


# Carpathian PLC Interim Report 2011



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## **Carpathian PLC**

### **Interim results for the six months ended 30 June 2011**

"A significant part of the programme for realising value from the core portfolio has been completed this year in line with the revised strategy of the Company. As a result, the Board is able to announce an immediate distribution of 25 euro cents per share; we are also aiming to make a further distribution before the end of 2011. We will continue to maintain the cash levels within the Group needed to meet essential operational requirements and future termination costs."

**Rory Macnamara,**  
**Non-executive Chairman of Carpathian**

# Financial Highlights

- Profit after tax of €6.6 million (six months to 30 June 2010: €23.4 million)
- Earnings per share of 2.9 euro cents for the period (six months to 30 June 2010: 10.1 euro cents)
- Net asset value per share of 41.9 euro cents (as at 31 December 2010: 39.1 euro cents)
- Net rental income of €7.6 million (six months to 30 June 2010: €11.2 million)
- Total cash of €110.9 million as at 30 June 2011 (as at 30 June 2010: €26.1 million)
- As at 31 August 2011, total cash at holding company level was approximately €89.1 million
- The net deferred tax liabilities are €1.6 million (30 June 2010: €22.4 million)
- Intention to distribute 25 euro cents per ordinary share via a B Share bonus issue with a record date of 30 September 2011
- The ordinary shares will be marked ex-entitlement to the B Share bonus issue on 28 September 2011

## Operational Highlights

- Six property sales were completed within the core portfolio, representing 97% of its year-end valuation as described below.
- Adequate cash reserves retained for all applicable actual and contingent liabilities.
- Arrangements will also be made to deal with any assets not sold by the end of the current Portfolio Management Agreement, expiring on 31 December 2011.
- Three of the four properties in the Blue Knight portfolio of assets in Poland were sold for a gross consideration of €40.2 million. The initial net equity amount realised from the partial Blue Knight sale was approximately €7.6 million.
- Last remaining asset in the Blue Knight portfolio – Osowa shopping centre in Gdansk – was sold for a consideration of €34.5 million in cash.
- Promenada shopping centre in Warsaw, Poland, was sold for a gross consideration of €169.5 million, as announced on 6 May 2011. The net equity realised from the sale after transaction costs was approximately €59.5 million.
- The single tenanted property in Slupsk, Poland, was sold for a consideration of €0.75 million on 18 April 2011, delivering net equity proceeds of approximately €0.7 million.
- The remaining core properties of the Babilonas shopping centre in Lithuania, and the Macromall shopping centre and Satu Mare and Baia Mare development land plots in Romania are in varying stages of the sales process.
- The joint venture project of the Riga shopping centre in Latvia continues to underperform. We are exploring alternatives for co-operating with the joint venture partner and the financing bank, enabling the further investment that is required for the project's longer-term success on terms acceptable to our shareholders, and entertaining interest from potential longer-term investment buyers.

Carpathian disposed of the non-core Plaza property portfolio in Hungary for a nominal sum to the financing bank in Hungary on 19 April 2011.



During the first six months of 2011, the Company has achieved significant progress towards completing its value realisation programme of the core property portfolio as outlined in its Strategic Review, which was completed in January 2010.

At 30 June 2011, the Group retained four core properties (Babilonas, Macromall and the two development assets at Baia Mare and Satu Mare), four non-core properties comprising the MID portfolio and the non-consolidated investment in the Riga shopping centre joint venture. All properties continue to be actively marketed for sale and are at varying stages of the sales cycle, as more fully described in the Property Investment Adviser's Report.

## Financial results

As a consequence of the substantial disposals completed during the first six months of 2011, the Company has presented its Consolidated Statement of Comprehensive Income in accordance with International Financial Reporting Standard 5 ('IFRS 5') and, therefore, now separately discloses the operations sold during the period as discontinued.

Profit after tax for the period is €6.6 million, while the Group generated a profit of €23.4 million during the first six months of 2010. Earnings per share are 2.9 euro cents (six months to 30 June 2010: 10.1 euro cents). The substantially higher accounting profit for the first six months of 2010 was the result of the sale and derecognitions of loss-making, non-core assets (the Plaza and Atrium portfolios).

The profit after tax for the period was the result of investment realisations – the remaining assets owned as at 30 June 2011 created a loss after tax of €1.8 million for the period.

During the first six months of 2011, the Group's net rental and related income was €7.6 million (six months to June 2010: €11.2 million). This is in line with our expectations; the variance was driven by the sale of the Agrokor portfolio in December 2010 and the Blue Knight portfolio and Promenada and Biedronka properties in 2011.

Administrative expenses for the period were €2.9 million (2010: €2.7 million). The administrative expenses for the period included one-off items relating to the sold assets as well as corporate restructuring costs of approximately €0.6 million. This restructuring of various group companies has delivered

reductions in corporate income tax liabilities from the sales of the core property portfolio as shown in the movement of the net deferred tax liabilities (described below).

The expenses relating to the Property Investment Adviser decreased from €2.3 million in the six months to June 2010 to €1.5 million in 2011. On a cumulative basis, this is approximately €0.5 million below the maximum amount set out in the Property Management Agreement signed in February 2010. This expense is allocated substantially within property operating expenses in the Consolidated Statement of Comprehensive Income.

Based on the sales completed as at 30 June 2011, the Company has made an accrual for a capital performance payment of €9.5 million, although not all conditions are yet satisfied for the payment to be made.

The Group's net asset value per share is 41.9 euro cents as at 30 June 2011 (as at 31 December 2010: 39.1 euro cents), based on the latest independent property valuations as at 31 December 2010. There is no fair value adjustment of the property portfolio for the first six months of 2011. Independent property valuations are only performed at the year-end. The Board has assessed the property valuations and believes that the valuation as at 31 December 2010 is a reasonable estimate for the 30 June 2011 fair value.

Total Group cash as at 30 June 2011 was €110.9 million (as at 31 December 2010: €26.8 million) and €107.8 million as at 31 August 2011. The Group had approximately €89.1 million cash at holding company level, including its entities in the Isle of Man and Luxembourg.

The Group has re-classified all its long-term assets to current assets as they are held for sale. The Group also has no long-term liabilities, as each of its debt facilities expires at the end of 2011.

The Group's consolidated debt position as at 30 June 2011 was €75.7 million (as at 31 December 2010: €221.3 million), a decrease of €145.6 million. Further details about the Group's debt facilities can be found in the Property Investment Adviser's Report.

The Group has no goodwill as at 30 June 2011 (as at 31 December 2010: €6.6 million).

The Group's net deferred tax liabilities are €1.6 million (as at 31 December 2010: €21.0 million). The change is the result of the progress made with the corporate restructuring of the Group.

## Key operational matters for the period

In line with the priorities set out in the Strategic Review, the Company has disposed of six core investment assets representing approximately 97% of the core investment portfolio valued at €238.6 million as at 31 December 2010.

As announced on 9 March 2011, three of the four properties in the Blue Knight portfolio of assets in Poland were sold for a gross consideration of €40.2 million. The initial net equity amount realised from the partial Blue Knight sale was approximately €7.6 million. The financing bank, Deutsche Pfandbriefbank ('DPB'), retained approximately €9.4 million, in addition to the allocated loan amount of approximately €22 million, to cover an additional loan repayment against the fourth property in Gdansk of €7.9 million and the

## Chairman's Statement continued



Babilonas shopping centre of €0.9 million, as had been agreed during the DPB debt restructuring in June 2009. A further €0.6 million loan repayment was agreed in connection with obtaining DPB's consent for the corporate restructuring that has delivered substantial tax benefits to the Group.

On 18 May 2011, the sale of the fourth and only remaining asset in the Blue Knight portfolio – Osowa shopping centre in Gdansk – was completed for a consideration of €34.5 million in cash. The sale price includes a €3 million retention to be held pending the resolution of questions related to the occupancy permit. At this stage, realisation of this retention is uncertain. The initial net equity released after transaction costs was approximately €9.8 million. Further to this, DPB released retained funds of €8.9 million previously held from the sale of the first three assets in the Blue Knight portfolio and the Promenada shopping centre

The Promenada shopping centre in Warsaw, Poland, was sold for a gross consideration of €169.5 million, as announced on 6 May 2011. This price was subject to a net deduction of €1 million, arising principally from payments for warranty insurance and the modification of the trademark licence. An escrow account of €0.6 million was established, all of which has already been released. Carpathian also received an additional consideration of €1.5 million in August 2011, when the purchaser reclaimed the relevant VAT. Total bank debt and related fees payable to DPB were approximately €108.1 million, which included a loan repayment of approximately €1 million against the Gdansk property, an

additional €2.1 million against the Babilonas shopping centre in Lithuania and a further €0.2 million repayment in relation to the corporate restructuring. The initial net closing payment was €59.8 million, while the net equity realised from the sale after transaction costs was approximately €59.5 million.

The single tenanted property in Slupsk, Poland, was sold for a consideration of €0.75 million on 18 April 2011, delivering net equity proceeds of approximately €0.7 million.

The remaining core properties of the Babilonas shopping centre, in Lithuania, and the Macromall shopping centre and Satu Mare and Baia Mare development land plots in Romania are in varying stages of the sales process.

The joint venture project of the Riga shopping centre in Latvia continues to underperform. We are exploring alternatives for co-operating with the joint venture partner and the financing bank, enabling the further investment that is required for the project's longer-term success on terms acceptable to our shareholders, and entertaining interest from potential longer-term investment buyers.

The only remaining non-core investment portfolio of the MID properties in the Czech Republic and Hungary is also in the due diligence phase of a sales process.

Carpathian disposed of the non-core Plaza property portfolio in Hungary to the financing bank in Hungary for a nominal sum on 19 April 2011. This portfolio was derecognised from our Balance Sheet in 2010.



## Dividend

In line with the business plan set by the Strategic Review in January 2010, the Company intends to distribute the cash received from asset sales to shareholders. Based on the progress made following the above transactions and the transfer of the net proceeds through various jurisdictions to the holding company, Carpathian intends to distribute 25 euro cents per ordinary share via a B Share bonus issue with a record date of 30 September 2011. The ordinary shares will be marked ex-entitlement to the B Share bonus issue on 28 September 2011. In addition, the Company aims to make a further distribution before the end of 2011.

Adequate cash reserves will be retained for all applicable actual and contingent liabilities. Arrangements will be made to deal with any assets the Company has been unable to dispose of by the end of the current Portfolio Management Agreement, which expires on 31 December 2011.

At the Annual General Meeting, which was held on 6 August 2010, the Company adopted new Articles of Association, which provide for the creation of new share classes. In respect of such distribution of 25 euro cents, your Board proposed to implement the proposals then outlined. This would result in an issue of new B shares pro rata to existing shareholders, offering qualifying shareholders the opportunity to elect for a conventional dividend (income) distribution or for a share sale and purchase (capital) distribution. The details were described in the circular dated 14 July 2010, which convened the above Annual General Meeting. A copy of this circular is available for download from the Company's website: <http://www.carpathianplc.com/Attachments/000033/Circular%202010.pdf>

Further particulars and a form of election will be circulated in the next few weeks.



### Note on going concern

At some time after 31 December 2011, the Company intends to effect a further distribution to shareholders of any residual surplus cash balance and to seek shareholders' approval to de-list the Company from the Alternative Investment Market of the London Stock Exchange and in due course thereafter to commence and implement an orderly members voluntary liquidation, of itself and its then remaining subsidiaries.

The Board expects that this process will be initiated within the next 12 months. In the meantime, and based on these proposed steps, no material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern have been identified by the Directors.

Rory Macnamara  
Chairman

21 September 2011

# Property Investment Adviser's Report

## Overview

During 2011 the Company has successfully disposed of the majority of its core assets as outlined in the Strategic Review in January 2010.

As a result of the sales, the Company has now exited the Polish and Croatian markets. The remaining countries in which we have invested, and their weighted values, are: Czech Republic (25%), Hungary (16%), Latvia\* (34%), Lithuania (19%) and Romania (6%).

\*Latvia is a joint venture, in which Carpathian PLC has an 80% equity stake but not majority management control.

## Transactions

As mentioned in the Chairman's Statement, six property sales were completed during the period within the core portfolio, representing 97% of its 2010 year-end valuation.

Now the outstanding matters in relation to these sales processes are minimal. All the

retained funds from the Promenada shopping centre sale have now been released. With regard to the sales of the first three assets of the Blue Knight portfolio, we are still working with the Purchaser to release amounts relating to tenants' deposit transfers and additional documents. This amount represents approximately €0.6 million, and is expected to be realised before the year-end.

From the sale of the fourth and last remaining asset in the Blue Knight portfolio – Osowa shopping centre in Gdansk – €3 million retention is kept on a separate account, pending the resolution of questions related to the occupancy permit. At this stage, realisation of this retention is uncertain.

The Agrokor sale transaction, which closed in December 2010, kept €1.1 million on escrow for six months in case any claims were made against the warranties. That period has now passed, with no claims from the Purchaser, and the funds have been released to the Company.





## Core assets

Core portfolio – Investment properties 30 June 2011	
Weighted average lease expiry	2.2 years
Voids by rental value/%	€251k/8%
Lease expiries within one year (value/number of leases)	€1,126k/114
NOI growth over the last 12 months	-3%
Income collection – year to date	96%

The core portfolio now only consists of two assets: the Babilonas shopping centre in Lithuania and the Macromall shopping centre in Romania. The weighted average lease length is 2.2 years, which is a decrease from the 4.16 years reported as at 31 December 2010 as a result of the sale transactions completed. Vacancy is concentrated at Macromall at

approximately 30%, while Babilonas has a very low level of 3%. The majority of expiring leases are at Babilonas, where 86 leases are due to expire in the next 12 months with an annual rent of €0.9 million. The Net Operating Income ('NOI') decrease of 3% was substantially realised at Macromall.

Core portfolio – Investment properties 30 June 2011	Gross lettable area (sqm)	Loan amount €'000's**	NOI* €'000's	Loan expiry	Valuation*** €'000's*	Status
Babilonas	22,429	18,800**	1,212	Dec-11	25,000	Under offer
Macromall	7,748	-	-	-	2,500	Under offer
<b>Total</b>	<b>30,177</b>	<b>18,800</b>	<b>1,212</b>		<b>27,500</b>	

\* Net Operating Income ('NOI') for the six months ended 30 June 2011

\*\* €3.8 million of loan paid down or held on a blocked account as part of the Blue Knight and Promenada sale agreements

\*\*\* Independent valuation as at 31 December 2010



## Portfolio Review

The Babilonas shopping centre was re-classified to a core asset on 1 April 2011. The Net Operating Income ('NOI') for the first six months of 2011 shows a 20% increase from the same period a year earlier. The increase is due to expired rent rebates granted to tenants during difficult trading periods in 2010, decreased vacancy, from 7.1% to 3.5% as at 30 June 2011, and improved collection, which virtually eliminated any bad debt provision. Rent collection is at 99% for the period. The weighted average lease length of the property is 2.35 years.

As part of the cross-collateralisation agreed with DPB bank during the re-finance, a cumulative sum of €3.8 million of the loan is to be repaid out of the proceeds of the Blue Knight portfolio and the Promenada shopping centre sales. Of this amount, €2.3 million has been repaid in September.

The property is currently under offer, with the purchaser completing its due diligence. Final negotiations are currently taking place, aiming a deal to be closed shortly.

The Macromall shopping centre continues to struggle with high vacancy (30%) and poor rent collection (77%). The Company recently settled a lawsuit with the building contractor related to the installation of the air conditioning units brought by the installer in 2008.

The property is currently under offer to a local buyer. Due diligence is complete and the sale contract has been agreed. A ruling from the Romanian tax office regarding the VAT treatment of the sale is expected by late September, with closing scheduled to take place shortly afterwards.

Core portfolio – Development land 30 June 2011	Land size (sqm)	Valuation* €'000's	Status
Baia Mare – land	125,238	3,000	Actively marketing
Satu Mare – land	26,759	2,100	Under offer
Total	151,997	5,100	

\* Independent valuation as at 31 December 2010

The Satu Mare land is under offer, and we expect the transaction to be closed before the year-end. The Baia Mare land is actively marketed at the moment.

## Non-core assets

Non-core portfolio – Investment properties 30 June 2011	
Weighted average lease expiry	7.34 years
Voids by rental value/%	€65k/1%
Lease expiries within one year (value/number of leases)	€5k/2
NOI growth over the last 12 months	0%
Year to date income collection	100%

The non-core assets are represented only by the MID portfolio. Other assets, comprising the Antana logistics warehouse and the Anglo Irish Bank portfolio, are derecognised, as management control has been taken over by the financing banks. All four properties of the

MID portfolio are anchored by Interspar on long-term leases, which is the reason for the long lease length of 7.34 years. Collection is 100% and there is very little vacancy or upcoming expiries. A cash sweep is in place with the bank.



## Portfolio Review continued

The portfolio is under offer, with the purchaser undertaking initial due diligence. If due diligence/ contract negotiations are successful, then closing should take place at the end of October.

Non-core portfolio – Investment properties 30 June 2011	Gross lettable area (sqm)	Loan amount € 000's	NOI* €'000	Loan expiry	Valuation*** €'000*	Status
MID portfolio	45,370	53,060	2,345	Dec-11	53,150	Under offer
<b>Total</b>	<b>45,370</b>	<b>53,060</b>	<b>2,345</b>		<b>53,150</b>	

\* Net Operating Income ("NOI") for the six months ended 30 June 2011

\*\* Independent valuation as at 31 December 2010

The Riga shopping centre is a non-consolidated investment property, as Carpathian PLC is a joint venture partner and does not have majority management control.

The centre opened with greater vacancy than anticipated, and the focus has been on attracting major international retailers to enhance the retail offer of the centre. Discussions are ongoing with a number of major brands who have expressed interest in the centre and are monitoring the management and marketing of the centre together with the progress made upgrading the tenant mix.

Since opening in October 2010, occupancy has improved from 40% to its current level of 75%. However, two of the anchor tenants in the centre have failed and will shortly close due to problems with the franchisees; this will reduce the occupancy to 67%.

Until further anchor tenants and international brands are in place, existing retailers will continue to experience trading below the

potential offered by the city centre location. The current trading conditions require rental concessions being granted to support tenants and have given rise to high levels of arrears.

In April 2011, EMCM (now CBRE) were appointed as the shopping centre's Property Manager and Leasing Agent. The change has been positively received by tenants and rental collection rates have improved. Heads of Terms have recently been signed with a major UK fashion retailer, which will open its first Latvian store at Galleria Riga in February 2012 and is expected to catalyse further interest from major retailers.

**Paul Rogers**  
Managing Partner  
CPT LLP

21 September 2011



# Unaudited Consolidated Statement of Comprehensive Income



for the six months ended 30 June 2011

		30 Jun 2011 Continuing €'000	30 Jun 2011 Discontinued €'000	30 Jun 2011 Total €'000	30 Jun 2010 Total €'000	31 Dec 2010 Total €'000
	Note					
Gross rental income		3,866	6,725	10,591	15,676	30,659
Service charge income		994	2,867	3,861	5,884	11,287
Service charge expense		(1,161)	(3,379)	(4,540)	(7,420)	(13,688)
Property operating expenses		(2,225)	(897)	(3,122)	(3,326)	(6,482)
Other property income		13	842	855	346	420
<b>Net rental and related income</b>		<b>1,487</b>	<b>6,158</b>	<b>7,645</b>	<b>11,160</b>	<b>22,196</b>
Changes in fair value of investment property		-	-	-	-	7,862
Profit on sale of investment property	8	-	13,151	13,151	24,042	21,574
Profit on derecognition of investment property		-	-	-	6,145	5,296
Profit on disposal of subsidiary companies		-	586	586	-	-
Capital performance payment	11	-	(9,451)	(9,451)	-	-
Impairment of goodwill		(228)	-	(228)	(251)	1,011
Impairment of other investments		-	-	-	-	(11,372)
Impairment of loans receivable		-	-	-	-	(2,000)
Changes in fair value of derivative assets and liabilities		1,676	-	1,676	(3,222)	(3,896)
Net foreign exchange (loss)/gain		(935)	705	(230)	1,602	1,553
Administrative expenses		(1,894)	(1,006)	(2,900)	(2,738)	(5,974)
<b>Net operating profit before net financing expense</b>		<b>106</b>	<b>10,143</b>	<b>10,249</b>	<b>36,738</b>	<b>36,260</b>
Financial income		19	479	498	173	325
Financial expenses		(3,032)	(3,530)	(6,562)	(8,695)	(15,963)
Changes in fair value of interest rate swaps		1,612	1,368	2,980	(957)	647
<b>Net financing expense</b>	5	<b>(1,401)</b>	<b>(1,683)</b>	<b>(3,084)</b>	<b>(9,479)</b>	<b>(14,991)</b>
<b>Net profit/(loss) before tax</b>		<b>(1,295)</b>	<b>8,460</b>	<b>7,165</b>	<b>27,259</b>	<b>21,269</b>
Tax expense		(518)	-	(518)	(3,842)	(6,248)
<b>Profit/(loss) for the period and total comprehensive income for the period</b>		<b>(1,813)</b>	<b>8,460</b>	<b>6,647</b>	<b>23,417</b>	<b>15,021</b>

# Unaudited Consolidated Statement of Comprehensive Income continued



for the six months ended 30 June 2011

		30 Jun 2011	30 Jun 2011	30 Jun 2011	30 Jun 2010	31 Dec 2010
	Note	Continuing €'000	Discontinued €'000	Total €'000	Total €'000	Total €'000
<b>Attributable to:</b>						
Equity holders of the Company				<b>6,647</b>	23,428	15,032
Non-controlling interest				-	(11)	(11)
<b>Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the period (expressed as cents per share)</b>						
Basic earnings per share	6			<b>2.9 c</b>	10.1 c	6.5 c
Diluted earnings per share	6			<b>2.9 c</b>	10.1 c	6.5 c

# Unaudited Consolidated Statement of Changes in Equity

for the six months ended 30 June 2011

	Share capital €'000	Share premium €'000	Non- controlling interest €'000	Retained earnings €'000	Total €'000
Balance as at 1 January 2010	2,321	91,477	11	(18,091)	75,718
<b>Total comprehensive income for the period</b>					
Profit for the period	-	-	-	23,417	23,417
<b>Transactions with owners recorded directly to equity</b>					
Loss allocation to non-controlling shareholders	-	-	(11)	11	-
Balance as at 30 June 2010	2,321	91,477	-	5,337	99,135
Balance as at 1 January 2011	<b>2,321</b>	<b>91,477</b>	-	<b>(3,059)</b>	<b>90,739</b>
<b>Total comprehensive income for the period</b>					
Profit for the period	-	-	-	<b>6,647</b>	<b>6,647</b>
<b>Balance as at 30 June 2011</b>	<b>2,321</b>	<b>91,477</b>	-	<b>3,588</b>	<b>97,386</b>

# Unaudited Consolidated Statement of Financial Position



as at 30 June 2011

	Note	30 Jun 2011 €'000	30 Jun 2010 €'000	31 Dec 2010 €'000
<b>Assets</b>				
<b>Non-current assets</b>				
Investment property	7	–	379,161	89,250
Goodwill		–	7,902	6,564
Investments in equity accounted investees		–	11,372	–
Deferred income tax assets		–	2,060	618
		–	400,495	96,432
<b>Current assets</b>				
Trade and other receivables		14,587	8,136	7,126
Loans receivable		–	2,000	–
Assets held for sale	8	88,500	–	237,900
Cash and cash equivalents		110,917	26,092	26,773
Deferred income tax assets		149	–	–
Financial assets		5,498	4,502	3,823
		219,651	40,730	275,622
<b>Total assets</b>				
		219,651	441,225	372,054
<b>Equity</b>				
Issued capital	9	2,321	2,321	2,321
Share premium	9	91,477	91,477	91,477
Retained earnings		3,588	5,337	(3,059)
<b>Total equity</b>		<b>97,386</b>	<b>99,135</b>	<b>90,739</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Bank loans		–	259,668	–
Other payables		–	28,731	19,160
Deferred income tax liabilities		–	24,499	21,647
		–	312,898	40,807
<b>Current liabilities</b>				
Trade and other payables		43,615	21,408	14,812
Bank loans		75,674	1,088	221,308
Provisions		992	890	997
Deferred income tax liabilities		1,623	–	–
Financial liabilities		361	5,805	3,391
		122,265	29,192	240,508
<b>Total liabilities</b>				
		122,265	342,090	281,315
<b>Total equity and liabilities</b>				
		219,651	441,225	372,054

# Unaudited Consolidated Statement of Cash Flows

for the six months ended 30 June 2011

	Note	30 Jun 2011 €'000	30 Jun 2010 €'000	31 Dec 2010 €'000
<b>Cash flows from operating activities</b>				
Cash generated from operations	10	9,444	11,717	18,273
Income taxes received/(paid)		574	39	(1,014)
Net cash generated from operating activities		<b>10,018</b>	11,756	17,259
<b>Cash flows from investing activities</b>				
Capital expenditure on investment property		-	(185)	(178)
Cash received/(conceded) on disposal of investment property		227,050	(744)	2,924
Cash conceded on derecognition		-	(2,122)	(2,866)
Interest received		514	272	283
Net cash generated from/(used in) investing activities		<b>227,564</b>	(2,779)	163
<b>Cash flows from financing activities</b>				
Interest paid		(7,189)	(8,931)	(16,884)
Repayments of borrowings		(146,249)	(3,452)	(3,263)
Dividends paid		-	(10,446)	(10,446)
Net cash used in financing activities		<b>(153,438)</b>	(22,829)	(30,593)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>84,144</b>	(13,852)	(13,171)
Cash and cash equivalents at the beginning of the period		26,773	39,944	39,944
<b>Cash and cash equivalents at the end of the period</b>		<b>110,917</b>	26,092	26,773

# Notes to the Unaudited Consolidated Financial Statements

## 1 General information

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

The Interim Report of Carpathian PLC for the six months ended 30 June 2011, comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements include the share capital of the Company denominated in Euro. The share capital was converted from Pounds Sterling to Euro on 24 July 2009 based on the exchange rate prevailing in that date.

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

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

## 2 Going concern

In line with the priorities set out in the Strategic Review, completed in January 2010, and as announced on 9 March, 6 May and 18 May, the Group has disposed of 6 core investment properties during the period.

At 30 June 2011, the Group retains 4 core properties (Babilonas, Macromall and the 2 development assets at Baia Mare and Satu Mare), 4 non-core properties comprising the MID portfolio and the non consolidated investment in the Galleria Riga joint venture. All properties continue to be actively marketed for sale and are at varying stages of the sales cycle, as more fully described in the Property Investment Adviser's Report.

In line with the Strategic Review, the Company intends to distribute to shareholders all of the surplus cash received from asset sales. At the appropriate time, adequate reserves will be retained for all applicable actual and contingent liabilities and arrangements will be made to deal with any assets of which the Company has been unable to dispose by the end of the current Portfolio Management Agreement, expiring 31 December 2011.

The Company then intends to prepare its final accounts, effect a final distribution to shareholders of any residual surplus cash balances and to seek shareholders' approval to commence and implement an orderly members voluntary liquidation, of itself and its then remaining subsidiaries and then to de-list the Company from the Alternative Investment Market of the London Stock Exchange.

The Board has an expectation that the de-listing process will be initiated within the next 12 months, including liquidation of subsidiaries no longer required due to property sales. In the meantime, and based on these proposed steps, no material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern have been identified by the Directors.

# Notes to the Unaudited Consolidated Financial Statements continued

## 3 Significant accounting policies

(a) The interim report for the six months ended 30 June 2011 is unaudited and has been prepared based on the accounting policies set out in the statutory accounts for the year ended 31 December 2010, and the new and revised accounting policies and other changes as disclosed in paragraph 2(b).

(b) Changes in accounting policies

(i) Assets held for sale

An asset is classified as held for sale as and when the Group is actively marketing the asset for sale and if such assets meet the full criteria laid down in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. An asset classified as held for sale is measured initially at its fair value less future costs to sell. Should a sale agreement be entered into at the period end but is not yet completed the fair value of the asset shall be its value as prescribed by the sales agreement.

Assets held for sale are shown separately on the face of the Statement of Financial Position.

## 4 Operating segments

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

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

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

Information about reportable segments

The Fund segment includes a loss arising from discontinued operation as per the Consolidated Statement of Comprehensive Income of €9.4 million relating to the capital performance payment.

The Core segment includes discontinued operations as per the Consolidated Statement of Comprehensive Income. As such €6.7 million of €8.1 million gross rental income is discontinued and profits of €17.9 million are discontinued.

# Notes to the Unaudited Consolidated Financial Statements continued

## 4 Operating segments (continued)

### Consolidated Statement of Comprehensive Income

	2011 Fund €'000	2011 Core €'000	2011 Non-core €'000	2011 Total €'000
Gross rental income	–	8,143	2,448	10,591
Service charge income	–	3,411	450	3,861
Service charge expenses	–	(4,047)	(493)	(4,540)
Property operating expenses	(1,293)	(1,617)	(212)	(3,122)
Other property income	–	844	11	855
<b>Net rental and related income</b>	<b>(1,293)</b>	<b>6,734</b>	<b>2,204</b>	<b>7,645</b>
Profit/(loss) on sale of investment property	–	13,151	–	13,151
Profit/(loss) on disposal of subsidiary companies	(288)	874	–	586
Capital performance payment	(9,451)	–	–	(9,451)
Impairment of goodwill	–	(109)	(119)	(228)
Changes in fair value of derivative assets and liabilities	1,676	–	–	1,676
Net foreign exchange gain/(loss)	405	71	(706)	(230)
Administrative expenses	(1,147)	(1,474)	(279)	(2,900)
<b>Net operating profit/(loss) before net financing expense</b>	<b>(10,098)</b>	<b>19,247</b>	<b>1,100</b>	<b>10,249</b>
Financial income	69	428	1	498
Financial expenses	(166)	(4,689)	(1,707)	(6,562)
Changes in fair value of interest rate swaps	–	1,548	1,432	2,980
<b>Net financing expense</b>	<b>(97)</b>	<b>(2,713)</b>	<b>(274)</b>	<b>(3,084)</b>
<b>Net profit/(loss) before tax</b>	<b>(10,195)</b>	<b>16,534</b>	<b>826</b>	<b>7,165</b>
Current tax credit/(expense)	(243)	(81)	(3)	(327)
Deferred tax	–	(42)	(149)	(191)
<b>Profit/(loss) for the period and total comprehensive income for the period</b>	<b>(10,438)</b>	<b>16,411</b>	<b>674</b>	<b>6,647</b>

# Notes to the Unaudited Consolidated Financial Statements continued

## 4 Operating segments (continued)

Consolidated Statement of Financial Position

	2011 Fund €'000	2011 Core €'000	2011 Non-core €'000	2011 Total €'000
<b>Assets</b>				
<b>Current assets</b>				
Trade and other receivables	1,289	13,085	213	14,587
Assets held for sale	–	32,600	55,900	88,500
Cash and cash equivalents	22,399	88,189	329	110,917
Deferred income tax assets	–	82	67	149
Financial assets	5,496	2	–	5,498
	29,184	133,958	56,509	219,651
<b>Total assets</b>	<b>29,184</b>	<b>133,958</b>	<b>56,509</b>	<b>219,651</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	(22,712)	(11,281)	(9,622)	(43,615)
Bank loans	–	(22,600)	(53,074)	(75,674)
Provisions	–	(992)	–	(992)
Deferred income tax liabilities	–	(79)	(1,544)	(1,623)
Derivative liabilities	–	(34)	(327)	(361)
	(22,712)	(34,986)	(64,567)	(122,265)
<b>Total liabilities</b>	<b>(22,712)</b>	<b>(34,986)</b>	<b>(64,567)</b>	<b>(122,265)</b>
<b>Net assets</b>	<b>6,472</b>	<b>98,972</b>	<b>(8,058)</b>	<b>97,386</b>
<b>Equity</b>				
Issued capital				2,321
Share premium				91,477
Retained earnings				3,588
<b>Total equity</b>				<b>97,386</b>

# Notes to the Unaudited Consolidated Financial Statements continued

## 4 Operating segments (continued)

### Geographical segments

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

	Isle of Man €'000	Poland (Dis-continued) €'000	Lithuania €'000	Czech Republic €'000	Other jurisdictions €'000	Total €'000
<b>Revenue</b>						
Gross rental income	–	6,725	1,293	1,469	1,104	10,591
Service charge income	–	2,868	455	385	153	3,861
Other property income	–	843	2	6	4	855
<b>Total</b>	–	10,436	1,750	1,860	1,261	15,307
<b>Non-current assets</b>						
Investment property held for sale	–	–	25,000	32,250	31,250	88,500

## 5 Net financial expense

	30 Jun 2011 €'000	30 Jun 2010 €'000	31 Dec 2010 €'000
Interest income from financial institutions	498	173	325
	498	173	325
Net interest expenses on bank borrowings	(5,241)	(8,244)	(14,690)
Finance costs amortised	(291)	(537)	(1,098)
Unwinding of unrealised direct issue costs of borrowings	(1,030)	86	(175)
	(6,562)	(8,695)	(15,963)
Changes in fair value of interest rate swaps	2,980	(957)	647

# Notes to the Unaudited Consolidated Financial Statements continued

## 6 Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share at 30 June 2011 was based on the profit attributable to ordinary shareholders of €6,646,509 and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2011 of 232,148,175, calculated as follows:

<b>Profit attributable to ordinary shareholders</b>	<b>30 Jun 2011 €'000</b>	30 Jun 2010 €'000	31 Dec 2010 €'000
Profit for the period	<b>6,647</b>	23,417	15,021
Non-controlling interest	-	11	11
Profit attributable to ordinary shareholders	<b>4,946</b>	23,428	15,032
<b>Weighted average number of ordinary shares</b>			
1 January	<b>232,148,175</b>	232,148,175	232,148,175
Weighted average number of ordinary shares	<b>232,148,175</b>	232,148,175	232,148,175
Basic and diluted earnings per share	2.9 € c	10.1 € c	6.5 € c


## 7 Investment and development property

	<b>30 Jun 2011 Investment property €'000</b>	<b>30 Jun 2011 Develop- ment property €'000</b>	<b>30 Jun 2011 Total €'000</b>	30 Jun 2010 Total €'000	31 Dec 2010 Total €'000
Balance at 1 January	<b>84,150</b>	<b>5,100</b>	<b>89,250</b>	453,227	453,227
Additions	-	-	-	185	177
Disposals	<b>(750)</b>	-	<b>(750)</b>	(27,300)	(73,300)
Derecognition of assets	-	-	-	(46,950)	(46,950)
Finance lease obligations	-	-	-	-	817
Movement in fair value	-	-	-	-	7,872
Assets transferred to held for sale	<b>(83,400)</b>	<b>(5,100)</b>	<b>(88,500)</b>	-	(252,593)
	-	-	-	379,161	89,250

The Group's policy is to formally value investment property annually at 31 December; management have assessed valuation and believe that valuation at 31 December 2010 is a reasonable estimate for 30 June 2011 fair value. Fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction after proper marketing at the date of the valuation.

On 18 April 2011, the Company disposed of its Biedronka property in Poland for a consideration of €0.8 million. The property was included in the Consolidated Statement of Financial Position at 31 December 2010 at a valuation of €0.8 million. There was no external debt outstanding on the property.

# Notes to the Unaudited Consolidated Financial Statements continued



## 8 Assets held for sale

	<b>30 Jun 2011 €'000</b>	31 Dec 2010 €'000
Balance at 1 January	<b>237,900</b>	–
Assets classified as held for sale	<b>88,500</b>	237,900
Disposals	<b>(237,900)</b>	–
	<b>88,500</b>	237,900

On 9 March 2011, the Company disposed of three properties held within the Blue Knight portfolio in Poland for a consideration of €40.2 million. The properties were included in the Consolidated Statement of Financial Position at sales value less costs to sell amounting to €38.3 million. The direct debt repayment to Deutsche Pfandbriefbank from the sales proceeds was approximately €21.9 million including fees.

On 5 May 2011, the Company disposed of the Promenada property in Poland for a consideration of €169.5 million with an additional consideration of €1.5 million received on 25 August 2011 when the VAT was reimbursed to the buyer. The property was included in the Statement of Financial Position at sales value less costs to sell amounting to €168.2 million. The direct debt repayment to Deutsche Pfandbriefbank from the sales proceeds was approximately €108.1 million including fees.

On 17 May 2011, the Company disposed of the final property held within the Blue Knight portfolio in Poland for a consideration of €34.5 million. The property was included in the Statement of Financial Position at sales value less costs to sell amounting to €31.3 million. A €3 million consideration from the purchase price will be retained on an escrow account and will become payable to the Company if an occupancy permit amendment is obtained by 31 December 2011. This amount will be reduced to €1.5 million if such amendment is obtained after 31 December 2011, but before 30 June 2012. The direct debt repayment to Deutsche Pfandbriefbank from the sale proceeds was approximately €20.5 million including fees.

In addition to these transactions, Deutsche Pfandbriefbank retained €3.8 million from the sales proceeds against the separate debt facility relating to the Babilonas property.

The Group's policy is to formally value investment property annually at 31 December; management have assessed valuation and believe that valuation at 31 December 2010 is a reasonable estimate for 30 June 2011 fair value. Fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction after proper marketing at the date of the valuation.

All investment properties held are currently being actively marketed for sale and have been classified as current assets held for sale. As at 30 June 2011 no sale contracts had been entered into for these properties.

# Notes to the Unaudited Consolidated Financial Statements continued

## 8 Assets held for sale (continued)

The profit and loss on disposal, after all accounting adjustments, of the properties is analysed below.

	30 Jun 2011 €'000
Loss on disposal	(2,353)
Release of deferred tax	21,218
Release of goodwill	(5,714)
<b>Profit on disposal</b>	<b>13,151</b>

The assets disposed were valued at their values per the sales agreements as at 31 December 2010 less estimated transaction costs. The loss on disposal during the period above arises from amendments to the sales price and variations in actual sales costs compared to estimates.

## 9 Share capital and share premium

	Number of Ordinary Shares of 1 euro cent each	€'000
<b>Authorised:</b>		
At 31 December 2010 and 30 June 2011	350,000,000	3,500

	Number of shares issued and fully paid	Share capital €'000	Share premium €'000
<b>Issued:</b>			
<b>Ordinary Shares of 1p each</b>			
Balance at 31 December 2010 and 30 June 2011	232,148,175	2,321	91,477

# Notes to the Unaudited Consolidated Financial Statements continued



## 10 Notes to the Cash Flow Statement

<b>Cash generated from operations</b>	<b>30 Jun 2011 €'000</b>	30 Jun 2010 €'000	31 Dec 2010 €'000
Profit for the period	<b>6,647</b>	23,417	15,021
Adjustments for:			
Increase/(decrease) in fair value of financial instruments	<b>(4,707)</b>	4,456	2,773
Unwinding of unrealised direct issue costs of borrowings	<b>615</b>	537	1,215
Net other finance income	<b>6,064</b>	8,328	15,463
Decrease in fair value of investment and development property	-	-	(7,872)
Provisions	<b>(5)</b>	(8)	203
Impairment of loans receivable	-	-	13,372
Impairment of goodwill	<b>6,564</b>	-	-
Income tax (credit)/expense	<b>(1,009)</b>	3,920	6,428
Profit on disposal of investment property	<b>(10,915)</b>	(30,154)	(28,688)
<b>Operating cash flows before movements in working capital</b>	<b>3,254</b>	10,496	17,915
(Increase)/decrease in receivables	<b>(5,967)</b>	374	216
Increase/(decrease) in payables	<b>12,157</b>	847	142
<b>Cash generated from operations</b>	<b>9,444</b>	11,717	18,273

## 11 Amounts payable to Property Investment Adviser

CPT LLP, the Company's Property Investment Adviser, is paid a fixed management fee of £1.55 million per annum and a variable management fee, which reduces in line with the sale of the Company's assets comprising the Core Portfolio.

These fees amounted to €1.5 million for the period (six months to June 2010; €2.3 million). This expense is allocated substantially within property operating expenses in the Consolidated Statement of Comprehensive Income.

CPT LLP is also entitled to a sales fee of 0.5% of the gross property sale value (including debt but as reduced by certain retentions and indemnity or warranty claims) for each asset within the core portfolio that is sold, rising to a maximum of 1.0% if no other brokers or agents are engaged on the sale. The sales fee is conditional on equity value being released for the benefit of the Company as part of any disposal and cash received on disposals being made available for distribution to shareholders. Additionally, any payment of the sales fee is pro rata to cash available for return to shareholders arising from the sale on a 50:50 basis until the entire sales fee has been paid in full. If the Portfolio Management Agreement is terminated on a takeover, a fixed fee of €0.7 million will become payable in lieu of any further sales fees. The sales fees accrued in six months to 30 June 2011 for the sales of the Blue Knight, Promenada and Biedronka portfolios totals €1.2 million.

# Notes to the Unaudited Consolidated Financial Statements continued

## **11 Amounts payable to property investment adviser (continued)**

CPT LLP is also entitled to receive a capital performance payment, based upon actual cash available for return to shareholders. CPT LLP will receive 10% of any return above a distribution available to shareholders in excess of 17.25 euro cents per share hurdle and 25% of any returns available to shareholders above 34.5 euro cents per share hurdle. However, to avoid the capital performance payment reducing the 34.5 euro cents hurdle below this level following payment, the effective hurdle is set at 36.4 euro cents in order to accommodate any capital performance payment. Such capital performance payment shall be payable in cash but accumulated and deferred until the earlier of (i) the completion of the sale of the core portfolio and (ii) the termination of the Portfolio Management Agreement. Based on the Group's cash reserves following receipt of proceeds from the disposal of investment property during the period and the anticipated distribution to shareholders, having retained sufficient cash for all applicable actual and contingent liabilities (Note 2), the capital performance payment is estimated to be €9.5 million. This does not take into account any additional cash available from future disposals.

## **12 Events after the Balance Sheet date**

During September 2011 the Group paid €2.3 million to Deutsche Pfandbriefbank in order to reduce the debt facility relating to the Babilonas property.

## Directors, Officers and Advisers



### Directors

**Rory Patrick Macnamara**  
(Non-executive Chairman)

**Patrick Rupert Cottrell**  
(Non-executive Director)

**Philip Peter Scales**  
(Non-executive Director)

**Timothy Graham Walker**  
(Non-executive Director)

**Company Secretary**  
**Philip Peter Scales**

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### Property Investment Adviser

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### Nominated Adviser and Broker

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Notes





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