Carpathian PLC
Interim Report 2010

Carpathian

Contents

"The Board is pleased that the value realisation programme from the core portfolio is progressing well together with the derecognition of non-core assets from Carpathian's consolidated financial statements in line with the revised strategy of the Company. The Board's added priority of minimising administrative expenses and optimising tax liabilities from realisations is also materially within the expectations set. However, the sales transactions could typically take several months before any conclusion is reached and remain subject to due diligence by the acquirer.

The Board's intention to distribute all available cash to shareholders remains unchanged, although we must maintain sufficient cash levels within the Group to meet continuing running costs in line with the business plan. We expect to be in a position to make further distributions shortly after the receipt of significant disposal proceeds."

Rory Macnamara, Non-executive Chairman

Financial Highlights

- Profit after tax of €23.4 million (six months to 30 June 2009: loss after tax of €2.6 million)
- Earnings per share of 10.1 euro cents for the period (six months to 30 June 2009: loss per share of 1.1 euro cents)
- Net asset value per share of 42.7 euro cents (as at 30 June 2009: 81 euro cents)
- Adjusted loss after tax* of €0.5 million (six months to 30 June 2009: adjusted profit after tax of €2.4 million)
- Net rental income of €11.2 million (six months to 30 June 2009: €13.6 million)
- Total cash of €26.1 million as at 30 June 2010 (as at 30 June 2009: €55.2 million) and €28 million as at 13 August 2010
- Group uncommitted cash as at 13 August 2010 of approximately €15.1 million, equating to approximately 6.5 euro cents per share
- The non-core Plaza portfolio of four shopping centres and the Antana logistics warehouse in Hungary met the criteria for derecognition from the Group's consolidated financial statements and are no longer consolidated as of 31 March 2010 and 30 June 2010 respectively. The consolidated profit on derecognition of these non-core investments was €6.1 million

* Adjusted profit and loss after tax and adjusted earnings per share exclude fair value, deferred tax, sales, derecognitions and foreign exchange adjustments

Operational Highlights

In line with the Company's revised business strategy, three potential sale transactions are currently being explored. As announced on 27 July 2010:

- Carpathian's "Blue Knight Portfolio" of provincial shopping centres across Poland is under offer for sale. The buyer's due diligence process is advancing

- Following the receipt of a number of offers through a competitive bid process for the prime shopping centre asset of Promenada, in Warsaw, one party has been selected as the preferred buyer. An extensive due diligence process has now commenced.

  More recently, an offer has been accepted for the Agrokor portfolio, in Croatia. The due diligence process has also been commenced.

  The aggregate prices currently offered for the above assets are close to the 2009 year-end valuations, the last time the portfolio was independently valued. The sales transactions could take several months before reaching a conclusion and therefore the Board has determined these assets are not held for sale for accounting purposes (there can be no guarantee that such sales will be completed nor as to the terms on which they may be completed)

- New portfolio management agreement in place from 1 March 2010, designed to incentivise the Property Investment Adviser to focus on delivering the Company's revised strategy of maximising shareholder value in the short to medium term in addition to achieving significant cost savings for the Company

- Carpathian disposed of certain subsidiaries holding the non-core developments of Arad Shopping Center and Cluj development land and the Romanian Development management platform to related parties for a nominal sum as announced on 23 March 2010. This enabled the Company to focus on the remaining investment assets within the core portfolio and considerably reduce ongoing management costs. All debt obligations of approximately €51.7 million encumbering these non-core development assets have been taken on by the acquirer

- The core portfolio continues to trade reasonably in line with the Board's expectations with the exception of Macromall (Brasov, Romania), which continues to struggle with low occupancy levels

- As announced on 7 May 2010, a new financing structure and debt arrangement has been completed which should permit the completion of the prime city centre retail scheme in Riga, Latvia. This restructuring has increased Carpathian's equity stake in the development to 80% whilst retaining 50% control, without contributing additional equity

Chairman's Statement

Since the beginning of 2010, Carpathian has continued to further build on the stabilisation achieved in 2009 and progress the execution of the revised business plan by seeking to maximise the realisable value of core assets and restructuring the non-core asset portfolio.

During this period, our target markets, the Central and Eastern European ("CEE") economies have emerged from recession with very modest growth forecasts, albeit from a low base. The performance of the region's property markets has also been slightly better. However, our view on future prospects remains cautious until more permanent patterns for stabilisation and growth are in evidence.

Financial results

During the first six months of 2010, the Group's net rental and related income was €11.2 million (six months to 30 June 2009: €13.6 million).

The adjusted loss after tax excluding any fair value, deferred tax, sales, derecognitions and foreign exchange movements for the first six months of 2010 was €0.5 million, compared to an adjusted profit after tax of €2.4 million for the same period a year earlier. This largely reflects a fall of €2.4 million in financial income as €2.3 million was accrued as interest receivable from the Riga development joint venture in the first half of 2009 and subsequently written off at the end of 2009. Furthermore, the tax expense of €0.4 million compares to a credit of €0.4 million in the first half of 2009, arising from a refund in respect of prior years. The resulting adjusted negative earnings per share for the period are nil euro cents (six months to 30 June 2009: adjusted earnings per share of 1 euro cent).

Profit after tax is €23.4 million for the first six months of 2010, while the Group generated a loss of €2.6 million during the first six months of 2009. The main differences relate to the disposal of the Atrium developments of Arad and Cluj to related parties in March 2010 which resulted in an accounting profit of €24.1 million and the asset derecognitions from the Group's consolidated financial statement, which resulted in an accounting profit of €6.1 million.

During the first six months of 2010, the Plaza portfolio of four shopping centres and the Antana logistic warehouse (all located in Hungary) were derecognised as at 31 March 2010 and 30 June 2010 respectively from the Group's consolidated financial statements. The economic risks and rewards of the ownership of these assets are no longer with the Group. The profit realised from the derecognition of the Plaza portfolio was €9.7 million, while the loss on the derecognition of the Antana asset was €3.6 million.

The earnings per share are 10.1 euro cents for the period (six months to 30 June 2009: negative earnings per share of 1.1 euro cents).

Administrative expenses for the first six months of 2010 are €2.7 million (six months to 30 June 2009: €2.8 million). The administrative expenses for the period included one-off items relating to the sold and derecognised assets, and corporate restructurings of approximately €0.3 million.

The Group's net asset value per share is 42.7 euro cents as at 30 June 2010 (as at 30 June 2009: 81 euro cents) based on the latest independent property valuations as at 31 December 2009. There is no fair value adjustment of the property portfolio for the first six months of 2010. Independent property valuations are only performed at year-end. The Board has assessed the property valuations and believes that the valuation at 31 December 2009 is a reasonable estimate for the 30 June 2010 fair value.

The total cash of the Group as at 30 June 2010 was €26.1 million (as at 30 June 2009: €55.2 million) and €28.0 million as at 13 August 2010. The Group's uncommitted cash position as at 13 August 2010 was approximately €15.1 million equating to approximately 6.5 euro cents per share. The previously reported uncommitted cash position was €16.2 million as at 18 February 2010.

The Group's consolidated debt position was €260.8 million as at 30 June 2010 (as at 30 June 2009: €428.9 million), which is approximately €104 million less than as at 31 December 2009. Further details on the Company's debt facilities can be found in the Property Investment Adviser's Report.

The deferred tax expense for the period amounts to €3.4 million (six months to 30 June 2009: €5.0 million). Deferred tax is provided on the excess of the fair values of the investment properties over their corresponding tax base values. Whilst fair values have not changed during the period as described above, the excess has increased as a result of the ongoing tax depreciation.

Key achievements for the period

Carpathian continued to focus on the priorities set out in the Strategic Review and is now exploring the potential sale of three investments within the core portfolio of the Company.

Following the receipt of a number of offers through a competitive bid process for the prime shopping centre asset of Promenada, in Warsaw, one party has been selected as the preferred buyer. An extensive due diligence process has now commenced.

In addition, the "Blue Knight Portfolio" of four provincial shopping centres across Poland is under offer for sale. The buyer's due diligence process is advancing.

In August 2010, an offer for the Agrokor portfolio of six supermarkets in Croatia was accepted. The offer is also subject to a due diligence process which has been commenced.

The aggregate prices currently offered for the above assets are close to the 2009 year-end valuations, which can be found in the Property Investment Adviser's report.

The processes in relation to the above potential sales transactions can typically take several months before any conclusion is reached. There can be no guarantee that such sales will be completed nor as to the terms on which they may be completed.

Carpathian also sold certain subsidiaries holding the non-core developments of Arad Shopping Center and Cluj development land and the Romanian Development management platform to related parties for a nominal sum as announced on 23 March 2010. All debt obligations of approximately €51.7 million encumbering these non-core development assets have been taken on by the acquirer.

This transaction together with the derecognition of the Plaza portfolio and the Antana warehouse in Hungary enables the Company to focus on the remaining investment assets within the core portfolio and reduce ongoing administrative and management costs.

A new financing structure and debt arrangement has been finalised permitting completion of the prime city centre retail scheme in Riga, Latvia with our joint venture partners and the financing bank, as announced on 7 May 2010. This was a debt for equity swap, meaning that the Company has increased its equity stake to 80%, whilst retaining 50% control, without contributing additional equity.

The core investment portfolio continues to trade materially in line with the Board's expectations with the exception of Macromall (Brasov, Romania), which continues to struggle with low occupancy levels. The analysis of the individual asset performance can be found in the Property Investment Adviser's Report.

The new portfolio management agreement signed on 1 March 2010 and expiring on 31 December 2011 with the Company's Property Investment Adviser, CPT LLP, also performs in line with the forecasts and requirements set. This new agreement incentivises the existing management team to achieve higher short-term returns to shareholders through performance-related compensation in relation to the realisation of the Company's core portfolio of assets.

Property management fees charged to the Group by the Property Investment Adviser fell by 33% to €2.0 million for the six months to 30 June 2010 as compared to €3.0 million for the six months to 30 June 2009.

Note on going concern

The Board continues to focus on value preservation and realisation of its core investment portfolio together with reduction of its cost base, in order to maximise cash returns to shareholders.

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 Company have adequate resources for that period.

During that period, the Company must focus upon its operational efficiencies and maintain income streams, with the intention of returning cash from asset disposals to shareholders (with distributions planned to be made shortly after the receipt of significant proceeds), having due regard to the requirement to maintain sufficient liquidity within the Group to successfully execute its business plan.

In the view of the Board and its Property Investment Adviser, the Company's portfolio retains significant enduring equity value. A number of assets are subject to sustainable loan facilities and the Group has cash reserves that may be used prudently to maintain the asset base.

The Group is also 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. It oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group's risk management policies are established, in conjunction with the Property Investment 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 as a going concern. However, after making suitable enquiries and based upon the factors described above and in particular the agreements with its lending banks, as described in the review of debt financing contained in the Property Investment Adviser's Report, 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.

Board change

Mr Andrew Shepherd resigned as a Non-executive Director of Carpathian with effect from 1 April 2010.

Dividend

The intention of returning cash from asset sales to shareholders remains unchanged with distributions planned to be made shortly after the receipt of any significant disposal proceeds. However, the Board must take into account the requirement to maintain sufficient liquidity within the Group to execute its business plan successfully.

Other corporate matters

At the Annual General Meeting held on 6 August 2010, the Company adopted new Articles of Association, which provide for the creation of new share classes. This allows the Board to issue such shares in separate tranches in respect of future return of cash. Each shareholder (save for certain shareholders who will only be able to elect for the dividend option) shall be afforded the opportunity to elect to receive the return of cash in one of two ways (share buyback or dividend), as further described in the Circular.

Outlook

The Company is advancing its discussions with prospective buyers regarding some of the core assets of the portfolio and also continues to focus on reducing the management cost base in line with the Strategic Review's objectives.

While remaining cautious regarding the outlook on the improving Central and Eastern European property market, the Company is progressing its position to deliver value to shareholders as and when funds become available.

Rory Macnamara
Chairman
14 September 2010

Property Investment Adviser's Report

Overview

CEE property markets have remained stable since the report for the year-end 2009, with low transaction volumes but consistent demand for quality products. Investor interest remains the strongest in Poland whilst other countries are regarded as some time away from recovery and at this stage, therefore, interest is restricted to only the best or most secure investments.

The most recent portfolio valuation as at 30 June 2010 remains materially consistent with the independent portfolio valuation as at 31 December 2009. The Property Investment Adviser has assessed the valuation of the portfolio as at 30 June 2010 and believes that the valuation at December 2009 is a reasonable estimate for 30 June 2010 fair value.

Income collection within the core portfolio is 97% and vacancies (excluding strategic voids) are 6% by rental value.

The debt position for the core portfolio remains stable.

The core property at Antana, Hungary has been re-designated as non-core and was subsequently derecognised from the Group's consolidated financial statements as at 30 June 2010.

The Property Investment Adviser's costs are reducing in line with budget. By the end of 2010, only the London office is likely to remain, with all non-UK-based operations either disbanded or taken over by the London team of the Property Investment Adviser.

As announced on 27 July 2010, progress is being made in respect of disposal negotiations and due diligence is ongoing. Sale terms have also now been provisionally agreed on the Agrokor portfolio in Croatia at a little under the last independent valuation figure as at 31 December 2009.

Strategy

The Company's strategy remains unchanged which is to dispose of assets on an orderly basis, returning value back to shareholders, whilst reducing operational costs.

Market

Transaction activity in Central and Eastern Europe has picked up significantly in the first half of 2010 compared to the first half of 2009, but still remains well below pre crisis levels.

Current opportunistic demand identifies the CEE markets as bottomed out and inexpensive relative to recent capitalisation rates in Western markets. This demand is, however, thwarted by the internal return requirements of such investors and the lack of debt gearing conspiring to create a mismatch on buy/sell pricing.

The most active buyers for the moment therefore are the equity-rich funds seeking long-term returns with lower gearing levels.

Hence there is demand for "institutional" quality properties, with a disproportionate decrease in interest and pricing for lesser assets.

Macro economic data

Based on economic performance in 2010, most CEE countries have emerged from recession, with some markets such as Poland, Czech Republic and Romania exhibiting positive retail sales growth. Governments started to implement austerity measures to reduce government and national debt in order to improve their credit ratings and long-term economic performance.

Poland continues to be one of the economies in CEE with the strongest fundamentals. GDP growth is projected at 2.7% for 2010 and circa 4% beyond. Inflation is under control at 2.5% annually. While GDP growth for the Euro Zone countries is expected to be around 1% for 2010, Poland and Czech Republic are expected to be above that level.

There has yet to be any significant rebound in the labour market in such countries as Hungary, Latvia and Lithuania, which continue to suffer from unemployment rates above the EU average of 10%.

Currencies have been mostly stable over the past six months, with all operating currencies within 2-4% of their year-end rates relative to the Euro.

Transactions

Carpathian disposed of certain subsidiaries holding the non-core developments of Arad Shopping Center and Cluj development land and the Romanian Development management platform to related parties for a nominal sum as announced on 23 March 2010.

No further transactions were completed during the period.

As described in the Chairman's Statement, sale negotiations are currently progressing in respect of the following assets:

- The Blue Knight Portfolio, Poland (Gdansk, Lodz, Torun and Sosnowiec).
- The Promenada shopping centre, Poland, Warsaw.
- The Agrokor Portfolio, Croatia.

Valuation

The most recent portfolio valuation as at 30 June 2010 remains materially consistent with the independent portfolio valuation as at 31 December 2009. The Property Investment Adviser has assessed the valuation of the portfolio as at 30 June 2010 and believes that the valuation at December 2009 is a reasonable estimate for 30 June 2010 fair value.

The figures are presented below for core and non-core assets.

Core portfolio – Investment properties	Country	Lender	Loan amount 30 Jun 2010 €'000	Loan expiry	Valuation 31 Dec 2009 €'000*
Agrokor	Croatia	Erste Bank	39,903	Mar 11	46,000
Gdansk-Osowa	Poland	DPB	20,879	Dec 11	32,500
Lodz-Tulipan	Poland	DPB	15,501	Dec 11	29,000
Sosnowiec-Centrum	Poland	DPB	2,834	Dec 11	3,650
Torun-Kometa	Poland	DPB	3,858	Dec 11	6,300
Biedronka	Poland	No debt	–	–	800
Promenada	Poland	DPB	103,041	Dec 11	157,500
Macromall	Romania	No debt	–	–	4,750
Total			186,016		280,500

Core portfolio – Development properties	Country	Lender	Loan amount 30 Jun 2010 €'000	Loan expiry	Valuation 31 Dec 2009 €'000*
Riga Shopping Center	Latvia	Nordea	42,700	Jun 17	54,400
Baia Mare – Land	Romania	–	–	–	2,350
Satu Mare – Land	Romania	–	–	–	1,700
Total			42,700		58,450

Non-core portfolio – Investment properties	Country	Lender	Loan amount 31 Dec 2009 €'000	Loan expiry	Valuation 31 Dec 2009 €'000*
Point Portfolio	Hungary and Czech Rep.	DPB	52,548	Dec 11	52,500
Babilonas	Lithuania	DPB	23,135	Dec 11	22,500
Total			75,683		75,000

* The independent valuations as at December 2009 are representative of the overall values as assessed by the Board and the Property Investment Adviser as at June 2010.

Portfolio Review

Core assets

The core portfolio continued to experience stability overall but with growth at the top end of the asset quality spectrum and difficulty at the bottom.

The core properties are leased to approximately 440 tenants with gross rent of approximately €22.02 million. The top 10 tenants in the core portfolio account for 38% of total rent, or about €8.22 million.

Lease renewals amongst the core properties for the first six months amounted to 67 representing 12% of core rent, or €2.68 million. Average lease length of the core properties is 5.1 years, up from 4.2 years just six months ago.

Income collection has been good with 97% of all invoiced rents for the first six months ending 30 June 2010 collected by 31 July 2010.

The Polish properties (Blue Knight, Promenada and Biedronka) experienced a 3.5% growth in net operating income ("NOI") from the first half of 2009, due to new lettings and renewals at higher rental levels.

The Antana logistics warehouse in Hungary has been derecognised from the Group's consolidated financial statement as of 30 June 2010.

Operational difficulties are also still being experienced at Macromall (Brasov, Romania) where net operating income is in danger of turning negative. New local management is making some improvement on the position but the asset is under careful review.

Core portfolio – Investment properties	Country	Gross lettable area (sqm)	Number of leases	Voids as % of total rental value	NOI 30 Jun 2010 €'000
Agrokor	Croatia	31,647	6	0%	2,137
Gdansk-Osowa	Poland	13,167	67	4%	1,497
Lodz-Tulipan	Poland	9,621	59	0%	1,266
Sosnowiec-Centrum	Poland	2,162	22	0%	182
Torun-Kometa	Poland	1,958	19	0%	467
Biedronka	Poland	1,220	3	0%	50
Promenada	Poland	53,472	206	3%	4,908
Macromall	Romania	7,489	28	33%	116
Total		120,736	410		10,623

Core portfolio – Investment properties	
Weighted average lease expiry	5.1 years
Voids by rental value/%	€1,574k/5%
Lease expiries within one year (value/number of leases)	€2,740k/133
NOI growth over the last 12 months	0%
Year to date income collection	97%

Core portfolio – Development properties	Country	Land size (sqm)	Gross lettable area (sqm)	Completion date
Riga Shopping Center	Latvia	8,203	37,742	Sept 2010
Baia Mare – Land	Romania	125,238	50,517	N/A
Satu Mare – Land	Romania	26,759	32,112	N/A
Total		160,200	120,371	

Non-core assets

The Point Portfolio assets in Hungary and Czech Republic saw a 3% NOI increase from a year ago. Rent collection amongst all non-core properties was at 94% for the period, a drop from 97% in 2009. With the derecognition of the Plaza portfolio and Antana, the remaining non-core properties are anchored by tenants with lease lengths over five years; thus the weighted average lease length of the non-core assets has increased from 5.4 years to 6.5 years. Babilonas has reduced its vacancy rate to 7% from 11% at year-end by letting 880 sqm, at an added income of €97,575 p.a.

The Plaza portfolio of four shopping centres in Hungary has been derecognised from the Group's consolidated financial statement as of 30 June 2010.

Non-core portfolio – Investment properties	Country	Gross lettable area (sqm)	Number of leases	Voids as % of total rental value	NOI 30 June 2010 €'000
Point Portfolio	Czech Rep and Hungary	45,340	31	2%	2,340
Babilonas	Hungary	21,475	119	10%	1,115
Total		66,815	150	5%	3,455

Non-core portfolio – Investment properties	
Weighted average lease expiry	6.5 years
Voids by rental value/%	€313k/5%
Lease expiries within one year (value/number of leases)	€868k/81
NOI growth over the last 12 months	(7)%
Year to date income collection	94%

The Portfolio

Core properties

Promenada shopping centre

Following the investment marketing, one party has been selected as the preferred buyer and is currently undergoing what will be a substantial due diligence process as appropriate for an asset of this scale and type.

Promenada experienced further NOI growth in the first half of 2010, increasing 6% from the same period in 2009. Lease renewals at higher rents, letting of vacant space and increased service charge cost recovery have maintained NOI growth over the past 12-18 months, and the centre is on target to meet its target of annual NOI in excess of €11.5 million by the third quarter of 2010.

The tenants' trading turnovers in local currency for the first six months to 30 June 2010 were 2% higher than the six months to 30 June 2009.

There were 44 executed renewals in the half-year achieving a 54%, or €893,311, increase over that for 2009. Six new lettings accounted for €239,473 of income.

Blue Knight Portfolio

The Blue Knight Portfolio continues with stable performance. Net operating income relative to the half-year 2009 is unchanged.

There have been 16 lease renewals at an average increase of 5% over previous lease incomes. Occupancy is high at the Blue Knight centres, with only 530 sqm, or 2%, of total area, vacant.

Agrokor Portfolio

The Agrokor Portfolio comprises six stores with a total of 34,916 sqm lettable area. The properties are let to Konzum, Croatia's largest retailer, and they continue to trade well.

Agrokor remains a stable asset providing a steady income stream.

The portfolio is under offer with due diligence at an early stage.

Macromall shopping centre

Macromall, in Brasov, has suffered through the regional economic conditions and poor retail performance throughout Brasov.

The Macromall centre has 7,489 sqm of lettable area and 350 parking spaces. The scheme currently has 28 tenants with a vacancy rate of 41% and is anchored by Domo Romania electrical store.

Management is focused upon maintaining a positive cash flow on this difficult property with a view to identifying, most probably, a local/regional entrepreneur that could undertake further investment to assist its recovery.

Core developments

Riga

Completion of the prime retail development project in Riga, Latvia remains on schedule. The opening of the first phase of the development comprising a gross area of 29,000 sqm was planned for 30 September this year and tenants are fitting out their units.

Progress has been made in leasing the shopping centre; the tenant line-up will include popular established brands such as Rimi, Future Invest, NS King, Maijina, Globus, Collins, Body Shop and Hesburger. The centre has also attracted some major international brands which will be new to the Latvian market including Piazza Italia, Italiarredo, RCR and Ciro Pommodoro.

The Portfolio continued

Over 100 leases have now been signed representing 62% of the floor area. Terms have been agreed for a further 8% of the floor area. Negotiations are progressing on the remaining units and 80% of the floor space is forecast to be leased at opening.

Construction costs to date have been in line with the revised budgets agreed with the general contractor in March. The overall development costs for the first phase of the development have remained within the funding commitments provided by Nordea and Carpathian's joint venture partner, Titan. The completion of the first phase of the centre is therefore still expected to be realised without any further cash contributions from Carpathian.

The project includes a further 9,800 sqm of vacant residential accommodation adjoining the shopping centre. Subject to required consents and financing, this accommodation could be redeveloped at a later stage to provide both a further phase to the shopping centre and some refurbished residential accommodation.

Once open and trading, the performance of the scheme will be monitored and may provide opportunity to attract investor demand. The nature of the project status and the regional economic situation makes it likely that this asset will be retained for the longest period of all the Company's assets.

Baia Mare and Satu Mare sites

These two sites are available for sale whilst minimum costs are incurred on corporate management and on-site security.

Non-core properties

Babilonas shopping centre

Economic conditions are finally starting to improve in Lithuania, with the economy forecast to emerge from recession in the second half of 2010 (source: Eurostat).

Babilonas shopping centre has continued to benefit from its dominant position in the Panevezys catchment. The past six months have seen a steady improvement in both occupancy levels and rent collection ratios; however, a large number of tenants continue to require rental discounts to enable them to trade profitably. Where possible, these discounts have been granted in return for improved lease terms – typically a longer-term commitment from the tenant combined with greater flexibility for the landlord.

The majority of rental discounts expire in January 2011, by which time a major new fashion anchor store should have opened (terms have been agreed with the new tenant) which will take occupancy levels close to 100%. It is hoped that this will provide a base from which the tenant mix can be improved and rental growth stimulated. Whilst rental demand is steadily improving, there has yet to be any increase in investor activity with very little transactional evidence in Lithuania/the Baltic investment markets.

Point Portfolio

The Point Portfolio has had mixed fortunes over the past six months. The portfolio's geographical split between Hungary and Czech Republic and the contrasting macroeconomic conditions in each country has resulted in divergent performance across the four assets.

The Hungarian economy is forecast to emerge from recession with weak growth of 0.1% in Q2 of 2010. The prolonged downturn and high levels of unemployment (10.4%) have had a significant impact on retailer performance and tenant demand. As a result, Carpathian has struggled to find new tenants to fill the two vacant units at the Ozd property whilst the existing tenants at both Gyula and Ozd continue to ask for rent reductions. The poor performance of the economy has also resulted in investor activity falling, with no significant transactions outside Budapest in the past year.

In contrast, the Czech economy has started to return to growth with a 2.2% increase in GDP expected in Q2 of 2010. Improving tenant demand has resulted in 180 sqm of vacant space on the second floor of the Euro Centre in Hradec Kralove being let to a casino operator. Once this tenant is in occupation, the centre will be almost fully let, with only storage space remaining vacant. The Znojmo property remains fully let to Interspar. Investors have been attracted to Czech Republic's resurgent economy and there have been significant transactions in Prague, albeit mainly in the office market.

Paul Rogers
Managing Partner
CPT LLP

14 September 2010

Unaudited Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Note	30 Jun 2010 Revenue €'000	30 Jun 2010 Capital €'000	30 Jun 2010 Total €'000	30 Jun 2009 Total €'000	31 Dec 2009 Total €'000
Gross rental income		**15,676**	**–**	**15,676**	19,048	36,266
Service charge income		**5,884**	**–**	**5,884**	6,485	12,872
Service charge expense		**(7,420)**	**–**	**(7,420)**	(8,152)	(15,742)
Property operating expenses		**(3,326)**	**–**	**(3,326)**	(5,110)	(7,768)
Other property income		**346**	**–**	**346**	1,357	1,921
Net rental and related income		**11,160**	**–**	**11,160**	13,628	27,549
Changes in fair value of investment property		**–**	**–**	**–**	–	(56,722)
Impairment of goodwill		**–**	**(251)**	**(251)**	–	(3,817)
Impairment of loans receivable		**–**	**–**	**–**	–	(32,332)
Profit/(loss) on sale of investment property	6	**–**	**24,042**	**24,042**	–	(1,500)
Profit/(loss) on derecognition of investment property	6	**–**	**6,145**	**6,145**	–	(14,053)
Changes in fair value of derivative assets and liabilities		**–**	**(3,222)**	**(3,222)**	920	(436)
Net foreign exchange gain/(loss)		**–**	**1,602**	**1,602**	(370)	(1,209)
Administrative expenses		**(2,738)**	**–**	**(2,738)**	(2,837)	(5,422)
Net operating profit/(loss) before net financing expense		**8,422**	**28,316**	**36,738**	12,081	(87,942)
Financial income		**173**	**–**	**173**	2,622	572
Financial expenses		**(8,695)**	**–**	**(8,695)**	(11,440)	(20,124)
Changes in fair value of interest rate swaps		**–**	**(957)**	**(957)**	(1,230)	(1,029)
Net financing expense	4	**(8,522)**	**(957)**	**(9,479)**	(10,048)	(20,581)
Net profit/(loss) before tax		**(100)**	**27,359**	**27,259**	2,033	(108,523)
Tax (expense)/credit		**(428)**	**(3,414)**	**(3,842)**	(4,605)	4,057
Profit/(loss) for the period and total comprehensive income for the period		**(528)**	**23,945**	**23,417**	(2,572)	(104,466)
Attributable to:						
Equity holders of the Company				**23,428**	(2,532)	(104,417)
Non-controlling interest				**(11)**	(40)	(49)

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 Jun 2010 Total	30 Jun 2009 Total	31 Dec 2009 Total
Basic earnings per share	5	**10.1 c**	(1.1) c	(45.0) c
Diluted earnings per share	5	**10.1 c**	(1.1) c	(45.0) c

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Share capital €'000	Share premium €'000	Non-controlling interest €'000	Retained earnings €'000	Total €'000
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 non-controlling shareholders	–	–	(40)	40	–
Balance as at 30 June 2009	3,383	263,935	20	(79,280)	188,058
Balance as at 1 January 2010	**2,321**	**91,477**	**11**	**(18,091)**	**75,718**
Total comprehensive income for the period					
Profit for the period	**–**	**–**	**–**	**23,417**	**23,417**
Transactions with owners recorded directly to equity					
Loss allocation to minority shareholders	**–**	**–**	**(11)**	**11**	**–**
Balance as at 30 June 2010	**2,321**	**91,477**	**–**	**5,337**	**99,135**

Unaudited Consolidated Statement of Financial Position

As at 30 June 2010

	Note	**30 Jun 2010 €'000**	30 Jun 2009 €'000	31 Dec 2009 €'000
Assets				
Non-current assets				
Investment property	6	**379,161**	571,945	453,226
Goodwill		**7,902**	12,767	7,897
Costs relating to future acquisitions		**–**	66	–
Investments in equity-accounted investees		**11,372**	7,643	7,452
Loans receivable		**–**	25,086	3,920
Deferred income tax assets		**2,060**	5,576	3,925
		400,495	623,083	476,420
Current assets				
Trade and other receivables		**8,136**	22,606	12,988
Loans receivable		**2,000**	8,200	2,000
Cash and cash equivalents		**26,092**	55,150	39,944
Financial assets		**4,502**	9,088	7,825
		40,730	95,044	62,757
Total assets		**441,225**	718,127	539,177
Equity				
Issued capital	7	**2,321**	3,383	2,321
Share premium	7	**91,477**	263,935	91,477
Retained earnings		**5,337**	(79,280)	(18,091)
Total equity attributable to equity holders of the parent		**99,135**	188,038	75,707
Non-controlling interest		**–**	20	11
Total equity		**99,135**	188,058	75,718
Liabilities				
Non-current liabilities				
Bank loans		**259,668**	141,056	262,364
Other payables		**28,731**	8,833	27,518
Deferred income tax liabilities		**24,499**	34,463	24,757
		312,898	184,352	314,639
Current liabilities				
Trade and other payables		**21,409**	33,073	28,941
Bank loans		**1,088**	287,817	102,414
Provisions		**890**	17,942	2,398
Dividends payable		**–**	–	10,446
Financial liabilities		**5,805**	6,885	4,621
		29,192	345,717	148,820
Total liabilities		**342,090**	530,069	463,459
Total equity and liabilities		**441,225**	718,127	539,177

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Note	**30 Jun 2010 €'000**	30 Jun 2009 €'000	31 Dec 2009 €'000
Cash flows from operating activities				
Cash generated from operations	8	**11,717**	8,505	18,832
Income taxes received		**39**	516	398
Net cash generated from operating activities		**11,756**	9,021	19,230
Cash flows from investing activities				
Capital expenditure on investment property		**(185)**	(14,276)	(34,929)
Loan advances to unconsolidated entities		**–**	91	75
Cash conceded on disposal of investment property		**(744)**	–	–
Cash conceded on derecognition of investment property		**(2,122)**	–	(1,496)
Acquisition of subsidiaries		**–**	(4,150)	(4,066)
Net cash used in investing activities		**(3,051)**	(18,335)	(40,416)
Cash flows from financing activities				
New bank loans raised		**–**	12,037	30,212
Interest paid		**(8,931)**	(10,984)	(22,257)
Interest received		**272**	252	571
Repayments of borrowings		**(3,452)**	(694)	(11,249)
Dividends paid		**(10,446)**	–	–
Net cash generated from/(used in) financing activities		**(22,557)**	611	(2,723)
Net decrease in cash and cash equivalents		**(13,852)**	(8,703)	(23,909)
Cash and cash equivalents at the beginning of the period		**39,944**	63,853	63,853
Cash and cash equivalents at the end of the period		**26,092**	55,150	39,944

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 2010 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 Euros. The share capital was converted from Pounds Sterling to Euros on 24 July 2009 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 2010 is unaudited and has been prepared based on the accounting policies set out in the statutory accounts for the year ended 31 December 2009, and the new and revised accounting policies and other changes as disclosed in paragraph 2(b).

(b) Changes in accounting policies

(i) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction and all the risks and rewards of ownership of the financial asset are transferred. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the Consolidated Statement of Comprehensive Income.

(ii) New Standards and Interpretations

As of the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in use but not yet effective:

IFIC 19: Extinguishing Financial Liabilities with Equity Instruments

The Directors do not expect the adoption of the Standards and Interpretations to have a material impact on the Group's financial statements in the period of initial application.

3 Operating segments

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

The Fund segment comprises the holding companies in the Isle of Man and Luxembourg.

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.

Notes to the Unaudited Consolidated Financial Statements continued

3 Operating segments (continued)

Information about reportable segments

Consolidated Statement of Comprehensive Income

	2010 Fund €'000	2010 Core €'000	2010 Non-core €'000	2010 Total €'000
Gross rental income	–	10,878	4,798	15,676
Service charge income	–	3,990	1,894	5,884
Service charge expense	–	(4,871)	(2,549)	(7,420)
Property operating expenses	(2,033)	(869)	(424)	(3,326)
Other property income	–	196	150	346
Net rental and related income	(2,033)	9,324	3,869	11,160
Profit/(loss) on sale of investment	(3,518)	–	27,560	24,042
Profit/(loss) on derecognition of investment property	–	–	6,145	6,145
Impairment of goodwill	–	–	(251)	(251)
Changes in fair value of derivative assets and liabilities	317	(3,539)	–	(3,222)
Net foreign exchange gain/(loss)	(508)	536	1,574	1,602
Administrative expenses	(1,448)	(709)	(581)	(2,738)
Net operating profit/(loss) before net financing expense	(7,190)	5,612	38,316	36,738
Financial income	76	93	4	173
Financial expenses	(145)	(5,894)	(2,656)	(8,695)
Changes in fair value of interest rate swaps	–	(714)	(243)	(957)
Net financing expense	(69)	(6,515)	(2,895)	(9,479)
Net profit/(loss) before tax	(7,259)	(903)	35,421	27,259
Current tax expense	(40)	(366)	(22)	(428)
Deferred tax	–	(3,159)	(255)	(3,414)
Profit/(loss) for the period and total comprehensive income for the period	(7,299)	(4,428)	35,144	23,417

3 Operating segments (continued)

Consolidated Statement of Financial Position

	2010 Fund €'000	2010 Core €'000	2010 Non-core €'000	2010 Total €'000
Assets				
Non-current assets				
Investment property	–	303,484	75,677	379,161
Goodwill	–	7,902	–	7,902
Investment in equity-accounted investees	–	11,372	–	11,372
Deferred income tax assets	–	1,656	404	2,060
	–	324,414	76,081	400,495
Current assets				
Trade and other receivables	2,361	5,013	762	8,136
Loans receivable	–	2,000	–	2,000
Cash and cash equivalents	17,408	6,686	1,998	26,092
Financial assets	4,500	2	–	4,502
	24,269	13,701	2,760	40,730
Total assets	24,269	338,115	78,841	441,255
Liabilities				
Non-current liabilities				
Bank loans	–	(184,717)	(74,951)	(259,668)
Other payables	(11,705)	(17,026)	–	(28,731)
Deferred income tax liabilities	–	(22,660)	(1,839)	(24,499)
	(11,705)	(224,403)	(76,790)	(312,898)
Current liabilities				
Trade and other payables	(3,418)	(15,812)	(2,179)	(21,409)
Bank loans	–	(356)	(732)	(1,088)
Provisions	–	(890)	–	(890)
Dividends payable	–	–	–	–
Derivative liabilities	–	(3,566)	(2,239)	(5,805)
	(3,418)	(20,624)	(5,150)	(29,192)
Total liabilities	(15,123)	(245,027)	(81,940)	(342,090)
Net assets	9,146	93,088	(3,099)	(99,135)
Equity				
Issued capital				2,321
Share premium				91,477
Retained earnings				5,337
Total equity attributable to equity holders of the parent				99,135
Non-controlling interest				–
Total equity				99,135

3 Operating segments (continued)

Geographical segments

The Company is incorporated in the Isle of Man but operates in several jurisdictions in mainland Europe. In presenting information on geographical segments, revenue is based on geographical location of property. Segment assets are based on the geographical location of the assets.

	Isle of Man €'000	Poland €'000	Hungary €'000	Croatia €'000	Other jurisdictions €'000	Total €'000
Revenue						
Gross rental income	–	8,711	2,211	2,126	2,628	15,676
Service charge income	–	3,892	882	42	1,068	5,884
Other property income	–	279	112	–	(45)	346
Total	–	12,882	3,205	2,168	3,651	21,906
Non-current assets						
Investment property	–	246,907	20,323	46,000	65,931	379,161
Goodwill	–	6,422	–	1,338	142	7,902
Other investments	–	–	–	–	11,372	11,372
Deferred income tax assets	–	1,661	150	–	249	2,060
Total	–	254,990	20,473	47,338	77,694	400,495

4 Net financing expense

	30 June 2010 €'000	30 June 2009 €'000	31 Dec 2009 €'000
Interest income from financial institutions	173	366	572
Interest income from related party	–	2,256	–
Financial income	173	2,622	572
Net interest expenses on bank borrowings	(8,244)	(10,841)	(19,048)
Finance costs amortised	(537)	(391)	(966)
Unwinding of unrealised direct issue costs of borrowings	86	(208)	(110)
Financial expenses	(8,695)	(11,440)	(20,124)
Changes in fair value of interest rate swaps	(957)	(1,230)	(1,029)

5 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2010 was based on the profit attributable to Ordinary Shareholders of €23,428,156 and a weighted average number of Ordinary Shares outstanding during the six months ended 30 June 2010 of 232,148,175, calculated as follows:

Profit/(loss) attributable to Ordinary Shareholders	**30 Jun 2010 €'000**	30 Jun 2009 €'000	31 Dec 2009 €'000
Profit/(loss) for the period	**23,417**	(2,572)	(104,466)
Non-controlling interest	**11**	40	49
Profit/(loss) attributable to Ordinary Shareholders	**23,428**	2,532	(104,417)

Weighted average number of Ordinary Shares

1 January	**232,148,175**	230,641,630	232,148,175
Weighted average number of Ordinary Shares	**232,148,175**	230,641,630	232,148,175
Basic earnings per share	**10.1 c**	(1.1) c	(45.0) c

Diluted earnings per share

The calculation of basic earnings per share at 30 June 2010 was based on the profit attributable to Ordinary Shareholders of €23,428,156 and a weighted average number of Ordinary Shares outstanding during the six months ended 30 June 2010 of 232,148,175, calculated as follows:

Profit/(loss) attributable to Ordinary Shareholders (diluted)	**30 Jun 2010 €'000**	30 Jun 2009 €'000	31 Dec 2009 €'000
Profit/(loss) for the period	**23,417**	(2,572)	(104,466)
Non-controlling interest	**11**	40	49
Profit/(loss) attributable to Ordinary Shareholders	**23,428**	2,532	(104,417)

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

Weighted average number of Ordinary Shares	**232,148,175**	230,641,630	232,148,175
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**232,148,175**	230,641,630	232,148,175
Diluted earnings per share	**10.1 c**	(1.1) c	(45.0) c

Notes to the Unaudited Consolidated Financial Statements continued

6 Investment and development property

	30 Jun 2010 Investment property €'000	30 Jun 2010 Development property €'000	30 Jun 2010 Total €'000	30 Jun 2009 Total €'000	30 Dec 2009 Total €'000
Balance at 1 January	**421,876**	**31,350**	**453,226**	551,155	551,155
Acquisitions through direct access purchases	**–**	**–**	**–**	6,512	6,512
Additions	**–**	**185**	**185**	14,278	34,927
Disposals	**–**	**(27,300)**	**(27,300)**	–	–
Derecognition of assets	**(46,950)**	**–**	**(46,950)**	–	(82,556)
Finance lease obligations	**–**	**–**	**–**	–	(90)
Decrease in fair value	**–**	**–**	**–**	–	(56,722)
Balance at period end	**374,926**	**4,235**	**379,161**	571,945	453,226

The Group's policy is to obtain independent valuations for investment property annually at 31 December; management has assessed valuation and believes that valuation at 31 December 2009 is a reasonable estimate for 30 June 2010 fair value. Fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction after proper marketing at the date of the valuation.

On 11 March 2010, the Company disposed of its investments in and loans receivable from Atrium & Arcadom Holdings BV, Carpathian Mastweight Holdings BV, Mastweight Srl, Redwood Investments Srl and SC Cluj Atrium Center SA for nominal consideration. Together, these companies owned the Group's development properties at Arad and Cluj in Romania.

The net liabilities disposed and subsequent profit on disposal are detailed below.

	Atrium €'000
Assets	
Investment property	**27,300**
Trade and other receivables	**3,573**
Cash and cash equivalents	**1,576**
Total assets	**32,449**
Liabilities	
Bank loans	**(51,723)**
Trade and other payables	**(2,322)**
Other payables	**(946)**
Provisions	**(1,500)**
Total liabilities	**(56,491)**
Profit on disposal	**24,042**

6 Investment and development property (continued)

In March 2010 MKB bank took control of the cash flow, risks and rewards of the Plaza portfolio. The Group has taken the decision to derecognise the portfolio as all the risks and rewards of ownership are no longer retained by the Group. In June 2010 Barclays Bank took control of the cash flow, risks and rewards of the Antana property. The Group has taken the decision to derecognise the portfolio as all the risks and rewards of ownership are no longer retained by the Group.

The net assets and liabilities derecognised and subsequent profit on derecognition are detailed below.

	Plaza €'000	Antana €'000	Total €'000
Assets			
Investment property	32,950	14,000	46,950
Trade and other receivables	2,008	95	2,103
Cash and cash equivalents	1,834	285	2,119
Total assets	36,792	14,380	51,172
Liabilities			
Bank loans	(42,048)	(11,356)	(53,404)
Trade and other payables	(2,020)	(8)	(2,028)
Other payables	(2,479)	594	(1,885)
Total liabilities	(46,547)	(10,770)	(57,317)
Profit/(loss) on derecognition	9,755	(3,610)	6,145

7 Share capital and share premium

	Number of Ordinary Shares of 1 euro cent each	€'000
Authorised:		
At 31 December 2009 and 30 June 2010	350,000,000	3,500

	Number of shares issued and fully paid	Share capital €'000	Share premium €'000
Issued:			
Ordinary Shares of 1 euro cent each			
Balance at 31 December 2009 and 30 June 2010	232,148,175	2,321	91,477

Notes to the Unaudited Consolidated Financial Statements continued

8 Notes to the Cash Flow Statement

Cash generated from operations	**30 Jun 2010 €'000**	30 Jun 2009 €'000	31 Dec 2009 €'000
Profit/(loss) for the period	**23,417**	(2,572)	(104,466)
Adjustments for:			
Increase/(decrease) in fair value of financial instruments	**4,456**	310	(2,659)
Unwinding of unrealised direct issue costs of borrowings	**537**	391	(1,230)
Net other finance income	**8,328**	9,557	19,552
Decrease in fair value of investment and development property	**–**	–	56,808
Provisions	**(8)**	(885)	688
Impairment of loans receivable	**–**	–	29,775
Impairment of goodwill	**–**	491	5,419
Income tax expense/(credit)	**3,920**	5,020	(4,057)
Profit on disposal of investment property	**(30,154)**	–	14,094
Operating cash flows before movements in working capital	**10,496**	12,312	13,924
(Increase)/decrease in receivables	**374**	(4,463)	1,966
Increase/(decrease) in payables	**847**	656	2,942
Cash generated from operations	**11,717**	8,505	18,832

9 Dividends

	30 Jun 2010 €'000	31 Dec 2009 €'000
Dividends paid during the period	**–**	10,446

10 Capital commitments

The Group has entered into contracts for professional services amounting to €nil (31 December 2009: €7.4 million).

11 Events after the balance sheet date

At the Annual General Meeting held on 6 August 2010, the Company adopted new Articles of Association which will provide for the creation of B Shares, C Shares and D Shares and which contain authority for the Board to issue such shares in separate tranches in respect of future returns of cash.

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)

Company Secretary
Philip Peter Scales

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Notes

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