

**CONSOLIDATED ANNUAL REPORT  
OF GLOBE TRADE CENTRE S.A. CAPITAL GROUP  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

Place and date of publication: Warsaw, 21 March 2011

## Content of the annual report:

Letter of the Management Board

Management Board's report on the activities of Globe Trade Centre S.A. Capital Group in the financial year ended 31 December 2010

Report on the application of the principles of corporate governance for the financial year ended 31 December 2010

Management Board's representations

Consolidated financial statements for the financial year ended 31 December 2010

Opinion of the independent auditor

Dear Readers,

2010 was the transition year in which the real estate development market slowly began to shake off the crisis that began in late 2008. This was evident from the increased number of project starts and the significant number of transactions on the commercial real estate market. After a tough 2009, when GTC successfully focused on limiting the negative effect of the crisis on its operations, 2010 was a year in which the Group started to realize its previous development plans.

Thanks to its conservative investment policy during the crisis, GTC was properly prepared for expansion once the situation on the real estate market improved. GTC took full advantage of this opportunity in 2010, enabling it once more to maintain its position as the leader in the Central and Eastern European region. Not only did GTC not halt its largest investment projects, but thanks to its great reliability among leading banks and its ability to raise financing on attractive terms, GTC was able to commence new projects in various locations in Poland and other CEE countries. Nonetheless, a cautious approach to the purchase of new land, and fulfillment of demanding criteria for profitability of new projects (including obtaining attractive financing and achieving the target level of letting) continue to be GTC's fundamental principles as it carries out its expansion.

In 2010, the Group completed two shopping malls with a combined lease area of 67,000 sq m: Galeria Harfa in Prague and Galeria Stara Zagora in Bulgaria. Facilities were over 90% and over 70% let upon opening, respectively. The first phases of the GTC office developments University Business Park in Łódź and Francuska Office Center in Katowice (about 30,000 sq m of lease area), as well as the GTC Metro office building in Budapest, were also delivered to the tenants.

Altogether, as of the end of 2010 GTC was the owner of completed commercial properties with a net area of approximately 532,000 sq m.

Issues of liquidity and debt continued to be an extremely important aspect of GTC's operations in 2010. The high level of cash which the firm maintains (€192 million as of the end of 2010), an appropriate degree of financial leverage (53%) and a favourable debt structure mean that the company is very highly regarded by banks. This makes it possible to obtain financing and refinancing of investments on attractive terms. Among the largest transactions of this type in 2010 was up to €45.6 million construction loan facility for Galeria Burgas (opening in 2012) from EBRD and the €80 million loan from an international consortium of banks to refinance the City Gate office building in Bucharest. This was the largest real estate refinancing transaction in Romania in 2010.

In line with its strategy, GTC sells only certain of its assets, in order to raise financing for attractive new investments. In 2010 the Group finalized the sale of the Topaz and Nefryt office buildings in Warsaw. The buildings were purchased by a fund managed by RREEF Investment for €79 million. After paying down debt, the sale brought €22 million in free cash.

Thanks to appropriate strategic decisions and effective management, along with visible revival of the real estate market, GTC significantly improved its operating results. Revenue from rental activity increased by 30%, to €97 million. Gross profit on operating activity rose by 14% year-on-year, to € 97 million.

The revival of the real estate market, bringing a halt to the decline in rents and holding down growth in yields, made it possible to book a positive net result of € 43 million from revaluation of the real estate portfolio. The net profit was €29 million, compared to a loss in 2009 of €139 million.

We are very proud that good condition of GTC and the high quality of the projects it has developed was confirmed by numerous prizes received in 2010. The Company was recognized as the best real estate developer in Central & Eastern Europe during 2010 in the CEE Real Estate Quality Awards. GTC also won the title of CEE Developer of the Year for 2010, for the fourth time in history, having won the award previously in 2004, 2007 and 2009. GTC subsidiaries on the Czech, Hungarian and Romanian markets also received numerous awards over the past 12 months, including a Developer of the Year award and distinctions for commercial and residential developments.

All indications are that 2011 shall be a better year for the real estate development sector. We observe rising rents for commercial space and ever greater demand for new space in Poland, with significantly restricted supply caused by the halting of many projects during the crisis. This means that a firm like GTC, with a stable condition, a large portfolio of development projects already underway, a substantial land bank and access to bank financing should be well positioned to take advantage of that revival.

In 2011, in the office development segment, we plan to deliver for occupancy the fourth building in Platinum Business Park (leased in its entirety by the Aviva Group) and to begin construction of the fifth office building in the complex. The third building in Okęcie Business Park will also be completed. We are also considering construction of new office parks in Poznań and Wrocław as well.

Abroad, GTC will complete two shopping malls: Avenue Mall Osijek in Croatia (26,000 sq m of lease area, opening in spring 2011) and Galeria Arad in Romania (33,300 sq m of lease area, opening in autumn 2011).

Summing up the year 2010, the Management can state that we past the crisis, and the recovery of the commercial real estate segment is more visible. Predicting these market trends, GTC has significantly accelerated its expansion, which should enable it to achieve even better results in 2011 and generate value for GTC shareholders.

Yours truly,

Members of the Management Board

Globe Trade Centre S.A.

GLOBE TRADE CENTRE S.A.

MANAGEMENT BOARD'S REPORT ON ACTIVITIES OF CAPITAL GROUP  
IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

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## **Item 1. Introduction**

Globe Trade Centre S.A. Capital Group ("GTC") is of the leading developers in Central, Eastern and Southern Europe. It was established in 1996 in Warsaw. Currently it operates in Poland, Hungary, the Czech Republic, Romania, Serbia, Croatia, Slovakia, Bulgaria, Russia and Ukraine. It develops properties and manages completed properties in three key sectors of real estate: office buildings and retail centers for rent, and residential units for the sale.

GTC developed about 800,000 sq m of net space and currently it is the owner of completed commercial property with a combined net area of about 531,957 sq m. It also hold a portfolio of investment properties under development at various stages of development which will facilitate the construction of net area of 1.7 m sq m of commercial and residential space.

Its total assets amounted to €2,728,428. Its consolidated revenues in 2010 were €169,008 and its net profit amounted to €28,632.

The Group's headquarter is located in Warsaw, at 5 Wołoska Street.

In the Management Board's report on activities of the Capital Group references to the Company apply to Globe Trade Centre S.A. and all references to the Group apply to Globe Trade Centre S.A. and its consolidated subsidiaries. Expressions such as „Shares” relates to the shares of Globe Trade Centre S.A., which were introduced to public trading on the Warsaw Stock Exchange in May 2004 and are marked with a code PLGTC0000037 „the Report” refers to the Report on activities of the Capital Group prepared pursuant to art 92 section 3 of the Decree of the Finance Minister of 19 February 2009 on current and periodical information published by issuers of securities and conditions of qualifying as equivalent information required by provisions of law of a country not being a member state; “CEE” refers to the group of countries that are within the region of Central-Eastern Europe; “SEE” refers to the group of countries that are within the region of Southern-Eastern Europe; “EUR”, “€” or “euro” refers to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

### **Presentation of financial information**

Unless otherwise indicated, financial information presented in the report was prepared pursuant to International Financial Reporting Standards ("IFRS") as approved for use in the European Union.

All financial data in this document is expressed in thousands unless otherwise indicated. Certain financial information in this Report was adjusted by rounding. As a result, certain numerical figures shown as totals in this Report may not be exact arithmetic aggregations of the figures that precede them.

### **Presentation of property information**

Information on commercial space is presented pro rata to the Group's holdings in each of the property and additionally includes the properties that the Group owns through it associate in the Czech Republic. The valuation of the properties is based on the value that the Group consolidates in it consolidation financial statements and additionally does not included the properties that the Group owns through it associate in the Czech Republic. The occupancy rate given for each of the markets is as at 31 December 2010.

### **Industry and market data**

In this Report the Group sets out information relating to its business and the markets in which it operates and in which its competitors operate. The information regarding the markets, their potential, macroeconomic situation, occupancy rates, rental rates and other industry data relating to the Group's business and markets in which the Group operates consists of data and reports compiled by various third-party entities and its internal estimates. The Group have obtained market and industry data relating to its business from industry data providers, including:

- Eurostat, for data relating to the macroeconomic and GDP growth data;
- Polish Main Statistic Office for retail sale in Poland ("GUS");
- CB Richard Ellis for industry information on the real estate market in the region ("CBRE")

- King Sturge for industry information on the real estate market in the region ("King Sturge")

The Group believes that these industry publications, surveys and forecasts are reliable but it has not independently verified them and cannot guarantee their accuracy or completeness.

Moreover, in numerous cases the Group has made statements in this Report regarding its industry based on its own experience and its examination of markets conditions. The Group cannot guarantee that any of these assumptions properly reflect the Group's understanding of the markets. Its internal surveys have not been verified by any independent sources.

### **Forward looking statements**

This Report contains forward looking statements relating to future expectations regarding the Group's business, financial condition and results of operations. You can find these statements by looking for words such as "may", "will", "expect", "anticipate", "believe", "estimate" and similar words used in this Report. By their nature, forward looking statements are subject to numerous assumptions, risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by the forward looking statements. The Group cautions you not to place undue reliance on such statements, which speak only as at the date of this Report.

The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that the Group or persons acting on its behalf may issue. The Group does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Report.

The Group discloses important risk factors that could cause its actual results to differ materially from its expectations under Item 3 „Key Risk and Threat Factors“, Item 5 „Operating and Financial Review“, and elsewhere in this Report. These cautionary statements qualify all forward looking statements attributable to us or persons acting on behalf of the Group. When the Group indicates that an event, condition or circumstance could or would have an adverse effect on the Group, it means to include effects upon its business, financial situation and results of operations.

### **Item 2. Selected financial data**

The following tables set forth the Group's selected historical financial data for 12 month periods ended 31 December 2010 and 2009. The historical financial data should be read in conjunction with Item 5. "Operating and Financial Review" and the consolidated financial statements for the financial year ended 31 December 2010 (including the notes thereto). The Group has derived the financial data presented in accordance with IFRS from the audited consolidated financial statements for the financial year ended 31 December 2010.

Selected financial data is derived from consolidated financial statements for 12 month periods ended 31 December 2010 prepared in Polish language and based on Polish Zloty.

The reader is advised not to view such conversions as a representation that such zloty amounts actually represent such euro amounts, or could be or could have been converted into euro at the rates indicated or at any other rate.

| (in thousands)  | For the twelve month period ended<br>31 December |             |             |             |
|---|--|-------------|-------------|-------------|
|   | 2010   |             | 2009        |             |
|   | €  | PLN         | €           | PLN         |
| <b>Consolidated Income Statement</b>                                    |  |             |             |             |
| Revenues from operations  | 169,008  | 675,119     | 156,362     | 676,625     |
| Cost of operations  | (72,314)   | (288,866)   | (71,172)    | (307,982)   |
| Gross margin from operations  | 96,694   | 386,253     | 85,190      | 368,643     |
| Selling expenses  | (6,297)  | (25,154)    | (5,040)     | (21,810)    |
| Administrative expenses   | (21,681)   | (86,607)    | (20,050)    | (86,762)    |
| Profit/(loss) from revaluation/impairment of assets, net                | 43,167   | 172,435     | (172,252)   | (708,728)   |
| Share of profit in associates   | 4,667  | 18,643      | (2,516)     | (10,887)    |
| Financial income/(expense), net   | (67,891)   | (271,198)   | (37,072)    | (160,422)   |
| Net profit  | 28,632   | 113,446     | (139,440)   | (571,193)   |
| Basic and diluted earnings per share (not in thousands)                 | 0,19   | 0,76        | (0,58)      | (2,4)       |
| Weighted average number of issued ordinary shares<br>(not in thousands) | 219,372,990                                      | 219,372,990 | 219,372,990 | 219,372,990 |
| <b>Consolidated Cash Flow Statement</b>                                 |  |             |             |             |
| Cash flow from operating activities                                     | 77,630   | 310,101     | 20,197      | 102,956     |
| Cash flow used in investing activities                                  | (51,891)   | (207,285)   | (280,185)   | (1,212,295) |
| Cash flow from financing activities                                     | (20,658)   | (82,519)    | 259,487     | 1,072,978   |
| Cash and cash equivalents at the end of the period                      | 191,732  | 759,316     | 185,648     | 762,679     |
| <b>Consolidated balance sheet</b>                                       |  |             |             |             |
| Investment property   | 2,117,609  | 8,386,367   | 1,971,915   | 8,101,020   |
| Inventory   | 201,807  | 799,216     | 220,769     | 906,963     |
| Cash and cash equivalents   | 191,732  | 759,316     | 185,648     | 762,679     |
| Total assets  | 2,728,428  | 10,805,393  | 2,622,579   | 10,774,077  |
| Non-current liabilities   | 1,486,945  | 5,888,747   | 1,420,254   | 5,834,688   |
| Current liabilities   | 188,625  | 747,015     | 191,594     | 787,107     |
| Equity  | 1,052,858  | 4,169,631   | 1,010,731   | 4,152,282   |
| Share capital   | 4,741  | 21,937      | 4,741       | 21,937      |

### Item 3. Key risk factors

#### Macro Risks

##### *The Group's business strongly depends on economic situation in the region in which it operates*

During 2008 and 2009 there was a significant deterioration in the global financial market, leading to a global economic crisis. Year 2010 was already a more stable year in terms of global economy, however the economic crisis has had various levels of adverse impacts on the real estate markets in the countries in which the Group operates, leading to a decrease of the rental rates, a decrease in demand for office space and as a result a decrease in the Group's revenues. The implications of the global financial crisis may adversely affect the Group, inter alia by way of a reduction in financing resources, difficulties in refinancing of existing projects and increase in financing expenses. As of the date of this report, it is not clear whether the direct economic effects of the aforesaid crisis have run their course, but it is thought that the worst of the global economic crisis has passed.

##### *The Group's business is exposed to risks related to developing countries*

The Group is active in emerging real estate markets of Central-Eastern Europe. Therefore, it is exposed to typical risks related to business activity in developing countries (including administrative, geopolitical and local economy risks). It should be noted that some of the aforementioned countries are not part of the European Union. The political and economical instability in the countries in which the Group operates may influence the markets in those countries and as a result negatively affect the activity of the Group and its operating results. The Group continues to direct managerial and financial resources to investment in Central-Eastern Europe following the economic growth in this region over recent years and in the expectation that this trend will continue to decrease the general and economical gaps between Eastern Europe and Western Europe. Changes in these trends in Central-Eastern Europe may negatively affect the Group's activity.

#### Sector Risks

##### *The Group's business is exposed to fluctuations in supply and demand on the real estate market*

The Group is exposed to fluctuation and changes in supply and demand in real estate markets in the countries in which the Group operates, which may negatively affect occupancy rates in the properties, rental prices, the possibility of disposing of these properties, and the demand for and prices of residential units. Similarly, the occupancy rate in office and commercial properties owned by the Group may decrease as a result of the increase in the supply of space in the market and as a result of high competition for prime lessees (international retail companies and chains with financial stability) and weak performance of economies in the countries in which the Group operates. In light of the foregoing, such fluctuations may affect the Group's operating results, as well as change the rate of return, on the basis of which investment properties are evaluated.

##### *Part of the Group's business depends on mortgage market for housing in Central-Eastern Europe*

The mortgage market for housing is not sufficiently developed in the markets in which the Group operates. Difficulty in receiving loans at comfortable conditions for buying apartments may affect the demand for residential units in the projects that the Group develops and as a result may have an impact on its ability to sell completed apartments and/or generate attractive margin on sale of those apartments.

##### *The Group's business depends on stability of its tenants*

The value of real estate may depend upon the credit worthiness and financial stability of the tenants. The vast majority of the Group's tenants are big multinationals with good reputation and track record as well as established local enterprises. However, if a significant number of tenants are unable to fulfill their obligations it may adversely affect the Group's revenues and the valuation of the property portfolio. In the event of failure to pay by tenants, the Group may experience delays in enforcing its rights as a landlord, and may incur considerable expenses in pursuing collection. A drop in revenues and / or in

asset value may also lead to default on covenants undertaken by the Group as part of its loan agreements to finance the Group's projects.

***The Group's profit depends on valuation of the Group's property portfolio***

In the Group's consolidated financial statements the investment properties are measured initially at cost, including transaction costs, and are subsequently presented at fair value, once substantial risk related to their development is eliminated. The fair value is determined twice a year by independent real estate appraisers in accordance with recognized valuation techniques. The independent appraisal values are subject to judgments, estimates and assumptions. Property valuations are based on market conditions that prevails as of the balance sheet date. They do not take into account potential exogenous future changes in market conditions.

In addition to the independent annual and semi-annual valuations, the Company's management adjusts the fair value of assets twice a year, as at 31 March and 30 September, if it believes that the fair value needs to be adjusted. These adjustments constitute management's best estimate of the developments in the asset's market value since the last valuation.

***The Group's further development and results depends on its ability to build in compliance with environmental codes***

The Group's activity is subject to regulations, limitations and conditions related to environment protection, in the countries in which the Group operates. The Group assesses the property that it acquires for compliance with environmental codes, however such assessment does not ensure the identification of all the potential risks in the area as well as the risks that may arise as a result of possible changes in the applicable policies and laws (especially in light of potential entry of some of countries in which the Group operates within the European Union). The Group may be exposed to expenses if unforeseen limitations be imposed.

***The Group's further development and results depends on its ability to develop investment properties in the future***

The Group's performance depends on its ability to buy plots and develop them so that they will generate acceptable returns. Acquisition of new plots, development of acquired plots and realization of the planned projects are subject to risks including: insolvency of a contractor; delays in construction or other unanticipated delays; and construction costs over run, projects; Any of these risks could have an adverse effect on the Group's financial condition and operating results or reputation.

***The Group's results depend on its ability to raise external finance***

In order to optimize the return on equity, the Group currently relies, and plans to continue relying, on external funding in the future for the purpose of developing its projects. In accordance with the loan agreements the Group has entered into, it is required to continue service the loans during the loan amortization period regardless of its rental revenue. Moreover, high leverage exposes the Group to higher financing expenses. As a security for the loans, the Group pledges its assets and shares in the subsidiaries that hold the asset. In the event that the Group will be unable to repay the interest and/or the principal of its loans, the lenders could sell the properties that were placed as collateral for repayment of the loans. In addition, some of the Group's financing agreements include meeting certain financial restrictions that limit the possibility to continuously manage the company, and the violation of these covenants could make the loans due and payable in full. As of December 31, 2010 and as of the date of the report the Group is not in violation of any obligations to the banks.

***The Group's business depend on the interpretation and implementation of tax laws***

The calculation of the Group's tax obligations is dependent on the interpretation and implementation of various tax laws and agreements. The Group performs transactions in different countries, mainly via its subsidiaries. Accordingly, its business activity and the applicable tax amount is subject to the tax laws applicable in various jurisdictions. The Group calculated its tax obligation based upon its understanding of the laws and agreements and advice from its external tax advisers. Nonetheless, the tax authorities may interpret or implement relevant laws and agreements in a manner that deems the Group responsible for additional tax obligations.

***The Group's results depend on fluctuations in interest, foreign exchange and inflation rates***

Changes in interest, foreign exchange and inflation rates may affect the Group's results. Since the Group have significant loans at variable interest rates and income that is linked to the consumer price index, and activity that is carried out in various currencies, future changes in these rates may affect the financial results.

***The Group's success depends on attracting and retaining key personnel***

The Group's activity is managed by a small group of highly skilled managerial staff, who has experience in the markets in which the Group is active. As a result, the Group is dependent on services provided by a limited number of directors. Despite the fact that the Group have adopted a policy of remuneration that includes incentives in order to limit the departure of managers, managers may resign. Resignation of executives may adversely affect its operating results. Moreover, it may be difficult for the Group to recruit appropriate directors and other key personnel, both for the purpose of expanding new activity and for replacing those that may resign.

***The Group's business depends on external contractors***

The Group appoints external entities for execution of numerous projects' elements. Delivery of the projects, timeliness, and their quality, depend to a large extent, on entities, such as general contractors, architects and technical advisers.

***The Group's business depends on its ability to maintain liquidity***

The Group manages its liquidity risk by consistently maintaining appropriate level of available financial resources comprising cash in bank accounts and/or available credit lines, as well as by continuously monitoring forecast and actual cash flows. The Group is dependant on a stable portfolio of long-term rental projects (shopping centers and offices), which generate lease revenues and contribute to maintaining appropriate liquidity.

**Item 4. Presentation of the Group**

**Item 4.1. General information about the Group**

Globe Trade Centre S.A. Capital Group ("GTC") is one of the leading developers in Central, Eastern and Southern Europe. It was established in 1996 in Warsaw. Currently it operates in Poland, Hungary, the Czech Republic, Romania, Serbia, Croatia, Slovakia, Bulgaria, Russia and Ukraine. It develops properties and manages completed properties in three key sectors of real estate: office buildings and retail centers for rent, and residential units for the sale.

GTC developed about 800,000 sq m of net space and currently it is the owner of completed commercial property with a combined net area of about 531,957 sq m. It also hold a portfolio of investment properties under development at various stages of development which will facilitate the construction of net area of 1.7 m sq m of commercial and residential space.

Its total assets amounted to €2,728,428. Its consolidated revenues in 2010 were €169,008 and its net profit amounted to €28,632.

The Group's headquarter is located in Warsaw, at 5 Wołoska Street.

#### Item 4.2. Structure of the Group

The structure of Globe Trade Centre Capital Group as at 31 December 2010 is presented in the Consolidated Financial Statements for the year ended 31 December 2010 in Note 5 *Investment in subsidiaries, associates and joint ventures*.

The following changes in the structure of the Group occurred in the year ended 31 December 2010:

1. In March 2010, the Group signed an agreement with its partner to convert GTC Romania's over-financing in shopping malls in Romania into additional shares in the project companies. As result of the agreement, it increased its holding in National Commercial Centers B.V., Mercury Commercial Center S.R.L., Venus Commercial Center S.R.L., Mars Commercial Center S.R.L., Beaufort Commercial Center S.R.L., Fajos S.R.L., Cefin Galati Real Estate S.R.L by 8.4%-19.8% and gained control over them. As of 31 December 2010, those subsidiaries were fully consolidated.
2. In May 2010, European Bank for Reconstruction and Development ("EBRD") became a 20% shareholder in GTC Nekretnine Istok d.o.o, the owner of Avenue Mall Osijek in Croatia.
3. In October 2010, the Group finalized sale of Topaz and Nefryt office buildings in Warsaw.
4. In June 2010, EBRD became 20% shareholder in Galeria Burgas JSC, the owner of Galeria Burgas in Bulgaria.
5. In August 2010, the Group purchased 50% shares from Polnord S.A. (Polnord) in CH Wilanów Sp. z o.o., a company which owns a land in Wilanow district in Warsaw. The Group intends to develop on the site a modern shopping centre. The planned project will have an approximate size of 60,000 sq. m of retail area.
6. In October 2010, the Company has signed a share purchase and loan novation agreement with its partners G.O.II and BH Romania III LTD in relation to its shareholdings in Aurora Business Complex S.R.L (Romania). Following the execution of the agreements, its direct holding in Aurora Business Complex S.R.L has increased to 71.5% from 50.1%.
7. In November 2010, the Group signed an additional agreement with its partner in relation to its holdings in Mercury Commercial Center S.R.L and Cefin Galati Real Estate S.R.L, which develop shopping centers in Romania. The agreement sets the conversion of GTC Romania's over-financing into additional shares in the project companies. Following the execution of the agreement, the Group holds a 100% interest in Mercury Commercial Center S.R.L (Arad's shopping centre) and 85% interest in Cefin Galati Real Estate S.R.L (Galati shopping centre).

#### Item 4.3. Changes to the principle rules of management of the Company and the Group

There were no changes to the principle rules of management of the Company and the Group.

#### Item 4.4. The Group's Strategy

The Group focuses on long-term value creation for its shareholders through development and management of income-producing, high quality, sustainable office and retail properties in attractive locations within Poland and key Central and Eastern European countries as well as selected Southern and Eastern European countries.

The Group's primary goal is to pursue sustainable organic growth through:

1. Developing and managing of income-producing, high quality, sustainable office and retail properties in prime locations
2. Diversifying the Group's property portfolio, focusing on Poland and key Central and, Eastern European countries as well as selected SEE countries, leveraging diversified sources of financing and relations with a wide range of financing institutions
3. Selectively acquiring land plots with development potential and highest expected returns

4. Optimizing returns through usage of external project finance
5. Managing its investments by highly experienced local management teams combining local market intelligence and international expertise
6. Utilizing opportunities by leveraging the Group's strengths and drawing upon the experience and skills of the Group's local management teams.
7. Disposing of a selective number of stabilized properties to recycle cash in new investments

#### **Item 4.5. Business overview**

The Group's core business is geared to commercial real estate with a clear focus on development of office and retail properties for rent. Its investment portfolio includes both investment properties (67% of the overall portfolio) and investment properties under development (22% of the overall portfolio). Additionally, the Group develops residential units for sale. As at 31 December 2010, the Group held residential inventory of both completed and land bank projects in the value of €254,196, which constituted 11% of the Group's overall portfolio. The Group has developed approximately 800,000 sq m of net rentable space and currently it owns completed commercial property with a combined net rentable area of approximately 531,957 sq m. As at 31 December 2010, book value of the Group's investment property and residential inventory and land bank amounted to about € 2,371,805 (as compared to € 2,242,763 on 31 December 2009).

The Group carefully selects locations to allow for development of buildings meeting expectations of our clients. The designs are made in best architectonic offices in Poland and in the other countries of the region.

The Group's office buildings stand for convenient space, flexible interior and full work comfort. They are located in the heart of business districts, in proximity of the most important transport routes, including international airports. Our projects have earned trust of significant number of international corporations and other prestigious institutions, including: European Bank for Reconstruction and Development, Raiffeisen Bank, Bertelsmann, Hewlett Packard, IBP, KPMG, Lotos, Allianz, Motorola, Noble Bank, Zenith Optimedia, Levis, Polbank, Leo Burnett, Honeywell, Roche, State Street or Exxonmobil. In office buildings constructed by the Group in the region of Central and South-Eastern Europe there is more 40,000 people employed.

The Group's shopping malls are located in both capital cities as well as in secondary cities in Poland, Bulgaria, Croatia, Czech Republic and Romania. They are always very highly ranked in the city of their location. The tenants include big multinationals as well as local brands like: Zara, Reserved, Peek & Cloopenburg, C&A, H&M, Cinema City, New Yorker and others.

The Group tends to sign long term contracts with its tenants. Typical lease agreement for the office and retail space is signed for a period of 5 to 10 years. Vast majority of the Group's lease contracts is denominated in Euro and all the contracts have a built-in mechanism of annual rental rate increase linked to Euro zone consumer price index. In some lease agreements for the retail properties, the Group's income is linked to the turnover of the tenant. The cost of maintain got eh property are passed over to the Group's tenants.

In view of its corporate social responsibility, the Group has recently taken steps towards obtaining international LEED (Leadership in Energy and Environmental Design) certification and will opt to obtain at least Gold certificates for majority of its newly constructed projects. LEED certificate is granted through a rigorous qualification process, awarded only to those selected projects that meet highest standards set by the U.S. Green Building Council. Additionally, existing buildings will undergo gradual upgrade of their energy and environmental design.

##### **Item 4.5.1. Investment properties**

The book value of the completed investment properties as of 31 December 2010 was €1,617,397, as compared to €1,451,501 as at 31 December 2009; the portfolio was valued based on average yield of 7.8%. The average occupancy rate within the investment portfolio was 83% as of 31 December 2010, excluding newly completed buildings that were added to the Group's portfolio during 2010, the occupancy rate was 90% (31 December 2009: 89%).

Approximately 52% of the investment properties are located in Poland, 14% is located in Romania, 11% in Hungary, 10% in Croatia and remaining 13% is located in other countries in which the Group operates.

As of 31 December 2010, the Group's investment properties comprised a total net lettable area of 531,957 sq m, of which office properties accounted for around 67% and retail properties accounted for the remaining 33%.

The following table presents completed commercial space as of 31 December 2010 by main usage type:

| <b>Usage type</b> | <b>2010<br/>(sq m)</b> | <b>%</b>    |
|-------------------|------------------------|-------------|
| Office            | 356,683                | 67%         |
| Retail            | 175,274                | 33%         |
| <b>Total</b>      | <b>531,957</b>         | <b>100%</b> |

The following table presents the book value of the Group's completed investment properties as of 31 December 2010 by main usage type:

| <b>Usage type</b> | <b>2010<br/>(€)</b> | <b>%</b>    |
|-------------------|---------------------|-------------|
| Office            | 885,992             | 55%         |
| Retail            | 731,405             | 45%         |
| <b>Total</b>      | <b>1,617,397</b>    | <b>100%</b> |

The following table presents completed commercial space as of 31 December 2010 by country in which the Group operates:

| <b>Country</b> | <b>2010<br/>(sq m)</b> | <b>%</b>    |
|----------------|------------------------|-------------|
| Poland         | 259,610                | 49%         |
| Hungary        | 89,568                 | 17%         |
| Serbia         | 53,900                 | 10%         |
| Romania        | 53,630                 | 10%         |
| Croatia        | 23,450                 | 4%          |
| Czech Republic | 25,217                 | 5%          |
| Bulgaria       | 18,707                 | 4%          |
| Slovakia       | 7,875                  | 1%          |
| <b>Total</b>   | <b>531,957</b>         | <b>100%</b> |

The following table presents the book value of the Group's completed investment properties as of 31 December 2010 by country in which the Group operates:

| <b>Country</b> | <b>2010<br/>(€)</b> | <b>%</b>    |
|----------------|---------------------|-------------|
| Poland         | 837,561             | 52%         |
| Hungary        | 176,162             | 11%         |
| Serbia         | 126,900             | 8%          |
| Romania        | 232,706             | 14%         |
| Croatia        | 167,940             | 10%         |
| Bulgaria       | 62,200              | 4%          |
| Slovakia       | 13,928              | 1%          |
| <b>Total</b>   | <b>1,617,397</b>    | <b>100%</b> |

Additionally, the Group holds investment properties in the Czech Republic through its associates.

#### **Item 4.5.1.1. Office segment overview**

As of 31 December 2010, the Group office investment properties comprised of 24 office buildings of which four buildings were completed during 2010. Total net rentable office space was 356,683 sq m in 2010 as compared to 319,249 sq m in prior year. Total value of office investment properties as of December 2010 was €885,992 as compared to €804,856 m in 2009. The Group's office buildings are located in Poland, Hungary, Serbia, Croatia, Romania, Czech Republic and Slovakia.

The following table presents completed office space as of 31 December 2010 by country:

| <b>Country</b> | <b>2010<br/>(sq m)</b> | <b>%</b>    |
|----------------|------------------------|-------------|
| Poland         | 160,960                | 45%         |
| Hungary        | 89,568                 | 25%         |
| Serbia         | 53,900                 | 15%         |
| Romania        | 27,730                 | 8%          |
| Czech Republic | 11,750                 | 3%          |
| Slovakia       | 7,875                  | 2%          |
| Croatia        | 4,900                  | 1%          |
| <b>Total</b>   | <b>356,683</b>         | <b>100%</b> |

The following table presents book value of the Group's office properties as of 31 December 2010 by country:

| <b>Country</b> | <b>2010<br/>(€)</b> | <b>%</b>    |
|----------------|---------------------|-------------|
| Poland         | 376,876             | 43%         |
| Romania        | 173,826             | 20%         |
| Hungary        | 176,162             | 20%         |
| Serbia         | 126,900             | 14%         |
| Slovakia       | 13,928              | 2%          |
| Croatia        | 18,300              | 2%          |
| <b>Total</b>   | <b>885,992</b>      | <b>100%</b> |

Additionally, the Group holds office investment properties in the Czech Republic through its associates.

#### **Item 4.5.1.2. Retail segment overview**

As of 31 December 2010, the Group's retail investment properties comprised of nine shopping centers of a total net rentable area of 175,274 sq m, of which two centers of 32,174 sq m were completed during 2010. Total value of retail investment properties as of December 2010 was €731,405 (excluding shopping center in Prague which the Group holds through associate). The Group's retail properties are located in Poland, Bulgaria, Croatia, Czech Republic (through associate) and Romania. During 2010, the Group completed retail properties in Czech Republic and Bulgaria.

The following table presents completed retail space as of 31 December 2010 by country:

| <b>Country</b> | <b>2010<br/>(sq m)</b> | <b>%</b>    |
|----------------|------------------------|-------------|
| Poland         | 98,650                 | 56%         |
| Bulgaria       | 18,707                 | 11%         |
| Romania        | 25,900                 | 15%         |
| Czech Republic | 13,467                 | 8%          |
| Croatia        | 18,550                 | 10%         |
| <b>Total</b>   | <b>175,274</b>         | <b>100%</b> |

The following table presents the book value of the Group's retail properties as of 31 December 2010 by country:

| <b>Country</b> | <b>2010<br/>(€)</b> | <b>%</b>    |
|----------------|---------------------|-------------|
| Poland         | 460,685             | 63%         |
| Croatia        | 149,640             | 20%         |
| Bulgaria       | 62,200              | 9%          |
| Romania        | 58,880              | 8%          |
| <b>Total</b>   | <b>731,405</b>      | <b>100%</b> |

Additionally, the Group holds office investment properties in the Czech Republic through its associates.

#### Item 4.5.2. Investment properties under development

Additionally to the investment properties the Group has pipeline of office and retail space that is at different stages of development. Total value of the Group's investment properties under development was €500,212 in 2010, projects which are under construction accounted for approx. 40% and the remaining €298,989 m will be delivered in the future.

#### Item 4.5.3. Inventories and residential land bank

The total residential space in the portfolio accounted for 8% of the total space of the Group. Out of total value of € 254,196 of residential inventory and land bank, the inventory accounted for 79% and the remaining 21% relates to land bank which the Group treats as plans to develop in the future. Currently, the Group builds houses and apartments in Poland, Hungary, Romania, Czech Republic and Slovakia, but its land bank includes also Croatia.

#### Item 4.5.4. Segments overview

##### Item 4.5.4.1. Poland

###### *Office portfolio*

During 2010 the Group completed two new buildings, one in Katowice (Francuska Office Center; 20,700 sq m) and one in Łódź (University Business Park I; 18,500 sq m). It also sold two office buildings located in Warsaw (Topaz; net rentable area: 11,080; and Nefryt; net rentable area: 15,300). After the completion of those two buildings and sale of the buildings its total effective net rentable area in Poland comprised 160,960 sq m. The average occupancy rate is at the level of 96%, except for the two newly completed buildings, which are not stabilized yet.

Book value of the office space in Poland amounted to € 376,876, as compared to € 365,013 in 2009. The difference comes from an increase in valuation for all of the properties in Poland and completion of new properties, partially offset by sale of Topaz and Nefryt office buildings.

The following table lists the Group's office investment properties located in Poland:

| Property                  | Location | GTC's share  | GTC's net<br>rentable area | Year of<br>completion |
|---------------------------|----------|--------------|----------------------------|-----------------------|
|                           |          | (%)          | (sq m)                     |                       |
| Galileo                   | Kraków   | 100%         | 10,300                     | 2003                  |
| Globis Poznan             | Poznań   | 100%         | 13,000                     | 2003                  |
| Newton                    | Kraków   | 100%         | 10,480                     | 2007                  |
| Edison                    | Kraków   | 100%         | 10,400                     | 2007                  |
| Nothus                    | Warsaw   | 100%         | 9,140                      | 2007                  |
| Platinum 1                | Warsaw   | 100%         | 9,400                      | 2007                  |
| Platinum 2                | Warsaw   | 100%         | 8,900                      | 2008                  |
| Platinum 3                | Warsaw   | 100%         | 11,300                     | 2009                  |
| Zephyrus                  | Warsaw   | 100%         | 9,140                      | 2008                  |
| Globis Wrocław            | Wrocław  | 100%         | 14,700                     | 2008                  |
| Centrum Biurowe Kazimierz | Kraków   | 100%         | 15,000                     | 2009                  |
| University Business Park  | Łódź     | 100%         | 18,500                     | 2010                  |
| Francuska Office Centre   | Katowice | 100%         | 20,700                     | 2010                  |
|                           |          | <b>Total</b> | <b>160,960</b>             |                       |

###### *Retail portfolio*

The total effective net rentable area of retail space in Poland comprised 98,650 sq m. The occupancy rate is at the level of 98%.

Book value of the Group's retail space in Poland amounted to € 460,685, as compared to € 442,832 in 2009. The difference comes mainly from an increase in valuation of Galeria Mokotów.

The following table lists the Group's retail investment properties located in Poland:

| Property          | Location    | GTC's share  | GTC's net rentable area | Year of completion |
|-------------------|-------------|--------------|-------------------------|--------------------|
|                   |             | (%)          | (sq m)                  |                    |
| Galeria Kazimierz | Kraków      | 50%          | 19,100                  | 2005               |
| Galeria Mokotów   | Warsaw      | 50%          | 31,050                  | 2000/2002          |
| Galeria Jurajska  | Częstochowa | 100%         | 48,500                  | 2009               |
|                   |             | <b>Total</b> | <b>98,650</b>           |                    |

#### Item 4.5.4.2. Hungary

##### *Office portfolio*

During 2010, the Group completed one new office building in Budapest (Metro; net rentable area: 16,739 sq m). After the completion of this building the Group's total effective net rentable area in Hungary comprises 89,568 sq m. The occupancy rate is at the level of 74%.

Book value of the Group's office space in Hungary amounted to € 176,162, as compared to € 148,662 in 2009. The difference comes mainly from completion of Metro office building.

The following table lists the Group's office investment properties located in Hungary:

| Property          | Location | GTC's share  | GTC's net rentable area | Year of completion |
|-------------------|----------|--------------|-------------------------|--------------------|
|                   |          | (%)          | (sq m)                  |                    |
| Center Point I&II | Budapest | 100%         | 41,760                  | 2004/2006          |
| Spiral I&II       | Budapest | 100%         | 31,069                  | 2009               |
| Metro             | Budapest | 100%         | 16,739                  | 2010               |
|                   |          | <b>Total</b> | <b>89,568</b>           |                    |

#### Item 4.5.4.3. Serbia

##### *Office portfolio*

The Group's total effective net rentable area in Serbia comprised 53,900 sq m. The occupancy rate is at the level of 91%. Book value of the Group's office space in Serbia amounted to €126,900, as compared to €127,200 in 2009.

The following table lists the Group's office investment properties located in Serbia:

| Property   | Location | GTC's share  | GTC's net rentable area | Year of completion |
|------------|----------|--------------|-------------------------|--------------------|
|            |          | (%)          | (sq m)                  |                    |
| GTC House  | Belgrade | 100%         | 13,500                  | 2005               |
| Avenue 19  | Belgrade | 100%         | 17,400                  | 2008               |
| GTC Square | Belgrade | 100%         | 23,000                  | 2008               |
|            |          | <b>Total</b> | <b>539,000</b>          |                    |

Item 4.5.4.4. Croatia

*Office portfolio*

The Group's total effective net rentable area in Croatia comprised 4,900 sq m. The occupancy rate is at the level of 98%. Book value of the Group's office space in Croatia amounted to €18,300.

The following table lists the Group's office investment properties located in Croatia:

| Property      | Location | GTC's share  | GTC's net<br>rentable area | Year of<br>completion |
|---------------|----------|--------------|----------------------------|-----------------------|
|               |          | (%)          | (sq m)                     |                       |
| Avenue Center | Zagreb   | 70%          | 4,900                      | 2007                  |
|               |          | <b>Total</b> | <b>4,900</b>               |                       |

*Retail portfolio*

The Group's total effective net rentable area of retail space in Croatia comprised 18,550 sq m. The occupancy rate is at the level of 98%. Book value of the Group's retail space in Croatia amounted to €149,640. The difference comes from an increase of value of all properties.

The following table lists the Group's retail investment properties located in Croatia:

| Property           | Location | GTC's share  | GTC's net<br>rentable area | Year of<br>completion |
|--------------------|----------|--------------|----------------------------|-----------------------|
|                    |          | (%)          | (sq m)                     |                       |
| Avenue Mall Zagreb | Zagreb   | 70%          | 18,550                     | 2007                  |
|                    |          | <b>Total</b> | <b>18,550</b>              |                       |

Item 4.5.4.5. Romania

*Office portfolio*

The Group's total effective net rentable area in Romania comprised 27,730 sq m. The occupancy rate is at the level of 90%. Book value of the Group's office space in Romania amounted to € 173,826, as compared to € 163,980 in 2009.

The following table lists the Group's office investment properties located in Romania:

| Property  | Location  | GTC's share  | GTC's net<br>rentable area | Year of<br>completion |
|-----------|-----------|--------------|----------------------------|-----------------------|
|           |           | (%)          | (sq m)                     |                       |
| City Gate | Bucharest | 59%          | 27,730                     | 2009                  |
|           |           | <b>Total</b> | <b>27,730</b>              |                       |

*Retail portfolio*

The Group's total effective net rentable area of retail space in Romania comprised 25,900 sq m. The occupancy rate is at the level of 74%. Book value of the Group's retail space in Romania amounted to €58,880, as compared to € 33,514 in 2009. The difference comes from an increase of value of all properties.

The following table lists the Group's retail investment properties located in Romania:

| Property              | Location     | GTC's share  | GTC's net rentable area | Year of completion |
|-----------------------|--------------|--------------|-------------------------|--------------------|
|                       |              | (%)          | (sq m)                  |                    |
| Galleria Suceava      | Suceava      | 70%          | 7,560                   | 2009               |
| Galleria Buzau        | Buzau        | 70%          | 9,380                   | 2008               |
| Galleria Piatra Neamt | Piatra Neamt | 70%          | 8,960                   | 2009               |
|                       |              | <b>Total</b> | <b>25,900</b>           |                    |

#### Item 4.5.4.5. Bulgaria

##### *Retail portfolio*

The Group's properties in Bulgaria include Galleria Stara Zagora that comprises a net rentable area of 18,707 sq m. The Group's completed and opened Galleria Stara Zagora in November 2010. Occupancy rate is at the level of 70%. Book value of the Group's retail scheme in Bulgaria amounted to €62,200.

The following table lists the Group's office investment properties located in Bulgaria:

| Property              | Location     | GTC's share  | GTC's net rentable area | Year of completion |
|-----------------------|--------------|--------------|-------------------------|--------------------|
|                       |              | (%)          | (sq m)                  |                    |
| Galleria Stara Zagora | Stara Zagora | 75%          | 18,707                  | 2010               |
|                       |              | <b>Total</b> | <b>18,707</b>           |                    |

#### Item 4.5.4.6. Slovakia

##### *Office portfolio*

The Group completed its office building in Bratislava in 2010. The total effective net rentable area in Slovakia comprises 7,875 sq m. Book value of the Group's office space in Slovakia amounted to € 13,928.

The following table lists the Group's office investment properties located in Slovakia:

| Property | Location   | GTC's share  | GTC's net rentable area | Year of completion |
|----------|------------|--------------|-------------------------|--------------------|
|          |            | (%)          | (sq m)                  |                    |
| Jarosova | Bratislava | 70%          | 7,875                   | 2010               |
|          |            | <b>Total</b> | <b>7,875</b>            |                    |

#### Item 4.5.4.7. Czech Republic

The Group owns a number of properties in the Czech Republic through associates, as a result the properties valuation and results of operations in the Czech Republic are not consolidated.

##### *Office portfolio*

Total effective net rentable area in the Czech Republic comprised 11,750 sq m. Book value of the Group's office space in the Czech Republic amounted to €12,700.

The following table lists the Group's office investment properties located in Czech Republic:

| Property                    | Location | GTC's net rentable |               | Year of completion |
|-----------------------------|----------|--------------------|---------------|--------------------|
|                             |          | GTC's share        | area          |                    |
|                             |          | (%)                | (sq m)        |                    |
| Sarka Office centre         | Prague   | 32,1%              | 7,509         | Old                |
| Prague Marina Office Centre | Prague   | 32,1%              | 4,241         | 2009               |
|                             |          | <b>Total</b>       | <b>11,750</b> |                    |

### *Retail portfolio*

The Group's completed and opened Galeria Harfa in November 2010. Total effective net rentable area of that retail scheme is 41,953 sq m, of which the Group's share is 13,467 sq m. Occupancy rate is at the level of 90%.

Book value of the Group's retail scheme in the Czech Republic amounted to €58,100 resulting from completion of Galeria Harfa and increase in letting of that retail scheme.

The following table lists the Group's office investment properties located in the Czech Republic:

| Property      | Location | GTC's net rentable |               | Year of completion |
|---------------|----------|--------------------|---------------|--------------------|
|               |          | GTC's share        | area          |                    |
|               |          | (%)                | (sq m)        |                    |
| Galeria Harfa | Prague   | 32,1%              | 13,467        | 2010               |
|               |          | <b>Total</b>       | <b>13,467</b> |                    |

## **Item 4.6. Overview of the markets on which the Group operates**

### **Item 4.6.1. Office market**

The total office stock of office space in CEE cumulated to over 27 m sq m in ten capital cities in the region in the first half of 2010. Approximately 1 m sq m of new space has been delivered in the first half of 2010 with another 1.4-1.7 m sq m expected to have been delivered in the second half of 2010, which would imply a growth of approx. 10%.

Annual new supply is declining since 2008 and CBRE estimates 2010 CEE office pipeline to be almost 25% down y-o-y. The level of completions and development pipeline in 2011 and 2012 is and may still remain low which is a result of continued financing difficulties coupled with limited pre-let construction starts and relatively high vacancy rates in some places. Banks usually require at least 30% pre-let space before they start lending negotiations, and funding is committed when pre-letting level reaches the level of 50% and more. Banks also require 30 – 50% of own funding, depending on CEE locations. This should help drive the vacancy rates lower and restore demand – supply balance with effective rental rates increases likely in 2011.

Throughout 2010 the demand in the CEE office markets continued a recovery which began late in 2009, with considerable variances between particular countries. According to CBRE estimates the region recorded a 31% growth in take-up in 2010 (ex Moscow), which is driven mainly by Warsaw. Bucharest was the second best market in terms of demand after Warsaw, whereas Belgrade, Budapest and Prague underperformed with falling y-o-y take-up.

Positive take-up trends did not translate into a significant increase in net absorption (an absolute change in occupied space in a given location and period) resulting in fairly static vacancy levels in most of CEE region in 2010. Net absorption in the second half of 2010 was lower than in the first half of 2010, which indicates that a large part of new rentals are driven by relocations and renegotiations.

In Warsaw, 2010 was a year of robust leasing activity and signaled a recovery from the downturn years. Total leasing activity in Warsaw last year reached a record level of 550,000 sq m, which represents almost a 100% increase in comparison to 2009 and a record breaker number. There were a number of large renewals, over 10,000 sq m yet the size of an average

deal is around 1,000 sq m. At the same time the supply of new office stock in 2010 was lower than in the previous years and totaled to almost 190,000 sq m. As a result the vacancy rate for Warsaw office space decreased to 7% and as a result of that rents notched higher. Prime headline rents amount to €23 -25 /sq m/month in the city centre and 14-17 in non-city center locations.

2010 has also brought a revival in office space demand in Polish regional cities with best take-up in Krakow of some 80,000 sq m of leased space. New completions in regional cities reached some 216,000 sq m during the year. The highest vacancy rates are in Lodz and Katowice as a result of large completions in 2010 in these cities. Currently some 242,000 sq m new office space is under construction in regional cities, of which 150,000 sq m is expected to be completed in 2011. Rents remained broadly stable throughout 2010, with some downward pressure in cities with higher vacancies.

Vacancy rates in the region show significant variances between countries. Capital cities with considerable negative demand – supply imbalances are suffering from high vacancy rates: Sofia and Belgrade above 25%, Budapest above 20%, and Bucharest above 15%. Vacancy rates in Bucharest and Sofia have been coming down recently.

On the other end of the spectrum are Warsaw (7%) and Bratislava (10%) with favorable and improving demand-supply dynamics. A mix of improving demand and limited new supply is expected to bring a continued reduction in Warsaw vacancy rates. Zagreb has a low vacancy rate of 8% thanks to limited completions during the crisis. According to CBRE aggregate numbers, CEE average vacancy rate went up slightly to 15.7% in the first half of 2010 compared to 15.5% in the second half of 2010 and did not change since the end of 2009.

According to King Sturge, a simple average of western European cities shows vacancy rates stabilizing at just over 10.0% in 2010, with CEE levels also steady at around 16.0%.

In 2009 low demand and high supply during recession gave bargaining power to tenants and pushed the rents down across the CEE region (from 4% decline in Zagreb to 52% in Kyiv). The recovery began in the first half of 2010 and prospects for rents outlook are generally brighter. According to CBRE data Kyiv, Moscow and Warsaw were the only CEE markets registering prime rental growth in 2010, though levels are still below their previous peaks. In SEE markets prime rental rates continue to edge lower, although at a slower pace than in 2009.

After sharp increases in 2008-2009 prime office yields registered compression in 2010, with the exception of Sofia and Belgrade. Moscow and Kyiv, which registered the biggest yield increases during the previous two years, were the best performers during 2010, followed by Warsaw, Budapest and Bucharest. Across the region yield compression slowed during the second half of 2010. Yield decreases in Bratislava and Budapest were mainly sentiment-driven and were not backed up by transaction volumes, whereas yield compression in Poland is backed up by revival in property investments.

#### **Item 4.6.2. Retail market**

In the first half of 2010 the shopping centre stock in CEE (ex Russia and Ukraine) was roughly 17.5 m sq m plus 2.4 m sq m additional space under construction, according to CBRE. The past few years have seen shrinking retail pipelines in CEE, a region which delivered 1.6 m sq m of new retail space in 2010, 20% down from 2009. Predictions for 2011 pipeline oscillate around the same level. Poland, a former development hotspot, has seen decreases in recent completions, but is still leading the region in terms of absolute completions. During 2010, the Polish retail market witnessed a reduced volume of new supply compared to 2009. In 2010 the total modern retail stock in the cities deemed to be the largest markets in Poland exceeded 5.2 m sq m and increased by 5% compared to 2009. Nearly 275,000 sq m of new stock entered the market in 2010 (25% less than in 2009) of which 75% was completed in Warsaw and Łódź. The demand for space from retailers showed signs of recovery. The highest rent for prime units (100-150 sq m) have been consistently achieved in shopping centers in Warsaw - 60-85 EUR/sq m/month, in the other major regional cities - 40-50 EUR/sq m/month.

Across the region the Group sees a strong trend of new developments outside the key urban areas in 2nd and 3rd tier regional cities.

CEE shopping centre markets have shown a positive correlation between provision rate and GDP per capita. According to CBRE, capital cities and large regional cities in CEE currently have above average shopping centre provision rates, whereas the lowest provision rates in CEE are clustered in more rural – and much poorer – Romanian and Polish regions.

Poland was the best CEE performer in terms of retail sales growth showing an increasing trend throughout 2010. December 2010 reading of 12.4% was influenced by anticipated January 2011 VAT hikes and January 2011 brought a growth correction (-28.6% q-o-q and + 5.8% y-o-y according to GUS). Elsewhere in the region the situation is less benign. The economic performance is generally improving in the CEE.

During the first half of 2010 prime shopping centre rents were broadly stable in CEE and SEE. According to King Sturge, a number of CEE markets (Bulgaria, Croatia, Serbia, Hungary) have seen rents correcting to more sustainable levels after a period of high rents in mid 2000s. These regions have seen retail rents slip back slightly over the past year.

Prime retail yields in CEE stabilized in the second half of 2009 after 2008- first half 2009 expansion and entered a modest compression trend. In the first half of 2010 yields compressed by 10-25 basis points in CEE capital cities, whereas Belgrade, characterized by a higher volatility, saw 100-200 bps drop in the same period. Growing investors interest coupled with a slowdown in supply additions are causing the prime retail capital values to edge higher in CEE by 4% combined in the first half of 2010.

#### **Item 4.6.3. Investment market**

2010 marked a continued recovery in European commercial property transactions volumes. CEE was the fastest growing European region with total investment volume nearly doubling to € 5 bn, 75% of which was registered in Russia – the biggest market by transaction size, and Poland - the most active CEE market by number of transactions. Poland was also the fifth biggest retail investment market in Europe in 2010 after UK, Germany, Netherlands and France, continuing its strong performance from the third quarter 2010 and transacting € 677 m of retail property during the final quarter of the year. Other CEE markets showed signs of investment climate revival, however; the actual transaction volumes were limited. Increased activity and a growing average transaction size suggest that banks are once again showing increased interest in financing transactions in selected CEE markets.

#### **Item 4.6.4. Residential market**

The residential prices in CEE countries are stabilizing; a trend which began in 2010. In Poland, Romania and Slovakia prices are more or less constant now compared to a year ago, whereas the Czech Republic, Croatia, Hungary and Romania still see some y-o-y declines. Post-crisis price declines coupled with economic recovery should support price to income affordability ratios across the region. The trend in mortgage lending is to the upside; however the lending margins are above pre-crisis levels and rising inflationary pressures could lead to rate hikes with negative consequences for mortgage affordability.

The negative demographic seen in some SEE markets trends are to some extent compensated by above average number of persons per household in a number of CEE countries. In Romania this number is 23% higher than Euro area average, in Slovakia and Poland by 21% and 18% respectively. It is expected that convergence trend towards the Western European standards of living will reduce the average number of dwellers in a single household and thus create an incremental housing demand.

An average Polish dweller has nearly a half of living space of an average British. This pattern is similar across CEE region, with considerable differences in per capita dwelling stock versus developed Europe peers - an indicator of incremental housing demand potential in these markets.

### **Item 5. Presentation of operating and financial results**

#### **Item 5.1. Sources of revenues from operations**

Revenues from operations consist of:

##### *Rental income*

Rental income consist of monthly rental payments paid by tenants of the Group's investment properties for the office or retail space that is rent by the tenants. Rental income is recognized as income over the lease term. Rental income was 58% of the Group's revenues from operations in the twelve month period ended 31 December 2010 as compared to 48% in 2009.

##### *Service income*

Service income comprise fees paid by the tenants of the Group's investment properties to cover the cost of services provided by the Group in relation to their leases. Service income was 16% of the Group's revenues from operations in the twelve month period ended 31 December 2010 as compared to 13% in 2009.

### *Residential revenue*

Residential income comprise sale of houses or apartments. Income from the sale of houses and apartments is recognized when the houses or apartments have been substantially constructed, accepted by the customer and significant amount resulting from the sale agreement was paid by the buyer. Residential income was 26% of the Group's revenues from operations in the twelve month period ended 31 December 2010 as compared to 39% in 2009.

### **Item 5.2. Sources of cost of operations**

Costs of operations consist of:

#### *Service cost*

Service cost consist of all the costs that are related to the management services provided to the individual tenants within the Group's properties. This cost is covered by service income. Service costs were 41% of the Group's cost of operations in the twelve month period ended 31 December 2010 as compared to 31% in 2009.

#### *Residential costs*

Residential costs consist of costs that are related to the development of residential properties sold. The costs related to the development of residential properties incurred during the construction period are capitalized in inventory. Once income is recognized, the costs in respect of sold units are expensed. Residential costs were 59% of the Group's cost of operations in the twelve month period ended 31 December 2010 as compared to 69% in 2009.

### **Item 5.3. Sources of selling expenses**

Selling expenses include:

- (i) brokerage and similar fees incurred to originate lease or sale of space;
- (ii) marketing and advertising costs; and
- (iii) payroll and related expenses directly related to leasing or selling personnel.

### **Item 5.4. Sources of administration expenses**

Administration expenses include:

- (i) payroll, management fees and other expense that include salaries of all employees that are not directly involved in sale or leasing activities,;
- (ii) provisions made to account for share based incentive program that was granted to key personnel;
- (iii) cost of audit, legal and other advisors;
- (iv) office expenses; and
- (v) depreciation and amortization expenses include depreciation and amortization of the Group's property, plant and equipment.

### **Item 5.5. Sources of financial income and financial expenses**

Financial income include interest on loans granted to associate companies and interest on bank deposits.

Financial expenses includes interest on borrowings and deferred debt rising expenses. Borrowing costs are expensed in the period in which they are incurred except for those that are directly attributable to construction. In such a case, borrowing costs are capitalized as part of the cost of the asset. Borrowing costs include interest and foreign exchange differences.

Additionally, financial income or expenses include settlement of financial assets and gain or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting.

#### **Item 5.6. The main events that impacted the Group's business and results in 2010**

The following events influenced the Group's financial situation and results in 2010:

1. In March 2010, the Group signed an agreement with its joint venture partner in relation with its holdings in companies, which develop shopping centers in Romania. The agreement regulates conversion of GTC Romania's over-financing into additional shares in the project companies. As result of the agreement, the Group increased its holding in those subsidiaries by 8.4%-19.8% and gained control over those subsidiaries.

Following the execution of the above mentioned agreement, the Group records its investment in National Commercial Centers B.V., Mars Commercial Center S.R.L., Beaufort Commercial Center S.R.L., Fajos S.R.L., Mercury Commercial Center S.R.L., Venus Commercial Center S.R.L and Cefin Galati Real Estate S.R.L at the consolidation method instead of the proportional consolidation method used in previous periods.

As result of the transaction, the Group recognized €2,741 of goodwill, decreased the non-controlling shareholder's interest by €5,203, and took over liabilities to non-controlling party in the amount of €172. All assets in these companies were valued at fair value or cost-approximated fair value. The project loans bear variable interest rates, which were in line with the current market rates. Therefore, the carrying value of the net assets which were obtained approximated fair value. Consequently, there was neither a fair value adjustment to the interest acquired nor to the interest which GTC Romania, directly or indirectly, already owned.

2. In October 2010, the Group finalized the sale Topaz and Nefryt office buildings in Warsaw. As a result of that transaction those two buildings did not contribute to the Group's rental income in November and December 2010 and the Group repaid the loan facilities related to those two properties.

#### **Item 5.7. Presentation of differences between achieved financial results and published forecasts**

The Group did not present forecasts for 2010.

#### **Item 5.8. Review of the financial situation**

##### ***Comparison of financial situation as of 31 December 2010 and 2009***

The value of investment property increased by €145,694 to €2,117,609 as at 31 December 2010 from €1,971,915 as at 31 December 2009. This change results mainly from investment of €114,477 and adjustment to fair value of the Group's investment properties of €44,105.

The value of investment in associates increased by € 6,864 to € 56,346 on 31 December 2010 from € 49,482 on 31 December 2009, following an increase of profit of associates (mainly due to completion of Harfa Mall in Prague) and loans granted to associates.

The value of loans granted and other receivables decreased by € 34,346 to € 19,644 on 31 December 2010 from € 53,990 on 31 December 2009 as a result of an increase in the Group's stake in projects in Romania followed by a change in the consolidation method from proportionate consolidation to full consolidation method and elimination of those loans granted to the subsidiaries.

The value of inventory decreased by € 18,962 to € 201,807 on 31 December 2010 from € 220,769 on 31 December 2009 as a result of recognition of income from sale of residential properties and expensing the related cost.

The value of loans and borrowings (short- and long-term) increased by € 84,420 to € 1,378,108 on 31 December 2010 from € 1,293,688 on 31 December 2009, mainly due to refinancing of loans for CityGate and Galeria Jurajska and further drawings under the available construction loan facilities, which were partially offset by repayment of loan facilities related to Topaz and Nefryt that the Group sold in October 2010.

The value of derivatives (current and non current) decreased by €7,480 to € 69,295 on 31 December 2010 from € 76,775 on 31 December 2009 as a result of settlement of hedging instruments related to loan facilities for Topaz and Nefryt and revaluation of hedging instruments that were in place as at 31 December 2010.

The value of trade and other payables decreased by € 28,990 to € 56,606 on 31 December 2010 from € 85,596 on 31 December 2009 as a result of payments done for the construction of investment properties that were completed during 2009 and the amounts were due within 2010.

The equity increased by € 42,127 to € 1,052,858 on 31 December 2010 from € 1,010,731 on 31 December 2009, mainly due to an increase in accumulated profit for 2010.

### **Comparison of financial results for the twelve months ended 31 December 2010 with the result for the corresponding period of 2009**

#### ***Revenues from operations***

Revenues from operations increased by PLN 8% to € 169,008 in 2010 from €156,362 in 2009 mainly due to:

- (i) a 30% increase in rental revenues coming from:
  - a. an increase of leased office and retail space;
  - b. Full year of operation of assets that were completed during 2009; and
  - c. and increase in rental rates in the shopping centers in Poland;

The sale of Topaz and Nefryt office buildings that took place in October 2010, had only two month rent impact on the results.

- (ii) a 27% increase in service revenues coming from an increase of leased office and retail space, as the Group completed a number of office and retail properties during 2010; and
- (iii) a 25% decrease in residential revenues resulting from acceleration of sales through granting discounts;

#### ***Cost of operations***

Cost of operation increased by 2% to €72,314 in 2010 from €71,172 in 2009, mainly due to an increase in service costs by €7,383 (33%) to €29,708 in 2010 from €22,325 in 2009 following an increase in completed investment properties and a decrease in cost of constructing residential units by €6,241 to €42,606 in 2010 from €48,847 in 2009, resulting from lower sale of houses and apartments.

#### ***Gross margin from operations***

The gross margin (profit) from operations increased by 14% to €96,694 in 2010 from €85,190 in 2009. The increase is primarily attributed to the increase in rental revenues.

#### ***Selling expenses***

Selling expenses increased by 25% to € 6,297 in 2010 from € 5,040 in 2009, mainly due to an increase in advertising expenses, resulting from an opening of two newly competed shopping malls in the Czech Republic and Bulgaria.

#### ***Administration expenses***

Administration expenses increased by 8% to € 21,681 in 2010 from € 20,050 in 2009, mainly due to an increase in share based program costs.

### ***Profit from revaluation of investment properties, net***

Profit from revelation, net of impairment, of the Group's investment properties and impairment of residential projects was € 43,167 in 2010 as compared to loss from revaluation of investment properties of €172,252 in 2009. The results were positively impacted by a decline in yield of approximately 0.2% in Poland.

### ***Financial income***

Financial income decreased by 31% to € 4,924 in 2010 from € 7,169 in 2009.

### ***Financial expenses***

During the construction process the Group capitalizes the interest. Once the building is completed the interest is expensed. During the period, financial expenses increased by 65% to € 72,815 in 2010 from € 44,241 in 2009. mainly due to completion of assets and expensing interest.

The average effective interest rate (including hedges) on the Group's loans during the year ended 31 December 2010 was 5% (5.6 % in 2009).

### ***Share of profit of associates***

Share of profit of associate was € 4,667 in 2010 as compared to loss of € 2,516 in 2009, mainly due to completion and an increase in value of Harfa shopping mall in 2010.

### ***Income tax***

Income tax was € 17,113 in 2010, out of which current tax expense was € 9,306 and deferred tax expense was € 7,807.

### ***Net profit***

Net profit was € 28,632 in 2010 as compared to a net loss of € 139,440 in 2009, mainly due to shift in the revaluation of the Group's investment properties, decrease of other expenses, net and an increase in revenues from operations partially offset by an increase in financial expenses.

### ***Other information***

#### ***Capital expenditure***

Capex was € 135,167 in 2010 as compared to € 267,708 as a result of the crisis and the market situation the Group has adjusted its investment path to market demand, while focusing on cash preservation.

#### ***Employment***

Average number of employees was 163 as at 31 December 2010 as compared to 164 as at 31 December 2009.

#### ***Business segmental analysis***

The group's operating segments are carried out through subsidiaries that develop real estate projects. The operating segments are aggregated into reportable segments, taking into consideration the nature of the business, operating markets and other factors. Reportable segments are divided into two main segments:

1. Development and rental of office space and shopping malls; and
2. Development and sale of houses and apartment units.

The activities carried out in the above mentioned operating segments are conducted in the following geographical zones, which has common characteristics:

1. CEE countries (Poland and Hungary),
2. Romania and Bulgaria; and
3. Other CEE countries (Serbia, Croatia, Ukraine, Slovakia, and Russia).

The following table presents segment analysis for the year ended 31 December 2010 and 31 December 2009:

|  | Poland and Hungary |               | Romania and Bulgaria |               | Other countries |               | Consolidated   |                |
|--|--------------------|---------------|----------------------|---------------|-----------------|---------------|----------------|----------------|
|  | 2010               | 2009          | 2010                 | 2009          | 2010            | 2009          | 2010           | 2009           |
| Rental income  | 86,077             | 66,654        | 11,496               | 1,294         | 26,547          | 28,285        | 124,120        | 96,233         |
| Contract income  | 11,566             | 29,313        | 16,117               | 23,312        | 17,205          | 7,504         | 44,888         | 60,129         |
| <b>Total income</b>  | <b>97,643</b>      | <b>95,967</b> | <b>27,613</b>        | <b>24,606</b> | <b>43,752</b>   | <b>35,789</b> | <b>169,008</b> | <b>156,362</b> |
|  | -                  | -             | -                    | -             | -               | -             | -              | -              |
| Rental costs   | 16,600             | 12,823        | 6,863                | 3,488         | 6,245           | 6,014         | 29,708         | 22,325         |
| Contract costs   | 10,815             | 23,605        | 16,127               | 18,355        | 15,664          | 6,887         | 42,606         | 48,847         |
| <b>Total costs</b>   | <b>27,415</b>      | <b>36,428</b> | <b>22,990</b>        | <b>21,843</b> | <b>21,909</b>   | <b>12,901</b> | <b>72,314</b>  | <b>71,172</b>  |
|  | -                  | -             | -                    | -             | -               | -             | -              | -              |
| Rental result  | 69,477             | 53,831        | 4,630                | (2,194)       | 20,302          | 22,271        | 94,412         | 73,908         |
| Contract result  | 751                | 5,708         | (10)                 | 4,957         | 1,541           | 617           | 2,282          | 11,282         |
| <b>Total result</b>  | <b>70,228</b>      | <b>59,539</b> | <b>4,620</b>         | <b>2,763</b>  | <b>21,843</b>   | <b>22,888</b> | <b>96,694</b>  | <b>85,190</b>  |
| Unallocated corporate expenses   | -                  | -             | -                    | -             | -               | -             | (29,263)       | (35,086)       |
| Revaluation/impairment of investment property and residential                        | 44,701             | (106,927)     | 5,232                | (27,459)      | (6,766)         | (37,866)      | 43,167         | (172,252)      |
| Profit from continuing operations before tax and financial related income/(expenses) | -                  | -             | -                    | -             | -               | -             | 110,598        | (122,148)      |
| Foreign currency translation gain (loss), net  | -                  | -             | -                    | -             | -               | -             | (1,629)        | (3,085)        |
| Financial income   | -                  | -             | -                    | -             | -               | -             | 4,924          | 7,169          |
| Financial expense  | -                  | -             | -                    | -             | -               | -             | (72,815)       | (44,241)       |
| Share of profit/(loss) of associates   | -                  | -             | -                    | -             | -               | -             | 4,667          | (2,516)        |
| Taxation   | -                  | -             | -                    | -             | -               | -             | (17,113)       | 25,381         |
| Profit for the year  | -                  | -             | -                    | -             | -               | -             | 28,632         | (139,440)      |
| Non-controlling interest   | -                  | -             | -                    | -             | -               | -             | (13,304)       | (11,141)       |
| Equity holders of the parent   | -                  | -             | -                    | -             | -               | -             | 41,936         | (128,299)      |

The following table presents geographical analysis as of 31 December 2010 and 31 December 2009 is presented below:

|                                   | Poland and Hungary     |                        | Romania and Bulgaria   |                        | Other countries        |                        | Consolidated           |                        |
|-----------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|                                   | 31<br>December<br>2010 | 31<br>December<br>2009 | 31<br>December<br>2010 | 31<br>December<br>2009 | 31<br>December<br>2010 | 31<br>December<br>2009 | 31<br>December<br>2010 | 31<br>December<br>2009 |
| <b>Segment assets</b>             |                        |                        |                        |                        |                        |                        |                        |                        |
| Allocated assets rental           | 1,194,889              | 1,183,762              | 532,264                | 444,970                | 457,761                | 432,383                | 2,184,914              | 2,061,115              |
| Allocated assets residential      | 68,259                 | 67,416                 | 144,388                | 175,787                | 77,168                 | 62,957                 | 289,815                | 306,160                |
| Unallocated assets                | 227,764                | 233,994                | 10,028                 | 10,516                 | 15,907                 | 10,794                 | 253,699                | 255,303                |
| <b>Total assets</b>               | <b>1,490,912</b>       | <b>1,485,172</b>       | <b>686,680</b>         | <b>631,273</b>         | <b>550,836</b>         | <b>506,134</b>         | <b>2,728,428</b>       | <b>2,622,579</b>       |
| <b>Segment liabilities</b>        |                        |                        |                        |                        |                        |                        |                        |                        |
| Allocated liabilities rental      | 153,426                | 55,972                 | 20,334                 | 71,204                 | 22,994                 | 65,209                 | 196,754                | 192,385                |
| Allocated liabilities residential | 35,429                 | 106,696                | 7,571                  | 30,742                 | 10,630                 | 10,574                 | 53,630                 | 148,012                |
| Unallocated liabilities           | 445,037                | 934,166                | 580,444                | 187,552                | 399,705                | 149,733                | 1,425,186              | 1,271,452              |
| <b>Total liabilities</b>          | <b>633,892</b>         | <b>1,096,834</b>       | <b>608,349</b>         | <b>289,498</b>         | <b>433,329</b>         | <b>225,515</b>         | <b>1,675,570</b>       | <b>1,611,848</b>       |
| Capital expenditures              | 59,075                 | 135,091                | 40,614                 | 114,243                | 35,478                 | 18,374                 | 135,167                | 267,708                |
| Depreciation                      | 167                    | 159                    | 105                    | 95                     | 275                    | 176                    | 547                    | 430                    |

### *Liquidity and capital reserves*

The table below presents an extract of the cash flow for the period of twelve months ended on 31 December 2010 and 2009, as adjusted for the analysis purposes

|   | Twelve month period ended on |                  |
|---|------------------------------|------------------|
|   | 31 December 2010             | 31 December 2009 |
| Cash flow from operating activities     | 64,931                       | 46,085           |
| Investment in real-estate and related   | (129,688)                    | (306,073)        |
| Cash flow from sale of investment       | 40,309                       | -                |
| Finance expenses                        | (65,606)                     | (53,676)         |
| Proceeds from financing activities, net | 96,138                       | 298,550          |
| Net change                              | 6,084                        | (15,114)         |
| Cash at the beginning of the period     | 185,648                      | 200,762          |
| Cash at the end of the period           | 191,732                      | 185,648          |

### *Cash from operating activities*

Cash from operating activities increased to €64,931 in 2010 from €46,085 in 2009, mostly due to completion of assets resulting in an increase in rental revenues.

#### *Investment in real-estate and related*

Investment in real-estate and related was €129,688 in 2010 as compared to €306,073 in 2009. The decrease in investment comes from the crisis and the market situation. The Group has adjusted its investment path to market demand, while focusing on cash preservation.

#### *Cash flow from sale of investment*

Cash flow from sale of investment was €40,309 in 2010 resulting from sale of Topaz and Nefryt office buildings. Out of €40,496, the amount of €22,000 constitutes free cash balance and the remaining amount constitutes a VAT payable.

#### *Finance expenses*

Finance expenses increased to €65,606 in 2010 from €53,676 in 2009, mostly due to completion of assets and expensing interest.

#### *Proceeds from financing activities, net*

Proceeds from financing activities, net decreased to €96,138 in 2010 from €298,550 in 2009, mostly due to adjusted of the Group's investment path to market demand, while focusing on cash preservation.

Cash and cash equivalents as at 31 December 2010 was €191,732 when compared to €185,648 as at 31 December 2009. The Group keeps its cash in a form of bank deposits mostly in euro in various international banks.

### **Item 5.9. Future liquidity and capital resources**

The Group expects that its principal future cash needs will be: (i) development of office investment properties, (ii) development of retail investment properties, (iii) development of residential properties, (iv) debt service and (v) purchase of plots for office and retail purposes. The Group believes that its cash balances and cash generated from leasing activities of its investment properties and sale of apartments and villas as well as cash available under its existing and future loan facilities will fund these needs. Additionally, the Group may generate cash from potential sale of its investment properties or raising funds in the capital market.

Non-current liabilities amounted to €1,486,945 as at 31 December 2010 as compared to €1,420,254 as at 31 December 2009.

The Group's total debt from long- and short-term loans and borrowings as at 31 December 2010 was € 1,378,108. The Group's loans and borrowings are denominated in Euro, except for the corporate bonds that are denominated in PLN, but converted into Euro via swap transactions. Each loan, except for the bonds, is borrowed by a specific subsidiary that holds the underlying investment properties.

The Group's loan to value ratio was 54% as compared to 53% in 2009. The Group's strategy is to keep the loan to value ratio at the level of 40-60%.

### **Item 6. Information on loans granted with particular emphasis on related entities**

During 2010, the Group granted a number of loans to its associates and joint ventures. All the loans are for the construction purposes.

The following table presents the loans that were granted to the Group's subsidiaries and associates:

| Associate                        | Amount of loan (€) | Currency | Interest rate    | Maturity date |
|----------------------------------|--------------------|----------|------------------|---------------|
| Emerging Investments III B.V.    | 1,000              | Euro     | Euribor + margin | 2015          |
| Lighthouse Holdings Limited S.A. | 1,000              | Euro     | Euribor + margin | 2015          |

#### **Item 7. Information on granted and received guarantees with particular emphasis on guarantees granted to related entities**

The Group granted guarantees to third parties in order to secure construction cost-overflow and loans of its subsidiaries. As of 31 December 2010 and 31 December 2009, the guarantees granted amounted to €183,000 and €216,000.

In the normal course of our business activities we receive guarantees from the majority of our tenants to secure the rental payments on the leased space.

#### **Item 8. Off balance liabilities**

As of 31 December 2010 and 31 December 2009, the Group had commitments contracted for in relation to future building construction, amounting to €126,000 and €185,000. These commitments are expected to be financed from available cash and current financing facilities, other external financing or future installments under already contracted sale agreements and yet to be contracted sale agreements.

The Group gave guarantees to third parties in order to secure construction cost-overflow and loans of its subsidiaries. As of 31 December 2010 and 31 December 2009, the guarantees granted amounted to €183,000 and €216,000.

#### **Item 9. Major investments, local and foreign (securities, financial instruments, intangible assets, real estate) including capital investments outside the Group and its financing method**

The Group does not have any local or foreign major investments other than direct investment in real estate properties designated for development, or through companies that hold the said real-estate.

#### **Item 10. Information on market risks**

The Group's principal financial instruments comprise bank and shareholders' loans, hedging instruments, trade payables and other long-term financial liabilities. The main purpose of these financial instruments is to raise finance for its operations. The Group has various financial assets such as trade receivables, loans granted, derivatives and cash and short-term deposits.

The main risks arising from its financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

##### **Interest rate risk**

The Group's exposure to changes in interest rates which are not offset by hedge relates primarily to its long-term debt obligations and loans granted.

The Group's policy is to obtain financing bearing variable interest rate. To manage the interest rate risk in a cost-efficient manner, it enters into interest rate swaps or collar transactions. As a result the majority of its loans are nominated or swapped into Euro.

The following table presents the sensitivity of profit (loss) before tax due to change in Euribor:

|                               | 31 December 2010 | 31 December 2009 |
|-------------------------------|------------------|------------------|
| 50bp increase in Euribor rate | (2,665)          | (2,859)          |
| 50bp decrease in Euribor rate | 2,665            | 2,859            |

### Foreign currency risk

The Group enters into transactions in currencies other than its functional currency. Therefore, it hedges the currency risk by either matching the currency of the income with that of the expenditures or obtaining an appropriate currency hedge instruments.

The following table presents the sensitivity of profit (loss) before tax due to change in foreign exchange:

|                             | 2010<br>PLN/Euro |          |          |          | 2009<br>PLN/Euro |          |          |          |
|-----------------------------|------------------|----------|----------|----------|------------------|----------|----------|----------|
|                             | +10%             | +5%      | -5%      | -10%     | +10%             | +5%      | -5%      | -10%     |
| Cash and cash equivalents   | 7,494            | 3,747    | (3,747)  | 7,494    | 4,057            | 2,028    | (2,028)  | (4,057)  |
| Trade and other receivables | 450              | 225      | (225)    | (450)    | 1,014            | 507      | (507)    | (1,014)  |
| Trade and other payables    | (3,446)          | (1,723)  | 1,723    | 3,446    | (2,846)          | (1,423)  | 1,423    | 2,846    |
| Hedge                       | 29,038           | 14,519   | (14,519) | (29,038) | 27,992           | 13,996   | (13,996) | (27,992) |
| Bonds                       | (29,038)         | (14,519) | 14,519   | 29,038   | (27,992)         | (13,996) | 13,996   | 27,992   |

Exposure to other currencies and other positions in statement of financial position is not material.

### Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation. To manage this risk the Group periodically assesses the financial viability of its customers. The Group does not expect any counter parties to fail in meeting their obligations. The Group has no significant concentration of credit risk with any single counterparty or its counterparties.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that those will not meet their payment obligations.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and blocked deposits, exposure to credit risk equals to the carrying amount of these instruments.

The maximum exposure to credit risk as of the reporting date, without taking into account collateral is the full amount presented. The Group cooperate with reputable banks.

There are no material financial assets as of the reporting dates, which are over due and not impaired. There are no significant financial assets impaired.

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding its investments and timely servicing its debt and maintaining sufficient working capital resources.

The following table present repayment schedule of the Group's long-term debt:

|                        | %     | 31 December 2010 | %     | 31 December 2009 |
|------------------------|-------|------------------|-------|------------------|
| First year             | 6.0%  | 83,229           | 4.6%  | 59,995           |
| Second year            | 7.2%  | 100,108          | 4.7%  | 61,399           |
| Third year             | 8.6%  | 118,981          | 7.4%  | 96,326           |
| Fourth year            | 21.4% | 297,769          | 8.7%  | 113,548          |
| Fifth year             | 2.1%  | 29,746           | 18.5% | 240,685          |
| Thereafter             | 46.3% | 643,706          | 47.1% | 613,970          |
| Not yet determined     | 8.4%  | 116,063          | 9.0%  | 117,724          |
|                        |       | 1,389,602        |       | 1,303,647        |
| Debt issuance expenses |       | (11,494)         |       | (9,959)          |
|                        |       | <b>1,378,108</b> |       | <b>1,293,688</b> |

The above table does not contain payments relating to derivative instruments and interests payments. Interests on the interest bearing bank loans are payable on monthly or quarterly basis and are calculated using fixed and floating interest rates calculated on the balance of outstanding liability. The Group hedges significant part of the interest risk related to floating interests rate with derivative instruments.

All current liabilities are expected to be settled within a year.

### Item 11. External and internal factors impacting the Group's business and a description of the development prospects for 2011

The number of factors may impact the Group's business in 2011, including:

1. economic condition of countries in which the Group operates;
2. condition of the income-producing property market in countries in which the Group operates;
3. condition of the Group's tenants;
4. availability of financing for the Group's development projects; and
5. interest rate fluctuations.

The Group believes that the prospects for 2011 are solid. The Group believes that it will be able to increase leased space in two buildings in Poland and in building in Hungary. The Group will complete additional investment properties, including Platinum 4 (Warsaw, Poland) , Avenue Mall Osijek (Osijek, Croatia), Okęcie Business Park 3 (Warsaw, Poland). Additionally it plans to start new projects, including Platinum 5 (Warsaw, Poland), Avenue Park Zagreb (Croatia), Wilson Office Park (Poznań, Poland).

**Item 12. Management contracts with members of the management board setting out severance packages payout as a result of their resignation or dismissal from the position without a material cause**

Contracts of the Company's Management Boards members does not include severance packages payout as a result of their resignation or dismissal from the position without material cause (except for 3 months remuneration equivalent in case of dismissal).

**Item 13. Remuneration of the Members of the Management Board and the Members of the Supervisory Board**

The following table presents remuneration of members of the Management Board as at 31 December 2010 for 12 months ended 31 December 2010:

| Name              | Remuneration<br>(€) | Vested phantom shares<br>(not in thousand) |
|-------------------|---------------------|--|
| Piotr Kroenke     | 410                 | 48,000                                     |
| Erez Boniel       | 458 <sup>1</sup>    | 48,000                                     |
| Hagai Harel       | 482                 | 48,000                                     |
| Mariusz Kozłowski | 434                 | 48,000                                     |
| Witold Zatoński   | 341                 | 48,000                                     |

Remuneration consists of basic salary and bonus for 2010. Additionally, certain key management personnel is entitled to the Group's phantom shares program, as detailed in *Item 14. Stock option plan*.

The following table presents remuneration of members of the Supervisory Board as at 31 December 2010 for 12 months ended 31 December 2010:

| Name               | Remuneration<br>(€) | Vested phantom shares<br>(not in thousand) |
|--------------------|---------------------|--|
| Eli Alroy          | 249                 | 250,000                                    |
| Henry Alster       | -                   | -  |
| David Brush        | -                   | -  |
| Walter van Damme   | -                   | -  |
| Mariusz Grendowicz | 12                  | -  |
| Yosef Grunfeld     | -                   | -  |
| Alain Ickovics     | -                   | -  |
| Artur Kucharski    | -                   | -  |
| Alon Shlank        | -                   | -  |
| Jan Sloatweg       | -                   | -  |

Remuneration consists of basic salary and bonus paid 2010 .

<sup>1</sup> Additionally, an amount of €48 was paid in relations to previous years

#### Item 14. Stock option plan

Certain key management personnel are entitled to the Company phantom shares. The phantom shares grant the entitled persons a right for a settlement from the Company in the amount equal to the difference between the average closing price for the Company's shares on the Warsaw Stock Exchange during the 30-day period prior to the date of delivery to the Company of the exercise notice, and settlement price ("strike") amount per share (adjustable for dividend). The settlement of the phantom shares (cash or equity) is the decision of the Supervisory Board of the Company.

The following table presents movement in number of shares the years ended 31 December 2010 and 2009:

|                            | Year ended 31 December<br>2010 | Year ended 31 December<br>2009 |
|----------------------------|--------------------------------|--------------------------------|
| Outstanding at 1 January   | 3,700,000                      | 3,700,000                      |
| Exercised during the year  | (198,000)                      | -                              |
| Granted during the year    | 7,500,000                      | -                              |
| Outstanding at 31 December | 11,002,000                     | 3,700,000                      |

The following table presents the expense recognized during the years:

|   | Year ended 31<br>December 2010 | Year ended 31 December<br>2009 |
|---|--------------------------------|--------------------------------|
| Expenses arising from equity settled share based payments | 1,980                          | 3,240                          |
| Expenses arising from cash settled share based payments   | 4,174                          | -                              |
|   | <b>6,154</b>                   | <b>3,240</b>                   |

Scheme 1- As at 31 December 2010, phantom shares issued were as follows:

| <u>Grant Date</u> | <u>Last execution date</u> | <u>Strike (PLN/share)</u> |                | <u>Total units</u> |
|-------------------|----------------------------|---------------------------|----------------|--------------------|
|                   |                            | 18.15                     | 22.50          |                    |
| 17/03/2009        | 31/12/2012                 | 1,200,000                 | 700,000        | 1,900,000          |
| 17/03/2009        | 31/12/2014                 | 225,000                   | 225,000        | 450,000            |
| 05/01/2009        | 31/12/2015                 | 1,152,000                 |                | 1,152,000          |
|                   | <b>Total</b>               | <b>2,577,000</b>          | <b>925,000</b> | <b>3,502,000</b>   |

As of 31 December 2010, an amount of 2,292,000 phantom shares were vested. The remaining phantom shares are blocked.

The phantom shares are blocked and may be exercised during the years as presented below, provided that the key personnel continues its service in the company through the vesting periods as listed below:

|              | Strike           |
|--------------|------------------|
| Year         | 18.15            |
| 2011         | 490,000          |
| 2012         | 240,000          |
| 2013         | 240,000          |
| 2014         | 240,000          |
| <b>Total</b> | <b>1,210,000</b> |

The phantom shares (as presented in above mentioned table) have been provided for assuming equity payments will be effected, as the Company assesses that Scheme 1 is more likely to be settled in equity.

In August 2010, the Company signed an agreement with the key management personnel who exercised his phantom shares. According to the agreement, 198,000 shares will be redeemed for cash. The payment was made in January 2011.

Scheme 2- As at 31 December 2010, phantom shares issued were as follows:

During 2010, the Company issue new phantom shares.

| Grant Date   | Last execution date | Strike (PLN/share) |                  |                | Total units      |
|--------------|---------------------|--------------------|------------------|----------------|------------------|
|              |                     | 20.00              | 22.00            | 22.50          |                  |
| 15/08/2010   | 31/12/2013          |                    |                  | 100,000        | 100,000          |
| 29/11/2010   | 30/06/2014          |                    | 621,000          |                | 621,000          |
| 15/11/2010   | 31/12/2014          |                    | 3,192,000        |                | 3,192,000        |
| 29/11/2010   | 31/12/2014          |                    | 1,325,000        |                | 1,325,000        |
| 09/11/2010   | 31/12/2015          | 200,000            |                  |                | 200,000          |
| 29/11/2010   | 31/12/2015          |                    | 2,062,000        |                | 2,062,000        |
| <b>Total</b> |                     | <b>200,000</b>     | <b>7,200,000</b> | <b>100,000</b> | <b>7,500,000</b> |

As of 31 December 2010, an amount of 1,200,000 phantom shares were vested. The remaining phantom shares are blocked.

The phantom shares are blocked and may be exercised during the years as presented below, provided that the key personnel continues its service in the company through the vesting periods as listed below:

| Year         | Strike         |                  |                | Grand Total      |
|--------------|----------------|------------------|----------------|------------------|
|              | 20.00          | 22.00            | 22.50          |                  |
| 2011         | 50,000         | 2,168,550        | 30,000         | 2,248,550        |
| 2012         | 50,000         | 2,181,049        | 30,000         | 2,261,049        |
| 2013         | 50,000         | 1,134,961        | 40,000         | 1,224,961        |
| 2014         | 50,000         | 515,440          |                | 565,440          |
| <b>Total</b> | <b>200,000</b> | <b>6,000,000</b> | <b>100,000</b> | <b>6,300,000</b> |

#### Item 14.1. Stock option control system

Each execution of phantom shares under the phantom share program should be reviewed by the Supervisory Board, which together with the Audit Committee controls the plan.

#### Item 15. Shares of GTC held by members of the Management Board and the Supervisory Board

##### *Shares held by members of the Management Board*

The following table present information about shares held directly and indirectly by particular members of the Management Board as at day of the publication of this Report:

|                   | <i>No. of shares</i> | <i>Nominal value of shares<br/>in PLN (not in thousands)</i> |
|-------------------|----------------------|--|
| Piotr Kroenke     | 205,418              | 20,542   |
| Erez Boniel       | 70,000               | 7,000  |
| Yovav Carmi       | 0                    | 0  |
| Hagai Harel       | 205,470              | 20,547   |
| Mariusz Kozłowski | 0                    | 0  |
| Jacek Wachowicz   | 0                    | 0  |
| Witold Zatoński   | 0                    | 0  |
| <b>Total</b>      | <b>480,888</b>       | <b>48,089</b>  |

##### *Shares of GTC held by members of the Supervisory Board*

The following table present information about shares held directly and indirectly by particular members of the Supervisory Board as at day of the publication of this Report:

|                    | <i>No. of shares</i> | <i>Nominal value of shares<br/>in PLN (not in thousands)</i> |
|--------------------|----------------------|--|
| Eli Alroy          | 211,240              | 21,124   |
| David Brush        | 0                    | 0  |
| Mariusz Grendowicz | 7,000                | 700  |
| Yosef Grunfeld     | 0                    | 0  |
| Artur Kucharski    | 0                    | 0  |
| Alain Ickovics     | 0                    | 0  |
| Jan Sloatweg       | 0                    | 0  |
| <b>Total</b>       | <b>218,240</b>       | <b>21,824</b>  |

#### Item 16. Material transactions with related parties concluded on terms other than market terms

The Group presents information on material transaction that the Company, or its subsidiaries, concluded with a related party in the consolidated financial statements for the financial year ended 31 December 2010 in Note 31 *Related Party Transactions*.

**Item 17. Information on signed and terminated loan agreements within a given year**

During 2010, the group signed nine loan facility agreements with well know international banks, including European Bank for Reconstruction and Development, UniCredit, Alpha Bank, and others. The total amount of those loan facilities amounted to €199,581, out of which as at 31 December 2010 the amount of the draw downs totaled €93,793. All the loans are project loans to finance the development of the Group's investment properties, including Platinum 4, Avenue Mall Osijek, Jarossova and others. All the loans were granted in Euro and bear an interest rate of Euribor plus applicable margin. The loan facilities mature between 2011 (less than 2% of the total facilities amount) and 2026. More than 55% of total facilities amount matures after 2015.

**Item 18. Information on contracts known to the Company (including those concluded after the balance sheet date), which could result in the shareholding structure in the future**

On 25 January 2011, the Group received from GTC Real Estate Holding B.V. an information on the final settlement on 25 January 2011 of sale of 35,100,000 shares in the Company representing 16.00% of its share capital and carrying 16.00% of all the voting rights at the general meeting of the shareholders. Following this transaction, GTC Real Estate Holding B.V. now holds 59,529,180 shares in the Company representing 27.14% of the Company's share capital and which entitle their holder to exercise 27.14% of the votes at the General Meeting. Prior to the transaction, GTC Real Estate Holding B.V. held 94,629,180 shares in the Company which represented 43.14% of the Company's share capital and entitled their holder to exercise 43.14% of the votes at the General Meeting.

**Item 19. Proceeding/s before a court or public authority of Globe Trade Centre SA or its subsidiaries, with the total value of liabilities or claims of at least 10% of the Company's equity**

There are no individual proceeding or group of proceedings before a court or public authority involving Globe Trade Centre SA or its subsidiaries, with the total value of liabilities or claims of 10% or more of the Company's equity

**Item 20. Material contracts signed during the year, including insurance contracts and co-operation contracts**

The Group's subsidiaries GTC Nefryt Sp. z o.o. and GTC Topaz Office Sp. z o.o. sold to Reef Investment GmbH (the "Purchaser") on 29 October 2010 final the right of perpetual usufruct of the land and the ownership title to the "Topaz" and "Nefryt" office buildings located in Warsaw for the total net price of € 78,946.

The Group's indirect subsidiaries City Gate SRL and City Gate Bucharest SRL each owning one office building in Bucharest, which together constitute City Gate complex have signed with Alpha Bank Romania SA, Bank of Cyprus and Eurobank EFG Private Bank Luxembourg S.A. a loan agreement and related agreements for €80,000 financing. The Company holds indirectly a 59% stake in City Gate SRL and City Gate Bucharest SRL.

**Item 21. Agreements with an entity certified to execute an audit of the financial statements**

On 8 January 2010 and 1 February 2011 the Company entered into an agreement with Ernst & Young Audit Sp. z o.o., with registered office on 1 Rondo ONZ, 00-124 Warsaw, for performance of the audit of the standalone financial statements of Globe Trade Centre S.A. and the consolidated financial statements of Globe Trade Centre Group for the financial year ended 31 December 2010. Additionally to that agreement the Group entered into more than 100 agreements with Ernst & Young in different countries for audit of the Group's subsidiaries.

The following summary presents a list of services provided by Ernst & Young and remuneration for the services in the periods of 12 months ended on 31 December 2010 and 31 December 2009.

|  | For year ended   |                  |
|--|------------------|------------------|
|  | 31 December 2010 | 31 December 2009 |
|  | €                | €                |
| Fee for audit and review of financial statements | 1,029            | 926              |
| Tax and other advisory services                  | 196              | 126              |
| <b>Total</b>                                     | <b>1,225</b>     | <b>1,052</b>     |

**Globe Trade Centre S.A.**

**Report on the application of the principles of corporate governance  
for the financial year ended 31 December 2010**

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**Part 1. The principles of corporate governance which the issuer is subject to and the location of the set of principles where they are publicly available**

In July 2007 the Council of the Warsaw Stock Exchange passed the set of principles of the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trade on the stock exchange. The principles of corporate governance in the form of the Best Practices of WSE Listed Companies, constitute an appendix to the Resolution No. 12/1170/2007 of the Council of GPW of 4 July 2007 and entered into force on 1 January 2008. On 19 May 2010, the Warsaw Stock Exchange introduced the first amendment to the Code of Best Practice for Warsaw Stock Exchange Listed Companies since 4 July 2007. The Code of Best Practice has been brought in line with recent legislative amendments, current international corporate governance trends, and expectations of market participants. The amendment constitute an appendix to the Resolution No. 17/1249/2010 of the Warsaw Stock Exchange Supervisory Board dated 19 May 2010 concerning adoption of amendments to Code of Best Practice for Warsaw Stock Exchange Listed Companies. The amendment to the Code of Best Practice for WSE Listed Companies took effect on 1 July 2010.

The content of the Code of Best Practice for WSE Listed Companies is publicly available on the website of the Warsaw Stock Exchange dedicated to those issues at [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl).

**Part 2. The principles of corporate governance that the issuer has waived including the reasons for the waiver**

We strive to make every possible effort to employ the corporate governance principles, set out in the above document, trying to execute all the recommendations regarding best practices of Warsaw Stock Exchange Listed Companies and all recommendations directed to the management boards, supervisory boards and shareholders in all areas of the Company's business.

Additionally, to implement a transparent and effective information policy the Company provides fast and safe access to information to shareholders, analysts and investors employing, both traditional and modern, technologies of publishing information about the Company to the greatest possible extent.

However, the Company has waived the following recommendations:

**Part II. of the Best Practices for Management Boards of Listed Companies**

| Rule | Company's Comment  |
|------|--|
| 1    | <p>A company should operate a corporate website and publish on it, in addition to information required by legal regulation:</p> <p>1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies;</p> <p>2) professional CVs of the members of its governing bodies;</p> |

|   |   |
|---|---|
| <p>3) current and periodic reports;</p> <p>4) deleted;</p> <p>5) where members of the company's governing body are elected by the General Meeting – the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;</p> <p>6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board;</p> <p>7) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions;</p> <p>8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;</p> <p>9) information about breaks in a General Meetings and the grounds of those breaks;</p> <p>10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;</p> <p>11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting;</p> <p>12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company from to its introduction;</p> <p>13) a statement on compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published;</p> <p>14) information about the content of the company's internal rule of changing the company authorised to audit financial</p> | <p>guarantee that the rule as it is now will be observed in full.</p> |
|---|---|

|   |  |  |
|---|--|--|
|   | statements or information about the absence of such rule.  |  |
| 3 | Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the operating business by the company with a subsidiary where the company holds a majority stake. For the purpose of this document, the related entity shall be understood within the meaning of the Regulation of the Minister of Finance issued pursuant to Article 60.2 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instrument to Organised Trading, and Public Companies (Dz.U. No. 184, item 1539, as amended). | The Company shares the values underlying this rule. Its Articles of Association impose the requirement to obtain approval of the Supervisory Board for certain transactions with related entities. However, the definition of a related entity in the Company's Articles of Association differs from that contained in the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities, dated October 19 <sup>th</sup> 2005. Therefore, the Company cannot comply with this rule. |

### Part III. Best Practice for Supervisory Board Members

| Rule |   | Company's Comment  |
|------|---|--|
| 1    | <p>In addition to its responsibilities laid down in legal provisions, the Supervisory Board should:</p> <p>1) once a year prepare and present to the Ordinary General Meeting a brief assessment of the company's standing including an evaluation of the internal control system and the significant risk management system;</p> <p>2) once a year prepare and present to the Ordinary General Meeting an evaluation of its work;</p> <p>3) review and present opinions on issues subject to resolutions of the General Meeting.</p>                         | The Company's Articles of Association do not impose the requirement that the Supervisory Board should review and present opinions on issues subject to the resolutions the General Shareholders Meeting. However, the Supervisory Board may decide to observe the rule.  |
| 2    | A member of the Supervisory Board should submit to the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.   | Well aware of the need to fully inform its shareholders about any important events which could affect their investments and investment decisions, the Company is of the opinion that the disclosure requirements imposed by applicable laws are sufficient to ensure that the shareholders have full access to important information which might affect the value of the securities issued by the Company. The Company will consider adopting this rule in the future.   |
| 6    | At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of February 15 <sup>th</sup> 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated | The Company's Articles of Association provide that one member of the Supervisory Board should be an independent member. The Company believes that this will guarantee adequate and independent supervision over the Company affairs. The independence criteria for members of the Supervisory Board members laid down in the Article of Association do not correspond to all the criteria specified in Annex II to the Commission Recommendation of February 15 <sup>th</sup> 2005 on the role of non-executive or supervisory directors of listed companies and of the committees of the (supervisory) board. The Company will consider |

|   |   |   |
|---|---|---|
|   | company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting. | adopting this rule in the future.   |
| 8 | Annex I to the Commission Recommendation of February 15 <sup>th</sup> 2005 on the role of non-executive or supervisory directors of listed companies and of the committees of the (supervisory) board should apply to the tasks and the operation of the committees of the Supervisory Board.   | The functions of the nomination committee and the remuneration committee are now performed by the entire Supervisory Board.   |
| 9 | Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.   | The Company's Articles of Association state that any agreement/transaction with a related entity should first be approved by the Supervisory Board. However, the definition of a related entity in the Articles of Association differs from that contained in the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities dated October 19th 2005. |

#### Part VI. Best Practices of Shareholders

| Rule |  | Company's Comment |
|------|--|-------------------|
| 9    | A resolution of the General Meeting to split the nominal value of shares should not set the new nominal value of the shares at a level which could result in a very low unit market value of the shares, which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange.   |                   |
| 10.  | A company should enable its shareholders to participate in a General Meeting using electronic communication means through:<br>1) real-life broadcast of General Meetings,<br>2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting;<br>3) exercise their right to vote during a General Meeting either in person or through a plenipotentiary. This rule should be applied not later than 1 January 2012. |                   |

#### Part 3. The principal characteristics of the internal control and risk management systems used with respect to the procedure of preparing financial statements and consolidated financial statements

The Management Board is responsible for the Company's internal control system and its effectiveness in the process of preparing financial statements and interim reports prepared and published in accordance with the provisions of the Decree of the Finance Minister of 19 February 2009, on current and interim information provided by issuers of securities and the conditions of accepting, as equivalent, information required by the provisions of a country not being a member state.

The Company draws on its employees' extensive experience in the identification, documentation, recording and controlling of economic operations, including numerous control procedures supported by modern information technologies used for recording, processing and presentation of operational and financial data.

In order to ensure the accuracy and reliability of the accounts of the parent and subsidiary companies, the Company applies a series of internal procedures in the area of transaction control systems and processes resulting from the activities of the Company and the capital group.

An important element of the risk management, in relation to the financial reporting creation process, is ongoing internal controls exercised by main accountants on the holding and subsidiaries level..

The budgetary control system is based on monthly and annual financial and operational reporting. Financial results are monitored regularly

One of the basic elements of control in the preparation of financial statements of the Company and the Group is verification carried out by independent auditors. An auditor is chosen from a group of reputable firms, which guarantee a high standard of service and independence. The Supervisory Board is approving choice of the auditor. The tasks of the independent auditor include, in particular: a review of semi-annual stand alone and consolidated financial statements and audit of annual stand alone and consolidated financial statements.

Auditor's independence is fundamental to ensuring the accuracy of the audit of the books. An audit committee, appointed within the Company's Supervisory Board, supervises the financial reporting process in the Company, in cooperation with the independent auditor, who participates in the Audit Committee meetings. The Audit Committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. The audit committee includes one member of the Supervisory Board, who meets the independence criteria set out in the Best Practices of WSE Listed Companies in Chapter III, Section 6. Audit Committee reports to the Supervisory Board.

Moreover, under Article 4a of the Act of 29 September 1994 on accounting, the duties of the Supervisory Board include ensuring that the financial statements and the report of the Company's operations meet the requirements of the law, and the Supervisory Board carries out this duty, using the powers under the law and the articles of association of the Company. This is yet another level of control exercised by an independent body to ensure the accuracy and reliability of the information presented in the separate and consolidated financial statements.

**Part 4. Shareholders who, directly or indirectly, have substantial shareholding, including the number of shares held by them, the percentage share in the share capital, and the number of votes attached to their shares in the overall number of votes at the general meeting**

The following table presents the Company's shareholders, who had substantial shareholding as of 31 December 2010:

| Shareholder                               | Number of shares held | % of share capital | Number of votes | % of votes |
|---|-----------------------|--------------------|-----------------|------------|
| GTC Real Estate Holding B.V. <sup>1</sup> | 94,629,180            | 43.14%             | 94,629,180      | 43.14%     |
| ING OFE                                   | 16,988,700            | 7.74%              | 16,988,700      | 7.74%      |
| AVIVA OFE                                 | 15,861,600            | 7.23%              | 15,861,600      | 7.23%      |

Additionally, on 25 January 2011 the Company received from GTC Real Estate Holding B.V. an information on the final settlement on 25 January 2011 of sale of 35,100,000 shares in the Company representing 16.00% of the Company's share capital and carrying 16.00% of all the voting rights at the general meeting of the shareholders of the Company. Following this transaction, GTC Real Estate Holding B.V. now holds 59,529,180 shares in the Company representing 27.14% of the Company's share capital and which entitle their holder to exercise 27.14% of the votes at the General Meeting. Prior to the transaction, GTC Real Estate Holding B.V. held 94,629,180 shares in the Company which represented 43.14% of the Company's share capital and entitled their holder to exercise 43.14% of the votes at the General Meeting.

**Part 5. Holders of any securities that grant special rights of control, including a description of such rights**

There are no special rights of control that would be attached to any securities in Globe Trade Centre S.A.

**Part 6. Restrictions concerning the exercise of voting rights such as restriction of the exercise of voting rights by holders of any specific part or number of votes, time restrictions concerning the exercise of voting rights or regulations whereunder, with the cooperation of the company, the equity rights related to the securities are separate from holding securities**

There are no restrictions applicable to the exercise of voting rights such as restriction of the exercise of voting rights by holders of any specific part or number of shares, any time restrictions applicable to the exercise of voting rights or regulations whereunder, with the cooperation of Globe Trade Centre S.A., the equity rights related to securities would be separate from holding securities.

**Part 7. Restrictions concerning transfer of the ownership title to securities in Globe Trade Centre S.A.**

There are no limitations of transfer of ownership title to securities, except for those limitations that are resulting from the general provisions of the law in particular contractual limitations regarding the Company's securities ownership rights transfer.

**Part 8. Rules concerning appointment and dismissal of management and the rights thereof, specifically the right to make decisions concerning the issuance and redemption of shares.**

Pursuant to art. 7 the Company's Statue the Management Board consist of one to seven members appointed by the Supervisory Board for a three-year term.

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1 GTC Real Estate Holding B.V. is a wholly owned subsidiary of Kardan N.V.

Additionally, the Supervisory Board shall designate President of the Management Board and deputy thereof.

The Management Board of the Company is responsible for the Company's day-to-day management and for its representation in dealing with third parties. All issues related to the business are in the scope of activities of the Management Board, unless limited to the competence of the Supervisory Board or the General Shareholders' Meeting by the provisions of law or Articles of Association.

Members of the Management Board participate, in particular, in General Shareholders' Meetings and provide answers to questions asked during the General Shareholders' Meetings. Moreover, members of the Management Board invited to a Supervisory Board Meeting by the Chairman of the Supervisory Board participate in the meeting with a right to voice their opinion on issues on the agenda.

The General Shareholders' Meeting takes decisions regarding an issue or buy back of the Company's shares. The competencies of the Management Board in the scope are limited to execution of any resolutions adopted by the General Shareholders' Meeting.

#### **Part 9. Overview of the procedure of amending the Company's Statute**

A change to the Company's Statute requires a resolution of the General Shareholders' Meeting and an entry into the Court register. The general provisions of Law and the Statute govern the procedure of adopting resolutions regarding changes to the Statute.

#### **Part 10. The Bylaws of the General Shareholders' Meeting and its principal rights and description of rights of shareholders and their exercise, in particular the rules resulting from the Bylaws of the General Shareholders' Meeting, unless information on that scope results directly from the provisions of law**

The General Shareholders' Meeting acts pursuant to the provisions of the commercial companies' code and the Articles of Association.

The General Shareholders' Meeting adopts resolutions regarding, in particular, the following issues:

- a) discussion and approval of reports of the Management Board, and the financial statements for the previous year,
- b) decision about allocation of profits, or covering debts.
- c) signing off for the performance of duties for the Supervisory Board and the Management Board,
- d) determination of the Supervisory Board remuneration,
- e) changes to the Statute of the Company,
- g) increase or decrease in the share capital,
- h) merger or transformation of the Company,

- i) dissolution or liquidation of the Company,
- j) issue of bonds,
- k) sale or lease of the Company and establishment of a right of use or sale of the Company's plant,
- l) all decisions regarding claims for damages upon establishment of the Company, or performance of management or supervision.

The General Meeting shall be attended by persons who are shareholders of the Company sixteen days before the date of the General Meeting (the day of registration for participation in the General Meeting). .

A shareholder, being a natural person, is entitled to participation in the General Shareholders' Meeting and execution of voting rights in person, or through a proxy. A shareholder, being a legal entity, is entitled to participation in the General Shareholders' Meeting and execution of voting rights through a person authorized to forward statements of will on their behalf, or through a proxy.

The power of attorney to attend the General Meeting and exercise voting rights requires a written or an electronic form. For purposes of identification of the shareholder who granted the power of attorney, the notice on grant of such power of attorney electronically should contain (as a schedule):

- if the shareholder is an individual – a copy of an identity card, passport or any other official identification document confirming the identity of the shareholder; or

- if the shareholder is not an individual – a copy of an extract from a relevant register or any other document confirming the authorisation of the individual(s) to represent the Shareholder at the Extraordinary General Meeting (e.g. an uninterrupted chain of powers of attorney).

The General Meeting may be attended by members of the Management Board and Supervisory Board - in the composition which allows for substantive answers to the questions asked during the General Meeting - and by the auditor of the Company, if the General Meeting is held to discuss financial matters.

Each participant in the General Meeting is entitled to be elected the Chairman of the General Meeting, and also nominate one person as candidate to the position of Chairman of the General Meeting. Until election of the Chairman the General Meeting shall not take any decisions.

The Chairman of the General Meeting directs proceedings in accordance with the agreed agenda, provisions of law, the Statute, and in particular: giving the floor to speakers, ordering voting and announcing the results thereof. The Chairman ensures efficient proceedings and respecting of the rights and interests of all Shareholders.

After creation and signing of the attendance list the Chairman approves that the Shareholders' Meeting has been called in a proper manner and is authorized to pass resolutions.

The Chairman of the General Meeting closes the General Meeting upon exhausting its agenda.

**Part 11. Personnel composition and changes in the previous business year and description of the functioning of the management, supervisory, or administrative bodies of the Company and its committees.**

**The Management Board**

Currently, the Management Board is composed of seven members. The composition of the Management Board changed in January 2011, as Jacek Wachowicz joined the Management Board as its member and Director of Lease and Sale and further in March 2011, when Yovav Carmi become a member of the Management Board.

**Composition of the Management Board**

The following table presents names, surnames, functions, dates of appointment and dates of expiry of the current term of particular members of the Management Board as at 31 December 2010:

| Name and surname  | Function                       | Year of first appointment | Year of appointment for the current term | Year of expiry of term |
|-------------------|--------------------------------|---------------------------|--|------------------------|
| Erez Boniel       | Member of the Management Board | 1999                      | 2009                                     | 2012                   |
| Hagai Harel       | Member of the Management Board | 2004                      | 2009                                     | 2012                   |
| Mariusz Kozłowski | Member of the Management Board | 2001                      | 2009                                     | 2012                   |
| Piotr Kroenke     | Member of the Management Board | 1996                      | 2009                                     | 2012                   |
| Witold Zatoński   | Member of the Management Board | 2007                      | 2010                                     | 2013                   |

**Description of operations of the Management Board**

The Management Board runs the Company's matters in a transparent and efficient way pursuant to the provisions of the law, its internal provisions and "the Best Practices of WSE Listed Companies". Upon taking decisions related to the Company's matters, the members of the Management Board act within justified limits of business risk.

The two members of Management Board acting jointly are entitled to submit statements on the Company's behalf.

All issues related to the Company's management, not restricted by the provisions of the law, the Statute, competences of the Supervisory Board or the General Meeting, are within the scope of competence of the Management Board.

Members of the Management Board participate in sessions of the General Shareholders Meeting and provide substantive answers to questions asked during the General Shareholders Meeting. Members of the Management Board invited to a meeting of the Supervisory Board by the Chairman of the Supervisory Board participate in the meeting with the right to take the floor regarding issues on the agenda. Members of the Management Board shall, within their scope of competence and the scope necessary to settle issues discussed by the Supervisory Board, submit explanation and information regarding the Company's matters to the participants in the meeting of the Supervisory Board.

The Management Board makes any decisions considered (by the Management Board) to be important for the company by passing resolutions at meeting thereof. The resolutions are voted by simple majority.

Moreover, the Management Board may adopt resolutions in writing, or in a manner enabling instantaneous communication of the members of the Management Board by means of audio-video communication (e.g. teleconferencing, videoconferencing).

### **The Supervisory Board**

Currently, the Supervisory Board comprises seven members. The composition of the Supervisory Board changed in 2010 as Artur Kucharski was appointed to the Supervisory Board by Aviva OFE and further in January 2011, as Walter van Damme and Alon Shlank resigned from the Supervisory Board of the Company with the effect as of 20 January 2011 and Henry Marcel Philippe Alster was dismissed from the Supervisory Board of the Company with the effect as of 21 January 2011, by GTC Real Estate Holding B.V., who was the appointing shareholder, following lowering of GTC Real Estate Holding B.V. stake in the Company to 27.14% of the share capital after which its right to appoint Supervisory Board members had been reduced from eight to five members.

### **The Composition of the Supervisory Board**

The following table presents names, surnames, functions, dates of appointment and dates of expiry of the current term of particular members of the Supervisory Board as at 31 December 2010:

| <b>Name and surname</b>         | <b>Function</b>                             | <b>Year of first appointment</b> | <b>Year of appointment for the current term</b> | <b>Year of expiry of term</b> |
|---------------------------------|---|----------------------------------|---|-------------------------------|
| Eli Alroy                       | Chairman of the Supervisory Board           | 1996                             | 2010  | 2013                          |
| Henry Alster                    | Member of the Supervisory Board             | 2006                             | 2009  | Dismissed on 21 Jan 2011      |
| David Brush                     | Member of the Supervisory Board             | 2008                             | 2008  | 2011                          |
| Walter van Damme                | Member of the Supervisory Board             | 2006                             | 2010  | Resigned on 20 Jan 2011       |
| Mariusz Grendowicz <sup>2</sup> | Independent Member of the Supervisory Board | 2000                             | 2010  | 2013                          |
| Yosef Grunfeld                  | Member of the Supervisory Board             | 2009                             | 2009  | 2012                          |
| Alain Ickovics                  | Member of the Supervisory Board             | 2002                             | 2010  | 2013                          |
| Artur Kucharski                 | Member of the Supervisory Board             | 2010                             | 2010  | 2013                          |
| Alon Shlank                     | Member of the Supervisory Board             | 2006                             | 2009  | Resigned on 20 Jan 2011       |
| Jan Slootweg                    | Member of the Supervisory Board             | 2008                             | 2009  | 2011                          |

### **Description of operations of the Supervisory Board**

The Supervisory Board acts pursuant to the commercial companies code and also pursuant to the Statute of the Company and the Supervisory Board Regulations dated 14.04.2005.

<sup>2</sup> conforms with the independence criteria listed in the Best Practices of WSE listed Companies in Chapter III point 6

Pursuant to the Articles of Association of the Company the Supervisory Board performs constant supervision over activities of the enterprise. Within the scope of supervision performance the Supervisory Board may demand any information and documents regarding the Company's business from the Management Board.

Members of the Supervisory Board shall take necessary steps to receive regular and full information from the Management Board regarding material matters concerning the Company's business and risks involved in the business and the strategies of risk management. The Supervisory Board may - not infringing the competencies of other bodies of the Company - express their opinion on all the issues related to the Company's proceedings, including forwarding motions and proposals to the Board.

Apart from the matters defined in the Commercial Companies Code the following shall be the competencies of the Supervisory Board:

- a) expressing consent for the Company or a its Subsidiary, for execution of agreement or agreements with an Affiliate or with a Company's Management Board or a Company's Supervisory Board member or with a member of management or supervisory authorities of an Affiliate. MB TO CHECK AGAIN. Such consent shall not be required for a transaction with companies in which the Company holds, directly or indirectly, shares entitling it to at least 50% of votes at shareholders' meetings, if such transaction provides for obligations of the other shareholders of such companies proportional to their stake in that company, or if the difference between the financial obligations of the Company and the other shareholders does not exceed EUR 5 million. For the purpose of this statute indirect ownership of shares entitling them to at least 50% of the votes at the shareholders' meeting shall mean possession of such number of shares that entitles them to at least 50% of votes in each of the indirectly held companies in the chain of subsidiaries;
- b) approval of any change of the expert auditor selected by the Company's Management Board to audit the Company's financial statements;
- c) expressing consent for the Company or Subsidiary to: (i) execute transaction comprising the acquisition or sale of investment assets of any kind, the value of which exceed EUR 30million; (ii) issue a guarantee for an amount exceeding EUR 20 million; or (iii) execute any transaction (in the form of a single legal act or a number of legal acts) other than those set forth in the preceding points (i) or (ii), where the value of such transaction exceeds EUR 20 million. For the removal of doubt, consent is required for the Company's Management Board to vote on the Company's behalf at shareholder meeting of a Company Subsidiary authorizing transactions meeting above criteria.

Due to art. 7.4 of the Statute:

- a) an entity is an "Affiliate", if it is: (i) a Dominating Entity with respect to the Company; or (ii) a Subsidiary of the Company; or (iii) other than the Company, Subsidiary of the Dominating Entity of the Company; or (iv) a Subsidiary of other than the Company Subsidiary of the Company's Dominating Entity; or (v) a Subsidiary of any member of managing or supervisory authorities of the Company or any of the entities designated in (i) through (iii);

- b) an entity is a “Subsidiary” of any other entity (“Dominating Entity”) if the Dominating Entity: (i) has the right to exercise the majority of votes in the authorities of the Subsidiary, including on the basis of understandings with other authorised entities; or (ii) is authorised to take decisions regarding financial policies and current commercial operations of the Subsidiary on the basis of any law, statute or agreement; or (iii) is authorised to appoint or dismiss the majority of members of managing authorities of the Subsidiary; or (iv) more than half of the members of the Subsidiary’s management board are also members of the management board or persons performing any management functions at the Dominating Entity or any other Subsidiary.

The Supervisory Board consists of five to 20 members including the Chairman of the Supervisory Board. Each Shareholder, who holds individually more than 5% of shares in the Company’s share capital (the “Initial Threshold”) shall be entitled to appoint one Supervisory Board member. Shareholders shall be further entitled to appoint one additional Supervisory Board member for each tranche of held shares constituting 5% of the Company’s share capital above the Initial threshold. Supervisory Board members shall be appointed by a written notice of entitled shareholders given to the Chairman of the General Shareholders Meeting at the General Shareholders Meeting or outside the General Shareholders Meeting delivered to the Management Board and a written statement of the selected person, that he/she agrees to be appointed to the Supervisory Board.

The number of Supervisory Board members shall be equal to the number of members appointed by the entitled shareholders, increased by one independent member, provided that in each case such number may not be lower than five.

The Supervisory Board may consist of one members meeting the criteria of an independent member of the Supervisory Board as set out in the corporate governance regulations included in the Best Practices of Warsaw Stock Exchange listed Companies.

The Chairman of the Supervisory Board calls a meeting of the Supervisory Board. The Chairman calls a meeting of the Supervisory Board also upon request of a member of the Management Board, or a member of the Supervisory Board. A Meeting of the Supervisory Board shall take place at least within 14 days of the date of filing a written application to the Chairman.

The Supervisory Board may convene meetings both within the territory of the Republic of Poland and abroad. Supervisory Board meetings may be held via telephone, provided that all the participants thereof are able to communicate simultaneously. All resolutions adopted at such meetings shall be valid, provided that the attendance register is signed by the Supervisory Board members who participated in such meeting. The place where the Chairman attends such meeting shall be considered as the place where the meeting was held.

Unless the Statute provides otherwise, resolutions of the Supervisory Board shall be adopted by absolute majority of votes cast in the presence of at least 5 Supervisory Board members. In the event of a tie, the Chairman shall have a casting vote.

Members of the Supervisory Board execute their rights and perform their duties in person. Members of the Supervisory Board participate in General Meetings.

Moreover, within the performance of their duties, the Supervisory Board shall:

- a) once a year prepare and present before the General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system and the management system of risks that are important for the Company,
- b) once a year prepare and present before the Annual General Meeting an evaluation of its own performance,
- c) discuss and issue opinions about matters to be subjects of resolutions of the General Meeting.

#### *Committees of the Supervisory Board*

Supervisory Board the Supervisory Board may appoint committees investigate certain issues remaining in the competence of the Supervisory Board or acting as advisory and opinion bodies to the Supervisory Board.

The Supervisory Board appointed two committees:

1. the Audit Committee, whose principal task is to make administrative reviews, to exercise financial control, to oversee financial reporting as well as internal and external audit procedures at the Company and at the companies in its group;
2. the Committee responsible for Agreements executed between the Company and its subsidiaries

## Management Board's representations

Pursuant to the requirements of the Regulation of the Council of Ministers of 19 February 2009 on ongoing and periodical information reported by issuers of securities and conditions of recognizing as equivalent information required by the law of a country not being a member state the Management Board of Globe Trade Centre S.A. represented by:

Piotr Kroenke, Member of the Management Board,

Erez Boniel, Member of the Management Board,

Yovav Carmi, Member of the Management Board,

Hagai Harel, Member of the Management Board,

Mariusz Kozłowski, Member of the Management Board,

Jacek Wachowicz, Member of the Management Board,

Witold Zatoński, Member of the Management Board

hereby represents that:

- to the best of its knowledge the consolidated financial statements for twelve months ended 31 December 2010 and the comparable data were prepared in accordance with the prevailing accounting principles, and they truly, reliably, and clearly reflect the asset and financial standing of the Group and its financial result, and the annual Management Board's activity report contains a true image of the Group's development and achievements and its standing, including the description of basic risks and threats;

- the entity authorized to audit the financial statements, which has audited the consolidated financial statements, was selected in accordance with the regulations of law. That entity as well as the auditor who has carried out the audit fulfilled the conditions for expressing an unbiased and independent opinion about the audit pursuant to relevant provisions of the national law and industry norms.

Warsaw, 18 March 2011

## INDEPENDENT AUDITORS' OPINION

### To the Shareholders of Globe Trade Centre S.A.

We have audited the attached consolidated financial statements of Globe Trade Centre Group ('the Group'), for which the holding company is Globe Trade Centre S.A. ('the Company'), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements ("the attached consolidated financial statements").

#### *Management's Responsibility for the Financial Statements*

The Company's management is responsible for the preparation and fair presentation of the attached consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 the attached consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the attached 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the attached consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the attached consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

We also reported separately on the consolidated financial statements of Globe Trade Centre S.A. for the same period prepared in accordance with the International Financial Reporting Standards as adopted by the EU using Polish zloty as the presentation currency.

*Ernst & Young Audit Sp. z o.o.*

Ernst & Young Audit sp. z o.o.

Warsaw, 18 March 2011

ERNST & YOUNG

AUDIT sp. z o.o.

Rondo ONZ 1, 00-124 Warszawa

**GLOBE TRADE CENTRE S.A.**

**IFRS CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2010  
WITH THE INDEPENDENT AUDITOR'S REPORT**

**Globe Trade Centre S.A.**  
**Consolidated Statement of Financial Position**  
**as of 31 December 2010**  
**(in thousands of Euro)**

|                                     | <u>Note</u> | <u>31 December</u><br><u>2010</u> | <u>31 December</u><br><u>2009</u> |
|-------------------------------------|-------------|-----------------------------------|-----------------------------------|
| <b>ASSETS</b>                       |             |                                   |                                   |
| <b>Non current assets</b>           |             |                                   |                                   |
| Investment property                 | 17          | 2,117,609                         | 1,971,915                         |
| Residential landbank (*)            | 18          | 52,389                            | 50,079                            |
| Investment in associates            | 19          | 56,346                            | 49,482                            |
| Loans granted and other receivables | 28          | 19,644                            | 53,990                            |
| Property, plant and equipment       | 16          | 2,025                             | 1,119                             |
| Deferred tax asset                  | 15          | 7,661                             | 5,420                             |
| Long-term deposits                  | 22          | 625                               | 1,250                             |
| Goodwill                            | 32          | 2,741                             | -                                 |
| Other non-current assets            |             | 73                                | 87                                |
|                                     |             | <b>2,259,113</b>                  | <b>2,133,342</b>                  |
| <b>Current Assets</b>               |             |                                   |                                   |
| Inventory                           | 18          | 201,807                           | 220,769                           |
| Advances to contractors             |             | 2,116                             | 7,898                             |
| Debtors                             |             | 7,874                             | 8,013                             |
| Accrued income                      |             | 1,038                             | 2,188                             |
| VAT and other tax recoverable       |             | 22,085                            | 32,044                            |
| Income tax recoverable              |             | 1,321                             | 1,163                             |
| Prepayments, deferred expenses      |             | 3,146                             | 2,139                             |
| Short-term deposits                 | 22          | 38,196                            | 29,375                            |
| Cash and cash equivalents           | 23          | 191,732                           | 185,648                           |
|                                     |             | <b>469,315</b>                    | <b>489,237</b>                    |
| <b>TOTAL ASSETS</b>                 |             | <b>2,728,428</b>                  | <b>2,622,579</b>                  |

(\*) restated (see note 35)

**Globe Trade Centre S.A.**  
**Consolidated Statement of Financial Position**  
**as of 31 December 2010**  
**(in thousands of Euro)**

|  | <u>Note</u> | <u>31 December</u><br><u>2010</u> | <u>31 December</u><br><u>2009</u> |
|--|-------------|-----------------------------------|-----------------------------------|
| <b>EQUITY AND LIABILITIES</b>                              |             |                                   |                                   |
| <b>Equity attributable to equity holders of the parent</b> |             |                                   |                                   |
| Share capital  | 26          | 4,741                             | 4,741                             |
| Share premium  |             | 214,280                           | 214,280                           |
| Capital reserve  |             | 18,300                            | 16,296                            |
| Hedge reserve  |             | (40,580)                          | (37,807)                          |
| Foreign currency translation                               |             | 3,550                             | 143                               |
| Accumulated profit   |             | 808,503                           | 766,567                           |
|  |             | <b>1,008,794</b>                  | <b>964,220</b>                    |
| Non-controlling interest                                   |             | 44,064                            | 46,511                            |
| <b>Total Equity</b>  |             | <b>1,052,858</b>                  | <b>1,010,731</b>                  |
| <b>Non current Liabilities</b>                             |             |                                   |                                   |
| Long-term portion of long-term loans and bonds             | 25          | 1,294,879                         | 1,234,037                         |
| Deposits from tenants                                      |             | 5,861                             | 4,826                             |
| Long term payable  | 24          | 546                               | 1,361                             |
| Provision for share based payment                          | 26          | 4,174                             | -                                 |
| Derivatives  | 20          | 54,223                            | 62,491                            |
| Financial liability  | 30          | 200                               | 200                               |
| Provision for deferred tax liability                       | 15          | 127,062                           | 117,339                           |
|  |             | <b>1,486,945</b>                  | <b>1,420,254</b>                  |
| <b>Current liabilities</b>                                 |             |                                   |                                   |
| Trade and other payables                                   | 21          | 56,606                            | 85,596                            |
| Current portion of long-term loans and bonds               | 25          | 83,229                            | 59,651                            |
| Financial liability  | 30          | 200                               | 200                               |
| Current portion of long term payable                       | 24          | -                                 | 5,400                             |
| VAT and other taxes payable                                |             | 19,989                            | 1,371                             |
| Income tax payable   |             | 1,427                             | 4,492                             |
| Derivatives  | 20          | 15,072                            | 14,284                            |
| Advances received  |             | 12,102                            | 20,600                            |
|  |             | <b>188,625</b>                    | <b>191,594</b>                    |
| <b>TOTAL EQUITY AND LIABILITIES</b>                        |             | <b>2,728,428</b>                  | <b>2,622,579</b>                  |

The accompanying notes are an integral part of this Consolidated Statement of Financial Position

**Globe Trade Centre S.A.**  
**Consolidated Income Statement**  
**for the year ended 31 December 2010**  
**(in thousands of Euro)**

|   | <u>Note</u> | <u>Year ended 31</u><br><u>December 2010</u> | <u>Year ended 31</u><br><u>December 2009</u> |
|---|-------------|--|--|
| Revenues from operations  | 7           | 169,008                                      | 156,362                                      |
| Cost of operations  | 8           | (72,314)                                     | (71,172)                                     |
| <b>Gross margin from operations</b>   |             | <b>96,694</b>                                | <b>85,190</b>                                |
| Selling expenses  | 9           | (6,297)                                      | (5,040)                                      |
| Administration expenses   | 10          | (21,681)                                     | (20,050)                                     |
| Profit (loss) from revaluation / impairment of investment properties                      | 14          | 46,668                                       | (161,475)                                    |
| Impairment of residential projects  |             | (3,501)                                      | (10,777)                                     |
| Other income  |             | 604  | 1,913  |
| Other expenses  | 13          | (1,889)                                      | (11,909)                                     |
| <b>Profit (loss) from continuing operations before tax and finance income / (expense)</b> |             | <b>110,598</b>                               | <b>(122,148)</b>                             |
| Foreign exchange differences profit (loss), net   |             | (1,629)                                      | (3,085)                                      |
| Financial income  | 11          | 4,924  | 7,169  |
| Financial expense   | 11          | (72,815)                                     | (44,241)                                     |
| Share of profit (loss) of associates  |             | 4,667  | (2,516)                                      |
| <b>Profit (loss) before tax</b>   |             | <b>45,745</b>                                | <b>(164,821)</b>                             |
| Taxation  | 15          | (17,113)                                     | 25,381                                       |
| <b>Profit (loss) for the year</b>   |             | <b>28,632</b>                                | <b>(139,440)</b>                             |
| <b>Attributable to:</b>   |             |  |  |
| Equity holders of the parent  |             | 41,936                                       | (128,299)                                    |
| Non-controlling interest  |             | (13,304)                                     | (11,141)                                     |
| Basic earnings per share (Euro) attributable to ordinary equity holders of the parent     | 27          | 0.19   | (0.58)                                       |
| Diluted earnings per share (Euro) attributable to ordinary equity holders of the parent   | 27          | 0.19   | (0.58)                                       |

The accompanying notes are an integral part of this Consolidated Income Statement

**Globe Trade Centre S.A.**  
**Consolidated Statement of Comprehensive Income**  
**for the year ended 31 December 2010**  
**(in thousands of Euro)**

|  | <u>Note</u> | <u>Year ended 31</u><br><u>December 2010</u> | <u>Year ended 31</u><br><u>December 2009</u> |
|--|-------------|--|--|
| <b>Profit (loss) for the year</b>                          |             | <b>28,632</b>                                | <b>(139,440)</b>                             |
| Gain/(loss) on hedge transactions                          |             | (3,470)                                      | (6,464)                                      |
| Income tax   |             | 697  | 1,204  |
| Net gain/(loss) on hedge transactions                      |             | (2,773)                                      | (5,260)                                      |
| Exchange differences on translation of foreign operations  |             | 3,372  | (5,325)                                      |
| <b>Total comprehensive income for the year, net of tax</b> |             | <b>29,231</b>                                | <b>(150,025)</b>                             |
| <b>Attributable to:</b>                                    |             |  |  |
| Equity holders of the parent                               |             | 42,570                                       | (137,953)                                    |
| Non-controlling interest                                   |             | (13,339)                                     | (12,072)                                     |

The accompanying notes are an integral part of this Consolidated Statement of Comprehensive Income

**Globe Trade Centre S.A.**  
**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2010**  
**(In thousands of Euro)**

|   | Issued and<br>paid in<br>share<br>capital | Share<br>premium | Capital<br>reserve | Hedge<br>reserve | Foreign<br>currency<br>translation | Accumulated<br>profit | Total            | Non-<br>controlling<br>interest | Total            |
|---|---|------------------|--------------------|------------------|------------------------------------|-----------------------|------------------|---------------------------------|------------------|
| <b>Balance as of 1 January 2009</b>                             | <b>4,741</b>                              | <b>214,280</b>   | <b>13,056</b>      | <b>(32,547)</b>  | <b>4,537</b>                       | <b>894,866</b>        | <b>1,098,933</b> | <b>56,990</b>                   | <b>1,155,923</b> |
| Other comprehensive income                                      |   |                  |                    | (5,260)          | (4,394)                            |                       | (9,654)          | (931)                           | (10,585)         |
| Profit (loss) for the year ended<br>31 December 2009            |   |                  |                    |                  |                                    | (128,299)             | (128,299)        | (11,141)                        | (139,440)        |
| <b>Total comprehensive income<br/>for the year</b>              |   |                  |                    | <b>(5,260)</b>   | <b>(4,394)</b>                     | <b>(128,299)</b>      | <b>(137,953)</b> | <b>(12,072)</b>                 | <b>(150,025)</b> |
| Issuance of shares to non-<br>controlling interest              |   |                  |                    |                  |                                    |                       |                  | 1,593                           | 1,593            |
| Share based payment   |   |                  | 3,240              |                  |                                    |                       | 3,240            |                                 | 3,240            |
| <b>Balance as of 31 December<br/>2009</b>                       | <b>4,741</b>                              | <b>214,280</b>   | <b>16,296</b>      | <b>(37,807)</b>  | <b>143</b>                         | <b>766,567</b>        | <b>964,220</b>   | <b>46,511</b>                   | <b>1,010,731</b> |
| Other comprehensive income                                      |   |                  |                    | (2,773)          | 3,407                              |                       | 634              | (35)                            | 599              |
| Profit (loss) for the year ended<br>31 December 2010            |   |                  |                    |                  |                                    | 41,936                | 41,936           | (13,304)                        | 28,632           |
| <b>Total comprehensive income<br/>for the period</b>            | <b>-</b>                                  | <b>-</b>         | <b>-</b>           | <b>(2,773)</b>   | <b>3,407</b>                       | <b>41,936</b>         | <b>42,570</b>    | <b>(13,339)</b>                 | <b>29,231</b>    |
| Acquisition of shares in<br>subsidiaries<br>(see note 6 and 32) |   |                  |                    |                  |                                    |                       |                  | (5,203)                         | (5,203)          |
| Transactions with non<br>controlling interest                   |   |                  | 253                |                  |                                    |                       | 253              | 16,095                          | 16,348           |
| Share based payment (see note<br>26)                            |   |                  | 1,980              |                  |                                    |                       | 1,980            |                                 | 1,980            |
| Exercised share based payment<br>(see note 26)                  |   |                  | (229)              |                  |                                    |                       | (229)            |                                 | (229)            |
| <b>Balance as of 31 December<br/>2010</b>                       | <b>4,741</b>                              | <b>214,280</b>   | <b>18,300</b>      | <b>(40,580)</b>  | <b>3,550</b>                       | <b>808,503</b>        | <b>1,008,794</b> | <b>44,064</b>                   | <b>1,052,858</b> |

The accompanying notes are an integral part of this Consolidated Statement of Changes in Equity

**Globe Trade Centre S.A.**  
**Consolidated Statement of Cash Flow**  
**for the year ended 31 December 2010**  
**(In thousands of Euro)**

|  | <u><b>Year ended</b></u><br><u><b>31 December</b></u><br><u><b>2010</b></u> | <u><b>Year ended</b></u><br><u><b>31 December</b></u><br><u><b>2009</b></u> |
|--|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                             |   |   |
| Profit (loss) before tax   | 45,745  | (164,821)   |
| <b>Adjustments for:</b>  |   |   |
| Revaluation/Impairment of assets   | (43,167)  | 172,252   |
| Share of (profit) loss of associates                                     | (4,667)   | 2,516   |
| Foreign exchange differences loss, net                                   | 1,057   | 3,085   |
| Finance income   | (4,924)   | (7,169)   |
| Finance expenses   | 72,815  | 44,241  |
| Share based payment  | 6,154   | 3,240   |
| Depreciation and amortization  | 547   | 430   |
| <b>Operating cash before working capital changes</b>                     | <b>73,560</b>   | <b>53,774</b>   |
| Decrease/(increase) in debtors and prepayments and other current assets  | 2,479   | 8,298   |
| Decrease/(Increase) in inventory   | 17,924  | 4,515   |
| Increase/(decrease) in advances received                                 | (5,734)   | (31,369)  |
| Increase/(decrease) in trade and other payables                          | (1,970)   | (7,332)   |
| <b>Cash generated from/ (used in) operations</b>                         | <b>86,259</b>   | <b>27,886</b>   |
| Tax paid in the period   | (8,629)   | (7,689)   |
| <b>Net cash from (used) in operating activities</b>                      | <b>77,630</b>   | <b>20,197</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                             |   |   |
| Purchase of non current assets   | (135,167)   | (267,708)   |
| Sale of shares in subsidiaries, net of cash disposed of (b)              | -   | 5,081   |
| Acquisition of subsidiaries and joint ventures, net of cash acquired (a) | (9,393)   | -   |
| Sale of investment property  | 95,943  | -   |
| Tax on sale of investment property                                       | (5,447)   | -   |
| Interest received  | 2,968   | 7,059   |
| Lease origination expenses   | (806)   | (1,829)   |
| Loans granted  | (978)   | (22,788)  |
| Loans repayments   | 989   | -   |
| <b>Net cash used in investing activities</b>                             | <b>(51,891)</b>   | <b>(280,185)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                              |   |   |
| Proceeds from the issuance of share to non-controlling interest          | 759   | 1,593   |
| Proceeds from long-term borrowings                                       | 188,397   | 418,065   |
| Repayment of long-term borrowings  | (129,737)   | (93,266)  |
| Purchase of shares in subsidiaries (*)                                   | -   | (27,948)  |
| Interest paid  | (67,963)  | (37,693)  |
| Loans origination cost   | (3,841)   | (1,370)   |
| Increase (decrease) in short term deposits (*)                           | (8,273)   | (1,073)   |
| Deposits received from tenants   | -   | 1,179   |
| <b>Net cash from (used in) financing activities</b>                      | <b>(20,658)</b>   | <b>259,487</b>  |
| <b>Effect of foreign currency translation</b>                            | <b>1,003</b>  | <b>(14,613)</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>              | <b>6,084</b>  | <b>(15,114)</b>   |
| <b>Cash and cash equivalents, at the beginning of the year</b>           | <b>185,648</b>  | <b>200,762</b>  |
| <b>Cash and cash equivalents, at the end of the year</b>                 | <b>191,732</b>  | <b>185,648</b>  |

(\*) restated (see note 35)

The accompanying notes are an integral part of this Consolidated Statement of Cash Flow

**Globe Trade Centre S.A.**  
**Consolidated Statement of Cash Flow**  
**for the year ended 31 December 2010**  
**(In thousands of Euro)**

**(a) Purchase of shares in subsidiaries and joint ventures, net of cash acquired**

|   | <u>Year ended</u><br><u>31 December 2010</u> | <u>Year ended</u><br><u>31 December 2009</u> |
|---|--|--|
| Investment property   | (60,275)                                     | -  |
| Working capital (net of cash acquired)                          | (483)  | -  |
| Interest bearing loans and borrowings                           | 30,502                                       | -  |
| Long term receivables   | 28,807                                       | -  |
| Goodwill  | (2,741)                                      | -  |
| Non controlling interests                                       | (5,203)                                      | -  |
| <b>Purchase of shares in subsidiaries, net of cash acquired</b> | <b>(9,393)</b>                               | <b>-</b>                                     |

**(b) Selling of shares in subsidiaries, net of cash disposed of**

|   | <u>Year ended</u><br><u>31 December 2010</u> | <u>Year ended</u><br><u>31 December 2009</u> |
|---|--|--|
| Investment property                           | -  | 8,517  |
| Working capital                               | -  | (196)  |
| <b>Total Carrying Value of Assets sold</b>    | <b>-</b>                                     | <b>8,321</b>                                 |
| Long term receivable                          | -  | (3,240)                                      |
| Cash in subsidiary disposed of                | -  | -  |
| <b>Total received net of cash disposed of</b> | <b>-</b>                                     | <b>5,081</b>                                 |

The accompanying notes are an integral part of this Consolidated Statement of Cash Flow

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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**1. Principal activities**

Globe Trade Centre S.A. (the “Company”, “GTC”) was registered in Warsaw on 19 December 1996. The Company’s registered office is in Warsaw at 5 Wołoska Street. The Company owns through subsidiaries, joint ventures and associates commercial and residential real estate companies in Poland, Hungary, Romania, Serbia, Croatia, Ukraine, Slovakia, Bulgaria, Russia and Czech Republic. The Company is developing, and leasing or selling space to commercial and individual tenants, through its directly and indirectly owned subsidiaries.

GTC is the parent company of the capital group Globe Trade Centre (the “Group” or “GTC Group”).

The Group’s business activities are:

- a) Development and rental of office and retail space and
- b) Development and sale of residential units.

As of 31 December 2010 and 2009 the number of full time equivalent working in the Group companies was 163 and 164 respectively.

There is no seasonality in the business of the Group companies.

GTC is listed on the Warsaw Stock exchange.

The major shareholder of the Company as of 31 December 2010 was GTC Real Estate Holding B.V. (“GTC Real Estate Holding”) with total number of shares held 94,629,180 which constitute 43.1% of total shares. The ultimate parent of the Company is Kardan N.V. of the Netherlands (see note 36).

**2. Functional and reporting currencies**

The currency of Polish economy is the Polish Zloty.

The functional currency of GTC Group is Euro. The functional currency of some of GTC’s subsidiaries is other than Euro.

The financial statements of those companies prepared in their functional currencies are included in the consolidated financial statements by translation into Euro using the closing rate method outlined in IAS 21. Assets and liabilities are translated at the period end exchange rate, while income and expenses are translated at average exchange rates for the period. All resulting exchange differences are classified in equity as “Foreign currency translation” without effecting earnings for the period.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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**3. Basis of preparation**

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”, “IFRSs”), in particular in accordance with IFRSs endorsed by the European Union. At the date of authorisation of these consolidated financial statements, in light of the current process of IFRS endorsement in the European Union and the nature of the Group’s activities, there is no difference between the IFRSs applied by the Group and the IFRSs endorsed by the European Union.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”, “IFRICs”).

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these consolidated financial statements, Globe Trade Centre S.A. Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Group.

These financial statements are prepared based on the same accounting policies as for the consolidated financial statements of the Company for the year ended 31 December 2009, except for the amendments to existing standards and new regulations that are effective for financial years beginning on or after 1 January 2010:

- IFRS 3R *Business Combinations* (revised in January 2008) and amendments to IAS 27 *Consolidated and Separate Financial Statements* (issued in January 2008) – effective for financial years beginning on or after 1 July 2009.

The Group applies the revised standards from 1 January 2010. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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**3. Basis of preparation (continued)**

- Amendments to *IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items* (issued in July 2008) – effective for financial years beginning on or after 1 July 2009.

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The adoption of this amendment did not have an impact on the financial position or performance of the Group.

- Restructured IFRS 1R *First-time Adoption of International Financial Reporting Standards* (restructured in November 2008) – effective for financial years beginning on or after 1 July 2009. The adoption of the restructured standard did not have an impact on the financial position or performance of the Group.
- Amendments to IFRS 2 *Share-based Payments – Group Cash-settled Share-based Payment Transactions* (amended in June 2009) – effective for financial years beginning on or after 1 January 2010. The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have an impact on the financial position or performance of the Group.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* – effective for financial years beginning on or after 1 July 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The adoption of this amendment did not have an impact on the financial position or performance of the Group.
- Improvements to IFRSs (issued in April 2009) – there are separate transitional provisions for each standard some improvements are effective for annual periods beginning on or after 1 July 2009, the rest is effective for annual periods beginning on or after 1 January 2010.

In April 2009 the Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- IFRS 8 *Operating Segment Information*: Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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**3. Basis of preparation (continued)**

- IAS 7 *Statement of Cash Flows*: Explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.
- IAS 36 *Impairment of Assets*: The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 Share-based Payment
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

There have been no changes in accounting policies applied during the year ended 31 December 2010 as compared to the most recent annual consolidated financial statement except for the changes presented above and except for the fact that starting from the year 2010 the Company decided to change the presentation of expenses in relation of management of retail activity from administration expenses to cost of sales. The main reason for such change is that management fee is covered by service charge paid by tenants and there is no difference to other costs and fees already included in cost of sales.

**3. Basis of preparation (continued)**

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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The following standards and interpretations were issued by International Accounting Standards Board or by International Financial Reporting Interpretations Committee, but have not become effective yet:

- Amendments to IAS 32 Financial instruments: presentation: Classification of Rights Issues – effective for financial years beginning on or after 1 February 2010.
- IAS 24 Related Party Disclosures (revised in November 2009) – effective for financial years beginning on or after 1 February 2010.
- IFRS 9 Financial Instruments – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements – effective for financial years beginning on or after 1 January 2011.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – effective for financial years beginning on or after 1 July 2010.
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters – effective for financial years beginning on or after 1 July 2010.
- Improvements to IFRSs (issued in May 2010) – some improvements are effective for annual periods beginning on or after 1 July 2010, the rest is effective for annual periods beginning on or after 1 January 2011.
- Amendment to IFRS 7 Financial Instruments – Disclosures: Transfer of Financial Assets - effective for financial years beginning on or after 1 July 2011 – not endorsed by EU till the date of approval of these financial statements.
- Amendments to IAS 12 Income Tax: Deferred Tax: Recovery of Underlying Assets – effective for financial years beginning on or after 1 January 2012 - not endorsed by EU till the date of approval of these financial statements.
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - effective for financial years beginning on or after 1 July 2011 - not endorsed by EU till the date of approval of these financial statements.

Management Board does not anticipate that the introduction of these standards and interpretations will have a significant impact on the Group's accounting policies.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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**4. Accounting Policies**

(a) Basis of accounting

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value.

(b) Property, Plant and Equipment

Property, plant and equipment consist of vehicles and equipment. Property, plant and equipment are recorded at cost less accumulated depreciation and impairment. Depreciation is provided using the straight-line method over the estimated useful life of the asset. Reassessment of the useful life and indications for impairment is done each quarter.

The following depreciation rates have been applied:

|           | <b>Depreciation rates</b> |
|-----------|---------------------------|
| Equipment | 7 -20 %                   |
| Vehicles  | 20 %                      |

Assets under construction other than investment property are shown at cost. The direct costs paid to subcontractors for the improvement of the property are capitalised into construction in progress. Capitalised costs also include borrowing costs, planning and design costs, construction overheads and other related costs. Assets under construction are not depreciated.

(c) Investment properties

Investment property comprises of a land plot or a building or a part of a building held to earn rental income and/or for capital appreciation and property that is being constructed or developed for future use as investment property (investment property under construction).

(i) Completed Investment properties

Investment properties are stated at fair value according to the fair value model, which reflects market conditions at the reporting date. Gains or losses arising from a change in the fair value of the investment properties are included in the income statement in the year in which they arise.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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**4. Accounting Policies (continued)**

Completed investment properties were externally valued by independent appraiser as of 31 December 2010 based on open market values. Completed properties are either valued on the basis of Discounted Cash Flow or - as deemed appropriate – on basis of the Income Capitalisation or Yield method.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

**(ii) Investment property under construction**

The Company has decided to revalue only IPUC, for which a substantial part of the development risks have been eliminated. Assets, for which this is not the case are presented at the lower of cost or recoverable amount.

The Company has adopted the following criteria to assess whether the substantial risks are eliminated with regard to particular IPUC:

- agreement with general contractor is signed;
- building permit is obtained;
- at least 20% of the rentable area is leased to tenants (based on the signed lease agreements and letter of intents).

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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**4. Accounting Policies (continued)**

The fair values of IPUC were determined, as at their stage at the end of the reporting period (first implementation as of 31 December 2008). Valuations were performed in accordance with RICS and IVSC Valuation Standards using either the residual method approach or DCF, as deemed appropriate by the valuer. Each IPUC is individually assessed.

The future assets' value is estimated based on the expected future income from the project, using yields that are higher than the current yields of similar completed property. The remaining expected costs to completion are deducted from the estimated future assets value.

For projects where the expected future completion risk is above average (as deemed appropriate by the valuer), also a developer profit margin of unexecuted works, was deducted from the value.

**(d) Goodwill**

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is not amortized.

For the purpose of impairment testing goodwill is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment write-down is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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**4. Accounting Policies (continued)**

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(e) Investment in associates

Investment in associates is accounted for under the equity method. The investment is carried in the statement of financial position at cost plus post acquisition changes in the Group share of net assets of the associate.

(f) Investment in jointly controlled entities

The interest in a jointly controlled entity is accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint ventures assets, liabilities, income and expenses with similar items in the consolidated financial statement on a line-by-line basis.

(g) Put option granted to minority

Put option granted to minority is recognised as financial liability.

Financial liability is recognized at its estimated fair value. Any subsequent effects of re-measurement of the financial liability are accounted for through the income account.

(h) Lease origination costs

The costs incurred to originate a lease (mainly brokers fees) for available rental space are added to the carrying value of investment property until the date of revaluation of the related investment property to its fair value.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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**4. Accounting Policies (continued)**

**(i) Inventory and residential landbank**

Inventory relates to residential projects under construction and is stated at the lower of cost and net realisable value. Costs relating to the construction of a project are included in inventory.

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units, which are not refundable, are expensed in full when the contract to sell is secured.

The Group classifies its residential inventory to current or non-current assets, based on their development stage within the business operating cycle. The normal operating cycle in most cases falls within period of 1-5 years. Residential projects, which are active, are classified as current inventory. Development of the residential landbank is planned to be commenced at least one year after the balance sheet date.

**(j) Advances received**

Advances received (related to pre-sales of residential units) are deferred to the extent that they are not reflected as revenue as described below in note 4(m).

**(k) Rental revenue**

Rental revenues result from operating leases and are recognised as income over the lease term.

**(l) Interest and dividend income**

Interest income is recognised on an accrual basis using the effective interest method.

Dividend income is recognised when the shareholders' right to receive payments is established.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
**for the year ended 31 December 2010**  
**(in thousand of Euro)**

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**4. Accounting Policies (continued)**

**(m) Contract revenue and costs recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues comprise amounts received or receivable, net of Value Added Tax and discounts.

Revenue from the sale of houses and apartments is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and when the revenue can be measured reliably. The risks and rewards are considered as transferred to the buyer when the houses or apartments have been substantially constructed, accepted by the customer and significant amount resulting from the sale agreement was paid by the buyer.

The costs related to the real estate development incurred during the construction period are capitalized in inventory. Once revenue is recognised, the costs in respect of sold units are expensed.

**(n) Borrowing costs**

Borrowing costs are accrued and expensed in the period in which they are incurred except to the extent they are directly attributable to construction. In such a case, borrowing costs are capitalised as part of the cost of the asset. Borrowing costs include interest and foreign exchange differences to the extent that they are regarded as an adjustment to interest cost.

Debt issuance expenses are deducted from the amount of debt originally recognised. These costs are amortised through the income statement over the estimated duration of the loan, except to the extent that they are directly attributable to construction. Debt issuance expenses represent an adjustment to effective interest rates.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
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**4. Accounting Policies (continued)**

**(o) Share issuance expenses**

Share issuance costs are deducted from equity (share premium), net of any related income tax benefits.

**(p) Income taxes**

The current provision for corporate income tax for the Group companies is calculated in accordance with tax regulations ruling in particular country of operations and is based on the profit or loss reported under relevant tax regulations.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- i. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- ii. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- i. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured using the tax rates enacted to taxable income in the years in which these temporary differences are expected to be recovered or settled.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which each company of the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
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**4. Accounting Policies (continued)**

At each reporting date, the Group companies re-assess unrecognised deferred tax assets and the carrying amount of deferred tax assets. The companies recognise a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The companies conversely reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

**(q) Foreign exchange differences**

For companies with Euro as functional currency, transactions denominated in a foreign currency (including Polish Zloty) are recorded in Euro at the actual exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are revalued at period-end using period-end exchange rates. Foreign currency translation differences are charged to the income statement.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
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**4. Accounting Policies (continued)**

**(r) Financial instruments**

All financial assets and financial liabilities are recognised on the reporting date. All these financial assets and liabilities are initially measured at fair value plus transaction costs in case of financial assets and financial liabilities not classified as fair value through profit and loss. All purchases of financial assets (whose delivery time is regulated in the market) are accounted at trade date.

The table below presents the measurement categorisation of financial assets and liabilities:

| Category  | Statement of financial position item | Measurement   |
|---|--------------------------------------|---|
| <u>Financial assets/liabilities (excluding derivatives)</u> |                                      |   |
| Held for trading  | Cash and cash equivalent             | Fair value – adjusted to income statements  |
| Loans and receivables                                       | Short-term deposits                  | Amortised cost  |
| Loans and receivables originated by the enterprise          | Debtors                              | Amortised cost  |
| Other financial liabilities                                 | Trade and other payables             | Amortised cost  |
|   | Long term Loans                      | Amortised cost  |
|   | Credit line                          | Amortised cost  |
|   | Deposits from tenants                | Amortised cost  |
|   | Long term payables                   | Amortised cost  |
|   | Financial liability                  | Re-estimated amortised cost. (see note 4 (g))   |
| <u>Derivatives</u>  |                                      |   |
| Held for trading  | Interest Rate Swap                   | Fair value – adjusted to income statements  |
| Hedging (cash flow hedges)                                  | Interest Rate Swaps                  | Fair value – adjusted to other comprehensive income (effective portion) / adjusted to income statements (ineffective portion) |
| Held for trading  | Interest Rate Collars                | Fair value – adjusted to income statements  |

**Globe Trade Centre S.A.**  
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**4. Accounting Policies (continued)**

The Group recognises a financial asset and financial liability in its statement of financial position, when and only when, it becomes a party to the contractual provisions of the instrument. An asset is transferred when, and only when the contractual rights to the cash flows from the financial asset expired, or the entity has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass those cash flows under an arrangement. A financial liability should be removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled, or expired.

**(s) Cash and cash equivalents**

Cash comprises cash on hand and on-call deposits. Cash equivalents are short-term highly liquid investments that readily convert to a known amount of cash and which are subject to insignificant risk of changes in value.

**(t) Trade and other receivables**

Short term trade receivables are carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts allowance is made when collections of the full amount is no longer probable, based on historical collection patterns or alternatively having regard to the age of the receivable balances. Long term trade receivables are presented at amortised cost.

**(u) Impairment of assets**

The carrying value of assets is periodically reviewed by the Management to determine whether impairment may exist. Based upon its most recent analysis management believes that any material impairment of assets that existed at the reporting date, was reflected in these financial statements.

Accounting policy related to Goodwill impairment is described in note 4(d).

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
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**4. Accounting Policies (continued)**

**(w) Purchase of shares of minority**

If the Company increases its share in the net assets of its controlled subsidiaries the difference between the consideration paid/payable and the carrying amount of non-controlling interest is recognised in equity attributable to equity holders of the parent.

**(x) Derivatives**

The Group uses interest rate swaps and collars to hedge its risks associated with interest rate volatility (cash flow hedges).

In relation to the instruments, which meet the conditions of cash flow hedges, the portion of gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion is recognised in net profit or loss. Classification of hedges in the statement of financial position depends on their maturity.

Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

For derivatives that do not qualify for hedge accounting, any gain or losses arising from changes in fair value are recorded directly to net profit and loss of the year.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

**(y) Estimations**

The preparation of financial statements in accordance with International Financial Reporting Standards requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at balance date. The actual results may differ from these estimates.

**Globe Trade Centre S.A.**  
**Notes to the Consolidated Financial Statements**  
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**4. Accounting Policies (continued)**

**(z) Significant accounting judgements**

In the process of applying the Group's accounting policies, management has made the following judgments:

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit.

Investment property represents property held for long-term rental yields. Investment property is carried at fair value which is established annually by an independent registered valuer based on discounted projected cash flows from the investment property using the discounts rates applicable for the local real estate market and updated by Management judgement. The changes in the fair value of investment property are included in the profit or loss for the period in which it arises.

Significant accounting judgements related to investment property under construction are presented in note 4 c) (ii).

The group uses estimates in determining the amortization rates used.

The Group classifies its residential inventory to current or non-current assets, based on their development stage within the business operating cycle. The normal operating cycle most cases falls within period of 1-5 years. Residential projects, which are active, are classified as current inventory. Development of the residential landbank is planned to be commenced at least one year after the balance sheet date.

On the basis of the assessment made, the Group has reclassified part of inventory from current assets to residential landbank in non-current assets.

The group uses judgements in determining the settlement of share based payment in equity.

**Globe Trade Centre S.A.**  
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**4. Accounting policies (continued)**

**(aa) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of GTC S.A and its subsidiaries prepared using consistent accounting policies.

Control is presumed to exist when the Company owns, directly or indirectly through its subsidiaries, more than half of the voting rights of a given entity, unless it can be clearly demonstrated that such ownership does not constitute control. Control is also exercised where the Group has power to govern the financial and operating policies of an entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All inter-company balances and transactions are eliminated upon consolidation.

**(ab) Provisions**

Provisions are recognised when the Company has present obligation, (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

**(ac) Share-based payment transactions**

Amongst others, the Company gives shares or rights to shares to key management personnel in exchanges for services.

The cost of equity-settled transactions with employees is measured by reference to the share value at the date at which they were granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired.

The cost of cash-settled transactions with employees is measured initially at fair value at the grant date. The fair value is expensed over period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up and including the settlement date, with changes in fair value recognised in employee benefits expense.

**(ad) Leases**

Lessor:

Leases where the group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases.

**Globe Trade Centre S.A.**  
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**4. Accounting policies (continued)**

Lessee:

Operating lease payments are recognising as an expense in the income statement on the straight line basis over the lease term.

**5. Investment in Subsidiaries, Associates and Joint Ventures**

The consolidated financial statements include the financial statements of the Company, its subsidiaries and jointly controlled entities listed below together with direct and indirect ownership of these entities as at the end of each period (the table presents the effective stake):

| Name   | Holding Company | Country of incorporation | 31 December 2010 | 31 December 2009 |
|--|-----------------|--------------------------|------------------|------------------|
| GTC Konstancja Sp. z o.o. ("GTC Konstancja")                   | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Korona S.A. ("GTC Korona")                                 | GTC S.A.        | Poland                   | 100%             | 100%             |
| Globis Poznań Sp. z o.o. ("Globis Poznan")                     | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Aeropark Sp. z o.o. ("GTC Aeropark")                       | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Topaz Office Sp. z o.o. ("GTC Topaz Office ")              | GTC S.A.        | Poland                   | 100%             | 100%             |
| Globis Wrocław Sp. z o.o. ("Globis Wrocław")                   | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Galeria Kazimierz Sp. z o.o. ("GTC Galeria Kazimierz") (*) | GTC S.A.        | Poland                   | 50%              | 50%              |
| GTC Nefryt Sp. z o.o. ("GTC Nefryt ")                          | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Satellite Sp. z o.o. ("GTC Satellite")                     | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Sonata Sp. z o.o. ("GTC Sonata ")                          | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC GK Office Sp. z o.o. ("GTC GK Office ")                    | GTC S.A.        | Poland                   | 100%             | 100%             |
| Rodamco CH1 Sp. z o.o. ("Rodamco CH1") (*)                     | GTC S.A.        | Poland                   | 50%              | 50%              |
| GTC Com 1 Sp. z o.o. ("GTC Com 1")                             | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Wrocław Office Sp. z o.o. („GTC Wrocław Office” )          | GTC S.A.        | Poland                   | 100%             | 100%             |
| Byrant Sp. z o.o. ("Byrant")                                   | GTC S.A.        | Poland                   | 100%             | 100%             |
| Diego Sp. z o.o. ("Diego")                                     | GTC S.A.        | Poland                   | 100%             | 100%             |
| Cyril Sp. z o.o. ("Cyril")                                     | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Com 3 Sp. z o.o. ("GTC Com 3")                             | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Com 4 Sp. z o.o. ("GTC Com 4")                             | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Com 5 Sp. z o.o. ("GTC Com 5")                             | GTC S.A.        | Poland                   | 100%             | 100%             |
| CH Wilanow Sp. z o.o. („CH Wilanow") (*)                       | GTC S.A.        | Poland                   | 50%              | -                |
| Alfa Development Inwestycje sp. z o.o                          | GTC S.A.        | Poland                   | 100%             | 100%             |
| Sigma Development Inwestycje sp. z o.o                         | GTC S.A.        | Poland                   | 100%             | 100%             |
| Omega Development Inwestycje Sp. z o.o                         | GTC S.A.        | Poland                   | 100%             | 100%             |
| Delta Development Inwestycje Sp. z o.o.                        | GTC S.A.        | Poland                   | 100%             | 100%             |
| Omikron Development Inwestycje Sp. z o.o.                      | GTC S.A.        | Poland                   | 100%             | 100%             |
| GTC Galeria CTWA Sp. z o.o. ("Galeria CTWA")                   | GTC S.A.        | Poland                   | 100%             | 100%             |

\* Proportionate consolidation.

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**5. Investment in Subsidiaries, Associates and Joint Ventures (continued)**

| Name   | Holding Company | Country of incorporation | 31 December 2010 | 31 December 2009 |
|--|-----------------|--------------------------|------------------|------------------|
| GTC Hungary Real Estate Development Company Ltd. ("GTC Hungary")             | GTC S.A.        | Hungary                  | 100%             | 100%             |
| Budapest Properties B.V.   | GTC Hungary     | Netherland               | -                | 100%             |
| Budapest Investments B.V.  | GTC Hungary     | Netherland               | 100%             | 100%             |
| Budapest Offices B.V.  | GTC Hungary     | Netherland               | 100%             | 100%             |
| Vaci Ut 81-85 Kft.   | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Riverside Apartments Kft. ("Riverside")                                      | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Centre Point I. Kft. ("Centre Point I")                                      | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Centre Point II. Kft. ("Centre Point II")                                    | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Spiral Holding Kft.  | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Spiral I. Kft.   | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Spiral II. Kft.  | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Spiral III. Kft.   | GTC Hungary     | Hungary                  | 100%             | 100%             |
| SASAD Resort Kft.  | GTC Hungary     | Hungary                  | 50.1%            | 50.1%            |
| Albertfalva Kft. ("Gate Way")  | GTC Hungary     | Hungary                  | 100%             | 100%             |
| GTC Metro Kft (formerly "Jazmin Ingatlan Kft.")                              | GTC Hungary     | Hungary                  | 100%             | 100%             |
| SASAD Resort Offices Kft   | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Toborzó Széplak Kft.   | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Mastix Champion Kft.   | GTC Hungary     | Hungary                  | 100%             | 100%             |
| GTC Renaissance Plaza Kft.   | GTC Hungary     | Hungary                  | 100%             | 100%             |
| SASAD II Kft.  | GTC Hungary     | Hungary                  | 50.1%            | 50.1%            |
| Amarantan Ltd.   | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Abritus Kft.   | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Immo Buda Kft.   | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Szemi Ingatlan Ltd.  | GTC Hungary     | Hungary                  | 100%             | 100%             |
| Preston Park Kft.  | GTC Hungary     | Hungary                  | 100%             | 100%             |
| GTC Real Estate Investments Ukraine B.V. ("GTC Ukraine")                     | GTC S.A.        | Netherlands              | 90%              | 90%              |
| Emerging Investments III B.V.  | GTC S.A.        | Netherlands              | 100%             | 100%             |
| GTC Real Estate Management Services Ukraine LLC                              | GTC Ukraine     | Ukraine                  | 90%              | 90%              |
| GTC Real Estate Investments Russia B.V. ("GTC Russia", formerly GTC Moldova) | GTC S.A.        | Netherlands              | 100%             | 100%             |
| Yatelsis Viborgskaya Limited of Nicosia ("YVL") (*)                          | GTC Russia      | Cyprus                   | 50%              | 50%              |
| GTC Development Service Spb  | GTC Russia      | Russia                   | 100%             | 100%             |
| OOO Okkerville (*)   | YVL             | Russia                   | 50%              | 50%              |
| ZAO Krasny Mayak (*)   | YVL             | Russia                   | 50%              | 50%              |
| GTC Real Estate Investments Slovakia B.V. ("GTC Slovakia")                   | GTC S.A.        | Netherlands              | 100%             | 100%             |
| GTC Real Estate Developments Bratislava B.V. ("GTC Bratislava")              | GTC Slovakia    | Netherlands              | 70%              | 70%              |
| GTC Real Estate Management s.r.o.  | GTC Slovakia    | Slovakia                 | 100%             | 100%             |
| GTC Real Estate Park s.r.o.  | GTC Bratislava  | Slovakia                 | 70%              | 70%              |
| SPV Opus S.R.O   | GTC Bratislava  | Slovakia                 | 70%              | 70%              |
| GTC Jarossova S.R.O  | GTC Bratislava  | Slovakia                 | 70%              | 70%              |
| GTC Hill S.R.O   | GTC Slovakia    | Slovakia                 | 70%              | 70%              |
| GTC Vinohradis Villas S.R.O  | GTC Slovakia    | Slovakia                 | 70%              | 70%              |
| GTC Real Estate Vinohrady s.r.o. ("GTC Vinohrady")                           | GTC Bratislava  | Slovakia                 | 70%              | 70%              |
| GTC Real Estate Vinohrady 2 s.r.o. ("GTC Vinohrady 2")                       | GTC Bratislava  | Slovakia                 | 70%              | 70%              |

\* Proportionate consolidation.

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**5. Investment in Subsidiaries, Associates and Joint Ventures (continued)**

| Name  | Holding Company                  | Country of incorporation | 31 December 2010 | 31 December 2009 |
|---|----------------------------------|--------------------------|------------------|------------------|
| GTC Real Estate Investments Croatia B.V. ("GTC Croatia")                            | GTC S.A.                         | Netherlands              | 100%             | 100%             |
| GTC Nekretnine Zagreb d.o.o. ("GTC Zagreb")   | GTC Croatia                      | Croatia                  | 100%             | 100%             |
| Euro Structor d.o.o.  | GTC Croatia                      | Croatia                  | 70%              | 70%              |
| Marlera Golf LD d.o.o   | GTC Croatia                      | Croatia                  | 80%              | 80%              |
| GTC Center Point Ltd.   | GTC Croatia                      | Croatia                  | 100%             | 100%             |
| Nova Istra Idaeus d.o.o.  | Marlera Golf LD d.o.o            | Croatia                  | 80%              | 80%              |
| GTC Nekretnine Istok d.o.o  | GTC Croatia                      | Croatia                  | 80%              | 100%             |
| GTC Nekretnine Jug. d.o.o   | GTC Croatia                      | Croatia                  | 100%             | 100%             |
| GTC Sredisnja tocka d.o.o.  | GTC Croatia                      | Croatia                  | 100%             | 100%             |
| GTC Nekretnine Zapad d.o.o  | GTC Croatia                      | Croatia                  | 100%             | 100%             |
| GTC Real Estate Investments Romania B.V. ("GTC Romania")                            | GTC S.A.                         | Netherlands              | 100%             | 100%             |
| Towers International Property S.R.L   | GTC Romania                      | Romania                  | 100%             | 100%             |
| Galleria Shopping Center S.R.L. (formerly "International Hotel and Tourism S.R.L.") | GTC Romania                      | Romania                  | 100%             | 100%             |
| Bucharest Properties B.V  | GTC Romania                      | Netherlands              | 100%             | -                |
| Green Dream S.R.L   | GTC Romania                      | Romania                  | 100%             | 100%             |
| Titulescu Investments B.V. ("Titulescu")  | GTC Romania                      | Netherlands              | 100%             | 100%             |
| Aurora Business Complex S.R.L   | GTC Romania                      | Romania                  | 71.5%            | 50.1%            |
| Yasmine Residential Complex S.R.L   | GTC Romania                      | Romania                  | 100%             | 100%             |
| Bucharest City Gate B.V. ("BCG")  | GTC Romania                      | Netherlands              | 58.9%            | 58.9%            |
| Bucharest City Gate S.R.L   | BCG                              | Romania                  | 100%             | 100%             |
| Mablethompe Investitii S.R.L.   | GTC Romania                      | Romania                  | 100%             | 100%             |
| National Commercial Centers B.V. (*)  | GTC Romania                      | Netherlands              | 52%              | 50%              |
| Mercury Commercial Center S.R.L. (*)  | GTC Romania                      | Romania                  | 100%             | 75%              |
| Venus Commercial Center S.R.L. (*)  | National Commercial Centers B.V. | Romania                  | 84.9%            | 66.7%            |
| Mars Commercial Center S.R.L. (*)   | National Commercial Centers B.V. | Romania                  | 70%              | 50%              |
| Beaufort Commercial Center S.R.L. (*)   | National Commercial Centers B.V. | Romania                  | 70%              | 50%              |
| Fajos S.R.L. (*)  | National Commercial Centers B.V. | Romania                  | 70%              | 50%              |
| City Gate S.R.L   | Bucharest City Gate B.V.         | Romania                  | 58.9%            | 58.9%            |
| Brightpoint Investments Limited   | GTC Romania                      | Romania                  | 50.1%            | 50.1%            |
| Complexul Residential Colentina S.R.L .   | Brightpoint Investments Limited  | Romania                  | 100%             | 100%             |
| Cefin Galati Real Estate S.R.L (*)  | GTC Romania                      | Romania                  | 85%              | 63.6%            |
| Operetico Enterprises Ltd.  | GTC Romania                      | Cyprus                   | 66.7%            | 66.7%            |
| Deco Intermed S.R.L   | Operetico Enterprises Ltd.       | Romania                  | 100%             | 100%             |
| GML American Regency Pipera S.R.L   | GTC Romania                      | Romania                  | 66.7%            | 66.7%            |

\* See note 6

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**5. Investment in Subsidiaries, Associates and Joint Ventures (continued)**

| Name   | Holding Company              | Country of incorporation | 31 December 2010 | 31 December 2009 |
|--|------------------------------|--------------------------|------------------|------------------|
| GTC Real Estate Investments Bulgaria BV („GTC Bulgaria”) | GTC S.A.                     | Netherlands              | 100%             | 100%             |
| Galeria Stara Zagora AD                                  | GTC Bulgaria                 | Bulgaria                 | 75%              | 75%              |
| Galeria Burgas JSC                                       | GTC Bulgaria                 | Bulgaria                 | 80%              | 100%             |
| Galeria Varna JSC  | Galeria Ikonov GmbH          | Bulgaria                 | 65%              | 65%              |
| GTC Business Park EAD                                    | GTC Bulgaria                 | Bulgaria                 | 100%             | 100%             |
| NRL EAD  | GTC Bulgaria                 | Bulgaria                 | 100%             | 100%             |
| Galeria Ikonov GmbH                                      | GTC Bulgaria                 | Austria                  | 65%              | 65%              |
| GTC Yuzhen Park EAD (“GTC Yuzhen”)                       | GTC Bulgaria                 | Bulgaria                 | 100%             | 100%             |
| GTC Real Estate Investments Serbia B.V. (“GTC Serbia”)   | GTC S.A.                     | Netherlands              | 100%             | 100%             |
| City Properties Serbia B.V.                              | GTC Serbia                   | Netherlands              | 100%             | 100%             |
| GTC International Development d.o.o.                     | GTC Serbia                   | Serbia                   | 100%             | 100%             |
| GTC Business Park d.o.o.                                 | GTC Serbia                   | Serbia                   | 100%             | 100%             |
| GTC Commercial and Residential Ventures d.o.o.           | GTC Serbia                   | Serbia                   | 100%             | 100%             |
| GTC Real Estate Developments d.o.o.                      | GTC Serbia                   | Serbia                   | 95%              | 95%              |
| Demo Invest d.o.o  | GTC Commercial Centres d.o.o | Serbia                   | 100%             | 100%             |
| Atlas Centar d.o.o.                                      | GTC Serbia                   | Serbia                   | 100%             | 100%             |
| GTC Commercial Centers d.o.o.                            | GTC Serbia                   | Serbia                   | 100%             | 100%             |

**Globe Trade Centre S.A.**  
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**5. Investment in Subsidiaries, Associates and Joint Ventures (continued)**

**Investment in Associates**

| Name  | Holding Company     | Country of<br>incorporation | 31 December<br>2010 | 31 December<br>2009 |
|---|---------------------|-----------------------------|---------------------|---------------------|
| Lighthouse Holdings Limited S.A. ("Lighthouse")     | GTC S.A.            | Luxemburg                   | 35%                 | 35%                 |
| Vokovice BCP Holding S.A. ("Vokovice")              | GTC S.A.            | Luxemburg                   | 35%                 | 35%                 |
| Holesovice Residential Holdings S.A. ("Holesovice") | GTC S.A.            | Luxemburg                   | 35%                 | 35%                 |
| CID Holding S.A. ("CID")                            | GTC S.A.            | Luxemburg                   | 35%                 | 35%                 |
| ND Holdings S.A. ("ND")                             | GTC S.A.            | Luxemburg                   | 35%                 | 35%                 |
| Europort Investment (Cyprus) 1 Limited              | GTC Ukraine         | Cyprus                      | 49,9%               | 49,9%               |
| Europort LTD  | Emerging investment | Israel                      | 10%                 | 10%                 |

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**6. Events in the period**

In March 2010, the Company has signed an agreement with its joint venture partner in relation with its holdings in companies, which develop shopping centers in Romania (NCC). The agreement sets the conversion of GTC Romania's over-financing into additional shares in the project companies. As result of the agreement, the Company increased its holding in those entities by 8.4%-19.8% and gained control over them.

As of 31 December 2010, the Company fully consolidated those subsidiaries (proportionate consolidation before the transaction) (see note 29).

In May 2010, European Bank for Reconstruction and Development ("EBRD") became a 20 percent shareholder in Avenue Mall Osijek, Croatia, and will provide jointly with Raiffeisen Zentralbank Österreich AG a financing package (includes an equity investment) of Euro 40 million.

In June 2010, EBRD became 20 percent shareholder in Galleria Burgas, Bulgaria, and will provide shareholder loan in the amount up to Euro 6.8 million. EBRD and Bank Austria will grant bank loan in the amount up to Euro 45.6 million.

In August 2010, the Company purchased 50% shares from Polnord S.A. (Polnord) in a company which owns a land in Wilanow district in Warsaw (CH Wilanow). The Company and Polnord intend to develop on the site a modern shopping centre. The planned project will have an approximate size of 60,000 sq. m of retail area.

In October 2010, the Company finalized the sale of Topaz and Nefryt office buildings in Warsaw for the total price of EUR 78.9 million. The Company repaid the financial liabilities (bank loans and hedges) in relation with the above buildings in the amount of 50 million.

In October 2010, the Company has signed a share purchase and loan novation agreement with its partners G.O.II and BH Romania III LTD in relation to their shareholdings in Aurora (Felicity residential project, Romania). Following the execution of the agreements, the Company acquired shares previously owned by non-controlling interest and its direct holding in Aurora has increased to 71.5%.

In November 2010, the Company has signed an additional agreement with its partner in relation to its holdings in Mercury and Cefin, which develop shopping centers in Romania. The agreement sets the conversion of GTC Romania's over-financing into additional shares in the project companies. Following the execution of the agreement, the Company holds a 100% interest in Mercury (Arad's shopping centre) and 85% interest in Cefin (Cefin's shopping centre).

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**7. Revenue from operations**

Revenue from operations comprises of the following:

|                     | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---------------------|-----------------------------|-----------------------------|
| Rental revenue      | 97,406                      | 75,209                      |
| Service revenue     | 26,714                      | 21,024                      |
| Residential revenue | 44,888                      | 60,129                      |
|                     | <b>169,008</b>              | <b>156,362</b>              |

The Company has entered into various operational lease contracts with tenants related to properties in Poland, Romania, Croatia, Serbia, and Hungary. The aggregate amount of contracted future rental income as of 31 December 2010 amounts to approximately Euro 566 million and (Euro 534 million as of 31 December 2009), of which approximately Euro 108 million and (Euro 94 million) is due within one year, Euro 314 million and (Euro 288 million) is due within one to five years, and Euro 144 million and (Euro 152 million) is due after five years.

The total contingent lease payment (turnover rent) as at 31 December 2010 is approximately EUR 4,204 thousand (as at 31 December 2009-EUR 2,486 thousand).

The majority of revenue from operations is earned predominantly on the basis of amounts denominated in, directly linked to or indexed by reference to the Euro.

**8. Cost of operations**

Costs of operations comprise the following:

|                   | Year ended 31 December<br>2010 | Year ended 31 December<br>2009 |
|-------------------|--------------------------------|--------------------------------|
| Service costs     | 29,708                         | 22,325                         |
| Residential costs | 42,606                         | 48,847                         |
|                   | <b>72,314</b>                  | <b>71,172</b>                  |

Majority of service costs represents external services costs. Service costs relate to investment properties, which generate rental income.

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**9. Selling expenses**

Selling expenses comprise of the following:

|                              | Year ended<br>31 December 2010 | Year ended<br>31 December 2009 |
|------------------------------|--------------------------------|--------------------------------|
| Brokerage and similar fees   | 1,200                          | 949                            |
| Advertising                  | 4,013                          | 3,413                          |
| Payroll and related expenses | 1,084                          | 678                            |
|                              | <b>6,297</b>                   | <b>5,040</b>                   |

**10. Administration expenses**

Administration expenses comprise of the following:

|   | Year ended<br>31 December 2010 | Year ended<br>31 December 2009 |
|---|--------------------------------|--------------------------------|
| Payroll, management fees and other expenses | 10,567                         | 11,977                         |
| Share based payments                        | 6,154                          | 3,240                          |
| Office expenses                             | 839                            | 1,015                          |
| Audit, legal and other advisers             | 3,574                          | 3,388                          |
| Depreciation and amortisation               | 547                            | 430                            |
|   | <b>21,681</b>                  | <b>20,050</b>                  |

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**11. Financial income and financial expense**

Financial income comprise of the following:

|   | Year ended<br>31 December 2010 | Year ended<br>31 December 2009 |
|---|--------------------------------|--------------------------------|
| Interest on loans granted to associates | 2,014                          | 2,077                          |
| Interest on deposits and other          | 2,910                          | 5,092                          |
|   | <b>4,924</b>                   | <b>7,169</b>                   |

Financial expense comprise of the following:

|  | Year ended<br>31 December 2010 | Year ended<br>31 December 2009 |
|--|--------------------------------|--------------------------------|
| Interest and other expenses:   |                                |                                |
| Interest expenses (on financial liabilities that are not at fair value through profit or loss) and other charges | (64,514)                       | (42,068)                       |
| Settlement of financial instruments (derivatives) (*)  | (5,195)                        | -                              |
| Change in fair value of financial instruments (derivatives)  | 40                             | (1,460)                        |
| -Deferred debt expenses  | (3,146)                        | (713)                          |
|  | <b>(72,815)</b>                | <b>(44,241)</b>                |

The average effective interest rate (including hedges) on the Group's loans during the year ended 31 December 2010 was 5% (5.6 % in year 2009).

(\*) In October 2010, the Company finalized the sale of Topaz and Nefryt office buildings in Warsaw. An amount of Euro 5.2 million representing hedge breakage fee related to the sold assets was settled.

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**12. Segmental analysis**

The Company's operating segments are carried out through subsidiaries that develop real estate projects.

The operating segments are aggregated into reportable segments, taking into consideration the nature of the business, operating markets and other factors. Reportable segments are divided into two main segments:

1. Development and rental of office space and shopping malls ("rental activity") and
2. Development and sale of houses and apartment units ("residential activity").

The activities carried out in the above mentioned operating segments are conducted in the following geographical zones, which has common characteristics:

- a. CE3 countries (Poland and Hungary),
- b. Romania and Bulgaria,
- c. Other CEE countries (Serbia, Croatia, Ukraine, Slovakia, and Russia).

Management monitors the operating results of its business units for the purposes of making performance assessment and decision making. Operating segment performance is evaluated based on gross margin from operations.

The resource allocation decisions made by the management are based on analysis of the same segments as for financial reporting purposes.

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**12. Segmental analysis (continued)**

Segment analysis for the year ended 31 December 2010 and 31 December 2009 is presented below:

|  | Poland and Hungary |               | Romania and Bulgaria |               | Other countries |               | Consolidated   |                |
|--|--------------------|---------------|----------------------|---------------|-----------------|---------------|----------------|----------------|
|  | Year 2010          | Year 2009     | Year 2010            | Year 2009     | Year 2010       | Year 2009     | Year 2010      | Year 2009      |
| Rental income  | 86,077             | 66,654        | 11,496               | 1,294         | 26,547          | 28,285        | 124,120        | 96,233         |
| Contract income  | 11,566             | 29,313        | 16,117               | 23,312        | 17,205          | 7,504         | 44,888         | 60,129         |
| <b>Total income</b>  | <b>97,643</b>      | <b>95,967</b> | <b>27,613</b>        | <b>24,606</b> | <b>43,752</b>   | <b>35,789</b> | <b>169,008</b> | <b>156,362</b> |
|  | -                  | -             | -                    | -             | -               | -             | -              | -              |
| Rental costs   | 16,600             | 12,823        | 6,863                | 3,488         | 6,245           | 6,014         | 29,708         | 22,325         |
| Contract costs   | 10,815             | 23,605        | 16,127               | 18,355        | 15,664          | 6,887         | 42,606         | 48,847         |
| <b>Total costs</b>   | <b>27,415</b>      | <b>36,428</b> | <b>22,990</b>        | <b>21,843</b> | <b>21,909</b>   | <b>12,901</b> | <b>72,314</b>  | <b>71,172</b>  |
|  | -                  | -             | -                    | -             | -               | -             | -              | -              |
| Rental result  | 69,477             | 53,831        | 4,633                | (2,194)       | 20,302          | 22,271        | 94,412         | 73,908         |
| Contract result  | 751                | 5,708         | (10)                 | 4,957         | 1,541           | 617           | 2,282          | 11,282         |
| <b>Total result</b>  | <b>70,228</b>      | <b>59,539</b> | <b>4,623</b>         | <b>2,763</b>  | <b>21,843</b>   | <b>22,888</b> | <b>96,694</b>  | <b>85,190</b>  |
| Unallocated corporate expenses   | -                  | -             | -                    | -             | -               | -             | (29,263)       | (35,086)       |
| Revaluation/impairment of investment property and residential                        | 44,701             | (106,927)     | 5,232                | (27,459)      | (6,766)         | (37,866)      | 43,167         | (172,252)      |
| Profit from continuing operations before tax and financial related income/(expenses) | -                  | -             | -                    | -             | -               | -             | 110,598        | (122,148)      |
| Foreign currency translation gain (loss), net  | -                  | -             | -                    | -             | -               | -             | (1,629)        | (3,085)        |
| Financial income   | -                  | -             | -                    | -             | -               | -             | 4,924          | 7,169          |
| Financial expense  | -                  | -             | -                    | -             | -               | -             | (72,815)       | (44,241)       |
| Share of profit/(loss) of associates   | -                  | -             | -                    | -             | -               | -             | 4,667          | (2,516)        |
| Taxation   | -                  | -             | -                    | -             | -               | -             | (17,113)       | 25,381         |
| Profit for the year  | -                  | -             | -                    | -             | -               | -             | 28,632         | (139,440)      |
| Non-controlling interest   | -                  | -             | -                    | -             | -               | -             | (13,304)       | (11,141)       |
| Equity holders of the parent   | -                  | -             | -                    | -             | -               | -             | 41,936         | (128,299)      |

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**12. Segmental analysis (continued)**

Segment analysis as of 31 December 2010 and 31 December 2009 is presented below:

|                                   | Poland and Hungary |                  | Romania and Bulgaria |                | Other countries |                | Consolidated     |                  |
|-----------------------------------|--------------------|------------------|----------------------|----------------|-----------------|----------------|------------------|------------------|
|                                   | 31                 | 31               | 31                   | 31             | 31              | 31             | 31               | 31               |
|                                   | December           | December         | December             | December       | December        | December       | December         | December         |
|                                   | 2010               | 2009             | 2010                 | 2009           | 2010            | 2009           | 2010             | 2009             |
| <b>Segment assets</b>             |                    |                  |                      |                |                 |                |                  |                  |
| Allocated assets rental           | 1,194,889          | 1,183,762        | 532,264              | 444,970        | 457,761         | 432,383        | 2,184,914        | 2,061,115        |
| Allocated assets residential      | 68,259             | 67,416           | 144,388              | 175,787        | 77,168          | 62,957         | 289,815          | 306,160          |
| Unallocated assets                | 227,764            | 233,994          | 10,028               | 10,516         | 15,907          | 10,794         | 253,699          | 255,304          |
| <b>Total assets</b>               | <b>1,490,912</b>   | <b>1,485,172</b> | <b>686,680</b>       | <b>631,273</b> | <b>550,836</b>  | <b>506,134</b> | <b>2,728,428</b> | <b>2,622,579</b> |
| <b>Segment liabilities</b>        |                    |                  |                      |                |                 |                |                  |                  |
| Allocated liabilities rental      | 153,426            | 55,972           | 20,334               | 71,204         | 22,994          | 65,209         | 196,754          | 192,385          |
| Allocated liabilities residential | 35,429             | 106,696          | 7,571                | 30,742         | 10,630          | 10,574         | 53,630           | 148,012          |
| Unallocated liabilities           | 445,037            | 934,166          | 580,444              | 187,552        | 399,705         | 149,733        | 1,425,186        | 1,271,451        |
| <b>Total liabilities</b>          | <b>633,892</b>     | <b>1,096,834</b> | <b>608,349</b>       | <b>289,498</b> | <b>433,329</b>  | <b>225,516</b> | <b>1,675,570</b> | <b>1,611,848</b> |
| Capital expenditures              | 59,075             | 135,091          | 40,614               | 114,243        | 35,478          | 18,374         | 135,167          | 267,708          |
| Depreciation                      | 167                | 159              | 105                  | 95             | 275             | 176            | 547              | 430              |

**13. Other expenses**

|   | Year ended 31 December<br>2010 | Year ended 31 December<br>2009 |
|---|--------------------------------|--------------------------------|
| Purchase of shares in City Gate (see below) | -                              | 9,800                          |
| Other                                       | 1,889                          | 2,109                          |
|   | <b>1,889</b>                   | <b>11,909</b>                  |

In October 2009, BCG, a subsidiary of the Company purchased 15% of the shares of City Gate Bucharest S.R.L and City Gate S.R.L from the third party, for the amount of Euro 9.8 million and the option that was granted previously to the seller, ceased to exist.

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**14. Profit (loss) from revaluation/ impairment of investment properties**

Profit (loss) from revaluation/ impairment of assets comprises the followings:

|   | Year ended 31<br>December 2010 | Year ended 31<br>December 2009 |
|---|--------------------------------|--------------------------------|
| Fair value of investment property   | 44,105                         | (127,975)                      |
| Reversal (Impairment) of investment property, which<br>were presented at cost | 2,563                          | (33,500)                       |
|   | <b>46,668</b>                  | <b>(161,475)</b>               |

**15. Taxation**

The major components of tax expense are as follows:

|                               | Year ended 31<br>December 2010 | Year ended 31<br>December 2009 |
|-------------------------------|--------------------------------|--------------------------------|
| Current tax expense           | 9,306                          | 12,657                         |
| Deferred tax (credit)/expense | 7,807                          | (38,038)                       |
|                               | <b>17,113</b>                  | <b>(25,381)</b>                |

The Group companies pay taxes in the following jurisdictions: Poland, Serbia, Romania, Hungary, Netherlands, Ukraine, Bulgaria, Cyprus, Slovakia and Croatia. The Group does not constitute a tax group under local legislation. Therefore, every company in the Group is a separate taxpayer.

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**15. Taxation (continued)**

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rates is presented below:

|   | Year ended 31 December<br>2010 | Year ended 31 December<br>2009 |
|---|--------------------------------|--------------------------------|
| Accounting profit before tax  | 45,745                         | (164,821)                      |
| Accounting profit at the applicable tax rate in each country of activity              | 11,963                         | (26,505)                       |
| Tax effect of expenses/(income) that are not deductible in determining taxable profit | 2,815                          | 3,967                          |
| Share of profit in associates   | (928)                          | (540)                          |
| Tax effect of foreign currency differences  | 1,051                          | (8,616)                        |
| Other   | 339                            | (295)                          |
| Change of tax rate  | (6,145)                        | -                              |
| Previous years tax  | 1,728                          | (1,716)                        |
| Unrecognised deferred tax asset   | 6,290                          | 8,324                          |
| <b>Tax expense / (income)</b>   | <b>17,113</b>                  | <b>(25,381)</b>                |

The components of the deferred tax balance were calculated at a rate applicable when the Company expects to recover or settle the carrying amount of the asset or liability.

Deferred tax assets comprise the following:

|   | As of 1 January<br>2009 | Credit / (charge) to<br>income statement | As of 31 December<br>2009 | Credit / (charge) to<br>income statement | As of 31 December<br>2010 |
|---|-------------------------|--|---------------------------|--|---------------------------|
| Financial instruments                   | 1,956                   | (1,956)                                  | -                         | (848)                                    | (848)                     |
| Tax loss carry forwards                 | 912                     | 1,459                                    | 2,371                     | 751                                      | 3,122                     |
| Basis differences in non-current assets | -                       | 3,049                                    | 3,049                     | 2,261                                    | 5,310                     |
| Other                                   | 361                     | (361)                                    | -                         | 77                                       | 77                        |
| <b>Total</b>                            | <b>3,229</b>            | <b>2,191</b>                             | <b>5,420</b>              | <b>2,241</b>                             | <b>7,661</b>              |
| Valuation reserve                       | -                       | -  | -                         |  |                           |
| <b>Net deferred tax assets</b>          | <b>3,229</b>            | <b>2,191</b>                             | <b>5,420</b>              | <b>2,241</b>                             | <b>7,661</b>              |

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**15. Taxation (continued)**

Deferred tax liability comprises of the following:

|   | As of 1<br>January<br>2009 | Credit /<br>(charge) to<br>equity | Credit /<br>(charge) to<br>income<br>statement | Foreign<br>exchange<br>differences | As of 31<br>December<br>2009 | Credit /<br>(charge) to<br>equity | Credit /<br>(charge) to<br>income<br>statement | Foreign<br>exchange<br>differences | As of 31<br>December<br>2010 |
|---|----------------------------|-----------------------------------|--|------------------------------------|------------------------------|-----------------------------------|--|------------------------------------|------------------------------|
| Tax loss carry forwards                 | 5,795                      | -                                 | 749  | -                                  | 6,544                        |                                   | 704  |                                    | 7,248                        |
| Other                                   | (1,159)                    |                                   | (977)  |                                    | (2,136)                      |                                   | 1,822  |                                    | (314)                        |
| Financial instruments                   | (6,785)                    | 1,205                             | 7,198  | (535)                              | 1,083                        | 697                               | (3,496)  | (372)                              | (2,088)                      |
| Basis differences in non-current assets | (151,849)                  | -                                 | 28,397   | 573                                | (122,879)                    |                                   | (9,029)  |                                    | (131,908)                    |
| Contract margin recognition             | (431)                      |                                   | 480  |                                    | 49                           |                                   | (49)   |                                    | -                            |
| <b>Net deferred tax liability</b>       | <b>(154,429)</b>           | <b>1,205</b>                      | <b>35,847</b>                                  | <b>38</b>                          | <b>(117,339)</b>             | <b>697</b>                        | <b>(10,048)</b>                                | <b>(372)</b>                       | <b>(127,062)</b>             |

The enacted tax rates in the various counties were as follows:

| Tax rate        | Year ended 31 December 2010 | Year ended 31 December 2009 |
|-----------------|-----------------------------|-----------------------------|
| Poland          | 19%                         | 19%                         |
| Hungary         | 19% (*)                     | 19%                         |
| Ukraine         | 25%                         | 25%                         |
| Bulgaria        | 10%                         | 10%                         |
| Slovakia        | 19%                         | 19%                         |
| Serbia          | 10%                         | 10%                         |
| Croatia         | 20%                         | 20%                         |
| Romania         | 16%                         | 16%                         |
| Cyprus          | 10%                         | 10%                         |
| The Netherlands | 25.5%                       | 25.5%                       |

(\*) Tax rate to be reduced to 10% starting from 2013. Deferred tax as of 31 December 2010, was calculated based on expected tax rate.

Future benefit for deferred tax assets have been reflected in these consolidated financial statements only if it is probable that taxable profits will be available when timing differences that gave rise to such deferred tax asset reverse.

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**15. Taxation (continued)**

Regulations regarding VAT, corporate income tax and social security contributions are subject to frequent changes. These frequent changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies. Tax settlements and other areas of activity (e.g. customs or foreign currency related issues) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in the Group's countries than in countries that have a more established taxation system.

Tax settlements may be subject to inspections by tax authorities. Accordingly the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

The Group companies have tax losses carried forward as of 31 December 2010 and 2009 available in the amount of Euro 132 million and Euro 61 million. These amounts include losses for which deferred tax assets were not recognised. Tax losses can be utilized in various numbers of years, depending on tax jurisdiction.

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**16. Property, Plant and Equipment**

The movement in property, plant and equipment for the periods ended 31 December 2010 and 31 December 2009 was as follows:

|  | <b>Equipment</b> | <b>Vehicles</b> | <b>Total</b> |
|--|------------------|-----------------|--------------|
| <b>Cost</b>                                  |                  |                 |              |
| As of 1 January 2009                         | 1,633            | 1,190           | 2,823        |
| Acquisition of subsidiaries                  |                  |                 |              |
| Additions                                    | 138              | 81              | 219          |
| Disposals                                    |                  | (55)            | (55)         |
| Transfers to investment property             |                  |                 |              |
| Translation differences                      |                  |                 |              |
| <b>As at 31 December 2009</b>                | <b>1,771</b>     | <b>1,216</b>    | <b>2,987</b> |
| <b>Accumulated Depreciation</b>              |                  |                 |              |
| As of 1 January 2009                         | 1,008            | 465             | 1,473        |
| Charge for the period                        | 184              | 246             | 430          |
| Disposals                                    |                  | (35)            | (35)         |
| Translation differences                      |                  |                 |              |
| <b>As at 31 December 2009</b>                | <b>1,192</b>     | <b>676</b>      | <b>1,868</b> |
| <b>Net book value as at 31 December 2009</b> | <b>579</b>       | <b>540</b>      | <b>1,119</b> |
| <b>Cost</b>                                  |                  |                 |              |
| As of 1 January 2010                         | 1,771            | 1,216           | 2,987        |
| Additions                                    | 1,374            | 94              | 1,468        |
| Disposals and other decreases                | (27)             | (35)            | (62)         |
| Foreign exchange differences                 | 13               | (4)             | 9            |
| <b>As at 31 December 2010</b>                | <b>3,131</b>     | <b>1,271</b>    | <b>4,402</b> |
| <b>Accumulated Depreciation</b>              |                  |                 |              |
| As of 1 January 2010                         | 1,192            | 676             | 1,868        |
| Charge for the period                        | 360              | 187             | 547          |
| Disposals                                    | (24)             | (10)            | (34)         |
| Foreign exchange differences                 | (1)              | (3)             | (4)          |
| <b>As at 31 December 2010</b>                | <b>1,527</b>     | <b>850</b>      | <b>2,377</b> |
| <b>Net book value as at 31 December 2010</b> | <b>1,604</b>     | <b>421</b>      | <b>2,025</b> |

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**17. Investment Property**

Investment properties that are owned by the Group are office and commercial space, including property under construction:

Investment property can be split up as follows:

|   | Year ended 31 December<br>2010 | Year ended 31 December<br>2009 |
|---|--------------------------------|--------------------------------|
| Completed investment property                           | 1,617,397                      | 1,457,501                      |
| Investment property under construction<br>at fair value | 201,223                        | 158,290                        |
| Investment property under construction<br>at cost       | 298,989                        | 356,124                        |
| <b>Total</b>  | <b>2,117,609</b>               | <b>1,971,915</b>               |

The movement in investment property for the periods ended 31 December 2010 and 31 December 2009 was as follows:

|   | <b>Year ended 31<br/>December 2010</b> | <b>Year ended 31<br/>December 2009</b> |
|---|--|--|
| Carrying amount at beginning of the year      | 1,971,915                              | 1,827,789                              |
| Additions, including:                         |  |  |
| Capitalised subsequent expenditure            | 114,477                                | 320,434                                |
| Purchase of shares in subsidiaries            | 60,275                                 | -                                      |
| Adjustment to fair value                      | 44,105                                 | (127,975)                              |
| Impairment                                    | 2,563                                  | (33,500)                               |
| Disposals                                     | (78,900)                               | (8,517)                                |
| Translation differences                       | 3,174                                  | (6,316)                                |
| <b>Carrying amount at the end of the year</b> | <b>2,117,609</b>                       | <b>1,971,915</b>                       |

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**17. Investment Property (continued)**

Fair value adjustment consists of the following:

|   | Year ended 31<br>December 2010 | Year ended 31<br>December 2009 |
|---|--------------------------------|--------------------------------|
| Fair value of properties completed in prior years | 38,161                         | (137,951)                      |
| Fair value of newly completed properties          | (4,089)                        | 26,752                         |
| Fair value of property under construction         | 10,033                         | (16,776)                       |
| Impairment adjustment                             | 2,563                          | (33,500)                       |
|   | <b>46,668</b>                  | <b>(161,475)</b>               |

Assumptions used in the valuations as of 31 December 2010 and 31 December 2009, based on weighted averages are presented below:

|  | 31 December 2010 | 31 December 2009 |
|--|------------------|------------------|
| <u>Completed assets</u>                                      |                  |                  |
| Average rental rate per sqm (Eur) (*)                        | 19.7             | 20.2             |
| Yield  | 7.8%             | 7.8%             |
| ERV per sqm (Eur) (*)  | 19.1             | 19.9             |
| Vacancy  | 17%              | 11%              |
| <u>Assets under construction (only assets at fair value)</u> |                  |                  |
| Average yield  | 9%               | 9.3%             |
| Average % complete   | 62%              | 75%              |

(\*) Apart from basic rent, includes income from parking, add-on factors, and other income.

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**17. Investment Property (continued)**

The table below presents the sensitivity of profit (loss) before tax as of 31 December 2010 due to change in underlying assumptions (the values are presented in absolute numbers as a change can either be positive or negative):

|   | 31 December 2010 | 31 December 2009 |
|---|------------------|------------------|
| <b>Completed investment property</b>          |                  |                  |
| Change of 25 bp in yield                      | 52,079           | 47,098           |
| Change of 5% in estimated rental income       | 81,378           | 73,336           |
| <b>Investment property under construction</b> |                  |                  |
| Change of 25 bp in yield                      | 18,479           | 9,436            |
| Change of 5% in estimated rental income       | 10,200           | 5,077            |

The continued instability in the financial markets causes volatility and uncertainty in the world's capital markets and real estate markets. There is a low liquidity level in the real estate market and transaction volumes are significantly reduced, resulting in a lack of clarity as to pricing levels and the market drivers. As a result there is less certainty with regard to valuations and market values can change rapidly due to the current market conditions.

Completed assets were revalued based on Discounted cash flow or - as deemed appropriate – on basis of the Income Capitalisation or Yield method. approach, assets under construction and impaired assets were revalued based on Residual approach.

Certain properties under construction are carried at cost, as pre-letting and / or construction has not yet started. Accordingly, those assets are not yet qualified as assets to be presented at fair value. For those assets, an impairment test was performed. Impairment test conducted on the basis of the Residual value method, whereby an average exit yield of 7%-9.75% was applied and a developers' profit of 20% was assumed. There is no reason to believe that any further impairment has arisen.

Real estate under construction carried at cost includes borrowing costs incurred in connection with the construction of the projects. As of December 31, 2010 borrowing costs capitalized as real estate under construction amounted to €2,483 thousand, (2009: €4,124 thousand). During 2010 interest was capitalized to real estate under construction carried at cost at an average rate of 5%.

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**18. Inventory and Residential landbank**

Inventory as of 31 December 2010 consists of the following:

|   | Total cost     | Of which land  |
|---|----------------|----------------|
| Completed   | 74,550         | 5,480          |
| Under construction  | 70,542         | 16,686         |
| In early design stage or long term and residential landbank (*) | 109,104        | 83,163         |
|   | <b>254,196</b> | <b>105,329</b> |

(\*) An amount of Euro 52,389 thousand is presented within non-current assets

Inventory as of 31 December 2009 consists of the following:

|                                    | Total cost     | Of which land  |
|------------------------------------|----------------|----------------|
| Completed                          | 47,318         | 2,258          |
| Under construction                 | 130,388        | 24,542         |
| In design stage                    | 103,919        | 86,138         |
| Write down to net realisable value | (10,777)       |                |
|                                    | <b>270,848</b> | <b>112,938</b> |

(\*) An amount of Euro 50,079 thousand is presented within non-current assets

|                                    | Year ended 31<br>December 2010 | Year ended 31<br>December 2009 |
|------------------------------------|--------------------------------|--------------------------------|
| Opening balance                    | 270,848                        | 322,012                        |
| Increase                           | 29,455                         | 36,732                         |
| Transfers                          | -                              | (28,272)                       |
| Write down to net realisable value | (3,501)                        | (10,777)                       |
| Recognised as cost                 | (42,606)                       | (48,847)                       |
| <b>Closing balance</b>             | <b>254,196</b>                 | <b>270,848</b>                 |

Borrowing costs capitalized during the years 2010 and 2009 amount to Euro 2,708 thousand and Euro 4,267 thousand respectively.

Management has conducted an impairment test for each of the projects. The estimated sales prices and project costs were discounted at discount rate of 8.5%-9.5%. The time of completion was assumed to be 2-5 years.

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**19. Investment in associates**

The investment in associates comprises the following:

|  | 31 December 2010 | 31 December 2009 |
|--|------------------|------------------|
| Shares                                       | 5,259            | 5,259            |
| Acquisition/establishment of new associate   |                  |                  |
| Acquisition of majority shares in associates |                  |                  |
| Translation differences                      | (90)             | (46)             |
| Equity profit                                | 8,045            | 3,378            |
| Investment in shares                         | 13,214           | 8,591            |
| Loans granted                                | 43,132           | 40,891           |
| <b>Investment in associates</b>              | <b>56,346</b>    | <b>49,482</b>    |

The loans finance investments in those associates. The loans and interest do not have specified maturity date and are denominated in EUR with the interest based on EURIBOR plus margin.

Selected financial information of the associates comprises of the following (Group's share):

|                          | 31 December 2010               | 31 December 2009               |
|--------------------------|--------------------------------|--------------------------------|
| Assets                   | 113,442                        | 95,725                         |
| Liabilities              | 99,096                         | 86,333                         |
|                          | Year ended<br>31 December 2010 | Year ended<br>31 December 2009 |
| Revenues from operations | 20,786                         | 24,847                         |
| Profit for the year      | 4,667                          | (2,516)                        |

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**20. Derivatives**

The Company holds instruments that hedge the risk involved in fluctuations of interest rate and currencies rates.

The movement in derivatives for the periods ended 31 December 2010 and 31 December 2009 was as follows:

|  | <b>31 December 2010</b> | <b>31 December 2009</b> |
|--|-------------------------|-------------------------|
| Fair value as of beginning of the year | (76,775)                | (73,019)                |
| Charged directly to equity             | (3,470)                 | (6,464)                 |
| Charged to income statements           | 10,950                  | 2,708                   |
| Fair value as of end of the year end   | (69,295)                | (76,775)                |

**21. Trade and other payables**

The majority of trade creditors and accruals relates to payables due to construction activity.

**22. Short and long term deposits**

Short-term and long-term deposits can be used only for certain operating activities as determined by underlying contractual commitments.

**23. Cash and cash equivalents**

Cash balance consists of cash in banks. Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Besides, negligible amount, all cash is deposited in banks.

All cash and cash equivalents are available for use by the Group.

**24. Long term payable**

Long term payables consist of the following:

|                        | <b>31 December 2010</b> | <b>31 December 2009</b> |
|------------------------|-------------------------|-------------------------|
| Payable to land owner  |                         | 6,132                   |
| Other                  | 546                     | 629                     |
| Less – current portion | -                       | (5,400)                 |
|                        | <b>546</b>              | <b>1,361</b>            |

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**25. Long-term loans**

Long-term loans comprise the following:

|  | 31 December<br>2010 | 31 December<br>2009 |
|--|---------------------|---------------------|
| Bonds seria 0414   | 181,805             | 175,259             |
| Bonds seria 0412   | 20,201              | 19,473              |
| Bonds seria 0513   | 88,377              | 85,195              |
| Loan from Berlin Bank (Galeria Mokotow)                                    | 100,593             | 102,116             |
| Loan from Pekao (GTC Galeria Kazimierz)                                    | 43,590              | 44,340              |
| Loan from WBK (Globis Poznan)  | 16,940              | 17,447              |
| Loan from WBK 1 (Galileo)  | 6,248               | 6,215               |
| Loan from WBK 2 (Newton)   | 11,152              | 10,639              |
| Loan from WBK 3 (Edison)   | 12,224              | 12,597              |
| Loan from EUROHYPO (GTC Topaz office)                                      | -                   | 13,020              |
| Loan from BPH Bank (Globis Wroclaw)  | 27,914              | 28,450              |
| Loan from ING (Nothus)   | 17,316              | 17,676              |
| Loan from ING (Zefirus)  | 17,316              | 17,676              |
| Loan from ING (Platinum 1)   | 20,196              | 20,622              |
| Loan from ING (Platinum 2)   | 20,196              | 20,622              |
| Loan from Berlin Hyp (Platinum 3)  | 19,800              | 13,499              |
| Loan from Eurohypo (Nefryt)  | -                   | 32,670              |
| Loan from WBK (Kazimierz office)   | 29,309              | 29,646              |
| Loan from Pekao (Galeria Jurajska)   | 110,269             | 95,510              |
| Loan from Berlin Hyp (UBP)   | 28,046              | 12,763              |
| Loan from ING (CBK)  | 25,007              | 11,120              |
| Loan from MKB (Centre Point I)   | 25,901              | 27,251              |
| Loan from MKB (Centre Point II)  | 30,328              | 31,954              |
| Loan from CIB (Metro)  | 20,980              | 8,993               |
| Loan from MKB (Spiral)   | 21,254              | 21,686              |
| Loan from Erste (Reinesance)   | 6,109               | 6,109               |
| Loan from MKB (Sasad Resort)   | 18,708              | 23,754              |
| Loan from EBRD and Raiffeisen Bank (GTC House)                             | 16,879              | 18,655              |
| Loan from EBRD and Raiffeisen Bank (19 Avenue)                             | 15,613              | 16,726              |
| Loan from EBRD and Raiffeisen Bank (Block 41)                              | 22,221              | 23,600              |
| Loan from Raiffeisen Bank (Green Dream)                                    | 3,891               | 3,199               |
| Loan from Unicredit (Felicity)   | 28,523              | 29,442              |
| Loan from RZBR (Rose Garden)   | 23,448              | 26,248              |
| Loan from Alpha, Bank of Cyprus Public Company and Eurobank EFG (Citygate) | 80,000              | -                   |
| Loan from Alpha (Citygate)   | -                   | 37,911              |
| Loan from EBRD and Raiffeisen Bank (NCC)                                   | 39,362              | 22,587              |
| Loan from MKB and Zagrebacka Banka (GTC Croatia)                           | 43,868              | 47,943              |
| Loan from EBRD and Raiffeisenbank Austria (Osijek)                         | 6,247               | -                   |
| Loan from MKB and OTP (Galeria Varna)                                      | 25,006              | 22,354              |
| Loan from EBRD and Unicredit (Stara Zagora)                                | 28,894              | 17,782              |
| Loan from EBRD (Burgas)  | 999                 | -                   |
| Loan from Unicredit (GTC Slovakia)   | 18,809              | 11,828              |
| Loans from minorities in subsidiaries                                      | 116,063             | 119,070             |
| Deferred issuance debt expenses  | (11,494)            | (9,959)             |
|  | <b>1,378,108</b>    | <b>1,293,688</b>    |

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**25. Long-term loans (continued)**

Long-term loans have been separated into the current portion and the long-term portion as disclosed below:

|  | <b>31 December<br/>2010</b> | <b>31 December<br/>2009</b> |
|--|-----------------------------|-----------------------------|
| Long term portion of long term loans:                                      |                             |                             |
| Bonds seria 0414   | 181,805                     | 175,259                     |
| Bonds seria 0412   | 20,201                      | 19,473                      |
| Bonds seria 0513   | 88,377                      | 85,195                      |
| Loan from Berlin Bank (Rodamco CH1)  | 99,231                      | 100,757                     |
| Loan from Pekao (GTC Galeria Kazimierz)                                    | 42,805                      | 43,620                      |
| Loan from WBK (Globis Poznan)  | 16,433                      | 16,940                      |
| Loan from WBK 1 (Galileo)  | 5,911                       | 5,792                       |
| Loan from WBK 2 (Newton)   | 10,695                      | 10,338                      |
| Loan from WBK 3 (Edison)   | 11,840                      | 12,234                      |
| Loan from EUROHYPO (GTC Topaz office)                                      | -                           | 12,420                      |
| Loan from BPH Bank (Globis Wroclaw)  | 27,344                      | 27,914                      |
| Loan from ING (Nothus)   | 16,956                      | 17,316                      |
| Loan from ING (Zefirus)  | 16,956                      | 17,316                      |
| Loan from ING (Platinum 1)   | 19,770                      | 20,196                      |
| Loan from ING (Platinum 2)   | 19,770                      | 20,196                      |
| Loan from Berlin Hyp (Platinum 3)  | 19,400                      | 13,499                      |
| Loan from Eurohypo (Nefryt)  | -                           | 32,340                      |
| Loan from WBK (Kazimierz office)   | 28,923                      | 29,309                      |
| Loan from Pekao (Galeria Jurajska)   | 108,192                     | 93,606                      |
| Loan from Berlin Hyp (UBP)   | 28,046                      | 12,763                      |
| Loan from ING (CBK)  | 25,007                      | 11,120                      |
| Loan from MKB (Centre Point I)   | 24,501                      | 25,901                      |
| Loan from MKB (Centre Point II)  | 28,702                      | 30,328                      |
| Loan from CIB (Metro)  | 20,171                      | 8,831                       |
| Loan from MKB (Spiral)   | 16,993                      | 17,568                      |
| Loan from EBRD and Raiffeisen Bank (GTC House)                             | 15,305                      | 17,179                      |
| Loan from EBRD and Raiffeisen Bank (19 Avenue)                             | 14,450                      | 15,650                      |
| Loan from EBRD and Raiffeisen Bank (Block 41)                              | 20,783                      | 22,254                      |
| Loan from Unicredit (Felicity)   | 28,523                      | 29,442                      |
| Loan from RZBR (Rose Garden)   | 22,000                      | 26,248                      |
| Loan from Alpha, Bank of Cyprus Public Company and Eurobank EFG (Citygate) | 77,750                      | -                           |
| Loan from Alpha (Citygate)   | -                           | 37,911                      |
| Loan from EBRD and Raiffeisen Bank (NCC)                                   | 37,742                      | 21,762                      |
| Loan from MKB and Zagrebacka Banka (GTC Croatia)                           | 38,293                      | 43,528                      |
| Loan from EBRD and Raiffeisenbank Austria (Osijek)                         | 6,247                       | -                           |
| Loan from MKB and OTP (Galeria Varna)                                      | 24,732                      | 22,113                      |
| Loan from EBRD and Unicredit (Stara Zagora)                                | 26,456                      | 17,782                      |
| Loan from Unicredit (GTC Slovakia)   | -                           | 11,828                      |
| Loans from minorities in subsidiaries                                      | 116,063                     | 117,724                     |
| Deferred issuance debt expenses  | (11,494)                    | (9,615)                     |
|  | <b>1,294,879</b>            | <b>1,234,037</b>            |

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**25. Long-term loans (continued)**

|  | 31 December<br>2010 | 31 December<br>2009 |
|--|---------------------|---------------------|
| Current portion of long term loans:  |                     |                     |
| Loan from Berlin Bank (Rodamco CH1)  | 1,362               | 1,359               |
| Loan from Pekao (GTC Galeria Kazimierz)                                    | 785                 | 720                 |
| Loan from WBK (Globis Poznan)  | 507                 | 507                 |
| Loan from WBK 1 (Galileo)  | 457                 | 423                 |
| Loan from WBK 2 (Newton)   | 337                 | 301                 |
| Loan from WBK 3 (Edison)   | 384                 | 363                 |
| Loan from EUROHYPO (GTC Topaz office)                                      | -                   | 600                 |
| Loan from Pekao (Galeria Jurajska)   | 2,077               | 1,904               |
| Loan from BPH Bank (Globis Wroclaw)  | 570                 | 536                 |
| Loan from ING (Nothus)   | 360                 | 360                 |
| Loan from ING (Zefirus)  | 360                 | 360                 |
| Loan from ING (Platinum 1)   | 426                 | 426                 |
| Loan from ING (Platinum 2)   | 426                 | 426                 |
| Loan from Berlin Hyp (Platinum 3)  | 400                 | -                   |
| Loan from WBK (Kazimierz office)   | 386                 | 337                 |
| Loan from Eurohypo (Nefryt)  | -                   | 330                 |
| Loan from MKB (Centre Point I)   | 1,400               | 1,350               |
| Loan from MKB (Centre Point II)  | 1,626               | 1,626               |
| Loan from Erste (Reinesance)   | 6,109               | 6,109               |
| Loan from MKB (Sasad Resort)   | 18,708              | 23,754              |
| Loan from CIB (Metro)  | 809                 | 162                 |
| Loan from MKB (Spiral)   | 4,261               | 4,118               |
| Loan from EBRD and Raiffeisen Bank (GTC House)                             | 1,574               | 1,476               |
| Loan from EBRD and Raiffeisen Bank (19 Avenue)                             | 1,163               | 1,076               |
| Loan from EBRD and Raiffeisen Bank (Block 41)                              | 1,438               | 1,346               |
| Loan from EBRD and Unicredit (Stara Zagora)                                | 2,438               | -                   |
| Loan from MKB and OTP (Galeria Varna)                                      | 274                 | 241                 |
| Loan from EBRD (Burgas)  | 999                 | -                   |
| Loan from MKB and Zagrebacka Banka (GTC Croatia)                           | 5,575               | 4,415               |
| Loan from EBRD and Raiffeisen Bank (NCC)                                   | 1,620               | 825                 |
| Loan from Alpha, Bank of Cyprus Public Company and Eurobank EFG (Citygate) | 2,250               | -                   |
| Loan from RZBR (Rose Garden)   | 1,448               | -                   |
| Loan from Raiffeisen Bank (Green Dream)                                    | 3,891               | 3,199               |
| Loan from Unicredit (GTC Slovakia)   | 18,809              | -                   |
| Loans from minorities in subsidiaries                                      | -                   | 1,346               |
| Deferred issuance debt expenses  | -                   | (344)               |
|  | <b>83,229</b>       | <b>59,651</b>       |

As securities for the bank loans, the banks have mortgage over the assets together with assignment of the associated receivables and insurance rights. The carrying amount of assets pledged as collateral for above liabilities as of 31 December 2010 amounts to approximately Euro 1.8 billion (2009: 1.7 billion). The value of the assets pledged as security is higher than the value of the related loans.

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**26. Capital and Reserves**

As at 31 December 2010, the shares structure was as follows:

| Number of<br>Shares | Share<br>series | Total<br>value<br>In PLN | Total<br>value<br>in Euro |
|---------------------|-----------------|--------------------------|---------------------------|
| 139,286,210         | A               | 13,928,621               | 3,153,995                 |
| 1,152,240           | B               | 115,224                  | 20,253                    |
| 235,440             | B1              | 23,544                   | 4,443                     |
| 8,356,540           | C               | 835,654                  | 139,648                   |
| 9,961,620           | D               | 996,162                  | 187,998                   |
| 39,689,150          | E               | 3,968,915                | 749,022                   |
| 3,571,790           | F               | 357,179                  | 86,949                    |
| 17,120,000          | G               | 1,712,000                | 398,742                   |
| <b>219,372,990</b>  |                 | <b>21,937,299</b>        | <b>4,741,050</b>          |

All shares are entitled to the same rights.

The number of shares in the reported period has not been changed.

The major shareholder of the Company as of 31 December 2010 was GTC Real Estate Holding with total number of shares held of 94,629,180 which constitute 43.1% of total shares (see note 36).

Other shareholders who as of 31 December 2010 held above 5% of the Company shares were as follows:

- ING OFE
- AVIVA OFE BZ WBK

The statutory financial statements of GTC S.A are prepared in accordance with Polish Accounting Standards. Dividends may be distributed based on the net profit reported in the standalone annual financial statements prepared for statutory purposes.

On 17 March 2010, the Company held an ordinary shareholders meeting. The ordinary shareholder meeting decided that the loss for the year 2009 presented in the financial statements of Globe Trade Centre S.A. prepared in accordance with Polish Accounting Standards shall be covered from capital reserve.

Reserves are created based on provisions of the Polish Code of commercial companies.

The statutory financial statements of GTC S.A are prepared in accordance with Polish Accounting Standards. Dividends may be distributed based on the net profit reported in the standalone annual financial statements prepared for statutory purposes.

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**26. Capital and Reserves (continued)**

Phantom shares

Certain key management personnel are entitled to the Company Phantom Shares.

The Phantom Shares grant the entitled persons a right for a settlement from the Company in the amount equal to the difference between the average closing price for the Company's shares on the Warsaw Stock Exchange during the 30-day period prior to the date of delivery to the Company of the exercise notice, and settlement price ("strike") amount per share (adjustable for dividend).

The settlement of the phantom shares (cash or equity) is the decision of the Supervisory Board of the Company.

Movement in number of shares the years ended 31 December 2010 and 2009 was as following:

|                            | Year ended 31<br>December 2010 | Year ended 31<br>December 2009 |
|----------------------------|--------------------------------|--------------------------------|
| Outstanding at 1 January   | 3,700,000                      | 3,700,000                      |
| Exercised during the year  | (198,000)                      | -                              |
| Granted during the year    | 7,500,000                      | -                              |
| Outstanding at 31 December | 11,002,000                     | 3,700,000                      |

The expense recognized during the years is shown below:

|   | Year ended 31<br>December 2010 | Year ended 31<br>December 2009 |
|---|--------------------------------|--------------------------------|
| Expenses arising from equity settled share based payments | 1,980                          | 3,240                          |
| Expenses arising from cash settled share based payments   | 4,174                          | -                              |
|   | <b>6,154</b>                   | <b>3,240</b>                   |

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**26. Capital and Reserves (continued)**

Scheme 1- As at 31 December 2010, phantom shares issued were as follows:

| <u>Grant Date (*)</u> | <u>Lst.Ex.Date</u> | <u>Strike (PLN/share)</u> |         | <u>Total units</u> |
|-----------------------|--------------------|---------------------------|---------|--------------------|
|                       |                    | 18.15                     | 22.50   |                    |
| 17/03/2009            | 31/12/2012         | 1,200,000                 | 700,000 | 1,900,000          |
| 17/03/2009            | 31/12/2014         | 225,000                   | 225,000 | 450,000            |
| 05/01/2009            | 31/12/2015         | 1,152,000                 |         | 1,152,000          |
| Total                 |                    | 2,577,000                 | 925,000 | 3,502,000          |

(\*) Original grant date was 2007; however in 2009 there were changes in the scheme

As of 31 December 2010, an amount of 2,292,000 phantom shares were vested. The remaining phantom shares are blocked.

The Phantom shares are blocked and may be exercised during the years as presented below, provided that the key personnel continues its service in the company through the vesting periods as listed below:

| <u>Year</u> | <u>Strike</u> |
|-------------|---------------|
|             | 18.15         |
| 2011        | 490,000       |
| 2012        | 240,000       |
| 2013        | 240,000       |
| 2014        | 240,000       |
| Grand Total | 1,210,000     |

The Phantom shares (as presented in above mentioned table) have been provided for assuming equity payments will be effected, as the Company assesses that Scheme 1 is more likely to be settled in equity.

In August 2010, the Company signed an agreement with the key management personnel who exercised his phantom shares. According to the agreement, 198,000 shares will be redeemed for cash. The payment was made in January 2011.

The Company's assesses that this case of cash settlement does not qualify the entire plan as cash settled. Based on that the remaining phantom shares (as presented in above table) have been provided for assuming equity payments will be effected.

The Company uses Whaley model to calculate the value of options as of the granting date. In the valuation the Company uses half year volatility. As of the granting date the average fair value of shares options amount to Euro 4.40 per option.

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**26. Capital and Reserves (continued)**

Scheme 2- As at 31 December 2010, phantom shares issued were as follows:

During 2010, the Company issue new phantom shares.

| <u>Grant Date</u> | <u>Lst.Ex.Date</u> | <u>Strike (PLN/share)</u> |           |         | <u>Total units</u> |
|-------------------|--------------------|---------------------------|-----------|---------|--------------------|
|                   |                    | 20.00                     | 22.00     | 22.50   |                    |
| 15/08/2010        | 31/12/2013         |                           |           | 100,000 | 100,000            |
| 29/11/2010        | 30/06/2014         |                           | 621,000   |         | 621,000            |
| 15/11/2010        | 31/12/2014         |                           | 3,192,000 |         | 3,192,000          |
| 29/11/2010        | 31/12/2014         |                           | 1,325,000 |         | 1,325,000          |
| 09/11/2010        | 31/12/2015         | 200,000                   |           |         | 200,000            |
| 29/11/2010        | 31/12/2015         |                           | 2,062,000 |         | 2,062,000          |
| Total             |                    | 200,000                   | 7,200,000 | 100,000 | 7,500,000          |

As of 31 December 2010, an amount of 1,200,000 phantom shares were vested. The remaining phantom shares are blocked.

The Phantom shares are blocked and may be exercised during the years as presented below, provided that the key personnel continues its service in the company through the vesting periods as listed below:

| Year        | Strike  |           |         | Grand Total |
|-------------|---------|-----------|---------|-------------|
|             | 20.00   | 22.00     | 22.50   |             |
| 2011        | 50,000  | 2,168,550 | 30,000  | 2,248,550   |
| 2012        | 50,000  | 2,181,049 | 30,000  | 2,261,049   |
| 2013        | 50,000  | 1,134,961 | 40,000  | 1,224,961   |
| 2014        | 50,000  | 515,440   |         | 565,440     |
| Grand Total | 200,000 | 6,000,000 | 100,000 | 6,300,000   |

The Phantom shares (as presented in above mentioned table) have been provided for assuming cash payments will be effected, as the Company assesses that Scheme 2 is more likely to be settled in cash.

The Company uses Whaley model to calculate the value of options as of the granting date. In the valuation the Company uses half year volatility. As of 31 December 2010 the average fair value of shares options amount to Euro 2.2 per option.

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**27. Earnings per share**

Basic and diluted earnings per share were calculated as follows:

|  | <u>Year ended 31 December</u> |               |
|--|-------------------------------|---------------|
|  | <u>2010</u>                   | <u>2009</u>   |
| Net profit (loss) after tax (EURO) attributable to equity holders            | 41,936,000                    | (128,299,000) |
| Weighted average number of shares for calculating basic earnings per share   | 219,372,990                   | 219,372,990   |
| Basic earnings (loss) per share (EURO)                                       | 0.19                          | (0.58)        |
| Weighted average number of shares for calculating diluted earnings per share | 220,031,748                   | 219,659,777   |
| Diluted earnings (loss) per share (EURO)                                     | 0.19                          | (0.58)        |

|  | <u>Year ended 31 December</u> |             |
|--|-------------------------------|-------------|
|  | <u>2010</u>                   | <u>2009</u> |
| Weighted average number of shares for calculating basic earnings per share   | 219,372,990                   | 219,372,990 |
| Adjustment for phantom shares  | 658,758                       | 286,787     |
| Weighted average number of shares for calculating diluted earnings per share | 220,031,748                   | 219,659,777 |

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**28. Loans granted**

The loans finance investments in Joint Ventures. The loans and interest do not have specified maturity date and are denominated in EUR with the interest based on EURIBOR plus margin.

**29. Proportionate consolidation**

The Company proportionally consolidated assets and liabilities where it has joint control (see note 5).

The Company's interest in the companies comprises the following:

:

|                                  | 31 December 2010 | 31 December 2009 |
|----------------------------------|------------------|------------------|
| Cash                             | 11,298           | 78,367           |
| Non current assets               | 345,869          | 372,781          |
| Current assets (other than cash) | 3,407            | 5,178            |
| Long term liabilities            | (233,703)        | (291,364)        |
| Current liabilities              | (5,707)          | (8,740)          |
| <b>Net assets</b>                | <b>121,164</b>   | <b>156,222</b>   |
| Income                           | 46,839           | 24,118           |
| Expenses                         | (22,207)         | (48,550)         |
| <b>Profit for the year</b>       | <b>24,632</b>    | <b>(24,432)</b>  |

**30. Financial liability**

In January 2009, GTC purchased all shares in its subsidiaries and associates held by AYRAD, As of 31 December 2010 (31 December 2009) the outstanding amount in favour of AYRAD is Euro 400 thousands (Euro 400 thousands).

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**31. Related party transactions**

Service and consultancy fees relate to management services provided by GTC Holdings, and Kardan Real Estate, for the benefit of the Group companies.

Transactions with the related parties are arm's length transactions.

The transactions and balances with related parties are presented below:

|  | Year ended 31 December<br>2010 | Year ended 31<br>December 2009 |
|--|--------------------------------|--------------------------------|
| <b>Transaction</b>                                       |                                |                                |
| Service and consultancy fees from parent/ultimate parent | 308                            | 379                            |
| <b>Balances</b>  |                                |                                |
| Receivable in relation with Supervisory board member     | 11                             | -                              |
| Loans granted to management board members                | 25                             | 50                             |
| Creditors  | (970)                          | (880)                          |
| Financial liability                                      | (400)                          | (400)                          |

Management and Supervisory Board remuneration for the year ended 31 December 2010, amounted to Euro 2,500 thousand, and 490,000 phantom shares were vested. Management and Supervisory Board remuneration for the year ended 31 December 2009, amounted to Euro 3,679 thousand, 500,000 phantom shares were vested.

In January 2009, a management board member signed a preliminary agreement in the amount of Euro 485 thousand for the purchase of residential unit in one of the Company's projects.

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**32. Business combinations**

In March 2010, the Company signed an agreement with its joint venture partner in relation with its holdings in companies, which develop shopping centers in Romania. The agreement regulates conversion of GTC Romania's over-financing into additional shares in the project companies. As result of the agreement, the Company increased its holding in those subsidiaries by 8.6%-19.8% and gained control over those subsidiaries.

Following the execution of the above mentioned agreement, the company records its investment in National Commercial Centers (NCC) B.V., Mars Commercial Center S.R.L., Beaufort Commercial Center S.R.L., Fajos S.R.L., Mercury Commercial Center S.R.L., Venus Commercial Center S.R.L and Cefin Galati Real Estate S.R.L at the consolidation method instead of the proportional consolidation method used in previous periods.

As result of the transaction, the Company recognized Euro 2.7 million of goodwill, decreased the non-controlling shareholder's interest by Euro 5.2 million, and took over liabilities to non-controlling party in the amount of Euro 0.2 million. Management believes that the goodwill is supported by a mix of operational synergies, future projects' potential and gaining control.

All assets in these companies were valued at fair value or cost-approximated fair value (IPUC at cost). The project loans bear variable interest rates, which were in line with the current market rates. Therefore, the carrying value of the net assets which were obtained approximated fair value. Consequently, there was neither a fair value adjustment to the interest acquired nor to the interest which GTC Romania, directly or indirectly, already owned.

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**32. Business combinations (continued)**

The carrying value of the net assets, which were obtained, approximates its fair value.

The fair values of the identifiable assets and liabilities of NCC and its subsidiaries as at the acquisition date was:

|   | <b>Fair value<br/>recognized on<br/>acquisition</b> |
|---|---|
| Property and equipment  | 45  |
| Investments properties  | 126,311   |
| Cash and cash equivalents   | 1,319   |
| Trade and Other receivables                                       | 4,406   |
| Interest bearing loans and borrowing                              | (145,514)   |
| Trade and Other payables  | (3,524)   |
| <b>Net assets (100%)</b>  | <b>(16,957)</b>                                     |
| Equity interest at fair value immediately before acquisition date | 9,079   |
| Non controlling interest proportional share of net assets         | 5,309   |
| Net transfer of loans waived to non controlling interest          | (172)   |
| <b>Goodwill arising on acquisition</b>                            | <b>2,741</b>  |

**Cash flow on acquisition:**

|   |            |
|---|------------|
| Net cash acquired with the subsidiaries | 507        |
| Cash paid                               | -          |
| <b>Net cash inflow</b>                  | <b>507</b> |

From the date of acquisition as result from first time full consolidated instead of proportional consolidation, NCC and its subsidiaries has contributed Euro 5.8 million loss for the period (before allocation to minority) and Euro 0.9 million revenues to rental revenues.

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**33. Commitments, contingent liabilities and Guarantees**

As of 31 December 2010 and 31 December 2009, the Group had commitments contracted for in relation to future building construction, amounting to Euro 126 million and Euro 185 million. These commitments are expected to be financed from available cash and current financing facilities, other external financing or future instalments under already contracted sale agreements and yet to be contracted sale agreements.

GTC gave guarantees to third parties in order to secure construction cost-overrun and loans of its subsidiaries. As of 31 December 2010 and 31 December 2009, the guarantees granted amounted to Euro 183 million and Euro 216 million.

In 2006 two of the Serbian subsidiaries ("the subsidiaries") have engaged a general contractor for constructing two of its projects, Avenue 19 and GTC Square, both located in Belgrade. Following issuance of take over certificate and completion of works for the two projects, the general contractor filed a claim for additional costs and which the subsidiaries rejected and counterclaimed damages for delay and general damages from the contractor.

Further on, the general contractor initiated arbitration proceedings before the commercial court against the subsidiaries claiming additional payment of € 15.8 millions for both projects. The above subsidiaries refused this payment and filed a counterclaim of € 18.6 millions in respect of amounts overpaid, contractual penalties and additional damages for delay of the construction. The independent supervisory engineer that has been appointed in accordance with the original agreement between the parties supports the position taken by the subsidiaries. As the independent supervisory engineer is supporting the subsidiaries claim and based on the assumption that the supervisory engineer is best placed to assess the positions of the parties, we and our legal advisers believe that the subsidiaries are more likely to prevail in arbitration proceedings.

City Gate SRL and City Gate Bucharest SRL filed a VAT reimbursement claim. The VAT authorities in Romania rejected an amount of €8.2 million. Based on the fiscal code, both companies filed an appeal against the VAT authorities' decision claiming to full reimbursement of the VAT receivables. In December 2010, the VAT authorities sent a related letter to both companies stating that they canceled the initial decision and will re-audit the related invoices during 2011. The subsidiaries believes, based on their legal and tax advisers that the entire amount will be recovered, and accordingly the receivables is recorded in its entirety.

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**34. Financial instruments and risk management**

The Group's principal financial instruments comprise bank and shareholders' loans, hedging instruments, trade payables and other long-term financial liabilities. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, loans granted, derivatives and cash and short-term deposits.

The main risks arising from the Group's financial instruments are cash flow interest risk, liquidity risk, foreign currency risk and credit risk.

**Interest rate risk**

The Group exposure to changes in interest rates which are not offset by hedge relates primarily to the Group's long-term debt obligations and loans granted.

The Group's policy is to obtain finance bearing variable interest rate. To manage the interest rate risk in a cost-efficient manner, the Group enters into interest rate swaps or collar transactions.

The majority of the Company's loans are nominated or swapped into Euro.

The table below presents the sensitivity of profit (loss) before tax due to change in Euribor:

|                               | <b>31 December 2010</b> | <b>31 December 2009</b> |
|-------------------------------|-------------------------|-------------------------|
| 50bp increase in Euribor rate | (2,665)                 | (2,859)                 |
| 50bp decrease in Euribor rate | 2,665                   | 2,859                   |

**Foreign currency risk**

The group enters into transactions in currencies other than the Group's functional currency. Therefore it hedges the currency risk by either matching the currency of the income with that of the expenditures or obtaining an appropriate currency hedge instruments.

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**34. Financial instruments and risk management (continued)**

The table below presents the sensitivity of profit (loss) before tax due to change in foreign exchange:

|                             | <u>2010</u>     |            |            |             | <u>2009</u>     |            |            |             |
|-----------------------------|-----------------|------------|------------|-------------|-----------------|------------|------------|-------------|
|                             | <u>PLN/Euro</u> |            |            |             | <u>PLN/Euro</u> |            |            |             |
|                             | <u>+10%</u>     | <u>+5%</u> | <u>-5%</u> | <u>-10%</u> | <u>+10%</u>     | <u>+5%</u> | <u>-5%</u> | <u>-10%</u> |
| Cash and cash equivalents   | 7,494           | 3,747      | (3,747)    | (7,494)     | 4,057           | 2,028      | (2,028)    | (4,057)     |
| Trade and other receivables | 450             | 225        | (225)      | (450)       | 1,014           | 507        | (507)      | (1,014)     |
| Trade and other payables    | (3,446)         | (1,723)    | 1,723      | 3,446       | (2,846)         | (1,423)    | 1,423      | 2,846       |
| Hedge                       | 29,038          | 14,519     | (14,519)   | (29,038)    | 27,992          | 13,996     | (13,996)   | (27,992)    |
| Bonds                       | (29,038)        | (14,519)   | 14,519     | 29,038      | (27,992)        | (13,996)   | 13,996     | 27,992      |

Exposure to other currencies and other positions in statement of financial position are not material.

**Credit risk**

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation. To manage this risk the Group periodically assesses the financial viability of its customers. The Group does not expect any counter parties to fail in meeting their obligations. The Group has no significant concentration of credit risk with any single counterparty or Group counterparties.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that those will not meet their payment obligations.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and blocked deposits the Company's exposure to credit risk equals to the carrying amount of these instruments.

The maximum exposure to credit risk as of the reporting date, without taking into account collateral is the full amount presented. The Company cooperates with reputable banks.

There are no material financial assets as of the reporting dates, which are overdue and not impaired. There are no significant financial assets impaired.

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**34. Financial instruments and risk management (continued)**

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding its investments and timely servicing its debt and maintaining sufficient working capital resources.

Repayments of long-term debt are scheduled as follows:

|                        | <b>%</b> | <b>31 December<br/>2010</b> | <b>%</b> | <b>31 December 2009</b> |
|------------------------|----------|-----------------------------|----------|-------------------------|
| First year             | 6.0%     | 83,229                      | 4.6%     | 59,995                  |
| Second year            | 7.2%     | 100,108                     | 4.7%     | 61,399                  |
| Third year             | 8.6%     | 118,981                     | 7.4%     | 96,326                  |
| Fourth year            | 21.4%    | 297,769                     | 8.7%     | 113,548                 |
| Fifth year             | 2.1%     | 29,746                      | 18.5%    | 240,685                 |
| Thereafter             | 46.3%    | 643,706                     | 47.1%    | 613,970                 |
| Not yet determined     | 8.4%     | 116,063                     | 9.0%     | 117,724                 |
|                        |          | 1,389,602                   |          | 1,303,647               |
| Debt issuance expenses |          | (11,494)                    |          | (9,959)                 |
|                        |          | <b>1,378,108</b>            |          | <b>1,293,688</b>        |

The above table does not contain payments relating to derivative instruments and interests payments. Interests on the interest bearing bank loans are payable on monthly or quarterly basis and are calculated using fixed and floating interest rates calculated on the balance of outstanding liability. The Group hedges significant parts of the interest risk related to floating interests rate with derivative instruments. All current liabilities are expected to be settled within a year.

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**34. Financial instruments and risk management (continued)**

**Fair Value**

As of 31 December 2010 and 2009, all loans bear floating interest rate (however, the majority are short term hedged).

Therefore, the fair value of the loans which is related to the floating component of the interest equals to the market rate.

As it is impractical to measure the fair value of the loans, component which is related to the fixed interest margin, the Company presents above the sensitivity of profit (loss) before tax as of 31 December 2010 and 2009 due to change in the interest margin.

Fair value of all other financial assets/liabilities equals to amortised costs.

Fair value of other financial assets and liabilities approximates their book value presented in these financial statements.

**Fair value hierarchy**

As at 31 December 2010, the Group held several hedges instruments carried at fair value on the statement of financial position.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Valuations of hedges are considered as level 2 fair value measurements. During the year ended 31 December 2010 and 31 December 2009, there were no transfers between Level 1 and Level 3 fair value measurements.

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**34. Financial instruments and risk management (continued)**

**Market risk**

The Group operates in the real estate development industry in several countries in CEE. The group is exposed to fluctuations of in the real estate markets in which it operates. These can have an effect on the Company's results.

**Capital management**

The primary objective of the Group's capital management is to ensure capital preservation and maintaining healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group decides on leverage policy, repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The Group monitors capital using a gearing ratio, which is Long Term Debt divided by Total Assets. The Group's policy is to keep the gearing ratio between 40% and 60%.

|                         | <b>31 December<br/>2010</b> | <b>31 December<br/>2009</b> |
|-------------------------|-----------------------------|-----------------------------|
| Non current liabilities | 1,486,945                   | 1,420,254                   |
| Total assets            | 2,728,428                   | 2,622,579                   |
| Gearing ratio           | 54.5%                       | 54.2%                       |

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**35. Restatement**

After the change of IAS7 “Statement of Cash Flows” effective from 1 January 2010 cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activity.

Under the new presentation, Purchase of shares in subsidiaries (in the period ended 31 December 2009: Euro 27.9 million), that represented cash flows relating to acquisition of non-controlling interest, which were previously presented within investing activities are currently presented in financing activity.

The Company reclassified cash flow resulted from change in deposits, which was presented in the period ended 31 December 2009 in operating activity (3.2 million) and investing activity (8.4 million) to financing activity.

The Group classifies its residential inventory to current or non-current assets, based on their development stage within the business operating cycle (see note 4i). In previous years all residential projects were presented within current assets.

**36. Subsequent events**

On 25 January 2011, GTC Real Estate Holding sold 35,100,000 shares in the Company representing 16.00% of the Company’s share capital.

Prior to the transaction, GTC Holding held 94,629,180 shares in the Company which represented 43.14% of the Company’s share capital.

Following transaction, GTC Holding holds 59,529,180 shares in the Company representing 27.14% of the Company’s share capital.

In February 2011 the Company acquired 100% of the shares of a company that owns and co-owns approximately 4 hectare of land located in Warsaw. The asset is held as a long term strategic landbank investment and possible development of the site is dependent on factors outside of GTC’s control. Purchased land is a part of an area covered by the draft master plan processed by the City of Warsaw that will allow, once approved, for a shopping mall development. The Company is currently unable to estimate when the site will be developed and what will be its final form.

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**37. Approval of the financial statements**

The financial statements were authorised for issue by the Management Board on 18 March 2011.