ANNUAL MANAGEMENT REPORT

2008

ORCO GERMANY

CONTENTS

1.	Group overview	3
1.1.	Business and Group structure	3
1.1.1.	Description of business model	3
1.1.2.	Group structure	3
1.2.	Business segments	3
1.2.1.	Overview	3
1.2.2.	Description of each business segment's activities	3
1.3.	Group strategy	4
2.	Market environment	5
2.1.	Economic environment	5
2.2.	Development of the relevant real estate markets	5
3.	Group earnings performance	6
3.1.	Overview of major events in 2008	6
3.2.	Going concern (see note 2.1 to the consolidated financial statements)	6
3.3.	Revenue	7
3.3.1.	Development	7
3.3.2.	Renting	7
3.3.3.	Total	7
3.4.	Fair value adjustments	7
3.5.	Adjusted EBITDA	7
3.6.	Operating result	8
3.7.	Financial result	8
3.8.	Tax	8
3.9.	Net profit	8
4.	Group financial position	9
4.1.	Assets and portfolio valuation	9
4.1.1.	Acquisitions	9
4.1.2.	Disposals	9
4.2.	Net asset value	9
4.3.	Assets and resources	10
4.4.	Equity and debt	10
5.	Other reporting requirements	10
5.1.	Annual accounts	10
5.2.	Subsequent closing events	10
5.3.	Financial Risks Exposure	10
5.4.	Other information	11
6.	Shareholding	11
6.1.	Share capital	11
6.2.	Stock subscription rights	12
6.3.	Authorised capital	12
6.4.	Treasury shares	12
7.	Report pursuant to Directive 2004/25/EC	12

1. Group overview

1.1. Business and Group structure

1.1.1. Description of business model

ORCO Germany is a real estate group with a portfolio located in Germany and mainly in Berlin. It invests in, manages, develops and leases out commercial property. The headquarters of the Group is situated in Berlin.

1.1.2. Group structure

ORCO Germany comprises of ORCO Germany S.A. and its subsidiaries. ORCO Germany S.A. is a limited liability company registered in Luxembourg. As at 31 December 2008, there were 39 subsidiaries fully or partly consolidated to ORCO Germany Group. These subsidiaries are mostly limited liability companies under German Law.

As at 31 December 2008, the Company is owned at 57.69% by ORCO Property Group S.A., Luxembourg, and at 28.9% by MSREV V Turtle B.V. Its shares have been listed on the Open Market of the Frankfurt Stock Exchange since May 2006. Since November 2007, ORCO Germany S.A. is listed in the Prime Standard Market.

1.2. Business segments

1.2.1. Overview

Asset Management and Investment

Asset Management and Investment is the core business segment of ORCO Germany and comprises investment in commercial properties, in particular through acquisition and rental of properties and property portfolios. As part of its core business segment Investment, ORCO Germany is interested in long-term ownership of the properties.

Project Development

The business segment Project Development comprises development of predominant commercial projects. This includes property acquisition, planning and obtaining building rights, project implementation and sale/rental of the realised projects to investors and tenants.

Project Development concentrates on the German core markets of Berlin and North Rhine-Westphalia with the exception of the Health Care segment, where projects are realised Germany-wide.

1.2.2. Description of each business segment's activities

Investment:

The investment portfolio comprises 922,000 m².

With the acquisition of GSG in 2007, ORCO Germany became the largest owner of commercial real estate in Berlin. ORCO-GSG is the backbone of ORCO Germany's investment activities with around 824,000 m² of lettable area. ORCO Germany's total lettable area for commercial tenants amounts to 875,000 m².

In 2008, the occupancy rate of ORCO-GSG assets increased by 3% to 74.6%. The net take-up of 24,922 m² was 37.5% above the pre-year figure. The corresponding gross letting activities enhanced by 37% to 70,196 m² in December 2008. ORCO-GSG was able to increase the average rent per m² for commercial space from €5.92 in December 2007 to €6.07 in December 2008.

Residential investment, once the main area of investments of ORCO Germany, has lost its importance: most of these assets were disposed of in 2008 and the last buildings will be sold in 2009.

Project Development

In 2008, the focus of ORCO Germany was the completion of several residential and commercial projects:

The commercial project Voßstraße in Berlin was completed and sold.

The residential projects Taunusside in Frankfurt and Ottensen in Hamburg were finalised and delivered.

The construction of the Science Centre for Otto Bock HeathCare Company near Potsdamer Platz in Berlin was subsequently completed for handover in January 2009.

The construction work at the project Sky Office in Düsseldorf continued. The project is on schedule and the costs are on budget. The completion of the project is planned for the second half of 2009. As at 31 December 2008 leasing contracts for 61.5% of the lettable area of the building had been signed and negotiations for 4.7% with an expected closing in the 1th quarter 2009 were taking place.

In 2008, the construction of the H2 Office in Duisburg started. H2 Office is situated at the inland port of Duisburg. It will be an office building with modern architecture and very high environmental standards. The building will be equipped with geothermic heating and cooling, photovoltaic systems, a green roof and rainwater collection. At the end of the year the construction was well advanced. The ceiling of the 2nd floor was to be completed. The project is on schedule and the costs are on budget.

The biggest future projects of ORCO Germany's development pipeline are situated in Berlin – Leipziger Platz directly in the new heart of Berlin and Cumberland – situated at the famous boulevard Kurfürstendamm. The planning process for both projects is continuing. In 2008 the application for planning permission was submitted to the authorities for Cumberland. The same procedure is planned for Leipziger Platz for spring 2009. Our Health Care projects in Rostock, Gütersloh and Oranienburg and Berlin are currently under construction and fully financed. The Munich project is still in the planning process. The projects will be either kept or sold and finished after sale in 2009 onwards.

1.3. Group strategy

In 2008, ORCO Germany has started its transition from an expanding cash-requiring developer/investor active in most German regions into a focused positive cash flow-generating investor capable of seizing development opportunities.

From its creation in 2004 until 2007, ORCO Germany expanded quickly Germany-wide, in all segments mainly through external growth thanks to the acquisition of Viterra Development and GSG. The value of its property portfolio, of which two-thirds are investment assets and one-third development projects, has increased by 287% since 2006.

2008 marks a turnaround in ORCO Germany's strategy. Going forward, the Company will focus on commercial investments with a strong geographic focus on Berlin where it enjoys a strong positioning. Additional services like the high-speed cable network "Hofnetz" are being launched to attract new tenants and improve the loyalty of existing customers, and to generate additional income. Non-core assets, mainly residential apartment blocks, were disposed of.

Project developments will be judged on a case-by-case basis.

This shift is accompanied by an operational restructuring of the Company leading to increased efficiencies. This effort was started in 2008 and included the closing of the office in Essen and will be continued in 2009.

2. Market environment

2.1. Economic environment

In 2008, the growth of world economies noticeably decelerated. The global economic downturn was dominated by the mature economies, where the consequences of the global financial crisis were increasingly highlighted.

Accordingly in Germany, the impacts of this development intensified during 2008. Initially the most serious problems occurred in foreign trade. In the course of the year additional factors emerged as burdens for the German economy: due to the rise in prices of food, energy and raw materials the inflation rate increased considerably in the first half of 2008. During the same time, the increasing value of the euro had a negative impact on German foreign trade. The situation in the financial markets is closely connected with the immediate downturn of prices in the real estate sector.

2.2. Development of the relevant real estate markets

Economic conditions and prospects deteriorated during 2008, due not least to the worsening bank crisis: interim economic indicators such as the European purchasing managers' index EMI and consumer confidence continue to fall. Unemployment in the European Monetary Union (EMU) rose slightly to 7.5%.

Against this background many lenders withdrew money from the financial market and caused serious liquidity problems in the financial sector. As a result in 2008, the cost of debt has risen significantly and the quantum of debt as a percentage of loan to value has fallen substantially for all but the best assets.

The turmoil in the credit market had an immediate effect on the real estate investment market, resulting in some transactions failing or prices being renegotiated downwards. So the volume of transactions was reduced to below the levels of recent years.

The top five cities in Germany recorded lower lettings of office space in 2008 compared to 2007: the total market for office space declined 9% to 2.7 million m². The drop varied between locations: in Munich the decline amounted to nearly 6%, in Hamburg and Frankfurt it came to 7% and 9% and in Düsseldorf the drop was 16%.

The office market in Berlin showed a respectable performance in 2008. With 486,000 m² the take-up was 3% less than 2007 but 8% over the average take-up of the last seven years. Different from earlier years, there were almost no lettings above 10,000 m². The top rent reached 22.00 €/m² in 2008. That was the second highest top rent since 2002.

In Düsseldorf and Frankfurt the top rents were stable. Hamburg and Munich recorded slight increases by 2.2% and 1.7% respectively. For 2009 the prospects for the top five cities are moderate. The rents for premium office space will be stable or will be slightly declining in 2009.

The space under construction was regionally different. In Berlin construction activities edged upwards but were still on a relatively low level. Some of the planned office projects will be deferred. The take-up will be in the range of 350,000 to 400,000 m². More than 72% of the space under construction was pre-let. The other top sites have recorded an increase in construction activity.

The development of the vacancy rate was also regionally different but declining at all locations. In Berlin the vacancy rate further decreased and reached 8.8% at the end of the year. The total vacant space amounts to about 1,466,900 m².

3. Group earnings performance

3.1. Overview of major events in 2008

2008 ends with a consolidated loss attributable to the Group of €121.4 million vs. a consolidated profit of €57.0 million as at 31 December 2007. During the same period, the share price moved from €9.95 to €1.92.

Revenues slightly decreased by 3.0% to end up at €77.5 million. The decrease in development revenues was almost completely compensated for by the increase in leasing revenues.

The adjusted EBITDA (being the EBITDA after adjustment of the previous fair value gains, now included in the cost of goods and assets sold) rose by 18.6%. It amounts to €16.6 million (vs. €14.0 million in 2007).

All investment properties and inventories have been valued by DTZ as at 31 December 2008. Like most of the real estate companies worldwide, ORCO Germany had to face high revaluation losses on investment property. They add up in the accounts to €51.3 million. The inventories had to be impaired by €–32.3 million.

Mainly due to the significant revaluation loss (€-51.3 million) and the high amount of impairments on inventories (€–32.3 million) the operating result (EBIT) decreased to €–74.7 million. The adjusted EBIT (that means EBIT diminished by the revaluation losses/profits and impairments on inventories) amounted to €2.7 million (compared to €0.6 million in 2007).

As at 31 December 2008, the long-term debt (> 5 years) amounts to €57.9 million, intermediate-term debt (1–5 years) to €477.6 million and the short-term debt (< 1 year) amounts to €136,9 million. The total amount of financial debt increased since December 2007 from €640.1 million to €672.4 million. This rise was mainly related to draw-downs for the further construction of the Sky Office Tower and the beginning construction of H2 Office.

The loss for the current year has caused the Group to breach some of its banking covenants, which mean that some bank loans become repayable on demand. The total amount of debts to be reimbursed in 2009 amounts to EUR 136.9 Million (See note 17 for liquidity risk to the consolidated financial statements), negotiations have been concluded or are undertaken in order to either postpone by 12 to 18 months the loan repayment or increase the construction credit lines allowing the finalization of the development.

According to the strategy of focussing on commercial real estate, disposals of non-strategic assets have been executed. These disposals were concluded with a margin of 6.5% above fair value and created sales revenues of €18.9 million.

3.2. Going concern (see note 2.1 to the consolidated financial statements)

Considering the situation described above, the Directors have concluded that the current circumstances represent a material uncertainty that casts significant doubt on the Group's ability to continue as a going concern. However, after considering the actions described above and after making appropriate enquiries, the Directors are of the opinion that there is a reasonable expectation that the Group can continue its operations in the foreseeable future and, accordingly, have formed a judgement that it is appropriate to prepare consolidated financial statements upon a going concern basis.

In 2008, ORCO Germany continued its reorganisation process of concentrating the headquarters' departments in Berlin. Accounting and controlling teams were relocated to Berlin in June 2008. The former location in Essen was closed.

In the third quarter of 2008, ORCO Germany started an ambitious cost-savings program. Some of the actions resulted in immediate savings but the biggest impact (labour and office costs) will be seen in 2009/2010. Substantial savings have been achieved at GSG level by reducing repairs and maintenance costs, utility supply costs and several non-contractually bound administrative and advisory costs.

3.3. Revenue

3.3.1. Development

The development revenue (sales of tangible assets—development) in 2008 amounted to €18.9 million vs. €51.4 million in 2007. The projects Voßstraße (commercial - €7.4 million), Taunusside (residential - €5.4 million) and Ottensen (residential - €5.0 million) were the main contributors. In 2008, 41 residential units were delivered and 9 forward purchase contracts were signed. Only one residential unit (project Ottensen) remains unsold.

Compared to 2007, the development revenue decreased by 73%. In 2008, very few development projects were completed. The construction of Sky Office, Science centre for Otto Bock HealthCare Company and various nursing homes were not completed in 2008, but will be completed and delivered in 2009 onwards and will then contribute to the revenue.

3.3.2. Renting

ORCO Germany's investment portfolio decreased slightly by 3,000 m² to 922,000 m² lettable area due to new acquisitions diminished by the sale of non-strategic assets.

ORCO Germany's investment portfolio generated €55.3 million of rental income (compared to €27.4 million in 2007). ORCO-GSG's contribution, for the first time consolidated over 12 months, was €46.1 million (compared to €19.9 million in the second half of 2007). ORCO-GSG's rental income increased by 6.7% from 2007 to 2008.

As in 2007, the Company managed in 2008 to increase the occupancy rate and to increase the average rental income per m². Especially ORCO-GSG found new ways of attracting tenants by offering high-quality IT facilities, providing know-how to founders of new businesses. The occupancy rate of ORCO-GSG increased during 2008 by 3% to 74.6%. Due to this, rental income (planned at €48 million including intercompany rents) exceeded the expectations by over 4%.

3.3.3. Total

The consolidated revenue as at 31 December 2008 amounts to €77.5 million vs. €79.9 million as at 31 December 2007. While in 2007 revenue was mainly driven by the more volatile development business (64.3% of total revenue), 2008 revenues were chiefly conducted from stable and growing rental revenues (73.8% of total revenue up from 34.3% in the previous year).

3.4. Fair value adjustments

The gross revaluation loss on investment property amounted to €-51.3 million vs. a profit of €86.4 million in 2007. This revaluation loss includes only the revaluation of those assets that are allocated in investment property. Ongoing development projects and properties under construction are allocated in inventories and therefore valued at cost and decreased by impairment. They are not subject to fair value adjustments.

This balance is composed of revaluation profits amounting to €33.5 million and revaluation losses in the amount of €84.8 million. The most important contributors of the revaluation profits are the ORCO-GSG properties Wolfener Straße (€6.0 million), Reuchlinstraße (€4.9 million), and Plauener Str. (€3.3 million). The main contributors of revaluation losses are Cumberland (€–37.0 million), Helberger (€–7.8 million) and Franklinstraße/Gebauer Höfe (€–7.4 million).

3.5. Adjusted EBITDA

The adjusted EBITDA rose by 18.6% while revenues were slightly decreasing. It amounts to €16.6 million on €77.5 million of sales (vs. €14.0 million in 2007 on €79.9 million of revenues).

The two business lines of ORCO Germany's contribute as follows:

- The adjusted EBITDA of the renting segment increased by 70.5% to €24.9 million vs. €14.6 million in 2007. The main contributor is ORCO-GSG that is consolidated the first time for a full period.
- The adjusted EBITDA of the development activity decreased to €–8.3 million compared to €–0.6 million in 2007.

3.6. Operating result

2008 closes with a negative operating result of €–80.9 million vs. €87.1 million in 2007.

The operating result mainly includes:

- Revaluation losses on investment property of €–51.3 million vs. revaluation gains of €86.4 million in 2007.
- Impairment on inventories of €–32.3 million (vs. €–1.7 million in 2007).
- Employee benefit of €13.3 million in 2008 compared to €9.0 million in 2007. This 48% increase is due to the full consolidation of ORCO-GSG in 2008 (vs. consolidation of only six months in 2007).
- Operating expenses of €40.1 million vs. €26.4 million in 2007. They increased by 52% mainly due to the full-year consolidation of ORCO-GSG. Compared to 2007 property-related expenses increased for utility supplies (by €10.2 million), building maintenance (by €0.4 million) and tax on land and buildings (by €0.6 million).

3.7. Financial result

The net financial result for 2008 amounts to €–53.2 million versus €–36.2 million in 2007. The financial result includes interest expenses of €34.3 million (vs. €24.4 million in 2007), interest income amounts to €2.0 million versus €2.8 million in 2007. This is driven by the full-year consolidation of GSG as well as interest charges due to draw–down of the credit line for development activity (mainly for Sky office).

The other net financial results amount to €–20.9 million (vs. €–14.6 million in 2007), mainly due to movements in fair value of interest rate swaps (€- 18.5 million). The interest rate swaps protect ORCO Germany against the impact on cash flows due to fluctuations in interest rates.

The cash cost of debt after hedging amounts to 5.2%. Excluding the bond, the cash cost of debt (after hedging) is 5.40%. Variable loans account for 83% of which 91% are hedged against interest change through derivative instruments, i.e. cap, collar and swaps. The remaining 9% are loans for properties, which are to be sold in the near future.

3.8. Tax

The global tax income of the year amounts to €12.4 million vs. €5.0 million in 2007. It is composed of €–0.7 million income taxes and €11.7 million deferred taxes. Deferred taxes represent the impact of revaluation differences between local GAAP and IFRS on tax calculation. They do not cause payments or reimbursements.

3.9. Net profit

ORCO Germany closed the annual accounts as at 31 December with a net loss of €121.4 million compared to a net profit of €57.0 million in 2007.

4. Group financial position

4.1. Assets and portfolio valuation

4.1.1. Acquisitions

In 2008, ORCO Germany invested €40.9 million. This amount includes the purchase of land bank and buildings, subsequent expenditures on previous acquisitions and investments in existing investment property.

The main new acquisitions were Hüttenstraße (€7.9 million), a commercial building in Düsseldorf; Hakeburg (€3.4 million), a former guest house and local gem near Berlin and the nearby residential area "Am Hochwald" (€1.4 million). The main investments in existing investment property concerned different ORCO-GSG properties (€13.0 million). ORCO-GSG invested this amount for the acquisition of nine properties, for which the Company was leaseholder until then. With this investment ORCO Germany safeguarded full owner's rights to these properties and decreased the charges for heritage building rights.

Subsequent expenditures were carried out for Cumberland by €5.6 million.

4.1.2. Disposals

In order to focus on commercial assets and aiming at improving OG´s equity, ORCO Germany sold several non-core assets. The total revenue from these asset sales amounts to €18.9 million. This process will continue in 2009.

4.2. Net asset value

The method of net asset value calculation is based on portfolio valuation and gives the real estate approach of the net asset value (NAV).

The NAV as at 31 December 2008 amounted to €152.0 million vs. 366.7 million as at 31 December 2007. Therefore the NAV per share amounted to €3.12 (vs. €7.52 in 2007).

NET ASSET VALUE

€ thousand	December 2008	December 2007
Equity holders balance	**149,764**	**271,179**
Fair value adjustments on invest. portfolio	525	445
Fair value adjustments on residential pipeline	-	14,003
Fair value adjustments on comm. & office pipeline	–48,479	6,852
Deferred taxes on revaluations	93,948	114,811
Goodwill	–43,734	–44,108
Own equity instruments		3,476
Net asset value	**152,024**	**366,658**
Net asset value per share	3.12	7.52
Number of shares	**48,771**	**48,771**

4.3. Assets and resources

The total assets of ORCO Germany as at 31 December 2008 amounted to €1,042 million compared to €1,120 million as at 31 December 2007. Mainly due to the revaluation of investment property and impairment of inventories, the assets decreased by 7.0%.

The assets are composed of non-current assets of 78% and current assets of 22%.

The investment property, as the most important non-current asset, was valued as at 31 December 2008 at €741.0 million (vs. €782.3 million in December 2007). In 2008, ORCO Germany invested in investment property €40.9 million (vs. €163.5 million in 2007), disinvested €18.9 million (vs. €31 million in 2007). The revaluation of investment property resulted in a decrease in investment property of €51.3 million (vs. increase by €86.4 million in 2007). The main contributors have been named above under point 3.3.

Inventories are the most important current asset and are valued as at 31 December 2008 at €171.9 million (vs. €112.5 million in 2007). This variation is mainly due to the ongoing development of Sky Office Tower in Düsseldorf. In 2008, ORCO Germany invested €59.3 million in this project. Impairments on inventories have been calculated on the basis of the valuation by DTZ, they amounted to €–32.3 million.

4.4. Equity and debt

As at 31 December 2008 ORCO Germany disposed of equity of €149.8 million (vs. €271.5 million in 2007), thereof €149.8 million were attributable to the Group. The decrease in equity was caused by the negative net result, mainly driven by revaluation loss on investment properties and impairments on inventories.

The liabilities as at 31 December 2008 amounted to €893.1 million compared to €848.9 million as at 31 December 2007. The portion of non-current liabilities (i.e. with a maturity longer than 1 year) decreased from 82% at year-end 2007 to 72.7% at year-end 2008 due to the transfer of bank loans to current liabilities and the increase of current derivative instruments (interest rate swaps).

The portion of bank loans in liabilities amounts to €572.5 million (vs. €551.3 million in 2007). The increase in bank loans is mainly driven by the draw-downs for the ongoing construction of Sky Office (Düsseldorf) and started construction of H2 Office (Duisburg). With the sale of assets, related bank loans amounting to €4.7 million have been repaid.

5. Other reporting requirements

5.1. Annual accounts

The 2008 result closed with a loss of KEUR -45 133 vs KEUR -2 926 in 2007 whereas the 2008 revenue (KEUR 3 605) increased compared to 2007 (KEUR 3 287).

Indeed, the result is mainly due to impairments on shares and on loans to affiliated undertakings (respectively EUR - 34.0 million and EUR - 8.3 million). These impairments have been recognised, according to the Board of Directors, on affiliated undertakings with a net equity significantly lower than their acquisition cost as at December 31, 2008 and on loans to affiliated undertakings with a negative net equity as at December 31, 2008.

Finally, the unrealised losses on 2 interest swap agreements have been recorded under value adjustments in respect of financial instruments for EUR -2.8 million.

5.2. Subsequent closing events

See note 29 to the consolidated financial statements

5.3. Financial Risks Exposure

For a thorough description of the principal risks and uncertainties, see at Notes 3 and 4 to the consolidated financial statements.

5.4. Other information

The Group does not provide any activities in research and development.

The Group does not have any branch.

6. Shareholding

6.1. Share capital

Share capital as at 31 December 2008 amounted to €60,964,166.25 represented by 48,771,333 shares of €1.25 each, all of the same class and entirely paid.

The Company's shares are either registered or bearer, as the shareholder wishes, unless prohibited by law. Currently all the Company's shares are bearer shares.

In 2008 no changes in capital took place. In 2007, the capital rose by €17,776,666.25 to €60,964,166.25. The share premium paid in 2007 amounted to €56,785,105.54.

To the best knowledge of the management, the capital ownership of ORCO Germany as at 31 December 2008 is as follows (one share giving the right to one vote):

Shareholders	Shares	% of capital
ORCO Property Group	28,137,889	57.69
MSREF V Turtle B.V.	14,100,000	28.91
Public	6,533,444	13.40
Total	48,771,333	100.00

To the best knowledge of the management and as at 31 December 2008 no shareholder holds more than 10% of the share capital of ORCO Germany S.A. except ORCO Property Group and MSREF V Turtle B.V.

As at 31 December 2008 one voting trust agreement existed. On 15 May 2007 ORCO Property Group, the Company and MSREF V Turtle B.V. entered into a Shareholder Agreement providing for ORCO Property Group and MSREF V Turtle B.V. as follows:

- Upon request, ORCO Property Group and MSREF V Turtle B.V. each may appoint one representative of the Board of Directors of the Company.
- No resolutions are passed against the vote of either ORCO Property Group or MSREF V Turtle B.V. in respect of increases in the share capital of the Company without giving either MSREF V Turtle B.V. or ORCO Property Group the right to subscribe to such new shares.
- No resolutions are passed against the vote of either ORCO Property Group or MSREF V Turtle B.V. in respect of granting certain loans by the Company and entities controlled by it to ORCO Property Group and entities controlled by it.
- No resolutions are passed against the vote of either ORCO Property Group or MSREF V Turtle B.V. in respect of granting security by the Company and entities controlled by it to ORCO Property Group and entities controlled by it.
- No resolutions are passed against the vote of either ORCO Property Group or MSREF V Turtle B.V. in respect of granting certain loans by ORCO Property Group and entities controlled by it to the Company and entities controlled by it.
- No resolution are passed against the vote of either ORCO Property Group or MSREF V Turtle B.V. in respect of the execution of a transaction by the Company and entities controlled by it with ORCO Property Group and

entities controlled by it, provided that the transaction relates to an exchange of values or to the creation of rights and obligations in an amount of €10 million more per each individual transaction.

6.2. Stock subscription rights

On 21 February 2006, the Board of Directors decided to grant without consideration 2,800,000 share subscription rights to all existing shareholders as at this date, proportionally to their ownership. According to the share subscription plan, the exercise of three share subscription rights grants the right to subscribe to one share of the Company to be created through capital increase at a strike price of €4.63 per share. The share subscription rights are exercisable during a three-year period ending on 21 February 2009. In the first half-year 2007, 364,000 subscription rights were exercised and consequently 121,333 new shares were created.

6.3. Authorised capital

According to Article 5 of the Articles of Association of the Company the Board of Directors was granted full powers to proceed with the capital increases within the capital authorised of €150,000,000, as the case may be by the creation and the issue of new shares, entitling to the same rights and advantages as the existing shares. The Board of Directors was fully authorised and appointed:

- to render effective such increase in capital as a whole at once, by successive portions or by continuous issues of new shares, to be paid up in cash, by contribution in kind, by conversion of shareholders' claims, or following approval of the Annual General Meeting of shareholders, by incorporation of profits or reserves into capital;
- to determine the place and the date of issue or of successive issues, the terms and conditions of subscription and payment of the additional shares;
- to suppress or limit the preferential subscription right of the shareholders with respect to the above issue of supplementary shares against payment in cash or by contribution in kind.

Such authorisation is valid for a period of five years until 19 March 2012 and may be renewed by a general meeting of shareholders with respect to the shares of the authorised capital which at that time shall not have been issued by the Board of Directors.

A total of €60,964,166.25 has been used to date under this authorisation. As such, the Board of Directors still has a potential of €89,035,833.75 at its disposal.

6.4. Treasury shares

As at 31 December 2008 the Company does not hold any of its own shares.

7. Report pursuant to Directive 2004/25/EC

In reference to the Luxembourg law of 19 May 2006 the Board especially states on the following points:

(a) The structure of their 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 ORCO Germany S.A. is represented by only one class of shares which are all admitted for trading on the Frankfurt Stock Exchange.

(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.

(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; refer to paragraph 6.1 above on shareholding.

(d) The holders of any securities with special control rights and a description of those rights; not applicable.

(e) The system of control of any employee share scheme where the control rights are not exercised directly by the employees; not applicable, ORCO Germany S.A. has no employee share scheme.

(f) Any restrictions on voting rights, such as limitations of 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; refer to paragraph 6.1 above on shareholding.

(h) The rules governing the appointment and replacement of Board members and the amendment of the Articles of Association; Board members are appointed by the shareholders, Articles of Association can be modified by the shareholders through an extraordinary general meeting respecting the quorum foreseen by the Luxembourg corporate law.

(i) The powers of Board members and in particular the power to issue or buy back shares: see "authorised capital" in point 6.1 here above.

(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; Securities note and summary dated May 24, 2007 related to the issue of EUR 100.000.052 five year bonds with redeemable warrants attached.

(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; there is no compensation scheme for 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.

ORCO GERMANY

Declaration Letter
Annual Financial Reports
as at 31 December 2008

ORCO GERMANY S.A.,
société anonyme,
Parc d'Activités Capellen, 40 L-8308 Capellen,
RCS Luxembourg B 102254

Responsibilities statements by the person responsible for Annual Financial Report

Mr Rainer BORMANN, director of Orco Germany S.A. and CEO, residing at Eppinger Straße 1, D-14195 Berlin hereby confirms that to the best of his knowledge:

(a) the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of ORCO GERMANY S.A. and its subsidiaries included in the consolidation taken as a whole; and

(b) the Annual Management Report of the Board of Directors includes a fair review of the development and performance of the business and the position of ORCO GERMANY S.A. and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed by Mr. Rainer BORMANN.

Rainer BORMANN
CEO, Director
ORCO GERMANY S.A.
In Berlin, on 12 June 2009

Orco Germany S.A.
List of Board of Director members

Directors	Last appointment	Termination
Rainer Bormann Managing director CEO	21/06/05	Until the annual shareholders meeting to be held in 2010
Ulf Pleschiutschnig Director	20/11/08	Until the annual shareholders meeting to be held in 2010
Nicolas Tommasini Director	22/07/04	Until the annual shareholders meeting to be held in 2010
Luc Leroi Director	22/07/04	22/03/09
Ales Vobruba Director	18/04/08	Until the annual shareholders meeting to be held in 2010
Steven Davis Director	18/04/08	Until the annual shareholders meeting to be held in 2010
Ott&Co S.A., represented by Mr Jean-François Ott, Director	18/04/08	Until the annual shareholders meeting to be held in 2009

Orco Germany S.A.
Société Anonyme

Consolidated financial statements as at December 31, 2008

40, Parc d'Activités de Capellen
L-8303 Capellen
R.C.S. Luxembourg: B 102.254

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Société à responsabilité limitée
Réviseur d'entreprises
400, route d'Esch
B.P. 1443
L-1014 Luxembourg
Telephone +352 494848-1
Facsimile +352 494848-2900
www.pwc.com/lu
info@lu.pwc.com

Independent Auditor's report

To the Shareholders of
Orco Germany S.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Orco Germany S.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Board of Director's 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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 by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 Auditor's judgment, 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 Auditor considers internal control relevant to the Group'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 Group'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.

PRICEWATERHOUSECOOPERS

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, these accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Orco Germany S.A. and its subsidiaries as of December 31, 2008, 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2.1 to the consolidated financial statements which indicates that the Group has substantial outstanding debts service obligation and capital requirements. In addition, the Group has experienced significant losses during the year ended December 31, 2008 and the operations of the Group have been significantly affected, and will continue to be affected for the foreseeable future, by the volatility in real estate market. These conditions, along with other matters as set forth in Note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

In the event that some actions contemplated by the management are not successful, Orco Germany S.A.'s ability to continue as a going concern would not be assured. The consolidated financial statements would have to be prepared on a break-up basis of accounting having impacts on the valuation and on the classification of assets and liabilities, the amounts of which cannot be measured at present.

Report on other legal and regulatory requirements

The annual management report, which is the responsibility of the Board of Directors, is in accordance with the consolidated financial statements.

PricewaterhouseCoopers S.à r.l.
Réviseur d'entreprises
Represented by

Luxembourg, June 12, 2009

Marc Minet

ORCO GERMANY

Consolidated financial statements

Orco Germany's Board of Directors has approved on 10 June 2009 the consolidated financial statements for 2008. All the figures in this report are presented in thousands of euros, except if explicitly stated.

I. Consolidated income statement

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

	Note	December 2008	December 2007*
Revenue	5	**77,513**	**79,908**
Net gain/(loss) from fair value adjustments on investment property	8	-51,322	86,433
Other operating income		4,207	2,662
Cost of goods sold	25	-18,235	-43,539
Employee benefit	16	-13,281	-9,049
Amortization, impairments and provisions	11, 16	-39,708	-2,970
Other operating expenses	19, 25	-40,083	-26,366
Operating result		**-80,909**	**87,079**
Interest expenses	15	-34,267	-24,388
Interest income	15	1,963	2,839
Other net financial results	20	-20,883	-14,642
Financial result		**-53,187**	**-36,191**
Profit /(loss) before income taxes		**-134,096**	**50,888**
Income taxes	18	12,353	4,988
Net profit /(loss)		**-121,743**	**55,876**
Attributable to minority interests		-323	-1,152
Attributable to the Group		**-121,420**	**57,028**
Basic earnings in EUR per share	21	-2.49	1.43
Diluted earnings in EUR per share	21	-2.48	1.42

* See note 25 for adjustments on comparatives

II. Consolidated balance sheet

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

Assets

	Note	December 2008	December 2007
NON-CURRENT ASSETS		**808,449**	**859,362**
Intangible assets	7	**51,172**	**51,930**
Investment property	8	**741,050**	**782,319**
Property, plant and equipment		**14,166**	**16,286**
Own-occupied buildings	9	10,912	13,096
Fixtures and fittings	10	3,254	2,782
Properties under development		-	408
Financial assets at fair value through profit		**489**	**2,124**
Deferred tax assets	18	**1,572**	**6,703**
CURRENT ASSETS		**234,465**	**261,019**
Inventories	11	171,868	112,508
Trade receivables	12	9,959	33,745
Other receivables	12	17,832	18,397
Derivative Instruments	15	31	687
Current Financial Assets	12	136	861
Cash and cash equivalents	12, 14	34,639	94,821
TOTAL		**1,042,914**	**1,120,381**

Equity and liabilities

	Note	December 2008	December 2007
EQUITY		**149,769**	**271,507**
Equity holders		**149,764**	**271,179**
Minority interests		**5**	**328**
LIABILITIES		**893,144**	**848,874**
Non-current liabilities		**649,145**	**696,154**
Bonds	15	86,793	83,432
Financial debts	15	448,705	482,307
Provisions & other long term liabilities	16	12,096	10,336
Derivative Instruments	15	8,031	8,458
Deferred tax liabilities	18	93,520	111,621
Current liabilities		**244,000**	**152,720**
Financial debts	15, 17	136,901	74,347
Trade payables	17	16,977	11,397
Advance payments	17	28,070	28,217
Derivative Instruments	15	22,329	748
Other current liabilities		39,723	38,011
TOTAL		**1,042,914**	**1,120,381**

III. 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	Other reserves	Equity holders	Minority interests	Equity
Balance at 1 January 2007		**43,188**	**66,873**	**98**	**23,844**	**134,003**	**-56**	**133,947**
Gains or losses for the year :								
Translation differences				-99		-99		-99
Profit of the year					57,028	57,028	-1,152	55,876
Capital increase	22	17,776	56,785		-730	73,831		73,831
Equity derivative instrument	15				9,892	9,892		9,892
Derivatives Orco Germany	15				-3,476	-3,476		-3,476
Acquisition of GSG	6						1,536	1,536
Balance at 31 December 2007		**60,964**	**123,658**	**-1**	**86,558**	**271,179**	**328**	**271,507**
Gains or losses for the year :								
Translation differences				5		5		5
Loss of the year					-121,420	-121,420	-323	-121,743
Balance at 31 December 2008		**60,964**	**123,658**	**4**	**-34,862**	**149,764**	**5**	**149,769**

IV. Consolidated cash flow statement

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

	December 2008	December 2007
Operating result	**-80,909**	**87,079**
Net gain from fair value adjustments	51,322	-86,433
Amortization, impairments & provisions	39,708	2,970
Gains and losses on disposal of investments	-932	-1,696
Adjusted operating profit / loss	**9,189**	**1,920**
Financial result	-2,144	-
Income tax paid	-240	-339
Financial result and income taxes paid	**-2,384**	**-339**
Changes in operating assets and liabilities	**-41,529**	**-80,687**
NET CASH FROM OPERATING ACTIVITIES	**-34,724**	**-79,106**
Acquisition of subsidiaries, net of cash acquired	-	-260,191
Capital expenditures	-41,288	-179,049
Proceeds from sales of non current tangible assets	19,782	31,000
Purchase of intangible assets	-160	-189
Purchase of financial assets	2,665	5
Net interest paid	-36,556	-17,768
NET CASH USED IN INVESTING ACTIVITIES	**-55,557**	**-426,192**
Issue of equity instruments	-	83,883
Proceeds from borrowings	70,174	562,848
Repayments of borrowings	-40,072	-92,592
NET CASH FROM FINANCING ACTIVITIES	**30,102**	**554,139**
NET INCREASE / DECREASE IN CASH	**-60,179**	**48,841**
Cash and cash equivalents at the beginning of the period	94,821	45,948
Exchange difference on cash	-3	32
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**34,639**	**94,821**

Notes to the consolidated financial statements

1. General information

Orco Germany S.A., société anonyme (the "Company") and its subsidiaries (together the "Group") is a real estate group with a growing portfolio mainly located in Germany. It is principally involved in leasing out investment properties under operating leases as well as in the development of properties for its own portfolio or intended to be sold in the ordinary course of business. The Company is currently setting up a third business line, the Asset and Investment Management.

The Company is a limited liability company incorporated for an unlimited term and registered in Luxembourg. The address of its registered office is 40, Parc d'activités Capellen, L-8308 Capellen.

As at 31 December 2008, the Company is 56.79% owned by Orco Property Group S.A. (the "OPG"), Luxembourg, and its shares are listed on the Open Market of the Frankfurt Stock Exchange since May 2006. They are now listed on the Prime Market since November 2007.

The ultimate parent company of Orco Germany S.A. preparing consolidated financial statements, OPG, includes in its consolidated financial statements those of Orco Germany S.A.. OPG is incorporated under Luxembourg law. Consolidated financial statements for OPG can be obtained at its registered office, 40, Parc d'Activités Capellen, L-8308 Capellen.

The consolidated financial statements have been approved for issue by the Board of Directors on 10 June 2009.

2. Summary of significant accounting policies

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

2.1 Basis of preparation – Going concern

The consolidated financial statements have been prepared in accordance with international financial reporting standards (IFRS) as adopted by the European Union.

2.1.1 Going concern

In determining the appropriate basis of preparation of the consolidated financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Group's financial risks including foreign exchange risk, fair value and cash flow interest rate risk, price risk, credit risk and liquidity risk are outlined in note 3.

2.1.1.1 2008 results

In the year ended December 31, 2008, the Group made a loss of EUR 121.7 million (EUR 121.4 million attributable to the Group) and has a net cash outflow from operating activities of EUR -34.7 million. The loss for the current year has caused the Group to breach some of its banking covenants, which mean that some bank loans become repayable on demand. The total amount of debts to be reimbursed in 2009 amounts to EUR 136.9 Million (See note 17 for liquidity risk), negotiations have been concluded or are undertaken in order to either postpone by 12 to 18 months the loan repayment or increase the construction credit lines allowing the finalization of the development.

2.1.1.2 Restructuring plan prepared by the management

The Board of Directors of Orco Property Group S:A., the mother company of the Company, has decided to apply to benefit from a Court Protection from creditors ("Procédure de Sauvegarde"). A Court Hearing was held on 25 March 2009 with the Paris Commercial Court ("Tribunal de Commerce de Paris"). On the same day, the Court rendered a judgement opening the "Procedure de Sauvegarde" (the "Sauvegarde") for Orco Property Group S.A and Vinohrady SARL, a French subsidiary of Orco Property Group S.A., for a renewable six months period. During the Sauvegarde period, all the liabilities of Orco Property Group S.A. prior to the judgement pronouncement are frozen. This means that, except for a Court decision to early terminate the Sauvegarde, interests on debts and bonds continue to be accrued based on contractual arrangements but Orco Property Group S.A. is exempted to repay any liabilities until the end of the Sauvegarde. The loans granted to entities of the Group or bonds issued includes various covenants (refer to notes 3.2 and 15.1 for further details on covenants). Some of the bonds or loans are repayable on demand in case of liquidation or insolvency procedure of the issuer or of the guarantor. Having reviewed the bank and bond loan agreements, the management is in the opinion that the covenants referring to insolvency procedures cannot be applied or extended to the safeguard procedure opened for Orco Property Group S.A.

Faced with liquidity issues that may put at risk the integrity and value of its portfolio, the management team is implementing a restructuring plan focused on cash generation, restoring of the global loan to value ratio at an affordable level and preservation for its mother company Orco Germany S.A.. Therefore, the necessary actions to return to the Group to profit are implemented. The actions include: selling non core businesses, renegotiation of existing bank loans, improving margins through a cost reduction programme (reduction of opex and capex), ...

Together with its majority shareholder, Orco Property Group S.A., and together with Grant Thornton, the Group has prepared a cash flow forecast plan which shows a treasury situation which would help the management to implement a recovery plan with the objective to finance its cash needs. The Directors are confident that the actions taken will result in a return to profit.

The Board of Directors and the executive management are currently discussing with all its joint venture and investment partners in order to restore the liquidity of its financial assets. The objective is to have the loans granted either to these joint ventures either repaid in cash or converted in equity.

2.1.1.3 Risks and uncertainties on the ability of the Group to continue as a going concern

The Group's status as a going concern depends mainly and directly on the successful achievement of an operating and financing restructuring plan and the disposal plan of non strategic assets, the nature and impact of which cannot be measured at this stage.

The financial performance of the Group is also dependent upon the wider economic environment in which the Group operates. The uncertainty of the evolution of real estate market in Germany can damage the Group's activity and especially can significantly slow down the asset sales program as financings are hardly available for institutional acquisitions (see note 4.1 A Critical accounting estimates and assumptions - Estimate of fair value of investment properties). In 2008, the Group sold for EUR 18.8 Million of assets. Till January 09, the Group sold for EUR 43.7 Million of assets (see note 29 events after balance sheet date).

2.1.1.4 Conclusion

If the implementation of the restructuring program (sale of assets and renegotiation of debts) was to fail, the going concern would not be assured. Thus, the consolidated financial statements would have to be amended to an extent which today cannot be estimated in respect of the valuation of the assets at their liquidation value, the incorporation of any potential liability and the reclassification of non current assets and liabilities into current assets and liabilities.

Considering the situation described above, the Directors have concluded that the current circumstances represent a material uncertainty that casts significant doubt on the Group's ability to continue as a going concern. However, after considering the actions described above and after making appropriate enquiries, the Directors are of the opinion that there is a reasonable expectation that the Group can continue its operations in the foreseeable future and, accordingly, have formed a judgement that it is appropriate to prepare consolidated financial statements upon a going concern basis.

2.1.2 Critical accounting estimates and judgements

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 4.

2.1.3 Functional and presentation currency

The consolidated financial statements are presented in thousands of euros, which is the Company's functional and Group's presentation currency, and have been prepared under the historical cost convention except that investment property is carried at fair value and financial assets or financial liabilities (including derivative instruments) at fair value through income statement.

2.1.4 Changes in accounting policies

The accounting policies have been consistently applied by Group's entities and are consistent with those used in the previous year except for the application of the revised and new standards and interpretations effective as from 1 January 2008 described below. The application of those amendments and interpretations did not result in substantial changes to the Group's accounting policies:

- IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are not relevant to the Group's operations:

. IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' and IFRS 7, 'Financial instruments: Disclosures' on the 'Reclassification of financial assets' (effective from 1 July 2008). This amendment allows the reclassification of certain financial assets previously classified as 'held-for-trading' or 'available-for-sale' to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as 'at fair value through profit or loss' under the fair value option are not eligible for this reclassification.

- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services.

- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them. Some of those standards, amendments and interpretations have not yet been endorsed by the European Union:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amendment) retrospectively from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009, but is not expected to have any impact on the Group's financial statements.

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the IAS 32 and IAS 1 (Amendment) from 1 January 2009, but is not expected to have any impact on the Group's financial statements.

- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements'(effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment will not have any impact on the Group's financial statements.

- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendments to IAS 7 'Statement of cash flows') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held-for-sale. A consequential amendment to IAS 7 states that

cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The Group will apply IAS 16 (Amendment) from 1 January 2009. Management is currently assessing the impact of this amendment.

- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The Group will apply IAS 40 (Amendment) from 1 January 2009. Management is currently assessing the impact of this amendment.

- There are a number of minor amendments that are part of the IASB's annual improvement project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail: IFRS 7, 'Financial instruments: Disclosures'; IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption'); IAS 1 (Amendment), 'Presentation of financial statements'; IAS 8, 'Accounting policies, changes in accounting estimates and errors'; IAS 10, 'Events after the reporting period'; IAS 18, 'Revenue'; IAS 19 (Amendment), 'Employee benefits'; IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance'; IAS 23 (Amendment), 'Borrowing costs'; IAS 27 (Revised), 'Consolidated and separate financial statements'; IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures'); IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies'; IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32, 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures'); IAS 34, 'Interim financial reporting'; IAS 36 (Amendment), 'Impairment of assets'; IAS 38 (Amendment), 'Intangible assets'; IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'; IAS 41 (Amendment), 'Agriculture' (all effective 1 January 2009).

- IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009). This interpretation clarifies which standard (IAS 18 'Revenue' or IAS 11 'Construction contracts') should be applied to particular transactions and is likely to mean that IAS 18 will be applied to a wider range of transactions. Entities that have previously recognized revenue from residential real estate sales under IAS 11 will be the most significantly affected and will probably be required to apply IAS 18. Management does not anticipate that this will result in any material impact on the financial statements.

- IFRIC 17, 'Distributions of non-cash assets to owners' (effective 1 July 2009). This interpretation clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners. The interpretation states that 1) a dividend payable should be recognized when appropriately authorised, 2) it should be measured at the fair value of the net assets to be distributed, and 3) the difference between the fair value of the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. Management does not anticipate that this will result in any material impact on the financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised 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.

(b) Transactions with minority interests

When an acquisition is completed by a series of successive transactions, each significant transaction is considered individually for the purpose of the determination of the fair value of the identifiable assets, liabilities and contingent liabilities acquired and hence for the goodwill associated with the acquisition.

The fair value of the identifiable assets and liabilities acquired can vary at the date of each transaction. When a transaction results in taking control over the entity, the interests previously held in that entity are revalued on the basis the fair values of the identifiable assets and liabilities at that date.

Subsequent purchases, after the Group has obtained control, are treated as the acquisition of shares from minority interests: the identifiable assets and liabilities of the entity are not subject to a further revaluation and the positive or negative difference between the cost of such subsequent acquisitions and the net value of the additional portion of the interest acquired is recorded as goodwill.

For major disposals of minority interests, differences between any proceeds received and the relevant share of minority interest are recorded in the profit and loss account.

(c) Joint-ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the joint-ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint-venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint-venture that result from the Group's purchase of assets from the joint-venture until it resells the assets to an independent party. A loss on the transaction is recognized immediately if it provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. Joint-ventures' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

The exchange rates against euros (EUR) used to establish these consolidated financial statements are as follows:

Currency Code	Currency	31 December 2008		31 December 2007	
		Average	Closing	Average	Closing
PLN	Polish Zloty	0.28312	0.23967	0.26467	0.27917

(a) 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 consolidated financial statements are presented in euros (EUR), which is the Company's functional and Group's presentation currency.

(b) 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 income statement.

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on investment properties held at fair value through the Profit and Loss are recognised in profit or loss as part of the foreign exchange result.

(c) 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:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (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 dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On 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 shareholders' equity. When a foreign operation is sold, exchange differences arising from the translation of the net investment in foreign entities are recognized in the 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.

2.5 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/joint-venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint-ventures 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.

Negative goodwill arising on an acquisition is recognized in the income statement.

(b) Computer software

Acquired computer software licences are capitalised 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).

(c) Trademarks

Acquired trademarks are shown at historical cost. When they have indefinite useful life, trademarks are tested annually for impairment and carried at cost less accumulated impairment losses.

2.6 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 held under operating lease and buildings held under finance lease.

Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it was a finance lease.

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

After initial recognition, investment property is carried out 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, DTZ Debenham Tie Leung. 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 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 income statement during the financial period in which they are incurred.

Changes in fair values are recorded in the income statement.

If an investment property becomes own-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as 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 income statement.

The pieces of land on which are located buildings under construction that will qualify as investment property at completion of the construction are from the beginning separately classified as investment property and hence recorded at fair value. This includes all plots of land held by the Group on which no construction or development has started at the balance sheet date.

Freehold lands, for which the destination is not determined at year end, are classified under the land bank category. The destination of freehold lands remains uncertain until a project design is definitive, the building permit granted and start of construction validated. Therefore, the transfer of the land to property, plants and equipment or Inventories is recorded only when the building permit is granted and the start of the construction has been validated.

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

2.7 Property, plant and equipment

Hotels and own-occupied buildings, fixtures and fittings, properties under development are classified as property, plant and equipment.

All property, plant and equipment are stated at historical cost less depreciation. 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 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 cost over the asset's estimated useful lives, as follows:

- Land Nil
- Buildings 50 - 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 2.9).

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

2.8 Leases

(a) A Group company is the lessee

i) Operating lease

Leases in which a significant portion of the risks and rewards of 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 income statement on a straight-line basis over the period of the lease.

ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised 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 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.

(b) A Group company is the lessor

i) Operating lease

Properties leased out under operating leases are included in investment property in the balance sheet.

ii) 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.

2.9 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. 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).

2.10 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. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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 balance sheet date. These are classified as non-

current assets. Loans and receivables are classified as trade receivables (note 2.12) and other current assets in the balance sheet. Loans and receivables are carried at amortized cost using the effective interest method.

Management assesses at each balance sheet 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 2.12.

Financial assets at fair value through profit or loss include financial assets held for trading which are acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised 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 realised within 12 months of the balance sheet date.

The Group subscriptions in investment property closed end fund managed by the Group are categorised 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. They are initially recognized at fair value, and transaction costs are expensed in the income statement, and subsequently carried at fair value.

Regular purchases and sales of financial assets are recognized on the trade-date on which the Group commits to purchase or sale these assets.

2.11 Inventories

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

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.

2.12 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. 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 income statement.

2.13 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.

2.14 Share capital

Ordinary shares are classified as equity.

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

The shares of the Company 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.

2.15 Borrowings

The term Borrowings covers the elements recorded under the captions Bonds and Financial debts within the non-current liabilities and the caption Bonds and financial debts 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 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. The remainder of the proceeds is allocated to the conversion option which is recognized and included in shareholders' equities, net of income tax effect.

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.

2.16 Trade payables

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

2.17 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries and associates 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 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 realised 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 temporary differences can be utilised.

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 reverse in the foreseeable future.

Investment property

Deferred income tax is provided on all temporary differences arising on 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 held by a Luxembourg-based company. Each special purpose entity is meant to hold one specific project. Possibly, should a special purpose entity be disposed of, the gains generated from the disposal will be exempted from any tax (in accordance with the Grand-ducal regulation of 21 December 2001), if the Luxembourg-based company holds or commits itself to hold this stake for a minimum of a continuous 12-month period and, if, during this same period, the stake amounts to at least 10% of the affiliate's capital or the acquisition price amounts to at least EUR 6 million. The Group is confident that all special purpose entities will comply with these conditions.

2.18 Provisions and post-employment obligations

Provisions for environmental restauration 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 define 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 balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement over the employees' expected average remaining working lives. Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period. 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.

2.19 Derivative financial instruments and hedging activities

Derivatives are initially recognized in the balance sheet at their fair value on a date a derivative contract is entered into and are subsequently remeasured at their fair value which is generally the market value. Derivatives are presented at the balance sheet 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 income statement under other financial results.

Embedded derivatives that are not equity instruments, such as issued call options embedded on exchangeable bonds, are recognized separately in the balance sheet and changes in fair value are accounted for through the income statement.

2.20 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 sales, consists of those costs previously included in the measurement of inventory that has been sold during the year and unallocated production overheads.

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.

2.21 Dividend distribution

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

2.22 Share option plans

Share options are granted to certain directors and senior employees. The options are granted at the market price on the date of the grant and are exercisable at that price.

The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

2.23 Subscription rights and PACEO

The Group grants subscription rights to third parties as part of its financing program. Any consideration received is added directly to equity as a capital increase recorded in share capital and share premium. Changes in the fair value of those equity instruments are not recognised in the financial statements.

3. Financial risk factors

3.1 Financial risk factors

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

Risk management is carried out by the Group's Chief Financial Officer (CFO) and his team under policies approved by the Board of Directors. The Group's CFO identifies, evaluates and mitigates financial risks in close co-operation with the Group's operating units. The Board provides 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.

(a) Market risk

(i)Foreign exchange risk (see note 13)

The Group mainly operates in Germany and most of its transactions are denominated in euros (EUR). Consequently, the Group's exposure to foreign exchange risk arising from currency exposures with respect to the Czech Koruna (CZK) and Polish Zloty (PLN) is limited. The Group does not hedge its foreign exchange risks.

Foreign exchange risk arises from recognized monetary assets and liabilities and net investments in foreign operations. Loans, operating income and - except in the development activities - sales of buildings are denominated in euros (EUR). The Group does not hedge systematically its foreign exchange risks. Salaries, overhead expenses, future purchase contracts in the development sector, building refurbishment and construction costs are denominated in local currencies which does not generate any foreign exchange risks.

(ii) Price risk

The Group is exposed to equity securities and equity derivatives because of investments held by the Group and classified in the consolidated balance sheet at fair value through profit or loss or as trading financial instruments. To manage its price risk arising from investments in equity securities and equity derivatives, the Group diversifies its portfolio or only enters these operations if they are linked to operational investments. No sensitivity analysis has been performed considering the non-significance of such risk for the Group.

(iii) 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 - Germany - such activities are spread over several business lines (development and renting) that each undergo specific business cycles.

(b) Credit risk (see note 12)

The Group has no significant concentrations of credit risk. Rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk (see note 17)

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.

(d) Cash flow interest rate risk (see note 17)

As the Group has no significant interest-bearing assets, 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 long term and short term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group has now started to mitigate 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.

3.2 Capital risk management

The Group monitors its capital risk by reference to the loan to value ratio which is the level of net debt accepted by the Group in order to finance its portfolio of assets. Excluding contribution of GewerbeSiedlungs-Gesellschaft mbH ("GSG"), the Group's strategy was to maintain the "loan to value" ratio under 50%. With the acquisition of GSG, the Group intends to maintain its "loan to value" ratio under 60%. 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 adjust dividends paid to shareholder (notably by offering the possibility to receive the dividends in shares instead of cash), issue new shares, sell totally or partially the control over some assets and activities or adjust the agenda of the developments.

As at 31 December 2008, the "loan to value" ratio has reached the level of 72.8% compared to 58.4% in 2007 mainly due to the decrease in the fair value of the portfolio. The Board of Directors and the Management are taking all actions in order to get back to 50 % as soon as possible.

The following table shows the detailed calculation of the "loan to value" ratio. Apart from the caption Revaluation gains on projects and properties, all the lines correspond to specific items indicated on the face of the balance sheet. The Revaluation gains on projects and properties represents the difference between the book value and the fair value for all the projects and properties that are not considered as Investment properties.

	December 2008	December 2007
Non current liabilities		
Bonds	86,793	83,432
Financial debts	448,705	482,307
Current liabilities		
Financial debts	136,901	74,347
Current assets		
Current financial assets	-136	-861
Cash and cash equivalents	-34,639	-94,821
Net debt	**637,624**	**544,404**
Investment property	741,050	782,319
Hotels and own-occupied buildings	10,912	13,096
Properties under development	-	408
Financial assets	489	2,124
Inventories	171,868	112,508
Revaluation gains on projects and properties	-47,954	21,300
Fair value of portfolio	**876,365**	**931,755**
Loan to value	**72.8%**	**58.4%**

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. End of 2008, some loans encountered administrative and/or financial covenant breaches. Those loans, as a result, have been reclassified in current liabilities. Most covenants relate to administrative documents to be provided (audited accounts, management reports) and financial ratios to be respected on the asset level (loan to value, loan to construction and interest coverage ratio).

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.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading securities and financial assets at fair value through income statement) 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 uses 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.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements 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.

4.1 Critical accounting estimates and assumptions

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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

(a) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, 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 balance sheet date.

Main assumptions for discounted cash flow projections are the following:

- discount rate: range from 6.0% to 10.0%;
- yield: range from 6.25% to 11.0%;
- exit cap rate: range from 5.0% to 8.5%.

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 is based on the potential use of the properties as determined by the Group. Fair value is the highest value, determined from market evidence, by considering any other use that is financially feasible, justifiable and reasonably probable. 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, and actual transactions by the Group 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.

Considering the "exceptional" market conditions, the management and the independent expert are of the opinion that some uncertainties remain in respect of the asset valuation.

(b) Income taxes

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 recognises 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 2.17, the calculation of deferred tax on investment properties is not based on the fact that they will be realised 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 negociations with future buyers.

(c) 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 whether classified as buildings under construction 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 the investment properties' independent expert) from which the remaining development costs are deducted. The remaining development costs deriving from the project balance include the remaining construction, the sales and marketing costs and all direct or indirect costs that can be associated to the specific development.

(d) Estimate of fair value of financial instruments

Some financial instruments are recorded at fair value. These valuations are performed quarterly by an independent expert, Constantin Associés, for derivative instruments linked to bonds issued by the Group (using a discount rate of 37%, which, in the view of the management includes the best estimate of the credit risk of the Group in the light of existing, available, observable market data), and by the Group's banks for the other 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.

(e) Determination of the going concern (see note 2.1)

4.2 Critical judgements in applying the Group's accounting policies

Distinction between investment properties and own-occupied properties

The Management determines whether a property qualifies as investment property. In making its judgement, the Management considers whether the property generates cash flows largely independently of the other assets held by an entity. Own-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 accounts for 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. Judgement 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 judgement.

Where applicable, the land on which new properties are under development is recognized separately as an investment property. In such a case the land is fair valued through the income statement on the basis of a percentage of the value determined by the independent valuation expert for the full property under development (land and construction).

5. Segment reporting

5.1 Primary reporting format – business segments

The Group is organised into two main segments determined in accordance with the type of activity:

- Development: development of projects meant to be disposed of unit by unit, the land bank and project management.
- Renting: leased out residences, offices or retail buildings and property management and buildings under construction that are meant to be leased.

Corporate expenses are allocated on the basis of the revenue realised by each activity. Segment assets consist primarily of tangible assets, inventory and receivables. Unallocated assets comprise deferred tax assets and cash and cash equivalents. Segment liabilities include operating liabilities. Unallocated liabilities are essentially the aggregate of litigation provisions, taxation liabilities and borrowings.

For inter-Segment transactions, prices are based on arm's length principle.

As at 31 December 2008	Development	Renting	Intersegment activities	Total
Revenue	**26,621**	**55,344**	**-4,452**	**77,513**
Net gain/loss from fair value adjustments on investment property	-56,283	4,961	-	-51,322
Cost of goods sold	-18,960	725	-	-18,235
Amortization, impairments and provisions	-26,250	-13,458	-	-39,708
Other operating results	-21,482	-32,127	4,452	-49,157
Operating result	**-96,354**	**15,445**	**-**	**-80,909**
Financial result				-53,187
Profit before income taxes				**-134,096**
Income taxes				12,353
Net Profit				**-121,743**
Attributable to minority interests				-323
Attributable to the Group				**-121,420**
Segment assets	**349,687**	**690,695**	**-36,798**	**1,003,584**
Unallocated assets				39,330
Total assets				**1,042,914**
Segment liabilities	**62,519**	**47,248**	**-20,632**	**89,135**
Unallocated liabilities				953,779
Total liabilities				**1,042,914**
Cash flow elements				
Capital expenditure	27,512	13,777		**41,289**

As at 31 December 2007	Development	Renting	Intersegment activities	Total
Revenue	**56,191**	**24,768**	-1,051	**79,908**
Net gain/loss from fair value adjustments on investment property	26,044	60,389	-	86,433
Cost of goods sold	-43,539	-	-	-43,539
Amortization, impairments and provisions	-2,541	-429	-	-2,970
Net operating result	-16,667	-17,136	1,051	-32,751
Operating result	**19,487**	**67,592**	**-**	**87,079**
Financial result				-36,191
Profit before income taxes				**50,888**
Income taxes				4,988
Net profit				**55,876**
Attributable to minority interests				-1,152
Attributable to the Group				**57,028**
Segment assets	**286,736**	**721,607**		**1,008,343**
Unallocated assets				112,038
Total assets				**1,120,381**
Segment liabilities	**57,315**	**22,292**		**79,607**
Unallocated liabilities				1,040,774
Total liabilities				**1,120,381**
Cash flow elements				
Capital expenditure	94,631	84,418		**179,049**

5.2 Secondary reporting format – geographical segments

The Group's two business segments operate in Central European countries among which most activities are currently generated in Germany. No other individual country contributed more than 10% of consolidated sales or assets. The location of the customers is the same as the location of the assets.

In 2008 and 2007, capital expenditures are entirely related to Germany.

	December 2008	December 2007
Germany	77,513	79,907
Poland	-	1
Revenue	**77,513**	**79,908**

	December 2008	December 2007
Germany	1,011,809	1,008,261
Poland	8	82
Intersegment activities	-8,233	-
Segment assets	**1,003,584**	**1,008,343**
Non allocated assets	39,330	112,038
Total assets	**1,042,914**	**1,120,381**

6. Acquisitions

- **In 2008**

There were no material business combinations.

- **In 2007**

Acquisition of GSG

After almost two years of negotiations, the Group acquired on 12 June 2007 the control of Gewerbesiedlungs- Gesellschaft mbH ("GSG"). This previously state-owned company holds buildings totalling 800 thousand square meters of commercial and light industrial space in Berlin rented out to approximately 1,200 tenants. On the basis of independent valuation reports, the building portfolio and the brand have been fair valued at EUR 408 million and EUR 7 million respectively. Due to the size of GSG on the Berlin market and the new marketing strategy adopted, it has been determined that the brand has an undefinite useful life. This results in an increase compared to the book value before acquisition amounting to EUR 243 million.

The acquisition of the shares of GSG by the Group is governed by an agreement between Morgan Stanley Real Estate Fund V (MSREF V), the Group and the parent company OPG. While the control over GSG was already exercised by the Group, the remaining legal steps of the acquisition have been completed in the course of the second half of the year. After completion, the Group held 100% of the issued capital of GSG, the interest of OPG in the Group decreased to 57% and MSREF V has acquired an interest of 29% in the Group.

As at 30 June 2007, the GSG shares were legally held by two companies respectively held at 50% by OPG and 50% by MSREF V. The financing of the acquisition by OPG has been realised through a loan of EUR 39 million from the Group. Furthermore OPG has been diluted in the Group to 73% by the issue of 3.5 million of shares entirely subscribed in cash by MSREF V for a total consideration of EUR 35 million.

The main remaining steps completed by mid-October 2007 are the following ones:

- The Group indirectly acquired from OPG 50% of GSG against the cancellation of the EUR 39 million loan granted prior to the transaction.
- The Group indirectly acquired the remaining 50% of GSG through a contribution in kind by MSREF V against the issue of 10.6 million new shares. The fair value of the consideration given was estimated at EUR 39 million as a reference to the cash payment to OPG for the acquisition of the first 50%.

As at 31 December 2007, GSG contributed to the consolidated revenue for EUR 19.9 million, to the operating result for EUR 37.6 million and to the Group share in the net profit for EUR 45.6 million as a result of six months of operation since its acquisition. If the acquisition had occurred on 1 January 2007, GSG would have contributed to the consolidated revenue for EUR 26.5 million.

The following table describes the calculation of the cash flow on acquisition, net of the cash and cash equivalents acquired, and the calculation of the goodwill on acquisition. The source of this goodwill is the obligation under IFRS to recognize deferred tax liabilities on the difference between the book values and market values on investment properties.

GSG

Intangible assets	7 219
Tangible assets	411 470
Inventories	87
Trade receivables	4 572
Other current assets	7 676
Cash and cash equivalents	19 938
Non current financial liabilities	-68 862
Deferred tax liabilities	-98 844
Current payables	-5 701
Short term debts and provisions	-2 534
Net equity acquired	**-275 021**
Goodwill on acquisition	-44 108
Acquisition price	**-319 129**
Less cash acquired	19 938
Less non cash contribution	39 000
Cash flow on acquisition net of cash acquired	**-260 191**

The difference of EUR 1.9 million on cash flow on acquisition as per above table compared to June 2007 cash flow on acquisition is linked to the finalisation of the purchase price accounting in the second semester 2007.

7. Intangible assets

The intangible assets mainly include the goodwill recorded on the acquisition of GSG for EUR 43.3 million (EUR 44.1 million in 2007) and the GSG trademark for EUR 7.2 million (EUR 7.2 million in 2007). Refer to note 6 for further details.

8. Investment property

Investment Property	Freehold Buildings	Land Bank	Land	Buildings under Finance Lease	TOTAL
Balance as at 31 December 2006	**140,875**	**19,830**	**30,860**	**-**	**191,565**
Scope movements	405,261	910	-	-	406,171
Investments / acquisitions	80,789	82,753	-	-	163,542
Asset sale	(29,068)	(1,932)	-	-	(31,000)
Revaluation through income statement	65,115	21,318	-	-	86,433
Transfers and other movements	(6,879)	3,347	(30,860)	-	(34,392)
Balance as at 31 December 2007	**656,093**	**126,226**	**-**	**-**	**782,319**
Investments / acquisitions	32,869	6,099	-	1,963	40,931
Asset sale	(15,794)	(2,974)	-	-	(18,768)
Revaluation through income statement	(36,854)	(14,005)	-	(463)	(51,322)
Transfers and other movements	(7,734)	(4,376)	-	-	(12,110)
Balance as at 31 December 2008	**628,580**	**110,970**	**-**	**1,500**	**741,050**

- **In 2008**

During the year, the Group has invested EUR 40.9 million in the different projects including:

Freehold buildings:

- Various residential and office buildings, among which Hüttendorf (EUR 7.9 million as acquisition), Hakeburg (EUR 3.4 million), Hochwald (EUR 1.4 million) and Hereditary Building Rights on Lubarserstraße (EUR 2.4 million), Schwedenstraße (EUR 2.0 million), Whilelm von Siemens Straße (EUR 1.8 million), Reichenberger Straße (EUR 1.7 million), Sophie-Charlotten-straße (EUR 1.5 million), Gneisenaustraße (EUR 1.2 million) and Lobeckstraße (EUR 1.0 million);
- Subsequent expenditures on previous acquisitions: Cumberland Palace and Helberger (respectively EUR 5.6 million and EUR 0.3 million).

Land Bank:

- New acquisitions: Gethsemanestraße plot in Berlin (EUR 2.9 million);
- Subsequent expenditures on previous acquisitions: Wertheim in Berlin (EUR 2.7 million).

Buildings under Finance Lease:

- Acquisition of the Healthcare project Trudering (EUR 2.0 million).

During the period, several assets have been sold, among which:

Freehold buildings (total sale price of EUR 16.7 million with total net book value of assets sold of EUR 15.5 million):

- Geneststraße 7-8 (sale price of EUR 4.1 million with a net book value of EUR 3.3 million);
- Tucholskystraße 39 (sale price of EUR 2.4 million with a net book value of EUR 2.3 million);
- Lychenerstraße (sale price of EUR 2.1 million with a net book value of EUR 1.8 million);
- Seelower Straße (sale price of EUR 1.8 million with a net book value of EUR 1.8 million);
- Benningsenstraße (sale price of EUR 1.7 million with a net book value of EUR 2.0 million);
- Wolliner Straße (sale price of EUR 1.6 million with a net book value of EUR 1.5 million);
- Zehdenickerstraße (sale price of EUR 1.5 million with a net book value of EUR 1.5 million);
- Danziger Straße 16 (sale price of EUR 1.5 million with a net book value of EUR 1.3 million).

Consolidated net book value of assets sold represents fair value as determined by DTZ as at 31 December 2007.

Land Bank:

- Gethsemanestraße plot has been sold (sale price of EUR 3.1 million with a net book value of EUR 3.0 million).

The revaluation of the assets relates mostly to the following projects (see note 4.1):

Freehold buildings:

- The revaluation of the projects of GSG represents a total amount of EUR +28.1 milion, among which Wolfenerstraße 32-36 (EUR + 6.0 million), Reuchlinstraße (EUR +4.9 million), Plauenerstraße (EUR +3.3 million), Geneststraße 5-6 (EUR +2.8 million), Schlesische Straße (EUR +2.0 million), Gustav-Meyer-Allee (EUR +1.4 million), and Helmholtzstraße (EUR +1.0 million), all located in Berlin;

- The revaluation of the other German projects represents a total amount of EUR -64.9 million, among which Cumberland palace (EUR -37.0 million), Franklinstraße 15 (EUR -7.4 million), Max Planck Straße (EUR -5.4 million), Kurfustendamm 102 (EUR -2.1 million) and Wasserstraße (EUR -1.1 million).

Land bank:

- The fair value of Helberger and Wertheim projects decreased by EUR -7.8 million and EUR -6.0 million respectively.

Buildings under Finance Lease:

- The fair value of Trudering project decreased by EUR -0.5 million.

Some projects have also been transferred from investment properties to inventories. This is the case for Danzigerstraße 73-77 (start of refurbishment) for EUR -7.1 million and H2 Office (building permit now effective) for EUR -3.9 million.

Investment property financed by bank loans are always pledged.

- **In 2007**

The scope movements refer to the acquisition of GSG's lands and buildings (EUR 406.2 million) as valued at the date of acquisition.

During the year 2007, the investments and acquisitions reached EUR 163.5 million in the following projects:

Freehold buildings (EUR 80.8 million):

Various residential and office buildings have been acquired in Berlin for a total amount of EUR 80.8 million, among which:

- Franklinstraße 15-15A for EUR 42.9 million (revaluation recognized in 2007 EUR 4.8 million);
- Reinhardtstraße 18 for EUR 9.5 million (revaluation recognized in 2007 EUR 0.5 million);
- Invalidenstraße 112 for EUR 6.0 million (revaluation recognized in 2007 EUR -0.2 million);
- Pappelallee 3-4 for EUR 5.2 million (revaluation recognized in 2007 EUR -0.5 million);
- Brunnenstraße 156 for EUR 3.5 million (revaluation recognized in 2007 EUR -0.3 million);
- Tucholskystraße for EUR 2.5 million (revaluation recognized in 2007 EUR -0.2 million)
- Boxhagener Straße 106 for EUR 2.3 million (revaluation recognized in 2007 EUR 0.1 million);
- Prenzlauer Allee 195 for EUR 1.8 million (revaluation recognized in 2007 EUR 0.3 million);
- Wilhelm-Kuhr-Straße 86 for EUR 1.6 million (revaluation recognized in 2007 EUR 0.1 million);
- Görstraße 18 for EUR 1.6 million (revaluation recognized in 2007 EUR 0.1 million);
- Lütticher Straße 49 for EUR 1.0 million (revaluation recognized in 2007 EUR 0.4 million);
- Küfustendamm 102 for EUR 0.6 million (revaluation recognized in 2007 EUR 1.5 million);

Land bank (EUR 82.8 million):

- The amount of EUR 82.8 million is mainly composed by Leipziger Platz (in the center of Berlin) for EUR 78.9 million (revaluation recognized in 2007 EUR 19.6 million).

The asset sale movement mainly represents the sale of buildings Pier Eins (EUR 24.6 million) and Singerstraße (EUR 4.3 million).

Most of the investment properties have been valued at their estimated fair value as at 31 December 2007, based on a valuation report established by the independent expert Debenham Tie Leung (DTZ). The total revaluation of investment properties amounted to EUR 86.4 million. The revaluation of freehold buildings in 2007 mainly includes the revaluation of GSG buildings in Berlin (EUR 28.2 million), Wasserstraße in Düsseldorf (EUR 4.5 million), Cumberland House in Berlin (EUR 16.2 million) and Pier Eins in Duisburg before its sale (EUR 4.0 million).

The transfer for freehold buildings mainly represents the reclassification of Kurfürstendamm Straße 103-104 (EUR -7.2 million) to own-occupied building as this one became the new headquarter of Orco Germany. The transfer for land bank (EUR 3.3 million) represents the reclassification of two plots of land for which no building permits have been obtained yet. The transfer for land (EUR -30.9 million) refers to the reclassification of Sky Office in Düsseldorf from land to inventories.

Additional information on the main asset acquisitions:

- Leipziger Platz project: the Company has acquired the site in the centre of Berlin that used to be the Wertheim complex. What was once the Wertheim complex and is not being used at present is the last site available for development in the new "Mitte" of Berlin. The new "Mitte" is considered to be the top address for national and international companies and customers. The Sony Center, the DaimlerChrysler quarter and the Beisheim Center are right next to Leipziger Platz. The acquisition price per constructible square meter is 20% lower than recent transactions in the area.This new development will fill the most important gap between the centres of East and West Berlin. With a land area of more than 22 000 m², the project will be carried out directly on Leipziger Platz right next to Potsdamer Platz. Viterra Development, a subsidiary of the Company, will be responsible for the

project management. The planned area of 88 000 m² enables varied use to be made of office and retail space as well as residential units and hotels.

9. Own-occupied buildings

	Own-occupied buildings
GROSS AMOUNT	
Balance at 31 December 2006	**236**
Scope movement	2,400
Variation	3,529
Transfer and other movements	7,181
Balance at 31 December 2007	**13,346**
Variation	148
Transfer and other movements	-445
Balance at 31 December 2008	**13,049**
AMORTIZATION AND IMPAIRMENT	
Balance at 31 December 2006	**-172**
Variation	-78
Balance at 31 December 2007	**-250**
Impairment	-1,748
Variation	-139
Balance at 31 December 2008	**-2,137**
NET AMOUNT AT 31 DECEMBER 2008	**10,912**
NET AMOUNT AT 31 DECEMBER 2007	**13,096**

In 2008, the main movement on own-occupied buildings is the impairment booked for Kurfürstendamm Straße 103-104 (used as Orco Germany offices) for EUR -1.7 million (see note 4.1).

In 2007, the scope movement refers to the acquisition of GSG, and corresponds to the building Franklinstraße 27, which is now used as GSG headquarters. The transfer and other movements correspond to the reclassification of Kurfürstendamm Straße 103-104 as own-occupied building. The variation movement refers to investments made on this building since its transfer to this category.

10. Fixtures and fittings

	Gross amount	Amortization	Net amount
At 31 December 2006	**492**	**-84**	**408**
Scope variation	1,213	-	1,213
Increase	1,518	-344	1,174
Assets sales	-28	15	-13
At 31 December 2007	**3,195**	**-413**	**2,782**
Increase	276	-401	-125
Assets sales	-29	16	-13
Transfers and other movements	610	-	610
At 31 December 2008	**4,052**	**-798**	**3,254**

In 2008, transfers and other movements are related to a transfer of some equipments booked in GSG accounts from buildings to fixtures and fittings (EUR 0.6 million).

In 2007, the scope variation represents the acquisition of GSG on 12 June 2007. Please refer to note 6 for further details concerning this transaction. The increase movement mainly represents purchase of furnitures made by Orco Immobilien GmbH (EUR 1.3 million).

11. Inventories

	December 2008	December 2007
Balance as at 31 December 2007	**112,508**	**70,031**
Variation	80,026	5,125
Acquisition of GSG	-	87
Sale of Viterra Ceska to Orco Property Group	-	-745
Impairments	-32,274	-
Transfer and other movements	11,608	38,010
Balance as at 31 December 2008	**171,868**	**112,508**

- **In 2008**

The variation is mainly due to the development of the Sky Office tower in Düsseldorf (EUR 59.3 million), the new Healthcare projects Bernauer Straße and Tschaikowskistraße 33 (respectively EUR 4.5 million and EUR 3.7 million), and the refurbishment of Danziger Straße 73-77 (EUR 3.4 million).

Impairments have been recognized on the basis of the valuation established by DTZ in December 2008 mainly on the following properties (see note 4.1):

- Fehrbelliner Höfe: EUR -16.5 million;
- Sky Office : EUR -6.2 million ;
- Danziger Straße 73-77: EUR -5.3 million;
- Bernauer Straße: -1.8 million;
- Tschaikowskistraße 33: EUR -1.4 million;
- Neuenkirchener Straße: EUR -1.0 million.

Projects H2 Office has been transferred from investment properties to inventories, as building permit has been obtained in 2008 (EUR 3.9 million). Danziger Straße 73-77 has also been transferred in inventories because of its refurbishment (EUR 7.1 million).

Some of inventories are pledged for a total amount of EUR 79.4 million (EUR 18.3 million in 2007).

- **In 2007**

In 2007, the scope movements refer to GSG's acquisition and to the sale of Viterra Ceska spol s.r.o. to Orco Property Group S.A..

The variation amount mainly relates to stock increases of Fehrbelliner Höfe in Berlin (EUR 7.4 million), Sky Office in Düsseldorf (EUR 8.1 million) and to stock decreases of Qwaterwest (EUR -15.7 million). There is also a variation increase of GSG stocks which mainly represent oil and heatings (EUR 9.7 million).

The main transfer relates to Sky Office (EUR 41.3 million), for which construction started. The whole project has been transferred from properties under development to inventories as the Group has the intention to sell the building after completion.

12. Credit risk

All the financial assets held by the Group as at 31 December 2008 and 2007 are fully performing, except the details given in the note below.

At 31 December 2008	Fully performing	Past due but not impaired			Impaired	Total
		Less than 6 months	6 months and 1 year	More than 1 year		
Trade receivables gross	9,959	-	-	-	3,592	13,551
Impairments at 31 December 2007					-3,127	-3,127
Impairments - allowance					-5,800	-5,800
Impairments - write-back					1,291	1,291
Impairments - transfers					4,044	4,044
Total	9,959	-	-	-	-	9,959
Other financial receivables gross	5,202	2	2	11	1,567	6,784
Impairments at 31 December 2007					-2,474	-2,474
Impairments - allowance					-334	-334
Impairments - write-back					1,191	1,191
Impairments - transfers					50	50
Total	5,202	2	2	11	-	5,217
Current financial assets gross	136	-	-	-	1,177	1,313
Impairments at 31 December 2007					-	0
Impairments - allowance					-918	-918
Impairments - transfers					-259	-259
Total	136	-	-	-	-	136
Cash and cash equivalent gross	34,639	-	-	-	-	34,639
Impairments at 31 December 2007					-	-
Impairments - allowance					-	-
Total	34,639	-	-	-	-	34,639

At 31 December 2007	Fully performing	Past due but not impaired			Impaired	Total
		Less than 6 months	6 months and 1 year	More than 1 year		
Trade receivables gross	23,284	5,415	254	4,792	3,127	36,872
Impairments at 31 December 2006					-2,909	-2,909
Impairments - allowance					-607	-607
Impairments - write-back					398	398
Impairments - transfers					-9	-9
Total	23,284	5,415	254	4,792	-	33,745
Other financial receivables gross	9,579	5,977	-	58	2,474	18,088
Impairments at 31 December 2006					-1,429	-1,429
Impairments - allowance					-1,045	-1,045
Total	9,579	5,977	-	58	-	15,614
Current financial assets gross	861	-	-	-	-	861
Impairments at 31 December 2006					-	-
Impairments - allowance					-	-
Total	861	-	-	-	-	861
Cash and cash equivalent gross	94,821	-	-	-	-	94,821
Impairments at 31 December 2006					-	-
Impairments - allowance					-	-
Total	94,821	-	-	-	-	94,821

The other financial receivables excluded in this table represent tax receivables and operating loans.

In 2008, most of the trade receivables are fully performing (EUR 10.0 million). The main trade receivables concern GSG (EUR 5.0 million), and mainly represent receivables from tenants. EUR 3.6 million have been impaired, in application of the Group management review of the overdue receivables.

In 2007, the Group has recorded an impairment on trade receivables amounting to EUR 0.6 million and a reversal of impairment of EUR 0.4 million (all amounts concern Viterra companies). GSG has contributed to the trade receivables of the Group for EUR 4.1 million. The rest of the growth is a reflection of the increased revenue of the Group.

The credit risk of the Group related to cash and cash equivalents is mitigated considering the large number of banks counterparties in each country where the Group operates.

The table below shows the rating and the balance of five major bank counterparties at the balance sheet date.

In Eur million	Rating Agency		December	December
Counter party	Moody's Rating	S&P's Rating	2008	2007
Deutsche Bank	Aa1	A+	18.2	28.0
Landesbank Berlin	A1	-	4.9	-
Berliner Volksbank	-	A+	4.6	5.3
HypoVereinsbank	A1	A+	2.3	-
HaSpa	-	-	-	19.3
			30.0	52.6

In the opinion of the management, there is no significant credit risk on bank counterparties not included in the table above.

13. Currency risk

The Group has no significant currency risk exposure as the local and functional currency in almost all Group companies is the euro.

14. Cash and cash equivalents

As at 31 December 2008, the cash and cash equivalents consist of cash in bank for EUR 34.6 million (EUR 90.0 million in 2007). There are no short term deposits as at 31 December 2008 (EUR 4.8 million in 2007).

Cash in bank include restricted cash (EUR 30.2 million) representing:

- cash deposited in escrow accounts pledged as collateral for development projects and lifted after sales of units (EUR 12.4 million)
- cash deposited in escrow accounts pledged as collateral for loans related to the acquisition of property (EUR 17.7 million).
- cash contribution of the joint venture (Knorrstrasse 119 GmbH & CO) amounting to EUR 0.1 million.

As at December 2007, the cash and cash equivalents consist of short term deposits for EUR 4.8 million (EUR 1.8 million in 2006) and cash in bank for EUR 90.0 million (EUR 44.2 million in 2006).

15. Borrowings (financial debts, bonds and derivatives)

15.1 Borrowings movements and maturity

Borrowings movements

Non-current loans	Bank loans	Other non-current loans	TOTAL
Balance at 31 December 2006	**86,600**	**16,564**	**103,164**
Issue of new loans and drawdowns	376,556	251	376,807
Acquisition of subsidiaries	68,782	-	68,782
Repayments of loans	-2,837	-12,752	-15,589
Transfers	-50,857	-	-50,857
Balance at 31 December 2007	**478,244**	**4,063**	**482,307**
Issue of new loans and drawdowns	62,732	6,753	69,485
Repayments of loans	-7,464	-	-7,464
Transfers	-95,715	92	-95,623
Balance at 31 December 2008	**437,797**	**10,908**	**448,705**

No new bonds have been issued in 2008.

For non-current bond movements, please refer to note 15.2.

- **In 2008**

Issue of new bank loans and drawdowns (EUR 62.7 million) are mainly related to further drawdowns for the construction of the Sky Office tower (EUR 46.8 million) and H2 Office (EUR 8.0 million).

The issue of other non-current loans (EUR 6.8 million) mainly represents the increase in the equity loan granted by OPG (EUR 5.5 million).

Repayments of loans are mainly due to the reimbursements of some bank loans linked to the sale of the following projects:

- Benningsenstraße, Seelowerstraße and Lychener Straße (EUR -1.0 million each);
- Wolliner Straße (EUR -0.9 million);
- Zehdenicker Straße (EUR -0.8 million).

Transfers of bank loans (EUR -95.7 million) are due :

- to the reclassification of the bank loans related to the Wertheim and Wasserstraße projects in short term (respectively EUR -65.6 million and EUR -7.0 million). Their maturity are within 12 months as at 31 December 2008;
- to breaches on financial covenants for the bank loans financing the following projects : Reinhardtstraße (EUR -6.8 million), Brunnenstraße 156 and Invalidenstraße 112 (EUR -6.7 million at all), Danzigerstraße 73-77 (EUR -5.5 million), Prenzlauer Allee (EUR -1.4 million), Wilhelm-Kuhr-Straße and Görschtraße 18 (EUR -1.3 million both). As the repayment for these loans can be requested at first demand, the non-current part is reclassified as current. Most of the breaches were related to the Loan to Value ratio (except for the Danziger Strasse loan). In the context of the restructuring program, the Group sold 3 out of the 7 assets in breach during the first semester 2009 (see note 29).

The long term portion of the loans financing the development projects classified as inventories amounts to EUR 79.4 million (EUR 18.3 million in 2007).

- **In 2007**

Issue of new bank loans and drawdowns (EUR 376.6 million) are mainly related to the following entities:

- GSG (EUR 232.9 million);
- Orco Leipziger Platz (which holds Wertheim project) for EUR 65.6 million;
- Gebauer Höfe (which holds Franklinstraße 15 project) for EUR 28.1 million;
- Viterra Erste (which holds Sky Office project) for EUR 18.3 million;
- Orco Germany (which holds various projects) for EUR 17.3 million.

Acquisition of subsidiaries relates to the purchase of GSG (EUR 68.8 million).

Repayments of other non-current loans are mainly related to a partial reimbursement of the loan granted by OPG (EUR -12.5 million).

Transfers of bank loans are mainly due to the reclassification of some loans from long term to short term for the following projects:

- all projects held by Viterra Development (including Helberger) for EUR -26.2 million;
- Cumberland Palace (EUR -20.0 million).

Borrowings maturity (bonds and financial debts)

The following tables describe the maturity of the Group's borrowings.

In 2008, the non-current financial debts amount to EUR 535.5 million (EUR 565.7 million in 2007).

At 31 December 2008	Less than one year	1 to 2 years	2 to 5 years	More than 5 years	TOTAL
Non-current					
Fixed rate bonds	-	-	86,793	-	86,793
Financial debts	-	82,270	308,583	57,852	448,705
Bank loans	-	82,270	307,184	48,343	437,797
Fixed rate	-	4,003	460	5,341	9,804
Floating rate	-	78,267	306,724	43,002	427,993
Other non-current borrowings	-	-	1,399	9,509	10,908
Total	-	82,270	395,376	57,852	535,498
Current					
Financial debts					
Bank loans fixed rate	9,906	-	-	-	9,906
Bank loans floating rate	124,819	-	-	-	124,819
Others borrowings	2,176	-	-	-	2,176
Total	136,901			-	136,901

At 31 December 2007	Less than one year	1 to 2 years	2 to 5 years	More than 5 years	Total
Non-current					
Fixed rate bond	-	-	83,432	-	83,432
Financial debts	-	76,210	346,882	59,215	482,307
Bank loans	-	76,210	346,822	55,212	478,244
Fixed rate	-	216	5,718	6,743	12,677
Floating rate	-	75,994	341,104	48,469	465,567
Other non-current borrowings	-	-	60	4,003	4,063
Total	-	76,210	430,314	59,215	565,739
Current					
Financial debts					
Bank loans fixed rate	31,343	-	-	-	31,343
Bank loans floating rate	41,680	-	-	-	41,680
Other current borrowings	1,324	-	-	-	1,324
Total	74,347	-	-	-	74,347

The other non-current borrowings (more than 5 years) represent equity loan granted by OPG. This equity loan with a maturity of 31 December 2020 bears an interest rate of 8%.

The increase of current floating rate bank loans is mainly due to the transfer of Wertheim bank loan from long term to short term debt for EUR 65.6 million.

Fair value of short term and long term fixed rate debt as at 31 December 2008 (including bonds) amounts to EUR 64.7 million (EUR 121.3 million in 2007), whereas total booked value as at 31 December 2008 is EUR 106.5 million (EUR 127.5 million in 2007).

The Group has entered into interest rate derivatives representing 92.6% of the non-current floating rate borrowing amounts (98.5% in 2007) and 60.1% of the current floating rate borrowing amounts (48.9% in 2007), in order to limit the risk of the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Most floating interest debt instruments have a fixing period of maximum 3 months.

Bank loans include amounts secured by a mortgage on properties and/or a pledge on the shares of the companies benefiting from the loan to the value of EUR 572.6 million (EUR 551.3 million as at 31 December 2007). Orco Germany S.A. usually grants its guarantee in favour of the bank for each of the subsidiaries. The guarantees granted to financial institutions remain fully valid until complete reimbursement of credits. No partial waiver on pledge or mortgage has been scheduled.

The Group's borrowings is fully denominated in euro.

15.2 Bonds with repayable subscription warrants ("OBSAR OG")

The Group issued a bond with repayable subscription warrants ("OBSAR OG") in May 2007.

Bonds

Issuer	Orco Germany S.A.
Nominal	EUR 100,100,052
Number of bonds	148,077
Issue price per bond	at par value, EUR 676
Maturity date	30 May 2012
Redemption price	at 100% or at 125% of par, depending on the occurrence of specific external events, namely the market price of the shares of Orco Germany S.A.
Nominal interest rate	4% payable annually
ISIN	XS0302623953
Listing	Luxembourg Stock Exchange

Warrants

Number of warrants	9,328,851 (corresponding to 63 warrants/issued bond)
Exercise ratio	one warrant gives the right to one share of Orco Germany S.A.
Exercise price	EUR 16.90 or 125% of the reference share price of Orco Germany S.A. if latter is lower than EUR 13.52 per share
Exercise period	30 May 2007 until 30 May 2014
Early repayment	from 30 May 2010, the issuer may, upon notice to the warrantholders, redeem the warrants at EUR 0.01 per warrant if the average share price exceeds 150% of the exercise price over 20 dealing days during a preceeding period of 30 consecutive dealing days
ISIN	XS0302626899
Listing	Luxembourg Stock Exchange

The funds raised with this bond have been at issuance divided into a long term debt component, an equity component and a derivative component. Furthermore, the costs linked to the issuance of the bond are deducted from the funds raised. The equity component (EUR 13.5 million in 2007, reduced by EUR 3.9 million of deferred taxes), classified in other reserves, represents the market value on the date of the issuance of the subscription warrants embedded on the bond. The derivative component amounting to EUR 8.0 million (EUR 8.5 million in 2007, and EUR 1.7 million at issue) classified in non-current financial liabilities under derivative instruments, represents the market value of the redemption premium granted to the bondholder if the average market price of Orco Germany S.A. shares does not reach a certain level before the repayment date. This derivative is revalued at its market value at each closing through the income statement. The difference between the debt component and the par value of the bond is taken in profit and loss accounts using the effective interest method.

Non-current bonds	Bonds with repayable subscription warrants
Debt component on issue	**81,656**
Interests accumulated during the period	1,776
Balance at 31 December 2007	**83,432**
Interests accumulated during the period	3,361
Balance at 31 December 2008	**86,793**

As at 31 December 2008, the parent company OPG owned 550,000 warrants (550,000 in 2007) and Orco Germany Investments S.A., a subsidiary of the Company, owned 2,397,311 warrants (2,397,311 in 2007).

15.3 Derivative instruments

	December 2008	December 2007
Interest rate derivatives	31	687
Total Current Assets	**31**	**687**
Embedded derivatives on Bonds	8,031	8,458
Total Non-Current Liabilities	**8,031**	**8,458**
Interest rate derivatives	22,329	748
Total Current Liabilities	**22,329**	**748**
Net Derivatives	**-30,329**	**-8,519**

Derivative instruments are presented within assets when fair value is positive, in liabilities when fair value is negative. Changes in fair value are recognized immediately in the income statement under "other net financial results" section (see note 4.1).

Derivatives used by the Group include interest rate derivatives and embedded derivatives on bonds.

Interest rate derivatives represent interest rate swaps and collars. Interest rate swaps are agreements between two parties to exchange a series of interest payments on a common principal amount. A collar is an investment strategy that uses options to limit the possible range of positive or negative returns on an investment in an underlying asset to a specific range. Valued at their fair value, interest rate swaps and collars cover floating interest rates against fixed rates.

Embedded derivatives on bonds correspond to the derivatives embedded on the OBSAR OG (see notes 15.3).

The Group uses various types of interest rate derivative contracts to protect against changes in the fair value of its assets and liabilities due to fluctuations in interest rates. As at 31 December 2008, the total debt covered by interest rate swaps and collars amounts to EUR 487.3 million (EUR 451.5 million in 2007). It represents 89.1% of the floating rate debt (89.0% in 2007).

15.4 Net interest expenses

	December 2008	December 2007
Interest income	1,963	2,839
Interest expenses	-34,267	-24,388
Net interest expenses	**-32,304**	**-21,549**

Capitalised interests in inventories amount to EUR 5.7 million in 2008 (EUR 1.4 million in 2007).

15.5 Average effective interest rates

	December 2008 EUR	December 2007 EUR
Bonds	8.70%	7.90%
Bank borrowings	4.24%	5.69%

15.6 Undrawn credit facilities

The main undrawn credit facilities relate to the credit line on Sky Office project for EUR 34.8 million (EUR 81.7 million in 2007).

New credit lines have been contracted in 2008 for the following projects:
- H2 Office (undrawn amount as at 31 December 2008: EUR 17.1 million);
- Bernauer Straße (undrawn amount as at 31 December 2008: EUR 7.8 million);
- Tschaikowskistraße 33 (undrawn amount as at 31 December 2008: EUR 6.5 million).

16. Provisions and other long term liabilities

The provisions amount to EUR 12.0 million (EUR 10.2 million in 2007) mainly represent provisions to cover the Group's retirement benefit obligations as detailed hereafter and provisions for restructuring (EUR 2.2 million, nil in 2007).

This caption also includes other long term liabilities for EUR 0.1 million (EUR 0.1 million in 2007) representing mainly the retention on general contractors' invoices when applicable.

Retirement benefit obligation

In the Group, only Orco Projektentwicklungs GmbH (formerly Viterra Development GmbH) and Viterra Baupartner GmbH (acquired in 2006) have defined benefit plans. The Viterra plan is a so-called book reserve plan. The important attribute of this kind of plan is that there is no separate vehicle to accumulate assets to provide for the payment of benefits. As a consequence the employer sets up a book reserve (accruals) in its balance sheet.

	December 2008	December 2007
Present value of unfunded obligations	7,964	7,934
Unrecognised actuarial gains	1,827	2,187
Liabilities in the balance sheet	**9,791**	**10,121**

The movement in the defined obligation over the year is as follows:

	December 2008	December 2007
Beginning of the year	**7,934**	**9,237**
Current service cost	85	156
Interest cost	426	386
Actuarial gains	-90	-1,470
Benefits paid	-391	-375
End of year	**7,964**	**7,934**

The principal actuarial assumptions used were as follows:

	December 2008	December 2007
Discount rate	5.85%	5.50%
Future salary increases	2.75%	2.75%
Future pension increases	2.00%	2.00%

17. Liquidity and cash flow interest rate risk

The liquidity risk is the risk that the Group might encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close at market positions (see note 4.1 and 4.2). 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 (see note 2.1).

The average lifetime of the Group's financial loans is 3.29 years (3.82 years in 2007). Concerning the liquidity risk of the Group, due to the variability of floating interest rates, it is important to analyse the cash-flow risk inherent to the floating rate loans and derivatives that will vary over time depending on the market conditions. Other debt instruments have been described in the specific notes of the consolidated financial statements.

The table below analyses the Group's financial liabilities and net-settled derivative instruments into relevant maturity groupings based on the remaining period as from 31 December 2008 to the contractual maturity date.

As the amounts disclosed in the table represent the contractual undiscounted cash flows, these amounts will not necessarily reconcile to the amounts disclosed on the consolidated balance sheet for borrowings, derivative instruments and other payables considered as financial instruments.

As at 31 December 2008	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Fixed rate loans	-14 575	-4 820	-112 925	-5 805	**-138 125**
Floating rate loans	-141 889	-113 306	-325 943	-45 969	**-627 107**
Interest rate derivatives	-7 758	-11 872	-3 485	-874	**-23 989**
Embedded derivatives on bonds	-	-	-25 025		**-25 025**
Total	**-164 222**	**-129 998**	**-467 378**	**-52 648**	**-814 246**

As at 31 December 2007	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Fixed rate loans	-15 450	-	-123 808	-7 678	**-146 936**
Floating rate loans	-65 098	-134 600	-354 168	-54 678	**-608 544**
Interest rate derivatives	-82		-1 130	246	**-966**
Embedded derivatives on bonds	-		-25 025	-	**-25 025**
Total	**-80 630**	**-134 600**	**-504 131**	**-62 110**	**-781 471**

The floating rate loans line presents the projected cash flows, including interests and the reimbursements of the principal, on all the Group's floating rate loans. The cash flows have been established on the basis of the forward interest and exchange rates as at 31 December 2008.

Interest rate swaps and collars used by the Group are detailed in the note 15.3 on derivatives.

As at 31 December 2008, the impact of a 100 basis points growth of interest rates curve would induce an increase of the interest charges for 2009 of EUR 0.7 million. Before the positive impact of derivatives, the increase of interest expenses in 2009 would amount to EUR 6.7 million.

As at 31 December 2007, the impact of a 100 basis points growth of interest rates curve would induce an increase of the interest charges for 2008 of EUR 0.3 million. Before the positive impact of derivatives, the increase of interest expenses in 2008 would amount to EUR 3.0 million.

Current liabilities presented below are stated after intercompany elimination:

At 31 December 2008	Less than 1 month	Between 1 and 6 months	Between 6 months and 1 year	Total
Financial debts	44,836	70,541	21,524	**136,901**
Trade payables	7,778	8,637	562	**16,977**
Advance payments	-	196	27,874	**28,070**
Other current liabilities	4,652	14,739	12,338	**31,729**
Total	**57,266**	**94,113**	**62,298**	**213,677**

At 31 December 2007	Less than 1 month	Between 1 and 6 months	Between 6 months and 1 year	Total
Financial debts	-	6,228	68,119	**74,347**
Trade payables	1,297	5,541	4,559	**11,397**
Advance payments	336	5,992	21,889	**28,217**
Other current liabilities	2,345	6,863	4,159	**13,367**
Total	**3,978**	**24,624**	**98,726**	**127,328**

The other current liabilities excluded in this table (as not being part of the IFRS definition of financial instruments) represent tax, payroll and social liabilities.

18. 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 taxes of one entity relate to the same fiscal authority. All deferred taxes are assumed to be recoverable after more than 12 months.

	December 2007	Scope variation	Change in income statement	December 2008
Intangible assets	-2,339	-	-	-2,339
Tangible assets	-109,500	-97	15,649	-93,948
Financial assets	2,844	-	1,055	3,899
Inventories	-1,917	-	4,035	2,118
Current assets	-	-	-2,716	-2,716
Provisions	-	-	-353	-353
Equity	1,362	-	-1,325	37
Long term debts	-5,190	-	977	-4,213
Current debts	-	-	5,567	5,567
Recognized loss carry forward	9,822	-	-9,822	-
Total Deferred taxes	**-104,918**	**-97**	**13,067**	**-91,948**
Deferred tax assets	**6,703**			**1,572**
Deferred tax liabilities	**-111,621**			**-93,520**

	December 2006	Scope variation	Change in income statement	Result on income tax decrease	Change in equity	December 2007
Intangible assets	-	-2,789	-	450	-	-2,339
Tangible assets	-6,323	-95,127	-30,855	23,584	-779	-109,500
Financial assets	-	-	3,062	-218	-	2,844
Inventories	-2,948	-	434	597	-	-1,917
Equity	-	-	1,362	-	-	1,362
Long term debts	-	-	-1,259	-	-3,931	-5,190
Current debts	-	-929	929	-	-	-
Recognized loss carry forward	1,758	-	8,064	-	-	9,822
Total Deferred taxes	**-7,513**	**-98,845**	**-18,263**	**24,413**	**-4,710**	**-104,918**
Deferred tax assets	**1,072**					**6,703**
Deferred tax liabilities	**-8,585**					**-111,621**

The income tax rates in the Group vary from 19% in Poland up to 30.17% in Germany in 2008 (39% in Germany in 2007).

In 2008, the theoretical tax rate is 30.17% (39% in 2007) and the effective tax rate of the period is 8.20% (2007: -9.80%).

As at 31 December 2008, the income taxes recognized in the income statement amount to EUR 12.4 million among which EUR -0.7 million of current income taxes and EUR +11.7 million deferred income taxes. Deferred taxes movements are mainly due to deferred tax asset recognized on negative revaluations and impairments booked on properties (EUR +16.5 million).

In 2007, the theoretical tax rate is 39% before reduction of tax rates in Germany and Czech Republic applicable as from 2008 (2006: 39%). The effective tax rate of the period is -9.80% (2006: 9.80%). Without the change of income tax rates, the effective tax rate would have been 35.9%.

As at 31 December 2007, the income taxes recognized in the income statement amount to EUR 5.0 million among which EUR -1.2 million of current income taxes and EUR +6.2 million deferred income taxes, mainly due to gains on income tax decrease from 39% to 31% in Germany which will be effective in 2008. The scope variation movement represent the deferred tax movements linked to the acquisition of GSG.

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	December 2008	December 2007
Profit/(loss) before tax	**-134,095**	**50,888**
Theoretical tax calculated at domestic rates applicable to profits/(losses) in Germany, Luxembourg and Poland	-40,456	19,846
Tax effects of:		
- Untaxed gains or losses	5,621	575
- Undeductible charges and interests	9,321	-815
- Recognised losses carried forward	9,822	-8,064
- Tax losses for which no deferred income tax asset was recognised	3,779	7,726
Remeasurement of deferred tax - change in tax rates	-	-24,413
Adjustment in respect of prior years	-440	157
Actual tax expense / (benefit)	**-12,353**	**-4,988**

19. Other operating expenses

	December 2008	December 2007
Leases and rents	-1,590	-1,642
Building maintenance and utilities supplies	-17,012	-6,384
Marketing and representation costs	-4,392	-4,215
Administration costs	-11,748	-8,245
Taxes other than income tax	-2,743	-2,198
Other operating expenses	-2,598	-3,682
Total other operating expenses	**-40,083**	**-26,366**

20. Other net financial results

	2008	2007
Change in fair value of derivative instruments	-18,537	-9,722
Change in fair value and realised on other financial assets	-386	36
Other net finance charges	-1,960	-4,956
Other net financial results	**-20,883**	**-14,642**

In 2008, the change in fair value of derivative instruments essentially relates to movements in fair value of interest rate swaps contracted by GSG (EUR -13.2 million), Viterra Erste PEG GmbH (EUR -2.8 million) and Gebauer Höfe (EUR -2.6 million).

In 2007, the change in fair value of derivative instruments essentially relates to movements in fair value of derivative instruments linked to bonds issued by the Group in May 2007 (EUR 6.8 million), and to movements in fair value of interest rate swaps contracted by the Group entities (EUR 2.7 million). Other net finance charges mainly represent early repayment fees of pre-acquisition GSG loans (EUR 2.9 million).

21. Earnings per share

	December 2008	December 2007
Shares issued at the beginning of the period	48,771,333	34,550,000
Weighted average of new shares issued	-	5,276,252
Weighted average outstanding shares for the purpose of calculating the basic earnings per share	**48,771,333**	**39,826,252**
Dilutive potential ordinary shares	**201,564**	**512,910**
Warrants	201,564	512,910
Weighted average outstanding shares for the purpose of calculating the diluted earnings per share	**48,972,897**	**40,339,162**
Net profit /(loss) attributable to the Group	**-121,420**	**57,028**
Effect of assumed conversions / exercises	**26**	**116**
Warrants	26	116
Net profit /(loss) attributable to the Group after assumed conversions / exercises	**-121,394**	**57,144**
Basic earnings in EUR per share	-2.49	1.43
Diluted earnings in EUR per share	-2.48	1.42

Basic earnings per share is calculated by dividing the profit 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 adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

In February 2006 the Board of Directors of the Company decided to allocate one warrant to each 350 000 existing shares at that time, three warrants giving the right to subscribe to one new share. As a result of the share split, the 2 800 000 warrants have been granted with an exercise price of EUR 4.63 per share and can be exercised up to February 2009.

As at 31 December 2008, 364 000 warrants have been exercised (364 000 in 2007).

22. Equity holder's balance

	Number of shares	Capital	Share premium
Balance at 31 December 2006	**34,550,000**	**43,188**	**66,873**
Capital increase I	3,500,000	4,375	30,625
Capital increase II	10,600,000	13,250	25,750
Exercise of share subscription rights	121,333	151	410
Balance at 31 December 2007	**48,771,333**	**60,964**	**123,658**
Movements during the year	-	-	-
Balance at 31 December 2008	**48,771,333**	**60,964**	**123,658**

No movements occurred on equity during the year 2008.

During the year ended 31 December 2007, the share capital of the Company was increased by an amount of EUR 17,776,670 subscribed by OPG and by third-party investors.

No dividend has been paid by the Company to its shareholders in 2008 and 2007.

23. Contingencies

The Group has given guarantees in the ordinary course of business (see note 15).

As at the publication of the consolidated financial statements, the Group has no litigation that would lead to any material contingent liability.

24. Capital commitments

As a developer of buildings and residential properties, the Group is committed to finalize the construction of properties in different cities (including Berlin, Hamburg and Düsseldorf). The commitments for the projects started as at 31 December 2008 amount to EUR 218.3 million (EUR 337.0 million in 2007). This does not take into account the potential investments in future projects on land bank like Wertheim in Berlin.

25. Comparatives

2007 comparatives for Operating expenses and Cost of goods sold have been reclassified following the change in presentation from Cost of sales to Cost of goods sold. The Operating expenses have been increased by EUR 12.7 million and the Cost of sales has been decreased by EUR 12.7 million and renamed Cost of goods sold. Cost of goods sold includes changes in inventories and construction costs of the inventories sold during the period.

26. Related party transactions

- Transactions with OPG

During the year, the Company was granted an "equity loan" by OPG bearing interest at an annual fixed rate of 8% (6% in 2007) and a maturity date of 2020. This loan amounted to EUR 9.5 million as at 31 December 2008 (EUR 4.0 million in 2007). Net interest expenses related to these loans amounted to EUR 0.7 million as at 31 December 2008 (EUR 0.7 million in 2007).

Additionally, as at 31 December 2007, EUR 0.8 million was recharged by OPG in respect of the OBSAR OG issuance costs and have been recorded as a transaction cost by the Group.

In addition, on 2 January 2007, Viterra Ceska spol s.r.o. has been sold to OPG for an amount of EUR 2.7 million.

- Transactions with CEREM

On May 22, 2007, the Board of Directors of the Company approved the issue of 148,077 five year bonds with 63 redeemable warrants attached to each bond pursuant to the terms and conditions set forth in a prospectus issued on May 24, 2007 (the "Prospectus"). The main features of the bonds and warrants are described in note 15.2. The Prospectus indicated that the subscribers who did not wish to keep all the warrants which were originally upon issue attached to the bonds made their undertakings to subscribe to Bonds with Warrants subject to the repurchase of 6,219,234 Warrants at an average unit price of EUR 1.45 by Central European Real Estate Management S.A., ("CEREM"), a limited liability company ("société anonyme"), incorporated under the laws of Luxembourg and a wholly-owned subsidiary of Orco Property Group S.A.. The Prospectus provided that these warrants purchased by CEREM would then be offered at a unit price of EUR 1.45 to less than one hundred managers and business partners of Orco Germany's group. It was also provided in the Prospectus that in the event where all or part of these warrants were not purchased by these designated managers or business partners of Orco Germany's group, the unsold warrants would be repurchased at a price of EUR 1.45 per warrant either by Orco Immobilien GmbH, a private limited liability company incorporated under the laws of Germany and an Orco Germany wholly owned subsidiary or by Orco Germany itself, in order to cancel the repurchased warrants.

On May 30, 2007, 148,077 five year bonds with 63 redeemable warrants attached to each bond were issued and subscribed by investors. Shortly thereafter, in accordance with the terms and conditions of the Prospectus, CEREM purchased from investors 6,219,234 warrants for a total consideration of EUR 9,017,889 and offered to managers and business partners of Orco Germany's group the opportunity to purchase these warrants at a price of EUR 1.45 per warrant based on an allocation proposed following a resolution of the Board of Directors of Orco Germany.

As of June 12, 2009, date of approval of the accounts by the Board of Directors, Orco Germany has not been notified by CEREM about any potential unsold warrants. In consequence, the Management considers that neither Orco Germany nor Orco Immobilien GmbH have any remaining obligation to repurchase any such warrants from CEREM.

- Transactions with key management personnel

In 2008, key management personnel received a global remuneration as short term employee benefit amounting to KEUR 980 (EUR 1.3 million in 2007).

In February 2008 Orco Germany took over development projects in Kleinmachnow "Neue Hakeburg" and "Hochwald" by acquiring the majority in the companies Vivaro GmbH & Co. Grundbesitz KG and Vivaro GmbH & Co. Zweite Grundbesitz KG. The development projects have been initiated by members of the Board of Directors of Orco Germany S.A. The acquisition involves a net investment of approx. EUR 2 million on the basis of valuation report prepared by independent expert.

27. List of the fully consolidated subsidiaries

Company	Country	Currency	Activity	% shareholding	
				31.12.2008	31.12.2007
An den Gärten GmbH	Germany	EUR	Development	100%	100%
Apple Tree Investments GmbH	Germany	EUR	Leasing	94.8%	94.8%
Cybernetyki Business Park Sp. z.o.o.	Poland	PLN	Development	100%	100%
Elb Loft Hamburg GmbH Bau	Germany	EUR	Development	100%	100%
Endurance HC Alpha S.à r.l.	Luxembourg	EUR	Development	100%	100%
Endurance HC Beta S.à r.l.	Luxembourg	EUR	Development	100%	100%
Endurance HC Epsilon S.à r.l.	Luxembourg	EUR	Development	100%	/
Endurance HC Gamma S.à r.l.	Luxembourg	EUR	Development	100%	100%
Gebauer Höfe Liegenschaften GmbH	Germany	EUR	Leasing	100%	100%
Gewerbesiedlungs-Gesellschaft mbH ("GSG")	Germany	EUR	Leasing	99.75%	99.75%
GSG Asset GmbH & Co. Verwaltungs KG	Germany	EUR	Leasing	99.75%	/
GSG 1. Beteiligungs GmbH	Germany	EUR	Leasing	99.75%	/
Isalotta 1. GmbH (merged into GSG)	Germany	EUR	Leasing	/	100%
Isalotta 3. GmbH (merged into GSG)	Germany	EUR	Leasing	/	94.99%
Isalotta GP GmbH & Co. Verwaltung KG	Germany	EUR	Leasing	94.99%	94.99%
Knorrstrasse 119 Verwaltungs GmbH	Germany	EUR	Development	100%	100%
Lora Grundbesitz GmbH	Germany	EUR	Leasing	100%	100%
Orco Berlin Invest GmbH	Germany	EUR	Development	100%	100%
Orco Germany Investment S.A.	Germany	EUR	Holding	100%	100%
Orco Grundstücks- u. Bet.GmbH	Germany	EUR	Leasing	100%	100%
Orco Immobilien GmbH	Germany	EUR	Development	100%	100%
Orco Leipziger Platz GmbH	Germany	EUR	Development	100%	100%
Orco LP 12 GmbH	Germany	EUR	Development	100%	100%
Orco Projekt 103 GmbH	Germany	EUR	Leasing	100%	75%
Orco Projektentwicklung GmbH (previously Viterra Development GmbH)	Germany	EUR	Development	100%	100%
Orco Vermietungs- und Services GmbH	Germany	EUR	Development	100%	100%
PEG Knorrstrasse mbH & Co. KG	Germany	EUR	Development	100%	100%
SeWo Ges. für Seniorenwohnen mbH	Germany	EUR	Development	94.8%	94.8%
Stauffenbergstrasse Drei GmbH	Germany	EUR	Development	100%	100%
Stauffenbergstrasse Zwei GmbH	Germany	EUR	Development	100%	100%
Tucholskystraße 39/41 GmbH & Co. Grundbesitz KG	Germany	EUR	Leasing	100%	100%
Viterra Baupartner GmbH	Germany	EUR	Development	100%	100%
Viterra Erste PEG mbH	Germany	EUR	Development	100%	100%
Viterra Zweite PEG mbH	Germany	EUR	Development	100%	100%
Viterra Vierte PEG mbH (merged into Orco Projectentwicklung GmbH)	Germany	EUR	Development	/	100%
Viterra Fünfte PEG mbH	Germany	EUR	Development	100%	100%
Viterra Grundstücke Verw. GmbH	Germany	EUR	Development	100%	100%
Vivaro GmbH & Co. Grundbesitz KG	Germany	EUR	Development	94.34%	/
Vivaro GmbH & Co. Zweite Grundbesitz KG	Germany	EUR	Development	94.34%	/
Vivaro Vermögensvervaltung GmbH	Germany	EUR	Development	100%	/
Westendstrasse 28 Ffm GmbH	Germany	EUR	Development	94%	100%

28. List of the joint ventures

Knorrstrasse 119 GmbH & Co. KG

The Group has a 50% interest in a joint venture, Knorrstrasse 119 GmbH & Co. KG, which is the Idea development project for BMW. The following amounts represent the Group's 50% share of assets and liabilities, and sales and results of the joint ventures. They are included in the balance sheet and in the income statement:

	December 2008	December 2007
Non-current assets	-	-
Current assets	3,956	5,358
Assets	**3,956**	**5,358**
Non-current liabilities	-	-
Current liabilities	3,898	4,720
Liabilities	**3,898**	**4,720**
Income	28	38
Expenses	-102	-9
Profit /(loss) after income tax	**-74**	**29**

29. Events after balance sheet date

Since the beginning of 2009 and until the date of publication of these consolidated financial statements, the Group sold 13 assets for a total sales price of EUR 34.8 million recognizing a loss compared to the DTZ valuation as at December 31, 2008 of EUR 8.9 million, among which the project of Fehrbelliner Höfe in Berlin (EUR - 5.8 million).

As at March 22, 2009, the Group received the resignation letter from one of its Director, Luc Leroi.

ORCO GERMANY Société Anonyme

R.C.S. Luxembourg B 102.254

ANNUAL ACCOUNTS AND AUDITORS' REPORT

DECEMBER 31, 2008

40 Parc d'Activités de Capellen
L-8303 Capellen
R.C.S. Luxembourg B 102.254

ORCO GERMANY S.A.
R.C.S. Luxembourg B 102.254

TABLE OF CONTENTS

	Page
AUDITORS' REPORT	1 - 2
ANNUAL ACCOUNTS	
- Balance sheet	3
- Profit and loss account	4
- Notes to the accounts	5 - 23

PRICEWATERHOUSECOOPERS

HRT RÉVISION

PricewaterhouseCoopers
Société à responsabilité limitée
Réviseur d'entreprises
400, route d'Esch
B.P. 1443
L-1014 Luxembourg
Telephone +352 494848-1
Facsimile +352 494848-2900
www.pwc.com/lu
info@lu.pwc.com
R.C.S. Luxembourg B 65 477 - TVA LU17564447

23, Val Fleuri
L-1526 Luxembourg

Report of the independent auditors

To the Shareholders of
Orco Germany S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Orco Germany S.A. (the "Company"), which comprise the balance sheet as at December 31, 2008 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the Auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 annual accounts.

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 accompanying annual accounts give a true and fair view of the financial position of Orco Germany S.A. as of December 31, 2008, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the annual accounts which indicates that the Company has substantial outstanding debts service obligation and capital requirements. In addition, the Company has experienced significant losses during the year ended December 31, 2008 and the operations of the Company and its subsidiaries have been significantly affected, and will continue to be affected for the foreseeable future, by the volatility in real estate market. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

In the event that some actions contemplated by the management are not successful, Orco Germany S.A.'s ability to continue as a going concern would not be assured. The annual accounts would have to be prepared on a break-up basis of accounting having impacts on the valuation and on the classification of assets and liabilities, the amounts of which cannot be measured at present.

Report on other legal and regulatory requirements

The annual management report, which is the responsibility of the Board of Directors, is in accordance with the annual accounts.

Luxembourg, June 12, 2009

PricewaterhouseCoopers S.à r.l.
Réviseur d'entreprises
Represented by

Marc Minet

HRT RÉVISION S.A.
Réviseur d'entreprises
Represented by

Brigitte Denis

ORCO GERMANY S.A.
R.C.S. Luxembourg B 102.254

BALANCE SHEET

December 31, 2008

A S S E T S	**2008 EUR**	**2007 EUR**
FIXED ASSETS	**288.333.113,66**	**314.111.458,52**
Tangible assets (note 3)		
Land and buildings	49.849.489,84	56.615.123,64
Financial assets (note 4)		
Shares in affiliated undertakings	122.045.109,29	157.024.660,25
Loans to affiliated undertakings	116.438.514,53	100.471.674,63
CURRENT ASSETS	**13.979.682,03**	**14.205.036,39**
Trade debtors (note 3)	2.256.140,30	1.008,35
Amounts due by affiliated undertakings	9.280.544,59	-
Other debtors	13.447,78	243.640,83
Other transferable securities (note 5)	136.488,96	847.000,00
Cash at banks and in hand	2.293.060,40	13.113.387,21
PREPAYMENTS AND ACCRUED INCOME (note 6)	**1.439.703,37**	**1.858.994,58**
TOTAL ASSETS	**303.752.499,06**	**330.175.489,49**
L I A B I L I T I E S		
CAPITAL AND RESERVES (note 7)	**133.366.474,57**	**178.499.228,19**
Subscribed capital	60.964.166,25	60.964.166,25
Share premium account	123.657.605,54	123.657.605,54
Losses brought forward	(6.122.543,60)	(3.196.115,35)
Loss for the financial year	(45.132.753,62)	(2.926.428,25)
PROVISIONS FOR LIABILITIES AND CHARGES	**3.029.478,00**	**814.066,16**
Provisions for taxation (note 13)	244.300,00	122.300,00
Other provisions (note 14)	2.785.178,00	691.766,16
CREDITORS	**167.356.546,49**	**150.833.285,77**
Bonds (note 8)		
- due and payable within one year	2.332.497,92	2.334.500,00
- due and payable after more than one year	100.100.052,00	100.100.052,00
Amounts owed to credit institutions (note 9)		
- due and payable within one year	9.971.854,69	1.178.604,42
- due and payable after more than one year	26.044.067,51	39.958.577,13
Trade creditors (due and payable within one year)	200.727,72	72.018,12
Amounts owed to affiliated undertakings (due and payable within one year) (note 9)	27.726.059,41	6.420.016,35
Tax and social security payable (due and payable within one year)	736,58	15.117,38
Other creditors (due and payable within one year)	980.550,66	754.400,37
PREPAYMENTS AND DEFERRED INCOME	-	**28.909,37**
TOTAL LIABILITIES	**303.752.499,06**	**330.175.489,49**

The accompanying notes form an integral part of these annual accounts.

ORCO GERMANY S.A.
R.C.S. Luxembourg B 102.254

PROFIT AND LOSS ACCOUNT

December 31, 2008

C H A R G E S	**2008 EUR**	**2007 EUR**
External charges (note 15)	5.292.057,08	4.924.956,30
Staff costs (notes 12 and 17)		
Wages and salaries	96.777,03	96.927,20
Social security costs	6.319,24	6.133,26
Value adjustments in respect of tangible fixed assets (note 3)	804.237,46	816.863,05
Value adjustments in respect of financial assets and of transferable securities held as current assets (notes 4 and 5)	43.191.045,27	273.748,00
Value adjustments in respect of financial instruments (note 14)	2.093.411,84	691.766,16
Interest payable and similar charges		
Affiliated undertakings (note 9)	829.053,33	1.194.091,69
Other interest payable and charges (note 11)	6.553.975,28	4.556.882,96
Other taxes (note 13)	503.745,81	1.089.466,90
TOTAL CHARGES	**59.370.662,34**	**13.650.835,52**

INCOME		
Net turnover (note 10)	3.605.177,65	3.287.030,42
Other operating income	267.844,22	42.747,07
Income from other transferable securities (note 5)	385.785,46	373.382,52
Other interest receivable and similar income		
Affiliated undertakings (note 4)	6.926.001,27	5.003.075,57
Other interest receivable and similar income (note 14)	2.168.058,31	554.467,99
Net gain on disposal of properties (note 3)	885.001,81	1.463.703,70
Loss for the financial year	45.132.753,62	2.926.428,25
TOTAL INCOME	**59.370.622,34**	**13.650.835,52**

The accompanying notes form an integral part of these annual accounts.

NOTE 1 - GENERAL INFORMATION

ORCO GERMANY S.A. (the "Company") has been incorporated on July 22, 2004 and organized under the laws of Luxembourg as a Société Anonyme for an unlimited period.

The object of the Company is the investment in real estate, thus as the purchase, the sale, the construction, the exploitation, the administration and the letting of real estate as well as the property development, for its own account or through the intermediary of its affiliated companies. The Company has also for object the taking of participating interests, in whatsoever form in other, either Luxembourg or foreign, companies, and the management, control and development of such participating interests. The Company may in particular acquire all types of transferable securities, either by way of contribution, subscription, option, purchase or otherwise, as well as realize them by sale, transfer, exchange or otherwise. The Company may borrow and grant any assistance, loan, advance or guarantee to companies in which it has participation or in which it has a direct or indirect interest. The Company may carry out any commercial, industrial or financial operations, as well as any transactions on real estate or on movable property, which it may deem useful to the accomplishment of its purposes.

The registered office of the Company is established at 40 Parc d'Activités de Capellen.

The shares of the Company were listed on the Open Market of the Frankfurt Stock Exchange since May 2006 and are now listed on the Prime Standard of the Frankfurt Stock Exchange since November 2007.

ORCO GERMANY S.A. is 57,69% owned by ORCO PROPERTY GROUP S.A., Luxembourg, which prepares consolidated accounts including the accounts of the company and of its subsidiaries. The Company also prepares its own consolidated accounts.

The consolidated accounts of the Company and of its parent company ORCO PROPERTY GROUP S.A. can be obtained at their registered office, 40 Parc d'Activités de Capellen, L-8308 Capellen.

NOTE 2 - ACCOUNTING PRINCIPLES, RULES AND METHODS

2.1. Basis of preparation – Going concern

The annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements.

Some comparative figures as of December 31, 2007 in the present annual accounts have been reclassified without impacting the result of the year ended December 31, 2007. Please refer to note 7 about the share capital for more details about a reclassification made.

2.1.1 Going concern

In determining the appropriate basis of preparation of the annual accounts, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future.

2.1.2. 2008 results

In the year ended December 31, 2008, the Company made a loss of EUR 45.1 million. The loss for the current year has caused the Company to breach some of its banking covenants, which mean that some bank loans become repayable on demand. The total amount of debts to be reimbursed in 2009 amounts to EUR 12.3 Million, negotiations have been concluded or are undertaken in order to either postpone by 12 to 18 months the loan repayment or increase the construction credit lines allowing the finalization of the development.

2.1.3 Restructuring plan prepared by the management

Faced with liquidity issues that may put at risk the integrity and value of its portfolio, the management team is implementing a restructuring plan focused on cash generation, restoring of the global loan to value ratio at an affordable level and preservation for the Company. Therefore, the necessary actions to return to the Company to profit are implemented. The actions include: selling non core businesses, renegotiation of existing bank loans, improving margins through a cost reduction programme (reduction of opex and capex).

Together with its majority shareholder, Orco Property Group S.A., and together with Grant Thornton, the Company has prepared a cash flow forecast plan which shows a treasury situation which would help the management to implement a recovery plan with the objective to finance its cash needs. The Directors are confident that the actions taken will result in a return to profit.

The Board of Directors and the executive management are currently discussing with all its joint venture and investment partners in order to restore the liquidity of its financial assets. The objective is to have the loans granted either to these joint ventures either repaid in cash or converted in equity.

2.1.4 Risks and uncertainties on the ability of the Company as a going concern

The Company's status as a going concern depends mainly and directly on the successful achievement of an operating and financing restructuring plan and the disposal plan of non strategic assets, the nature and impact of which cannot be measured at this stage.

The financial performance of the Company is also dependent upon the wider economic environment in which the Company operates. The uncertainty of the evolution of real estate market in Germany can damage the Company's activity and especially can significantly slow down the asset sales program as financings are hardly available for institutional acquisitions.

2.1.5 Conclusion

If the implementation of the restructuring program (sale of assets and renegotiation of debts) was to fail, the going concern would not be assured. Thus, the annual accounts would have to be amended to an extent which today cannot be estimated in respect of the valuation of the assets at their liquidation value, the incorporation of any potential liability and the reclassification of non current assets and liabilities into current assets and liabilities.

Considering the situation described above, the Directors have concluded that the current circumstances represent a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern. However, after considering the actions described above and after making appropriate enquiries, the Directors are of the opinion that there is a reasonable expectation that the Company can continue its operations in the foreseeable future and, accordingly, have formed a judgement that it is appropriate to prepare annual accounts upon a going concern basis.

2.2. Significant accounting policies

2.2.1 Tangible assets

Tangible fixed assets consisting of land and buildings are recorded at historical cost less depreciation which is calculated on a linear basis at the rate of 2,5% p.a. on the buildings. Land is not depreciated.

Historical costs include expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount of the asset unless they are related to repairs and maintenance and are directly charged to the profit and loss account. For the real estate properties acquired since 2007, acquisition costs include a lump sum amount of 1% of the net cost as per notary deed of these real estate properties, which covers personnel expenses related to the acquisition of these properties invoiced by the Company's subsidiary Orco Immobilien GmbH.

The allocation of acquisition cost between lands and buildings is based on specific valuation when available. In absence of such valuation, the split is done on the basis 20% on lands and 80% on buildings which is considered as a fair allocation by the Board of directors.

2.2.2. Financial assets

Financial assets are valued individually at the lower of their acquisition price or market value. Loans shown under "financial assets" are recorded at their nominal value. A value adjustment is recorded when the recovery value is lower than the nominal value.

In case of durable depreciation in value to the opinion of the Board of directors, value adjustments are made in respect of fixed assets so that they are valued at the lower figure to be attributed to them at the balance sheet date. The value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.2.3. Current debtors

Current debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.2.4. Other transferable securities

Other transferable securities are valued individually at the lower of purchase cost or market value. A value adjustment is recorded where the market value is lower than the purchase cost. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.2.5. Conversion of foreign currencies

The Company maintains its accounting records in Euro (EUR) and the balance sheet and the profit and loss account are expressed in this currency.

During the financial year, the acquisitions and sales of tangible assets and financial assets as well as income and charges in currencies other than EUR are converted into EUR at the exchange rate prevailing at the transaction dates.

At the balance sheet date, the acquisition price of the tangible and financial assets expressed in another currency than the EUR remains converted at the historical exchange rate. All other assets and liabilities expressed in a currency other than EUR are valued at the closing rate. The unrealised and realised gains or losses are accounted for in the profit and loss account.

2.2.6. Swap agreements

Interest rate and forward interest swap agreements are recorded off balance sheet at their market value. A value adjustment is provided for in the caption "other provisions" where the market value is lower than the purchase cost. The market valuation of interest rate swap agreements depends mainly on the evolution of market interest rates. The net interest receivable or payable on outstanding interest rate swap agreements accrued and unpaid is recorded in the balance sheet at year-end. Interest amounts are recorded in net in the profit and loss account under the caption "Interest payable and similar charges".

2.2.7. Prepayments and accrued income

This asset item includes expenditure incurred during the financial year but relating to a subsequent financial year.

2.2.8. Accruals and deferred income

This liability item includes income received during the financial year but relating to a subsequent financial year.

2.2.9. Value adjustments

Value adjustments are deducted directly from the related asset.

2.2.10. Net turnover

In 2006, net turnover was including rental income and service charges recharged to the tenants. As from 2007, the service charges paid by the Company and recharged to tenants are no longer recorded in turnover when the Company acts as an agent.

2.2.11. Bonds and convertible bonds

Bonds and convertible bonds are recorded at their nominal value. Where the amount repayable is greater than the amount received, the difference is shown as an asset under the caption "Prepayment and accrued income" and is written off over the period of the bonds on a linear basis under the caption "Interest payable and similar charges". Financing fees linked to the issuance of those bonds are also recorded under the caption "Prepayment and accrued income" and are amortised through profit and loss account over the period of the bonds under the caption "interest payable and similar charges".

2.2.12. Share subscription rights

The Company grants share subscription rights to third party as part of its financing program. Change in fair value of those instruments is not accounted for in the annual accounts.

NOTE 3 - TANGIBLE ASSETS

Tangible assets owned by the Company consist of 12 (2007: 17) real estate properties.

All properties referred to above are located in Berlin (Germany).

	Land	**Buildings**
	EUR	**EUR**
Cost		
Situation as at January 1, 2008	20.299.130,76	37.450.757,76
Additions/Transfers	772.627,38	3.656.380,48
Disposals/Transfers	(2.859.032,53)	(7.895.908,43)
Situation as at December 31, 2008	18.212.725,61	33.211.229,81
Depreciation		
Situation as at January 1, 2008	-	(1.134.764,88)
Depreciation for the year	-	(804.237,46)
Disposals/Transfers	-	364.536,76
Situation as at December 31, 2008	-	(1.574.465,58)
Net value as at December 31, 2008	**18.212.725,61**	**31.636.764,23**

The additions in buildings mainly consist of refurbishment expenses, namely on a building located Danziger Strasse 73 – 77 which is currently not being rented, with a view to rent the building after the end of the works.

The Company sold 6 buildings in 2008 (2007: 1) yielding a net gain of EUR 885.001,81 (2007: EUR 1.463.703,70). An amount of EUR 2.050.000 receivable from the notary on the sale of the building Boxhagener Strasse 106 as of December 31, 2008 is shown under trade debtors.

NOTE 4 - FINANCIAL ASSETS

	Shares in affiliated undertakings	**Loans to affiliated undertakings**
	EUR	**EUR**
Cost		
Situation as at January 1, 2008	157.024.660,25	100.471.674,63
Additions/Transfers	2.738.287,74	24.264.846,90
Disposals/Transfers	(3.735.505,70)	-
Situation as at December 31, 2008	156.027.442,29	124.736.521,53
Depreciation		
Situation as at January 1, 2008	-	-
Depreciation for the year	(33.982.333,00)	(8.298.007,00)
Situation as at December 31, 2008	(33.982.333,00)	(8.298.007,00)
Net value as at December 31, 2008	**122.045.109,29**	**116.438.514,53**

4.1. Shares in affiliated undertakings

The object of all affiliated companies is the investment in real estate and/or the holding of interest in real estate companies.

During the year 2008, the Company acquired the remaining 25% of the share capital of Orco Projekt 103 GmbH from a third party. During the year 2008, it also acquired three entities of the Vivaro group owning buildings in Germany.

The Company sold all its shares of Orco Zweite Beteiligungs VV GmbH and Orco Dritte Beteiligungs VV GmbH to group companies. The latter sales were made at book value with no profit or loss. The diminution of the book value of the investment Apple Tree Investments GmbH is namely due to a partial reimbursement made in 2008 by this subsidiary of its share premium account.

The Board of Directors of the Company is of the opinion that a few affiliated undertakings of the Company are permanently impaired as at December 31, 2008. Therefore, all shares in affiliated undertakings with their net equity significantly lower than their acquisition cost as at December 31, 2008, are value adjusted to the highest amount between zero and the net equity of each concerned affiliated undertaking as at December 31, 2008.

Undertakings in which the Company holds at least 20% in their share capital are detailed in the table on the following page.

In accordance with article 67 (3) (a) of the law dated December 19, 2002, the Company is not presenting the capital and reserves and the profit and loss of its subsidiaries which are included in the consolidated financial statements of the Company available on the website www.orcogroup.com.

ORCO GERMANY S.A.

R.C.S. Luxembourg B 102.254

NOTES TO THE ACCOUNTS

December 31, 2008

Name of the undertaking	Country	Local curr.	% held	Book value 31/12/2008 '000 EUR	Book value 31/12/2007 '000 EUR	Created / Acquired in 2008 '000 EUR	Impairments in 2008 '000 EUR	Carrying value 31/12/2008 '000 EUR
Apple Tree Investments GmbH	Germany	EUR	94,80%	2.502,72	6.235,73	(3.733,01)	(2.159,72)	343,00
Endurance HC Alpha Sàrl	Luxembourg	EUR	100%	12,50	12,50	-	-	12,50
Endurance HC Beta Sàrl	Luxembourg	EUR	100%	12,50	12,50	-	-	12,50
Endurance HC Gamma Sàrl	Luxembourg	EUR	100%	12,50	12,50	-	-	12,50
Gebauer Höfe Liegenschaften GmbH	Germany	EUR	100%	27,50	27,50	-	(27,50)	-
Isalotta 1. GmbH	Germany	EUR	100%	74.768,17	74.764,66	3,50	-	74.768,17
Isalotta 2. GmbH	Germany	EUR	100%	197,57	197,57	-	-	197,57
Isalotta GP GmbH & Co. Verwaltungs KG	Germany	EUR	94,99%	3.745,88	3.745,88	-	-	3.745,88
Lora Grundbesitz GmbH, Berlin	Germany	EUR	100%	204,96	204,96	-	-	204,96
Orco Berlin Invest GmbH, Berlin	Germany	EUR	100%	19.025,00	19.025,00	-	(19.025,00)	-
Orco Erste Beteiligungs VV GmbH	Germany	EUR	100%	25,00	5,00	20,00	(25,00)	-
Orco Zweite Beteiligungs VV GmbH	Germany	EUR	0%	-	1,00	(1,00)	-	-
Orco Dritte Beteiligungs VV GmbH	Germany	EUR	0%	-	5,00	(5,00)	-	-
Orco Germany Investment SA	Luxembourg	EUR	100%	31,00	31,00	-	-	31,00
Orco Grundstück u. Beteiligungs GmbH, Berlin	Germany	EUR	100%	40.027,30	40.027,30	-	-	40.027,30
Orco Immobilien GmbH, Berlin	Germany	EUR	100%	9.325,00	9.325,00	-	(9.325,00)	-
Orco LP 12 GmbH, Berlin	Germany	EUR	100%	27,30	27,30	-	(12,10)	15,20
Orco Projekt 103 GmbH, Berlin	Germany	EUR	100%	1.105,96	725,97	380,00	(1.105,96)	-
Orco Vermietungs- und Service GmbH	Germany	EUR	100%	25,00	25,00	-	(25,00)	-
Senioren Wohnen GmbH	Germany	EUR	94,80%	100,00	100,00	-	-	100,00
Tucholsky Strasse 39 GmbH & Co. Grundbesitz KG	Germany	EUR	100%	2.513,29	2.513,29	-	(363,72)	2.149,57
Vivaro Vermögensverwaltung GmbH	Germany	EUR	100%	25,00	-	25,00	(16,38)	8,62
Vivaro GmbH & Co Grundbesitz KG	Germany	EUR	94,34%	1.691,17	-	1.691,17	(1.349,83)	341,34
Vivaro GmbH & Co Zweite Grundbesitz KG	Germany	EUR	94,34%	547,12	-	547,12	(547,12)	-
Endurance HC Eta Sàrl	Luxembourg	EUR	100%	12,50	-	12,50	-	12,50
Endurance HC Theta Sàrl	Luxembourg	EUR	100%	12,50	-	12,50	-	12,50
Endurance HC Lota Sàrl	Luxembourg	EUR	100%	12,50	-	12,50	-	12,50
Endurance HC Delta Sàrl	Luxembourg	EUR	100%	12,50	-	12,50	-	12.50
Endurance HC Epsilon Sàrl	Luxembourg	EUR	100%	12,50	-	12,50	-	12.50
Endurance HC Zeta Sàrl	Luxembourg	EUR	100%	12,50	-	12,50	-	12.50
				156.027,44	**157.024,66**	**(997,22)**	**(33.982,33)**	**122.045,11**

4.2. Loans to affiliated undertakings:

	2008 EUR	2007 EUR
Orco Immobilien GmbH	35.458.680,51	28.608.432,33
Orco Grundstück-u. Beteiligungs GmbH	26.623.187,95	25.744.187,95
Orco Leipziger Platz GmbH	15.816.196,78	12.076.196,78
Gebäuer Höfe Liegenschaften GmbH	15.175.995,66	18.319.301,91
Orco Berlin Invest GmbH	8.482.500,15	4.197.500,15
Orco Projekt 103 GmbH	5.529.869,47	5.074.869,47
Others	17.650.090,98	6.451.186,04
Cost	124.736.521,53	100.471.674,63
Depreciation	(8.298.007,00)	-
Net value	**116.438.514,53**	**100.471.674,63**

Loans to affiliated undertakings have no set maturity dates and are remunerated at an interest rate of 8% (2007:6%).
In detail the loans have been impaired as follows:

	2008 EUR
ORCO Immobilien GmbH	2.835.407
ORCO Projekt 103 GmbH	3.179.053
ORCO Berlin Invest GmbH	1.287.094
Gebauer Höfe Liegenschaften GmbH	929.364
ORCO Vermietungs- und Services GmbH	67.089
Total depreciation	**8.298.007**

The Board of Directors of the Company is of the opinion that a few affiliated undertakings of the Company are permanently impaired as at December 31, 2008 and that the ability of these undertakings to reimburse the loans granted to them by the Company is seriously compromised. Therefore, all loans to affiliated undertakings with a negative net equity as at December 31, 2008 are value adjusted to the highest amount between zero and the net assets of each concerned affiliated undertaking as at December 31, 2008.

NOTE 5 - TRANSFERABLE SECURITIES

	EUR
Gross book value, at the beginning of the year	1.120.748,00
Additions for the year	2.178.134,15
Disposals for the year	(1.977.939,92)
Gross book value, at the end of the year	1.320.942,23
Value adjustment, at the beginning of the year	(273.748,00)
Depreciation for the year	(910.705,27)
Value adjustment, at the end of the year	(1.184.453,27)
Net book value, at the end of the year	**136.488,96**

Transferable securities Deutsche Reit AG (2008 and 2007: 72.000 shares) and Colonia Real Estate AG (2008: 35.176 shares; 2007: nil) held by the Company at the end of the year are listed. As at December 31, 2008, the securities are valued on the basis of the latest available market price amounting to EUR 136.488,96 (2007: EUR 847.000). The net realised gain on sale of securities during the year amounts to EUR 385.785,46 (2007: EUR 373.382,52) and is related to the sale of (i) Securities Deutsche Euroshop AG, (ii) shares Novy Easy Fund and (iii) shares in Colonia Real Estate AG.

NOTE 6 - PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income mainly consist of issuing fees on bonds which are amortized over the bonds' life (see note 8).

	2008 EUR	2007 EUR
Gross amount of issuing fees on the OBSAR bond issue (see note 8)	2.100.052,00	2.100.052,00
Cumulated amortization of bond issuing fees (1)	(665.000,00)	(245.000,00)
Other	4.651,37	3.942,58
Total at the end of the year	**1.439.703,37**	**1.858.994,58**

(1) The amortization of the bonds' issuing fees is accounted for in the profit and loss account as interest payable and similar charges (see note 11).

NOTE 7 - CAPITAL AND RESERVES

Share capital

Share capital amounts to EUR 60.964.166,25 and is represented by 48.771.333 shares with a nominal value of EUR 1,25 each fully paid in.

The annual accounts for the year ended December 31, 2007 reported subscribed capital called but unpaid for an amount of EUR 302.491,79 in relation with a capital increase as per notary deed dated March 3, 2007. The latter capital increase was actually fully paid in during 2007 by conversion of loans granted by the parent company Orco Property Group SA. The parent company paid in the capital on behalf of a few other subscribing shareholders. The related receivables had been mistakenly reported as capital subscribed not paid as at December 31, 2007. Therefore, the amount of subscribed capital called but unpaid has been reclassified in deduction of amounts owed to affiliated undertakings as at December 31, 2007 and 2008 in the present annual accounts.

The authorised capital of the company amounts to EUR 150.000.000 as at December 31, 2008.

Legal reserve

In accordance with the commercial law, the company must appropriate to the legal reserve a minimum of 5% of the annual profit until such reserve equals 10 % of the share capital. Distribution by the way of dividends of the legal reserve is restricted.

Share subscription rights

On February 21, 2006, the Board of directors decided to grant without consideration 350.000 (2.800.000 after the split) share subscription rights (*"bons de souscription d'actions"*, in short *"BSA"*) to all existing shareholders at this date, proportionally to their ownership. The exercise of three share subscription rights gives right to the subscription of one new share of the company to be issued through capital increase at a strike price of EUR 4,63 per share. The share subscription rights may be exercised for a three year period ending on February 21, 2009.

364.000 share subscription rights out of a total of 2.800.000 giving right to 121.333 shares were exercised at the capital increase as per notary deed dated March 3, 2007.

	Subscribed capital	Share premium account	Result brought forward	Loss for the financial year
	EUR	EUR	EUR	EUR
Situation as at January 1, 2008	**60.964.166,25**	**123.657.605,54**	**(3.196.115,35)**	**(2.926.428,25)**
Allocation of results as per AGM of April 18, 2008	-	-	(2.926.428,25)	2.926.428,25
Loss of the year	-	-	-	(45.132.753,62)
Situation as at December 31, 2008	**60.964.166,25**	**123.657.605,54**	**(6.122.543,60)**	**(45.132.753,62)**

NOTE 8 - BONDS

On May 30, 2007, the Company issued bonds with repayable subscription warrants ("OBSAR") having the following characteristics:

Bonds

Nominal amount	EUR 100.100.052
Number of bonds	148,077
Issue price per bond	At par value EUR 676
Maturity date	30 May 2012
Redemption price	at 100% or at 125% of par, depending on the occurrence of specific external events, namely the price of the shares of Orco Germany S.A.
Nominal interest rate	4% (payable annually)
ISIN	XS0302623953
Listing	Luxembourg Stock Exchange

Warrants

Number of warrants	9.328.851 (corresponding to 63 warrants/issued bond)
Exercise ratio	one warrant gives the right to one share of Orco Germany S.A.
Exercise price	EUR 16,90 or 125% of the reference share price of Orco Germany S.A., if the latter is lower than EUR 13,52 per share
Exercise period	30 May 2007 until 30 May 2014
Early repayment	From 30 May 2010, the issuer may, upon notice to the Warrantholders, redeem the warrants at EUR 0,01 per warrant if the average share price exceeds 150% of the exercise price over 20 dealing days during a preceeding period of 30 consecutive dealing days.
ISIN	XS0302626899
Listing	Luxembourg Stock Exchange

The difference between the nominal value and the possibly higher repayment value of the above-mentioned bonds is not shown in the accounts as it is conditional and as the Board of Directors of the Company considers that the probability of realisation is currently remote.

Accrued interest unpaid on the outstanding bonds (EUR 2.332.497,92 as of December 31, 2008) is shown under the short term portion of the caption "bonds" in liabilities.

As at December 31, 2008, no warrant attached to the bonds ("BSAR") has been exercised.

NOTE 9 - CREDITORS

9.1. Amounts owed to credit institutions

Amounts owed to credit institutions are specified in the table below:

Financed property	Lending bank	Original loan amount (in EUR)	Outstanding loan amount as at 31.12.08 (in EUR)	Annual interest rate	Maturity date
Kollwitzstrasse 71	Berliner Volksbank	1.455.000,00	1.373.600,04	4,09%	31.07.15
Zionskirchstrasse 71	Berliner Volksbank	1.215.000,00	1.133.928,80	4,53%	28.02.15
Immanuelkirchstrasse 3 - 4	MM Warburg	3.530.235,34	3.287.493,10	4,97%	22.05.16
Immanuelkirchstrasse 3 - 4	MM Warburg	4.069.764,66	3.894.788,02	3,53%	29.12.10
Breite Strasse 15	Berlin Hyp	1.190.000,00	1.124.300,00	EURIBOR 3 months + 1%	30.08.16
Kurfürstendamm 102	Berlin Hyp	6.100.000,00	5.856.000,00	EURIBOR 3 months + 1%	28.12.16
Boxhagener Strasse 106	Berlin Hyp	700.000,00	679.000,00	EURIBOR 3 months + 1%	29.01.17
Brunnenstrasse 27	Berlin Hyp	1.200.000,00	1.164.000,00	EURIBOR 3 months + 1%	on demand
Lütticher Strasse 49	Berlin Hyp	960.500,00	960.500,00	EURIBOR 3 months + 1%	30.04.12
Danziger Strasse 73-77 (renovations)	Bayer LB	5.483.562,14	5.483.562,14	EURIBOR 3 months + 1%	on demand
Various	ING Real Estate N.V.	10.750.000,00	10.775.000,00	EURIBOR 3 months + 0,78%	01.04.12
n.a. (overdraft current accounts)	Various	n.a.	112.954,50	various	n.a.
n.a. (interest payable)	Various	n.a.	170.795,62	n.a.	n.a.
	Total:	**36.654.062,14**	**36.015.922,20**		

As at December 31, 2008, a portion of EUR 13.454.322 of amounts owed to credit institutions is payable after more than 5 years.
Due to breaches on financial convenants, the bank loans financing the projects Brunnenstrasse 27 (EUR 1.164.000) and Danziger Strasse 73-77 (EUR 5.483.562) have been reclassified as current loans.

9.2. Amounts owed to affiliated undertakings

Amounts owed to affiliated undertakings mainly consist of advances received from the parent company, ORCO PROPERTY GROUP S.A., including accrued interest payable at rates of 8% (2007: 6% and 6,5% respectively). These loan agreements are expiring by 31st December 2020.

NOTE 10 - NET TURNOVER

The Company derives its entire net turnover from the rental of its buildings located in Germany.

NOTE 11 - OTHER INTEREST PAYABLE AND CHARGES

Other interest payable and charges are composed of:

	2008	2007
Interest due on loans from credit institutions	2.040.848,70	1.817.157,10
Interest due on OBSAR bonds issued	4.038.303,94	2.336.819,63
Amortisation of bond issuing fees (see note 6)	420.000,00	245.000,00
Other bank fees	54.822,64	157.906,23
	6.553.975,28	**4.556.882,96**

NOTE 12 - STAFF

Average of persons employed during the year:

	2008	2007
Employees	1	1
Workers	1	1
	2	**2**

NOTE 13 - TAXES

The Company is a fully taxable company for Luxembourg income and net wealth taxes. Furthermore the Company is subject to German corporate and property taxes related to its German operations.

Other taxes are specified in the table below:

	2008	2007
Luxembourg net wealth tax provided	122.000,00	122.300,00
German property taxes	176.499,35	221.549,18
Irrecoverable Luxembourg value added tax	202.279,96	-
Luxembourg contribution tax paid on capital increases	-	745.617,72
Other	2.966,50	-
	503.745,81	**1.089.466,90**

NOTE 14 - INTEREST RATE SWAP AGREEMENTS

Since the year 2007, the Company has negotiated over-the-counter interest rate swap agreements with two German banks. The aim of these swap agreements is to hedge the interest rate risk on current loans taken and future loans to be taken by the Company and some of its subsidiaries.

	EUR
Value adjustment on interest rate swaps, at the beginning of the year	(691.766,16)
Depreciation for the year	(2.093.411,84)
Value adjustment on interest rate swaps, at the end of the year	**(2.785.178,00)**

The unrealised losses on these interest swap agreements are provided for in the caption other provisions. The variation during the year of the unrealised losses on interest swap agreements is recorded under value adjustments in respect of financial instruments. Unrealised gains at year-end on these interest swap agreements, if any, are not accounted for in accordance with the Company's accounting principles.

Instrument	Initial Date	Maturity Date	Nominal as at 31/12/2008 EUR	Unrealized gain/(loss) as at 31/12/2008 EUR
Interest Rate Swap	31/07/2007	31/03/2017	9.785.834	(820.350)
Forward Interest Rate Swap	31/01/2008	31/07/2012	6.700.000	(345.572)
Forward Interest Rate Swap	04/09/2007	30/06/2017	12.750.000	(1.118.373)
Forward Interest Rate Swap	31/12/2007	30/06/2009	17.522.000	(193.616)
Interest Rate Swap	01/10/2008	31/03/2015	5.483.567	(307.267)
				(2.785.178)

During the year 2008, the Company terminated four swap agreements by anticipation and initiated one new swap agreement. Further to the early termination of these four swap agreements, the Company received cash proceeds from the counterpart bank for a total amount of EUR 1.847.000 which is accounted for as other interest received and similar income. The proceeds of one swap agreement terminated (EUR 170.000) were fully compensated with the upfront payment due by the company to the bank for a new interest rate swap agreement opened on October 1, 2008. The global impact of the latter transaction is nil and is not accounted for in the profit and loss statement.

NOTE 15 - EXTERNAL CHARGES

External charges are composed of:

	2008 EUR	2007 EUR
Maintenance cost of buildings	1.291.775,13	1.470.340,00
Professional and operational fees	4.000.281,95	3.454.616,30
	5.292.057.08	**4.924.956,30**

The professional and operational fees include an amount of EUR 1.622.008,87 corresponding to administrative and accounting fees paid to ORCO Immobilien GmbH, a wholly owned subsidiary of the Company.

NOTE 16 - OFF BALANCE SHEET COMMITMENTS

All bank loans referred to in note 9 above are secured by mortgages on land and buildings owned by the Company (see note 3), the assignment of rental income in favour of the lending bank and guarantee commitments signed by the parent Company ORCO PROPERTY GROUP S.A. in favour of the company.

Furthermore, the Company has warranted bank loans granted to two of its subsidiaries for a total amount of EUR 8.000.000 (2007: EUR 6.700.000) and pledged the shares of three other of its subsidiaries to secure bank loans of a total of EUR 347.337.908 (2007: EUR 34.950.000) taken by these subsidiaries.

NOTE 17 - REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

The amount of the emoluments granted in respect of the financial year to the executive member of the Board of Directors amounts to EUR 40.000 (2007: EUR 43.333,42). The Company did not grant any advances, loans or pension schemes to its Directors.

NOTE 18 – RELATED PARTY TRANSACTIONS

- Transactions with OPG

During the year, the Company was granted an "equity loan" by Orco Property Group S.A. bearing interest at an annual fixed rate of 8% (6% in 2007) and a maturity date of 2020. Refer to note 9.2.

Additionally, as at 31 December 2007, EUR 0.8 million was recharged by OPG in respect of the OBSAR OG issuance costs and have been recorded as a transaction cost by the Company.

- Transactions with CEREM

On May 22, 2007, the Board of Directors of the Company approved the issue of 148,077 five year bonds with 63 redeemable warrants attached to each bond pursuant to the terms and conditions set forth in a prospectus issued on May 24, 2007 (the "Prospectus"). The main features of the bonds and warrants are described in note 8. The Prospectus indicated that the subscribers who did not wish to keep all the warrants which were originally upon issue attached to the bonds made their undertakings to subscribe to Bonds with Warrants subject to the repurchase of 6,219,234 Warrants at an average unit price of EUR 1.45 by Central European Real Estate Management S.A., ("CEREM"), a limited liability company ("société anonyme"), incorporated under the laws of Luxembourg and a wholly-owned subsidiary of Orco Property Group S.A.. The Prospectus provided that these warrants purchased by CEREM would then be offered at a unit price of EUR 1.45 to less than one hundred managers and business partners of Orco Germany's group. It was also provided in the Prospectus that in the event where all or part of these warrants were not purchased by these designated managers or business partners of Orco Germany's group, the unsold warrants would be repurchased at a price of EUR 1.45 per warrant either by Orco Immobilien GmbH, a private limited liability company incorporated under the laws of Germany and an Orco Germany wholly owned subsidiary or by Orco Germany itself, in order to cancel the repurchased warrants.
On May 30, 2007, 148,077 five year bonds with 63 redeemable warrants attached to each bond were issued and subscribed by investors. Shortly thereafter, in accordance with the terms and conditions of the Prospectus, CEREM purchased from investors 6,219,234 warrants for a total consideration of EUR 9,017,889 and offered to managers and business partners of Orco Germany's group the opportunity to purchase these warrants at a price of EUR 1.45 per warrant based on an allocation proposed following a resolution of the Board of Directors of Orco Germany.
As of June 12, 2009, date of approval of the accounts by the Board of Directors, Orco Germany has not been notified by CEREM about any potential unsold warrants. In consequence, the Management considers that neither Orco Germany nor Orco Immobilien GmbH have any remaining obligation to repurchase any such warrants from CEREM.

- Transactions with key management personnel

In February 2008, Orco Germany S.A. took over development projects in Kleinmachnow "Neue Hakeburg" and "Hochwald" by acquiring the majority in the companies Vivaro GmbH & Co. Grundbesitz KG and Vivaro GmbH & Co. Zweite Grundbesitz KG. The development projects have been initiated by members of the Board of Directors of Orco Germany S.A.. The acquisition involves a net investment of approx. EUR 2 million on the basis of valuation report prepared by independent expert.

NOTE 19 - SUBSEQUENT EVENTS

Since the beginning of 2009 and until the date of publication of these annual accounts, the Company sold 6 assets for a total sales price of EUR 18.6 million recognizing a loss compared to the DTZ valuation as at December 31, 2008 of EUR 0.8 million.

As at March 22, 2009, the Company received the resignation letter from one of its Director, Luc Leroi.