# FINANCIAL INFORMATION
# 2014


Including the

## Consolidated financial statements

and

## Report of the Réviseur d´Entreprises

for the year ended as at 31 December 2014

ORCO PROPERTY GROUP S. A. * Société Anonyme * 40 rue de la Vallée, L2661 Luxembourg

R. C. S. Luxembourg – B 44.996

# SUMMARY

PROPERTY GROUP



# Management Report as at 31 December 2014

ORCO PROPERTY GROUP, société anonyme (the "Company") and its subsidiaries (together the "Group" or "OPG") is a real estate group with a major portfolio in Central and Eastern Europe. It is principally involved in the development of properties for its own portfolio or intended to be sold in the ordinary course of business and is also active in leasing investment properties under operating leases as well as in asset management.

The Company is a joint stock company incorporated for an unlimited term and registered in Luxembourg. The address of its registered office is 40, rue de la Vallée, L-2661 Luxembourg, Grand-Duchy of Luxembourg.

The Company's shares are listed on the regulated markets of NYSE EuroNext Paris and the Warsaw Stock Exchange.

## 1 Message from the management

Dear Shareholders, Business Partners, Ladies and Gentlemen,

2014 was a turning point in the recent history of the ORCO PROPERTY GROUP and we made considerable progress at all levels. The Group underwent major changes in the board and management composition, changes in its shareholding structure and also a change in its strategy, whereby the main focus will be on development projects. The management successfully completed the financial and operational restructuring of the Group and in addition to the sale of non-strategic assets, it was able to stabilize its going concern issues. The streamlining of the corporate structure resulted in significant savings in administrative costs and the real estate portfolio has become more efficient and focused. As of the publication of this report, there are no bank loans in breach of covenants and the LTV dropped to 38.1 % as at 31 December 2014 compared to December 2013 – 58.5%.

Such major improvement of the Group position is mainly due to the transactions and decisions listed below:

The Group managed to solve a difficult situation with the Zlota 44 project in Warsaw. In April 2014, the Group reached an agreement with the financing bank to acquire the accelerated Zlota 44 loan and all related securities for EUR 55 million. That acquisition was executed to release the Group from corporate guarantees of EUR 48.2 million related to Zlota 44 and to allow the Group to organize an ordered sale process of Zlota 44. The Zlota 44 disposal was successfully carried out in August 2014 and finalized in January 2015. The initial gross transaction purchase price of EUR 63.0 million has been decreased by EUR 13.0 million used for the settlement of disputes with the Zlota 44 general contractor INSO. The final purchase price therefore amounted to EUR 50 million. The Group used part of the Zlota 44 proceeds for a total value of EUR 31 million to re-acquire some of the CPI PROPERTY GROUP (former GSG Group) shares that were previously disposed of by the Group to mobilize the required liquidity in order to face Zlota 44 bank loan acceleration and potential calls on the corporate guarantees.

In H1 2014, Suncani Hvar ("SHH") initiated a pre-bankruptcy procedure to allow the restructuring of its operations. Consequently, the Group disposed of SHH shares representing 24.94% of the SHH shareholding as well as receivables owed to SHH. The Group continues to hold 31.61% of the SHH shareholding. As a result of long-term negotiations among SHH's biggest creditors and shareholders, the restructuring plan was approved at the creditors meeting in December 2014 as well as at the shareholders meeting in January 2015, which provides a solid basis for the approval of the plan by the Split Commercial Court which is expected to take place in H1 2015. As an integral part of the negotiations between the Group and the representatives of the Republic of Croatia, the parties mutually agreed to terminate the International Chamber of Commerce arbitration procedure related to SHH and a consent award terminating the arbitration has been issued in this respect.

In 2014, the Group focused on the restructuring of its debt situation. In 1H 2014 the Group completed a portfolio debt restructuring with Crédit Agricole CIB ("CA") relating to three assets pledged as security for loans provided by CA: Bubenska commercial building in Prague, Hlubocky production plant near Olomouc and the Dunaj department store in Bratislava. As a result of the restructuring, the Group transferred the ownership of Hlubocky and Dunaj, together with related debt, to CA and retained the ownership of Bubenská 1 with a decreased leverage and extended debt maturity over the next 3 years. The Group also completed a long term refinancing of the Capellen office building in Luxembourg with BGL BNP Paribas. The Group managed to obtain a stable and amortized financing of 16.8 million, maturing in 2027. New refinancing terms include a lowered interest rate allowing the Group to hold and manage this income generating asset in the long term.

The Group also managed to renegotiate and amend the terms and conditions of the "New Notes" issued under ISIN Code: XS0820547742 as part of its safeguard bond debt restructuring. The amendment mainly includes, the decrease of the interest rate applicable to the New Notes to 7% per annum, the extension of maturity to five years with a one-off bullet payment at maturity, the implementation of a guarantee by CPI PROPERTY GROUP for 3% p.a. fee and the change of the law governing the New Notes from Luxembourg law to English law. In H2 2013, the Group initiated a pre-bankruptcy procedure of its three Hungarian subsidiaries that hold assets known as the Paris Department Store, Vaci 1 (former stock exchange building) and Szervita to allow the restructuring of its operations. As a result of long-term negotiations among the biggest creditors and shareholders throughout 2014, the restructuring plans were approved at the creditors meetings in December 2014 and by the time of the publication of this report, the Budapest Commercial Court has already approved the restructuring of Vaci 1 Kft. holding Vaci 1 asset and Ariah, Kft. holding Szervita. The remaining approval of the restructuring plan for Orco Budapest, Zrt. holding the Paris Department Store is expected to take place in H1 2015.

In connection with these improvements the Group was able to attract new investors and to raise EUR 59.2 million of fresh equity improving its balance sheet. This was a turning point for the Group cash flow position as well as its long term strategy. 100 million of the new shares were subscribed for a total subscription price of EUR 29.6 million by ASPLEY VENTURES LIMITED, an entity closely associated with Mr. Pavel Spanko, and 100 million of the new shares were subscribed for a total subscription price of EUR 29.6 million by FETUMAR DEVELOPMENT LIMITED, an entity closely associated with Mr. Jan Gerner. As a result, the corporate share capital of the Group has been increased from EUR 11,450,762.90 represented by 114,507,629 shares to EUR 31,450,762.90 represented by 314,507,629 shares within a framework of the authorized share capital pursuant to the authorization granted to the board of directors of the Company (the "Board of Directors") by the shareholders during the extraordinary general meeting of 28 May 2014.

Further to the amendment of the Group's New Notes and the new capital increase, the Board of Directors also resolved to redefine its strategy, whereby the main focus will be on real estate development projects. The Group has an excellent track record in development properties throughout the CEE and possess a land bank with significant development potential. The Group's objective was to invest the proceeds from the capital increase for the acquisition of further development projects that would drive the long awaited sustainable growth of the Group. As part of the new strategy, the Group disposed of its stake in Mamaison hospitality portfolio for EUR 13.3 million (NAV) in December 2014, thereby exiting its final investment in Russia. The recent crisis in the Ukraine and the Russian Ruble depreciation has proven that this was a good decision.

In line with the new strategy, the Group acquired in November 2014 four development projects with an aggregate of 186 thousand square meters of developable land, primarily in Prague, Czech Republic. These future projects, developable in the coming years, will be a mix of residential, office, hospitality and retail premises. The transaction value was EUR 44 million. Furthermore, in December 2014, the Group acquired a brownfield area in Brno, Czech Republic, with an area of approximately 22.5 hectares. The transaction value was EUR 13.95 million and the intention is to build a mixed used project with a similar size to the Group's project Bubny in Prague. Moreover, the Group also contracted a development project located in Prague which comprises of approximately 33 thousand square meters of developable land. The Group already owns 31 thousand square meters of directly adjacent land and following this acquisition, the Group will have an excellent developable land plot of approximately 64 thousand square meters. This acquisition was completed in 2015 and the transaction value was EUR 5.7 million.

To sum up, 2014 was one of the most challenging years in the Group's history. We have achieved a number of important goals and believe that the development of the core properties in the Czech Republic will continue to play a major role in the transformation of the Group towards a streamlined and profitable operation. The continuous improvement of the financial and operational performance supported by a sustainable cash flow position remains a priority for the management for 2015 and we are confident that the Group will be successful in implementing its new strategy and becoming a major player in the CEE real estate development market.

Jiri Dedera,
CEO & Managing Director

## 2 2014 and post-closing key events

### 2.1 Loss of control over CPI PROPERTY GROUP and subscription of new shares

The Group lost control over CPI PROPERTY GROUP (former GSG GROUP, and former ORCO Germany S.A, hereinafter also as “CPI PG”) and its subsidiaries.

During March and April 2014, capital increases in CPI PG were subscribed in cash for a total of EUR 51 million by Stationway Properties Limited, an entity affiliated with Mr. Jean-Francois Ott, and by two other shareholders of ORCO (Alchemy Special Opportunities Fund II LP and Société Générale). Capital increases in CPI PG without participation of ORCO resulted in decrease of interest share below 50% - from 58.5 to 44.4% and accompanied by a change in CPI PG board of directors led to loss of control over CPI PG.

On 28 April 2014, the Company entered into an agreement concerning disposal of 108 million shares it held in CPI PG. The total sales price amounted to EUR 55 million. The completion of the disposal of the CPI PG shares was subject to certain conditions, including the approval of the Paris Commercial Court which was granted to the Company on 2 June 2014. The purchase price was used to pay for the acquisition of the loan receivables and collateral related to the Zlota 44 project in Warsaw from PEKAO.

In September 2014, the Company subscribed for 65,957,446 new CPI PG shares at a subscription price of EUR 0.47 per share, EUR 31 million in aggregate. To ensure the liquidity for satisfaction of the future liabilities, the Company and Mr. Radovan Vitek entered into a put option agreement concerning the disposal of the shares. Pursuant to the terms of the put option agreement the Company has right to request Mr. Vitek, major shareholder of CPI PG, to purchase the CPI PG shares held by the Company, or their portion, upon a written request of the Company. The put option agreement is valid for 2 years. Following the subscription, the Company’s direct and indirect shareholding in CPI PG increased from 3.19% represented by 93,175,451 shares to 5.33% represented by 159,132,897 shares.

As at 31 December 2014, the Company’s total shareholding in CPI PG is 4.82% represented by 159,132,897 shares.

### 2.2 Suncani Hvar d.d. (“SHH”) follow-up and disposal of SHH shares and receivables

On 11 June 2014 the Company entered into a transaction concerning partial disposal of its stakes in Suncani Hvar d.d.. The Company disposed of 2,080,000 SHH shares corresponding to 24.94% of the shares and voting rights in SHH. As a consequence, the Company continues to hold 2,636,734 SHH shares equal to 31.61% of the shares and voting rights in SHH. The Company also disposed of its shareholder receivables from SHH. The receivables were sold at an approximate 65% discount as they were only partially secured by mortgages on some non-refurbished SHH hotels. Shares have been sold for EUR 1 and receivables have been sold for EUR 2.1 million. As a result of the impairments recognized in 2013, the transaction has had no material impact on 2014 financial results.

On the 30 October 2014 SHH published a revised pre-bankruptcy plan for its financial restructuring. The new plan is based on continuous negotiations with SHH major shareholders – the Company, Prime Tourist Resorts, and various bodies of the Republic of Croatia, who are as well the largest SHH creditors. The main guidelines of the new plan are the following: complete write off of the interests, recapitalization of shareholders per pro rata model and a reduction of SHH capital at the nominal share price of 20 HRK per share from the existing 40 HRK per share, in order for SHH to cover losses which have been carried forward. By the adoption of this financial restructuring plan, the total debt of SHH would decrease by HRK 272.4 million, or 47.46%, which is the level of debt that SHH could properly settle from operating activities, as it is proven by its business results with a continuous growth for the third year in a row.

The Company, Prime Tourist Resorts and the Republic of Croatia signed on 19 December 2014 a memorandum of understanding, which contained an agreement aimed at the reorganization and safeguarding of SHH. The parties agreed the following main items: (i) they shall vote for the approval of the plan of financial restructuring of SHH at the creditors hearing on 22 December 2014 and at the general meeting of SHH shareholders on 14 January 2015 such that the pre-bankruptcy reorganization of SHH is successfully finished; (ii) the Company and the Republic of Croatia mutually agreed to terminate the International Chamber of Commerce arbitration procedure with respect to SHH and to ask for consent award with this respect. The memorandum of understanding covers additional matters, such as termination of management agreements between the Company and SHH as well as intent to discuss potential acquisition of SHH shares currently held by the Republic of Croatia.

The creditors meeting held on 22 December 2014 in Zagreb approved the new plan of financial restructuring of SHH. The acceptance of this new plan is a result of long-term negotiations among SHH's biggest creditors and shareholders. The new plan has been also approved by SHH's shareholders general meeting on 14 January 2015. The new plan and the pre-bankruptcy settlement has been submitted for confirmation by the Split Commercial Court. The Company and the Republic of Croatia filed a joint request with the International Chamber of Commerce requesting termination of the arbitration procedure with respect to SHH and a consent award terminating the arbitration has been issued accordingly with this respect.

### 2.3 Deconsolidation of Hungarian assets in insolvency

Hungarian entities holding three rental assets in Budapest (Paris Department Store, Szervita and Váci 1) were deconsolidated from the Group statement of financial position after the opening of insolvency proceedings. The Group entered into negotiation with bank and other creditors on restructuring program.

In November 2014, the Group and the financing bank reached an agreement regarding settlement of corporate guarantee and mortgage over Váci 188 property. The Group agreed to pay to the bank EUR 9.0 million; in contrary the financing bank agreed to release the corporate guarantee provided by the Company and to waive the mortgage established in favour of the bank over Váci 188 property. As part of the agreement the Paris Department Store, Szervita and Váci 1 assets are to be taken over by the financing bank. The restructuring plans were approved at the creditors meetings in December 2014 and by the time of the publication of this report, the Budapest Commercial Court has already approved the restructuring of Vaci 1 Kft. holding Vaci 1 asset and Ariah, Kft. holding Szervita. The remaining approval of the restructuring plan for Orco Budapest, Zrt. holding the Paris Department Store is expected to take place in H1 2015.

### 2.4 Debt restructuring of its Czech and Slovak portfolio financed by Crédit Agricole CIB

The Group completed a portfolio debt restructuring transaction with Crédit Agricole Corporate and Investment Bank ("Crédit Agricole CIB"). The transaction concerns three investment assets located in the Czech Republic and Slovakia with existing leverage of Crédit Agricole CIB that used to be cross collateralized: Bubenska 1, a commercial building in Prague, Czech Republic, Hlubocky production plant near Olomouc, Czech Republic, and Dunaj department stores in Bratislava, Slovakia.

As a result of the transaction, the Group has transferred the ownership of share interests in entities holding Hlubocky and Dunaj, together with related debt, to Crédit Agricole. The Group retained the ownership of an entity holding Bubenska 1 building, with decreased leverage and extended debt maturity for the next 3 years.

### 2.5 Sale of Zlota 44 project

On 27 August 2014 the Group entered into an agreement concerning a disposal of its stakes in the Zlota 44 project in Warsaw. The transaction with a subsidiary of international consortium of AMSTAR and BBI Development comprised of the disposal of shares that the Company held in the Zlota 44 project entity as well as of the disposal of loan receivables that the Group acquired from Bank Polska Kasa Opieki S.A. The pre-agreed gross transaction price was EUR 63 million in cash; partially payable upon completion of transfers and partially deferred upon the realization of certain conditions, notably the outcome of disputes pending at Zlota 44 level with the former general contractor and potential indemnities provided to the buyer in that respect.

On 7 January 2015, the purchase price was finally agreed and decreased by EUR 13 million used for the settlement of disputes with Zlota 44 general contractor INSO. The final purchase amounts to EUR 50,040,501. Thus, the net revenue recognised in the consolidated income statement in respect of proceeds from Zlota disposal is EUR 50.0 million.

### 2.6 Amendment of the Notes

The amendment of the terms and conditions of the notes issued by the Company on 4 October 2012 in EUR 73,051,230 initial denomination that are registered under ISIN Code: XS0820547742 (the "Notes") became effective on 7 November 2014. The amendment of the terms and conditions of the Notes includes, inter alia, the decrease of the interest rate applicable to the Notes to 7% per annum, the extension of maturity to five years, the implementation of a guarantee by CPI PROPERTY GROUP for a 3% per annum fee, the change of the law governing the Notes from Luxembourg law to English law and is reflected in the restatement of such terms and conditions of the Notes.

In relation to the restatement the Company paid an amount of EUR 949,726 to the holders of the Notes which comprises of (i) EUR 751,709 as interest, and (ii) a EUR 198,017 as "amendment fee". The Company also paid "Mandatory Prepayment on Zlota Disposal" amounting to EUR 14,983,526.51 in aggregate, which decreased the outstanding nominal of the Notes. As such, the outstanding principal of the Notes, including capitalized interest, amounts to EUR 65,064,248.49 as of 31 March 2015.

### 2.7 Decrease of the corporate capital of the Company

The extraordinary general meeting of shareholders held on 8 April 2014 resolved to approve the decrease of the corporate capital of the Company from the amount of EUR 229.0 million to EUR 114.5 million without cancellation of shares, by decreasing the accounting par value of the existing shares from EUR 2 to EUR 1 per share. The Extraordinary General Meeting of the shareholders of the Company held on 28 May 2014 in Luxembourg approved the decrease of the corporate capital of the Company from EUR 114.5 million to EUR 11.5 million without cancellation of shares, by decreasing the accounting par value of the existing shares from EUR 1 to EUR 0.10 per share. As such, the corporate capital of the Company amounts to EUR 11,450,762.90 as of 28 May 2014. The extraordinary general meeting approved resolutions to modify, renew and replace the existing authorized share capital and to set it to an amount of EUR 20 million for a period of 5 years from 28 May 2014, which would authorize the issuance of up to 200 million new ordinary shares.

### 2.8 Raising of EUR 59.2 million and issue 200 million new shares in a reserved capital increase

On 10 November 2014 the Board of Directors of the Company resolved to implement a reserved capital increase and raise EUR 59.2 million pursuant to the authorization granted to it by its shareholders during the extraordinary general meeting of 28 May 2014. The Company's Board of Directors agreed to issue and issued 200 million new ordinary shares having a par value of EUR 0.10 each, at a subscription price of EUR 0.296 per new share, for a global cash contribution of EUR 59.2 million, which were subscribed as follows: (i) 100,000,000 new shares were subscribed for a total subscription price of EUR 29,600,000 by ASPLEY VENTURES LIMITED, British Virgin Islands, an entity closely associated with Mr. Pavel Spanko, and (ii) 100,000,000 new shares were subscribed for a total subscription price of EUR 29,600,000 by FETUMAR DEVELOPMENT LIMITED, Cyprus, an entity closely associated with Mr. Jan Gerner. The new shares are not listed upon their issue, but the Company will seek to list them on the regulated markets of NYSE Euronext Paris and the Warsaw Stock Exchange as soon as reasonably practicable, subject to legal and regulatory requirements. The corporate share capital of the Company has been increased from EUR 11,450,762.90 represented by 114,507,629 shares to EUR 31,450,762.90 represented by 314,507,629 shares. The total number of shares comprising the share capital of the Company as well as the total number of voting rights attached thereto is 314,507,629 as of 10 November 2014.

### 2.9 Changes in the Board of Directors and the management.

The Company was notified on 10 November 2014 by Mr. Radovan Vitek and Mr. Tomas Salajka of their resignation from the Board of Directors of the Company. Mr. Tomas Salajka is also resigning from its position of CEO of the Company with immediate effect, but he will continue supporting the Company in several specific matters until the end year. Further to these resignation, the Board co-opted Mr. Pavel Spanko as director of the Company. The Company's general meeting held on 17 February 2015 confirmed Mr. Spanko's position at the Board of Directors.

Mr. Dedera has been appointed as CEO and also serves as managing director of the Company. Mr. Erik Morgenstern has been appointed as CFO of the Group.

### 2.10 Change in the strategy

Further to the amendment of the Company's Notes and new capital increase the Board of Directors of the Company also resolved on 10 November 2014 to redefine the strategy of the Company, whereby the main focus shall be on development projects. The Company has an excellent track record in development properties throughout CEE and a good land bank, including Bubny project in the center of Prague. The Company is targeting to invest proceeds from the capital increases to acquisition of further development projects.

### 2.11 Disposal of the Group's interest in hospitality portfolio to joint partner CPI Property Group

In June 2014, CPI PG acquired a 50% share in Hospitality JV from AIG and has joined the partnership agreement with the Company. Subsequently, in exchange for a modified cash waterfall between CPI PG and the Company, CPI PG agreed to invest EUR 10.5 million into that Hospitality JV that was further used for a partial repayment of a current bank financing. As a result, the Company and CPI PG jointly achieved the extension of the bank financing of EUR 62 million by one year.

In December 2014, the Group disposed of 88% stake it held in the entities holding 50% shares in Hospitality Invest, S.á.r.l. including loans and receivables towards these entities. The aggregate transaction price amounts to EUR 13.3 million.

### 2.12 Acquisition of developments projects

In line with its new strategy, the Group completed on 12 November 2014 an acquisition of four development projects in the Czech Republic (STRM portfolio), counting approximately 186 thousand square meters of developable land area. The projects were acquired in a portfolio transaction as a share deal for total consideration of EUR 44.0 million, including acquisition cost for the loan provided by the former owner. The purchase price was paid on closing as follows: (i) EUR 37 million was paid in cash and (ii) EUR 7 million by transfer of liquid financial assets. These future projects, developable in the coming years, consist of freehold land with a potential for development of residential, office, hospitality and retail premises.

On 19 December 2014 the Group acquired Bianko, s.r.o., an owner of a brownfield area in Brno, Czech Republic. The project is located in Zidenice area of Brno with an area of approximately 22.5 hectares. The transaction is structured as a share deal and the transaction price amounts to EUR 13.95 million. The Group indents to build a mixed used project with similar size as its Bubny project in Prague.

On 19 December 2014 the Company also entered into an agreement concerning the development project located in Prague 10. The project comprises of approximately 33 thousand sqm of developable land. The Group already owns 31 thousand sqm of directly adjacent land. The completion was subject to certain corporate approvals on seller's side, which were granted on 10 March 2015, thus the acquisition became effective. The Company acquired an excellent developable land plot of approximately 64 thousand sqm with good location. The purchase price for transfer of shares and receivables is EUR 5.7 million.

### 2.13 Delisting from the Prague Stock Exchange

On 27 August 2014, the Board of Directors of the Company resolved to delist all of the 114,507,629 ordinary shares (ISIN: LU0122624777) of the Company from the regulated market of the Prague Stock Exchange as of 22 September 2014.

In September 2014, the PSE accepted Company's request and issued a decision concerning delisting of the Company shares. All ordinary shares (ISIN code: LU0122624777) of the Company were delisted from the regulated market of the PSE as of 22 September 2014. The last trading day was 19 September 2014. The Company shares are currently listed and traded on the regulated markets of NYSE Euronext in Paris and Warsaw Stock Exchange.

# 3 Market environment

## 3.1 Global macro-economic conditions[1]

**Czech Republic**

The following macroeconomics data and description were published by the Czech Statistical Office (unless otherwise stated).

The gross domestic product adjusted for price, seasonal, and calendar effects increased in 2014 by 2.0% year-on-year. The economy of the Czech Republic benefited from increasing of both foreign and domestic demand as well as from a very low comparison base, Q1 2013 was indeed the weakest for the last four years in terms of economic performance. The final consumption expenditure increased in total by 1.7%, year-on-year. The total gross capital formation increased by 3.7%, year-on-year. Increased investments were directed to transport equipment, machinery equipment, and buildings and structures except for dwellings. Quarter-on-quarter, the fixed capital formation increased by 1.2%.

The consumer price level in December 2014 was 0.5%. This development came particularly from prices in 'food and non-alcoholic beverages' and from slowed increase in transport services, recreation and culture. The increase in the average consumer price index over the twelve months to December 2014 compared to the average consumer price index over the previous twelve months, stood at 0.4% in December 2014.

The general unemployment rate according to the International Labour organization (ILO) definition in the age group 15-64 years attained 5.9% in December 2014 and decreased by 0.9 p.p. year-on-year. The number of unemployed persons reached 306.8 thousand decreasing by 45.8 thousand persons, year-on-year.

**Hungary**

In 2014, on the back of increasing performance of agriculture, manufacturing and construction, the seasonally adjusted year-on-year quarterly GDP growth was above 3% during the first three quarters of the year, which means that the country´s economy expanded at its fastest pace in the last 8 years. Although the official statistics are not published yet, based on the latest forecast, a 3.2% annual growth is predicted for 2014. The rebounding economy is also having a positive impact on the labour market: Hungary´s unemployment rate between October and December was 7.1%, which is a substantial improvement compared to the corresponding period of last year.

**Slovakia**

Slovakia´s economic performance in 2014 was more balanced when compared to previous years, as domestic demand rose at a significant pace. This led to significant economic improvement with estimated GDP growth at 2.4%. Stronger economic growth was however slowed down by limitations of the automotive industry and by EU sanctions levied on Russia. Retail sales, new car registrations and consumer sentiment initiated an upward trend for private consumption, which is boosted by lower unemployment levels, growth in nominal wages by 5% and CPI inflation close to 0%. Slovakia is forecasted to outperform the EU with 2.7% GDP growth in 2015 and 3.4% in 2016. The unemployment rate in December 2014 was 12.6%.

**Poland**

The Polish economy remains resilient despite recent tensions between Russian and Ukraine as well as deflation which is still on the rise. GDP growth in 2014 was 3.3% year-on-year. Moreover, 2015 paints a positive picture for the Polish economy which will be driven by strong domestic demand and industrial production. The unemployment rate in 2014 was in a downward trend, reaching 11.5% in December 2014 and was lowest since 2011. The retail sales in Poland were 2.7% higher in 2014 than in 2013. Spending power in the Warsaw agglomeration is 10,339 EUR per capita per annum, which stands 68% higher than the national average.

## 3.2 European investment activity and lending market[2]

A very strong finish to the year took total European commercial real estate investment volume in 2014 up to EUR 186 billion, an increase of 29% year on year. The Q4 total volume of nearly EUR 65 billion, posting the best ever performance for a single quarter. The outlook for Europe´s markets during 2015 is still positive. Combined with a strong weight of new capital chasing

1 European Commission - European Economic Forecast Winter 2014; Erste Group CEE Outlook 2014;KBC Economic Outlook Central Europe January 2014

2 DTZ European Investment Market Update Q4 2014 ; CBRE CEE Property Investment Full year 2014

opportunities across the region, this will lead to further growth in volumes which are set to reach at least EUR 210 billion in 2015.

CEE investment market was also up in 2014, by 25% year on year. All of the main markets grew except of Poland by -9%, Czech Republic by +52% and Hungary even by +69%.

Offices continued to drive investment activity with a 44% market share. The industrial segment has shined with volumes reaching a new record of EUR 21 billion in 2014, driven by strong demand from warehousing/logistics space, especially across CEE markets. In the retail segment, shopping centers remains the most sought after asset with EUR 24 billion of acquisitions in 2014, up from EUR 18 billion recorded a year ago.

Growth in investment activity has been across the board from both domestic and overseas investors. Non-European investors have been a key driver of activity and their investment reached a record EUR 56 billion in 2014, itself a record 30% share of total investment.

## 3.3 Selected market focus

### 3.3.1 Prague office market[3]

Almost 149 thousand SQM of office space was completed throughout 2014 which represents the strongest annual supply since 2009 and a ca. 90% increase in comparison to last year´s volume. Currently about 213 thousand SQM is under construction. Out of this number, approximately 182 thousand SQM is scheduled for completion during 2015. The cumulative gross take-up for 2014 reached 333 thousand SQM which represents a 12% year-on-year increase and it is the highest ever take-up in the history of Prague´s modern office market. In 2014, the share of renegotiations remained significantly below the level from 2013, reaching 39.5%. Overall net take-up in 2014 reached 201 thousand SQM which is the fourth highest result since 2005. The vacancy rate has significantly increased to 15.26%, mainly due to speculative supply. A vacancy rate increase is expected to continue in H1 2015 with possible stabilization starting during H2 2015. The prime office rent remained stable at EUR 18.50-19.50/SQM/month in city centre.

### 3.3.2 Prague residential market[4]

In Q4 2014 Real estate price index announced by Hypoteční banka (HB INDEX) confirmed a slight increase in prices of residential real estate which already started at the beginning of 2014. The prices of family houses increased in 2014 by 0.4 p.p. and reached HB INDEX 105.8. That is the highest level since the beginning of 2010. The land prices increased by 1.0 p.p., followed by an increase in flats by 1.2 p.p. The average market price of land and the flats reached HB INDEX 119.4 and 97.4, retrospectively in Q4 2014.

HB Index is regularly presented by Hypoteční banka, a.s. and is based on realistic estimates of market prices of real estates. INDEX HB itself is calculated for the entire Czech Republic, and for the three types of real-estates - flats, houses and land. For Basic 100.0 were selected real estate prices as of 1 January 2008.

In December 2014, the interest rates of mortgage loans under the aggregate index of Fincentrum (Hypoindex) fell again to record 2.37%.

### 3.3.3 Czech industrial market[5]

The total modern A-class industrial stock in the Czech Republic was 4.9 million SQM at the end of Q4 2014. For the entire year, 2014 new supply amounted to a post crisis record level of 356 thousand SQM. This reflects a 31% increase on 2013 levels and is 37% above the 5-year average. For full year 2014, gross take-up amounted to 1.3 million SQM, a new record in the history of the Czech market. It beat last year´s record by 11%. Net take-up reached 828 thousand SQM and surpassed last year´s results by more than 34%. The vacancy rate in the Czech Republic rose by 26 bps year-on-year and reached a level of 8.2%. Prime headline rents in Prague remained stable at EUR 3.80-4.25/SQM/month. Prime rents in the Brno region are also stable at EUR 3.90-4.25/SQM/month.

3 Prague City Report Q4 2014
4 Hypotéční banka (HB Index)
5 Prague City Report Q4 2014

### 3.3.4 Budapest office market[6]

Almost 19 thousand SQM were delivered to the office market over Q4 2014. The total office stock stands at 3.24 million SQM as at end of 2014. The annual gross take-up totalled 466 thousand SQM, which is an all-time high in the history of the Budapest office market and 17% stronger than in 2013. The volume of net take-up reached 252 thousand SQM, which is the highest volume since 2009. In total, almost 700 transactions were signed in 2014, with an average deal size of 664 SQM. The vacancy rate declined by a massive 220 bps year-on-year, dropping to 16.2%. The improvement was due to a combination of factors: a strong annual net absorption of nearly 125 thousand SQM and the limited volume of completions. Prime rent stands at EUR 20/SQM/month. This level is only achievable in a few, selected prime properties in the Central Business District for the best office units within the building. Average asking rents did not change significantly on the previous quarter; they remained in the range of EUR 11-14/SQM/month for A class offices with generous incentive packages.

### 3.3.5 Warsaw office market[7]

Total modern office stock in Warsaw reached almost 4.4 million SQM at the end of 2014, a growth of 277 thousand SQM on the 2013 level. A number of new office deliveries with low occupancy ratio rescheduled for the beginning of 2015. Construction activity in Warsaw remains substantial with 760 thousand SQM under active construction (including 56 thousand SQM under refurbishment) of which 19% is secured with pre-lets. The expected delivery for 2015 is approx. 320 thousand SQM. The total gross take-up reached approx. 612 thousand SQM in 2014, only 21 thousand SQM below the record-breaking volume in 2013. The public sector had a 13% share in the total take-up volume in 2014, becoming one of the key demand drivers. The vacancy rate in Warsaw decreased slightly to 13.3% over Q4 2014, however the ongoing upwards trend is expected in 2015. Prime headline rents currently range between EUR 22-24/SQM/month in central locations.

### 3.3.6 Warsaw industrial market[7]

2014 saw only a marginal growth to the supply in both Warsaw zones as only 46 thousand SQM was delivered through the year again 78 thousand SQM a year before. The gross leasing activity in the Warsaw region peaked in 2014, amounting to over 684 thousand SQM. The Warsaw Suburbs market was clearly driven by lease renewals, which stood at over 257 thousand SQM and accounted for 43% of the gross take-up. The net take-up exceeded 339 thousand SQM. At the end of 2014, availability in both Warsaw zones totalled 298 thousand SQM, translating into a vacancy rate of 11.2%. This was considerably lower than a year ago, when 14.6% of the total warehouse supply remained unoccupied. Prime headline rents remain stable between EUR 2.7-3.6/SQM/month.

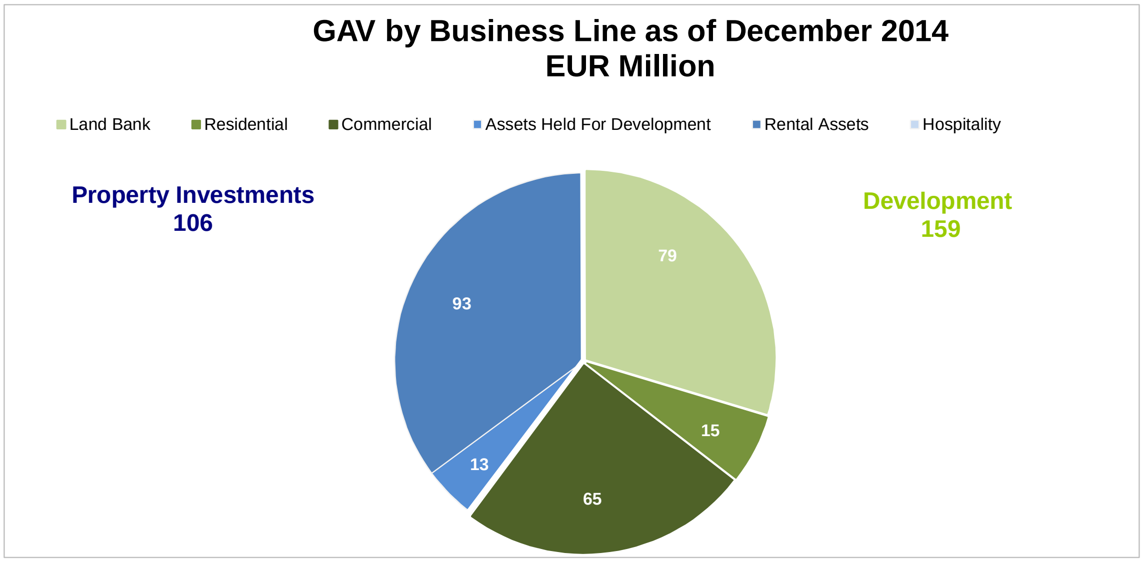
# 4 Portfolio: Gross Asset Value[8] and operational performance

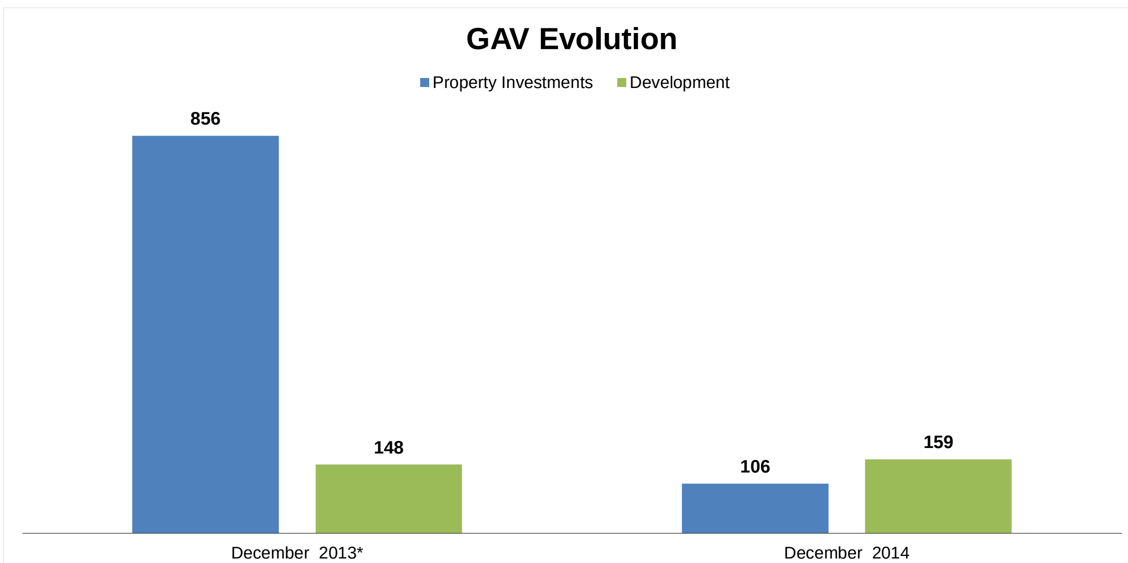
## 4.1 Total portfolio evolution

The Gross Asset Value ("GAV") corresponds to the sum of fair value of all real estate assets held by the Group. The value of the assets owned in joint ventures is included at the percentage of economic interest.

Over the year 2014, the GAV decreased from EUR 1,004 million down to EUR 265 million. The GAV breaks down into 40% of Property Investments and 60% of projects or land bank for the Development business line.

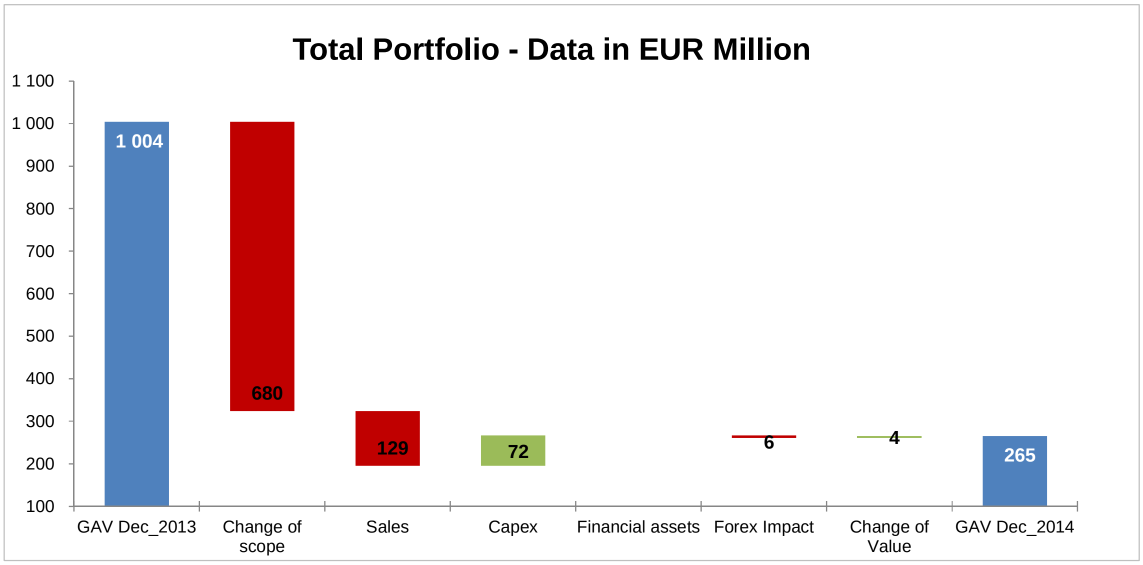
[6] Budapest City Report Q4 2014
[7] Warsaw City Report Q4 2014
[8] The classification of GAV is in line with the vision of the management and is not always reflecting the IFRS classification disclosed in the Financial Statements.




* For value as of December 2013, the hospitality assets of the AIG Joint venture are included at 75% in the GAV, in line with the economic interest owned by the Group. The whole share in this portfolio was sold during December 2014.

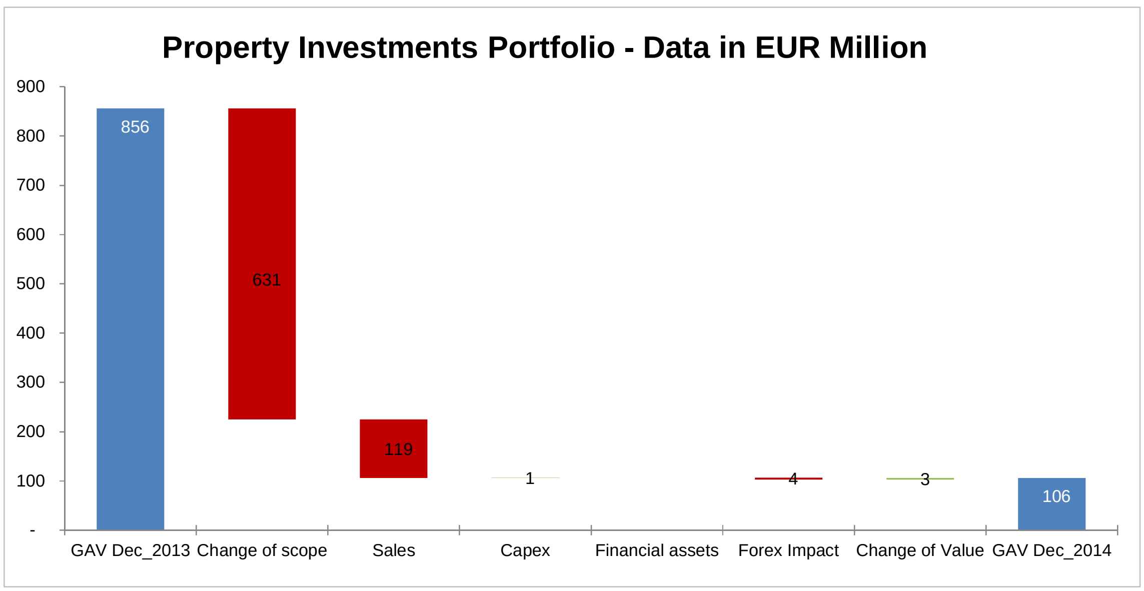
Over the year 2014, the decrease of EUR 739 million of the GAV results from loss of control over GSG Group, Suncani Hvar and Hungarian assets, sales of the other hotel´s portfolio and inventories up to EUR 129 million, negative forex impact partly offset by new acquisition made by the Group and positive change in market value.




### 4.2 Property Investments evolution

#### 4.2.1 Gross Asset Value

As of December 2014, the GAV of the Group's Property Investments business line represented EUR 106 million in value (88% rental assets and 12% Assets held for development). Assets held for development encompass a group of assets rented on a short-term basis, which the Group is planning to fully redevelop.




The EUR 750 million decrease of the portfolio's gross asset value encompasses:

- EUR 631 million decrease due to loss of control over GSG portfolio, change of scope in Hospitality portfolio and Hungarian and Polish assets entering the bankruptcy process;
- EUR 119 million decrease due to sales of other´s hotel portfolio and disposal of Hlubočky and Dunaj;
- EUR 1 million of investments on the rental portfolio;
- EUR 4 million of negative currency conversion impact mainly related to the weakening of the Czech crown;
- EUR 3 million of net decrease in market value.

### 4.2.2 Rental assets and Assets held for development

#### *4.2.2.1 Valuation change of rental assets*

As of December 2014, the rental assets' value is estimated at EUR 93 million. In December 2013 the GAV of rental assets amounted to EUR 678 million. The EUR 585 million change is split in:

- EUR 566 million of deconsolidation of rental assets identified under GSG portfolio and Hungarian assets being in bankruptcy process;
- EUR 19 million of sales due to disposal of Hlubočky;
- EUR 1 million of investments;
- EUR 1 million of negative forex impact.

In Central Europe over the year 2014, on a like for like basis the valuation of the rental portfolio slightly decreased by EUR 1.1 million (-1 % in comparison with December 2013 valuation).

#### *4.2.2.2 Valuation change of Assets Held for Development*

As of December 2014, the Assets held for Development portfolio's value is estimated at EUR 13 million. In December 2013 the GAV of these assets amounted to EUR 24 million. The EUR 11 million change is composed of:

- EUR 6 million of deconsolidation of Hungarian assets in bankruptcy process;
- EUR 5 million of sales due to disposal of Dunaj.

The main impact on the decrease in value have deconsolidation of the Hungarian assets due to bankruptcy process (Szervita Office and Parking) and transfer the ownership of share interests in entity Dunaj department stores (part of cross-collateral together with Hlubočky and Bubenska assets).

On a like for like basis the valuation of these assets slightly increased by 1 % in comparison with December 2013 valuation.

### 4.2.2.3 Business review

The Group rental portfolio encompasses assets focusing on commercial buildings.

| Portfolio | GLA (SQM) Dec. 2014 | Sept. 2014 | June 2014 | Dec. 2013 | Occupancy (%) Dec. 2014 | Sept. 2014 | June 2014 | Dec. 2013 | Average rent EUR / SQM Dec. 2014 | Sept. 2014 | June 2014 | Dec. 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Prague, Czech republic * | 60 497 | 60 497 | 60 497 | 60 497 | 79,0% | 79,4% | 76,3% | 76,0% | 8,35 | 8,49 | 8,92 | 8,49 |
| Budapest, Hungary | 15 591 | 15 591 | 15 591 | 15 591 | 14,2% | 10,8% | 10,8% | 10,8% | 4,21 | 4,49 | 4,88 | 4,14 |
| Warsaw, Poland | 36 598 | 36 598 | 36 598 | 36 598 | 24,7% | 24,7% | 24,7% | 32,5% | 4,44 | 4,98 | 4,78 | 4,91 |
| Capellen, Luxembourg | 7 695 | 7 695 | 7 695 | 7 695 | 91,1% | 91,1% | 91,1% | 90,2% | 22,73 | 22,67 | 22,64 | 22,62 |
| **CE Portfolio** | **120 381** | **120 381** | **120 381** | **120 381** | **54,9%** | **54,6%** | **53,1%** | **55,2%** | **9,22** | **9,43** | **9,67** | **9,25** |

Like for like basis, therefore disposals and reclasified assets are not included
Reported lettable area is based on the current technical conditions and excludes an upside from the possible redevelopment
*: The lettable area of Bubenska is 17,575 sqm meanwhile potential GLA of the asset is increased to 30,549 sqm.

Over the 2014, the occupancy rate of the CE portfolio decreased by 30 bps to 54.9%. Over the same period, average rent slightly decreased from 9.25 EUR/SQM/month to 9.22 EUR/SQM/month. Three Hungarian subsidiaries of the Group have entered bankruptcy proceeding and are not reported on the Like for Like basis in the table above. The Group has transferred the ownership of Hlubocky production plant and Dunaj department stores to a fully owned subsidiary of Crédit Agricole CIB and both assets are as well not reported on the Like for Like basis in the table above.

- In Prague, the Group increased the occupancy rate of its portfolio by 300 bps over the 2014 with the signing of extension of key significant tenants and of new leases in the office building of Na Porici for more than 1,100 SQM. The average rent slightly decreased to 8.35 EUR/SQM/month.

- In Budapest, the occupancy rate improved by 340 bps to 14.2% over the 2014. A new tenant taking up to 531 SQM was signed for V188 with a move in in November 2014. The average rent increased from from 4.14 EUR/SQM/month to 4.21 EUR/SQM/month.

- In Warsaw, the decrease of occupancy rate is due to the departure of a one tenant from the logistic platform of Marki. The occupancy rate dropped down by 780 bps up to 24.7% as of December 2014 in Poland. The asset is currently reviewed for sale.

- In Luxembourg, occupancy rate and average rent are stable, the office asset of Capellen is almost fully let with an average rent almost 23 EUR/SQM/month.

### 4.2.2.4 EPRA indicators

#### 4.2.2.4.1 Valuation data

| Asset Class | Location | Market Value of Property Dec 2014 EUR Million | Valuation Movement EUR Million Y-o-Y | Net Initial Yield EPRA (%) | Reversion (%) |
|---|---|---|---|---|---|
| | Prague | 60,6 | 0,2 | 7% | 18% |
| | Budapest | 10,8 | 1,6 | -2% | 2699% |
| | Luxembourg | 21,8 | -1,4 | 8% | -6% |
| | Warsaw | 4,6 | -0,3 | 7% | 5% |
| ***Office*** | | **97,7** | **0,0** | **6%** | **55%** |
| | Prague | 1,1 | 0,2 | 10% | 30% |
| | Warsaw | 2,8 | -0,5 | 16% | 235% |
| ***Logistics*** | | **3,9** | **-0,2** | **15%** | **142%** |
| | | | | | |
| **Portfolio Total** | | **101,6** | **-0,3** | **7%** | **58%** |

This table and the following include all assets considered as rental in the portfolio of the Group. They exclude:

- The value of the development land attached to the logistic asset of Marki and the land plots attached to new acquisition of STRM portfolio, as they do not generate rents. We distinguished these outlets from the rest of the portfolio as they do not directly match the EPRA scope and definitions.

“Market value” is the net market value estimated by our independent expert at year end. This market value is used for the Gross Asset Value calculation.

“EPRA NIY” or EPRA Net Initial Yield is based upon the figures provided by the external appraiser as of December 2014 in terms of yield. Net Initial Yield is based on the current gross market value of the assets. Following the EPRA scope and definitions mentioned above the market value excludes valuation of lands which are to be used for development.

“Reversion” is the estimated change in rent at review, based on today’s market rents expressed as a percentage of the contractual rents passing at the measurement date (but assuming all current lease incentives have expired).

These figures are indicators of the current operating performance of the assets; they are not the basis of the valuation of the assets. They should not be mistaken with valuation yield measure such as “equivalent yield” which are market based figures and are the basis of the valuation of the assets under the capitalization approach.

The change of value on the Central Europe portfolio is the consequence of improving operational performance in The Czech Republic and finally improving rental market in Budapest. The passing rent is still 58% below the potential ERV of the portfolio, leaving strong upside value potential for further improvement of the operating performance.

### 4.2.2.4.2 Rental data

| Location | Gross rental income over the past 12 months EUR Million | Net rental income over the past 12 months EUR Million | Lettable space sqm | Passing rent at period end EUR Million | Estimated rental value at period end EUR Million | EPRA Vacancy rate at period end % |
|---|---|---|---|---|---|---|
| Prague | 4,7 | 4,3 | 63 820 | 4,7 | 5,6 | 14% |
| Budapest | 0,1 | (0,2) | 13 877 | 0,1 | 3,4 | 95% |
| Luxembourg | 1,9 | 1,9 | 7 695 | 2,0 | 1,9 | 0% |
| Warsaw | 0,3 | 0,3 | 1 400 | 0,3 | 0,3 | 0% |
| | **7,0** | **6,3** | **86 792** | **7,2** | **11,2** | **35%** |
| Prague | 0,1 | 0,1 | 8 762 | 0,1 | 0,2 | 24% |
| Warsaw | 0,2 | (0,3) | 35 198 | 0,2 | 0,5 | 77% |
| | **0,3** | **(0,2)** | **43 960** | **0,3** | **0,7** | **64%** |
| **Portfolio Total** | **7,3** | **6,1** | **130 753** | **7,5** | **11,9** | **37%** |

The “Rental data” table presents details on the level of rents and the occupancy of the Group Portfolio for assets held as of December 2014. Gross Rental Income and the Net Rental Income are calculated according to EPRA standards.

The passing rent according to EPRA terminology is the annualized cash rental income being received as at a certain date excluding the effects of straight-lining for lease incentives.

The vacancy rate is based on EPRA standards which take into account the ratio of the ERV of the area to be leased compared to the total ERV of the asset.

The lettable area in the table above is based on the assumptions taken by the valuator and reflects possible upside from the redevelopment. The difference compared to the current area refers to the projects Bubenska and Vaci 190 and amounts to the additional area of 10,731 SQM.

All assets disposed during the year 2014 have been excluded from the table above. The figures of GRI, NRI, lettable space, passing rent, ERV and EPRA vacancy rate only include currently owned assets.

The lettable space in the table above corresponds to the assumptions taken by the independent external valuator and is in line with the calculation of ERV.

### 4.2.2.5 *Description of the portfolio*

| Portfolio | Central Europe | Mixed portfolio |
|---|---|---|


| | |
|---|---|
| Location : | Prague |
| Land Area : | 6,001 sqm |
| Floor area : | **22,061 sqm** |
| Type of property : | office |
| Acquisition date : | 13.12.2005 |
| Form of Ownership : | SPV owned 100% by OPG S.A. |
| Occupancy rate : | 88,9% |

Na Porici - Palac Archa – is situated in one of the most frequented streets in the center of Prague easily accessible by public transportation as well as by automobile. It consists of five buildings and a courtyard, including two historical buildings designed by renowned architects Josef Gočár and František Marek in 1930's. The building comprises office premises, retail units on the ground floor with Archa theatre and Starbucks Café and 113 underground parking places. The property underwent major redevelopment in 2009, resulting in the achievement of a grade A specification for the premises. The occupancy rate increased from 85.7% in 2013 to 88.9% at the end of 2014.

| | |
|---|---|
| Location : | Luxembourg |
| Land Area : | 7,578 sqm |
| Floor area : | **7,695 sqm** |
| Type of property : | office |
| Acquisition date : | December 2007 |
| Form of Ownership : | SPV owned 100% by OPG S.A. |
| Occupancy rate : | 91,1% |

Capellen office building is located at the entrance of Mamer-Capellen business park, an important business hub bordering Luxembourg City. The property conveniently bridges Luxembourg airport and Luxembourg City center and is easily accessible for cross-border employees. Delivered in 2005, the building is of a modern standard with a two-level underground car parking facility accommodating 295 vehicles. Occupancy rate increased from 90.2% as of December 2013 to 91.1% as of December 2014.

| | |
|---|---|
| Location : | Warsaw |
| Land Area including building: | 207,841 sqm |
| Floor area : | **35,198 sqm** |
| Type of property : | logistic & light industrial |
| Acquisition date : | 12.12.2007 |
| Form of Ownership : | SPV owned 100% by OPG S.A. |
| Occupancy rate : | 21,7% |

Marki is located in the eastern suburbs of Warsaw within the biggest logistic region in Poland. The property benefits from very good vehicular access and also has good transport facilities. The site currently comprises a production warehouse, constructed in the 1970's and an area of potential development land. The development land is currently occupied by a number of buildings designated for demolition. Occupancy of the buildings has been brought to 21.7% as of December 2014.

| | |
|---|---|
| Location : | Budapest |
| Land Area : | 5,844 sqm |
| Floor area : | **13,876 sqm** |
| Type of property : | office |
| Acquisition date : | 15.12.2005 |
| Form of Ownership : | SPV owned 100% by OPG S.A. |
| Occupancy rate : | 15,9% |

Vaci 188 office building is situated in the 13th district of Budapest in the Váci Ut corridor, 7 km north of Budapest city center. The building was re-purchased from the bank in mid-2011. It comprises approximately 13,876 SQM of leasable area over two basement levels, a ground floor, a mezzanine level and six upper floors. It is ideal for headquarter purpose with flexible floor plates, ample natural light and sufficient number of parking spaces: 228 underground and a further 29 above ground. The Property used to accommodate the head quarter of Budapest Bank, which moved out in July 2010. Currently the occupancy is 15.9% as of end of December 2014.

| Portfolio | Assets held for development | Mixed |
|---|---|---|

The following category comprises assets held by the group for development.

| | |
|---|---|
| Location : | Prague |
| Land Area : | 7,990 sqm |
| Floor area : | **17,575 sqm** |
| Type of property : | office |
| Acquisition date : | 27.2.2004 |
| Form of Ownership : | SPV owned 100% by OPG S.A. |
| Year of construction completion / major refurbishment : | NA |

Bubenska is an iconic office building of Prague constructed in the 1930's as the headquarters of the Prague Transportation Company. The Property is located between the eastern and western parts of Holesovice in Prague 7, a central district on the opposite bank of the Vltava River to the city center. Nadrazi Holesovice, one of Prague's main train terminals, is located nearby. The Property comprises 8 floors with 3 basement levels and a number of small retail units to the front of the property. The building is well known for the ambulance service for Prague 7. Before redevelopment the current leasable area is 17,575 SQM and the occupancy rate of the building increased from 74.3% as of December 2013 up to 75.9% as of December 2014.

| | |
|---|---|
| Location : | Budapest |
| Land Area : | 4,583 sqm |
| Floor area : | **1,715 sqm** |
| Type of property : | office |
| Acquisition date : | 15.12.2005 |
| Form of Ownership : | SPV owned 100% by OPG S.A. |
| Year of construction completion / major refurbishment : | NA |

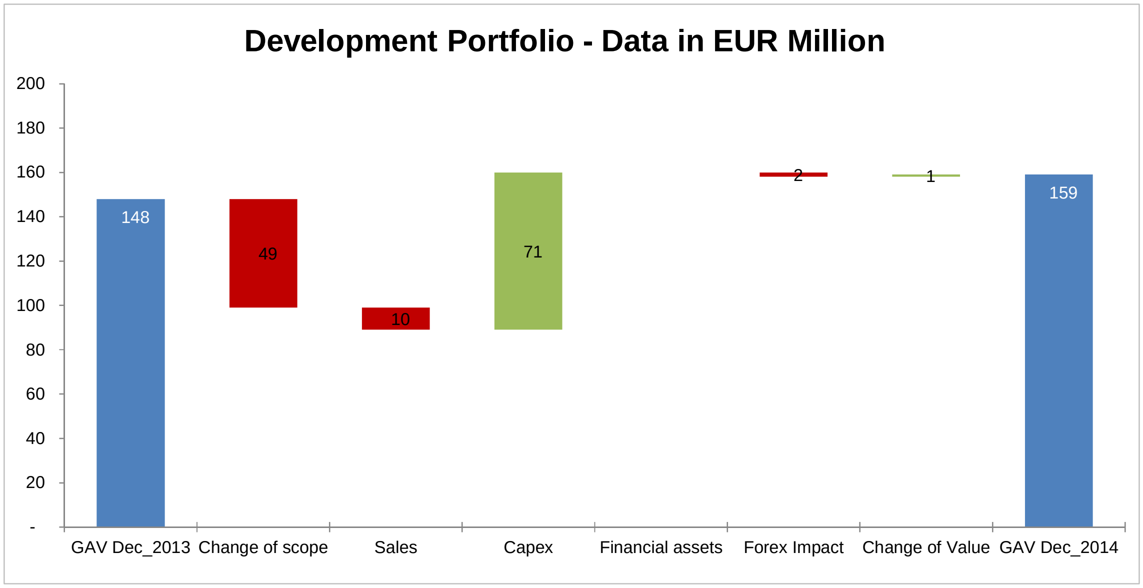
Vaci 190 is situated in the 13th district of Budapest on the Vaci street. It lies 7 km north of Budapest city center fronting Vaci street and Meder street, therefore its visibility is excellent. The site/building was re-purchased from the bank in mid 2011. The building currently comprises 1,715 SQM of basic quality office accommodation on two stories. The Group plans to redevelop this 3,852 SQM land plot into a modern office building.

### 4.3 Development evolution

The Group's development portfolio consists of commercial properties or land designated as future development, to be transferred to the Property Investments business line or sold, and residential projects made of land bank to be developed or buildings to be refurbished/converted, to be sold.

#### 4.3.1 Gross asset value

As of December 2014, the Group's development GAV amounts to EUR 159 million (49% of land bank, 41% commercial and mixed use developments, 10% of residential developments). The development assets are mainly located in the Czech Republic (99%) with key projects such as Bubny and Benice in Prague.




### 4.3.2 Commercial

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

#### *4.3.2.1 Valuation changes*

The GAV of commercial developments portfolio, which mainly encompasses the Bubny project, remained stable amounting to EUR 65 million both in December 2014 and 2013. Though there were changes as:

- EUR 2 million of investments;
- EUR 1 million of negative exchange rate impact;
- EUR 1 million of net decrease in market value expressed in Euros.

#### *4.3.2.2 Business review*

| Key Project held in portfolio as of December 2014<br>Committed | Location | Asset type | Area in SQM | Permit status | Construction completion | Current value Dec 2014 EUR Million |
|---|---|---|---|---|---|---|
| Bubny | Czech Republic, Prague | Mixed commercial | 24 ha* | Pending | 2025 | 65,0 |

*3.6 ha of the Bubny landplot are now held at 20% through a joint venture with Unibail Rodamco and are not included in the value above

Bubny is a challenging long term development project close to the city center. Bubny remains the last brownfield plot in the center of Prague and the Group intends to develop more than 600 thousand sqm GLA of mixed-use area consisting of residential and commercial units, offices and shops as well as educational, medical, and cultural facilities. In addition, a modern train terminal on Vltavská metro station and large green spaces will be incorporated. The main goal for the upcoming period is to continue in the process to change the Bubny masterplan.

### 4.3.3 Residential

#### *4.3.3.1 Valuation changes*

The Group opportunistic residential developments are aimed at the middle and upper market segments in Prague.

The decrease of EUR 41 million over the year 2014 (Dec 2014 GAV amounting to EUR 15 million compared to December 2013 EUR 56 million) is driven by:

- EUR 4 million of change of scope due to loss of control over GSG portfolio;
- EUR 41 million of sales mainly due to sales of Zlota 44, Benice and V Mezihori;
- EUR 3 million of investments;
- EUR 1 million of negative change in value offset by EUR 1 million positive impact of market value.

Please be aware, that tables below do not include all projects.

***Projects completed - Inventory***

Over the year 2014, the completed inventories decreased as follows:

| Project completed | Location | Asset type | Comments | Market value Dec 2014 EUR Million | Market value Dec 2013 EUR Million |
|---|---|---|---|---|---|
| Mezihori | Prague | Multi-dwelling houses | Occupancy permit in Q3 2013 | 0,3 | 5,3 |
| Mostecka | Prague | Multi-dwelling houses | | 0,0 | 1,3 |
| Kosik* | Prague | Multi-dwelling houses | | 0,1 | 0,4 |
| Feliz Residence | Warsaw | Multi-dwelling houses | | 0,0 | 0,2 |
| Klonowa Aleja | Warsaw | Multi-dwelling houses | | 0,5 | 0,9 |
| Koliba | Bratislava | Multi-dwelling houses | | 0,0 | 0,8 |
| **TOTAL** | | | | **0,8** | **8,9** |

* The Group owns 50% of Kosik. The market value indicated is the market value of the 50% share of the Group. As of January 2013, Kosic is consolidated under the equity method.

- V Mezihori: The site is located in Prague 8, Palmovka, approximately 3 km from Prague City centre, with the metro and tram stations of Palmovka within walking distance. Construction of this project with 138 apartments was completed in Q3 2013 with deliveries starting in Q4 2013. As of December 2014, 96% was delivered. In general, Mezihori project is very successful with selling faster and for higher prices than budget (by 2.6%, despite two VAT increases) and significant cost savings led to an overall profitability improvement by EUR 1.6 million. Mezihori project won multiple awards from both reality experts as well as general public (Construction & Investment Journal's "Best Residential Development" award, Conventia's "Project of the year"). The success of Mezihori serves as a springboard for the upcoming residential projects.
- Mostecka: The project is a mixed-use space with ground floor, basement and inner courtyard designated for retail and commercial space, and upper floors used for apartments. As of December 2014, 100% of the residential area was delivered with remaining of one commercial unit (former cinema) for a total area of 2.6 thousand SQM. This unit was transferred into its own SPV and the Group is now negotiating about the sale with one potential buyer.
- Kosik 1-3A: Kosik project is a joint venture with GE dedicated to the development of the site into an all-inclusive residential area featuring commercial units, play grounds and sport facilities. All but one commercial unit in Kosik 1 & 2 have been delivered. The value indicated represents the market value of the remaining units owned by the Group at 50%. As of December 2014, 99% of phases 1, 2 and 3A are delivered.
- Feliz Residence: the property, located in Ochota district of Warsaw, comprises a multi-family residential scheme of 40 apartments (4,434 SQM sellable area) and basement car parking for 44 parking spaces. The project is 100% delivered as of December 2014.

- Klonowa Aleja: the property, located in the Targówek district of Warsaw, comprises 284 apartments as well as retail space and underground car parking facilities (402 parking spaces). The project was completed at the beginning of the year 2010 and as of December 2014, 97% of the total areas are delivered.

- Koliba - Parkville: the project, located on the Koliba hill on the northern edge of Bratislava, consists of 10 residential buildings with 91 flats, 157 parking spaces. As of December 2014, the project is 98% delivered.

***Projects under construction***

As of December 2014, these were ongoing residential developments: Kosik 3B and Benice 1 in Prague.

| Project under construction | Location | Asset type | Comments | Market value December 2014 EUR Million | Market value December 2013 EUR Million |
|---|---|---|---|---|---|
| Zlota 44 | Warsaw | High rise luxury appartments | Project sold out of the Group | 0,0 | 30,1 |
| Kosik 3B | Prague | Multi-dwelling houses | Sales launch in Q4 2013 | 4,2 | 1,7 |
| Benice 1 | Prague | Houses | Delivery of units in progress | 1,4 | 2,3 |
| Berlin Naunynstr. 68 | Berlin, Kreutzberg | Multi-dwelling houses | Project was deconsolidated | 0,0 | 3,5 |
| **TOTAL** | | | | **5,7** | **37,6** |

* The Group owns 50% of Kosik. The market value indicated is the market value of the 50% share of the Group. As of December 2014, Kosic is consolidated under the equity method.

- The Board of Directors decided to not complete the Zlota 44 development, suspend the works and sell the entire project as is. Hence, the Zlota 44 was reclassified as Asset held for sale as at June 2014 and the sale process was completed in August 2014.

- Benice – Phase 1: the Project Benice is a large scale residential development located in the south east of Prague, about 15 kilometres from the city center. Phase 1B is currently on offer comprising 32 row houses, semi-attached and detached houses, which were completed during H1 2014, and 4 apartments and 2 commercial units completed in Q4 2014. As of December 2014, 93% SQM of the project is delivered. An additional phase, Benice 1C with 9 houses is currently under development with start of construction planned for 2Q 2015. Phases II-V, whose value is not included in the table above as they are categorized as land bank, will be developed in the future.

- Kosik 3B – this is the last phase of the Kosik project comprising of 253 units, which is divided into two sub-phases. Having capitalized on its long term experience of this localization of Prague and on the success of the project V Mezihori, the Group is confident in the positive prospect of the project. Sale of the first sub-phase with 153 units was launched in Q4 2013 and has exceeded expectations with 109 units pre-sold as of December 2014 and 128 units pre-sold as of the end of February 2015. Completion of the first sub-phase is scheduled for H2 2015 with first deliveries still in 2015, remainder in 2016. The second sub-phase containing 80 units was launched in Q4 2014, with construction planned to start in Spring 2015 and completed no later than in 2016, and follows the success of the first sub-phase with 22 units pre-sold as of December 2014 and 34 units pre-sold as of the end of February 2015.

- Naunynstrasse 68: well located in the extremely attractive area of Kreuzberg in Berlin, the asset encompasses 2,313 SQM of floor area after redesign of the project dedicated to residential and office tenants. The asset is part of CPI PG and was deconsolidated in 1H 2014 as the Company lost control over CPI PG.

### 4.3.4 Land bank and assimilated

The total GAV of the land bank and assimilated (including empty buildings and land plots to develop or redevelop classified in the IFRS financial information under investment properties or inventories) increased from EUR 27 million in December 2013 to EUR 79 million in December 2014.

This increase of EUR 52 million year on year is driven by:

- EUR 15 million of change of scope due to loss of control over GSG portfolio and deconsolidation of Polish projects due to bankruptcy

- EUR 66 million of investments mainly due to purchase of new acquisition for future development
- EUR 2 million of positive change in value.

As of December 2014, the Group holds some 2.1 million SQM of land plots (0.3 million SQM zoned and 1.8 million SQM unzoned). The potential GEFA development is currently estimated at 0.8 million SQM. Potential GEFA is not estimated on all the land plots and should be considered here as only an indication of the potential pipeline on the short to mid-term basis.

The table below summarizes the land bank status per country and gives an estimate of the current projected GEFA. In the "other category" are land plots included in the reported gross asset value of other sub group of the portfolio (rental, commercial development or residential development).

| | With zoning | | Without zoning | | Total | |
|---|---|---|---|---|---|---|
| Country | Land plot area | GEFA estimated | Land plot area | GEFA estimated* | Land plot area | GEFA estimated* |
| The Czech Republic | 112 822 sqm | 110 004 sqm | 757 451 sqm | 66 250 sqm | 870 273 sqm | 176 254 sqm |
| Poland | 69 681 sqm | 59 726 sqm | 35 573 sqm | 47 256 sqm | 105 254 sqm | 106 982 sqm |
| Croatia | 6 208 sqm | 0 sqm | 104 944 sqm | 0 sqm | 111 152 sqm | 0 sqm |
| Germany | 0 sqm | 0 sqm | 0 sqm | 0 sqm | 0 sqm | 0 sqm |
| Sub-total land bank | 188 711 sqm | 169 730 sqm | 897 968 sqm | 113 506 sqm | 1 086 679 sqm | 283 236 sqm |
| The Czech Republic | 18 881 sqm | 32 008 sqm | 885 813 sqm | 530 400 sqm | 904 694 sqm | 562 408 sqm |
| Poland | 131 130 sqm | 0 sqm | 0 sqm | 0 sqm | 131 130 sqm | 0 sqm |
| Sub-total other category | 150 011 sqm | 32 008 sqm | 885 813 sqm | 530 400 sqm | 1 035 824 sqm | 562 408 sqm |
| Total | 338 722 sqm | 201 738 sqm | 1 783 781 sqm | 643 906 sqm | 2 122 503 sqm | 845 644 sqm |

GEFA estimated*: the figure is presented here as an estimation only on the basis of the latest internal study performed. Only building permit determine the authorized GEFA. All the land plot are not systematically covered with a GEFA estimate.

Over the 2014, the land bank decreased through the deconsolidation of land bank recognized under GSG Group portfolio due to loss of control. This decrease was offset by new acquisitions in the Czech Republic made during Q4 2014. New acquisitions contain four development projects, counting approximately 186 thousand square meters of developable land area in Prague and the surroundings, and a brownfield area in Brno with an area of approximately 22.5 hectares. These future projects, developable in the coming years, consist of freehold land with a potential for development of residential, office, hospitality and retail premises. For the brownfield the Group indents to build a mixed used project with similar size as its Bubny project in Prague.The land bank provides the support for the future pipeline of the Group. Praga, Benice 2-5 or Nupaky in Prague amounting to circa 870,000 SQM of land bank, of which 31,500 are zoned, are currently under review to be potentially developed for residential development projects over the coming years. The plot of Bubny amounting to nearly 240,000 SQM of land in Prague 7 (including joint venture with Unibail Rodamco) is at the core of the commercial development pipeline in Central Europe.

## 5 Liabilities and financial profile

### 5.1 Cash and cash equivalents

Cash and cash equivalents have decreased by EUR 81.6 million over the last year to reach EUR 7.1 million as at 31 December 2014, out of which EUR 2.5 million is an amount with restricted use (see note 17 of the "Consolidated financial statements"). Significantly lower amount of cash and cash equivalents reported as of 31 December 2014 is a result of deconsolidation due to loss of control over CPI PG and Suncani Hvar (EUR 84.8 million or EUR 2.6 million of cash respectively).

## 5.2 Loan to value

The calculation of the Loan to value (LTV) as of 31 December 2014 is shown in the table below:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| **Non-current liabilities** | | |
| Financial debts | 65,252 | 295,304 |
| Non-current Bonds | 62,237 | 64,992 |
| **Current liabilities** | | |
| Financial debts | 13,557 | 273,041 |
| Current Bonds | 278 | 321 |
| Accrued interest | 915 | 1,244 |
| Liabilities linked to assets held for sale | 237 | 27,722 |
| **Current assets** | | |
| Current financial assets | - | - |
| Cash and cash equivalents | (7,103) | (88,669) |
| **Net debt** | **135,373** | **573,954** |
| Investment property | 249,236 | 710,552 |
| Hotels and owner-occupied buildings | - | 61,639 |
| Investments in equity affiliates | 35 | 93 |
| Financial assets at fair value through profit or loss | 2,627 | 28,285 |
| Financial assets available-for-sale | 86,995 | 2,435 |
| Non-current loans and receivables | 4,669 | 28,533 |
| Inventories | 9,422 | 114,720 |
| Assets held for sale | 1,395 | 29,116 |
| Revaluation gains on projects and properties | 697 | 2,842 |
| **Fair value of portfolio** | **355,076** | **978,215** |
| **Loan to Value** | **38.1%** | **58.7%** |

The LTV ratio as at 31 December 2014 significantly decreased to 38.1 % compared to 58.7 % as at 31 December 2013. The components of LTV ratio have been remarkably influenced by deconsolidation of leveraged assets over the first half of the year 2014.

Both current and non-current debt went down following the derecognition of bank loans mainly related to financing of investment properties in Germany and Hungary and the debt restructuring of the portfolio financed by Crédit Agricole (see note 2.4). In line with the decrease of financial debts, the cash held by the Group entities also went down due to the loss of contribution of deconsolidated entities. In June 2014, the Group has partially sold its shares in CPI PG for total consideration of EUR 55.0 million. The remaining investment in CPI PG, classified as financial asset available-for-sale, is valued at EUR 84.3 million (EUR 0.53 per share). Most of the proceeds have been used to repay the bank liabilities related to Zlota project.

## 5.3 Financial liabilities

Financial liabilities amount to EUR 141.3 million including EUR 76.8 million related to bank loans on projects that are not under a disposal process, EUR 62.5 million related to the Safeguard Bonds and the New Notes issued by the Company and EUR 2.0 million related to loan from CPI PG.

**Analysis of maturities of financial debts**

| in EUR Million | Less than one year - Bank loans linked to AHS | Less than one year - Others | 1 to 3 years | 3 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| As at 31 December 2014 | - | 13.9 | 45.5 | 67.5 | 14.5 | **141.3** |
| As at 31 December 2013 | 22.9 | 273.3 | 94.5 | 261.0 | 4.9 | **656.6** |
| **Variation** | **(22.9)** | **(259.4)** | **(49.0)** | **(193.5)** | **9.6** | **(515.3)** |

The decrease of financial liabilities follows from the deconsolidation of CPI PG with bank loans amounting to EUR 284.1 million, of Suncani Hvar shares with bank loans amounting to EUR 21.1 million and other borrowings amounting to EUR 22.9 million, and Hungarian assets with bank loans amounting to EUR 64.4 million.

In addition, bank loans related to the following assets were repaid or repurchased from financing bank over 2014:

- Suncani Hvar (EUR 11.5 million);
- Zlota 44 (EUR 59.6 million);
- Hlubočky (EUR 3.1 million) and Dunaj (EUR 13.1 million) upon their successful debt restructuring (for details please see note 11 of 2014 Consolidated financial statements";
- Bubenská (EUR 9.7 million);
- Na Poříčí (EUR 3.3 million);
- Capellen (EUR 2.3 million).

The Group actively worked on the refinancing and restructuring of its defaulted and short-term bank loans. As a result of this effort, the Group has no bank loans in breach as at 31 December 2014. The Group completed successful refinancing of bank loans on three assets - Capellen refinanced in June 2014 and prolonged until 2027, Diana bank loan prolonged until September 2019 and Marki until December 2015.

## 6 EPRA Net Asset Value

The EPRA Net Asset Value (EPRA NAV) per share as of 31 December 2014 is EUR 0.67 compared to EUR 1.92 as at 31 December 2013.

The Triple NAV amounts to EUR 0.66 per share compared to EUR 1.35 at the end of last year. The calculation is compliant with the EPRA (European Public Real Estate Associations) "Triple Net Asset Value per share" standard methodology which is described below.

| | December 2014 | December 2013 |
|---|---|---|
| **Consolidated equity** | **205,510** | **175,909** |
| Fair value adjustments on inventories | 697 | 2,842 |
| Deferred taxes on revaluations | 4,112 | 64,027 |
| Goodwill | - | (22,569) |
| Own equity instruments | - | 197 |
| **EPRA Net asset value** | **210,319** | **220,405** |
| Existing shares (in thousands) | 314,508 | 114,508 |
| Net asset value in EUR per share | 0.67 | 1.92 |
| **EPRA Net asset value** | **210,319** | **220,405** |
| Deferred taxes on revaluations | (4,112) | (64,027) |
| Fair value adjustment of bonds issued by the Group (*) | - | (1,374) |
| **EPRA Triple Net asset value** | **206,207** | **155,004** |
| Fully diluted shares | 314,508 | 114,508 |
| Triple net asset value in EUR per share | 0.66 | 1.35 |

(*) The market value of the OPG bonds in 2013 is established on the basis of the most recent transaction for the New Notes and the nominal value for the remaining Safeguard OPG Bonds as they are not traded. In 2014, the book value of the New Notes has been restated after the amendment of terms and conditions and adjusted to their market value.

Thanks to the subscription of new shares in November 2014 (see note 2.8) the Group strengthened its capital position by raising EUR 59.2 million. On the other hand, the consolidated equity decreased due to the loss of the period amounting to EUR 23.6 million. The losses accumulated in the current period result mainly from negative financial result (EUR 48.2 million) which was in part compensated by positive operating result of EUR 26.0 million. Moreover, the Group equity decreased by EUR 10.3 million due to dilution of ownership interest in CPI PG as a result of capital increase in CPI PG without participation of OPG.

The goodwill presented at the end of 2013 was allocated to cash generating unit. The goodwill was derecognized as a result of the deconsolidation with the deferred taxes on revaluations previously recognized on the investment properties.

## 7 Income statement

Over the year 2014, significant group of activities (both investment properties and hotels) were excluded from the scope of consolidation. These activities contributed to the Group results until the date of loss of control and are presented as discontinued operations. As requested by IFRS and to provide more reliable view on the development of the Group activities, the consolidated income statement is presented excluding discontinued operations of which net impact is disclosed on a separate line.

The net loss attributable to the owners of the Company in the amount of EUR 23.6 million has been driven mainly by negative financial result of EUR 48.2 million and exceptional one-off expenses recognized in the operating result.

## 7.1 Consolidated income statement

| | 12 months 2014 | 12 months 2013 (restated) | 12months 2013 (reported) |
|---|---|---|---|
| **Revenue** | **75,176** | **66,877** | **145,896** |
| *Sale of goods* | *60,691* | *45,525* | *45,722* |
| *Rent* | *8,507* | *12,006* | *64,626* |
| *Hotels and restaurants* | *1,032* | *2,368* | *20,788* |
| *Services* | *4,946* | *6,978* | *14,760* |
| Net gain / (loss) from fair value adjustments on Investment Property | 2,073 | (57,840) | (34,444) |
| Other operating income | 445 | 873 | 1,458 |
| Net result on disposal of assets | 29 | 192 | 88 |
| Cost of goods sold | (58,840) | (36,591) | (38,437) |
| Employee benefits | (16,113) | (10,451) | (23,620) |
| Amortization, impairments and provisions | 38,256 | (138,421) | (166,812) |
| Other operating expenses | (15,065) | (18,673) | (48,446) |
| **Operating result** | **25,961** | **(194,034)** | **(164,318)** |
| Interest expense | (21,115) | (21,689) | (37,382) |
| Interest income | 2,181 | 1,800 | 4,114 |
| Foreign exchange result | (46) | (3,447) | (4,282) |
| Other net financial results | (29,208) | (33,951) | (39,693) |
| **Financial result** | **(48,188)** | **(57,287)** | **(77,242)** |
| **Share of profit or loss of entities accounted for using the equity method** | **(493)** | **(413)** | **(413)** |
| **Loss before income taxes** | **(22,720)** | **(251,733)** | **(241,973)** |
| Income taxes | 299 | (1,060) | (10,449) |
| **Loss from continuing operations** | **(22,421)** | **(252,793)** | **(252,422)** |
| Loss after tax from discontinued operations | (2,722) | (756) | (1,127) |
| **Net loss for the period** | **(25,143)** | **(253,550)** | **(253,550)** |
| **Total loss attributable to:** | | | |
| Non-controlling interests | (1,527) | (26,523) | (26,523) |
| **Owners of the Company** | **(23,616)** | **(227,027)** | **(227,027)** |

The income statement and relevant tables in the Notes which provide detailed breakdown of the income or expense refer to continuing operations only. The amounts as presented in the December 2013 Consolidated Financial Statements are disclosed in the column "reported".

## 7.2 Operating result

The operating profit for the year 2014 amounts to EUR 26.0 million compared to an operating loss of EUR 194.0 million in 2013. This significant improvement is attributable to the sale of Zlota 44 project concluded in August 2014 with total net impact of EUR 47.5 million (see note 7.6).

In contrary, the operating result is negatively influenced by indemnity payments for termination agreements in the aggregate amount of EUR 11.0 million, concluded in the first half of 2014 and completed and finally settled over 2014.

## 7.3 Revenue by Business line

Revenue increased year on year to EUR 75.2 million for 12 months of 2014 compared to EUR 66.9 million over the same period in 2013 (+12.4% y-o-y). This growth is primarily driven by development business line with disposal of Zlota project.

| | Development | Property Investments | Total |
|---|---|---|---|
| **YTD Revenue** | | | |
| As at December 2014 | 61,328 | 13,848 | 75,176 |
| As at December 2013 (restated) | 46,296 | 20,581 | 66,877 |
| **Variation** | **15,032** | **(6,733)** | **8,299** |

### 7.3.1 Development

#### *7.3.1.1 Residential*

Residential development sales have increased from EUR 26.0 million at end of 2013 to EUR 61.1 million at end of 2014.

61 units have been delivered in 2014 including 54 in Prague (-63% Y-o-Y), 4 in Warsaw (-87% Y-o-Y) and 3 in Bratislava (-75% Y-o-Y) to be compared with 189 units over the same period in 2013. Decrease in deliveries in the countries is due to lower existing inventory, no new project initiated and loss of control over GSG Group with Naunynstrasse residential project (Naunynstrasse is not included in the amount of units).

The main contributors to the revenue are:

- In Prague: V Mezihori (EUR 4.6 million), Benice (EUR 2.5 million) and Mostecka (EUR 1.4 million) generated total revenue in the Czech Republic of EUR 9.0 million to be compared to EUR 18.5 million in 2013.
- In Warsaw: Zlota project with revenue from sale amounting to EUR 50.0 million; Klonowa Aleja (EUR 0.4 million) and Feliz Residence (EUR 0.2 million). Total revenue generated in Poland is EUR 50.8 million to be compared to EUR 3.9 million in 2013.
- In Bratislava: Koliba for EUR 0.8 million (Y-o-Y decrease of EUR 2.7 million).

#### *7.3.1.2 Commercial*

Commercial development revenue of the year 2014 significantly decreased by EUR 20 million compared to 2013, when the Group closed the sale of a part of the Bubny plot to Unibail Rodamco for that amount.

### 7.3.2 Property Investments

The Property Investments revenue decreased by 32.9% compared to 2013, reaching EUR 13.9 million as of December 2014 (compared to EUR 20.6 million in 2013). The main key performance indicators and events impacting the business over the year are commented in part 4 of this report.

#### *7.3.2.1 Rental*

Rental activity and management services generated revenue of EUR 12.8 million over the year 2014, which is lower compared to EUR 18.1 million over the same period in 2013. Main contributors to the decrease of EUR 5.3 million on rental activity are deconsolidated Hungarian assets which are not contributing to the revenue after loss of control as a result of the bankruptcy procedure (EUR 1.8 million), sold assets Hlubočky and Dunaj (EUR 1.3 million) and lower rental revenues of Marki in Warsaw (EUR 0.4 million). Revenue from asset management services decreased as a result of the sale of Endurance fund assets.

#### *7.3.2.2 Hospitality activities*

Hospitality revenue amounting to EUR 1.1 million as of December 2014 decreased by EUR 1.4 million over the same period in 2013. After the loss of control over Suncani Hvar, the only contributor to revenue from hospitality activities was Pachtuv Palace, included in the termination package and transferred to the new owner in July 2014.

## 7.4 Operating expenses and Employee benefits

As detailed in the table below, the total operating expenses including employee benefits increased by 7.1%. Excluding expenses related to termination indemnities, Zlota project and Hungarian deconsolidated entities, the operating expenses would amount to EUR 17.5 million as at 31 December 2014.

| | 12 months 2014 | 12 months 2013 (restated) |
|---|---|---|
| Leases and rents | (339) | (1,249) |
| Building maintenance and utilities supplies | (3,863) | (5,210) |
| Marketing and representation costs | (1,175) | (2,884) |
| Administration costs | (7,946) | (6,924) |
| Taxes other than income tax | (1,354) | (1,588) |
| Hospitality specific costs | (105) | (220) |
| Other operating expenses | (284) | (598) |
| Employee benefits | (16,113) | (10,451) |
| **Total operating expenses** | **(31,179)** | **(29,123)** |

Consolidated operating expenses can be split into direct asset or project costs generating revenues (‘Operation costs’) which amount to EUR 8.8 million (EUR 12.3 million in 2013) and general management or services expenses (‘Service companies costs’) in the amount of EUR 22.4 million (EUR 16.8 million in 2013).

As a result of strong reduction of local teams and termination indemnities paid during 2014, employee benefits increased by EUR 5.7 million compared to 2013, reaching EUR 16.1 million as of December 2014. Employee benefits excluding termination indemnities (EUR 11.0 million) went down by EUR 5.3 million, amounting to EUR 5.1 million as at 31 December 2014 (EUR 10.5 million over 2013).

## 7.5 Net gain or loss on disposal of assets

In 2014, the Group finalised the transfer of Hlubočky and Dunaj assets (see note 2.4). The transaction price was reflected in the fair value of the properties as at 31 December 2013 and so, the disposal had no effect on 2014 results.

Disposal of the Zlota 44 project resulted in a partial reversal of impairment losses accumulated in previous year in the amount of EUR 34.3 million (see note 7.6). The total consideration in the amount of EUR 50.0 million is included in the revenues generated from sale of goods. The same amount has been charged to the income statement as a cost of goods sold.

## 7.6 Valuation adjustment, impairments, amortization and provisions

The net revaluation gain on investment properties recorded in the year 2014 amounts to EUR 2.1 million and results from positive revaluation of properties in the Czech Republic and Hungary.

The impact of fair value adjustment and impairments on real estate assets is detailed by country as follows:

| | 12 months to December 2014 | | | 12 months to December 2013 | | |
|---|---|---|---|---|---|---|
| | Revaluation | Impairment | **Total** | Revaluation | Impairment | **Total** |
| Czech Republic | 2,652 | (1,612) | **1,040** | (26,795) | (12,222) | **(39,017)** |
| Poland | (1,270) | 34,277 | **33,007** | (1,683) | (121,031) | **(122,899)** |
| Hungary | 2,131 | - | **2,131** | (24,405) | - | **(24,405)** |
| Slovakia | - | (13) | **(13)** | (4,888) | 254 | **(4,634)** |
| Luxembourg | (1,440) | - | **(1,440)** | 110 | - | **110** |
| Croatia | - | - | **-** | 6 | - | **6** |
| **Total** | 2,073 | 32,652 | **34,725** | (57,840) | (132,999) | **(190,839)** |

The main movements in fair value are as follows:

- In the Czech Republic, the fair value decreased for Bubenská (EUR 0.5 million) and went up for freehold buildings Hradčanská (EUR 0.4 million) and Na Poříčí (EUR 0.9 million); the value of the land bank in the Czech Republic went up thanks to Praga – an increase by EUR 1.1 million.
- In Poland, the market value of Diana Office went down by EUR 0.2 million. Also, the value of logistic park Marki decreased by EUR 1.1 million;
- In Hungary, the increase relates to the freehold buildings Váci 188 (EUR 1.5 million) and Váci 199 (EUR 0.6 million).
- In Luxembourg, the value of Capellen office building decreased by EUR 1.4 million.

The reversal of impairment charges in Poland is attributable to Zlota 44. Following the sale, impairment recorded in 2013 (EUR 120.8 million) was partially reversed in the amount of EUR 34.3 million reflecting the sales price exceeding the net book value of the project. In addition, a provision of EUR 13.2 million related to payments claimed by Zlota general contractor has been released as the sales price was reduced for potential indemnities provided to the buyer.

The total gross transaction price of EUR 63.3 million agreed in August 2014 was partially deferred and subject to settlement of disputes with the general contractor. The purchase price was finally agreed and decreased by EUR 13.3 million used for the settlement of the disputes. The final purchase amounts to EUR 50.0 million.

## 7.7 Adjusted EBITDA

Unlike the operating result, the adjusted EBITDA decreased by EUR 5.5 million and amounts to EUR -3.4 million as at 31 December 2014, compared to EUR 2.0 million in 2013. The sale of Zlota 44 project itself does not contribute to EBITDA as both revenue and cost of goods sold amount to EUR 50.0 million. As the EBITDA is adjusted for non-cash items, the reversal of impairment for Zlota 44 does not influence this measure. The other projects are not in the position to generate sufficient revenue to cover all the operating expenses, including administration costs and consultancy fees. The positive impact of head office restructuring carried out in 2014 is expected to become evident in the following year.

Development segment reports a decrease of EUR 4.6 million compared to December 2013, which is driven mainly by residential activity with negative EBITDA of EUR 9.4 million. The residential activity includes revenue from the sale of Zlota 44 and absorbs major part of operating expenses which are allocated based on the portion of revenue generated in each segment. As described above, the sale of Zlota 44 project has no impact on EBITDA.

In Property Investments, the adjusted EBITDA decreased by EUR 0.8 million compared to 2013. This negative variation is impacted by Management services activity due to lower amount of management fees from sold Endurance Fund assets.

| | Development | Property Investments | TOTAL |
|---|---|---|---|
| **Operating Result - 12m 2014** | **25,648** | **313** | **25,961** |
| Net gain or loss from fair value adjustments on investment property | (1,177) | (896) | (2,073) |
| Amortisation, impairments and provisions | (42,390) | 4,134 | (38,256) |
| Termination indemnities | 8,943 | 2,030 | 10,973 |
| Net result on disposal of assets | 19 | (47) | (28) |
| **Adjusted EBITDA - 12m 2014** | **(8,958)** | **5,533** | **(3,425)** |
| **Adjusted EBITDA - 12m 2013 (reported)** | **(4,314)** | **6,348** | **2,034** |
| **Variation YoY** | **(4,644)** | **(815)** | **(5,459)** |

## 7.8 Financial result

The financial loss of EUR 48.2 million recorded in 2014 arises from interest expenses accrued on bank loans and bonds issued by the Group and from extraordinary financial charges related to restructuring of financial debts. In addition, the Group suffered severe accounting losses due to deconsolidation of certain assets which are recorded in the other net financial result (for details see below).

### Interest expenses

Over the year 2014, gross interest expenses recorded in profit and loss reached EUR 21.1 million compared to EUR 21.7 million over the same period in 2013. Out of these EUR 21.1 million, EUR 7.6 million were paid cash (as shown in the consolidated cash flow statement). The interests on Safeguard bonds and New Notes are increasing from EUR 9.3 million in 2013 to EUR 10.4 million in 2014.

The interests on bank loans decreased from EUR 12.4 million in 2013 to EUR 10.7 million in 2014. Disposal of highly leveraged assets has had a positive effect on total interest on bank loans which decreased due to lower interest paid on loans financing investment properties (EUR 4.3 million in 2014 compared to EUR 10.7 million in 2013). On the other hand, interests on bank loans for development projects increased from EUR 1.6 million in 2013 to EUR 6.4 million in 2014 due to suspension of interest capitalization for Zlota 44 bank loan following the decision to stop development and sell the project as is.

### Other net financial results

| | 12 months 2014 | 12 months 2013 (restated) |
|---|---|---|
| Impairment of long-term receivables | - | (37,864) |
| Change in fair value and realized result on derivative instruments | (69) | 1,218 |
| Change in fair value and realized result on other financial assets | (7,534) | (11,619) |
| Realized result on repayment of borrowings | (3,474) | 14,891 |
| Result on disposal of subsidiaries | (17,646) | - |
| Other net financial results | (485) | (578) |
| **Total** | **(29,208)** | **(33,952)** |

Change in fair value and realized result on other financial assets relates to:

- negative revaluation of EUR 9.7 million realized on the PPL loan provided to hospitality joint venture prior to its disposal;

- further impairment of RFE promissory note of EUR 1.1 million;
- a dividend received from Endurance Residential Sub Fund in the amount of EUR 1.6 million;
- reversal of impairment of EUR 1.5 million recognized on Endurance Residential Sub Fund.

The result on repayment of borrowings consists of loss recognized in relation to revaluation of the Notes after the amendment of their terms and conditions.

Result on disposal of subsidiaries includes the following:

- a gain recognized in relation to the deconsolidation of Hungarian entities of EUR 25.6 million;
- a loss upon deconsolidation of CPI PG of EUR 34.8 million and a loss on disposal of CPI PG shares of EUR 2.9 million (for more detail refer to note 17);
- a settlement payment of EUR 9.0 million transferred to financing bank of Hungarian assets in bankruptcy. In consideration the bank waived the guarantee provided by the Company in respect of the assets and released the mortgage over Váci 188 asset;
- a loss upon disposal of hospitality joint venture and related loan receivables in the amount of EUR 6.5 million;
- a gain of EUR 3.0 million resulting from deconsolidation of Orco Project, sp. z o.o. with negative net asset value due to declaration of bankruptcy of the company;
- a gain related to deconsolidation of company Szczecin Project, sp. z o.o. in the amount of EUR 5.4 million.

### 7.9 Share on profit or loss of equity accounted investments

The total share of losses of joint ventures recognized in the income statement amounts to EUR 0.5 million in 2013 (2014: EUR 0.4 million).

The Group has no interest in associates, as at 31 December 2014, the Group was involved in two joint ventures.

Košík

Košík is a joint venture established with GE dedicated to residential development in the south-east area of Prague. The Group has a 50% interest in Kosic S.à r.l., a Luxembourg based holding company which in turn holds 100% of two operational companies seated in the Czech Republic - SV Fáze II, s.r.o. and SV Fáze III, s.r.o.

The carrying amount of Group's investment in Košík joint venture is nil as at 31 December 2014 (2013: EUR 0.1 million) as the Group's share of losses exceeded the carrying amount of interest in the joint venture. Losses in excess of the interest amounting to EUR 0.2 million were applied to a loan receivable provided to Košík joint venture by the Group.

A provision of EUR 1.8 million (2013: EUR 3.5 million) has been accrued in the liabilities of the joint venture to cover the onerous contract on the minimum return guaranteed to the partner. When this agreed amount will be paid by the joint venture to the other joint partner, their 50 % share will be transferred to the Group for no consideration.

Uniborc

Uniborc S.A is a joint venture constituted in 2013 with Unibail Rodamco aimed at developing a shopping center in the Bubny area, Prague. The Group's shareholding is 20 %. The Group has an option until the start of the works for the future shopping mall to increase its shareholding to 50% at acquisition cost in the joint venture plus interest.

The net liabilities of the joint venture amount to EUR 1.9 million as at 31 December 2014. Losses in excess of the interest amounting to EUR 0.4 million were applied to a loan receivable provided to Uniborc joint venture by the Group.

Hospitality joint venture

As of 31 December 2013, the Group has had a 44% direct and indirect effective interest in the joint venture Hospitality Invest S.á r.l., created by Endurance Hospitality Assets S.à r.l., a Group subsidiary and a joint partner AIG.

The stake of AIG of 50 % was transferred to CPI PG in April 2014, subject to an approval by the Group. Following the disposal of the share by the joint partner and in line with its new strategy, the Group has sold its interest in the joint venture to CPI PG in December 2014 through transfer of its ownership in Endurance Hospitality Assets S.à r.l. and Endurance Hospitality Finance, S.à r.l., entities holding 50 % share in Hospitality Invest S.á r.l. The transaction price was EUR 13.3 million.

The Group interest in the Hospitality joint venture was recognized at a nil value in the Group consolidated financial statements. The Group also discontinued recognizing its share of losses of the joint venture, since the Group's share in cumulated losses exceeded its initial investment and there was no corporate guarantee.

## 7.10 Income taxes

The income tax recognized in the income statement amounts to EUR 0.3 million and is composed of EUR 0.4 million of current income tax revenue which relates to return of income tax paid in respect of previous years and EUR 0.1 million of deferred tax expenses. The Group paid EUR 0.1 million of current income taxes in 2014.

## 7.11 Balance sheet

| ASSETS | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | **344,630** | **890,573** |
| **Intangible assets** | 7 | **38** | **46,414** |
| **Investment property** | 8 | **249,236** | **710,552** |
| **Property, plant and equipment** | | **1,030** | **73,949** |
| Hotels and owner occupied buildings | 9 | - | 61,639 |
| Fixtures and fittings | 12 | 1,030 | 12,310 |
| **Equity method investments** | 10 | **35** | **93** |
| **Financial assets at fair value through profit or loss** | 13.1 | **2,627** | **28,285** |
| **Financial assets available-for-sale** | 13.2 | **86,995** | **2,435** |
| **Non-current loans and receivables** | 13.3 | **4,669** | **28,533** |
| **Deferred tax assets** | 26 | **-** | **313** |
| **CURRENT ASSETS** | | **28,089** | **252,156** |
| Inventories | 14 | 9,422 | 114,720 |
| Trade receivables | | 2,362 | 19,962 |
| Derivative instruments | 19.7 | - | 29 |
| Cash and cash equivalents | 17 | 7,103 | 88,669 |
| Other current financial assets | 16 | 6,092 | 2,674 |
| Other current non-financial assets | 16 | 3,110 | 26,103 |
| **ASSETS HELD FOR SALE** | 11 | **1,395** | **29,116** |
| **TOTAL** | | **374,114** | **1,171,845** |

| EQUITY & LIABILITIES | | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **EQUITY** | | **206,016** | **263,117** |
| **Equity attributable to owners of the Company** | 28 | **205,510** | **175,909** |
| **Non-controlling interests** | 18 | **506** | **87,208** |
| **LIABILITIES** | | **168,098** | **908,728** |
| **Non-current liabilities** | | **138,795** | **491,269** |
| Bonds | 19 | 62,237 | 64,992 |
| Financial debts | 19 | 65,252 | 295,304 |
| Provisions and other long term liabilities | 20 | 7,209 | 23,436 |
| Deferred tax liabilities | 26 | 4,097 | 107,537 |
| **Current liabilities** | | **29,066** | **389,737** |
| Current bonds | 19.4 | 278 | 321 |
| Financial debts | 19.4 | 13,557 | 273,041 |
| Trade payables | 21 | 4,008 | 22,425 |
| Advance payments | | 1,474 | 33,887 |
| Derivative instruments | 19.7 | 599 | 1,244 |
| Other current financial liabilities | 21 | 4,414 | 32,994 |
| Other current non-financial liabilities | 21 | 4,736 | 25,825 |
| **LIABILITIES LINKED TO ASSETS HELD FOR SALE** | 11 | **237** | **27,722** |
| **TOTAL** | | **374,114** | **1,171,845** |

## 7.12 Cash flow statement

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| **OPERATING RESULT** | **23,239** | **(164,318)** |
| Net gain / loss from fair value adjustments on investment property | (2,073) | 34,444 |
| Amortization, impairments and provisions | (38,256) | 166,812 |
| Net result on disposal of assets | (29) | (88) |
| **Adjusted operating profit / loss** | **(17,119)** | **36,850** |
| Financial result | (885) | (490) |
| Income tax paid | (945) | (4,600) |
| **Financial result and income taxes paid** | **(1,830)** | **(5,090)** |
| **Changes in operating assets and liabilities** | **53,483** | **(7,058)** |
| **NET CASH FROM /(USED IN) OPERATING ACTIVITIES** | **34,534** | **24,702** |
| Acquisition of group of assets | (37,000) | - |
| Capital expenditures and tangible assets acquisitions | (1,754) | (4,957) |
| Proceeds from sales of non-current tangible assets | 110 | 6,993 |
| Purchase of intangible assets | - | (201) |
| Purchase of financial assets | (48,532) | (347) |
| Loans granted to joint ventures and associates | - | (4,239) |
| Deferred consideration repayment received from long-term receivables | - | 634 |
| Dividends received | 1,585 | - |
| Proceeds from disposal of associates | - | 8,742 |
| Proceeds from disposal of financial assets | 60,354 | 1,986 |
| Changes in the Group | (87,415) | - |
| **NET CASH FROM INVESTING ACTIVITIES** | **(112,652)** | **8,611** |
| Proceeds from issuance of ordinary shares | 59,200 | 15,000 |
| Proceeds from capital increase in subsidiary by non-controlling interests | 36,000 | 53,862 |
| Proceeds on disposal of treasury shares | - | 2,253 |
| Proceeds on disposal of partial interests in a subsidiary | - | 8,216 |
| Proceeds from borrowings | 7,019 | 17,236 |
| Net interest paid | (7,578) | (23,546) |
| Repayment on New Notes | (13,156) | - |
| Repayments of borrowings | (84,416) | (35,682) |
| Repayment interests on Safeguard bonds | (321) | (4,823) |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(3,252)** | **32,516** |
| **NET INCREASE/(DECREASE) IN CASH** | **(81,370)** | **65,829** |
| Cash and cash equivalents at the beginning of the year | 88,669 | 23,633 |
| Exchange difference on cash and cash equivalents | (196) | (794) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **7,103** | **88,669** |

### 7.13 Annual statutory financial information

The Group parent company, Orco Property Group S.A. prepares its separate financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and as permitted by Luxembourg Law dated December 10, 2010 and subsequently amended.

As of 31 December 2014 the total assets of the Company amount to EUR 249.4 million compared with EUR 300.6 million in the previous year. The net equity as of 31 December 2014 amounts to EUR 123.9 million. The Company reports an operating loss of EUR 38.9 million mainly due to the losses recognized upon sales of equity investments in affiliated undertakings of EUR 245.3 million, reduced by reversal of impairments and provisions in the amount of EUR 207.9 million.

The subscribed share capital of the Company amounting to EUR 31.45 million is considered as the corporate capital of the Company.

## 8 Corporate governance

### 8.1 Principles

Good corporate governance improves transparency and the quality of reporting, enables effective management control, safeguards shareholder interests and serves as an important tool to build corporate culture. The Company is dedicated to acting in the best interests of its shareholders and stakeholders. Towards these ends, it is recognized that sound corporate governance is critical. The Company is committed to continually and progressively implementing industry best practices with respect to corporate governance and has been adjusting and improving its internal practices in order to meet evolving standards. The Company aims to communicate regularly to its shareholders and stakeholders regarding corporate governance and to provide regular updates on its website.

Since the Company was founded in 1991, its accounts have been audited regularly each year. After a full tender process driven by the Audit Committee, two Luxembourg auditing firms, KPMG and HRT Révision S.A., were appointed by the general meeting in 2013. In addition, the Company's portfolio of assets is regularly evaluated by an independent expert, DTZ, which was re-appointed after a tender process in 2014. In case of properties connected with high risk second appraiser opinion is requested (appraiser REAS was used to value Zlota 44 as at 31 December 2013).

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

As a company incorporated in Luxembourg, the Company's primary regulator is the *Commission de Surveillance du Secteur Financier* (the "CSSF"). The Company's procedures are designed to comply with applicable regulations, in particular those dealing with market abuse. The Company also has a risk assessment procedure designed to identify and limit risk. In addition, the Company aims to implement corporate governance best practices inspired by the recommendations applicable in Luxembourg, France, and Poland.

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

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

On 23 May 2012, the Board of Directors elected the Ten Principles and their Recommendations of the Luxembourg Stock Exchange as a reference for its Corporate Governance Rules.

### 8.2 Board of Directors

The Company is administered and supervised by a Board of Directors made up of at least three members.

### 8.2.1 Appointment of Directors

The Directors are appointed by the general meeting of shareholders for a period of office not exceeding six years. They are eligible for re-election and may be removed at any time by decision of the general meeting of shareholders by simple majority vote.
In the event of a vacancy in the office of a Director, the remaining Directors may provisionally fill such vacancy, in which case the general meeting of shareholders will hold a final election at the time of its next meeting.

However, if five Director positions become vacant, an extraordinary general meeting of shareholders will be convened for the purpose of renewing the Board of Directors.

Legal entities appointed as Directors must designate a representative, who must be a natural person, to attend meetings of the Board of Directors in their name. Such representative is subject to the same conditions and obligations and will incur the same liability as if he had been appointed as Director in his own name, without prejudice to the joint and several liability of the legal entity he represents. A power of attorney evidencing the fact that he is empowered to validly represent and to bind the said legal entity during his period of office must be delivered to the Company at the time the Board of Directors is appointed.

At the time of renewal of the mandate of a legal entity appointed as director, the power of attorney of the agent for such legal entity must be renewed.

In the event that the legal entity revokes the power of attorney of its representative, it must notify such dismissal to the Company without delay by registered letter, and include in such letter the identity of its new representative. The same applies in the event of the death, resignation or lengthy impediment or prevention of the permanent representative.

Any employee of the Company may be appointed Director subject to an employment contract being executed prior to appointment, and corresponding to an actual employment. The number of Directors linked to the Company by an employment contract may in no event exceed one third of the Directors in office.

### 8.2.2 Current Board of Directors

As of 31 December 2014 the Board of Directors consisted of:

- 1 executive member representing the management of the Company: Mr. Jiri Dedera,
- 2 independent members: Mr. Guy Wallier and Mr. Edward Hughes,
- 1 non-executive member representing shareholders: Mr. Pavel Spanko.

The current Board of Directors is appointed until the annual general meeting of 2015 concerning the approval of the annual accounts for the financial year ending 31 December 2014.

The annual general meeting of the shareholders of the Company held on 27 June 2013 elected the following Board of Directors until the annual general meeting concerning the approval of the annual accounts for the financial year ending 31 December 2013: Ian Cash, Jiri Dedera, Edward Hughes, Alexis Juan, Jean-François Ott, Guy Shanon, Nicolas Tommasini, Radovan Vitek, and Guy Wallier.

On 20 December 2013 Alexis Juan resigned from the Board of Directors of the Company.

The general meeting of Company's shareholders held on 6 January 2014 resolved to remove the following directors from the Board of Directors of the Company: Nicolas Tommasini, Guy Shanon and Ian Cash. The meeting also acknowledged the resignation of Alexis Juan from the Board of Directors as of 20 December 2013.

The extraordinary general meeting of the shareholders of the Company held on 8 April 2014 elected Tomas Salajka to the Board of Directors until the annual general meeting concerning the approval of the annual accounts for the financial year ending 31 December 2013.

The annual general meeting of the shareholders of the Company held on 28 May 2014 elected the following Board of Directors until the annual general meeting concerning the approval of the annual accounts for the financial year ending 31 December 2014: Jiri Dedera, Edward Hughes, Tomas Salajka, Radovan Vitek, and Guy Wallier.

On 10 November 2014 Tomas Salajka and Radovan Vitek resigned from the Board of Directors of the Company. Pavel Spanko has been coopted to the Company's Board of Directors on 12 November 2014 and on 17 February 2015 the extraordinary general meeting of the shareholders of the Company confirmed his appointment until the annual general meeting of 2015 concerning the approval of the annual accounts for the financial year ending 31 December 2014.

As of the date of this report, the Board of Directors thus comprises of four directors, of which one is an executive director representing the management of the Company (Jiri Dedera), two are independent directors (Guy Wallier, and Edward Hughes), and one is a non-executive director representing shareholders (Pavel Spanko).

The independent directors are not involved in management, are not employees or advisors with a regular salary and do not give professional services such as external audit services or legal advice. Furthermore, they are not related persons or close relatives of any management member or majority shareholder of the Company.

The Board of Directors meetings are held as often as deemed necessary or appropriate. All members, and in particular the independent and non-executive members, are guided by the interests of the Company and its business, such interests including but not limited to the interests of the Company's shareholders and employees.

In 2014, the Board of Directors held 18 meetings.

### 8.2.3 Powers of the Board of Directors

The Board of Directors represents the shareholders and acts in the best interests of the Company. Each member, whatever his/her designation, represents the Company's shareholders.

The Board of Directors is empowered to carry out all and any acts deemed necessary or useful to accomplish the corporate purpose of the Company. All matters that are not reserved for the general meeting of shareholders by law or by the Articles of Association are within its authority.

In its relationship with third parties, the Company is bound by acts exceeding its corporate purpose, unless it can prove that the third party knew such act exceeded the Company's corporate purpose or should have known under the circumstances.

The Directors do not contract any personal obligation with regard to the commitments of the Company.

The Directors however remain responsible to the Company in accordance with common law as regards the due discharge of their duties as given and any faults committed during their period in office.

The Directors are jointly and severally liable, to the Company or to third parties if applicable, for all and any damages resulting from infractions to the provisions of the Luxembourg act of 10 August 1915 on commercial companies, as amended, or to the Articles of Association of the Company. They may only be granted discharge from such liability, with respect to infractions in which they have taken part, if no fault may be attributed to them and they have denounced such infractions before the next general meeting of shareholders as soon as they have become aware of such infractions.

### 8.2.4 Deliberations

The Board of Directors may only deliberate if a majority of its members are present or represented by proxy, which may be given in writing, by telegram, telex or fax. In cases of emergency the Directors may vote in writing, by telegram, telex, fax, electronic signature or by any other secured means.

The decisions of the Board of Directors must be made by majority vote; in case of a tie, the Chairman of the meeting shall have the deciding vote.

Resolutions signed unanimously by the members of the Board of Directors are as valid and enforceable as those taken at the time of a duly convened and held meeting of the Board.

The Board will regularly evaluate its performance and its relationship with the Executive Management.

### 8.2.5 Delegations of powers to Managing Directors

The Board of Directors may delegate all or part of its powers regarding the daily management as well as the representation of the Company with regard to such daily management to one or more Directors, who need not be shareholders. Actions in the daily management of the Company include all operations carried out in relation to the corporate purpose, such as real estate acquisitions, taking ownership interests and making loans to group companies, bank financing operations without limit as to their amount, as well as any kind of investment.

Any such delegation to a member of the Board of Directors is subject to the prior approval of the general meeting of shareholders, and any delegation must be filed with the Luxembourg Trade and Companies Register in accordance with the provisions of Article 9 of the Luxembourg act of 10 August 1915 on commercial companies, as amended.

The Board of Directors designates a Secretary, who is not required to be on the Board of Directors. The Secretary is in charge of convening the meetings of the Board of Directors, keeping the register of attendance and minutes and delivering requested copies or abstracts of the minutes.

In the event of the absence or impediment of the Managing Director, the Board of Directors will designate at the time of each meeting one of its members to act as Chairman of the meeting. Barring another agreement, the most senior Director will chair the meeting.

The Managing Director and Secretary are always eligible for re-election.

The general meeting of shareholders held on 28 May 2014 appointed Jiri Dedera as Managing Director (*administrateur delegue*) of the Company until the annual general meeting of shareholders concerning the approval of the annual accounts of the Company relating to the accounting year ending 31 December 2014. Mr. Dedera has been also appointed as the Chairman of the Board of Directors until the annual general assembly of the Company concerning the approval of the annual accounts of the Company relating to the accounting year ending 31 December 2014.

Nicolas Tommasini has been appointed Secretary of the Board of Directors. On 3 February 2014 the Board of Directors resolved to replace Nicolas Tommasini in the function of the Secretary of the Board and to appoint Tomas Salajka as the Secretary of the Board of Directors. Following the resignation of Mr. Salajka from the Board of Directors, Secretary's position remains empty.

### 8.2.6 Signatory powers within the Board of Directors

The Company may be validly bound either by the joint signatures of any two Directors or by the single signature of a Managing Director.

### 8.2.7 Training of members of the Board of Directors

The Company has started in 2011 to provide its directors with training in governance offered either internally or by specialist external institutions. For members of the Audit Committee, an overview has been given of the company's organization and of its risk management systems including information on IFRS, company's accounting, financial and operational features.

### 8.2.8 Special commitments in relation to the election of the members of the Board of Directors

The Company is not aware of commitments that are in effect as of the date of this report by any parties relating to the election of members of the Board of Directors.

## 8.3 Committees of the Board of Directors

As of 31 December 2014 the Board of Directors has the following committees:

- Audit Committee
- Remuneration, Appointment and Related Party Transaction Committee

The implementation of decisions taken by these committees enhances the Company's transparency and corporate governance.

Independent and non-executive directors are a significant part of these committees.

### 8.3.1 Audit Committee

Following the changes in the Board of Directors composition throughout 2014 the Audit Committee is now comprised of two independent members of the Board of Directors, Edward Hughes (chairman) and Guy Wallier, and one executive director, Jiri Dedera.

The Audit Committee reviews the Company's accounting policies and the communication of financial information. In particular, the Audit Committee follows the auditing process, reviews and enhances the Company's reporting procedures by business lines, reviews risk factors and risk control procedures, analyzes the Company's group structure, assesses the work of external auditors, examines consolidated accounts, verifies the valuations of real estate assets made by DTZ, marks bonds to market and audits reports.

The Audit Committee has therefore invited persons whose collaboration is deemed to be advantageous to assist it in its work and to attend its meetings.

In 2014, the Audit Committee held 4 meetings.

### 8.3.2 Remuneration, Appointment and Related Party Transaction Committee

Following the changes in the Board of Directors composition throughout 2014 the Remuneration, Appointment and Related Party Transaction Committee (the "Remuneration Committee") is now comprised of two independent members of the Board of Directors, Edward Hughes (chairman) and Guy Wallier, and one executive director, Jiri Dedera. The Remuneration Committee presents proposals to the Board of Directors about remuneration and incentive programs to be offered to the management and the Directors of the Company. The Remuneration Committee also deals with related party transactions.

The role of the Remuneration Committee is among other things to submit proposals to the Board regarding the remuneration of executive managers, to define objective performance criteria respecting the policy fixed by the Company regarding the variable part of the remuneration of top management (including bonus and share allocations, share options or any other right to acquire shares) and that the remuneration of non-executive Directors remains proportional to their responsibilities and the time devoted to their functions.

In 2014, the Remuneration Committee held 2 meetings.

### 8.3.3 Management of the Company

The management is entrusted with the day-to-day running of the Company and among other things to:

- be responsible for preparing complete, timely, reliable and accurate financial reports in accordance with the accounting standards and policies of the Company;
- submit an objective and comprehensible assessment of the company's financial situation to the Board of Directors;
- regularly submit proposals to the Board of Directors concerning strategy definition;
- participate in the preparation of decisions to be taken by the Board of Directors;
- supply the Board of Directors with all information necessary for the discharge of its obligations in a timely fashion;
- set up internal controls (systems for the identification, assessment, management and monitoring of financial and other risks ), without prejudice to the Board's monitoring role in this matter; and
- regularly account to the Board for the discharge of its responsibilities.

The members of the management meet on a regular basis to review the operating performance of the business lines and the containment of operating expenses.

On 18 March 2014, the Board of Directors decided to implement changes in the management structure by terminating the executive contracts of Jean-François Ott, Nicolas Tommasini, Ales Vobruba and Brad Taylor, and agreeing to comply with their termination packages.

The Board of Directors has appointed Tomas Salajka as new CEO and Jiri Dedera, then Deputy CEO, as new Managing Director of the Company.

In November 2014 the Company and Mr. Yves Désiront mutually agreed to terminate their collaboration. Mr. Désiront's position of Group CFO was as a result terminated. The parties agreed that Mr. Désiront will continue supporting the Company in several specific matters until the end of February 2015.

On 10 November 2014 Tomas Salajka resigned from his position of CEO of the Company with immediate effect, but agreed to continue supporting the Company in several specific matters until the end year. Further to the resignation of Mr. Salajka from the position of CEO on 10 November 2014, the Board of Directors appointed Mr. Jiri Dedera as the new CEO on 12 November 2014.

On 15 December 2014 the Company appointed Erik Morgenstern as a new CFO.

As of 31 December 2014, the Company's management consisted of the following members:

Jiri Dedera, Chief Executive Officer & Managing Director, previously appointed as Deputy CEO, joined the Company in January 2014. Jiri has also been a Director of the Company since 4 February 2013 and is a member of the Company's Audit Committee and Remuneration Committee. Before joining the Company, Jiri was working for CPI Group as the Investment Director and before that for Deloitte and PricewaterhouseCoopers in the Czech Republic and in the United States. He graduated from the Technical University of Brno, Czech Republic.

Erik Morgenstern, Chief Financial Officer, has over 10 years of experience in various finance positions in the real estate sector, including Director of Accounting and IFRS and CFO. Prior to joining the Company Mr. Morgenstern worked for CPI PROPERTY GROUP. He graduated from the University of Economics Prague, Czech Republic.

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### 8.4 Description of internal controls relative to financial information processing.

The Company has organized the management of internal control by defining control environment, identifying the main risks to which it is exposed together with the level of control of these risks, and strengthening the reliability of the financial reporting and communication process.

#### 8.4.1 Control Environment

An organization chart has been redesigned for the two business segments (Property Investment and Development) and a job description has been issued for all positions across Central Europe. There is a limited and defined power of attorney.

For the annual closure, the Company's management fills an individual questionnaire so that any transactions they have carried out with the Company as "Related parties" can be identified.

The Audit Committee has a specific duty in terms of internal control; the role and activities of the Audit Committee are described in this Management Report.

### 8.5 Remuneration and benefits

#### 8.5.1 Board of Directors

See note 32 to the consolidated financial statements.

### 8.5.2 Top management

See note 32 to the consolidated financial statements.

### 8.5.3 Employee stock options

See note 28 of the consolidated financial statements.

## 8.6 Corporate Governance rules and regulations

In reference to the information required by paragraphs (a) to (k) of Article 11(1) of the Law of 19 May 2006 transposing Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, the Board of Directors states the following elements:

*(a) The structure of the capital, including securities which are not admitted to trading on a regulated market in a Member State, where appropriate with an indication of the different classes of shares and, for each class of shares, the rights and obligations attaching to it and the percentage of total share capital that it represents:*

The share capital of the Company is represented by only one class of shares carrying same rights. The 114,507,629 shares registered under ISIN code LU0122624777 (representing app. 36.4% of the total share capital) are admitted for trading on the regulated markets of the NYSE Euronext Paris and the Warsaw Stock Exchange. The 200,000,000 shares that were issued on 10 November 2014 (representing app. 63.6% of the total share capital) have not been admitted to trading on the regulated market yet, but the Company will seek to list them on the regulated markets of NYSE Euronext Paris and the Warsaw Stock Exchange as soon as reasonably practicable, subject to legal and regulatory requirements.

In July 2014 the Company decided to apply for delisting of all of its shares from the regulated market of the Prague Stock Exchange (the “PSE”). All of the 114,507,629 ordinary shares (ISIN: LU0122624777) of the Company have been delisted from the regulated market of the PSE as of 22 September 2014 and the last trading day was 19 September 2014.

In November 2011 the Company applied to delist all of its shares from the regulated market of the Budapest Stock Exchange (the “BSE”). The last trading day of the shares on the BSE was 25 November 2011 and the shares were delisted and removed from the BSE product list on 1 December 2011.

*(b) Any restrictions on the transfer of securities, such as limitations on the holding of securities or the need to obtain the approval of the company or other holders of securities, without prejudice to Article 46 of Directive 2001/34/EC:*

There is no restriction on the transfer of securities of the Company as of 31 March 2015.

*(c) Significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC:*

To the best of the Company’s knowledge, the following table sets out information regarding the ownership of the Company’s shares as of 31 December 2014. The information collected is based on the notifications received by the Company from any shareholder crossing the thresholds of 2.5%, 5%, 10%, 15%, 20%, 33 1/3%, 50% and 66 2/3% of the aggregate voting rights in the Company.

| Shareholder | Number of shares | % of capital / voting rights |
|---|---|---|
| Aspley Ventures Limited | 100,000,000 | 31.8% |
| Fetumar Development Limited | 100,000,000 | 31.8% |
| Gamala Limited | 35,177,765 | 11.2% |
| Alchemy Special Opportunities Fund II L.P. | 12,544,292 | 4.0% |
| Jean-François Ott (including Ott&Co S.A., Joho Compagnie, Ott Properties, Roxannia Enterprises Company Limited, Stationway Properties Limited) | 11,013,996 | 3.5% |
| MSREF V Turtle B.V. and Jardenne Corporation S.àr.l. | 3,275,996 | 1.0% |
| Others | 52,495,580 | 16.7% |
| **Total** | **314,507,629** | **100.0%** |

In 2013, the Company transferred 1 share to Edward Hughes for free and until he holds the Board function. In 2014, the Company transferred 1 share to Jiri Dedera and Tomas Salajka each for free and until they hold the Board function.

*(d) The holders of any securities with special control rights and a description of those rights:*

None of the Company's shareholders has voting rights different from any other holders of the Company's shares.

The Company will respect the rights of its shareholders and ensure they receive equitable treatment. The Company has established a policy of active communication with the shareholders.

To the Company's knowledge, the Company is not aware of any person who owns, directly or indirectly, or exercises control of the Company.

*(e) The system of control of any employee share scheme where the control rights are not exercised directly by the employees:*

This is not applicable. The Company has no employee share scheme. A share option plan that was set up in the past expired as of the date of this Management Report.

*(f) Any restrictions on voting rights, such as limitation on the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of securities:*

There is no restriction on voting rights.

*(g) Any agreements between shareholders which are known to the company and may result in restrictions on the transfer of securities and/or voting rights within the meaning of Directive 2001/34/EC:*

To the knowledge of the Company, no shareholder agreements have been entered by and between shareholders that are in effect as of the date of this report.

*(h) the rules governing the appointment and replacement of board members and the amendment of the articles of association:*

See section 8.2.1 Appointment of Directors of this report.

*(i) the powers of board members, and in particular the power to issue or buy back shares:*

See section 8.2.3 Powers of the Board of Directors beginning on page 35 of this report.

*(j) any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is specifically obliged to disclose such information on the basis of other legal requirements:*

Under the Securities Note and Summary dated 22 March 2007, with respect to the issue of the 2014 Warrants, the occurrence of a Change of Control (as described in Condition 4.1.8.1.2.1 of the Securities Note and Summary dated 22 March 2007) could result in a potential liability for the Company due to "Change of Control Compensation Amount" of up to EUR 20,039,726.58 for the aggregate number of 2014 Warrants as at 31 December 2014. According to the Securities Note and Summary each 2014 Warrant would need to be repurchased by the Company at a price of EUR 6.98/ 2014 Warrant in the event of a Change of Control as at 31 December 2014. This "Change of Control Compensation Amount" per 2014 Warrant decreases as time goes by. Change of Control is defined as "the acquisition or control of more than 50 per cent of the voting rights of that entity or (b) the right to appoint and/or remove all or the majority of the members of the Board of Directors or other governing body of that entity, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise." The Change of Control Compensation Amount with respect to 2014 Warrants filed with their respective holders has been admitted in the Company's Safeguard plan only in the amount of EUR 707,826.24. As at 31 December 2014 the Group holds 1,327,088 2014 Warrants.

To the knowledge of the Company, no other agreements have been entered by the Company.

*(k) any agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid:*

As at 31 December 2014, there are no potential termination indemnity payments in place payable to the members of the Company's management in the event of termination of their contracts in excess of the compensation as required by the respective labour codes.

As at 31 December 2013, the potential termination indemnity payment to some members of the Company's management amounted to EUR 16 million. This indemnity would became payable by the Company to the relevant management members only if the relationship between the Company and the management member is terminated by either party during the six-month period following a change of control of the Company. An additional indemnity to some members of the management and executive Board members agreed in their respective contracts amounted to EUR 2.7 million and was payable in the event of termination of their contracts. Certain fully owned subsidiaries of the Company entered into managing director agreements with some of their directors. These contracts included a termination indemnity of a total of EUR 588,000 (EUR 12,000 per each subsidiary and director) payable by subsidiaries in the event of termination of director's function. In accordance with the decision of the Board of Directors an amount of EUR 1 million has been provisioned as at 31 December 2013 as a retirement account payable at the termination of contracts of certain executive managers. Certain top managers owned in aggregate 1,606,159 of the 2014 Warrants. In the event of the occurrence of a Change of Control (as described in Condition 4.1.8.1.2.1 of the Securities Note and Summary dated 22 March 2007) the liability for the Company due to "Change of Control Compensation Amount" payable to the managers holding 2014 Warrants would be up top EUR 13.25 million.

On 18 March 2014, the Company's Board of Directors decided to dismiss and to terminate the executive contracts of Jean-François Ott, Nicolas Tommasini, Ales Vobruba and Brad Taylor. Following negotiations and approvals from the Board of Directors, on 27 March 2014 the Group and the former management entered into a confidential settlement and mutual general release agreement by which the Group settled all the existing and future potential obligations and claims arising from the termination and the holding of warrants by the former management. Under this settlement agreement, the former executives will receive EUR 7,150,000 in cash (EUR 1,150,000 to be paid in cash by CPI PG, then Orco Germany SA). In addition, settlements in kind (non-core assets) were agreed with the former management to transfer the Pachtuv Palace hotel in Prague and the Hakeburg property in Berlin (with their related assets and liabilities) at the net asset value as of 31 December 2013 of EUR 8,400,000 including all related shareholders' loans granted by the Group. As a result of the settlement agreement, Jean-François Ott, Nicolas Tommasini, Ales Vobruba and Brad Taylor resigned from all their Board positions and particularly from OPG and CPI PG boards. Accordingly, all indemnity payments as per previous paragraph have been terminated and settled. As part of the settlement, affiliated entities of the two members of the former management, or their affiliated entities, took over leasing of their company cars and one member of the former management, or his affiliated entity, purchased his company car at the then current accounting value.

## 8.7 Additional information

### 8.7.1 Legal form and share capital

ORCO PROPERTY GROUP is a public limited company ("*société anonyme*") incorporated and existing under Luxembourg law. Its corporate capital and subscribed and fully paid-up capital of EUR 31,450,762.90 is represented by 314,507,629 shares without nominal value. The accounting par value price is EUR 0.1 per share.

### 8.7.2 Date of incorporation and termination

The Company was incorporated by deed drawn on 9 September 1993 by Maître Frank Baden, for an indeterminate period of time.

### 8.7.3 Jurisdiction and applicable laws

The Company exists under the Luxembourg Act of 10 August 1915 on commercial companies, as amended and its primary regulator is the Commission de Surveillance du Secteur Financier. In addition, as the Company's shares are listed on the regulated markets of the NYSE Euronext Paris and the Warsaw Stock Exchange, the securities laws of the countries in which these stock exchanges are located could be applicable.

### 8.7.4 Object of business

As described in article 4 of the updated Articles of Association of the Company, its corporate purpose is the direct acquisition of real property, the holding of ownership interests and the making of loans to companies that form part of its group. Its activity may consist in carrying out investments in real estate, such as the purchase, sale, construction, valorization, management and rental of buildings, as well as in the promotion of real estate, whether on its own or through its branches.

Likewise, its activity may consist in carrying out investments in the hotel industry, such as the purchase, sale, construction, valorization, management and running of hotels on its own or through its branches.

It has as a further corporate purpose the holding of ownership interests, in any form whatsoever, in any commercial, industrial, financial or other Luxembourg or foreign companies, whether they are part of the group or not, the acquisition of all and any securities and rights by way of ownership, contribution, subscription, underwriting or purchase options, or negotiation, and in any other way, and in particular the acquisition of patents and licenses, their management and development, the granting to undertakings in which it holds a direct or indirect stake of all kinds of assistance, loans, advances or guarantees and finally all and any activities directly or indirectly relating to its corporate purpose. It may thus play a financial role or carry out a management activity in enterprises or companies it holds or owns.

The Company may likewise carry out all and any commercial, property, real estate and financial operations likely to relate directly or indirectly to the activities defined above and susceptible to promoting their fulfillment.

### 8.7.5 Trade register

RCS Luxembourg B 44 996.

### 8.7.6 Financial year

The Company's financial year begins on the first day of January and ends on the thirty-first day of December.

### 8.7.7 Distribution of profits and payment of dividends

Each year, at least five per cent of the net corporate profits are set aside and allocated to a reserve. Such deduction ceases being mandatory when such reserve reaches ten per cent of the corporate capital, but will resume whenever such reserve falls below ten per cent. The general meeting of shareholders determines the allocation and distribution of the net corporate profits.

Payment of dividends:

The Board of Directors is entitled to pay advances on dividends when the legal conditions listed below are fulfilled:

- an accounting statement must be established which indicates that the available funds for the distribution are sufficient;
- the amount to be distributed may not exceed the amount of revenues since the end of the last accounting year for which the accounts have been approved, increased by the reported profits and by the deduction made on the available reserves for this purpose and decreased by the reported losses and by the sums allocated to reserves in accordance with any legal and statutory provision;
- the Board of Directors' decision to distribute interim dividends can only be taken within two months after the date of the accounting statement described above;
- the distribution may not be determined less than six months after the closing date of the previous accounting year and before the approval of the annual accounts related to this accounting year;
- whenever a first interim dividend has been distributed, the decision to distribute a second one may only be taken at least three months after the decision to distribute the first one; and
- the statutory and independent auditor(s) in its (their) report to the Board of Directors confirm(s) the conditions listed above are fulfilled.

Under general Luxembourg law, the conditions for making advances on dividends are less stringent than the conditions listed above, however, the more restrictive provisions of the Company's Articles of Association will prevail as the recent changes under Luxembourg law have not yet been reflected in the Articles of Association of the Company.

When an advance distribution exceeds the amount of dividend subsequently approved by the general meeting of shareholders, such advance payment is considered an advance on future dividends.

### 8.7.8 Exceeding a threshold

Any shareholder who crosses a threshold limit of 2.5%, 5%, 10%, 15%, 33 1/3%, 50% or 66 2/3% of the total of the voting rights must inform the Company, which is then obliged to inform the relevant controlling authorities. Any shareholder not complying with this obligation will lose his voting rights at the next general meeting of shareholders, and until proper major shareholding notification is made.

### 8.7.9 Documents on display

Copies of the following documents may be inspected at the registered office of the Company (tel : +352 26 47 67 1), 40 rue de la Vallée, L-2661 Luxembourg, on any weekday (excluding public holidays) during normal business hours:

1. Articles of Association of the Company;
2. Audited consolidated financial statements of the Company as of and for the years ended 31 December 2014, 2013 and 2012, prepared in accordance with IFRS;

The registration document(s) and most of the information mentioned are available on the Company's website: www.orcogroup.com.

The registration document(s) is available on the website of Luxembourg Stock Exchange: www.bourse.lu.

## 8.8 External Auditors

The annual general meeting of 27 June 2013 decided to terminate the mandate of Deloitte and to appoint KPMG. The appointment of KPMG expires at the end of the annual general meeting of shareholders to be convened in 2015 to approve the accounts for the financial year ended 31 December 2015. The annual general meeting of 27 June 2013 also appointed HRT Révision S.A. (*cabinet de révision agréé*) until the end of the annual general meeting of shareholders to be convened in 2015 to approve the accounts for the financial year ended 31 December 2015.

# 9 Shareholding

## 9.1 Share capital and voting rights

The subscribed and fully paid-up capital of the Company of EUR 31,450,762.90 is represented by 314,507,629 shares without nominal value. The accounting par value is EUR 0.1 per share.

As of the date of this report, the Company has no authorized capital in addition to the issued capital (for more details see 9.5 below).

All the shares issued by the Company are fully paid and have the same value. The shares will be either in the form of registered shares or in the form of bearer shares, as decided by the shareholder, except to the extent otherwise provided by law.

The shareholder can freely sell or transfer the shares. The shares are indivisible and the Company only recognizes one holder per share. If there are several owners per share, the Company is entitled to suspend the exercise of all rights attached to such shares until the appointment of a single person as owner of the shares. The same applies in the case of usufruct and bare ownership or security granted on the shares.

Joint owners of shares must be represented within the Company by one of them considered as sole owner or by a proxy, who in case of conflict may be legally designated by a court at the request of one of the owners.

## 9.2 Shareholder holding structure

To the best of the Company's knowledge, the following table sets out information regarding the ownership of the Company's shares as of 31 December 2014. The information collected is based on the notifications received by the Company from any shareholder crossing the thresholds of 2.5%, 5%, 10%, 15%, 20%, 33 1/3%, 50% and 66 2/3% of the aggregate voting rights in the Company.

| Shareholder | Number of shares | % of capital / voting rights |
|---|---|---|
| Aspley Ventures Limited | 100,000,000 | 31.8% |
| Fetumar Development Limited | 100,000,000 | 31.8% |
| Gamala Limited | 35,177,765 | 11.2% |
| Alchemy Special Opportunities Fund II L.P. | 12,544,292 | 4.0% |
| Jean-François Ott (including Ott&Co S.A., Joho Compagnie, Ott Properties, Roxannia Enterprises Company Limited, Stationway Properties Limited) | 11,013,996 | 3.5% |
| MSREF V Turtle B.V. and Jardenne Corporation S.àr.l. | 3,275,996 | 1.0% |
| Others | 52,495,580 | 16.7% |
| **Total** | **314,507,629** | **100.0%** |

In 2013, the Company transferred 1 share to Edward Hughes for free and until he holds the Board function. In 2014, the Company transferred 1 share to Jiri Dedera and Tomas Salajka each for free and until they hold the Board function.

## 9.3 General meetings of shareholders

### 9.3.1 Ordinary general meetings of shareholders

Shareholders at the general meetings of shareholders have the broadest powers to adopt or ratify any action relating to the Company. Directors' appointments are made in accordance with the ordinary rules of deliberating assemblies. Every shareholder is entitled to vote personally or by proxy in accordance with the provisions of the Articles of Association. Every shareholder may take part in the deliberations, with a number of votes equal to the number of shares held, without limitation. The Board of Directors is entitled to adjourn a meeting, while in session, to four weeks later on its own or upon request of a shareholder or shareholders. It must do so at the request of shareholders representing at least one-fifth of the share capital of the Company. Any such adjournment, which also applies to general meetings called for the purpose of amending the Articles of Association, will cancel any resolution passed until it is again taken up at the second general meeting. The second meeting is entitled to pass final resolutions provided that, in cases of amendment of the Articles of Association, the conditions as to quorum laid down by Article 23 of the Articles of Association are fulfilled.

The annual general meeting of shareholders is held on the last Thursday of May at 2 p.m. CET time in Luxembourg at the registered office or at such other place as may be specified in the notice convening the meeting. If such day is a public holiday, the meeting will be held on the previous business day. The Board of Directors and the auditors are entitled to convene the general meeting of shareholders. They must convene the meeting if shareholders which represent one-tenth of the share capital require it by a written request, indicating the agenda proposed for such meeting. Such meeting will be held within one month of the written request. The notices for each general meeting of shareholders will contain the agenda and will be published at least thirty days prior to the meeting, in the *Mémorial C, Recueil des Sociétés et Associations* and in a Luxembourg newspaper. If all shares are in registered form, the notices may be sent by registered mail. At the annual general meeting, shareholders also receive the directors' and statutory and/or independent auditors' reports as well as the annual accounts. The annual accounts are to be filed by the directors of the Company with the Register of Commerce and Companies within one month of their approval.

### 9.3.2 Extraordinary general meetings of shareholders/bondholders

A resolution adopted at an extraordinary general meeting of shareholders may amend any provision of the Articles of Association. However, the nationality of the Company may be changed and the commitments of its shareholders may be increased only with the unanimous consent of all shareholders and bondholders of the Company.

The extraordinary general meeting of shareholders may not validly deliberate unless at least one half of the capital is represented and the agenda indicates the proposed amendments to the Articles, and where applicable, the text of those which concern the purposes or the form of the Company. If the first of these conditions is not satisfied, a second meeting may be convened, in the manner prescribed in the Articles of Association, by publishing at least seventeen days before the meeting, notices of such meeting in the *Mémorial C, Recueil des Sociétés et Associations* and in a Luxembourg newspaper. Such convening notice must reproduce the agenda and indicate the date and the results of the previous meeting. The second meeting will validly deliberate, regardless of the proportion of the capital that is represented. At both meetings, resolutions must be approved by at least two-thirds of the votes of the shareholders present or represented in order to be adopted.

Every shareholder is entitled to vote in person or by proxy. Each share entitles its holder to one vote. Any amendments concerning the purposes or the form of the Company must be also approved by the general meeting of all bondholders of the Company. Such meeting may not validly deliberate unless at least one half of the bonds outstanding are represented and the agenda indicates the proposed amendments. If the first of these conditions is not fulfilled, a second meeting may be convened in accordance with the conditions noted above. At the second meeting, bondholders who are not present or represented are regarded as being present and as voting for the proposals of the Board of Directors. The following requirements must be met subject to voidance of any resolutions adopted in breach thereof:

- the notice of the second meeting must contain the agenda of the first meeting and indicate the date and the minutes of that meeting
- the notice must specify the proposals of the Board of Directors on each of the items of such agenda, indicating the amendments proposed
- the notice must contain a notice to bondholders that failure to attend the meeting shall be deemed to indicate support for the proposals of the Board of Directors.

At both meetings, resolutions are validly adopted if they receive the approval of two-thirds of the votes.

### 9.4 Stock subscription rights

See note 32 of the consolidated financial statements.

### 9.5 Authorized capital not issued

The Company's extraordinary general meeting of shareholders of 28 May 2014 resolved to approve the decrease of the corporate capital of the Company from its present amount of EUR 114,507,629.- to EUR 11,450,762.90 without cancellation of shares, by decreasing the accounting par value of the existing shares from EUR 1 to EUR 0.10 per share. As such, the corporate capital of the Company amounted to EUR 11,450,762.90 as of 28 May 2014.

The extraordinary general meeting of 28 May 2014 also approved resolutions to modify, renew and replace the existing authorized share capital and to set it to an amount of twenty million euro (EUR 20,000,000.00) for a period of five (5) years from 28 May 2014, which would authorize the issuance of up to two hundred million (200,000,000) new ordinary shares in addition to the 114,507,629 shares currently outstanding.

The Company's Board of Directors was thus granted an authorization to increase the Company's share capital in accordance with article 32-3 (5) of the 1915 Luxembourg company law. The Board of Directors was granted full power to proceed with the capital increases within the authorized capital under the terms and conditions it will set, with the option of eliminating or limiting the shareholders' preferential subscription rights as to the issuance of new shares within the authorized capital.

The Board of Directors was authorized, during a period of five (5) years from the date of the general meeting of shareholders held on 28 May 2014, without prejudice to any renewals, to increase the issued capital on one or more occasions within the limits of the authorized capital. The Board of Directors was authorized to determine the conditions of any capital increase including through contributions in cash or in kind, among others, the conversion of debt into equity, by offsetting receivables, by the incorporation of reserves, issue premiums or retained earnings, with or without the issue of new shares, or following the issue and the exercise of subordinated or non-subordinated bonds, convertible into or repayable by or exchangeable for shares (whether provided in the terms at issue or subsequently provided), or following the issue of bonds with warrants or other rights to subscribe for shares attached, or through the issue of stand-alone warrants or any other instrument carrying an entitlement to, or the right to subscribe for, shares.

On 10 November 2014 the Board of Directors of the Company resolved to implement a reserved capital increase and raise EUR 59.2 million pursuant to the authorization granted to it by its shareholders during the extraordinary general meeting of 28 May 2014. On 10 November 2014 the Company issued 200 million new ordinary shares having a par value of EUR 0.10 each, at a subscription price of EUR 0.296 per new share, for a global cash contribution of EUR 59.2 million, which were subscribed as follows: (i) 100,000,000 new shares were subscribed for a total subscription price of EUR 29,600,000 by ASPLEY VENTURES LIMITED, British Virgin Islands, an entity closely associated with Mr. Pavel Spanko, and (ii) 100,000,000 new shares were subscribed for a total subscription price of EUR 29,600,000 by FETUMAR DEVELOPMENT LIMITED, Cyprus, an entity closely associated with Mr. Jan Gerner.

The corporate share capital of the Company has been increased from EUR 11,450,762.90 represented by 114,507,629 shares to EUR 31,450,762.90 represented by 314,507,629 shares. The total number of shares comprising the share capital of the Company as well as the total number of voting rights attached thereto is 314,507,629 as of 10 November 2014.

Accordingly, the Company has no authorized capital in addition to the issued capital as of the date of this report.

An overview of the evolution of the Company's authorized capital in 2013 is as follows:

The extraordinary general meeting of the Company held on 27 June 2013 voted to increase the authorized share capital to EUR 278,992,584, which gave the Board of Directors the authority to increase the share capital by up to EUR 63,310,660, for the purposes of issuing (i) 5,000,000 shares under a management long term incentive plan, (ii) 6,666,667 shares to the Company's main shareholders (Gamala Limited, Kingstown Capital, LP, Alchemy Special Opportunities Fund II L.P., Crestline Ventures Corp. and Stationway Properties Limited) at a price of EUR 2.25 per share in a reserved capital increase, (iii) 4,988,663 shares to warrantholders upon the exercise of warrants of the Company and (iv) 15,000,000 shares under an equity line / PACEO.

On 28 August 2013 the Company issued 6,666,667 new shares to its largest shareholders, Gamala Limited, Kingstown Capital Management, LP, Alchemy Special Opportunities Fund II L.P. and Stationway Properties Limited in a private placement within the framework of the Company's authorized capital approved by the shareholders on 27 June 2013.

### 9.6 Transactions with treasury shares

As of 31 December 2014, the Company owns 20 treasury shares through its subsidiaries and none directly owned by the Company itself.

In 2013, the Company transferred 1 share to Edward Hughes for free and until he holds the Board function. In 2014, the Company transferred 1 share to Jiri Dedera and Tomas Salajka each for free and until they hold the Board function.

In 2014, the Company transferred 117,980 treasury shares to CPI PROPERTY GROUP at market price.

The table hereafter summarizes the transactions realized by the Company as of 31 December 2013 on its own shares:

| | Acquisitions | Sales and commitments |
|---|---|---|
| Number of shares (% of total shares) | - | 837,374 (0.78%) |
| Total Price (EUR) | - | 2,253,207 |
| Average price per share (EUR) | - | 2,69 |

**Sales and commitments in 2014, 2013 and 2012:**

- On 5 November 2014, the Company transferred 117,980 treasury shares to CPI PROPERTY GROUP at market price.
- In 2014, the Company transferred 1 share to Jiri Dedera and Tomas Salajka each for free and until they hold the Board function.
- In 2013, the Company transferred 1 share to Edward Hughes for free and until he holds the Board function.
- On 27 June 2012, 45,000 OPG shares were transferred to Arquitectonica International Corporation in accordance with the Settlement of debt agreement dated 27 June 2012, entered into between Arquitectonica International Corporation, Bubny Development sro, Orco Property Sp zoo and the Company.
- On 29 August 2012, 200,000 OPG shares were transferred to Lionsfeld Capital Ltd in accordance with the Consultancy Agreement dated 1 July 2011, entered into between Lionsfeld Capital Ltd and the Company.
- On 20 December 2012 ORR sold 16,031 OPG shares.
- On 28 December 2012 ORR sold 30,000 OPG shares.

As such, there are no other OPG shares on OPG's or its subsidiaries' accounts other than those from before 2012 that have already been declared.

## 10 Potential risks and other reporting requirements

### *10.1* Subsequent closing events: See point 2 of this report

### 10.2 Activities in the field of research and development

Not applicable.

### 10.3 Financial Risks Exposure

For a thorough description of the principal risks and uncertainties, see notes 3 and 20 in 2014 consolidated financial statements.

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

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

#### 10.3.1 The Group is exposed to financing risk

The Group finances the majority of its real estate developments through borrowings. Although the Company has historically enjoyed positive relationships with several banks, due to the liquidity crisis on the financial markets and to the Safeguard Procedure, the Company and its subsidiaries may be unable to obtain the requisite waivers for covenant noncompliance or extensions on short term loans that finance long term assets and projects. If the Group is unable to obtain the requisite waivers or extensions, it may have to refinance those loans with the risk that loans may not be able to be refinanced or that the terms of such refinancing may be less favorable than the existing terms of the original loans. The failure to obtain such refinancing or obtaining refinancing on less favorable terms could adversely affect the Group's business, financial condition, results of operations and prospects.

In 2014, the Group succeeded in refinancing the bank loans due in short-term and agreed with financing banks on repayment of the loans imposing financial burden to the Group. Proceeds from disposal of CPI PG shares were used to repay the loan financing Zlota 44 project, which became payable after receiving termination notice served by the financing bank.

In June 2014, the Group completed transaction regarding three assets pledged as security for loans provided by Crédit Agricole (Bubenská, Hlubočky and Dunaj). As a result, the Group transferred the ownership of Hlubočky and Dunaj, together with related debt, to the financing bank while it retained the ownership of Bubenská with extended maturity of the loan over the next 3 years. These transaction, accompanied by refinancing of the loans for Capellen, Marki and Diana, allowed the Group to reduce the financing risk and maintain its capital structure in required balance.

Also, in November 2014, the Group accomplished amendment of certain terms and conditions of the notes issued by the Company on 4 October 2012 that are registered under ISIN Code: XS0820547742. The result of this amendment is, inter alia, extension of maturity until 2019.

#### 10.3.2 Risk of the Company acting as guarantor of its subsidiaries under bank loans

The Company is frequently a guarantor of loans granted by various banks in different countries to the Company's various subsidiaries.

If a subsidiary is unable to meet its obligations under a particular loan agreement pursuant to which the Company has provided a guarantee, the Company may be required to reimburse the bank all amounts owed under such a loan agreement. Following the approval of the Safeguard plan, however, such subsidiary guarantees could be enforced against the Company and would be repaid according to the terms of the Safeguard plan.

#### 10.3.3 Certain subsidiaries may be in breach of loan covenants

As of the date of this report, none of the Company's subsidiaries are in breach of financial ratios specified in their respective loan agreements and administrative covenants. For more detail on loans in breach in the previous year, please refers to note 19.4 Loans with covenant breaches of the Consolidated financial statements.

### 10.3.4 The Group's financing arrangements could give rise to additional risk

When the Group acquires a property using external financing, the Group usually gives a mortgage over the acquired property and pledges the shares of the specific subsidiary acquiring the property. There can be no assurance that the registration of mortgages and pledges has been concluded in accordance with applicable local law, and a successful challenge against such mortgages or pledges may entitle the lender to demand early repayment of its loan to the Group. The Group's financing agreements contain financial covenants that could, among other things, require the Group to maintain certain financial ratios. In addition, some of the financing agreements require the prior written consent of the lender to any merger, consolidation or corporate changes of the borrower and the other obligors. Should the Group breach any representations, warranties or covenants contained in any such loan or other financing agreement, or otherwise be unable to service interest payments or principal repayments, the Group may be required immediately to repay such borrowings in whole or in part, together with any related costs. If the Group does not have sufficient cash resources or other credit facilities available to make such repayments, it may be forced to sell some or all of the properties comprising the Group's investment portfolio, or refinance those borrowings with the risk that borrowings may not be able to be refinanced or that the terms of such refinancing may be less favorable than the existing terms of borrowing.

### 10.3.5 Market risk

Foreign exchange risk

Currency risk is applicable generally to those business activities and development projects where different currencies are used for repayment of liabilities under the relevant financing to that of the revenues generated by the relevant property or project. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Czech Koruna (CZK), the Polish Zloty (PLN), the Hungarian Forint (HUF) and the Croatian Kuna (HRK) and secondarily to the US Dollar (USD). Foreign exchange risk, as defined by IFRS 7, arises mainly from recognized monetary assets and liabilities. Currency risk is managed where possible by using the same currency for financing as that in which revenues will be generated. In the event that different currencies are used, the Group companies limit the risk, where appropriate, by using hedging instruments. Nevertheless, because the Group companies' operating costs are denominated in local currencies, fluctuations in the exchange rates of these currencies can lead to volatility in the financial statements of the Group companies. In addition, loans, operating income and - except in the development activities - sales of buildings are mainly denominated in Euro (EUR). The Group currently does not use foreign currency derivatives contracts, as salaries, overhead expenses, and future purchase contracts in the development sector, building refurbishment and construction costs are mainly denominated in local currencies, but may do so in the future. The main circumstance for the Group to put in place currency derivatives is for the financing of a construction contract when the local currency operations do not generate sufficient cash and as a result that construction contract must be financed with another currency. Any loss accruing to the Group due to currency fluctuations may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

For more detail, please refer to note 20.1.1 (i) Foreign exchange risk of the Consolidated financial statements.

Price risk

To manage its price risk arising from investments in equity securities and such embedded derivatives, the Group diversifies its portfolio or only enters these operations if they are linked to operational investments.

For more detail, please refer to note 20.1.1 (ii) Price risk of the Consolidated financial statements.

Interest rate risk

The Group uses floating and fixed rate debt financing to finance the purchase, development, construction and maintenance of its properties. When floating rate financing is used, the Group's costs increase if prevailing interest rate levels rise. While the Group generally seeks to control its exposure to interest rate risks by entering into interest rate swaps, not all financing arrangements are covered by such swaps and a significant increase in interest expenses would have an unfavorable effect on the Group's financial results and may have a material adverse effect on the Group's business, financial condition, results of operations and prospects. Rising interest rates could also affect the Group's ability to make new investments and could reduce the value of the properties. Conversely, hedged interests do not allow the Company to benefit from falling interest rates.

For more detail, please refer to note 20.1.1 (iii) Cash flow interest risk of the Consolidated financial statements.

Other risks

The Group is also exposed to property price and property rentals risk but it does not pursue any speculative policy. Even though the Group's activities are focused on one geographical area – Central and Eastern Europe - such activities are spread over several business lines (residences, offices, logistic parks) and different countries.

### 10.3.6 Credit risk

The Group has no significant concentrations of commercial credit risk. Rental contracts are made with customers with an appropriate credit history. Credit risk is managed by local management and by Group management.

For more detail, please refer to note 20.1.2 Credit risk of the Consolidated financial statements.

### 10.3.7 Liquidity risk

For more detail, please refer to note 20.1.3 Liquidity risk of the Consolidated financial statements.

### 10.3.8 Capital Risk management

For more detail, please refer to note 20.2 Capital Risk management of the Consolidated financial statements.

### 10.3.9 Risks associated with the implementation of the Safeguard plan

Some subsidiaries and joint ventures held by the Group require funding to continue as going concerns. The business plan is built on the capacity of the Group to generate sufficient cash from its profitable activities in order to support the assets that are currently in development or restructuring. The structure of the Group generally prevents the recourse of creditors against the Company. The Group consists of special purpose entities owning dedicated assets or divided into sub-holdings such as Košík JV. In the few potential cases of recourse against the Company, it is protected by the Safeguard plan which would term out any exercise of Safeguard shielded guarantees..

### 10.3.10 Risks associated with real estate and financial markets

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

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

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

The Group's investment property portfolio is valued at least once a year by an independent appraiser. The Group's property assets were valued as of 31 December 2014. The change in the appraised value of investment properties, in each period, determined on the basis of expert valuations and adjusted to account for any acquisitions and sales of buildings and capital expenditures, is recorded in the Group's income statements. For each euro of change in the fair value of the investment properties, the net income of the Group changes by one euro. Changes in the fair value of the buildings could also affect gains from sales recorded on the income statement (which are determined by reference to the value of the buildings) and the rental yield from the buildings (which is equal to the ratio of rental revenues to the fair value of the buildings). Furthermore, adverse changes in the fair value of the buildings could affect the Group's cost of debt financing, its compliance with financial covenants and its borrowing capacity.

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

The Group is also exposed to valuation risk regarding the receivables from its asset sales. Management values these receivables by assessing the credit risk attached to the counterparties for the receivables. Any change in the credit worthiness of a counterparty or in the Group's ability to collect on the receivable could have a significant adverse impact on the Group's financial position and results. At 31 December 2014, the Group had no receivables related to asset sales (2013: EUR 25.9 million).

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

The Group is involved in residential, commercial and retail development projects. Changing residential trends are likely to emerge within the markets in Central and Eastern Europe as they mature and, in some regions, relaxed planning policies may give rise to over-development, thereby affecting the sales potential of the Group's residential developments. Changing real estate taxes or VAT taxes may also have a notable impact on sales (such as for example a hike in sales before implementation of a tax increase followed by structurally lower sales). These factors will be considered within the investment strategy implemented by the Group but may not always be anticipated and may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

## 11 Stock market performance

### 11.1 Shares of the Company

The Company shares (ISIN LU0122624777) are listed on regulate markets of the NYSE Euronext Paris since 2000 and the Warsaw Stock Exchange. 200 million shares issued in 2014 are not listed yet, but the Company will seek to list them as soon as practicable subject to legal and regulatory delays.

Changes in share price (COB) and volume traded in 2014 on NYSE Euronext Paris are listed below.

Prices are in EUR/share:

| Period | Low | High | Volume |
|---|---|---|---|
| Jan-14 | 1.67 | 2.04 | 6,483,840 |
| Feb-14 | 1.56 | 1.81 | 3,095,150 |
| Mar-14 | 0.99 | 1.62 | 19,360,314 |
| Apr-14 | 0.54 | 1.00 | 42,258,026 |
| May-14 | 0.57 | 0.68 | 13,273,267 |
| Jun-14 | 0.45 | 0.60 | 14,398,651 |
| Jul-14 | 0.42 | 0.58 | 6,923,952 |
| Aug-14 | 0.40 | 0.51 | 12,071,334 |
| Sep-14 | 0.40 | 0.46 | 6,419,000 |
| Oct-14 | 0.36 | 0.43 | 3,723,855 |
| Nov-14 | 0.33 | 0.66 | 40,514,630 |
| Dec-14 | 0.33 | 0.49 | 12,518,528 |
| **Total annual transactions** | | | **181,040,547** |
| **Lowest/highest of the year** | **0.33** | **2.04** | |

## 11.2 Other financial instruments of Orco Property Group

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

| Name | Type | ISIN |
|---|---|---|
| Orco Property Group shares including : (ORCO PROPERTY GROUP SA, Orco Group OPG.WA, Orco Property GP NPV) | Equity | LU0122624777 |
| Bond 2007 - 2014 | Fixed income | XS0291838992 |
| Warrant 2007 - 2014 | Equity | XS0290764728 |
| Convertible bond 2006 - 2013 | Fixed income | FR0010333302 |
| Bond cum warrant 2007 - 2014 | Fixed income | XS0291840626 |
| Variable rate bond 2005 - 2011 | Fixed income | CZ0000000195 |
| Bond 2005 - 2010 | Fixed income | FR0010249599 |
| Warrant 2005 - 2012<br>Note: Exchange offer against 2014 warrants, closed in November 2007 | Equity | LU0234878881 |
| Exchangeable bond into Hvar shares 2012 | Fixed income | XS0223586420 |
| New note OrcPropG AVR2018 | Fixed income | XS0820547742 |

# 12 Corporate Responsibility

Corporate responsibility and sustainable development is at the core of the strategy of the Company. The Group top management actively foster best practices as an opportunity to improve the cost efficiency of internal processes and the value creation of our it main activity - Development of properties.

The Group approach is environment oriented. The entire Group is engaged in a sustainable development drive. This is reflected in several initiatives including:

- the development of a "green" charter for the entire staff,
- efforts to reduce water and power consumption,
- the examination of innovative systems combining different types of energy (solar, geothermal, etc.) to be included in our projects,
- the development of an offer of residential projects compliant with high standards of "green developments".

OPG's management team is dedicated to implement that approach in every project of the portfolio.

## 13 Table of location of EPRA indicators

## 14 Glossary & Definitions

**Adjusted EBITDA**

The Adjusted EBITDA is the recurring operational cash result calculated by deduction from the operating result of non-cash items and non-recurring items (Net gain or loss on fair value adjustments – Amortizations, impairments and provisions – Net gain or loss on the sale of abandoned developments – Net gain or loss on disposal of assets) and the net results on sale of assets or subsidiaries.

**Average daily rate (ADR)**

ADR is calculated by dividing the room revenue by the number of rooms occupied.

**EPRA**

European Public Real Estate Association.

**EPRA NAV per share**

EPRA NAV divided by the diluted number of shares at the period end. Formula is available into the EPRA NNNAV definition.

**EPRA Net Initial Yield**

The annualized rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market value of the property. (Calculated by the Group's external valuer).

**EPRA NNNAV** or EPRA Triple Net Asset Value

A company's adjusted per-share NAV.

**Methodology:**

*The triple net NAV is an EPRA recommended performance indicator.*

*Starting from the NAV following adjustments are taken into consideration:*

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

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

**EPRA Vacancy rate**

ERV of vacant space divided by ERV of the whole portfolio.

**Estimated rental value (ERV)**

The estimated rental value at which space would be let in the market conditions prevailing at the date of valuation. (Calculated by the Group's external appraiser).

**Gross asset value (GAV)**

The sum of fair value of all real estate assets held by the Group on the basis of the consolidation scope and real estate financial investments (being shares in real estate funds, loans to third parties active in real estate or shares in non-consolidated real estate companies).

**Gross Lettable Area (GLA)**

GLA is the floor space contained within each tenancy at each floor level by measuring from the dominant portion of the outside faces of walls, to the center line of internal common area/inter-tenancy walls.

**Gross operating profit (GOP)**

Total gross operating revenues (including room, food & beverage and other revenue) less gross operating expenses.

**Gross rental income**

Rental income from let properties after taking into account the net effects of straight-lining for lease incentives, including rent free periods. It includes turnover-based rents, surrender premiums, car parking income and other possible rental income.

**Interests Cover Ratio (ICR)**

The ICR is calculated by dividing the adjusted EBITDA of one period by the company's interest expenses of the same period.

**Like-for-Like portfolio (L-f-L)**

All properties held in portfolio since the beginning of the period, excluding those acquired, sold or included in the development program at any time during the period.

**Market value**

The estimated amount determined by the Group's external valuer in accordance with the RICS Valuation Standards, for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing.

**Net Lettable Area (NLA)**

NLA (measured in square meters) is the floor space between the internal finished surfaces of permanent internal walls and the internal finished surfaces of dominant portions of the permanent outer building walls. It generally includes window frames and structural columns and excludes toilets, cupboards, plant/motor rooms and tea rooms where they are provided as standard facilities in the building. It also excludes areas dedicated as public spaces or thoroughfares such as foyers, atrium and building service areas.

**Net rental income**

Gross rental income less ground rents payable, service charge expenses and other non-recoverable property operation expenses.

**Occupancy rate (sqm)**

The ratio of leased premises to leasable premises.

**Passing rent**

The estimated annualised cash rental income being received as at the reporting date, excluding the net effects of straight-lining for lease incentives.

**Reversion**

The estimated change in rent at review, based on today's market rents expressed as a percentage of the contractual rents passing at the measurement date (but assuming all current lease incentives have expired).

**Vacancy**

The amount of all physically existing spaces empty at the end of the period.

PROPERTY GROUP

**ORCO PROPERTY GROUP S.A.**
40 rue de la Vallée
L-2661 Luxembourg
R.C.S. Luxembourg B 44996
(the "**Company**")

# DECLARATION LETTER
# ANNUAL FINANCIAL REPORTS
# AS AT 31 DECEMBER 2014

## 1.1. <u>Person responsible for the Annual Financial Report</u>

- Mr. Jiří Dedera, acting as Chief Executive Officer and Managing Director of the Company, with professional address at 40 rue de la Vallee, L-2661 Luxembourg, Grand-Duchy of Luxembourg, email: jdedera@orcogroup.com.

## 1.2. <u>Declaration by the person responsible for the Annual Financial Report</u>

The undersigned hereby declares that, to the best of his knowledge:

- the consolidated financial statements of the Company as at 31 December 2014, prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and results of the Company and its subsidiaries included in the consolidation taken as a whole;

- the financial statements of the Company as at 31 December 2014 prepared in accordance with the IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and results of the Company; and

- that the Management Report provides a fair view of the development and performance of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Approved by the Board of Directors and signed on its behalf by Mr. Jiří Dedera.

Luxembourg, on 31 March 2015

Mr. Jiří Dedera
CEO, Managing Director

# ORCO PROPERTY GROUP S.A.

***Société Anonyme***

**Consolidated financial statements**

**As at and for the year ended 31 December 2014**

ORCO PROPERTY GROUP's Board of Directors has approved the consolidated financial statements as at and for the period ended 31 December 2014 on 31 March 2015.

All the figures in this report are presented in thousands of Euros, except if explicitly indicated otherwise.

## I. Consolidated income statement

*The accompanying notes form an integral part of these consolidated financial statements.*

| | Note | 12 months 2014 | 12 months 2013 (restated) | 12 months 2013 (reported) |
|---|---|---|---|---|
| **Revenue** | 23 | **75,176** | **66,877** | **145,896** |
| *Sale of goods* | | *60,691* | *45,525* | *45,722* |
| *Rent* | | *8,507* | *12,006* | *64,626* |
| *Hotels, Extended Stay & Restaurants* | | *1,032* | *2,368* | *20,788* |
| *Services* | | *4,946* | *6,978* | *14,760* |
| Net gain from fair value adjustments on Investment Property | 8 | 2,073 | (57,840) | (34,444) |
| Other operating income | 25 | 445 | 873 | 1,458 |
| Net result on disposal of assets | 24 | 29 | 192 | 88 |
| Cost of goods sold | 5/14 | (58,840) | (36,591) | (38,437) |
| Employee benefits | 27 | (16,113) | (10,451) | (23,620) |
| Amortization, impairments and provisions | 26 | 38,256 | (138,421) | (166,812) |
| Other operating expenses | 27 | (15,065) | (18,673) | (48,446) |
| **Operating result** | | **25,961** | **(194,034)** | **(164,318)** |
| Interest expense | 28 | (21,115) | (21,689) | (37,382) |
| Interest income | | 2,181 | 1,800 | 4,114 |
| Foreign exchange result | | (46) | (3,447) | (4,282) |
| Other net financial results | 29 | (29,208) | (33,951) | (39,693) |
| **Financial result** | | **(48,188)** | **(57,287)** | **(77,242)** |
| **Share of profit or loss of entities accounted for using the equity method** | 10 | **(493)** | **(413)** | **(413)** |
| **Loss before income taxes** | | **(22,720)** | **(251,733)** | **(241,973)** |
| Income taxes | 30 | 299 | (1,060) | (10,449) |
| **Loss from continuing operations** | | **(22,421)** | **(252,793)** | **(252,422)** |
| Loss after tax from discontinued operations | 6 | (2,722) | (756) | (1,127) |
| **Net loss for the period** | | **(25,143)** | **(253,550)** | **(253,550)** |
| **Total loss attributable to:** | | | | |
| Non-controlling interests | 18 | (1,527) | (26,523) | (26,523) |
| **Owners of the Company** | | **(23,616)** | **(227,027)** | **(227,027)** |
| Basic earnings in EUR per share | 31 | (0.17) | (2.06) | (2.06) |
| Diluted earnings in EUR per share | 31 | (0.17) | (2.06) | (2.06) |

The consolidated income statement and relevant tables in the Notes which provide detailed breakdown of the income or expense refer to continuing operations only. The net result of discontinued operations is disclosed on the line “Loss after tax from discontinued operations”. The amounts as presented in the December 2013 consolidated financial statements are disclosed in the column “reported”. The column “restated” discloses the amounts net of discontinued operations. The contribution of discontinued operations to revenues and expenses is presented in note 6.

## II. Consolidated statement of comprehensive income

*The accompanying notes form an integral part of these consolidated financial statements.*

| | Note | 12 months 2014 | 12 months 2013 |
|---|---|---|---|
| **Loss for the period** | | **(25,143)** | **(253,550)** |
| | | | |
| **Other comprehensive income/ (expense)** | | | |
| **Items that may be reclassified to profit or loss** | | **1,555** | **(11,560)** |
| Currency translation differences | | (2,403) | (11,560) |
| Change in value of available-for-sale financial assets | 13.2 | 3,958 | |
| | | | |
| **Items that will not be reclassified to profit or loss** | | **-** | **16** |
| Remeasurements of post-employment benefit obligations | 21.1.1 | - | 16 |
| | | | |
| **Total comprehensive expense attributable to:** | | **(23,588)** | **(265,094)** |
| Owners of the Company | | (21,239) | (238,474) |
| Non-controlling interests | | (2,349) | (26,620) |

## III. Consolidated statement of financial position

*The accompanying notes form an integral part of these consolidated financial statements.*

| ASSETS | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | **344,630** | **890,573** |
| **Intangible assets** | 7 | **38** | **46,414** |
| **Investment property** | 8 | **249,236** | **710,552** |
| **Property, plant and equipment** | | **1,030** | **73,949** |
| Hotels and owner occupied buildings | 9 | - | 61,639 |
| Fixtures and fittings | 12 | 1,030 | 12,310 |
| **Equity method investments** | 10 | **35** | **93** |
| **Financial assets at fair value through profit or loss** | 13.1 | **2,627** | **28,285** |
| **Financial assets available-for-sale** | 13.2 | **86,995** | **2,435** |
| **Non-current loans and receivables** | 13.3 | **4,669** | **28,533** |
| **Deferred tax assets** | 30 | **-** | **313** |
| **CURRENT ASSETS** | | **28,089** | **252,156** |
| Inventories | 14 | 9,422 | 114,720 |
| Trade receivables | | 2,362 | 19,962 |
| Derivative instruments | | - | 29 |
| Cash and cash equivalents | 17 | 7,103 | 88,669 |
| Other current financial assets | 15 | 6,092 | 2,674 |
| Other current non-financial assets | 16 | 3,110 | 26,102 |
| **ASSETS HELD FOR SALE** | 11 | **1,395** | **29,116** |
| **TOTAL** | | **374,114** | **1,171,845** |

| EQUITY & LIABILITIES | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **EQUITY** | | **206,016** | **263,117** |
| **Equity attributable to owners of the Company** | 32 | **205,510** | **175,909** |
| **Non-controlling interests** | 18 | **506** | **87,208** |
| **LIABILITIES** | | **168,098** | **908,728** |
| **Non-current liabilities** | | **138,795** | **491,269** |
| Bonds | 19.1 | 62,237 | 64,992 |
| Financial debts | 19.2 | 65,252 | 295,304 |
| Provisions and other long term liabilities | 21 | 7,209 | 23,436 |
| Deferred tax liabilities | 30 | 4,097 | 107,537 |
| **Current liabilities** | | **29,066** | **389,737** |
| Current bonds | 19.1 | 278 | 321 |
| Financial debts | 19.2 | 13,557 | 273,041 |
| Trade payables | 22 | 4,008 | 22,425 |
| Advance payments | 22 | 1,474 | 33,887 |
| Derivative instruments | 19.5 | 599 | 1,244 |
| Other current financial liabilities | 22 | 4,414 | 32,994 |
| Other current non-financial liabilities | 22 | 4,736 | 25,825 |
| **LIABILITIES HELD FOR SALE** | 11 | **237** | **27,722** |
| **TOTAL** | | **374,114** | **1,171,845** |

## IV. Consolidated statement of changes in equity

*The accompanying notes form an integral part of these consolidated financial statements.*

| | Note | Share capital | Share premium | Translation reserve | Treasury shares | Other reserves | Equity attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2013** | | **442,148** | **645,497** | **21,724** | **(1,870)** | **(669,007)** | **438,493** | **3,797** | **442,290** |
| **Comprehensive income:** | | | | | | | | | |
| Loss for the period | | | | | | (227,027) | **(227,027)** | (26,523) | **(253,550)** |
| Other comprehensive income | | | | (11,457) | - | 10 | **(11,447)** | (97) | **(11,544)** |
| **Total comprehensive income / (expense)** | | **-** | **-** | **(11,457)** | **-** | **(227,017)** | **(238,474)** | **(26,620)** | **(265,094)** |
| Capital decrease of 4 February 2013 | 32 | (226,466) | | | | 226,466 | **-** | | **-** |
| Capital increase of 28 August 2013 | 32 | 13,333 | 1,667 | | | | **15,000** | | **15,000** |
| Own equity transactions | | | | | 1,639 | 614 | **2,253** | | **2,253** |
| Non-controlling interests' transactions | 18 | | | | | (41,362) | **(41,362)** | 110,031 | **68,669** |
| **At 31 December 2013** | | **229,015** | **647,164** | **10,267** | **(231)** | **(710,307)** | **175,909** | **87,208** | **263,117** |
| **Comprehensive income / (expense):** | | | | | | | | | |
| Loss for the period | | | | | | (23,616) | **(23,616)** | (1,527) | **(25,143)** |
| Other comprehensive income / (expense) | | | | (1,581) | | 3,958 | **2,377** | (822) | **1,555** |
| **Total comprehensive income / (expense)** | | **-** | **-** | **(1,581)** | **-** | **(19,657)** | **(21,239)** | **(2,349)** | **(23,588)** |
| Capital decrease of 8 April 2014 | 32 | (114,507) | | | | 114,507 | **-** | | **-** |
| Capital decrease of 28 May 2014 | 32 | (103,057) | - | | | 103,057 | **-** | | **-** |
| Capital increase of 10 November 2014 | 32 | 20,000 | 39,200 | | | | **59,200** | | **59,200** |
| Own equity transactions | | | | | 231 | (187) | **44** | | **44** |
| Non-controlling interests' transactions | 18 | | | | | (8,404) | **(8,404)** | 44,943 | **36,539** |
| Deconsolidation of subsidiaries with non-controlling interests | 6, 18 | | | | | | **-** | (129,296) | **(129,296)** |
| **At 31 December 2014** | | **31,451** | **686,364** | **8,686** | **-** | **(520,991)** | **205,510** | **506** | **206,016** |

**Definitions**

**Share Capital** is the initial par value for which the shareholders subscribed the shares from the issuing company.

**Share Premium** is an excess amount received by the Company over the par value of its subscribed shares. This amount forms a part of the non-distributable reserves of the Company which usually can only be used for purposes specified under corporate legislation.

**Translation Reserve** includes exchange differences relating to the translation of the results and net assets of the Group's foreign operations from operational to the Group's consolidation currency. Exchange differences previously accumulated in the translation reserve are reclassified to profit or loss on the disposal of the foreign assets and operations.

**Treasury Shares** are shares issued by the Company and controlled by itself. Treasury shares come from a repurchase or buyback from shareholders. These shares do not pay dividends, have suspended voting rights, and are not included in voting rights calculations.

**Other Reserves** are created from accumulated profits and losses and other equity operations, such as scope variations, variation of detention, or revaluation of assets. These reserves may be subject to the distribution of dividends.

**Non-controlling interests** are interests in the Group's equity not attributable, directly or indirectly, to a parent. They belong to those shareholders who do not have a controlling interest in the Group.

## V. Consolidated statement of cash flows

*The accompanying notes form an integral part of these consolidated financial statements.*

| | | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **OPERATING RESULT** | | **23,239** | **(164,318)** |
| Net gain / loss from fair value adjustments on investment property | 8 | (2,073) | 34,444 |
| Amortization, impairments and provisions | 26 | (38,256) | 166,812 |
| Net result on disposal of assets | | (29) | (88) |
| **Adjusted operating profit / loss** | | **(17,119)** | **36,850** |
| Financial result | 29 | (885) | (490) |
| Income tax paid | | (945) | (4,600) |
| **Financial result and income taxes paid** | | **(1,830)** | **(5,090)** |
| **Changes in operating assets and liabilities** | | **53,483** | **(7,058)** |
| **NET CASH FROM OPERATING ACTIVITIES** | | **34,534** | **24,702** |
| Acquisition of subsidiaries, net of cash acquired | 1.1.6 | (37,000) | - |
| Capital expenditures and tangible assets acquisitions | 7,8,11 | (1,754) | (4,957) |
| Proceeds from sales of non-current tangible assets | | 110 | 6,993 |
| Purchase of intangible assets | | - | (201) |
| Purchase of financial assets | | (48,532) | (347) |
| Loans granted to joint ventures and associates | | - | (4,239) |
| Deferred consideration repayment received from long-term receivables | | - | 634 |
| Dividends received | | 1,585 | - |
| Proceeds from disposal of associates | | - | 8,742 |
| Proceeds from disposal of financial assets | | 60,354 | 1,986 |
| Changes in the Group | 6 | (87,415) | - |
| **NET CASH FROM / (USED IN) INVESTING ACTIVITIES** | | **(112,652)** | **8,611** |
| Proceeds from issuance of ordinary shares | 32 | 59,200 | 15,000 |
| Proceeds from capital increase in subsidiary by non-controlling interests | | 36,000 | 53,862 |
| Proceeds on disposal of treasury shares | | - | 2,253 |
| Proceeds on disposal of partial interests in a subsidiary | | - | 8,216 |
| Proceeds from borrowings | 19.2 | 7,019 | 17,236 |
| Net interest paid | 28 | (7,578) | (23,546) |
| Repayment on New Notes | 19.1 | (13,156) | - |
| Repayments of borrowings | 19.2 | (84,416) | (35,682) |
| Repayment interests on Safeguard bonds | 19.1 | (321) | (4,823) |
| **NET CASH FROM / (USED IN) FINANCING ACTIVITIES** | | **(3,252)** | **32,516** |
| **NET INCREASE/(DECREASE) IN CASH** | | **(81,370)** | **65,829** |
| Cash and cash equivalents at the beginning of the year | | 88,669 | 23,633 |
| Exchange difference on cash and cash equivalents | | (196) | (794) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | 17 | **7,103** | **88,669** |

## Notes to the consolidated financial statements

### 1 General information

ORCO PROPERTY GROUP, *société anonyme* (the “Company”) and its subsidiaries (together the “Group” or “OPG”) is a real estate group with a major portfolio in Central and Eastern Europe. It is principally involved in the development of properties for its own portfolio or intended to be sold in the ordinary course of business and is also active in leasing investment properties under operating leases as well as in asset management.

The Company is a joint stock company incorporated for an unlimited term and registered in Luxembourg. The address of its registered office is 40, rue de la Vallée, L-2661 Luxembourg, Grand-Duchy of Luxembourg. The trade registry number of the Company is B 44 996.

The Company’s shares are listed on the regulated markets of NYSE EuroNext Paris and the Warsaw Stock Exchange.

The consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2015.

The structure of the shareholders as at 31 December 2014 is as follows:

| | | |
|---|---|---|
| Aspley Ventures Limited (entity associated with Mr. Pavel Spanko) | 100 000 000 shares | 31.80% voting rights |
| Fetumar Development Limited (entity associated with Mr. Jan Gerner) | 100 000 000 shares | 31.80% voting rights |
| Gamala Limited (entity associated with Mr. Radovan Vitek) | 35 177 765 shares | 11.19% voting rights |
| Others | 79 329 864 shares | 25.21% voting rights |
| Total | 314 507 629 shares | 100.00% voting rights |

As at 31 December 2014 the Board of Directors consists of the following directors:

Mr. Jiri Dedera

Mr. Edward Hughes

Mr. Pavel Spanko

Mr. Guy Wallier

### 1.1 Changes in the Group

Over the year 2014, the following changes occurred in the Group:

#### 1.1.1 Loss of control over CPI PROPERTY GROUP and Suncani Hvar

The Group lost control over CPI PROPERTY GROUP (former GSG GROUP, and former ORCO Germany S.A, hereinafter also as "CPI PG") and its subsidiaries and over the portfolio of Suncani Hvar hotels. The events and circumstances leading to loss of control and the result on loss of control are described in note 18. The assets and liabilities belonging to the deconsolidated entities met the IFRS classification of discontinued operations and, in order to be clearly distinguished from continuing activities of the Group, their impact is presented separately in the consolidated income statement. Also, the comparative period has been restated for the effect of discontinued operations, the impact of which is disclosed in note 6.

#### 1.1.2 Deconsolidation of Hungarian assets in insolvency

Hungarian entities holding three rental assets in Budapest (Paris Department Store, Szervita and Váci 1) were deconsolidated from the Group statement of financial position after the opening of insolvency proceedings. The Group entered into negotiation with the financing bank and other creditors on restructuring program.

In November 2014, the Group and the financing bank reached an agreement regarding settlement of the corporate guarantee and mortgage over Váci 188 property. The Group agreed to pay to the financing bank EUR 9.0 million; in return the financing bank agreed to release the corporate guarantee provided by the Company and to waive the mortgage established in favour of the financing bank over Vaci 188 property. As part of the agreement the Paris Department Store, Szervita and Váci 1 assets are to be taken over by the financing bank. The creditor bodies approved this reorganization settlement.

The impact upon deconsolidation is presented in the other financial result (see note 29).

#### 1.1.3 Deconsolidation of Hlubočky and Dunaj due to transfer of ownership

In June 2014, the Group completed restructuring of its rental portfolio financed by Crédit Agricole CIB. The transaction encompasses two investment properties located in the Czech Republic (Hlubočky) and Slovakia (Dunaj), which were transferred to the financing bank together with the related debt. At the same time, the transaction allowed the Group to retain the ownership in Bubenská commercial building in Prague and to achieve financing at more favourable conditions for this property.

Hlubočky and Dunaj were classified as assets held for sale as at 31 December 2013 (see note 11).

#### 1.1.4 Sale of Zlota 44 project

On 27 August 2014 the Group entered into an agreement concerning a disposal of its stakes in the Zlota 44 project in Warsaw. The transaction with a subsidiary of international consortium of AMSTAR and BBI Development comprised of the disposal of shares that the Company held in the Zlota 44 project entity as well as of the disposal of loan receivables that the Group acquired from Bank Polska Kasa Opieki S.A. The pre-agreed gross transaction price was EUR 63 million in cash; partially payable upon completion of transfers and partially deferred upon the realization of certain conditions, notably the outcome of disputes pending at Zlota 44 level with the former general contractor and potential indemnities provided to the buyer in that respect.

The purchase price was finally agreed and decreased by EUR 13.0 million used for the settlement of disputes with Zlota 44 general contractor INSO. The final purchase amounts to EUR 50,040,501. Thus, the revenue recognised in the consolidated income statement in respect of proceeds from Zlota disposal is EUR 50.0 million.

#### 1.1.5 Disposal of the Group's interest in hospitality portfolio to joint partner CPI Property Group

In December 2014, the Group disposed of 88% stake it held in the entities holding 50% shares in Hospitality Invest, S.á.r.l. including loans and receivables towards these entities. The aggregate transaction price amounts to EUR 13.3 million. See also note 10.1.1 for further details.

#### 1.1.6 Acquisition of developments projects

In line with its new strategy, the Group completed on 12 November 2014 an acquisition of four development projects in the Czech Republic (STRM portfolio), counting approximately 186 thousand square meters of developable land area. The projects were acquired in a portfolio transaction as a share deal for total consideration of EUR 44.0 million, including acquisition cost for the loan provided by the former owner. The purchase price was paid on closing as follows: (i) EUR 37.0 million was paid in cash and (ii) EUR 7.0 million by transfer of liquid financial assets. These future projects, developable in the coming years, consist of freehold land with a potential for development of residential, office, hospitality and retail premises.

On 19 December 2014 the Group acquired Bianko, s.r.o., an owner of a brownfield area in Brno, Czech Republic. The project is located in Zidenice area of Brno with an area of approximately 22.5 hectares. The transaction is structured as a share deal and the transaction price amounts to EUR 13.95 million. The Group intends to build a mixed used project with similar size as its Bubny project in Prague.

The table below discloses the overview of assets and liabilities acquired within the new projects:

| | Bianko | STRM portfolio |
|---|---|---|
| **ASSETS** | **20,631** | **45,841** |
| **Non-current assets** | **20,395** | **45,736** |
| Investment property | 20,335 | 45,735 |
| Other non-current assets | 60 | 1 |
| **Current assets** | **236** | **105** |
| | | |
| **LIABILITIES** | **6,680** | **1,841** |
| **Non-current liabilities** | **6,235** | **-** |
| Financial debts | 6,235 | - |
| **Current liabilities** | **445** | **1,841** |
| | | |
| **NET ASSET VALUE** | **13,951** | **44,000** |
| | | |
| **Acquisition costs** | **13,951** | **44,000** |

Had the group of assets been consolidated from 1 January 2014, their contribution would have no material impact on consolidated income statement and pro-forma revenue.

### 1.1.7 Deconsolidation of Szczecin Project

The assets and liabilities related to the entity were classified as held for sale as at the end of 2013 as the Group filed to the court a declaration of bankruptcy in the past. However, the bankruptcy petition was dismissed by the court. In 2014, the Group has approached the financing bank with an offer to purchase the loan towards Szczecin which was not accepted.

In the opinion of the management, the chances to agree on the refinancing are remote and the Group is no more in the position to control the policies and returns from the entity. An entity Szczecin Project sp. z o.o. has been removed from the consolidation scope. In 2015 the court execution was reopened based on initiative of the financing bank.

### 1.1.8 Insolvency of Orco Project

Another Polish Group subsidiary Orco Project sp. z o.o. was declared bankrupt by the court in November 2014. Consequently, the entity was deconsolidated from the Group financial statements.

## 2 Basis of accounting

The principal accounting policies applied in the preparation of these consolidated financial statements are disclosed in note 4. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as endorsed by the European Union.

Preparation of the consolidated financial statements

The consolidated financial statements have been prepared on a going concern basis, applying a historical cost convention except for:

- Investment property carried at fair value;
- Available for sale financial assets;
- Financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The consolidated financial statements are adjusted to reflect events that occur after the end of the reporting period, but before the consolidated financial statements are authorized for issue, if either they provide evidence of conditions that existed at the end of the reporting period (adjusting events) or they indicate that the going concern basis of preparation is inappropriate. The consolidated financial statements are not adjusted for non-adjusting events. Non-adjusting events are events that result from conditions arising after the end of the reporting period.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

### 2.2 Going concern

In determining the appropriate basis of preparation of the consolidated financial information, the Board of Directors is required to consider whether the Group can continue in operational existence for the foreseeable future.

The Group recorded a net loss after tax of EUR 25.1 million for the year ended 31 December 2014 (EUR 253.5 million for the year ended 31 December 2013) and has had a net operating cash inflow of EUR 34.5 million. Notwithstanding the loss incurred for the financial year 2014, the Board of Directors is of the view that no material uncertainty towards going concern exists as at 31 December 2014 based on the following reasons:

- A significant part of the loss suffered in 2014 is attributable to result on disposal of subsidiaries representing one-off adverse impact on Group's consolidated financial statements.
- The Group had a cash and cash equivalents balance of EUR 7.1 million as at 31 December 2014.
- The Group has a stake of 4.82% in CPI PG as at 31 December 2014. The fair value of this stake as at 31 December 2014 equals to EUR 84.3 million (see Note 13.2). The Group has concluded a put option agreement with Mr. Vitek concerning significant portion of the share in CPI PG (approximately 41 % of total shares held by the Group). The Group is entitled to request Mr. Vitek, major shareholder of CPI PG, to purchase part of these shares for defined price (EUR 31.0 million) and consequently to ensure the liquidity for satisfaction of the Group's future liabilities.
- Current assets support at least 24 month operation with the existing adjusted operating structure.

Based on these facts, the Board of Directors considers the going concern basis of preparation to be appropriate for these consolidated financial statements. Accordingly the consolidated financial statements as at 31 December 2014 have been prepared on the going concern basis that contemplates the continuity of regular business activities and realization of assets together with the settlement of liabilities in the ordinary course of business.

## 3 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that present a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

### 3.1 Critical accounting estimates and assumptions

#### 3.1.1 Properties fair value measurement and valuation process

##### *3.1.1.1 Valuation process*

The valuation process is performed at least once a year. The management communicates the list of assets to be reviewed to the external independent appraiser, who hold a recognized relevant professional qualification and have recent experience in the locations and segments of the investment properties valued.

The external appraiser has access to all the required documents to support his review including details of the properties, actual figures and budgets. The result of the review is then discussed with the management and the Company internal valuation coordinator in order to ensure that the highest and best use assumption is respected and that the fair value reflects the latest update on the projects. Material valuation changes, assumptions and inputs are systematically reviewed and challenged by the controlling department and management. Once finalized, the valuations are then presented to the audit committee by the external appraiser before communication internally for reporting purposes.

Valuation results are regularly compared to actual market yield data, actual transactions by the Group and those reported by an independent expert, DTZ Debenham Tie Leung.

##### *3.1.1.2 Valuation techniques*

The best evidence of fair value is current prices in an active market for similar assets. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

(i) Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. A cash flow period of 10 years is taken into consideration and is based on an estimate of the future potential net income generated by use of the properties. The Group uses assumptions that are mainly based on market conditions existing at each reporting date.

The fair value of properties is based on the highest and best use of the assets as described by IFRS 13. It takes into account the use of the asset that is physically possible, legally permissible and financially feasible. On a general basis the current use of the asset has been considered as the highest and best use, but the possibility of a full redevelopment has been systematically tested and carefully evaluated.

Assets and financial instrument have been classified according to the nature and risks of the properties. The following factors have been taken into consideration:

- The real estate segment which encompasses office, logistic, retail, residential, commercial, mixed used and land bank;
- The geographical location in Central Europe (CE).

Each group of assets is then categorized according to the valuation hierarchy which is directly related to the valuation methodology:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Only assets valued under the Sales comparison approach are described as being Level 2 assets. Sales comparison approach is a market approach, the value is based on comparable transactions or recently recorded prices on similar inventory items. When the Group is in advance stage of negotiation with potential buyer, the fair value as at the reporting date is adjusted to the estimated sales price. Transaction price is based on verified interest from a potential buyer.
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). Level 3 fair value valuation method integrates non observable inputs and includes:
    - Income approach such as discounted cash flow and income capitalization method. It requires the non-observable inputs such as discount rates, exit capitalization rates or equivalent yield;
    - Development appraisal or residual value method requiring the estimate of the expected gross development value of the project, the required costs to complete the project and the margin that a potential investor would require to complete the project;
    - Sales comparison approach can be considered as a level 3 valuation method type when some of the input are not observable or when liquidity of the market is particularly low.

### *3.1.1.3 Main observable and non-observable inputs*

The following table presents the main observable and non-observable inputs supporting the valuation of the portfolio. In some specific cases the valuation is supported by a letter of interest or specific circumstances related to ownership. In those cases the carrying amount is different from the externally appraised value. As at 31 December 2014 all properties are subject to the external valuation.

| Per asset type | Equivalent Yield | | Initial Yield | | Reversionary Yield | |
|---|---|---|---|---|---|---|
| | Min | Max | Min | Max | Min | Max |
| Central Europe portfolio Rental | 7.0% | 15.0% | -2.2% | 16.5% | 7.4% | 18.4% |
| Central Europe portfolio Asset held for development | 9.4% | 13.0% | 4.7% | 10.0% | 10.7% | 14.9% |

#### a) Inputs

Table below presents the following for each class of investment properties owned by the Group, the fair value hierarchy of the valuation, the valuation method, the key observable and unobservable inputs and the fair value as of the end of December 2014.

**Investment Properties**

| Portfolio | Asset type | Fair value hierarchy | Valuation technique | Fair value 31.12.2014 In EUR Million | | Range Weighted average |
|---|---|---|---|---|---|---|
| CE portfolio | Office | Level 3 | Sales comparison | 2.0 | | |
| | | | | | Equivalent Yield | 8% |
| | | | | | ERV/SQM/Year | 153 |
| | | | | | Initial void (if applicable) in Month | 11 |
| | | | | | Expiry void in Month | 5 |
| | | | | | New lease length in year | 4 |
| | | | | | CAPEX | 565,509 |
| CE portfolio | Office | Level 3 | Income capitalisation | 95.7 | Total Area in SQM | 86,791.4 |
| | | | | | Equivalent Yield | 13% |
| | | | | | ERV/SQM/Year | 20 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Initial void (if applicable) in Month | 12 |
| | | | | | Expiry void in Month | 9 - 18 |
| | | | | | New lease length in year | 0 |
| | | | | | Non-recoverables p.a. | 21,963 |
| CE portfolio | Logistic and industrial | Level 3 | Investment | 1.1 | Total Area in SQM | 8,762.0 |
| | | | | | Equivalent Yield | 15% |
| | | | | | ERV/SQM/Year | 16 |
| | | | | | Initial void (if applicable) in Month | 9 |
| | | | | | Expiry void in Month | 9 |
| | | | | | New lease length in year | 0 |
| | | | | | Non-recoverables p.a. | 21,963 |
| CE portfolio | Logistic and industrial | Level 3 | Income capitalisatio n | 2.8 | Total Area in SQM | 35,198.2 |
| CE portfolio | Logistic and industrial | Level 3 | Residual Method | 3.9 | Total Area in SQM | 131 130.0 |
| | | | | | Price /SQM | 98.4 |
| CE portfolio | Land Bank | Level 3 | Sales comparison | 78.4 | Total Area in SQM | 797,167.0 |
| | | | | | GDV/SQM | 535 |
| | | | | | Profit on costs | 18% |
| | | | | | Price /SQM | 27.9 |
| CE portfolio | Land Bank | Level 2 | Sales comparison | 0.5 | Total Area in SQM | 17,065.0 |
| | | | | | Price /SQM | 169.5 |
| CE portfolio | Land bank | Level 3 | Residual Method | 65.7 | Total Area in SQM | 411,829.0 |
| | | | | | Price/SQM | 5.1 |
| Croatia | Land Bank | Level 3 | Sales comparison | 0.5 | Total Area in SQM | 92,573.0 |

Sub-totals & Total Investment Properties

| | | | | |
|---|---|---|---|---|
| CE portfolio | Office | Level 3 | 97.7 | |
| CE portfolio | Logistic and industrial | Level 3 | 7.8 | |
| Sub-total | Freehold building | | 105.6 | |
| CE portfolio | Extended stay Hotel | Level 2 | - | |
| Sub-total | Extended stay Hotel | | - | |
| CE portfolio | Land Bank | Level 2 | 0.5 | |
| CE portfolio | Land Bank | Level 3 | 144.1 | |
| Croatia | Land Bank | Level 3 | 0.5 | |
| Germany | Land Bank | Level 2 | - | |
| Sub-total | Land Bank | | 145.1 | |
| Total | Investment properties | | 250.6 | |
| Included | Assets Held for Sales (AHS) | | 1.4 | valued on transaction basis |

**Investment Properties**

| Portfolio | Asset type | Fair value hierarchy | Valuation technique | Fair value 31.12.2013 In EUR Million | | Range Weighted average |
|---|---|---|---|---|---|---|
| | | | | | GDV/SQM | 1,628 |
| | | | | | Cost/SQM | 1,109 |
| | | | | | Developer margin/Profit on costs | 17.0% |
| CE portfolio | Office | Level 3 | Residual Method | 1.5 | Total Area in SQM | 15,191.6 |
| | | | | | Grow the rate | 1.0% |
| | | | | | Discount rate | 8.2% |
| | | | | | Terminal Capitalization Rate | 8.1% |
| | | | | | ERV/SQM/Year | 233 |
| | | | | | Expiry void in Month | 16 |
| | | | | | New lease length in year | 3 |
| | | | | | Tenant Improvements in EUR/SQM | 176 |
| CE portfolio | Office | Level 3 | Discounted Cash Flow | 26.4 | Total Area in SQM | 20,147.7 |
| | | | | | Capitalisation rate | 8.1% |
| | | | | | ERV/SQM/Year | 131 |
| | | | | | Initial void (if applicable) in Month | 13 |
| | | | | | New lease length in year | 5 |
| | | | | | Capex/Sqm | 48 |
| CE portfolio | Office | Level 3 | Income capitalisation | 86.8 | Total Area in SQM | 83,173.5 |
| | | | | | Capitalisation rate | 14.6% |
| | | | | | ERV/SQM/Year | 19.9 |
| | | | | | Initial void (if applicable) in Month | 9.6 |
| | | | | | New lease length in year | 5.0 |
| | | | | | Capex/Sqm | 2.5 |
| CE portfolio | Logistic and industrial | Level 3 | Income capitalisation | 8.9 | Total Area in SQM | 173,269.0 |
| | | | | | Capitalisation rate | 7.5% |
| | | | | | ERV/SQM/Year | 234.5 |
| | | | | | Initial void (if applicable) in Month | 21.0 |
| | | | | | New lease length in year | 5.0 |
| | | | | | Capex/Sqm | 148.9 |
| CE portfolio | Retail | Level 3 | Income capitalisation | 26.4 | Total Area in SQM | 14,480.0 |
| | | | | | Grow the rate | 1.7% |
| | | | | | Discount rate | 7.8% |
| | | | | | Terminal Capitalization Rate | 7.2% |
| | | | | | ERV/SQM/Year | 70.7 |
| | | | | | Initial void (if applicable) in Month | 42.0 |
| | | | | | Expiry void in Month | 3.8 |
| | | | | | Letting fees | 17.0% |
| | | | | | Structural Repairs (Dach&Fach) | 5.9 |
| | | | | | Tenant Improvements in EUR/SQM | 18.6 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Capex/Sqm | 9.6 |
| Germany | Mixed Commercial | Level 3 | Discounted Cash Flow | 527.1 | Total Area in SQM | 783,345.8 |
| | | | | | Price/SQM | 21.2 |
| Germany | Mixed Commercial | Level 2 | Sales comparison | 1.1 | Total Area in SQM | 52,000.0 |
| CE portfolio | Extended stay Hotel | Level 2 | Transaction price | 10.9 | Total Area in SQM | - |
| | | | | | Price /SQM | 24.9 |
| CE portfolio | Land Bank | Level 2 | Sales comparison | 16.1 | Total Area in SQM | 647,686.0 |
| | | | | | Price /SQM | 1.3 |
| Croatia | Land Bank | Level 3 | Sales comparison | 0.8 | Total Area in SQM | 592,573.0 |
| | | | | | Grow the rate | 3.0% |
| | | | | | Discount rate | 18.0% |
| | | | | | Terminal Capitalization Rate | 15.0% |
| Croatia | Land bank | Level 3 | Discounted Cash Flow | 0.6 | Total Area in SQM | 116,000.0 |
| | | | | | Price/SQM | 118.5 |
| Germany | Land Bank | Level 2 | Sales comparison | 4.0 | Total Area in SQM | 33,704.0 |

Sub-totals & Total Investment Properties

| | | | | |
|---|---|---|---|---|
| CE portfolio | Office | Level 3 | 114.6 | |
| CE portfolio | Logistic and industrial | Level 3 | 8.9 | |
| CE portfolio | Retail | Level 3 | 26.4 | |
| Germany | Mixed Commercial | Level 3 | 527.1 | |
| Germany | Mixed Commercial | Level 2 | 1.1 | |
| Sub-total | Freehold building | | 678.1 | |
| CE portfolio | Extended stay Hotel | Level 2 | 10.9 | |
| Sub-total | Extended stay Hotel | | 10.9 | |
| CE portfolio | Land Bank | Level 2 | 16.1 | |
| CE portfolio | Land Bank | Level 3 | - | |
| Croatia | Land Bank | Level 3 | 1.4 | |
| Germany | Land Bank | Level 2 | 4,0 | |
| Sub-total | Land Bank | | 21.5 | |
| Total | Investment properties | | 710.6 | |
| Not included | Assets Held for Sales (AHS) | | 28.0 | valued on transaction basis |

**b) Sensitivity information:**

The significant unobservable inputs used in fair value measurement categorized within level 3 of the fair value hierarchy of the entity's portfolios are

- Equivalent Yield
- Estimated Rental Value (ERV) for rental asset or Gross Development Value (GDV) for development
- Capex for rental assets or Construction costs when the residual method is used

Change of the valuation rates would have the following impact on the portfolio of assets valued by discounted cash flow valuation method and income capitalization:

Figures in EUR Million

Investment Properties

| Portfolio - Investment Properties | Equivalent Yield | |
|---|---|---|
| | EY - 25 bps | EY + 25 bps |
| Czech Republic | 2.1 | (2.1) |
| Hungary | 0.2 | (0.2) |
| Luxembourg | 0.7 | (0.7) |
| Poland | 0.2 | (0.3) |
| Total | 3.3 | (3.3) |

EY : Equivalent Yield

Furthermore, significant increase (or decrease) of the GDV or ERV assumptions would results in isolation in a similar significant increase (or decrease) of the fair value of the assets. Significant increase (or decrease) of costs or capital expenditures assumptions in isolation would result in a significantly lower (or higher) fair value measurement.

#### *3.1.1.4 Changes in fair value by class and level*

The Group's investment property is measured at fair value. The following table discloses the changes in fair value per class and geographical area and includes investment properties classified as held for sale.

| Class | Freehold buildings | | | | | Total freehold buildings |
|---|---|---|---|---|---|---|
| | Office | Logistics and Industrial | Retail | Mixed Commercial | Mixed Commercial | |
| Fair value hierarchy level | 3 | 3 | 3 | 3 | 2 | |
| Geographical area | Central Europe | Central Europe | Central Europe | Germany | Germany | |
| Fair value as of December 2013 | 119,805 | 27,314 | 26,400 | 527,140 | 1,100 | **701,759** |
| *o/w Assets held for sale* | *5,182* | *18,457* | - | - | - | ***23,639*** |
| Investments / acquisitions | 82 | 425 | - | 612 | - | **1,119** |
| Change in value | 1,242 | (809) | - | - | - | **433** |
| Translation differences | (1,747) | (8) | (1,507) | - | - | **(3,262)** |
| Other movements** | (21,661) | (19,082) | (24,893) | (527,752) | (1,100) | **(594,488)** |
| Fair value as of December 2014 | 97,720 | 7,840 | - | - | - | **105,560** |
| *o/w Assets Held for Sale* | - | - | - | - | - | **-** |

| Class | Land banks | | | | Total land banks | Extended stay hotels | Total | Investment properties | Assets held for sale* |
|---|---|---|---|---|---|---|---|---|---|
| Fair value hierarchy level | 3 | 2 | 3 | 2 | | 2 | | | |
| Geographical area | Central Europe | Central Europe | Croatia | Germany | | Central Europe | | | |
| Fair value as of December 2013 | 19,646 | 891 | 1,386 | 3,994 | **25,917** | 10,922 | **738,598** | 710,552 | 28,046 |
| *o/w Assets held for sale* | *4,407* | - | - | - | ***4,407*** | - | ***28,046*** | | |
| Investments / acquisitions | 28 | - | - | - | **28** | - | **1,147** | 1,147 | - |
| Change in value | *1,654* | (477) | - | - | **1,177** | 463 | **2,073** | 2,073 | - |
| Translation differences | *(533)* | 62 | (4) | - | **(475)** | (10) | **(3,747)** | (4,065) | 318 |
| Other movements** | *123,321* | - | (912) | (3,994) | **118,415** | (11,375) | **(487,448)** | (460,472) | (26,976) |
| Fair value as of December 2014 | 144,116 | 476 | 470 | - | **145,062** | - | **250,622** | 249,236 | 1,386 |
| *o/w Assets Held for Sale* | *1,386* | - | - | - | ***1,386*** | - | ***1,386*** | | |

*(*) The column "Assets held for sale" will not necessarily reconcile to the amounts disclosed in Note 11 as the amounts disclosed in the table above are limited to the investment properties, while the note 11 presents the sum of all the assets classified as held for sale.*

*(**) Line Other movements represents acquisition of subsidiaries or group of assets, transfers from Inventories and impact of deconsolidation.*

| Class | Freehold buildings | | | | | Total freehold buildings |
|---|---|---|---|---|---|---|
| | Office | Logistics and Industrial | Retail | Mixed Commercial | Mixed Commercial | |
| Fair value hierarchy level | 3 | 3 | 3 | 3 | 2 | |
| Geographical area | Central Europe | Central Europe | Central Europe | Germany | Germany | |
| Fair value as of December 2012 | 158,804 | 31,544 | 42,100 | 501,295 | 2,150 | **735,893** |
| *o/w Assets held for sale* | - | - | - | *1,450* | - | ***1,450*** |
| | | | | | | **-** |
| Investments / acquisitions | 1,186 | 101 | 140 | 1,362 | - | **2,789** |
| Asset sales | (179) | (2,173) | - | - | | **(2,352)** |
| Change in value | (33,151) | (220) | (15,043) | 26,453 | (1,050) | **(23,011)** |
| Foreign Exchange | (6,852) | (1,939) | (797) | - | - | **(9,588)** |
| Other movements** | (2) | - | - | (1,970) | - | **(1,972)** |
| Fair value as of December 2013 | 119,805 | 27,314 | 26,400 | 527,140 | 1,100 | **701,759** |
| *o/w Assets Held for Sale* | *5,182* | *18,457* | - | - | - | ***23,639*** |

| Class | Land banks | | | | Total land banks | Extended stay hotels | Total | Investment properties | Assets held for sale* |
|---|---|---|---|---|---|---|---|---|---|
| Fair value hierarchy level | 3 | 2 | 3 | 2 | | 2 | | | |
| Geographical area | Central Europe | Central Europe | Croatia | Germany | | Central Europe | | | |
| Fair value as of December 2012 | 27,251 | 950 | 2,790 | 3,350 | **34,341** | 19,207 | **789,441** | 782,731 | 6,710 |
| *o/w Assets held for sale* | *4,660* | - | - | *600* | ***5,260*** | - | ***6,710*** | | |
| Investments / acquisitions | 658 | - | - | 79 | **737** | 19 | **3,545** | 3,545 | - |
| Asset sales | *(4,473)* | - | - | (600) | **(5,073)** | - | **(7,425)** | (6,825) | (600) |
| Change in value | *(2,377)* | 21 | (1,382) | (805) | **(4,543)** | (7,077) | **(34,631)** | (34,444) | (185) |
| Foreign Exchange | *(1,413)* | (80) | (23) | - | **(1,516)** | (1,227) | **(12,331)** | (12,265) | (69) |
| Other movements** | - | - | - | 1,970 | **1,970** | - | **(2)** | (22,189) | 22,189 |
| Fair value as of December 2013 | 19,646 | 891 | 1,386 | 3,994 | **25,917** | 10,922 | **738,598** | 710,552 | 28,046 |
| *o/w Assets Held for Sale* | *4,407* | - | - | - | ***4,407*** | **-** | ***28,046*** | | |

### 3.1.2 Determination of remaining construction costs and impairment on developments

All development projects are subject to individual financial forecasts and balances, prepared by the Group and based on the best estimate of the construction costs to be incurred as part of the projects. The costs incurred are subject to specific controls by the Group and the project balances, showing the costs incurred as well as the remaining construction costs, are updated on a regular basis. This information is used to determine the net realizable value of inventories as well as the fair value less cost to sale for the impairment test of properties under development.

For the purpose of the impairment test on developments under construction, that the Group intends to finalize, whether classified as property, plant and equipment or as inventories, the Group does not use the fair value but the present development value that is defined as the expected selling price (as determined by an independent expert) from which the remaining development costs are deducted. The remaining development costs deriving from the project balance include the remaining construction, sales and marketing costs and all direct or indirect costs that can be associated to the specific development.

When a development is suspended the impairment test is based on its fair value if it were to be sold as is (as determined by an independent expert) and not based the present development value. Mainly the difference relates to the margin that an acquiring developer would request in order to take over the development risks.

### 3.1.3 Income taxes assumptions

The Group is subject to income taxes in different jurisdictions. Significant estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As stated in note 4.20, the calculation of deferred tax on investment properties is not based on the fact that they will be realized through a share deal but through an asset deal. As a result of the Group structure, the potential capital gain may be exempted from any tax in case of share deal if certain conditions are met and hence the accumulated deferred tax liabilities may be recognized as a gain depending on the outcome of negotiations with future buyers.

### 3.1.4 Other

Information about estimation uncertainties and assumptions that have a significant risk of resulting in a material adjustment in the year ending 31 December 2014 is included in the following notes:

- Note 9.1.1 – Hotel and owner occupied buildings: impairment test, key assumptions underlying recoverable amounts;
- Note 21.1.1 – measurement of retirement benefit obligation: key actuarial assumptions; recognition and measurement of provisions key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 7 – key assumptions used for goodwill and trademark impairment test.

## 3.2 Critical judgments in applying the Group's accounting policies

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is summarised below.

### 3.2.1 Distinction between investment properties and owner-occupied properties

The Management determines whether a property qualifies as investment property. In making its judgment, the Management considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease) the Group is accounting the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Management considers each property separately in making its judgment.

### 3.2.2 Transfer from inventories to investment property

If a commercial or office development becomes partially rented, as a result of tenants moving in before the contemplated sale of the asset, the project is not automatically reclassified as investment property. A development will be reclassified as investment property only for capital appreciation and if the nature of this building has been changed and formally approved by the Management. The renting revenue on this development project is specifically disclosed in the consolidated financial statements.

### 3.2.3 Transfer from investment property to inventories

Freehold lands for which the destination is not determined at acquisition are classified under Investment property as land bank. The destination of land bank plots is considered to remain uncertain until the start of the development that will trigger the transfer at fair value to inventories. The start of the development will depend on whether it is decided by the Management to perform a land development with a view to sale or a construction development with a view to sale. In the case of a construction development with a view to sell in the ordinary course of activities, the start of the development is considered when the project design is definitive, the building permit is granted and the start of the construction has been validated by the Board of Directors. In the case of a land development with a view to totally or partially sell the parcels in the ordinary course of activities, the start of the development is considered to be the moment at which the Group has obtained sufficient support from state or city authorities in order to start working on the master plan modification.

### 3.2.4 Recognition and measurement of deferred taxes and provision for income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority of either the taxable entity or different taxable entities where there is the intention to settle the balances on a net basis.

The capacity to recognize the deferred tax asset arising from the temporary differences detailed in the table below is assessed on the level of the fiscal entity. If it is not probable that the entity will achieve taxable profits in future accounting periods against which the tax losses or tax credits can be utilized the deferred tax asset is derecognized on the line "Deferred tax asset (DTA) derecognition".

### 3.2.5 Classification of non-current assets as held for sale

The Management determines whether a non-current asset has to be classified as held for sale when the following conditions are met:

- there is a formal decision taken by the Board of Directors to sell the asset at a price which is reasonable compared to its current fair value;
- the asset is available for immediate sale;
- the sale is highly probable and should be completed within the 12 months following the balance sheet date.

### 3.3 Subsidiaries with uncertainty of going concern

Some Group subsidiaries and joint ventures are dependent on their ability to obtain additional funding. Financing deficiency suggests liquidity concerns that may cast doubts on these Group's subsidiaries and joint ventures ability to sustain operations and complete current projects. Where such uncertainties exist and are estimated as material to those entities, the Group recognizes impairments and provisions for relevant assets in order to recognize the expected transaction value for the repayment of the liabilities as a result of a breach of covenants in the bank loan contract or bankruptcy proceeding. In addition to the impairments of the assets, the Group may have to provide for risks linked to corporate guarantees granted by other Group entities that might be exercised as a result of these material uncertainties.

Furthermore, the control of the subsidiaries with uncertainty of going concern has to be reassessed in order to determine whether they should still be integrated in the consolidation scope. In such circumstances, the Group takes into account its capacity to negotiate a restructuring, the probable outcome and the extent of the banks' protective rights. Until then the Group considers that it is still in capacity to take any measure that could change the course of actions and hence the ability to use its power over the investee to affect the amount of its returns.

## 4 Summary of significant accounting policies

### 4.1 Changes in accounting policies

The accounting policies have been consistently applied by the Group's entities and are consistent with those applied for its 31 December 2013 consolidated financial statements, except for the application of the revised and new standards and interpretations applied as from 1 January 2014 as described in the note 4.1.1.

In 2013, the Group has early applied the following standards which are effective from 1 January 2014: IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS 12: Disclosure of Interests in Other Entities. The impact of the application has been described in the 2013 Consolidated Financial Statements.

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 introduces a new control concept that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. The implementation of this standard is limited to the change in consolidation method of the joint arrangements, in which the Group is involved, from proportionate method to equity method, in application of IFRS 11.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities IFRS 12 replaced the disclosure requirements in IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'. This standard requires the entity to disclose information about the nature of and risks associated with its interest in other entities. An entity shall disclose information about its interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

#### 4.1.1 New and amended standards adopted by the Group in 2014

The Group has adopted the following standards and amendments to standards for the first time for the financial year beginning on 1 January 2014:

Amendment to IAS 32, ‘Financial instruments: Presentation’ on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms.

Amendments to IAS 36, ‘Impairment of assets’, on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Amendment to IAS 39, ‘Financial instruments: Recognition and measurement’ on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to ‘over-the-counter’ derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment did not have a significant effect on the Group financial statements.

Other standards and amendments effective from 1 January 2014 do not have significant impact on the Group consolidated financial statements.

### 4.1.2 New standards and interpretations not yet adopted

A number of new standards, amendments to Standards and Interpretations are not yet effective as of 31 December 2014, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective. The Group is in the process of analysing the likely impact on its consolidated financial statements.

IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, subject to EU endorsement. It is very likely to affect the Group’s accounting treatment of financial instruments. The group is yet to assess IFRS 9’s full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted, subject to EU adoption. The group is assessing the impact of IFRS 15.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The Group is currently not subject to significant levies so the impact on the Group’s financial statements is not material.

The Group has estimated the impact of the implementation of the other new standards and amendments not early adopted as non-significant.

The Group refers to the endorsement status of the new IFRS standards and amendments to standards and interpretations as they are published by the European Union (http://ec.europa.eu/internal_market/accounting/ias/index_en.htm).

## 4.2 Consolidation

### 4.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration includes also the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On and acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interest and other components of equity. Any retained interest in the former subsidiary is re-measured to its fair value at the date when control is lost. Any resulting gain or loss is recognized in the profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

In addition, any amounts previously recognized in other comprehensive income in respect of that subsidiary are reclassified to profit or loss.

### 4.2.2 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### 4.2.3 Joint ventures

The Group has applied IFRS 11 to all joint arrangements in 2013 with retrospective application since 1 January 2012. The effects of the change are shown in consolidated financial statements as at 31 December 2013.

The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures is an arrangement in which the Group has join control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Joint ventures are accounted for using the equity method of accounting.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 4.2.4 Associates

Associates are those entities in which the Group exercises a significant influence over the operational and financial policies, but not control. The Group's investments in associates are accounted for under the equity method.

Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognize further losses by a provision (liability), unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 4.2.5 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative consolidated statements of profit or loss and other comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative year.

### 4.2.6 Non-current financial assets

Entities that do not represent significant investments (like dormant empty shells) or in which the Group does not have significant influence over operational and financial policies are reported under the "Non-current financial assets" (see Note 13) and impact the profit and loss statement only through dividends received, fair value adjustments or impairments. Where no active market exists and where no other valuation method can be used, the Non-current financial assets are maintained at historical cost, net of depreciation.

## 4.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of a Group. The Board of Directors is the chief operating decision maker of the Group.

## 4.4 Foreign currency translation

### 4.4.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of all Group entities is the local currency. The consolidated financial statements are presented in Euro (EUR), which is the Group's presentation currency.

### 4.4.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

Translation differences on non-monetary assets and liabilities held at fair value through profit or loss are recognized in the consolidated income statement as part of the fair value gain or loss.

#### 4.4.3 Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement presented are translated at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions); and
- All resulting exchange differences are recognized as a separate component of consolidated equity.

In consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, exchange differences arising from the translation of the net investment in foreign entities are recognized in the consolidated income statement as part of the gain or loss on sale.

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.

### 4.5 Intangible assets

#### 4.5.1 Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in ‘intangible assets’. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the acquisition from which the goodwill arose.

The gain on bargain purchase arising on an acquisition is recognized in the consolidated income statement.

#### 4.5.2 Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized using the straight-line method over their estimated useful lives (not exceeding three years).

#### 4.5.3 Trademarks

Acquired trademarks are shown at historical cost. When they have indefinite useful life, trademarks are tested annually for impairment or whenever there is an indication of impairment. They are carried at cost less accumulated impairment losses.

### 4.6 Investment property

Property that is held for long-term rental yields or for capital appreciation or both (including the land bank), and that is not occupied by the Group, is classified as investment property.

Investment property comprises of freehold land, freehold buildings, extended stay residences, land plots held under operating lease and buildings held under finance lease.

Land plots held under operating lease is classified and accounted for as investment property when the definition of investment property is met.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed annually by an independent expert. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognized as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognized in the consolidated financial statements.

Subsequent expenditure is charged to the asset’s carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

Changes in fair values are recorded in the consolidated income statement under “Net gain/ (loss) from fair value adjustment on investment property”.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the consolidated income statement.

If a commercial or office development becomes partially rented, as a result of tenants moving in before the contemplated sale of the asset, the project is not automatically reclassified as investment property. A development will be reclassified as investment property only for capital appreciation and if the nature of this building has been changed. The renting revenue on this development project is specifically disclosed in the consolidated financial statements.

Freehold lands for which the use is not specified at the acquisition date are classified under Investment property as land bank. The specific final use (if any) is to be determined by the Management approving the acquisition. The use of land bank plots is considered to remain uncertain until the start of the development that will trigger the transfer at fair value to inventories. The start of the development will depend on whether it is decided by the Management to perform a land development with a view to sale or a construction development with a view to sale. In the case of a construction development with a view to sell in the ordinary course of activities, the start of the development is considered to be when the project design is definitive, the building permit is granted and the start of the construction has been validated by the Board of Directors. In the case of a land development with a view to totally or partially sell the parcels in the ordinary course of activities, the start of the development is considered to be the moment at which the Group has obtained official support from state or city authorities in order to start working on the master plan modification.

If the start of a development of a freehold land with the objective to keep the asset for future rental or value accretion, the property will not be transferred. All borrowing costs are expensed except for the borrowing costs that are capitalized as part of the cost of that asset when they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalized borrowing costs include foreign exchange differences on loans subscribed for the purpose of obtaining the qualifying asset without limitation; such changes may be positive or negative.

The Management determines whether a property qualifies as investment property. In making its judgment, the Management considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease) the Group is accounting the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Management considers each property separately in making its judgment.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

Hotel buildings held by the Group are not classified as Investment property but rather as Property, plant and equipment.

### 4.7 Property, plant and equipment

Hotels, owner-occupied buildings and fixtures and fittings are classified as property, plant and equipment. Properties under development are classified as property, plant and equipment only if their future use is owner operated real estate assets (hotels, logistics warehouses or owner-occupied office buildings).

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation, based on a component approach, starts off when construction or development is completed. Depreciation is calculated using the straight-line method to allocate the costs over the asset's estimated useful lives, as follows:

- Lands Nil
- Buildings 50 to 80 years
- Fixtures and fittings 3 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (note 4.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

All borrowing costs are expensed except for the borrowing costs that are capitalized as part of the cost of that asset when they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalized borrowing costs include foreign exchange differences on loans subscribed for the purpose of obtaining the qualifying asset without limitation; such changes may be positive or negative.

### 4.8 Leases

#### 4.8.1 A Group company is the lessee

##### *4.8.1.1 Operating lease*

Leases in which a significant portion of the risks and rewards of the ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

##### *4.8.1.2 Finance lease*

Leases of assets where the Group supports substantially all the risks and rewards of the ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at their fair value.

### 4.8.2 A Group company is the lessor

#### *4.8.2.1 Operating lease*

Properties leased out under operating leases are included in investment property in the consolidated statement of financial position.

#### *4.8.2.2 Finance lease*

When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Lease income is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

## 4.9 Impairment of non-financial assets

Intangible assets including goodwill and trademark that have an indefinite useful life are not subject to systematic amortization and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. Other non-financial assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

## 4.10 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered as highly probable. They are stated at the lower of their carrying amount and fair value less costs to sell.

## 4.11 Financial assets

The Group classifies its financial assets other than derivatives in the following categories: loans and receivables and financial assets at fair value through profit or loss and financial assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Financial assets are derecognized only when the contractual rights to the cash flows from the financial asset expire or the Group transfers substantially all risks and rewards of ownership. Impairments will be recognized if a decline in fair value of a financial asset or a group of financial assets classified as available for sale is significant or prolonged.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are classified as trade receivables (note 4.14) and other current assets in the consolidated balance sheet. Loans and receivables are carried at amortized cost using the effective interest method. Financial assets recognized in the consolidated balance sheet as trade and other receivables are classified as loans and receivables. They are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment.

Management assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets classified as loans and receivables is impaired. Impairment testing of trade receivables is described in note 4.14.

Financial assets at fair value through profit or loss include financial assets so designated by management or held for trading. Financial assets carried at fair value through profit and loss (including derivatives) are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. They are subsequently measured at fair value. Derivatives are also categorized as held for trading. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

The Group subscriptions in investment property closed end funds managed by the Group are categorized as financial assets designated at fair value at inception as they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell these assets.

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. They are subsequently measured at fair value.

### 4.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

### 4.13 Inventories

Properties that are being developed for future sale are classified as inventories at their cost or deemed cost, which is the carrying amount at the date of reclassification from investment property. They are subsequently carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less cost to complete redevelopment and selling expenses.

If a commercial or office development classified in Inventories becomes partially or totally rented, as a result of tenants moving in before the contemplated sale, it is not automatically reclassified as Investment Property. The finished goods will be reclassified in investment property if it is held mainly for capital appreciation. This will be appreciated on the basis of the Management decision to hold the asset and the absence of an active search for a buyer.

If there is a change in the business model of the entity or a change in the use of the property, the land-bank classified in inventories is reclassified as Investment Property.

If development (freehold land classified as inventories) has ceased and the development plans for resale have been deferred indefinitely, and the entity continues to hold the property awaiting improvement in the property market or change in master plan, the inventory is reclassified to investment property.

All borrowing costs are expensed except for the borrowing costs that are capitalized as part of the cost of that asset when they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalized borrowing costs include foreign exchange differences on loans subscribed for the purpose of obtaining the qualifying asset without limitation; such changes may be positive or negative.

### 4.14 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Impairments are recognized when receivables are in overdue. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the consolidated income statement.

### 4.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### 4.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options classified in equity are shown in equity as a deduction, net of tax, from the proceeds in other reserves.

The shares of the Company (ORCO PROPERTY GROUP, société anonyme) held by the Group (Treasury shares) are measured at their acquisition cost and recognized as a deduction from equity. Gains and losses on disposal are taken directly to equity.

## 4.17 Borrowings

The term Borrowings covers the elements recorded under the captions Bonds and Financial debts within non-current liabilities and within current liabilities.

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion at maturity of the bonds. If applicable, the remainder of the proceeds allocated to the conversion option is recognized in equity, net of income tax effect.

It may be elected to account for a liability at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency. In such a case the liability is initially recognized at fair value, and transaction costs are expensed in the consolidated income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## 4.18 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

## 4.19 Trade payables

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

## 4.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized directly in other comprehensive income or in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint-ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

**Deferred income tax on investment property**

Deferred income tax is provided on all temporary differences arising on the fair value of buildings and lands held by the Group as investment properties even when they are located in special purpose entities, which are themselves, in most cases, held by a Luxembourg or French-based entity. Generally, each special purpose entity is meant to hold one specific project or a coherent portfolio of projects. Possibly, should a special purpose entity be disposed of, the gains generated from the disposal might be exempted from any tax.

## 4.21 Provisions and post-employment obligations

A provision is recognized when there is a legal or constructive obligation arising from past events, or in cases of doubt over the existence of an obligation (e.g. a court case), when it is more likely than not that a legal or constructive obligation has arisen from a past event and it is more likely than not that there will be an outflow of benefits and the amount can be estimated reliably. A constructive obligation arises when an entity, by past practice or sufficiently specific communication to affected parties, has created a valid expectation in other parties that it will carry out an action. An event that does not initially give rise to an obligation may give rise to one at a future date due to changes in the law or because an entity's actions create a constructive obligation. If the existence of an obligation depends on the future actions of the entity, then a provision is not recognized until the obligation is unavoidable. The amount recognized for a provision is the best estimate of the expenditure to be incurred. If material, the estimate is discounted at a pre-tax rate that reflects the time value of money and the risks specific to the liability, unless the future cash flow are adjusted for these risks.

Financial guarantee arrangements such as certain letters of credit are in the scope of IAS 39. When a financial guarantee recognized under IAS 39 becomes probable of being exercised, then the provision is measured as the best estimate of the expenditure to be incurred.

Provisions for environmental restoration, site restoration and legal claims are recognized when:

- The Group has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation; and
- The amount has been reliably estimated.

Where the Group, as lessee, is contractually required to restore a leased-in property to an agreed condition, prior to release by a lessor, provision is made for such costs as they are identified.

The Group has entered into defined benefit plans defined as an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the net defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Remeasurements of the net defined liability, which comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return of plan assets (excluding interest) and the effect of the asset ceiling (if any), are charged or credited to other comprehensive income in the period in which they arise. Net interest expense and other expenses related to the defined benefit plans are recognized in the consolidated income statement.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

The valuation of the pension obligation by an independent actuary is only applicable for some German entities.

For its subsidiaries the Group offers benefits plans managed by the State. The Group has the obligation to pay the contributions defined in the plan regulation. They are recorded in the financial statements in payroll charges.

## 4.22 Derivative financial instruments

Derivatives are initially recognized in the consolidated statement of financial position at their fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value which is generally the market value. Derivatives are presented at the reporting date under the caption Derivative instruments in current assets when fair value is positive or under the caption Derivative instruments in current or non-current liabilities when fair value is negative. Changes in the fair value are recognized immediately in the consolidated income statement under “other net financial results”.

Embedded derivatives that are not equity instruments, such as issued call options embedded in exchangeable bonds, are recognized separately in the consolidated statement of financial position and changes in fair value are accounted for through the consolidated income statement under “other net financial results”.

### 4.23 Revenue recognition

Revenue includes rental income, service charges and management charges from properties, and income from property trading.

Rental income from operating leases is recognized in income on a straight-line basis over the lease term. When the Group provides incentives to its customers, the cost of incentives are recognized over the lease term, on a straight-line basis, as a reduction of rental income.

Service and management charges are recognized in the accounting period in which the services are rendered. When the Group is acting as an agent, the commission rather than gross income is recorded as revenue.

The amount of inventories recognized as an expense during the period, referred to as cost of goods sold, consists of those costs previously included in the measurement of inventory that has been sold during the year.

For each development project, the amount of cost of goods sold for the period is derived from the percentage of the total area sold during the period applied to opening inventory. Coefficients are allocated to different types of area in order to underweight secondary floor area (balcony, terrace, garage and garden) in comparison with primary floor area (apartments).

The other operating expenses include repair and maintenance costs of buildings and properties, utilities costs, marketing and representation costs, travel and mobility expenses, operating taxes and other general overhead expenses.

### 4.24 Dividend distribution

Dividend distribution to the Company’s shareholders is recognized as a liability in the Group’s consolidated financial statements in the period in which the dividends are approved by the Company’s shareholders.

## 5 Segment reporting

The Board of Directors is the responsible body making decisions for all acquisitions and disposals of projects. The Board assesses the performance of the operating segments based on a measure of adjusted earnings before interests, tax, depreciation and amortization ("adjusted EBITDA" as defined below).

Corporate expenses are allocated on the basis of the revenue realized by each activity.

Adjusted EBITDA is the recurring operational cash result calculated by deduction from the operating result of the non-cash and non-recurring items (Net gain or loss on fair value adjustments; Amortization, impairments and provisions; Net gain or loss on the sale of abandoned developments; Net gain or loss on disposal of assets; Termination expenses) and the net results on sale of assets or subsidiaries.

The Group structure lies on two main activities to which the Board of Directors is allocating the investment capacity on the basis of the defined strategy. On one hand, the Group is investing in land bank or assets for development and effectively developing them once the project presented is satisfactorily approved by the Board of Directors. Once the asset is developed it can be either sold to a third party or kept in the Group own portfolio for value accretion. On the other hand, the Group is actively investing in and managing its own or third parties real estate assets for operational profitability and value appreciation. These two business lines are the segments by which the operations are analysed.

These two segments or business lines can be defined as the following:

- Development business line covers all real estate assets under construction or designated as a future development in order to be sold to a third party or to be transferred to the Property Investment Business line once completed;

- Property Investment business line covers all real estate assets operated (such as logistic parks) and rented out assets or that will be so without any major refurbishment.

The level of indebtedness of each asset, which is to finance projects and operations, is decided by the Board of Directors above certain thresholds. The funds allocation after draw down is independent from the asset pledged or leveraged. Since the segmentation by business line of the finance debt based on the pledged project is not representative of operational cash allocation, this information is not disclosed as it is not relevant.

## 5.1 Segment Reporting 2014

| **Profit & Loss 31 December 2014** | Development | Property Investments | TOTAL |
|---|---|---|---|
| **Revenue** | **61,328** | **13,848** | **75,176** |
| *Sale of goods* | *60,691* | *-* | ***60,691*** |
| *Rent* | *302* | *8,205* | ***8,507*** |
| *Hotels, Extended Stay & Restaurants* | *-* | *1,032* | ***1,032*** |
| *Services* | *335* | *4,611* | ***4,946*** |
| Net gain or loss from fair value adjustments on investment property | 1,177 | 896 | **2,073** |
| Cost of goods sold | (58,840) | - | **(58,840)** |
| Impairments - Allowance | (8,468) | (1,752) | **(10,220)** |
| Impairments - Write-Back | 2,048 | 534 | **2,582** |
| Amortization and provisions | 48,810 | (2,916) | **45,894** |
| Other operating results | (20,407) | (10,297) | **(30,704)** |
| **Operating Result** | **25,648** | **313** | **25,961** |
| Net gain or loss from fair value adjustments on investment property | (1,177) | (896) | **(2,073)** |
| Impairments - Allowance | 8,468 | 1,752 | **10,220** |
| Impairments - Write-Back | (2,048) | (534) | **(2,582)** |
| Amortization and provisions | (48,810) | 2,916 | **(45,894)** |
| Termination expenses | 8,943 | 2,030 | **10,973** |
| Net result on disposal of assets | 19 | (48) | **(29)** |
| **Adjusted EBITDA** | **(8,958)** | **5,533** | **(3,425)** |
| **Financial Result** | | | **(48,188)** |
| **Share of profit or loss of entities accounted for using the equity method** | (116) | (377) | **(493)** |
| **Loss before income tax** | | | **(22,720)** |

| **Balance Sheet & Cash Flow 31 December 2014** | Development | Property Investments | TOTAL |
|---|---|---|---|
| **Segment Assets** | **154,503** | **105,585** | **260,088** |
| Investment Property | 143,676 | 105,560 | **249,236** |
| Property, plant and equipment | - | - | **-** |
| Inventories | 9,422 | - | **9,422** |
| Assets held for sale | 1,395 | - | **1,395** |
| Equity method investments | 10 | 25 | **35** |
| *Unallocated assets* | | | *114,026* |
| **Total Assets** | | | **374,114** |
| **Segment Liabilities** | **237** | **-** | **237** |
| Liabilities linked to assets held for sale | 237 | - | **237** |
| *Unallocated liabilities* | | | *167,861* |
| **Total Liabilities** | | | **168,098** |
| **Cash flow elements** | **28** | **1,269** | **1,297** |
| Capital expenditure | 28 | 1,269 | **1,297** |

| **Direct Operating Expenses 31 December 2014** | Development | Property Investments | TOTAL |
|---|---|---|---|
| Direct operating expenses arising from investment property that : | | | |
| - generated rental income | (4) | (8,811) | **(8,815)** |
| - did not generated rental income | (168) | (47) | **(215)** |

## 5.2 Segment Reporting 2013 (restated)

| Profit & Loss<br>31 December 2013 (restated) | Development | Property Investments | TOTAL |
|---|---|---|---|
| **Revenue** | **46,296** | **20,581** | **66,877** |
| *Sale of goods* | *45,525* | *-* | ***45,525*** |
| *Rent* | *282* | *11,724* | ***12,006*** |
| *Hotels, Extended Stay & Restaurants* | *-* | *2,368* | ***2,368*** |
| *Services* | *489* | *6,489* | ***6,978*** |
| Net gain or loss from fair value adjustments on investment property | (2,349) | (55,491) | **(57,840)** |
| Cost of goods sold | (36,591) | - | **(36,591)** |
| Impairments - Allowance | (121,932) | (20,799) | **(142,731)** |
| Impairments - Write-Back | 456 | 91 | **547** |
| Amortization and provisions | (15,463) | 19,226 | **3,763** |
| Other operating results | (13,472) | (14,588) | **(28,060)** |
| **Operating Result** | **(143,055)** | **(50,980)** | **(194,034)** |
| Net gain or loss from fair value adjustments on investment property | 2,349 | 55,491 | **57,840** |
| Impairments - Allowance | 121,932 | 20,799 | **142,731** |
| Impairments - Write-Back | (456) | (91) | **(547)** |
| Amortization and provisions | 15,463 | (19,226) | **(3,763)** |
| Net result on disposal of assets | (547) | 355 | **(192)** |
| **Adjusted EBITDA** | **(4,314)** | **6,348** | **2,034** |
| **Financial Result** | | | **(57,287)** |
| **Share of profit or loss of entities accounted for using the equity method** | (413) | - | **(413)** |
| **Loss before Income Tax** | | | **(251,733)** |

| Balance Sheet & Cash Flow<br>31 December 2013 | Development | Property Investments | TOTAL |
|---|---|---|---|
| **Segment Assets** | **139,804** | **775,996** | **915,799** |
| Investment Property | 20,886 | 689,666 | **710,552** |
| Property, plant and equipment | - | 61,639 | **61,639** |
| Inventories | 114,400 | - | **114,400** |
| Assets held for sale | 4,425 | 24,691 | **29,116** |
| Equity method investments | 93 | | **93** |
| *Unallocated assets* | | | *256,046* |
| **Total Assets** | | | **1,171,845** |
| **Segment Liabilities** | **10,388** | **17,334** | **27,722** |
| Liabilities linked to assets held for sale | 10,388 | 17,334 | **27,722** |
| *Unallocated liabilities* | | | *881,006* |
| **Total Liabilities** | | | **908,728** |

| Cash flow elements<br>31 December 2013 | | | |
|---|---|---|---|
| | **798** | **2,847** | **3,645** |
| Capital expenditure | 798 | 2,847 | **3,645** |

| Direct Operating Expenses<br>31 December 2013 | Development | Property Investments | TOTAL |
|---|---|---|---|
| Direct operating expenses arising from investment property that: | | | |
| - generated rental income | (38) | (11,682) | **(11,720)** |
| - did not generated rental income | (45) | (207) | **(252)** |

## 5.3 Segment Reporting 2013 (reported)

| **Profit & Loss**<br>**31 December 2013 (reported)** | Development | Property Investments | TOTAL |
|---|---|---|---|
| **Revenue** | **46,517** | **99,379** | **145,896** |
| *Sale of goods* | *45,573* | *149* | ***45,722*** |
| *Rent* | *343* | *64,283* | ***64,626*** |
| *Hotels, Extended Stay & Restaurants* | *66* | *20,722* | ***20,788*** |
| *Services* | *534* | *14,226* | ***14,760*** |
| Net gain or loss from fair value adjustments on investment property | (3,422) | (31,022) | **(34,444)** |
| Cost of goods sold | (36,542) | (1,895) | **(38,437)** |
| Impairments - Allowance | (139,127) | (38,434) | **(177,561)** |
| Impairments - Write-Back | 614 | 847 | **1,461** |
| Amortization and provisions | 2,534 | 6,755 | **9,289** |
| Other operating results | (10,774) | (59,747) | **(70,521)** |
| **Operating Result** | **(140,201)** | **(24,117)** | **(164,318)** |
| Net gain or loss from fair value adjustments on investment property | 3,422 | 31,022 | **34,444** |
| Impairments - Allowance | 139,127 | 38,434 | **177,561** |
| Impairments - Write-Back | (614) | (847) | **(1,461)** |
| Amortization and provisions | (2,534) | (6,755) | **(9,289)** |
| Net result on disposal of assets | (531) | 443 | **(88)** |
| **Adjusted EBITDA** | **(1,330)** | **38,180** | **36,850** |
| **Financial Result** | | | **(77,242)** |
| **Share of profit or loss of entities accounted for using the equity method** | (219) | (194) | **(413)** |
| **Loss before Income Tax** | | | **(241,973)** |

| **Balance Sheet & Cash Flow**<br>**31 December 2013** | Development | Property Investments | TOTAL |
|---|---|---|---|
| **Segment Assets** | **139,804** | **775,996** | **915,799** |
| Investment Property | 20,886 | 689,666 | **710,552** |
| Property, plant and equipment | - | 61,639 | **61,639** |
| Inventories (*) | 114,400 | - | **114,400** |
| Assets held for sale | 4,425 | 24,691 | **29,116** |
| Equity method investments | 93 | - | **93** |
| *Unallocated assets* | | | *256,046* |
| **Total Assets** | | | **1,171,845** |
| **Segment Liabilities** | **10,388** | **17,334** | **27,722** |
| Financial debts | - | - | - |
| Liabilities linked to assets held for sale | 10,388 | 17,334 | **27,722** |
| *Unallocated liabilities* | | | *881,006* |
| **Total Liabilities** | | | **908,728** |
| **Cash flow elements** | **736** | **2,979** | **3,716** |
| Capital expenditure | 736 | 2,979 | **3,716** |

| **Direct Operating Expenses**<br>**31 December 2013** | Development | Property Investments | TOTAL |
|---|---|---|---|
| Direct operating expenses arising from investment property that: | | | |
| - generated rental income | (34) | (36,307) | **(36,341)** |
| - did not generated rental income | (62) | (210) | **(272)** |

*(*) The only allocable inventories are related to the real estate properties.*

## 5.4 Geographical information

Following tables disclose revenue per country and real estate portfolio:

| | Total revenue | Rental revenue | Investment Property | Property, plant & equipment | Inventories |
|---|---|---|---|---|---|
| Czech Republic | 19,329 | 5,195 | 204,896 | - | 8,212 |
| Poland | 51,753 | 579 | 11,300 | - | 554 |
| Croatia | 34 | 34 | 470 | - | 653 |
| Hungary | 1,054 | 584 | 10,800 | - | - |
| Slovakia | 977 | 116 | - | - | 3 |
| Luxembourg | 5,608 | 1,999 | 21,770 | - | - |
| Inter-geographic | (3,580) | - | - | - | - |
| **December 2014** | **75,176** | **8,507** | **249,236** | **-** | **9,422** |

| | Total revenue | Rental revenue | Investment Property | Property, plant & equipment | Inventories |
|---|---|---|---|---|---|
| Czech Republic | 33,953 | 6,632 | 85,181 | - | 79,160 |
| Germany | - | - | 532,234 | 2,971 | 2,571 |
| Poland | 5,328 | 933 | 16,045 | - | 31,244 |
| Croatia | 25 | 23 | 1,386 | 58,668 | 655 |
| Hungary | 2,654 | 1,987 | 52,496 | - | - |
| Slovakia | 3,976 | 255 | - | - | 770 |
| Luxembourg | 31,758 | 2,175 | 23,210 | - | - |
| Inter-geographic | (10,817) | - | - | - | - |
| **December 2013 (restated)** | **66,877** | **12,006** | **710,552** | **61,639** | **114,400** |

| | Total revenue | Rental revenue | Investment Property | Property, plant & equipment | Inventories |
|---|---|---|---|---|---|
| Czech Republic | 33,953 | 6,632 | 85,181 | - | 79,160 |
| Germany | 60,222 | 52,243 | 532,234 | 2,971 | 2,571 |
| Poland | 5,328 | 933 | 16,045 | - | 31,244 |
| Croatia | 18,876 | 400 | 1,386 | 58,668 | 655 |
| Hungary | 2,654 | 1,987 | 52,496 | - | - |
| Slovakia | 3,976 | 255 | - | - | 770 |
| Luxembourg | 31,758 | 2,175 | 23,210 | - | - |
| Inter-geographic | (10,870) | - | - | - | - |
| **December 2013 (reported)** | **145,896** | **64,626** | **710,552** | **61,639** | **114,400** |

## 5.5 Rent revenues

The following table shows operational lease revenues contracted as of December 2014:

| Asset type and location | 2015 | 2016 | 2017 | 2018 | > 2018 |
|---|---|---|---|---|---|
| **Logistics** | **192** | **137** | **-** | **-** | **-** |
| Czech Republic | 137 | 137 | - | - | - |
| Poland | 56 | - | - | - | - |
| **Office** | **4,966** | **3,353** | **2,275** | **1,195** | **795** |
| Czech Republic | 3,708 | 2,703 | 1,812 | 921 | 750 |
| Hungary | 120 | 120 | 91 | - | - |
| Luxembourg | 811 | 204 | 45 | 45 | 45 |
| Poland | 326 | 326 | 326 | 229 | - |
| **Total** | **5,158** | **3,489** | **2,275** | **1,195** | **795** |

## 6 Discontinued operations

During the first half of 2014, the Group lost control over CPI PG and its subsidiaries and Suncani Hvar. As a result of these changes, CPI PG and Suncani Hvar were classified as discontinued operations. Further details are disclosed in note 18.

The following tables show the effect of deconsolidation of discontinued operations.

**CPI PG**

*(iv) Results of discontinued operation*

The following table represents contribution of the deconsolidated assets to income statement before deconsolidation.

| For the period | 3 months 2014 | 12 months 2013 |
|---|---|---|
| **Revenue** | **16,050** | **60,222** |
| **Operating result** | **3,525** | **53,031** |
| **Financial result** | **(399)** | **(15,532)** |
| **Profit before income taxes** | **3,126** | **37,499** |
| Income taxes | (1,568) | (8,242) |
| **Profit from discontinued operations** | **1,559** | **29,257** |

*(v) Effect of deconsolidation on the consolidated statement of financial position*

| | |
|---|---|
| **NON-CURRENT ASSETS** | **609,731** |
| Intangible assets | 45,837 |
| Investment property | 533,226 |
| Property, plant and equipment | 7,143 |
| Non-current loans and receivables | 23,525 |
| **Deferred tax assets** | **(1,198)** |
| **CURRENT ASSETS** | **123,294** |
| Inventories | 2,994 |
| Trade receivables | 11,998 |
| Other current assets | 23,501 |
| Derivative instruments | 16 |
| Cash and cash equivalents | 84,787 |
| **NON-CURRENT LIABILITIES** | **265,458** |
| Bonds | 43 |
| Financial debts | 250,423 |
| Provisions and other long term liabilities | 14,992 |
| **Deferred tax liabilities** | **104,806** |
| **CURRENT LIABILITIES** | **67,183** |
| Financial debts | 33,919 |
| Trade payables | 3,095 |
| Advance payments | 16,649 |
| Derivative instruments | 2,518 |
| Other current liabilities | 11,003 |
| **NET LIABILITIES** | **294,381** |
| of which: | |
| Equity attributable to owners of the Company | 141,591 |
| Non-controlling interests | 152,790 |

## Suncani Hvar

*(i) Results of discontinued operation*

The following table represents contribution of the deconsolidated assets to income statement before deconsolidation.

| For the period | 6 months 2014 | 12 months 2013 |
|---|---|---|
| **Revenue** | 4,728 | **18,797** |
| **Operating result** | (1,503) | (23,522) |
| **Financial result** | (2,622) | **(5,343)** |
| **Loss before income taxes** | (4,125) | (28,865) |
| Income taxes | (156) | (1,148) |
| **Loss from discontinued operations** | (4,281) | (30,013) |

*(ii) Effect of deconsolidation on the consolidated statement of financial position*

| | |
|---|---|
| **NON-CURRENT ASSETS** | **65,028** |
| Intangible assets | 137 |
| Investment property | 923 |
| Property, plant and equipment | 63,568 |
| Non-current loans and receivables | 399 |
| **Deferred tax assets** | **95** |
| **CURRENT ASSETS** | **5,509** |
| Trade receivables | 1,524 |
| Other current assets | 1,357 |
| Cash and cash equivalents | 2,628 |
| **NON-CURRENT LIABILITIES** | **4,849** |
| Financial debts | 4,452 |
| Provisions and other long term liabilities | 397 |
| **CURRENT LIABILITIES** | **79,097** |
| Financial debts | 55,513 |
| Trade payables | 3,386 |
| Advance payments | 148 |
| Other current liabilities | 20,692 |
| **NET ASSETS** | **(13,956)** |
| of which: | |
| Equity attributable to owners of the Company | (7,899) |
| Non-controlling interests | (6,058) |

### Cash flows from / (used in) discontinued operations

| For the period | 30 June 2014 | 31 December 2013 |
|---|---|---|
| **Net cash from operating activities** | 268 | 28,095 |
| **Net cash from investing activities** | (1,543) | (2,053) |
| **Net cash used in financing activities** | 33,528 | 17,714 |
| **NET CASH INCREASE/(DECREASE) FROM DISCONTINUED OPERATIONS** | **33,253** | **43,756** |

## 7 Intangible assets

| Intangible assets | Gross amount | Amortisation and Impairments | Net amount |
|---|---|---|---|
| **Balance at 1 January 2013** | **53,991** | **(6,653)** | **47,338** |
| Changes in the Group | (149) | 149 | - |
| Increase | 201 | - | 201 |
| Assets sales | (69) | 69 | - |
| Impairments | - | (1,178) | (1,178) |
| Variations | 22 | 0 | 22 |
| Transfer | (659) | 723 | 64 |
| Translation difference | (290) | 257 | (33) |
| **Balance at 31 December 2013** | **53,049** | **(6,633)** | **46,414** |
| Changes in the Group | (49,132) | 3,159 | (45,973) |
| Increase | 3 | - | 3 |
| Assets sales | (9) | 7 | (2) |
| Impairments | - | (387) | (387) |
| Transfer | (105) | 90 | (15) |
| Translation difference | (52) | 50 | (2) |
| **Balance at 31 December 2014** | **3,754** | **(3,716)** | **38** |

In 2014, the decrease of intangible assets is mainly due to the loss of control over CPI PG and its subsidiaries and Suncani Hvar.

| Goodwill | Gross amount | Amortisation and Impairments | Net amount |
|---|---|---|---|
| **Balance at 1 January 2013** | **41,552** | **(2,907)** | **38,645** |
| Changes in the Group | (149) | 149 | - |
| Impairments | - | (53) | (53) |
| Translation difference | (9) | 9 | - |
| **Balance at 31 December 2013** | **41,394** | **(2,802)** | **38,592** |
| Changes in the Group | (41,383) | 2,791 | (38,592) |
| Translation difference | (12) | 12 | - |
| **Balance at 31 December 2014** | **-** | **-** | **-** |

The only goodwill recognized as at 31 December 2013 was the GSG goodwill. The main source of goodwill on the acquisition of GSG (part of CPI PG) could be found in the amount of deferred tax liabilities as a result of the low tax value of the assets and the fact that these liabilities are not expected to crystallise in the future. The goodwill was derecognised from the consolidated statement of financial position after the Group lost control over the CPI PG portfolio in March 2014.

Intangible assets also included the value of the Brand GSG as at 31 December 2013 at its initial value. Since 1965, GSG has continuously developed its brand that has been initially valued at EUR 7.2 Million in 2007. The useful life of GSG trademark has been assessed as indefinite. No impairment was recognized on this intangible asset since its recognition. The trademark was also derecognised as part of the assets related to the deconsolidated CPI PG.

## 8 Investment property

| | Freehold buildings | Extended stay hotels | Land bank | TOTAL |
|---|---|---|---|---|
| **At 1 January 2013** | **734,443** | **19,207** | **29,081** | **782,731** |
| Investments / acquisitions | 2,789 | 19 | 736 | 3,545 |
| Asset sales | (2,352) | - | (4,473) | (6,825) |
| Revaluation through income statement | (23,010) | (7,077) | (4,357) | (34,444) |
| Changes in classification | (1,970) | - | 1,970 | - |
| Transfers in/from asset held for sale | (22,189) | - | - | (22,189) |
| Translation differences | (9,591) | (1,227) | (1,448) | (12,265) |
| **At 31 December 2013** | **678,120** | **10,922** | **21,510** | **710,552** |
| Changes in the Group | (570,650) | - | (7,981) | (578,631) |
| Investments / acquisitions | 1,119 | - | 28 | 1,147 |
| Revaluation through income statement | 433 | 463 | 1,177 | 2,073 |
| Transfer from inventories | - | - | 64,850 | 64,850 |
| Acquisition of group of assets | - | - | 66,072 | 66,072 |
| Transfers to asset held for sale | - | (11,375) | (1,387) | (12,762) |
| Translation differences | (3,461) | (10) | (594) | (4,065) |
| **At 31 December 2014** | **105,561** | **-** | **143,675** | **249,236** |

### ❖ In 2014

8 investment properties with a net book value of EUR 178.7 million located in special purpose entities (SPV) have been pledged as a security for bank loans amounting to EUR 76.9 million. The number of pledged assets decreased as a result of the loss of control over CPI PG and deconsolidation of three Hungarian assets and two investment properties within the Suncani Hvar porfolio.

### a) Changes in the Group

As a result of the loss of control referred to above, freehold buildings in the amount of EUR 570.7 million and land bank of EUR 4.9 million were derecognized from the consolidated balance sheet. The book value of deconsolidated freehold buildings and land plots in CPI PG amounts to EUR 533.2 million and the value of Hungarian assets at the date of derecognition was EUR 41.4 million. Furthermore, one land bank in Poland in the book value of EUR 3.1 million was deconsolidated as a result of the bankruptcy. See note 18 for further details about the deconsolidation.

### b) Investments / Acquisitions

In the first quarter of 2014 (when still contributing to OPG results), the CPI PG has invested EUR 0.6 million into refurbishment of buildings in the mixed retail and office portfolio in Berlin. CPI PG has also acquired an asset in Berlin (Voltastraße 29, 30) for EUR 0.4 million.

### c) Revaluation through the income statement

| | Freehold buildings | Extended stay hotels | Land bank | TOTAL |
|---|---|---|---|---|
| Czech Republic | 1,011 | 463 | 1,177 | 2,651 |
| Poland | (1,269) | - | - | (1,269) |
| Hungary | 2,131 | - | - | 2,131 |
| Luxembourg | (1,440) | - | - | (1,440) |
| **Total for 2014** | **433** | **463** | **1,177** | **2,073** |

The main movements in fair value of assets related to the freehold buildings are:

- In the Czech Republic, the fair value decreased for Bubenská (EUR -0.5 million) and went up for Hradčanská (EUR 0.4 million) and Na Poříčí (EUR 0.9 million);

- In Poland, the market value of Diana Office went down by EUR 0.2 million. Also, the value of logistic park Marki decreased by EUR 1.1 million;
- In Hungary, the increase relates to the freehold buildings Váci 188 (EUR 1.5 million) and Váci 199 (EUR 0.6 million).
- In Luxembourg, the value of Capellen office building decreased by EUR 1.4 million.

The value of Pachtuv Palace hotel was adjusted by EUR 0.5 million to its fair value prior to the reclassification to held for sale (see below).

The improvement of the value of land bank in the Czech Republic is mainly attributable to Praga – an increase by EUR 1.1 million.

**d) Acquisition of group of assets**

Following its amended strategy aiming at development projects, the Group acquired four projects in the Czech Republic in November 2014 – STRM portfolio (see note 1.1.6). The entities were acquired in a portfolio transaction for total consideration of EUR 44.0 million and include freehold land with potential for development of residential, office, hospitality and retail premises. Since the Group did not decide about the form of development of the land bank yet and the final use of the plots is considered to remain uncertain, the acquired project real estate assets were classified as investment properties and recognized in the amount of EUR 45.7 million in the consolidated balance sheet.

Further transaction occurred in December 2014, when the Group purchased a brownfield located in Brno, Czech Republic, with an area of 22.5 hectares. The transaction was structured as a share deal and the transaction price for net assets of the SPV amounts to EUR 13.95 million. In accordance with the Group policy and due to the fact that decision regarding final use of the land bank plots has not been taken yet, the freehold land was classified as land bank in investment properties. The value of the real estate assets acquired in the transaction is EUR 20.3 million.

**e) Transfers**

*Transfer from inventories*

At the end of 2014, the Group changed the classification of the Bubny plot, which was transferred from Inventories into Investment property in the amount of EUR 64.85 million (see also note 14).

*Transfer to assets held for sale*

In the first half of 2014, the Group reached an agreement with former management regarding compensation for their dismissal from managerial positions. The Pachtuv Palace hotel in Prague forms part of the compensation in-kind of the former management's indemnity package. Prior to completion of the handover, the hotel was transferred to held-for-sale category.

Two land banks (Rubeška and Na Františku) were transferred to held-for-sale in the expectation of their sale after the end of reporting period.

### ❖ In 2013

55 investment properties (EUR 683.8 million) financed by bank loans located in special purpose entities are fully pledged for EUR 442.9 million.

**a) Investments / Acquisitions**

In 2013, the Group invested EUR 3.5 million in Investment Properties mainly in the form of improvement and installing new equipment and fit-outs in existing freehold buildings in Berlin for EUR 1.4 million. EUR 1.0 million were invested into Budapest office premises and further EUR 0.6 million into the land bank in the Czech Republic out of which EUR 0.4 million was paid for acquisition of a land.

During the year 2013, the Group did not proceed with any other asset acquisition nor acquisitions through business combination.

**b) Asset sales**

The Group disposed of 63 % of industrial park in Stříbro (CZ) for a total sales price of EUR 1.7 million. The net book value of the asset as of the date of the sale amounted to EUR 2.2 million.

The main disposal recognized over 2013 is the sale of project U Hranic in Prague (CZ) for a total sales price of EUR 4.3 million. The sale of the SPV shares resulted in a net consolidated gain of EUR 0.6 million recorded in the income statement.

### c) Revaluation through the income statement

| | Freehold buildings | Extended stay hotels | Land bank | TOTAL |
|---|---|---|---|---|
| Czech Republic | (17,437) | (7,077) | (2,281) | (26,795) |
| Germany | 25,403 | - | (805) | 24,598 |
| Poland | (1,793) | - | 110 | (1,683) |
| Croatia | - | - | (1,382) | (1,382) |
| Hungary | (24,405) | - | - | (24,405) |
| Slovakia | (4,888) | - | - | (4,888) |
| Luxembourg | 110 | - | - | 110 |
| **Total for 2013 (as reported)** | **(23,010)** | **(7,077)** | **(4,357)** | **(34,444)** |

The movements in fair value of the assets represent mainly the following changes in freehold buildings and land bank:

- In the Czech Republic, the fair value decreased for freehold buildings Na Poříčí (EUR -9.0 million), Bubenská (EUR -7.8 million) and Hradčanská (EUR -1.5 million). The decrease in land bank is attributable mainly to Bellevue Grand (EUR -0.7 million).
- In Germany, the most remarkable increase in the fair value of freehold buildings is for Schlessische Str. (EUR 3.4 million), Gustav Meyer (EUR 2.2 million), Zossener Str. (EUR 1.9 million) and Volta Str. 5 (EUR 1.8 million).
- In Poland, the lower occupancy of Marki resulted in a reduction of fair value amounting to EUR 1.2 million. Diana office lost EUR 0.6 million of its value.
- The most significant decreases in fair value in Hungary relate to Vaci 1 (EUR -15.0 million) followed by Vaci 188 (EUR -3.9 million) and Szervita (EUR -3.9 million). Even though there is a material uncertainty on the going concern of the spv's holding these assets, the fair value as determined by the independent expert has been retained as the SPV liabilities are higher that fair value.
- In Slovakia, a decrease of fair value is explained by shopping center Dunaj (EUR -4.5 million).
- The decrease of land bank fair value in Croatia relates to Camping Vira (EUR -0.9 million) and Obonjan Rivjera (EUR -0.5 million).
- In Luxembourg, the freehold building of Capellen slightly increased by EUR 0.1 million.

The decrease of extended stay hotels relates to Pachtuv Palác located in Prague (EUR -7.0 million).

### d) Transfers

*Freehold Buildings – Transfers from assets held for sale*

As the sale was cancelled the Group has decided to transfer back the freehold building Skalitzer Str. in Berlin from Held for Sale Asset to investment property amounting to EUR 1.45 million.

*Freehold Buildings – Transfers into assets held for sale*

The Group agreed with the financing bank on the restructuring of the debt for which the project Bubenska is cross-pledged with two other buildings. That agreement will result in a transfer of ownership in Dunaj and Hlubocky SPVs (Special Purpose Vehicle) to the financing bank after a partial repayment and a transfer of part of the liability for which Bubenska has been pledged to the Dunaj and Hlubocky SPVs. As a consequence, the buildings held by these SPVs have been transferred into Held for Sale category at the transaction value less costs to sell.

*Freehold Buildings & Land banks – Changes in classification*

Part of the Gebauer Höfe rental property with a prospect of future development on the site was transferred to land bank in the amount of EUR 1.97 million.

## 9 Hotels and owner-occupied buildings

The only owner-occupied building (German headquarters) was deconsolidated as part of the portfolio of the CPI PG.

Following the decrease of ownership in the portfolio of seaside hotels at Suncani Hvar, all the assets were derecognized from the consolidated statement of financial position and are now consolidated at equity. See note 18 for further details about the deconsolidation.

| Hotels and owner-occupied buildings | Owner-occupied buildings | Hotels | TOTAL |
|---|---|---|---|
| **GROSS AMOUNT** | | | |
| **At 1 January 2013** | **6,767** | **131,991** | **138,759** |
| Investments / acquisitions | 108 | 62 | 170 |
| Transfer | (58) | - | (58) |
| Translation differences | (44) | (1,594) | (1,639) |
| **At 31 December 2013** | **6,773** | **130,459** | **137,232** |
| Changes in the group | (6,802) | (131,582) | (138,385) |
| Investments / acquisitions | - | 150 | 150 |
| Disposal | - | (89) | (89) |
| Translation differences | 30 | 1,062 | 1,092 |
| **At 31 December 2014** | **-** | **-** | **-** |
| **DEPRECIATION AND IMPAIRMENT** | | | |
| **At 1 January 2013** | **2,335** | **47,686** | **50,021** |
| Depreciation - Allowance | 28 | 799 | 827 |
| Impairments - Allowance | 1,554 | 24,076 | 25,631 |
| Impairments - Write-Back | (80) | - | (80) |
| Translation differences | (38) | (767) | (804) |
| **At 31 December 2013** | **3,799** | **71,794** | **75,593** |
| Changes in the group | (3,800) | (73,191) | (76,991) |
| Depreciation - Allowance | 8 | 897 | 905 |
| Depreciation - Disposal | - | (89) | (89) |
| Impairment – Write-back | (36) | - | (36) |
| Translation differences | 30 | 590 | 620 |
| **At 31 December 2014** | **-** | **-** | **-** |
| **NET AMOUNT** | | | |
| **At 31 December 2014** | **-** | **-** | **-** |
| *At 31 December 2013* | *2,974* | *58,665* | *61,639* |
| *At 1 January 2013* | *4,432* | *84,306* | *88,738* |

### ❖ In 2013

10 assets with a net book value of EUR 61.6 million located in special purpose entities have been pledged as a security for bank loans amounting to EUR 55.5 million.

Following the uncertainty regarding the going concern of Suncani Hvar operations, the Group recognized an impairment of the related assets amounting to total of EUR 25.6 million, of which EUR 24.1 million is attributable to hotels and EUR 1.6 million to owner occupied buildings. The real estate assets have been impaired (valued by an expert at EUR 93.2 million including EUR 2.4 million of Investment Property) to a total value of EUR 59.6 million including EUR 0.9 million of Investment Property corresponding to the value of the net liabilities under the assumption that in a bankruptcy procedure the assets will be sold to repay the liabilities to third parties and no cash available will remain for the Group investments and receivables. The assets are, as a result, recorded at the expected transaction value.

### 9.1.1 Impairment on owner-occupied buildings and hotels

For the purpose of determining the impairment on owner-occupied buildings and hotels, the Group uses the fair value as determined by an independent expert. The valuation methodology is based on cash flow projections for the relevant properties with discount rates depending of the location and specific business risks.

The applicable discount rate for the owner-occupied buildings in 2013 is 7%.

In 2013, following the uncertainty regarding the going concern of Suncani Hvar operations the hotels of the Group have been impaired using a different valuation approach (see above).

## 10 Equity method investments

### 10.1 Investments in joint ventures

The amounts recognized in the consolidated statement of financial position and income statement are as follows:

| Joint ventures | 2014 | 2013 |
|---|---|---|
| Consolidated statement of financial position | 35 | 93 |
| Consolidated income statement | (493) | (413) |

| | 2014 | 2013 |
|---|---|---|
| At 1 January | (49) | 171 |
| Additions | 12 | 62 |
| Share of loss | (493) | (413) |
| Other comprehensive income | 13 | 196 |
| Disposals | - | (64) |
| At 31 December | (516) | (49) |
| Excess of loss applied to Group loans provided to joint ventures | (551) | (142) |
| **Carrying amount at 31 December** | **35** | **93** |

The Group is involved in the following joint ventures consolidated under the equity method, which are material to the Group.

### 10.1.1 Hospitality Invest

As of 31 December 2013, the Group has had a 44% direct and indirect effective interest in the joint venture Hospitality Invest S.á r.l., created by Endurance Hospitality Assets S.à r.l., a Group subsidiary and a joint partner AIG.

The stake of AIG of 50 % was transferred to CPI PG in April 2014, subject to an approval by the Group. Following the disposal of the share by the joint partner and in line with its new strategy, the Group has sold its interest in the joint venture to CPI PG in December 2014 through transfer of its ownership in Endurance Hospitality Assets S.à r.l. and Endurance Hospitality Finance, S.à r.l., entities holding 50 % share in Hospitality Invest S.á r.l. As part of the transaction the Group sold the receivables (loans) provided by the Group to these entities.

The transaction price for shares and the receivables was EUR 13.3 million.

Prior to the disposal, the Group interest in the Hospitality joint venture was recognized at a nil value in the Group consolidated financial statements. The Group discontinued recognizing its share of losses of the joint venture, since the Group's share in cumulated losses exceeded its initial investment and there was no corporate guarantee.

### 10.1.2 Košík

Košík is a joint venture established with GE dedicated to residential development in the south-east area of Prague. The Group has a 50% interest in Kosic S.à r.l., a Luxembourg based holding company which in turn holds 100% of two operational companies seated in the Czech Republic - SV Fáze II, s.r.o. and SV Fáze III, s.r.o.

The carrying amount of Group's investment in Košík joint venture is nil as at 31 December 2014 (2013: EUR 0.1 million) as the Group's share of losses exceeded the carrying amount of interest in the joint venture. Losses in excess of the interest amounting to EUR 0.2 million were applied to a loan receivable provided to Košík joint venture by the Group.

A provision of EUR 1.8 million (2013: EUR 3.5 million) has been accrued in the liabilities of the joint venture to cover the onerous contract on the minimum return guaranteed to the partner. When this agreed amount will be paid by the joint venture to the other joint partner, their 50 % share will be transferred to the Group for no consideration.

**Summarized balance sheet**

| | December 2014 | December 2013 |
|---|---|---|
| Non-current assets | 386 | - |
| Current assets | 6,648 | 9,355 |
| *Cash and cash equivalents* | *629* | *4,399* |
| *Other current assets* | *6,019* | *4,956* |
| **Total assets** | **7,034** | **9,355** |
| Non-current liabilities | 4,226 | 7,192 |
| *Financial liabilities* | *4,090* | *16* |
| *Other liabilities* | *136* | *7,176* |
| Current liabilities | 3,173 | 2,001 |
| *Financial liabilities (excl. trade payables)* | - | - |
| *Other current liabilities* | *3,173* | *2,001* |
| **Total liabilities** | **7,400** | **9,193** |
| **Net (liabilities) / assets** | **(366)** | **162** |

**Summarized income statement**

| | | |
|---|---|---|
| **Operating result** | **(660)** | **11** |
| Interest income | - | - |
| Interest expenses | *(5)* | - |
| **Loss before taxes** | **(722)** | **(415)** |
| Income taxes | *182* | *(23)* |
| **Loss after income tax** | **(540)** | **(438)** |

### 10.1.3 Uniborc S.A.

Uniborc S.A is a joint venture constituted in 2013 with Unibail Rodamco aimed at developing a shopping center in the Bubny area, Prague. The Group's shareholding is 20 %. The Group has an option until the start of the works for the future shopping mall to increase its shareholding to 50% at acquisition cost in the joint venture plus interest.

The net liabilities of the joint venture amount to EUR 1.9 million as at 31 December 2014 (2013: EUR 0.7 million). Losses in excess of the interest amounting to EUR 0.4 million were applied to a loan receivable provided to Uniborc joint venture by the Group.

**Summarized balance sheet**

| | December 2014 | December 2013 |
|---|---|---|
| Non-current assets | 21,171 | 20,791 |
| Current assets | 5 | 11 |
| *Cash and cash equivalents* | *5* | - |
| *Other current assets* | - | *11* |
| **Total assets** | **21,176** | **20,802** |
| Non-current liabilities | 22,741 | 21,266 |
| *Financial liabilities* | *22,602* | *21,266* |
| *Other liabilities* | *139* | - |
| Current liabilities | 313 | 244 |
| *Financial liabilities (excl. trade payables)* | *240* | *211* |
| *Other current liabilities* | *73* | *33* |
| **Total liabilities** | **23,054** | **21,510** |
| **Net liabilities** | **(1,878)** | **(708)** |

**Summarized income statement**

| | | |
|---|---|---|
| **Operating result** | **(61)** | **(62)** |
| Interest income | - | - |
| Interest expenses | (1,060) | (642) |
| **Loss before taxes** | **(1,121)** | **(704)** |
| Income taxes | (106) | (41) |
| **Loss after income tax** | **(1,227)** | **(745)** |

## 11 Assets classified as held for sale and liabilities linked to assets held for sale

| Assets held for sale | 2014 | 2013 |
|---|---|---|
| **At 1 January** | **29,116** | **6,736** |
| Transfers to | 45,957 | 24,690 |
| Transfers from | - | (1,450) |
| Variations | - | (185) |
| Translation differences | (1,310) | (75) |
| Transfer of ownership / Asset sales | (72,368) | (600) |
| **At 31 December** | **1,395** | **29,116** |

| Liabilities linked to assets held for sale | 2014 | 2013 |
|---|---|---|
| **At 1 January** | **27,722** | **9,792** |
| Accrued interest | (207) | - |
| Transfers to | 80,470 | 17,930 |
| Transfer of ownership | (107,984) | - |
| Translation differences | 235 | - |
| **At 31 December** | **237** | **27,722** |

"Transfers to" assets classified under Held for sale (AHS): both of the initial transfer of asset at fair value and the subsequent changes in fair value are disclosed and detailed in Investment Property (note 8). Subsequent changes in fair value are presented under the line "Revaluation through income statement" and then transferred in AHS using the line "Transfers to/from asset held for sale".

### ❖ In 2014

During 2014, the Group sold 4 assets classified as held for sale:

- Zlota project (Poland): in March 2014, Board of Directors decided to sell Zlota project as is. After meeting criteria set by IFRS, all assets and liabilities related to this project were reclassified as held for sale. Total assets classified as held for sale amount to EUR 31.4 million and are presented on line "Transfers to". Total liabilities classified as held for sale amounted to EUR 74.6 million are presented on line line "Transfers to" in table "Liabilities linked to assets held for sale". The disposal of Zlota project is then presented on line "Transfer of ownership / Assets sale".
- Hlubočky (Czech Republic) and Dunaj (Slovakia) projects, classified as held for sale in 2013, were sold in June 2014 as part of a portfolio debt restructuring transaction with Crédit Agricole Corporate and Investment Bank, which concerned three assets that used to be cross collateralized: two in the Czech Republic (Bubenska, Hlubočky) and one in Slovakia (Dunaj department stores). As a result of this transaction, the Group transferred the ownership of Hlubočky and Dunaj, together with related debt to a fully owned subsidiary of Crédit Agricole CIB. In return, the Group retained the ownership of Bubenska 1 with leverage decreased to EUR 9.0 million with extended debt maturity to June 2017. This transaction does not have any major impact to financial result of the Group, as fair value of transferred assets was adjusted as at 31 December 2013 according to the value agreed for the purposes of expected transaction. Impact to assets classified as held for sale is reported in this note on line "Transfer of ownership" – total assets amounting to EUR 24.7 million, total liabilities amounting to EUR 17.3 million.
- Pachtův Palác: In addition, the Group reached an agreement with the former management regarding compensation for their dismissal from the managerial functions. In line with that, Pachtuv Palace hotel in Prague – part of this compensation - was transferred to assets held for sale and reported on line "Transfers to" (assets amounting to EUR 12.2 million, liabilities EUR 5.6 million). After completion of the transfer administration procedure, Pachtův Palác was deconsolidated and is reported on line "Transfer of ownership / asset sales" – assets amounting to EUR 12.0 million, liabilities EUR 6.2 million.

The Group received an offer to sell the receivable for deferred consideration on the sale of Molcom. After repayment of EUR 0.6 million and impairment of EUR 35.2 million (no accrual of interests in 2014 or 2013), the fair value of the receivable was EUR 1.0 million in 2014 (EUR 0.9 million in 2013). The receivable was reclassified from financial assets to assets held for sale as at 30 June 2014 in value of EUR 1.0 million. The receivable and the related security rights were sold on 2 July 2014 for the amount of EUR 1.0 million.

After the rejection by the financing bank of the Group's offer to purchase the loan provided by the bank towards Szczecin Project sp. z o.o., the entity has been removed from the consolidation scope (see note 1.1.7). According to this, all assets and liabilities related to the project Szczecin were deconsolidated and are presented on lines "Transfer of ownership" – assets in the amount of EUR 4.4 million, liabilities in the amount of EUR 10.4 million as at 31 December 2014.

In October 2014, the Board of Directors agreed to dispose of two non-strategic projects in the Czech Republic, namely Rubeška, located in Prague 9 and Na Františku, located in Ostrava - Slezka. All assets and liabilities related to these two projects were classified as held for sale. Total assets amount to EUR 1.4 million and total liabilities amount to EUR 0.2 million as at the end of December 2014.

❖ In 2013

The Group sold during 2013 an asset located in Berlin, Kufurstenstrasse 11, for EUR 0.6 million with a net book value of EUR 0.6 million and no liabilities financing it. Following to the cancellation of the disposal of Skalitzerstrasse 127/128, the asset has been transferred back to Investment Property at its fair value of EUR 1.5 million (see note 8).

Over the year 2013, Hlubočky (Czech Republic) and Dunaj (Slovakia) have been classified as held for sale (see note 8) in the amount of EUR 25.1 million. The variation of the period is related to Szczecin.

## 12 Fixtures and fittings

| | Gross amount | Depreciation and Impairments | Net amount |
|---|---|---|---|
| **At 1 January 2013** | **23,228** | **(10,083)** | **13,145** |
| Increase | 1,660 | - | 1,660 |
| Assets sales and scraps | (1,201) | 1,046 | (155) |
| Allowance | - | (3,126) | (3,126) |
| Transfer | - | 976 | 976 |
| Translation difference | (551) | 362 | (189) |
| **At 31 December 2013** | **23,136** | **(10,825)** | **12,310** |
| Changes in the Group | (16,636) | 6,097 | (10,539) |
| Increase | 457 | - | 457 |
| Assets sales and scraps | (2,015) | 1,400 | (615) |
| Allowance | - | (253) | (253) |
| Variation | (53) | - | (53) |
| Translation difference | (413) | 137 | (276) |
| **At 31 December 2014** | **4,477** | **(3,444)** | **1,030** |

❖ In 2014

In 2014, the decrease of fixtures and fittings is explained mainly by loss of control over CPI PG and its subsidiaries, deconsolidation of Hungarian assets in insolvency and Suncani Hvar.

❖ In 2013

In 2013, the additional increases on fixtures and fittings are explained mainly by EUR 0.4 million related to Suncani Hvar and EUR 0.3 million in Luxembourg.

## 13 Non-current financial assets

### 13.1 Financial assets at fair value through Profit and Loss

This line includes mainly the following financial assets:

- The fair value of the investments in the “Residential” Sub-funds of Endurance Real Estate Fund amounts to EUR 2.6 million in 2014 (EUR 1.2 million in 2013). The Endurance Real Estate Fund is managed by the Group (see note 36). The fair value of the fund units is based on the net asset value as provided by the fund manager in its report. In 2013, a liquidity discount of 57.5% was applied to the net asset value to consider the value of recent transactions with fund units on the market which occurred in December 2012 and the sale of its units by the Group realized in March 2013. This discount was removed from current estimation of the fair value as it does not reflect the value of units which are traded at the value close to their net asset value.

The fund manager took the decision not to extend its initial maturity (the liquidation started on the 29 March 2013) and the liquidation should be finalized during 2015, after the disposal of the remaining portfolio.

- The profit participating loan (PPL) granted to the Hospitality joint venture. Subject to an approval by the Group, CPI PG acquired 50 % share in Hospitality Invest S.à r.l. from AIG in April 2014. As at the end of June, the PPL has been fair valued on the basis of the management estimates regarding the net asset value of the joint venture and amounted to EUR 17.8 million as at 30 June 2014 (EUR 27.0 million as at 31 December 2013). In December 2014, CPI PG purchased the remaining stake in Hospitality joint venture from the Group, including the PPL loan and other receivables towards the joint venture. Thus, the loan was derecognised from the statement of financial position as at the end of December 2014.

### 13.2 Available-for-sale financial assets

This balance sheet line is made of 2 financial assets:

- Convertible promissory note corresponding to the deferred part of the consideration for the sale of the Radio Free Europe / Hagibor office building in Prague. The promissory note is convertible into 20.2% ownership of the entity holding (L88 Companies) the Radio Free Europe / Hagibor office building, which was sold by the Group in May 2012. The promissory note is convertible upon occurrence of several conditions and mandatory upon its maturity in 2019. The Group considered the implication of IAS 39.10 and consequently decided not to separate the embedded derivative (convertible option) from the host contract (promissory note). For the determination of the fair value of this hybrid instrument the present value of future cash flows has been selected by the Group as a method. Based on that the carrying value of the hybrid instrument net of impairment was determined in the amount of EUR 2.7 million (EUR 2.4 million in 2013). For recent developments please refer to note 38.4.

- As a result of loss of control over CPI PG and dilution of the participation interest, the shares of CPI PG are classified as financial assets available-for-sale. The fair value of these shares amounts to EUR 84.3 million as at 31 December 2014.

### 13.3 Non-current loans and receivables

The “Non-current loans and receivables” mainly include:

- The loan granted to the company Uniborc amounts to EUR 4.1 million in 2014 (EUR 4.2 million in 2013). This joint venture with Unibail, established in April 2013, is mainly financed through equity loan by both partners in the same proportion as their respective shareholdings. The value of the loan was reduced by EUR 0.4 million to provide for the negative equity of the joint venture (see note 10.1.3).

- The loans and receivables owed by the subsidiaries over which the Group lost control, namely Suncani Hvar and Hungarian entities, were recognized in the consolidated statement of financial position at fair value. Since the recoverability of the amount due is not probable, the fair value of these financial assets is nil, according to the assessment of the Group management. The difference between carrying amount of the loans and receivables and theirs fair value was recognized in profit or loss and forms part of the result from deconsolidation presented in other financial results.

- As at 31 December 2013, the net present value of the deferred consideration on the sale of Leipziger Platz development was EUR 22.6 million. The receivable was derecognized from consolidated statement of financial position upon deconsolidation of CPI PG.

## 14 Inventories

| | 2014 | 2013 |
|---|---|---|
| **Balance at 1 January** | **114,720** | **262,130** |
| Impairments – Allowance | (1,770) | (133,266) |
| Impairments - Write-Back | 53 | 254 |
| Transfer to held for sale | (30,195) | (880) |
| Transfer to investment properties | (64,850) | |
| Translation differences | (1,116) | (11,036) |
| Increase in inventories | 5,287 | 35,954 |
| Cost of goods sold | (9,340) | (38,437) |
| Changes in the group | (3,367) | - |
| **Balance at 31 December** | **9,422** | **114,720** |

Property classified as inventories are developed with the intention to be sold.

### ❖ In 2014

No project assets located in special purpose entities have been pledged as a security for bank loans.

In 2014, an impairment charge has been recognized for Bubny plot in the amount of EUR 1.5 million based on an updated annual valuation.

In March 2014, the Board of Directors decided to sell the project Zlota 44 in Warsaw as is. After meeting the IFRS definition, the inventories related to Zlota 44 project were transferred to assets held for sale as at 30 June 2014 in the amount of EUR 30.2 million. On 27 August 2014, the Group disposed of its stake in the project (see note 24).

Increase in inventories represents development costs related mainly to capitalization of expenses and development investments.

Following some uncertainties regarding future development of the Bubny area in Prague, the Group has reviewed the classification of this project. Due to the fact that the master plan has not been approved yet and there exists the uncertainty about the length of time to obtain the relevant permits and future use of the plot, the plot was transferred from inventories to investment properties as of the year end 2014 in the amount of EUR 64.9 million. The plot development has been suspended and the development plans have been deferred indefinitely. The Group continues to hold the property awaiting the change of the master plan and the plot is held for capital appreciation.

Significant part of the costs of sold units is attributable to the Prague residential project V Mezihoří (EUR 3.5 million) where almost all apartments were delivered by the end of December. Family houses at costs of EUR 2.3 million were sold in Benice near Prague. Over the year 2014, last remaining units were sold at another Prague project Mostecká with a book value of EUR 1.3 million and Koliba in Bratislava (EUR 0.8 million).

The amount of Cost of goods sold does not reconcile with the amount presented in the income statement due to the fact that the cost of goods in the income statement include costs related to disposal of Zlota 44 project in the amount of EUR 50.0 million.

The line Changes in the group mainly represents deconsolidation of the CPI PG residential project Naunynstraße.

### ❖ In 2013

2 projects (EUR 95.1 million) financed by bank loans located in special purpose entities have been fully pledged for EUR 64.4 million.

The increase in inventories represents mainly the development costs which primarily relate to development investments in Zlota 44 (EUR 22.1 million), V Mezihori (EUR 5.4 million), Bubny (EUR 2.8 million) and Benice (EUR 2.0 million). Increase in inventories other than development cost are those related to provision of accommodation and restaurant services and amount to EUR 1.9 million.

Major part of the costs of development inventories sold are attributable to the sale of Bubny plot to Unibail Rodamco for future joint development of shopping mall, amounting to EUR 16.0 million. EUR 9.3 million relate to project V Mezihori of which more than 70 % of units were delivered over the last quarter of 2013. Another projects count Parkville - Koliba with EUR 3.1 million of cost of goods sold, Klonowa Aleja with EUR 2.6 million and Benice with EUR 2.4 million. Cost of goods sold for Mostecka amounts to EUR 1.8 million and EUR 0.6 million both for Mokotowska and Feliz.

Impairment charges were mainly recognized on the following development projects:

- The luxury residential project Zlota 44 was exposed as a major financial failure for the Group in the fall of 2013. There are many causes of this situation, including lack of bank financing due to covenants default, termination of the general contractor, unsuccessful sales re-launch on the local Warsaw residential market. Therefore late in 2013 the Board of Directors decided to terminate this strategy, suspend the works and later to sell the entire project as is and not to complete the development.

  The year-end valuation results (provided by REAS Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa) in a EUR 120.8 million impairment to the group. The valuation assumes a 25% profit margin on expected revenue (20% as at December 2012), which is included in the impairment test to reflect the new scenario of sale of the project. The valuation as of December 2013, in comparison with December 2012, includes a longer period of commercialization (9 years) that is in line with the currently recorded pace of sales for the remaining unsold units and a cost of money over the period of 9% in line with market practice. The Gross Development Value decreased by 2.1% (EUR 219 million) in comparison with December 2012 while remaining development costs increased by 38% (EUR 83 million) as the Group improved the quality of the fit out to be proposed to the clients.

  In addition to the pledge on the Zlota project SPV, other guarantees have been granted in 2010 and 2011 to the financing bank and in 2012 to the general contractor by OPG for up to EUR 56 million (December 2013) of which EUR 44 million would have to be paid from the Group available cash if the project SPV would not be able to repay the defaulted loan upon request of the bank. Such guarantees are not specifically disclosed in the consolidated accounts as the liabilities they cover are fully recognized. Based on the situation described above, the management has decided to seek to acquire the Zlota loans and credits secured by guarantees. Management believes that this strategy will lead to a better financial outcome for the group than allowing the creditors to call the guarantees in total.

- Benice I and Benice II for a total amount of EUR 9.8 million as a consequence of the current difficulties to obtain a change of master plan on Benice II. Based on the assumption of a successful change of zoning, the land plot of Benice, currently covered by agricultural zoning, was valued on the basis of 24 EUR/sqm as of December 2012, integrating partially the steps already achieved to get the expected residential zoning permit. But recent failures on the master plan change induced a valuation on the basis of 11 EUR /SQM in line with neighboring agricultural land. The land potential for residential was reviewed and reduced down to 490,000 sqm from 600,000 sqm as of 31 December 2012.

- Bubny for EUR 1.9 million. In the absence of valid recent comparable transactions and considering the low liquidity on the Prague investment market for an asset of similar size, the value of the land plot has been further revised downwards as of December 2013. The liquidity discount has been increased from 25% as of December 2012 up to 30% as of December 2013 and market price per sqm before liquidity discount has been decreased from 782 EUR/sqm down to 483 EUR/sqm.

## 15 Other current financial assets

| | At 31 December 2014 | At 31 December 2013 |
|---|---|---|
| Operating loans | 101 | 105 |
| Other current assets | 5,709 | 2,381 |
| Accrued interest | 281 | 188 |
| **Total other current financial assets** | **6,092** | **2,674** |

In 2014, the Group entered into agreement concerning acquisition of development project in Prague 10. Advance payment for this acquisition amounting to EUR 5.7 million is presented in other current assets.

## 16 Other current non-financial assets

| | At 31 December 2014 | At 31 December 2013 |
|---|---|---|
| Prepayment tax and social security | 585 | 6,367 |
| Accrued assets | 2,363 | 18,355 |
| Other assets | 158 | 1,330 |
| Advance payment for work in progress | 4 | 50 |
| **Total other current non-financial assets** | **3,110** | **26,102** |

Negative variation on accrued assets (EUR 16.0 million) is mainly result of deconsolidation of CPI PG and Suncani Hvar (EUR 12.4 million), as well as decrease of accrued income from sales of residential units on Mezihoří (EUR 2.3 million).

Loss of control over CPI PG also impacted tax receivables (decrease of EUR 1.2 million) and prepayment of income tax (decrease of EUR 3.5 million).

## 17 Cash and cash equivalents

As at 31 December 2014, cash and cash equivalents consist of short-term deposits of EUR 28 thousand (EUR 3.4 million as at 31 December 2013), cash in bank of EUR 7.1 million (EUR 85.2 million as at 31 December 2013) and cash in hand of EUR 9 thousand (EUR 0.1 million as at 31 December 2013).

The cash in bank includes restricted cash of EUR 2.5 million in 2014 (EUR 19.9 million in 2013) representing:

- Cash deposited in accounts reserved as collateral for development projects of EUR 0.1 million (EUR 10.6 million in 2013);
- Cash deposited in accounts reserved as collateral for loans related to property of EUR 2.4 million (EUR 9.1 million in 2013).

## 18 Non-controlling interests' transactions

### ❖ In 2014

*Deconsolidation and disposal of CPI PG shares*

On 3 March 2014, CPI PG resolved to raise EUR 36.0 million in a reserved capital increase in favor of Stationway Properties Limited ("Stationway"), an entity affiliated with Jean-François Ott. Stationway subscribed 76,600,000 new shares which were issued on 5 March 2014. The total number of shares comprising the share capital of CPI PG as well as the number of voting rights was 421,256,445 shares as of 5 March 2014. This capital increase results from the 29 November 2013 decision of the CPI PG's Board of Directors to raise up to EUR 100 million pursuant to the authorization granted by shareholders during the extraordinary meeting of 26 April 2012.

As a result of the capital increase by Stationway without participation of OPG, the Group's shareholding interest was diluted to 47.85% represented by 201,571,194 shares and the equity attributable to the owners of the Company decreased by EUR 10.3 million. Consequently, the amount of non-controlling interests increased by EUR 46.3 million.

On 18 March 2014, CPI PG's Board of Directors decided to implement changes in the management structure and to terminate the executive contracts of Jean-François Ott, Nicolas Tommasini and Brad Taylor, Group representatives in the management of CPI PG. The Group and the former management agreed on 27 March 2014 on a settlement and mutual general release agreement by which the Group settled all the existing and potential future obligations and claims arising from the termination.

As a consequence of the dilution of participation and the removal of the Group's representatives from the management of CPI PG, the Company lost control over CPI PG and its subsidiaries. As at the date of loss of control, assets, liabilities and non-controlling interest attributable to the CPI PG were derecognized from the consolidated statement of financial position and the remaining shares were recognized at their fair value in the category financial asset available-for-sale. The fair value of the retained interest was determined based on the market price at closing as at the date of losing control (EUR 0.53 per share) multiplied by the total number of CPI PG shares held by OPG. In the opinion of the Group management, the market price represented the best indicator of the fair value. The deconsolidation and recognition of financial assets available for sale measured at fair value, as described above, resulted in a loss of EUR 34.8 million recorded in 2014 income statement. The non-controlling interests in the former subsidiaries have been derecognized in the carrying amount of EUR 152.8 million. The change in non-controlling interests is presented as an impact of deconsolidation of subsidiaries in the statement of changes in equity.

In order to meet the liquidity requirements, in particular to finance the acquisition of PEKAO receivable related to Zlota project, the Company entered on 28 April 2014 into an agreement to dispose of 108,395,743 shares it held in CPI PG for a total purchase price of EUR 55.0 million. The completion of the disposal of the shares was subject to certain conditions, including the approval of the Paris Commercial Court. The court approved the disposal of the shares on 2 June 2014. Following this disposal the shareholding of the Group in CPI PG decreased from 201,571,194 shares to 93,175,451 shares equal to 20.53% of the voting rights at the time of disposal.

The disposal of the CPI PG shares under distressed conditions but at market price gave rise to an accounting loss of EUR 2.9 million.

*Disposal of Suncani Hvar shares*

On 11 June 2014, Company entered into a transaction concerning partial disposal of its stake held in Suncani Hvar d.d. (SHH). OPG disposed of 2,080,000 shares corresponding to 24.94% of the voting rights. After the disposal, the Company holds 2,636,734 SHH shares equal to 31.61% of the voting rights. Together with the shares, the Company transferred to the buyer shareholder receivables from SHH. The shares and receivables were sold at an aggregate purchase price of EUR 2.1 million.

After having recognized impairments in 2013 in relation to SHH as a result of the uncertainty regarding the going concern of the activities, the disposal of SHH shares and receivables resulted in an accounting gain of EUR 0.5 million.

Since the shareholding interest in SHH was reduced below 50% and, consequently, the Company lost control over SHH activities, related assets and liabilities were deconsolidated from the Group statement of financial position, including the non-controlling interest share in negative net assets of EUR 6.1 million.

Nevertheless, the Group continues to have a significant influence and as at 31 December 2014, the retained investment in SHH is classified as an investment in associate and accounted for under the equity method.

*Increase of ownership interest in Praga and Benice*

In September 2014, the Group signed an agreement regarding purchase of the 25% non-controlling interest in two SPVs holding projects in Benice and Praga (Jihovychodni Mesto, a.s and Orco Praga, s.r.o. respectively). The acquisition resulted in an increase of equity attributable to the owners of the Company by EUR 1.9 million. Non-controlling interests in the amount of EUR 1.3 million has been derecognized.

*Other changes in non-controlling interest*

As a result of other transactions described in the note 1.1, non-controlling interests share in negative net asset value related to the following projects or group of assets has been derecognized from the consolidated statement of financial position:

- Hospitality portfolio in the amount of EUR 10.6 million;
- Zlota 44 in the amount of EUR 5.6 million;
- Szczecin in the amount of EUR 1.2 million.

### ❖ In 2013

On 3 June 2013, the Board of Directors of CPI PG pursuant to the extraordinary shareholders meeting resolution of 2012 (See Note 19.1 of the December 2012 Consolidated Financial Statements), took a decision to further partially implement the capital increase by converting the bonds held by the Group into shares. As a result, 28,028,982 of new CPI PG ordinary shares were issued on 6 June and the Group increased the percentage of its interest in CPI PG from 98.02% to 98.28%. This transaction led to a decrease of equity attributable to owners of the Company by EUR 0.4 million.

In June 2013, the Group sold 20,003,250 shares of CPI PG on the market and 3,141,393 shares were sold to managers of the Group. Consequently, the Group participation and controlling interest in CPI PG was diluted by 10.06% and decreased to 88.22%. The sale resulted in a decrease of equity attributable to owners of the Company by EUR 10.6 million.

During second half of 2013, the Group sold 1,386,364 shares of CPI PG on the market for a total consideration of EUR 613,000, leading to dilution of its shareholding by 0.41%. The sales gave rise to a reduction of consolidated reserves by EUR 0.4 million.

On 29 November 2013, the Board of Directors of CPI PG resolved to implement a reserved capital increase and raise up to EUR 100 million pursuant to the authorization granted to it by its shareholders during the extraordinary meeting of 26 April 2012. A Czech company Tandis, a .s, a related party to the Group, subscribed to a EUR 53,862,000 investment in CPI PG via subscription of 114,600,000 new ordinary shares at a subscription price of EUR 0.47 per share. The new shares were issued on 4 December 2013. Since the Group did not participate in the capital increase, its ownership decreased by 29.33% to 58.48% and the Group equity was reduced by EUR 27.8 million.

On 29 August 2013, the Group has subscribed to 723,943 of new shares issued by its subsidiary Orco Property sp. z .o. o. The new investment into the subsidiary amounted to EUR 16.9 million. As the second shareholder (Endurance Residential Assets) did not participate in the contribution, the capital increase led to an increase of Group shareholding by 2.47% to 93.59% and resulted in a decrease of consolidated reserves by EUR -2.0 million.

During 2013, the Company capitalized the equity loans granted to Orco Praga, s.r.o. and Jihovychodni Mesto, a.s simultaneously and proportionally with Endurance Residential Finance S.à. r.l, owning 25% of the subsidiaries. As a result, the percentage of interests of the Group didn't change, but the consolidated reserves of the non-controlling interests increased by EUR 5.2 million.

## 19 Financial debts

### 19.1 Bonds

| Non-current bonds | |
|---|---|
| **At 1 January 2013** | **59,193** |
| Interest on Safeguard Bonds | 413 |
| Interest on New Notes | 10,561 |
| Transfer from long term to short term on Safeguard Bonds | (321) |
| Transfer of accrued interest on New Notes | (3,636) |
| Repayment on New Notes | (420) |
| Others | (799) |
| **At 31 December 2013** | **64,992** |
| Interest on Safeguard Bonds | 439 |
| Interest on New Notes | 11,104 |
| Transfer from long term to short term on Safeguard Bonds | (278) |
| Transfer from long term to short term on New Notes | - |
| Transfer of accrued interest on New Notes | (4,097) |
| Repayment on New Notes | (13,156) |
| Changes in the Group | (43) |
| Loss on restatement of New Notes | 3,276 |
| **At 31 December 2014** | **62,237** |

| Current bonds | |
|---|---|
| **At 1 January 2013** | **261** |
| Repayment interests on Safeguard Bonds | (261) |
| Transfer from long term to short term on Safeguard Bonds | 321 |
| **At 31 December 2013** | **321** |
| Repayment interests on Safeguard Bonds | (321) |
| Transfer from long term to short term on Safeguard Bonds | 278 |
| **At 31 December 2014** | **278** |

### ❖ In 2014

A general meeting of the holders of the Notes (registered under ISIN code XS0820547742) was held on 9 October 2014 in Luxembourg. At the meeting the holders of the Notes approved certain amendments to the terms and conditions of the Notes, which have become effective after its acceptance by the Company on 7 November 2014.

The amendments include, inter alia, the decrease of the interest rate applicable to the Notes to 7% per annum, the extension of the maturity to five years, the implementation of the guarantee by CPI PG for 3% per annum fee, and the change of the law governing the Notes from Luxembourg law to English law. The repayment terms were changed to one–off bullet payment at the maturity date as opposed to the previously applicable amortization payments (25% of the principal amount of the Notes due on 28 February 2015, 2016 and 2017 with the remaining outstanding principal amount due on the maturity date of 28 February 2018).

As a result of the amendment and the fact of the substantial change of the quantitative and qualitative characteristics of the Note liability, the liabilities from the Notes under original conditions were derecognised and liabilities from Notes under amended conditions were recognised which resulted in an accounting loss of EUR 3.3 million.

In August 2014, the Company repaid EUR 0.4 million as part of the cash sweep following the partial disposal of logistic park Stříbro. In addition, on 14 November 2014 the Company proceeded with “Mandatory Prepayment on Zlota Disposal” under the terms and conditions of the Notes in the amount of EUR 12.8 million.

The transfer from long term to short term corresponds to the interest on Safeguard Bonds to be paid in April 2015 in accordance with the repayment schedule of the Safeguard plan.

### ❖ In 2013

No new bonds nor new notes have been issued during the year 2013. The transfer corresponds to the interest related to the Safeguard bonds to be paid in April 2014 and to the accrued interest related to Notes. The EUR 0.4 million were repaid as part of the cash sweep on the Notes as a consequence of the Sky Office’s sale which is one of the assets included in the protocol.

### 19.1.1 Safeguard bonds

Following the issuance of the Notes on 4 October 2012 (ISIN Code XS0820547742) the remaining outstanding nominal amount of these bonds amounts to EUR 4.0 million as at 31 December 2014 and the total book value of the total non-current and current OPG Safeguard bond debt amounts to EUR 2.3 million. Details per bond are disclosed in the following table (in Euro):

| Description | ISIN CODE | Number of bonds | Book value per Bond | Total value of bonds | Nominal value per Bond | Total Nominal value of bonds | % of nominal |
|---|---|---|---|---|---|---|---|
| SHH Bonds | XS0223586420 | 8,843 | 15 | 134,208 | 26 | 230,183 | 17% |
| Convertible bonds 2006-2013 | FR0010249599 | 106 | 383 | 40,585 | 751 | 79,649 | 19% |
| Czech Bond | CZ0000000195 | 7 | 219,132 | 1,533,926 | 366,367 | 2,564,573 | 23% |
| Convertible bonds 2006-2013 | FR0010333302 | 6,381 | 81 | 518,716 | 164 | 1,049,175 | 22% |
| OBSAR 2 | XS0291838992 / XS0291840626 | 74 | 798 | 59,057 | 1,653 | 122,334 | 21% |
| **Total** | | **15,411** | | **2,286,492** | | **4,045,914** | **21%** |

Repayment schedule for interest and principal according to Safeguard Plan (based on Commercial Court of Paris decision on 16 September 2011) excluding any potential deduction due to own bonds for all other bonds after the issuance of the New Notes are detailed as following (in EUR):

| | 30 April 2015 | 30 April 2016 | 30 April 2017 | 30 April 2018 | 30 April 2019 | 30 April 2020 | Total |
|---|---|---|---|---|---|---|---|
| Principal | 149,527 | 157,132 | 438,875 | 674,373 | 1,029,245 | 1,596,762 | **4,045,914** |
| Interest | 128,834 | 121,229 | 117,847 | 105,038 | 84,199 | 51,235 | **608,382** |
| **Total** | **278,361** | **278,361** | **556,722** | **779,411** | **1,113,444** | **1,647,997** | **4,654,296** |

Repayment of interest and principal according to Safeguard Plan (based on Commercial Court of Paris decision on 16 September 2011) by bond line excluding any potential deduction due to own bonds for all other bonds after the issuance of the New Notes are detailed as following (in EUR):

| | XS0223586420 | FR0010249599 | CZ0000000195 | FR0010333302 | XS0291838992 | Total |
|---|---|---|---|---|---|---|
| Principal | 230,183 | 79,649 | 2,564,572 | 1,049,175 | 122,334 | 4,045,914 |
| Interest | 2,872 | - | 605,510 | - | - | 608,382 |
| **Total** | **233,055** | **79,649** | **3,170,082** | **1,049,175** | **122,334** | **4,654,296** |

### 19.1.2 New Notes

The terms and condition of the Notes after the amendment in November 2014 are as follows:

| | |
|---|---|
| Interest | Cash interest will be paid semi-annually in arrears on 7 May and 7 November in each year, or the following business day if such day is not a business day, beginning 7 May 2015.<br>7 % cash interest per annum. |
| Repayment date | 7 November 2019, repayment of the outstanding principal amount of the New Notes. |
| Guarantee | Implementation of guarantee by CPI PG which guarantees the due and punctual payment of all sums payable by the Company. |
| Covenants | Financial covenants, restriction on payments and certain transactions with shareholders and affiliates. |
| ISIN | XS0820547742. |
| Listing | Luxembourg Stock Exchange. |
| Governing law | English. |

## 19.2 Bank loans and other borrowings

| **Non-current loans and borrowings** | **Bank loans** | **Other borrowings** | **Total** |
|---|---|---|---|
| **At 1 January 2013** | **402,404** | **5,792** | **408,196** |
| Issue of new loans and drawdowns | 4,745 | 40 | **4,785** |
| Repayments of loans | (3,635) | (8,026) | **(11,661)** |
| Other transfers | (103,136) | 2,563 | **(100,573)** |
| Translation differences | (5,248) | (195) | **(5,443)** |
| **At 31 December 2013** | **295,130** | **174** | **295,304** |
| Issue of new loans and drawdowns | 2,908 | 341 | **3,249** |
| Acquisition of group of assets | 6,235 | - | **6,235** |
| Repayments of loans | - | (36) | **(36)** |
| Changes in the Group | (250,243) | (94) | **(250,337)** |
| Transfers to Liabilities held for sale | (4,821) | - | **(4,821)** |
| Other transfers | 16,538 | (283) | **16,255** |
| Translation differences | (569) | (28) | **(597)** |
| **At 31 December 2014** | **65,178** | **74** | **65,252** |

#### ❖ In 2014

Issue of new bank loans fully corresponds to Solar project in Germany before its deconsolidation.

Acquisitions amounting to EUR 6.2 million is long term part of bank loan related to development project in Brno, acquired by the Group in December 2014.

As a result of loss of control the Group excluded from the consolidation following subsidiary with impact shown on the row Changes in the Group (for more detail refer to note 18):

- CPI PG with bank loans amounting to EUR 250.4 million (see note 6) including the loan related to the Solar project.

The transfers to Liabilities linked to assets held for sale are wholly related to Pachtuv Palac which is part of the settlement in kind agreed with the former management, refer to comment for Current loans and borrowings below.

The Other transfers are mainly explained as following:

- Transfer from short-term part to long-term related to the bank loans financing Capellen (EUR +15.1 million), Diana (EUR +2.0 million) and Bubenska (EUR +6.0 million) after successful renegotiation process with the bank;
- Current part of the non-current bank loans (EUR -6.4 million).

Other non-current borrowings are mainly loans from related parties.

### ❖ In 2013

Issue of new loans and drawdowns are mainly related to the project V Mezihori (EUR 4.7 million).

Repayments of loans include mainly EUR 4.3 million of cash repayment relating to CPI PG.

The transfers are mainly explained as following:

- Transfer of bank loans from long-term to short-term due to covenant breaches related to the loan financing Zlota 44 (EUR 48.7 million);
- Transfer of bank loans from long-term to short-term for due to both covenant breaches and current part of the non-current loan financing Capellen (EUR 9.5 million) and Gebauer Hofe (EUR 26.2 million);
- Current part of the non-current loans mainly related to the loans financing the project Krakow (EUR 4.5 million) and CPI PG (EUR 4.1 million);
- Full repayment of loan financing V Mezihori following transfer of EUR 6.6 million of long-term part to the short-term;
- Transfer out of bank loans for EUR 3.1 million related to Hlubocky loan to Liabilities linked to assets held for sale.

Other non-current borrowings are mainly equity loans from joint ventures and loans from affiliated companies. The line repayment of loans is mainly due to the conversion into equity of the loans granted by Endurance Fund residential sub funds to the Group projects in which both are in partnership.

| Current loans and borrowings | Bank loans - current part | Other borrowings | Bank loans and other borrowings linked to assets held for sale | Total |
|---|---|---|---|---|
| **At 1 January 2013** | **222,724** | **155** | **6,844** | **229,723** |
| Issue of new loans and drawdowns | 9,693 | 2,758 | - | **12,451** |
| Repayments of loans | (43,983) | (80) | - | **(44,063)** |
| Other transfers | 87,223 | (2,801) | 16,080 | **100,502** |
| Translation differences | (2,649) | 1 | - | **(2,648)** |
| **At 31 December 2013** | **273,008** | **33** | **22,924** | **295,965** |
| Issue of new loans and drawdowns | 306 | 3,464 | - | **3,770** |
| Acquisition of group of assets | 328 | - | - | **328** |
| Repayments of loans | (40,494) | (2,666) | (51,569) | **(94,729)** |
| Repayments of loans upon sales | - | - | (16,176) | **(16,176)** |
| Changes in the Group | (128,492) | (22,921) | (12,041) | **(163,454)** |
| Transfers to Liabilities held for sale | (52,041) | - | 56,862 | **4,821** |
| Other transfers | (39,965) | 23,710 | - | **(16,255)** |
| Translation differences | (982) | 269 | - | **(713)** |
| **At 31 December 2014** | **11,668** | **1,889** | **-** | **13,557** |

### ❖ In 2014

Issue of new loans and drawdowns related to Other current borrowings is mainly composed of short-term loan provided by CPI PG to the Group.

The repayments of bank loans are mainly related to Suncani Hvar (EUR 11.5 million), Bubenska (EUR 9.7 million), Zlota 44 (EUR 8.2 million), Capellen (EUR 2.8 million) and Na Porici (EUR 3.8 million). The repayments of bank loans upon sales are related to successful debt restructuring of Bubenska, Hlubocky and Dunaj assets. As a result of the transaction, the Group has transferred the ownership of share interests in entities Hlubocky and Dunaj to the bank, refer to note 11.

As a result of loss of control the Group excluded from the consolidation following subsidiaries and related projects with impact shown on row Changes in the Group:

- CPI PG with bank loans amounting to EUR 33.9 million;
- Hungarian assets with bank loans amounting to EUR 64.4 million;
- Suncani Hvar with bank loans amounting to EUR 21.1 million and other borrowings amounting to EUR 22.9 million.
- Project Krakow with loans amounting to EUR 4.4 million;
- Loans related to hospitality portfolio in the amount of EUR 4.9 million;
- Project Szczecin with loans amounting to EUR 6.5 million and Pachtův Palác with bank loan amounting to EUR 5.5 million, which were classified as held for sale.

The transfers to Liabilities held for sale are related to Pachtuv Palace which is part of the settlement in kind agreed with the former management (EUR 5.5 million) and to Zlota 44 project (EUR 51.5 million). In April 2014 the Group decided to acquire the loan receivables and collateral related to the Zlota 44 project from Pekao bank. The agreed price was partly repaid from cash blocked in the SPV related to Zlota 44 project and the remaining part of EUR 51.4 million has been deposited on escrow account (refer to Note 11) till the transfer of pledges from Pekao bank to the Group in July 2014.

During 2014, the other transfers of bank loans and other current borrowings are mainly explained as following:

- Transfer from short-term part of bank loans to long-term related to the loans financing Capellen (EUR -15.6 million), Diana (EUR -2.0 million) and Bubenska (EUR -6.0 million) after successful renegotiation process with bank;
- Transfer from short-term part of bank loans to Other current borrowings related to Suncani Hvar (EUR -22.6 million);
- Current part of the non-current loans (EUR +6.4 million).

Other current borrowings are mainly loans from related parties, refer to note 36.

❖ **In 2013**

The repayments of bank loans (EUR 44.0 million) are mainly related to the buyback of the bank debt financing the assets Vaci 188 and Vaci 190 (EUR 15.1 million) repaid for EUR 1.0 million generating a gain of EUR 14.9 million including EUR 0.2 million (see note 28) of accrued interests. Others contributors are Bubny (EUR 13.8 million), GSG (EUR 3.0 million), Na Porici (EUR 2.8 million), V Mezihori (EUR 6.6 million) and Capellen (EUR 1.0 million).

Transfers of bank loans, other current borrowings and bank loans linked to assets held for sales for EUR 102.5 million are mainly explained as follows:

- Transfer of bank loans from long-term to short-term due to covenant breaches related to the loan financing Zlota 44 (EUR 48.7 million);
- Transfer of bank loans from long-term to short-term for due to both covenant breaches and current part of the non-current loan financing Capellen (EUR 9.5 million) and Gebauer Hofe (EUR 26.2 million);
- Current part of the non-current loans mainly related to the loans financing the project Krakow (EUR 4.5 million) and GSG (EUR 4.1 million);
- Full repayment of loan financing V Mezihori following transfer of EUR 6.6 million of long-term part to the short-term;
- Transfer out of bank loans for EUR 13.1 million related to Dunaj loan to Liabilities linked to assets held for sale.

## 19.3 Borrowings maturity

| At 31 December 2014 | Less than one year | 1 to 3 years | 3 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| **Non-current bonds** | **-** | **-** | **62,237** | **-** | **62,237** |
| **Financial debts** | **-** | **45,483** | **5,285** | **14,484** | **65,252** |
| ***Bank loans*** | **-** | ***45,428*** | ***5,285*** | ***14,467*** | ***65,180*** |
| *Bank loans fixed rate* | - | *1,073* | *1,195* | *6,272* | *8,540* |
| *Bank loans floating rate* | - | *44,355* | *4,090* | *8,195* | *56,640* |
| ***Other borrowings*** | **-** | ***55*** | **-** | ***17*** | ***72*** |
| **Non-current loans and borrowings** | **-** | **45,483** | **67,522** | **14,484** | **127,489** |
| **Current bonds** | **278** | **-** | **-** | **-** | **278** |
| **Financial debts** | **13,557** | **-** | **-** | **-** | **13,557** |
| ***Bank loans - current part*** | ***11,667*** | **-** | **-** | **-** | ***11,667*** |
| *Bank loans fixed rate* | *496* | - | - | - | *496* |
| *Bank loans floating rate* | *11,171* | - | - | - | *11,171* |
| ***Other borrowings*** | ***1,890*** | **-** | **-** | **-** | ***1,890*** |
| **Current loans and borrowings** | **13,835** | **-** | **-** | **-** | **13,835** |
| **Total** | **13,835** | **45,483** | **67,522** | **14,484** | **141,324** |

Following the amendment of terms and conditions for New notes (see note 19.1.2), the date of repayments has been postponed to 7 November 2019. Total amount of bank loans reduced significantly due to the deconsolidation of certain assets with bank financing, mostly the CPI PG portfolio.

The Group has entered into interest rate derivatives representing 49.8% of the non-current floating rate borrowings (95.4% in 2013) and 37.6% of the current floating rate borrowings (16.0% in 2013), in order to limit the risk of the effects of fluctuations of market interest rates on its financial position and future cash flows. Most floating interest debt instruments have a fixing period of maximum 3 months.

The bank loans include EUR 46.7 million for which the financing banks have no recourse on the Group. These loans finance assets with a total secured value of EUR 79.6 million.

| At 31 December 2013 | Less than one year | 1 to 3 years | 3 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| **Bonds** | **-** | **36,525** | **26,576** | **1,891** | **64,992** |
| **Financial debts** | **-** | **57,961** | **234,379** | **2,964** | **295,304** |
| ***Bank loans*** | **-** | ***57,788*** | ***234,379*** | ***2,964*** | ***295,131*** |
| *Bank loans fixed rate* | - | *11* | *600* | - | *611* |
| *Bank loans floating rate* | - | *57,777* | *233,779* | *2,964* | *294,520* |
| ***Other non-current borrowings*** | **-** | ***173*** | **-** | **-** | ***173*** |
| Non-current borrowings | - | 94,486 | 260,955 | 4,855 | 360,296 |
| **Current bonds** | **321** | **-** | **-** | **-** | **321** |
| **Financial debts** | **273,041** | **-** | **-** | **-** | **273,041** |
| ***Bank loans - current part*** | ***273,008*** | **-** | **-** | **-** | ***273,008*** |
| *Bank loans fixed rate* | *14,274* | - | - | - | *14,274* |
| *Bank loans floating rate* | *258,734* | - | - | - | *258,734* |
| ***Other current borrowings*** | ***33*** | **-** | **-** | **-** | ***33*** |
| **Borrowings linked to assets held for sale (*)** | **22,924** | **-** | **-** | **-** | **22,924** |
| *Bank loans* | *20,464* | - | - | - | *20,464* |
| *Other borrowings* | *2,460* | - | - | - | *2,460* |
| Current borrowings | 296,286 | - | - | - | 296,286 |
| Total | 296,286 | 94,486 | 260,955 | 4,855 | 656,582 |

(*) Includes financial debts only

The bank loans include EUR 336.7 million for which the financing banks have no recourse on the Group. These loans finance assets with a total value of EUR 651.1 million.

The carrying amount of the Group's borrowings expressed in Thousand EUR is denominated in the following currencies:

| Currency | 31 December 2014 | 31 December 2013 |
|---|---|---|
| EUR | 85,607 | 480,907 |
| PLN | 118 | 52,377 |
| CZK | 55,599 | 67,759 |
| HRK | - | 55,539 |
| Total | 141,324 | 656,582 |

## 19.4 Loans with covenant breaches

| | At 31 December 2014 | | | At 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | Principal | Accrued Interest | Total | Principal | Accrued Interest | Total |
| **Long-term loans presented in short-term** | - | - | **-** | **68,934** | **851** | **69,785** |
| due to Non repayment | - | - | - | 9,036 | - | 9,036 |
| due to Administrative breach (*) | - | - | - | 59,898 | 851 | 60,749 |
| **Short-term loans in breach** | - | - | **-** | **160,449** | **8,525** | **168,974** |
| due to Financial covenant breach (**) | - | - | - | 29,833 | 87 | 29,920 |
| due to Non repayment | - | - | - | 130,616 | 8,438 | 139,054 |
| **Loans linked to assets held for sale in breach** | - | - | **-** | **20,464** | - | **20,464** |
| due to Non repayment | - | - | - | 20,464 | - | 20,464 |
| Total Loans in Breach | - | - | - | 249,847 | 9,376 | 259,223 |

*(*) Administrative covenant requires the borrower to fulfill certain conditions or which prevails the borrower from undertaking certain actions.*
*(**) Financial covenant is a standard for the financial strength and performance of the borrower.*

As at 31 December 2014, there are no bank loans in breach.

In 2013, EUR 9.0 million of long-term part of the loan Capellen were reclassified to short-term due to non-compliance of financial covenants. The long-term loan of EUR 59.9 million related to the asset Zlota 44 project was reclassified to short-term due to legal breach as a result of not presenting of usage permit to the bank as of 31 December 2013.

The short-term loans in breach due to non-repayment are composed of the loans financing the assets Vaci I (EUR 41.0 million), Paris Department Store (EUR 15.8 million) and Szervita (EUR 8.8 million) in Hungary and Suncani Hvar (EUR 55.5 million), and the current part of the Capellen loan (EUR 9.9 million).

The short-term loans in breach due to financial covenant breach are composed of the loan financing the assets Gebauer Hofe (EUR 26.2 million) and Marki (EUR 3.6 million).

In 2013 the bank loans linked to assets held for sale are related to the polish entity Szczecin for EUR 4.3 million which is under a bankruptcy procedure and to the assets Hlubocky (EUR 3.1 million) and Dunaj (EUR 13.1 million). The Group signed an agreement with the financing bank on the restructuring of the debt for which the project Bubenska is pledged and transfer of the ownership of the Dunaj and Hlubocky special purpose vehicles (SPVs) to the financing bank. As a consequence, the loans of these SPVs are transferred in Liabilities linked to assets held for sale.

### 19.5 Derivatives

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Interest rate derivatives - current assets | - | 29 |
| Interest rate derivatives - current liabilities | (599) | (1,244) |
| Net derivatives | **(599)** | **(1,215)** |

Derivative instruments are presented within current assets when their fair value is positive, within current or non-current liabilities when their fair value is negative. Changes in the fair value are recognized immediately through profit and loss under other net financial results.

The Group uses interest rate derivative contracts to protect against changes in the fair value of its financial assets and liabilities due to fluctuations in interest rates. Interest rate derivatives represent interest rate swaps - agreements between two parties to exchange a series of interest payments on a common principal amount. Recorded at fair value, interest rate swaps cover floating interest rates against fixed interest rates.

As at 31 December 2014, the total bank debt covered by interest rate swaps amounts to EUR 32.4 million (EUR 322.4 million in 2013) or 42.2 % of total bank debt (56.7 % in 2013).

As at 31 December 2014 the impact of a 100 basis points growth of yield curve would induce the positive change of fair value of derivatives by EUR 0.5 million that would lead to zero value of derivative.The valuation of the derivatives (interest rate swaps) has been provided by the Group’s banks.

## 20 Financial instruments – fair values and risk management

### 20.1 Financial risk factors

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

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

### 20.1.1 Market risk

#### (i) Foreign exchange risk

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

The exchange rates to euro (EUR) used to establish these consolidated financial statements are as follows:

| Currency Code | Currency | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|---|
| | | Average | Closing | Average | Closing |
| CZK | Czech Koruna | 27.5330 | 27.7250 | 25.9740 | 27.4250 |
| HRK | Croatian Kuna | 7.6344 | 7.6580 | 7.5786 | 7.6376 |
| HUF | Hungarian Forint | 308.6646 | 314.8900 | 296.9164 | 296.9100 |
| PLN | Polish Zloty | 4.1851 | 4.2623 | 4.1975 | 4.1472 |
| RUR | Russian Ruble | 50.9518 | 72.3370 | 42.3370 | 45.3246 |
| USD | US Dollar | 1.3285 | 1.2141 | 1.3281 | 1.3791 |

The following table gives the impact on the total consolidated balance sheet in absolute terms in EUR million of the variation (increase/decrease) against the Euro and the dollar for each currency in which the Group has a significant exposure.

The Group based the assumption of 5% for both periods, December 2014 and December 2013 respectively.

| | At 31 December 2014 Change of 5% against EUR | At 31 December 2013 Change of 5% against EUR |
|---|---|---|
| CZK / EUR | 1.65 | 14.38 |
| PLN / EUR | 1.94 | 6.21 |
| HUF / EUR | 4.11 | 7.79 |
| HRK / EUR | 2.40 | 4.29 |
| CZK / USD | (0.51) | (0.45) |

Positions in foreign currencies haven't changed since December 2013. Bank financing of residential developments are generally denominated in local currency as opposed to bank financing of investment properties that can be either expressed in foreign currencies in a company having Euro as a functional currency or being denominated in Euro in companies having another currency as functional currency.

#### (ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio or only enters these operations if they are linked to operational investments.

The Group is exposed to equity risks related to investments held in Endurance Fund which are classified in financial assets at fair value through profit or loss and investments in shares of CPI Property Group classified as available-for sale.

Post-tax profit for the year would increase/decrease by EUR 0.1 million as a result of 5% increase/decrease of market value of equity securities classified at fair value through profit or loss. Other components of equity would increase/decrease by EUR 4.2 million as a result of 5% increase/decrease of market value of equity securities classified as available for sale.

#### (iii) Cash flow interest rate risk

The Group's income and operating cash inflows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from floating rate borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group mitigates some of its variable interest rates by entering into swap transactions. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest costs may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise.

As at 31 December 2014, the impact of a 100 basis points growth of interest rates curve would induce an increase of the interest charges for 2014 of EUR 0.9 million. Excluding the effect of derivatives, the increase of interest expenses in 2014 would also amount to EUR 0.9 million.

The table below shows the amount of floating bank loans by type of floating rate and the next re-pricing months as at 31 December 2014:

| Type of Index | Type of Index and Margin (in %) | Repricing month | Bank loan |
|---|---|---|---|
| Euribor 03 M | Euribor 03 M and Margin from +2 to +3 | March 2015 | 7,075 |
| | Euribor 03 M and Margin from +3 to +4 | March 2015 | 5,138 |
| | Euribor 03 M and Margin from +5 to +6 | March 2015 | 6,492 |
| Pribor 01 M | Pribor 01 M and Margin from +3 to +4 | January 2015 | 10,143 |
| Pribor 03 M | Pribor 03 M and Margin from +2 to +3 | March 2015 | 35,116 |
| | Pribor 03 M and Margin from +5 to +6 | March 2015 | 3,847 |
| **Total** | | | **67,811** |

#### (iv) Other risks

The Group is also exposed to property price and property rentals risk but it does not pursue any speculative policy. Even though the Group's activities are focused on one geographical area (Central Europe) such activities are spread over several business lines (residences, offices) and different countries.

### 20.1.2 Credit risk

Rental contracts are made with customers with an appropriate credit history. Credit risk is managed by local management and by Group management.

Analysis by credit quality of financial assets is as follows:

| | Fully performing | Past due but not impaired | | | Impaired | BALANCE 31 December 2014 |
|---|---|---|---|---|---|---|
| | | Less than 6 months | 6 months and 1 year | More than 1 year | | |
| **Non-current loans and receivables - Gross value** | **4,650** | **-** | **-** | **-** | **2,760** | **7,410** |
| Impairments - At opening | | | | | (45,032) | (45,032) |
| Disposal | | | | | 36,909 | 36,909 |
| Impairments – Scope Exit | | | | | 6,443 | 6,443 |
| Impairments – Allowance | | | | | (1,061) | (1,061) |
| **Non-current loans and receivables – Impairment** | **n/a** | **n/a** | **n/a** | **n/a** | **(2,741)** | **(2,741)** |
| **Non-current loans and receivables - Net value** | **4,650** | **-** | **-** | **-** | **18** | **4,669** |
| **Trade Receivable - Gross value** | **1,142** | **324** | **632** | **264** | **2,826** | **5,188** |
| Impairments - At opening | | | | | (11,925) | (11,925) |
| Impairments - Scope Exit | | | | | 9,722 | 9,722 |
| Impairments - Scope entry | | | | | (148) | (148) |
| Impairments – Allowance | | | | | (8,899) | (8,899) |
| Impairments - Write-back | | | | | 4,128 | 4,128 |
| Impairments - Write-off | | | | | 4,271 | 4,271 |
| Impairments - Foreign exchange | | | | | 25 | 25 |
| **Trade Receivable - Impairment** | **n/a** | **n/a** | **n/a** | **n/a** | **(2,826)** | **(2,826)** |
| **Trade Receivable - Net Value** | **1,142** | **324** | **632** | **264** | **-** | **2,362** |
| **Other current assets - Gross value** | **5,938** | **839** | **2,167** | **258** | **710** | **9,912** |
| Impairments - At opening | | | | | (1,228) | (1,228) |
| Impairments - Scope Exit | | | | | 529 | 529 |
| Impairments – Allowance | | | | | (12) | (12) |
| Impairments - Foreign exchange | | | | | 1 | 1 |
| **Other current assets – Impairment** | **-** | **-** | **-** | **-** | **(710)** | **(710)** |
| **Other current assets - Net Value** | **5,938** | **839** | **2,167** | **258** | **-** | **9,202** |
| **Cash and cash equivalents** | **7,103** | **-** | **-** | **-** | **-** | **7,103** |

| | Fully performing | Past due but not impaired | | | Impaired | BALANCE 31 December 2013 |
|---|---|---|---|---|---|---|
| | | Less than 6 months | 6 months and 1 year | More than 1 year | | |
| **Non-current loans and receivables - Gross value** | **5,112** | **-** | **-** | **-** | **68,453** | **73,565** |
| Impairments - At opening | | | | | (4,304) | (4,304) |
| Impairments - Allowance | | | | | (44,352) | (44,352) |
| Impairments - Write-off | | | | | 3,624 | 3,624 |
| **Non-current loans and receivables - Impairment** | **n/a** | **n/a** | **n/a** | **n/a** | **(45,032)** | **(45,032)** |
| **Non-current loans and receivables - Net value** | **5,112** | **-** | **-** | **-** | **23,421** | **28,533** |
| **Trade Receivable - Gross value** | **15,415** | **3,300** | **275** | **972** | **11,925** | **31,887** |
| Impairments - At opening | | | | | (17,833) | (17,833) |
| Impairments - Scope Exit | | | | | 12 | 12 |
| Impairments - Allowance | | | | | (3,634) | (3,634) |
| Impairments - Write-back | | | | | 1,083 | 1,083 |
| Impairments - Write-off | | | | | 8,055 | 8,055 |
| Impairments - Foreign exchange | | | | | 393 | 393 |
| **Trade Receivable - Impairment** | **n/a** | **n/a** | **n/a** | **n/a** | **(11,925)** | **(11,925)** |
| **Trade Receivable - Net Value** | **15,415** | **3,300** | **275** | **972** | **-** | **19,962** |
| **Other current assets - Gross value** | **28,579** | **147** | **6** | **45** | **1,228** | **30,004** |
| Impairments - At opening | | | | | (1,975) | (1,975) |
| Impairments - Allowance | | | | | (436) | (436) |
| Impairments - Write-off | | | | | 44 | 44 |
| Impairments - Transfer | | | | | 1,137 | 1,137 |
| Impairments - Foreign exchange | | | | | 2 | 2 |
| **Other current assets - Impairment** | **-** | **-** | **-** | **-** | **(1,228)** | **(1,228)** |
| **Other current assets - Net Value** | **28,579** | **147** | **6** | **45** | **-** | **28,776** |
| **Cash and cash equivalents** | **88,669** | **-** | **-** | **-** | **-** | **88,669** |

The credit quality of financial assets significantly improved after disposal of assets with low recoverable amount in 2014. As a result of deferred payment considerations or financing of joint ventures, the Group has some major financial assets for which the credit risk assessment is crucial and for which impairment charge has been recognised:

**a) Financial assets at fair value through profit and loss (see note 13.1)**

After disposing of the PPL loan granted to the Hospitality joint venture, the only asset within this category is the investment in Endurance Residential sub fund. Its recoverability improved in 2014, which has been confirmed by dividend payment in the amount of EUR 1.6 million.

**b) Available-for-sale financial assets (see note 13.2)**

One of the major assets held by the Group is the equity share in CPI PG. This investment is considered being at low-risk, underlined by the fact that the Group holds a put option for part of the shares subscribed in 2014, protecting the value of the investment against decrease of share price under certain amount and limiting the risk exposure of the Group.

#### c) Non-current loans and receivables (see note 13.3)

Two assets with significantly high credit risk - Leipziger Platz receivable and Molcom – were disposed of over the year 2014. The Leipziger Platz receivable has been derecognised from the consolidated balance sheet as a part of the CPI PG deconsolidation.

The receivable related to deferred consideration on the sale of Molcom was sold in July 2014.

#### d) Other current assets (see note 15)

The other currents assets described in note 15 consist of guarantee deposits on trusted accounts with very low or non-existing credit risk, of taxes and social security receivables presenting a credit risk on the respective administrations and of accrued assets mainly related to the service charges presenting the same level of credit risks as the trade receivables described above.

### 20.1.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the inherent nature of its assets, the Group is subject to a liquidity risk.

The liquidity risk is the risk that the Group might encounter difficulties raising liquid funds to meet commitments as they fall due. The Group management monitors the Group's liquidity risk on the basis of expected cash flows and by managing its development agenda and portfolio of investment properties.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The floating rate loans line presents the projected cash flows, including interests and the reimbursements of the principal. The cash flows have been established on the basis of the forward interest and exchange rates as at 31 December 2014. Information regarding interest rate swaps used by the Group is detailed in the note 19.5.

As the amounts disclosed in the table are the contractual undiscounted cash flows, these amounts will not necessarily reconcile to the amounts disclosed on the consolidated statement of financial position for borrowings, derivative instruments and other payables considered as financial instruments.

| At 31 December 2014 | Less than 1 month | Between 1 and 6 months | Between 6 months and 1 year | Between 1 and 5 years | More than 5 years | Total cash out-flows | Book value |
|---|---|---|---|---|---|---|---|
| Fixed rate loans and bonds | 81 | 2,759 | 3,141 | 100,506 | 9,452 | 115,939 | 71,551 |
| Floating rate loans | 70 | 4,902 | 8,933 | 52,871 | 9,655 | 76,432 | 67,811 |
| Other borrowings | - | - | 1,890 | 55 | 17 | 1,962 | 1,962 |
| Interest rate derivatives | - | - | 599 | - | - | 599 | 599 |
| Liabilities linked to assets held for sale | - | - | 237 | - | - | 237 | 237 |
| Trade payables | 1,120 | 2,785 | 103 | - | - | 4,008 | 4,008 |
| Other current financial liabilities | 439 | 3,817 | 158 | - | - | 4,414 | 4,414 |
| **Total** | **1,710** | **14,263** | **15,061** | **153,432** | **19,124** | **203,590** | **150,582** |

| At 31 December 2013 | Less than 1 month | Between 1 and 6 months | Between 6 months and 1 year | Between 1 and 5 years | More than 5 years | Total cash out-flows | Book value |
|---|---|---|---|---|---|---|---|
| Fixed rate loans and bonds | 9,036 | 2,151 | 7,168 | 96,032 | 2,761 | 117,148 | 80,198 |
| Floating rate loans | 220,348 | - | 38,391 | 335,132 | 3,366 | 597,237 | 553,254 |
| Other borrowings | - | - | 33 | 173 | - | 206 | 206 |
| Interest rate derivatives | - | - | 1,244 | - | - | 1,244 | 1,244 |
| Liabilities linked to assets held for sale | - | - | 27,722 | - | - | 27,722 | 27,722 |
| Trade payables | 15,394 | 2,297 | 4,734 | - | - | 22,425 | 22,425 |
| Other current financial liabilities | 11,783 | 8,051 | 13,161 | - | - | 32,994 | 32,994 |
| **Total** | **256,561** | **12,499** | **92,453** | **431,337** | **6,127** | **798,976** | **718,043** |

In the tables here above, differences between book value and the cash-out flows are due to:

- Fixed rate loans and bonds: The bonds cash-out flows are equal to the mandatory payments as they are defined in the terms of these financial instruments and include the nominal repayment, the semi-annual cash interest payment and the payment of guarantee fee in respect of the Notes. The bank loans not in default or to be restructured include the accrued interest (not accounted for) to the contractual maturity.
- Floating rate loans: The cash-out flows are not impacted by the fees related to the restructuring of the financing which have been capitalized. The loans not in default or to be restructured include the accrued interest (not accounted for) to the contractual maturity.

## 20.2 Capital risk management

The Group monitors its capital risk by reference to the loan to value ratio (“LTV”) which is the level of net debt accepted by the Group in order to finance its portfolio of assets. The objective of the Group is to bring back the loan to value ratio at a sustainable level compared to market expectations and cash flow capacity. The Group’s objectives when managing capital are to safeguard the going concern and growth of the activities. In order to maintain or adjust the capital structure, the Group may, issue new shares, reschedule debt maturities, sell totally or partially the control over some assets and activities or adjust the agenda of the developments.

The following table shows the detailed calculation of the loan to value ratio. Apart from the line “*Revaluation gains / (losses) on projects and properties*”, all the lines correspond to specific items indicated on the face of the consolidated statement of financial position and related notes. The Revaluation gains or losses on projects and properties represent the difference between the book value and the fair value for all the projects and properties that are not classified as investment properties. Also, the fair value of developments may be lower than their book value since the impairment test is performed on the basis of the expected selling price once completed less the remaining development and commercialization costs while the fair value corresponds to the sale price of the development as it is at the date of valuation (see note 3.1.2).

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| **Non-current liabilities** | | |
| Financial debts | 65,252 | 295,304 |
| Non-current Bonds | 62,237 | 64,992 |
| **Current liabilities** | | |
| Financial debts | 13,557 | 273,041 |
| Current Bonds | 278 | 321 |
| Accrued interest | 915 | 1,244 |
| Liabilities linked to assets held for sale | 237 | 27,722 |
| **Current assets** | | |
| Cash and cash equivalents | (7,103) | (88,669) |
| **Net debt** | **135,373** | **573,954** |
| | | |
| Investment property | 249,236 | 710,552 |
| Hotels and owner-occupied buildings | - | 61,639 |
| Investments in equity affiliates | 35 | 93 |
| Financial assets at fair value through profit or loss | 2,627 | 28,285 |
| Financial assets available-for-sale | 86,995 | 2,435 |
| Non-current loans and receivables | 4,669 | 28,533 |
| Inventories | 9,422 | 114,720 |
| Assets held for sale | 1,395 | 29,116 |
| Revaluation gains / (losses) on projects and properties | 697 | 2,842 |
| | | |
| **Fair value of portfolio** | **355,076** | **978,215** |
| | | |
| **Loan to Value** | **38.1%** | **58.5%** |

Most of the administrative covenants are managed by local financial managers. Reported breaches are managed at Group level. Financial covenants are directly managed at Group level. At the end of 2013 some loans encountered administrative and/or financial covenant breaches. Those loans, as a result, have been reclassified in current liabilities. In some circumstances, when cross default covenants are included in bank loan agreements, breaches occurring at the level of subsidiaries could have the consequence that other bank loans granted to other entities of the Group become repayable on demand. Such cross defaults can occur also in the opposite way, meaning that breaches occurring at the level of the Company could have the consequence that bank loans granted to subsidiaries become repayable on demand. In case of cross default covenants' breach, the related loans, as a result, have been reclassified in current liabilities. There are no breaches on the bank loans encountered at the end of 2014.

Not respecting the LTV covenants could give rise to the lending bank requesting partial repayment of the loan in order to solve the LTV covenant breach. In order to solve potential breaches, the negotiations could result into partial repayment of the principal, sale of the pledged asset or even bankruptcy proceeding with the objective to achieve a sustainable financing restructuring. In all these cases, the negotiated restructuring is taken into account in the valuation of the pledged assets. In some cases the Company granted guarantees to some SPV's that may be called as a result of loan breaches (see note 19.4) in the company holding the guaranteed liabilities.

The LTV ratio as at 31 December 2014 significantly decreased to 38.1% compared to 58.5% as at 31 December 2013. The components of LTV ratio have been remarkably influenced by deconsolidation of leveraged assets over the first half of the year 2014.

Both current and non-current debt went down following the derecognition of bank loans mainly related to financing of investment properties in Germany and Hungary and the debt restructuring of the portfolio financed by Crédit Agricole (see note 1.1.3). In line with the decrease of financial debts, the cash held by the Group entities also went down due to the loss of contribution of deconsolidated entities. In June 2014, the Group has partially sold its shares in CPI PG for total consideration of EUR 55.0 Million, the remaining investment in CPI PG classified as financial assets available-for-sale is valued at EUR 84.3 million (EUR 0.53 per share). Most of the proceeds have been used to repay the bank liabilities related to Zlota project.

### 20.3 Fair value estimation

Fair value measurements of financial instruments reported at fair value are classified by level of the following measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading securities and financial assets at fair value through profit or loss) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group is using a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

Valuations are performed regularly on the basis of the management best estimates of the credit risk of the Group or of the specific entity concerned in the light of existing, available and observable market data. For further disclosure relating to financial assets at fair value, see note 13.

The fair value of financial instruments reflects, among other things, current market conditions (interest rates, volatility and share price). Changes in fair values are recorded in the consolidated income statement under the “other net financial results” line.

### 20.3.1 Accounting classification and fair values

The following tables show the carrying amounts and fair value of financial assets and liabilities, including their level in the fair value hierarchy.

| | Carrying amount | | Fair value | | |
|---|---|---|---|---|---|
| **31 December 2014** | **Financial assets & liabilities measured at fair value** | **Financial assets & liabilities not measured at fair value (*)** | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets** | | | | | |
| Investments in joint ventures | - | 35 | - | - | 35 |
| **Equity method investments** | ***-*** | ***35*** | | | |
| Investment in Endurance Fund | 2,627 | - | - | - | 2,627 |
| **Financial assets at fair value through profit or loss** | ***2,627*** | ***-*** | | | |
| Radio Free Europe promissory note | 2,652 | - | - | - | 2,652 |
| CPI Property Group shares | 84,343 | - | 84,343 | - | - |
| **Financial assets available-for-sale** | ***86,995*** | ***-*** | | | |
| Loan granted to the Uniborc joint venture | - | 4,162 | - | - | 4,162 |
| Other | - | 507 | - | - | 507 |
| **Non-current loans and receivables** | ***-*** | ***4,669*** | | | |
| Trade receivables | - | 2,362 | - | - | 2,362 |
| Other current financial assets | - | 6,092 | - | - | 6,092 |
| Cash and cash equivalent | - | 7,103 | - | 7,103 | - |
| **Current financial assets** | ***-*** | ***15,557*** | | | |
| **Financial liabilities** | | | | | |
| New Notes | - | 60,229 | - | - | 60,229 |
| Safeguard Bonds | - | 2,008 | - | - | 2,008 |
| Financial debt (floating rate bank debts) | - | 56,640 | - | - | 56,640 |
| Financial debt (fixed rate bank debts) | - | 8,540 | - | - | 8,540 |
| Financial debt (other borrowings) | - | 72 | - | - | 72 |
| Long term liabilities | - | 1,306 | | | 1,306 |
| **Non-current financial liabilities** | ***-*** | ***128,795*** | | | |
| Safeguard bonds | - | 278 | - | - | 278 |
| Financial debt (floating rate bank debts) | - | 11,171 | - | - | 11,171 |
| Financial debt (fixed rate bank debts) | - | 496 | - | - | 496 |
| Financial debt (other borrowings) | - | 1,890 | - | - | 1,890 |
| Derivative instruments | 599 | - | - | 599 | - |
| Advanced payments | - | 1,474 | - | - | 1,474 |
| Trade payables | - | 4,008 | - | - | 4,008 |
| Other current financial liabilities | - | 4,414 | - | - | 4,414 |
| **Current financial liabilities** | ***599*** | ***23,731*** | | | |

*(*) It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is considered as a reasonable approximate of the fair value.*

| 31 December 2013 | Carrying amount: Financial assets & liabilities measured at fair value | Carrying amount: Financial assets & liabilities not measured at fair value (*) | Fair value: Level 1 | Fair value: Level 2 | Fair value: Level 3 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Investments in joint ventures | - | 93 | - | - | 93 |
| **Equity method investments** | ***-*** | ***93*** | | | |
| Investment in Endurance Fund | 1,077 | - | - | - | 1,077 |
| PPL granted to the Hospitality Joint venture | 27,015 | - | - | - | 27,015 |
| Long-term Equity investments | 193 | - | - | - | 193 |
| **Financial assets at fair value through profit or loss** | ***28,285*** | ***-*** | | | |
| Radio Free Europe promissory note | 2,387 | - | - | - | 2,387 |
| Other financial assets available-for-sale | 48 | - | - | - | 48 |
| **Financial assets available-for-sale** | ***2,435*** | ***-*** | | | |
| Leipziger Platz deferred consideration | - | 22,597 | - | - | 22,597 |
| Molcom deferred consideration | 905 | - | - | 905 | - |
| Loan granted to the Uniborc joint venture | - | 4,239 | - | - | 4,239 |
| Other | - | 792 | - | - | 792 |
| **Non-current loans and receivables** | ***905*** | ***27,628*** | | | |
| Trade receivables | - | 19,962 | - | - | 19,962 |
| Derivative instruments | 29 | - | - | 29 | - |
| Other current financial assets | - | 2,674 | - | - | 2,674 |
| Cash and cash equivalent | - | 88,669 | - | 88,669 | - |
| **Current financial assets** | ***29*** | ***111,305*** | | | |
| **Financial liabilities** | | | | | |
| New Notes | - | 63,102 | - | 61,728 | - |
| Safeguard Bonds | - | 1,891 | - | - | 1,891 |
| Financial debt (floating rate bank debts) | - | 294,520 | - | - | 294,520 |
| Financial debt (fixed rate bank debts) | - | 611 | - | - | 611 |
| Financial debt (other borrowings) | - | 173 | - | - | 173 |
| Long term liabilities | - | 1,453 | - | - | 1,453 |
| **Non-current financial liabilities** | ***-*** | ***361,750*** | | | |
| Safeguard Bonds | - | 321 | - | - | 321 |
| Financial debt (floating rate bank debts) | - | 258,734 | - | - | 258,734 |
| Financial debt (fixed rate bank debts) | - | 14,274 | - | - | 14,274 |
| Financial debt (other borrowings) | - | 33 | - | - | 33 |
| Derivative instruments | 1,244 | - | - | 1,244 | - |
| Advanced payments | - | 33,887 | - | - | 33,887 |
| Trade payables | - | 22,425 | - | - | 22,425 |
| Other financial current liabilities | - | 32,994 | - | - | 32,994 |
| **Current financial liabilities** | ***1,244*** | ***362,668*** | | | |

*(*) It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is considered as a reasonable approximate of the fair value.*

Over the year 2014, the Profit Participating Loan (PPL) granted to Hospitality joint venture was derecognised as a result of disposal of ownership in the joint venture to CPI PG including related loans and receivables.

After the deconsolidation of CPI PG portfolio, the shares were recognised as financial assets available for sale valued at fair value. The valuation of the shares as at the year-end was based on the market value which amounts to EUR 0.53 per share giving the total of EUR 84.3 million.

Financial liabilities of the Group significantly decreased after the deconsolidation of German portfolio and Hungarian assets in bankruptcy.

## 21 Provisions and other long term liabilities

| | Retirement obligations | Other provisions | Other long term liabilities | Total |
|---|---|---|---|---|
| **At 1 January 2013** | **10,810** | **10,877** | **12,710** | **34,397** |
| Changes in the Group | - | (14) | - | (14) |
| Variation | (140) | - | 144 | 4 |
| Allowance | - | 3,012 | - | 3,012 |
| Write-Back | - | (2,840) | - | (2,840) |
| Transfer | - | 340 | (11,089) | (10,749) |
| Translation difference | - | (61) | (313) | (374) |
| **At 31 December 2013** | **10,670** | **11,314** | **1,453** | **23,436** |
| Changes in the Group | (10,640) | (4,858) | (2) | (15,500) |
| Variation | (30) | - | (55) | (85) |
| Allowance | - | 3,154 | - | 3,154 |
| Write-Back | - | (2,085) | - | (2,085) |
| Transfer | - | (1,582) | (72) | (1,654) |
| Translation difference | - | (40) | (17) | (57) |
| **At 31 December 2014** | **-** | **5,902** | **1,307** | **7,209** |

### 21.1.1 Retirement benefit obligations

The Group operated a defined benefit plan in Vitericon (a subsidiary of CPI PG) for former Viterra group employees. The changes in the defined benefit obligation over the year are as follows:

| | |
|---|---|
| **At 1 January 2013** | **10,810** |
| Interest cost | 335 |
| Actuarial gains/(losses) | (16) |
| Benefits paid | (459) |
| **At 31 December 2013** | **10,670** |
| Benefits paid | (30) |
| Changes in the Group | (10,640) |
| **At 31 December 2014** | **-** |

The Group lost control over the CPI PG in 2014. For this reason the closing balance of the retirement obligations is nil.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using number of assumptions. The assumptions used in determining the net cost (income) for pensions include discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

The principal actuarial assumptions used were as follows:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Discount rate | - | 3.26% |
| Future salary increases | - | n.a |
| Future pension increases | - | 2.00% |

### 21.1.2 Other provisions

Stein project

Due to the bankruptcy procedure of the company Orco Blumentalska a. s. in Slovakia (project Stein), this company has been deconsolidated. The guarantee given by the Company to the bank over ten years under the Safeguard plan payment schedule led to recognition of a provision corresponding to the net present value of the bank loan not covered by the pledge on the building (valued at fair value according to the external value report). As of December 2014 the provision amounts to EUR 2.7 million (EUR 1.2 million in 2013). The increase of the provision in 2014 is mainly attributable to change in interest rate which is derived from the discount rate on the Notes.

To estimate the net present value of the Stein provision the effective interest rate on New Notes of 12.69% plus a margin of 0.08% equal to Euribor 3M risk was used (2013: 19.1% plus Euribor 3M risk of 0.29%).

Zlota project

A provision for cancellation penalties on the debt financing the Zlota project has been recognized in 2013 in the amount of EUR 1.4 million. Before disposal of the project, the provision was transferred to liabilities linked to assets held for sale.

Other provisions

Other provisions also include:

- a provision of EUR 0.6 million related to claims for indemnification and repairs on development projects;
- a provision of EUR 1.6 million in connection to potential penalty in the Czech Republic and Luxembourg;
- Other litigation provision in the amount of EUR 1.0 million.

### 21.1.3 Other long term liabilities

The line other long term liabilities includes security deposits received from tenants as an advance payments for rent payable in future periods.

## 22 Current liabilities

The table below discloses maturity profile of current liabilities.

| | Less than 1 month | Between 1 and 6 months | Between 6 months and 1 year | TOTAL |
|---|---|---|---|---|
| Financial debts and Current bonds | - | 6,276 | 7,559 | 13,835 |
| Trade payables | 1,120 | 2,785 | 103 | 4,008 |
| Advance payments | 43 | 253 | 1,177 | 1,474 |
| Derivative instruments | - | - | 599 | 599 |
| Other current financial liabilities | 439 | 3,817 | 158 | 4,414 |
| Other current non-financial liabilities | - | - | 4,736 | 4,736 |
| **31 December 2014** | **1,603** | **13,132** | **14,332** | **29,067** |

| | Less than 1 month | Between 1 and 6 months | Between 6 months and 1 year | TOTAL |
|---|---|---|---|---|
| Financial debts and Current bonds | 191,073 | 13,282 | 69,007 | 273,362 |
| Trade payables | 15,721 | 2,297 | 4,407 | 22,425 |
| Advance payments | 246 | 2,561 | 31,080 | 33,887 |
| Derivative instruments | - | - | 1,244 | 1,244 |
| Other current financial liabilities | 11,782 | 8,051 | 13,162 | 32,994 |
| Other current non-financial liabilities | - | - | 25,825 | 25,825 |
| **31 December 2013** | **218,822** | **26,191** | **144,725** | **389,737** |

The following table provides further details of other current financial liabilities:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Accrued interests | 1,089 | 12,580 |
| Accrued liabilities | 2,182 | 14,482 |
| Other payables | 1,143 | 5,932 |
| **Total Other current financial liabilities** | **4,414** | **32,994** |

In 2014, decrease of accrued interests and accrued liabilities mainly results from deconsolidation of Hungarian entities (EUR 7.0 million), CPI PG (EUR 4.8 million), Suncani Hvar (EUR 2.2 million) and disposal of Zlota project (EUR 3.0 million).

The following table provides details of other current non-financial liabilities:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Tax liabilities | 2,826 | 15,909 |
| Income tax liabilities | 211 | 2,184 |
| Social liabilities | 12 | 309 |
| Payroll liabilities | 162 | 1,757 |
| Provisions for other risks and liabilities | 1,526 | 5,666 |
| **Total Other current non-financial liabilities** | **4,736** | **25,825** |

Deconsolidation of CPI PG and Suncani Hvar impacted all items of other current non-financial liabilities – EUR 10.4 million on tax liabilities, EUR 1.3 million on income tax liabilities, EUR 3.7 million on provisions and EUR 1.6 million on payroll liabilities.

The provisions for other risks and liabilities include EUR 0.9 million created in 2014 linked to guarantees provided by the Group to financing bank of former subsidiary Suncani Hvar.

## 23 Revenues

| | 12 months 2014 | 12 months 2013 (restated) |
|---|---|---|
| Sale of goods | 60,691 | 45,525 |
| Rent | 8,507 | 12,006 |
| Hotels and restaurants | 1,032 | 2,368 |
| Services | 4,946 | 6,978 |
| **Revenue** | **75,176** | **66,877** |

### ❖ 2014

Disposal of Zlota project contributes EUR 50.0 million to the total amount of sale of goods reported as of December 2014. Main contributors to the remaining part are sold units on Mezihoří (EUR 4.6 million) and Benice projects (EUR 2.5 million).

Negative evolution on revenue from rent (EUR 3.5 million compared to 2013 restated) is explained mainly by the disposal of Hlubočky and Dunaj (EUR 1.2 million) and the deconsolidation of Hungarian entities (EUR 1.4 million).

### ❖ 2013

Main contributors to the revenue from sale of goods achieved in 2013 are:

- Czech Republic: EUR 20.0 million from the sale of a part of the Bubny plot to Unibail Rodamco and EUR 12.9 million from the sale of units on the project Mezihoří;
- Poland: EUR 3.8 million from the sale of units on the projects Klonowa Aleja, Mokotowska and Feliz;
- Slovakia: EUR 3.5 million from the sale of units on the project Koliba.

## 24 Net result on disposal of assets

### ❖ In 2014

In 2014, the Group finalised the transfer of Hlubočky and Dunaj assets (see note 11). The transaction price was reflected in the fair value of the properties as at 31 December 2013 and so, the disposal had no effect on 2014 results.

Disposal of the Zlota 44 project resulted in a partial reversal of impairment losses accumulated in previous years (EUR 120.8 million) in the amount of EUR 34.3 million (see notes 1.1.4 and 11). The total consideration in the amount of EUR 50.0 million is included in the revenues generated from sale of goods. The same amount has been charged to the income statement as a cost of goods sold. As such, the transaction itself has no impact on the operating result, except for the reversal of impairment.

### ❖ In 2013

In 2013, the Group sold assets and activities for a total consideration of EUR 7.0 million generating a consolidated gain of EUR 0.1 million. The main contributors to cash generated from the transactions were U Hranic sold for a total consideration of EUR 4.3 million generating a gain of EUR 0.6 million and Stříbro with total proceeds of EUR 1.7 million and a loss of EUR 0.5 million.

The main contributors to the sales of assets are disclosed in the notes 8, 9 and 11.

## 25 Other operating income

Over 2014, other operating income amounts to EUR 0.45 million (EUR 0.9 million in 2013, restated) and is mainly due to insurance and other indemnities for EUR 0.1 million and EUR 0.15 million for penalty fees, marketing rewards and write-off liabilities.

## 26 Amortisations, impairments and provisions

| | 31 December 2014 | 31 December 2013 (restated) | Notes |
|---|---|---|---|
| Provisions for other risks and charges | 11,004 | (2,720) | 21 |
| **Total Provisions** | **11,004** | **(2,720)** | |
| Impairment of Hotels and owner occupied buildings | 335 | (158) | 9 |
| Impairment of Inventories | 32,324 | (132,853) | 14 |
| Impairment of Trade Receivables | (4,771) | (388) | 20.1.2 |
| Impairment of Other Current Assets | (12) | (57) | |
| **Total Impairments** | **27,875** | **(133,456)** | |
| Amortisation of Intangible assets | (380) | (1,085) | 7 |
| Depreciation of Hotels and owner occupied buildings | (9) | (9) | 9 |
| Depreciation of Fixtures and Fittings | (235) | (1,151) | 12 |
| **Total Amortisation and Depreciation** | **(623)** | **(2,245)** | |
| **Total Amortisation, Depreciation, Impairments and Provisions** | **38,256** | **(138,421)** | |

### ❖ 2014

In 2014, the Group reversed the impairment related to the Zlota 44 project in the amount of EUR 34.3 million. Impairment of trade receivables increased mainly as a result of recognition of impairment for trade receivables towards Endurance Hospitality Asset (EUR 2.3 million).

### ❖ 2013

In 2013, the Group created allowance for trade receivables in the amount of EUR 0.3 million related to services provided in Luxembourg.

## 27 Other operating expenses and employees benefits

| | 12 months 2014 | 12 months 2013 (restated) |
|---|---|---|
| Leases and rents | (339) | (1,249) |
| Building maintenance and utilities supplies | (3,863) | (5,210) |
| Marketing and representation costs | (1,175) | (2,884) |
| Administration costs | (7,946) | (6,924) |
| Taxes other than income tax | (1,354) | (1,588) |
| Hospitality specific costs | (105) | (220) |
| Other operating expenses | (284) | (598) |
| Employee benefits | (16,113) | (10,451) |
| **Total operating expenses** | **(31,179)** | **(29,123)** |

Non-cancellable operating leases commitments amount as follows:

- EUR 0.1 million not later than 1 year

- EUR 0.5 million later than 1 year and not later than 5 years

Fees related to the Group auditors and their affiliates are set out below:

| | 31 December 2014 | 31 December 2013 (restated) |
|---|---|---|
| Audit fees pursuant to legislation | (502) | (933) |
| Other services | - | (2) |
| **Total other operating expenses** | **(502)** | **(935)** |

## 28 Interest expense

Total interest expenses in 2014 amount to EUR 21.1 million, out of which EUR 7.6 million have been paid, compared to EUR 21.7 million of interest expense and EUR 10.8 million of interest paid in 2013.

| | 12 months 2014 | 12 months 2013 (restated) |
|---|---|---|
| **Interest on bonds** | **(10,414)** | **(9,325)** |
| Interest on bank loans - Development | (6,423) | (1,646) |
| Interest on bank loans - Property Investments | (4,278) | (10,717) |
| **Interest on bank loans** | **(10,701)** | **(12,363)** |
| **Total interest** | **(21,115)** | **(21,689)** |

The interest on bank loans in 2014 slightly decreased compared to 2013 due to lower interest paid on loans financing investment properties. On the other hand, interests on bank loans for development projects increased from EUR 1.6 million in 2013 to EUR 6.4 million in 2014 due to suspension of interest capitalization for Zlota 44 bank loan following the decision to stop development and sell the project.

### 28.1 Capitalized interest on projects under development

| | 12 months 2014 | 12 months 2013 (restated) |
|---|---|---|
| Capitalised interest on inventories | 379 | 6,019 |
| **Total** | **379** | **6,019** |

The capitalized interest on inventories in 2014 amount to EUR 0.4 million and relate solely to project Benice.

In 2013, most of the interests capitalised were recognised on projects Zlota 44 (EUR 4.1 million), Benice (EUR 0.7 million) and Bubny (EUR 1.0 million).

### 28.2 Average effective interest rates (current and non-current)

| | 31 December 2014 | | | |
|---|---|---|---|---|
| | EUR | CZK | PLN | HRK |
| New Notes | 12.61% | - | - | - |
| Safeguard bonds | 20.51% | - | - | - |
| Bank borrowings | 4.09% | 3.35% | - | - |

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | EUR | CZK | PLN | HRK |
| New Notes | 19.09% | - | - | - |
| Safeguard bonds | 20.51% | - | - | - |
| Bank borrowings | 5.03% | 3.19% | 6.68% | 7.76% |

## 29 Other net financial results

| | 12 months 2014 | 12 months 2013 (restated) |
|---|---|---|
| Impairment of long-term receivables | - | (37,864) |
| Change in fair value and realized result on derivative instruments | (69) | 1,218 |
| Change in fair value and realized result on other financial assets | (7,534) | (11,619) |
| Realized result on repayment of borrowings | (3,474) | 14,891 |
| Result on disposal of subsidiaries | (17,646) | - |
| Other net financial results | (485) | (577) |
| **Total** | **(29,208)** | **(33,951)** |

### ❖ In 2014

Change in fair value and realized result on other financial assets relates to:

- negative revaluation of EUR 9.7 million realized on the PPL loan provided to hospitality joint venture prior to its disposal;
- further impairment of RFE promissory note of EUR 1.1 million;
- a dividend received from Endurance residential Sub Fund in the amount of EUR 1.6 million;
- reversal of impairment of EUR 1.5 million recognized on Endurance residential Sub Fund.

The result on repayment of borrowings consists of loss recognized in relation to revaluation of the Notes after the amendment of terms and conditions.

Result on disposal of subsidiaries includes the following:

- a gain recognized in relation to the deconsolidation of Hungarian entities of EUR 25.6 million;
- a loss upon deconsolidation of CPI PG of EUR 34.8 million and a loss on disposal of CPI PG shares of EUR 2.9 million (for more detail refer to note 18);
- a settlement payment of EUR 9.0 million transferred to financing bank of Hungarian assets in bankruptcy. In return the bank waived the guarantee provided by the Company in respect of the assets and released the mortgage over Váci 188 asset;
- a loss upon disposal of hospitality joint venture and related loan receivables in the amount of EUR 6.5 million;
- a gain of EUR 3.0 million resulting from deconsolidation of Orco Project, sp. z o.o. with negative net asset value due to declaration of bankruptcy of the company;
- a gain related to deconsolidation of company Szczecin Project, sp. z o.o. in the amount of EUR 5.4 million.

### ❖ In 2013

Impairment on long-term receivables represents impairment of receivables related to past sale of Molcom (EUR 35.3 million) and impairment of the loan to Data Trade (EUR 2.6 million).

Change in the fair value of derivative instruments essentially arose from the fair value gains on derivatives of EUR 1.2 million with EUR 0.2 million of gains related to Na Poříćí, EUR 0.7 million related to Vaci I and EUR 0.4 million to Paris Department Store.

Change in fair value and realized result on other financial assets mainly relates to:

- Impairment of the Radio Free Europe promissory note EUR 7.5 million;
- Losses on PPL revaluation of EUR 5.1 million;
- Gains on sales of Endurance Sub Funds I and II (EUR 0.4 million) and dividend from Endurance residential Sub Fund (EUR 0.2 million).

Realized result on repayment of borrowings are related to the recognition of the gain realized by the Group on the buyback of the bank debt financing the assets Vaci 188 and Vaci 190 (EUR 15.9 million) repaid for EUR 1.0 million generating a gain of EUR 14.9 million.

## 30 Income taxes

### ❖ In 2014

In 2014, the weighted average applicable tax rate was 24.54% and the effective tax rate for the period was 1.31%. The income tax recognized in the income statement amounts to EUR 0.3 million and is composed of EUR 0.4 million of current income tax revenue which relates to return of income tax paid in respect of previous year and EUR 0.1 million of deferred tax expense.

| | December 2013 | Scope Variation | Variation | Other | Currency translation | December 2014 | Deferred tax asset | Deferred tax liability |
|---|---|---|---|---|---|---|---|---|
| Intangible assets | (2,156) | 2,156 | - | - | - | - | - | - |
| Tangible assets | (90,753) | 94,666 | 1,094 | (425) | (398) | 4,184 | 8,146 | (3,962) |
| Financial assets | (3,679) | 2,497 | 3,185 | - | (18) | 1,985 | 1,998 | (13) |
| Inventories | 33,428 | (30,268) | 3,091 | - | (715) | 5,536 | 7,657 | (2,121) |
| Current assets | (3,492) | 4,736 | 166 | - | (5) | 1,405 | 1,484 | (79) |
| Equity | (275) | 242 | 32 | - | 1 | - | - | - |
| Provisions | (1,183) | 4,174 | (2,770) | - | 36 | 257 | 260 | (3) |
| Long term debts | (7,805) | 8,423 | (905) | (155) | (18) | (460) | 534 | (994) |
| Current debts | 735 | (1,537) | 1,074 | - | (34) | 238 | 366 | (128) |
| DTA derecognition | (86,124) | 72,456 | (6,534) | 581 | 1,201 | (18,420) | (18,420) | - |
| Recognized loss carried forward | 54,078 | (53,427) | 533 | - | (8) | 1,178 | 1,178 | - |
| **Total deferred taxes** | **(107,226)** | **104,119** | **(1,033)** | **1** | **42** | **(4,097)** | **3,203** | **(7,300)** |
| Deferred tax assets | 313 | | | | | - | | |
| Deferred tax liabilities | (107,537) | | | | | (4,097) | | |

In the first half of 2014 significant groups of assets and liabilities were deconsolidated from the scope (see note 6). As a result the temporary differences giving arise the deferred taxes were derecognised. These movements are presented in the column scope variation.

The Group does not recognise deferred tax asset as there is low probability that taxable profit will be generated against which the tax losses could be utilised in the future accounting periods when the tax losses expire.

As at December 2014, the losses carry forward not recognized in the local statutory accounts of the Group's subsidiaries represents a tax basis of EUR 793.7 million. The amount of aggregate Group tax losses carry forward went down compared to the previous year due to deconsolidation of German entities.

The Group paid over the period EUR 0.1 million of current income taxes.

### ❖ In 2013

In 2013, the weighted average applicable tax rate was 17.13% and the effective tax rate for the period was 4.3%. The income tax loss recognized in the income statement amounts to EUR 10.4 million and is composed of EUR 1.6 million of current income tax expenses and EUR 8.9 million of deferred tax expense.

| | December 2012 | Scope Variation | Variation | Other | Change in % | Currency translation | December 2013 | Deferred tax asset | Deferred tax liability |
|---|---|---|---|---|---|---|---|---|---|
| Intangible assets | (2,152) | - | (4) | - | - | - | (2,156) | 1 | (2,157) |
| Tangible assets | (86,782) | 123 | (3,650) | - | (80) | (365) | (90,753) | 25,913 | (116,666) |
| Financial assets | (12,655) | - | 9,363 | (41) | (271) | (75) | (3,679) | 23,964 | (27,644) |
| Inventories | 5,204 | 711 | 27,272 | 254 | (7) | (7) | 33,428 | 35,883 | (2,454) |
| Current assets | (5,309) | (1) | 1,611 | 267 | (68) | 7 | (3,492) | 3,436 | (6,928) |
| Equity | (272) | - | - | - | (3) | 1 | (275) | - | (275) |
| Provisions | (778) | (119) | (531) | 258 | (6) | (6) | (1,183) | 934 | (2,117) |
| Long term debts | (7,100) | - | (610) | 80 | (158) | (16) | (7,805) | 4,471 | (12,276) |
| Current debts | 1,431 | - | (525) | (161) | (5) | (4) | 735 | 1,264 | (529) |
| DTA derecognition | (42,366) | 19 | (43,414) | (1,199) | (59) | 895 | (86,124) | (86,124) | - |
| Recognized loss carried forward | 51,123 | (66) | 2,015 | 542 | 655 | (191) | 54,078 | 54,078 | - |
| **Total deferred taxes** | **(99,656)** | **667** | **(8,473)** | **-** | **(2)** | **239** | **(107,226)** | **63,820** | **(171,046)** |
| Deferred tax assets | 353 | | | | | | 313 | | |
| Deferred tax liabilities | (100,009) | | | | | | (107,537) | | |

The increase of deferred tax liability is attributable mainly to reorganization of GSG entities and increase of market value of investment properties in Germany which in total led to deferred tax expenses of EUR 9.3 million. Further EUR 2.3 million of deferred tax loss relate to derecognition of tax losses brought forward as the Group management does not expect that taxable profits will be available in the coming accounting periods when the tax losses will expire. On the other hand the impairment losses on Zlota and decrease of market value of Czech renting properties resulted in a reduction of deferred tax liability of EUR 1.0 million and EUR 0.5 million respectively.

The main variations during the year could be explained as follows:

- Increase of deferred tax liability related to tangible assets in Germany (EUR 19.4 million) partially compensated by decrease of market value of investment properties (EUR 9.1 million) and impairment of HVAR properties (EUR 3.7 million).
- Decrease of deferred tax liability in the amount of EUR 6.6 million due to impairments of loans and receivables.
- Increase of deferred tax asset in the line “Inventories” of EUR 26.0 million generated mainly by impairments on Zlota (EUR 23.3 million) and Benice (EUR 1.6 million). However these deferred tax assets could not be recognized as no future taxable profits will be available. The elimination of these deferred taxes is presented in the line “DTA derecognition”.

The scope variations refer to mergers processed by the Group in 2013. The column “Other” represents the deferred tax asset derecognition for the entities which were not in position to recognize them. The elimination of this EUR 1.2 million deferred tax asset is now presented on the line “DTA derecognition”.

As at December 2013, the Group recognizes EUR 0.2 million of deferred tax assets related to the residential development V Mezihori and EUR 0.1 million to reactivated Rubeška project.

As at December 2013, the losses carry forward not recognized in the local statutory accounts of the Group’s subsidiaries represents a tax basis of EUR 1,106.2 million.

The Group paid over the period EUR 4.6 million of current income taxes, mainly in Germany for EUR 3.2 million.

**The income tax expense for the year can be reconciled to the accounting profit as follows:**

| | 2014 | 2013 (restated) |
|---|---|---|
| **Profit or Loss before tax** | **(23,764)** | **(243,100)** |
| (-) Profit or Loss before tax from discontinued operations | 1,044 | (8,633) |
| **Profit or Loss before tax from continued operations** | **(22,720)** | **(251,733)** |
| Tax calculated at domestic rates applicable to profits in the respective countries | 5,711 | 47,375 |
| **Tax effects of:** | | |
| Equity investments results reported net of tax | 121 | 81 |
| Untaxed gains or losses | 13,890 | 5,558 |
| Undeductible charges and interests | (1,226) | (6,106) |
| Temporary differences | (17,795) | (47,183) |
| Other income tax | (115) | (648) |
| Adjustments in respect of prior years | (287) | (137) |
| **Income tax expense recognised in profit or loss from continued operations** | **299** | **(1,060)** |

## Tax rates

The income tax rates in the Group vary from 10.00% in Hungary up to an average of 33.33% in France.

| | Income Tax Rates | | Deferred Tax rates | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Croatia | 20.00% | 20.00% | 20.00% | 20.00% |
| Czech Republic | 19.00% | 19.00% | 19.00% | 19.00% |
| France | 33.33% | 33.33% | 33.33% | 33.33% |
| Germany | 30.17% | 30.17% | 30.17% | 30.17% |
| Hungary | 10.00% | 10.00% | 10.00% | 10.00% |
| Luxembourg | 29.22% | 29.22% | 29.22% | 29.22% |
| Poland | 19.00% | 19.00% | 19.00% | 19.00% |
| Russia | 20.00% | 20.00% | 20.00% | 20.00% |
| Slovakia | 22.00% | 23.00% | 22.00% | 22.00% |

## Tax losses

The table below shows the expiry date of unused tax losses as of 31 December 2014, for which no deferred tax assets is recognized.

| At 31 December 2014 | Expiry date | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years | **Total** |
| Unused tax losses | 19,187 | 35,908 | 8,239 | 730,356 | **793,690** |

Unused tax losses with expiry date more than 5 years in the amount of EUR 794 million have been incurred in Luxembourg and can be carried forward indefinitely.

## 31 Earnings per share

| | 31 December 2014 | 31 December 2013 (restated) |
|---|---|---|
| **At the beginning of the period** | **114,389,629** | **106,885,588** |
| Shares issued | 114,507,629 | 107,840,962 |
| Treasury shares | (118,000) | (955,374) |
| **Weighted average movements** | **27,963,680** | **3,071,303** |
| Issue of new shares | 27,945,205 | 2,283,105 |
| Treasury shares | 18,475 | 788,198 |
| **Weighted average outstanding shares for the purpose of calculating the basic earnings per share** | **142,353,309** | **109,956,891** |
| **Weighted average outstanding shares for the purpose of calculating the diluted earnings per share** | **142,353,309** | **109,956,891** |
| **Net loss attributable to the Equity holders of the Company** | **(23,616)** | **(227,027)** |
| **Net loss attributable to the Equity holders of the Company after assumed conversions / exercises** | **(23,616)** | **(227,027)** |
| **Total Basic earnings in EUR per share** | **(0.17)** | **(2.06)** |
| o/w continuing operations | (0.15) | (2.06) |
| o/w discontinued operations | (0.02) | (0.01) |
| **Diluted earnings in EUR per share** | **(0.17)** | **(2.06)** |
| o/w continuing operations | (0.15) | (2.06) |
| o/w discontinued operations | (0.02) | (0.01) |

Basic earnings per share is calculated by dividing the profit/(loss) attributable to the Group by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The warrants were not taken into account in the EPS calculation as the conversion of the warrants had an anti-dilutive impact in 2014 and 2013.

As at 31 December 2013, the treasury shares of the Company held by the Group represent 118,000 shares and theirs book value amounts to EUR 0.2 million. The treasury shares were almost entirely disposed of in 2014, the number of own shares retained by the Group amounts to 20 shares. They are held by ORCO Russian Retail S.A.

## 32 Equity holders

### *Share capital*

| | Number of shares | Share Capital | Share premium |
|---|---|---|---|
| **At 1 January 2013** | **107,840,962** | **442,148** | **645,497** |
| Capital decrease of 4th of February 2013 | - | (226,466) | - |
| Capital increase of 28th of August 2013 | 6,666,667 | 13,333 | 1,667 |
| **At 31 December 2013** | **114,507,629** | **229,015** | **647,164** |
| Reduction of accounting par value of shares - 8 April 2014 | - | (114,507) | - |
| Reduction of accounting par value of shares - 28 May 2014 | - | (103,057) | - |
| Capital increase of 10th of November 2014 | 200,000,000 | 20,000 | 39,200 |
| **At 31 December 2014** | **314,507,629** | **31,451** | **686,364** |

All the shares of the Company have an accounting par value of EUR 0.10 per share with no nominal value and are fully paid. Each share is entitled to a prorate portion of the profits and corporate capital of the Company, as well as to a voting right and representation at the time of a general meeting, all in accordance with statutory and legal provisions.

During 2014, the share capital of the Company decreased twice. The extraordinary general meeting of 8 April 2014 resolved to approve the decrease of the share capital of the Company from the amount of EUR 229,015,258 to EUR 114,507,629 without cancellation of shares, by decreasing the accounting par value of the existing shares from EUR 2 to EUR 1 per share, with allocation of the reduction proceeds to reserves. As such, the share capital of the Company amounted to EUR 114,507,629 as of 8 April 2014. The extraordinary general meeting of 28 May 2014 resolved to approve the decrease of the share capital of the Company from the amount of EUR 114,507,629 to EUR 11,450,762.90 without cancellation of shares, by decreasing the accounting par value of the existing shares from EUR 1 to EUR 0.1 per share, with allocation of the reduction proceeds to reserves. As such, the share capital of the Company was EUR 11,450,762.90 at 28 May 2014.

On 10 November 2014 the Board of Directors of the Company resolved to implement a reserved capital increase and raise EUR 59.2 million pursuant to the authorization granted to it by its shareholders during the extraordinary general meeting of 28 May 2014. The Company's Board of Directors agreed to issue and issued 200 million new ordinary shares having a par value of EUR 0.10 each, at a subscription price of EUR 0.296 per new share, for a global cash contribution of EUR 59.2 million, which were subscribed as follows: (i) 100,000,000 new shares were subscribed for a total subscription price of EUR 29,600,000 by ASPLEY VENTURES LIMITED, British Virgin Islands, an entity closely associated with Mr. Pavel Spanko, and (ii) 100,000,000 new shares were subscribed for a total subscription price of EUR 29,600,000 by FETUMAR DEVELOPMENT LIMITED, Cyprus, an entity closely associated with Mr. Jan Gerner. The new shares are not listed upon their issue, but the Company will seek to list them on the regulated markets of NYSE Euronext Paris and the Warsaw Stock Exchange as soon as reasonably practicable, subject to legal and regulatory requirements. The corporate share capital of the Company has been increased from EUR 11,450,762.90 represented by 114,507,629 shares to EUR 31,450,762.90 represented by 314,507,629 shares. The total number of shares comprising the share capital of the Company as well as the total number of voting rights attached thereto is 314,507,629 as of 10 November 2014.

### *Authorized capital not issued*

The Company’s extraordinary general meeting of 28 May 2014 resolved to approve the decrease of the corporate capital of the Company from EUR 114,507,629.- to EUR 11,450,762.90 without cancellation of shares, by decreasing the accounting par value of the existing shares from EUR 1 to EUR 0.10 per share. As such, the corporate capital of the Company amounted to EUR 11,450,762.90 as of 28 May 2014.

The extraordinary general meeting of 28 May 2014 also approved resolutions to modify, renew and replace the existing authorized share capital and to set it to an amount of twenty million euro (EUR 20,000,000.00) for a period of five (5) years from 28 May 2014, which would authorize the issuance of up to two hundred million (200,000,000) new ordinary shares in addition to the 114,507,629 shares outstanding as of 28 May 2014.

The Company’s Board of Directors was granted an authorization to increase the Company’s share capital in accordance with article 32-3 (5) of the 1915 Luxembourg company law. The Board of Directors was granted full power to proceed with the capital increases within the authorized capital under the terms and conditions it will set, with the option of eliminating or limiting the shareholders' preferential subscription rights as to the issuance of new shares within the authorized capital.

The Board of Directors was authorized, during a period of five (5) years from the date of the extraordinary general meeting of shareholders held on 28 May 2014, without prejudice to any renewals, to increase the issued capital on one or more occasions within the limits of the authorized capital. The Board of Directors was authorized to determine the conditions of any capital increase including through contributions in cash or in kind, among others, the conversion of debt into equity, by offsetting receivables, by the incorporation of reserves, issue premiums or retained earnings, with or without the issue of new shares, or following the issue and the exercise of subordinated or non-subordinated bonds, convertible into or repayable by or exchangeable for shares (whether provided in the terms at issue or subsequently provided), or following the issue of bonds with warrants or other rights to subscribe for shares attached, or through the issue of stand-alone warrants or any other instrument carrying an entitlement to, or the right to subscribe for, shares.

On 10 November 2014 the Board of Directors of the Company resolved to implement a reserved capital increase and raise EUR 59.2 million pursuant to the authorization granted to it by its shareholders during the extraordinary general meeting of 28 May 2014. On 10 November 2014 the Company issued 200 million new ordinary shares having a par value of EUR 0.10 each, at a subscription price of EUR 0.296 per new share, for a global cash contribution of EUR 59.2 million, which were subscribed as follows: (i) 100,000,000 new shares were subscribed for a total subscription price of EUR 29,600,000 by ASPLEY VENTURES LIMITED, British Virgin Islands, an entity closely associated with Mr. Pavel Spanko, and (ii) 100,000,000 new shares were subscribed for a total subscription price of EUR 29,600,000 by FETUMAR DEVELOPMENT LIMITED, Cyprus, an entity closely associated with Mr. Jan Gerner.

The corporate share capital of the Company has been increased from EUR 11,450,762.90 represented by 114,507,629 shares to EUR 31,450,762.90 represented by 314,507,629 shares. The total number of shares comprising the share capital of the Company as well as the total number of voting rights attached thereto is 314,507,629 as of 10 November 2014.

Accordingly, following the capital increase of 10 November 2014, the Company has no authorized capital in addition to the issued capital as of the date of this report.

***Securities giving access to equity (warrants)***

Within the authorized capital, the Board of Directors decided to issue Bonds with Warrants ("OBSAR") without preferential subscription rights:

- "2012 Warrants" issued under the ISIN code LU0234878881 with the following major terms: number of outstanding 2012 Warrants: 21,161; exercise ratio: one warrant gives the right to subscribe to 1.03 share; exercise period: 31 December 2019; exercise price: EUR 7.21; listing: Euronext Paris.
- "2014 Warrants" issued under the ISIN code XS0290764728 with the following major terms: number of outstanding 2014 Warrants: 2,871,021; exercise ratio: one warrant gives the right to subscribe to 1.73 share; exercise period: 31 December 2019; exercise price: EUR 11.20; listing: Euronext Brussels and Paris.

Under the Securities Note and Summary dated 22 March 2007, with respect to the issue of the 2014 Warrants, the occurrence of a Change of Control (as described in Condition 4.1.8.1.2.1 of the Securities Note and Summary dated 22 March 2007) could result in a potential liability for the Company due to "Change of Control Compensation Amount" of up to EUR 20,039,726.58 for the aggregate number of 2014 Warrants as at 31 December 2014. According to the Securities Note and Summary each 2014 Warrant would need to be repurchased by the Company at a price of EUR 6.98/ 2014 Warrant in the event of a Change of Control as at 31 December 2014. This "Change of Control Compensation Amount" per 2014 Warrant decreases as time goes by. Change of Control is defined as "the acquisition or control of more than 50 per cent of the voting rights of that entity or (b) the right to appoint and/or remove all or the majority of the members of the Board of Directors or other governing body of that entity, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise." The Change of Control Compensation Amount with respect to 2014 Warrants filed with their respective holders has been admitted in the Company's Safeguard plan only in the amount of EUR 707,826.24. The Group holds 1,327,088 2014 Warrants.

### ❖ In 2013

During 2013, the share capital of the Company decreased from its previous amount of EUR 442,147,944.20 by EUR 226,466,020 to EUR 215,681,924. This decrease was approved by the Company's extraordinary general meeting on 4 February 2013 and realized without cancellation of shares by decreasing the accounting par value of the existing shares from EUR 4.1 to EUR 2.0 per share, with allocation of the reduction proceeds to a reserve.

The share capital of the Company has been increased on 28 August 2013 to EUR 229,015,258 as a consequence of the issue of 6,666,667 new shares to the Company's largest shareholders, Gamala Limited, Kingstown Capital Management, LP, Alchemy Special Opportunities Fund II L.P. and Stationway Properties Limited. This capital increase was a private placement within the framework of the Company's authorized capital approved by the shareholders on 27 June 2013.

**Dividends per share**

The Board of Directors has decided not to propose any dividend payment at the annual general meeting of the Company for the year 2014.

## 33 Contingencies

The Group has given guarantees in the ordinary course of business, more specifically on the residential units delivered. These guarantees are internally covered by the guarantees granted by the general contractor and provisions where needed.

The Group has given corporate guarantees to the financing bank and to the general contractor of the Zlota 44 project. As of December 2013, these guarantees add up to some EUR 55.6 million. Such guarantees have been given mainly in 2010 and 2011 to the financing bank and in 2012 to the new general contractor in order to re-launch the construction (see notes 18 and 27 of the separate financial statements). They cover liabilities that are on the face of the consolidated balance sheet but could result in liquidity risks for the Group if the SPV holding the project would go bankrupt and corporate guarantees would be called by the bank or the general contractor as described in note 3.1 of the Consolidated Financial Statements of the year 2012. The guarantees related to Zlota 44 project were terminated and the Company has been released from them as part of the Zlota 44 project disposal.

In June 2007 the Group issued a guarantee up to a maximum amount of EUR 5 million to secure all payment claims of IBB Holding and BTGI against inter alia Gewerbesiedlungs-Gesellsschaft (Berlin), Orco Russian Retail, and MSREF V / MSREF Turtle B.V under an option agreement dated 22/23 May 2006 as amended on 24/25 April 2007 concerning the acquisition of all shares in Gewerbesiedlungs-Gesellsschaft. This guarantee covering acquirer engagement is admitted to the safeguard plan and would, upon exercise, follow the rescheduled repayment plan described in the Note 2.1 of the Consolidated Financial Statements of the year 2011.

According to the framework agreement dated 18 August 2011 between the Company and MSREF V Turtle, the Group assumed the obligation to release the Morgan Stanley companies (MSREF V and MSREF V Turtle) from all claims under the Morgan Stanley guarantee by issuing a respective back to back guarantee of EUR 10.0 million.

As at the date of the publication of the consolidated financial statements, the Group has no litigation that would lead to any material contingent liability except as disclosed in note 21 and 34.

## 34 Litigations

On 28 December 2012, the Group filed a request for arbitration against the State Property Management Agency of the Republic of Croatia, also known as AUDIO, which is the legal successor to the Croatian Privatization Fund. Orco's preliminary claims for damages exceed EUR 32 million. The claims relate to underlying title disputes to properties on the island of Hvar in Croatia held through the Croatian company Suncani Hvar d.d. In 2013 AUDIO has transformed into the Croatian Centre for Restructuring and Sales (CERP) and the State Property Management Administration (DUUDI). On 19 December 2014 the Company and the Republic of Croatia announced the signing of a memorandum of understanding concerning their stakes in Suncani Hvar d.d. The memorandum dealt with, inter alia, a mutual settlement of the ICC International Court of Arbitration proceedings between the Company and the Republic of Croatia. Following a joint request, the arbitration proceedings were stopped by a consent award issued by the ICC International Court of Arbitration.

Certain shareholders of OPG, notably Kingstown Partners Master Ltd. of the Cayman Islands, Kingstown Partners II LP of Delaware, Ktown LP of Delaware (collectively "Kingstown") challenged the CPI PG capital increases of 4 December 2013 and 5 March 2014 in court proceedings in Luxembourg. These shareholders demanded, inter alia, cancellation of these capital increases and consequences against the Board of Directors. Some of these shareholders also contested the validity of the general meeting held on 6 January 2014 in Luxembourg. On 13 February 2015 the *Tribunal d'Arrondissement de et a Luxembourg* (the "Court") accepted a request to withdraw Kingstown's legal action against the Company. The legal action, filed on 19 February 2014, sought inter alia the nullity of decision of the Company's board meeting and general meeting of 6 January 2014, as well as the nomination of a provisory manager. For the avoidance of doubt the Company states that the decision of the Court did not resolve on a new legal action by Kingstown that was notified on 20 January 2015 (see below).

On 20 January 2015 the Company was served with a summons containing legal action of Kingstown, claiming to be former shareholders of the Company. The action was filed with the „*Tribunal d´Arrondissement de et a Luxembourg*" and seeks a condemnation of the Company, CPI PG and certain members of the Company´s board of directors as jointly and severally liable to pay damages in the amount of EUR 14,485,111.13 and compensation for moral damage in the amount of EUR 5,000,000. According to Kingstown´s allegation the claimed damage has arisen as a consequence of inter alia alleged violation of the Company´s minority shareholders rights. Management of the Company will take all available legal actions to oppose these allegations in order to protect the corporate interest as well as the interest of its shareholders.

## 35 Capital and other commitments

**Capital commitments**

As a developer of buildings and residential properties, the Group is committed to finalize the construction of properties in different countries. As at the end of 2014 the Group does not carry out any active projects and as such is not committed to any construction costs. However, the Group holds interest in Kosik joint venture with active project started in 2014. The total commitments of this project amounts to EUR 6.1 million.

**Bank loan covenants (see note 19.4)**

## 36 Related party transactions

**Transactions with key management personnel**

a) Remuneration of key management personnel

The members of the Board of Directors and the management of the Company are considered the key personnel of the Group. As of 31 December 2014, the top management was made of two people as six members have been terminated or resigned over the year.

Total compensation given as short term employee benefits to the top managers for the year 2014 amounted to EUR 0.8 million (EUR 2.7 million for the year 2013).

The Board and Committees attendance compensation for the year 2014 amounts to EUR 72,000 (EUR 356,000 for 2013). The annual general meeting held on 28 May 2014 resolved to approve, with the effect as of 1 January 2014, the payment of attendance fees to all independent, non-executive Directors of the Company in the amount of EUR 3,000 per calendar month as a base fee and empowered the Board of Directors to decide at its sole discretion about the payment of additional fees up to EUR 3,000 per calendar month to independent, non-executive Directors of the Company.

During its meeting held on 3 February 2014, the Board of Directors agreed to terminate the Board and Committees attendance compensation as set before, affective 1 January 2014. The previous compensation scheme was as follows: (i) each Board and Committee member for all physical attendance received EUR 4,000 per meeting, (ii) president presiding an ordinary and extraordinary general meeting of shareholders received EUR 9,000 per meeting.

b) Termination and change of control clauses

As at 31 December 2014, there are no potential termination indemnity payments in place payable to the members of the Company's management in the event of termination of their contracts in excess of the compensation as required by the respective labour codes.

As at 31 December 2013, the potential termination indemnity payment to some members of the Company's management amounted to EUR 16 million. This indemnity would become payable by the Company to the relevant management members only if the relationship between the Company and the management member is terminated by either party during the six-month period following a change of control of the Company. An additional indemnity to some members of the management and executive Board members agreed in their respective contracts amounts to EUR 2.7 million and is payable in the event of termination of their contracts. Certain fully owned subsidiaries of the Company entered into managing director agreements with some of their directors. These contracts include a termination indemnity of a total of EUR 588,000 (EUR 12,000 per each subsidiary and director) payable by subsidiaries in the event of termination of director's function. Managing director agreements also contain a monthly fee of EUR 2,000 per each subsidiary and director which becomes payable in the event that directors function of Board member or top management member with the Company is terminated. In accordance with the decision of the Board of Directors an amount of EUR 1 million has been provisioned as at 31 December 2013 as a retirement account payable at the termination of contracts of certain executive managers. Certain top managers own in aggregate 1,606,159 of the 2014 Warrants. In the event of the occurrence of a Change of Control (as described in Condition 4.1.8.1.2.1 of the Securities Note and Summary dated 22 March 2007) the liability for the Company due to "Change of Control Compensation Amount" payable to the managers holding 2014 Warrants would be up to EUR 13.25 million.

On 18 March 2014, the Company's Board of Directors decided to dismiss and to terminate the executive contracts of Jean-François Ott, Nicolas Tommasini, Ales Vobruba and Brad Taylor. Following negotiations and approvals from the Board of Directors, on 27 March 2014 the Group and the former management entered into a confidential settlement and mutual general release agreement by which the Group settled all the existing and future potential obligations and claims arising from the termination and the holding of warrants by the former management. Under this settlement agreement, the former executives will receive EUR 7,150,000 in cash (EUR 1,150,000 to be paid in cash by CPI PG, then Orco Germany SA). In addition, settlements in kind (non-core assets) were agreed with the former management to transfer the Pachtuv Palace hotel in Prague and the Hakeburg property in Berlin (with their related assets and liabilities) at the net asset value as of 31 December 2013 of EUR 8,400,000 including all related shareholders' loans granted by the Group. As a result of the settlement agreement, Jean-François Ott, Nicolas Tommasini, Ales Vobruba and Brad Taylor resigned from all their Board positions and particularly from OPG and CPI PG boards. Accordingly, all indemnity payments as per previous paragraph have been terminated and settled. As part of the settlement, affiliated entities of the two members of the former management, or their affiliated entities, took over leasing of their company cars and one member of the former management, or his affiliated entity, purchased his company car at the then current accounting value.

c) Loans and advances with key management personnel

On 16 February 2007, the Company granted a loan of EUR 61,732 to Steven Davis, a former executive of the Company with maturity date on 1 March 2008. In 2009, the loan was fully impaired as a result of a dispute on the termination of the employment contract of Steven Davis. As of the date hereof, litigation is pending in front of Luxembourg court. Bubny Development sued Mr. Davis for damages in the amount of CZK 30,981,461. These litigations are pending as at 31 December 2014.

d) Other transactions with key management personnel

To ensure the liquidity for satisfaction of its future liabilities, the Company and Mr. Radovan Vitek entered on 25 September 2014 into a put option agreement concerning the disposal of the shares held by the Company in CPI PG. Pursuant to the terms of the put option agreement the Company has right to request Mr. Vitek, major shareholder of CPI PG, to purchase the CPI PG shares, or their portion, upon a written request of the Company. The put option price payable by Mr. Vitek to the Company is EUR 0.47 per share plus 6% p.a. interest from today until the exercise of the put option. The Company is not limited by the put option agreement to dispose of the CPI PG shares to a third party and/or on a market. The put option agreement is valid for 2 years.

In 2014, the Company transferred 1 share to Jiri Dedera and Tomas Salajka each for free and until they hold the Board function.

In 2013, the Company transferred 1 share to Edward Hughes for free and until he holds the Board function.

In the first half of 2011, two entities closely associated to Gabriel Lahyani, then member of the Board of Directors acquired 8,890 bonds (ISIN: XS0302623953) of ORCO Germany S.A. from the Company's subsidiary for a total of EUR 4.4 million. As of the date of this report, the amount of EUR 227.480 plus statutory late interest accrued thereon is owed to the Company's subsidiary as a consequence of this transaction. Although the Company firmly intends to pursue full recovery of this amount, the receivable has been impaired in the 2012 accounts. As of today a litigation is pending with respect to the delivery and payment of these bonds.

**Transactions with the Endurance Real Estate Fund**

The Group is the sponsor of a Luxembourg regulated closed end umbrella investment fund dedicated to qualified investors, the Endurance Real Estate Fund. This fund has opted for the form of a "Fonds Commun de Placement". The Company is the shareholder of the management company of the Fund and had an ownership interest of 14.8% in the Residential Sub-fund as at 31 December 2014.

Orco's remuneration from Residential Sub-fund amounting to EUR 0.7 million in 2014 (EUR 1.7 million in 2013) is linked to:

- the liquidation fee for the Residential Sub-fund;
- the disposal fee calculated as 0.5% of the value of the assets sold.

As at 31 December 2014, there are no open invoices for unpaid management fees owed by Endurance Fund to the management company. The total of invoices issued in 2014 by the management company to the sub-funds of the Endurance Fund, mainly composed of management fees, is amounting to EUR 0.6 million (2013: EUR 1.1 million).

Besides the fund management, there are transactions between the Group and Endurance Fund companies as a consequence of OPG companies rendering administrative and financial services. These transactions resulted in the recognition in 2014 of EUR 86 thousand of revenue (EUR 0.6 million in 2013) and EUR 0.2 million of expenses (EUR 0.5 million in 2013). The net outstanding amount of receivables is EUR 0.1 million as at 31 December 2014 (EUR 0.3 million as at 31 December 2013).

Moreover Group companies subscribed for loans with Endurance Fund partners that amount to EUR 0.8 million, interests included (EUR 0.8 million in 2013).

During the year 2014, Residential Sub-fund distributed dividends to the Company in the amount of EUR 1.6 million (in 2013 the Company´s income from Residential Sub-fund´s dividends was EUR 0.2 million).

**Transactions with CPI PG group**

Management Fees

CPI PG companies, affiliated with Mr. Radovan Vitek, have provided property management services to certain assets of the Company in the Czech Republic. The value of such services amounted to EUR 0.1 million in 2014 (2013: EUR 54 thousand).

From 1 July 2014 CPI PG companies began providing outsourcing services in the field of general administration, tax, accounting, reporting, human resources and IT to certain assets of the Company in the Czech Republic. The value of such services amounted to EUR 0.4 million in 2014.

In prior years, the Group has provided services to hospitality entities of which outstanding amount is EUR 0.9 million as at 31 December 2014. These services relate to IT, human resources and restructuring. In 2014, the Group created allowance for these receivables in the amount of EUR 0.5 million.

Sale of SHH loan

On 11 June 2014 the Company entered into a transaction concerning partial disposal of its stakes in Suncani Hvar, whereby OPG disposed of 2,080,000 Suncani Hvar shares corresponding to 24.94% of the shares and voting rights and also of its shareholder receivables from SHH. Shares have been sold for EUR 1 and receivables have been sold for EUR 2.1 million. The opportunity to dispose of the Suncani Hvar stakes was mediated by CPI PG. However, CPI PG made no profit or other benefit out such mediation.

Loan by CPI PG

On 17 June 2014 the Company as borrower and CPI PG as lender entered into the credit facility agreement with the following parameters: EUR 3.5 Million facility framework, repayment in 3 months and interest of 8% p.a. The parties agreed to extend the maturity until 31 December 2015, the facility limit was extended to EUR 10.0 million, and the interest decreased to 5% p.a. As of 31 December 2014 the outstanding balance amounts to EUR 1.9 million.

Capital Increase

On 24 September 2014 the Company entered into an agreement for the subscription of 65,957,446 new ordinary shares issued by CPI PG at the subscription price of EUR 0.47 per share, which is approximately 12% below the current market price of EUR 0.53. The Company paid an aggregate subscription price of EUR 30,999,999.62 and the New Shares were issued by CPI PG on 24 September 2014.

Notes guarantee

On 7 November 2014, the Company and CPI PG entered into a trust deed (the "Trust Deed") pursuant to which CPI PG agreed to unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Company in relation to its Notes (registered under ISIN code XS0820547742), which were issued on 4 October 2012 and amended and restated pursuant to the Trust Deed. CPI PG has also undertaken in the Trust Deed to be bound by certain limitations on its activities and to maintain certain financial ratios.

In consideration of CPI PG's entry into the Trust Deed and the guarantee given thereunder, the Company has agreed to pay to CPI PG a guarantee fee of 3% per annum of the outstanding principal balance of the Notes, payable on a payment in kind (PIK) basis falling due on the business day after all amounts payable in connection with the Notes have been paid in full.

Treasury Shares Sale

The Group sold 117,980 of its treasury shares to CPI PG at then prevailing market price of EUR 0.37 per share.

Hospitality Transaction

On 19 December 2015 the Company sold its interest in the hospitality Mamaison joint venture to CPI PG through transfer of its ownership in Endurance Hospitality Assets S.à r.l. and Endurance Hospitality Finance, S.à r.l., entities holding 50 % share in Hospitality Invest S.á r.l. As part of the transaction the Group sold the receivables (loans) provided by the Group to these entities. The transaction price for shares and the receivables was EUR 13.3 million.

**Transactions with Suncani Hvar**

As part of the pre-bankruptcy reorganization proceedings of Suncani Hvar the Group agreed to equitize its receivables in the amount of approximately EUR 1.58 million into newly issued Suncani Hvar shares as part of the pre-bankruptcy plan. In order to support Suncani Hvar the Group agreed not to invoice its management fees from the date of initiating of the SHH pre-bankruptcy proceedings.

## 37 List of the consolidated entities

### 37.1 Orco Property Group consolidated subsidiaries

The table below shows the list of subsidiaries consolidated line by line.

| | | | | % Shareholding | |
|---|---|---|---|---|---|
| Company | Country | Currency | Activity | 31.12.2014 | 31.12.2013 |
| Orco Adriatic, d.o.o. | Croatia | HRK | Hospitality | 100.00% | 100.00% |
| Orco Razvoj, d.o.o. | Croatia | HRK | Development | 100.00% | 100.00% |
| Asmihati Holding Limited | Cyprus | EUR | Development | 100.00% | n/a |
| BCC - Brno City Center, a.s. (sold) | Czech Republic | CZK | Renting | 0.00% | 100.00% |
| BIANKO, s.r.o. | Czech Republic | CZK | Development | 100.00% | n/a |
| Bubenská 1, a.s. | Czech Republic | CZK | Renting | 100.00% | 100.00% |
| Bubny development, s.r.o. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Byty Podkova, a.s. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Darilia a.s. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Development Doupovská, s.r.o. | Czech Republic | CZK | Development | 75.00% | 75.00% |
| Development Pražska s.r.o. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Estate Grand, s.r.o. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Hagibor Office Building, a.s. | Czech Republic | CZK | Renting | 100.00% | 100.00% |
| Industrial Park Stříbro s.r.o. | Czech Republic | CZK | Renting | 100.00% | 100.00% |
| IPB Real, s.r.o. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Jihovýchodni Město, a.s. | Czech Republic | CZK | Development | 100.00% | 75.00% |
| Megaleiar, a.s. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Na Poříčí, a.s. | Czech Republic | CZK | Renting | 100.00% | 100.00% |
| Nupaky, a.s. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Oak Mill, a.s. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| OFFICE CENTER HRADČANSKÁ, a.s. | Czech Republic | CZK | Renting | 100.00% | 100.00% |
| Orco Financial Services, s.r.o. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Orco Praga, s.r.o. | Czech Republic | CZK | Development | 100.00% | 75.00% |
| Orco Prague, a.s. | Czech Republic | CZK | Management services | 100.00% | 100.00% |
| Pachtův Palac, s.r.o. (sold) | Czech Republic | CZK | Hospitality | 0.00% | 100.00% |
| Rubeška Development, s.r.o. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Seattle, s.r.o. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| STRM Alfa, a.s. | Czech Republic | CZK | Development | 100.00% | n/a |
| STRM Beta , a.s. | Czech Republic | CZK | Development | 100.00% | n/a |
| STRM Delta, a.s. | Czech Republic | CZK | Development | 100.00% | n/a |
| STRM Gama, a.s. | Czech Republic | CZK | Development | 100.00% | n/a |
| T-O Green Europe, a.s. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| TQE Asset, a.s. | Czech Republic | CZK | Development | 100.00% | 100.00% |
| V Mezihoří (merged) | Czech Republic | CZK | Development | 0.00% | 100.00% |
| Zeta Estate a.s | Czech Republic | CZK | Development | 100.00% | 100.00% |
| Vinohrady s.a.r.l. | France | EUR | Management services | 100.00% | 100.00% |
| Brillant 1419 GmbH & Co. Verwaltungs KG | Germany | EUR | Management services | 100.00% | 100.00% |
| Ariah Kft. | Hungary | HUF | Renting | 0.00% | 100.00% |
| CWM 35 Kft. | Hungary | HUF | Renting | 100.00% | 100.00% |
| Energy Trade Plus Kft | Hungary | HUF | Renting | 100.00% | 100.00% |
| Meder 36 Kft. | Hungary | HUF | Renting | 100.00% | 100.00% |
| ORCO Budapest Rt. | Hungary | HUF | Renting | 0.00% | 100.00% |
| ORCO Development Kft. | Hungary | HUF | Renting | 100.00% | 100.00% |
| ORCO Hungary Kft. | Hungary | HUF | Renting | 100.00% | 100.00% |
| Orco Vagyonkezelo Kft. | Hungary | HUF | Management services | 100.00% | 100.00% |
| ORR Kft. | Hungary | HUF | Renting | 100.00% | 100.00% |
| Vaci 1 Kft. (formerly Yuli Kft.) | Hungary | HUF | Renting | 0.00% | 100.00% |
| Vaci 190 Projekt Kft. | Hungary | HUF | Renting | 100.00% | 100.00% |
| Capellen Invest S.A. | Luxembourg | EUR | Renting | 100.00% | 100.00% |
| CEREM S.A. | Luxembourg | EUR | Management services | 100.00% | 100.00% |

| Company | Country | Currency | Activity | % Shareholding 31.12.2014 | 31.12.2013 |
|---|---|---|---|---|---|
| Endurance Hospitality Asset Sàrl (sold) | Luxembourg | EUR | Hospitality | 0.00% | 88.00% |
| Endurance Hospitality Finance Sàrl (sold) | Luxembourg | EUR | Hospitality | 0.00% | 88.00% |
| Endurance Real Estate Management Company Sàrl | Luxembourg | EUR | Management services | 100.00% | 100.00% |
| OPG Invest. Lux S.A. | Luxembourg | EUR | Management services | 100.00% | 100.00% |
| ORCO Russian Retail S.A. | Luxembourg | EUR | Renting | 100.00% | 100.00% |
| Diana Property SP. z.o.o. | Poland | PLN | Renting | 100.00% | 100.00% |
| Orco Enterprise Sp.z o.o. | Poland | PLN | Development | 100.00% | 100.00% |
| Orco Logistic Sp.z o.o. | Poland | PLN | Renting | 100.00% | 100.00% |
| Orco Poland Sp.z.o.o. | Poland | PLN | Management services | 100.00% | 100.00% |
| Orco Project Sp.z o.o. | Poland | PLN | Development | 0.00% | 100.00% |
| Orco Property Sp.z o.o. (sold) | Poland | PLN | Development | 0.00% | 93.59% |
| Szczecin Project sp. z.o.o. | Poland | PLN | Development | 0.00% | 75.00% |
| ORCO Development, s.r.o. | Slovakia | EUR | Development | 100.00% | 100.00% |
| ORCO Estates, s.r.o. (sold) | Slovakia | EUR | Renting | 0.00% | 100.00% |
| Orco Residence, s.r.o. | Slovakia | EUR | Development | 100.00% | 100.00% |
| ORCO Slovakia, s.r.o. | Slovakia | EUR | Management services | 100.00% | 100.00% |

## 37.2 Equity method investments

Hereafter follows the list of joint ventures accounted for using the equity method presenting the Group's effective shareholding in them:

| Company | Country | Currency | Activity | % Shareholding 31.12.2014 | 31.12.2013 |
|---|---|---|---|---|---|
| Blue Yachts, d.o.o. | Croatia | HRK | Hospitality | 22.13% | 39.58% |
| Obonjan Rivijera d.d. | Croatia | HRK | Development | 31.61% | 56.55% |
| Suncani Hvar, d.d. | Croatia | HRK | Hospitality | 31.61% | 56.55% |
| Dienzenhoferovy sady 5 s.r.o. | Czech Republic | CZK | Hospitality | 0.00% | 44.00% |
| Janáčkovo nábřeží 15, s.r.o. | Czech Republic | CZK | Hospitality | 0.00% | 44.00% |
| Mamaison Management s.r.o. | Czech Republic | CZK | Hospitality | 0.00% | 44.00% |
| Orco Hotel Ostrava, a.s. | Czech Republic | CZK | Hospitality | 0.00% | 44.00% |
| Orco Hotel Riverside, s.r.o. | Czech Republic | CZK | Hospitality | 0.00% | 44.00% |
| Orco Property Start a.s. | Czech Republic | CZK | Hospitality | 0.00% | 44.00% |
| Residence Belgická, s.r.o. | Czech Republic | CZK | Hospitality | 0.00% | 44.00% |
| SV Fáze II, s.r.o. | Czech Republic | CZK | Development | 50.00% | 50.00% |
| SV Fáze III, s.r.o. | Czech Republic | CZK | Development | 50.00% | 50.00% |
| Tyršova 6, a.s. | Czech Republic | CZK | Hospitality | 0.00% | 44.00% |
| Valanto Consulting, a.s. | Czech Republic | CZK | Hospitality | 0.00% | 44.00% |
| Brillant 1419. Verwaltungs GmbH | Germany | EUR | Management services | 49.00% | 49.00% |
| Orco Hotel Management Kft. | Hungary | HUF | Hospitality | 0.00% | 44.00% |
| Orco Hotel Rt. | Hungary | HUF | Hospitality | 0.00% | 44.00% |
| Ozrics Kft. | Hungary | HUF | Hospitality | 0.00% | 44.00% |
| Residence Izabella Rt. | Hungary | HUF | Hospitality | 0.00% | 44.00% |
| Hospitality Invest Sàrl | Luxembourg | EUR | Hospitality | 0.00% | 44.00% |
| Kosic Sàrl | Luxembourg | EUR | Development | 50.00% | 50.00% |
| MMR Russia S.A. | Luxembourg | EUR | Hospitality | 0.00% | 44.00% |
| Diana Development Sp.z.o.o. | Poland | PLN | Hospitality | 0.00% | 44.00% |
| Orco Hospitality Services Sp.z o.o. | Poland | PLN | Hospitality | 0.00% | 44.00% |
| Orco Hotel Development Sp. z o.o. | Poland | PLN | Hospitality | 0.00% | 44.00% |
| Orco Hotel Project Sp.z o.o. | Poland | PLN | Hospitality | 0.00% | 44.00% |
| Orco Investment Sp.z o.o. | Poland | PLN | Hospitality | 0.00% | 44.00% |
| Orco Warsaw Sp.z o.o. | Poland | PLN | Hospitality | 0.00% | 44.00% |
| Orco Pokrovka Management o.o.o. | Russia | RUB | Hospitality | 0.00% | 44.00% |
| MaMaison Bratislava, s.r.o. | Slovakia | EUR | Hospitality | 0.00% | 44.00% |

* Hospitality portfolio was sold in 2014 (see note 10.1.1).

### 37.3 CPI Property Group S.A.

The following table represents the list of deconsolidated entities as a result of loss of control over CPI PG.

| Company | Country | Currency | Activity | % Shareholding 31.12.2014 | 31.12.2013 |
|---|---|---|---|---|---|
| CPI Property Group S.A. | Luxembourg | EUR | Development | 4.82% | 58.48% |
| Gebauer Höfe Liegenschaften GmbH | Germany | EUR | Renting | 9.59% | 94.98%* |
| GSG 1. Beteiligungs GmbH | Germany | EUR | Renting | 0.00% | 99.75%* |
| GSG Asset GmbH & Co. Verwaltungs KG | Germany | EUR | Renting | 0.00% | 99.75%* |
| GSG Gewerbehöfe Berlin 1. GmbH Co. KG | Germany | EUR | Renting | 0.00% | 99.75%* |
| GSG Gewerbehöfe Berlin 2. GmbH Co. KG | Germany | EUR | Renting | 0.00% | 99.75%* |
| GSG Gewerbehöfe Berlin 3. GmbH Co. KG | Germany | EUR | Renting | 0.00% | 99.75%* |
| GSG Gewerbehöfe Berlin 4. GmbH Co. KG | Germany | EUR | Renting | 0.00% | 99.75%* |
| GSG Gewerbehöfe Berlin 5. GmbH Co. KG | Germany | EUR | Renting | 0.00% | 99.75%* |
| GSG Gewerbesiedlungs-Gesellschaft mbH | Germany | EUR | Renting | 0.00% | 99.75%* |
| Hofnetz und IT Services GmbH | Germany | EUR | Development | 0.00% | 99.75%* |
| Isalotta GP GmbH & Co. Verwaltung KG | Germany | EUR | Renting | 0.00% | 94.99%* |
| Orco Berlin Invest GmbH | Germany | EUR | Development | 0.00% | 100.00%* |
| Orco Grundstücks- u. Bet.ges.mbH | Germany | EUR | Renting | 0.00% | 100.00%* |
| Orco Immobilien Gmbh | Germany | EUR | Development | 0.00% | 100.00%* |
| Solar GSG Berlin GmbH | Germany | EUR | Renting | 0.00% | 99.75%* |
| Vivaro GmbH & Co. Grundbesitz KG | Germany | EUR | Development | 0.00% | 94.34%* |
| Vivaro GmbH & Co. Zweite Grundbesitz KG | Germany | EUR | Development | 0.00% | 100.00%* |
| Vivaro Vermögensverwaltung GmbH | Germany | EUR | Development | 0.00% | 100.00%* |
| Wertpunkt Real Estate Experts GmbH | Germany | EUR | Renting | 0.00% | 99.75%* |
| Orco Germany Investment S.A. | Luxembourg | EUR | Renting | 0.00% | 100.00%* |

* Percentage of shareholding of CPI PG in its subsidiaries

## 38 Events after balance sheet date

### 38.1 Acquisition of development project

On 19 December 2014 the Group entered into an agreement concerning development project located in Prague 10. The project comprises approximately 33 thousand sqm of developable land. The Group already owns 31 thousand sqm of directly adjacent land. The completion was subject to certain corporate approvals on seller's side, which were granted 10 March 2015, thus the acquisition became effective. The purchase price for transfer of shares and receivables is EUR 5.7 million.

### 38.2 Mandatory Prepayment on Zlota Disposal

Further to the disposal of Zlota 44 project proceeded with an additional "Mandatory Prepayment on Zlota Disposal" under the terms and conditions of the notes registered under ISIN code XS0820547742, issued by the Company on 4 October 2012, as amended and restated on 7 November 2014 (the "Notes"). The prepayment in the amount of EUR 2.2 million was distributed to the holders of the Notes on 30 January 2015. Accordingly, the current outstanding principal of the Notes decreased from EUR 67,290,077.48 to EUR 65,064,248.49.

### 38.3 Disposal of Na Frantisku project, Ostrava - Slezská

On 6 February 2015 the Group entered into an agreement concerning a disposal of development project Na Frantisku, Ostrava – Slezská in the Czech Republic for an overall transaction price of EUR 0.5 million. The transaction with a third party comprised of the share transfer of project holding entity together with the assignment of receivables against that entity.

### 38.4 Hagibor Office Building – opening of reorganization insolvency proceedings

In 2015, Hagibor Office Building, a.s. (to meet its legal obligation) submitted to the Municipal Court in Prague an application for its insolvency reorganization proceedings. Further to a legal review of the convertible promissory note and various documents related to the disposal of Radio Free Europe / Hagibor office building, the Group is of the opinion that it shall have a receivable of USD 12 million from the purchaser of the asset. The Group supports the reorganization proceedings as more favourable option to all creditors as opposed to bankruptcy proceedings. As of the date of this report, the Municipal Court made no decision as to whether it opens reorganization or bankruptcy type of proceedings.

# Index of the notes to the Consolidated Financial statements

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L-1855 Luxembourg

Tel.: +352 22 51 51 1
Fax: +352 22 51 71
Email: info@kpmg.lu
Internet: www.kpmg.lu

To the Shareholders of
Orco Property Group S.A.
40, rue de la Vallée
L-2661 Luxembourg

# REPORT OF THE REVISEUR D'ENTREPRISES AGREE

## *Report on the consolidated financial statements*

We have audited the accompanying consolidated financial statements of Orco Property Group S.A., which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated income statements and consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Board of Director' responsibility for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Responsibility of the Réviseur d'Entreprises agréé*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Orco Property Group S.A. as of 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

***Report on other legal and regulatory requirements***

The consolidated management report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law with respect to the Corporate Governance Statement.

Luxembourg, 31 March 2015

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Alison Macleod

SU1001

# ORCO PROPERTY GROUP

**SOCIETE ANONYME**

**SEPARATE FINANCIAL STATEMENTS**

**WITH THE REPORT OF THE REVISEUR D'ENTREPRISES AGREE**

**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

40, rue de la Vallée
L-2661 Luxembourg
**R.C.S. Luxembourg: B 44.996**
**Share Capital: EUR 31,450,763**

Orco Property Group's Board of Directors has approved the separate financial statements as of and for the year ended December 31, 2014 on March 31, 2015. All the figures in this report are presented in Euros ("EUR"), except if explicitly stated otherwise.

## I. Statement of comprehensive income for the year ended December 31, 2014

| | Note | For the year ended December 31 2014 | 2013 |
|---|---|---|---|
| **Revenue** | **28** | **3,778,164** | **8,259,840** |
| Administrative expenses | 17 | (4,477,529) | (6,640,208) |
| Net loss on disposal of tangible assets | | - | (4,723) |
| Net loss on disposal of financial assets | 19 | (245,320,107) | 6,457,699 |
| Employee benefits | 17 | (11,293,205) | (3,326,643) |
| Amortisation, impairments and provisions | 5,6 7,16 | 203,961,509 | (267,962,091) |
| Interest expenses | 14 | (2,638,839) | (2,755,889) |
| Interest income | 10.1 | 8,284,984 | 6,967,584 |
| Income from participating interests | 11 | 3,898,845 | 13,348,498 |
| Foreign exchange result | 18 | (589,801) | (2,108,545) |
| Net gain/(loss) on financial assets at fair value through profit or | 9.1, 28 | 1,556,166 | (439,162) |
| **Operating result** | | **(42,839,813)** | **(248,203,640)** |
| Interest expenses on bonds | 13 | (11,336,284) | (10,702,719) |
| Other net financial results | 21 | (3,281,728) | 103,326 |
| **Financial result** | | **(14,618,012)** | **(10,559,393)** |
| **NET RESULT BEFORE INCOME TAXES** | | **(57,457,825)** | **(258,803,033)** |
| Income taxes | 22 | (2,407) | (6,360) |
| **NET RESULT FOR THE YEAR** | | **(57,460,232)** | **(258,809,393)** |
| Other comprehensive income | | | |
| Items that may be reclassified to profit or loss | | - | - |
| Change in value of available for sale financial assets | | 3,957,448 | - |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(53,502,784)** | **(258,809,393)** |
| Basic earnings per share | 23 | (0.40) | (2.34) |
| Diluted earnings per share | 23 | (0.40) | (2.34) |

*The accompanying notes form an integral part of these separates separate financial statements.*

## II. Statement of financial position as at December 31, 2014

| ASSETS | | Note | As at 31 December 2014 | 2013 |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| | Intangible assets | 5 | 1,650 | 134,719 |
| | Fixtures and fittings | 6 | 749,423 | 737,868 |
| | Shares in affiliated undertakings | 7 | 97,160,165 | 201,547,392 |
| | Trade and other receivables | 8 | - | 904,696 |
| | Financial assets at fair value through | 9.1 | 2,626,938 | 1,077,275 |
| | Financial assets available for sale | 9.2 | 78,228,868 | - |
| | Loans to affiliated undertakings and | 10 | 60,638,837 | 76,968,513 |
| | **TOTAL - NON-CURRENT ASSETS** | | **239,405,881** | **281,370,463** |
| **CURRENT ASSETS** | | | | |
| | Trade and other receivables | 8 | 6,596,854 | 4,657,602 |
| | Current financial assets | | - | 47,689 |
| | Cash and cash equivalents | 12 | 3,392,110 | 14,542,820 |
| | **TOTAL - CURRENT ASSETS** | | **9,988,964** | **19,248,111** |
| **TOTAL - ASSETS** | | | **249,394,845** | **300,618,574** |
| **EQUITY AND LIABILITIES** | | | | |
| **EQUITY** | | | | |
| | Ordinary shares | 24 | 31,450,763 | 229,015,258 |
| | Share premium | 24 | 686,364,122 | 647,164,122 |
| | Legal reserve | | 4,106,864 | 4,106,864 |
| | Other reserves | | 444,030,515 | 226,466,020 |
| | Own Equity Instruments | | (4,972) | (4,972) |
| | Retained earnings | | (1,042,040,866) | (988,538,082) |
| **TOTAL - EQUITY** | | | **123,906,426** | **118,209,210** |
| **LIABILITIES** | | | | |
| **NON-CURRENT LIABILITIES** | | | | |
| | New notes/Bonds | 13 | 63,066,092 | 65,146,660 |
| | Loans from affiliated undertakings | 14 | 49,735,520 | 48,772,462 |
| | Provisions for other liabilities and | 16 | 4,625,399 | 3,163,405 |
| | **TOTAL - NON-CURRENT LIABILITIES** | | **117,427,011** | **117,082,527** |
| **CURRENT LIABILITIES** | | | | |
| | Trade and other payables | 15 | 5,576,508 | 7,350,073 |
| | New notes/Bonds | 13 | 278,362 | 1,565,879 |
| | Accrued interest from affiliated | 14 | 1,605,780 | 2,145,958 |
| | Provisions for other liabilities and | 16 | 600,758 | 54,264,927 |
| | **TOTAL - CURRENT LIABILITIES** | | **8,061,408** | **65,326,837** |
| **TOTAL - LIABILITIES** | | | **125,488,419** | **182,409,364** |
| **TOTAL - EQUITY AND LIABILITIES** | | | **249,394,845** | **300,618,574** |

*The accompanying notes form an integral part of these separate financial statements.*

## III. Statement of changes in equity for the year ended December 31, 2014

**ATTRIBUTABLE TO OWNERS OF THE COMPANY**

| | Note | Share capital | Share premium | Legal reserve | Own Instrum. | Other reserves | Retained earnings | Equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2013** | | **442,147,944** | **645,497,455** | **4,106,864** | **(25,355)** | **(10,215,664)** | **(719,519,167)** | **361,992,077** |
| **Total comprehensive loss** | | | | | | | | |
| Profit/(loss) of the year | - | - | - | - | - | - | (258,809,393) | (258,809,393) |
| Decrease of share capital | - | (226,466,020) | - | - | - | 226,466,020 | - | - |
| Capital increase | 24 | 13,333,334 | 1,666,667 | - | - | - | - | 15,000,001 |
| Allocation of other reserves | - | - | - | - | - | 10,215,664 | (10,215,664) | - |
| Own equity instruments | 24 | - | - | - | 20,383 | - | 6,142 | 26,525 |
| **Balance at 1 January 2014** | | **229,015,258** | **647,164,122** | **4,106,864** | **(4,972)** | **226,466,020** | **(988,538,082)** | **118,209,210** |
| **Total comprehensive loss** | | | | | | | | |
| Profit/(loss) of the year | - | - | - | - | - | - | (53,502,784) | (53,502,784) |
| Decrease of share capital | - | (217,564,495) | - | - | - | 217,564,495 | - | - |
| Capital increase | 24 | 20,000,000 | 39,200,000 | - | - | - | - | 59,200,000 |
| Allocation of other reserves | - | - | - | - | - | - | - | - |
| **Balance at 31 December 2014** | | **31,450,763** | **686,364,122** | **4,106,864** | **(4,972)** | **444,030,515** | **(1,042,040,866)** | **123,906,426** |

*The accompanying notes form an integral part of these separate financial statements.*

### Definitions

**Share capital** is the initial par value for which the shareholders subscribed the shares from the issuing company.

**Share premium** is an excess amount received by the Company over the par value of its subscribed shares. This amount forms a part of the non-distributable reserves of the Company which usually can only be used for purposes specified under corporate legislation.

**Other reserves** are created from accumulated profits and losses and other equity operations, such as scope variations, variation of detention, or revaluation of assets. These reserves may be subject to the distribution of dividends.

## IV. Statement of cash flows for the year ended December 31, 2014

| | Notes | Year ended 31 December<br>2014 | 2013 |
|---|---|---|---|
| **OPERATING RESULT** | | **(42,839,813)** | **(248,203,640)** |
| Net gain/(loss) on financial instruments at fair value | 9,1 | (1,556,166) | 439,162 |
| Amortization, impairments and provisions | 5,6,7,16 | (203,961,509) | 267,962,091 |
| Net result on disposal of assets | 19,7 | 245,320,107 | (6,457,699) |
| Dividend received from affiliated undertakings – non cash | 11 | (3,898,845) | (14,331,815) |
| Net interest income | 7 | (5,646,145) | (4,211,695) |
| **Adjusted operating profit / (loss)** | | **(12,582,371)** | **(4,803,596)** |
| Changes in operating assets and liabilities | - | (38,886,184) | (1,074,443) |
| **NET CASH FROM / (USED IN) OPERATING ACTIVITIES** | | **(51,448,555)** | **(23,547,925)** |
| Acquisition of financial assets | - | (87,966,185) | - |
| Proceeds from sales on financial assets | - | 121,594,052 | 26,710,734 |
| Payment on provisions during the year | - | (14,075,000) | - |
| Deferred consideration repayment received from long-term receivable | - | - | 634,192 |
| Purchace of tangible assets | 6 | - | (327,200) |
| Purchase of Intangible asset | 5 | - | (134,572) |
| Dividend received | 9.1 | 1,585,380 | 230,434 |
| Loans granted to affiliated undertakings | - | (19,934,000) | (17,669,886) |
| Changes in loans granted to and received from affiliated undertakings | - | (1,603,610) | - |
| **NET CASH FROM INVESTING ACTIVITIES** | | **(399,362)** | **27,113,588** |
| Proceeds from issuance of ordinary shares | 24 | 59,200,000 | 15,000,001 |
| Repayment of Safeguard Liabilities | 13.1 | (653,565) | (318,939) |
| Bonds / New notes repayment | 13.1 | (17,667,228) | (3,953,278) |
| Net interest received/(paid) | - | (182,000) | (664,379) |
| **NET CASH USED IN FINANCING ACTIVITIES** | | **40,697,207** | **10,063,405** |
| **NET INCREASE / (DECREASE) IN CASH** | | **(11,150,710)** | **13,629,068** |
| Cash and cash equivalents at beginning of the year | - | 14,542,830 | 981,931 |
| Exchange differences on cash and cash equivalents | 12 | (4,642) | (68,179) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | | **3,392,110** | **14,542,820** |

*The accompanying notes form an integral part of these separate financial statements.*

**Notes to the separate financial statements**

## 1. General information

Orco Property Group, société anonyme ("the Company" and "OPG"), RCS number B 44.996**,** was incorporated under the Luxembourg Company Law on September 9, 1993 as a limited liability company (société anonyme) for an unlimited period of time.

The registered office of the Company is 40, Rue de la Vallée, L-2661 Luxembourg.

The Company has for object the taking of participating interests, in whatsoever form in either Luxembourg or foreign companies, especially in real estate companies in the Czech Republic, Hungary, Poland and other countries of Eastern Europe and the management, control and development of such participating interests. The Company, through its subsidiaries (together "the Group"), is principally involved in the development of properties for its own portfolio or intended to be sold in the ordinary course of business and is also active in leasing investment properties under operating leases as well as in asset management.

The Company is listed on the Euronext Paris stock exchange and the Warsaw stock exchange and prepares consolidated financial statements in accordance with IFRS as adopted by the EU, which can be obtained at its registered office.

These separate financial statements have been approved for issue by the Board of Directors on March 31, 2015.

## 2. Basis of accounting

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The separate financial statements are presented in Euros and have been prepared under the historical cost convention except some financial assets carried at fair value through profit or loss and available for sale securities.

### 2.1 Basis of preparation and Going concern

The separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

### 2.1.1 Going concern

In determining the appropriate basis of preparation of the separate financial statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future.

The financial performance of the Company is naturally affected by the widely negative macro-economic environment in which the Company has operated over the last 7 years which has generated increased uncertainty about the evolution of the real estate market in Central Europe that damaged the Company's activity. Nevertheless, economies in Central Europe are recently showing signs of stability.

The Company recorded a net loss after tax of EUR 53.5 million for the year ended December 31, 2014 (EUR 258.8 million for the year ended 31 December 2013).

Notwithstanding the loss incurred for the financial year 2014, the Board of Directors is of the view that the Company is going concern based on the following reasons:

- A significant part of the loss suffered in 2014 is attributable to Group restructuring measures and the related one-off adverse impact on the financial statements.
- The Company had a cash and cash equivalents balance of EUR 3.4 million as at December 31, 2014.
- The Company holds a stake of 4.47% in CPI Property Group S.A. (CPI PG) as at December 31, 2014. The fair value of this stake as at December 31, 2014 amounts to EUR 78.2 million. The Company concluded a put option agreement with Mr. Vitek concerning significant portion of the share in CPI PG (approximately 40 % of total shares held by the Company). The Company is entitled to request Mr. Vitek, major shareholder of CPI PG, to purchase part of these shares for defined price (EUR 31.0 million) and consequently to ensure the liquidity for satisfaction of the Company's future liabilities.
- Current assets support at least 24 months of operation with it current adjusted operating structure.

Based on these facts, the Board of Directors considers the going concern basis of preparation to be appropriate for these separate financial statements. Accordingly, the separate financial statements as at December 31, 2014 have been prepared on the going concern basis that contemplates the continuity of regular business activities and realization of assets together with the settlement of liabilities in the ordinary course of business.

## 3. Critical accounting estimates and judgements

The preparation of separate financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed below.

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that present a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

### 3.1 Assessment of the going concern (see note 2.1.1)

### 3.2 Impairments on shares in affiliated undertakings and on loans granted to affiliated undertakings

The Company assesses at the end of each reporting period whether there is objective evidence that shares in affiliated undertakings and loans granted to affiliated undertakings have to be impaired.

Such types of assets are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the asset that can be reliably estimated.

The criteria used by the Company to determine that there is objective evidence of an impairment loss is (a) for the entities quoted in active markets the listed price (Level 1 – Measurement Hierarchy) or (b) for the entities not quoted the net asset value of each affiliated undertaking which is primarily based on the fair value of the underlying properties (Level 3 – Measurement Hierarchy).

The valuations of the underlying properties are performed annually by independent experts, DTZ Debenham Tie Leung.

The best evidence of fair value of investments properties is current prices in an active market for similar assets. In the absence of such information, the Company determines the amount within a range of reasonable fair value estimates. In making its judgment, the Company considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. A cash flow period of 10 years is taken into consideration and is based on an estimate of the future potential net income generated by use of the properties. The Company uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the potential use of the asset, the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. The fair value of properties is based on the highest and best use of the assets as described by IFRS 13. It takes into account the use of the asset that is physically possible, legally permissible and financially feasible. On a general basis the current use of the asset has been considered as the highest and best use, but the possibility of a full redevelopment has been systematically tested and carefully evaluated. The "highest and best-use" value results in a property's value being determined on the basis of redevelopment of the site. These valuations are regularly compared to actual market yield data, actual transactions by the Company and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

### 3.3 Income taxes

The Company is subject to income taxes in Luxembourg. Significant estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### 3.4 Estimate of fair value of financial instruments

Some financial instruments are recorded at fair value.

Valuations are performed regularly on the basis of the management best estimates of the credit risk of the Company or of the specific entity concerned in the light of existing, available and observable market data by the Company's banks for the derivatives (IRS, options and forwards).

The fair value of financial instruments reflects, among other things, current market conditions (interest rates, volatility and share price). Changes in fair values are recorded in the income statement.

### *3.5* Fair value of financial assets

Fair value measurements of financial instruments reported at fair value are classified by level of the following measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading securities and financial assets at fair value through profit or loss) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company is using a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

Valuations are performed regularly on the basis of the management best estimates of the credit risk of the Company or of the specific entity concerned in the light of existing, available and observable market data.

The fair value of financial instruments reflects, among other things, current market conditions (interest rates, volatility and share price). Changes in fair values are recorded in the income statement under the "other net financial results" line.

#### 3.5.1 Accounting classification and fair values

The following tables show the carrying amounts at fair value of financial assets and liabilities, including their level in the fair value hierarchy.

| December 31 ,2014<br>In K EUR | Note | Carrying amount<br>Financial assets & liabilities measured at fair value | Financial assets & liabilities not measured at fair value (*) | Balance Sheet | Fair value<br>Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| **Non-Current assets** | | **80,854** | **158,552** | **239,406** | | | |
| Shares in affiliated undertakings | 7 | - | 97,160 | 97,160 | - | - | 97,160 |
| Trade and other receivable | 8 | - | - | - | - | - | - |
| Loans to affiliated undertakings and other financial assets | 10 | - | 60,638 | 60,638 | - | - | 60,638 |
| Financial assets at fair value through profil and loss | 9.1 | 2,626 | - | 2,626 | - | - | 2,626 |
| Financial assets available for sale | 9.2 | 78,228 | - | 78,228 | 78,228 | - | - |
| Non financial items | | - | 754 | 754 | - | - | - |
| **Current Assets** | | **3,392** | **6,596** | **9,988** | | | |
| Trade and other receivables | 8 | - | 6,596 | 6,596 | - | - | 6,596 |
| Current financial assets | | - | - | - | - | - | - |
| Cash and cash equivalents | 12 | 3,392 | - | 3,392 | - | 3,392 | - |
| **Total financial assets** | | **84,246** | **165,148** | **249,394** | | | |
| Financial liabilities | | | | | | | |
| **Non current liabilities** | | - | **112,801** | **112,801** | | | |
| New Notes | 13 | - | 61,058 | 61,058 | - | - | 61,058 |
| Safeguard bonds | 13 | - | 2,008 | 2,008 | - | - | 2,008 |
| Loans from affiliated undertakings | 14 | - | 49,735 | 49,735 | - | - | 49,735 |
| **Current Liabilities** | | | **7,461** | **7,461** | | | |
| Trade and other payables | 8 | - | 5,578 | 5,578 | - | - | 5,578 |
| New notes | 13 | - | - | - | - | - | - |
| Interest from affiliated | 14 | - | 1,605 | 1,605 | - | - | 1,605 |
| Safeguard bonds | | - | 278 | 278 | - | - | 278 |
| **Current financial liabilities** | | - | **120,262** | **120,262** | | | |

| December 31 ,2013<br>In K EUR | Note | Carrying amount<br>Financial assets & liabilities measured at fair value | Carrying amount<br>Financial assets & liabilities not measured at fair value (*) | Carrying amount<br>Balance Sheet | Fair value<br>Level 1 | Fair value<br>Level 2 | Fair value<br>Level 3 |
|---|---|---|---|---|---|---|---|
| Financial assets | | | | | | | |
| **Non-Current assets (**)** | | **126,051** | **155,319** | **281,370** | | | |
| Shares in affiliated undertakings | 7 | 100,785 | 100,762 | 201,547 | 100,785 | - | 100,762 |
| Trade and other receivable | 8 | - | 905 | 905 | - | - | 905 |
| Loans to affiliated undertakings and other financial assets | 10 | 24,189 | 52,779 | 76,968 | - | - | 76,968 |
| Financial assets at fair value through profil and loss | 9.1 | 1,077 | - | 1,077 | - | - | 1,077 |
| Non financial Items | | - | 873 | 873 | - | - | 873 |
| **Current Assets** | | **14,542** | **4,704** | **19,246** | | | |
| Trade and other receivables | | - | 4,657 | 4,657 | - | - | 4,657 |
| Current financial assets | | - | 47 | 47 | - | - | 47 |
| Cash and cash equivalents | 12 | 14,542 | - | 14,542 | - | 14,542 | - |
| **Total financial assets** | | **140,593** | **160,023** | **300,616** | | | |
| Financial liabilities | | | | | | | |
| **Non current liabilities** | | **-** | **119,229** | **119,229** | - | - | - |
| New Notes | 13 | - | 63,102 | 63,102 | - | - | 63,102 |
| Safeguard bonds | | - | 2,044 | 2,044 | - | - | 2,044 |
| Loans from affiliated undertakings | 14 | - | 50,918 | 50,918 | - | - | 50,918 |
| Non financial items | - | - | 3,165 | 3,165 | - | - | 3,165 |
| **Current Liabilities** | | **-** | **8,915** | **8,915** | - | - | - |
| Trade and other payables | | - | 7,350 | 7,350 | - | - | 7,350 |
| New notes | | - | 1,565 | 1,565 | - | - | 1,565 |
| Safeguard bonds | 13 | - | - | - | - | - | - |
| **Current financial liabilities** | | **-** | **128,144** | **128,144** | | | |

*(*) It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is considered as a reasonable approximate of the fair value.*

*(**)Designated at fair value.*

*(***) Level 1 corresponds to the value of the shares hold by the Company which are quoted on active markets (CPI PG , Suncani Hvar )*

### *(a) Fair value of New Notes*

Please refer to note 13.3.

***(b) Provisions and contingencies***

Please refer to notes 16 and 25.

## 4. Summary of significant accounting policies

### 4.1 Changes in accounting policies

The accounting policies have been consistently applied by the Company and are consistent with those applied for its December 31, 2013 separate financial statements, except for the application of the revised and new standards and interpretations applied as from January 1, 2014 as described below.

### 4.1.1 New and amended standards adopted by the Company in 2014

The Company has adopted the following standards and amendments to standards for the first time for the financial year beginning on or after January 1, 2014:

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities IFRS 12 replaced the disclosure requirements in IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'. This standard requires the entity to disclose information about the nature of and risks associated with its interest in other entities. An entity shall disclose information about its interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment did not have a significant effect on the Company's separate financial statements.

Other standards and amendments effective from January 1, 2014 do not have significant impact on the Company's separate financial statements.

### 4.1.2 New standards and interpretations not yet adopted

The following new standards, new interpretations and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014 and have not been early adopted by the Company:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted, subject to EU endorsement. It is very likely to affect the Company's accounting treatment of financial instruments. The Company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted, subject to EU adoption. The Company is assessing the impact of IFRS 15.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The Company is currently not subject to significant levies so the impact on the Company's separate financial statements is not material.

The Company has estimated the impact of the implementation of the other new standards and amendments not early adopted as non-significant.

The Company refers to the endorsement status of the new IFRS standards and amendments to standards and interpretations as they are published by the European Union (http://ec.europa.eu/internal_market/accounting/ias/index_en.htm).

### 4.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of the Company. The Board of Directors is the chief operating decision maker of the Company.

The Company derives its revenues mainly from invoicing portfolio management services covering partially its operating expenses. Those services are invoiced to the operations centers located essentially in Prague and Berlin. All other income relate to dividends and interests as there is no production at the Company level.

### 4.3 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The separate financial statements are presented in EUR, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

Translation differences on non-monetary assets and liabilities held at fair value through profit or loss are recognized in the statement of comprehensive income as part of the fair value gain or loss.

### 4.4 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives (generally five years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized using the straight-line method over their estimated useful lives (not exceeding three years).

### 4.5 Fixtures and fittings

All fixtures and fittings are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisitions of the items. These costs are amortized using the straight-line method over their estimated useful lives (not exceeding ten years).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the separate statement of comprehensive income.

### 4.6 Financial assets

### 4.6.1 Classification

The Company classifies its financial assets in the following categories: shares in affiliated undertakings, financial assets at fair value through profit or loss, financial assets avauilable for sales and loans to affiliated undertakings and other financial assets. Management determines the classification of its financial assets at initial recognition.

(i) Shares in affiliated undertakings

Shares in affiliated undertakings correspond to equity investments in subsidiaries. They are included in non-current assets unless the management intends to dispose of it within of the end of the reporting period.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets which, upon initial recognition, are designated by the Company as at fair value through profit or loss. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months; otherwise, they are classified as non-current.

(iii) Financial assets available for sale

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.  They are subsequently measured at fair value.

(iv) Loans to affiliated undertakings and other financial assets

Loans to affiliated undertakings and other financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

### 4.6.2 Recognition and measurement

(i) Shares in affiliated undertakings are initially recognised at cost. They are subsequently carried at cost less impairment. Management assesses at each balance sheet date whether there is objective evidence that share in affiliated undertaking is impaired. Impairment testing done by Management is described in note 3.2.

(ii) Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in statement of comprehensive income. They are subsequently carried at fair value. Gains or losses arising from changes in their fair value are presented in the statement of comprehensive income with "Net gain / (loss) on financial assets at fair value through profit or loss".

(iii) Financial assets available for sales are measured at fair value.

(iv) Loans to affiliated undertakings and other financial assets are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Management assesses at each balance sheet date whether there is objective evidence that loan or other financial asset is impaired. Impairment testing done by Management is described in note 3.2.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Company commits to purchase or sell the asset.

### 4.7 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the statement of comprehensive income.

### 4.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

### 4.9 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options classified in equity are shown in equity as a deduction, net of tax, from the proceeds in other reserves.

The own instruments held by the Company –treasury shares - are measured at their acquisition cost and recognized as a deduction from equity. Gains and losses on disposal are taken directly to equity.

In accordance with Luxembourg company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the Shareholders.

### 4.10 New Notes/Bonds

New notes/bonds are recognized initially at fair value, net of transaction costs incurred. New notes/bonds are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

New notes/bonds are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 4.11 Compound financial instruments

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

### 4.12 Trade payables

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

### 4.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in other comprehensive income or in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint-ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not be reversed in the foreseeable future.

### 4.14 Revenue recognition

The Company derives its revenues mainly from invoicing portfolio management services covering partially its operating expenses. Those services are invoiced to the operations centers which have activities located essentially in Prague. All other income relate to dividends and interests as there is no production at the Company level.

### 4.15 Administrative expenses

The administrative expenses include repair and maintenance costs of buildings and properties, utilities costs, marketing and representation costs, travel and mobility expenses, operating taxes and other general overhead expenses.

### 4.16 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's separate financial statements in the period in which the dividends are approved by the Company's shareholders.

### 4.17 Provisions

A provision is recognized when there is a legal or constructive obligation arising from past events, or in cases of doubt over the existence of an obligation (e.g. a court case), when it is more likely than not that a legal or constructive obligation has arisen from a past event and it is more likely than not that there will be an outflow of benefits and the amount can be estimated reliably. A constructive obligation arises when an entity, by past practice or sufficiently specific communication to affected parties, has created a valid expectation in other parties that it will carry out an action. An event that does not initially give rise to an obligation may give rise to one at a future date due to changes in the law or because an entity's actions create a constructive obligation. If the existence of an obligation depends on the future actions of the entity, then a provision is not recognized until the obligation is unavoidable. The amount recognized for a provision is the best estimate of the expenditure to be incurred. If material, the estimate is discounted at a pre-tax rate that reflects the time value of money and the risks specific to the liability, unless the future cash flow are adjusted for these risks.

Financial guarantee arrangements such as certain letters of credit are in the scope of IAS 39. When a financial guarantee recognized under IAS 39 becomes probable of being exercised, then the provision is measured as the best estimate of the expenditure to be incurred.

Provisions for environmental restoration, site restoration and legal claims are recognized when:

- The Company has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation; and
- The amount has been reliably estimated.

## 5. Intangible assets

Intangible assets consist of software. Movements are as follows:

| In EUR | Gross amount | Amortisation and impairment | Net amount |
|---|---|---|---|
| **Balance at 1 January 2013** | **1,232,717** | **(404,725)** | **827,992** |
| Additions / (Amortisation) | 134,572 | (135,803) | (1,231) |

| | | | |
|---|---|---|---|
| Disposals | (692,042) | - | (692,042) |
| **Balance at 31 December 2013** | **675,247** | **(540,528)** | **134,719** |
| Additions / (Amortisation) | - | (133,069) | (133,069) |
| **Balance at 31 December 2014** | **675,247** | **(673,597)** | **1,650** |

In 2013, following a Management decision to abandon the implementation of a new accounting and consolidation program, the Company has written off all assets linked to this software (for accounting and consolidation purposes).

## 6. Fixtures and fittings

Fixtures and fittings consist of transport equipment, furniture, computing equipment and other tangible assets. Movements are as follows:

| In EUR | Gross amount | Amortisation and impairment | Net amount |
|---|---|---|---|
| **Balance at 1 January 2013** | **1,371,161** | **(352,939)** | **1,018,222** |
| Additions / (Amortisation) | 329,229 | (584,402) | (255,173) |
| (Disposals) / Reversal of impairment | (128,160) | 102,979 | (25,181) |
| **Balance at 31 December 2013** | **1,572,230** | **(834,362)** | **737,868** |
| Additions / (Amortisation) | - | (32,042) | (32,042) |
| (Disposals) / Reversal of impairment | - | 43,597 | 43,597 |
| **Balance at 31 December 2014** | **1,572,230** | **(822,807)** | **749,423** |

## 7. Shares in affiliated undertakings

Movements are as follows:

| In EUR | Acquisition cost | Impairment | Net book value |
|---|---|---|---|
| **Balance at 1 January 2013** | **699,576,295** | **(374,087,314)** | **325,488,981** |
| Additions / (Impairment) | 51,977,841 | (163,654,058) | (111,676,217) |
| (Disposals) / Reversal of impairment | (44,879,097) | 32,613,725 | (12,265,372) |
| **Balance at 31 December 2013** | **706,675,039** | **(505,127,647)** | **201,547,392** |
| Reclassification of CPI PG S.A.( see note 9.2) | (158,730,744) | 63,710,775 | (95,019,969) |
| Additions / (Impairment) | 14,502,464 | 141,557,940 | 156,060,403 |
| (Disposals) / Reversal of impairment | (142,643,500) | (22,784,161) | (165,427,661) |
| **Balance at 31 December 2014** | **419,803,259** | **(322,643,093)** | **97,160,165** |

Impairment tests on shares in affiliated undertakings are based on the best estimate of the fair value of the special purpose entity (even if some of these SPV hold buildings that are not carried at fair value) and its capacity to repay the loans as described in note 3.2.

In accordance with article 67 (3) (a) of the law dated December 19, 2002, the Company does not present the capital and reserves and the profit and loss of its affiliated undertakings that are included in the consolidated financial statements of the Company available on the website www.orcogroup.com.

Shares in affiliated undertakings are detailed as follows (in KEUR):

| Affiliated undertaking | Country | Local currency | % held | Acquisition cost 31/12/2014 | Acquisition cost 31/12/2013 | Purchased / Acquired in 2014 | Sold / Liquidated in 2014 | Cumulated impairments 31/12/2013 | Cumulated impairments 31/12/2014 | Impairments in 2014 | Net book value 31/12/2014 | Net book value 31/12/2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ariah Kft | Hungary | HUF | 100,00% | 11 898,95 | 11 898,95 | - | - | (11 898,95) | (11 898,95) | - | - | - |
| Asmihati Holding Ltd | British Virgin Island | EUR | 100,00% | 0,001 | - | - | - | - | - | - | - | - |
| BCC - Brno City Center, a.s. | Czech Republic | CZK | 0,00% | - | 12 672,32 | - | (12 672,32) | (12 672,32) | - | 12 672,32 | - | - |
| Beta Development s.r.o. | Czech Republic | CZK | 100,00% | - | 10 140,71 | - | - | - | - | - | - | - |
| Bianco a.s. | Czech Republic | CZK | 100,00% | 13 950,77 | - | 13 950,77 | - | - | (150,96) | (150,96) | 13 799,81 | - |
| Brillant 14,19 GmbH&Co. Verwaltungs KG | Germany | EUR | 100,00% | 8 211,76 | 8 211,75 | - | - | (2 446,13) | (2 100,19) | 345,94 | 6 111,57 | 5 765,63 |
| Brillant 14,19 GmbH | Germany | EUR | 49,00% | 23,23 | 23,23 | - | - | (23,23) | (18,40) | 4,83 | 4,84 | - |
| Bubenská 1, a.s. | Czech Republic | CZK | 100,00% | 11 617,02 | 11 617,02 | - | - | (11 617,02) | (11 617,02) | - | - | - |
| Bubny development, s.r.o. | Czech Republic | CZK | 99,92% | 57 933,39 | 57 933,39 | - | - | (11 292,92) | (13 115,50) | (1 822,58) | 44 817,90 | 46 640,47 |
| Capellen Invest S.A. | Luxembourg | EUR | 100,00% | 2 182,64 | 2 182,64 | - | - | (2 182,64) | (2 182,64) | - | - | - |
| CEREM, S.A. | Luxembourg | EUR | 100,00% | 31,00 | 31,00 | - | - | (31,00) | (31,00) | - | - | - |
| CWM 35 Kft | Hungary | HUF | 100,00% | 21 116,10 | 21 116,10 | - | - | (21 116,10) | (21 116,10) | - | - | - |
| Development Doupovská, s.r.o. | Czech Republic | CZK | 75,00% | 2 602,64 | 2 602,64 | - | - | (1 426,65) | (577,02) | 849,63 | 2 025,62 | 1 175,99 |
| Development Prazska s.r.o. | Czech Republic | CZK | 100,00% | 8,03 | 8,03 | - | - | (8,03) | (8,03) | - | - | - |
| Diana Property, Sp. z o.o. | Poland | PLN | 100,00% | 776,65 | 776,65 | - | - | - | - | - | 776,65 | 776,65 |
| Endurance Hospitality Asset | Luxembourg | EUR | 0,00% | - | 11,01 | - | (11,01) | (11,01) | - | 11,01 | - | - |
| Endurance Hospitality Finance | Luxembourg | EUR | 0,00% | - | 11,01 | - | (11,01) | - | - | - | - | 11,01 |
| Endurance Real Estate Management Co. S.A. | Luxembourg | EUR | 100,00% | 125,00 | 125,00 | - | - | - | - | - | 125,00 | 125,00 |
| Energy Trade Plus Kft. | Hungary | HUF | 100,00% | 1,66 | 1,66 | - | - | (1,66) | (1,66) | - | - | - |
| Estate Grajnd s.r.o. | Czech Republic | CZK | 100,00% | 7,78 | 7,78 | - | - | - | - | - | 7,78 | - |
| Famiaco | Cyprus | EUR | 100,00% | 1,00 | 1,00 | - | - | (1,00) | (1,00) | - | - | - |

| Affiliated undertaking | Country | Local currency | % held | Acquisition cost 31/12/2014 | Acquisition cost 31/12/2013 | Purchased / Acquired in 2014 | Sold / Liquidated in 2014 | Cumulated impairments 31/12/2013 | Cumulated impairments 31/12/2014 | Impairments in 2014 | Net book value 31/12/2014 | Net book value 31/12/2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Hagibor Office Building, a.s. | Czech Republic | CZK | 100,00% | 6 851,78 | 6 851,78 | - | - | (6 851,78) | (6 851,78) | - | - | - |
| IPB Real,s.r.o. | Czech Republic | CZK | 100,00% | 3 012,22 | 3 012,22 | - | - | (3 012,22) | (3 012,22) | - | - | - |
| Industrial Park Stribro s.r.o. | Czech Republic | CZK | 100,00% | 7,90 | 7,90 | - | - | - | - | - | 7,90 | 7,90 |
| Jihovychodni Mesto,a.s. | Czech Republic | CZK | 100,00% | 35 769,87 | 35 608,14 | 161,73 | - | (34 840,69) | (34 522,34) | 318,35 | 1 247,53 | 767,45 |
| Kosic S.à r.l. | Luxembourg | EUR | 50,00% | 6 450,50 | 6 450,50 | - | - | (6 450,50) | (6 450,50) | - | - | - |
| Meder 36 Kft | Hungary | HUF | 100,00% | 3 206,15 | 3 206,15 | - | - | (3 206,15) | (3 206,15) | - | - | - |
| Megaleiar A.S. | Czech Republic | CZK | 100,00% | 2 091,95 | 2 091,95 | - | - | (1 889,61) | (1 913,54) | (23,93) | 178,41 | 202,34 |
| Na Poříčí, a.s. | Czech Republic | CZK | 100,00% | 19 060,73 | 19 060,73 | - | - | (14 347,10) | (12 254,96) | 2 092,14 | 6 805,77 | 4 713,63 |
| Nupaky a.s. | Czech Republic | CZK | 100,00% | 7 337,87 | 7 337,87 | - | - | (3 687,67) | (3 776,85) | (89,18) | 3 561,02 | 3 650,19 |
| Oak Mill,a.s. | Czech Republic | CZK | 99,99% | 1 381,36 | 1 381,22 | 0.03 | - | (290,05) | (256,37) | 33,68 | 1 124,99 | 1 091,27 |
| Office Center Hradčanská, a.s. (formerly: Certuv ostrov) | Czech Republic | CZK | 100,00% | 17 051,33 | 17 051,33 | - | - | (16 253,81) | (15 320,69) | 933,12 | 1 730,64 | 797,52 |
| OPG France, s.a.s. | France | EUR | 100,00% | 37,00 | 37,00 | - | - | - | (37,00) | (37,00) | - | 37,00 |
| OPG Invest Lux S.A. | Luxembourg | EUR | 100,00% | 31,00 | 31,00 | - | - | (18,63) | (25,28) | (6,65) | 5,72 | 12,37 |
| Orco Financial Services, s.r.o. | Czech Republic | CZK | 100,00% | 419,31 | 419,31 | - | - | (361,53) | (252,53) | 109,00 | 166,78 | 57,77 |
| Orco Praga, s.r.o. | Czech Republic | CZK | 100,00% | 6 859,83 | 6 589,06 | 270,78 | - | (6 589,06) | (4 858,95) | 1 730,10 | 2 000,88 | - |
| Orco Prague, a.s. | Czech Republic | CZK | 100,00% | 21 307,30 | 21 307,30 | - | - | (17,883,23) | (21 307,30) | (3 424,07) | - | 3 424,07 |
| Orco Adriatic d.o.o. | Croatia | HRK | 100,00% | 2,73 | 2,73 | - | - | (2,73) | (2,73) | - | - | - |
| Orco Blumentálska, a.s. | Slovakia | EUR | 100,00% | 2 979,86 | 2 979,86 | - | - | (2 979,86) | (2 979,86) | - | - | - |
| Orco Bucharest | Romania | ROL | 96,00% | 3,26 | 3,26 | - | - | (3,26) | (3,26) | - | - | - |
| Orco Budapest Zrt. | Hungary | HUF | 100,00% | 11 978,34 | 11 978,34 | - | - | (11 978,34) | (11 978,35) | 0,01 | - | - |

| Affiliated undertaking | Country | Local currency | % Held | Acquisition Cost 31/12/2014 | Acquisition cost 31/12/2013 | Purchased / Acquired in 2014 | Sold / Liquidated in 2014 | Cumulated impairments 31/12/2013 | Cumulated impairments 31/12/2014 | Impairments in 2014 | Net book Value 31/12/2014 | Net book value 31/12/2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Orco Construction Sp. z o.o. | Poland | PLN | 75,00% | 1 549,49 | 1 549,49 | - | - | (1 549,49) | (1 549,49) | - | - | - |
| Orco Development Kft | Hungary | HUF | 100,00% | 3 444,12 | 3 444,12 | - | - | (1 687,62) | (3 344,44) | (1 656,82) | 99,68 | 1 756,49 |
| Orco Development Sp. z o.o. | Poland | PLN | 75,00% | 337,74 | 337,74 | - | - | (337,74) | (337,74) | - | - | - |
| Orco Development, s.r.o. | Slovakia | EUR | 100,00% | 5 156,23 | 8 339,03 | - | (3 182,80) | (5 208,90) | (5 156,23) | 52,67 | - | 3 130,13 |
| Orco Enterprise Sp. z.o.o. | Poland | PLN | 100,00% | 10 957,74 | 10 957,74 | - | - | (4 293,44) | (4 411,95) | (118,51) | 6 545,79 | 6 664,31 |
| ORCO Estates, s.r.o. | Slovakia | EUR | 100,00% | - | 14 205,54 | - | (14 205,54) | (14 205,53) | - | 14 205,53 | - | - |
| CPI PG S.A. ( reclassed-see note 9.2)* | Luxembourg | EUR | - | - | 158 730,74 | - | - | (63 710,78) | - | 37 788,93 | - | 95 019,97 |
| Orco Hungary Kft | Hungary | HUF | 100,00% | 583,45 | 583,45 | - | - | (491,12) | (499,83) | (8,71) | 83,62 | 92,33 |
| Orco Logistic Sp. Z.o.o. | Poland | PLN | 100,00% | 13,08 | 13,08 | - | - | (13,08) | (13,08) | - | - | - |
| Orco Marine, d.o.o. | Croatia | HRK | 100,00% | 27,50 | 27,50 | - | - | (27,50) | (27,50) | - | - | - |
| Orco Poland Sp. z o.o. | Poland | PLN | 100,00% | 2 816,11 | 2 816,11 | - | - | (2 816,11) | (2 816,11) | - | - | - |
| Orco Project Sp. z o.o. | Poland | PLN | 100,00% | 700,99 | 700,99 | - | - | (700,99) | (700,99) | - | - | - |
| Orco Projekt, d.o.o. | Croatia | HRK | 100,00% | 2,75 | 2,75 | - | - | (2,75) | (2,75) | - | - | - |
| Orco Property Sp. z o.o. | Poland | PLN | - | - | 59 177,20 | - | (59 177,20) | (59 177,20) | - | 59 177,20 | - | - |
| Orco Property, d.o.o. | Croatia | HRK | 100,00% | 2,80 | 2,80 | - | - | (2,80) | (2,80) | - | - | - |
| Orco Razvoj, d.o.o. | Croatia | HRK | 100,00% | 27,50 | 27,50 | - | - | (27,50) | (27,50) | - | - | - |
| Orco Residence, s.r.o. | Slovakia | EUR | 100,00% | 1 733,53 | 1 706,19 | 27,34 | - | (1 706,19) | (1 732,04) | (25,85) | 1,49 | - |
| Orco Russian Retail Kft | Hungary | HUF | 100,00% | 85,66 | 85,66 | - | - | 85,66 | (85,66) | - | - | - |
| Orco Russian Retail S.A. | Luxembourg | EUR | 100,00% | 4 108,71 | 4 108,71 | - | - | - | - | - | 4 108,71 | - |
| Orco Slovakia, s.r.o. | Slovakia | EUR | 100,00% | 837,50 | 837,50 | - | - | (837,50) | (837,50) | - | - | - |
| Orco Vagyonkezelő, Kft. | Hungary | HUF | 100,00% | 1 701,94 | 1 701,94 | - | - | (1 701,94) | (1 701,94) | - | - | - |
| Origo Investment Kft (formerly: Orco Investment Kft) | Hungary | HUF | 14,95% | 485,59 | 485,59 | - | - | (485,59) | (485,59) | - | - | - |

| Affiliated undertaking | Country | Local currency | % Held | Acquisition Cost 31/12/2014 | Acquisition cost 31/12/2013 | Purchased / Acquired in 2014 | Sold / Liquidated in 2014 | Cumulated impairments 31/12/2013 | Cumulated impairments 31/12/2014 | Impairments in 2014 | Net book Value 31/12/2014 | Net book value 31/12/2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Pachtuv Palac s.r.o. | Czech Republic | CZK | 100,00% | - | 15 487,41 | - | (15 487,41) | (8 987,41) | - | 8 987,41 | - | 6 500 |
| Rubeska Development s.r.o. | Czech Republic | CZK | 100,00% | 7,96 | 7.96 | - | - | - | - | - | 7,96 | 7,96 |
| Seattle,s.r.o. | Czech Republic | CZK | 100,00% | 8 920,93 | 8 920,93 | - | - | (8 920,93) | (8 920,93) | - | - | - |
| Suncani HVAR, d.d. | Croatia | HRK | 31,61% | 47 938,36 | 85 754,75 | - | (37 816, 40) | (85 754,75) | (47 938,36) | 37 816,39 | - | - |
| T-O Green Europe, a.s. | Czech Republic | CZK | 100,00% | 21,43 | 21,43 | - | - | - | (21,43) | (21,43) | - | 21,43 |
| TQE Asset, a.s. | Czech Republic | CZK | 100,00% | 35 794,86 | 35 794,86 | - | - | (21 332,00) | (34 547,86) | (13 215,86) | 1,247 | 14 462,86 |
| Uniborc S.A. | Luxembourg | EUR | 20,00% | 47,97 | 35,97 | 12,00 | - | (35,97) | - | 35,97 | 47,97 | - |
| Vaci 1 kft | Hungary | HUF | 100,00% | 15 644,64 | 15 644,64 | - | - | (15 644,64) | (15 644,64) | - | - | - |
| Vaci 190 Projekt Kft | Hungary | HUF | 100,00% | 439,35 | - | - | - | - | - | - | 439,35 | - |
| V Mezihori, a.s. | Czech Republic | CZK | 100,00% | - | 79,81 | - | (79,81) | - | - | - | - | 79,81 |
| Vinohrady s.a r.l. | France | EUR | 100,00% | 7,62 | - | - | - | (7,62) | (7,62) | - | - | - |
| Zeta Estate a.s. | Czech Republic | CZK | 100,00% | 79,81 | - | 79,81 | - | - | - | - | 79,81 | - |
| | | | | **419 803,26** | **706 675,04** | **14 502,46** | **(142 643,50)** | **(505 127,65)** | **(322 643,09)** | **156 562,71** | **97 160,17** | **201 547,39** |

## 8. Trade and other receivables

| As at 31 December<br>In EUR | 2014 | 2013 |
|---|---|---|
| Amounts receivable from Customers | 185,260 | 192,505 |
| Amounts receivable from affiliated undertakings | 537,249 | 4,463,054 |
| Prepayment and other amounts | 5,874,348 | 906,739 |
| **TOTAL** | **6,596,857** | **5,562,298** |

### ❖ In 2014

As at December 31, 2014, the Company holds receivables for a total amount of EUR 6.6 milion which mainly consist of an advance payment of EUR 5.7 million for acquisition of a development project in the Czech Republic (see events after the balance sheet date - note 28).

### ❖ In 2013

In December 2010, the Group restructured its Russian activities with its Russian partners. The company MOLCOM CJSC was transferred to a new Cyprus company Sarakina Enterprises Company Limited, which was held at 69% by the Company. The company Karousa Enterprises Company Limited, previously owned by Orco-Molcom B.V., which was held at 69%, was sold to the Group and 30% of these shares have been sold to the Russian partners. Those Cyprus entities and one more, Theonia Ltd, holding a land plot in Russia were sold in 2011 for EUR 53 million and the shares of these Cyprus entities were pledged as security for the outstanding balance. The main assets held in these companies were the Molcom warehousing facilities close to Moscow and two other smaller real estate assets in Russia. At the sale closing, in accordance with the agreement, EUR 13.2 million (25%) was immediately settled, the remaining EUR 39.8 milion (75%) was provided as effectively vendor financing, with a final payment date of December 2012, with a provision that in the case it was not paid at that date, the date could be extended for a year with the interest rate of 10% being applied from 2013 to the outstanding balance. Even though the remaining amounts were not submitted to any specific payment schedule, some EUR 3.5 million was paid between January 2011 and January 2013.

The receivable is now overdue and the Company has obtained clear indications from the creditor that it does not intend to settle as per the agreement. As noted above, the receivable is guaranteed by pledged shares, the most important pledge would result in the acquisition of an indirect minority stake in Molcom if successfully exercised, the remaining share and control of Molcom would remain with the creditor. The Company has decided to initiate legal actions to seize the shares of the holding companies.

The Board has reviewed various options and, after review of the legal analysis, the Board is considering a transaction based on an offer received as the best probable outcome. After repayment of EUR 0.6 million and the recording of a provision for impairment of EUR 35.3 million (no accrual of interest in 2013), the fair value of the receivable is EUR 0.9 million as at December 2013 (vs net present value of EUR 36.8 million last year).

## 9. Non-Current Financial assets

### 9.1 Financial assets at fair value through profit or loss

The fair value of the investments in the "Residential" Sub-funds of Endurance Real Estate Fund amounts to EUR 2.6 million in 2014 (EUR 1.2 million in 2013). The Endurance Real Estate Fund is managed by the Group (see note 36). The fair value of the fund units is based on the net asset value as provided by the fund manager in its report. In 2013, a liquidity discount of 57.5% was applied to the net asset value to consider the value of recent transactions with fund units on the market which occurred in December 2012 and the sale of its units by the Group realized in March 2013. This discount was removed from current estimation of the fair value as it does not reflect the value of units which are traded at the value close to their net asset value.

The Fund Manager took the decision not to extend its initial maturity (the liquidation started on March 29, 2013) and the liquidation should be finalized during 2015, after the disposal of the remaining portfolio

The change in investment in the Endurance Real Estate Fund for Central Europe is detailed as follows:

| In EUR | Total issued units | Estimate NAV | Units Held | % Held | Acquisiti cost | Fair value adjustment | Net book value |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2013** | **15,543,518.3** | **0.65** | **2,304,331.8** | **14.83%** | **10,933,1** | **(9,444,597)** | **1,488,598** |
| Increase / Depreciation | - | - | - | - | - | (411,323) | (411,323) |
| Decrease / Reversal | - | - | - | - | - | - | - |
| **Balance at 31 December** | **15,543,518.3** | **0.47** | **2,304,331.8** | **14.83%** | **10,933,1** | **(9,855,920)** | **1,077,275** |
| Increase / Depreciation | - | 0.67 | - | | | 1,549,663 | 1,549,663 |
| Decrease / Reversal | - | | - | | | | |
| **Balance at 31 December** | **15,543,518.3** | **1.14** | **2,304,331.8** | **14.83%** | **10,933,1** | **8,306,257** | **2,626,938** |

As at December 31, 2014, the actual commitment is nil (2013: EUR 19,032,676) (please see Note 27).

During the year 2014 period, the Company has recognized an adjustment on other Financial instrument at fair value amounting to EUR 6,503.

### 9.2 Financial assets available for sale

As a result of loss of control over CPI PG and dilution of the participating interest (events and circumstances leading to loss of control are described in note 19), the shares of CPI PG are classified as financial assets available-for-sale. The fair value of these shares amounts to EUR 78.2 million as at December 31, 2014. The valuation of the shares as at the year-end was based on the market value which amounts to EUR 0.53 per share

## 10. Loans to affiliated undertakings and other financial assets

### 10.1 Loans to affiliates undertakings

| In EUR | Gross amount | Impairments | Net book value |
|---|---|---|---|
| **Balance at 1 January 2013** | **254,543,111** | **(146,107,875)** | **108,435,236** |
| Additions / (Impairments) | 34,422,945 | (37,514,319) | (3,091,374) |
| (Disposals) / Reversal of impairments | (35,478,741) | 6,594,737 | (28,884,004) |
| **Balance at 31 December 2013** | **253,487,315** | **(177,027,457)** | **76,459,858** |
| Additions / (Impairments) | 81,082,357 | 79,578,432 | 160,660,789 |
| (Disposals) / Reversal of impairments | (106,986,796) | (69,798,620) | (176,785,416) |
| **Balance at 31 December 2014** | **227,582,876** | **(167,247,645)** | **60,335,230** |

The Company has a global agreement with all its subsidiaries for loans bearing 6% or 8% interest depending on the country and a maturity of December 31, 2020. Loans can also be repaid on demand from the lender or voluntary prepaid by the borrower.

The impairment policy is detailed in note 3.2. Foreign exchange impacts are detailed in note 18.

The Company has granted guarantee deposits amounting to EUR 303,607 (2013: EUR 508,655, please see note 10.2).

During the year 2014, the Company has received EUR 8,294,984 (2013: EUR 6,967,584) with EUR 17,847 considered as other interest (2013: EUR 82,145).

Loans to affiliated undertakings are detailed as follows (in KEUR):

| Affiliated undertaking | As at December 31, 2014 | | | | | 2014 | As at December 31, 2013 | | | | | 2013 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Loan nominal** | **Accrued Interest** | **Total gross value** | **Impairment** | **Net book value** | **Interest Income** | **Loan nominal** | **Accrued Interest** | **Total gross value** | **Impairment** | **Net book value** | **Interest income** | Original Currency |
| Ambiance beauté | 0,98 | - | 0,98 | (0,98) | - | - | - | - | - | - | - | - | EUR |
| Americká - Orco, a.s | - | - | - | - | - | 4,50 | 322 642 | 21 964 | 344 606 | - | 344 606 | 22,99 | CZK |
| Ariah Kft | 2 456,38 | 99,44 | 2 555,82 | (2 555,82) | - | 99,44 | 1 460 490 | 75 889 | 1 536 379 | (1 536 379) | - | 75,88 | EUR |
| Asmihati | 44 000 | 236,27 | 44 236,27 | (44 236,27) | - | 236,27 | - | - | - | - | - | - | EUR |
| BCC - Brno City Center, a.s. | - | - | - | - | - | 31,19 | 1 578 963 | 25 415 | 1 604 378 | (1 604 378) | - | 25,40 | CZK |
| Beta Development, s.r.o. | - | - | - | - | - | - | - | - | - | - | - | 0,04 | CZK |
| Brillant 16 , 19 GmbH | 26,04 | 1,56 | 27,60 | - | 27,60 | 1,56 | 25 000 | 1 040 | 16 040 | (6 526) | 19 514 | 1,04 | EUR |
| Brillant 14,19 GmbH & Co | 21,81 | 1,31 | 23,12 | - | 23,12 | 1,31 | 20 574 | 1 234 | 21 808 | - | 21 808 | 1,23 | EUR |
| Bubenska 1, a.s. | 3 183,54 | 108,82 | 3 292,36 | (1 293,53) | 1 998,83 | 108,68 | - | - | - | - | - | - | EUR |
| Bubny development, s.r.o. | 13 316,51 | 749,41 | 14 065,92 | - | 14 065,92 | 749,77 | 11 256 455 | 411 982 | 11 668 437 | - | 11 668 437 | 425,85 | CZK |
| Capellen Invest S.A. | 10 3<br>06,16 | 550,54 | 10 856,70 | (6 029) | 4 827,71 | 550,54 | 7 582 845 | 445 336 | 8 028 181 | (3 933 622) | 4 094 559 | 445,33 | EUR |
| CEREM SA | 37 322,74 | - | 37 322,74 | (37 144,00) | 178,74 | - | 37 308 908 | - | 37 308 908 | (37 308 908) | - | - | EUR |
| CWM 35 Kft | 1 000,00 | 901,17 | 1 901,17 | - | 1 901,17 | 479,84 | 1 000 000 | 367 273 | 1 367 273 | - | 1 367 273 | 367,27 | EUR |
| Data Trade s.r.o. | 6,40 | 0,24 | 6,64 | (6,64) | - | 0,24 | 365 | 8 | 372 | - | 372 | - | CZK |
| Development Doupovská, s.r.o. | 358,35 | 21,30 | 379,65 | - | 379,65 | 21,30 | 322 899 | 18 380 | 341 279 | - | 341 279 | 19,18 | CZK |
| Development Pražská, s.r.o. | 16,14 | 0,82 | 16,96 | (16,96) | - | 0.82 | 3 947 | 237 | 4 184 | (4 184) | - | 0.24 | CZK |
| Diana Property, Sp. z o.o. | 541,59 | 214,81 | 756,40 | - | 756,40 | 29,22 | 572 158- | 191 255 | 763 413 | - | - | 31,63 | PLN |
| Endurance Hospitality Asset | - | - | - | - | - | 10,72 | 176 627 | 10 261 | 186 888 | - | 186 888 | 10,26 | EUR |
| Endurance Hospitality Fin,S.à.r.l. | - | - | - | - | - | 156,18 | 84 095 848 | 143 358 | 84 239 206 | (60 023 823) | 27 215 383 | 143,35 | EUR |

| Affiliated undertaking | As at December 31, 2014 Loan nominal | Accrued Interest | Total gross value | Impairment | Net book value | 2014 Interest Income | As at December 31, 2013 Loan nominal | Accrued Interest | Total gross value | Impairment | Net book value | 2013 Interest income | Original Currency |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Energy Trade Plus Kft | 57,31 | 3,44 | 60,75 | (60,75) | - | 3,44 | 55 410 | 1 902 | 57 312 | (57 312) | - | 1,90 | EUR |
| Estate Grajnd s.r.o. | 258,21 | 14,53 | 272,74 | - | 272,73 | 14,53 | 176 588 | 1 768 | 178 356 | - | 178 356 | 9,44 | CZK |
| Famiaco | 2 583,46 | 154,93 | 2 738,39 | (2 738,39) | - | 154,93 | 2 514 076 | 66 580 | 2 580 656 | (2 580 656) | - | 66,58 | EUR |
| Hagibor Office Building, a.s. | 5 805,52 | 350,12 | 6 155,64 | (6 155,64) | - | 350,44 | 5 532 130 | 331 205 | 5 863 335 | (5 863 335) | - | 345,77 | CZK |
| Industrial Park Stribro s.r.o. | - | - | - | - | - | - | - | - | - | - | - | 2,18 | CZK |
| IPB Real,a.s. | - | - | - | - | - | - | - | - | - | - | - | 55,23 | CZK |
| IPB Real,s.r.o. | 955,27 | 49,64 | 1 004,91 | (534,54) | 470,36 | 56,69 | 887 857 | 52 786 | 940 643 | (48 594) | 892 049 | - | CZK |
| Jihovychodni Mesto,a.s. | 4 740,34 | 310,23 | 5 050,57 | - | 5 050,57 | 310,50 | 2 880 710 | 356 977 | 3 237 687 | - | 3 237 687 | 375,40 | CZK |
| Kosic, SARL | 399,16 | 4,98 | 404,14 | (183,00) | 221,14 | 4,98 | - | - | - | - | - | - | EUR |
| Larevaco | - | - | - | - | - | - | - | - | - | - | - | 0,04 | EUR |
| Meder 36 Kft | 58,21 | 37,71 | 95,92 | (95,92) | - | 22,46 | 57 178 | 16,280 | 73,461 | (73,461) | - | 16,28 | EUR |
| Megaleiar A.S. | 69,02 | 3,96 | 72,99 | - | 72,99 | 3,96 | 57 969 | 3 146 | 61 114 | - | - | 3,28 | CZK |
| MMR Yougoslavia | 22,99 | - | 22,99 | (22,99) | - | - | 22 994 | - | 22 994 | (22 994) | - | - | EUR |
| Na Poříčí, a.s. | 4 314,29 | 211,67 | 4 525,96 | - | 4 525,96 | 211,63 | 1 547 666 | 41 270 | 1 588 936 | - | 1 588 936 | 42,62 | CZK |
| Nupaky a.s. | 145,55 | 8,48 | 154,03 | - | 154,03 | 8,48 | 117 755 | 5 930 | 123 684 | - | 123 684 | 6,18 | CZK |
| Office Center Hradčanská, a.s. | 642,07 | 38,12 | 680,19 | - | 680,19 | 38,12 | 566 244 | 33 975 | 600 219 | - | 600 219 | 35,49 | CZK |
| OPG France, s.a.s. | 0,30 | - | 0,30 | (0,30) | - | - | 300 | - | 300 | - | 300 | - | EUR |
| OPG Invest Lux SA | 14,06 | 0,71 | 14,77 | - | 14,77 | 0,71 | - | - | - | - | - | - | EUR |
| Orco Adriatic d.o.o. | 5 428,30 | 325,70 | 5 754 | (5 046) | 708,00 | 325,70 | 5 128 250 | 303 870 | 5 432 120 | (5 432 120) | - | 303,87 | EUR |
| Orco Blumentálska, a.s. | 13 010,65 | 715,19 | 13 725,84 | (13 725,84) | - | - | 13 070 649 | 715 191 | 13 785 840 | (13 785 840) | - | - | EUR |
| Orco Bucharest | 2,51 | - | 2,51 | (2,51) | - | - | 2 511 | - | 2 511 | (2 511) | - | - | EUR |
| Orco Budapest Zrt. | 2 907,73 | 126,52 | 3 034,25 | (3 034,25) | - | 126,52 | 1 895 311 | 92 419 | 1 987 730 | (1 987 730) | - | 92,41 | EUR |
| Orco Construction Sp. z o.o. | 4 804,66 | 1 383,55 | 6 188,21 | (6 176,93) | 11,28 | - | 4 938 011 | 1 410 355 | 6 348 366 | (6 348 366) | - | - | PLN |
| Orco Development Kft | 8 206,48 | 377,69 | 8 584,17 | - | 8 584,17 | 377,69 | 5 707 325 | 222 286 | 5 929 611 | - | 5 929 611 | 343,16 | EUR |

| | As at December 31, 2014 | | | | | 2014 | As at December 31, 2013 | | | | | 2013 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Affiliated undertaking** | **Loan nominal** | **Accrued Interest** | **Total gross value** | **Impairment** | **Net book value** | **Interest Income** | **Loan nominal** | **Accrued Interest** | **Total gross value** | **Impairment** | **Net book value** | **Interest income** | Original Currency |
| Orco Development Sp. z o.o. | 3 694,92 | 888,41 | 4 583,33 | (4 583,33) | - | 196,23 | 3 299 955 | 1 198 115 | 4 498 069 | (4 498 069) | - | 194,21 | PLN |
| Orco Development, s.r.o. | 68,03 | 2,20 | 70,23 | - | 70,23 | 1,02 | - | - | - | - | - | - | EUR |
| Orco Enterprise Sp. z.o.o. | - | 2 171,85 | 2 171,85 | (2 171,85) | - | - | 95 211 | 3 170 240 | 3 265 451 | - | 3 265 451 | - | PLN |
| Orco Estate,s.r.o. | - | - | - | - | - | 38,85 | - | - | - | - | - | 0,18 | CZK |
| Orco Estates, s.r.o. | - | - | - | - | - | - | 1 468 569 | 74 913 | 1 543 483 | (1 543 483) | - | 74,91 | EUR |
| Orco FinancialServices,s.r.o. | - | - | - | - | - | - | - | - | - | - | - | 0,69 | CZK |
| Orco Germany s.a. | - | - | - | - | - | 0,21 | 94 912 | 118 | 95 030 | - | 95 030 | 648,55 | EUR |
| Orco Logistic Sp. Z.o.o. | 7 268,48 | 2 839,69 | 10 108,14 | (6 064,89) | 4 043,24 | 417,72 | 6 695 821 | 2 427 304 | 9 123 125 | (3 993 125) | 5 129 148 | 394,99 | EUR |
| Orco Marine | 3,46 | 0,21 | 3,67 | (3,67) | - | 0,21 | 3 318 | 139 | 3 458 | (3 458) | - | 0,13 | EUR |
| Orco Poland Sp. z o.o. | 2 884,45 | 325,18 | 3 209,63 | (3 060,36) | 149,27 | 129,22 | 1 242 931 | 393 572 | 1 639 503 | (1 639 503) | - | 87,01 | PLN |
| Orco Praga, s.r.o. | 2 085,55 | 124,50 | 2 210,05 | 0.01 | 2 210,06 | 124,71 | 1 791 727 | 226 784 | 2 018 511 | (718 658) | 1 305 853 | 238,68 | CZK |
| Orco Prague,a.s. | 8 359,23 | 289,11 | 8 648,34 | (6 224,43) | 2 423,92 | 289,04 | 2 725 916 | 12 307 | 2 738 222 | - | 2 738 222 | 12,87 | CZK |
| Orco Projekt | 1,05 | 0,06 | 1,12 | (1,12) | - | 0,06 | 995 | 60 | 1 054 | (1 054) | - | 0,06 | EUR |
| Orco Projekt Kft. | - | 1,61 | 1,61 | - | 1,61 | - | - | - | - | - | - | - | EUR |
| Orco Project, Sp. z o.o. | 153,15 | 2,70 | 155,85 | - | 155,85 | 7,68 | 141 146 | 9 220 | 150 366 | (150 366) | - | 79,04 | PLN |
| Orco Property Sp. z o.o. | - | - | - | - | - | 1 322,45 | 4 465 750 | 3 012 261 | 7 478 011 | (7 478 011) | - | 521,27 | PLN |
| Orco Property | 1,17 | 0,07 | 1,24 | (1,24) | - | 0,07 | 1 102 | 66 | 1 168 | (1 168) | - | 0,06 | EUR |
| OPG Invest Lux S.A. | - | - | - | - | - | - | 6 407 | 259 | 6 667 | - | 6 667 | 0,25 | EUR |
| Orco Razvoj, d.o.o. | 1 446,22 | 86,77 | 1 533,00 | (1 073,00) | 460,00 | 86,77 | 1 360 820 | 81 584 | 1 442 405 | (1 442 405) | - | 81,58 | EUR |
| Orco Russian Retail Kft | - | - | - | | - | 0.02 | - | - | - | - | - | 1,66 | HUF |
| Orco Slovakia, s.r.o. | 522,48 | 31,92 | 554,40 | (544,82) | 9,58 | 31,92 | 534 915 | 28 314 | 563 230 | (555 003) | 8 227 | 28,31 | EUR |
| Orco Vagyonkezelő, Kft. | 252,29 | 13,79 | 266,08 | (266,08) | - | 13,79 | 148 699 | 4 939 | 153 638 | (153 638) | - | 4,93 | EUR |
| Pachtuv Palac s.r.o. | - | - | - | - | - | 20,48 | 621 950 | 37 317 | 659 317 | (659,267) | - | 37,31 | EUR |

| Affiliated undertaking | As at December 31, 2014 Loan nominal | Accrued Interest | Total gross value | Impairment | Net book value | 2014 Interest Income | As at December 31, 2013 Loan nominal | Accrued Interest | Total gross value | Impairment | Net book value | 2013 Interest income | Original Currency |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Prvni Kvintum Praha a.s. | - | - | - | - | - | - | - | - | - | - | - | 3,27 | CZK |
| Rubeska Develpment s.r.o. | 195,89 | 8,52 | 204,41 | - | 204,41 | 8,52 | - | - | - | - | - | - | CZK |
| Suncani HVAR, d.d. | - | | | - | - | 188,19 | 4 946 786 | 1 235 426 | 6 182 212 | (6 182 212) | - | 423,99 | EUR |
| TQE Asset, a.s. | - | - | - | - | - | - | - | - | - | - | - | 3,76 | CZK |
| Uniborc | 4 042,00 | 495,14 | 4 537,14 | - | 4 537,14 | 298,64 | 4 042 000 | 196 501 | 4 238 501 | - | 4 238 501 | 196,50 | EUR |
| Váci 1 Kft. | 12 232,80 | 470,29 | 12 703,09 | (12 703,09) | - | 470,29 | 6 804 819 | 368 006 | 7 172 824 | (7 172 824) | - | 368,00 | EUR |
| Váci 190 Projekt Kft. | 1 080,88 | 63,71 | 1 144,59 | - | 1 144,59 | 63,71 | 744 321 | 19 205 | 763 525 | - | 763 525 | 37,63 | EUR |
| Valley Investment s.a r.l. | - | - | - | - | - | - | - | - | - | - | - | 2,76 | EUR |
| Valley Water Investments Ltd | - | - | - | - | - | - | - | - | - | - | - | 0,03 | EUR |
| Vinohrady s.a.r.l. | 1 428,86 | 60,65 | 1 489,51 | (1 489,51) | - | 60,65 | 211 387 | 13 408 | 224 796 | (219 615) | 5 180 | 13,40 | EUR |
| V Mezihorià a.s. | - | - | - | - | - | 4,30 | 3 115 212 | 153 353 | 3 268 565 | - | 3 268 565 | 160,12 | EUR |
| | 212 703,64 | 14 879,24 | 227 582,88 | (167 247,64) | 60 335,23 | 8 267, 14 | 235 451 330 | 18 035 985 | 253 487 315 | (177 027 456) | 76 459 858 | 6 885,43 | |

### 10.2 Guarantee deposits and similar financial assets

Guarantee deposit and similar financial assets amount to EUR 303,607 (EUR 508,655 in 2013) of which EUR 94,714 as deposit for the Company Office and EUR 111,578 to Ceská Sporitelna Bank for a company project (EUR 111,791 in 2013).

## 11. Income from participating interests

During 2014, the Company recognised income from participating interest on affiliated undertakings (dividends) in the amount of EUR 3.9 million (2013: EUR 13.3 million) which is detailed as follows (in EUR):

| | 2014 | 2013 |
|---|---|---|
| BCC-Brno City Center a.s. | - | 3,425,094 |
| Endurance Residential Sub Fund | 1,585,380 | 230,433 |
| EREMC S.A. | 2,313,465 | 9,692,971 |
| | **3,898,845** | **13,348,498** |

## 12. Cash and cash equivalents

As at December 31, 2014, the cash and cash equivalents consist of cash at banks of EUR 3.4 million (EUR 14.5 million in 2013).

## 13. Bonds and derivatives

### 13.1 Bonds

As at 31 December 2014, the movements in KEUR in bonds are the following:

**Non-current bonds**

| | |
|---|---|
| **Balance at 31 December 2012** | **59,347** |
| Interest New Notes payment | (2,917) |
| Repayment on New Notes | (400) |
| Transfer to Short-term ("ST") | (1,344) |
| Interest New Notes | 10,460 |
| **Balance at 31 December 2013** | **65,146** |
| Interest New Notes payment | (4,503) |
| Interest on Safeguard bonds | (333) |
| Repayment on New Notes | (13,156) |
| Transfer to Short-term ("ST") | (278) |
| Transfer from Short-term ("ST) | 1,245 |
| Interest New Notes | 11,003 |
| Loss on restatement of New Notes (Note 21) | 3,276 |
| **Balance at 31 December 2014** | **63,066** |

## Current bonds

| | |
|---|---|
| **Balance at 31 December 2012** | **616** |
| Payment | (615) |
| Transfer from non-current | 104 |
| Interest on Safeguard bonds | 217 |
| Interest New Notes | 1,243 |
| **Balance at 31 December 2013** | **1,565** |
| Repayment interest on Safeguard bonds | (320) |
| Transfer to Long term (“LT”) | (1,245) |
| Transfer from long term to short term | 278 |
| **Balance at 31 December 2014** | **278** |

### ❖ In 2014

A general meeting of the holders of the New notes was held on October 9, 2014 in Luxembourg. At the meeting the holders of the notes approved certain amendments to the terms and conditions of the notes which became effective after its acceptance by the Company on November 7, 2014.

The amendments include, inter alia, the decrease of the interest rate applicable to the Notes to 7% per annum, the extension of the maturity to five years, the implementation of the guarantee by CPI PG for 3% p.a. fee, and the change of the law governing the Notes from Luxembourg law to English law. The repayment terms were changed to one–off bullet payment at the maturity date as opposed to the previously applicable amortization payments.

As a result of the amendment, the book value of the notes has been restated at the amendment date which resulted in an accounting loss of EUR 3.3 million.

In August 2014, the Group repaid EUR 0.4 million as part of the cash sweep following the partial disposal of logistic park Stříbro. In addition, on November 14, 2014 the Company proceeded with “Mandatory Prepayment on Zlota Disposal” under the terms and conditions of the notes in the amount of EUR 12.8 million.

The transfer from long term to short term corresponds to the interest related to the Safeguard Bonds to be paid in April 2015 in accordance with the repayment schedule of the Safeguard plan.

### ❖ In 2013

No new bonds or new notes have been issued during the year. The transfer corresponds to the interests related to the Safeguard bonds to be paid in April 2014 and to the accrued interest related to New Notes. The EUR 0.4 million were repaid as part of the cash sweep as a consequence of the Sky Office’s sale which is one of the assets included in the protocol.

### 13.2 Safeguard bonds

Following the issuance of New notes on 4 October 2012 (ISIN Code XS0820547742) the remaining outstanding amount of principal of initial OPG bonds amounts to EUR 4.0 million as at 31. December 2014 and the total book value of the total non-current and current OPG Safeguard bond debt amounts to EUR 2.3 million. Details per bond are disclosed in the following table (in Euro):

| Description | ISIN CODE | Number of bonds | Book value per Bond | Total value of bonds | Nominal value per Bond | Total Nominal value of bonds | % of nominal |
|---|---|---|---|---|---|---|---|
| SHH Bonds | XS0223586420 | 8,843 | 15 | 134,208 | 26 | 230,183 | 17% |
| Bonds 2006-2013 | FR0010249599 | 106 | 383 | 40,585 | 751 | 79,649 | 19% |
| Czech Bond | CZ0000000195 | 7 | 219,132 | 1,533,926 | 366,367 | 2,564,573 | 23% |
| Bonds 2006-2013 | FR0010333302 | 6,381 | 81 | 518,716 | 164 | 1,049,175 | 22% |
| OBSAR 2 | XS0291838992 / XS0291840626 | 74 | 798 | 59,057 | 1,653 | 122,334 | 21% |
| **Total** | | **15,411** | | **2,286,492** | | **4,045,914** | **21%** |

The repayment schedule for interest and principal according to the Safeguard Plan (based on the Commercial Court of Paris decision on 16 September 2011) excluding any potential deduction due to own bonds for all other bonds after the issuance of the New Notes are detailed as following:

| | 30 April 2015 | 30 April 2016 | 30 April 2017 | 30 April 2018 | 30 April 2019 | 30 April 2020 | Total |
|---|---|---|---|---|---|---|---|
| Principal | 149,527 | 157,132 | 438,875 | 674,373 | 1,029,245 | 1,596,762 | 4,045,914 |
| Interests | 128,834 | 121,229 | 117,847 | 105,038 | 84,199 | 51,235 | 608,382 |
| **Total** | **278,361** | **278,361** | **556,722** | **779,411** | **1,113,444** | **1,647,997** | **4,654,296** |

Repayment of interest and principal according to the Safeguard Plan (based on the Commercial Court of Paris decision on 16 September 2011) by bond line excluding any potential deduction due to own bonds for all other bonds after the issuance of the New Notes are detailed as following:

| | XS0223586420 | FR0010249599 | CZ0000000195 | FR0010333302 | XS0291838992 | Total |
|---|---|---|---|---|---|---|
| Principal | 230,183 | 79,649 | 2,564,573 | 1,049,175 | 122,334 | 4,045,914 |
| Interests | 2,872 | - | 605,510 | - | - | 608,382 |
| **Total** | **233,055** | **79,649** | **3,170,083** | **1,049,175** | **122,334** | **4,654,296** |

### 13.3 New Notes

The terms and condition of the New Notes after the amendment in November 2014 are as follows:

| | |
|---|---|
| Interest | Cash interest will be paid semi-annually in arrears on 7 May and 7 November in each year, or the following business day if such day is not a business day, beginning 7 May 2015.<br>7 % cash interest per annum |
| Repayment date | 7 November 2019 (the “Maturity Date”), repayment of the outstanding principal amount of the New Notes. |

| | |
|---|---|
| Guarantee | Implementation of Guarantee by CPI Property Group who guaranteed the due and punctual payment of all sums payable by the Group. |
| Covenants | Financial covenants, restriction on payments and certain transactions with shareholders and affiliates |
| ISIN | XS0820547742 |
| Listing | Luxembourg Stock Exchange |

## 14. Loans from affiliated undertakings

Loans from affiliated undertakings are detailed as follows (in KEUR):

| Affiliated undertaking | Country | As at December 31, 2014 Loan nominal | Accrued Interest | Total Loan | 2014 Interest expenses | As at December 31, 2013 Loan nominal | Accrued Interest | Total Loan | 2013 Interest expenses | Original Currency |
|---|---|---|---|---|---|---|---|---|---|---|
| Americká - Orco, a.s | Czech Republic | 8 476 136 | 376 322 | 8 852 458 | 378 239 | - | - | - | - | CZK |
| Belgicka Na Kozacce s.r.o. | Czech Republic | - | - | - | - | - | - | - | 15 611 | CZK |
| Brno Centrum, s.r.o. | Czech Republic | - | - | - | 38 394 | - | - | - | 28 719 | CZK |
| Bubenská 1, a.s. | Czech Republic | 417 | - | 417 | 143 527 | 6 197 741 | 389 620 | 6 587 361 | 408 922 | CZK |
| Bubny development | Czech Republic | - | - | - | - | - | - | - | 95 197 | CZK |
| CWM 35 Kft | Hungary | 18 655 154 | 321 703 | 18 976 857 | 267 642 | 18 342 733 | 312 421 | 18 655 154 | 312 422 | EUR |
| Endurance Hospitality Asset S.à r.l. | Luxembourg | - | - | - | - | 729 609 | - | 729 609 | - | EUR |
| Endurance Real estate Mgt Cpy S.à r.l. | Luxembourg | 573 024 | 154 498 | 727 522 | 142 516 | 2 700 669 | 438 631 | 3 139 300 | 438 631 | EUR |
| Industrial Park Stribro s.r.o. | Czech Republic | 1 427 726 | 92 688 | 1 520 414 | 93 271 | 1 661 204 | 5 135 | 1 666 339 | 5 167 | CZK |
| Oak Mill,a.s. | Czech Republic | 1 060 421 | 63 741 | 1 124 162 | 67 330 | 1 192 262 | 65 824 | 1 258 086 | 68 799 | CZK |
| Orco Development s.r.o. | Czech Republic | - | - | - | 68 533 | 2 155 918 | 76 764 | 2 232 682 | 76 764 | CZK |
| Orco Enterprise Sp z o o | Poland | 9 026 376 | 3 450 | 9 019 826 | 524 596 | 7 330 847 | 407 790 | 7 738 637 | 401 251 | PLN |
| Orco Financial Services, s.r.o. | Czech Republic | 155 063 | 6 805 | 161 868 | 6 847 | 119 465 | 3 533 | 122 998 | 3 630 | CZK |
| Orco Hungary Kft | Hungary | 19 819 | 3 148 | 22 967 | 3 148 | 78 926 | 4 738 | 83 664 | 4 738 | EUR |
| Orco Pragues a.s. | Czech Republic | - | - | - | - | - | - | - | 54 259 | CZK |
| Orco Project, Sp z o o | Poland | 4 | - | 4 | - | - | - | - | - | PLN |
| Orco Russian Retail S.à r.l. | Luxembourg | 4 871 417 | 290 496 | 5 161 913 | 290 496 | 4 593 674 | 255 094 | 4 848 768 | 255 094 | EUR |
| Seattle, sro | Czech Republic | 11 457 | 1 030 | 12 487 | 1 037 | - | - | - | - | CZK |
| T-O Green Europe, a.s. | Czech Republic | 56 921 | 3 282 | 60 203 | 3 595 | 60 592 | 3987 | 64 579 | 4 173 | CZK |
| TQE Asset a.s. | Czech Republic | 5 401 586 | 288 617 | 5 690 203 | 290 300 | 3 608 822 | 182 421 | 3 791 243 | 174 680 | CZK |
| | | 49 735 520 | 1 605 780 | 51 341 301 | 2 319 471 | 48 772 462 | 2 145 958 | 50 918 420 | 2 348 057 | |

The Company has global agreement with all its affiliated undertakings for loans bearing 6% or 8% interest depending on the country (as of January 1, 2012, Company changed the interest rate from 8% to 6 % for majority of their affiliated undertakings) and a maturity on  December 31, 2020. Loans are repayable anytime by the borrower or upon lender request.

Foreign exchange impacts are detailed on note 18.

## 15. Trade and other payables

| As at 31 December 2014<br>In EUR | Less than 1 month | Between 1 and 6 months | Between 6 months and 1 year | TOTAL |
|---|---|---|---|---|
| Trade payables (included interco) | 2,004,632 | - | - | **2,004,081** |
| Bank overdrafts | 94 | - | - | **94** |
| Tax liabilities | 429,894 | - | - | **429,894** |
| Accrued liabilities | 212,830 | - | - | **212,830** |
| Debt on realized FX Forward agreement | - | - | 929,600 | **929,600** |
| Short therm borrowing | - | | 1,952,049 | **1,952,049** |
| Other current liabilities | 47,408 | - | - | **47,408** |
| **Total** | **2,694,858** | **-** | **2,881,649** | **5,576,507** |

As a result of the loss of control over CPI PG S.A (CPI) the loan granted to OPG S.A. was reclassified to current payables.

As of June 17, 2014, both entities agreed to enter into a short- term Credit facility agreement bearing 8% of interest and maximum of lend amount to EUR 3.5 million. On August 27, 2014 the lender and the borrower entered into amendment 1 to the agreement by which the final repayment date was prolonged to December 31, 2014 and the commitment was increased up to EUR 6.0 million. On September 26, 2014, amendment 2 further extended the repayment date to December 31, 2015.

As of December 31, 2014, the total liability of OPG towards CPI is amounting 1.9 EUR million and have born EUR 86,441 of interest expenses.

| As at 31 December 2013<br>In EUR | Less than 1 month | Between 1 and 6 months | Between 6 months and 1 year | TOTAL |
|---|---|---|---|---|
| Trade payables (included interco) | 2,173,289 | - | - | **2,173,289** |
| Bank overdrafts | 53 | - | - | **53** |
| Tax liabilities | 1,413,122 | - | - | **1,413,122** |
| Other accrued liabilities | 209,093 | 1,320,492 | 1,000,000 | **2,529,585** |
| Debt on realized FX Forward agreement | 985,600 | - | - | **985,600** |
| Other current liabilities | 248,424 | - | - | **248,424** |
| **Total** | **5,029,581** | **1,320,492** | **1,000,000** | **7,350,073** |

## 16. Provisions for other liabilities and charge

| | **2014** | **2013** |
|---|---|---|
| Zlota 44 Guarantee (short-term) | - | 48,156,927 |
| Budapest Financing guarantee | - | 5,668,000 |
| Stein guarantee | 2,725,400 | 1,607,765 |
| Hvar arbitration (short-term) | 381,620 | 1,450,642 |
| Other (long-term) | 1,000,000 | - |
| Croatian bank guarantee provision | 900,000 | - |
| Other (short-term) | 219,138 | 544,998 |
| | **5,226,158** | **57,428,332** |

**Stein guarantee**

Due to the bankruptcy procedure of the company Orco Blumentalska a. s. in Slovakia (project Stein), this company has been deconsolidated. The guarantee given by the Company to the bank over ten years under the Safeguard plan payment schedule led to the recognition of a provision corresponding to the net present value of the bank loan not covered by the pledge on the building (valued at fair value according to the external valuation report). As of December 2014 the provision amounts to EUR 2.7 million (EUR 1.6 million in 2013). The increase in the provision in 2014 is mainly attributable to a change in the interest rate which is derived from the discount rate on the New Notes.

To estimate the net present value of the Stein provision the effective interest rate on the New Notes of 12.69% plus a margin of 0.08 % equal to Euribor 3M was used (2013: 19.1% plus Euribor 3M of 0.29%).

**Provision for Croatian bank guarantee**

Due to the modification of management's assumption on the claim related to a bank guarantee granted to a Croatian supplier, the Company has decided to create new provision amounting to 900,000 EUR

- **In 2013**

The major amounts accrued as provisions have been estimated based to cover the following risks:

The Company has issued guarantees to the bank and general contractor as disclosed in note 25 in respect of Zlota 44. As the fair value of the project is much below the amount of loan in breach, it is highly probable that guarantees would be called in the event of a loan repayment request. Any changes to the actual sales proceed of the property will either increase or decrease this provision. The provision in the Company separate accounts corresponds to the amount of cash or the value of the assets held by the Company that would have to be given in consideration:

| | |
|---|---|
| Corporate Guarantee to general contractor (deffered payment and retention) | 8,329,096 |
| Cost overrun and Equity Guarantee | 15,673,225 |
| Financial Additional Support Guarantee (Apartment Buyers claim) | 2,338,927 |
| Financial Support Guarantee (Sub- and Contractors claims) | 2,411,265 |
| OPG Corporate Guarantee (suretyship Agreement) | 15,673,225 |
| Diana Property Sp. z .o.o Offices | 1,540,063 |
| Inventory Properties | 2,191,121 |
| **TOTAL** | **48,156,922** |

The Budapest financing guarantees have been estimated on the basis of the overdue accrued interests and principal amortization.

The provision to cover the Stein guarantee corresponds to the estimated net present value of the amount to be paid under the Safeguard amortization table until 2020. The net present value has been estimated on the basis of the amount of guarantee called after deduction of the net expected sales price of the asset that was pledged in favour of the financing bank (the asset has been sold but the costs and fees are not known yet).

Hvar arbitration corresponds to the expected procedure, lawyers and experts costs. There is no amount expected to be paid in relation to the claims of the Croatian state privatisation fund.

## 17. Administrative expenses and employee benefits

| In EUR | Year ended 31 December 2014 | 2013 |
|---|---|---|
| Salaries (*) | (307,992) | (2,455,130) |
| Social security | (23,720) | (871,513) |
| Other employee benefits | (10,961,493) | - |
| **Total employee benefits** | **(11,293,205)** | **(3,326,643)** |
| | | |
| Leases and rents | (172,040) | (534,277) |
| Building maintenance and utilities supplies | (59,080) | (52,008) |
| Communication and IT maintenance | (120,127) | (278,034) |
| Commissions, fees, consultancy, audit | (3,156,227) | (4,022,187) |
| Insurance | (52,383) | (294,124) |
| Travel expenses and representation costs | (642,120) | (1,266,558) |
| Advertising and marketing | (62,190) | (47,711) |
| Taxes other than income tax | (213,362) | (145,309) |
| **Total Administrative expenses** | **(4,477,529)** | **(6,640,208)** |
| | | |
| **TOTAL** | **(15,770,734)** | **(9,960,851)** |

As at December 31, 2014, the Company employed 4 persons which can be split into 3 staff members and 1 manager. As of December 31, 2013, the Company was employed 13 persons which can be split into 5 staff members and 8 managers. The employement reduction is mostly arising from restructurating of the Company.

Administrative costs have significantly decreased during 2014 period mainly due to the closure of an entity in Paris.

Company restructuring

On March 18, 2014, the Company's Board of Directors decided to dismiss and to terminate the executive contracts of Jean-François Ott, Nicolas Tommasini, Aleš Vobruba and Brad Taylor. Following negotiations and approvals from the Board of Directors, on March 27, 2014 the Group and the former management entered into a confidential settlement and mutual general release agreement by which the Group settled all the existing and future potential obligations and claims arising from the termination and the holding of warrants by the former management. This agreement settled all the termination and change of control clauses. Under this settlement agreement, the former executives received EUR 4.5 million in cash. In addition, settlements in kind (non-core assets) were agreed with the former management to transfer Pachtuv Palace hotel in Prague at the net asset value EUR 6.5 million

## 18. Foreign exchange result

| In EUR | Year ended 31 December 2014 | 2013 |
|---|---|---|
| Foreign exchange result on loans with affiliated undertakings ( notes 10 and 14) | (514,816) | (2,105,365) |
| Other foreign exchange result | (74,985) | (3,180) |
| **TOTAL** | **(589,801)** | **2,108,545** |

## 19. Net loss on disposal of financial assets

### ❖ In 2014

During 2014, the Company continued achieving its restructuration objective by completing important transactions. The main transactions are summarized as follow:

Zlota sale

On August 27, 2014 the Company entered into an agreement concerning a disposal of its stakes in the Zlota 44 project in Warsaw. The transaction with a subsidiary of international consortium of AMSTAR and BBI Development comprised of the disposal of shares that the Company held in the Zlota 44 project entity as well as of the disposal of loan receivables that the Group acquired from Bank Polska Kasa Opieki S.A. The pre-agreed gross transaction price was EUR 63 million in cash; partially payable upon completion of transfers and partially deferred upon the realization of certain conditions, notably the outcome of disputes pending at Zlota 44 level with the former general contractor and potential indemnities provided to the buyer in that respect.

On 7 January 2015, the purchase price was finally agreed and decreased by EUR 13 million used for the settlement of disputes with Zlota 44 general contractor INSO. The final purchase amounts to EUR 50 million. Thus, the net revenue recognised in the separate income statement in respect of proceeds from Zlota disposal is EUR 50.0 million.

The total loss attribute to Zlota sales transaction is amounting EUR 62.1 milion.

Disposal of Company interest in Hospitality Porfolio to joint partner CPI

As of December 31, 2013, the Company has had a 44% direct and indirect effective interest in the joint venture Hospitality Invest S.á r.l., created by Endurance Hospitality Assets S.à r.l., a Group subsidiary and a joint partner AIG.

The stake of AIG of 50 % was transferred to CPI PG in April 2014, subject to an approval by the Company. Following the disposal of the share by the joint partner and in line with its new strategy, the Company has sold its interest in the joint venture to CPI PG in December 2014 through transfer of its ownership in Endurance Hospitality Assets S.à r.l. and Endurance Hospitality Finance, S.à r.l., entities holding 50 % share in Hospitality Invest S.á r.l. The transaction price was EUR 13.3 million.

The total loss supported by the Company on disposal of Hospitality portfolio is amounting EUR 74.1 milion.

Dunaj transaction

Hlubočky (Czech Republic) and Dunaj (Slovakia) projects, classified as held for sale in 2013, were sold in June 2014 as part of a portfolio debt restructuring transaction with Crédit Agricole Corporate and Investment Bank, which concerned three assets that used to be cross collateralized: two in the Czech Republic (Bubenska, Hlubočky) and one in Slovakia (Dunaj department stores). As a result of this transaction, the Group transferred the ownership of Hlubočky and Dunaj, together with related debt to a fully owned subsidiary of Crédit Agricole CIB. In return, the Group retained the ownership of Bubenska 1 with leverage decreased to EUR 9 million with extended debt maturity to June 2017.

The Company supported a loss amounting EUR 20.7 million on this sales.

Pachtuv Palance transaction

The Company reached an agreement with former management regarding compensation for their dismissal from the managerial functions.

The Company recognized a loss of EUR 10 milion on this transaction.

Disposal of Suncani Hvar shares

On June 11,2014, the Company entered into a transaction concerning partial disposal of its stake held in Suncani Hvar d.d. (SHH). OPG disposed of 2,080,000 shares corresponding to 24.94 % of the voting rights. After the disposal, the Company holds 2,636,734 SHH shares equal to 31.61 % of the voting rights. Together with the shares, the Company transferred to the buyer shareholder receivables from SHH. The shares and receivables were sold at an aggregate purchase price of EUR 2.1 million.

The loss on the Suncani Hvar shares disposal amounts EUR 42.4 million.

Disposal of CPI PG shares

On March 3, 2014, CPI PG resolved to raise EUR 36.0 million in a reserved capital increase in favor of Stationway Properties Limited (“Stationway”), an entity affiliated with Mr. Jean-François Ott. Stationway subscribed 76,600,000 new shares which were issued on March 5, 2014. The total number of shares comprising the share capital of CPI PG as well as the number of voting rights was 421,256,445 shares as of March 5, 2014. This capital increase results from the November 29, 2013 decision of the CPI PG's Board of Directors to raise up to EUR 100 million pursuant to the authorization granted by shareholders during the extraordinary meeting of April 26, 2012.

As a result of the capital increase by Stationway without participation of OPG, the Group's shareholding interest was diluted to 47.85 % represented by 201,571,194 shares and the equity attributable to the owners of the Company decreased by EUR 10.3 million. Consequently, the amount of non-controlling interests increased by EUR 46.3 million.

As a consequence of the dilution of participation and the removal of the Group's representatives from the management of CPI PG, the Company lost control over CPI PG and its subsidiaries. As at the date of loss of control, assets, liabilities and non-controlling interest attributable to the CPI PG were derecognized from the consolidated statement of financial position and the remaining shares were recognized at their fair value in the category financial asset available-for-sale. The fair value of the retained interest was determined based on the market price at closing as at the date of losing control (EUR 0.53 per share) multiplied by the total number of CPI PG shares held by OPG. In the opinion of the Company management, the market price represents the best indicator of the fair value. The deconsolidation and recognition of financial assets available for sale measured at fair value, as described above, resulted in a loss of EUR 34.8 million recorded in 2014 income statement.

In order to meet the liquidity requirements, in particular to finance the acquisition of PEKAO receivable related to Zlota project, the Company entered on April 28, 2014 into an agreement to dispose of 108,395,743 shares it held in CPI PG for a total purchase price of EUR 55.0 million. The completion of the disposal of the shares was subject to certain conditions, including the approval of the Paris Commercial Court. The court approved the disposal of the shares on June 2, 2014. Following this disposal the shareholding of the Group in CPI PG decreased from 201,571,194 shares to 93,175,451 shares equal to 20.53% of the voting rights at the time of disposal.

The disposal of the CPI PG shares under distressed conditions but at market price gave rise to an accounting loss of EUR 35.7 million.

## 20. Net gain / loss on financial assets at fair value through profit or loss

| | Year ended 31 December | |
|---|---|---|
| | **2014** | **2013** |
| **In EUR** | | |
| Change in fair value of financial assets | 1,556,166 | (411,323) |
| Change in fair value and realized result on current financial assets | - | (27,839) |
| **Gain (loss) on financial assets at fair value through profit or loss** | **1,556,166** | **(439,162)** |

### ❖ In 2014

The change in fair value recorded in 2014 is based on adjustment to net asset value provided by Fund Manager:1.14 EUR ( 2013 :1.1 EUR booked with a discount of 57.5% )(see Note 9.1 ).

### ❖ In 2013

The change in fair value recorded in 2013 is based on adjustment to net asset value provided by Fund Manager.

Change in fair value and realised result on current financial assets relates to impairment of Paris Foncière Nord shares.

## 21. Other Net financial results

| In EUR | Year ended 31 December 2014 | 2013 |
|---|---|---|
| Other net finance charges | (3,281,728) | 103,326 |
| **Gain (loss) on other financial results** | **(3,281,728)** | **103,326** |

### ❖ In 2014

Other Net finance results consist mainly of the loss on New Notes amendment of EUR 3,275,702 (see Note 13.1).

### ❖ In 2013

Other net finance results consist mainly in VAT debt adjustment towards the Luxembourg Tax Office.

## 22. Income taxes

The Company is tax resident and subject to local regulation in Luxembourg.

Since the fiscal year 2006 and in accordance with the Tax Pooling agreed by Luxembourg Tax Authorities on January 4, 2007, the Company is fiscally consolidated with some of its Luxembourgish subsidiaries held at 100%.

As at December 31, 2014, Orco Property Company S.A. as a consolidated fiscal entity in Luxembourg included the companies listed below:

- Orco Property Company S.A. (Fiscal number: 1993 2209 554);
- Orco Hotel Company S.A. (Fiscal number: 2003 2209 832) (Liquidated on December 2007);
- Orco Hotel Collection S.A. (Fiscal number: 2004 2201 228) (Liquidated on December 2007);
- Central Europe Real Estate Management S.A. ("CEREM") (Fiscal number: 2004 2212 645) (in Liquidation since December 2009);

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes laid by the same taxation authority of either the taxable entity or different taxable entities where there is the intention to settle the balances on a net basis.

As at December 31, 2014, the Company has not recognized any deferred tax assets in one of its taxable entities.

The tax rate applicable to the Company is 29.22%, both in 2014 and 2013.

The income tax calculation of the Company is detailed below:

| In EUR | December 2014 | December 2013 |
|---|---|---|
| **Profit /(Loss) before tax** | **(57,457)** | **(258,809)** |
| Tax effects of: | | |
| Allocation to Retained earnings | 57,457 | 258,809 |
| Minimum Tax | (2) | (6) |
| **Tax benefit / charge** | **(2)** | **(6)** |

The income tax recognized in the income statement amounts to EUR 2,406 and is composed of accrued amount of EUR 3,210 and a correction from previous year amounting to EUR 806.

**Tax losses carried forward**

As of December 31, 2014, the Company has a significant amount of tax losses carried forward for an unlimited period of time.

Deferred tax assets related to these loss carried forward have not been recognized by the Company.

## 23. Earnings per share

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| **At the beginning of the period** | **114,507,629** | **107,831,201** |
| Shares issued | 114,507,629 | 107,840,962 |
| Treasury shares | - | (9,761) |
| **Weighted average movements** | **27,945,205** | **2,292,625** |
| Issue of new shares | 27,945,205 | 2,283,105 |
| Treasury shares | - | 9,520 |
| **Weighted average outstanding shares for the purpose of calculating the basic earnings per share** | **142,452,834** | **110,123,826** |
| **Weighted average outstanding shares for the purpose of calculating the diluted earnings per share** | **142,452,834** | **110,123,826** |
| **Net profit/(loss) attributable to owners of the Company (in KEUR)** | **(57,460,232)** | **(258,809,393)** |
| **Net profit /(loss) attributable to owners of the Company after assumed conversions / exercises (in KEUR)** | **(57,460,232)** | **(258,809,393)** |
| Basic earnings in EUR per share | (0,40) | (2,34) |
| Diluted earnings in EUR per share | (0,40) | (2,34) |

Basic earnings per share is calculated by dividing the profit / loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The warrants were not taken into account in the EPS calculation as the conversion of the warrants had an anti-dilutive impact in 2014 and 2013.

## 24. Equity

### Share capital

| In EUR | Number of shares | Share capital | Share premium |
|---|---|---|---|
| **Balance at 31 December 2012** | **107,840,962** | **442,147,944** | **645,497,455** |
| Capital increase | 6,666,667 | (213,132,686) | 1,666,667 |
| **Balance at 31 December 2013** | **114,507,629** | **229,015,258** | **647,164,122** |
| Capital increase / (decrease) | 200,000,000 | (197,564,495) | 39,200,000 |
| **Balance at 31 December 2014** | **314,507,629** | **31,450,763** | **686,364,122** |

All the shares of the Company have no par value and are fully paid. Each share is entitled in the profits and corporate capital to a prorata portion of the percentage of the corporate capital it represents, as well as to a voting right and representation at the time of General Meeting, the whole in accordance with statutory and legal provisions.

All the shares of the Company have an accounting par value of EUR 0.10 per share with no nominal value and are fully paid. Each share is entitled to a prorate portion of the profits and corporate capital of the Company, as well as to a voting right and representation at the time of General Meeting, all in accordance with statutory and legal provisions.

**Authorized capital not issued**

The Company's Extraordinary General Meeting of May 28, 2014 resolved to approve the decrease of the corporate capital of the Company from its present amount of EUR 114,507,629 to EUR 11,450,762.90 without cancellation of shares, by decreasing the accounting par value of the existing shares from EUR 1 to EUR 0.10 per share. As such, the corporate capital of the Company amounted to EUR 11,450,762.90 as of May 28, 2014.

The Extraordinary General Meeting of May 28, 2014 also approved resolutions to modify, renew and replace the existing authorized share capital and to set it to an amount of twenty million euro (EUR 20,000,000.00) for a period of five (5) years from May 28, 2014, which would authorize the issuance of up to two hundred million (200,000,000) new ordinary shares in addition to the 114,507,629 shares currently outstanding.

The Company's Board of Directors was granted an authorization to increase the Company's share capital in accordance with article 32-3 (5) of the 1915 Luxembourg company law. The Board of Directors was granted full power to proceed with the capital increases within the authorized capital under the terms and conditions it will set, with the option of eliminating or limiting the shareholders' preferential subscription rights as to the issuance of new shares within the authorized capital.

The Board of Directors was authorized, during a period of five (5) years from the date of the general meeting of shareholders held on May 28, 2014, without prejudice to any renewals, to increase the issued capital on one or more occasions within the limits of the authorized capital. The Board of Directors was authorized to determine the conditions of any capital increase including through contributions in cash or in kind, among others, the conversion of debt into equity, by offsetting receivables, by the incorporation of reserves, issue premiums or retained earnings, with or without the issue of new shares, or following the issue and the exercise of subordinated or non-subordinated bonds, convertible into or repayable by or exchangeable for shares (whether provided in the terms at issue or subsequently provided), or following the issue of bonds with warrants or other rights to subscribe for shares attached, or through the issue of stand-alone warrants or any other instrument carrying an entitlement to, or the right to subscribe for, shares.

On November 10, 2014 the Board of Directors of the Company resolved to implement a reserved capital increase and raise EUR 59.2 million pursuant to the authorization granted to it by its shareholders during the Extraordinary General Meeting of May 28, 2014.On November 10, 2014 the Company issued 200 million new ordinary shares having a par value of EUR 0.10 each, at a subscription price of EUR 0.296 per new share, for a global cash contribution of EUR 59.2 million, which were subscribed as follows: (i) 100,000,000 new shares were subscribed for a total subscription price of EUR 29,600,000 by ASPLEY VENTURES LIMITED, British Virgin Islands, an entity closely associated with Mr. Pavel Spanko, and (ii) 100,000,000 new shares were subscribed for a total subscription price of EUR 29,600,000 by FETUMAR DEVELOPMENT LIMITED, Cyprus, an entity closely associated with Mr. Jan Gerner.

The corporate share capital of the Company has been increased from EUR 11,450,762.90 represented by 114,507,629 shares to EUR 31,450,762.90 represented by 314,507,629 shares. The total number of shares comprising the share capital of the Company as well as the total number of voting rights attached thereto is 314,507,629 as of November 10, 2014.

Accordingly, following the capital increase of November 10, 2014, the Company has no authorized capital in addition to the issued capital as of the date of this report.

- **In 2013**

Over 2013, the share capital of the Company decreased by EUR 226,466,020 amounting to EUR 215,681,924. This decrease was realized without cancellation of the shares, but by decreasing the accounting par value of the existing shares from EUR 4.1 to EUR 2.0 per share with allocation of the reduction proceeds to a reserve.

The share capital then increased on August 28, 2013 to EUR 229,015,258 as a consequence of the issue of 6,666,667 new shares to its largest shareholders, Gamala Limited, Kingstown Capital Management, LP, Alchemy Special Opportunities Fund II L.P. and Stationway Properties Limited in a private placement within the framework of the Company's authorized capital approved by the shareholders on June 27, 2013.

**Securities giving access to equity (warrants)**

Within the authorized capital, the Board of Directors decided to issue Bonds with Warrants ("OBSAR") without preferential subscription rights:

"2012 Warrants" issued under the ISIN code LU0234878881 with the following major terms: number of outstanding 2012 Warrants: 21,161; exercise ratio: one warrant gives the right to subscribe to 1.03 share; exercise period:December 31, 2019; exercise price: EUR 7.21; listing: Euronext Paris.

"2014 Warrants" issued under the ISIN code XS0290764728 with the following major terms: number of outstanding 2014 Warrants: 2,871,021; exercise ratio: one warrant gives the right to subscribe to 1.73 share; exercise period:December 31, 2019; exercise price: EUR 11.20; listing: Euronext Brussels and Paris.

Under the Securities Note and Summary dated 22 March 2007, with respect to the issue of the 2014 Warrants, the occurrence of a Change of Control (as described in Condition 4.1.8.1.2.1 of the Securities Note and Summary dated 22 March 2007) could result in a liability for the Company due to "Change of Control Compensation Amount" of up to EUR 23,685,923.25. According to the Securities Note and Summary each 2014 Warrant would need to be repurchased by the Company at a price of EUR 8.25/ 2014 Warrant in the event of a Change of Control. This price per 2014 Warrant decreases as time goes by. Change of Control is defined as "the acquisition or control of more than 50 per cent of the voting rights of that entity or (b) the right to appoint and/or remove all or the majority of the members of the Board of Directors or other governing body of that entity, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise [.]" The Change of Control Compensation Amount with respect to 2014 Warrants has been admitted in the Company's Safeguard plan in the amount of EUR 707,826.24. The Company holds 1,327,560 2014 Warrants.

**Dividends per share**

The Board of Directors has decided not to propose any dividend payment at the Annual General Meeting of Orco Property Company S.A. for years 2014 and 2013.

## 25. Contingencies

**Litigations**

On December 28, 2012, the Company filed a request for arbitration against the State Property Management Agency of the Republic of Croatia, also known as AUDIO, which is the legal successor to the Croatian Privatization Fund. Orco's preliminary claims for damages exceed EUR 32 million. The claims relate to underlying title disputes to properties on the island of Hvar in Croatia held through the Croatian company Suncani Hvar d.d. In 2013 AUDIO has transformed into the Croatian Centre for Restructuring and Sales (CERP) and the State Property Management Administration (DUUDI).

On December 19, 2014 the Company and the Republic of Croatia announced the signing of a memorandum of understanding concerning their stakes in Suncani Hvar d.d. The memorandum dealt with, inter alia, a mutual settlement of the ICC International Court of Arbitration proceedings between the Company and the Republic of Croatia. Following a joint request, the arbitration proceedings were stopped by aconsent award issued by the ICC International Court of Arbitration.

Certain shareholders of OPG, notably Kingstown Partners Master Ltd. of the Cayman Islands, Kingstown Partners II LP of Delaware, Ktown LP of Delaware (collectively "Kingstown") challenged the CPI PG capital increases of December 4, 2013 and March 5, 2014 in court proceedings in Luxembourg. These shareholders demanded, inter alia, cancellation of these capital increases and consequences against the Board of Directors. Some of these shareholders also contested the validity of the general meeting held on January 6, 2014 in Luxembourg. On February 13, 2015 the Tribunal d'Arrondissement de et a Luxembourg (the "Court") accepted a request from to withdraw Kingstown's legal action against the Company. The legal action, filed on February 19, 2014, sought inter alia the nullity of decision of the Company's board meeting and general meeting of January 6, 2014, as well as the nomination of a provisory manager. For the avoidance of doubt the Company states that the decision of the Court did not resolve on a new legal action by Kingstown that was notified on January 20, 2015.

On January 20, 2015 the Company was served with a summons containing legal action of Kingstown, claiming to be former shareholders of the Company. The action was filed with the "Tribunal d´Arrondissement de et a Luxembourg" and seeks a condemnation of the Company, CPI PG and certain members of the Company´s board of directors as jointly and severally liable to pay damages in the amount of EUR 14,485,111.13 and compensation for moral damage in the amount of EUR 5,000,000. According to Kingstown´s allegation the claimed damage has arisen as a consequence of inter alia alleged violation of the Company´s minority shareholders rights. Management of the Company will take all available legal actions to oppose these allegations in order to protect the corporate interest as well as the interest of its shareholders

**Guarantees given**

The Company has given guarantee in the ordinary course of business to its affiliated undertakings to cover bank loans financing their real estate assets and general contractor construction contracts.

Furthermore, according to the framework agreement dated 18 August 2011 between the Company and MSREF V Turtle, the Group assumed the obligation to release the Morgan Stanley companies (MSREF V and MSREF V Turtle) from all claims under the Morgan Stanley guarantee by issuing a respective back to back guarantee of EUR 10.0 million.

**Uncalled guarantees required by banks**

The total amount of security, as originally accepted in the Plan de Sauvegarde by the "juge commissaire" amounts to EUR 354.8 million. As a result of exercices, repayment of loans and asset sales the amount as of December 2014 is down to EUR 28.3 (EUR 28.5 million as of December 2013), out of which EUR 8.7 million has been exercised and have to be paid according to the safeguard amortization schedule.

## 26. Financial risk management

### 26.1 Financial risk factors

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

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

### 26.2 Market risk

#### 26.2.1 Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Czech Koruna (CZK), the Polish Zloty (PLN), the Hungarian Forint (HUF), and the Croatian Kuna (HRK). Foreign exchange risk, as defined by IAS 21, arises mainly from recognized monetary assets and liabilities.

Loans and operating income are mainly denominated in EUR. The Company does not use foreign currency derivatives contracts with non related parties.

The exchange rates to EUR used to establish these separate financial statements are as follows:

| Currency Code | Currency | 31 December 2014 Closing | 31 December 2014 Average | 31 December 2013 Closing | 31 December 2013 Average |
|---|---|---|---|---|---|
| CZK | Czech Koruna | 27.7250 | 27.5330 | 27.425 | 25.9740 |
| PLN | Polish Zloty | 4.2623 | 4.1851 | 4.1472 | 4.1975 |
| HUF | Hungarian Forint | 314.8900 | 308.6646 | 296.910 | 296.9164 |
| HRK | Croatian Kuna | 7.6580 | 7.6344 | 7.6376 | 7.5786 |
| USD | US Dollar | 1.2141 | 1.3285 | 1.3791 | 1.3281 |

The following table gives the impact on the Company Consolidated balance sheet in absolute terms in EUR million of the variation (increase/decrease) against the EUR for each currency in which the Company has a significant exposure. The Company based the assumption of 5% for both periods December 2014 and December 2013 respectively:

| December 2014 | Change of 5% against EUR |
|---|---|
| CZK/EUR | 1.39 |
| PLN/EUR | 1.94 |

| December 2013 | Change of 5% against EUR |
|---|---|
| CZK/EUR | 1.37 |
| PLN/EUR | 6.21 |

### 26.2.2 Price risk

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the separate balance sheet either as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio or only enters these operations if they are linked to operational investments.

The Company is exposed to equity risks related to investments held in Endurance Fund which are classified in financial assets at fair value through profit or loss and investments in shares of CPI Property Group classified as available-for sale.

Post-tax profit for the year would increase/decrease by EUR 0.1 million as a result of 5% increase/decrease of market value of equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease by EUR 3.9 million as a result of 5% increase/decrease of market value of equity securities classified as available for sale.

### 26.2.3 Credit risk

Cash transactions are limited to high credit-quality financial institutions. The Company is working with various banking partners in order to limit the amount of credit exposure to any financial institution. Credit risk is managed by Company management.

Maximum exposure to credit risk is described in tables below:

| At 31 December 2014 (in KEUR) | Fully performing | Past due but not impaired | | | Impaired | Total |
|---|---|---|---|---|---|---|
| | | Less than 6 months | 6 months and 1 year | More than 1 year | | |
| **Loans to affiliated undertakings and other financial assets gross** | 62,810 | | | | 166,422 | 229,232 |
| Impairments at 31 December 2013 | | | | | (177,027) | (177,027) |
| Impairments - allowance | | | | | 10,605 | 10,605 |
| **Total loans to affiliated undertakings and other financial assets** | **62,810** | **-** | **-** | **-** | **-** | **62,810** |
| **Trade and other receivables gross** | 6,597 | | | | 1,203 | 7,800 |
| Impairments at 31 December 2013 | | | | | (37,003) | (37,003) |
| Impairments – write-off | | | | | 35,800 | 35,800 |
| **Total trade and other receivables** | **6,597** | **-** | **-** | **-** | **-** | **6,597** |
| **Current financial assets gross** | - | | | | - | - |
| Impairments at 31 December 2013 | | | | | (2,748) | (2,748) |
| Impairments - allowance | | | | | 2,748 | 2,748 |
| **Total current financial assets** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Cash and cash equivalents gross** | 3,392 | | | | | 3,392 |
| Impairments at 31 December 2013 | | | | | | |
| **Total cash and cash equivalents** | **3,392** | **-** | **-** | **-** | **-** | **3,392** |

| At 31 December 2013 (in KEUR) | Fully performing | Past due but not impaired | | | Impaired | Total |
|---|---|---|---|---|---|---|
| | | Less than 6 months | 6 months and 1 year | More than 1 year | | |
| **Loans to affiliated undertakings and other financial assets gross** | 76,968 | | | | 177,027 | 253,995 |
| Impairments at 31 December 2012 | | | | | (146,109) | (146,109) |
| Impairments – allowance | | | | | (30,918) | (30,918) |
| **Total loans to affiliate undertakings and other financial assets** | **76,968** | **-** | **-** | **-** | **-** | **76,968** |
| **Trade and other receivables gross** | 4,657 | - | - | 905 | 37,003 | 42,565 |
| Impairments at 31 December 2012 | | | | | (1,349) | (1,349) |
| Impairments – write-off | | | | | (35,654) | (35,654 |
| **Total trade and other receivables** | **4,657** | **-** | **-** | **905** | **-** | **5,562** |
| **Current financial assets gross** | 47 | - | - | - | 2,748 | 2,795 |
| Impairments at 31 December 2012 | | | | | (2,720) | (2,720) |
| Impairments - allowance | | | | | (28) | (28) |
| **Total current financial assets** | **47** | **-** | **-** | **-** | **-** | **47** |
| **Cash and cash equivalents gross** | 14,542 | - | - | - | - | 14,542 |
| Impairments at 31 December 2012 | | | | | - | - |
| **Total cash and cash equivalents** | **14,542** | **-** | **-** | **-** | **-** | **14,542** |

## 26.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the ability to close out market positions. Due to the inherent nature of its assets, the Company is subject to a liquidity risk (see note 2.1 on going concern).

The liquidity risk is the risk that the Company might encounter difficulties raising liquid funds to meet commitments as they fall due. The management monitors the liquidity risk on the basis of expected cash flows.

The table below analyses the Company's financial liabilities and net-settled derivative instruments into relevant maturity groupings based on the remaining period as from December 31, 2014 to the contractual maturity date.

As the amounts disclosed in the table are the contractual undiscounted cash flows, these amounts will not necessarily reconcile to the amounts disclosed on the balance sheet for borrowings, derivative instruments and other payables considered as financial instruments.

| At 31 December 2014 (in KEUR) | Less than 1 month | Between 1 and 6 months | Between 6 months and 1 year | Between 1 and 5 years | More than 5 years | Total | Book value as of December 2014 |
|---|---|---|---|---|---|---|---|
| Fixed rate loans | (1,606) | - | - | - | (49,735) | (51,341) | (51,341) |
| Safeguard bonds | - | (278) | - | (4,375) | - | (4,654) | (4,654) |
| New Notes | - | (2,352) | (2,374) | (96,250) | - | (100,976) | (61,057) |
| Trade and other payables | - | - | (5,576) | - | - | (5,576) | (5,576) |
| **Total** | **(1,606)** | **(2,630)** | **(7,950)** | **(100,625)** | **(49,735)** | **(162,547)** | **(122,628)** |

| At 31 December 2013 (in KEUR) | Less than 1 month | Between 1 and 6 months | Between 6 months and 1 year | Between 1 and 5 years | More than 5 years | Total | Book value as of December 2013 |
|---|---|---|---|---|---|---|---|
| Fixed rate loans | (2,145) | - | - | - | (48,773) | (50,918) | (50,918) |
| Safeguard bonds | - | (321) | - | (1,893) | (2,761) | (4,975) | (2,168) |
| New Notes | - | (1,866) | (1,929) | (93,433) | - | (97,228) | (63,102) |
| Trade and other payables | - | - | (7,350) | - | - | (7,350) | (7,350) |
| **Total** | **(2,145)** | **(2,187)** | **(9,279)** | **(95,326)** | **(51,534)** | **(160,471)** | **(123,538)** |

### 26.3.1 Cash flow interest rate risk

The Company’s income cash in flows are substantially independent of changes in market interest rates. All loans granted to affiliate undertakings are granted with fixed interest rate. Contracts include the possibility to capitalize the accrued interests and loan repayment is only requested once the affiliated undertaking sells its own investments. Their capacity to pay capitalized interests above the initial principal relies on the fair value of the real estate assets they are invested in. Nevertheless, the unpaid interests are capitalized every year on January 1st by the Company and its affiliated undertakings.

Loans from affiliated undertakings are granted on the basis of the same fixed interest rate. Interests on bonds are also fixed.

## 26.4 Capital risk management

The Company as and the subsidiaries monitor its capital risk by reference to the loan to value ratio (“LTV”) which is the level of net debt accepted by the Company and its subsidiaries in order to finance its portfolio of assets. The objective of the Company is to bring back the loan to value ratio at a sustainable level compared to market expectations and cash flow capacity. The Company’s objectives when managing capital are to safeguard the going concern and growth of the activities. In order to maintain or adjust the capital structure, the Company may, issue new shares, reschedule debt maturities, sell totally or partially the control over some assets and activities or adjust the agenda of the developments.

The following table shows the detailed calculation of the loan to value ratio. Apart from the line “Revaluation gains / (losses) on projects and properties”, all the lines correspond to specific items indicated on the face of the consolidated statement of financial position. The Revaluation gains or losses on projects and properties represent the difference between the book value and the fair value for all the projects and properties that are not considered as Investment properties. Also, the fair value of developments may be lower than their book value since the impairment test is performed on the basis of the expected selling price once completed less the remaining development and commercialization costs while the fair value corresponds to the sale price of the development as it is at the date of valuation.

**Company's consolidated loan to value ratio (in KEUR)**

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| **Non-current liabilities** | | |
| Financial debts | 65,252 | 295,304 |
| Non-current Bonds | 62,237 | 64,992 |
| **Current liabilities** | | |
| Financial debts | 13,557 | 273,041 |
| Current Bonds | 278 | - |
| Accrued interest | 915 | - |
| Liabilities linked to assets held for sale | 237 | 27,722 |
| **Current assets** | | |
| Cash and cash equivalents | (7,103) | (88,669) |
| **Net debt** | **135,373** | **507,398** |
| Investment property | 249,236 | 710,552 |
| Hotels and owner-occupied buildings | - | 61,639 |
| Investments in equity affiliates | 35 | 93 |
| Financial assets at fair value through profit or loss | 2,627 | 28,285 |
| Financial assets available-for-sale | 86,994 | 2,435 |
| Non-current loans and receivables | 4,669 | 28,533 |
| Inventories | 9,422 | 114,720 |
| Assets held for sale | 1,395 | 29,116 |
| Revaluation gains / (losses) on projects and properties | 697 | 2,842 |
| **Fair value of portfolio** | **355,075** | **978,215** |
| **Loan to Value** | **38.1%** | **51.9%** |

Most of the administrative covenants are managed by local financial managers. Reported breaches are managed at company level. Financial covenants are directly managed at company level. At the end of 2014,some loans encountered administrative and/or financial covenant breaches. Those loans, as a result, have been reclassified in current liabilities. In some circumstances, when cross default covenants are included in bank loan agreements, breaches occurring at the level of subsidiaries could have the consequence that other bank loans granted to other entities of the Company become repayable on demand. Such cross defaults can occur also in the opposite way, meaning that breaches occurring at the level of the Company could have the consequence that bank loans granted to subsidiaries become repayable on demand. In case of cross default covenants' breach, the related loans, as a result, have been reclassified in current liabilities.

Not respecting the LTV covenants could give rise to the lending bank requesting partial repayment of the loan in order to solve the LTV covenant breach. Ongoing negotiations in order to solve existing breaches include partial repayment of the principal, sale of the pledged asset or even bankruptcy proceeding with the objective to achieve a sustainable financing restructuring. In all these cases, the negotiated restructuring taken into account in the valuation of the pledged assets. In some cases the Company granted guarantees to some SPV's that may be called as a result of loan breaches in the company holding the guaranteed liabilities.

The LTV ratio as at December 31, 2014 significantly decreased to 38.1 % compared to 51.9 % as at December 31, 2013. The components of LTV ratio have been remarkably influenced by deconsolidation of leveraged assets over the first half of the year 2014.

Both current and non-current debt went down following the derecognition of bank loans mainly related to financing of investment properties in Germany and Hungary and the debt restructuring of the portfolio financed by Crédit Agricole. In line with the decrease of financial debts, the cash held by the Group entities also went down due to the loss of contribution of deconsolidated entities. In June 2014, the Group has partially sold its shares in the CPI PG for total consideration of EUR 55.0 million, the remaining investment in CPI PG classified as financial assets available-for-sale is valued at EUR 78.2 million (EUR 0.53 per share). Most of the proceeds have been used to repay the bank liabilities related to Zlota project.

## 27. Capital commitments

The Company entered into a Subscription Agreement with the Endurance Real Estate Fund for Central Europe. The Company subscribed to the three existing sub-funds. As at December 31, 2014, there are no remaining commitments to be called. The Company sold all its units and transferred all the related rights and engagements in the Office Sub-fund and Office II Sub-fund as of February 4, 2013 and March 15, 2013 respectively. The Residential Sub-fund, where the Company holds a 14.8% stake, is in liquidation and therefore no further capital can be called.

## 28. Related party transactions

**Transactions with key management personnel**

(a) Remuneration of key management personnel

The members of the Board of Directors and the management of the Company are considered the key personnel of the Group. As of December 31, 2014, the top management was made of two people as six members have been terminated or resigned over the year.

Total compensation given as short term employee benefits to the members of the Executive Committee for the year 2014 amounted to EUR 11 million (EUR 2.7 million for the year 2013).

The Board and Committees attendance compensation for the year 2014 amounts to EUR 72,000 (EUR 356,000 for 2013). The Annual General Meeting held on May 28, 2014 resolved to approve, with the effect as of January 1, 2014, the payment of attendance fees to all independent, non-executive Directors of the Company in the amount of EUR 3,000 per calendar month as a base fee and empowered the Board of Directors to decide at its sole discretion about the payment of additional fees up to EUR 3,000 per calendar month to independent, non-executive Directors of the Company.

During its meeting held on February 3, 2014, the Board of Directors agreed to terminate the Board and Committees attendance compensation as set before, affective January 1, 2014. The previous compensation scheme was as follows: (i) each Board and Committee member for all physical attendance received EUR 4,000 per meeting, (ii) president presiding an ordinary and extraordinary general meeting of shareholders received EUR 9,000 per meeting.

(b) Termination and change of control clauses

On March 18, 2014, the Company's Board of Directors decided to dismiss and to terminate the executive contracts of Jean-François Ott, Nicolas Tommasini, Aleš Vobruba and Brad Taylor. Following negotiations and approvals from the Board of Directors, on 27 March 2014 the Group and the former management entered into a confidential settlement and mutual general release agreement by which the Group settled all the existing and future potential obligations and claims arising from the termination and the holding of warrants by the former management. This agreement is settling all the termination and change of control clauses listed below.

As at 31 December 2014, there are no termination indemnity payments to the members of the Company's management in excess of the compensation payable in the event of termination of their contracts as required by the labour code.

As at December 31, 2013, the potential termination indemnity payment to some members of the Company's management amounted to EUR 16 Million. This indemnity would become payable by the Company to the relevant management members only if the relationship between the Company and the management member is terminated by either party during the six-month period following a change of control of the Company.

An additional indemnity to some members of the management and executive Board members agreed in their respective contracts amounts to EUR 2.7 million (EUR 3.3 million as of 31 December 2012) and is payable in the event of termination of their contracts.

Certain fully owned subsidiaries of the Company entered into managing director agreements with some of their directors. These contracts include a termination indemnity of a total of EUR 588,000 (EUR 12,000 per each subsidiary and director) payable by subsidiaries in the event of termination of director's function. Managing director agreements also contain a monthly fee of EUR 2,000 per each subsidiary and director which becomes payable in the event that directors function of Board member or top management member with the Company is terminated.

(c) Other transactions with key management personnel

To ensure the liquidity for satisfaction of its future liabilities, the Company and Mr. Radovan Vitek entered on September 25, 2014 into a put option agreement concerning the disposal of the shares held by the Company in CPI PG. Pursuant to the terms of the put option agreement the Company has right to request Mr. Vitek, major shareholder of CPI PG, to purchase the CPI PG shares, or their portion, upon a written request of the Company. The put option price payable by Mr. Vitek to the Company is EUR 0.47 per share plus 6% p.a. interest from today until the exercise of the put option. The Company is not limited by the put option agreement to dispose of the CPI PG shares to a third party and/or on a market. The put option agreement is valid for 2 years.

In 2014, the Company transferred 1 share to Jiri Dedera and Tomas Salajka each for free and until they hold the Board function.

In 2013, the Company transferred 1 share to Edward Hughes for free and until he holds the Board function.

In the first half of 2011, two entities closely associated to Gabriel Lahyani, then member of the Board of Directors acquired 8,890 bonds (ISIN: XS0302623953) of ORCO Germany S.A. from the Company's subsidiary for a total of EUR 4.4 million. As of the date of this report, the amount of EUR 227.480 plus statutory late interest accrued thereon is owed to the Company's subsidiary as a consequence of this transaction. Although the Company firmly intends to pursue full recovery of this amount, the receivable has been impaired in the 2012 accounts. As of today a litigation is pending with respect to the delivery and payment of these bonds.

**Transactions with the Endurance Real Estate Fund**

The Company is the sponsor of a Luxembourg regulated closed end umbrella investment fund dedicated to qualified investors, the Endurance Real Estate Fund. This fund has opted for the form of a "Fonds Commun de Placement". The Company is the shareholder of the management company of the Fund and had an ownership interest of 14.8% in the Residential Sub-fund as at 31 December 2014. Between February and March 2013, the Company sold all its units in the sub-funds Office and Office II. Last remaining compartment is Residential Sub-Fund, for which the Company has been appointed by Investors as liquidator.

Orco's remuneration from Residential Sub-Fund amounting to EUR 0.5 million in 2014 (EUR 1.7 million in 2013) is linked to:

- the liquidation fee for the Residential Sub-fund;
- the disposal fee calculated on the value of the assets sold by the fund (0.5% in the Residential Sub-fund).

As at December 31, 2014, open invoices for unpaid fees owed by Endurance Fund to the management company amounted to EUR 0.1 million (EUR 0.1 million as at December 31, 2013).

The investment process foresees that any investment or divestment proposed by the fund manager has to be first approved by the advisory board of the fund. This advisory board is made of representatives of the fund investors.

During the year 2014, Residential Sub-fund distributed a dividend of EUR 0.688 per unit, representing an income of EUR 1.5 million for the Company (EUR 0.2 milion in 2013 ).

**Transactions with affiliated undertakings**

Financial transactions

The Company has global loan agreement with maturity date December 31, 2020 and bearing 6% interest with most of its affiliated undertakings).These loans are all fully detailed (principal amount, accrued interest, impairments, interest rate, interest expenses or income, original currency and maturity) in notes related to loans to affiliated undertakings and to loans from affiliated undertakings (see note 10 & 14).

Operational revenues

Services fees invoiced by the Company are amounting K EUR 3,778 (2013: K EUR 8,259). The significant portion of the service fees is detailed follows:

- CPI PG S.A. : EUR 150,000 for the year 2014 (EUR 300,000 in 2013) (Revenue generated before loose of control);
- Orco Prague a.s. : EUR 2,574,708 for the year 2014 (EUR 6,764,902 in 2013);
- Endurance Hospitality Finance S.à r.l. : EUR 896,635 for the year 2014 (EUR 896,635 in 2013);
- Kosic S.à r.l. : EUR 16,000 for the year 2014 (EUR 16,000 in 2013);

- Mamaison Management s.r.o.: EUR 50,000 for the year 2014 (EUR 50,000 in 2013).

The Company has also signed sub-leasing agreements with all the companies which have their registered address at the Company address (including all subsidiaries).

**Transactions with CPI PG SA**

Sale of SHH loan

On June 11, 2014 the Company entered into a transaction concerning partial disposal of its stakes in Suncani Hvar, whereby OPG disposed of 2,080,000 Suncani Hvar shares corresponding to 24.94% of the shares and voting rights and also of its shareholder receivables from SHH. Shares have been sold for EUR 1 and receivables have been sold for EUR 2.1 million. The opportunity to dispose of the Suncani Hvar stakes was mediated by CPI PG. However, CPI PG made no profit or other benefit out such disposal.

Loan by CPI PG

As of June 17, 2014, both entities agreed to enter into short term Credit facility agreement bearing 8% of interest and maximum of lend amount cannot exceed EUR 3.5 million .On August 27, 2014 the lender and the borrower entered into the amendment 1 to the agreement by which the final repayment day was prolonged until December 31, 2014 and the commitment was increased up to the amount of EUR 6.0 million.On September 26, 2014, amendment 2 is extending payment day to December 31, 2015.

As of December 31, 2014, the total debt of OPG towards CPI is amounting 1.9 EUR million and have beared 86,441 EUR of interest expenses.

Capital Increase

On September 24, 2014 the Company entered into an agreement for the subscription of 65,957,446 new ordinary shares issued by CPI PG at the subscription price of EUR 0.47 per share, which is approximately 12% below the current market price of EUR 0.53. The Company paid an aggregate subscription price of EUR 30,999,999.62 and the New Shares were issued by CPI PG on September 24, 2014.

Notes guarantee

On November 7, 2014, the Company and CPI PG entered into a trust deed (the “Trust Deed”) pursuant to which CPI PG agreed to unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Company in relation to its Notes (registered under ISIN code XS0820547742), which were issued on October 4, 2012 and amended and restated pursuant to the Trust Deed. CPI PG has also undertaken in the Trust Deed to be bound by certain limitations on its activities and to maintain certain financial ratios.

In consideration of CPI PG's entry into the Trust Deed and the guarantee given thereunder, the Company has agreed to pay to CPI PG a guarantee fee of 3% per cent. per annum of the outstanding principal balance of the Notes, payable on a payment in kind (PIK) basis falling due on the business day after all amounts payable in connection with the Notes have been paid in full.

## 29. Events after balance sheet date

Acquisition of development project

On December 19, 2014 the Company entered into an agreement concerning development project located in Prague 10. The project comprises approximately 33 thousand sqm of developable land. The Company already owns 31 thousand sqm of directly adjacent land. The completion was subject to certain corporate approvals on seller’s side, which were granted March 10, 2015, thus the acquisition became effective. The purchase price for transfer of shares and receivables is EUR 5.7 million.

Mandatory Prepayment on Zlota Disposal

Further to the disposal of Zlota 44 project proceeded with an additional “Mandatory Prepayment on Zlota Disposal” under the terms and conditions of the notes registered under ISIN code XS0820547742, issued by the Company on October 4, 2012, as amended and restated on November 7, 2014 (the “Notes”). The prepayment in the amount of EUR 2.2 million was distributed to the holders of the Notes on January 30, 2015. Accordingly, the current outstanding principal of the Notes decreased from EUR 67,290,077.48 to EUR 65,064,248.49.

Disposal of Slezska project

On 6 February 2015 the Group entered into an agreement concerning a disposal of development project Slezská. The company PH Project, a. s. acquired 100 % share at a transfer price EUR 0.04. The part of the agreement was the assignment of receivables in the amount of EUR 1.5 million.

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KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L-1855 Luxembourg

Tel.: +352 22 51 51 1
Fax: +352 22 51 71
Email: info@kpmg.lu
Internet: www.kpmg.lu

To the Shareholders of
Orco Property Group S.A.
40, rue de la Vallée
L-2661 Luxembourg

# REPORT OF THE REVISEUR D'ENTREPRISES AGREE

## *Report on the separate financial statements*

We have audited the accompanying separate financial statements of Orco Property Group S.A., which comprise the statement of financial position as at December 31, 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Board of Directors' responsibility for the financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

### *Responsibility of the Réviseur d'Entreprises agréé*

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the separate financial statements give a true and fair view of the financial position of as of December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Report on other legal and regulatory requirements*

The management report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the separate financial statements and includes the information required by the law with respect to the Corporate Governance Statement.

Luxembourg, March 31, 2015

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Alison Macleod