	10,7	45.8%	10,2



Assets management disposals are composed of 3 buildings in Germany, 4 buildings in Berlin, one in Prague and some residential units in Prague. A total amount of EUR 43.0 Million of assets have been sold and transferred during the year 2010 :

- Wasserstrasse is a designated historical part of the city of Dusseldorf, Germany, close to Napoleons Park. The property located in the southern part of the central business district of Dusseldorf has a total area of 3,168 sqm. The asset was sold at the price of EUR 8.2 Million, 2.4% below DTZ value at year end 2009.
- Kurfuerstendamm 103/104 is located in the Charlottenburg district, approximately 3 kilometers west of Berlin's city centre, prime shopping street. The asset was sold at price of EUR 8.0 Million, slightly below DTZ value at year end 2009.
- Max Plank Strasse is located 14 km to the west of Cologne city centre, in Germany, in a prominent location. The Property comprises a new build single storey retail warehouse unit of 5,501 sqm that was constructed in 2005, on a large site with ample parking. The asset was sold for EUR 5.5 Million.
- Helberger is a commercial office building located in Frankfurt, Germany. The building, used to house the well-known Helberger furniture store and is in close proximity of the main pedestrian thoroughfare of Frankfurt. It comprises a concrete office building constructed around the 1960s. The building has potential to be redeveloped into a new commercial building with an NLA of circa 8,500 sqm. This asset was sold at a price of EUR 11.0 Million in line with DTZ value at year end 2009.
- Jeremiasova is located on Jeremiasova, a busy radial road in the outer city of Prague 5. The property comprises a mixed use scheme of 2,571 sqm, spread over 3 floors of offices and 2 floors of warehouse space. The property was built in 1999 by the current occupier and is fully leased. The asset was sold for EUR 2.5 Million in line with 2009 DTZ value.

### ***Investments***

Over the year of 2010, the Group focused on preserving its rental portfolio in a cost efficient way. Investments for the rental portfolio amount to EUR 1 Million.

### ***Change in market value***

On a like-for-like basis, the increase in market value for the Group rental portfolio as of December 2010 amounts to EUR 31.1 Million. The change in value is mainly driven good operational performance of Molcom (+EUR 12.0 Million). The overall positive change in market value was also supported by a slight yield compression on key assets and a positive currency effect (decrease of 2.8% of the HUF/EUR, increase of 7.8% of USD/EUR and increase of 7.6% of RUB/EUR). The Hagibor's asset, Radio Free Europe leased on a long term basis with a rent in Dollars is a significant driver of the increase of value of the Czech Republic's office portfolio (+EUR 14.7 Million).

The following tables give detail on the portfolio according to the EPRA requirements.



## Investment Property – Valuation data

Segment			Market Value of Property 2010 EUR Million	Valuation Movement Y-o-Y EUR Million	EPRA NIY (%)	Reversion (%)
Asset Class	Country	Asset				
Office	Czech Republic	Subtotal	151,5	14,7	3,3%	132%
Office	Hungary	Subtotal	43,3	3,8	3,6%	165%
Office	Germany & Lux.	Subtotal	77,5	-2,1	6,2%	27%
Office	Poland	Subtotal	5,7	0,2	4,6%	58%
<b>Office</b>		<b>Total</b>	<b>278,0</b>	<b>16,6</b>	<b>4,2%</b>	<b>91%</b>
Logistic	Czech Republic	Subtotal	22,5	-0,4	8,2%	39%
Logistic	Poland	Subtotal	6,6	-0,1	5,9%	123%
<b>Logistic</b>		<b>Total</b>	<b>29,1</b>	<b>-0,5</b>	<b>7,7%</b>	<b>54%</b>
Retail	Slovakia	Subtotal	15,8	0,0	-0,2%	NA
<b>Retail</b>		<b>Total</b>	<b>15,8</b>	<b>0,0</b>	<b>-0,2%</b>	<b>NA</b>
<b>Mixed Commercial</b>	<b>GSG</b>	<b>Subtotal</b>	<b>448,5</b>	<b>4,3</b>	<b>6,9%</b>	<b>30%</b>
<b>Total portfolio</b>		<b>Total</b>	<b>771,4</b>	<b>20,4</b>	<b>6%</b>	<b>49%</b>
<b>Other Assets</b>						
Residential	Vinohrady	Subtotal	4,7	-1,3		
Logistic & operation	Molcom / Russia	Subtotal	65,0	12,0		
<b>Other</b>		<b>Total</b>	<b>69,7</b>	<b>10,7</b>		

This table and the following includes all assets considered as rental in the portfolio of the Group. This includes Molcom that is not a pure rent generating asset but a logistic operator owning its premises and the Vinohrady portfolio which is made of residential assets that are now empty and are currently being sold on a unit by unit basis. The decrease in value of this specific portfolio reflects the decrease of the inventory. We distinguished those two outlets from the rest of the portfolio as they don't directly match the EPRA scope and definitions.

- "Market value" is the net market value estimated by our independent expert at year end.
- "EPRA NIY" or EPRA Net Initial Yield is here calculated using EPRA Net Rental Income and an estimated Gross Market Value (value excluding VAT).
- Reversion is the percentage of difference between the Net Initial Yield and the Potential Target yield based on a fully rented asset at today's market rent.



## Investment Property – Lease data

Segment	Average lease length	Lease expiry data						
		In Year to expiry	Passing rent of leases expiring in : (Data in EUR Million)			ERV of leases expiring in : (Data in EUR Million)		
			Yr 1	Yr 2	Yrs 3-5	Yr 1	Yr 2	Yrs 3-5
<b>Asset Class</b>	<b>Country</b>							
Office	Czech Republic	26,6	0,4	0,0	1,4	1,0	0,2	1,5
Office	Hungary	5,2	0,4	0,0	0,0	0,7	0,0	0,0
Office	Germany & Lux.	2,1	2,7	0,8	0,4	2,6	0,8	0,4
Office	Poland	2,7	0,0	0,0	0,3	0,0	0,0	0,4
<b>Office</b>		<b>14,7</b>	<b>3,5</b>	<b>0,8</b>	<b>2,1</b>	<b>4,3</b>	<b>1,0</b>	<b>2,3</b>
Logistic	Czech Republic	7,4	0,2	0,0	0,0	0,3	0,0	0,0
Logistic	Poland	1,1	0,6	0,2	0,0	0,5	0,2	0,0
<b>Logistic</b>		<b>5,8</b>	<b>0,8</b>	<b>0,2</b>	<b>0,0</b>	<b>0,8</b>	<b>0,2</b>	<b>0,0</b>
Retail	Slovakia	1,2	0,2	0,0	0,0	0,1	0,0	0,0
<b>Retail</b>		<b>1,2</b>	<b>0,2</b>	<b>0,0</b>	<b>0,0</b>	<b>0,1</b>	<b>0,0</b>	<b>0,0</b>
<b>Mixed Commercial</b>	<b>GSG</b>	<b>1,5</b>	<b>18,4</b>	<b>6,7</b>	<b>4,2</b>	<b>18,1</b>	<b>6,6</b>	<b>4,1</b>
<b>Total portfolio</b>		<b>5,4</b>	<b>22,9</b>	<b>7,7</b>	<b>6,4</b>	<b>23,3</b>	<b>7,8</b>	<b>6,4</b>

This table indicates details on the maturity of the leases and the rents they generate. It also incorporates indications on the reversion potential on a short and medium term basis. Estimated Rental Value (ERV) of leases indicates the market level of rent for areas with lease that are expiring.

The analysis of this table requires the following comments :

- The office portfolio : the average lease length of the portfolio is 14.7 years. The group's key asset, Radio Free Europe, with a current lease maturity of 42.8 years is the main reason of this high figure. The maturity of the rest of the office portfolio's leases is between 0.2 and 8.5 years.
- The GSG portfolio presents a specific maturity of lease profile. A significant part of the contracts do not include an expiry date and are short term contracts which are automatically renewed. We have assumed conservatively that those contracts would expire in the next year. As a consequence the average maturity of GSG is 1.5 years.

## Investment Property – Rental data

Segment	Gross rental income for the period (EUR Million)	Net rental income for the period (EUR Million)	Lettable space (sqm)	Passing rent at period end (EUR Million)	Estimated rental value at period end (EUR Million)	Vacancy Rate (% of sqm)	
<b>Asset Class</b>	<b>Country</b>						
Office	Czech Republic	6,5	5,2	77 029	7,1	12,1	40%
Office	Hungary	2,2	1,6	29 598	0,8	4,3	88%
Office	Germany & Lux.	5,8	5,1	48 063	5,9	6,5	12%
Office	Poland	0,3	0,3	1 400	0,3	0,4	0%
<b>Office</b>		<b>14,8</b>	<b>12,2</b>	<b>156 090</b>	<b>14,1</b>	<b>23,3</b>	<b>40%</b>
Logistic	Czech Republic	2,3	2,0	77 494	2,2	2,7	18%
Logistic	Poland	0,7	0,4	35 229	0,8	0,9	24%
<b>Logistic</b>		<b>3,0</b>	<b>2,4</b>	<b>112 723</b>	<b>3,0</b>	<b>3,6</b>	<b>20%</b>
Retail	Slovakia	0,2	0,0	8 220	0,2	1,1	83%
<b>Retail</b>		<b>0,2</b>	<b>0,0</b>	<b>8 220</b>	<b>0,2</b>	<b>1,1</b>	<b>83%</b>
<b>Mixed Commercial</b>	<b>GSG</b>	<b>33,6</b>	<b>32,9</b>	<b>815 334</b>	<b>33,6</b>	<b>42,7</b>	<b>23%</b>
<b>Total portfolio</b>		<b>51,6</b>	<b>47,5</b>	<b>1 092 367</b>	<b>50,9</b>	<b>70,7</b>	<b>25%</b>


The "Rental data" table presents details on the level of rents and the occupancy of the Group Portfolio. Gross Rental Income and the Net Rental Income are calculated according to EPRA standards. The passing rent according to EPRA terminology is the annualized cash rental income being received as at a certain date excluding the effects of straight-lining for lease incentives. Gross Rental Income was used as proxy when EPRA data could not be provided. The vacancy

rate is calculated using actual figures of leased area and not the EPRA methodology based on ERV.


### Description of main assets in rental portfolio

Portfolio	Czech Republic	Office
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- Bubenska is an iconic office building of Prague constructed in the 1970's as the headquarters of the Prague Transportation Company. The Property is located between the eastern and western parts of Holesovice in Prague 7, a central district on the opposite bank of the Vltava River to the city centre. Nadrazi Holesovice, one of Prague's main train terminals is located nearby. The Property comprises 8 storeys with 3 basement levels and accommodates 28,073 sqm of office space; a number of small retail units to the front of the property; and a cultural centre located in the basement. The asset is located in immediate vicinity of the strategic project Bubny and is planned to host soon the Group Prague office. The building, formerly dedicated to a single tenant, is now marketed towards small companies in order to diversify the tenancy risk and fill up the building in a cost effective way. The occupancy rate of the building, which was emptied beginning of the year, has been brought to a level of 37% (GLA) as of December 2010.

	Location :	Prague
	Land Area :	7,990 sqm
	Lettable building space :	20,543 sqm
	Type of property :	office
	Acquisition date :	27/02/2004
	Form of Ownership :	SPV owned 100% by OPG S.A.
	Year of construction completion / major refurbishment :	NA

- Na Porici - Palac Archa - is made of five buildings and a courtyard, including two historical buildings designed by renowned architects Josef Gočár and František Marek in 1930's. The project totals approximately 16,500 sqm of prime leasable office space and 5,000 sqm of retail premises and 1,500 sqm of storage. The asset includes also 120 underground parking places. The Group has transformed the building into a modern multifunctional project. The project also provides the visitors with an opportunity to enjoy their leisure time in the Archa theatre. The Group is actively marketing the asset to improve the occupancy currently at a level of 51% (GLA).


	Location :	Prague
	Land Area :	6,001 sqm
	Lettable building space :	23,120 sqm
	Type of property :	office
	Acquisition date :	13/12/2005
	Form of Ownership :	SPV owned 100% by OPG S.A.
	Year of construction completion / major refurbishment :	2009

- Radio Free Europe, one of the world's largest news organizations employing over 500 Czech and international employees in Prague, has its headquarters in a 21,274 sqm Hagibor Office Building since 2008. RFE/RL is leasing 100% of the building for 15 years with an option to extend the lease agreement for an additional 15 years. The building is tailored to the needs of a 21st century multi-media communications company and complies with the highest international security specifications. Inter-linking offices and multi-media studios spread over the building's 5-floors and are centered around an advanced newsroom. The project was designed by the renowned architectural studio Cigler Marani, and is located approximately 5 km southeast of the city centre.


	Location :	Prague
	Land Area :	26,233 sqm
	Lettable building space :	21,274 sqm
	Type of property :	office
	Acquisition date :	23/12/2007
	Form of Ownership :	SPV owned 100% by OPG S.A.
	Year of construction completion / major refurbishment :	2008

<b>Portfolio</b>	<b>Hungary</b>	<b>Office</b>
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- Former Budapest Bank HQ office building is situated in the 13th district of Budapest in the Váci Ut corridor, 7 km north of Budapest city centre. It comprises class A office accommodation, subject to light refurbishment, with approximately 14,882 sqm of leasable area over two basement levels, a ground floor, a mezzanine level and six upper floors. It benefits from 228 underground parking spaces and a further 29 above ground. The Property used to accommodate the headquarters of Budapest Bank. The building is vacant since July 2010 and the Group is actively marketing the building with potential tenants having shortlisted the asset.

	Location :	Budapest
	Land Area :	5,844 sqm
	Lettable building space :	14,882 sqm
	Type of property :	office
	Acquisition date :	15/12/2005
	Form of Ownership :	SPV owned 100% by OPG S.A.
	Year of construction completion / major refurbishment :	2000


- Paris Department Store is located on Andrásy út, which is the most important and prestigious road in Budapest, Hungary. The Property comprises a six storey historical building, originally built in 1885, as a department store that has been classified as a national monument. It was the first building in Hungary purpose built to be a modern department store. In 2007, Orco undertook refurbishment of the building and transformed it to a modern office building with retail units on the ground & first floor and office space on the top floors. The refurbishment works were finished in May 2009 and the grand opening took place in November 2009. Paris Department Store boasts a total of 5,900 sqm leasable area, out of which 1,700 sqm of retail space and 3,700 sqm of office space. Occupancy as of 2010 year end was at a level of 29%, with Alexandra Bookstore being the main tenant. Starting 2011, two new leases have been signed with Alexandra Bookstore taking over the second floor and the sixth and seventh floor being occupied by a restaurant operator. Those new contracts will lead to an occupancy rate of 60% (GLA). Other negotiations for the fourth floor are well advanced.

	Location :	Budapest
	Land Area :	1,264 sqm
	Lettable building space :	6,912 sqm
	Type of property :	mixed use (retail, office)
	Acquisition date :	05/04/2006
	Form of Ownership :	SPV owned 100% by OPG S.A.
	Year of construction completion / major refurbishment :	2009



<b>Portfolio</b>	<b>Germany &amp; Luxembourg</b>	<b>Offices</b>
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- Capellen office building is located at the entrance of Mamer-Capellen business park, an important business hub at the edge of Luxembourg City. The building is of modern standard with two levels underground car parking for 296 vehicles. Both the city centre and the airport are accessible within 15 minutes by car. Occupancy is at a level of 98% as of December 2010, including the Company's offices.

	Location :	Luxembourg
	Land Area :	NA
	Lettable building space :	7,744 sqm
	Type of property :	office
	Acquisition date :	December 2007
	Form of Ownership :	100%
	Year of construction completion / major refurbishment :	NA


<b>Portfolio</b>	<b>Czech Republic</b>	<b>Logistics</b>
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- Hlubocky Olomouc : The Property comprises an existing industrial complex and a new logistics building which has recently been developed. The property is located in Hlubocky u Olomouce, ca. 9 km from the city of Olomouc, and is in the vicinity of a small, principally residential area, although the immediate vicinity of the Property contains a number of existing warehouse buildings which form an out-of-town industrial park. The industrial area containing the Property is situated directly off of the Olomoucka road running through the town, which ultimately joins the much larger 635 and R35 highway. This larger road network provides access to Ostrava to the East and also Brno and Prague to the West via the D1.

	Location :	Olomouc
	Land Area :	71,749 sqm
	Lettable building space :	55,400 sqm
	Type of property :	logistic & light industrial
	Acquisition date :	28/06/2007
	Form of Ownership :	SPV owned 100% by OPG S.A.
	Year of construction completion / major refurbishment :	2008


<b>Portfolio</b>	<b>Slovakia</b>	<b>Retail</b>
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- Dunaj I and Dunaj II retail and office buildings are ideally located on the Slovak National Uprising Square in the centre of Bratislava. Dunaj1 building is a functionalistic-style building designed in 1936 by the prominent architect Christian Ludwig and was declared a cultural monument in 2002. In the 1980's the Dunaj II building (formerly Dom Odievania) was constructed directly adjoining Dunaj1. Both Dunaj buildings contain 6 floors and are structurally interconnected, allowing effective use of the premises. Occupancy as of December 2010 is at a level of 17% to be compared with a level of 13% as of December 2009. New retail tenants signed in Q3 and Q4 2010 are improving the footfall of the building. Significant new leases are currently under advanced negotiations.

	Location :	Bratislava
	Land Area :	1,935 sqm
	Lettable building space :	8,220 sqm
	Type of property :	retail
	Acquisition date :	07/03/2007
	Form of Ownership :	SPV owned 100% by OPG S.A.
	Year of construction completion / major refurbishment :	NA

<b>Portfolio</b>	<b>Poland</b>	<b>Logistics</b>
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- Marki is located in the eastern suburbs of Warsaw. The site currently comprises a production warehouse, constructed in the 1970's (measuring 33,898 sq m of lettable area), and an area of potential development land. The development land is currently occupied by a number of buildings designated for demolition. Occupancy of the buildings rented out stands at 76.5%.

	Location :	Warsaw
	Land Area :	88,976 sm
	Lettable building space :	35,229 sqm
	Type of property :	logistic & light industrial
	Acquisition date :	12/12/2007
	Form of Ownership :	100%
	Year of construction completion / major refurbishment :	NA

<b>Portfolio</b>	<b>GSG</b>	<b>Commercial &amp; Residential</b>
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- GSG Berlin : The entire GSG portfolio in Berlin has been submitted to an external valuer for the reassessment of its fair value. As of December 2010, It is estimated to EUR 449.4 Million (including EUR 0.9 Million of landbank) compared to EUR 444.2 Million as at December 2009 or EUR 442.5 Million on a like for like basis taking into consideration the sale of Geneststrasse 6 during Q1 2010, valued at EUR 1.7 Million end of 2009. The stability in the valuation of the portfolio on a year on year basis hides a marginal improvement of the portfolio fundamentals with a net average rent per square meter slightly increasing from 4.80 EUR per sqm end of 2009 to 4.86 EUR per sqm at the end of 2010 and an occupancy rate increasing from 76.5% end of 2009 up to 77.2% end of 2010. The GSG portfolio generated an EPRA gross rental income of EUR 33.6 Million in 2010 to be compared with a potential ERV of EUR 42.7 Million. Management of GSG is now focusing its efforts on the Eastern assets of the portfolio where lies the better part of the growth potential of the portfolio. Management considers there is a substantial potential in value accretion with further improvements of occupancy, rent and costs control.



<b>GSG Portfolio - Rental Data</b>	
Area in sqm :	815 334
Average rent / sqm at period end :	6,0
Annualised passing rent in EUR Million :	33,6
Market rent (ERV) in EUR Million :	42,7
Net Rental Income in EUR Million:	32,9
Market Value in EUR Million:	449,4
Vacancy rate :	23%

<b>GSG Portfolio Top Ten Tenants by Rental Income</b>	<b>% of Total Gross Rental Income</b>
Cumulated Share	17%
Share of 1st tenant	4%
Share of 10th tenant	1%

<b>Portfolio</b>	<b>Russia</b>	<b>logistics</b>
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- Moscow Molcom Logistic assets and activities are located to the north-east of Moscow Region, within 14 km from the MKAD ring via Yaroslavskoeshosse, close to Pushkino town. The Property comprises warehouses, industrial and office premises with a total area of over 92,000 sqm. The occupancy rate of the existing warehouses at the end of 2010 increased by 10% to 94%. In addition, a new warehouse of 18.500 sqm has been completed in 2009. Occupancy rate for this new building reaches 25.9%. Molcom Logistic Complex has introduced as of May 2010 a new billing system, which charges tenants per operations (per palette, inbound, outbound, storage, packaging, labeling etc.) rather than by square meter. All new clients are being charged according to this new billing system, while the existing clients are migrating to it gradually. Molcom has obtained a Certificate about entry into the Register of potentially dangerous industrial enterprises and is appropriate in accordance with the legislation of the Russian Federation for the purposes of storage of the type of goods with the different danger factors. As a result of the operational achievements, the evolution of the currency and the improvement of the attractiveness of the Russian market, the logistic complex fair value went up over 2010 by EUR 12 Million to EUR 65 Million.

<b>Portfolio</b>	<b>Czech Republic</b>	<b>Vinohrady</b>
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The Group owns residential assets in Prague, designated as the Vinohrady Portfolio. The portfolio is currently sold on a unit by unit basis. As of December 2010, 16 units out of 107 were still held in this portfolio.

### 5.2.2 Hospitality assets

As of December 2010, the hospitality portfolios comprised a total of 1,921 operated rooms.

#### 5.2.2.1 Main land Hospitality Portfolio

The Group owns, manages and operates (except for two of them) a portfolio of 12 boutique hotels and extended stay residences across Central and Eastern Europe capital cities in a joint venture



with AIG. As at 31 December 2010, 100% of the portfolio was valued at EUR 127 Million, in line with the value of the portfolio as of December 2009. The portfolio is consolidated at 50%. A detailed description of this portfolio is to be found below. In addition, the Group fully owns Pachtuv Palace in Prague. The properties are overall of a very good quality with no need of capital expenditures investment.

The fairly stable valuation of the hospitality portfolio is the consequence of an overall mixed recovery. In 2010, we have seen a difficult first quarter with stronger second and third quarters, meanwhile the fourth quarter has shown improved results compare to Q4 2009. The impact on revenue and EBITDA has been positive with an increase of revenues by 6% for the entire portfolio. In 2010, the portfolio generated total revenue of EUR 28.2 Million, our Pokrovka property in Moscow, Russia being the largest revenue generator, producing more than 30% of GOP. Prague and Budapest markets remain sluggish, affecting our properties performance, while Warsaw market improved.

Although 2010 showed some sign of recovery for the overall hospitality market we believe the CEE countries were behind the rest of Europe and we are positive for 2011 prospects.

CEE hotels	Number of assets	Number of rooms	Occupancy %	ADR (Euros)	2010 Revenues EUR Million	GOP EUR Million*	Market Value 2010 EUR Million	Change in Market Value 2010 vs 2009 EUR Million
Czech Republic	5	484	59%	76.9	12,1	3,8	44,2	4,6
Poland	3	220	52%	87.8	5,9	2,0	24,8	1
Hungary*	3	160	66%	72.9	2,9	1,3	16,7	0,8
Slovakia	1	32	65%	69.3	0,6	0,2	0,4	-0,5
Russia	1	84	69%	226.2	6,8	3,3	41,2	0,5
<b>Total CEE hotels</b>	<b>13</b>	<b>980</b>	<b>59%</b>	<b>94.2</b>	<b>28,3</b>	<b>10,6</b>	<b>127,3</b>	<b>6,4</b>

All numbers above are at 100%  
\*Starlight is excluded for Occupancy and ADR as it is a lease contract  
\* GOP excludes Group management, sales and marketing fees.

The increase of revenue (+6%) is due to leisure travel but also to corporate business which improved from the second quarter. Thanks to good cost management, GOP increased by 13% compared to last year.

In June 2010, AIG and the Group reached an agreement to redefine the terms of the joint venture. The ownership of the management company of the portfolio, previously fully detained by the Group is now shared with AIG. In exchange, the Group recovered upfront EUR 6.7 Million cash and secured increased priority payments of future free cash flows, while Hospitality Invest S.A. is fully recapitalized and the long term bank loan secured. The management of the Management Company has been renewed and a service contract covering the better part of the CEE portfolio with a well experience hotel operator has been signed.

#### 5.2.2.2 Sea Resort: Suncani Hvar Hotels

The Group owns a 55.6% interest in Suncani Hvar, a company listed on the Zagreb Stock Exchange, which is fully consolidated in the Group's financial statements. The overall portfolio's value of Suncani Hvar (which also includes other land and assets) amounted to EUR 108 Million as of December 2010 (vs. EUR 122 Million in 2009). This decrease is due to the lack of visibility on the ability for the company to restructure itself, therefore lowering future incomes. However, 2010 income improved compared to last year, and the agreement signed in 2011 does significantly improve prospects.



CEE hotels	Number of assets	Number of rooms	Occupancy %	ADR (Euros)	2010 Revenues EUR Million	Market Value 2010 EUR Million	Change in Market Value 2010 vs 2009 EUR Million
Four star category	4	437	54%	146	11,7	78,6	-7,2
Two - three star category	5	504	49%	50	2,8	17	-4,6
<b>Total Suncani Hvar hotels</b>	<b>9</b>	<b>941</b>	<b>51%</b>	<b>108</b>	<b>14,5</b>	<b>95,6</b>	<b>-11,8</b>
Other revenues	6	NA	NA	NA	1,5	12,7	-1,8
<b>Total Suncani Hvar</b>	<b>15</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>16,0</b>	<b>108,3</b>	<b>-13,6</b>

No major capital expenditures were undertaken in the hotels in 2010 as they are either fully refurbished or in need of complete refurbishment. Some of the hotels were closed or used as staff accommodation.

The occupancy of the hotels is based on opened days, as the business is seasonal; most of the hotels are opened from mid-May to September or for private events. The Adriana hotel is the only hotel opened throughout the year.

### 5.2.2.3. Description of the hospitality portfolio

#### Czech Republic :

The Riverside hotel is located on the Castle side of Vltava River and within a 15mn walk from all main attractions of Prague. The hotel comprises 81 bedrooms, a light food and beverage operation with a restaurant open for breakfast and on request for private parties and banqueting. The meeting room is fully equipped and can accommodate up to 70 people. This hotel is considered as one of the best business hotel in the area and almost all rooms have view over the Castle. This hotel is part of the joint venture with AIG Real Estate.

The Belgicka residence is located in Vinohrady, a lively residential area of Prague. The hotel is at 30 minutes walk and one tube station from the city center. The residence comprises 30 fully equipped apartments with contemporary design and with no food and beverage operation. Belgicka focuses on extended stay markets. This hotel is part of the joint venture with AIG Real Estate.

The Courtyard by Marriott Flora located in the business district of Flora, Prague is operated by a third party. The hotel comprises 161 bedrooms in a good quality and in a Marriott style. This is a full operation with a restaurant and 4 meeting rooms with a maximum seating capacity in the largest room of 185 people. This hotel is part of the joint venture with AIG Real Estate.

The Imperial hotel is a 162 bedrooms hotel located in a prime location in Ostrava next to the main district of the city. The Imperial hotel is seen as the best hotel in the region and is highly recognized for its restaurant and banqueting facilities. The hotel comprises 2 restaurants and 7 meeting rooms that can accommodate up to 480 people. Many important events of the region are organized at the Imperial Hotel. This hotel is part of the joint venture with AIG Real Estate.

The Pachtuv Palace is a 50-rooms old Prague palace transformed into a boutique hotel owned at 100% by Orco Property Group. The hotel is located 2mn walk from Charles' Bridge, the main attraction of the old city. The hotel is built around two interior courtyards, all bedrooms have



elegant individual decor and are of different size. The hotel was re-furbished in 2007 and can be easily re-developed into residential. In 2010, a restaurant area was refurbished and leased out from December under the name Amade. This asset was valued at EUR 19 Million as of 31 December 2010 (EUR 15 Million in 2009). The increase in value is mainly due to better performance and management of the hotel and to the potential redevelopment into high-end residential units.

### **Hungary :**

The Andrassy boutique hotel is located on Andrassy Avenue, 20 minutes walk from the Opera and 10 minutes from the Budapest Bath. The 69 bedrooms hotel was refurbished in 2007 and has warm contemporary design. The hotel has one meeting room and a restaurant, the Baraka restaurant is recognized as one of the best restaurants in Budapest. This hotel is part of the joint venture with AIG Real Estate.

Izabella residence is considered to have the best level of occupancy in the city. The residence is located 15 minutes walk from the Opera and the Budapest Bath. This warm 38 fully equipped apartments residence is in a good state of repair and is focused on extended stay. The residence also has a fully equipped fitness center. This hotel is part of the joint venture with AIG Real Estate.

Starlight hotel is an extended stay hotel located in the heart of the city of Budapest leased out to a third party. It is an extended stay product and as such is fully equipped with large rooms between 40 sqm to 60 sqm. This hotel is part of the joint venture with AIG Real Estate.

### **Poland :**

The Regina is well located in the new part of the old city of Warsaw. The hotel is considered as the best hotel of the city, the 61 bedrooms and suites are as the rest of the hotel decorated in a modern and contemporary design. The hotel has a gourmet restaurant- La Rotisserie, an internal courtyard and a meeting room with up to 120 spaces. The hotel also comprises a swimming pool and a fitness area. This hotel is part of the joint venture with AIG Real Estate.

The Diana residence has a prime location in the heart of Warsaw on the main shopping street Chmielna. The 46 warm and cozy apartments are fully equipped and in an excellent state of repair; the residence is designed to focus on extended stay and has a full service restaurant. This hotel is part of the joint venture with AIG Real Estate.

The Park Vienna hotel is a 113 bedrooms hotel well located in Biesko Biala. The hotel is a business hotel focusing on the car industry located in the region. This hotel is part of the joint venture with AIG Real Estate.

### **Russia :**

The Pokrovka suite hotel is well located on Pokrovka Road within the inner ring of Moscow, 30 mins walk from the Red Square, in an upcoming office district. The Pokrovka suite hotel was built to respond to an extended stay demand and has fully equipped bedrooms. This hotel has a modern and contemporary design. This 84 bedrooms hotel also comprises an Algoterm spa, a restaurant and a bar. Often considered as the only current 'boutique hotel' in Moscow, this property is a member of 'Small Leading Hotels' and part of the joint venture with AIG Real Estate.



### **Croatia:**

Suncani Hvar owns 11 hotels on Hvar island off the coast of Split, Croatia, that together have over 1,000 rooms which is approximately 90% of the total hotel capacity of the Hvar City. These hotels are also managed and operated by the Group.

Our luxury segment is made of fully refurbished assets, operated in the high end segment and are within 5 minutes walk of the main attractions of the Island. Those hotels are the Amfora resort, with its neighboring Bonj les Bains centre, the Small Leading Hotel' Adriana and the 'Small Luxury Hotel' Riva, represent in 2010 88.3% of total revenue and 82.2% of the value of the operated hotels. They represent a total of 437 bedrooms with occupancy of 53.6% and revenue of EUR 12 Million.

The Amfora hotel is fully refurbished in a modern and contemporary style. The hotel has 324 bedrooms, meeting spaces for a total of 650 people, 4 restaurants, a fitness room and an incredible outdoor swimming pool.

The Adriana hotel is a 59 bedrooms hotel with the view over the old city. This hotel is considered to be one of the most prestigious hotel in the country. The hotel has a modern and contemporary design, a ground floor restaurant and a bar on the top floor overlooking the old city. The indoor swimming pool also offers view over the old city and a prestigious spa.

The Riva hotel is a design hotel with 54 bedrooms hotel located on the port. This hotel is 'a place to be seen' on the Island and includes the BB club as well as the Sora restaurant.

Our Budget segment is made of the Dalmacija and the Palace hotel, which was partly renovated in 2007 and are operated as 3 stars hotels; the Pharos, the Sirena and the Delfin hotels, operate in the 2 stars segment. All together they represent 504 bedrooms with occupancy of 49% and revenue of almost EUR 3 Million. The Dalmacija, Bodul and the Galeb properties were not operated in 2010 and are subject of future redevelopments on which the Company plans to progress during 2011.

The Palace hotel has 73 bedrooms and was partly refurbished; it has a protected façade close to the main square of Hvar. This hotel has a wonderful restaurant located on the first floor overlooking at the main square and activities from the Island.

## ***5.3 Liabilities and financial profile***

### **5.3.1 Cash and cash equivalents**

Cash and cash equivalents have decreased by EUR 3.6 Million over the year 2010 to reach EUR 53.4 Million. Restricted cash (see note 16 of the consolidated financial statements on restricted cash) decreased by EUR 10.9 Million to EUR 24.3 Million compared to EUR 35.2 Million as at December 2009.



### 5.3.2 Loan to value

The calculation of the Loan to value (LTV) as of December 2010 is shown in the table below

In EUR Thousand	December 2010	December 2009
<b>Non current liabilities</b>		
Financial debts	526 991	484 634
<b>Current liabilities</b>		
Financial debts	389 282	595 776
<b>Current assets</b>		
Current financial assets	-302	-488
Liabilities held for sale	76 494	51 451
Cash and cash equivalents	-53 439	-57 040
<b>Net debt</b>	<b>939 026</b>	<b>1 074 333</b>
Investment property	888 036	1 072 304
Hotels and own-occupied buildings	222 563	215 393
Financial assets at fair value through profit or loss	30 049	32 353
Inventories	418 957	482 605
Assets held for sale	131 898	48 930
Revaluation gains /(losses) on projects and prop.	53 375	-3 095
<b>Fair value of portfolio</b>	<b>1 744 878</b>	<b>1 848 490</b>
<b>Loan to value before bonds</b>	<b>53,8%</b>	<b>58,1%</b>
Bonds	243 889	468 616
Accrued interests on bonds	-	16 860
<b>Loan to value</b>	<b>67,8%</b>	<b>84,4%</b>

It is a Group top priority to deleverage its balance-sheet. As at December 2010, the LTV stands at 67.8% compared to 84.4% in December 2009. The sharp decrease of the LTV ratio is mainly the consequence of the approval of the Safeguard plan resulting in the recognition of the new debt at fair value and a improved values of properties where major milestones were achieved and with prime locations.

The LTV ratio before bonds also reduces from 58% to 53.8% due to the decrease of current liabilities. In 2010 (excluding Hvar and Vysocany Gate project company), the Group steadily repaid most suppliers invoices that were overdue as at December 2009.

As developed in the Group business plan, management remains committed to the improvement of the LTV ratio over the coming quarters as a top strategic priority, which could take the form of additional assets sale / debt repayments or reduction, and further share capital increase. The LTV level of the major Group subsidiary Orco Germany, which stands at 79%, remains an important concern for the Group.



### 5.3.3 Financial liabilities

The financial debts strongly decrease as a result of the derecognition of the amortized cost of the Company's bonds as at 19 May 2010 and the recognition at fair value of the "Safeguard bonds" at the same date (net decrease of EUR -252.9 Million) and the repayment of bank loans upon the sale of assets and developments (EUR -136.5 Million), other repayments of bank loans (EUR -24.4 Million) and the derecognition of the debts of Stein (the company is in bankruptcy process and has been deconsolidated with a impact of EUR -13.6 million). This is partially compensated by foreign exchange differences (EUR +11.2 Million), the accrual of actuarial interests (EUR 22.0 Million) and new bank draw downs (EUR 24.3 Million).

Out of the EUR 1.2 Billion borrowings, EUR 976.1 Million relate to bank loans, EUR 243.9 Million relate to bonds issued by the Company or Orco Germany and EUR 16.7 Million relate to loans from joint venture partners and finance leases.

81% of the bank loans relate to income producing assets (development projects under delivery and buildings producing rents or other operational revenues), compared to 62% as at December 2009. While in continuing decrease, 19% of the bank loans still relate to non income producing land bank and projects under construction. It is a priority of the Group, as developed in the business plan, to continue reducing that ratio by completing or initiating development projects on existing land bank, land sales and sale of non-core assets.

Over 2010 the Group managed to renegotiate a total of EUR 254.4 Million bank loans, some of the most important ones being listed below:

- Mostecká, financed with a EUR 7.6 Million loan; the loan has been turned over from the bridge financing to the development financing maturing in December 2011. The margin increased from 2.5% p.a. to 2.9% p.a..
- Bubenská/Vltavska, financed with a EUR 19.1 Million loan has been extended till 2013.
- OD Dunaj Bratislava, financed with a EUR 13.1 Million loan has been extended till 2013.
- Hradčanská, financed with a EUR 13.0 Million loan has been extended till 2011. The margin increases from 1.65% p.a. to 3.5% p.a.
- Molcom, refinanced with a USD 20.0 Million loan has been extended till 2016 – further refinancing happened in took place in January 2011, with a EUR 17.3 Million loan, maturity till 2016.
- Na Poříčí, financed with a EUR 37.6 Million loan; the loan has been extended till January 2012. The interest margin increases from 1.30% p.a. to 2.80% p.a.
- Bubny, financed originally with a EUR 28.0 Million loan; the loan has been extended by 2 years until November 2012. A partial repayment of EUR 7.9 Million related to the sale of North East Corner occurred in December 2010; therefore, the balance as of 31 December 2010 is EUR 20.0 Million.
- Sky Office financed with a EUR 94.7 Million loan has been extended till June 2011.
- Hakeburg and Hochwald financed respectively with a EUR 1.3 Million loan and EUR 0.8 Million loan have been extended till February 2011.
- Koliba in Slovakia financed with a EUR 9.5 Million loan has been extended till 30 June 2012. However, EUR 3 Million should be paid as of June 2011, EUR 3 Million should be also paid as of December 2011 and the remaining EUR 3.5 Million should be paid at maturity.
- Zlota 44, financed with a EUR 44.6 Million loan – the agreement on extension is valid until 31 December 2014.

During 2010, asset disposals in Germany led to loan repayments in total amount of EUR 98.3 Million. After closing, further disposals were / are to be completed, such as EUR 66.0 Million loan



related to sale of Wertheim / Leipziger Platz (repaid as of January 2011) and EUR 10.5 Million loan related to sale of Szervita in Hungary.

**Analysis of maturities of financial debts:**

in EUR Million	Less than one year	1 to 2 years	2 to 5 years	More than 5 years	Total
As at 31 December 2010	474,0	483,8	173,7	105,1	<b>1 236,7</b>
As at 31 December 2009	706,4	18,5	650,8	224,7	<b>1 600,4</b>

The sharp decrease in short term liabilities embodies the improvement of the financial situation as a result of asset and development sales (EUR -101.8 Million), other repayments of bank loans (EUR -8.7 Million), the derecognition of the Company's bonds subject to the Safeguard plan (EUR -51.5 Million), and transfers to longer maturity mainly as a result of loan extensions obtained or breaches of covenants solved (EUR -70.8 Million). These amounts are partially offset by increases due to foreign exchange differences (EUR 6.2 Million) and new draw downs (EUR 6.9 Million).

The current financial debt includes EUR 8.2 Million of bonds' first installment within the Safeguard plan, EUR 76.5 Million of loans financing assets that are held or planned for sale and EUR 166.1 Million of assets and developments that are finalized or under construction. The management is confident in its ability to further refinance or prolong the remaining EUR 177.1 Million of debt where needed. The amount of debt to be renegotiated in the short term amounts to EUR 101.9 Million.

The EUR 474 Million remaining short term liabilities, although consequent, is considered in control by the management as it includes residential loans (for EUR 24 Million) repaid by sales, or loans to be repaid by sale of assets with high visibility (Wertheim and Sky Office representing approx EUR 161 Million), or advanced refinancing such as Zlota (EUR 45 Million), or minor covenants breach not presenting substantial risks of default.

The Group remains however concerned by the financial debts due within 1 to 2 years maturity, mostly Orco Germany GSG refinancing EUR 300 Million, due end of April 2012, and the subsequent Orco Germany bond repayments (EUR 114 Million as at December 2010 on the basis of the bond's amortized cost and the fair value of the repayment premium) due end of May 2012.

Access to debt financing for real estate projects remained difficult and no major changes are expected in the short term. Banks still only accept low loan-to-value ratios for new projects, especially outside Germany, while the spread between yields and interest rates remains high. Refinancing has become more available for stable income producing properties. We expect financing will become more freely available going forward, although very gradually.

To the Company's knowledge, there is no or very little liquidity on OPG bonds 2011, 2012 and "OBSAR 2014". Small or medium sized deals have occurred for the "OBSAR 2010" and "convertible 2013" since March 2010 for a volume of EUR 5.4 Million. The weighted average trading price of the "convertible" 2013 stands at 22% of nominal value, whereas only four deals have been observed for the "OBSAR2010" at 26% of nominal value. Nevertheless, it cannot be concluded that a price ranging between 22% and 26% of nominal value is the price at which OPG



bonds are traded on average as traded volume on the market is too low. The Company has not been provided with comprehensive over the counter (OTC) data.

## 5.4 Net Asset Value

Using similar calculation methodologies as in previous years, the Group Net Asset Value (NAV) per share as of December 2010 is at EUR 28.60 compared to EUR 8.16 as at December 2009. The dilution linked to the April 2010 capital increases has been more than compensated by the impact of the Company termed out bonds' revaluation upon approval of the Safeguard plan amounting to EUR 19.22 per share. The intrinsic increase of the NAV (excluding the impact of the Safeguard bonds' valuation and the capital increase) amounts to REUR 3.5 per share.

Triple NAV reaches EUR 19.4 per share compared to EUR 12.27 last year. The Company announced in previous report it would adopt EPRA (European Public Real Estate Associations) "Triple Net Asset Value per share" standard, methodology which is described below, and which all major publicly traded property investors apply. The market value of bonds as at December 2010 is based on a valuation report established by an independent expert while for December 2009 the management took an estimated 50% discount on the issue price. The strong decrease of that adjustment is the consequence on the recognition of the gain on the Safeguard bonds upon the approval of the plan.

In EUR Thousand	December 2010	December 2009
<b>Consolidated equity</b>	<b>303 057</b>	<b>56 578</b>
Fair Value adjustment on asset held for sales	581	0
Fair value adjustments on investment portfolio	398	0
Fair value adjustments on hotels and own occupied buildings	5 080	10 562
Fair value adjustments on inventories	47 316	-13 657
Deferred taxes on revaluations	67 565	58 438
Goodwills	-22 748	-22 748
Own equity instruments	673	82
<b>EPRA Net asset value</b>	<b>401 922</b>	<b>89 255</b>
Net asset value in EUR per share	28.60	8.16
Existing shares	14 054	10 944
<b>EPRA Net asset value</b>	<b>401 922</b>	<b>89 255</b>
Effect of dilutive instruments	32 308	169 547
Deferred taxes on revaluations	-67 565	-58 438
Market value of bonds	3 050	231 185
<b>EPRA Triple Net asset value</b>	<b>369 715</b>	<b>431 548</b>
Triple net asset value in EUR per share	19.42	12.27
Fully diluted shares	19 043	35 165



#### Orco historic NAV Methodology:

The net asset value as a consequence of the definition below is calculated as follows:

- the real estate portfolio value, to which other financial and operational assets are added,
- from which all financial and operational liabilities are deducted.

Finally, only the part attributable to owners of the Company is retained.

The Net Asset Value is calculated on a group share basis starting from the IFRS consolidated balance sheet values (see the balance sheet and the variation thereon reported in the IFRS consolidated financial statements) with adjustments:

- Fair value adjustments: as for real estate assets and developments, only investment properties are at fair value on the IFRS balance, the fair value adjustments are the difference between their carrying value in the consolidated balance sheet and their fair market value.
- Deferred taxes on revaluations: Group share in the deferred taxes recognized in the IFRS balance sheet on the valuation adjustments on real estate assets and developments.
- Goodwill: IFRS goodwill is not recognized in the real estate net asset value calculation.
- Own equity instruments: as they are not recognized in the IFRS balance sheet and the net asset value estimate uses all the shares in circulation for the calculation of the per share data, own equity instruments are added at their fair market value.

#### Triple Net Asset Value Methodology:

The triple net NAV is an EPRA recommended performance indicator.

Starting from the NAV following adjustments are taken into consideration:

- Effect to dilutive instruments: financial instruments issued by company are taken into account. When they have a dilutive impact on NAV, meaning when the exercise price is lower than the NAV per share. The number of shares resulting from the exercise of the dilutive instruments is added to the number of existing shares to obtain the fully diluted number of shares.
- Derivative instruments: the calculation includes the surplus or deficit arising from the mark to market of financial instruments which are economically effective hedges but do not qualify for hedge accounting under IFRS, including related foreign exchange differences.
- Market value of bonds: an estimate of the market of the bonds issued by the group. It is the difference between group share in the IFRS carrying value of the bonds and their market value.

As part of the EPRA requirements, OPG discloses the calculation of EPRA NAV and EPRA NNNNAV.

## **6. Full year 2010 financial results**

Throughout 2010, the Group recorded a net profit amounting to EUR 233.4 Million compared to a net loss of EUR 250.6 Million in 2009. This profit includes a net gain of EUR 269.6 Million on the recognition at fair value of the bonds of the Company included in the amortization rescheduling of the Safeguard plan. Excluding the termed out bonds impact (gain on derecognition, interests and derivatives), the net result amounts to EUR- 5.4 Million.

Revenues increased by 25% to a historically high EUR 314.7 Million from EUR 251.5 Million in 2009, mainly as a result of the sale of major commercial developments sales in Germany and in the Czech Republic. The operating profit, which also partially reflects value creation, stands at EUR 51.0 Million, compared to an operating loss of EUR 254.2 Million end 2009.

The improvement of the operating performance and margin on sales of commercial developments explain the significant year on year increase of the adjusted EBITDA by EUR 6.9 Million to EUR 36.8 Million as at 31 December 2010.

## 6.1 Consolidated income statement

In EUR Thousand	December 2010	December 2009
<b>Revenue</b>	<b>314 657</b>	<b>251 531</b>
Net gain /(loss) from fair value adjustments on investment property	25 961	-177 598
Other operating income	4 721	3 150
Net result on disposal of assets	1 197	-631
Cost of goods sold	-165 770	-115 726
Amortisation, impairments and provisions	-10 157	-89 354
Operating expenses(*)	-119 642	-125 589
<b>Operating result</b>	<b>50 967</b>	<b>-254 217</b>
Interest expenses	-97 691	-86 850
Interest income	6 265	8 707
Foreign exchange result	4 104	4 686
Other net financial results	267 174	-36 700
<b>Financial result</b>	<b>179 852</b>	<b>-110 157</b>
<b>Profit/(loss) before income taxes</b>	<b>230 819</b>	<b>-364 374</b>
Income taxes	-8 165	48 858
<b>Net profit/(loss) for the year</b>	<b>222 654</b>	<b>-315 516</b>
<b>Total profit/(loss) attributable to:</b>		
non controlling interests	-10 757	-64 952
<b>Group share</b>	<b>233 411</b>	<b>-250 564</b>

(\*) operating expenses includes lines other operating expenses and employee benefits -see Group consolidated financial statements 2010

In EUR Thousand	December 2010	December 2009
<b>Revenue</b>	<b>314 657</b>	<b>251 531</b>
Net gain/(loss) from fair value adjustments on investment property	25 961	-177 598
Other operating income	4 721	3 150
Net result on disposal of assets	1 197	-631
Cost of goods sold	-165 770	-115 726
Employee benefits	-45 172	-49 286
Amortisation, impairments and provisions	-10 157	-89 354
Other operating expenses	-74 471	-76 303
<b>Operating result</b>	<b>50 967</b>	<b>-254 217</b>
Interest expenses	-97 691	-86 850
Interest income	6 265	8 707
Foreign exchange result	4 104	4 686
Other net financial results	267 174	-36 700
<b>Financial result</b>	<b>179 852</b>	<b>-110 157</b>
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non controlling interests	-10 757	-64 952
<b>Group share</b>	<b>233 411</b>	<b>-250 564</b>

### 6.1.1 Revenues by Business line

Revenues have increased year on year by 25% to EUR 314.7 Million as at December 2010 compared to EUR 251.5 Million in 2009. The strong increase in Development revenues for EUR 64.5 Million has been partially compensated by a decrease in Asset Management revenues for EUR 1.4 Million.

In EUR Thousand	Development	Asset management	TOTAL
Revenues 2010	182,9	131,8	314,7
Revenues 2009	118,4	133,2	251,5
Variation YoY	64,5	-1,4	63,1

#### Methodology changes:

As a result of the Group reorganization in two business lines the segment reporting methodology has been reviewed with the main changes being:

- No more intersegment revenues: the holding and services companies' intra-group revenues are eliminated as they do not constitute a business line as such or cannot be included in one of the two business lines.
- Holding and service companies operating expenses: they are allocated to the segment on proportionate basis resulting from a weighted average of the segment revenues and the real estate segment assets.



### ***Development business line***

Revenues of the Development business line increased by EUR 64.5 Million with major commercial developments deliveries resulting in revenues of that asset category increasing by EUR 119.5 Million, partially compensated by sharply lower residential sales in Central Europe for EUR 50.1 Million. Land bank assets generate some marginal revenues on rental for EUR 0.1 Million in 2010.

#### Residential development:

The residential development sales have decreased from EUR 103.0 Million as of December 2009 to EUR 52.9 Million in 2010. Over the year 2010, a total of 313 units (109 units in Czech Republic, 186 units in Poland and 18 units in Slovakia) have been delivered compared to 457 in 2009. This drop in sales reflects both the difficult market conditions, as well as the fact that the project pipeline was very much reduced in 2010. Many of the units delivered in 2010 were those less attractive ones which remained in the inventory of projects finalized in 2009.

Over the year 2010, the main developments contributing to revenues are Malborska for EUR 19.1 Million and Drawska for EUR 5.7 Million in Poland, Kosik for EUR 4.6 Million, Nove Dvory for EUR 3.1 Million, Le Mont for EUR 2.4 Million and Benice for EUR 2.2 Million in the Czech Republic and Koliba for EUR 5.6 Million in Slovakia.

As of December 2010, the backlog on projects either finalized or under construction amounts to 889 units including an order backlog (units covered by a future purchase or a reservation contract) of 147 units:

- 445 units (484 units in 2009) in the Czech Republic including an order backlog of 36 units;
- 394 units (587 units in 2009) in Poland including an order backlog of 108 units;
- 50 units (68 units in 2009) in Slovakia including an order backlog of 3 units.

The decrease of the backlog is mainly the consequence of sale of existing units while few new residential projects were launched since the beginning of 2009 (Americka 11)

As of December 2010, the inventories still include 312 completed residential units (Poland 143 units, Czech Republic 119 units, Slovakia 50 units) for a total value of EUR 57.4 Million and a remaining bank loan of EUR 12.4 Million.

The Group continues preparing permit applications for new developments to be launched in 2011 and 2012, depending on the evolution of the market demand.

#### Commercial developments

During 2010, the commercial development revenues reached EUR 129.9 Million compared to EUR 10.4 Million in 2009. In 2010, the revenues include EUR 6.3 Million of rents (mainly Sky Office for EUR 5.0 Million for which interest expenses are also recognized in P&L) on unsold developments in inventory and EUR 123.6 Million from sales of projects. In 2009, those revenues mainly included the revenues of NWDC (company sold during the second quarter of 2009) and some rents on commercial developments in inventory.

The significant increase in 2010 mainly results from the sales closed in Germany with H2Office development in Duisburg, the healthcare portfolio, Minister Garten in Berlin, in the Czech Republic with Vysocany Gate, Rudna II and Bubny northeast corner and in Poland with the Peugeot showroom.



The H2 Office development in Duisburg has been contracted for EUR 32.5 Million, while the bank liabilities reached EUR 24.8 Million. The gross margin on this sale amounts to EUR 3.5 Million. Minister Garten has been contracted for EUR 11.1 Million and Vysocany Gate has been contracted for EUR 19.8 Million. The three German healthcare centers (Oranienburg, Rostock, Gutersloh) have been completed, started operations, and sold (together with 3 plots and one building ready for healthcare development) for a total consideration of EUR 40.5 Million while the bank liabilities reached EUR 27.9 Million. The gross margin on the healthcare sales and including the plots amounts to EUR 4.1 Million.

In the Czech Republic the sale of office and logistic developments was realized with a negative gross margin while most of the cash was used to repay liabilities towards general contractors.

End of 2010, the Group concluded the first sale of a plot of the Bubny land development, called 'North East Corner', for a price of EUR 7.9 Million with a gross margin of EUR 4.6 Million.

### ***Asset Management business line***

Revenues from the Asset Management business line include revenues from rental assets, hospitality and management services (mainly Endurance Fund). Over 2010, revenues achieved by this business line were stable with EUR 131.8 Million compared to EUR 133.2 Million in 2009. The hospitality revenues increase of EUR 2.0 Million is compensated by the drop in management services for EUR 0.9 Million and the decrease in rental revenues for EUR 2.5 Million.

#### Rental

Rental and management services revenues decreased slightly year on year from EUR 104.0 Million in December 2009 to EUR 100.6 Million in December 2010. This variance is the consequence of a drop in revenues from management services combined with a decrease of EUR 1.5 Million on the assets sales closed in 2009 and 2010, a decrease of EUR 5.9 Million on departure of anchor tenants (Bubenska/Vltavska, former Budapest bank buildings, Stribro and Marki) partially compensated by increases on new assets delivered in 2009 for EUR 1.5 Million (Na Porici, Hradcanska, Paris Department Store) and a net increase of EUR 2.6 Million on GSG portfolio.

#### Hospitality activities

After a weak first quarter 2010, the hospitality market revived in rest of the year with strong improvement in occupancy and revenues. Over 2010, hospitality activities show an increase in revenues to EUR 31.2 Million compared to EUR 29.2 Million over the same period in 2009. The increase is mostly the consequence of stronger operations in Hvar with an improvement of revenues of EUR 2.7 Million and a relative stability in revenues for the Pachtuv Palace and the hospitality assets under joint venture.

### **6.1.2 Operating expenses and Headcounts**

Operating expenses correspond to the sum of the "Employee benefits" and the "Other operating expenses" lines of the income statement. The operating expenses amount to EUR 119.6 Million compared to EUR 125.6 Million in 2009, a decrease of 5% while turn-over increased by 25%. This absolute and relative decrease is the consequence of the restructuring plan implemented in 2009 and accelerated under the Safeguard protection. The table below (with figures in EUR thousand) gives a detail of the consolidated operating expenses.

Consolidated operating expenses can be split into direct asset or project costs generating revenues and general management or services expenses (including run down activities in Germany); the first one amount to EUR 81.8 Million (EUR 79.5 Million in 2009) and the second one amount to EUR 37.8 Million (EUR 46.1 Million in 2009). While the operating expenses





directly linked to assets and projects increase by EUR 2.3 Million in direct relation with the activity the service and headquarter expenses decrease by EUR 8.3 Million as a result of the restructuring implemented in Central Europe and Germany.

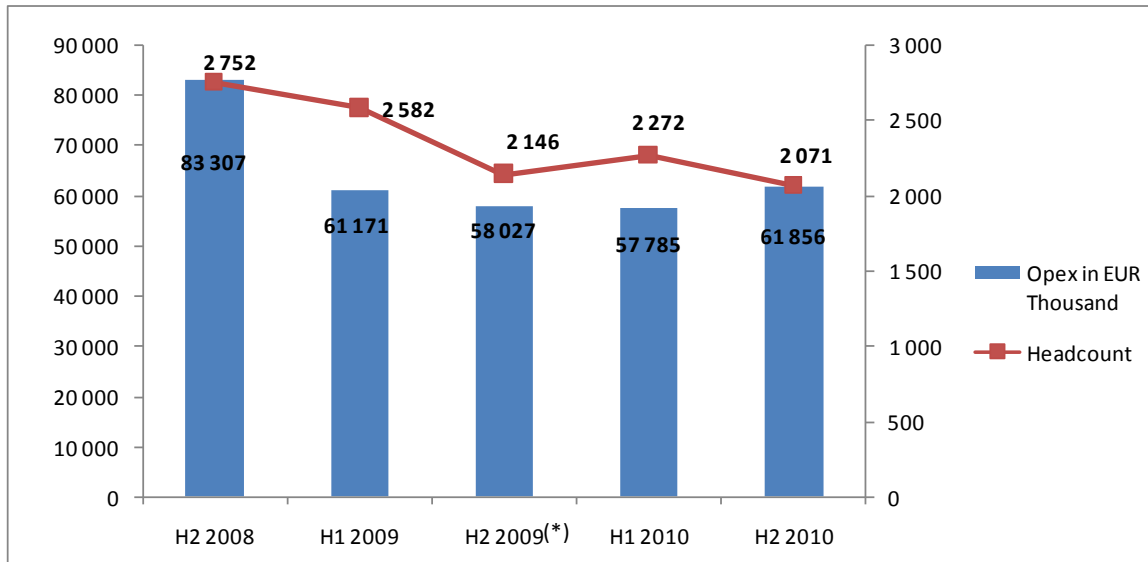
in EUR Thousand	31 December 2010	31 December 2009	Variation
Employee benefits	-45 172	-49 286	4 114
Leases and rents	-4 593	-4 640	47
Building maintenance and utilities supplies	-31 085	-29 863	-1 222
Marketing and representation costs	-4 543	-6 434	1 891
Administration costs	-24 016	-26 938	2 922
Taxes other than income tax	-8 944	-6 529	-2 415
Other operating expenses	-1 289	-1 899	610
<b>Total</b>	<b>-119 642</b>	<b>-125 589</b>	<b>5 947</b>

While employee benefits (-9%), marketing and representation costs (--25%), administration costs (-8%) and other operating expenses (-32%) are decreasing, Building maintenance (+4%) and taxes other than income taxes (+37%) are respectively increasing mainly as a result of the operations of Sky Office building delivered end of 2009 (EUR -2.0 Million) partially compensated by asset sales and of the transfer taxes on the sale of commercial properties.

Operating expenses on the German run down activities amount to EUR 16.0 Million compared EUR 14.5 Million in 2009. While the restructuring already impacts the recurring operations, the increase of operating expenses is marked by the costs of the major commercial development sales closed in 2010 and the start of operations of Sky Office building. Those costs are to steadily go down to zero over the coming 12 months as the current noncore assets and developments are sold.

Excluding Germany, hospitality and Russia, operating expenses have decreased by EUR 10.2 Million from EUR 48.5 Million over 2009 to EUR 38.3 Million as of December 2010.

Employee benefits represent 37% of the Group operating expenses. By excluding hospitality activities and Molcom logistic activities, this proportion goes down to 26%. Global headcount shows a year on year decrease of 75 full time equivalent employees.



(\*): H2 2009 OPEX have been adjusted by excluding EUR 3.5 Million allocation of warrants

### 6.1.3 Net gain/ loss on disposal of assets

It is the Group strategy to orderly proceed with its strategic disposal program, and the Safeguard Procedure helped to avoid sale of assets at distressed prices.

In 2010, EUR 72.1 Million real estate asset sales have been realized in profit and loss statement, mainly in Germany with Cumberland for EUR 28.7 Million, Helberger for EUR 11.0 Million, Wasserstrasse for EUR 8.2 Million, „Ku-Damm with EUR 8.0 Million and Max Planck Strasse with EUR 5.5 Million.

The asset sales generated a net accounting gain of EUR 1.2 Million and net cash inflow of EUR 25.2 Million.

### 6.1.4. Valuation adjustments and impairments

The net result from fair value adjustments on investment properties as at December 2010 amounts to EUR 26.0 Million (EUR -177.6 Million in December 2009). This amount does not include any gain on the change in value of the Bubny land development as it was transferred to inventories at September 2010 fair value (this material gain in only taken into account in the EPRA NAV calculation).

Valuation gains have been recognized on the best located assets, while buildings with decreased occupancy have seen their valuation go down.



The amortization, impairments and provisions amounting to EUR -10.2 Million as at December 2010 include EUR -1.4 Million impairments on properties and development projects (EUR -85.5 Million in 2009). Most new impairments were recognized on residential developments in the Czech Republic and on Hvar hospitality assets, while impairments have been partially written off on the Molcom logistic assets in Russia. The impact of fair value and impairments on real estate assets or investments are detailed by country as following:

In EUR Thousand	December 10			December 09		
	Revaluation	Impairment	Total	Revaluation	Impairment	Total
<b>Germany</b>	25 561	7 929	<b>33 490</b>	-51 967	-28 658	<b>-80 625</b>
<b>Czech Republic</b>	10 275	-3 390	<b>6 885</b>	-66 156	-17 129	<b>-83 285</b>
<b>Poland</b>	-2 598	182	<b>-2 416</b>	-10 421	-4 704	<b>-15 125</b>
<b>Hungary</b>	-2 606	357	<b>-2 249</b>	-32 012	-1 351	<b>-33 363</b>
<b>Slovakia</b>	-39	-722	<b>-761</b>	-8 082	-1 083	<b>-9 165</b>
<b>Luxembourg</b>	-2 494	-783	<b>-3 277</b>	-5 062	-1 273	<b>-6 335</b>
<b>Croatia</b>	-23	-10 317	<b>-10 341</b>	-2 745	-19 453	<b>-22 198</b>
<b>Russia</b>	-2 115	8 136	<b>6 021</b>	-1 153	-11 843	<b>-12 996</b>
<b>Total</b>	<b>25 961</b>	<b>1 392</b>	<b>27 352</b>	<b>-177 598</b>	<b>-85 494</b>	<b>-263 092</b>

### 6.1.5 Operating result

The operating result consists in a profit EUR 51.0 Million compared to a loss of EUR 254.2 Million. While all real estate assets or projects are not at fair value (particularly land developments such as Bubny on EUR 68.8 Million of value has been created over 2010) the line item shows a clear turn around in the Group activities while some parts of the portfolio are still operated in challenging environments with impairments recognized on residential developments in the Czech Republic and on hotels of the island of Hvar.



### 6.1.6 Adjusted EBITDA

The adjusted EBITDA amounts to EUR 36.8 Million compared to EUR 29.9 Million as at December 2009. This significant increase results from the combination of reduced operating expenses and sale of major commercial developments.

in EUR Thousand	Development	Asset Management	TOTAL
<b>Operating result</b>	299	50 668	50 967
Net gain/(loss) from fair value adjustments on investment property	-7 258	-18 703	-25 962
Amortisation, impairments and provisions	-1 056	11 213	10 158
Past valuation on goods sold	2 794	0	2 793
Net loss on disposal of assets	-465	-732	-1 197
<b>Adjusted EBITDA 2010</b>	<b>-5 686</b>	<b>42 446</b>	<b>36 760</b>
<b>Adjusted EBITDA 2009</b>	<b>-7 068</b>	<b>36 924</b>	<b>29 856</b>
<b>Variation YoY</b>	<b>1 382</b>	<b>5 522</b>	<b>6 903</b>

Adjusted EBITDA is the recurring operational cash result calculated by deduction from the operating result of non-cash elements and non recurring elements (Net gain or loss on fair value adjustments – Amortisation, impairments and provisions – Correction of costs of goods sold being the reversal of past non cash valuation adjustments and impairments – Net gain or loss on the sale of abandoned developments included in inventories – Net gain or loss on disposal of assets, attribution of stocks options and warrants to executive management) and the net results on sale of assets or subsidiaries).

#### Methodology changes:

As a result of the Group reorganization in two business lines the segment reporting methodology has been reviewed with the main changes being:

- No more intersegment revenues: the holding and services companies' intra-group revenues are eliminated as they do not constitute a business line as such or cannot be included in one of the two business lines.
- Holding and service companies operating expenses: they are allocated to the segment on proportionate basis resulting from a weighted average of the segment revenues and the real estate segment assets.

The adjusted EBITDA amounts to EUR 36.8 Million as at December 2010 compared to EUR 29.9 Million as at December 2009 showing an increase of 23% (EUR 6.9 Million). The main contributor to this increase is the improvement of the cost control on the asset management line. While the rental activities and asset management activities remain stable, hospitality reduces its loss by EUR 5.3 Million from EUR -5.1 Million to EUR +0.2 Million.

While commercial development contributes positively for EUR 9.9 Million compared to a loss of EUR 6.7 Million as at December 2009 and land bank losses is reduced by EUR 2.3 Million as at December 2010, a sharp decrease of the gross margin of EUR 8.3 Million is recorded on the residential projects due to the situation of this market in the Czech Republic.

### 6.1.6. Financial result

In 2010, gross interest expenses recorded in our P&L reached EUR 97.7 Million compared with EUR 86.9 Million in 2009. Interests on bonds (non cash) account for the bulk of the increase to EUR 38.1 Million (EUR 28.9 Million over 2009) out of which:

- EUR 30.3 Million on the Company bonds (including IRS) restructured by the Safeguard plan (versus EUR 29.7 Million using the previous bond valuation). The impact of the restructured schedule of amortization for interests and principal is detailed in point 3.2 of this Management Report.
- EUR 7.8 Million relating to Orco Germany bond (EUR 4.3 Million in 2009).

The increase of interest expenses is also the consequence of lower capitalization on major projects under development such as Sky office or Zlota, together accounting for EUR 7.0 Million (EUR 4.5 Million in 2009).

Interests on other loans amount to EUR 59.6 Million:

- Interests on loans financing rental properties amount to EUR 31.3 Million to be compared to an adjusted EBITDA contribution of EUR 38.9 Million.
- Interests on loans financing hospitality and residential properties excluding Hvar (EUR 2.7 Million) amount to EUR 3.0 Million.
- Interests on loans financing on land bank, on hold and finalized projects amount to EUR 12.2 Million (German projects sold or to be sold EUR 6.2 Million; Poland EUR 7.0 Million; Czech and others EUR 1.2 Million).
- Interest on land bank amount to EUR 9.0 Million.

The net interest expenses over year 2010 amount to EUR 91.4 Million to be compared to a total Adjusted EBITDA of EUR 36.8 Million. It is a management priority to achieve a full coverage of interest expenses by adjusted EBITDA. Three main elements of the Safeguard plan are set to achieve such coverage:

- Adjust bonds debt service to the structure of revenues is a key part of the approved Safeguard plan (see point 3.2), although the lower bond valuation will lead to an increase of non cash interests bookings on bonds now accruing at 23.1% per annum.
- Restart frozen projects such as Zlota 44, start delayed but 'ready to go' projects such as Kamelie and sell or develop the land bank once zoning is obtained.
- Sell cash flow negative assets (ie which produce more interests expenses than EBITDA).
- Increase income (occupancy and rate) of existing rental and hospitality assets

The financial result shows a gain of EUR 179.9 Million compared to a loss of EUR 110.2 Million over the same period in 2009. The financial result relates mainly to the gain on the revaluation of the bonds upon approval of the Safeguard plan (see point 3.2). Apart from the impact of the derecognition of the Company's bonds upon approval of the Safeguard plan, the 'Other net financial results' essentially relate to interest rate swaps at fair value through profit and loss and the still conservative approach for impairment tests on financial receivables, with for example a carrying value of EUR 6.4 Million on the USD 25 Million on Russian Rubin advance.

In EUR Thousand	31 December 2010	31 December 2009	30 June 2010
Change in carrying value of liabilities at amortised cost	272 737	17 972	269 549
Change in fair value and realised result on derivative instruments	6 173	-2 241	-1 238
Change in fair value and realised result on other financial assets	1 964	-43 712	257
Other net finance charges	-13 700	-8 719	-13 163
<b>Gain (loss) on other financial results</b>	<b>267 174</b>	<b>-36 700</b>	<b>255 405</b>

## 6.2 Balance sheet

In EUR Thousand

Assets		
	31 December 2010	31 December 2009
<b>NON-CURRENT ASSETS</b>	<b>1 204 255</b>	<b>1 392 979</b>
Intangible assets	48 205	48 903
Investment property	888 036	1 072 304
Property, plant and equipment	237 851	235 677
Hotels and own-occupied buildings	222 563	215 393
Fixtures and fittings	15 288	20 284
Financial assets at fair value through profit or loss	30 049	32 353
Deferred tax assets	114	3 742
<b>CURRENT ASSETS</b>	<b>698 050</b>	<b>679 484</b>
Inventories	418 957	482 605
Trade receivables	34 349	31 379
Other current assets	59 105	56 347
Derivative instruments	-	2 695
Current financial assets	302	488
Cash and cash equivalents	53 439	57 040
Assets held for sale	131 898	48 930
<b>TOTAL</b>	<b>1 902 305</b>	<b>2 072 463</b>

In EUR Thousand

Equity and liabilities		
	31 December 2010	31 December 2009
<b>EQUITY</b>	<b>355 969</b>	<b>104 730</b>
Equity attributable to owners of the Company	303 057	56 577
Non controlling interests	52 912	48 153
<b>LIABILITIES</b>	<b>1 546 336</b>	<b>1 967 733</b>
<b>Non-current liabilities</b>	<b>903 080</b>	<b>1 021 463</b>
Bonds	235 667	409 397
Financial debts	526 991	484 634
Provisions & other long term liabilities	14 307	16 918
Derivative instruments	19 323	9 289
Deferred tax liabilities	106 792	101 225
<b>Current liabilities</b>	<b>643 256</b>	<b>946 270</b>
Current bonds	8 222	59 219
Financial debts	389 282	595 776
Trade payables	21 011	33 480
Advance payments	32 714	53 212
Derivative instruments	27 469	44 380
Other current liabilities	88 064	108 752
Liabilities linked to assets held for sale	76 494	51 451
<b>TOTAL</b>	<b>1 902 305</b>	<b>2 072 463</b>

### 6.3. Cash flow statement

In EUR Thousand	31 December 2010	31 December 2009
<b>Operating result</b>	<b>50 967</b>	<b>-254 217</b>
Net (profit) /loss from fair value adjustments on investment property	-25 961	177 598
Amortisation, impairments & provisions	10 157	89 354
Net profit /(loss) on disposal of assets	-1 197	631
Stock options and warrants plans	-	3 500
<b>Adjusted operating profit/(loss)</b>	<b>33 966</b>	<b>16 866</b>
Financial result	-2 229	-433
Income tax paid	-604	-3 711
<b>Financial result and income taxes paid</b>	<b>-2 833</b>	<b>-4 144</b>
<b>Changes in operating assets and liabilities</b>	<b>99 631</b>	<b>-23 656</b>
<b>NET CASH FROM /USED IN OPERATING ACTIVITIES</b>	<b>130 764</b>	<b>-10 934</b>
Capital expenditures and tangible assets acquisitions	-28 067	-36 258
Proceeds from sales of non current tangible assets	72 120	66 574
Purchase of intangible assets	-161	-390
Purchase of financial assets	-628	-1 159
Loans repayments received from joint ventures	2 493	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>45 757</b>	<b>28 767</b>
Net issue of equity instruments to shareholders	16 129	945
Purchase of treasury shares	-956	-
Proceeds from borrowings	25 645	97 032
Net interest paid	-56 718	-77 900
Repayments of borrowings	-164 752	-65 249
<b>NET CASH USED IN/ FROM FINANCING ACTIVITIES</b>	<b>-180 652</b>	<b>-45 172</b>
<b>NET DECREASE IN CASH</b>	<b>-4 131</b>	<b>-27 339</b>
Cash and cash equivalents at the beginning of the period	57 040	83 799
Exchange difference on cash and cash equivalents	530	580
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>53 439</b>	<b>57 040</b>





## **6.4 Annual statutory financial statements**

As permitted by a Luxembourg Law dated 10 December 2010, the Group mother company, Orco Property Group S.A. ("The Company") has adopted IFRS and applied IFRS 1, First-time Adoption of International Financial Reporting Standards, as of 1 January 2009 ("transition date"). In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in stand alone financial statements prepared in accordance with LUX GAAP.

This transition from LUX GAAP to IFRS has positively affected the Company's net equity as of 31 December 2008 for EUR 58.7 million, from EUR 249.4 million under LUX GAAP to EUR 308.1 million under IFRS, and has also positively affected the Company's net equity as of 31 December 2009 for EUR 38.5 million; from EUR 31.7 million under LUX GAAP to EUR 70.2 million under IFRS.

As of December 2010 the total assets of the Company amount to EUR 464.3 million compared to EUR 558.3 million as of December 2009 (under IFRS).

The net equity amounts as of December 2010 to EUR 253.3 million including a loss brought forward of EUR 211.2 million vs EUR 378.5 million as of December 2009 (under IFRS).

The Company reports a profit of EUR 167.5 million mainly due to a gain of EUR 281.8 million upon derecognition of the Company's bonds as a result of the approval of the Safeguard plan but recognized additional impairments on non current assets for a net total of EUR 110.6 million from which additional impairments on shares in affiliated undertakings for EUR 61.1 million and additional impairments on loans to affiliated undertakings for EUR 50.6 million.

The subscribed shares capital of the Company which amounts to EUR 57.6 million is considered as the corporate capital of the Company. The cumulated losses of the Company which amounts to EUR 211.2 million, added to its share premium and reserves which amounts to EUR 406.8 million, represent a positive equity amount of EUR 253.3 million.

## **7. Potential risks**

### ***7.1 Risks associated with the implementation of the Safeguard plan***

#### **The Safeguard plan may be amended or cancelled if the creditors challenging the judgment of the Tribunal de Commerce de Paris are successful**

In June 2010, an opposition challenging the Safeguard plan approved by the Tribunal de Commerce de Paris on 19 May 2010 was filed by the bondholders' representative for the "OBSAR 2012", "convertible 2013" and "OBSAR 2014". This third party opposition regarding these three groups of bondholders contests the maximum bond liability to be reimbursed within the Safeguard plan. A hearing scheduled at the Tribunal on 12 October 2010 was deferred until May 2011. While the management doesn't expect the creditors to be successful in challenging the Safeguard plan, the Tribunal may still determine to put the Company in rehabilitation or judicial liquidation proceeding which may materially adversely affect the Group's business, financial condition, results of operations or prospects. Also in case of the expected rejection of the challenge, the bondholders might appeal.

#### **The Company may not be able to satisfy its obligations under the Safeguard plan**

If the Company were to fail to meet its obligations under the Safeguard plan, the Tribunal could decide, at the request of the "Commissaire à l'exécution du plan" or at a creditor's request, to terminate the Safeguard plan and open a rehabilitation or judicial liquidation proceeding which



may materially adversely affect the Group's business, financial condition, results of operations or prospects. The management deems this risk over the short to middle term as remote unless a fundamental change of environment occurs.

## **7.2 Risks associated with real estate and financial markets**

### **The continuing consequences of the worldwide financial crisis**

Particularly in terms of a credit crunch and reduced liquidity of assets, they may continue to weaken the Group's abilities to refinance its debts. The risks particularly exist for the refinancing or repayment of the GSG loan (EUR 300 Million due in April 2012), the Orco Germany Bond (EUR 100 Million of nominal value due in May 2012), or the Hvar bank loans financing (EUR 56 Million).

A further risk resides in a continuing lack of investor confidence which may have a negative impact on the Group's further revenues and costs.

### **Changes in the general economic and cyclical parameters, especially a continuation of the financial crisis, may negatively influence the Group's business activity**

The Group's core business activity is mainly based on the letting and sale of real estate property. The revenues from rents and revenues from sales of real estate property investments are key figures for the Group's value and profitability. Rents and sales prices depend on economic and cyclical parameters, which the Group cannot control.

### **The Group's property valuations may not reflect the real value of its portfolio, and the valuation of its assets may fluctuate from one period to the next**

The Group's investment property portfolio is valued at least once a year by an independent appraiser, DTZ. The Group's property assets were fully valued as of 31 December 2010, while in June 2010 only part of the portfolio was submitted for revaluation. The change in the appraised value of investment properties, in each period, determined on the basis of expert valuations and adjusted to account for any acquisitions and sales of buildings and capital expenditures, is recorded in the Group's income statements. For each euro of change in the fair value of the investment properties, the net income of the Group changes by one euro. Changes in the fair value of the buildings could also affect gains from sales recorded on the income statement (which are determined by reference to the value of the buildings at the beginning of the accounting period during which the sale is realized) and the rental yield from the buildings (which is equal to the ratio of rental revenues to the fair value of the buildings). Furthermore, adverse changes in the fair value of the buildings could affect the Group's cost of debt financing, its compliance with financial covenants and its borrowing capacity.

The values determined by independent appraisers are based on numerous assumptions that may not prove correct, and also depend on trends in the relevant property markets. As an example, the assumption that the Company is a "going concern" i.e. that it is not a "distressed seller" whose valuation of the property assets may not reflect potential selling prices. In addition, the figures may vary substantially between valuations. A decline in valuation may have a significant adverse impact on the Group's financial condition and results, particularly because changes in property values are reflected in the Group's consolidated net profit. Reversely, valuations may be lagging soaring market conditions, inadequately reflecting the fair property values at a later time.

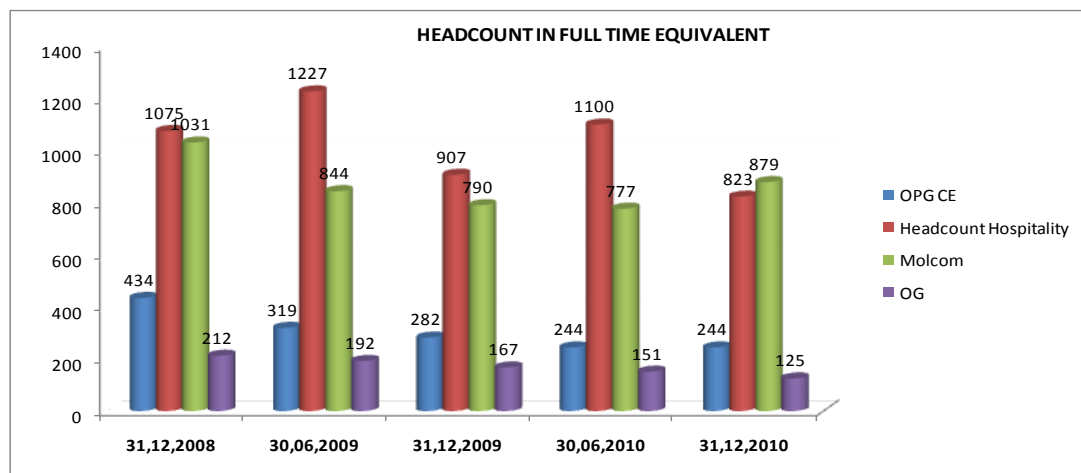
### **Changing residential trends or tax policies may adversely affect sales of developments**

The Group is involved in residential, commercial and retail development projects. Changing residential trends are likely to emerge within the markets in Central and Eastern Europe as they mature and, in some regions, relaxed planning policies may give rise to over-development, thereby affecting the sales potential of the Group's residential developments. Changing real

estate taxes or VAT taxes may also have a notable impact on sales (such as for example a hike in sales before implementation of a tax increase followed by structurally lower sales). These factors will be considered within the investment strategy implemented by the Group but may not always be anticipated and may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

## 8. Human resources

As of the beginning of 2010, Orco has introduced a new headcount methodology, which recalculates the part-time employees to a full time equivalent. This method includes the active and non active employees. The historical figures presented in the chart below have been recalculated based on the same methodology.



As of December 2010, the total Company headcount reached 2,071 FTE (full time equivalent), representing a 3% decrease compared to December 2009 value (2,146 FTE). This decrease is driven by headcount reduction across all countries, mainly in Germany and the Czech Republic, where operational activities have been scaled down to the capital cities. The increase in logistics headcount is in line with the opening of the new warehouse as part of Molcom in Russia.

The 9% variance compared to June 2010 figures (2,272 FTE) reflects mainly the seasonality of the hospitality business line.

## 9. Corporate governance

### 9.1 Overview and recent developments

Good corporate governance improves transparency and the quality of reporting, enables effective management control, safeguards shareholder interests and serves as an important tool to build corporate culture. The Company is dedicated to acting in the best interests of its shareholders and stakeholders. Towards these ends, it is recognized that sound corporate governance is critical. The Company is committed to progressively implement industry best practices with



respect to corporate governance and has been adjusting and improving its internal practices in order to meet evolving standards. The Company is aiming to regularly communicate to its shareholders and stakeholders regarding corporate governance is imperative and to provide regular updates on its website.

Since the Company was founded in 1991, its accounts have been audited regularly throughout the year. At present, it uses two Luxembourg auditing firms, PricewaterhouseCoopers, S.a.r.l. and HRT Revision, S.a.r.l. In addition, Company's portfolio of assets is regularly valued by an independent expert, DTZ.

In 2007, the Board of Directors adopted the *Director's Corporate Governance Guide* and continues to communicate throughout the group based on the values articulated by this guide.

The Company nevertheless aims to implement corporate governance best practices inspired by the recommendations applicable in Luxembourg, France, the Czech Republic, Hungary and Poland.

On 7 September 2009, the Board of Directors created the following committees:

- Audit Committee
- Remuneration, Appointment and Related Party Transaction Committee
- Restructuring Committee
- Investment and Development Committee

The implementation of decisions taken by these committees enhances the Company's transparency and corporate governance. A detailed discussion of the respective committee members and functions is set forth in greater detail below.

In 2009, the Company also began applying the best practices recommended by the European Public Real Estate Association (EPRA), of which it has been a member since 2009, and which major listed European real estate companies follow.

In 2009 and 2010, Orco reviewed the reporting structures of leaders in the real estate development industry and started adapting those structures to its own corporate structure. As such, the Company restructured its reporting by business lines in order to optimize reporting practices in its two activities: development and asset management, thereby improving reporting for internal management and external communication.

## **9.2 Board of Directors**

The Board of Directors represents collectively the shareholders and acts in the best interests of the Company. Each member, whatever his/her designation, represents the Company's shareholders. The Board of Directors meetings are held as often as deemed necessary or appropriate at the request of the Chairman. All members, and in particular the independent and non-executive members, are guided by the interests of the Company and its business, such interests including but not limited to the interests of the Company's shareholders and employees.

The members of the Board of Directors are elected by the general meeting of shareholders for a period not exceeding six years. They are eligible for re-election and may be removed at any time, with or without cause, by a resolution adopted by the simple majority of votes of the general meeting of shareholders. The Directors may be either natural persons or legal entities. A legal entity that is appointed to the Board of Directors shall designate a natural person as its representative.



The Shareholders General Meeting held on 26 April 2010, renewed the mandate of the Company's Board of Directors. On 19 May 2010 S.P.M.B. a.s. a Czech legal entity represented by Ms Eva Janečková, acting as its permanent legal representative, announced to the Company its resignation from the Board of Directors. Following this resignation, the Board of Directors is comprised of 11 directors among which 7 are independent directors meaning they are not involved in management and are not employees or advisors with regular salary, or give professional services such as external audit, legal advisors, and also meaning that they are not related person or close relative of any management member or majority shareholder of the Company. All members of the Board of Directors have a mandate until the general meeting of shareholders approving the accounts for the financial year ended on 31 December 2012. As of December 2010 the Board of Directors consists of:

- 4 executive members representing the management of the Company: Mr. Jean-François Ott, Mr. Nicolas Tommasini, Mr. Ales Vobruba, and Ott&Co S.A., legal entity represented by Mr. Jean-François Ott,
- 5 independent members: Mr. Silvano Pedretti, Mr. Guy Wallier, Mr. Bernard Kleiner, Mr. Alexis Juan, and Mr. Robert Coucke,
- 2 non-executive members representing the shareholders: Geofin, a.s, legal entity represented by Mr. Daniel Barc and Prosperita investicni spolecnost, a.s, legal entity represented by Mr. Miroslav Kurka.

Mr. Jean-François Ott was appointed as Chairman of the Board of Directors and Mr. Nicolas Tommasini was appointed as Secretary of the Board of Directors.

### **Information on potential conflicts of interest**

Apart from their mandates as described below, the members of the Board of Directors have no further potential conflicts of interests between any duties to the Company and their private interests or other duties:

#### **Bernard KLEINER**

Residing at 36, rue du Président Wilson, 92300 Levallois - France  
No other declared mandates than in the Company

#### **Alexis JUAN**

Residing at 201, rue de Grenelle, 75007 Paris France  
No other declared mandates than in the Company

#### **Robert COUCKE**

Residing at 64, rue de Billancourt, 92100- Boulogne Billancourt- France  
No other declared mandates than in the Company

#### **Silvano PEDRETTI**

Residing at Nad Petruskou 8a, CZ-12000 Prague 2  
EC s.a. (Luxembourg)  
Director of Biocafes, S.A. (Luxembourg)  
Director of Euro-franchise S.A. (Luxembourg)  
Director of AS 2000, s.r.o. (Czech Republic)  
President of EC2009, association (Czech Republic)  
President of Union des Français à l'Etranger, association (UFE cz Czech Republic)  
President of Children of Europe, association (Czech Republic )



Conseiller du Commerce Extérieur, association (CCE Czech Republic)  
No other declared mandates than in the Company

**Guy WALLIER**

Residing at 192 Avenue Victor Hugo 75116 Paris,  
President of Compagnie Française de Participation Mobilière et Immobilière (CFPMI).  
President of « L'action Sociale Immobilière »  
No other declared mandates than in the Company

**PROSPERITA INVESTIČNÍ SPOLEČNOST, a.s., represented by Miroslav Kurka**

With registered office at Ostrava, Moravská Ostrava, Nádražní 213/10, PSČ 70200 (Czech Republic)  
No other declared mandates than in the Company

**GEOFIN, a.s., represented by Daniel Barc**

With registered office at Ostrava, Moravská Ostrava, Velká 2984/23, PSČ 70200, (Czech Republic)  
No other declared mandates than in the Company

**Jean-François OTT, Chief Executive Officer and Founder of ORCO Property Group**

With professional address at 25 rue de Balzac, F- 75406 Paris Cedex 08  
Director of MALA STRANA (former ORCO PARIS S.A.).  
Managing director de OTT&CO S.A.  
Director of S.C.I. LA PRAGUOISE  
Director of S.C.I. OTTAN  
Director of MANHATTAN S.A.  
Director of Novy Capital Partners S.A.  
Director of CAP MINI S.A.  
Director of JOHO COMPAGNIE S.a r.l.  
Member of the Supervisory Board of AQ OKNA, a.s.  
Director of Urso Verde S.A.  
Vice Chairman of the Board of Directors of GREEN BEAR Corporation CR, a.s.  
Director of NOVY WINDOWS S.A.  
Director of EUROPEAN WINDOWS S.A.  
Director of OTT & Co. FINANCE S.A.  
Director of S.C.I. Manue Financière 1  
Chairman of the Board of Directors of C INVEST, a.s.  
Managing Director of BEARS PRAGUE, s.r.o., v likvidaci (in voluntary liquidation)  
Director of Pra Gaillard  
Chairman of the Board of Directors of EASYDENTIC CENTRAL EUROPE, a.s.  
Director of Bears and Sons S.A.  
No other declared mandates than in the Company (incl. its subsidiaries)

**Nicolas TOMMASINI, CFO and Deputy CEO of Orco Property Group**

With professional address at 25 rue de Balzac, F- 75406 Paris Cedex 08  
Director of JOHO COMPAGNIE S.à r.L.  
Director of TOMSAFE  
Director of S.C.I Manue Financière 2  
No other declared mandates than in the Company (incl. its subsidiaries)



**ALEŠ VOBRUBA, Managing Director of ORCO Central Europe**

With professional address at Luxembourg Plaza, Premyslovska 2845/43, 130 00 Prague 3, Czech Republic

Managing Director of BEARS PRAGUE, s.r.o., v likvidaci (in voluntary liquidation)

Chairman of the Board of Directors of Green Bear Corporation CR, a.s.

Chairman of the Supervisory Board of EASYDENTIC CENTRAL EUROPE, a.s.

No other declared mandates than in the Company (incl. its subsidiaries)

**OTT&CO S.A., represented by Jean-François Ott, director**

With registered seat at Parc d'Activités Capellen, 38 L-8308 Capellen

Shareholder of the Company

Managing director of Etoile d'Or S.A.

Director of Green Bear S.A.

No other declared mandates than in the Company (incl. its subsidiaries)

**Committees of the Board of Directors**

The Board of Directors held on 7 September 2009 resolved to create the following committees:

- Audit Committee,
- Remuneration, Appointment and Related Party Transaction Committee,
- Restructuring Committee,
- Investment and Development Committee.

The Board of Directors appointed members of these committees. Independent and non – executive directors are a significant part of these committees. The Board of Directors held on 20 May 2010 resolved to (i) confirm the existence of the below committees of the Board of Directors and (ii) renew the appointment of their members.

**Audit Committee**

The members of the Audit Committee are three independent Board of Directors members, Mr. Bernard Kleiner (chairman), Mr. Silvano Pedretti, and Mr. Alexis Juan. Mr. Nicolas Tommasini resigned from the Audit Committee during the second half of 2010.

The Audit Committee reviews the Company's accounting policies and the communication of financial information. In particular, the Audit Committee has followed the auditing process, reviewed and enhanced the Company's reporting procedures by business lines, reviewed risk factors and risk control procedures, analyzed the Company's group structure, assessed the work of external auditors, examined consolidated accounts, verified the valuations of real estate assets made by DTZ, marked bonds to market and audited reports. Since the appointment of the current Audit Committee, ten meetings took place.

**Remuneration, Appointment and Related Party Transaction Committee**

Members of the Remuneration, Appointment and Related Party Transaction Committee ("Remuneration Committee") are Mr. Guy Wallier (Chairman), Mr. Robert Coucke and Mr. Jean-François Ott. The Remuneration Committee presents proposals to the Board of Directors about remuneration and incentive programs to be offered to the management and the Directors of the Company. Remuneration Committee also deals with related parties transactions. Since the appointment of the current Remuneration Committee, there have been two meetings in 2009 and one meeting in 2010.

**Restructuring Committee**



Members of the Restructuring Committee are Mr. Alexis Juan (Chairman), Prosperita investicni spolecnost, a.s. represented by Mr. Miroslav Kurka, Mr. Ales Vobruba and Mr. Jean-François Ott. The Restructuring Committee focuses on restructuring, cost cutting and other saving efforts within the Group. Since the appointment of the current Restructuring Committee, there was one meeting in 2009, one meeting in 2010 and one meeting in 2011.

#### **Investment and Development Committee**

Members of the Board of Directors Investment and Development Committee are Mr. Silvano Pedretti (chairman), Mr. Robert Coucke, Mr. Ales Vobruba and Mr. Nicolas Tommasini. There was no meeting of the Investment and Development Committee in 2009 and two meetings in 2010.

#### **Third-party influence on the election of the members of the Board of Directors**

The Board of Directors committed itself to propose at the next general meeting of the Company the election of two candidates among those presented by Lansdowne as members of the Board of Directors. If the candidates are elected, the Board of Directors committed itself to appoint them to all committees but the Remuneration Committee.

#### ***9.3 Management of the Group (Executive Committee)***

The Management of the Company is also known as the Executive Committee. As of December 2010, the Company's Executive Committee consisted of the following members:

- Mr. Jean-Francois Ott, 45, Chief Executive Officer, with professional address at 25 rue de Balzac, F- 75406 Paris Cedex 08
- Mr. Nicolas Tommasini, 39, CFO and Deputy Chief Executive Officer, with professional address at 25 rue de Balzac, F- 75406 Paris Cedex 08
- Mr. Ales Vobruba, 50, Managing Director of ORCO Czech Republic and ORCO Slovakia, with professional address at Luxembourg Plaza, Premyslovska 2845/43, 130 00 Prague 3, Czech Republic
- Mr. Yves Désiront, 38, Chief Financial Officer Orco Property Group S.A., with registered seat at Parc d'Activités Capellen, 40, L-8308 Capellen
- Mr. Martin Gebauer, 39, Commercial Investment Properties Director, with professional address at Luxembourg Plaza, Premyslovska 2845/43, 130 00 Prague 3, Czech Republic
- Mr. Ogi Jaksic, 36, Development Director, with professional address at Luxembourg Plaza, Premyslovska 2845/43, 130 00 Prague 3, Czech Republic

The members of the Executive Committee are meeting on a regular basis to review the operating performances of the business lines and the containment of the operating expenses. The Executive Committee members are also the permanent members of the management investment committee, which is the governing body for all management decisions or preparation of committees analyzing the acquisition, sale or development of any real estate asset. A new procedure has been established on the basis of the business lines' management formalizing the decision chain and triggers.

**Jean-François Ott**, born in 1965, founded Orco Property Group S.A. in 1991 is today the Chief Executive Officer, President and Chairman of the Board of Directors. Mr. Ott served 18 months in South Korea for the French group Framatome, before starting a successful career as a derivatives trader in Paris. Based in Paris, he is responsible for Orco Property Group's strategy,





new business development, group finance issues as well as banking and investor relations. Mr. Ott has 18 years of experience both in real estate development and business in Central Europe. He was only 26 years old when he started Orco Property Group in 1991, purchasing its first office building in Prague. Thanks to this long experience, having lived seven years in Prague as well as extensive and continuous travel in the region, Mr. Ott is well acquainted with each country, market and the main players in Central Europe. He was also responsible for launching new Orco Property Group subsidiaries in Budapest, Warsaw, Bratislava, and Moscow. He was also in charge of developing new activities such as residential buildings, extended stay hotels and luxury hotels. In nearly twenty years of experience, he has acquired, developed and financed more than 100 projects. Mr. Ott is also the representative and managing director of Ott & Co. S.A., which is a member of the Board of Directors of Orco Property Group S.A. and ORCO Germany S.A. Mr. Ott graduated in Finance and Economics from the Political Sciences Institute and the Owners Directors Program at INSEAD. He is married to Corinne, who is originally from Texas, and has two children. Mr. Ott speaks fluently French, English and German.

**Nicolas Tommasini**, CFO and Deputy CEO of ORCO Property Group was involved in business development in Eastern and Central Europe prior to joining Orco Property Group. Mr. Tommasini works for Orco Property Group since 1997 and he has held several senior roles since then. He was, amongst others, responsible for the Group international development based in Prague, and first Country Manager of Orco Hungary in 2000. He was appointed CEO of MaMaison Residences at the end of 2002 and led MaMaison and Orco international development, notably in Germany in 2004 and 2005. In 2003 he was also named Vice President in charge of hospitality division for Orco Property Group, and Managing Director of the Endurance Hospitality Fund, based in Prague. End 2007, Mr. Tommasini was named responsible for strategy and special projects of the Group, based in Paris. Since 2009, Mr. Tommasini serves as Deputy CEO and CFO. Mr. Tommasini manages the investment and partnership transactions, overlooks ORCO Germany where he is a member of the Board of Directors, financial reporting & consolidations, Group cash management, leads local countries' CFOs, heads Group Legal and Group business planning and investor relations functions. Mr. Tommasini, a French native, holds a degree in political science from the Institut d'Etudes Politiques de Paris and an MSc in International finance from Lancaster University. Mr. Tommasini, born in 1971, lives in Paris, is married and has three children.

**Ales Vobruba**, Managing Director of ORCO Central Europe, joined Orco Property Group in 1995. Seated in Prague, he held several senior positions within Orco Property Group in CEE region. Nowadays, his main responsibilities are bank financing and development strategy within Orco Property Group as well as managing day to day operations of Czech and Slovak office. He also is a member of the Board of Directors of ORCO Germany S.A. Before starting to work with Orco Property Group, Mr. Vobruba worked in PZO Artia, Dopravni Stavby Olomouc and TAP / ARC (construction and advertising). Mr. Vobruba, a Czech native, studied foreign trade at VSE (economical university) in Prague. Mr. Vobruba, born in 1959, is married and has two children.

**Yves Désiront**, Chief Financial Officer of Orco Property Group S.A., graduated as Ingénieur Commercial of I.C.H.E.C. Brussels. Mr. Désiront joined Orco Property Group in 2005 after a 7 year position as Head of Consolidation in Groupe Bruxelles Lambert a Belgian holding company listed on Euronext Brussels and a three year middle management position at Générale de Banque (Fortis). Mr. Désiront is heading the consolidation, Group treasury management, controlling and business intelligence departments. With his teams, he is responsible for the establishment of all internal and external financial reporting. He is also supporting the Group CFO in his various responsibilities.



**Martin Gebauer** is Asset Management Director. Before joining the Group in 2003, Mr. Gebauer was a financial director of a British hospitality group in Spain. Prior to that he spent five years with Ernst & Young assurance services in the Czech Republic and United States. He is a member of the Association of Certified Accountants in Great Britain and holds an MSc in Economics and Management of Civil Engineering from the Czech Technical University, with graduation from the City University of London.

**Ogi Jaksic** is Development Director. Graduated from the University of Economics from Banjaluka, Serbia, and followed a European Executive MBA in Finance at the ESCEM Group School of Business and Management. For his entire career he has been active in real estate development in the Czech Republic. He joined ORCO from AFI Europe, a member of Africa Israel Group, the largest Israeli developer and one of the largest Central European real estate developers with activities in the Czech Republic, Romania, Serbia, Bulgaria, Germany and Poland, where he worked for nearly ten years as Commercial and Development Director for the Czech Republic and Slovakia.

## **9.4 Remuneration and benefits**

### **Board of Directors**

In November 2009, the Board of Directors approved the remuneration that the board members will receive, except the Executive Board Members:

- (i) a payment of EUR 1,000 per board member for all physical board meetings that are held where that Board member is in attendance (not for circular board resolutions);
- (ii) a payment of EUR 1,000 per committee member for all committee meetings that are held where that committee member is in attendance (not for circular committee recommendations);
- (iii) a payment of EUR 1,500 per committee president for all committee meetings that are held where that committee Chairman is in attendance (not for circular committee recommendations); and
- (iv) a payment of EUR 4,500 for the President of an Ordinary General Assembly or an Extraordinary General Assembly. This sum will not include the President's reasonable expenses and fees in preparing for the Ordinary or Extraordinary General Assembly, which he may invoice to the Company for reimbursement. In the event that the Ordinary or Extraordinary General Assembly is not held, but that the President prepared for the meeting, the President will be entitled to an indemnification of € 1,500.

The application of the President's payment of EUR 4,500 per Ordinary or Extraordinary General Assembly will be retroactively applied to January of 2009. All other payments referenced in this Resolution will only be retroactive until 1 July 2009. All payments will be made on a quarterly basis. For their attendance at board meetings, entitled board members received an aggregate amount of EUR 96,500 for 2010, EUR 50,500 for 2009, none for 2008 and of EUR 28,000 for 2007.

### **Executive Committee**

A global consideration giving a short term employee benefit to the members of the Executive Committee amounts to EUR 1.8 Million as at 31 December 2010 (EUR 4.5 Million in 2009, EUR 6.4 Million in 2008), out of which EUR 0.2 Million that will only be paid at the termination of the contract of current Executive Board Members.



### **Employee stock options**

The stock option plan voted by the Board of Directors on 21 January 2008 was not allocated due to the financial conditions. No options were exercised in 2009 and in 2010. As at December 2010, 60,000 options at EUR 75.6 are outstanding.

### **Pension, retirement or similar benefits**

In the Group, only Viterra Development GmbH and Viterra Baupartner GmbH have defined benefit plans. These plans are so-called book reserve plans, where there is no separate vehicle to accumulate assets to provide for the payment of benefits. Instead, the employer sets up a book reserve (provision) in its balance sheet.

The amount of pension benefit that an employee will receive on retirement usually depends on one or more factors, such as age, years of service and compensation. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of good investment grade corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

As at December 2010 and December 2009, the total of liabilities accrued in respect of the retirement benefit obligations amount to EUR 9.9 Million. In a decision taken on 3 March 2006, the Board of Directors of the Company granted to some members of the management of the Group a termination indemnity payment for a total amount of EUR 34 Million. As a result of the reduction of the number of persons covered by this termination agreement as at 31 December 2009, the potential termination indemnity payment amounted to EUR 16 Million (as at 31 December 2008: EUR 19 Million). This indemnity would become payable by the Company to the relevant management member only in case of change of control of the Company and in case the relationship between the Company and the management member is terminated by either party within a period of 6 months after the change of control.

## **10. Shareholding**

### ***10.1 Amount of share capital***

As of January 2011, the subscribed and fully paid-up capital of EUR 57,620,850.60 (EUR 44,869,850.60 in 2009) is represented by 14,053,866 shares (10,943,866 in 2009) without nominal value.

### ***10.2 Shareholding structure***

To the best of the Company's knowledge, the following table sets out information regarding the ownership of the Company's shares as of 24 January 2011.

Please note that the Company, as a company listed on four stock exchanges, has no control over transactions with the Company's shares done by its shareholders. The Company can provide updated information regarding the board and executive committee member shareholding, and those shareholders who eventually notify the Company on crossing relevant thresholds (if any) pursuant to the articles and transparency requirements and for those shares which are registered



in the shareholders register. Therefore, the latest information the Company has **as of 24 January 2011** (except otherwise stated) is the following:

<b>Shareholders</b>	<b>Number of shares</b>	<b>% of capital</b>	<b>% Voting Rights</b>
Lansdowne Capital	1,000,000	7.12	7.12
Axa Investment Managers	856,751	6.09	6.09
Millenius ( <i>information as of 19 April 2010</i> )	847,600	6.03	6.03
Neptune Invest Sàrl ( <i>information as of 19 April 2010</i> )	740,000	5.27	5.27
Hillgrove Investments Group	300,000	2.13	2.13
Finplat SA	300,000	2.13	2.13
Clannathone ( <i>information as of 19 April 2010</i> )	227,000	1.62	1.62
Ott&Co SA	177,003	1.26	1.26
M. Silvano Pedretti	100,000	0.71	0.71
Joho Compagnie	40,058	0.28	0.28
Bugle ( <i>information as of 19 April 2010</i> )	30,000	0.21	0.21
Alandia Investments	20,000	0.15	0.15
Treasury shares	9,761	0.07	(suspended) 0.07
Other	9,405,693	66.93	66.93
<b>Total</b>	<b>14,053,866</b>	<b>100</b>	<b>100</b>

Some of the shareholders have been mentioned into this chart with information as of 19 April 2010 as the Company has no information on the capital ownership and voting rights of such shareholders as of January 2011.

On 24 March 2010, a group of shareholders declared to the Company a holding of 10.09% of the Company's shares and voting rights, based on the number of shares composing the share capital of the Company at that time which amounted to 10,943,866 shares. They asked the Company's Board of Directors to convene a General Assembly before the end of April 2010. They are composed of:

- Millenius Investments S.A., a « société anonyme » located 37 rue d'Anvers, L-1130 Luxembourg, RCS B 149.601, whose directors are Gaël Paclot, a French National residing in Switzerland, Jean Van den Esche and Mario Brero and which economic beneficiary is Gaël Paclot, 44 rue Berard, CH-1936 Verbier (Switzerland).
- Clannathone Stern S.A., a « société anonyme » located 11, rue des Colonies, B-1000 Bruxelles, RCS 0867341435, represented by MM Alain Bremont, Jean-Louis Geylard and Johanna Klerk, and whose economic beneficiary is Eric Cleton.
- Bugle Investments Ltd., an « international business company » located in Seychelles, Suite 13, First Floor, Oliaji Trade Centre, Francis Rachel Street, Victoria, Mahe, Republic



of Seychelles, which representative and economic beneficiary is Marc Catellani, a French national residing in Switzerland.

On 6 April 2010 the Board of Directors of the Company approved a private placement of EUR 6.1 Million in the form of a capital increase under its authorized capital in favour of funds managed by AXA Investment Managers S.A. and Neptune Invest S.à r.l. for 750,000 and 340,000 shares. AXA and Neptune subscribed to the capital increase on 8 April 2010. The share capital of the Company increased to EUR 49,338,850.60 represented by 12,033,866 shares without nominal value.

On 8 April 2010, the Board of Directors approved a private placement of EUR 7.1 Million in the form of a capital increase of its authorized capital in favour of Alandia Investissements, Neptune Invest S.à r.l. and Lansdowne Capital S.A. (an affiliate of SPQR Capital) for 20,000, 400,000, and 1,000,000 shares respectively. The foregoing investors subscribed to the capital increase on 9 April 2010. The share capital of the Company has therefore increased to EUR 55,160,850.60 represented by 13,453,866 shares without nominal value.

On 14 April 2010, the Board of Directors approved and ratified a private placement of EUR 3 Million in the form of a capital increase within its authorized capital in favour of Hillgrove Investments Group Limited for 300,000 shares and FINPLAT S.A. for 300,000 shares. The foregoing investors subscribed to the capital increase on 13 April 2010. The share capital of the Company has thus been increased to EUR 57,620,850.60 represented by 14,053,866 shares without nominal value.

On 19 April 2010, Axa Investment Managers S.A. notified on behalf of its subsidiaries: Axa Investment Managers UK Ltd., with registered office at 7 Newgate Street London, EC1A 7NX, United Kingdom, incorporated under number 1431068 holds 704,835 shares representing 5.86 % of voting rights of the Company and Axa Investment Managers Paris with registered office at Coeur Défense Tour B La Défense 4, 100 esplanade du Général de Gaulle 92400 Courbevoie, RCS number : 393 051 826 RCS Nanterre holds 170,000 shares representing 1.41% of voting rights of Company. In total Axa Investment Managers holds via its subsidiaries 874,835 shares representing 6.22 % of voting rights of the Company based on the number of shares composing the share capital of the Company after the capital increase approved by the Board of Directors of the Company on 6 April 2010.

On 23 April 2010 Neptune Invest S.à.R.L. with registered office at F-92086 Paris la Défense cedex, Tour Allianz Neptune, 20, place de Seine, France, registered with RCS Nanterre, number 444 592 455 notified the Company that it holds 740,000 of the Company's shares, representing 5.50% of voting rights of Company, based on the number of shares composing the share capital of the Company after the capital increase approved by the Board of Directors of the Company on 8 April 2010.

On 23 April 2010 Lansdowne Capital S.A. a stock company with registered office at Avenue de la Liberté 25, L-1931 Luxembourg, Grand Duchy of Luxembourg, registered with the R.C.S. Luxembourg under number B87.091 notified the Company that it holds 1,000,000 of Company's shares, representing 7.43% of the voting rights of the Company, based on the number of shares composing the share capital of the Company after the capital increase approved by the Board of Directors of the Company on 8 April 2010.

None of the Company's principal shareholders has voting rights different from any other holders of the Company's Shares. To the Company's knowledge, the Company is not aware of any person who owns, directly or indirectly, or exercises control of the Company.



In reference to the Luxembourg law of May 19th, 2006 the board especially states on the following points:

- The structure of the capital, including securities which are not admitted to trading on a regulated market in a Member State, where appropriate with an indication of the different classes of shares and, for each class of shares, the rights and obligations attaching to it and the percentage of total share capital that it represents;
  - The share capital of Orco Property Group is represented by only one class of shares which are all admitted for trading on the Paris stock exchange, the Prague Stock Exchange, the Warsaw Stock Exchange and the Budapest Stock Exchange.
- Any restrictions on the transfer of securities, such as limitations on the holding of securities or the need to obtain the approval of the company or other holders of securities, without prejudice to Article 46 of Directive 2001/34/EC;
  - there is no restriction on the transfer of securities after the approval of the Prospectus by the Luxembourg *Commission de Surveillance du Secteur Financier* on 24 January 2011, passporting of the Prospectus and the admission of the 2,020,000 ordinary shares of the Company to trading on the regulated markets of NYSE Euronext, the Prague Stock Exchange, the Budapest Stock Exchange and the Warsaw Stock Exchange, the conditions for release of these shares from the nominee account (*compte nominatif pur*) in the register of the Company held by CACEIS Corporate Trust were fulfilled and the Shares were assimilated with the remaining ordinary shares of the Company on 3 March 2011. As such, the Shares are fully fungible with ordinary shares of the Company (ISIN LU0122624777).
- Significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC :
  - None of the Company's principal shareholders has voting rights different from any other holders of the Company's Shares.
  - To the Company's knowledge, the Company is not aware of any person who owns, directly or indirectly, or exercises control of the Company.
  - The information collected is based on the notifications received by the Company from any shareholder exceeding either up or down the thresholds of 2,5%, 5%, 10%, 15%, 20%, 33%, 50% and 66% of the aggregate rights of vote in the Company. Any shareholder crossing down the threshold of 2.5% has been withdrawn from the chart, as no obligation exists under Luxembourg law to inform the Company when the 0% threshold has been reached.
- The holders of any securities with special control rights and a description of those rights
  - This is not applicable
- The system of control of any employee share scheme where the control rights are not exercised directly by the employees
  - This is not applicable. The Group has no employee share scheme. Nevertheless, a share option plan has been set up. Share options are granted to certain directors and senior employees. The options are granted at the market price on the date of the grant and are exercisable at that price.



- Any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities
  - There is no restriction on voting rights
- Any agreements between shareholders which are known to the company and may result in restrictions on the transfer of securities and/or voting rights within the meaning of Directive 2001/34/EC;
  - To the knowledge of the board of directors, no shareholders agreements have been entered by and between shareholders.
- The rules governing the appointment and replacement of board members and the amendment of the articles of association;
  1. With respect to the appointment and replacement of board members, please refer to section 10.1 – Board of Directors of the Management Report
  2. Amendment of the Articles of Association of the Company:

According to article 23 of the articles of association of the Company, the extraordinary general meeting debating as defined below, may modify the Articles of Association in all their provisions. A change in the nationality of the Company and the increase in the commitments of the shareholders however may only be decided with the unanimous approval of the shareholders and of the bondholders.

The General Meeting may deliberate validly only if one half at least of the corporate capital is represented and if the agenda of the meeting includes the statutory changes considered, and as the case may be the wording of those bearing on the corporate purpose or legal form of the Company. In the event that the first of the above conditions is not fulfilled, a new meeting may be convened in accordance with statutory requirements, by way of notices inserted twice with a fifteen day interval at least and fifteen days prior to the date set for the meeting, in the Mémorial and in two Luxembourg newspapers. Such convening notice shall give the agenda of the meeting, inclusive of the date and outcome of the previous meeting. The second meeting shall deliberate validly whatever the part of the corporate capital represented thereat. In order to be valid, resolutions as adopted must at both meetings be approved by two thirds at least of those shareholders present or represented thereat.

Any modification bearing on the corporate purpose or legal form of the Company must be approved by the General Meeting of bondholders. Such meeting shall deliberate validly only if one half at least of the securities outstanding are represented and if the agenda of the meeting includes the modifications considered. In the event that the first of the above conditions is not fulfilled, a new meeting may be convened in accordance with the same conditions as are provided for in the preceding paragraph.

At the time of the second meeting, bondholders who are neither present nor represented shall be considered as attending thereat and voting the proposals put forward by the Board of Directors. Under penalty of nullity however:

- the convening notice must include the agenda of the first meeting, inclusive of its date and outcome ;
- it must specify the proposals of the Board of Directors regarding each one of the items on that agenda of the meeting, inclusive of any modification considered ;



- and include a notice intended for the bondholders that any failure on their part to attend the meeting shall represent an approval from them of the proposals put forward by the Board of Directors.

At the time of both meetings, resolutions shall be validly adopted if approved by two third of the votes.

Convening notices to General Meetings shall be issued in accordance with legal provisions. They shall not be necessary whenever all shareholders are present or represented and declare having had foreknowledge of the agenda of the meeting.

The Board of Directors may decide that in order to be able to attend the General Meeting, the owner of shares must deposit such shares five clear days prior to the date set for the meeting ; any shareholder may vote in person or through a proxy, who need not be a shareholder of the Company.

Each share entitles to one vote.

- The powers of board members, and in particular the power to issue or buy back shares; please refer to section 11.4 – Authorised capital not issued of the Management Report.
- any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is specifically obliged to disclose such information on the basis of other legal requirements;
  - Under the **SECURITIES NOTES AND SUMMARY DATED 22 MARCH, 2007** with respect to the issue of €175,000,461.60 seven year bonds with redeemable warrants attached, upon a Change of Control (as defined in Condition 4.1.8.1.2.1 of the related prospectus) in relation to the Company, each Bondholder will have the right to require the Company to redeem its respective Bonds as further described under clause 4.1.8.1.2.1 of the securities notes.
  - Under the **SECURITIES NOTES DATED 17 MAY 2006** with respect to the issue of a convertible Bond in a nominal amount of € 149 999 928 without preferential subscription rights. In case of change of control the bondholders are entitled to ask for an early redemption in case of change of control as further described under clause 4.1.8.1.3.2. of the securities notes.
- Any agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.
  - In a decision taken on 3 March 2006, the Board of Directors of the Company granted to some members of the management of the Group a termination indemnity payment for a total amount of EUR 34 Million as a result of the reduction of the number of persons covered by this termination agreement.
  - As at 31 December 2010, the potential termination indemnity payment amounted to EUR 16 Million (as at 31 December 2009 EUR 16 Million). This indemnity would become payable by the Company to the relevant management member only in case of change of control of the Company and in case the relationship between the Company and the management member is terminated by either party within a period of 6 months after the change of control.





### **10.3 Stock subscription rights**

Please refer to section 9.4 of this report.

### **10.4 Authorized capital not issued**

The Extraordinary Shareholders' Meeting of 8 July 2008 renewed the authorisation granted by shareholders to the Board of Directors on 18 May 2000, in accordance with article 32-3 (5) of Luxembourg corporate law and in addition enhanced the limit of the authorised capital. The Board of Directors was granted full powers to proceed with the capital increases within the revised authorised capital of EUR 300,000,001.20 under the terms and conditions it will set, with the option of eliminating or limiting the shareholders' preferential subscription rights as to the issuance of new shares within the authorised capital.

The Board of Directors has been authorised and empowered to carry out capital increases, in a single operation or in successive tranches, through the issuance of new shares paid up in cash, capital contributions in-kind, transformation of trade receivables, the conversion of convertible bonds into shares or, upon approval of the Annual General Shareholders' Meeting, through the capitalisation of earnings or reserves, as well as to set the time and place for the launching of one or a succession of issues, the issuance price, terms and conditions of subscription and payment of new shares. This authorisation is valid for a five-year period ending on 8 July 2013.

A total of EUR 57,620,850.60 has been used to date under this authorisation.  
As such, the Board of Directors still has a potential of EUR 242,379,150.60 at its disposal.

### **10.5 Transactions commitments on treasury shares**

As of December 2010, the Company owns 89,455 treasury shares including the 79,694 OPG shares relating to commitments in 2010, effectively delivered as of 17 January 2011 as mentioned in item 1 of the below section.

The table hereafter summarizes the transactions realized by the Company in 2010 on its own shares:

	Acquisitions	Sales and commitments
Number of shares (% of total shares)	127 071 (0.90 %)	127 071 (0.90 %)
Total Price (EUR)	978 459,40	919 650,95
Average price per share (EUR)	7.7001	7.2373

#### **Acquisitions in 2010:**

1. On 5 November 2010 OPG purchased 10,900 OPG shares.
2. On 9 November 2010 OPG purchased 7,880 OPG shares.
3. On 26 November 2010 Office II Invest purchased 20,191 OPG shares.
4. On 26 November 2010 Office II Invest purchased 35,000 OPG shares.
5. On 29 November 2010 Office II Invest purchased 21,869 OPG shares.
6. On 30 November 2010 Office II Invest purchased 21,231 OPG shares.
7. On 2 December 2010 Office II Invest purchased 5,000 OPG shares.
8. On 13 December 2010 OPG purchased 5,000 OPG shares.

Total: 127,071 OPG shares



**Sales and commitments in 2010:**

1. On 16 December 2010, 79,694 OPG shares were instructed to be transferred from our accounts to repay a supplier and were effectively delivered as of 17 January 2011.
  2. On 23 December 2010, 46,717 OPG shares were sold to a fund.
  3. On 27 December 2010, 660 OPG shares were transferred to Ott&Co S.A. pursuant to an instruction of Urso Verde S.A., in accordance with the share pledge agreement dated 30 April 2009, entered into between Urso Verde S.A. and the Company.
- Total: 127,071 OPG shares

As such, there are no other OPG shares on OPG or its subsidiaries' accounts other than those from before 2010 that have already been declared.

**Transactions on treasury shares in 2009**

The table hereafter summarizes the transactions realized by the Company in 2009 on its own shares:

	Acquisitions	Sales
Number of shares (% of total shares)	90,660 (0.83 %)	206,765 (1.89 %)
Fair value (EUR)	679,951.59	1,488,171.21
Average prices (EUR)	7.50	7.20

As of 31 December 2009, the Company owned 9,761 treasury shares (0.09%). In 2008, the Company owned 125,866 treasury shares representing 1.1% of total shares.

During the year 2009, a share pledge agreement was signed between the Company and Urso Verde S.A. (see note 31 of the 2009 consolidated financial statements on the related party transactions) to secure the debt linked to the loan granted in 2008 by the Company to Urso Verde S.A. As agreed by both parties, 90,660 shares of the Company were transferred by Urso Verde S.A. to secure the total debt amounting to EUR 679,951.59 from which 90,000 shares were finally sold by the Company to reimburse the debt. As of 31 December 2009, 660 of its own shares to be transferred back to Urso Verde S.A. were still held on the Company's portfolio with no book value.

## 11. Stock market performance

### 11.1 Shares of the Company

The Company shares (ISIN LU0122624777) are listed on Paris Stock Exchange (Euronext) since 2000, on the main market of Prague Stock Exchange since 2005 and on the main markets of Warsaw Stock Exchange and Budapest Stock Exchange since 2007. Changes in share price (COB) and volume traded in 2010 on Euronext are listed below. Prices are in EUR/ share:



2010	Low	High	Volume
Jan-10	6.21	6.96	1 437 211
Feb-10	6.41	7.70	1 544 359
Mar-10	7.49	8.05	1 106 863
Apr-10	7.40	8.19	1 631 121
May-10	5.98	7.31	773 757
Jun-10	4.83	5.98	554 765
Jul-10	4.66	5.12	408 820
Aug-10	5.04	5.67	657 813
Sept-10	6.24	8.00	1 466 442
Oct-10	7.23	7.98	512 207
Nov-10	6.95	7.92	492 194
Dec-10	7.01	7.70	349 039
Lowest/highest of the year	4.66	8.19	
Total annual transactions			10 934 591

## 11.2. Other financial instruments of Orco Property Group

The table below sets forth the list of financial instruments of the Company.

Name	Type	ISIN
Orco Property Group shares including : (Orco Property group SA, Orco Group OPG.WA, , Orco Property GP NPV)	Equity	LU0122624777
Bond 2007 - 2014	Fixed income	XS0291838992
Warrant 2007 - 2014	Equity	XS0290764728
Convertible bond 2006 - 2013	Fixed income	FR0010333302
Bond cum warrant 2007 -2014	Fixed income	XS0291840626
Variable rate bond 2005-2011	Fixed income	CZ0000000195
Bond 2005 - 2010	Fixed income	FR0010249599
Warrant 2005-2012 Note: Exchange offer against 2014 warrants, closed in November 2007	Equity	LU0234878881
Exchangeable bond into Hvar shares 2012	Fixed income	XS0223586420

The shares of Orco Germany S.A. and Suncani Hvar are also listed on Frankfurt Stock Exchange and Zagreb Stock Exchange respectively.



## 12. Corporate Responsibility

The Orco Foundation is making a difference in people's lives in Central Europe via three areas of activity:

- Providing social programs that offer therapeutic solutions to individuals or families faced with illness or in distress;
- Creating events that bring together local communities and Group employees for the benefit of the environment;
- In the long-term, renovating or constructing buildings dedicated to social works, possibly a home for the elderly or a day center for at-risk youths.

The Orco Foundation is active in the Czech Republic, Germany, Slovakia, Hungary, Poland, and Croatia with a team of 15 dedicated board members. Created in January 2008, the Orco Foundation chooses local associations for its social programs, working with transparency and diligent follow-up on the projects it supports. The Orco Foundation also organizes and funds its own events that occur annually such as Children for Children (Deti pro Deti) which mobilize children and families to help children with cancer. For example, on 25 March 2010 in Ostrava, Czech Republic, a benefit concert with the Janacek Philharmonic, a children's choir, and well-known lyric artists, raise money for the children's leukemia and hematologic wing of local Poruba hospital, raising funds to employ a psychologist for families whose children have been diagnosed.

In 19 years of presence in Central Europe, the Group has not only brought architecturally innovative and aesthetic buildings to cities in Central Europe, the Company has also actively supported charities that improve the quality of life of people in the region. The board of the Company voted in 2007 to unite its charitable activities in six countries under one roof – hence the creation of the Orco Foundation.

For detailed information on Orco Foundation - its mission, guiding principles, team and actions, please visit the following website: [www.orco-foundation.com](http://www.orco-foundation.com).

## 13. Other reporting requirements

- 13.1. Subsequent closing event: See point 4 of this management report
- 13.2. Financial Risks Exposure: For a thorough description of the principal risks and uncertainties (see notes 2.1, 3 and 4 to the consolidated financial statements).
- 13.3. Director's compensation: see note 29 of the consolidated financial statements
- 13.4. Other information: the Group does not have any activities in research and development.