**Orco Property Group**
**Société Anonyme**
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**RCS Luxembourg B 44996**
**Management Report as at 30 June 2011**

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

Dear Shareholders,

In the first six months of 2011, we have continued to execute our strategy of focusing on our core markets of Prague, Warsaw, Budapest and Berlin. Towards these ends, we have increased our ownership stake in key assets and commercial developments with stable rental incomes, sold mature assets and non-core activities, and improved our financial structure by strengthening our equity position and deleveraging our debt position. This financial and corporate streamlining coupled with a focus on sound projects at the local level will allow us to continue to overcome the challenges in today's business environment.

Key assets and developments

In Prague, Bubny: the development project that incorporates more than 600,000 sqm of residential, office and retail space has seen significant progress. Orco's concept for the master plan zoning was approved by Prague's 7th district, one plot was sold to Skanska, and a joint venture between Orco and Unibail-Rodamco was signed whereby a second plot of 3.7 hectares would be developed substantially above book value. These transactions generate the momentum and interest needed to reinforce the valuation of Bubny and ensure its successful development.

In Warsaw, Zlota 44: the luxury high-rise building with 251 apartments in the heart of the city has now reached 39 of 54 floors. At a rate of roughly 1 floor being built per week, 22 floors have been completed since works restarted in January. Within a few months, Zlota will reach its summit and there will not be any projects competing against it for at least 2 years.

In Budapest, Vaci 1: the luxury shopping destination in the centre of Budapest, is close to completion with tenant fit outs now starting while leasing accelerates.

In Berlin, our portfolio of more than 900,000 sqm of commercial space is our prime focus. In addition to appointing a new management team with the asset management and corporate skills needed to improve the performance of this portfolio, we are set to increase our control to 91,6% of Orco Germany [1]through the MSREI transaction and other purchases.

Endurance: the MSREI transaction has also allowed us to increase our equity stake and influence on the two Endurance Office and Residential sub-funds sponsored by the company. Should the opportunities present themselves, we are open to further increasing our stakes in these sub-funds so as to enlarge our portfolio of investment properties in Prague, Warsaw and Budapest and increase the company's rental revenues.

Sale of mature assets and non-core activities

Leipziger Platz, valued at EUR 84 million, created significant value for the company when we sold it in January for EUR 89 million plus EUR 30 million payable after completion for a total of

[1] Eliminating OG own treasury shares

EUR 119 Million. In addition, the Bubny joint venture with Unibail-Rodamco and the sale of mature assets such as Sky Office in Dusseldorf, which is planned in the next six months, will generate value and cash for the company.

Recently, the company entered into an agreement to exit from its Russian real estate operations, including the logistics business, the residential projects and the office and land plots for a total net amount of EUR 53 million. The company will retain the Pokrovka hotel as part of Mamaison Hotels and Residences and a 10% stake in the Filion shopping centre in Moscow.

The restructuring of Suncani Hvar is progressing well. The agreement signed with the Croatian Privatization Fund recapitalized the company with an injection of HRK 19.9 million (EUR 2.6 million), a reduction of the indebtedness by HRK 41.21 million (EUR 5.5 million) and a write off of HRK 22.2 million (EUR 3 million) in shareholder loan interest. Just as important, this agreement has allowed the implementation of the much postponed operational restructuring, which already has started producing significant costs savings. Disposing of some of the non-core Croatian assets will further enhance this restructuring in the future.

Strengthening equity base and deleveraging

The financial environment remains challenging and may have an adverse impact on our financing and refinancing alternatives. However, the macro-markets in which we operate in Germany and Central Europe are faring better than many other developed markets. Moreover, within these markets, the cities in which we operate, such as Berlin, are even outperforming their national markets.

Finally, we have continued to improve the financial structure of the company with a core group of shareholders that include the existing institutional investors as well as MSREI. We are also discussing the potential conversion of Orco Germany bonds into an Orco Property Group security in order to strengthen the company’s equity and deleverage the German balance sheet.

To conclude, as the developer of investment properties it is true that the business environment remains challenging; but our local dynamics are real. We are determined to execute our strategy of simplifying our structure by moving towards full ownership of our core businesses and focusing on a unique mix of major developments and stable rental incomes from our commercial assets in Prague, Warsaw, Budapest and Berlin.

Jean-François OTT
President and CEO

# 2. Business Review

## *2.1 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 Property Investments business line.

### 2.1.1 Residential

The Group residential developments aim at the middle and upper market segments in Prague, Warsaw and Bratislava. Quality real estate offers, in the current market conditions, the more resilient margin profile and the Group streamlined its residential development portfolio in order to focus its investment capacities on key prime projects and locations such as Zlota 44 in Warsaw and Benice in Prague.

| Amounts in units | New order** | | Inventory*** | | Backlog**** | |
|---|---|---|---|---|---|---|
| Country | H2 2010 | H1 2011 | H2 2010 | H1 2011 | H2 2010 | H1 2011 |
| Czech Republic* | 65 | 72 | 201 | 131 | 228 | 151 |
| Poland | 40 | 38 | 286 | 258 | 394 | 375 |
| Slovakia | 12 | 5 | 47 | 43 | 50 | 44 |
| Croatia | 0 | 0 | 0 | 12 | 0 | 12 |
| Total in units | 117 | 115 | 534 | 444 | 672 | 582 |
| **Amounts in EUR Million** | **New order**** | | **Inventory***** | | **Backlog****** | |
| **Country** | **H2 2010** | **H1 2011** | **H2 2010** | **H1 2011** | **H2 2010** | **H1 2011** |
| Czech Republic* | 9,4 | 12,8 | 39,8 | 28,9 | 44,0 | 32,4 |
| Poland | 4,0 | 6,6 | 183,9 | 186,2 | 250,8 | 249,0 |
| Slovakia | 5,1 | 1,7 | 17,4 | 14,5 | 18,6 | 15,0 |
| Croatia | 0,0 | 0,0 | 0,0 | 1,7 | 0,0 | 1,7 |
| Total in EUR Million | 18,5 | 21,1 | 241,1 | 231,3 | 313,4 | 298,1 |

*Kosik at 50%

**New order : the newly contracted units. Those units will be converted into revenue upon delivery

***Inventory : uncontracted units

****Backlog : total amount of unit under contract but not yet delivered and inventory

Please note that the residential units from the Vinohrady portfolio are included in the figures of the Czech Republic in H2 2010 and H1 2011. Those units are considered as asset sales and do not generate revenue, still it is included in the effort of commercialization of residential units of the Group. The backlog value of this units represents an amount of EUR 5,3 Million in H2 2010 and EUR 3,2 Million in H1 2011. New orders value for this portfolio represent EUR 1,5 Million over H1 2011 and EUR 0,3 Million over H2 2010 . Inventory value of the Vinohrady portfolio is EUR 2,8 Million in June 2010 and EUR 5,3 Million in December 2011.

Over H1 2011, the level of new orders generated remained stable in comparison with H2 2010 at a level of 115 units, meanwhile total amount contracted increased up to EUR 21.1 Million (+15% in comparison with H2 2010). The new orders, main indicator of sales performance, include both Reservation Contracts and Future Purchase Contracts closed in given period. The change in the sales outlook comprises differences of performance at local level:

- In Czech Republic, the Group recorded an increase of new sales in terms of number of contract signed and of revenue contracted (EUR 12.8 Million in H1 2011 VS EUR 9.4 Million in H2 2010), supported by the first deliveries of the project Mostecka. The positive outlook of the Czech Republic economy fuels the confidence of the Group on the performance of its local activities. The Czech Republic's long-term credit rating improved from A to AA- in August 2011 by Standards & Poor's reflecting a prudently managed and balanced economy. In this context, mortgage volume has increased by 47% y-o-y in the second quarter 2011, while interest rates declined slightly to 4.14%, lowest level since 2006.
- In Slovakia, over H1 2011, the project Parkville recorded slow sales due to difficult market condition showing pricing pressure on large apartments.
- In Poland, the level of new orders remained stable at 38 units newly contracted meanwhile revenue contracted increased up to EUR 6.6 Million (+65% in comparison with H2 2010), with an average unit price up to EUR 175 Thousand during the first half of the year 2011 ( vs EUR 99 Thousand in H2 2010).

In Croatia, a 12 units residential project was completed on the Island of Hvar during H1 2011 and is now recorded in our inventory.

### 2.1.2 Commercial

The commercial development portfolio consists of properties that the Company 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.

| Project held in portfolio as of June 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Committed | Location | Asset type | Area in SQM | Permit status | Construction completion | Current value in EUR Million June 2011 | ERV in EUR Million |
| Sky Office | Germany, Dusseldorf | Office | 33 142 | Granted | 2010 | 138,9 | 7,8 |
| Vaci 1 | Hungary, Budapest | Shopping mall | 22 737 | Granted | Q3 2011 | 54,6 | 4,8 |
| Prospective | Location | Asset type | Area | Permit status | Construction completion | Current value in EUR Million June 2011 | ERV in EUR Million |
| Bubny | Czech Republic, Prague | Mixed commercial | 24 ha | Pending | 2020 | 147,8 | NA |

Over H1 2011, significant steps in the development of the key commercial projects of the Group were achieved.

- In Budapest, Vaci 1 reached the last stage of completion with the starting of the tenant fit out's work in March 2011. Construction works are now completed and the Group is now actively working on offering a prime shopping experience to future customers from the very first day of the opening. Two third of the project is currently pre-leased or under advanced negotiations with internationally renowned retail chains and brands.
- In Germany, the investment market registered one of the stronger second quarter since 2007 with an amount of EUR 5.6 Billion of transactions. In Dusseldorf, office market fundamentals are persistently strong with a take up expected to reach 350,000 sqm in 2011 according to CBRE, a figure 10% above the ten year average of 319,000 sqm. Prime office rents remain at a level of EUR 23.00/sqm/month and prime yield are at 5.1%, a 10 bps decrease y-o-y. Contracting the sale of Sky Office by year end remains a key objective and to achieve it, an international broker has been appointed during H1 2011.
- In the Czech Republic, the study for the master plan change of Bubny is now completed and the Group is filing the City Council. In the meantime, the Group is already actively preparing the future development of the project. After the sale of the North East Corner to Skanska at the end of the year 2010, the Group focused its effort on signing a joint venture with a first rank retail developer aiming at the construction of prime shopping mall of a 100,000 sqm, the future anchor of the project. On 29 July 2011, the Group and Unibail-Rodamco signed an agreement for the sale of a plot of 3.7 ha to a joint venture shared between the two companies.

## *2.2 Property Investments*

The Group Property Investments business line (formerly named 'Asset Management') is comprised of rental assets, hospitality assets and Endurance real estate fund management (generating income from management fees as fund manager). Property Investments gross asset value includes financial assets for an amount of EUR 58 Million as of June 2011 to be compared with an amount of EUR 35 Million as of December 2010:

### 2.2.1 Rental portfolio

The Group rental portfolio encompasses assets focusing on commercial buildings.

| Portfolio per Country | GLA (SQM) June 2011 | GLA (SQM) Dec 2010 | Occupancy (%) June 2011 | Occupancy (%) Dec 2010 | Average Rent Eur/SQM June 2011 | Average Rent Eur/SQM Dec 2010 |
|---|---|---|---|---|---|---|
| Prague, Czech Republic | 154 210 | 154 523 | 75,1% | 71,2% | 7,07 | 6,67 |
| Budapest, Hungary | 29 598 | 29 598 | 9,3% | 11,5% | 21,58 | 12,54 |
| Warsaw, Poland | 36 630 | 36 630 | 83,9% | 77,4% | 2,78 | 3,04 |
| Bratislava, Slovakia | 8 220 | 8 220 | 36,0% | 16,9% | 6,20 | 13,79 |
| Capellen, Luxembourg | 7 744 | 7 744 | 85,9% | 97,6% | 21,99 | 21,69 |
| GSG - Berlin, Germany | 815 624 | 815 334 | 77,1% | 77,2% | 4,60 | 4,55 |
| Germany (other than GSG) | 37 896 | 40 319 | 83,9% | 86,0% | 8,88 | 9,42 |
| **Portfolio Data** | **1 089 922** | **1 092 368** | **75,2%** | **74,6%** | **5,25** | **5,20** |

Over H1 2011, the Group recorded an increase of occupancy rate from 74.6% in December 2010 up to 75.2% in June 2011, while average rent slightly increased from 5.20 EUR/SQM as of December 2010 up to 5.25 EUR/SQM as of June 2011:

- In Czech Republic, the Group achieved significant improvement of the letting performance over the whole portfolio with an increase of both occupancy rate (75.1% as of June 2011 vs 71.2% as of December 2011) and average rent (7.07 EUR/SQM as of June 2011 vs 6.67 EUR/SQM as of December 2011). During the 2nd quarter 2011, the Prague Office Market showed improved characteristics with a decrease of the average vacancy rate of office market down to 11.9%, (-110 bps q-o-q). A limited expected new supply and a recovering economy are expecting to induce a further slight decrease of the vacancy rate in the next period (JLL) and allow rent resilience. Meanwhile logistic and light industrial assets in Czech Republic are taking advantage of a strong demand recorded over the last 18 months and a limited supply. Average market vacancy rate are recorded at a level of 10.1% in Pilsen and 5.5% in Brno and Ostrava and are expected to further decrease over H2 2011 with a positive impact on rents.
- In Budapest, general office market conditions remain challenging with a steadily high vacancy rate (20.6% as of June 2011). Higher incentive and flexible lease conditions have become a common market practice. As a consequence, occupancy rate of our portfolio remains low at a level of 9.3% as of June 2011.
- In Poland, logistics assets reached an occupancy rate of 83.9% in June 2011 (vs 77.4% as of December 2010) with only slight decrease down to EUR 2.8/SQM of the average rent. During the 2nd quarter, the logistic and light industrial market in Poland demonstrated an improving situation. The take-up significantly increased with the record level of 500,000 sqm, compared to the 1st quarter 2011 with 100,000 sqm. Mainly due to stronger demand the average vacancy rate dropped by 200 bps. to around 13%.
- In Slovakia the letting performance of the retail asset of Dunaj demonstrated good results with an increase of the occupancy rate increased from 16.9% as of December 2010 up to 36.0% as of June 2011. The decrease of the average rent is a direct consequence of the decrease of the vacancy as the leased area is not anymore limited to the prime locations of the building.
- In Germany, with a level of 77.1% the occupation rate of the portfolio GSG recovered from a slight decrease down to 76.3% observed as of Q1 2011 and recorded an increase of the average rent now at a level of 4.60 EUR/SQM (vs 4.55 EUR/SQM as of December 2010). The lease volume on the Berlin office market was totaling 314,000 sqm, thereof 166,000 sqm in the 2nd quarter, 12% above the 1st quarter level (DTZ). This is the highest demand on office spaces recognized in the last 10 years and it led to a decrease of the vacancy rate down to 8.5%. For the second half of the year a further reduction in vacancies is expected and Group's objective is to bring GSG portfolio up to 79% at the end of year 2011.

### 2.2.2 Logistics

| | GLA (SQM) | | Occupancy (%) | | Average Rent Eur/SQM | |
|---|---|---|---|---|---|---|
| Portfolio per Country | June 2011 | Dec 2010 | June 2011 | Dec 2010 | June 2011 | Dec 2010 |
| Russia - Molcom | 112 386 | 111 660 | 90,6% | 82,6% | 20,1 | 19,8 |
| **Portfolio Data** | **112 386** | **111 660** | **90,6%** | **82,6%** | **20,1** | **19,8** |

Over H1 2011, the logistic activity of Molcom is benefiting from a positive business environment and from a very positive performance trend. In June 2011, the occupancy rate reached 90.6% and the recently built extension will reach full capacity in Q3 2011 as expected. In the mean time, average rent increased from EUR 19.8/SQM in December 2010 up to EUR 20.2/SQM in June 2011, which confirms the efficiency of the new per service billing system designed to increase per SQM profitability.

### 2.2.3 Hospitality

As of June 2011, the hospitality portfolios comprised a total of 1,920 operated rooms.

- ***CEE hotels***

| H1 2011 | | | | | | |
|---|---|---|---|---|---|---|
| CEE hotels | Number of assets | Number of rooms | Occupancy % | ADR (Euros) | Revenues EUR Million | GOP EUR Million |
| Czech Republic | 5 | 482 | 57% | 82.6 | 6,2 | 1,9 |
| Poland | 3 | 220 | 54% | 90.6 | 3,0 | 1,0 |
| Hungary | 3 | 161 | 67% | 71.9 | 1,4 | 0,6 |
| Slovakia | 1 | 32 | 73% | 67.6 | 0,3 | 0,1 |
| Russia | 1 | 84 | 68% | 226.4 | 3,3 | 1,4 |
| **Total CEE hotels** | **13** | **979** | **59%** | **97.2** | **14,3** | **5,1** |

*Starlight is excluded for Occupancy and ADR as it is a lease contract*

*Numbers above are at 100%*

| H1 2010 | | | | | | |
|---|---|---|---|---|---|---|
| CEE hotels | Number of assets | Number of rooms | Occupancy % | ADR (Euros) | Revenues EUR Million | GOP EUR Million |
| Czech Republic | 5 | 484 | 54% | 76,1 | 5,6 | 1,3 |
| Poland | 3 | 220 | 48% | 89,0 | 2,9 | 0,7 |
| Hungary | 3 | 161 | 61% | 72,3 | 1,3 | 0,5 |
| Slovakia | 1 | 32 | 67% | 70,4 | 0,3 | 0,1 |
| Russia | 1 | 84 | 65% | 233,1 | 3,1 | 1,2 |
| **Total CEE hotels** | **13** | **981** | **55%** | **94,9** | **13,2** | **3,8** |

*Starlight is excluded for Occupancy and ADR as it is a lease contract*

*Numbers above are at 100%*

During the first half 2011, and despite the traditional negative seasonality effect of the period, the Group witnessed an improving industry environment compared to H1 2010; the market confirmed a positive outlook and together with the effort of a renewed management the hospitality portfolio achieved a 8.3% of revenue over the first half of the year in comparison with H1 2010. The management is confident in the sustainability of this positive trend over H2 2011.

Average occupancy for the first half of the year reached 59.2% which is 4 percentage points above last year. Thanks to an Average Daily Rate increase and good cost control GOP at EUR 5.1 Million is 37% higher than last year. Figures in the table assume full detention of the assets while assets are owned jointly with an AIG Real Estate Fund (with 75% of economic interests to Orco).

- **Suncani Hvar Hotels**

As observed in the rest of Europe, the tourism market is rebounding compared to last year. Total revenue for the period, which is preceding the season, is EUR 3.7 Million which represents an increase of 8.8% y-o-y. The strong cost containment plan of Suncani Hvar hotels, showed results in the second quarter where the operational result of the company was break even for the first time.

In March, the Group solved its disputes with its joint venture partner, the CPF. The parties have agreed 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. The agreement strengthens the balance sheet of the Group and has allowed the implementation of the cost restructuring plan.

# 3. Key events: first half 2011 and post-closing key events

## *3.1 Vaci 1: final handover signed*

The Vaci 1 department store project, or the former Budapest Stock Exchange building located on the main high street square of Budapest, with an entire area of 22,737 sqm GFA and 11,378 sqm NLA is now completed with final handover minutes signed in August 2011. First tenant fit out have started in March 2011 with an opening expected to occur at year end. The Group is now focusing on offering a prime shopping experience to the final customers of its tenants.

## *3.2 Zlota 44: construction restarted since January 2011*

Zlota 44, a luxury high-rise building with 251 apartments in central Warsaw, is iconic of the Group's strategy focusing on prime asset and location. Construction works restarted during Q1 2011. The appointment of a new general contractor allowed EUR 19.7 Million cost reduction and improved specifications (façade glazing, etc.). Sales re-opening were postponed to allow market awareness of the resumption of works. Marketing of the project's units is now supported by a new state-of-the-art website offering future customers a reality-like experience of their new home ( http://www.zlota44tower.com ). Completion of the project is scheduled for December 2012.

## *3.3 Leipziger Platz sale and profit sharing*

In November 2010, ORCO Germany confirmed the sale of the project "Leipziger Platz", the last undeveloped piece of land in the very centre of Berlin, in the immediate vicinity of the Brandenburg Gate, 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 96 Million (for the first three instalments), plus an additional payment of EUR 30 Million payable after finalization of the project expected in 2014.

An amount of EUR 10 Million is deferred to cover for project development responsibilities and risks overtaken by ORCO. Such risks were covered by a provision of EUR 5.5 Million as at December 2010 decreased to EUR 1.1 Million as at June 2011 after the positive results accumulated on the litigation over the period. The transaction is a share deal. The total development costs are estimated at approximately EUR 400 Million. More than 85% of the commercial space has already been pre-leased. Excavation works began end of January 2011.

## *3.4 Joint Venture of Unibail-Rodamco and Orco Property Group on Bubny*

On 29 July 2011, the Group's strategic development project Bubny in Prague 7 reached a new phase with the signing of an agreement for the sale of a plot of 3.7 ha to a joint venture between the Group and Unibail-Rodamco. This new entity will bring together the expertise of OPG and Unibail-Rodamco for the conception of an anchor of 100,000 sqm of state of the art shopping mall. The signing of this agreement demonstrates the strong commitment of the Group in the development of Bubny, bringing together the best players in class to maximize value creation of this large scale project.

The contract execution involves a 90% of ownership for Unibail-Rodamco. The Group has a 10% ownership in the joint venture and keeps an option to increase its share up to 40% at a price equivalent to cost plus interests until the beginning of the construction. Closing of the transaction is expected by early 2012 while the opening of the premium large shopping centre would take place in 2017. With the sale of the plot to the joint venture, the Group will have a net cash in of EUR 18 Million for the sale of 90% of the plot plus an earn-out of up to EUR 10 Million depending on master plan validity date.

The master plan change study in the meantime is completed and discussions with municipality services are ongoing before approval by the city council.

## *3.5 Investment in ORCO of Morgan Stanley Real Estate Investing*

On 18 August 2011, the Group and Funds advised by Morgan Stanley Real Estate Investing ("MSREI") have entered into an agreement regarding MSREI's investment in Orco Property Group. Subject to regulatory and internal approvals and final closing, the Group and MSREI have agreed that OPG will issue 3 Million ordinary shares in a private placement. The subscriptions of these shares will be paid by MSREI through contributions of its stakes in Orco Germany and Endurance Real Estate Fund. 2 Million OPG shares will be issued at EUR 9 per share against 14.1 Million Orco Germany shares at EUR 1.28 and 1 Million OPG shares will be issued at the same price for Endurance Real Estate Fund units with a 26% discount on the net asset value of EUR 12.2 Million.

Following the completion of the transaction, MSREI will become the largest shareholder of Orco with approximately 19.2% of issued shares. Orco will increase its stake in Orco Germany to approximately 91.6% (after eliminating OG treasury shares) and in the two Sub-funds of Endurance Real Estate Fund as follows, 14.8 % in the Residential Sub-fund and 27 % in the Office I Sub-fund.

### *3.6 Orco Property Group enters into agreement to sell Russian assets for EUR 53 Million pursuant to restructuring strategy*

Orco Property Group and Surmena Enterprises Company Limited have entered into an agreement to sell Orco's stake in its Russian real estate operations, including the logistic business, the residential projects, the office and the land plots for a total amount of EUR 53 Million. This price represents an initial discount of 8% against DTZ valuation and excludes potential price adjustments resulting from a provision entitling Orco to a percentage of future sales. The agreement is subject to formal closing which is scheduled for September 2011. The first payment is due on closing with a total sum of circa EUR 13.2 Million payable in cash before year end 2011, with the balance to be paid in 2012.
Orco retains Pokrovka, which is part of Mamaison Hotels and Residences, and a 10% stake in commercial centre Rubin, both in Filion, which have not formed part of the sale.
"This sale is part of Orco's strategy to focus on its core business in Berlin, Prague, Warsaw and Budapest with the aim of simplifying the group's structure. The sale of these assets in Russia represents the continued execution of our strategy." stated Jean-Francois Ott. "

### *3.7 Orco Property Group Senior management appointments*

During the first half of the year 2011, top management of the Group's business lines was strengthened.

Gabriel Lahyani, new Managing Director of the Development business line brings to the Group a unique experience gained between the years 1989 and 2001 with some of the world most famous architectural realizations and from 2005 to 2010 as CEO of one of the largest civil and specialized earth works contractors in the Middle East, making him an ideal contribution in order to lead the development activity of the Group, and especially large scale projects among them the Bubny project in Prague (Czech Republic) or the Zlota 44 project in Warsaw (Poland).

Cedric Gabilla joined as Deputy Managing Director of the Property Investments division, working alongside Nicolas Tommasini. He's brought his extensive experience at General Electric and Merryll Lynch. New leasing managers were appointed in Czech Republic, Poland and Hungary and Germany.

At Group level, Jacques Bonnafont joined Orco Property Group as general secretary. A graduate of the EDC business school in Paris and the HEC Executive MBA, Jacques Bonnafont started his career as an auditor at PricewaterhouseCoopers and an associate at Ernst & Young. In his latest appointment Jacques Bonnafont was Finance Director at ANF Immobilier, a listed real estate investor and asset manager with more than 400,000 sqm of properties.

### *3.8 Management restructuring in Orco Germany*

The Group pursues its efforts in the restructuring of its key subsidiary, Orco Germany. The appointment of Jean-François Ott and Nicolas Tommasini as CEO and deputy CEO of Orco Germany S.A. as of November 2010 and the departure of the former CEO, Rainer Bormann was followed with a significant renewal of the operations' management team. Oliver Schlink, new CFO, coming from Deutsche Annington and Sebastian Blecke new COO coming from Sirius bring their long term experience to Orco Germany together with 3 new asset managers appointed in order to improve the operational performance of the Group's portfolio.

## *3.9 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.

On 17 May 2011, the bondholders' representative filed a request to the "juge commissaire" to obtain an interpretation of the "juge commissaire"'s admission of the bond debt. The requests were pleaded in front of the "juge commissaire" on 21 June 2011. The decision shall be rendered in the course of September 2011. Then on 27 September 2011, a new hearing will occur on the request of the Bondholders' representative to contest that the total amount of bond debt admitted by the "juge commissaire" is complete.
The pleadings in front of the Commercial Court of Paris on the Tierce opposition can only continue validly once the "juge commissaire" decision will be rendered and becomes definitive. 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 Company deplores that the Court hearing has been postponed in several occasions.

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.

## *3.10 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.

On 15 March 2011 an announcement was made that the major shareholders of the company Suncani Hvar, ORCO Property Group 55.6% and Croatian Privatization Fund 32%, reached an agreement on resolving outstanding disputes and agreed on future cooperation guaranteeing long term financing of activities.

On 29 April 2011 the parties held a General Meeting of Shareholders and voted 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 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 following the March 2011 agreement.

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 the payment of which was completed in two steps in March and August 2011.

In the first half of 2011 The Croatian Privatisation Fund was brought to an orderly close by the Croatian Government. A newly established State Agency, Agencija Za Upravljanje Drzavnom

Imovinom ("Audio") is the legal successor to the CPF to which the legal benefits and responsibilities of its predecessor have passed including the obligations in respect of the Company.

### *3.11 Settlement agreement entered into among Orco Property Group, Millenius, Fideicom, Clannathone and Bugle*

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.

### *3.12 Acquisition of treasury shares*

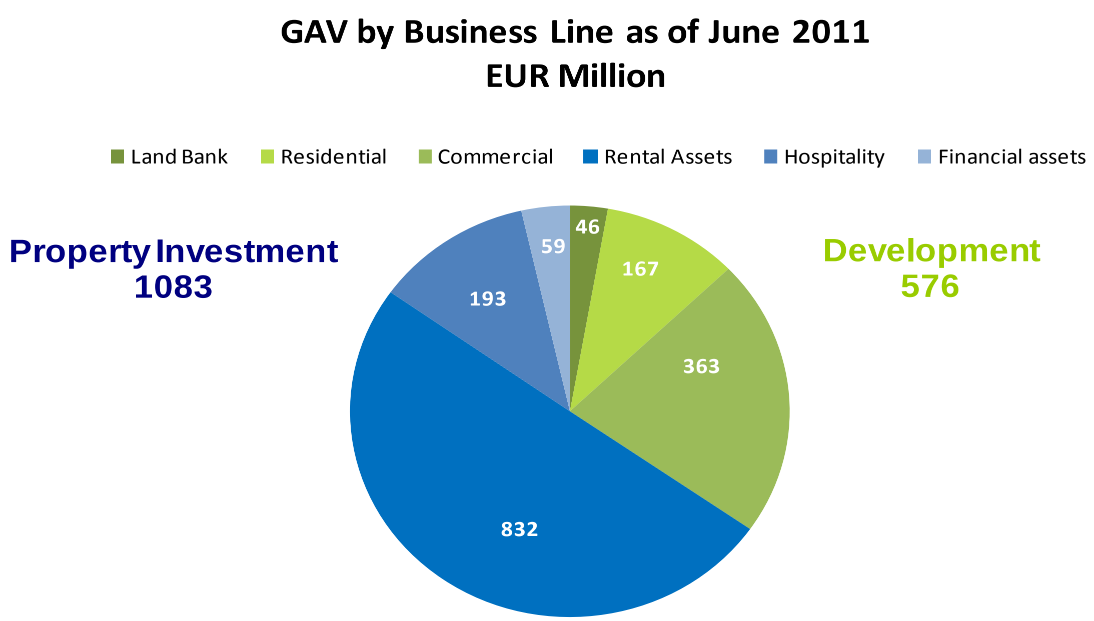
By a letter dated February 21, 2011, Orco Property Group received an official notification from Office II Invest S.A., a société anonyme, indirectly owned by Orco Property Group, incorporated under Luxembourg law, with registered office at 38, Parc d'Activités Capellen, L- 8308 Capellen, Grand Duchy 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.

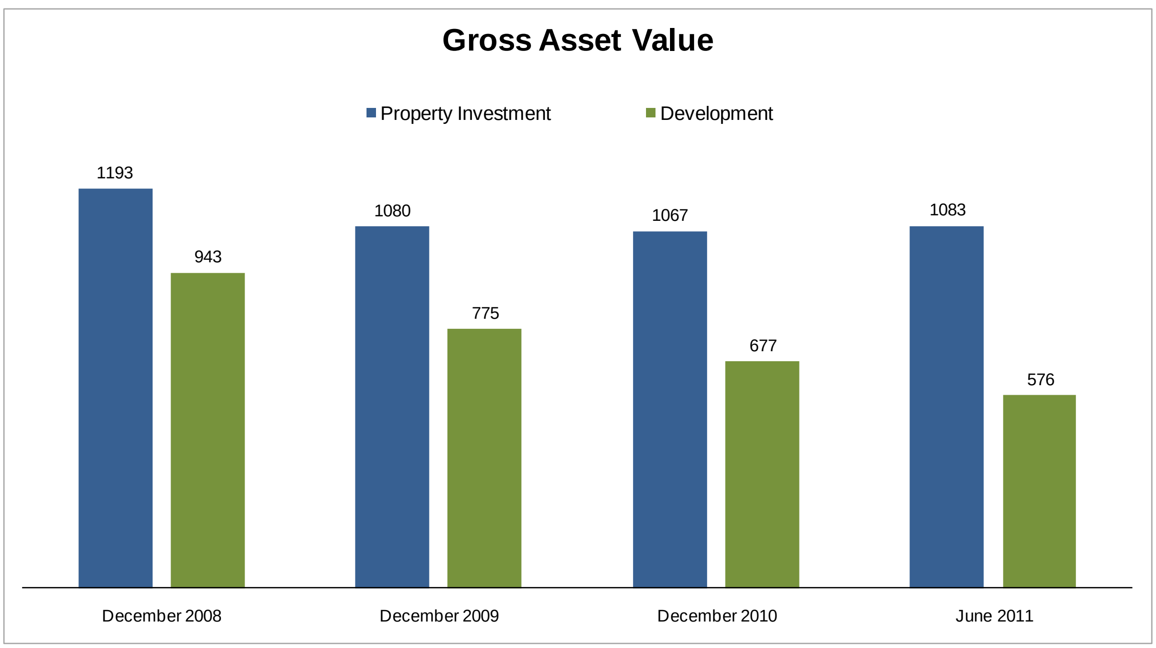
## 4. Gross Asset Value and NAV

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, 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 June 2011 GAV of EUR 58 Million to be compared with a EUR 35 Million increase of the 2010 GAV. As of June 2011, the amount of financial assets includes the net present value of the EUR 30 Million earn out relating to the Leipziger Platz's transaction.

The IFRS balance sheet only integrates at fair value the investment properties defined under IAS40. 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.

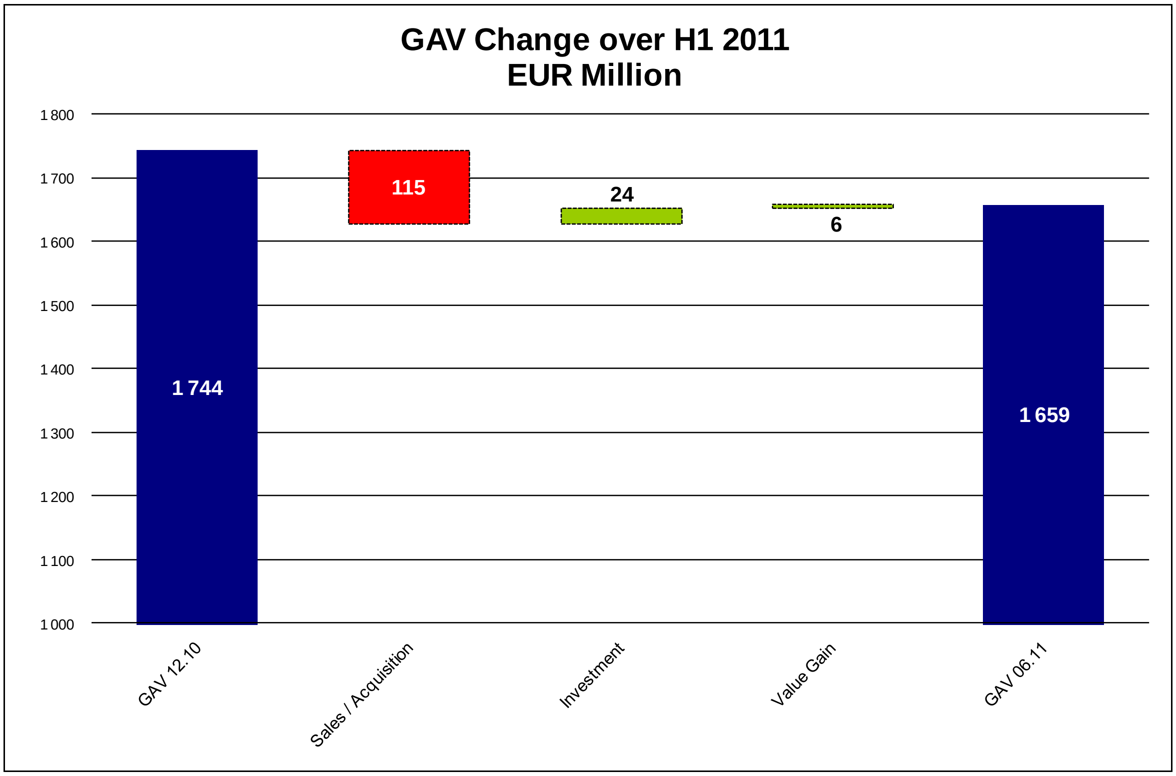
As of June 2011, the Group performed an internal review of the portfolio and tested its evolution in comparison with the assumptions and forecast supporting the valuations as of December 2010. After review of local market trends and outcomes and of assets' specifics, valuation adjustments have been recorded that were mainly induced by exchange rate movements or operational performance of the assets. The GAV went from EUR 1,744 Million as of December 2010 down to EUR 1,659 Million. The GAV breaks down to 65% for properties under management and 35% of projects and land bank for the Development business line.




The EUR 85 Million H1 variation results from asset and development sales amounting to EUR 115 Million, additional investment in projects under construction and permitting of land bank amounting to EUR 24 Million and a net positive change in market value for EUR 6 Million.
Over the first half of the year 2011, the impact of the sale of Leipziger PLatz on the GAV evolution is twofold. The exit of the asset from the Development portfolio is first recorded at the recognized selling price of EUR 113.2 Million. Then the part of this amount still to be received at the completion of the project, an earn out of EUR 30 Million included in the selling price, is recorded

at the net present value of EUR 23.5 Million (as at 31 January 2011) and added up to the amount of financial asset in the Property Investment part of the portfolio.

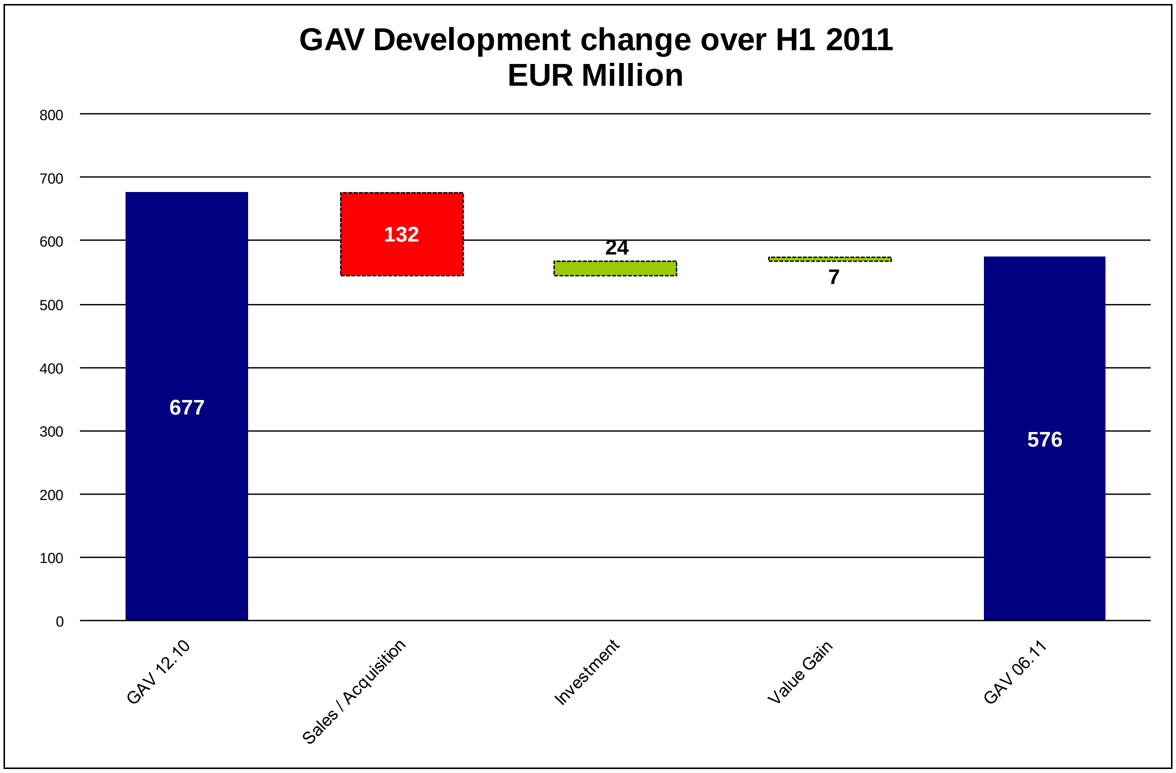



## *4.1 Development*

As of June 2011, the Group's development GAV amounts to EUR 576 Million (63% commercial developments, 29% of residential developments, 8% of land bank). Czech and Polish projects represent respectively 39% and 19% of the development GAV while Germany represents now 27% after Leipziger Platz' transaction.

Asset disposal and development sales amount to EUR 132 Million in H1 2011, mainly driven by the sale of Leipziger platz for EUR 113.2 Million out of which the net present value as of December 2010 of the EUR 30 Million of earn out to be received at the latest at the completion of the project or EUR 23.5 Million (as of the date of the transaction) is transferred to financial assets.

The total value of the Development business line, corrected from sales and investments appreciated by EUR 7 Million during H1 2011, mainly driven by the progression of the construction work on Zlota 44 (+EUR 6 Million) and Vaci 1 (+EUR 1 Million).




### 4.1.1 Commercial developments

During the first half of 2011, the Company finalized the construction of Vaci 1 and actively pursued the first steps of the development of Bubny, which master plan change proposal is now ready and waiting for the approval of the city council. With Sky Office, the Group invested in its 3 key commercial projects a total amount of EUR 12.1 Million.

The GAV of commercial developments increased to EUR 363 Million in June 2011 from EUR 347 Million in December 2010. No sales of commercial projects occurred in H1 2011 and the variation is due to:

- EUR 4 Million of net increase in market value.
- EUR 12 Million investments.

***Ongoing projects***

As of end of June 2011, the Group is actively developing commercial projects in Germany, Hungary and the Czech Republic.

| Projects held in portfolio June 2011 | Location | Asset type | Total area sqm | Construction completion | Total Capex H1 2011 EUR Million | Total Capex 2010 EUR Million |
|---|---|---|---|---|---|---|
| Sky Office | Dusseldorf | Office | 33 142 | 2010 | 1,1 | 0,4 |
| Radischevskaya | Moscow | Office | 1 852 | Q3 2009 | 0 | 0 |
| Vaci I | Budapest | Retail | 22 737 | Q3 2011 | 8,4 | 13,8 |
| Bubny | Prague | Mixte | 239 585 | 2020 | 2,6 | 3,3 |
| **TOTAL** | | | **297 316** | | **12,1** | **17,5** |

- Vaci 1 (former Budapest Stock Exchange): the building will be delivered as planned in fall 2011. The project is currently over 60% pre-leased or under advanced negotiations with internationally renowned retail chains and brands. As at June 2011, the fair value of the building was set at EUR 54.6 Million after investment of EUR 8.4 Million of capital expenditure during H1 2011. Management believes in the high potential of value accretion of this property after its opening and once rent increases can occur over the midterm.

- Bubny: the Group pursues actively the development of this ambitious project of 24 ha in Prague 7. A significant step was reached with the establishment of a joint venture between Orco Property Group (10%) and Unibail Rodamco (90%) for the development of a premium shopping mall of up to 100,000 sqm with an opening planned for the year 2017. The Group keeps an option to increase its share up to 40% of the JV at a price equivalent to cost plus interests until the beginning of the construction. A plot of 3.7 ha will be sold to the joint venture for EUR 20 Million plus an earn-out of EUR 10 Million provided that the master plan is approved by June 2015. The master plan change study in the meantime is completed and discussions with municipality services are ongoing before approval by the city council.

### 4.1.2 Residential development

The GAV of the residential development remains stable at EUR 167 Million as of June 2011 (EUR 169 Million as of December 2010):

- EUR 16 Million decrease due to sales closed H1 2011.
- EUR 3 Million of net increase in market value.
- EUR 11 Million of investments.

As of June 2011, net increase in market value is mainly driven by the progression of construction work in Zlota (+EUR 6 Million) and of the Rising sun house in Hvar (+EUR 1 Million). Meanwhile the decrease of the stock and the slightly lower than expected prices induced a total decrease of value of EUR 2.9 Million on Koliba and Benice.

### *Residential portfolio*

| Residential Inventory | Location | Asset type | Total Area sqm | % of unsold sqm | Market Value June 2011 EUR Million |
|---|---|---|---|---|---|
| Feliz Residence | Warsaw | Apartments | 4 619 | 28% | 3,1 |
| Mokotowska | Warsaw | Apartments | 1 799 | 28% | 2,8 |
| Kosik* | Prague | Apartments | 66 118 | 9% | 7,5 |
| Radotin | Prague 5 | Land plots | 19 718 | 18% | 0,6 |
| Citadella (Nove Dvory) | Prague 4 | Apartments | 7 693 | 6% | 0,9 |
| Michle | Micle - Prague 4 | Apartments | 3 954 | 0% | Sold out |
| Plachta 2 | Hradec Kralove | Apartments | 25 400 | 1% | 0,1 |
| Plachta 3 | Hradec Kralove | Apartments | 5 727 | 14% | 1,2 |
| Le Mont | Špindlerův Mlýn | Apartments | 4 048 | 0% | Sold out |
| Parkville | Bratislava | Apartments | 10 894 | 50% | 13,4 |
| Americka 11 | Prague 2 | Apartments | 828 | 63% | 1,8 |
| Klonowa Aleja | Warsaw | Apartments | 18 311 | 39% | 13,4 |
| **TOTAL** | | | **169 109** | **15%** | **44,8** |

| Projects under construction | Location | Asset type | Total Area sqm | % of Pre-sold sqm | Market Value June 2011 EUR Million |
|---|---|---|---|---|---|
| Benice 1 B | Prague | Houses | 7 393 | 12% | 7,7 |
| Mostecka | Prague | Apartments | 6 265 | 21% | 9,0 |
| Zlota 44 | Warsaw | Apartments | 37 903 | 24% | 71,5 |
| Rising Sun House | Hvar | Apartments | 558 | 0% | 1,1 |
| **TOTAL** | | | **52 119** | **22%** | **89,3** |

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

As of June 2011, construction works were in progress on the following residential developments: Benice 1B, Mostecka and Zlota 44 and the rising sun house.

### 4.1.3 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 161 Million in December 2010 down to EUR 46 Million in June 2011. This is the consequence of the sale of Leipziger platz at a price of EUR 113.2 Million. The net present value of the earn out, part of the selling price and to be received at the completion of the project has been added up to the financial assets component of the Property Investments portfolio.

This decrease of EUR 115 Million year on year is driven by:

- EUR 116 Million decrease due to sales closed over H1 2011.
- EUR 1 Million of net increase in market value.

***Land bank and assimilated disposal***

| Asset disposal | Description | Kind of deal | Date of Sale | Date of transfer | Sales price EUR Million | DTZ Value (31,12,2010) EUR Million | Variation Sales price vs DTZ | Loan balance at date of sales incl. Swap Costs EUR Million |
|---|---|---|---|---|---|---|---|---|
| Closed Transactions | | | | | | | | |
| Leipziger Platz | plot | Land bank | Q4 2010 | Q1 2011 | 113,2 | 113,5 | -0,3% | 66,0 |
| Byalistock | plot | Land Bank | Q4 2010 | Q1 2011 | 1,0 | 2,1 | -52,2% | 0,0 |
| Kolin | land bank plot | Land bank | Q3 2010 | Q1 2011 | 0,5 | 0,4 | 4,5% | 0,0 |
| Transferred in H1 2011 | | | | | 114,7 | 116,0 | -1,2% | 66,0 |
| Ostrava Na Frantisku | plot | Land bank | Q1 2010 | Q3 2011 | 1,5 | 1,5 | 0,0% | 0,0 |
| Not transferred in H1 2011 | | | | | 1,5 | 1,5 | 0,0% | 0,0 |

The transaction with HGHI on Leipziger Platz was completed in Q1 2011. The Group received the down payment of EUR 89 Million and is entitled to a EUR 30 Million earn out to be paid 42 months after the transaction, at the latest after the completion of the project.

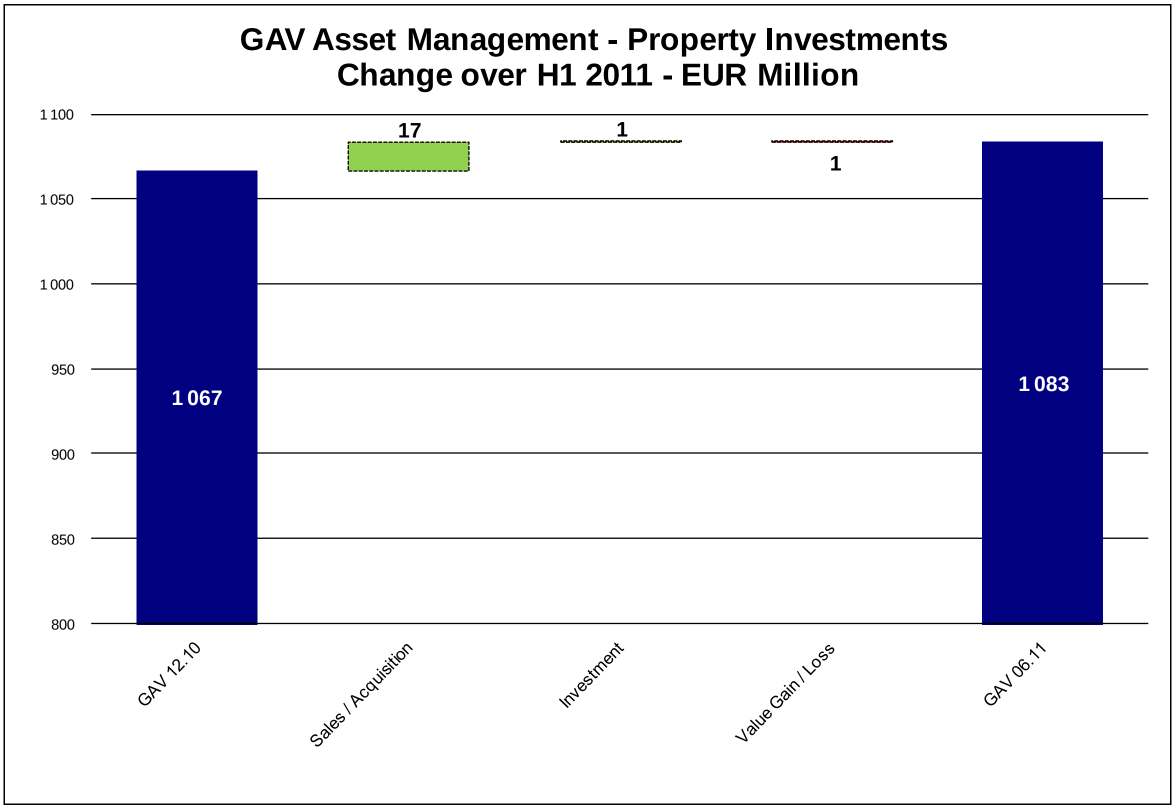
The sale of the land plot of Bialystock was concluded at a price below DTZ market value as of December 2010 as it was part of a dispute settlement agreement with a local contractor operating on other residential polish project (excluding Zlota) which had a mortgage on this land.

## *4.2 Property Investments*

As of June 2011, the GAV of the Group's Property Investments business line (formerly called Asset Management) represented EUR 1,083 Million in value (77% for rental assets, 18% for hospitality assets and 5% of financial assets).

- EUR 17 Million increase due to acquisitions and sales closed in H1 2011 which includes the transfer in the financial assets category of the Leipziger Platz earn out to be received at completion of the project, which net present value at the date of the transaction amounts to EUR 23.5 Million
- EUR 1 Million of net decrease in market value.
- EUR 1 Million of investments.

Corrected from sales of assets and investments, the fair value of the Property Investments portfolio has decreased by EUR 1 Million due to a decrease of EUR 0.4 Million in value of the financial assets, a positive exchange rate impact on the value of the Hospitality portfolio (+EUR 2.4 Million) partly compensated by a decrease in value of the Rental portfolio of (EUR 1.9 Million) due to negative exchange rate impact and change of assumption of valuation on the Budapest bank portfolio.




### 4.2.1 The rental assets

As of June 2011, the rental assets' value is estimated at EUR 832 Million. In December 2010 the GAV of rental assets amounted to EUR 841 Million. The EUR 9 Million change is split in:

- EUR 6 Million decrease due to disposals of assets closed over H1 2011;
- EUR 3 Million of negative net change in market value.

***Asset disposals***

| Asset disposal | Description | Kind of deal | Date of Sale | Date of transfer | Sales price EUR Million | DTZ Value (31,12,2010) EUR Million | Variation Sales price vs DTZ | Loan balance at date of sales incl. Swap Costs EUR Million |
|---|---|---|---|---|---|---|---|---|
| Invalidenstr.112/Chausseestr.21 | Office/Retail | asset | Q2 2011 | 07/06/2001 | 5,6 | 5,2 | 8,1% | 4,7 |
| Americka Park | Residential units | asset | H1 2011 | H1 2011 | 1,1 | 1,2 | -10,0% | 0,0 |
| Transferred in H1 2011 | | | | | 6,7 | 6,4 | 4,7% | 4,7 |
| Brunnenstrasse 156 | Office / Retail | asset | Q3 2011 | Q3 2011 | 3,7 | 3,4 | 7,6% | 2,0 |
| Not transferred in H1 2011 | | | | | 3,7 | 3,4 | 7,6% | 2,0 |

During H1 2011, Property Investments management completed the disposal of Invalidenstrasse 112 at a sale price of EUR 5.6 Million or 8% over the December 2010 externally appraised value. The last asset of the Apple Tree portfolio, Brunnenstrasse 156 will be transferred in Q3 2011 at a price 7.6% over the DTZ value as of December 2010. Disposal of residential units of Americka Park project, part of the Vinohrady portfolio is being pursued at a steady rate.

### *Investments*

Over the H1 2011, in absence of material issue, no significant amount of investments is recorded.

### *Change in market value*

As of June 2011, the Group performed an internal review of valuation covering the integrality of the portfolio. After testing the possible deviation from the assumptions and forecasts supporting December 2010 externally and independently appraised values, the Group concluded to the absence of material change in local market and assets characteristics for the better part of the portfolio, with the exception of three assets including Stribro, and the two buildings of the Budapest bank portfolio.

On a like-for-like basis, the decrease in market value for the Group's rental portfolio as of June 2011 amounts to EUR 2.4 Million and is mainly driven by one-off negative exchange rate effect. Over H1 2011, while asset values in the Czech Republic and Hungary benefited from a strengthening of local currencies against the euro (+3% for CZK/EUR and +5% for HUF/EUR), the weakening of the dollar (-8% for USD/EUR) induced a negative impact of EUR 4.6 Million on December 2010 valuation for the Hagibor's asset, Radio Free Europe which rent is paid in dollars. Aside from exchange rate impact, a decrease of EUR 2.6 Million is recorded on the Budapest bank portfolio which value is now based on a distressed scenario as the bank holding the related loans decided to ask for repayment on a short term basis. Negotiations with the creditors are ongoing, but in order to represent the additional risk the bank's request generates, the Group impacted a discount on the assets' valuations. The Budapest Bank portfolio is made of 2 buildings and these assets altogether show a negative NAV of EUR -11.6 Million. In the meantime, the valuation of the activity park of Stribro, in the Czech Republic, increased by EUR 0.6 Million or 16% compared to December 2010 valuation, due to better than expected increase of letting performance.

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

### **Property Investments – Valuation data**

| Segment | | | Market Value of Property June 2011 EUR Million | Market Value of Property Dec 2010 EUR Million | Valuation Movement EUR Million | EPRA NIY (%) | Reversion (%) |
|---|---|---|---|---|---|---|---|
| **Asset Class** | **Country** | **Asset** | | | | | |
| Office | Czech Republic | Subtotal | 149,6 | 151,5 | -1,9 | 3,8% | 85% |
| Office | Hungary | Subtotal | 41,6 | 43,3 | -1,7 | 1,1% | 637% |
| Office | Germany & Lux. | Subtotal | 79,4 | 77,5 | 1,9 | 6,1% | 17% |
| Office | Poland | Subtotal | 5,6 | 5,7 | 0,0 | 4,6% | 49% |
| **Office** | | **Total** | **276,3** | **278,0** | **-1,7** | **4,1%** | **77%** |
| Logistic | Czech Republic | Subtotal | 23,6 | 22,5 | 1,2 | 6,2% | 38% |
| Logistic | Poland | Subtotal | 6,5 | 6,6 | 0,0 | 7,2% | 39% |
| **Logistic** | | **Total** | **30,2** | **29,1** | **1,1** | **6,4%** | **38%** |
| Retail | Slovakia | Subtotal | 15,8 | 15,8 | 0,0 | -0,4% | NA |
| **Retail** | | **Total** | **15,8** | **15,8** | **0,0** | **-0,4%** | **NA** |
| **Mixed Commercial** | **GSG** | **Subtotal** | **447,9** | **448,5** | **-0,6** | **6,9%** | **26%** |
| **Total portfolio** | | **Total** | **770,2** | **771,3** | **-1,1** | **6%** | **41%** |

| | | | | | |
|---|---|---|---|---|---|
| **Other Assets** | | | | | |
| Residential | Vinohrady | Subtotal | 3,6 | 4,7 | -1,1 |
| Logistic & operation | Molcom / Russia | Subtotal | 64,9 | 65,0 | -0,1 |
| **Other** | | **Total** | **68,5** | **69,7** | **-1,2** |

This table and the following include 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. Invalidenstrasse 112 is still included in the Germany & Luxembourg portfolio as the transfer of the asset was executed at the end of the period.

- "Market value" is the net market value estimated by our independent expert at the end of the period.
- "EPRA NIY" or EPRA Net Initial Yield is here calculated using EPRA Net Rental Income and an estimated Gross Market Value (value including transaction costs and transfer taxes).
- 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.

**Property Investments – Lease data**

| | | | Lease expiry data | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Average lease length | Passing rent of leases expiring in : (Data in EUR Million) | | | ERV of leases expiring in : (Data in EUR Million) | | |
| Segment | | In Year to expiry | Yr 1 | Yr 2 | Yrs 3-5 | Yr 1 | Yr 2 | Yrs 3-5 |
| **Asset Class** | **Country** | | | | | | | |
| Office | Czech Republic | 24,6 | 0,6 | 0,0 | 1,7 | 2,8 | 0,2 | 3,2 |
| Office | Hungary | 5,8 | 0,2 | 0,0 | 0,1 | 1,1 | 0,0 | 0,3 |
| Office | Germany & Lux. | 1,5 | 1,2 | 1,0 | 1,8 | 1,5 | 1,5 | 2,0 |
| Office | Poland | 3,2 | 0,0 | 0,0 | 0,3 | 0,0 | 0,0 | 0,4 |
| **Office** | | **14,3** | **2,0** | **1,0** | **3,9** | **5,4** | **1,7** | **5,9** |
| Logistic | Czech Republic | 6,7 | 0,2 | 0,0 | 0,0 | 0,7 | 0,0 | 0,0 |
| Logistic | Poland | 1,2 | 0,0 | 0,1 | 0,0 | 0,0 | 0,1 | 0,0 |
| **Logistic** | | **6,5** | **0,2** | **0,1** | **0,0** | **0,7** | **0,1** | **0,0** |
| Retail | Slovakia | 1,4 | 0,2 | 0,0 | 0,0 | 0,8 | 0,2 | 0,1 |
| **Retail** | | **1,4** | **0,2** | **0,0** | **0,0** | **0,8** | **0,2** | **0,1** |
| **Mixed Commercial** | **GSG** | **1,6** | **16,3** | **12,8** | **3,8** | **20,4** | **16,0** | **4,7** |
| **Total portfolio** | | **5,3** | **18,7** | **13,9** | **7,8** | **27,3** | **18,0** | **10,7** |

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 14.3 years. The group's key asset, Radio Free Europe, with a current lease maturity of 42.3 years is the main reason of this high figure.
- 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 1.6 years.

**Property Investments– Rental data**

| Segment | | Gross rental income over the past 12 months EUR Million | Net rental income over the past 12 months EUR Million | Lettable space sqm | Passing rent at period end EUR Million | Estimated rental value at period end EUR Million | Vacancy Rate % of sqm |
|---|---|---|---|---|---|---|---|
| **Asset Class** | **Country** | | | | | | |
| Office | Czech Republic | 7,2 | 5,8 | 77 029 | 7,5 | 12,2 | 33% |
| Office | Hungary | 1,1 | 0,5 | 29 598 | 0,9 | 4,1 | 91% |
| Office | Germany & Lux. | 5,6 | 5,0 | 47 847 | 5,3 | 6,5 | 15% |
| Office | Poland | 0,3 | 0,3 | 1 400 | 0,3 | 0,4 | 0% |
| **Office** | | **14,2** | **11,6** | **155 875** | **14,0** | **23,2** | **38%** |
| Logistic | Czech Republic | 2,1 | 1,5 | 77 181 | 2,3 | 2,6 | 17% |
| Logistic | Poland | 0,8 | 0,5 | 35 229 | 0,7 | 0,9 | 17% |
| **Logistic** | | **2,8** | **2,0** | **112 411** | **3,0** | **3,6** | **17%** |
| Retail | Slovakia | 0,2 | -0,1 | 8 220 | 0,2 | 1,1 | 64% |
| **Retail** | | **0,2** | **-0,1** | **8 220** | **0,2** | **1,1** | **64%** |
| **Mixed Commercial** | **GSG** | **34,2** | **32,6** | **815 624** | **34,2** | **42,7** | **23%** |
| **Total portfolio** | | **51,4** | **46,1** | **1 092 129** | **51,4** | **70,6** | **25%** |

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.

### 4.2.2 Hospitality assets

As of June 2011, the hospitality portfolios comprised a total of 1,919 operated rooms.

| Suncani Hvar hotels | Number of assets | Number of rooms | Occupancy % | Value as of June 2011 EUR Million | Market Value 2010 EUR Million | Variation % |
|---|---|---|---|---|---|---|
| Four star category | 4 | 437 | 54% | 78,7 | 78,6 | 0,1% |
| Two - three star category | 5 | 504 | 49% | 17,1 | 17 | 0,6% |
| **Total Suncani Hvar hotels** | **9** | **941** | **51%** | **95,8** | **95,6** | 0,2% |
| Other revenues | 6 | NA | NA | 12,7 | 12,7 | 0,0% |
| **Total Suncani Hvar** | **15** | **NA** | **NA** | **108,5** | **108,3** | 0,2% |

As of June 2011, the Group performed an internal review of valuation covering the integrality of the hospitality portfolio; testing possible deviation from the assumptions and forecasts supporting December 2010 externally and independently appraised values. Quoting the recent report from the European travel Commission, the Group notes that the majority of the countries are experiencing a positive start to the year. Not only are arrivals generally up, but length of stay appears on the rise as well. These trends are confirmed by hotel industry data which indicate at least modest growth in occupancy in the first months of the year with rates increasing in tandem.

Overall, hospitality industry prospects appear solid. Tourism Economics' baseline forecast scenario anticipates overnight visitor growth in Europe of 2.6% 2011 and 4% in 2012. This presents an overall theme of gains among emerging European.

This positive market trend is confirmed at group level by improving operational performance of the hospitality portfolio, in line with budget and DTZ projections. As a result, and in absence of significant major transaction in the CEE countries, exchange rate impact are the main drivers of valuation changes between December 2010 and June 2011.

## *4.3 Liabilities and financial profile*

### 4.3.1 Cash and cash equivalents

As at 30 June 2011, the cash and cash equivalents consist of short term deposits for EUR 1.1 Million (EUR 3.9 Million as at 31 December 2010), cash in bank for EUR 35.0 Million (EUR 49.4 Million as at 31 December 2010) and cash in hand for EUR 0.7 Million (EUR 0.1 Million as at 31 December 2010).

Cash in bank include restricted cash amounting to EUR 17.5 Million (EUR 24.3 Million as at 31 December 2010), representing:

- cash deposited in the Group's joint ventures as both parties' approval is needed for withdrawal, for EUR 3.5 Million (EUR 2.9 Million as at 31 December 2010);
- cash deposited in escrow accounts pledged as collateral for development projects and lifted after sales of units, for EUR 3.9 Million (EUR 4.2 Million as at 31 December 2010);
- cash deposited in escrow accounts pledged as collateral for loans related to the acquisition of property (EUR 17.2 Million as at 31 December 2010) for EUR 10.2 Million

### 4.3.2 Loan to value

| In EUR Thousand | June 2011 | December 2010 |
|---|---|---|
| **Non current liabilities** | | |
| Financial debts | 213 513 | 526 991 |
| **Current liabilities** | | |
| Financial debts | 681 662 | 389 282 |
| **Current assets** | | |
| Current financial assets | -382 | -302 |
| Liabilities held for sale | 24 745 | 76 494 |
| Cash and cash equivalents | -35 200 | -53 439 |
| **Net debt** | **884 338** | **939 026** |
| Investment property | 891 154 | 888 036 |
| Hotels and own-occupied buildings | 152 298 | 222 563 |
| Financial assets at fair value through profit or loss | 68 013 | 30 049 |
| Inventories | 406 325 | 418 957 |
| Assets held for sale | 120 066 | 131 898 |
| Revaluation gains /(losses) on projects and prop. | 57 918 | 53 375 |
| **Fair value of portfolio** | **1 695 774** | **1 744 878** |
| **Loan to value before bonds** | **52,1%** | **53,8%** |
| Bonds | 263 451 | 243 889 |
| **Loan to value** | **67,7%** | **67,8%** |

It is a Group top priority to deleverage its balance-sheet. As at June 2011, the LTV remained stable compared to 2010. The LTV ratio before bonds reduces from 54% to 52%.

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 asset sales together with debt repayments or reduction, and further share capital increase. The LTV level of the major Group subsidiary Orco Germany, which stands at 79.5%, remains an important concern for the Group.

#### 4.3.3 Financial liabilities

The financial debts decrease as a result of the repayment of bank loans upon the sale of assets and developments (EUR 82.5 Million), other repayments of bank loans (EUR 19.3 Million) partially compensated by new bank draw downs (EUR 25.4 Million). The other repayments mainly relate to the early redemption of the Loan financing Molcom upon signature of a new loan agreement (EUR 15.1 Million) and an early repayment realized in order to solve a breach of covenant in Germany on a loan financing a rental in Berlin (EUR 2.0 Million).

Out of the EUR 1.2 Billion borrowings, EUR 901.2 Million relate to bank loans, EUR 263.5 Million relate to bonds issued by the Company or Orco Germany and EUR 18.7 Million relate to loans from joint venture partners.

89% of the bank loans relate to income producing assets (development projects under delivery and buildings producing rents or other operational revenues), compared to 81% as at December 2010. While in continuing decrease, 9% 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 the first half of 2011 the Group managed to renegotiate a total of EUR 172.2 Million bank loans, some of the most important ones being listed below:

- Molcom refinanced with Mi Bank for EUR 17.3 Million has been extended till 2016.
- Vaci I financed with a EUR 39.3 Million loan: an agreement has been signed regarding the extension of the construction facility (till September 2011) and investment facility (till September 2012).
- Paris Department Store financed with a EUR 16.6 Million loan: an agreement has been signed regarding the extension of the construction and the investment facilities (October 2011 and October 2013).
- Sky Office financed with a EUR 94.8 Million loan has been extended till December 2011
- Suncani Hvar with a EUR 56.9 Million loan will be stabilized till December 2011 and banks will not require the due principal till December 2011. Negotiations are ongoing in order to align the loan amortization with actual cash flow of the activities.
- Hakeburg and Hochwald financed respectively with a EUR 1.3 Million loan and EUR 0.8 Million loan have been extended till August 2011. Szervita financed with a EUR 10.2 Million loan will be extended till August 2013 with a new margin of 2.55%.

During the first half of 2011, asset disposals in Germany led to loan repayments in total amount of EUR 70.7 Million with Leipziger Platz financed with a EUR 66.0 Million and Invalidenstrasse for EUR 4.7 Million.

**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 30 June 2011 | 824.6 | 69.0 | 202.6 | 87.2 | 1 183.4 |
| As at 31 December 2010 | 474.0 | 483.8 | 173.7 | 105.1 | 1 236.7 |

The sharp increase in short term liabilities is mainly related to the transfer from long term to short term of loans that have become due within the next 12 months as GSG for EUR 299.9 Million, the bonds issued by Orco Germany for EUR 95.4 Million or the short term portion of Safeguard bonds for EUR 22.8 Million and the transfer in liabilities linked to assets held for sales as Molcom for EUR 17.3 Million. This is partially compensated by the repayments linked to assets and residential sales for EUR 80.0 Million.

The current financial debt includes EUR 22.8 Million of bonds' second installment according to the Safeguard plan, EUR 24.7 Million of loans financing assets that are held or planned for sale and EUR 89.7 Million of assets and developments that are finalized or under construction. Even though concerned, the management is very proactive and confident in its ability to further refinance the remaining short term debt (including the GSG loan and the bonds issued by Orco Germany) where needed.

The management is focusing on the key issue of financial debts due within1 year, mostly within Orco Germany with GSG refinancing EUR 300 Million, due end of April 2012, and the subsequently due Orco Germany bond (EUR 120 Million as at June 2011 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 development 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.

## *4.4 Net Asset Value*

Using similar calculation methodologies as in previous years, the EPRA (European Public Real Estate Associations) Net Asset Value (NAV) per share as of June 2011 amounts to EUR 27.4 compared to EUR 28.6 as at December 2010.
Triple NAV reaches EUR 18.7 per share compared to EUR 19.4 last year. The Company announced in previous report it would adopt EPRA "Triple Net Asset Value per share" standard, methodology which is described below. The market value of bonds as is based on a valuation report established by an independent expert.

| In EUR Thousand | June 2011 | December 2010 |
|---|---|---|
| **Consolidated equity** | **286 754** | **303 057** |
| Fair Value adjustment on asset held for sales | 564 | 581 |
| Fair value adjustments on investment portfolio | 0 | 398 |
| Fair value adjustments on hotels and own occupied buildings | 10 970 | 5 080 |
| Fair value adjustments on inventories | 46 385 | 47 316 |
| Deferred taxes on revaluations | 62 531 | 67 565 |
| Goodwills | -24 606 | -22 748 |
| Own equity instruments | 3 087 | 673 |
| **EPRA Net asset value** | **385 685** | **401 922** |
| Net asset value in EUR per share | 27,44 | 28,60 |
| Existing shares | 14 054 | 14 054 |
| **EPRA Net asset value** | **385 685** | **401 922** |
| Effect of dilutive instruments | 32 308 | 32 308 |
| Deferred taxes on revaluations | -62 531 | -67 565 |
| Market value of bonds | 76 | 3 050 |
| **EPRA Triple Net asset value** | **355 538** | **369 715** |
| Triple net asset value in EUR per share | 18,67 | 19,42 |
| Fully diluted shares | 19 043 | 19 043 |

Orco histo.ric 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 NNNAV.

# 5. First half 2011 financial results

Over the first six months of 2011, the Group recorded a net loss amounting to EUR 7.5 Million compared to a net profit of EUR 233.5 Million over the same period in 2010. The net result is negatively influenced by the net contribution of EUR 3.3 Million from the Russian assets held for sale and by the low level of sales in the Development activities, and positively influenced by the capital gain recognized on the sale of Leipziger Platz amounting to EUR 11.5 Million..

We have abstained from external valuation for H1 2011 as it has been fully internalised; a full external valuation process will take place at year end. We believe that the market prices have remained stable compared to December 2010, while over the first half of 2010 revaluation gains were recorded in the accounts for EUR 26.6 Million. In 2010, the net result was strongly impacted by the revaluation gain on the bonds upon the approval of the Safeguard plan. This gain in 2010 resulted in increased interest expenses on these bonds onwards.

As from January 2011 all assets and activities located in Russia (excluding the hospitality assets) contribute to the Group profit and loss statement on one line “Impact of assets held for sale” instead of contributing to each element; a pro forma has been established with the same presentation in order to have more comparable figures.

Revenues decreased by 56% to EUR 73.6 Million in 2011, mainly as a result of the absence of major commercial developments sales, the strong decrease of residential development sales and the transfer of Molcom revenues to one line.

The pro forma income statement demonstrates the continuing decrease in operating expenses as a result of the constant management efforts to adjust the structure of the Group to the portfolio and the market evolutions. Employee benefits together with other operating expenses decrease by 11% or EUR 5.7 Million.

## 5.1 Consolidated income statement

| In EUR Thousand | June 2011 | June 2010 | June 2010 (proforma) |
|---|---|---|---|
| **Revenue** | **73 571** | **163 076** | **153 760** |
| Net gain /(loss) from fair value adjustments on investment property | -351 | 26 629 | 26 629 |
| Other operating income | 370 | 2 333 | 2 254 |
| Net result on disposal of assets | 11 052 | -273 | -273 |
| Cost of goods sold | -16 899 | -87 899 | -87 844 |
| Employee benefits | -14 058 | -21 055 | -15 896 |
| Amortisation, impairments and provisions | -3 585 | -8 311 | -8 388 |
| Other operating expenses | -31 196 | -36 730 | -34 897 |
| **Operating result** | **18 904** | **37 770** | **35 345** |
| Interest expenses | -41 600 | -51 530 | -50 582 |
| Interest income | 2 419 | 3 101 | 1 260 |
| Foreign exchange result | 12 664 | -6 910 | -2 697 |
| Other net financial results | 5 572 | 255 405 | 264 761 |
| **Financial result** | **-20 945** | **200 066** | **212 742** |
| **Profit/(loss) before income taxes** | **-2 041** | **237 836** | **248 087** |
| Income taxes | -443 | -4 335 | -5 600 |
| Impact of assets held for sale | -3 342 | - | -8 986 |
| **Net profit/(loss) for the year** | **-5 826** | **233 501** | **233 501** |
| **Total profit/(loss) attributable to:** | | | |
| non controlling interests | 1 677 | -4 232 | -4 232 |
| **owners of the Company** | **-7 503** | **237 733** | **237 733** |

'Proforma' is the Income Statement for 6 months 2010 with an amended presentation of its contribution of the Russian assets held for sale as reported in 2011 both June 2011 and pro forma 2010 are now presented on only one line "Impact of assets held for sale" [2]. The Russian assets sale has been contracted on 31 August 2011.

### 5.1.1 Revenues by Business line

Revenues reach EUR 73.6 Million over the first half of 2011 together with asset sales amounting to EUR 120.3 Million; represent a total volume of EUR 193.9 Million.

[2] Net impact

Revenues have decreased year on year by 55% (52% on a pro forma basis) over the first half of 2011 compared to EUR 163.1 Million over the same period in 2010. The decrease in commercial development revenues is definitely the major factor of such evolution.

| in EUR Thousand | Development | Property Investments | Total |
|---|---|---|---|
| Revenues 6 months 2011 | 23 476 | 50 095 | 73 571 |
| Revenues 6 months 2010 | 101 042 | 62 034 | 163 076 |
| Revenues 6 months 2010 Proforma | 101 042 | 52 718 | 153 760 |
| Variation (2011-2010) | -77 566 | -11 939 | -89 505 |
| Variation (2011-2010 Proforma) | -77 566 | -2 623 | -80 189 |

*Note: Revenues 6 Months 2011 and Months 2010 Proforma exclude sold Russian assets*

***Development business line***

Development revenues of EUR 23.5 Million are made of commercial and residential sales. They decreased by EUR 77.6 Million due mainly to the absence of deliveries in H1 2011 of major commercial projects.

Residential development:

The residential development sales have decreased from EUR 29.6 Million over H1 2010 to EUR 19.4 Million in H1 2011. Over H1 2011, a total of 102 units (77 units in the Czech Republic, 19 units in Poland and 6 units in Slovakia) have been delivered compared to 127 in H2 2010. The main driver of this decrease is a reduced number of newly finished projects due to a refocus of the Group strategy on key projects and difficult residential markets in Central Europe.

Over the first half of 2011, the main developments contributing to revenues are Mostecka for EUR 5.8 Million in the Czech Republic, Parkville with EUR 2.0 Million in Slovakia, Klonowa with EUR 1.9 Million in Poland. Two projects, Michle and Bedrichov in Czech Republic are now completely sold out.

The current backlog of projects under construction amounts to 326 units including an order backlog (units covered by a future purchase or a reservation contract) of 90 units. This includes 75 units in the Czech Republic including an order backlog of 5 units and 251 units in Poland including an order backlog of 85 units.

Yet, as of June 2011, the total backlog include 256 completed residential units (Poland 124 units, Czech Republic 76 units, Slovakia 44 units and 12 units in Croatia), in total value of EUR 50.4 Million with a remaining bank debt of EUR 7.5 Million. The order backlog on completed units (units covered by a future purchase or a reservation contract) represents 48 units.

Commercial developments

As of June 2011, the six months revenues in commercial developments amount to EUR 3.9 Million compared to EUR 71.4 Million over the same period in 2010. The sale of the Leipziger

Platz project and asset, booked as an 'investment property' as per IFRS rules was recorded as an asset sale and therefore not included in the Turn over[3].

In 2010, the revenues included EUR 4.3 Million of rents and service charges (mainly Sky Office for EUR 3.9 Million for which interest expenses are also recognized in P&L) on unsold developments in inventory and EUR 67.1 Million from sales of projects (an office building in Duisburg and healthcare developments in Germany). In 2011, the commercial development revenues are only made of rents and service charges on unsold developments in inventory.

***Property Investments business line***

Revenues from the Property Investments business line include revenues from rental assets, hospitality and management services (mainly Endurance Fund). Property Investments revenues decrease by EUR 11.9 Million to EUR 50.1 Million over H1 2011 excluding the Russian assets contracted for sale. On a pro forma basis, they decrease by EUR 2.6 Million made of a decrease of rental revenues by EUR 2.8 Million and management services by EUR 0.7 Million, partially compensated by an increase in hospitality revenues by EUR 1.1 Million.

Rental

On a pro forma basis, rental decreased from EUR 39.3 Million over the first half of 2010 to EUR 36.3 Million in 2011. This variance is mainly the consequence of a revenue decrease by EUR 0.9 Million on the assets sales closed in 2010 and 2011 and by EUR 2.2 Million on departure of anchor tenants (former Budapest bank buildings, Stribro and Marki) partially compensated by increases from improved occupancy on GSG portfolio, Bubenska and Na Porici.

Hospitality activities

In line with the evolution of the hospitality market in central Europe, revenues of the hospitality activities increase by 10%, compared to the first half of 2010, EUR 11.6 Million as at June 2011. This underlines the continuous improvement of both the hospitality market condition in Central Europe and the relative performance of our Mamaison portfolio together with the cost saving plan undertaken on our Hvar Croatian properties.

### 5.1.2 Operating expenses and Headcounts

Operating expenses correspond to the sum of the "Employee benefits" and the "Other operating expenses" lines of the income statement. All comments in this section relate only to the comparison with the pro forma figures.

The operating expenses amount to EUR 45.3 Million compared to EUR 50.8 Million in 2010, a decrease of 11%. This decrease is the consequence of the continuous adjustment of the Group structure and organization to the changing environment by further implementing the restructuring plan. The table below gives a detail of the consolidated operating expenses.

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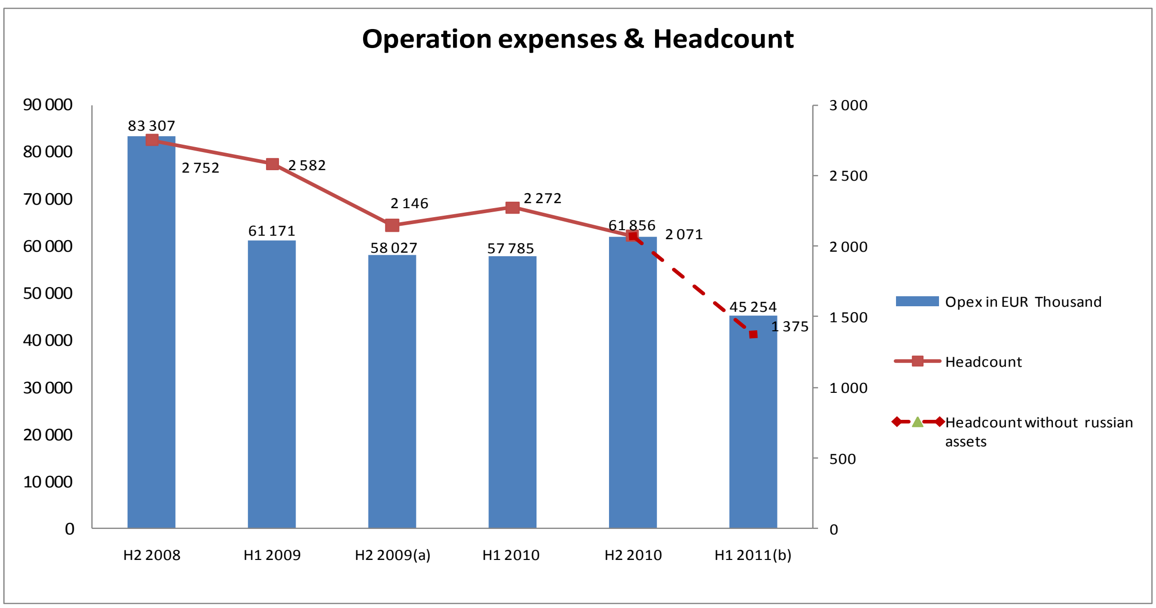
[3] Unlike the sale of a development project. Leipziger Plats impacted positively the P&L through "net results on disposal of assets" by EUR 11.5 Million as sold over or the book value, and decreased the "non current asset" part of our balance sheet by EUR 120 Million

| In EUR Thousand | 30 June 2011 | 30 June 2010 | 30 June 2010 (Proforma) | Variation (2011-2010) | Variation (2011-2010 Proforma) |
|---|---|---|---|---|---|
| Employee benefits | -14 058 | -21 055 | -15 896 | 6 996 | 1 838 |
| Leases and rents | -1 488 | -2 617 | -2 603 | 1 129 | 1 115 |
| Building maintenance and utilities supplies | -14 326 | -16 320 | -15 234 | 1 994 | 909 |
| Marketing and representation costs | -2 233 | -2 088 | -1 975 | -145 | -258 |
| Administration costs | -9 651 | -11 864 | -11 448 | 2 212 | 1 796 |
| Taxes other than income tax | -2 892 | -3 303 | -3 172 | 411 | 280 |
| Other operating expenses | -605 | -540 | -464 | -66 | -141 |
| **Total** | **-45 254** | **-57 785** | **-50 793** | **12 531** | **5 539** |

At the exclusion of marketing expenses for with the impact of specific investments for Zlota 44 and Vaci 1, all the lines of the operating expenses are improving.

The decrease in operating expenses is particularly marked in Germany (EUR 2.7 Million) and Suncani Hvar (EUR 1.1 Million) where specific restructuring plans have been put in place over the last year.




(a) - Restatement of EUR 3,5 million of warrant
(b) - Molcom Logistics is excluded as held as assets for sale

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

During the period, the net book value of the assets sold amounts to EUR 120.3 Million:

- Closing of the sale agreement contracted end of 2010 on the Leipziger platz mixed use development with a capital gain of EUR 11.5 Million on the basis of first payments in 2011 and the net present value of the future consideration to be received at the finalization of the development.

- Disposal of Invalidenstr. 112 / Chausseestr. 21 in Berlin (NBV of EUR 5.2 Million) at the sale price of EUR 5.6 Million.
- Americka Park residential units in Prague sold slightly under the book value of EUR 1.2 Million with a loss of EUR 0.1 Million.
- Transaction concluded on a Byalistok plot of land in north east of Poland with a loss of EUR 1.0 Million.

### 5.1.4. Valuation adjustments, impairments and provisions

The minor net loss on revaluation of investment properties results from major contradictory movements:

- Positive impact of CEE currencies towards Euro for EUR 6.4 Million.
- Loss on the valuation of Radio Free Europe resulting from the weakening of the USD for EUR 4.6 Million partially compensated in the financial result by a revaluation gain on the USD loan financing the asset for EUR 4.0 Million.
- Changes in assumptions (new indication of market price, change in occupancy rate or change in the asset environment) leading to a net loss of EUR 2.2 Million. The main contributors are the two empty office buildings located in Budapest which bank loans have been accelerated by the bank resulting in the valuation assumptions taking into account a potential fire sale of the assets.

Amortization, impairments and provisions are much lower than last year as a result of smaller changes in the market prices of the residential developments inventories and the partial write back of EUR 4.5 Million on a provision that was established to cover potential remedies with some development neighbors disputes (the provision has now been brought down to EUR 1.1 Million).

### 5.1.5 Operating result

The operating result amounts to EUR 18.9 Million compared to EUR 35.3 Million over the same period in 2010 on a pro forma basis. Lower development sales (particularly commercial) and the absence of fair value gains from reclassified assets such as Bubny have been partially compensated by capital gains on sales and lower impairments and provisions.

## 5.1.6 Adjusted EBITDA

The adjusted EBITDA amounts to EUR 11.8 Million compared to EUR 21.3 Million as at June 2010. The decrease results from the lower revenues in development with the absence of commercial and weak residential development sales not compensated by any sale of major commercial developments. While the basic performance of the Property Investments is improving the contribution of the segment to the adjusted EBITDA is decreasing as a result of the higher allocation of headquarters operating expenses based on the proportion of revenues.

| in EUR Thousand | Development | Property Investment | TOTAL |
|---|---|---|---|
| **Operating result** | **9,687** | **9,217** | **18,904** |
| Net gain /(loss) from fair value adjustments on investment property | 1,279 | -1,630 | -351 |
| Amortisation, impairments and provisions | -528 | 4,113 | 3,585 |
| Net result on disposal of assets | -10,824 | -228 | -11,052 |
| **Adjusted EBITDA for 6 months 2011** | **-2,944** | **14,732** | **11,788** |
| **Adjusted EBITDA for 6 months 2010** | **4,733** | **16,614** | **21,347** |
| **Variation YoY** | -7,677 | -1,882 | -9,559 |

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).

## 5.1.7. Financial result

In 2011, gross interest expenses recorded in our P&L reached EUR 41.6 Million compared with EUR 50.6 Million over the same period in 2010 on a pro forma basis. Interests on bonds (mainly non cash) amount to EUR 18.5 Million.
Total or partial loan repayment upon asset and development sales account for EUR 5.6 Million of the decrease in interest expense with major impacts from the sale of Leipziger Platz and Cumberland Palace developments in Berlin, H2Office in Duisburg, Visocany Gate office building in Prague and Klonowa aleja residential development in Poland. Other positive impacts include a change in the capitalization on projects have a positive impact amounting to EUR 1.7 Million with Zlota 44 and Bubny developments as major contributors, and EUR 2.4 Million in change of bonds interests expenses.

Other net financial results over the first half of 2010 were mainly influenced by the gain on the revaluation of the bonds upon approval of the Safeguard plan while valuation gains on interest rate swaps have the strongest contribution over the same period in 2011.

## *5.2 Transactions on treasury shares*

As of 30 June 2011, the Company owns 403,495 treasury shares including the 9,761 OPG shares directly owned by the Company itself.

The table hereafter summarizes the transactions realized by the Company as of 30 June 2011 on its own shares:

| | Acquisitions | Sales and commitments |
|---|---|---|
| Number of shares (% of total shares) | 636,425 (4.53 %) | 322,385 (2.29 %) |
| Total Price (EUR) | 5,178,059.50 | 2,833,428 |
| Average price per share (EUR) | 8.1362 | 8.7890 |

## 5.3 Miscellaneous

### *5.3.1 Activities in the field of research and development*

Not applicable

### *5.3.2 Financial risk factors*

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

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

#### 5.3.2.1 Market risk

***Foreign exchange risk***

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Czech Koruna (CZK), the Polish Zloty (PLN), the Hungarian Forint (HUF), the Croatian Kuna (HRK) and secondarily to the US Dollar (USD) and the Russian Ruble (RUB). Foreign exchange risk, as defined by IFRS 7, arises mainly from recognized monetary assets and liabilities. Loans, operating income and - except in the development activities - sales of buildings are mainly denominated in Euro (EUR). The Group does not use foreign currency derivatives contracts, as salaries, overhead expenses, future purchase contracts in the development sector, building refurbishment and construction costs are mainly denominated in local currencies. The main circumstance for the Group to put in place currency derivatives is for the financing of a construction contract when the local currency operations do not generate sufficient cash and as a result that construction contract must be financed with another currency.

***Price risk***

The Group is exposed to equity risks from Endurance Fund and Novy Fund, which are classified in financial assets at fair value through profit or loss.

Furthermore, the Group is exposed to price risk from embedded derivatives on instruments issued by Orco Germany S.A.. The derivative instruments are classified in the consolidated balance sheet under "Derivative instruments".

To manage its price risk arising from investments in equity securities and such embedded derivatives, the Group diversifies its portfolio or only enters these operations if they are linked to operational investments. No sensitivity analysis has been performed.

***Other risks***

The Group is also exposed to property price and property rentals risk but it does not pursue any speculative policy. Even though the Group's activities are focused on one geographical area –

Western and Eastern Europe and Russia - such activities are spread over several business lines (residences, offices, hotels) and different countries.

#### 5.3.2.2 Credit risk

The Group has no significant concentrations of credit risk. Rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. Credit risk is managed by local management and by Group management.