

Carpathian PLC Annual Report 2010



Carpathian PLC Annual Report 2010





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Chairman's Statement



I am pleased to report that, during 2010, the Company made substantial progress towards achieving its business objectives of realising value from its core portfolio while reducing operating expenses as far as possible as set out in its Strategic Review, completed in January 2010.

During this period our investment market in Central Europe continued its slow recovery from the wider economic crisis, with Poland remaining the strongest economy in the region.

Financial results

In 2010, the Group's net rental and related income was €22.2 million (2009: €27.5 million). This is in line with our expectations, and the variance from 2009 was driven by the derecognition of the non-core assets of the Plaza portfolio and the Antana retail warehouse in Hungary, as described below.

The adjusted loss after tax, excluding any fair value, deferred tax, disposal, derecognition and foreign exchange movements for the year was €0.2 million, compared to an adjusted profit of €3.5 million for the same period a year earlier. The main contributors to this decrease are the corporate restructuring costs of the Polish portfolio and due

diligence costs relating to future sales. These costs, combined with the reduced net rental and related income, resulted in a net profit, before tax, of €0.6 million. In addition, the Group had a net tax credit balance of €1.0 million in 2009, arising from a refund in respect of prior years, while the tax expense for 2010 is approximately €0.8 million.

The adjusted earnings per share are nil euro cents (2009: adjusted earnings of 1.5 euro cents).

Profit after tax is €15.0 million for the year, while the Group generated a loss of €104.5 million during 2009. Earnings per share are 6.5 euro cents (2009: negative earnings per share of 45.0 euro cents).

The disposal of the non-core Atrium JV developments of Arad Shopping Centre and the Cluj development land in Romania in March 2010 resulted in an accounting profit of €23.1 million following the elimination of debt, less asset value, from the balance sheet.

During 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 within the Group. The profit realised from the derecognition of the Plaza portfolio was €8.9 million, while there was a loss of €3.6 million on the derecognition of the Antana asset.

Administrative expenses in 2010 were €6.0 million (2009: €5.4 million). The administrative expenses for the year included one-off items relating to the sold and derecognised assets, and corporate restructurings of approximately €0.6 million. The restructuring of various Group companies is expected to deliver substantial reductions in corporate income tax liabilities from the sales of the core property portfolio.

The expenses relating to the Property Investment Adviser decreased from €6.4 million in 2009 to €4.1 million in 2010 – below the maximum amount set out by the Portfolio Management Agreement. This

expense is allocated substantially within property operating expenses in the consolidated statement of comprehensive income (or consolidated profit and loss statement).

The Group's net asset value per share is 39.1 euro cents as at 31 December 2010 (as at 31 December 2009: 32.6 euro cents), based on the latest independent property valuations as at 31 December 2010. This valuation has remained materially the same as the previous year end valuation on a like-for-like basis.

Total Group cash as at 31 December 2010 was €26.8 million (as at 31 December 2009: €39.9 million) and €38.9 million as at 31 March 2011. The Group's uncommitted cash position as at 31 March 2011 was approximately €19.1 million, equating to approximately 8.2 euro cents per share. The previously reported uncommitted cash position was €15.1 million as at 13 August 2010. The increase is due mainly to the completed sales of three of the assets from the Blue Knight portfolio.

The Group's consolidated debt position was €221.3 million (as at 31 December 2009: €364.8 million), a decrease of €143.5 million from a year before. Further detail on the Group's debt facilities can be found in the Property Investment Adviser's Report.

The deferred tax expense for the year amounts to €5.5 million (2009: €3.0 million credit). This arises mainly from expenses accrued on the Promenada property and the Blue Knight portfolio, both located in Poland. Deferred tax is provided on the excess of the fair values of the investment properties over their corresponding tax base values. While fair values have not changed materially during the year, as described above, the excess has increased as a result of the tax depreciation.

Key achievements for the year and post year-end events

In line with the priorities set out in the Strategic Review, the Company has disposed of four core investment assets and portfolios representing approximately 88% of the overall value of the core investment portfolio as at 31 December 2010. We are

also in an advanced stage of completing the sale of the last core investment property of Gdansk in Poland, and the sale of Macromall Centre in Romania is in a due diligence phase, with a buyer identified and a non-refundable deposit paid.

The total headline price for the assets sold was approximately €257.0 million against the independent valuation of approximately €260.0 million as at 31 December 2010.

The sale of the Agrokor portfolio of six supermarkets in Croatia was completed on 1 December 2010. As announced on 24 November 2010, the portfolio was sold for a total consideration of €45.0 million, plus a small adjustment for net working capital. After repayments to Erste Bank and transaction costs, approximately €3.5 million was realised before any corporate taxation from the sale, of which approximately €1.1 million will be retained for six months to cover the purchaser against any liabilities arising through misrepresentations by the vendor.

As announced on 9 March 2011, three out of the four properties in the Blue Knight portfolio of assets in Poland have been sold for a gross consideration of €40.2 million. The initial net equity amount realised and to be transferred from Poland to the Company from the partial Blue Knight sale will be approximately €7.6 million. The financing bank, Deutsche Pfandbriefbank ('DPB'), retained approximately €9.4 million in addition to the allocated loan amount of approximately €22.0 million to cover an additional loan repayment of €7.9 million against the fourth property in Gdansk, Poland, and €0.9 million against the Babilonas shopping centre in Lithuania, as agreed during the DPB debt restructuring in June 2009 and a further €0.6 million loan repayment agreed in connection with obtaining its consent for the corporate restructuring, which is intended to deliver substantial tax benefits to the Group.

The Promenada shopping centre in Warsaw, Poland, has been sold for a gross consideration of €169.5 million, as announced on 6 May 2011. This price was subject to a net deduction of €1.0 million, arising principally from payments for insurance and

Chairman's Statement continued



modification of the trademark licence. An escrow account of €0.6 million has been established, the major proportion of which is expected to be recovered within six months from closing. Carpathian also expects to receive additional consideration of €1.5 million as and when the VAT is reimbursed to the purchaser. The total bank debt and related fees payable to DPB are approximately €108.1 million, which includes a loan repayment of €0.9 million against the Gdansk property and an additional €2.3 million against the Babilonas shopping centre and a further €0.2 million repayment in relation to the corporate restructuring. The initial net closing payment was €59.8 million, while the net equity to be realised from the sale after transaction costs is approximately €58.0 million to €59.5 million, depending on the receipt of the additional VAT consideration as described above.

The single tenanted property in Slupsk, Poland, was sold for a consideration of €0.8 million on 18 April 2011. The property had no external debt and the net equity proceeds after transaction costs are approximately €0.7 million.

The last remaining asset of the Blue Knight portfolio – Osowa shopping centre in Gdansk – is under offer, with the Preliminary Sale Agreement signed, as announced on 31 March 2011. The centre is being sold for a consideration of €34.5 million and is subject to a €3.0 million retention based on resolving questions related to the occupancy permit. The transaction is anticipated to close by the end of May 2011.

The cash realised from the above and forthcoming sales will need to be repatriated from the asset-owning companies in the respective jurisdictions to Carpathian PLC. We have been progressing a corporate restructuring in order to facilitate this repatriation and optimise the corresponding tax liabilities in all our jurisdictions. This process requires several months to complete, and the progress made so far is in line with our plans.

The Babilonas shopping centre has been reclassified from a non-core to a core asset from 1 April 2011,

based on the improvement of overall performance in 2011 and the pre-agreed debt repayments amounting to €3.0 million to be made following the sales of the Blue Knight portfolio and Promenada shopping centre, as described above.

Our development joint venture relating to the Riga shopping centre in Latvia has a new financing structure and debt arrangement, as announced on 7 May 2010. This project is now completed, open and trading. This retail scheme is currently underperforming and may require further capital investment to attract key tenants.

Carpathian also sold certain subsidiaries holding the non-core developments of Arad shopping centre 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 were taken on by the acquirer. In addition, Carpathian disposed of the non-core Plaza portfolio in Hungary to the financing bank of MKB Zrt., in Hungary, on 19 April 2011.

These sales transactions and derecognitions enable the Company to focus on the remaining core investment and development assets and further reduce administrative and management costs. The analysis of the individual asset performance can be found in the Property Investment Adviser's Report.

The new Portfolio Management Agreement was signed on 1 March 2010 and expires on 31 December 2011 with the Company's Property Investment Adviser, CPT LLP. This 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.

Dividend

In line with the business plan set by the Strategic Review in January 2010, the Company intends to distribute to shareholders the cash received from asset sales. Based



on the progress made following the above transactions and the transfer of the net proceeds through various jurisdictions to the holding company, Carpathian intends to distribute at least 5.0 euro cents per share by 30 September 2011. In addition, the Company aims to make a further and more substantial distribution before the end of 2011. However, the Board needs to further define the liquidity requirements for the Company and the remainder of the core portfolio before the amount can be finally determined.

Board change

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

Other corporate matters

At the Annual General Meeting held on 6 August 2010, the Company adopted new Articles of

Association, which provides 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 (except for certain Shareholders who will only be able to elect for the dividend option) shall be afforded the opportunity to elect to receive each material return of cash in one of two ways (share buyback or dividend), as further described in the circular dated 14 July 2010, which convened that Annual General Meeting. A copy of this circular is available for download from the Company's website: www.carpathianplc.com

Rory Macnamara

Chairman
10 May 2011

Property Investment Adviser's Report

Overview

The majority of our current investment markets in Central and Eastern Europe ('CEE') emerged from recession in 2010, including Hungary and Lithuania.

Each of the CEE economies is projected to have positive economic growth in 2011. The strongest economy is expected to be Poland (3.7%), while Romania is projected to be the weakest (1.5%).

On the employment front, Latvia and Lithuania are suffering from high unemployment levels – 20% and 18%, respectively – which continue to hinder overall their economic growth. The remaining investment countries, including Poland, Hungary and Romania, have unemployment rates in line with the overall Euro area average of 10%. (Source: IMF)

Property transaction volumes in CEE during the first three quarters of 2010 saw significant increases over the same period in 2009 as investors began to rethink the risks inherent in some of these markets. Poland has emerged in 2010 as the number one destination for investment in CEE, with volumes up more than 200% from 2009. (Source: CBRE)

The central theme of institutional investors is to target quality core products and capital cities. This is unlikely to broaden in the near future.

Portfolio valuation as at 31 December 2010 was independently carried out by Colliers International UK PLC. This overall portfolio valuation showed a marginal increase of approximately 1% over the previous portfolio valuation as at 31 December 2009 (like-for-like basis). Valuations in Poland increased by approximately 8% from the previous year end, most of which occurred at the Promenada shopping centre in Warsaw, due to the sale price coming in €13.5 million higher than last year's valuation figure. All properties under offer as at 31 December 2010 have their offer price shown as their year-end valuation.

Key events

Our key objective in 2010 was to start to realise value from the core portfolio as agreed by the Board in the Strategic Review that was completed at the beginning of 2010.

As also described in the Chairman's Statement, four property sales transactions were completed within the core portfolio, representing 88% of its year-end valuation, as described below. In addition, the non-core developments of Arad shopping centre, the Cluj development land and the Romanian development management platform were sold. The year 2010 also saw the derecognition of the Plaza portfolio and the Antana property.

The core portfolio sales were all completed, generating equity above the minimum thresholds defined by the outcome of the Strategic Review.

More recently in 2011, the Babilonas shopping centre has been reclassified as a core asset with the Board's approval. This is the combined result of better asset performance and loan repayments amounting to €3 million from the sale proceeds of the Promenada shopping centre and the Blue Knight portfolio.

Property management fees charged to the Group by the Property Investment Adviser fell by approximately 36% – to €4.1 million – for the year ending 31 December 2010, as compared to €6.4 million a year before. This is within the thresholds defined by the new Portfolio Management Agreement agreed on 1 March 2010. This agreement has a fixed termination date of 31 December 2011.

More details regarding the above transactions can be found in the Chairman's Statement and the portfolio overview below.

Portfolio Overview

Set out below are the key parameters of the portfolio, together with the year-end valuation figures.

Core portfolio – investment properties 31 December 2010	Country	Gross Lettable Area (sqm)	Loan amount 31 December 2010 €'000	NOI 31 December 2010 €'000	Valuation 31 December 2010 €'000	Status
Gdansk – Osowa	Poland	13,167	20,597	2,864	34,500	Under-offer
Lodz – Tulipan	Poland	9,589	15,292	2,400	32,200	Sold-Mar 11
Sosnowiec – Centrum	Poland	2,162	2,796	354	2,750	Sold-Mar 11
Torun-Kometka	Poland	1,961	3,823	604	7,250	Sold-Mar 11
Promenada	Poland	53,472	103,235	10,502	171,000	Sold-May 11
Biedronka	Poland	1,220	–	93	750	Sold-Apr 11
Macromall	Romania	7,748	–	90	2,500	Under offer
Total		89,319	145,743	16,925	250,950*	

*31 Dec 2009 valuation (€'000): €234,500

All the above properties, except Biedronka and Macromall, are financed by DPB with a loan expiry date of 31 December 2011.

The second table shows a summary of the key performance indicators of the core investment portfolio as at 31 December 2010. This includes the Agrokor portfolio, which was sold on 1 December 2010.

Core portfolio – investment properties – 31 December 2010	
Weighted average lease expiry	4.16 years
Voids by rental value/%	€677k/3%
Lease expiries within 1 year (value/no. of leases)	€2,023k/89
NOI growth over the last 12 months	(2)%
Number of leases	412
Year to date income collection	97%



Property Investment Adviser's Report *continued*



The third table shows the core development assets

Core portfolio – development properties 31 December 2010	Country	Land size (sqm)	Gross lettable area (sqm)	Lender	Valuation 31 December 2010 €'000
Baia Mare – Land	Romania	125,238	50,517	Equity only	3,000
Satu Mare – Land	Romania	26,759	32,112	Equity only	2,100
Total		151,997	82,626		5,100

The NOI in the core portfolio has decreased by 2% due to a loss of €0.4 million of income from the Macromall property in Romania. The top 10 tenants in the core portfolio represent 23% of the total rent, paying an annual sum of €4.3 million for the year 2010. The remaining 77% comprises 393 tenants paying approximately €14.1 million gross rent per annum.

The Polish properties maintained a steady NOI, unchanged from the previous year. The Polish assets were the largest contributors to core NOI in 2010, representing 79% of the total. Within the Polish portfolio, Promenada contributed the most, with an annual NOI of €10.5 million in 2010, or 50% of core NOI. The Croatian portfolio had an NOI of €4.3 million, which increased 1% over the previous year (after adjusting for its sale in November 2010). The weighted average lease length of the core portfolio is 4.2 years, which is an improvement from 3.5 years as at 31 December 2009. This is partly due to the derecognition of Antana, which had a large number of tenants on short-term leases.

The foremost asset of the core portfolio, Promenada, experienced solid growth for the third straight year. NOI increased €0.5 million, to €10.5 million, as a result of lease renewals at rents far exceeding previous levels. On target with previously stated expectations, the contracted rental income of the centre is now in excess of €12.0 million per annum.

As mentioned in the Chairman's Statement, Promenada was sold to a subsidiary of Atrium European Real Estate in May 2011 for a headline figure of €169.5 million, subject to a €1.5 million top up after recovery of VAT. This price was subject to a net

deduction of €1 million, arising principally from payments for insurance and for the modification of the trademark licence. An escrow account of €0.6 million has been established, the major proportion of which is expected to be recovered within six months of closing. The net equity to be realised from the sale after transaction costs is approximately €58 million to €59.5 million, depending on receipt of the additional VAT consideration, as described above.

The Blue Knight portfolio's performance remained stable in 2010. During the year, 20 of 28 expiring leases were renewed, representing 16% of the total rent. Those renewals achieved rental levels 6% above previous levels. The weighted average lease length of the Blue Knight properties was 4.1 years, which is unchanged from a year ago.

As announced on 9 March 2011, three of the four properties in the Blue Knight portfolio in Poland have been sold for a gross consideration of €40.2 million. The initial net equity amount realised and to be transferred from Poland to the Company from the partial Blue Knight sale will be approximately €7.6 million.

The Osowa property in Gdansk is also under offer, with a preliminary sale agreement executed, as announced on 31 March 2011. The transaction is anticipated to close by the end of May 2011. The centre is being sold for a consideration of €34.5 million and is subject to a €3 million retention, based on resolving questions related to the occupancy permit.

We successfully completed the sale of the Slupsk property in Poland for a price of €0.75 million in April

2011. We also announced earlier that, on 1 December 2010, Agrokor was sold to W.P.Carey for a headline price of €45 million. The net equity to be returned to shareholders is approximately €3.5 million.

The cash realised from the above and forthcoming sales will need to be repatriated to Carpathian PLC from the asset-owning companies in the respective jurisdictions. We have been progressing a corporate restructuring in order to facilitate this repatriation and optimise the corresponding deferred tax liabilities in all our jurisdictions. This process requires several months to complete, and the progress made so far is in line with our plans.

The Macromall shopping centre, in Brasov, Romania, has been hit hard by the severe economic conditions in the country's economy as a whole. Income has dropped approximately 80%, due to increased voids, poor rent payment and rental rebates or rent-free periods granted to tenants in financial difficulty. This property is also being marketed for sale, together with the core development land sites in Romania.

Galleria Riga shopping centre in downtown Riga, Latvia, opened in October 2010. The newly built centre comprises six floors of retail, a restaurant floor and a roof terrace with restaurants and an ice rink. Anchor tenants include Rimi, NS King, Pizza Italia and Future Invest.

Core portfolio Investment property Non Consolidated Investment 31 December 2010	Country	Gross Lettable Area (sqm)	Lender	Loan amount 31 December 2010 €'000	Loan Expiry	Valuation 31 December 2010 €'000
Galleria Riga	Latvia	30,005	Nordea	60,927*	Jun-17	44,350

*Note that as at 31 December 2010, the €60.9 million debt includes a €1 million short-term overdraft facility. In addition to the stated loan amounts, there is debt of €4.4 million to our joint venture partner, and a two-year zero coupon swap of €1.4 million p.a. with the option to extend for another two years. Potential total indebtedness, assuming fully drawn loan facilities and maximum swap term, is €70.9 million.



Property Investment Adviser’s Report

continued

The centre opened with 72% of floor space let, of which 40% was trading. By March 2011 the leasing had achieved 74% occupancy, of which 55% was trading and a further 19% were signed but not yet open. An additional 1% was under offer.

The achieved NOI to date has been significantly below forecasts, due to a combination of vacancy (leading to shortfalls on running and marketing costs) and achieved rents and retailer turnover being below forecasts. The NOI is forecast to increase in the second year of operation as turnover-only rents convert to minimum base rents and occupancy continues to grow.

The centre’s tenant mix needs to be improved – by including major fashion retailers offering affordable products. Prior to opening, the retailers’ strategy was to observe the trading performance first or demand substantial landlord contributions upfront. Since opening, there has been further interest from some

international brands and discussions are progressing.

The Riga property is not consolidated in the year-end results, as the owning company is a joint venture partnership and Carpathian PLC does not have majority management control.

In 2010, the non-core assets were reduced considerably due to derecognition of the Plaza portfolio and the Antana Logistics Park. Remaining among the non-core assets are the MID portfolio – consisting of two centres in the Czech Republic and two in Hungary – and the Babilonas Centre in Lithuania.

All these properties have full cash sweeps in place to repay the outstanding loans to the financing banks. The properties’ cash flows are covering direct management costs but not contributing to the net operating income of the Company.

Non-core portfolio – investment properties 31 December 2010 €'000	Country	Gross Lettable Area (sqm)	Lender	Loan amounts 31 December 2010 €'000	Loan Expiry	Valuation 31 December 2010 €'000
MID portfolio	Hungary & Czech Republic	45,370	DPB	53,570	Dec 11	53,150
Babilonas*	Lithuania	22,429	DPB	22,925	Dec 11	25,000
Total		67,799		76,495		78,150**

*The property was moved to the core portfolio from 1 April 2011
**31 December 2009 valuation (€'000): €75,000.

Non-core portfolio – investment properties 31 December 2010	
Weighted average lease expiry	6.89 years
Voids by rental value/%	€212k/ 3%
Lease expiries within 1 year (value/no. of leases)	€916k/ 73
NOI growth over the last 12 months	(4)%
Year to date income collection	98%



Non-core portfolio – investment properties 31 December 2010	Country	Gross Lettable Area (sqm)	Number of Leases	Void as % of Total Rental Value	NOI 31 December 2010 €'000
MID portfolio	Hungary & Czech Republic	45,370	34	1%	4,757
Babilonas	Lithuania	22,219	130	5%	1,889
Total		67,589	164	3%	6,646

**The property was moved to the core portfolio from 1 April 2011.

Among the non-core assets, the top 10 tenants pay €5.2 million, or 73% of the total rent, while the remaining 27% is paid by 152 tenants, with a combined gross rental income of €2.0 million per annum.

The MID properties in the Czech Republic and Hungary experienced an NOI increase of 3.5%, to €4.8 million per annum. Otherwise, no material changes occurred in 2010, although in Hungary there is still pressure from tenants to grant rent reductions.

Babilonas, in Lithuania, improved noticeably in 2010. New centre management helped increase rent collection significantly, from 82% in 2009 to 96% in 2010. A number of tenants were granted temporary rent concessions and turnover top-ups in return for settling their arrears. The majority of these concessions are due to expire in 2011; as the tenants' rent affordability has improved which makes it unlikely that the rebates will be extended.

A new tenant, New Yorker, took over a 960 sqm retail unit in October 2010 and has been trading very well since opening. This, in turn, is helping to bring in tenants for the remaining vacant space. The goal of stabilising NOI has been achieved and an increase of 5% to 10% in 2011 is attainable.

Footfall at the centre was down by 4% from 2009, but is up 35% from 2008 and 46% from 2007.

Valuation of the centre has increased 11%, from €22.5 million to €25.0 million, reflecting an increased NOI expectation in 2011 due to expiring rent rebates and decreasing vacancy. The centre has been reclassified from a non-core to a core asset from 1 April 2011, based on the improvement of overall performance in 2011 and the pre-agreed debt repayments amounting to €3.0 million to be made from the sales proceeds of the Blue Knight portfolio and Promenada Shopping Centre, as described above.

The Antana Logistics Park was derecognised in June 2010 and is no longer included in the financial results.



Property Investment Adviser's Report continued



Carried interest

CPT LLP, the Company's Property Investment Adviser, is entitled to a sales fee of 0.5% of the gross property sale value (including debt but as reduced by certain retentions and warranty claims) for each asset within the core portfolio that is sold, rising to a maximum of 1.0% if no other brokers or agents are engaged on the sale. The sales fee is conditional on equity value being released for the benefit of the Company as part of any disposal and cash received on disposals being made available for distribution to shareholders. Additionally, any payment of the sales fee is pro rata to cash available for return to shareholders arising from the sale on a 50:50 basis until the entire sales fee has been paid in full. If the Portfolio Management Agreement is terminated on a takeover, a fixed fee of €0.7 million will become payable in lieu of any further sales fees. In the event that the core properties are disposed of at their values included in the Statement of Financial Position at 31 December 2010 without any material tax becoming payable, the total sales fee payable is estimated to be €1.3 million.

CPT LLP is also entitled to receive a capital performance payment, based on actual cash available for return to shareholders. CPT LLP will receive 10% of any return above a distribution available to shareholders in excess of a 17.25 euro cents per share hurdle and 25% of any returns

available to shareholders above a 34.5 euro cents per share hurdle. However, to avoid the capital performance payment reducing the 34.5 euro cents per share hurdle below this level following payment, the effective hurdle is set at 36.4 euro cents per share in order to accommodate any capital performance payment. Such capital performance payment shall be payable in cash but accumulated and deferred until the earlier of (i) the completion of the sale of the core portfolio and (ii) the termination of the Portfolio Management Agreement. In the event that the core properties are disposed of at their values included in the Statement of Financial Position at 31 December 2010 without any material tax becoming payable, the total capital performance payment payable is estimated to be €8.0 million.

Please note that the above fees are estimates and their final value could be lower or higher, depending on the outcome of future events.

Paul Rogers

Managing Partner
CPT LLP

10 May 2011



Directors, Officers and Advisers

Rory Macnamara

Non-executive Chairman

Rory Macnamara qualified as a chartered accountant with PricewaterhouseCoopers LLP and worked at Morgan Grenfell for 17 years. He was a director in corporate finance, head of mergers and acquisitions and vice chairman of Morgan Grenfell & Co Ltd. In 1999, he joined Lehman Brothers, where he was a managing director in UK investment banking until 2001. He currently acts as a corporate consultant and is chairman of Izodia PLC and Essenden PLC, and a director of Private Equity Investors PLC, Dunedin Income Growth Investment Trust PLC and Augean PLC.

Rupert Cottrell

Non-executive Director

Rupert Cottrell is a resident of the Isle of Man and former chairman of the Supervisory Board of A.S. Magnum Medical – a pan-Baltic pharmaceutical group. He was also a director of New European Investments Limited (a closed private investment fund targeting Eastern European companies). As a consequence, Rupert has developed extensive relationships within the CEE, which are of benefit to the Company. He was a former director of the AIM quoted PFI Infrastructure Company PLC recently taken over by 2i. Currently he is deputy chairman of the AIM listed Infrastructure India PLC and a director of a modest number of private property and infrastructure related companies.

Philip Scales

Non-executive Director and Company Secretary

Philip Scales is managing director of IOMA Fund and Investment Management Ltd ('IOMAFIM'), part of the Isle of Man Assurance Group. IOMAFIM specialises in the provision of third-party fund administration and investment management services. Prior to this, Philip spent nearly 18 years as managing director of Northern Trust International Fund Administration Services (Isle of Man) Ltd (formerly Barings (Isle of Man) Ltd). He has more than 30 years' experience of working offshore, primarily in corporate and mutual fund administration and currently holds a number of directorships of listed companies. Philip is a Fellow of the Institute of Chartered Secretaries and Administrators.

Tim Walker

Non-executive Director and Chairman of the Audit Committee

Tim Walker is a chartered accountant and an Isle of Man resident. He is the former finance director of Swallow/Vaux Group PLC, Strix Group and Burtonwood Brewery PLC. Tim is currently chairman of Squarestone Brasil PLC, a developer of shopping malls in Brazil, and a non-executive director and audit committee chairman of Clean Energy Brazil PLC, Ishaan Real Estate PLC and Infrastructure India PLC.

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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Directors' Report

The Directors present herewith their report and audited financial statements for the year ended 31 December 2010.

Principal Activities

The principal activity of the Group is that of the investment in, and development of, retail property in Central and Eastern Europe.

Results For The Year

The profit for the year ended 31 December 2010 amounted to €15.0 million (2009: €104.5 million loss). The results for the year and their appropriation are set out in the Consolidated Statement of Comprehensive Income, on page 22.

Dividend

The Board has not declared a dividend for the year ended 31 December 2010 (2009: €4.5 cents per share). The 2009 dividend was paid to shareholders on 26 January 2010.

Note on going concern

The Board continues to focus on value preservation and realisation of its remaining 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 2012, which projects that the Group and the Company have adequate resources for that period.

During that period the Company must focus on its operational efficiencies and maintain income streams, with the intention of returning cash from asset sales 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.

All investment properties continue to generate positive cash flows, with cash sweeps operating in favour of the banks. Marketing of the properties continues, but in the event that sales are not achieved by 31 December

2011 there is nothing to currently suggest that the facilities will not be extended.

In the view of the Board and its Property Investment Adviser, the Company's remaining core investment and development portfolio retain 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.

Since 31 December 2010 the Group has repaid €136.8 million of its bank loans.

The Group is also exposed to a number of risks, including those concerning the interest rate, currency, market, credit and liquidity.

The Board has overall responsibility for the 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 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 on the ability of the Group and Company to continue as a going concern. However, after making suitable enquiries and based on 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 Annual Report and financial statements.

Directors

The Directors who served during the year and to date were as follows:

R. P. Macnamara (Non-executive Chairman)

P. R. Cottrell (Non-executive Director)

P. P. Scales (Non-executive Director)

T. G. Walker (Non-executive Director)

A.M. Shepherd (Non-executive Director) (resigned 1 April 2010)

Auditors

Our Auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Directors' Interests

The Directors who held office at 31 December 2010 had the following interests in the share capital of the Company:

P.R. Cottrell's interests in the Company were as follows:

	Number of Ordinary Shares held	
	31 December 2010	31 December 2009
Registered holder		
Securities Services Nominees Ltd	100,000	100,000

This represents an aggregate interest of 0.04% (2009: 0.04%) of the issued share capital of the Company

T. G. Walker's interests in the Company were as follows:

	Number of Ordinary Shares held	
	31 December 2010	31 December 2009
Registered holder		
Capital International Ltd for pension scheme of T. G. Walker	100,000	—

This represents an aggregate interest of 0.04% (2009: 0.0%) of the issued share capital of the Company. None of the other Directors had any interest in the share capital at 31 December 2010.

On behalf of the Board

Philip Scales

Secretary

10 May 2011

Corporate Governance Report

The Board of Directors is committed to a high standard of corporate governance. The Directors believe that good governance requires the Company to have the correct processes and structures in place to ensure sound stewardship and accountability.

The Board of Directors is responsible for the overall stewardship of the Group. The Directors continue to take steps towards adopting the recommendations on corporate governance issued by the Quoted Companies Alliance (QCA). The QCA’s Corporate Governance Guidelines, which set out a code of best practice for companies listed on the AIM, state that “the purpose of good corporate governance is to ensure that the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term”.

The Board is making progress towards ensuring the Company complies with the Combined Code, which is generally adopted by companies admitted to the Official List (companies listed on the London Stock Exchange’s main market). The Isle of Man, the Company’s jurisdiction of incorporation, has no specific corporate governance regime.

The Board holds at least four meetings annually and also has an Audit Committee. The Board does not intend to establish other committees given the current composition of the Board and nature of the Company’s operations.

Audit Committee

The Audit Committee is responsible for ensuring that the financial performance of the Company is properly monitored, controlled and reported on. It reviews reports from the auditors relating to the financial statements and internal control systems.



Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards.

The financial statements are required to give a true and fair view of the state of affairs of the Group and the Parent Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies, then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time its financial position. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.



Report of the Independent Auditors, KPMG Audit LLC, to the members of Carpathian PLC

We have audited the financial statements of Carpathian PLC for the year ended 31 December 2010, which comprise the Group and Company Statements of Comprehensive Income, the Group and Company Statements of Financial Position, the Group and Company Statements of Cash Flows and the Group and Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

This report is made solely to the Company's members, as a body. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended; and
- have been properly prepared in accordance with IFRSs.

KPMG Audit LLC

Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

10 May 2011

Financial Statements



Consolidated Statement of Comprehensive Income



for the year ended 31 December 2010

	Note	2010 Revenue €'000	2010 Capital €'000	2010 Total €'000	2009 Revenue €'000	2009 Capital €'000	2009 Total €'000
Gross rental income	5	30,659	–	30,659	36,266	–	36,266
Service charge income	7	11,287	–	11,287	12,872	–	12,872
Service charge expense	7	(13,688)	–	(13,688)	(15,742)	–	(15,742)
Property operating expenses	7	(6,482)	–	(6,482)	(7,768)	–	(7,768)
Other property income	8	420	–	420	1,921	–	1,921
Net rental and related income		22,196	–	22,196	27,549	–	27,549
Changes in fair value of investment property	14	–	7,872	7,872	–	(56,722)	(56,722)
Profit/(loss) on derecognition of investment properties		–	5,296	5,296	–	(14,053)	(14,053)
Profit/(loss) on disposal of investment properties		–	21,574	21,574	–	(1,500)	(1,500)
Impairment of goodwill	16	–	1,011	1,011	–	(3,817)	(3,817)
Impairment of other investments	17	–	(11,372)	(11,372)	–	–	–
Impairment of loans receivable	18	–	(2,000)	(2,000)	–	(32,332)	(32,332)
Changes in fair value of derivative assets and liabilities	23	–	(3,896)	(3,896)	–	(436)	(436)
Net foreign exchange gain/(loss)		–	1,553	1,553	–	(1,209)	(1,209)
Administrative expenses	9	(5,974)	–	(5,974)	(5,422)	–	(5,422)
Net operating profit/(loss) before net financing expense		16,222	20,038	36,260	22,127	(110,069)	(87,942)
Financial income	11	325	–	325	572	–	572
Financial expense	11	(15,963)	–	(15,963)	(20,124)	–	(20,124)
Changes in fair value of interest rate swaps	11	–	647	647	–	(1,029)	(1,029)
Net financing expense		(15,638)	647	(14,991)	(19,552)	(1,029)	(20,581)
Net profit/(loss) before tax		584	20,685	21,269	2,575	(111,098)	(108,523)
Tax (expense)/credit	12	(774)	(5,474)	(6,248)	968	3,089	4,057
Profit/(loss) for the year and total comprehensive income for the year		(190)	15,211	15,021	3,543	(108,009)	(104,466)
Attributable to:							
Equity holders of the Company	13			15,032			(104,417)
Non-controlling interest	13			(11)			(49)
Basic and diluted earnings per share for profit/(loss) attributable to the equity holders of the Company during the year (expressed as cents per share)							
Basic earnings per share	13			6.5c			(45.0)c
Diluted earnings per share	13			6.5c			(45.0)c

The notes on pages 28 to 62 form part of these financial statements.

Company Statement of Comprehensive Income



for the year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Revenue		–	–
Changes in fair value of derivative assets and liabilities	23	(4,003)	(386)
Impairment of investment in subsidiaries	15	94,930	(95,466)
Loss on disposal of investments		(28,958)	(275)
Net foreign exchange gain		431	935
Administrative expenses	9	(1,938)	(2,009)
Net operating profit/(loss) before net financing income		60,462	(97,201)
Financial income	11	21,566	22,629
Net financing income		21,566	22,629
Net profit/(loss) before tax		82,028	(74,572)
Tax expense	12	–	–
Profit/(loss) for the year and total comprehensive income for the year		82,028	(74,572)

The notes on pages 28 to 62 form part of these financial statements.

Consolidated Statement of Changes in Equity



for the year ended 31 December 2010

Group	Note	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 year						
Loss for the year		–	–	–	(104,466)	(104,466)
Transactions with owners recorded directly to equity						
Dividends declared	28	–	–	–	(10,466)	(10,466)
Loss allocation to non-controlling interest		–	–	(49)	49	–
Share premium release		–	(173,520)	–	173,520	–
Redenomination of share capital	24	(1,062)	1,062	–	–	–
Balance as at 31 December 2009		2,321	91,477	11	(18,091)	75,718
Balance as at 1 January 2010		2,321	91,477	11	(18,091)	75,718
Total comprehensive income for the year						
Profit for the year		–	–	–	15,021	15,021
Transactions with owners recorded directly to equity						
Profit allocation to non-controlling interest		–	–	(11)	11	–
Balance as at 31 December 2010		2,321	91,477	–	(3,059)	90,739

The notes on pages 28 to 62 form part of these financial statements.

Company Statement of Changes in Equity



for the year ended 31 December 2010

Company	Note	Share Capital €'000	Share Premium €'000	Retained Earnings €'000	Total €'000
Balance as at 1 January 2009		3,383	263,935	(109,899)	157,419
Total comprehensive income for the year					
Loss for the year		–	–	(74,572)	(74,572)
Transactions with owners recorded directly to equity					
Dividends declared	28	–	–	(10,446)	(10,446)
Redenomination of share capital	24	(1,062)	1,062	–	–
Share premium release		–	(173,520)	173,520	–
Balance as at 31 December 2009		2,321	91,477	(21,397)	72,401
Balance as at 1 January 2010		2,321	91,477	(21,397)	72,401
Total comprehensive income for the year					
Profit for the year		–	–	82,028	82,028
Balance as at 31 December 2010		2,321	91,477	60,631	154,429

The notes on pages 28 to 62 form part of these financial statements.

Statements of Financial Position

as at 31 December 2010

		2010	2010	2009	2009
	Note	Group €'000	Company €'000	Group €'000	Company €'000
ASSETS					
Non-current assets					
Investment property	14	89,250	–	453,226	–
Loan to subsidiary	15	–	118,700	–	46,755
Goodwill	16	6,564	–	7,897	–
Other Investments	17	–	–	7,452	–
Loans receivable	18	–	–	3,920	–
Deferred tax assets	19	618	–	3,925	–
		96,432	118,700	476,420	46,755
Current assets					
Trade and other receivables	20	7,126	17,795	12,988	13
Assets held for sale	21	237,900	–	–	–
Loans receivable	18	–	–	2,000	–
Cash and cash equivalents	22	26,773	14,391	39,944	28,490
Financial assets	23	3,823	3,820	7,825	7,823
		275,622	36,006	62,757	36,326
Total assets		372,054	154,706	539,177	83,081
EQUITY					
Issued capital	24	2,321	2,321	2,321	2,321
Share premium	24	91,477	91,477	91,477	91,477
Retained earnings		(3,059)	60,631	(18,091)	(21,397)
Total equity attributable to equity holders of the parent		90,739	154,429	75,707	72,401
Non-controlling interest		–	–	11	–
Total equity		90,739	154,429	75,718	72,401
LIABILITIES					
Non-current liabilities					
Bank loans	25	–	–	262,364	–
Other payables	26	19,160	–	27,518	–
Deferred tax liabilities	19	21,647	–	24,757	–
		40,807	–	314,639	–
Current liabilities					
Trade and other payables	26	14,812	277	28,941	234
Bank loans	25	221,308	–	102,414	–
Provisions	27	997	–	2,398	–
Dividends payable	28	–	–	10,446	10,446
Financial liabilities	23	3,391	–	4,621	–
		240,508	277	148,820	10,680
Total liabilities		281,315	277	463,459	10,680
Total equity and liabilities		372,054	154,706	539,177	83,081

The notes on pages 28 to 62 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for use on 10 May 2011.

Signed on behalf of the Board of Directors by:

Rory Macnamara

Rupert Cottrell

Non-executive Director

Non-executive Director

Statements of Cash Flows



for the year ended 31 December 2010

		2010	2010	2009	2009
	Note	Group	Company	Group	Company
		€'000	€'000	€'000	€'000
Cash flows from operating activities					
Cash generated from/(used in) operations	29	18,273	(30,511)	18,832	(96,699)
Income taxes paid		(1,014)	–	398	–
Net cash generated from/(used in) operating activities		17,259	(30,511)	19,230	(96,699)
Cash flows from investing activities					
Capital expenditure on investment properties		(178)	–	(34,929)	–
Loan receipts from unconsolidated entities		–	–	75	–
Cash received on disposal of investment property		2,924	–	–	–
Cash conceded on derecognition		(2,866)	–	(1,496)	–
Interest received		283	3,873	571	44,219
Acquisition of subsidiaries		–	–	(4,066)	–
Loan from subsidiary		–	22,985	–	34,070
Net cash generated/(used in) investing activities		163	26,858	(39,845)	78,289
Cash flows from financing activities					
New bank loans raised		–	–	30,212	–
Interest paid		(16,884)	–	(22,257)	–
Repayments of borrowings		(3,263)	–	(11,249)	–
Dividends paid		(10,446)	(10,446)	–	–
Net cash used in financing activities		(30,593)	(10,446)	(3,294)	–
Net decrease in cash and cash equivalents		(13,171)	(14,099)	(23,909)	(18,410)
Cash and cash equivalents at the beginning of the year		39,944	28,490	63,853	46,900
Cash and cash equivalents at the end of the year	22	26,773	14,391	39,944	28,490

The notes on pages 28 to 62 form part of these financial statements.

Notes to the 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 euro 0.01.

The consolidated financial statements include the share capital of the Company denominated in euro. As from 24 July 2009, the share capital was 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.

The Company was admitted to the AIM of the London Stock Exchange and commenced trading its shares on 26 July 2005. The Company raised approximately £140 million at listing and a further £100 million in May 2007 (before admission costs).

2 Significant accounting policies

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS's') and its interpretations adopted by the International Accounting Standards Board ('IASB').

The consolidated financial statements were authorised for issue by the Board on 10 May 2011.

(b) 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 issue but not yet effective:

IAS 1 Presentation of Financial Statements (revised April 2009)

IAS 24 Related Party Disclosures – revised definition of related parties

IAS 27 Consolidated and Separate Financial Statements – consequential amendments resulting from amendments to IAS 21, IAS 28 and IAS 31

IAS 32 Financial Instruments: Presentation – amendments relating to classifications of rights issues

IFRS 3 Business Combinations – comprehensive revision on applying the acquisition method

IFRS 7 Financial Instruments – Disclosures

IFRS 9 Financial Instruments – classification and measurement

IFRIC Interpretation

IFRIC 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.

(c) Basis of preparation

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.

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 statement of changes in equity all owner changes in equity, whereas non-owner changes in equity are presented in the Consolidated Statement of Comprehensive Income.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets, including the revaluation of investment property and financial instruments. The accounting policies have been consistently applied to the results, gains and losses, assets, liabilities and cash flows of all entities included in the consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors, which are believed to be reasonable under the circumstances and are reviewed on an ongoing basis; they may have a significant impact on the financial statements and actual results may differ from these estimates. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The activities of Group are subject to a number of risk factors. The global financial crisis and the deteriorating economic environment in the jurisdictions within which the Group operates have increased the intensity of these risk factors. The Directors, who are advised by professionally qualified external valuers, consider that the future economic outlook presents specific challenges in terms of the significant reduction in the volume of property transactions in the jurisdictions within which the Group operates, the significant reduction in the availability of loan finance for property transactions in those jurisdictions, enhanced risk of tenant default and the consequent impact on the valuations of the properties held by the Group.

The financial statements have been prepared on a going-concern basis, taking into consideration the level of cash and cash equivalents presently held by the Company. The Directors, therefore, have a reasonable expectation that the Company will have adequate resources for its continuing operational existence for the foreseeable future and, for these reasons, continue to adopt the going-concern basis in preparing the 2010 financial statements.

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to ensure uniformity with the accounting policies adopted by the Group.

The Company does not continue to consolidate entities where effective control over the company's assets has been asserted by another party. The Company will recognise the deconsolidation on the date at which control and any rights to significant risk and reward is transferred to the superseding party. The results of subsidiaries deconsolidated during the year are included in the consolidated Statement of Comprehensive Income up to the effective date of disposal.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the Financial Statements *continued*



2 Significant accounting policies (continued)

(e) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised provisionally at the best estimate of their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5: non-current assets held for sale and discontinued operations are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subject to an impairment review by the Directors at a minimum of an annual basis.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

The revenue and profit of the subsidiaries in relation to all business combinations effected during the year has not been disclosed, as the information is not readily available.

(f) Jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest and contractual arrangements between the venturers establish joint control over the economic activity of the entity.

Jointly controlled entities are accounted for using the equity method. They are recognised initially at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the joint controlled entity. The Group Statement of Comprehensive Income includes the Group's share of the profit or loss of the jointly controlled entity from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in a jointly controlled entity, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the jointly controlled entity.

(g) Goodwill

Goodwill is allocated as described in note 16. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. This impairment review is performed at least annually. Any impairment is recognised immediately in the Statement of Comprehensive Income and is not subsequently reversed. Since goodwill is calculated and attributed to the purchase of property portfolios rather than individual companies, negative goodwill is not credited to the Statement of Comprehensive Income, but offset against positive goodwill generated by the purchase of the portfolio as a whole.

(h) Revenue recognition

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(I) Leases

Leases are classified as finance leases whenever the terms of the lease substantially transfer the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group only has operating leases where it is the lessor (note 2h). Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(J) Foreign currencies

The functional currency of the Group and the Company is considered to be the euro (we talk of 'euro cents' elsewhere in the report). It is the currency of the primary economic environment in which it operates. For the purpose of the financial statements, the results and financial position of the Company and Group are presented in euros, as the Company is listed on the London Stock Exchange and its share price is quoted in euros.

In preparing the financial statements of the individual companies, transactions (other than those in the functional currency) are recorded in foreign currency. The functional currency equivalent is also recorded where the underlying transaction is not denominated in functional currency. At each Statement of Financial Position date, all monetary assets and liabilities denominated in foreign currency are translated to functional currency at the rate prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in the Statement of Comprehensive Income for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Statement of Comprehensive Income for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group reviews its position to enter into forward contracts and options (see page note 2(m) for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's operations are translated at exchange rates prevailing on the Statement of Financial Position date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Financial Statements *continued*



2 Significant accounting policies (continued)

(k) Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax represents the tax expected to be payable or recoverable arising on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the Statement of Financial Position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax on a net basis.

(l) Investment property

Investment properties are properties held for long-term rental income or for capital appreciation or both.

Acquisitions through direct asset purchases are initially stated at cost, including related transaction costs. Acquisitions through business combinations are stated at fair value at the date of acquisition. Additions to investment properties consist of costs of a capital nature.

Acquisitions through long-term leases, which substantially transfer the risks and rewards of ownership to the lessee are treated as finance leases, and are initially stated at the lower of fair value or the present value of minimum lease payments. Where finance lease payments are subsequently adjusted, the present value of the minimum lease payments are adjusted accordingly.

The Group applies revised IAS 40 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 Statement of Financial Position 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 financial statements as of, and for, the year ended 31 December 2010.

Borrowing costs relating to development properties are capitalised to the asset on which they are incurred.

(m) Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are classified under the loans and receivable category and are measured at initial recognition at fair value. Subsequently, they are measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the Statement of Financial Position when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments

Investments are classified as available for sale financial assets and recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract which terms require delivery of the investment within the timeframe established by the market concerned. They are initially measured at cost, including transaction costs.

Loans to subsidiaries

Loans are initially measured at fair value. After initial recognition, loans are measured at net of any accumulated impairment losses. This impairment review is performed at least annually. Any impairment is recognised immediately in the Statement of Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities, except for borrowing costs incurred in respect of development projects that are capitalised as per note 2(l).

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs, which is considered to be its fair value. Finance charges, except for borrowing costs incurred in respect of development projects that are capitalised as per note 2(l), including premiums payable on settlement or redemption and direct issue costs, are accounted for in the Statement of Financial Position at amortised cost using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, which is considered to be its fair value.

Notes to the Financial Statements continued



2 Significant accounting policies (continued)

(m) Financial instruments (continued)

Derivative financial instruments

The Group uses interest rate swap contracts to hedge all the interest on its external debt, and classifies these under the financial instruments at fair value through profit and loss on initial recognition.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value. Derivatives are measured at initial recognition at fair value excluding transaction costs, and are subsequently measured at fair value. Fair value is the estimated amount that the Group would receive or pay to terminate the derivative at the Statement of Financial Position date, taking account of current interest rates. Gains or losses on the revaluation of derivatives are reported in the Statement of Comprehensive Income.

(n) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Statement of Financial Position date, and are discounted to present value where the effect is material.

(o) Share-based payments

The Group has applied the requirements of IFRS 2: Share-based payment.

Equity-settled, share-based payments are measured at fair value at the date of grant. The fair value of equity-settled, share-based payments attributable to the issue of equity instruments is charged against equity. Fair value is measured using the Black-Scholes model.

(p) Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that is provided internally to the Board of Directors.

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 Board of Directors 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.

The operating segments frequently transact between (among?) themselves. The transactions include inter-group loans, associated interest and recharged expenses. Loan interest is charged at market rates and expenses are recharged at cost.

(q) Non-current assets held for sale

A non-current asset is classified as held for sale if the Group has entered into a sale transaction with an expected date of completion within 12 months of the year end and if such asset meets the full criteria laid down in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. A non-current asset classified as held for sale is measured at the value prescribed by the sales agreement to which it pertains, less future costs to sell.

Non-current assets held for sale are shown separately on the face of the Statement of Financial Position.

3 Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in note 2, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

Investment and loan to subsidiary

Following a detailed review of the financial positions of the Company's subsidiaries, the Directors are satisfied that the carrying amount of investments and loans to subsidiaries, net of the impairment loss for the year, is justified. More details are available in note 15.

Impairment of goodwill

Following a detailed review of the business combinations acquired, the Directors are satisfied that the carrying amount of the goodwill, net of the impairment loss for the year, is justified. More details on goodwill are available in note 16.

Valuation of investment and development property

The fair value of the Group's investment and development property was determined by independent valuers. The valuation, which conforms to the appropriate sections of both the current Practice Statement and the United Kingdom Practice Statements contained within the RICS Valuations Standards, 6th Edition (the 'Red Book'), was arrived at by reference to market evidence of transaction prices for similar properties. Further details on investment and development property are available in note 14.

Notes to the Financial Statements continued



4 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 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.

Consolidated Statement of Comprehensive Income	2010 Fund €'000	2010 Core €'000	2010 Non-core €'000	2010 Total €'000
Gross rental income	–	22,315	8,344	30,659
Service charge income	–	8,469	2,818	11,287
Service charge expense	–	(10,092)	(3,596)	(13,688)
Property operating expenses	(3,464)	(2,318)	(700)	(6,482)
Other property income	2	307	111	420
Net rental and related income	(3,462)	18,681	6,977	22,196
Changes in fair value of investment property	–	4,749	3,123	7,872
Profit on derecognition of investment properties	–	–	5,296	5,296
Profit/(loss) on sale of investment properties	(3,499)	(1,844)	26,917	21,574
Impairment of goodwill	–	500	511	1,011
Impairment of loans receivable	–	–	(2,000)	(2,000)
Impairment of investments in joint ventures	–	–	(11,372)	(11,372)
Changes in fair value of derivative assets and liabilities	(3,877)	(19)	–	(3,896)
Net foreign exchange gain/(loss)	(48)	1,139	462	1,553
Administrative expenses	(3,158)	(1,810)	(1,006)	(5,974)
Net operating profit/(loss) before net financing expense	(14,044)	21,396	28,908	36,260
Financial income	139	179	7	325
Financial expense	(302)	(10,522)	(5,139)	(15,963)
Changes in fair value of interest rate swaps	–	(31)	678	647
Net financing expense	(163)	(10,374)	(4,454)	(14,991)
Net profit/(loss) before tax	(14,207)	11,022	24,454	21,269
Current tax	(78)	(682)	(14)	(774)
Deferred tax	–	(4,000)	(1,474)	(5,474)
Profit/(loss) for the year and total comprehensive income for the year	(14,285)	6,340	22,966	15,021

Consolidated Statement of Financial Position	2010 Fund €'000	2010 Core €'000	2010 Non-core €'000	2010 Total €'000
ASSETS				
Non-current assets				
Investment property	–	8,350	80,900	89,250
Goodwill	–	6,564	–	6,564
Deferred income tax assets	–	538	80	618
	–	15,452	80,980	96,432
Current assets				
Trade and other receivables	1,149	5,208	769	7,126
Assets held for sale	–	237,900	–	237,900
Cash and cash equivalents	17,509	7,638	1,626	26,773
Financial assets	3,821	2	–	3,823
	22,479	250,748	2,395	275,622
Total assets	22,479	266,200	83,375	372,054
LIABILITIES				
Non-current liabilities				
Other payables	11,809	5,312	2,039	19,160
Deferred income tax liabilities	–	20,066	1,581	21,647
	11,809	25,378	3,620	40,807
Current liabilities				
Trade and other payables	2,419	3,857	8,536	14,812
Bank loans	–	144,884	76,424	221,308
Provisions	–	997	–	997
Financial liabilities	–	1,768	1,623	3,391
	2,419	151,506	86,583	240,508
Total liabilities	14,228	176,884	90,203	281,315
Net assets	8,251	89,316	(6,828)	90,739
EQUITY				
Issued capital				2,321
Share premium				91,477
Retained earnings				(3,059)
Total equity attributed to equity holders of the parent				90,739
Non-controlling interest				–
Total equity				90,739

Notes to the Financial Statements *continued*



4 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 the geographical location of property. Segment assets are based on the geographical location of the assets.

	Isle of Man €'000	Poland €'000	Hungary €'000	Czech Republic €'000	Other jurisdictions €'000	Total €'000
Revenue						
Gross rental income	–	18,246	3,189	2,861	6,364	30,659
Service charge income	–	8,268	959	787	1,273	11,287
Other property income	–	309	147	10	(46)	420
	–	26,823	4,295	3,658	7,591	42,366
Non-current assets						
Investment property	–	750	20,900	32,250	35,350	89,250
Goodwill	–	6,422	–	–	142	6,564
Deferred income tax assets	–	468	–	59	91	618
	–	7,640	20,900	32,309	35,583	96,432

5 Gross rental income

	2010 Group €'000	2009 Group €'000
Gross lease payments collected/accrued	30,659	36,266

The Group leases out its investment property under operating leases. All operating leases are for terms of 1 – 15 years.

6 Operating leases

Group as lessor

All properties let by the Group are under operating leases and the future minimum lease payments receivable under non-cancellable leases are as follows:

	2010 Group €'000	2009 Group €'000
Less than one year	13,046	24,133
Between one and five years	40,660	64,316
More than five years	52,794	81,408
	106,500	169,857

7 Net service charge income and property operating expenses

	2010 Vacant €'000	2010 Rented out €'000	2010 Total €'000
Net service charge income			
Service charge income	4	11,283	11,287
Service charge expenses	(1,888)	(11,800)	(13,688)
	(1,884)	(517)	(2,401)
	2009 Vacant €'000	2009 Rented out €'000	2009 Total €'000
Net service charge income			
Service charge income	256	12,616	12,872
Service charge expenses	(2,076)	(13,666)	(15,742)
	(1,820)	(1,050)	(2,870)
Property operating expenses		2010 €'000	2009 €'000
Portfolio management fees		3,464	4,729
Property taxes and fees		106	713
Bad debts written off		1,642	620
Managing agent fees		296	764
Leasing fees		314	236
Valuation fees		28	188
Marketing fees		96	140
Other property operating expenses		536	378
		6,482	7,768

Other property operating expenses comprise items such as building maintenance and agency commissions.

Tabulated below are the amounts of property operating expenses arising from investment property that generated income and did not generate income during the year:

	2010 €'000	2009 €'000
Generated rental income	5,321	6,126
Did not generate income	1,161	1,642
	6,482	7,768

8 Other property income

	2010 €'000	2009 €'000
Parking revenue	37	20
Penalty interest	44	91
Penalties on early termination of lease agreements	238	100
Ice rink income	64	64
Other property income	117	104
Other corporate income	(80)	1,542
	420	1,921

Notes to the Financial Statements *continued*



9 Administrative expenses

	2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
Accounting fees	1,122	–	1,021	–
Legal fees	765	334	1,191	734
Audit fees	482	211	788	229
Non-audit services	14	14	78	78
Abortive acquisition costs and irrecoverable debts	(45)	–	131	–
Other administrative expenses	751	77	633	91
Irrecoverable VAT	679	–	170	–
Portfolio management fees	577	576	432	432
Tax advisory fees	157	–	250	–
Consultancy fees	803	272	65	–
Non-executive Directors' fees	391	319	312	237
Custody/trust fees	82	62	85	59
Public relation fees	5	–	4	4
Bank charges and fees	110	4	121	4
Nominated adviser fees	81	69	141	141
	5,974	1,938	5,422	2,009

Other administrative expenses include items of a general corporate nature.

10 Directors' remunerations

Details of Directors' remunerations are as follows:

	Fees €'000	Salaries €'000	Other €'000	Total €'000
Year ended 31 December 2010				
R P Macnamara	196	–	–	196
P R Cottrell	62	–	–	62
PP Scales	–	–	–	–
TG Walker	52	–	–	52
A M Shepherd (appointed 23 September 2009, resigned 1 April 2010)	9	–	–	9
	319	–	–	319
Year ended 31 December 2009				
R P Macnamara	138	–	–	138
P R Cottrell	44	–	–	44
PP Scales	–	–	–	–
TG Walker	45	–	–	45
A M Shepherd (appointed 23 September 2009, resigned 1 April 2010)	10	–	–	10
	237	–	–	237

11 Net financing income and expenditure

	2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
Financing income				
Interest income from financial institutions	325	139	572	392
Interest income from subsidiary	–	21,427	–	22,228
Interest income from related party	–	–	–	9
	325	21,566	572	22,629
Financing expenditure				
Net interest expenses on bank borrowings	(14,690)	–	(19,048)	–
Finance costs amortised	(1,098)	–	(966)	–
Unwinding of unrealised direct issue costs of borrowings	(175)	–	(110)	–
	(15,963)	–	(20,124)	–
Fair value adjustment of interest rate swaps	647	–	(1,029)	–

Bank loan interest totalling €nil (2009: €1.4 million) was capitalised on development property.

12 Taxation

Recognised in the Consolidated Statement of Comprehensive Income	2010 Group €'000	2009 Group €'000
Current tax expense/(credit)		
Current year	766	(168)
Adjustment for prior years	8	(800)
	774	(968)
Deferred tax expense/(credit)		
Origination/(reversal) of temporary differences	5,474	(3,089)
	6,248	(4,057)

The tax rate applicable to the Company in the Isle of Man is 0%. The tax expense of €0.8 million (2009: €1.0 million credit), in respect of current profits and adjustments for prior years, represents tax charges on rental income arising in other jurisdictions that is (are?) subject to corporate income tax in those jurisdictions at rates of 16% to 24% and a Municipal Business tax at the rate of 7.5% in Luxembourg. As all current year tax charges arise in jurisdictions outside the Isle of Man, a full tax rate reconciliation of the relationship between the tax expense and accounting profit has not been included in these financial statements.

13 Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2010 was based on the profit attributable to Ordinary Shareholders of €15.0 million (2009: loss €104.4 million) and a weighted average number of Ordinary Shares in issue of 232,148,175 (2009: 232,148,175), calculated as follows:

Profit/(loss) attributable to Ordinary Shareholders	2010 Group €'000	2009 Group €'000
Profit/(loss) for the year	15,021	(104,466)
Non-controlling interest	11	49
	15,032	(104,417)

Notes to the Financial Statements continued



13 Earnings per share (continued)

Weighted average number of Ordinary Shares	2010	2009
Shares in issue at 1 January	232,148,175	232,148,175
Weighted average number of Ordinary Shares	232,148,175	232,148,175
Basic earnings/(loss) per share	6.5 €,c	(45.0) €,c

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2010 was based on the diluted profit attributable to Ordinary Shareholders of £15.0 million (2009: loss €104.4 million) and a weighted average number of Ordinary Shares outstanding during the year ended 31 December 2010 of 232,148,175 (2009: 232,148,175), calculated as follows:

Profit/(loss) attributed to Ordinary Shareholders (diluted)	2010 Group €'000	2009 Group €'000
Profit/(loss) for the year	15,021	(104,466)
Non-controlling interest	11	49
	15,032	(104,417)
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	2010 Group	2009 Group
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	232,148,175	232,148,175
Diluted earnings/(loss) per share	6.5 €,c	(45.0) €,c

14 Investment property and development property

	2010 Investment property Group €'000	2010 Development property Group €'000	2010 Total Group €'000	2009 Investment property Group €'000	2009 Development property Group €'000	2009 Total Group €'000
Balance at 1 January	421,877	31,350	453,227	522,477	28,678	551,155
Acquisitions through direct access purchases	-	-	-	6,512	-	6,512
Additions	-	177	177	-	34,927	34,927
Disposals	(46,000)	(27,300)	(73,300)	-	-	-
Derecognition of assets	(46,950)	-	(46,950)	(82,556)	-	(82,556)
Finance lease obligations	817	-	817	(90)	-	(90)
Movement in fair value	6,999	873	7,872	(24,467)	(32,255)	(56,722)
Assets transferred to held for sale	(252,593)	-	(252,593)	-	-	-
	84,150	5,100	89,250	421,876	31,350	453,226

The fair value of the Group's investment and development property as (?) at 31 December 2010 has been arrived at on the basis of a valuation carried out at that date by Colliers CRE, qualified independent valuers with recent experience in the location and category of investment property being valued. 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.

The Group has pledged its investment properties to secure related interest bearing debt facilities granted to the purchasing entities of such properties.

Investment properties at an aggregate value of €nil at 31 December 2010 (2009: €174.2 million) are held under long-term lease arrangements, which expire at varying dates between 2080 and 2097.

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 overall accounting profit on disposal was €23.1 million.

On 1 December 2010, the Company disposed of its investment and loans in Poplar d.o.o., Tehnika Centar Samobor d.o.o., Tehnika Sopot d.o.o., Tehnika Nekretnin d.o.o. and Euroviba Spansko d.o.o. Together, these companies owned properties in the Agrokor portfolio in Croatia. The overall accounting loss on disposal was €1.5 million.

The net assets/(liabilities) disposed of are detailed below:

	Agrokor €'000	Atrium €'000	Total €'000
Assets			
Investment property	46,000	27,300	73,300
Trade and other receivables	461	3,573	4,034
Cash and cash equivalents	268	1,576	1,844
	46,729	32,449	79,178
Liabilities			
Bank loans	40,119	51,723	91,842
Trade and other payables	589	2,322	2,911
Other payables	–	946	946
Provisions	–	1,500	1,500
Deferred income tax liabilities	2,680	–	2,680
	43,388	56,491	99,879
Net assets/(liabilities)	3,341	(24,042)	(20,701)

In March 2010 MKB bank took control of the Plaza portfolio and has taken the decision to enforce the sale of the properties. Since effective control of the companies has been relinquished by Carpathian PLC, a decision has been made to derecognise these assets as of 31 March 2010. The overall accounting profit on derecognition was €8.9 million.

In June 2010 Barclays bank took control of the Antana property and has taken the decision to enforce a sale. Since effective control of the company has been relinquished by Carpathian PLC, a decision has been made to derecognise these assets as of 30 June 2010. The overall accounting loss on derecognition was €3.6 million.

Notes to the Financial Statements continued



14 Investment property and development property (continued)

The individual Statements of Financial Position of the derecognised entities, at the date of derecognition, are detailed below:

	Plaza Szombat Properties Kft €'000	Plaza Szombathely Properties Kft €'000	Plaza Balaton Properties Kft €'000	Plaza Veszprem Plaza Kft €'000	Plaza Sopla Properties Kft €'000
Assets					
Investment property	–	3,000	–	9,350	–
Trade & other receivables	14	233	14	511	14
Cash & cash equivalents	16	60	–	690	21
Investments in subsidiaries	12,528	–	3,824	–	6,588
Inter-company loans receivables	1,094	–	64	1,301	137
	13,652	3,293	3,902	11,852	6,760
Liabilities					
Bank loans	–	4,251	–	10,053	–
Trade and other payables	60	461	51	643	46
Inter-company loans payable	17,604	1,532	5,070	–	8,698
Deferred income tax liabilities	–	90	–	2,125	–
	17,664	6,334	5,121	12,821	8,744
Net liabilities	(4,012)	(3,041)	(1,219)	(969)	(1,984)

	Plaza Sopron Plaza Kft €'000	Plaza Jarrapec Properties Kft €'000	Plaza Pecs 2002 Kft €'000	Plaza Zalaegerszeg 2002 Kft €'000	Antana Larchsilver Kft €'000	Total €'000
Assets						
Investment property	8,500	–	12,000	100	14,000	46,950
Trade & other receivables	390	–	440	–	95	1,711
Cash & cash equivalents	607	–	438	–	285	2,117
Investments in subsidiaries	–	–	629	–	–	23,569
Inter-company loans receivables	1,266	–	4,635	–	–	8,497
Deferred tax assets	–	–	–	–	593	593
	10,763	–	18,142	100	14,973	83,437
Liabilities						
Bank loans	11,105	–	16,635	–	11,356	53,400
Trade and other payables	755	3	981	–	200	3,200
Inter-company loans payable	–	53	1,214	969	1,549	36,689
Deferred income tax liabilities	1,682	–	3,096	512	–	7,505
	13,542	56	21,926	1,481	13,105	100,794
Net assets/(liabilities)	(2,779)	(56)	(3,784)	(1,381)	1,868	(17,357)

15 Investment and loan to subsidiary

The Company has lent €269.0 million (2009: €292.0 million) to Carpathian Holdings S.ă.r.l at 31 December 2010. The loan matures on 31 December 2015. The loans carry interest at 1% per annum, plus 100% of Carpathian Holdings S.ă.r.l adjusted accounting profits for the relevant accounting period, which has been accrued at 31 December 2010 and has been accounted for within trade and other receivables within the Company financial statements. The Company owns 1,641 shares in Carpathian Holdings S.ă.r.l, representing 100% of the share capital.

	2010 Loans €'000	2009 Loans €'000
Balance at 1 January	46,755	80,824
Additions	5,020	17,913
Write off due to disposals	(25,205)	–
Repayments	(2,800)	–
Impairment gains/(losses)	94,930	(51,982)
	118,700	46,755

The Company has reduced the carrying value of its investments and loans, to equate to the underlying net asset value of its subsidiary.

Following the annual review of the impairment provision against the loan of €94.9 million to the subsidiary, provisions made in prior years has been reversed. This is primarily due to the derecognition of subsidiaries where the recoverability of inter-company loans was previously in doubt.

16 Goodwill

	2010 Group €'000	2009 Group €'000
Cost		
Balance at 1 January	44,091	45,977
Acquisitions through business combinations	5	1,021
Write off through derecognition	–	(2,173)
Disposals	(4,706)	–
Purchase price adjustments	–	(734)
Write off of derecognised goodwill	(11,281)	–
	28,109	44,091
Impairment losses		
Balance at 1 January	(36,194)	(32,377)
Impairment gain	–	2,088
Write off through derecognition	11,281	–
Write off through disposals	3,368	–
Write off non-core goodwill	–	(5,905)
	(21,545)	(36,194)
Carrying amounts		
At 1 January	7,897	13,600
At 31 December	6,564	7,897

Notes to the Financial Statements *continued*



16 Goodwill (continued)

Derecognition

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 effect on goodwill of these derecognitions is €nil, as any goodwill on these non-core assets was provided against at 31 December 2009.

Goodwill on non-core assets

Goodwill on non-core assets has been written off due to the opinion that insufficient sales values will be achieved to recover any goodwill capitalised on non-core assets.

Impairment

At acquisition, the purchase price payable in respect of each subsidiary is determined on a basis that usually excludes the amount of deferred tax liabilities relevant to that subsidiary. The determination of deferred tax liabilities is an IFRS requirement, which is not usually obligatory in accordance with accounting standards under which the subsidiary prepares its accounts. The net assets acquired are expected to be higher than the equivalent net assets calculated in accordance with IFRS, adjusted for the deferred tax liability. This difference is classified as goodwill.

Half the deferred tax liabilities of that subsidiary are expected to be ultimately recoverable by the Group on disposal of the subsidiary.

The carrying values of the Group's goodwill are reassessed at least annually or whenever events or changes in circumstances indicate that the carrying values may not be recoverable. For each subsidiary, the amount of goodwill is compared to the relevant deferred tax liabilities. Full provision for impairment is made in cases where the goodwill exceeds the amount of recoverable deferred tax liabilities. No provision is made where goodwill is equal or less than the deferred tax liabilities.

17 Other investments

	2010 Group €'000	2009 Group €'000
Investment in SIA Patollo:		
Balance at 1 January	7,452	7,452
Recapitalisation of loan to cost of investment	3,920	–
Impairment of investment	(11,372)	–
	–	7,452

In April 2007 the Group acquired 17.95% of the issued share capital of SIA Patollo. In May 2010 a new shareholders' agreement was signed to convert loans made to SIA Patollo to share capital and increase the Company's shareholding to 80%. SIA Patollo undertook the development of the Galleria Riga shopping centre, in Latvia, which was completed in October 2010.

The shares continue to confer 50% of the shareholder voting rights, dividend rights and rights upon a winding up. The Group has appointed two of the four directors to SIA Patollo; certain key decisions require the consent of at least 75% of those directors.

The investment bears a return of 15% pa.

The development asset held by SIA Patollo was valued at 31 December 2010 at €40 million (2009: €50 million). There is bank financing on the asset at the year end of €55.8 million (2009: €38.6 million). The loans receivable from SIA Patollo have been impaired in full to ensure that the carrying value of the investment in, and loans to, SIA Patollo do not exceed the equity in the property.

18 Loans receivable

	2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
Non-current assets				
Loans to SIA Patollo	–	–	3,920	–
Current assets				
Loans to SIA Bluebeech	–	–	2,000	–

The loans to SIA Bluebeech bear interest at 25% pa and are repayable by 5 February 2010. The loans are secured by a first legal charge over that Company's property and its shares and are further subject to a guarantee provided by SIA Patollo (secured by a third legal charge over that Company's properties). As of 31 December 2010, the loan had been impaired in full.

Loans to SIA Patollo

	2010 Group €'000	2009 Group €'000
Balance at 1 January	3,920	27,495
Recapitalisation to cost of investment	(3,920)	–
Impairment loss	–	(23,575)
	–	3,920

Loans to SIA Bluebeech

	2010 Group €'000	2009 Group €'000
Balance at 1 January	2,000	10,757
Impairment loss	(2,000)	(8,757)
	–	2,000

The development asset held by SIA Bluebeech was valued at 31 December 2010 at €1.6 million (2009: €2.0 million). The loans receivable from SIA Patollo have been impaired in to ensure that the carrying value of the loans to SIA Bluebeech does not exceed the equity in the property and due to doubts over the recoverability of the loan.

19 Deferred tax assets and liabilities

Deferred tax assets & liabilities are attributable to the following items:

	2010 Group assets €'000	2010 Company liabilities €'000	2009 Group assets €'000	2009 Company liabilities €'000
Investment property valuation	–	21,194	–	23,914
Interest rate swap valuation	227	–	449	–
Accrued interest payable	389	–	–	528
Tax losses carried forward	2	–	2,796	–
Other temporary differences	–	453	680	315
	618	21,647	3,925	24,757

Notes to the Financial Statements *continued*



19 Deferred tax assets and liabilities (continued)

The following subsidiaries that have recognised deferred tax assets have made losses in either of the years to 31 December 2010 or 31 December 2009.

	2010 Deferred tax asset €'000
Stringybark SIA	801
Grand Investments Sp. z.o.o.	67
Mulga UAB	32
S.C. Lanobis S.R.L.	100
Carpathian Eta Kft	13
	1,013

Realisation of deferred tax assets is dependent on profits on the sale of investment properties. Expiry of these assets is expected to tie in with the anticipated sale of assets by December 2011.

The movement in deferred tax in the year comprises:

	2010 Group €'000	2009 Group €'000
Net balance at 1 January	20,832	23,859
Origination and (reversal) of temporary differences	5,474	(3,027)
Disposals	(2,680)	–
Derecognitions	(2,597)	–
	21,029	20,832

20 Trade and other receivables

	2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
Trade receivables	1,307	–	5,090	–
Other receivables	5,362	–	6,503	–
Prepayments	371	104	810	13
Accrued interest on loans	86	17,691	43	–
Subsidiary purchase price adjustment receivable	–	–	542	–
	7,126	17,795	12,988	13

As at 31 December 2010, trade receivables at a nominal value of €3.9 million (2009: €3.8 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
Balance at 1 January	3,761	–	3,233	–
Amounts written off during the year	(72)	–	(111)	–
Amounts recovered	(284)	–	(3)	–
Increase in allowance recognised in Statement of Comprehensive Income	1,282	–	641	–
Written off on disposal	(781)	–	–	–
	3,906	–	3,760	–

At 31 December 2010 and 31 December 2009 the ageing analysis of trade receivables is as follows:

	2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
Less than 30 days	620	–	2,565	–
30-60 days	212	–	660	–
60-90 days	72	–	499	–
90-120 days	102	–	352	–
Greater than 120 days	301	–	1,014	–
	1,307	–	5,090	–

21 Assets held for sale

	2010 Group €'000	2009 Group €'000
Non-current assets held for sale		
Investment property	237,900	–
	237,900	–

Investment properties at an aggregate value of €164.9 million at 31 December 2010 (2009: €nil) are held under long-term lease arrangements that expire at varying dates between 2080 and 2097.

At 31 December 2010 the Promenada and Blue Knight properties in Poland were classified as held for sale. The properties are held at their fair value of sales price, less costs to sell.

The sale of three Blue Knight properties completed on 9 March 2011.

The sale of Promenada completed on 5 May 2011.

The sale of the final Blue Knight property is expected to complete in late May 2011.

No other properties within the Group currently fulfil the criteria of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

The valuation of the Promenada investment property has been adjusted to avoid double-counting of assets and liabilities:

	2010 Group €'000	2009 Group €'000
Valuation per independent valuer	–	150,080
Valuation per sales agreement	161,790	–
Finance lease obligations	3,151	17,026
	164,941	167,106

22 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Notes to the Financial Statements continued



23 Risk management

The Board of Directors 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 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 Group is exposed to the following risks: interest rate risk, currency risk, market risk, credit risk and liquidity risk. The Group uses derivative financial instruments to hedge its exposure to certain risks, or for capital management purposes, but does not use them for speculative purposes.

The fair values of all financial instruments are substantially the same as their carrying amounts.

Capital management

The Group manages its capital to ensure that core entities in the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which is included in the borrowings disclosed in note 25, and equity attributable to equity holders of the Company, comprising issued capital, reserves and any retained earnings as disclosed.

The Group manages its capital structure and makes adjustments to it, in light of economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares and seek approval to release the Company's share premium account. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

Derivative assets and liabilities

Derivative assets and liabilities are made up of the following:

	2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
Derivative assets				
Put and call options	3,821	3,820	7,823	7,823
Other financial assets	2	–	2	–
	3,823	3,820	7,825	7,823
Derivative liabilities				
Interest rate swaps	(3,391)	–	(4,621)	–

Fair value hierarchy

The table below analyses derivative assets and liabilities carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Inputs that are observable for the asset or liability, either directly or indirectly.
- Level 2: Inputs for the asset or liability that are not based on observable market data.

	Level 1 €'000	Level 2 €'000	Total €'000
31 December 2010			
Interest rate swaps used for hedging	(3,391)	–	(3,391)
Put and call options	–	3,821	3,821
Other financial assets	–	2	2
	(3,391)	3,823	432

31 December 2009			
Interest rate swaps used for hedging	(4,621)	–	(4,621)
Put and call options	–	7,823	7,823
Other financial assets	–	2	2
	(4,621)	7,825	3,204

The movement in the year in derivative assets and liabilities comprises:

	2010 Group €'000	2010 Company €'000
Balance at 1 January	3,204	7,823
Movements during the year	477	–
Fair value adjustments	(3,249)	(4,003)
Balance at 31 December	432	3,820
Per Statement of Comprehensive Income		
Changes in fair value of derivative assets and liabilities	(3,896)	(4,003)
Changes in fair value of interest rate swaps	647	–
	(3,249)	(4,003)

Put and call options

The Company has entered into a put and call option entitling and requiring Petalang Limited to subscribe for new Ordinary Shares in the Company for an aggregate amount equal to the deferred consideration actually receivable by Perriniana Limited, less an amount for its corporation tax as certified to be owed as a result of its disposal to the Group, at an exercise price of 92.8 pence per share. Following the redenomination of the company's shares to Euros on 24 July 2009 the strike price of the option was revised to €1.04 per share. The settlement date of the option (subject to certain acceleration events) is ten years after the loan note issued by Perriniana Limited to Carpathian Properties S.a.r.l is settled.

It is estimated that the net deferred consideration payable amounts to €5.4 million (December 2009: €9.5 million), which would result in the issue of 5,036,904 (2009: 8,855,011) new Ordinary Shares at the exercise price of €1.04 per share (2009: €1.04 per share). The mark to market adjustment relative to the market price of the Company's shares at 31 December 2010 and the exercise price of €1.04 per share amounts to €3.9 million (2009: €7.8 million), which is disclosed as a financial asset. The decrease for the year, amounting to €4.0 million, is recorded in the Statement of Comprehensive Income. The decrease in the asset is brought about by a change in the calculation of the asset. The net deferred consideration for which shares will be issued is now determined as the value of the loan note issued by Perriniana Limited, excluding interest and net of income tax payable by Perriniana Limited.

Notes to the Financial Statements *continued*



23 Risk management (continued)

Interest swap rates

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of €215.8 million (2009: €254.6 million) have fixed interest payments at an average rate of 2.43% (2009: 2.75%) for periods up to December 2011 and have floating interest receipts at Euribor. The three-month Euribor rate at 31 December 2010 was 0.94% (2009: 0.66%).

The fair value of swaps entered into at 31 December 2010 is estimated at a liability of €3.4 million (2009: €4.6 million). These amounts are based on market values of equivalent instruments at the Statement of Financial Position date.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will result in a financial loss to the Company and arises principally on the Company's borrowings.

Exposure to interest rate risk arises in the normal course of the Group's business. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. Additionally, in the current market environment, some of the Group's bankers are seeking to increase the margins paid on the market interest rates. Derivative financial instruments are used to reduce exposure to fluctuations in interest rates. Such derivatives are initially valued at cost and are remeasured to fair value at subsequent reporting dates. Changes in fair value of derivative financial instruments are recognised in the Statement of Comprehensive Income.

Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the Statement of Financial Position or protecting interest expense through different interest rate cycles.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The following table demonstrates the sensitivity to a possible change in interest rates, with all other variables held constant, on the Group's net profit before tax (through the impact on floating rate borrowings).

The following table demonstrates the sensitivity to a possible change in interest rates, with all other variables held constant, on the Group's net profit before tax (through the impact on floating rate borrowings).

	Increase/ decrease in basis points	Group effect on net profit before tax €'000	Company effect on net profit before tax €'000
2010			
Increase	100	(2,058)	144
Decrease	(100)	2,058	(144)
2009			
Increase	100	(3,370)	285
Decrease	(100)	3,370	(285)

Currency risk

Currency risk is the risk that changes in the exchange rate will negatively affect the net assets of the company when translating the value of assets and liabilities not accounted for in the Company's functional currency, namely cash, trade and other receivable and trade and other payables.

The Group's activities expose it to currency risk, in the form of assets and liabilities denominated in currencies other than the functional currency, and changes between the functional currency. The Group has a policy to review its foreign currency exposure half-yearly. The review evaluates the cost/benefit ratio of introducing foreign currency hedges or options to minimise the perceived risk.

The following table demonstrates the sensitivity of the presented net profit before tax to a possible change in currency rates, with all other variables held constant, through the impact on currency rate changes between the euro and pounds Sterling on the Company's cash.

	Increase/ decrease in currency	Group effect on net profit before tax €'000	Company effect on net profit before tax €'000
2010			
Increase	10c	230	230
Decrease	(10c)	(230)	(230)
2009			
Increase	10c	647	647
Decrease	(10c)	(647)	(647)

The table below shows the euro equivalent of material balances held in foreign currencies that are deemed subject to currency risk.

	Sterling €'000	Polish Zloty €'000	Hungarian Florint €'000	Czech Koruna €'000
Cash and cash equivalents	2,686	7,012	148	252
Trade and other receivables	–	5,044	31	401
Trade and other payables	–	(3,777)	(161)	(151)
		Latvian Lats €'000	Lithuanian Litas €'000	Romanian New Lei €'000
Cash and cash equivalents		5	1,152	79
Trade and other receivables		11	314	172
Trade and other payables		(8,369)	(319)	(306)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, property prices and equity prices, will affect the Group's income or the value of its net assets. The objective of market risk management is to manage and control market risk exposures while optimising returns.

As referred to in note 14, over recent months financial markets have seen significant turbulence, resulting in severe liquidity shortages. The turmoil in the credit markets has had an immediate effect on the real estate investment market, resulting in some transactions failing and all prices being negotiated downwards. This has caused a marked reduction in the volume of transactions, with activity below the levels of recent years. Generally, there is a greater degree of uncertainty than that which exists in a more active and stronger market.

The Group seeks to maintain a diversified portfolio, weighted towards non-discretionary spending. The economies and their investment and occupational markets for all countries in which it operates are continually evaluated, enabling the strategy towards asset transactions and management to be constantly amended in line with market conditions. In the current climate all investment property is subject to market risk.

Notes to the Financial Statements *continued*



23 Risk management (continued)

Market risk (continued)

The following table demonstrates the sensitivity to a possible change in property prices, with all other variables held constant, on the Group's net profit before tax.

	Increase/ decrease in percent	Group effect on net profit before tax €'000	Company effect on net profit before tax €'000
2010			
Increase	10	8,925	–
Decrease	(10)	(8,925)	–
2009			
Increase	10	45,323	–
Decrease	(10)	(45,323)	–

Credit risk

Credit risk is the risk of financial loss to the group if a tenant or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk principally arises from the Group's bank balances and cash, loans receivable, trade and other receivables and interest derivative financial instruments.

The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks that have been partly or wholly nationalised or have reasonable credit ratings assigned by international credit-rating agencies.

The Group's credit risk is primarily attributable to its trade receivables. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. At December 2010, the Group had in excess of 550 tenants within its portfolio (2009: 750). The Group adopts a range of measures to secure its income stream, including obtaining bank and other guarantees, tenant's deposits (separately disclosed in note 26) and appropriate notice periods. Trade receivables are constantly monitored and reviewed and the Group has a number of options available to mitigate the impact of tenant's financial difficulties. The amounts presented in the Statement of Financial Position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Further details on the ageing and impairment of trade receivables are provided in note 20.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's principal financial liabilities comprise bank loans, trade and other payables and derivative liabilities. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows.

The Group raises finance on its properties in line with the individual strategies for those properties. The Group is at risk of failure to comply with covenants in its financing agreements, principally arising from falls in property values and reductions to income arising from slower occupational demand, with the potential for increased void levels and tenant defaults.

All facilities are non-recourse to the Company with no cross-collateralisation, except for certain portfolios, where all properties in those portfolios were acquired at the same time. Financial ratios are constantly monitored and reported. The Group maintains a regular dialogue with its bankers and immediately any breaches to individual covenants are foreseen, it will initiate discussions with its bankers to explore all options to remedy the position.

The following table details the Company's and Group's remaining contractual maturity for its non-derivative financial liabilities. The table below has been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Company and/or the Group is entitled and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest or potential payment under the financial guarantee contract that have not been included in the carrying amount of the financial liability.

	Less than 1 month €'000	1-3 months €'000	3-12 months €'000	1-5 years €'000	Greater than 5 years €'000	Discount €'000	Total €'000
Group							
2010							
Interest-bearing loans and borrowings	-	-	221,308	-	-	-	221,308
Other liabilities	-	-	-	3,151	11,264	-	14,415
Trade and other payables	-	13,101	1,711	4,194	551	-	19,557
Other financial liabilities	-	3,391	-	-	-	-	3,391
	-	16,492	223,019	7,345	11,815	-	258,671
2009							
Interest-bearing loans and borrowings	-	12,011	90,399	262,368	-	-	364,778
Other liabilities	-	-	-	17,026	10,492	-	27,518
Trade and other payables	-	22,559	6,382	-	-	-	28,941
Dividends	10,466	-	-	-	-	-	10,466
Other financial liabilities	-	4,621	-	-	-	-	4,621
	10,466	39,191	96,781	279,394	10,492	-	436,304
Company							
2010							
Interest-bearing loans and borrowings	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Trade and other payables	-	277	-	-	-	-	277
Forward exchange contract	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-
	-	277	-	-	-	-	277
2009							
Interest-bearing loans and borrowings	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Trade and other payables	-	234	-	-	-	-	234
Forward exchange contract	-	-	-	-	-	-	-
Dividends	10,466	-	-	-	-	-	10,466
Other financial liabilities	-	-	-	-	-	-	-
	10,466	234	-	-	-	-	10,680

Notes to the Financial Statements *continued*



24 Share capital and share premium

	Number of Ordinary Shares of 1 cent each		
Authorised		€'000	
At 31 December 2010 & 31 December 2009	350,000,000	3,500	
	Number of shares issued and fully paid	Share capital €'000	Share premium €'000
Issued: Ordinary shares of 1c each			
Balance at 1 January 2009	232,148,175	3,383	263,935
Share capital conversion €0.01 for £0.01 24 July 2009	–	(1,062)	1,062
Share premium release 24 July 2009	–	–	(173,520)
Balance at 31 December 2009	232,148,175	2,321	91,477
Balance at 31 December 2010	232,148,175	2,321	91,477

25 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest and currency risk, see notes 2(m) and 23.

	2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
Bank loans due after more than one year	–	–	262,364	–
Bank loans due within one year	221,308	–	102,414	–
	221,308	–	364,778	–
The borrowings are repayable as follows:				
On demand within one year	221,308	–	102,414	–
In the second year	–	–	66,229	–
In the third to fifth years inclusive	–	–	196,135	–
After five years	–	–	–	–
	221,308	–	364,778	–
Unrealised direct cost of borrowings	–	–	–	–
	221,308	–	364,778	–
Less: amount due for settlement within 12 months (shown under current liabilities)	(221,308)	–	(102,414)	–
Amount due for settlement after 12 months	–	–	262,364	–

The Group has pledged each of its investment properties and its shares in the special purpose vehicles holding the investment properties to secure related interest-bearing debt facilities granted to the Group for the purchase of such investment properties.

The weighted average cost of debt of the year was 5.49% (2009: 5.14%).

26 Trade and other payables

	2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
Trade payables	5,219	106	12,261	1
Tenant deposits	2,295	–	2,304	–
Accrued interest	902	–	1,999	–
Deferred consideration	11,264	–	10,492	–
Related party payables	8,369	–	8,135	–
Finance lease	3,151	–	17,026	–
Tax payable	451	–	211	–
Accrued expenses	1,930	171	2,336	233
Income received in advance	391	–	1,695	–
	33,972	277	56,459	234
Less: Amount due for settlement within 12 months (shown under current liabilities)	(14,812)	(277)	(28,941)	(234)
Amount due for settlement after 12 months	19,160	–	27,518	–

At 31 December 2010 and 31 December 2009 the ageing analysis of trade payables was as follows:

	2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
Less than 3 months	13,101	277	22,559	234
3 to 12 months	1,711	–	6,382	–
1-5 years	7,345	–	17,026	–
Greater than 5 years	11,815	–	10,492	–
	33,972	277	56,459	234

27 Provisions

	2010 Group €'000	2009 Group €'000
Provisions at 1 January	2,398	1,710
Increase in perpetual usufruct provision	99	–
Decrease in other provisions	(1,500)	688
	997	2,398

Provisions include an amount of €1.0 million (December 2009: €0.9 million) relating to the potential excess payable over amounts held on escrow on claims made by a contractor, which is subject to a legal dispute.

Provisions are made on the best estimates of the Directors at the time and are expected to be released within 12 months.

Notes to the Financial Statements *continued*



28 Dividends

	2010 €'000	2009 €'000
Interim dividend	–	10,446
	–	10,446

The Board has declared an interim dividend of 4.5 cents per share for the year to 31 December 2009, which was paid on 26 January 2010.

29 Notes to the cash flow statement

Cash generated from/(used in) operations		2010 Group €'000	2010 Company €'000	2009 Group €'000	2009 Company €'000
	Note				
Profit/(loss) for the year		15,021	82,028	(104,466)	(74,572)
Adjustments for:					
Increase/(decrease) in fair value of financial instruments		2,773	4,003	(2,659)	155
Unwinding of unrealised direct issue costs of borrowings		1,215	–	(1,230)	–
Net other finance income		15,463	(21,566)	19,552	(22,629)
Decrease in fair value of investment property	14	(7,872)	–	56,808	–
Provisions		203	–	688	–
Income tax	12	6,428	–	(4,057)	–
Impairment of investments and loans receivable		13,372	(94,930)	29,775	–
Impairment of goodwill		–	–	5,419	–
Profit on disposal of investment		(28,688)	–	14,094	367
Operating cash flows before movements in working capital		17,915	(30,465)	13,924	(96,679)
Decrease/(increase) in receivables		216	(90)	1,966	50
Increase/(decrease) in payables		142	44	2,942	(70)
Cash generated from/(used in) from operations		18,273	(30,511)	18,832	(96,699)

30 Group entities

Significant subsidiaries	Business unit	Country of incorporation	Ownership interest
Carpathian Holdings S.à r.l.	Fund	Luxembourg	100%
Carpathian Properties S.à r.l.	Fund	Luxembourg	75%
Acacia S.à r.l.	Non-core	Luxembourg	100%
Gumtree S.à r.l.	Core	Luxembourg	100%
Investpol S.A.	Core	Luxembourg	100%
Sycamore S.à r.l.	Core	Luxembourg	100%
Chesnut Holdings S.a.r.l	Non-core	Luxembourg	100%
Willow S.à r.l.	Non-core	Luxembourg	100%
Framsden Holdings Ltd	Core	Cyprus	100%
Carpathian Properties Poland Ltd	Core	Cyprus	100%
Carpathian Properties Poland II Ltd	Core	Cyprus	100%
DDC Hradec Kralove s.r.o	Non	Czech Republic	100%
DDC Znaim s.r.o	Non-core	Czech Republic	100%
Carpathian Hradec Kralove s.r.o.	Non-core	Czech Republic	100%
Carpathian Znaim s.r.o	Non-core	Czech Republic	100%
A-Invest Kft	Non-core	Hungary	100%*
DDC Eta Kft	Non-core	Hungary	100%
DDC Gamma Kft	Non-core	Hungary	100%
Carpathian ETA Kft	Non-core	Hungary	100%
ELEF Property Kft	Non-core	Hungary	100%*
Ironbark Holding Kft	Non-core	Hungary	100%*
JarraPec Properties Kft	Non-core	Hungary	100%*
Larchsilver Kft	Non-core	Hungary	100%*
Carpathian GAMMA Kft	Core	Hungary	100%
Mallee Holding Kft	Non-core	Hungary	100%*
Market-Estate Kft	Non-core	Hungary	100%*
Stringybark SIA	Non-core	Latvia	100%
Mulga UAB	Non-core	Lithuania	100%
Carpathian and Dutch Holdings Cooperative	Non-core	Netherlands	75 %
Carpathian Dutch Holdings BV	Non-core	Netherlands	75%
Poplar Holdings BV	Core	Netherlands	100%
Darena Vilium Investments S.K.A.	Core	Poland	100%
Elas Torrido Investments S.K.A	Core	Poland	100%
Grand Investments Sp. z o.o.	Core	Poland	100%
Magnor Vilium Investments S.K.A.	Core	Poland	100%
Maine Vilium Investments S.K.A.	Core	Poland	100%
Marise Investments Sp. z o.o.	Non-core	Poland	100%*
Savana Torrido Investments S.K.A	Core	Poland	100%
Valora Vilium Investments S.K.A	Core	Poland	100%
Poldrim Torrido Investment S.K.A	Core	Poland	100%
Torrido Investments Sp. z.o.o.	Core	Poland	100%
Vilium Investments Sp. z.o.o.	Core	Poland	100%
Forum XXXI Investment Fund	Core	Poland	100%
Atrium Center Satu Mare Srl	Core	Romania	76.25%
Lanobis S.R.L.	Core	Romania	100%
S.C.A.W.G. Macro S.R.L.	Core	Romania	100%
SC Atrium Center BM Srl	Core	Romania	76.25%
SC Atrium Centers Deva srl (Romania)	Non-core	Romania	76.25%
SC Atrium Centers Oradea srl (Romania)	Non-core	Romania	76.25%

* These subsidiaries, although owned by the Company at 31 December 2010, have been derecognised in the financial statements. Anglo Irish Bank bears the significant risks and rewards of ownership of the assets held by these companies and also asserts significant control over the entities.

Notes to the Financial Statements *continued*



31 Related parties

The Group has related party relationships with its subsidiaries (see note 30), companies it has an investment in, with one of the Non-executive Directors and transactions with companies that have common management. Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

During the year, Group companies entered into the following transactions with related parties having certain common Directors and management:

	2010 Payables €'000	2010 Expenses €'000	2009 Payables €'000	2009 Expenses €'000
Trading transactions				
Accounting and administration fee charged by IOMA Fund and Investment Management Ltd	–	62	–	53

IOMA Fund and Investment Management Ltd acts as Secretary of the Company and delegates one Non-executive Director to the Board.

Loans payable

Loan from SIA Patollo	8,369	–	8,135	–
Interest expense on loan from SIA Patollo	–	498	–	331

The loans relate to the financing of Blaumana

12 investment property				
	8,369	560	8,135	384

	2010 Receivable €'000	2010 Income €'000	2009 Receivable €'000	2009 Income €'000
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Loans receivable

Loan to SIA Bluebeech	–	–	2,000	–
Loans to SIA Patollo	–	–	3,920	–

Loans relate to the purchase of a 55% interest of a development. The loans are included in non-current and current assets and interest is included within trade and other receivables.

Total related party receivable and income at 31 December	–	–	5,920	–
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All related party balances are unsecured.

Carried interest

Sanary Investments S.à.r.l. has the right to a carried interest. In any year Sanary Investments S.à.r.l. is not entitled to any carried interest until a rate of return of 8% per annum (cumulative) has been achieved by the Group. The rate of return is based on cash paid up to Carpathian PLC and distributed to its shareholders.

If the hurdle is achieved then Sanary Investments S.à.r.l. will be entitled to a 25% carried interest on the cumulative rate of return between 8% per annum and 20% per annum. If a cumulative rate of return is achieved by the Group in excess of 20% per annum then Sanary Investments S.à.r.l. will be entitled to a 40% carried interest on the cumulative rate of return above 20% per annum.

If in any one year the return is less than 8% then the gap between the actual return achieved and 8% will be made up in subsequent years before Sanary Investments S.à.r.l. will be entitled to any further carried interest.

As at 31 December 2010 the cumulative accounting results of the Group do not entitle Sanary Investments S.à.r.l. to a carried interest (31 December 2009: €nil).

Bogol Management Ltd has the right to participate in the profits of certain of the Group's development properties, after certain rates of return have been achieved by the Group. As at 31 December 2010 the rates of return had not been reached and Bogol Management Ltd was not entitled to any participation.

CPT LLP, the Company's Property Investment Adviser, is entitled to a sales fee of 0.5% of the gross property sale value (including debt but as reduced by certain retentions and indemnity or warranty claims) for each asset within the core portfolio that is sold, rising to a maximum of 1.0% if no other brokers or agents are engaged on the sale. The sales fee is conditional on equity value being released for the benefit of the Company as part of any disposal and cash received on disposals being made available for distribution to shareholders. Additionally, any payment of the sales fee is pro rata to cash available for return to shareholders arising from the sale on a 50:50 basis until the entire sales fee has been paid in full. If the Portfolio Management Agreement is terminated on a takeover, a fixed fee of €0.7 million will become payable in lieu of any further sales fees. In the event that the core properties are disposed of at their values included in the Statement of Financial Position at 31 December 2010 without any material tax becoming payable, the total sales fee payable is estimated to be €1.3 million.

CPT LLP is also entitled to receive a capital performance payment, based upon actual cash available for return to shareholders. CPT LLP will receive 10% of any return above a distribution available to shareholders in excess of a 17.25 euro cents per share hurdle and 25% of any returns available to shareholders above a 34.5 euro cents per share hurdle. However, to avoid the capital performance payment reducing the 34.5 euro cents hurdle below this level following payment, the effective hurdle is set at 36.4 euro cents in order to accommodate any capital performance payment. Such capital performance payment shall be payable in cash but accumulated and deferred until the earlier of (i) the completion of the sale of the core portfolio and (ii) the termination of the Portfolio Management Agreement. In the event that the core properties are disposed of at their values included in the Statement of Financial Position at 31 December 2010 without any material tax becoming payable, the total capital performance payment payable is estimated to be €8.0 million.

The above fees are estimates and their final value could be lower or higher depending on the outcome of future events.

Notes to the Financial Statements *continued*



32 Capital commitments

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

33 Share-based payments

As part of the costs directly attributable to the issue of shares in 2005, Numis Securities Ltd was partly compensated by way of granting to Numis Securities Ltd the right to subscribe for 1,750,125 Ordinary Shares of 1c each at a subscription price of €1.1 per share. To 31 December 2010, Numis had subscribed for 600,000 Ordinary Shares.

No equity share-based payments were made in 2010 or 2009.

34 Events after the balance sheet date

On 9 March 2011, the Company disposed of three properties held within the Blue Knight portfolio in Poland for a consideration of €40.2 million. The properties were included in the Consolidated Statement of Financial Position at sales value less costs to sell amounting to €38.3 million. The direct debt repayment to Deutsche Pfandbriefbank ('DPB') from the sales proceeds is approximately €22.8 million including fees.

On 5 May 2011, the Company disposed of the property held within the Promenada property in Poland for a consideration of €169.5 million with an additional consideration of €1.5 million as and when the VAT is reimbursed to the buyer. The property was included in the Statement of Financial Position at sales value less costs to sell amounting to €168.2 million. The direct debt repayment to Deutsche Pfandbriefbank ('DPB') from the sales proceeds is approximately €108.1 million including fees.

In addition to these transactions, DPB will also hold approximately €8.9 million in escrow against the cross-collateralised indebtedness of the final Blue Knight property and €3.0 million against the separate debt facility relating to the Babilonas property.

If the sale of Blue Knight is completed before Carpathian is in a position to repatriate funds from Poland through overseas subsidiaries to the ultimate holding company, DPB's loans will be repaid from those sales proceeds and the escrow amounts will be released to Carpathian. If the sale is not completed at such time, the escrow amounts will be applied to reduce indebtedness secured against the property.

On 30 March 2011, the Company signed a conditional Preliminary Sale Agreement for the final property held within the Blue Knight portfolio in Poland for a consideration of €34.5 million. The property was included in the Statement of Financial Position at sales value less costs to sell amounting to €31.3 million. €3 million consideration from the purchase price will be retained on an escrow and will become payable to the Company if an occupancy permit amendment is obtained by 31 December 2011. This amount will be reduced to €1.5 million if such amendment is obtained after 31 December 2011, but before 30 June 2012. The transaction is expected to complete by the end of May 2011.

All of the above properties were classified as assets held for sale at 31 December 2010.

On 24 March 2011, the business, assets and liabilities of Gumtree S.a.r.l. and Willow S.a.r.l. were merged with Carpathian Properties S.a.r.l. All entities were subsidiaries of the Company at 31 December 2010 and were included in the consolidated accounts.

On 18 April 2011, the Company disposed of its Biedronka property in Poland for a consideration of €0.8 million. The property was included in the Consolidated Statement of Financial Position at a valuation of €0.8 million. There is no external debt outstanding on the property.

On 19 April 2011, the Company transferred its ownership of the Plaza portfolio to a third party. The Plaza portfolio was derecognised on 31 March 2010.

