Annual Report 2007

“We generate value –

60% Net Asset Value growth

per share in 2007 proof our claim.”

Rainer Bormann, CEO ORCO Germany

ORCO GERMANY

Key figures

		2007	2006	Change in %
Revenues	€ thousand	**79,908**	73,762	8.3
Operating result	€ thousand	**87,079**	27,011	222.4
Net profit	€ thousand	**57,028**	21,945	159.9
Adjusted EBITDA	€ thousand	**13,997**	1,149	1,118.2
Portfolio value	€ thousand	**917,000**	265,000	246.0
Total assets	€ thousand	**1,120,381**	346,752	223.1
NAV per share	€/share	**7.52**	4.70	60.0
Employees at year end	Number	**209**	76	175.0

Business segments

INVESTMENT

The core business segment Investment comprises investments in commercial properties, as well as in residential properties, in particular through acquisition and rental of properties and property portfolios. As part of its core business segment Investment, ORCO Germany is interested in long-term ownership of the properties.

PROJECT DEVELOPMENT

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

ASSET AND FUND MANAGEMENT

The third business segment of ORCO Germany, the low risk and high growth fund management segment, provides support to investors with the financing of investments and professional advice for investment planning (e.g. Endurance Health Care). In addition to significant inflows of capital in the area pensions, funds are characterised by asset diversification, synergy potential and efficiency. Moreover, they provide a low-cost vehicle for rapid investment.

Strength through speed

ORCO Germany is a subsidiary of ORCO Property Group, which is one of Central Europe's leading real estate companies with a property portfolio of € 2.4 billion. Our streamlined structures and short decision chains allow market agility – and ever increasing market strength. Our success is based on the acquisition and development of premier properties in Germany's largest cities. Only those locations featuring outstanding aesthetic appeal and profitability come into question for our portfolio. Our aim is to continue our extraordinary growth into the future! The top priorities for our company are long-term value creation and increasing earnings strength!

Content

Jean-François Ott
CEO & Chairman ORCO Property Group

"ORCO is a multicultural real estate developer, investor and asset manager committed to generating profits by shaping sustainable urban communities, connected by ORCO infrastructure, and funded by ORCO or Endurance Fund financial capabilities."

Rainer Bormann
CEO ORCO Germany S.A.

"Berlin is Germany's most exciting metropolis. The city is home to creative minds, has a terrific flair and features numerous cultural and sub-cultural highlights. Berlin holds a wealth of economic development potential for the industries of the future. It's academic and scientific infrastructure is among the best in Europe and its geostrategic location is ideal – in the heart of the continent."

Dear Ladies and Gentlemen,

We look back on an eventful and very successful year in 2007. The ORCO Germany corporate strategy underwent significant changes. The takeover of GSG and change of segments within Deutsche Börse to the Prime Standard in Frankfurt were reflections of our success in the year under review, and a sign to our shareholders of what is yet to come.

As it did over the past three years, ORCO Germany generated a positive result. Group sales increased from € 73.8 million to € 79.9 million (+ 8.3%). Net profit for the Group actually rose from € 21.9 million to € 57.0 million, an improvement of 159.9%. Total assets increased threefold from € 346.8 million to € 1,120.4 million, with equity of € 271.5 million (2006: € 133.9 million).

Already in 2006, the product development segment was strengthened through the acquisition of Viterra Development GmbH, and expansion continued in 2007. Developments were successfully completed and sold, such as Pier 1 in Duisburg – an ultra-modern office complex with area of nearly 10,000 m². New projects such as the former Wertheim area at Leipziger Platz in Berlin were initiated and are currently in various stages of development. At the end of 2007, Viterra Development GmbH was renamed ORCO Projektentwicklung GmbH. The new name serves to successfully position the ORCO Germany brand in the German real estate market and to build a foundation for further growth. The renaming marks the final step in the successful integration process, and is a sign of the trust in the team since the takeover. The present success of ORCO Germany is largely attributable to project development. For this reason, the area of project development will continue to have a high priority in the business activities of the company.

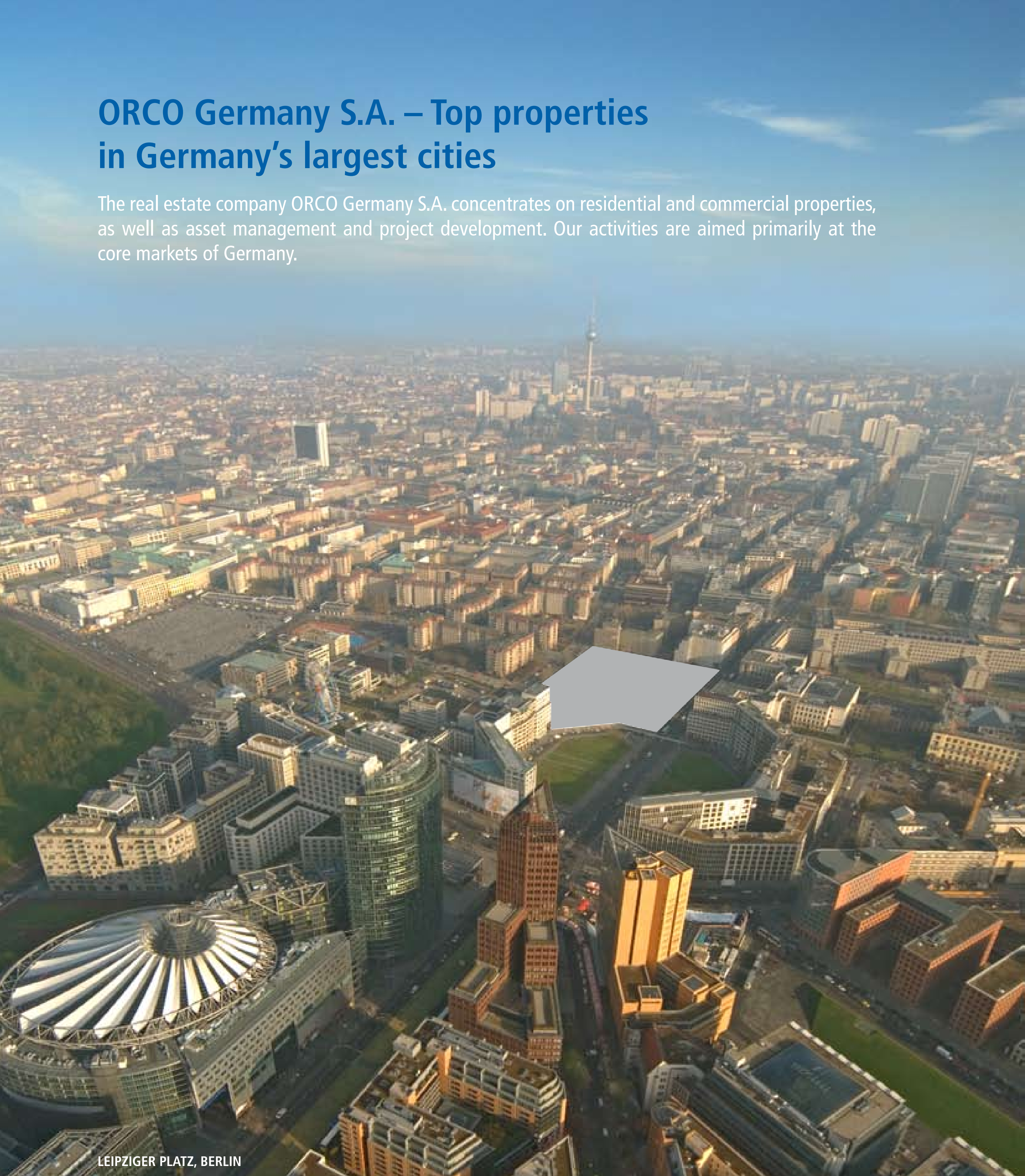
Also of groundbreaking importance for ORCO was the takeover of Gewerbesiedlungs-Gesellschaft mbH (GSG) in June of 2007. The company GSG was founded in 1965 by the State of Berlin, the Berlin Chamber of Trades and the Chamber of Commerce, with the aim of providing consistently priced commercial space to small and medium-sized companies in the city of Berlin. But, it is long since grown to be more than just a property management company – the new ORCO-GSG is a modern service and networking provider for the Berlin economy. The ORCO-GSG parks are home to roughly 1,200 companies, employing more than 12,000 workers. At the time of the takeover, GSG operated 44 business parks with a total area of approximately 823,000 m². The total area was expanded in 2007 through existing properties and further additions to the portfolio. With its current portfolio of just under 1 million m² of rentable space in Berlin, ORCO is currently the market leader in commercial property rental. The development potential of the acquired portfolio will ensure an increase in value over the coming years, and growth of ORCO's net asset value. For the future as well, the motto of ORCO-GSG remains: "Diverse in the sum. Individual in detail!"

We believe in the growth and success of our three business segments. Despite the real estate crisis and relatively slow economic growth in Germany, the market exhibits sufficient potential for rent increases, especially in the area of commercial properties. We have recognised this, and are focussing on prime locations, investing in properties with the promise of value growth. We have a motivated and highly effective staff, who are the driving force that will propel us to our goal of building a very profitable real estate company offering mid to long-term investors attractive opportunities going forward.

Rainer Bormann | CEO ORCO Germany

ORCO Germany S.A. – Top properties in Germany's largest cities

The real estate company ORCO Germany S.A. concentrates on residential and commercial properties, as well as asset management and project development. Our activities are aimed primarily at the core markets of Germany.



LEIPZIGER PLATZ, BERLIN

The Leipziger Platz property lies in the heart of Berlin. On more than 2 ha of land, a mix of living, shopping and entertainment spaces, as well as offices, are to be developed.

WWW.ORCOGERMANY.DE/BERLIN-LEIPZIGER-PLATZ.HTML

GSG HÖFE, BERLIN

In 2007, ORCO Germany bought the Berlin-based Gewerbesiedlungs-Gesellschaft mbH. With 45 business parks and currently roughly 850,000 m² in Berlin, ORCO Germany is the leading provider of commercial space in the city.

WWW.ORCO-GSG.DE

GSG HÖFE, BERLIN

Whether a modern new building or a renovated traditional property: every GSG property offers a variety of spaces that can be tailored to individual needs. The focus is on downtown locations with excellent access to the Berlin transport infrastructure.

WWW.ORCO-GSG.DE

HAUS CUMBERLAND, BERLIN

Built in 1911, Haus Cumberland is located on Berlin's Kurfürstendamm – the city's traditional shopping street and promenade. In 2008, ORCO Germany will begin renovation of the prestigious address, which will be home to premium retail establishments, restaurants and a hotel.

WWW.ORCOGERMANY.DE/BERLIN-HAUS-CUMBERLAND.HTML

H2 OFFICE, DUISBURG

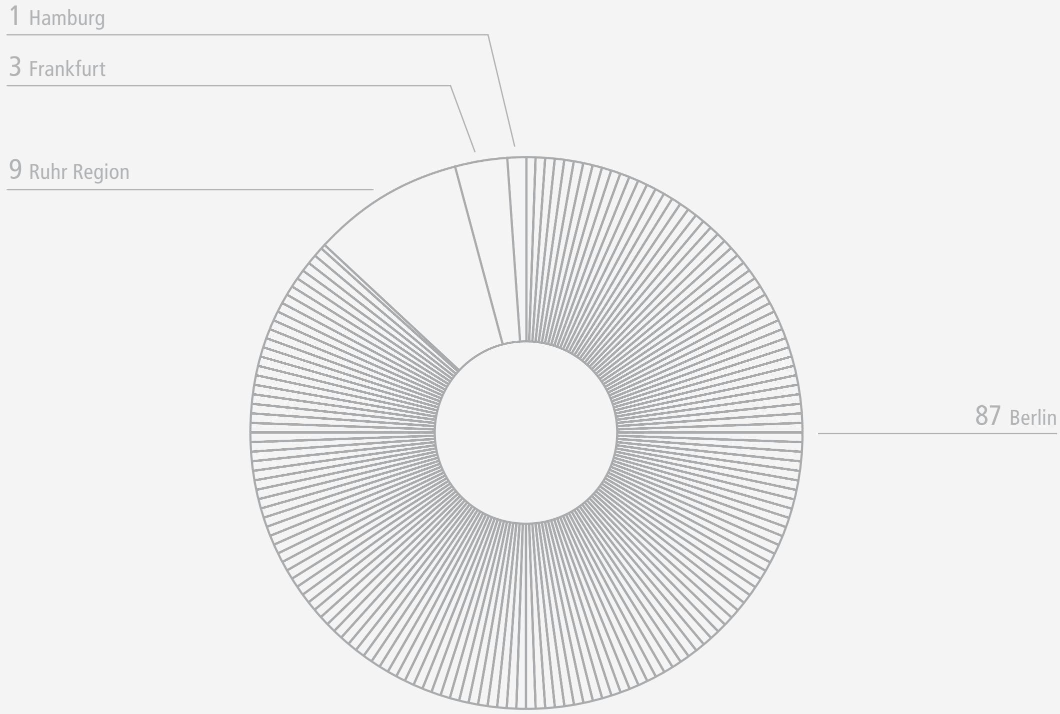
H2 Office is an architectural highlight, located directly on the waterfront upon one of the last parcels of the Duisburg inner harbour. A focus of the construction project has been sustainability. The building is equipped with the latest in environmentally friendly technology and will house high-quality office space.

WWW.ORCOGERMANY.DE/DUISBURG.HTML

SKY OFFICE, DÜSSELDORF

This 89 meter high newly development, with 23 floors and more than 30,000 m² of offices, will make a far-reaching impression on the Düsseldorf skyline. The “Sky Office” concept stands for modern architecture, optimum flexibility of spaces and a modular, individually controllable energy concept.

WWW.ORCOGERMANY.DE/DUSSELDORF.HTML



Portfolio by location in %

THE COMPANY'S BUSINESS ACTIVITIES ARE FOCUSSED ON THE METROPOLITAN CITY OF BERLIN.

With the takeover of Gewerbesiedlungs-Gesellschaft mbH (GSG) in June 2007, the Berlin property portfolio was expanded. ORCO Germany manages more than 1 million m^2 of residential, commercial and development space in the German capital.

Annual management report

1. COMPANY ACTIVITY

2007 ends with a consolidated profit attributable to the Group of € 57,028 thousand compared to € 21,945 thousand as at 31 December 06. During the same period, the share price remained almost unchanged and moved from € 10.10 to € 10.20.

Sales went up 8.3% to end up at € 79.9 million thanks to strong increase in renting activities.

Revaluation profits recognized in our accounts amount to € 86.4 million compared to € 31.5 million in 2006. The main contributors are Gewerbesiedlungs-Gesellschaft (hereafter "GSG") (€ 28.2 million), Leipziger Platz (€ 19.6 million) and Haus Cumberland (€ 16.2 million).

Following ORCO Germany's active asset and portfolio management policy, a few disposals of assets have been executed, among which:

› Pier Eins (Duisburg) with € 27 million of cash proceeds and € 2.4 million profit; and
› Singerstraße (Berlin) with € 4 million of cash proceeds generating € 0.3 million of loss.

In 2007, ORCO Germany realised € 542 million of acquisitions in total. GSG had been by far the company's largest one, making ORCO Germany the market leader in the segment of light industrial/office space in Berlin. The most significant land bank acquisition was the prestigious 2 ha 'Wertheim' area at Leipziger Platz, the Prime location in Berlin.

Enhancement of market position

BUILDINGS & LAND BANK

€ million	Region	**Invest-ment***
INVESTMENT – COMMERCIAL		
GSG portfolio	Berlin	**378.0**
Gebauer Höfe	Berlin	**42.9**
Reinhardtstraße	Berlin	**8.7**
Kurfürstendamm 102	Berlin	**8.3**
Brunnenstraße/Invalidenstraße	Berlin	**9.5**
INVESTMENT – RESIDENTIAL		
Portfolio (various transactions)	Berlin	**16.1**
LAND BANK		
Leipziger Platz	Berlin	**78.9**
Total		**542.4**

* All-in acquisition cost

These acquisitions have mainly been financed by the capital increase and the bond issued by ORCO Germany. Further to the newly issued shares generated by the capital increase (14,221,333 shares), the total shares outstanding amounted to 48,771,333 shares at year-end.

- EBIT rose by 222% to € 87.1 million
- Completed transition to the Prime Standard of the Frankfurter Wertpapierbörse (Deutsche Börse)
- Investment of € 542 million in Berlin
- Successful takeover of Berlin-based GSG for € 378 million

A € 100 millon bond with warrants was issued by ORCO Germany in May 2007 (2007-2012: –4%).

As at 31 December 2007, the long-term debt (> 5 years) amounts to € 59.2 million and the short-term debt (< 5 years) amounts to € 580.8 million (< 1 year = € 74.3 millon ; 1-5 years = € 506.5 million). The total amount of debt grew from € 111.3 million to € 640.1 million.

By the end of 2007 a total amount of € 731.2 million have been contractual secured, of which € 640.1 million have been drawn down.

The method of Net Asset Value calculation is based on portfolio valuation and gives the real estate approach of the Net Asset Value.

The NAV per share amounted to € 7.52 at the end of 2007 compared to NAV per share of € 4.70 at the end of 2006. This represents a growth of 60.0%.

NET ASSET VALUE

€ thousand	December 2007
Consolidated equity	**271,179**
Fair value adjustments on invest. Portfolio	**445**
Fair value adjustments on resid. Pipeline	**14,003**
Fair value adjustments on com. & office Pipeline	**6,852**
Deferred taxes on revaluations	**114,811**
Goodwill	**–44,108**
Own equity instruments	**3,476**
Net asset value	**366,658**
Net asset value per share	**7.52**
Number of shares (million)	**48.771**

Consolidated equity: total consolidated equity after deduction of the minority interests as shown in the consolidated balance sheet.

Fair value adjustments: difference between the net book value and the fair market value of the properties and developments that are carried at cost less depreciation and impairment in the consolidated accounts. Only the investment property (see note 8 of the 2007 consolidated financial statements) are carried at fair value in the consolidated balance sheet.

Deferred taxes: Group share in the deferred taxes recognized in the accounts on the investment property or on properties that used to be recognized as such before reclassification (for instance to inventories in the case of land bank) that the Group will not pay in case of share deals.

KEY FIGURES

Consolidated accounts

The consolidated financial year closes with a net profit attributable to shareholders of € 57,028 thousand vs € 21,945 thousand in 2006. The total balance sheet total is fixed at € 1,120,381 thousand vs € 346,752 thousand in 2006 and the shareholders equity amounts to € 271,179 thousand vs € 133,947 thousand in 2006.

Turnover

The consolidated turnover on 31 December 2007 amounts to € 79,908 thousand vs € 73,762 thousand on 31 December 2006.

Development

The residential development turnover in 2007 amounted to € 56.2 million and was mainly realised in Germany. In 2006, the turnover was € 72.3 million, out of which € 11.0 million were realised in the Czech Republic (sold to ORCO Property Group on 2 January 2007).

In 2007, 143 units were delivered and 43 forward purchase contracts were signed. The main contributors were Qwarterwest in Frankfurt (€ 24.1 million), TaunusSide in Frankfurt (€ 7.8 million) and Ottensen in Hamburg (€ 8.7 million).

Renting

Significant increase in rental income

ORCO Germany's investment portfolio generated € 24.8 million of rental income (compared to € 1.5 million in 2006). ORCO-GSG's contribution, consolidated over six months, was € 19.9 million.

In 2007, ORCO Germany's investment portfolio grew to a total of 925,000 m^2 of lettable area, compared to 52,000 m^2 in 2006. This significant increase was mainly due to the acquisition of GSG in Berlin, which had a portfolio of approximately 823,000 m^2 of commercial space. Following this acquisition, the split between rental incomes from commercial holdings versus rental income from residential holdings has changed. In 2007, commercial properties represent 94% of ORCO Germany's rental income (compared to 65% in 2006).

Taking into account a full contribution from GSG, ORCO Germany has set a target of reaching € 48 million in rents in 2008.

TURNOVER

€ thousand	Development		Renting		Total*	
	2007	2006	**2007**	2006	**2007**	2006
Revenue	**56,191**	**72,251**	**24,768**	**1,511**	**79,908**	**73,762**
Net gain from fair value adjustments on investment property	**26,044**	3,353	**60,389**	28,154	**86,433**	31,057
Net operating result	**–62,748**	–76,113	**–17,565**	–2,145	**–79,262**	–78,258
Operating result	**19,487**	**–509**	**67,592**	**27,520**	**87,079**	**27,011**

* Total revenues and total net operating expenses include intersegment activities of € 1,051 thousand.

EBITA is key performance indicator

Net gain from fair value adjustment on investment property

The revaluation profit amounted to € 86.4 million vs € 31.5 million in 2006. This revaluation profit only includes the revaluation of investment properties and land bank. On-going developments and properties under construction (both valued at costs less depreciation and impairment) are excluded from this calculation.

The main contributors to this revaluation profit are ORCO-GSG with € 28.2 million, Leipziger Platz (Wertheim) with € 19.6 million and Haus Cumberland with € 16.2 million.

ADJUSTED EBITDA

€ thousand	Development	Renting	Intersegment activities	**Total**
Revenue	**56,191**	**24,768**	**–1,051**	**79,908**
Net gain from fair value adjustment on IP	26,044	60,389		**86,433**
Net operating result	–62,748	–17,565	–1,051	**–79,262**
Operating result	**19,487**	**67,592**		**87,079**
Financial result				**–36,191**
Profit before income taxes				**50,888**
Income taxes				**4,988**
Net profit				**55,876**
Attributable to minority interests				**–1,152**
Attributable to the Group				**57,028**
Operating result	19,487	67,592		**87,079**
Net gain from fair value adjustment	–26,044	–60,389		**–86,433**
Amortization, impairments and provisions	2,541	429		**2,970**
Correction of COGS	3,385	6,996		**10,381**
Adjusted EBITDA	**–631**	**14,628**		**13,997**

"Roughly 70% of total revenues were generated by the Project Development segment".

Adjusted EBITDA of € 14.0 million

The adjusted EBITDA amounts to € 14.0 million for € 79.9 million of sales (versus € 1.1 million in 2006 for € 73.8 million turnover). The growth of the EBITDA has been much stronger than the one of the turnover, showing a significant improvement of the operating profitability.

The contribution of ORCO Germany's two business lines:

› The EBITDA of the development activity was € –0.63 million in 2007 compared to € 1.78 million in 2006.
› The EBITDA of the renting portfolio amounts to € 14.6 million vs. € –0.6 million in 2006. The main contributor is ORCO-GSG with € 9.5 million (six months of consolidation). This amount also includes the € 2.4 million net consolidated gain of the sale of Pier 1 building.

Operating result

2007 closes with a positive operating result of € 87,079 thousand vs € 27,011 thousand in 2006. This result includes surplus on revaluation on assets.

Financial result

The net financial result 2007 amounts to € –36,191 thousand vs € –2,751 thousand in 2006. The interest expense of € –24.4 million vs € –3.2 million in 2006 corresponds to the Group global financing charges. The cash interest rate of the global debt (after hedging) amounts to 5.23%. The effective interest rate for the bonds in is € 7.90%. Banks borrowings show an interest rate after hedging of 5.47%.

Interest income amounts to € 2.8 million in 2007 vs € 0.5 million in 2006.

The other net financial results amounting to € –14.6 million are mainly composed of € –9.7 million related to the fair value of derivative instruments and € –2.9 million of charges linked to the GSG loan restructuring.

Tax

The global tax expense of the year amounts to € 4,988 thousand vs € –2,379 thousand in 2006. This result was positively impacted by the change in corporate income tax rates in Germany, which are to decrease from 39 % to 31 %.

Debt

ORCO's net financial debt amounts to € 544.4 million (bank indebtedness and bonds issued) as compared to € 65.4 million in 2006. Cash and cash equivalents amount to € 94.8 million vs € 45.9 million in 2006.

The loan to value ratio reaches 58.4%.

LOAN TO VALUE

€ thousand	December 2007
NON-CURRENT LIABILITIES	
Bonds	**83,432**
Financial debt	**482,307**
CURRENT LIABILITIES	
Financial debt	**74,347**
CURRENT ASSETS	
Current financial assets	**–861**
Cash and cash equivalents	**–94,821**
Net debt	**544,404**
Investment property	**782,319**
Owned-occupied buildings	**13,096**
Properties under development	**408**
Financial assets	**2,124**
Inventories	**112,508**
Revaluation gains on projects	**21,300**
Fair value on portfolio	**931,755**
Loan to Value	**58.43%**

Portfolio

Fair value on portfolio nearly € 1 billion

The portfolio valuation on 31 December 2007 amounts to € 917 million vs € 265 million in 2006. Only properties classified as investment property are accounted for at their fair value in the consolidated accounts; properties under development and developments to be sold in the ordinary course of business are accounted for amortized cost less impairment.

Annual accounts

Net Profit

2007 result closes with a profit of € 2,926 thousand vs € 2,911 thousand in 2006.

Turnover amounts to € 3,287 thousand vs € 1,231 thousand in 2006.

Financial result

Interest charges amount to € 5,751 thousand vs € 1,592 thousand in 2006 (the increase is linked to the newly issued bonds and financing of GSG transaction) while interest incomes amount to € 5,557 thousand vs € 720 thousand.

2. RISKS, SUBSEQUENT EVENTS AND OUTLOOK

Risks

ORCO Germany's main target is to engage itself in the German real estate market on a long-term basis and become a leading real estate investor, project developer as well as a leading asset & fund manager. ORCO Germany focuses on a sustainable growth of the Company's value by permanently taking into account a well-balanced risk-reward-ration. Therefore, adequate risks are taken only if the economic prospects relating to such risks lead to a growth of the Company's value with high probability and such risks remain controllable and manageable even after an in-depth-analysis of these risks. However, the Company faces several risks related to its business activities, in particular:

General risks related to the real estate industry

ORCO Germany is exposed to all of the risks inherent in the business of acquiring, developing, owning, managing and using real estate. These risks include, in particular, the following:

- Cyclical fluctuations in the property market generally and in the national and local markets where properties are located;
- Sales risks;
- Property abuse risks (including terrorism);
- Construction delays and construction budget overruns;
- Opposition from civic and environmental groups;
- Natural disasters ; and
- Risks resulting from deteriorating conditions of financing business activities through borrowings.

ORCO Germany takes precautionary measures to protect its business activities from the negative impact of the above risks and other risks related to the real estate industry in general, especially those to which ORCO Germany's developments are more susceptible, through contractual provisions and, as far as possible, through insurance coverage.

Risks related to ORCO Germany's real estate development business

Unexpected problems or unrecognised risks could arise in connection with the ORCO Germany's existing and future development projects. The residential and commercial real estate development businesses are subject to certain risks arising from the complexity of the projects, the application of regulations, the multiplicity of participants and the need to obtain permits. These risks include the possible abandonment of projects on which ORCO Germany has incurred significant feasibility study costs and to which it has devoted management attention. Moreover, the agreements that the Company enters into when developing or acquiring property portfolios may not adequately address such problems or risks.

Risks relating to ORCO Germany's office and retail rental business

ORCO Germany faces risks specific to office and retail rental business, which may have a negative impact on the value of its assets, its results, business and financial condition. These risks result from the following factors:

- The office and retail rental portfolio is more sensitive than residential property to the economic environment in the relevant markets.
- Renovation work required on vacant units before they are relet is often more extensive in the office and retail segment than in the residential segment.
- The risk of tenants becoming insolvent and the resulting impact on ORCO Germany's results is greater in the office and retail segment because of the greater relative importance of each tenant.

Subsequent events

No significant events occurred after the balance sheet date.

Outlook

Our Strategy is focused on growth

ORCO Germany will continue focusing on its strategy of sustainable growth of the Group's value. In this context the important strategic objectives for 2008 include:

- Continuing the restructuring and integration process of GSG with the main focus on further improving the occupancy rate and the operational efficiency;
- The active management of the real estate portfolio of ORCO Germany including selective disposal of non-strategic assets where most of value-added potential has already been realised;
- Focussing on the progress of important development projects such as the development projects "Leipziger Platz" and "Haus Cumberland" in Berlin as well as the development project "Sky Office" in Düsseldorf;
- Implementing of the fund and investment management platform as a third business line that enables ORCO Germany to generate recurring management fees.

Therefore, ORCO Germany expects for 2008 a further substantial growth in turnovers in all of its business segments encompassing its investment, development and management activities.

The construction of the following major development projects commences in 2008:

MAJOR DEVELOPMENT PROJECTS

Project	Type	City	Area m^2	Construction start
Haus Cumberland	Retail, Hotel	Berlin	26,752	Q2 2008
H2 Office	Office	Duisburg	14,200	Q3 2008
Elb Office	Office	Hamburg	8,770	Q3 2008
Helberger	Office, Retail	Frankfurt/Main	8,054	Q1 2008
Gruga Carree	Office	Essen	24,480	Q4 2008

"For 2008, we are aiming to achieve revenues of € 86 million, and will continue improving occupancy rates and operational efficiency".

3. SHAREHOLDING

Amount of share capital
Share capital as at 31 December 2007 amounted to € 60,964,166.25 represented by 48,771,333 shares with a nominal value of € 1.25, all of the same class and entirely paid.

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

The capital rose by € 17,776,666.25 to € 60,964,166.25 in 2007. The share premium paid in 2007 amounted to € 56,785,105.54.

Capital ownership and voting rights as at 31 December 2007
To the best knowledge of the Company the capital ownership of ORCO Germany as at 31 December 2007 is as follows (1 share giving the right to 1 vote):

Shareholders	Shares	% of capital
ORCO Property Group	27,697,240	56.79
MSREF V Turtle B.V.	14,100,000	28.91
Public	6,974,093	14.30
Total	**48,771,333**	**100.00**

To the best knowledge of the Company and as at 31 December 2007 no shareholder holds more than 10% of the share capital of ORCO Germany S.A. except ORCO Property Group and MSREF V Turtle B.V.

As at 31 December 2007 one voting trust agreement existed. On 15 May 2007 ORCO Property Group, the Company and MSREF V Turtle B.V. entered into a Shareholder Agreement providing for ORCO Property Group and MSREF V Turtle B.V. as follows:
› upon request – ORCO Property Group and MSREF V Turtle B.V. each may appoint one representative of the board of directors of the Company;

"The number of shares increased during the year under review from 34.55 to 48.77 million".

- no resolutions are passed against the vote of either ORCO Property Group or MSREF V Turtle B.V. in respect of increases of share capital of the Company without giving either MSREF V Turtle B.V. or ORCO Property Group the right to subscribe to such new shares;
- no resolutions are passed against the vote of either ORCO Property Group or MSREF V Turtle B.V. in respect of granting certain loans by the Company and entities controlled by it to ORCO Property Group and entities controlled by it;
- no resolutions are passed against the vote of either ORCO Property Group or MSREF V Turtle B.V. in respect of granting security by the Company and entities controlled by it to ORCO Property Group and entities controlled by it;
- no resolutions are passed against the vote of either ORCO Property Group or MSREF V Turtle B.V. in respect of granting certain loans by ORCO Property Group and entities controlled by it to the Company and entities controlled by it;
- no resolution are passed against the vote of either ORCO Property Group or MSREF V Turtle B.V. in respect of the execution of transaction by the Company and entities controlled by it with ORCO Property Group and entities controlled by it, provided that the transaction relates an exchange of values or to the creation of rights and obligations in an amount of € 10 million or more per each individual transaction.

Stock subscription rights

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

Authorized capital not issued

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

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

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

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

Transactions on treasury shares in 2007
On 31 December 2007 the Company does not hold any own shares.

4. STOCK MARKET PERFORMANCE

Change in share price and volumes traded:

	Low	High	Volume
2007	**9.70**	**15.75**	**2,759,072**
Jan-07	9.70	12.00	504,402
Feb-07	11.50	15.75	292,770
Mar-07	13.46	14.77	248,157
Apr-07	12.54	15.50	373,584
May-07	12.55	14.67	229,830
Jun-07	12.49	13.80	151,361
Jul-07	11.02	13.78	168,070
Aug-07	10.00	12.56	209,855
Sep-07	10.92	12.49	157,718
Oct-07	11.20	12.27	22,136
Nov-07	10.10	11.75	230,136
Dec-07	9.70	10.50	171,053

5. DISTRIBUTION OF DIVIDENDS

Holders of the Shares are entitled to the annual dividend proposed by the Board of Directors of the Company in respect of the Company's fiscal year. The declaration, payment and amount of dividends on the Shares are subject to the approval of the shareholders at the annual shareholders' meeting.

The Company did not distribute any dividend until now. The Company is targeting to pay annual dividends in the future, so long as its financial condition permits such distributions and as approved by Shareholders at a general meeting. The Company expects these dividends to be funded by cash generated from its operations. The timing and amount of such dividends, if any, will depend upon the Company's future earnings and prospects, capital requirements and financial condition and such other factors as the Board of Directors consider relevant, as well as the approval of shareholders. There can be no assurance that any dividends will be paid or that, if paid, they will correspond to the policy described above. These dividend targets should also not be regarded as a profit or earnings forecast. The Company may revise its dividend policy from time to time.

6. COMPENSATION OF DIRECTORS

Compensation for directors in 2007 amounted to € 43 thousand.

7. DIRECTIVE 2004/25/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 21ST, 2004 ON TAKEOVER BIDS – LUXEMBOURG LAW OF MAY 19TH, 2006

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

(a) the structure of their capital, including securities which are not admitted to trading on a regulated market in a Member State, where appropriate with an indication of the different classes of shares and, for each class of shares, the rights and obligations attaching to it and the percentage of total share capital that it represents; the share capital of ORCO Germany S.A. is represented by only one class of shares which are all admitted for trading on the Frankfurt Stock Exchange.

(b) any restrictions on the transfer of securities, such as limitations on the holding of securities or the need to obtain the approval of the company or other holders of securities, without prejudice to Article 46 of Directive 2001/34/EC; there is no restriction on the transfer of securities.

(c) significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC; refer to paragraph 3 above on shareholding.

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

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

(f) any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities; there is no restriction on voting rights.

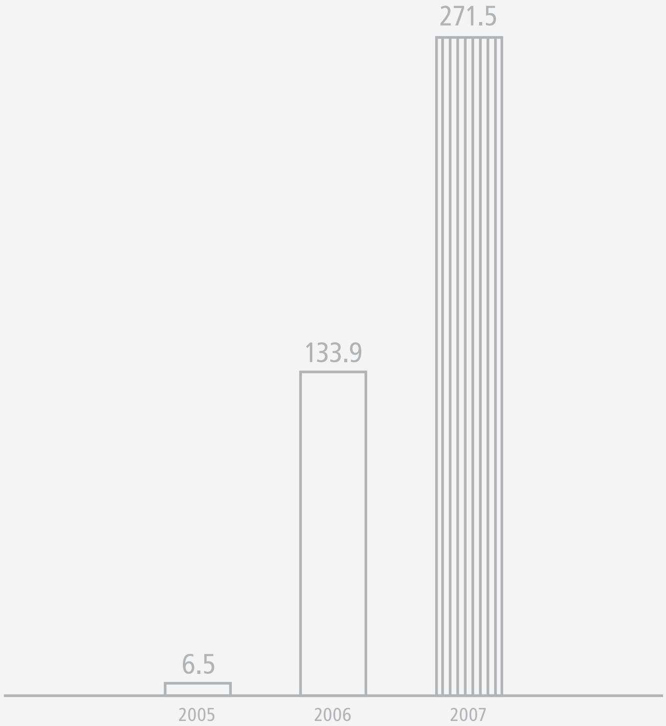
(g) any agreements between shareholders which are known to the company and may result in restrictions on the transfer of securities and/or voting rights within the meaning of Directive 2001/34/EC; refer to paragraph 3 above on shareholding.

(h) the rules governing the appointment and replacement of board members and the amendment of the articles of association; see articles of incorporation, board members are appointed by the shareholders, articles of associations can be modified by the shareholders through an extraordinary general meeting respecting the quorum foreseen by the luxembourg corporate law.

(i) the powers of board members, and in particular the power to issue or buy back shares:
see "authorized capital" in point 3 hereabove.

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

(k) any agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid; there is no compensation scheme for board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employmend ceases because of a takeover bid.



Equity in € million

OUR CONSISTENTLY INCREASING FINANCIAL INDEPENDENCE PROVIDES FLEXIBILITY FOR NEW INVESTMENTS.

One of our greatest strengths is the ability to make quick decisions. Our sizeable financial base and streamlined structure means we are ready to act at all times. We will build on this good basis in a targeted way to strengthen our market position.

Consolidated financial statements

Consolidated income statement

€ thousand	Notes	December 2007	December 2006
Revenue	5	**79,908**	**73,762**
Net gain from fair value adjustment on investment property	5, 8	**86,433**	31,507
Other operating income		**2,662**	–
Cost of sales		**–56,197**	–72,017
Employee benefit		**–9,049**	–3,334
Amortization, impairments and provisions		**–2,970**	–619
Other operating expenses		**–13,708**	–2,288
Operating results		**87,079**	**27,011**
Interest expenses	15.4	**–24,388**	–3,194
Interest income	15.4	**2,839**	487
Foreign exchange result		**–**	165
Other net financial results	19	**–14,642**	–209
Financial result		**–36,191**	**–2,751**
Profit before income taxes		**50,888**	**24,260**
Income taxes	18	**4,988**	–2,379
Net profit		**55,876**	**21,881**
Attributable to minority interests		**–1,152**	–64
Attributable to the Group		**57,028**	**21,945**
Basic earnings in € per share	20	**1.43**	1.96
Diluted earnings in € per share	20	**1.42**	1.91

Consolidated balance sheet

ASSETS

€ thousand	Notes	December 2007	December 2006
Intangible assets	7	**51,930**	**22**
Investment property	8	**782,319**	**191,565**
Property, plant and equipment		**16,286**	**952**
Own-occupied buildings	9	**13,096**	64
Fixtures and fittings	10	**2,782**	408
Properties under development		**408**	480
Financial assets at fair value through profit and loss		**2,124**	**4,543**
Deferred tax assets	18	**6,703**	**1,072**
Non-current assets		**859,362**	**198,154**
Inventories	11	**112,508**	70,031
Trade receivables	12	**33,745**	27,646
Other receivables		**18,397**	4,973
Derivate instrument	15	**687**	–
Current financial assets		**861**	–
Cash and cash equivalents	14	**94,821**	45,948
Current assets		**261,019**	**148,598**
Total		**1,120,381**	**346,752**

EQUITY AND LIABILITIES

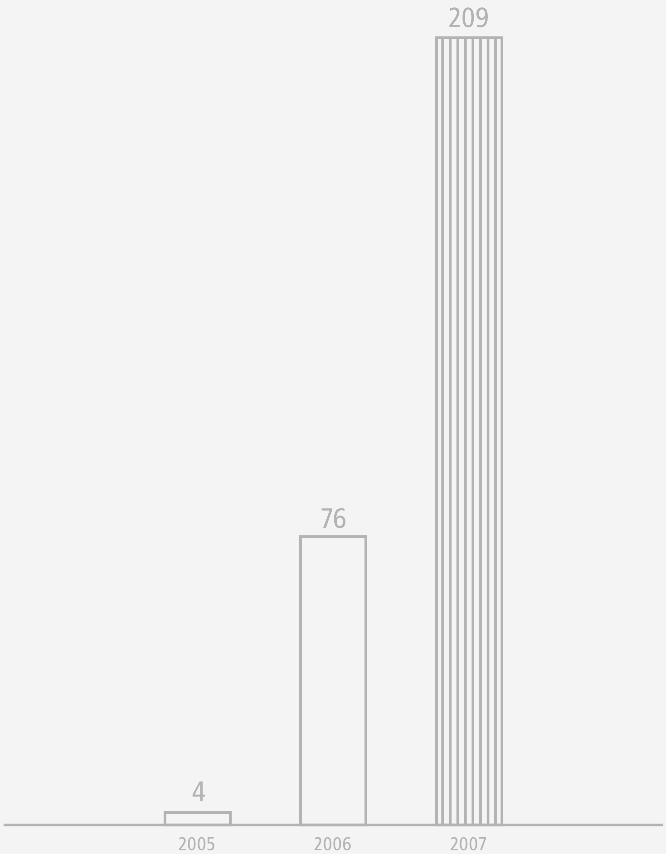
€ thousand	Notes	**December 2007**	December 2006
Shareholders' equity assets		**271,179**	**134,003**
Minority interests		**328**	**–56**
Equity		**271,507**	**133,947**
Bonds	15	**83,432**	–
Financial debts	15	**482,307**	103,164
Provision and other long term liabilities	16	**10,336**	10,775
Derivative instruments	15	**8,458**	–
Deferred tax liabilites	16	**111,621**	**8,585**
Non-current liabilities		**696,154**	**122,524**
Financial debt	15	**74,347**	8,158
Trade payables	17	**11,397**	32,450
Advance payments	17	**28,217**	25,370
Derivative instruments	15	**748**	–
Other current liabilities	17	**38,011**	24,303
Current liabilities		**152,720**	**90,281**
Liabilities		**848,874**	**212,805**
Total		**1,120,381**	**346,752**

Consolidated statement of changes in equity

€ thousand	Notes	Share Capital	Share premium	Translation reserve	Other reserves	Shareholders' equity	Minority interests	**Equity**
Balance at 1 January 2006		**3,500**	**–**	**–**	**3,017**	**6,517**	**–**	**6,517**
GAINS OR LOSSES FOR THE YEARS								
Translation differences				98		98		98
Profit of the profit					21,945	21,945	–64	21,881
Capital increase		39,688	66,873		–1,118	105,443	8	105,451
Balance at 31 December 2006		**43,188**	**66,873**	**98**	**23,844**	**134,003**	**–56**	**133,947**
GAINS OR LOSSES FOR THE YEARS								
Translation differences				–99		–99		–99
Profit of the profit					57,028	57,028	–1,152	55,876
Capital increase	21	17,776	56,785		–730	73,831		73,831
Convertible loan	15.2				9,892	9,892		9,892
Derivatives ORCO Germany	15.3				–3,476	–3,476		–3,476
Acquisitions of GSG	6						1,536	1,536
Balance at 31 December 2007		**60,964**	**123,658**	**–1**	**86,556**	**271,179**	**328**	**271,507**

Consolidated cash flow statement

€ thousand	Notes	December 2007	December 2006
Operating result		**87,079**	27,011
Net gain from fair value adjustment on investment property		**–86,433**	–31,507
Amortization, impairments and provisions		**2,970**	619
Gains and losses on disposal on investments		**–1,696**	–
Adjusted operating profit		**1,920**	–3,877
Financial result		**0**	–40
Income tax paid		**–339**	–372
Financial result and income taxes paid		**–339**	–412
Changes in operating assets and liabilities		**–80,687**	63,495
Net cash from operating activities		**–79,106**	59,206
Acquisition of subsidiaries, net of cash acquired	6	**–260,191**	–74,366
Capital expenditures	5	**–179,049**	–137,420
Proceeds from sales of non-current tangible assets		**31,000**	821
Purchase of intangible assets		**–189**	–22
Purchase of tangible assets		**5**	–3,243
Net interest paid		**–17,768**	–1,772
Net cash from investing activities		**–426,192**	–216,002
Issue of equity instruments	21	**83,883**	105,451
Proceeds from borrowings	15	**562,848**	96,976
Repayments of borrowings	15	**–92,592**	–288
Net cash from financing activities		**554,139**	202,139
Net increase in cash		**48,841**	45,343
Cash and cash equivalents at the beginning of the period		**45,948**	553
Exchange difference on cash		**32**	52
Cash and cash equivalents at the end of the period		**94,821**	45,948



Employees at year end number

THANKS TO OUR DYNAMIC GROWTH, WE ARE IN A POSITION TO CREATE A SUBSTANTIAL NUMBER OF NEW JOBS.

The employees of the subsidiaries of ORCO Germany Group are a key to our success – which is why we place top priority on training and professional development, as well as promoting creation of a healthy work-life balance.

Notes to the consolidated financial statements

ORCO Germany's Board of Directors has approved on 27 March 2008 the consolidated financial statements for 2007. All the figures in this report are presented in thousands of Euros, except if explicitly stated.

1. GENERAL INFORMATION

ORCO Germany S.A., société anonyme (the "Company") and its subsidiaries (together the "Group") is a real estate group with a growing portfolio mainly located in Germany. It is principally involved in leasing out investment properties under operating leases as well as in the development of properties for its own portfolio or intended to be sold in the ordinary course of business. In 2007, the Group has substantially focused on growing its property portfolio with completion of acquisitions and signature of firm commitments to buy real estate properties and assets mainly located in Berlin, Düsseldorf, Frankfurt and Hamburg.

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

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

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

The consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The accounting policies have been consistently applied by Group's entities and are consistent with those used in the previous year except for the application of the revised and new standards and interpretations effective as from 1 January 2007 described below. The application of those amendments and interpretations did not result in substantial changes to the Group's accounting policies:

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments.

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This interpretation does not have any impact on the Group's financial statements.

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the Group's financial statements.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRS 4, 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives'.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.
- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parents and Group companies. This interpretation does not have an impact on the Group's financial statements.

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

- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

2.2 Consolidation

a) Subsidiaries

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

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

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

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

b) Transactions with minority interests

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

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

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

For disposals of minority interests, differences between any proceeds received and the relevant share of minority interest are recorded in the income statement.

c) Joint-ventures

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

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

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

Currency	**31 December 2007**		31 December 2006	
	Average	**Closing**	Average	Closing
Czech Koruna CZK	**0.03588**	**0.03757**	0.03535	0.03637
Polish Zloty PLN	**0.26467**	**0.27917**	0.25705	0.26101

a) Functional and presentation currency

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

b) Transactions and balances

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

Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

c) Group companies

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

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

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

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

2.5 Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/joint-venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint-ventures is included in 'intangible assets'. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

b) Computer software

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

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

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

c) Trademarks

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

2.6 Investment property

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

Investment property comprises freehold land, freehold buildings, land held under operating lease and buildings held under finance lease.

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

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

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

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognized as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognized in the financial statements.

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

Changes in fair values are recorded in the income statement.

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

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

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

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

2.7 Property, plant and equipment

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

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

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

Depreciation, based on a component approach, starts off when construction or development is completed. Depreciation is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives. The estimated useful lives for fixtures and fittings is 3 to 20 years.

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

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (note 2.9).

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

All borrowing costs are expensed except for the borrowing costs that are capitalized as part of the cost of that asset when they are directly attributable to the acquisition, construction or production of a qualifying asset.

2.8 Leases

a) A Group company is the lessee

- › **Operating lease** Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.
- › **Finance lease** Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at their fair value.

b) A Group company is the lessor

- › **Operating lease** Properties leased out under operating leases are included in investment property in the balance sheet.
- › **Finance lease** When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

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

2.9 Impairment of non-financial assets

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

2.10 Financial assets

The Group classifies its financial assets other than derivatives in the following categories: loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date.

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

Management assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets classified as loans and receivables is impaired. Impairment testing of trade receivables is described in note 2.12.

Financial assets at fair value through profit or loss include financial assets held for trading which are acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date. The Group subscriptions in investment property closed end fund managed by the Group are categorised as financial assets designated at fair value at inception as they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis. They are initially recognized at fair value, and transaction costs are expensed in the income statement, and subsequently carried at fair value.

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

2.11 Inventories

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

All borrowing costs are expensed except for the borrowing costs that are capitalized as part of the cost of that asset when they are directly attributable to the acquisition, construction or production of a qualifying asset.

2.12 Trade receivables

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

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary shares are classified as equity.

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

There are no treasury shares of the Company (ORCO Germany S.A.) that are held by the Group at year-end.

2.15 Borrowings

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

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option which is recognized and included in shareholders' equity, net of income tax effect.

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

2.16 Trade payables

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

2.17 Deferred income tax

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

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Investment property

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

2.18 Provisions

Provisions for environmental restauration and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

2.19 Post employement benefits

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement over the employees' expected average remaining working lives. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2.20 Derivative financial instruments and hedging activities

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

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

2.21 Revenue recognition

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

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

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

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

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

2.22 Dividend distribution

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

2.23 Subscription rights

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

3. FINANCIAL RISK FACTORS

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group's overall risk management programme focuses on the unpredictabilitity of financial markets and seeks to minimise potential adverse effects on the Group financial performance. The Group uses financial instruments to mitigate certain risk exposures.

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

a) Market risk

› **Foreign exchange risk (see note 13)** The Group mainly operates in Germany and most of its transactions are denominated in euros (€). Consequently, the Group's exposure to foreign exchange risk arising from currency exposures with respect to the Czech Koruna (CZK) and Polish Zloty (PLN) is limited. The Group does not hedge its foreign exchange risks.

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

The Group is also exposed to property price and property rentals risk but it does not pursue any speculative policy. Even though the Group's activities are mainly focused on one geographical area – Germany – such activities are spread over several business lines (development and renting) that each undergo specific business cycles.

b) Credit risk (see note 12)

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

c) Liquidity risk (see note 17)

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the inherent nature of its assets the Group is subject to a liquidity risk.

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

As the Group has no significant interest-bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest costs may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise.

3.2 Capital risk managment

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

As at December 2007, the "loan to value" ratio has reached the level of 58.4% compared to 23.5% in 2006. The strong increase is mainly due to the acquisition of the GSG portfolio of assets that enjoys a loan to value ratio of 64%.

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

€ thousand	**December 2007**	December 2006
NON-CURRENT LIABILITIES		
Bonds	**83,432**	–
Financial debts	**482,307**	103,164
CURRENT LIABILITIES		
Financial debts	**74,347**	8,158
CURRENT ASSETS		
Current financial assets	**–861**	–
Cash and cash equivalents	**–94,821**	–45,948
Net debt	**544,404**	**65,374**
Investment property	**782,319**	191,565
Hotels and own-occupied buildings	**13,096**	64
Properties under development	**408**	480
Financial assets	**2,124**	4,543
Inventories	**112,508**	70,031
Revaluation gains on projects and properties	**21,300**	11,318
Fair value of portfolio	**931,755**	**278,001**
Loan to value	**58.4%**	**23.5%**

3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

a) Estimate of fair value of investment properties

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

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

- recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the potential use of the asset, the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. The fair value is based on the potential use of the properties as determined by the Group. Fair value is the highest value, determined from market evidence, by considering any other use that is financially feasible, justifiable and reasonably probable. The "highest and best-use" value results in a property's value being determined on the basis of redevelopment of the site. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

b) Income taxes

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

As stated in note 2.17, the calculation of deferred tax on investment properties is not based on the fact that they will be realised through a share deal but through an asset deal. As a result of the Group structure, the potential capital gain may be exempted from any tax in case of share deal if certain conditions are met and hence the accumulated deferred tax liabilities may be recognized as a gain depending on negociations with future buyers.

c) Determination of remaining construction costs

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

4.2 Critical judgements in applying the Group's accounting policies

Distinction between investment properties and owner-occupied properties

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

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

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

5. SEGMENT REPORTING

5.1 Primary reporting format – business segments

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

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

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

SEGMENT INFORMATION AS AT DECEMBER 2007

€ thousand	Development	Renting	Intersegment activities	**Total**
Revenue	**56,191**	**24,768**	**–1,051**	**79,908**
Net gain from fair value adjustment on investment property	26,044	60,389	–	**86,433**
Net operating result	–62,748	–17,565	1,051	**–79,262**
Operating result	**19,487**	**67,592**	**–**	**87,079**
Financial result				**–36,191**
Profit before income taxes				**50,888**
Income taxes				**4,988**
Net profit				**55,876**
Attributable to minority interests				**1,152**
Attributable to the Group				**57,028**
Segment assets	**286,736**	**721,607**		**1,008,343**
Unallocated assets				**112,038**
Total assets				**1,120,381**
Segment liabilities	57,315	22,292		**79,607**
Unallocated liabilities				**1,040,774**
Total liabilities				**1,117,786**
Cash flow elements				
Amortization, impairments and provisions	–2,541	–429		**–2,970**
Capital expenditure	94,631	84,418		**179,049**

SEGMENT INFORMATION AS AT DECEMBER 2006

€ thousand	Development	Renting	**Total**
Revenue	**72,251**	**1,511**	**73,762**
Net gain from fair value adjustment on investment property	3,353	28,154	**31,507**
Net operating result	–76,113	–2,145	**–78,258**
Operating result	**–509**	**27,520**	**27,011**
Financial result			**–2,751**
Profit before income taxes			**24,260**
Income taxes			**–2,379**
Net profit			**21,881**
Attributable to minority interests			**64**
Attributable to the Group			**21,945**
Segment assets	**197,923**	**92,506**	**290,429**
Unallocated assets			**56,323**
Total assets			**346,752**
Segment liabilities	85,637	5,734	**91,371**
Unallocated liabilities			**255,381**
Total liabilities			**346,752**
Cash flow elements			
Amortization, impairments and provisions	–618	–1	**–619**
Capital Expenditure	22,360	115,060	**137,420**

In 2007, capital expenditures are entirely related to Germany.

5.2 Secondary reporting format – geographical segments

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

€ thousand	**December 2007**	December 2006
Germany	**79,907**	62,796
Czech Republic	**–**	10,954
Poland	**1**	12
Intersegment activities	**–**	–
Revenue	**79,908**	**73,762**

€ thousand	**December 2007**	December 2006
Germany	**1,008,261**	286,584
Czech Republic	**–**	3,838
Poland	**82**	7
Intersegment activities	**–**	–
Segment assets	**1,008,343**	**290,429**
Non allocated assets	**112,038**	56,323
Total assets	**1,120,381**	**346,752**

6. ACQUISITIONS

2007: Acquisition of GSG

After almost two years of negotiations, the Group acquired on 12 June 2007 the control of Gewerbesiedlungs-Gesellschaft mbH (GSG). This previously state-owned company holds buildings totalling 823 thousand m^2 of commercial and light industrial space in Berlin rented out to approximately 1,200 tenants. On the basis of independent valuation reports, the building portfolio and the brand have been fair valued at € 408 million and € 7 million respectively. Due to the size of GSG on the Berlin market and the new marketing strategy adopted, it has been determined that the brand has an undefinite useful life. This results in an increase compared to the book value before acquisition amounting to € 243 million.

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

As at 30 June 2007, the GSG shares were legally held by two companies respectively held at 50% by ORCO Property Group (OPG) and 50% by MSREF V. The financing of the acquisition by OPG has been realised through a loan of € 39 million from the Group. Furthermore OPG has been diluted in the Group to 73% by the issue of 3.5 million of shares entirely subscribed in cash by MSREF V for a total consideration of € 35 million. The main remaining steps completed by mid-October 2007 are the following ones:

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

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

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

GSG

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

VITERRA

€ thousand	
Tangible assets	31,821
Financial assets	1,885
Deferred tax assets	1,000
Inventories	81,432
Trade receivables	35,023
Other current assets	14,560
Cash and cash equivalents	13,772
Provisions	–11,343
Deferred tax liabilities	–4,665
Payables	–18,710
Short term debts and provisions	–37,848
Net equity acquired	**–106,927**
Negative goodwill on acquisitions	18,789
Acquisition price	**–88,138**
Less cash acquired	13,772
Cash flow on acquisition net of cash acquired	**–74,366**

2006:

As at 23 June 2006, the Group directly acquired Viterra Development GmbH and Viterra Baupartner GmbH. Those companies and their subsidiaries are referred to as Viterra in this report. Viterra is essentially active in Germany. The development and building portfolio has been fair valued on the basis of an independent valuation report (established by DTZ Debenham).

As part of the transaction, the Group also acquired for a total cash consideration of € 13 million two buildings whose property has only been transferred in August 2006 with some cash flow adjustment mechanisms bringing the final acquisition price to € 14 million.

The following table describes the calculation of the cash flow on acquisition net of the cash and cash equivalents acquired:

In aggregate, the acquired business contributed revenues of € 71.5 million and net loss of € 1.7 million to the Group for the period from the acquisition date to 31 December 2006. The Group is not able to disclose the information relating to revenue and profit which would have been generated by the Group for the year ended 31 December 2006 if the acquisition had occurred on 1 January 2006 due to the absence of Viterra Development activities sub-consolidated information prior to the acquisition.

7. INTANGIBLE ASSETS

The intangible assets mainly include the goodwill recorded on the acquisition of GSG (€ 44.1 million) and the GSG trademark (€ 7.2 million). Please refer to note 6 for further details.

8. INVESTMENT PROPERTY

INVESTMENT PROPERTY

€ thousand	Freehold buildings	Land Bank	Land	**Total**
Balance at 31 December 2005	**19,743**	**–**	**–**	**19,743**
Scope movement	20,937	10,500	–	**31,437**
Investments/acquisitions	97,474	17,385	22,360	**137,219**
Disposal	–	–780	–	**–780**
Revaluation through income statement	11,548	1,225	–	**12,773**
Transfer and other movements	–8,827	–8,500	8,500	**–8,827**
Balance at 31 December 2006	**140,875**	**19,830**	**30,860**	**191,565**
Scope movement	405,261	910	–	**406,171**
Investments/acquisitions	80,789	82,753	–	**163,542**
Disposal	–29,068	–1,932	–	**–31,000**
Revaluation through income statement	65,115	21,318	–	**86,433**
Transfer and other movements	–6,879	3,347	–30,860	**–34,392**
Balance at 31 December 2007	**656,093**	**126,226**	**–**	**782,319**

Variations in 2007

The scope movement refers to the acquisition of GSG's lands and buildings (€ 406.2 million) as valued at the date of acquisition.

The disposal movement mainly represents the sale of buildings Pier Eins (€ 24.6 milllion) and Singerstraße (€ 4.3 million).

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

Freehold buildings:

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

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

The revaluation of freehold buildings in 2007 mainly includes the revaluation of GSG buildings in Berlin (€ 28.2 million), Wasserstraße in Düsseldorf (€ 4.5 million), Cumberland House in Berlin (€ 16.2 million) and Pier Eins in Duisburg before its sale (€ 4.0 million).

Land Bank:

Land Bank acquisitions amounting to € 82.8 million is mainly composed of Leipziger Platz (in the center of Berlin) for € 78.9 million (revaluation recognized in 2007 € 19.6 million).

Most of the investment properties have been valued at their estimated fair value at 31 December 2007, based on a valuation report established by the independent expert Debenham Tie Leung (DTZ). The total revaluation of investment properties amounted to € 86.4 million.

The transfer for land (€ –30.9 million) refers to the reclassification of Sky Office in Düsseldorf from land to inventories.

The transfer for land bank (€ 3.3 million) represents the reclassification of two plots of land for which no building permits have been obtained yet. The transfer for freehold buildings mainly represents the reclassification of Kurfürstendamm Straße 103-104 (€ –7.2 million) to own-occupied building as this one became the new headquarters of ORCO Germany.

Additional information on the main asset acquisitions:

› Leipziger Platz project: the Company has acquired the site in the centre of Berlin that used to be the Wertheim complex. What was once the Wertheim complex and is not being used at present is the last site available for development in the new "Mitte" of Berlin. The new "Mitte" is considered to be the top address for national and international companies and customers. The Sony Center, the DaimlerChrysler quarter and the Beisheim Center are right next to Leipziger Platz. The acquisition price per constructible square meter is 20% lower than recent transactions in the area.This new development will fill the most important gap between the centres of East and West Berlin. With a land area of more than 22,000 m², the project will be carried out directly on Leipziger Platz right next to Potsdamer Platz. Viterra Development, a subsidiary of the Company, will be responsible for the project management. The planned area of 88,000 m² enables varied use to be made of office and retail space as well as residential units and hotels.

Variations in 2006

The scope movements refer to office building in Viterra's asset portfolio essentially Pier Eins in Duisburg and two plots of land: Sky Office in Düsseldorf and Gruga Carre in Essen that are recognized at their fair values at the date of acquisition.

During the year, the investments and acquisitions reached € 137.2 million in the following projects:

Freehold buildings:

› Max Planck Strasse in Köln & Wasser Straße in Düsseldorf € 14.0 million (revaluation recognized in 2006 € 2.2 million)
› Various residential and office buildings essentially in Berlin € 83.3 million among which:
› Haus Cumberland acquired for € 39.5 million (revaluation recognized in 2006 € 4.9 million);
› Immanuelkirchstraße 3-4 for € 10.8 million (revaluation recognized in 2006 € 0.2 million);
› Kurfürstendamm 102 € 7.8 million (revaluation recognized in 2006 € 0.5 million);
› Kurfürstendamm 103-104 € 7.0 million;
› Danziger Straße 73-77 € 5.1 million (revaluation recognized in 2006 € 1.4 million);
› Singerstraße 109 € 2.6 million (revaluation recognized in 2006 € 1.4 million);

Land and Land Bank:

› Acquisition of land plots in Düsseldorf for € 22.4 million for Sky Office development project in Düsseldorf, which is an office tower 30% preleased by Mc Kinsey;
› Helberger in Frankfurt € 17.4 million (revaluation recognized in 2006 € 1.2 million).

All investment properties are revalued at the end of the year based on a valuation report established by the independent expert Debenham Tie Leung. The total revaluation of investment properties amounts to € 12.8 million. This amount does not include the negative goodwill of € 18.8 million on the first consolidation of Viterra Developement which is recognized on the same line in the income statement.

The transfers represent the reclassification of the Fehrbelliner Höfe residential apartment project (€ 8.8 million) in inventory and the Sky Office high tower (€ 8.5 million) from Land Bank to Land.

Freehold buildings include advance payments amounting to € 1.9 million for the acquisition of new properties.

9. OWN-OCCUPIED BUILDINGS

€ thousand	Gross amount
GROSS AMOUNT	
Balance at 31 December 2006	**236**
Scope movement	2,400
Variation	3,529
Transfer and other movements	7,181
Balance at 31 December 2007	**13,346**
AMORTIZATION	
Balance at 31 December 2006	**–172**
Variation	–78
Balance at 31 December 2007	**–250**
Net Amount at 31 December 2007	**13,096**

The scope movement refers to the acquisition of GSG, and corresponds to the building Franklinstraße 27, which is now used as GSG headquarters.

The transfer and other movements correspond to the reclassification of Kurfürstendamm Straße 103-104 as own-occupied building, as it is used as ORCO Germany offices. The variation movement refers to investments made on this building since its transfer to this category.

10. FIXTURES AND FITTINGS

€ thousand	Gross amount	Amortization	**Net amount**
At 31 December 2005	**17**	**–5**	**12**
Scope variation	314	–	**314**
Increase	201	–90	**111**
Assets sales	–40	11	**–29**
At 31 December 2006	**492**	**–84**	**408**
Scope variation	1,213	–	**1,213**
Increase	1,518	–344	**1,174**
Assets sales	–28	15	**–13**
At 31 December 2007	**3,195**	**–413**	**2,782**

The scope variation represents the acquisition of Gewerbesiedlungs-Gesellschaft mbH (GSG) on 12 June 2007. Please refer to note 6 for further details concerning this transaction.

The increase movement mainly represents purchase of furnitures made by ORCO Immobilien GmbH (€ 1.3 million).

11. INVENTORIES

€ thousand	**December 2007**	December 2006
Opening balance	**70,031**	**–**
Acquisition of Viterra	**–**	81,432
Acquisition of GSG	**87**	–
Sale of Viterra Ceska to ORCO Property Group	**–745**	–
Variation	**5,125**	–20,228
Transfers and other movements	**38,010**	8,827
Closing balance	**112,508**	**70,031**

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

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

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

As at 31 December 2006, the scope movement refers to the acquisition of Viterra Development projects. The Fehrbelliner Höfe residential apartment project was transferred from investment property. The variations include mainly the Knorrstrasse and Viterra Baupartner development projects' sales.

The variation of cost of sales is mainly explained by the decrease of sales of development projects in 2007 (€ 56 million) compared to 2006 (€ 72 million).

12. CREDIT RISK

All the financial assets held by the Group as at December 2007 and 2006 are fully performing, except the details given in the note below.

In 2006, the trade receivables with an overdue time greater than six months related mainly to Viterra companies (€ 27.0 million) and have been recovered in 2007.

In 2007, the Group has recorded an impairment on trade receivables amounting to € 0.6 million and a reversal of impairment of € 0.4 million (all amounts concern Viterra companies).

GSG has contributed to the trade receivables of the Group for € 4.1 million. The rest of the growth is a reflection of the increased revenue of the Group.

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

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

€ million	Rating Agency		**December 2007**	December 2006
Counterparty	Moody's	S&P's Rating	**Balance**	Balance
Deutsche Bank	Aa1	AA	**28.0**	14.3
Haspa	Aaa		**19.3**	10.6
Berliner Volksbank		A+	**5.3**	4.5
Total			**52.6**	29.4

INVESTMENT PROPERTY

€ thousand	Fully performing	Past due but not impaired			Impaired	**Total**
		Less than 6 months	Between 6 months and 1 year	More than 1 year		
Trade receivables gross	211	412	27,023	–	2,909	**30,555**
Provision for impairment of receivables					–2,909	**–2,909**
December 2006	**211**	**412**	**27,023**	**0**	**0**	**27,646**
Trade receivables gross	23,284	5,415	254	4,792	3,127	**36,872**
Provision for impairment of receivables					–3,127	**–3,127**
December 2007	**23,284**	**5,415**	**254**	**4,792**	**0**	**33,745**

13. CURRENCY RISK

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

14. CASH AND CASH EQUIVALENTS

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

15. BORROWINGS

15.1 Borrowings maturity

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

The Group hedged 89.0% of the floating rate borrowing amounts, in order to limit the risk of the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. In 2007, the non-current financial debts amount to € 565.7 million (€ 103.2 million in 2006).

BORROWINGS MATURITY AS AT 31 DECEMBER 2007

€ thousand	Less than 1 year	1 to 5 years	More than 5 years	**Total**
NON-CURRENT				
Fixed rate bond	–	83,432	–	**83,432**
Financial debts	–	423,092	59,215	**482,307**
Bank loans	–	423,032	55,212	**478,244**
Fixed rate	–	5,934	6,743	**12,677**
Floating rate	–	417,098	48,469	**465,567**
Other non-current borrowings	–	60	4,003	**4,063**
Total	**–**	**506,524**	**59,215**	**565,739**
CURRENT				
Financial debts				
Bank loan fixed rate	31,343	–	–	**31,343**
Bank loan floating rate	41,680	–	–	**41,680**
Other current borrowings	1,324	–	–	**1,324**
Total	**74,347**	**–**	**–**	**74,347**

BORROWINGS MATURITY AS AT 31 DECEMBER 2006

€ thousand	Less than one year	1 to 5 years	More than 5 years	**Total**
NON-CURRENT FINANCIAL DEBTS				
Financial debts	–	64,566	38,598	**103,164**
Bank loans fixed rate	–	24,716	8,149	**32,865**
Bank loan floating rate	–	39,850	13,885	**53,735**
Other non-current borrowings	–	–	16,564	**16,564**
Total	**–**	**64,566**	**38,598**	**103,164**
CURRENT FINANCIAL DEBTS				
Bank loan fixed rate	5,696	–	–	**5,696**
Bank loan floating rate	1,030	–	–	**1,030**
Other current borrowings	1,432	–	–	**1,432**
Total	**8,158**	**–**	**–**	**8,158**

The other non current borrowings (more than five years) represent equity loan granted by ORCO Property Group S.A. This equity loan with a maturity of 31 December 2020 bears an interest rate of 6%.

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

Bank loans include amounts secured by a mortgage on properties and/or a pledge on the shares of the companies benefiting from the loan to the value of € 551.3 million (€ 111.3 million as at 31 December 2006). In general ORCO Germany S.A. has granted its guarantee in favour of the bank for each of the subsidiaries.

The guarantees granted to financial institutions remain fully valid until complete reimbursement of credits. No partial waiver on pledge or mortgage has been scheduled.

The carrying amount of the Group's borrowings is denominated in the following currencies:

	December 2007	December 2006
€	**640,086**	110,492
CZK	**–**	830
Total	**640,086**	**111,322**

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

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

BONDS

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

WARRANTS

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

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

Debt component on issue	81,656
Interest accumulated during the period	1,776
Balance at 31 December 2007	**83,432**

As at 31 December 2007, the parent company, ORCO Property Group S.A., owned 550,000 warrants (nil in 2006) and ORCO Germany Investments S.A. owned 2,397,311 warrants (nil in 2006).

15.3 Derivative instruments

€ thousand	**December 2007**	December 2006
Interest rate derivatives	**687**	–
Total current assets	**687**	**–**
Embedded derivatives on bonds	**8,458**	–
Total non-current liabilities	**8,458**	**–**
Interest rate derivatives	**748**	–
Total current liabilities	**748**	**–**
Net derivatives	**–8,519**	**–**

Derivative instruments are presented within assets when fair value is positive, in liabilities when fair value is negative. Changes in fair value are recognised immediately in the income statement under other financial results.

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

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

Embedded derivatives on Bonds correspond to the derivatives embedded in the OBSAR (see note 15.2).

ORCO Germany uses various types of interest rate derivative contracts to protect against changes in the fair value of its assets and liabilities due to fluctuations in interest rates. As at 31 December 2007 the total debt covered by interest rate swaps and collars amounts to € 451.5 million (89.0% of the floating rate debt).

15.4 Net interest expenses

€ thousand	**December 2007**	December 2006
Interest income	**2,839**	487
Interest expenses	**–24,388**	–3,194
Net interest expenses	**–21,549**	**–2,707**

15.5 Average effective interest rates

	€		CZK	
%	**December 2007**	December 2006	**December 2007**	December 2006
Bonds	**7.90**	–	**–**	–
Bank borrowings	**5.69**	4.67	**–**	6.00

15.6 Undrawn credit facilities

The Group has undrawn credit facilities amounting to € 116.9 million as at 31 December 2007 (€ 18.7 million in 2006). The main undrawn credit facilities relate to the credit line on Sky Office projects for € 81.7 million.

16. PROVISIONS AND OTHER LONG TERM LIABILITIES

This caption includes other long term liabilities for € 0.1 million (€ 0.3 million in 2006) representing mainly the retention on general contractors' invoices when applicable. Provisions amount to € 10.2 million (€ 10.5 million in 2006) and mainly represent provisions to cover the Group's retirement benefit obligations as detailed hereafter.

Retirement benefit obligation:

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

€ thousand	**December 2007**	December 2006
Present value of unfunded obligations	**7,933**	9,237
Unrecognised actuarial gains	**2,187**	723
Liabilities in the balance sheet	**10,120**	**9,960**

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

€ thousand	**December 2007**	December 2006
Opening	**9,237**	**–**
Scope variation	**–**	8,782
Current service cost	**156**	78
Interest cost	**386**	196
Actuarial gains	**–1,470**	441
Benefits paid	**–375**	–170
Transfer amounts	**–**	–90
End of year	**7,933**	**9,237**

The principal actuarial assumptions used were as follows:

%	**December 2007**	December 2006
Discount rate	**5.50**	4.25
Future salary increases	**2.75**	2.75
Future pension increases	**2.00**	1.75

17. LIQUIDITY AND CASH FLOW INTEREST RATE RISK

The liquidity risk is the risk that ORCO Germany might encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close at market positions. The ORCO management monitors the Group's liquidity risk on the basis of expected cash flows and by managing its development agenda and portfolio of investment properties.

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

The table below analyses the Group's financial liabilities and net-settled derivative instruments into relevant maturity groupings based on the remaining period as from 31 December 2007 to the contractual maturity date.

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

The floating rate loans line presents the projected cash flows, including interests and the reimbursements of the principal, on all the Group's floating rate loans. The cash flows have been established on the basis of the forward interest and exchange rates as at 31 December 2007.

Interest Rate Swaps and Collars used by the Group are detailed in the note 15.3 on derivatives.

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

As at 31 December 2006, the impact of a of a 100 basis points growth in interest rates curve would induce an increase of the interest charges for 2007 of € 0.3 million. There is no positive impact of derivatives, as the Group did not hedge the financial debt.

AS AT 31 DECEMBER 2007

€ thousand	Less than 1 month	Between 1 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	More than 5 years	**Total**
Fixed rate loans	–13	–4,565	–10,873	–123,807	–7,678	**–146,936**
Floating rate loans	–16,209	–13,845	–35,044	–488,769	–54,677	**–608,544**
Interest rate derivatives	34	11	–126	–1,130	245	**–966**
Embedded derivatives on bonds	–	–	–	–25,025	–	**–25,025**
Total	**–16,188**	**–18,399**	**–46,043**	**–638,731**	**–62,110**	**–781,471**

AS AT 31 DECEMBER 2006

€ thousand	Less than 1 month	Between 1 and 5 years	More than 5 years	**Total**
Fixed rate loans	–5,963	–29,678	–31,063	**–66,704**
Floating rate loans	–1,078	–47,850	–17,453	**–66,381**
Interest rate derivatives	**–7,041**	**–77,528**	**–48,516**	**–133,085**

Current liabilities presented below are stated after intercompany elimination:

AS AT 31 DECEMBER 2007

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

AS AT 31 DECEMBER 2006

€ thousand	Less than 1 month	Between 1 and 6 months	Between 6 months and 1 year	**Total**
Financial debt	–	6,883	1,275	**8,158**
Trade payables	20,770	2,704	8,976	**32,450**
Advance payments	–	155	25,215	**25,370**
Other current liabilities	3,234	389	603	**4,226**
Total	**24,004**	**10,131**	**36,069**	**70,204**

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

18. INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes of one entity relate to the same fiscal authority. All deferred taxes are assumed to be recoverable after more than twelve months.

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

The income tax rates in the Group vary from 19% in Poland up to an average of 39% in Germany in 2007. In 2007, the theorical tax rate is 39% before reduction of tax rates in Germany and Czech Republic applicable as from 2008 (2006: 39%). The effective tax rate of the period is –9.80% (2006: 9.80%). Without the change of income tax rates, the effective tax rate would have been 35.9%.

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

As at 31 December 2006, the income taxes recognised in the income statement amount to € 2.4 million among which € 1.1 million of current income taxes and € 1.3 million deferred income taxes. The deferred tax liabilities on scope variation represent the deferred tax liabilities on the acquisition of Viterra.

19. OTHER NET FINANCIAL RESULTS

€ thousand	**2007**	2006
Fair value of derivative instruments	**–9,722**	–
Fair value and realised on other financial assets	**36**	–24
Other net finance charges	**–4,956**	–185
Other net financial results	**–14,642**	**–209**

The fair value of derivative instruments essentially relates to movements in fair value of derivative instruments linked to bonds issued by the Group in May 2007 (€ 6.8 million), and to movements in fair value of Interest Rate Swaps contracted (€ 2.7 million).

Other net finance charges mainly represent early repayment fees of pre-acquisition GSG loans (€ 2.9 million).

20. EARNINGS PER SHARE

€ thousand	**December 2007**	December 2006
Shares issued at the beginning of the period	**34,550,000**	2,800,000
Weighted average of new shares issued	**5,276,252**	8,413,462
Weighted average outstanding shares for the purpose of calculating the basic earnings per share	**39,826,252**	**11,213,462**
Dilutive potential ordinary shares	**512,910**	325,997
Warrants	**512,910**	325,997
Weighted average outstanding shares for the purpose of calculating the diluted earnings per share	**40,339,162**	**11,539,458**
Net profit attributable to the Group	**57,028**	**21,945**
Effect of assumed conversions/exercises	**116**	74
Warrants	**116**	74
Net profit attributable to the Group after assumed conversions/exercises	**57,144**	**22,019**
Basic earnings in € per share	**1.43**	1.96
Diluted earnings in € per share	**1.42**	1.91

Basic earnings per share is calculated by dividing the profit attributable to the Group by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held as treasury shares.

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

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

As at 31 December 2007, 364,000 warrants have been exercised.

21. EQUITY

€ thousand	Number of shares	Capital	Share premium
Balance at 31 December 2005	**350,000**	**3,500**	**–**
Split	2,450,000	–	–
Capital increase	31,750,000	39,688	66,873
Balance at 31 December 2006	**34,550,000**	**43,188**	**66,873**
Capital increase I	3,500,000	4,375	30,625
Capital increase II	10,600,000	13,250	25,750
Exercise of share subscription rights	121,333	151	410
Balance at 31 December 2007	**48,771,333**	**60,964**	**123,658**

During the year ended 31 December 2007, the share capital of the Company was increased by an amount of € 17,776,670 subscribed by ORCO Property Group S.A. and by third-party investors.

No dividends have been paid by the Company to its shareholders in 2007 and 2006.

22. CONTINGENCIES

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

23. CAPITAL COMMITMENTS

As a developer of buildings and residential properties, the Group is committed to finalize the construction of properties in different cities (including Berlin, Hamburg and Düsseldorf). The commitments for the projects started as at 31 December 2007 amount to € 337.0 million (€ 12.4 million in 2006). This does not take into account the potential investments in future projects on land bank like Wertheim in Berlin.

24. RELATED PARTY TRANSACTIONS

Transactions with ORCO Property Group (OPG)

During the year, the Company was granted an "equity loan" by OPG bearing interest at an annual fixed rate of 6%. This loan amounted to € 4.0 million at 31 December 2007. Net interest expenses related to these loans amounted to € 0.7 million at 31 December 2007.

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

In addition, on 2 January 2007, Viterra Ceska spol s.r.o. has been sold to ORCO Property Group S.A. for an amount of € 2.7 million.

Transactions with Directors

In 2007, Key Management Personnel received a global remuneration as short term employee benefit amounting to € 1.3 million (€ 0.2 million in 2006).

25. LIST OF THE FULLY CONSOLIDATED SUBSIDIARIES

Company	Country	Currency	Activity	% shareholding 31.12.2007	% shareholding 31.12.2006
An den Gärten GmbH	Germany	€	Development	100	100
Apple Tree Investments GmbH	Germany	€	Leasing	94.8	–
Cybernetyki Business Park Sp.z.o.o.	Poland	PLN	Development	100	100
Elb Loft Bau Hamburg GmbH	Germany	€	Development	100	–
Endurance HC Alpha S.à r.l.	Luxembourg	€	Management	100	–
Endurance HC Beta S.à r.l.	Luxembourg	€	Management	100	–
Endurance HC Gamma S.à r.l.	Luxembourg	€	Management	100	–
Gebauer Höfe Liegenschaften GmbH	Germany	€	Leasing	100	–
Gewerbesiedlungs-Gesellschaft mbH ("GSG")	Germany	€	Leasing	99.75	–
Isalotta 1. GmbH	Germany	€	Leasing	100	–
Isalotta 3. GmbH	Germany	€	Leasing	94.99	–
Isalotta GP GmbH & Co. Verwaltung KG	Germany	€	Leasing	94.99	–
Lora Grundbesitz GmbH	Germany	€	Leasing	100	100
ORCO Berlin Invest GmbH	Germany	€	Leasing	100	100
ORCO Germany Investment S.A.	Luxembourg	€	Management	100	–
ORCO Grundstücks- u. Bet.GmbH	Germany	€	Leasing	100	100
ORCO Immobilien GmbH	Germany	€	Development	100	100
ORCO Leipziger Platz GmbH	Germany	€	Development	100	100
ORCO LP 12 GmbH	Germany	€	Development	100	100
ORCO Projekt 103 GmbH	Germany	€	Development	75	75
ORCO Vermietungs- und Services GmbH	Germany	€	Management	100	–
PEG Knorrstr. GmbH & Co. KG	Germany	€	Development	100	100
SeWo Ges. für Seniorenwohnen mbH	Germany	€	Development	94.8	–
Stauffenbergstrasse Drei GmbH	Germany	€	Development	100	100
Stauffenbergstrasse Zwei GmbH	Germany	€	Development	100	100
Tucholskystraße 39/41 GmbH & Co. Grundbesitz KG	Germany	€	Development	100	–
Viterra Baupartner GmbH	Germany	€	Development	100	100
Viterra Development GmbH	Germany	€	Development	100	100
Viterra Erste PEG mbH	Germany	€	Development	100	100
Viterra Zweite PEG mbH	Germany	€	Development	100	100
Viterra Vierte PEG mbH	Germany	€	Development	100	100
Viterra Fünfte PEG mbH	Germany	€	Development	100	100
Viterra Grundstücke Verw. GmbH	Germany	€	Development	100	100
Westendstrasse 28 Ffm GmbH	Germany	€	Development	94	94

26. LIST OF THE JOINT VENTURES

Knorrstrasse 119 GmbH & Co. KG

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

€ thousand	**December 2007**	December 2006
Non-current assets	**–**	–
Current assets	**5,358**	3,731
Assets	**5,358**	**3,731**
Non-current liabilities	**–**	–
Current liabilities	**4,720**	3,126
Liabilities	**4,720**	**3,126**
Income	**38**	6,250
Expenses	**–9**	–2,651
Profit after income tax	**29**	**3,599**

27. EVENTS AFTER BALANCE SHEET DATE

No significant events occurred after balance sheet date.

REPORT OF THE INDEPENDENT AUDITORS

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of ORCO Germany S.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant policies and other explanatory notes.

Board of Director's responsibility for the consolidated financial statements
The Board of Directos is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, wether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the Auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, wether due to fraud or error. In making thoses 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 effectivness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors of the Group, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, these consolidated financial statements give a true and fair view of the consolidated financial position of ORCO Germany S.A. as of December 31, 2007, and of its financial performance and changes cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements
The management report, which is the responsibility of the Board of Directos, is in accordance with the consolidated financial statements.

Luxembourg, April 15, 2008

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

Anne-Sophie Preud'homme

Financial calendar

29 May 2008
Interim Report January – March 2008

28 August 2008
Interim Report January – June 2008

27 November 2008
Interim Report January – October 2008

Imprint

Published by
ORCO Germany S.A.
40, Parc d' Activites Capellen
L–8308 Capellen
Luxembourg

Concept and design
Kirchhoff Consult AG, Hamburg

Photography
ORCO Germany S.A.

Printing
Peschke Druck GmbH, Munich

You can order or download the Annual and Interim Reports in German or English via our website www.orcogermany.de.

This report is printed on paper from certified sustained forestry.

Disclaimer

ORCO Germany S.A. is a real estate company and is registered in Luxembourg and that is listed in the Prime Standard on the Regulated Market of the Frankfurt Stock Exchange. The ORCO Germany group, which operates under the uniform registered trademark ORCO Germany, has been pursuing its activities in Germany since 2004 and concentrates on residential and commercial properties as well as on asset management and project development. ORCO Germany currently employs about 210 members of staff in Germany.

In 2006, ORCO Germany strategically reinforced its project development operations by acquiring Viterra Development. Viterra Development was renamed ORCO Projektentwicklung GmbH at the beginning of 2008 and is one of the leading project developers and investors specializing in commercial and residential properties in the core German markets of Berlin, Düsseldorf, Frankfurt, Hamburg and Munich. ORCO Germany expanded its portfolio of properties in Berlin in June of 2007 by taking over Gewerbesiedlungs-Gesellschaft (GSG); the company now manages more than 1 million m^2 of developed and undeveloped areas in the German capital. GSG was established in 1965 and is the largest owner of commercial space in Berlin with about 850,000 m^2 of office and multi-functional space. ORCO-GSG owns 45 so-called commercial courtyards and centers, as well as 235 residential units. Most of the properties are located in the city center with excellent connections to the Berlin public transportation network.

ORCO Germany S.A. is a subsidiary of ORCO Property Group, one of the leading Central European real estate firms holding a portfolio worth € 2.4 billion (as evaluated on December 31th, 2007). Established in 1991, the company has its registered seat in Luxembourg and is listed on the Euronext, Prague, Budapest and Warsaw stock exchanges. It operates primarily in the Czech Republic, Hungary, Poland, Russia, Croatia, the Slovak Republic and Germany.

By switching from the Open Market, where ORCO Germany S.A. had been listed since 2006, to the Regulated Market (Prime Standard) in November of 2007, ORCO Germany has demonstrated that it is implementing a capital market strategy consistent with its rapid operating growth of recent years. By meeting the most exacting standards of transparency in place at the German Stock Exchange, ORCO Germany S.A. has improved its accessibility to capital market players even further.