Carpathian PLC
Interim Report 2009

Carpathian plc

Contents

"During this demanding period in the global financial and property markets, Carpathian has made substantial progress in stabilising its capital base by restructuring the debt facilities relating to core assets within its portfolio in line with the outcome of the Strategic Review. We have also provided clear limitations on our liabilities regarding the portfolio of non-core assets.

The Board also worked closely with the Property Adviser to realign entirely the management's incentives with shareholders' interests to maximise the potential returns to shareholders over the medium term and to operate the business on the most cost-efficient basis.

As a result of the above progress, the Board believes Carpathian is now in a stronger position to navigate successfully through the present difficult economic period in Central and Eastern European markets and deliver cash returns to shareholders with a first distribution expected to be made within the next three months."

Rory Macnamara, Chairman

Financial Highlights

- Adjusted profits after tax* of €2.4 million (six months to 30 June 2008: €7.0 million)
- Earnings/(loss) per share of (1.1) euro cents for the period (six months to 30 June 2008: earnings per share of 4.8 euro cents)
- Adjusted earnings per share of 1 euro cent (six months to 30 June 2008: 3.1 euro cents)
- Net Asset Value per share of 81 euro cents (169 euro cents as at 30 June 2008)
- Net rental income of €13.6 million (six months to 30 June 2008: €21.2 million)
- Total cash of €55.2 million as at 30 June 2009 (as at 30 June 2008: €84.1 million) decreasing to €42.6 million as at 31 August 2009, principally as a consequence of completed debt restructurings
- Group uncommitted cash of approximately €28 million as at 31 August 2009, equating to 12.1 euro cents per share

* Adjusted profits after tax and adjusted earnings per share exclude fair value, deferred tax and foreign exchange adjustments

Operational Highlights

- Core portfolio continues to trade satisfactorily with rental levels broadly in line with the Board's expectations
- Carpathian had completed the restructuring of an aggregate €311 million of debt facilities (representing about 74% of the Group's total) by the end of August 2009
- On 25 September 2009 Carpathian signed agreements to amend its €40.4 million debt facility with Erste Bank (representing an additional 9% of the Group's total debt facilities)
- Where relevant, discussions in relation to the Group's other debt facilities are progressing well
- Carpathian has no current plans to provide further uncommitted equity into additional debt restructurings or for capital expenditure or other investment in its non-core assets
- As stated at the time of the latest preliminary results announcement, a continued intention to make aggregate dividend distributions of not less than 8 pence (9.2 euro cents) per share in cash to shareholders prior to May 2010 with an expectation that the first part of this distribution will be announced prior to 31 December 2009
- Appointment of Andrew Shepherd as an additional Non-executive Director to the Board, adding a wealth of experience within the Central and Eastern European property markets
- Discussions between Carpathian Asset Management and the Board in relation to the realignment of incentive arrangements (with clear realisation and cost reduction targets) are expected to be concluded and announced shortly
- Continued focus on preservation of value until the return of liquidity and transaction activity enables value realisation to occur, with the aim of maximising the distribution of cash proceeds from future disposals to shareholders

Chairman's Statement

According to the latest IMF report (issued on 10 September 2009), a number of major economies might show signs of recovery from recession; however, there remain several critical steps and actions to implement within and across countries before sustainability can be proved. Therefore we remain cautious in relation to the short and medium-term macroeconomic outlook.

As indicated previously, global trends have a substantial impact on economies in Central and Eastern Europe where consumer and property market conditions remain challenging due to very limited liquidity and increased volatility in the financial markets. Based on current macroeconomic performance we believe that some of the economies within the CEE region are better positioned to recover from the current turmoil than some countries in Western Europe. Carpathian has the flexibility to focus on the countries and assets which could prove to be the most resilient against the present property market volatility.

Financial results

During the first six months of 2009, the Group's net rental and related income was €13.6 million (six months to 30 June 2008: €21.2 million). This lower net income mainly reflects the sale of Varyada Shopping Centre in December 2008 and the loss of income on the Interfruct portfolio in Hungary coupled with a 3% decrease in rents across the remaining property portfolio.

Adjusted profit after tax excluding any fair value, goodwill and foreign exchange movements, for the first six months of 2009 was €2.4 million (six months to 30 June 2008: €7.0 million). The consolidated net loss for the first six months of 2009 was €2.6 million against a profit of €7.6 million in the first six months of 2008. There is no fair value adjustment of the investment and development portfolio for the first six months of 2009, given that independent property valuations are only performed at year end.

This loss generates negative earnings per share of (1.1) euro cents (six months to 30 June 2008: earnings per share of 4.8 euro cents). Operating profit generated approximately 1.0 euro cent per share (six months to 30 June 2008: 3.1 euro cents per share).

The deferred tax expense for the period amounts to €5.0 million (six months to 30 June 2008: €2.3 million). Deferred tax is provided on the excess of the fair values of investment properties over their corresponding tax base values. Whilst fair values have not changed during the period (see above), the excess has increased as a result of the ongoing tax depreciation.

The total cash of the Group as at 30 June 2009 was €55.2 million (as at 30 June 2008: €84.1 million) and €42.6 million as at 31 August 2009. The Group's uncommitted cash position, as at 31 August 2009, was approximately €28 million, which equates to 12.1 euro cents per share. At the time of our last preliminary announcement, the Group's uncommitted cash as at 27 March 2009 was €44.6 million or 19.2 euro cents per share. The decrease of €16.6 million in the uncommitted cash position is, inter alia, accounted for by the purchase of the property adjoining Promenada (Poldrim) in Warsaw for €6.2 million agreed as part of debt restructuring with Deutsche Pfandbriefbank AG ("DPB"), a debt repayment of €8 million agreed as part of the DPB restructuring together with the payment of arrangement fees and transaction costs.

The Group's Net Asset Value per share as at 30 June 2009 was 81 euro cents compared to 169 euro cents a year earlier, preceding the last independent valuation of the property portfolio at the end of 2008.

Board change

On 23 September 2009, Andrew Shepherd joined the Board as an additional Non-executive Director, adding a wealth of experience within the Central and Eastern European property markets.

Business performance and strategy

As concluded as part of the Strategic Review, the Board continues with its trading strategy to focus on the preservation of value until a return of liquidity enables realisation to occur, with the aim of maximising the distribution of cash proceeds from future disposals. In compliance with the latest rules of AIM, the full version of the Company's Investment Policy will be available shortly on the Company's website (www.carpathianplc.com).

Based on recommendations from our Property Adviser as part of the Strategic Review, we have categorised each of our properties as core or non-core, having assessed the enduring equity value and individual risk profile of each of the assets on a prudent basis. This is set out in more detail in the Property Adviser's Report.

Starting at the beginning of the year, we have given priority to restructuring the Group's debt facilities in relation to those parts of the portfolio that the Property Adviser believes are likely to result in the Company realising equity value. During the past six months, the Company has successfully restructured debt facilities with three of the Group's lenders, Deutsche Pfandbriefbank AG ("DPB"), Anglo Irish Bank ("AIB") and Erste Bank, representing around 83% of its €429 million total debt facilities. DPB was formed in mid 2009 by the merger of Hypo Real Estate Bank AG and DEPFA AG.

The €235 million DPB restructuring (representing 55% of total debt) delivers a more stable capital structure to the majority of our core assets until the end of 2011, with no loan to value covenant in place for the term. As part of this restructuring, the Company agreed, inter alia, to a debt repayment of €8.0 million and the purchase of an income-producing property adjoining Promenada for €6.2 million (which was added to the security package instead of a direct debt repayment).

The €76 million AIB restructuring (representing 18% of total debt) required an investment of €3 million (part equity, part mezzanine debt) with full cash sweep in place as part of the transaction. As part of the agreement, AIB agreed to release cash funds of approximately €7.5 million held at the bank from the sales proceeds of Karlovy Vary. The assets within this portfolio are considered non-core with Carpathian's liabilities limited to funds already invested.

Under these two new arrangements, €133 million of interest-bearing loans and borrowings which are included within current liabilities at 30 June 2009 will become non-current liabilities.

On 25 September 2009, the Company signed an amendment to the €40.4 million debt facility with Erste Bank. As part of this agreement, the loan to value covenant has been waived until loan maturity in March 2011, while the margin increased from 180bps to 300bps and amortisation has been introduced at €500,000 per annum. No equity injection will be required as both the margin increase and amortisation payments are to be covered by rental income. The facility relates to a portfolio of six supermarkets in Croatia let to the country's largest retailer, Konzum.

Where relevant, the Group, together with its Property Adviser, is also progressing well with other debt restructurings. As already stated, Carpathian has no current plans to inject additional cash in agreeing any further debt restructurings.

The core property portfolio continues to trade satisfactorily with rental levels broadly in line with the Board's expectations as set out in more detail in the Property Adviser's Report.

Turning to going concern, the Board has reviewed a detailed cash flow and underlying assumptions for the period until the end of 2011, which projects that the Group and the Company have adequate resources for that period.

During that time the Group will continue to focus on operational efficiencies, maintaining income streams and managing relations with its lenders, with a view to a recovery in market conditions and in particular to some liquidity returning to the property sector.

The Group is exposed to a number of risks, including interest rate risk, currency risk, market risk, credit risk and liquidity risk. The Board has overall responsibility for establishment and oversight of the Group's risk management framework; its policies are established, in conjunction with the Property Adviser, to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Directors recognise that these circumstances represent an uncertainty that casts doubt upon the Group's and Company's ability to continue their operations. However, after making suitable enquiries and based on the factors described above and in particular on the recent debt restructurings and the position reached in various discussions with the Group's other bankers, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue their operations for at least the next 18 months. For these reasons, the Directors continue to adopt the going concern basis in preparing the Interim Report and accounts.

Dividends

As stated at the time of the preliminary announcement, the Board intends that the Company will make aggregate distributions of not less than 8 pence (9.2 euro cents) per share in cash to shareholders prior to May 2010 with an expectation that the first part of this distribution will be announced prior to 31 December 2009.

Property Adviser's interest realignment and independence

In May 2009, following conclusion of the Strategic Review and the decision to continue with the Group's trading strategy, Carpathian initiated discussions with Carpathian Asset Management ("CAM") to renegotiate the management incentive arrangements to ensure complete realignment of interest between shareholders and CAM. The main objective is to ensure successful execution of the trading strategy as stated above to maximise realisations and to deliver substantial and swift operational cost savings including CAM's direct overheads.

The Board has made substantial progress on the negotiation and the documentation of the new incentivisation terms, which are expected to be concluded and announced shortly.

With regard to the independence of our Property Adviser, the Company holds a 50% interest in CAM, the remaining 50% is held by UK Real Estate Management Limited (a company wholly owned by Paul Rogers and Massimo Marcovecchio).

Rory Macnamara and Rupert Cottrell, Non-executive Chairman and Director respectively of Carpathian, sit on the Board of CAM as Directors and receive no remuneration for this function.

Other corporate matters

As previously announced, the Ordinary Shares of the Company were redenominated from Pounds Sterling to Euros such that the nominal value of the Ordinary Shares is now €0.01. The resolutions providing for this redenomination into Euros were passed at the Annual General Meeting held on 21 July 2009. The Ordinary Shares were converted at the rate of €1.0: £0.8645 and the change took effect on 27 July 2009.

On the same date, €173.5 million of the Company's share premium was released to retained earnings.

Outlook

In the current macroeconomic environment the Board remains cautious and follows a very conservative policy with the use of cash funds available within the Group. Now that major debt restructurings are complete, and with no further acquisitions or equity injections expected to take place, we continue to focus on delivering substantial operational cost savings by concentrating on the core assets within the portfolio. Based on recent achievements in relation to the objectives set out in the Strategic Review, the Company is better positioned to maximise value for shareholders over the medium term.

Rory Macnamara
Chairman
28 September 2009

Property Investment Adviser's Report

Since the Strategic Review that commenced towards the end of 2008, the management team of the Property Adviser has concentrated on pursuing its strategy proposed to and agreed with the Board and the Company's shareholders.

The main features of this strategy are;

1. Completion of debt negotiations

All negotiations have been undertaken and have either been formally completed with announcements already made, or provisionally completed pending documentation with announcements to follow. All facilities for core investment properties have had reference to loan to value covenants removed.

2. Reducing operational costs

Following an invitation from the Board of Carpathian, CAM's management has made proposals to take 100% ownership of CAM and for the reduction of future direct management costs charged to the Company. This has been provisionally agreed and, once fully implemented, the cost reduction will contribute to the Company's sustainability over the medium term.

3. Management alignment

The Board also invited CAM to propose a revised incentive scheme re-aligning the Property Adviser's compensation with shareholders' priorities. The Board is presently in discussions over the final details of the revised incentivisation scheme and would expect to announce the outcome of these discussions together with the cost reduction plan in the near future after consultation with certain major shareholders.

4. Medium-term trading

Carpathian's agreed strategy is to protect core assets so that they may realise best value for shareholders within the medium term. Properties are being managed and preparations made to place assets to their best advantage pending future sale opportunities. These preparations have included stabilisation of the debt position on major assets, which greatly assists market differentiation from perceived distressed assets. Market investment activity is currently being carefully monitored. At present this activity is still very low although the economic growth, debt exposure and stable rental performance shown within some of the CEE markets, notably Poland and the Czech Republic, suggest some prospect for a speedier recovery relative to other (including some Western) markets.

Property Portfolio

CAM has recommended the risk categorisation of assets as core and non-core to reflect the medium-term prospects for retained equity value. This categorisation takes into consideration the property attributes and the status of the debt position of each individual asset. It demonstrates where management focus will be applied and will enable shareholders to anticipate the main contributors of expected future performance.

It also highlights the independence of core asset performance from that of non-core assets, due to core assets being held in ring-fenced non-recourse companies.

The classification of the properties into core and non-core categories is shown in the tables below, along with the key asset characteristics over the last six-month period.

Core portfolio

The first table lists the core investment properties with details of the debt facilities.

Investment properties	Country	Gross lettable area (sqm)	Lender	Loan amount as at 31 Aug 2009 (€'000)	Loan expiry
Agrokor Portfolio	Croatia	31,647	Erste Bank	40,474	Mar 11
Antana	Hungary	36,997	Barclays plc	12,011	Nov 09
Gdansk-Osowa	Poland	13,167	DPB	22,104	Dec 11
Lodz-Tulipan	Poland	9,621	DPB	16,578	Dec 11
Sosnowiec-Centrum	Poland	2,162	DPB	3,224	Dec 11
Torun-Kometa	Poland	1,958	DPB	4,145	Dec 11
Biedronka/Slupsk	Poland	1,220	No debt	–	–
Promenada	Poland	51,165	DPB	103,400	Dec 11
MacroMall	Romania	7,489	No debt	–	–
Total		155,426		201,936	

The second table shows a summary of the key performance indicators of the core investment portfolio.

Investment properties	
Weighted average lease expiry	3.78 years
Voids by rental value/%	€1,731k/7%
Lease expiries within one year (value/number of leases)	€4,593k/149
Re-leased space within last year (value/number of leases)	€1,525k/92
NOI growth over the last 12 months	3%
Year to date income collection	96%

Tenant exposure profile:
The top 10 tenants in the core portfolio represent 38% of the total rent. The remaining 62% comprises 837 tenants paying approximately €13.6 million gross rent per annum.

The third table shows the core development assets.

Development properties	Country	Land size (sqm)	Gross lettable area (sqm)	Lender	Loan amount (€'000)	Loan expiry
Riga Shopping Centre	Latvia	8,203	37,742	Nordea	39,000	Jun 17
Baia Mare – Land	Romania	125,238	50,517	No debt	–	–
Satu Mare – Land	Romania	26,759	32,112	No debt	–	–
Total		160,200	120,371		39,000	

Within the core investment portfolio, funds required to restructure the debt facility of **Promenada** in Warsaw were partially utilised with the purchase of an adjoining property (Poldrim) for €6.2 million. This asset was offered as collateral to the revised debt facility, reducing the capital repayment. The Poldrim property produces an additional net income to the portfolio of approximately €591,000 per annum. The property is performing well, and work is underway to unlock further value through a major extension of the prime retail space. It is anticipated that the value-enhancing milestones including planning and construction permits and major pre-lets will be attractive to an incoming investor. There are 28 lease expiries in 2009 representing 19% of total rent. Of these, 17 were renewed by the end of July with rent levels above the passing rent, representing 18% of expiring rent.

The **Blue Knight Portfolio** in Poland has 58 lease expiries in 2009, representing 33% of total rent, out of which 41 were renewed by the end of July 2009, representing 21% of total rent. The renewed rent is 1.2% higher than previous rent levels.

Our prime retail development project in the centre of **Riga**, Latvia is advancing on schedule for completion in the second quarter of 2010. The construction facility contains a 65% pre-lease condition releasing the entirety of the remaining funds of approximately €25 million under the €64 million debt facility. A careful status review of the substantial pre-leasing agreed to date is underway and is to be presented to the lender, Nordea. The intended latter phase of the scheme is being reconsidered in the light of market conditions.

The Company has recently signed an amendment to the €40.4 million Erste Bank facility used to finance the acquisition of the **Agrokor Portfolio** which comprises six Konzum supermarkets in Croatia. The amendment waives the LTV covenant until loan maturity in March 2011 in return for a margin increase from 180bps to 300bps and the introduction of amortisation of €500,000 per annum. No equity injection is expected to be required as both the margin increase and amortisation payments are covered by rental income.

The portfolio's tenant is Konzum, the market-leading retailer in the country with attractive trading performance also over the last two years. With the facility restructured, we can now concentrate on realising equity from this core asset portfolio.

We are currently negotiating terms of the sale of the **Slupsk** property in Poland.

The **Antana Logistic Park** in Budapest has experienced a 50% fall in income following the main tenant not renewing the lease in February 2009. The whole lettable area is leased on short-term periods due to intended redevelopment which has now been suspended. Occupier enquiries have increased over the recent period, particularly for larger unit sizes with longer-term leases, or alternatively considerations for a purchase of part or whole of the estate. We are in positive discussions with the debt provider, Barclays, to complete the restructuring of the debt facility shortly.

Within the core investment portfolio, **MacroMall** in Brasov, Romania, is experiencing severe difficulties with voids and problematic income collection. Resources are being focused on stabilising the situation to recover due but unpaid income. Meanwhile interest has been shown on potentially reconfigured space creating a much needed further anchor store.

Non-core portfolio

The tables below list the non-core investment properties, the details of their debt facilities and key performance indicators.

Investment properties	Country	Gross lettable area (sqm)	Lender	Loan amount as at 31 Aug 2009 (€'000)	Loan expiry
"Point" Portfolio	Czech R/ Hungary	45,340	DPB	54,414	Dec 11
Babilonas	Lithuania	21,475	DPB	23,500	Dec 11
Plaza Portfolio	Hungary	48,374	MKB	44,400	In default
Interfruct Portfolio	Hungary	94,668	AIB	58,575	Jan 10
Ericsson Office	Hungary	8,972	AIB	11,223	Jan 10
Marina Mokotow	Poland	2,544	AIB	6,809	Jan 10
Total		221,373		198,921	

Investment properties	
Weighted average lease expiry	4.32 years
Voids by rental value/%	€6,912k/32%
Lease expiries within one year (value/number of leases)	€2,628k/103
Re-leased space within last year (value/number of leases)	€1,650k/100
NOI growth over the last 12 months	(39)%
Year to date income collection	92%

Development properties	Country	Land size (sqm)	Gross lettable area (sqm)	Lender	Loan amount (€'000)	Loan expiry
Arad Shopping Centre	Romania	24,436	529,258	MKB	11,448	Mar 10
Cluj – Land	Romania	19,400	47,995	MKB	8,500	Sep 09
Total		43,836	577,253		19,948	

CAM is reviewing the available options for each of the assets within the non-core portfolio in order to maximise returns without further deploying equity to help the Board to formulate its strategy in relation to these assets.

Unaudited Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Note	30 June 2009 Revenue €'000	30 June 2009 Capital €'000	30 June 2009 Total €'000	30 June 2008 Total €'000	31 Dec 2008 Total €'000
Gross rental income		**19,048**	**–**	**19,048**	24,939	47,275
Service charge income		**6,485**	**–**	**6,485**	7,208	15,034
Service charge expense		**(8,152)**	**–**	**(8,152)**	(8,411)	(17,886)
Property operating expenses		**(5,110)**	**–**	**(5,110)**	(3,290)	(7,164)
Other property income		**1,357**	**–**	**1,357**	709	6,079
Net rental and related income		**13,628**	**–**	**13,628**	21,155	43,338
Changes in fair value of investment property	2	**–**	**–**	**–**	–	(205,833)
Impairment of goodwill		**–**	**–**	**–**	–	(32,377)
Loss on sale of investment property		**–**	**–**	**–**	–	(1,336)
Changes in fair value of derivative assets and liabilities		**–**	**920**	**920**	17	6,709
Net foreign exchange gain/(loss)		**–**	**370**	**370**	(1,540)	(4,001)
Administrative expenses		**(2,837)**	**–**	**(2,837)**	(4,007)	(8,235)
Net operating profit/(loss) before net financing expense		**10,791**	**1,290**	**12,081**	15,625	(201,735)
Financial income		**2,622**	**–**	**2,622**	3,496	6,837
Financial expenses		**(11,440)**	**–**	**(11,440)**	(12,612)	(26,094)
Changes in fair value of interest rate swaps		**–**	**(1,230)**	**(1,230)**	4,379	(10,986)
Net financing expense	4	**(8,818)**	**(1,230)**	**(10,048)**	(4,737)	(30,243)
Net profit/(loss) before tax		**1,973**	**60**	**2,033**	10,888	(231,978)
Tax credit/(expense)		**435**	**(5,040)**	**(4,605)**	(3,258)	42,730
Profit/(loss) for the period and total comprehensive income for the period		**2,408**	**(4 ,980)**	**(2,572)**	7,630	(189,248)
Attributable to:						
Equity holders of the Company				**(2,532)**	11,075	(183,913)
Non-controlling interest				**(40)**	(3,445)	(5,335)

Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the period (expressed as cents per share)

	Note	30 June 2009 Total	30 June 2008 Total	31 Dec 2008 Total
Basic earnings per share	5	**(1.1) c**	4.8 c	(79.7) c
Diluted earnings per share	5	**(1.1) c**	4.8 c	(79.7) c

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Share capital €'000	Share premium €'000	Non-controlling interest €'000	Retained earnings €'000	Total €'000
Balance as at 1 January 2008	3,348	260,386	5,395	122,670	391,799
Total comprehensive income for the period					
Profit for the period	–	–	–	7,630	7,630
Transactions with owners recorded directly to equity					
Dividends paid and declared	–	–	–	(9,889)	(9,889)
Carried interest allocation to non-controlling shareholders	–	–	(3,445)	3,445	–
Balance as at 30 June 2008	3,348	260,386	1,950	123,856	389,540
Balance as at 1 January 2009	**3,383**	**263,935**	**60**	**(76,748)**	**190,630**
Total comprehensive income for the period					
Loss for the period	**–**	**–**	**–**	**(2,572)**	**(2,572)**
Transactions with owners recorded directly to equity					
Loss allocation to minority shareholders	**–**	**–**	**(40)**	**40**	**–**
Balance as at 30 June 2009	**3,383**	**263,935**	**20**	**(79,280)**	**188,058**

Unaudited Consolidated Statement of Financial Position

As at 30 June 2009

	Note	30 June 2009 €'000	30 June 2008 €'000	31 Dec 2008 €'000
Assets				
Non-current assets				
Investment property	2	**571,945**	774,487	551,155
Goodwill		**12,767**	35,401	13,600
Intangible assets		**–**	29	–
Costs relating to future acquisitions		**66**	332	65
Investments in equity accounted investees		**191**	–	191
Other investments		**7,452**	7,452	7,452
Loans receivable		**25,086**	33,000	25,177
Deferred income tax assets		**5,576**	1,999	2,955
		623,083	852,700	600,595
Current assets				
Trade and other receivables		**22,606**	18,552	15,711
Loans receivable		**8,200**	–	8,200
Cash and cash equivalents		**55,150**	84,116	63,853
Financial assets		**9,088**	10,876	8,030
		95,044	113,544	95,794
Total assets		**718,127**	966,244	696,389
Equity				
Issued capital	6	**3,383**	3,348	3,383
Share premium	6	**263,935**	260,386	263,935
Retained earnings		**(79,280)**	123,856	(76,748)
Total equity attributable to equity holders of the parent		**188,038**	387,590	190,570
Non-controlling interest		**20**	1,950	60
Total equity		**188,058**	389,540	190,630
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	11	**141,056**	257,477	197,835
Other payables		**8,833**	–	7,884
Deferred income tax liabilities		**34,463**	79,520	26,816
		184,352	336,997	232,535
Current liabilities				
Trade and other payables		**33,073**	21,857	29,927
Interest-bearing loans and borrowings	11	**287,817**	206,031	219,304
Provisions		**17,942**	2,127	18,827
Dividends payable		**–**	9,692	–
Derivative liabilities		**6,885**	–	5,166
		345,717	239,707	273,224
Total liabilities		**530,069**	576,704	505,759
Total equity and liabilities		**718,127**	966,244	696,389

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	Note	**30 June 2009 €'000**	30 June 2008 €'000	31 Dec 2008 €'000
Cash flows from operating activities				
Cash generated from operations	7	**8,505**	1,483	27,582
Income taxes received/(paid)		**516**	(849)	(1,088)
Net cash generated from operating activities		**9,021**	634	26,493
Cash flows from investing activities				
Capital expenditure on investment property		**(14,277)**	(6,394)	(23,805)
Capital expenditure on intangible assets		**–**	(11)	18
Investment in unconsolidated entities		**–**	–	(191)
Loan advances to unconsolidated entities		**91**	(12,800)	(13,149)
Cash received on disposal of investment property		**–**	–	11,979
Interest received		**252**	887	2,748
Acquisition of subsidiaries		**(4,150)**	(602)	–
Net cash used in investing activities		**(18,083)**	(18,920)	(22,400)
Cash flows from financing activities				
New bank loans raised		**12,037**	43,982	100,843
Interest paid		**(10,984)**	(12,105)	(25,078)
Repayments of borrowings		**(694)**	(3,403)	(74,625)
Dividends paid		**–**	(10,589)	(25,897)
Net cash generated from/(used in) financing activities		**359**	17,885	(24,757)
Net decrease in cash and cash equivalents		**(8,703)**	(401)	(20,664)
Cash and cash equivalents at the beginning of the period		**63,853**	84,517	84,517
Cash and cash equivalents at the end of the period		**55,150**	84,116	63,853

Notes to the Unaudited Consolidated Financial Statements

1 General information

Carpathian PLC (the "Company") is a company domiciled and incorporated in the Isle of Man on 2 June 2005 for the purpose of investing in the retail property market in Central and Eastern Europe. On 24 July 2009 the Company re-registered as a company governed by the Isle of Man Companies Act 2006 and redenominated the par value of its Ordinary Shares from Pounds Sterling 0.01 to Euros 0.01.

The Interim Report of Carpathian PLC for the six months ended 30 June 2009 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements include the share capital of the Company denominated in Pounds Sterling, translated to Euros at the exchange rates ruling at the dates of issue. As from 24 July 2009 the share capital will be denominated in Euros, converted from Pounds Sterling, based on the exchange rate prevailing on that date.

The Company's registered address is IOMA House, Hope Street, Douglas, Isle of Man IM1 1AP.

2 Significant accounting policies

(a) The Interim Report for the six months ended 30 June 2009 is unaudited and has been prepared based on the accounting policies set out in the statutory accounts for the year ended 31 December 2008 and the new and revised accounting policies and other changes as disclosed in paragraph 2(b).

(b) Changes in accounting policies

(i) Functional and presentational currency

The functional currency of the consolidated financial statements is the Euro as it is the currency of the primary economic environment in which the Group operates. In prior periods the consolidated financial statements were presented in Pounds Sterling. Following the redenomination of the share capital to Euros, this Interim Report and all future financial information will be presented in Euros.

(ii) Presentation of financial statements

The Group applies revised IAS1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the Consolidated Changes in Equity all owner changes in equity, whereas non-owner changes in equity are presented in the Consolidated Statement of Comprehensive Income. The presentation has been applied in these condensed interim financial statements as of and for the six months ended 30 June 2009.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(iii) Investment property

The Group applies revised IAS40 Investment Property (2008), which became effective as of 1 January 2009. As a result, the Group's development properties are now classified as investment property and are recognised initially at cost and subsequently at fair value. Cost includes all costs directly associated with the purchase and construction of development properties and attributable interest. Fair value is independently determined by professionally qualified valuers at market value at the Balance Sheet date. Gains or losses arising from changes in fair value of investment properties are included in the Statement of Comprehensive Income in the year in which they arise. This presentation has been applied in these condensed interim financial statements as of and for the six months ended 30 June 2009.

The Group's policy is to fair value investment properties annually at 31 December; as a result no fair value adjustments have been recognised in the Unaudited Consolidated Statement of Comprehensive Income for the six months ended 30 June 2009.

Comparative information has been re-presented so that it is in conformity with the revised standard. As development properties were impaired as at 31 December 2008 and were devalued at that date to their market value, there has been no impact on the earnings per share of the comparative periods resulting from the re-presentation under the revised IAS40.

(iv) Determination and presentation of operating segments

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS8 Operating Segments. Previously operating segments were determined and presented in accordance with IAS14 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income and expenditure associated with the various holding companies within the Group.

3 Operating segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units are managed separately because they represent the varying strategic objectives of the Group. For both of these strategic business units the Board reviews internal management accounts on at least a quarterly basis.

Core assets are those which are considered to retain significant enduring equity value, to protect on a prudent basis. All other assets are classified as non-core.

3 Operating segments (continued)

Information about reportable segments

For the six months ended 30 June 2009

	Core €'000	Non-core €'000	Other and adjustments €'000	Total €'000
External revenues:				
Net rental and related income	**10,831**	**5,527**	**(2,730)**	**13,628**
Reportable segment profit/(loss) before tax	**8,003**	**(2,276)**	**(3,694)**	**2,033**
Reportable segment assets:				
Investment property	**300,653**	**271,292**	**–**	**571,945**
Other assets	**49,433**	**18,395**	**78,354**	**146,182**
Total assets	**350,086**	**289,687**	**78,354**	**718,127**
Interest-bearing loans and borrowings				
Due within one year	**(121,311)**	**(166,506)**	**–**	**(287,817)**
Due after more than one year	**(83,630)**	**(57,426)**	**–**	**(141,056)**
Other liabilities	**(42,360)**	**(27,742)**	**(31,094)**	**(101,196)**
Total liabilities	**(247,301)**	**(251,674)**	**(31,094)**	**(530,069)**

4 Net financing expense

	30 June 2009 €'000	30 June 2008 €'000	31 Dec 2008 €'000
Interest income from financial institutions	**366**	1,578	2,659
Interest income from related party	**2,256**	1,918	4,178
Financial income	**2,622**	3,496	6,837
Net interest expenses on bank borrowings	**(10,841)**	(12,235)	(25,378)
Finance costs amortised	**(391)**	170	(535)
Unwinding of unrealised direct issue costs of borrowings	**(208)**	(547)	(181)
Financial expenses	**(11,440)**	(12,612)	(26,094)
Changes in fair value of interest rate swaps	**(1,230)**	4,379	(10,986)

5 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2009 was based on the loss attributable to Ordinary Shareholders of €2,532,071 and a weighted average number of Ordinary Shares outstanding during the six months ended 30 June 2009 of 230,641,630, calculated as follows:

(Loss)/profit attributable to Ordinary Shareholders	**30 June 2009 €'000**	30 June 2008 €'000	31 Dec 2008 €'000
(Loss)/profit for the period	**(2,572)**	7,630	(189,248)
Non-controlling interest	**40**	3,445	5,335
(Loss)/profit attributable to Ordinary Shareholders	**(2,532)**	11,075	(183,913)

Weighted average number of Ordinary Shares

1 January	**230,641,630**	229,363,349	229,363,349
Effect of shares issued on 16 July 2008	–	–	1,278,281
Weighted average number of Ordinary Shares	**230,641,630**	229,363,349	230,641,630
Basic earnings per share	**(1.1) c**	4.8 c	(79.7) c

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2009 was based on the loss attributable to Ordinary Shareholders of €2,532,071 and a weighted average number of Ordinary Shares outstanding during the six months ended 30 June 2009 of 230,641,630, calculated as follows:

(Loss)/profit attributable to Ordinary Shareholders (diluted)	**30 June 2009 €'000**	30 June 2008 €'000	31 Dec 2008 €'000
(Loss)/profit for the period	**(2,572)**	7,630	(189,248)
Non-controlling interest	**40**	3,445	5,335
(Loss)/profit attributable to Ordinary Shareholders	**(2,532)**	11,075	(183,913)

Weighted average number of Ordinary Shares for the purposes of diluted earnings per share

Weighted average number of Ordinary Shares	**230,641,630**	229,363,349	229,363,349
Effect of dilutive potential Ordinary Shares: share options	–	–	1,278,281
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**230,641,630**	229,363,349	230,641,630
Basic earnings per share	**(1.1) c**	4.8 c	(79.7) c

6 Share capital and share premium

	Number of Ordinary Shares of 1 pence each	€'000
Authorised:		
At 31 December 2008 and 30 June 2009	**350,000,000**	**4,116**

	Number of shares issued and fully paid	Share capital €'000	Share premium €'000
Issued:			
Ordinary Shares of 1 pence each			
Balance at 31 December 2008 and 30 June 2009	**232,148,175**	**3,383**	**263,935**

7 Notes to the Cash Flow Statement

Cash generated from operations	**30 June 2009 €'000**	30 June 2008 €'000	31 Dec 2008 €'000
(Loss)/profit for the period	**(2,572)**	7,630	(189,248)
Adjustments for:			
Increase/(decrease) in fair value of financial instruments	**310**	(5,120)	3,554
Unwinding of unrealised direct issue costs of borrowings	**391**	547	181
Net other finance income	**9,557**	9,384	19,073
Decrease in fair value of investment and development property	**–**	–	205,819
Costs relating to future acquisitions written off	**–**	63	330
Provisions	**(885)**	1,248	830
Impairment of goodwill	**491**	–	32,377
Income tax expense	**5,020**	3,269	(50,024)
Profit on disposal of investment property	**–**	–	3,678
Operating cash flows before movements in working capital	**12,312**	17,021	26,570
(Increase)/decrease in receivables	**(4,463)**	(193)	7,081
Increase/(decrease) in payables	**656**	(15,345)	(6,069)
Cash generated from operations	**8,505**	1,483	27,582

8 Acquisition of subsidiary

On 30 June 2009, the Group acquired 100% of the voting equity of Poldrim Sp. z o.o., a company incorporated and owning investment property in Poland, for a consideration of €6.2 million. A summary of the acquisition is shown below:

	€'000
Assets	
Investment property	**6,512**
Trade and other receivables	**62**
Deferred income tax assets	**29**
Cash and cash equivalents	**104**
Liabilities	
Trade and other payables	**(146)**
Net assets	**6,561**
Goodwill	**(341)**
Total consideration	**6,220**
Satisfied by:	
Cash	**6,220**

The carrying value of investment property includes a fair value uplift of €0.9 million; all other assets and liabilities are included at their carrying values immediately before the combination.

During the period ended 30 June 2009, Poldrim contributed a loss of €0.04 million to the Group's loss.

If the acquisition had occurred on 1 January 2009, it is estimated that the Group's consolidated revenue would have increased by €0.3 million and the Group's loss would have decreased by €0.28 million.

9 Dividends

	30 June 2009 €'000	31 Dec 2008 €'000
Dividends paid during the period	–	15,505

10 Capital commitments

The Group has entered into contracts for professional services amounting to €26.4 million (31 December 2008: €36.1 million).

11 Events after the Balance Sheet date

On 24 July, the Company re-registered as a company governed by the Isle of Man Companies Act 2006 and redenominated the par value of its Ordinary Shares from Pounds Sterling 0.01 to Euros 0.01. On the same date, €173,520,000 of the Company's share premium was released to retained earnings.

On 31 July, the Group completed the restructuring of all its debt facilities, totalling €235 million, with Hypo Real Estate (recently renamed Deutsche Pfandbriefbank AG).

On the same date, the Group also completed the restructuring of its entire debt facilities with Anglo Irish Bank.

Under these two new arrangements, €133 million of interest-bearing loans and borrowings which are included within current liabilities at 30 June became non-current liabilities.

A detailed description of both restructurings, together with an update on the Group's other facilities, is included in the Property Adviser's Report.

Directors, Officers and Advisers

Directors
Rory Patrick Macnamara
(Non-executive Chairman)
Patrick Rupert Cottrell
(Non-executive Director)
Philip Peter Scales
(Non-executive Director)
Timothy Graham Walker
(Non-executive Director)
Andrew Shepherd
(Non-executive Director)

Company Secretary
Philip Peter Scales

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